

CENTRAL CONDITIONAL ASSISTANCE FOR URBAN DEVELOPMENT

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The Indian Constitution provides for organised revenue devolution to the States by way of tax-sharing and unconditional grants on the recommendations of a quinquennial Finance Commission. However, a provision for discretionary or conditional assistance, which was probably intended to cover only exceptional situations, is being increasingly used to channelise plan assistance to the States. The plan grants and loans, made on the recommendations of the Planning Commission, far exceed the statutory transfers through the Finance Commission mechanism with the result that the original scheme of financial devolution to the States, as envisaged in the Constitution, has in fact become obsolete.

It is in this context that we would examine the present system of conditional plan assistance to the States in the field of urban development, and suggest possible solutions to some of the unsolved problems. Such a micro-study has the advantage of bringing to light the operational aspects of the development process in the Indian federation. An earlier study has examined some major issues of Centre-State relations in the field of urban development.¹ Since then, some modifications have taken place with regard to plan schemes which will be considered here. The scope of the present paper is limited to an analysis of the existing system of conditional assistance in urban development in the context of the Five Year Plans. The term urban development includes "the creation and stimulation of basic facilities, for the promotion of comprehensive, a real development of the urban nuclei, in the country".²

I. NATURE OF THE EXISTING SYSTEM

The components of urban development fall, by and large, under the constitutional jurisdiction of the States. From 1954, when the first scheme on urban water supply and sanitation was announced, all the other schemes on housing, land acquisition and development, slum clearance and improvement, city master plans, urban community development, city development and housing statistics have also been drawn up by the

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1. Abhijit Datta and Mohit Bhattacharya, "A Functional Approach to Indian Federalism—Case Study of Urban Development," 1967 *Indian Journal of Public Administration*, Vol. XIII, No. 2, pp. 283-298.
2. *Ibid.*

Centre for distribution of plan assistance to the States. Till 1966-67, three of these schemes were categorised as "Centrally sponsored", and the rest six schemes formed part of the "Centrally assisted" sphere of the the States' plan, with varied types of assistance formulae and conditions attached to each of them. From April 1967, however, all the three "sponsored" schemes were transferred to the "assisted" sector with ties fixed on each of the schemes. In addition, two new schemes for housing statistics and city development were added to the list, the latter with a tie. The existing scheme on land acquisition and development belonging to the assisted sector also got a tie fixed on it. The position may be summarised as under :

TABLE I
Status of Urban Development Schemes in the States' Plan

Scheme	Pattern of Central Assistance	
	Grant %	Loan %
<i>(a) With a tie</i>		
1. Slum Clearance and Improvement	50	50
2. Preparation of Master Plans	100	—
3. Urban Community Development	50	—
4. Land Acquisition and Development	—	100
5. City Development	—	100
<i>(b) Without a tie</i>		
6. Subsidised Housing	50	50
7. Loan Housing for low income group, middle income group, rental housing for State employees	—	100
8. National Water Supply & Sanitation		
(i) Water Supply (Urban)	—	100
(ii) Sewerage	25*	75
9. Housing Statistics	50	—

*For schemes having composting as an integral part.

Under the new arrangement, the matching requirement of 12½% by the States for the slum clearance and improvement scheme has gone instead, the Central Government would be willing to increase its grant to that extent. All the loan housing schemes have been integrated and, in the process, the low income group housing scheme would be eligible

for 100% loan, instead of 80% as before. It is presumed that all the loan housing schemes, as well as the urban water supply and sanitation schemes, would be eligible for financing from non-plan sources, such as the Life Insurance Corporation. The two schemes with matching provisos are for urban community development and housing statistics.

II. ISSUES AND PROBLEMS

(i) *Statutory basis*

As indicated earlier, when the Constitution was framed, the possibility of large-scale conditional financial assistance to the States was not envisaged. Later on, when such a need arose, resort was taken to utilise Article 282, which was intended only as a permissive device, to validate such fiscal transfers. Apart from the suggestion of incorporating a new article in the Constitution to specifically provide for allowing conditional assistance to the States, the real issue is whether or not to utilise the normal constitutional machinery for this purpose as well, by making all normal plan assistance as statutory. The artificial distinction between statutory and non-statutory grants has created a situation whereby "the States which have surpluses under the Finance Commission Award question the estimates of the Finance Commission, thus leading the Planning Commission, a non-statutory body, to pass judgement over the assessment of a statutory body like the Finance Commission following almost quasi-judicial procedures".³

Under the present arrangements, there is no opportunity to discuss the details of the plan schemes in the Parliament, mainly because of the non-statutory nature of these grants. Also, in the absence of inter-State compacts or Centre-State agreements, there is no limit, except political, of Central incursions in the States' fields of activities. Even when a particular scheme is meant for a short duration, there is no harm in providing a legislative backing to it, so that when the purpose of the assistance is fulfilled, the supporting law would automatically lapse. A likely development would perhaps be the amalgamation of all related schemes under a broad legal umbrella—like the American Housing Acts—consolidating the various urban development schemes.

(ii) *Administration of Central Plan Assistance*

In the administration of the Central plan assistance, including those for urban development, a tendency is already noticeable of vertical integration of Central ministries and their corresponding State departments.⁴

3. G. Ramachandran, "Union-State Relations in Finance and Planning," 1 *Indian Journal of Public Administration*, Vol. XII, No. 3, p. 378.

4. Datta and Bhattacharya, *op. cit.*, and K. Santhanam, *Union-State Relations in India*, 1960, p. 54.

In the field of urban development, such Central administrative responsibilities take the form of fixation of standards and regulations, detailed scheme formulation, scrutiny and approval of projects and prescriptions regarding staffing patterns and pay scales. Further Central inroads have not taken place because of the paucity of technical staff in the Central ministries, and possibly also due to political opposition from the States. So far, Central control has taken the form of only financial scrutiny of the schemes, and marginally technical screening, as for example, in the case of urban water supply and sanitation projects. Here we are faced with the dilemma of Cabinet responsibility at the States' level for administering Centrally financed projects, and financial responsibility of the Central ministries to the Parliament. The way out is not to leave this important issue to the political arena, but to think in terms of formalising the Centre-State financial relations through agreements, as suggested above.

(iii) Categorisation of Central Plan Assistance

We have already noted that recently three urban development schemes have been transferred from the "sponsored" sector of the Central plan to the "assisted" sector in the States' plan. This is a welcome change. However, in spite of the recent reduction in the number of centrally "sponsored" schemes, their total number during the Fourth Plan period comes to about 90, which in financial terms represents about a fifth of total Central plan assistance to the States. A strict interpretation of the Constitution might raise doubts about the constitutional propriety of the "sponsored" schemes, with or without matching conditions. If the consensus in the country is to reshuffle the Central and States' functions, and to give unquestioned supremacy to the Centre in respect of certain fields, then the proper course is to amend the Constitution and not to sabotage it through a fiscal device. One can understand a few pilot and demonstration projects to be "sponsored" by the Centre merely for a limited period, but the inclusion of a heterogeneous medley of open-ended schemes is a planning monstrosity in a federal set-up.

Although the "sponsored" category has been abolished in respect of the urban development schemes, the haphazard application of ties to most of the transferred schemes remains unexplained. Since virement is not possible between a tied scheme and an untied one, all that happens is that in the untied category there is freedom of diversion from one head to another by the States. Although, in the process, the States lose the Central grants attached to the schemes diverted, but, if they attain the plan target, the balance is met from the Miscellaneous Development Loan. So, only the internal distribution of grants and loans is affected—the really significant figure is the total quantum of Central assistance. In other words, the various patterns of assistance in the untied category of the States plan have no meaning, except for determining the initial quantum of Central assistance. What all these complicated procedures mean are

simply this—only in the tied category the plan assistance retains its conditional character and in the untied sector such assistance becomes largely unconditional or general purpose. If this is the case, then we would argue to explicitly recognise this phenomenon in the Centre-State financial relations. Under the Constitution, it is the duty of the Finance Commission to allocate, or to recommend the bases for allocation of unconditional grants. But, through a terminological distinction between “plan” and “non plan” assistance, the Planning Commission has come to exercise a sway in the field of unconditional assistance as well. Although there is nothing in the Constitution debarring the Finance Commission from considering “plan assistance” also, in its scheme of financial devolution, practical expediency has in fact prevented such a course being adopted.

If the purpose of Central conditional assistance to the State is to stimulate certain chosen fields of State activity to conform to national needs and standards, then the number of tied grants should be limited to a minimum. While no diversion can be allowed from a tied to the untied sector, the reverse would be welcome. The basic distinction between the tied and untied sector is not only that the former represents true conditional assistance, but also that in the former category national needs and priorities predominate. Keeping this in view, only about half a dozen sectors such as, food production, family planning, multi-purpose projects etc., could be selected for retention in the tied category and the rest transferred to the untied sector. There will thus be necessity to formulate detailed schemes only for the tied schemes, and in the untied sector assistance could be given for broad heads of development combining all the related schemes already in existence.⁵

(iv) The Loan Component in Central Plan Assistance

Three urban development schemes on slum clearance and improvement, subsidised housing and urban sewerage—show an amalgamation of grants and loans. This mixture, however, is purely accidental. The relative share of Central grant and loan for the States’ plan is determined on the additive basis of the patterns of assistance. If the total of such assistance falls short of the promised Central assistance for the States’ plan, the balance is met from the Miscellaneous Development Loan.

Apart from the Miscellaneous Development Loan, the easier lending policy of the Central Government since the Second Plan, whereby the financial productivity criterion of debt financing is no longer insisted upon, has also aggravated the problems of States’ indebtedness. In the sphere of urban development, where the investments are in the nature

5. Similar suggestions have also been made in the United States vide James A. Maxwell, *Fiscal Impact of Federalism in the United States*, p. 390 (1946).

of social amenities rather than financially productive schemes, both the foregoing practices are in operation. With the increasing load of plan loans, the States have taken the view that the Centre would ultimately waive not only the interest on borrowings, but also the repayment obligation of the States.

In other words, owing to the exigencies of planning, both the Centre as well as the States have joined hands in bidding good-bye to financial prudence, and what is more serious, is lightly treating the lending and borrowing limits as provided under Articles 292 and 293. The inevitable result of all this is that State borrowing from the Centre has become a subject of political bargaining. It is for this reason that Santhanam suggested that the capital budgets of both the Centre as well the State should be handled by the Reserve Bank of India, "Whose powers would be defined and limited precisely by statute".⁶ Alternatively, one can think of establishing development banks in certain defined spheres on the model of the Industrial Development Corporation, created in 1964 as a subsidiary of the Reserve Bank of India. In the field of urban development also, such development banks could be started in each State with the joint participation of the Reserve Bank of India, the Life Insurance Corporation and the State Governments.

III. CONCLUSION

The present paper attempted to discuss some broad issues and problems of Central conditional assistance as experienced in the field of urban development. An exhaustive treatment of some other fields, such as agricultural development, where such assistance takes a varied form, would perhaps reveal other interesting problems as well. However, it is unlikely that the general issues would be materially different, and hence, our broad generalisations are offered in the context of the existing Centre-State financial relations in India in the mid-sixties.

Throughout the paper the basic tenet has been that the Central conditional plan assistance to the States have grown during the last 17 years of planning and the Centre-State relations in this sphere have taken place largely outside the framework of the Constitution. This has given rise to complications and the initiative and solutions to the problems have been left to the political forces, rather than to a neat arrangement within the confines of the Constitution. With the changed political climate in the country and the emergence of powerful States, acting singly or in concert, the problems of plan assistance to the States cannot be solved on a long-term basis, unless the Centre-State relations are formalised. Flexibility of planning is necessary for certain purposes, but this flexibility also must operate within certain norms and limitations.

6. K. Santhanam, "Capital Budgets : Case for New Safeguards," *The Times of India* (Delhi Edn.), October 14, 1966.

Experience of the older federations with regard to the conditional grants and other assistance to the States is instructive, but not always quite relevant to the Indian situation. However, one lesson seems clear. In all the three older federations—the U.S.A., Canada and Australia—the administration of federal conditional assistance has had a chequered history and its success has not come easily. The relative success of the Commonwealth grants to the States in Australia is mainly due to the untiring efforts of the Australian Grants Commission since 1933. If the scope of the Indian Finance Commission is enlarged to encompass the scope and emulate the method of its Australian counterpart, the present confusion and duality in Central financial devolutions to the States would be largely a thing of the past.