INDIA

FEDERAL COUNTRY

ASIA PACIFIC

BASIC SOCIO-ECONOMIC INDICATORS

Income group - **LOWER MIDDLE INCOME** Local currency - **Indian rupee (INR)**

POPULATION AND GEOGRAPHY

AREA: **3 287 263** km²

POPULATION: **1 295.291** million inhabitants (2014), an increase of 1,3% per year (2010-2014)

DENSITY: **394** inhabitants/km²

URBAN POPULATION: **32.7%** of national population

CAPITAL CITY: **New Delhi** (1.93% of national population)

Sources: WB, UN World Urbanisation Prospects, ILO

ECONOMIC DATA

GDP: **7 384** billion (current PPP international dollars) i.e. 5 701 dollars per inhabitant (2014)

REAL GDP GROWTH: **7.3%** (2014 vs 2013)

UNEMPLOYMENT RATE: **3.5%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **33 871** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **31.6%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.609** (medium), **rank 130**

TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGs
250 671	-	35	250 706
LOCAL BODIES (MUNICIPALITIES) AVERAGE MUNICIPAL SIZE: 5 167 INHABITANTS		28 STATES + 7 UNION TERRITORIES	

MAIN FEATURES OF TERRITORIAL ORGANISATION. India is a federal country with a two-tier local government structure. Since the constitution that came into force on 26 January 1950, Divisions in Indian Administration have existed between the centre and the state level. India has in total 28 states and 7 union territories, as well as 250 671 local bodies. Each of the regional administrative divisions has an elected government headed by a chief minister. Over the past two decades, several initiatives have been taken to strengthen local government in India and provide urban local bodies with substantial autonomy and legitimacy, mainly the 74th Constitution Amendment Act 1992 and the Jawaharlal Nehru National Urban Renewal Mission (JNNURM, 2005), a central government initiative designed to impart greater efficiency and transparency in the functioning of urban local governments. Since the 75th Amendment, municipalities have been designed according to their size: Municipal Corporations for large urban areas (205), Municipal Council for small urban areas (877), and Nagar Panchayat for areas in transition from rural to urban.

MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES. Responsibilities have been mostly devolved to historically weak state governments or to intermediary-tier governments, rather than to cities and municipalities, through an asymmetric decentralization system in favour of State governments. The power and functions of Union and states are specifically laid out in the Schedule VII of the Indian Constitution, according to the principle of separation. State governments are responsible for public order, local governments, public health, agriculture; land rights, police, irrigation, industries and minerals other than those on the Union government list. On the other hand, Schedule XII only defines 18 illustrative functions which may be entrusted to the municipal level, which only derive their powers from state-level statutes, and mandates States to constitute every 5 years a finance commission to review and make recommendations on municipal finances. As a result, the States Governments devolved functions to local level with wide variation (some cases with no devolution, some cases with additional transfer of functions). In addition, there is a lack of transparency and accountability of local finance data, and no consolidated data on urban local bodies are available at the national level yet.

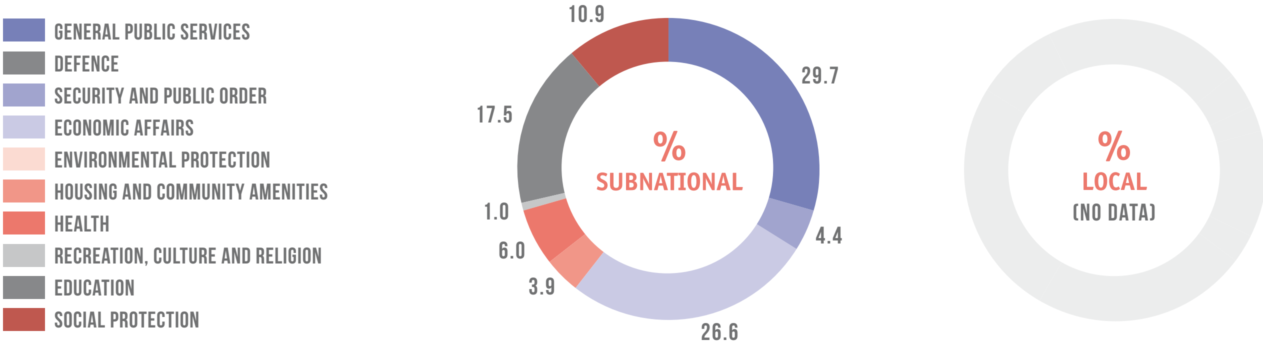
EXPENDITURE	% GDP		% GENERAL GOVERNMENT (same expenditure category)		% SUBNATIONAL GOVERNMENT	
	SUBNATIONAL DATA	LOCAL DATA ONLY	SUBNATIONAL DATA	LOCAL DATA ONLY	SUBNATIONAL DATA	LOCAL DATA ONLY
TOTAL EXPENDITURE (2013)	**14.8%**	-	**53.9%**	-	**100%**	-
CURRENT EXPENDITURE	12.7%	-	-	-	86.1%	-
STAFF EXPENDITURE	-	-	-	-	-	-
INVESTMENT	2.1%	-	56.8%	-	13.9%	-

NB: for India, the breakdown between state and local government levels is not available.

Public expenditure in India is broadly categorised as developmental and non-developmental expenditure. The discretion and autonomy of states in determining the responsibilities of municipal bodies explain the lack of reliable data on urban local bodies' expenditures, which are very diverse. Local governments' functioning is further complicated by shortage of competent staff in finance and accounts departments.

EXPENDITURE BY FUNCTION

% SUBNATIONAL GOVERNMENT EXPENDITURE



Indian State governments allocate a large part of their revenues to economic affairs (26.6%), including agriculture and transport and communication, and general public services (29.7%). They also contribute to a large part of total spending on housing, education, social protection and health sectors.

REVENUE BY TYPE

	% GDP		% GENERAL GOVERNMENT (same revenue category)		% SUBNATIONAL GOVERNMENT	
	SUBNATIONAL DATA	LOCAL DATA ONLY	SUBNATIONAL DATA	LOCAL DATA ONLY	SUBNATIONAL DATA	LOCAL DATA ONLY
TOTAL REVENUE (2013)	13.0%	-	64.5%	-	100%	-
TAX REVENUE	10.1%	-	56.6%	-	77.9%	-
GRANTS AND SUBSIDIES	2.0%	-	-	-	15.3%	-
OTHER REVENUES	0.9%	-	-	-	6.7%	-

States are still heavily favored fiscally, while local bodies have a relatively weak weight in public finance compared with data in other BRIC countries (India's city governments or municipalities record revenues in the range of 1-2% of India's GDP, and a large majority do not have balance sheets). More than two thirds of the revenues of State governments come from tax revenues, while urban local bodies rely substantially on revenues received from the central government to meet their expenditure requirements.

TAX REVENUE. State governments perceive shared taxes and own sources subnational taxes. Shared taxes include the personal income tax (State receive 42% of the Central Government receipts), and service and good taxes (that are being reformed into a single tax). State own-source subnational taxes include Stamp Duty and duties of excise on medicinal and toilet preparation. Both are levied by the Union but collected and appropriated by the States, except for Union Territories, where they are collected and appropriated by the Union. For instance, Delhi's major sources of tax revenue are the value added tax or VAT, state excise, stamp and registration fees, and taxes on vehicles. The Municipal level may be authorized by the legislature of a State to levy, collect and appropriate taxes, duties, tolls and fees but the municipal revenue base (property taxes and user charges) continues to suffer from substantial inefficiencies and low collection. On the other hand, States may also assign to a Municipality such taxes, duties, tolls and fees levied and collected by the State Government for such purposes and subject to such conditions and limits. (PART IXA, Article 243X, Indian Constitution).

GRANTS AND SUBSIDIES. The 14th Finance Commission of State Governments' has increased the share in central taxes from 32% to 42% of the national tax revenues in 2015. The Union Government was making direct transfers to State-level implementing agencies until 2013-14; these are being channelised through the State budgets from 2014-15. Independent grants commissions in the states also provide fiscal advice on state-local government relations. Regarding "Union Territories," they do not perceive the financial transfers provided to the states in India, but they received discretionary grants instead.

OTHER REVENUES. Other revenues come from land-based finance mechanisms, including are based development charges, transferable development rights.

OUTSTANDING DEBT

	% GDP		% GENERAL GOVERNMENT	
	SUBNATIONAL DATA	LOCAL DATA ONLY	SUBNATIONAL DATA	LOCAL DATA ONLY
OUTSTANDING DEBT (2013)	21.5%	-	32.5%	-

The Constitution of India assigns borrowing powers to both the central and the state governments. States may borrow freely, without debt ceiling limits, unless they hold outstanding loans from (or guaranteed by) the central government. The 1914 Local Authorities Loans Act allows municipal corporations to borrow, with prior approval of their state government to acquire debt and an amendment to the Income Tax Act 1961 allows municipalities to issue tax-free bonds. Additionally some municipal councils (as well as municipal corporations) have raised loans with state approval, through both taxable and tax-free municipal bonds, with and without state guarantees. The Ministry of Urban Development has finally introduced a State-Level Pooled Finance Development Fund (PFDF) Scheme to provide credit enhancement to Urban Local Bodies (ULBs) to access market borrowings. Ratings are mandatory for local governments in India, when the issue maturity is more than 18 months.

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Sources: Nagai, Mektrairat, Funatsu (2008), Local Government in Thailand, Analysis of the Local Administrative Organization Survey, Institute of Developing Economies • Indian Department of Local Administration • World Bank (2005) , East Asia Decentralizes, Making local government work • Bureau of Tax Policy : Fiscal Policy Office • Phichitchai Kingphuang (2013), The system of Local Government Borrowing: Case study of Uttaradit • MOI internal instruction letter date 23Nov 2011: 0808.3/4715 • Reserve Bank of India • http://finmin.nic.in/reports/IPFStat201415.pdf

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