THE SYSTEM OF GRANTS-IN-AID IN INDIA

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PREFACE

THE SYSTEM of grants-in-aid has assumed a vital role in India. This monograph is designed to give a general idea of the system as it exists at present in the country. It is intended only to be a guide for further study and as such, is only descriptive and illustrative, without being exhaustive or critical. The views expressed in this monograph are my own, and not those of the Planning Commission or the Government of India.

I wish to place on record my gratitude to the Director, Indian Institute of Public Administration, on whose suggestion I undertook this monograph, and to Shri P. T. Kuriakose of the Institute for the research assistance he gave me in this work.

P. P. AGARWAL

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CHAPTER I

INTRODUCTION

THE GROWTH of the system of grants-in-aid has been a significant feature in the evolution of inter-governmental relations in this century. It has been used in many a country to establish a uniform standard of efficiency, at the same time maintaining the jealously guarded autonomy of the States and local bodies. It has been adapted several times in the course of the last one hundred years to meet differing conditions in various countries, both federal and unitary, and today it has come to be regarded as a necessary attribute of any system of inter-governmental financial arrangements.

Historical Retrospect

Grants-in-aid as an instrument of State-local financial and administrative relations began to be used in the early part of the 19th century. At that time no one imagined that it would assume its present-day importance. In fact it was the Industrial Revolution which made grants-in-aid to smaller units of Government a necessity. The rush of people from the countryside to the industrial centres created problems in public health, poor relief, housing, education, police and roads. These could not be tackled in isolation by a county or a municipality, as they called for expenditure on a scale which these local authorities could not afford. On the other hand, these were the very subjects which due to their national importance deserved serious attention. In England, France, Germany and the United States, these reasons compelled the national Government to make grants to the local bodies or State Governments.

In India also, the need for this form of fiscal co-operation between various levels of Government has assumed importance. The first world war and the problems that arose in its wake made it clear that the local authorities could not tide over emergencies with their meagre resources. The Great Depression in the 1930's, when the world witnessed poverty and starvation in the midst of plenty, corroborated this trend. The reconstruction and welfare measures initiated in the post-war period gave it the present shape. Grants-in-aid now form an integral part of the schemes of financial assistance in most countries.

Definition

The *Encyclopaedia of the Social Sciences* defines grants-in-aid as "a sum of money assigned by a superior to an inferior governmental authority either out of the exchequer of the former or out of sources of revenues especially designated". Grants-in-aid, therefore, have several distinguishing features, the most important being that they are paid by a superior governmental authority to a subordinate one. A grant is thus essentially a gift with several conditions attached to it, but once given, it cannot be taken back provided the conditions are satisfied. These conditions vary according to the purposes for which the grant is given. The purpose may be the execution of a project in which the country as a whole is interested, e.g., the construction of a highway, or it may be the equalisation of resources of the various agencies receiving the grant, as in the case of general exchequer contribution.

A distinction is to be made between a grant and a compulsorily shared-in-tax. The latter carries with it an element of compulsion on the part of the higher authority. No one will consider the share of income-tax received by the States in India as a grant from the Central Government, because the latter is obliged under Article 270 of the Constitution to share the proceeds of the tax with the States. Similarly a grant is to be distinguished from a compulsorily assigned tax, an example of which is the estate duty on property other than agricultural land, which is assigned to the States under Article 269 of the Constitution of India. Finally, a distinction is also to be made between a grant and a loan. Even if a loan is given by a higher authority to a lower one at favourable terms, it has to be repaid. A grant, however, is not returned; the work undertaken is all that remains as a proof of the grant.

Forms of Grants-in-aid

Grants-in-aid fall into two broad categories. First, there is what may be called the Constitutional grants, i.e., grants given under the provisions of a Constitution such as those under Article 275 of the Constitution of India. The second is a grant also given under constitutional authority, but without any compulsion as, for example, grants under Article 282 of the Indian Constitution. The latter type may take the form of an assigned tax or it may be a Ministerial grant. The basis of a grant may also vary; the basis may be the equalising of resources of the smaller units receiving grants, or it may be stimulation of activity along a particular line and in a particular place.

Grants-in-aid may also be classified into allocated or substantive grants and block grants.[1] The former is made for a particular service which is specified when the grant is given, e.g., the Central Government grant to States for particular schemes of education such as education of the handicapped. The money given has to be spent on the specified scheme. In contrast to the allocated grant there is the block grant, the essential characteristic of which is that it is given to a service named generally without detailed specifications regarding the items on which the money should be expended, e.g., grant given for education without specifying any particular field in which the fund should be used.

Grants-in-aid may also be classified as conditional and unconditional grants. The former means that the provision of grants is subject to several conditions which are required to be fulfilled by the recipient authority. The conditions may vary according to the circumstances of each case. In one case the grant may be given on a matching basis, i.e., on condition that the grantee should provide a certain percentage of the total funds to qualify for grants. In another case the condition may be the need to have a standard of technical competence on the part of the recipient. Prior sanction of and supervision by the grantor may be another condition to which the

[1] J. Krishnaswamy, "States in Local Finance and Taxation with Special Reference to Madras State", Quarterly Journal of the Local Self-Government Institute (Bombay), October, 1956.

recipient may sometimes have to agree. In the case of an unconditional grant, the receiving authorities are free to spend the grant in any way they choose.

Need for Grants-in-aid

The need for grants-in-aid arises from several factors. The following classic statement of Sidney Webb may be quoted in this connection :

> "We cannot allow Little Pedlington to be free, if it chooses, to have as much small-pox and enteric fever—not to say cholera and bubonic plague—as its inhabitants choose to, rather than take preventive measures which they dislike. We have equally no reason to put up with the horrible bad roads which are all they may wish to pay for. If they are permitted to bring up their children in ignorance, to let them be enfeebled by neglected ailments, and to suffer them to be demoralised by evil courses, it is not the Little Pedlingtonites alone who will have to bear the cost of destitution and criminality thus produced. Hence modern administrative science is forced to recognise that we are all in the plainest sense, 'member of one another'."[2]

Some of the circumstances under which grants-in-aid become necessary are the following:[3]

(1) The extremely low per capita income in certain areas of the country and the need to bring them on a par with others.
(2) The lack of planning in urban areas because of haphazard and unplanned growth leading to problems in public health, sanitation, etc. and the need to rectify them.
(3) The extremely limited and narrow tax base in some areas as a result of which the State or the local authority becomes unable to raise enough resources by taxation.

[2] Sidney Webb, *Grants-in-Aid*, Ch. II, p. 24.
[3] Alvin H. Hansen and Harvey S. Perloff, *State and Local Finance in National Economy*, Ch. I, p. 11,

(4) The inability of the local authorities to raise funds at economical rates and the high overhead costs due to heavy burden of local debts.
(5) Local responsibilities to render services are not matched with adequate and sufficient fiscal capacity.

Apart from these, one factor that has given impetus to grants-in-aid in recent years is the realisation by people that governmental authorities which are most suited to administer public services are not always the best to raise revenues to implement these services; that from the standpoint of efficiency, effectiveness and popular control it does not necessarily follow that financial responsibility should always be coupled with executive responsibility, and that, therefore, governmental functions should be assigned to those agencies which can most effectively and efficiently perform them and the function of collecting revenue to those agencies of Government capable of assessing and collecting them.[4] Particularly under a federal system of Government in which the constituent units cling to their rights guaranteed under the Constitution, the system of grants-in-aid is needed to balance conflicting claims and to secure the co-operation of the smaller units in introducing and developing services in which the whole country is interested.[5] The system is also needed to ensure uniformity in the application of national policies without, at the same time, impinging upon the rights of the State and local Governments. In short, the rationale of grants-in-aid is to be found in the fact that paucity of funds in a particular area should not be responsible for keeping that area permanently poor and that there are some services which, though of local nature and interest, have national importance and which, therefore, demand attention from the national Government.

[4] Alvin H. Hansen and Harvey S. Perloff, *State and Local Finance in National Economy*, Ch. VII, pp. 122–23.
[5] W. J. Schultz and C. Lowell Harris, *American Public Finance*, 1954, Ch. XXIV, p. 536.

Advantages of Grants-in-aid

The advantages of grants-in-aid are many and varied. Some of them are the following :

(1) Grants-in-aid help to preserve a great measure of self-government at the State and local level. This is all the more important in a country with a democratic system of Government because the local self-governing institutions provide the basic foundations of government.
(2) Grants-in-aid can be used as a stabiliser of the revenues of the smaller units of Government in normal times and as a source of revival in times of depression and emergency. The history of grants-in-aid in the United States in the 1930's and 1940's bears testimony to this fact.
(3) Grants-in-aid have been responsible for the maintenance of higher standards of performance by the State and local authorities than would have been the case otherwise.
(4) With the emergence of the equalisation grants as a major form of grants-in-aid they have had the wholesome effect of equalising and balancing the tax burden on the community. Commonwealth grants to the States in Australia is a case in point.
(5) As mentioned earlier, they have established the sound principle that the governmental authorities best suited to collect taxes on a national scale are not always the best suited to use the proceeds of such taxes.[6]
(6) Grants-in-aid "facilitate the exercise of certain measures of federal control and co-ordination over essential welfare services on a national scale."[7]
(7) Grants-in-aid provide a most significant and useful device by which the national, State and local Governments may co-operate in providing services that have extra-local interest. They also enable the national Government to implement

[6] Jewell Cass Phillips, *State and Local Government in America* (1954), Ch. XII, p. 285.

[7] *Report of the Taxation Enquiry Commission*, Vol. I, p. 11.

national policies without duplicating and competing with similar services provided by the States and local authorities.[8]

Disadvantages of Grants-in-aid

The system of grants-in-aid has not escaped criticism. Some of the more important criticisms[9] are as follows :

(1) Sometimes grant programmes are excessively rigid and not amenable to modifications when needed, and thereby make it difficult to transfer funds to projects that are most useful to the receiving authorities.
(2) Often, the conditions attached to the grants are such that they give too much arbitrary powers to the officials of the grant-giving departments.
(3) The matching provisions sometimes tend to strain the economies of poorer States and local bodies because of their concentration on projects associated with grants in order to qualify to receive them.
(4) The grants are beyond the budgetary control of the receiving authorities in most of the cases.
(5) Uniform policies of the national or State Governments cannot easily be adapted to suit differing conditions prevailing in the States or localities as the case may be.
(6) They are an infringement upon the autonomy of the States in federal countries.

In spite of these criticisms, grants-in-aid have come to stay. They have become a regular feature in the various systems of financial arrangements in almost all the countries of the world. In India, as in many other countries, they are specifically provided for in the Constitution itself.

[8] Alvin H. Hansen and Harvey S. Perloff, *State and Local Finance in National Economy* (1954), Ch. VIII, p. 123.

[9] W. J. Schultz and C. Lowell Harris, *American Public Finance* (1954), Ch. XXIV, p. 538.

CHAPTER II

CENTRAL GRANTS TO STATES I

THE HISTORY of grants-in-aid in India is a fairly long one. The first instaace of Central grants to provinces is to be found in the financial arrangements initiated by Lord Mayo in 1870. The Central Government transferred to the Provincial Governments the administration of certain departments and the provinces were given a fixed grant for this purpose.[1] This practice was continued in subsequent years till 1888, when a new system of provincial financial settlement on the basis of what is called " the divided heads of revenue " was evolved. Under this was developed the system of " provincial assignments " which was in operation till 1919.[2] Thus Bengal, Bombay, Burma, Madras, Punjab, the United Provinces, Assam (including East Bengal) and Central Provinces including Berar received the following allocations:[3]

Year	*Allocations (Rs. Crores)*
1904–1905	2.21
1905–1906	3.13
1906–1907	3.50
1907–1908	3.45
1908–1909	3.09
1909–1910	2.95
1910–1911	1.55
1911–1912	3.91

Before the passing of the Government of India Act, 1919, there was nothing even similar to a federal financial system in India, and the

[1] *Indian Statutory Commission Report* (1927–30), Vol. I, Part V, Ch. II, p. 344.
[2] *Report of the Finance Commission* (1952), Ch. II, p. 92.
[3] B. R. Misra, *Indian Federal Finance* (1954), Ch. II, p. 38.

existing financial arrangements were highly centralised. What was done was to supplement the resources of the Provincial Governments by means of both recurring and non-recurring grants.[4] This position was changed under the Government of India Act, 1919, which introduced a system of " inverted grants ", i.e., contributions by the provinces to the Centre to meet a part of the deficit incurred by the latter as a result of the transfer of some heads of revenue to the provinces. When the Government of India Act, 1935, established on a statutory basis a system of grants-in-aid to the provinces, it marked the beginning of systematic development of this device in India.

Grants-in-aid under the Government of India Act, 1935

Section 142 of the 1935 Act provided for grants-in-aid to the provinces by the Central Government. As a first step towards implementing this provision, the Government of India invited Sir Otto Niemeyer in 1936 to make recommendations *inter alia* regarding the amounts to be paid to the provinces. The basic premise from which Sir Otto started his inquiry was that each province should be given the financial resources necessary to maintain fiscal stability. In making his recommendations Sir Otto Niemeyer took into consideration the increased share of the duties on the export of jute products to the provinces of Bengal, Orissa, Bihar and Assam and also the benefits these provinces and the North-West Frontier Province would receive from the cancellation (which he had recommended) of their entire debt to the Government of India.

Thus according to the scheme proposed by Sir Otto the United Provinces received Rs. 25 lakhs for five years, and Assam Rs. 30 lakhs in addition to the share it received for the expenditure on the Assam Force and the cost of Manipur Battalion. The N.W.F.P. got Rs. 100 lakhs in the first year and Rs. 3 lakhs in each of the subsequent four years. Sind was given Rs. 105 lakhs for ten years with an additional Rs. 5 lakhs in the first year. This grant was to be reduced gradually and was to cease in 1948. All these grants were unconditional grants and were paid till the partition of India in 1947.[5]

[4] *Indian Statutory Commission Report* (1927–30), Vol. II, Part III, Ch.II, p.212.
[5] R. N. Bhargava, *The Theory and Working of Union Finance in India* (1956), Ch. VI, pp. 108–09.

The Government of India Act, 1935, had authorised the Central or a Provincial Government to make grants for any purpose even if the purpose was not one for which the Central or Provincial Legislature could make laws. Up to 1943–44 this provision was not made use of. But in that year several grants were made to the Provincial Governments and some princely States in furtherance of the Government's campaign for higher food production. Further, the Government of India shared with the provinces their expenditure on air-raid precautions, Civic Guards and the National War Front. The Centre also reimbursed the Provincial Governments their expenditure on small savings scheme and the motor spirit and tyre rationing schemes. Specific grants were also given in connection with the Bombay dock explosions and the Assam relief measures.

Besides these, special grants were given to provinces to overcome specific difficulties like famine. Thus Bengal received in 1943–44 a sum of Rs. 3 crores to meet the difficulties that arose out of famine and war. In 1944–45 and 1945–46 it received on the same account Rs. 7 crores and 8 crores respectively. Grants-in-aid were thus based on an assessment of the final measure of need (the amount which was estimated to be sufficient to place the finances of the provinces on an even keel), after taking into account all other forms of assistance including devolution of revenue and adjustment of debts.

Partition and After

Then came the partition of the Indian sub-continent into two separate countries. One effect of the partition was to make the dependence of the provinces on the resources of the Centre more pronounced. Grants under Section 142 of the Government of India Act, 1935, were continued to be paid. West Bengal and the Punjab, the two new States affected most by partition, were given special assistance. Orissa received Rs. 131 lakhs towards the cost of the construction of its capital. Assam also continued to receive grants. Post-war development grants which were given before partition were not stopped. Such grants were now related to specific schemes of development. However, owing to the great financial stringency that the Government was facing, these grants were converted into matching grants in November 1948, the matching contribution

generally being 50 per cent of the cost, except in the case of certain provinces like Orissa, Punjab and Assam where it was still lower, or nothing at all. Because of the difficult financial position, even these matching grants were stopped in many cases by the beginning of 1950.

Between August 1947 and March 1950, the post-war development grants by the Centre to the provinces amounted to Rs. 38.32 crores. These grants were stopped from 1950–51, except for Grow More Food and for certain special schemes. This meant some strain on the finances of those provinces which were less developed and could not reduce their commitments in respect of development programmes. Special development grants amounting to Rs. 3 crores were given to Saurashtra, Madhya Bharat, Rajasthan and PEPSU over the two years 1951–52 and 1952–53, in view of their extreme backwardness. The Central Government also met the major portion of expenditure in respect of relief and rehabilitation of displaced persons.

Grants under the New Constitution

In January 1950 the new Constitution of India came into force. It provides for grants-in-aid of the revenues of the States on a much larger scale than the 1935 Act. Article 273 provides for grants-in-aid to Assam, Bihar, Orissa and West Bengal in lieu of export duty on jute and jute products. Article 275 says that such sums as Parliament may by law provide shall be charged on the Consolidated Fund of India in each year as grants-in-aid of the revenues of such States as Parliament may determine to be in need of assistance and that different sums may be fixed for different States. The provisos to this Article provide for grants-in-aid to States to meet the cost of such schemes of development as may be approved by the Government of India for promoting the welfare of the Scheduled Tribes or raising the level of administration of the Scheduled and Tribal Areas.

According to Article 282, the Union Government and State Governments may make grants for any public purpose notwithstanding that the purpose is not the one with respect to which Parliament or the legislature of the States, as the case may be, may make laws. All these grants, except those given under Article 282 and the two provisos to Article 275, are to be determined on the basis of the recommendation of the Finance Commission appointed under Article 280 of the Constitution.

With regard to the provisos to Article 275, the Ministry of Home Affairs provides financial assistance to States for the welfare of Scheduled Tribes and development of Scheduled Areas and also for the welfare of Backward Classes. Assistance is also given for the welfare of ex-criminal Tribes and Scheduled Castes. This includes schemes for the removal of untouchability. Prior to the reorganisation of States in November 1956, the Central Government used to meet 50 per cent of the cost of the schemes, except in the case of Part 'B' States and Assam which were given two-thirds of the cost. The entire cost of all schemes in Part 'C' States was being met by the Central Government. After the reorganisation of States in November 1956, the pattern of assistance has been put on the basis of 50 : 50, except in the case of Assam which gets two-thirds of the cost of the schemes.

Mention may also be made in this connection of the special grants that were being paid to Part 'B' and 'C' States prior to the reorganisation of States in 1956. The former received "revenue gap" grants which were paid in terms of the Federal Financial Integration Agreements.[6] Besides the "revenue gap" grants, some of the Part 'B' States received a special grant given on the basis of the recommendations of the Part 'B' States (Special Assistance) Enquiry Committee (1953). Special grants were also given to Part 'C' States for the purpose of meeting their revenue deficits.

First Finance Commission

The first Finance Commission submitted its report in December 1952. The Commission had to make recommendations regarding the share of the four "jute States" of Assam, Bihar, Orissa and West Bengal in lieu of the export duty on jute and jute products and also about the general grants to be given to the States in need of assistance under Article 275. In the case of the former, i.e., grants-

[6] *Report of the Taxation Enquiry Commission* (1953-54), Vol. I, Ch. II, pp. 11-14.

in-aid in lieu of jute export duty, the Commission recommended the following annual grants for a period of five years :

	(In Lakhs of Rupees)
Assam	75
Bihar	75
Orissa	15
West Bengal	150

While making its recommendations, the Commission set out certain principles for the determination of the quantum of grants. The first was the comparative budgetary needs of the States, regard being given to any abnormal, unusual and non-recurring items of receipts and expenditure which might make comparison of budgets difficult.

The second principle was that the States should aim at obtaining an optimum tax structure before making claims for grants. A State which was prepared to make all efforts to raise more resources internally was better entitled to grants than the one which did not make any effort. The Commission said that there was no guarantee that the benefit of outside assistance would in fact accrue to the weaker section of the community.

The third principle adumbrated by the Commission was that the State claiming grants must practise strict economy in expenditure, and that before making any claim, the State would prove its eligibility by utilising its resources in the best possible manner. The Commission emphasised that it was not the purpose of any system of grants-in-aid to diminish the responsibility of the State Governments to balance their own budgets. If the amounts of the grants-in-aid were to be merely in proportion to the financial plight of a State, a direct premium might be placed on impecunious policies and a penalty imposed on financial prudence. At the same time satisfactory financial arrangements by a State are not to be considered a disqualification to receive grants, if the State is eligible for these on other grounds.

Another principle suggested by the Commission was that grants should be paid to the States for the purpose of equalising the standards of the basic social services rendered by them. In fact the Commission observed that the standard of social services in a State should be a reliable criterion for grants-in-aid, the reason being that it is only a reflection of the backwardness or prosperity of a State and its population in relation to its area.

Grants were also to be given to a State when it had special obligations of national importance to fulfil which, it did not have the requisite resources. These special obligations might be the result of, say, the partition of the country, the existence of famine conditions, or the added responsibility of a State in the manner of defence or changes in its institutional framework. The last principle enunciated by the Commission was that grants should be paid to less advanced States to help them to reach the advanced standards attained by other States.

After enunciating these general principles, the Commission went on to determine the criteria that should govern the allocation of grants to the States. The two basic considerations of the Commission were the following :

(i) The budgetary position of the States and the probable yield to them from the shared-in-taxes ;
(ii) The States that were adversely affected by partition should be assisted to meet the special problems that partition created.

The Commission felt that the grants given to a State should enable it to meet the "normal budgetary needs" and at the same time be sufficient enough to allow a "reasonable margin of expansion."

In the light of these considerations, the Commission found that the States of Madras, Uttar Pradesh, Bihar, Madhya Pradesh, Hyderabad, Rajasthan, Madhya Bharat and PEPSU were ineligible for grants. Bombay, although not ineligible, did not require any grant in view of its developed economy. According to the Commission's findings, only West Bengal, Orissa, Saurashtra, Punjab, Assam, Mysore and Travancore–Cochin could legitimately claim any special assistance. Thus West Bengal was to be given Rs. 80 lakhs per year for five years in view of the refugee problem it had to tackle. Orissa had very backward areas in its territory and was served with poor communications, and therefore, was to be given a grant of Rs. 75

lakhs. The Punjab, after partition, had to face new and greater responsibilities in maintaining law and order. Hence the State was to be given Rs. 125 lakhs. Saurashtra was assigned Rs. 40 lakhs while Assam received Rs. 100 lakhs. The two Southern States of Mysore and Travancore–Cochin received Rs. 40 lakhs and 45 lakhs respectively. The Commission assumed that the expenditure on relief and rehabilitation of displaced persons will continue to be borne mainly by the Government of India.[7]

The following table indicates the amounts of grant recommended by the Commission under Article 275 (1) :

States	*(In Lakhs of Rupees)*					
	1952–53	1953–54	1954–55	1955–56	1956–57	*Total*
Assam	100	100	100	100	100	500
Mysore	40	40	40	40	40	200
Orissa	75	75	75	75	75	375
Punjab	125	125	125	125	125	625
Saurashtra	40	40	40	40	40	200
Travancore-Cochin	45	45	45	45	45	225
West Bengal	80	80	80	80	80	400

Mention may also be made here of the primary education grants recommended by the Finance Commission under the substantive provision of Clause (1) of Article 275 of the Constitution. The Commission felt that many States lagged in the field of primary education and that it was in the national interest to assist these States in the advancement of this important social service. In order to determine the amount of such grants, the Commission took as a basis the percentage of children between the ages of 6 and 11 who actually attended school in the various States. This percentage showed that while a State like Travancore–Cochin had 98.8 per cent there were other States like PEPSU and Rajasthan which had only 10.6 per cent to their credit. The Commission therefore recommended special grants for the spread of primary education to the States of Rajasthan,

[7] *Report of the Finance Commission* (1952), Ch. VIII, pp. 101–03,

PEPSU, Madhya Pradesh, Madhya Bharat, Orissa, Punjab, Hyderabad and Bihar. The amounts recommended were the following :

States	(In Lakhs of Rupees)			
	1953–54	1954–55	1955–56	1956–57
Bihar	41	55	69	83
Madhya Pradesh	25	33	42	50
Hyderabad	20	27	33	40
Rajasthan	20	26	33	40
Orissa	16	22	27	32
Punjab	14	19	23	28
Madhya Bharat	9	12	15	18
PEPSU	5	6	8	9
TOTAL	150	200	250	300

These were unconditional grants, the States being given full discretion in utilising them for the purpose for which they were given.

Second Finance Commission

The second Finance Commission submitted its report at the end of September 1957 and the Government's acceptance of all its recommendations was announced on 14th November 1957. In between the submission of the reports of the first and second Commissions, two important changes took place. The first was the reorganisation of the States in 1956, a notable result of which was the abolition of Part 'B' States. The second was the inauguration of the Five Year Plans. When the first Commission reported, the First Five Year Plan had hardly come into operation.

The second Commission, like the first one, has adumbrated certain principles which should govern grants-in-aid.[8] In this, the Commission has generally agreed with the basic approach adopted by the first Commission. It has, however, slightly modified one of the principles set out by the first Commission and held that another principle could no more be considered valid.

[8] *The Second Finance Commission Report* (1957), Sec. VI.

In regard to the principle that a State claiming grants should prove its eligibility by doing all it can to raise revenue, the second Commission felt that, although the validity of the principle itself could not be questioned, it was difficult to determine whether the principle had been satisfied. Because of this difficulty the second Commission said that, if a State had raised the additional revenue which it had promised for the implementation of the Plan, that State could be considered to have made the maximum tax effort.

The second change made by the Commission deals with the principle that grants should be provided to help a State to bring its basic standards of social services on a par with those available in other States. This principle, the Commission considered, had no more any validity since it had already been taken into consideration by the Planning Commission while formulating the Plan. Therefore, the discontinuance of grants in the field of social services such as the primary education grant was recommended by the Commission.

Apart from making these changes, the Commission had also formulated the following three new principles :

(1) The eligibility of a State to grants-in-aid and the amount of such aid should depend upon its fiscal need in a comprehensive sense. In a Union, in which the Centre and the States co-operate for planned development, grants-in-aid should subserve this end. Priorities and provisions in the Plan itself should determine the fiscal needs for development for the period of the Plan.

(2) The gap between the ordinary revenue of a State and its normal inescapable expenditure should, as far as possible, be met by sharing of taxes. Grants-in-aid should be largely a residuary form of assistance given in the form of general and unconditional grants.

(3) Grants for broad purposes may also be given. While they last, they should be grants-in-aid of revenues, but the States would be under an obligation to spend the whole amount in furtherance of the broad purposes indicated. Where these purposes are provided for in a comprehensive plan, there will be no scope for such grants.

With regard to grants-in-aid in lieu of jute export duty to the States of Assam, Bihar, Orissa and West Bengal, the Commission has made certain adjustments necessitated by the transfer of territories from Bihar to West Bengal.[9] The revised amounts recommended by the Commission are as follows:

	(In Lakhs of Rupees per Annum)
Assam	75.00
Bihar	72.31
Orissa	15.00
West Bengal	152.69

According to Article 273 of the Constitution, this grant is to cease after the financial year 1959–60. The Commission has therefore made certain adjustments in the quantum of grants recommended to these States and has observed that this should not be construed as giving support to the claim that in the future these States are entitled to be compensated for the cessation of these grants.

With regard to grants-in-aid of revenues, the Commission, after examining the revenue position of all the States, came to the conclusion that no grant-in-aid was necessary for Bombay, Madras and Uttar Pradesh. Among the other States,[10] Andhra Pradesh is given Rs. 4 crores a year in view of its special problems arising out of reorganisation. In the case of Assam, the grant recommended is Rs. 3.75 crores a year with an additional yearly grant of Rs. 75 lakhs after 1959–60 in order to cover the shortfall in its revenue due to the termination of the jute grant. Similarly, Bihar is given Rs. 3.5 crores, to be raised to Rs. 4.25 crores after 1959–60. This grant is expected to enable the State to meet all its commitments under the Five Year Plan. For Kerala and Madhya Pradesh, the Commission recommended Rs. 1.75 crores and Rs. 3 crores respectively, as this would be sufficient for these two States to implement their development plans. Because of the special difficulties of Mysore arising out of reorganisation, the Commission

[9] *The Second Finance Commission Report* (1957), Sec. XI.
[10] Ibid., Ch. XII.

proposed an annual grant of Rs. 6 crores. Rs. 3.25 crores a year is recommended to be given to Orissa till the end of 1959–60 and thereafter an additional sum of Rs. 25 lakhs a year. The latter State needed assistance both for its basic requirements and for implementing the Second Five Year Plan. The border State of Punjab, with the scars of partition still unhealed, is to be given Rs. 2.25 crores a year. The grant recommended for Rajasthan is Rs. 2.5 crores. In the case of West Bengal, with its burden of displaced persons, the grant recommended is Rs. 3.25 crores. This figure is to be raised to Rs. 4.75 crores after 1959–60. Lastly, for Jammu and Kashmir the Commission proposed an annual grant of Rs. 3 crores, as the State was likely to be in need of assistance for some time more for its ordinary requirements and for its development. The following table will show the amounts of grants under the substantive provision of Article 275(1) of the constitution as recommended by the Commission for the various States for the five-year period:

States	*(In Crores of Rupees)*					
	1957–58	1958–59	1959–60	1960–61	1961–62	*Total*
Uttar Pradesh	4.00	4.00	4.00	4.00	4.00	20.00
Assam	3.75	3.75	3.75	4.50	4.50	20.25
Bihar	3.50	3.50	3.50	4.25	4.25	19.00
Kerala	1.75	1.75	1.75	1.75	1.75	8.75
Madhya Pradesh	3.00	3.00	3.00	3.00	3.00	15.00
Mysore	6.00	6.00	6.00	6.00	6.00	30.00
Orissa	3.25	3.25	3.25	3.50	3.50	16.75
Punjab	2.25	2.25	2.25	2.25	2.25	11.25
Rajasthan	2.50	2.50	2.50	2.50	2.50	12.50
West Bengal	3.25	3.25	3.25	4.75	4.75	19.25
Jammu and Kashmir	3.00	3.00	3.00	3.00	3.00	15.00

It will be seen that the Commission has recommended larger grants-in-aid to the States than it had in the past which is mainly in consideration of the requirements of the States for development, and that the Commission has clearly stated that the sums recommended by it, while justified in the context of the Second Five Year Plan, were not to be taken as indicating the permanent requirements of the States for their ordinary budgetary needs.

The Commission, however, observed that there was some overlapping between its work and the work of the Planning Commission. The Finance Commission is a statutory body with limited functions, while the Planning Commission has to deal comprehensively with the finances of the Union and the States in the wider sense of the term. The Commission has, therefore, recommended that there was a real need for effectively co-ordinating the work of the two Commissions and has, therefore, suggested that in future the period covered by the recommendation of the Finance Commission should coincide with that of the Five-Year Plan, and that it was desirable to eliminate the necessity of making two assessments of the needs of the States.

Conclusion

An important feature of the revenue pattern of provinces/States is the relatively higher proportion of total revenue provided by Central grants-in-aid, about 19 per cent in 1958–59, as compared to about 5 per cent in 1944–45 and 3.2 per cent in 1938–39. In absolute figures the grants-in-aid to the States from Revenue Account of the Centre rose from 3.05 crores in 1938–39 to 17.3 crores in 1951–52 and further to 132.9 crores in 1958–59. State-wise distribution of statutory grants-in-aid from the Centre for the years 1957–58 to 1959–60 is shown in Appendix I. Details of Central grants to the States in respect of individual schemes both on Revenue and Capital Account are given in Appendix II.

CHAPTER III

CENTRAL GRANTS TO STATES II

Introduction

ARTICLE 282 of the Constitution of India enables the Central Government to make grants to the States for any public purpose, notwithstanding that the purpose is not the one with respect to which Parliament may make laws. A peculiar feature of these grants is that they are not compulsory like the grants provided under the Finance Commission's award. Their quantum is determined by the Central Ministries concerned. The nature and pattern of grants vary from Ministry to Ministry.

The first Finance Commission mentioned some important reasons for the growth of these specific grants. These are the inadequacy of States' resources in relation to their functions, the interest of the Federal Government in maintaining certain minima in the standards of social services and development activities throughout the country, the need to develop some activities which, if left to State Governments, may not be taken up at all or may not be executed at the required pace, and the possibility of having some uniformity of standards.

The main purpose of Central financial assistance is to help the States to undertake development schemes that have been given priority in the Five Year Plan. The schemes that receive Central assistance may be classified into two categories, viz. Centrally assisted and Centrally sponsored. The former are schemes that are exclusively in the State Plans and are initiated by the States. The latter are schemes which are suggested and initiated by the Centre and for the execution of which the Central Government may meet the entire or a part of the expenses.

At this point it may be mentioned that the second Finance Commission has examined the system of matching grants and suggested certain changes. The Commission found that the main reason why the States agreed to undertake schemes for which matching funds were made available by the Centre was the fear of public criticism if they did not accept the Central subsidy. The result has been that often the States ran into revenue deficits as they had already committed all their resources for their inescapable expenditure of the implementation of the Plan as originally drawn up. This difficulty was all the greater in relation to schemes outside the Plan. To start a scheme, to execute which there were not sufficient resources, was an undesirable practice and yet there was some justification for the States to do so. Therefore, the Commission, on its part, took this aspect into consideration while making its recommendations so that the States would have enough resources to provide for their part of the expenditure in the Second Plan. As to the future, it was of the view that schemes involving matching grants were not suitable in the prevailing conditions. It also suggested for consideration whether once a scheme had been accepted in broad detail and provision made for it in the Plan, further scrutiny and sanction should not be left to the State Governments, subject to a financial ceiling for each scheme.

Recently, after the State Ministers' Conference held in November 1957, the procedure for the final release of assistance for the State Plan schemes has been modified. It has been agreed that the schemes under each head of development might be arranged suitably in groups. While the total amount of Central assistance to be intimated to the State Governments would be estimated with reference to individual schemes and the patterns of assistance for them, the intention is that once the State Governments have been informed of the amounts of loans and grants available for the State Plans, the final sanctions of payments should be related to expenditure for each group of schemes. Within a group, the State Governments will be free to regulate the expenditure on the schemes without reference to the Central Government. Where the total expenditure under one group is proposed to be covered by reduction of expenditure in another group under the same head of development, the concurrence of the Central Ministry concerned should be obtained and the Planning Commission kept informed. Similarly, where the same Central Ministry is concerned with more than one head of development, adjustments between them may be made in consultation with the Ministry under advice to the Planning Commission. Where such adjustments are considered necessary as between one Ministry and another, the concurrence of the Planning Commission should be obtained, and a copy of the proposal sent simultaneously to the Ministries concerned.

The final release of funds will be calculated with reference to the proportion of the assistance under loans and grants intimated by the State Government in respect of a group and the total expenditure for the year estimated with reference to that group. Thus, if for a group of schemes the total outlay accepted is Rs. 100 lakhs, of which Central grants amount to Rs. 25 lakhs and Central loans to Rs. 50 lakhs while Rs. 25 lakhs are to be contributed by the State Government, grants and loans will be given at 25 per cent and 50 per cent respectively of the total expenditure.

The above procedure applies to State Plan schemes. As far as the Centrally sponsored schemes are concerned, they will require specific approval from the administrative Ministries concerned. Those Centrally sponsored schemes which will entail a total cost of less than Rs. 25 lakhs over the Plan period or of Rs. 10 lakhs during a year, the Central Ministries would accord their approval on the basis of a statement from the administrative department concerned in the State to the effect that the schemes have been accepted for financial sanction by the State Finance Department. Schemes costing more than the amounts mentioned above will necessitate the intimation of the approval of the Central Ministries after the necessary scrutiny.

A substantial portion of the assistance of the Central Ministries for both the schemes included in the State Plans and the Centrally sponsored schemes will be made available as a lump sum ways and means by the Ministry of Finance to the State Governments, e.g. for 1958–59 three-fourths of the total amount of Central assistance will be released in nine equal monthly instalments beginning with May 1958,[1] except the loans for the D.V.C., the Hirakud and the Rajasthan Canal, funds for which will continue to be released as earlier.

For illustrative purpose, we may consider the Central assistance for the schemes under the charge of the Ministries of Food and Agriculture, Community Development, Education, Health and Labour.

[1] It has since been released.

Ministry of Food and Agriculture

The schemes of the Ministry of Food and Agriculture have been classified under four main heads of development which are further classified into the following groups :

Central Ministry	*Head of Development*	*Groups*
Ministry of Food and Agriculture	Agriculture (including minor irrigation and land development)	1. Minor Irrigation including Tubewells
		2. Land Development and Consolidation of Holdings
		3. Seed Farms
		4. Supply Schemes and Plant Protection
		5. Development of Commercial Crops, Horticulture and Fruit Preservation
		6. Agricultural Education
		7. Agricultural Research, Information and Statistics
	Animal Husbandry, Dairying and Fisheries	1. Animal Husbandry, including Sheep and Wool and Poultry Development
		2. Veterinary Education and Rinderpest Eradication
		3. Dairying and Milk Supply
		4. Fisheries
	Forest and Soil Conservation	1. Forestry Schemes
		2. Soil Conservation
	Co-operation	1. Co-operation and Warehousing
		2. Marketing, Co-operative Farming and Training

Agriculture and Animal Husbandry, Dairying and Fisheries. Except Assam, Orissa and Jammu and Kashmir, 50 per cent of the net expenditure on the schemes, which are eligible for subsidy, is equally shared by the Centre and the States. In the case of Assam, Orissa and Jammu and Kashmir, the Centre contributes two-thirds of the net expenditure. In the case of Centrally administered areas, the Central Government bears the entire expenditure on the schemes. Within the ceilings mentioned above, the pattern of assistance varies from scheme to scheme.

In the field of minor irrigation, for any scheme which yields a return of less than 4.5 per cent per annum over a period of twenty years, the difference between 4.5 per cent and the actual return is shared between the Centre and the State concerned. Similarly, for the construction of *kuhls* in hilly regions where these are the only means of providing irrigation, the Centre gives an overall subsidy not exceeding half of the total cost. In the case of minor irrigation schemes of a private nature, i.e. works undertaken on the lands of individuals, the Centre's contribution is 25 per cent of the overall rate. This figure is raised up to 50 per cent of the total cost in exceptional cases, where the schemes benefit mostly backward and undeveloped areas or when the schemes are useful but very costly.

In the case of land improvement schemes, land reclamation by bullock power or manual labour is eligible for a grant of 25 per cent of the total cost. Schemes undertaken by the State Governments with their own tractor organisations, when the Central Tractor Organisation cannot take up the work, receive 50 per cent of the net loss incurred by State Governments or 12.5 per cent of the total expenditure, whichever is less.

Distribution of fertilisers and manures is another scheme for which grants are made. A total grant of 25 per cent is given for such a scheme ; nitrogenous fertilisers and green manure are not however eligible for grants. In the case of manure mixtures containing nitrogenous fertilisers etc., those component parts which are eligible for grants are taken into account. For the development of local manurial resources, the expenditure for the employment of inspectors is shared by the Centre and the States on a 50 : 50 basis. The cost of employing a biochemist has to be borne by the State Government. The cost of training the compost inspectors and selected farmers is borne entirely by the Union Government.

In those States which have to import seeds, schemes for the distribution of seeds are eligible at present for a total subsidy of Rs. 2 per maund plus 8 annas per maund on account of storage and transport charges. In the case of fishery schemes, the Centre bears 50 per cent of the cost of the distribution of fries and fingerlings and stocking of fish (including repairs of ponds and tanks), 25 per cent of the cost of the engines for boats, 50 per cent of the cost of nets, 33.3 per cent of the cost of yarn, 25 per cent of the cost of hooks, winches, line haulers, etc.,50 per cent of the net recurring cost, including the depreciation of transport facilities, for stocking and marketing of catches, and several others.

Under the head "other agricultural schemes", grants are made for plant protection schemes and for the spreading of the Japanese method of rice cultivation. In the former case, the Centre bears up to 50 per cent of the cost of pesticides used for spraying and testing operations, the other 50 per cent being recoverable from the beneficiaries. However, when sudden epidemics occur the entire cost of pesticides may be shared by the Centre and States. Fifty per cent of the total cost of the distribution of hand-dusters and hand-sprayers to cultivators may be paid by the Centre. Schemes for the promotion of the Japanese method of rice cultivation get financial assistance as for the other food production schemes.

The general principle followed by the Ministry in judging a scheme for purposes of assistance is that it should be capable of producing permanent results at the minimum cost possible.

Soil Conservation Schemes. Soil conservation schemes can broadly be classified under the following 15 categories :

(1) Afforestation.
(2) Bunding or terracing.
(3) Gully plugging and check dams.
(4) Terracing of pasture lands.
(5) Supply of seeds or grasses and legumes and seedlings of trees and shrubs.
(6) Levelling and terracing of ravine land.
(7) Levelling and terracing of hill slopes.
(8) Stabilisation and fixation of sand dunes in deserts or river banks and sea-sides.
(9) Diversion channels and grassed waterways to allow the surplus water to drain off safely.
(10) Construction of dams or ponds for erosion control or minor irrigation.
(11) Utilisation of eroded lands for pasture and firewood trees.

(12) Improvement of pasture land by pasture furrowing, re-seeding, fertiliser application and rotational grazing.
(13) Research of local problems, including survey and planning on a restricted basis.
(14) Subsidies to co-operative societies for soil conservation work on approved lines.
(15) Fire control in forests of catchment areas where dams are located.

Grants towards the expenditure on these schemes are made by the Central Soil Conservation Board on behalf of the Ministry of Food and Agriculture. The quantum of assistance depends upon the merits of each scheme. The Board has, however, enunciated the following general principles :

(1) The total subsidy in respect of a particular scheme should not exceed 25 per cent of the total cost of the scheme, the Board's share of the subsidy being limited to 50 per cent thereof, i.e. 12.5 per cent of the cost of the scheme, subject to at least an equal amount being borne by the State Government. The latter would be free to allow higher subsidy at their own cost.
(2) The Board may follow the pattern adopted for schemes under the Grow More Food when a higher rate of grant is called for because of the financial position of the State.
(3) For afforestation schemes, which are highly remunerative, the grant may be up to 50 per cent subject to the following ceiling limits :

	(Rupees per Acre)
Hills	45
Sub-mountain Area	55
North India Plains	40
Deccan	30
Tropical West Area	35
Arid Zones	35

(4) Nominal subsidy may be given for soil conservation schemes of waste land forming part of a catchment or sub-catchment area.

(5) For pilot or demonstration schemes, the grant may be up to 100 per cent, the exact amount depending on the merits of each case.
(6) Research in local problems of soil conservation may be given a 50 per cent grant, provided the scheme is run on a restricted basis. In the case of expansion of existing schemes, the Board will give only 50 per cent of the additional expenditure over the normal expenditure.
(7) 75 per cent of the cost of schemes in tribal areas will be met by the Centre, the rest being borne by the State Government.
(8) The Board may give 50 per cent of the cost of staff exclusively employed on desert reclamation.
(9) In exceptional cases, the cost on the staff employed for soil conservation schemes may be subsidised.

Co-operation. Schemes of co-operation for which assistance is given by the Ministry of Food and Agriculture may be classified into the following four broad groups :

(1) Primary credit societies, central banks, apex banks and land mortgage banks registered as co-operative societies.
(2) Co-operative marketing and co-operative processing societies.
(3) Strengthening the staff with the State Governments.
(4) Training of co-operative personnel.

The Central Government pays 12.5 per cent of the cost of construction of godowns owned by primary societies. This is a conditional grant in that the State Government has also to contribute an equal share in the form of a grant. In the case of other banks and also larger societies, a part of the cost of additional managerial staff may be borne by the Centre for a period not exceeding three years on condition that the State Government also makes an equal contribution.

Grants are given for the construction of godowns on the same basis as in the case of primary societies. The cost of the additional managerial staff for marketing and processing societies is also subsidised by the Central and State Governments in the same manner as with regard to central banks, apex banks, etc. The

cost of the additional field staff required by the State Governments for improving supervision, audit and administration of the Co-operative Department is also borne by the Central Government to the extent of 25 per cent. In the field of training co-operative personnel, the Central Government shares equally with the State Government the pay and allowances of staff, stipends to candidates, and library. Besides this, the Central Government meets the entire cost of the regional training centres organised for training block-level co-operative officers.

Ministry of Community Development[2]

Another Central Ministry which makes substantial grants to States is the Ministry of Community Development. This Ministry makes grants in respect of the Community Development projects and also the National Extension Service Blocks. Assistance takes the form of both loans and grants-in-aid depending upon the nature of the scheme. The expenditure on grants-in-aid is shared between the Central and State Governments on a prescribed basis.

The schemes for which assistance is provided may broadly be divided into two categories, viz. " self-financing schemes " and " non-financing schemes ". In the case of the former, no grants are made except in regard to private irrigation and reclamation schemes financed from the project or Block funds in which case a subsidy of 25 per cent is allowed on the same terms and conditions as are applicable to financial aid by the Centre under the Grow More Food Programme. If schemes relating to agricultural development, animal husbandry and allied activities such as improved agricultural practices, village afforestation, improvement of breeds of live-stock and introduction of pedigree live-stock through sale at concessional rate, etc., are taken up for purposes of demonstration, grants-in-aid are afforded, provided the amounts involved are small and are confined to specific purposes.

In the case of other schemes not included in the category of self-financing schemes, the Central Government makes substantial

[2] The Ministry has been redesignated as Ministry of Community Development and Co-operation since January 1959.

grants. There is, however, a matching provision that the State Governments should also provide a prescribed proportion of the expenditure. Of the non-recurring expenditure the share of the Central Government is 75 per cent and of the State Government 25 per cent. Recurring expenditure is shared equally.

The working of community development programme was recently examined by a Study Team set up by the Committee on Plan Projects, under the chairmanship of Shri Balwantray Mehta. The Team thought that the division of the community development programme in three phases, namely the N.E.S. stage, the intensive development stage and the post-intensive development stage, led to waste and frustration on account of non-availability of resources during the first and the last stages. It recommended that this distinction should be replaced by a continued programme, the unspent funds of each year being carried forward to the following year within certain limits. The first phase of six years should be followed by the second phase of six years with a budget ceiling of Rs. 15 lakhs and Rs. 5.5 lakhs respectively. These recommendations of the Team were carefully considered by the Government and it has been decided that the three stages should be abolished and replaced by two stages each of five years' duration, with a budget ceiling of Rs. 12 lakhs and Rs. 5 lakhs respectively. When, however, in specific cases, extension of period of operation of the first stage is considered necessary, it should be freely given for one more year.

As regards financial allotment having regard to past experience of the rate of expenditure, it was felt that a provision for Rs. 12 lakhs should be made for a five-year period in the first stage and Rs. 5 lakhs for a five-year period in the second stage.

Ministry of Education[3]

The Ministry of Education has an elaborate scheme of financial assistance to the States. These schemes are classified in six groups, viz. (1) Elementary Education, (2) Secondary Education, (3) University Education, (4) Other Education Schemes, (5) Welfare Extension Projects and (6) State Social Welfare Schemes. There are, broadly speaking, eighteen schemes for which help is given. Eight of them fall within the category of Centrally assisted schemes and the other ten in the category of Centrally sponsored schemes. Grants are made only to specific schemes. In most cases there is a matching contribution to be made by the States; in many cases the grant is tapering.

[3] The Ministry of Education and Scientific Research was bifurcated into Ministry of Education and a separate Ministry for Scientific Research and Cultural Affairs in April 1958.

To take an example, the elementary education scheme consists of the following five schemes :

(1) Pre-primary education.
(2) Special schemes relating to education of girls.
(3) Schemes relating to basic education including training for basic teachers.
(4) Scheme to improve the primary school teachers' salaries.
(5) Other schemes under elementary education excepting scholarships, administrative and staff buildings.

In the case of pre-primary education, the Government of India gave 66 per cent of non-recurring cost and 60 per cent of recurring cost in 1956–57, and only 50 per cent in 1957–58. With regard to special schemes for the education of girls, the Centre's share in 1956–57 was 50 per cent of the cost of ordinary schools and 60 per cent in the case of basic schools. In 1957–58 the grant was 60 per cent in both the cases. For basic education schemes, the grant was 60 per cent in 1956–57 and 1957–58. In the case of the remaining two sets of schemes, the share of the Central Government was 50 per cent in these two years.

Another slice of Central grants goes for secondary education. There are the following seven schemes in this category :

(1) Conversion of high schools into multi-purpose higher secondary schools.
(2) Conversion of high schools into higher secondary schools.
(3) Training of teachers for multi-purpose higher secondary schools.
(4) Improvement of teaching facilities in existing secondary institutions.

(5) Improvement of facilities for teaching science in secondary institutions.
(6) Improvement of libraries.
(7) Other schemes relating to secondary education excepting scholarships, administrative and staff buildings, public schools and teachers' salaries at the secondary stage.

In the case of the first scheme, i.e. conversion of high schools into multi-purpose higher secondary schools, the Central Government paid 66 per cent of the non-recurring cost and 25 per cent of the recurring cost in 1956–57. In 1957–58 there was an overall grant of 60 per cent. For conversion of high schools into higher secondary schools, 50 per cent grant was paid in 1956–57 and 60 per cent in 1957–58. For the next three schemes, the Centre's share was only 50 per cent of the cost in 1956–57 and 1957–58.

A third scheme in the category of Centrally assisted schemes is Social Education and Audio-Visual Education, under which there are the following three programmes :

(1) Central Libraries.
(2) Janata Colleges.
(3) Other schemes excepting those covered under the programmes of the Ministry of Community Development.

The non-recurring grant for the first and second programmes is 60 and 66 per cent respectively. The recurring portion is 60 per cent and 50 per cent. These are for 1956–57. In 1957–58 both schemes got an overall subsidy of 50 per cent. The third scheme was given 50 per cent in 1956–57. The same rate would apply in 1957–58.

An example of Centrally sponsored schemes is the production of literature and materials. Two programmes under this are production of educational literature for children and adults and production of literature and materials on basic education, awards of prizes for compiling, editing, or translating selected works or for producing teaching aids and other materials. For both the schemes, a recurring grant of 50 per cent is paid. Under a scheme for the promotion of Hindi, the Central Government pays 60 per cent

grant for the appointment of Hindi teachers. For the development of regional languages the State Governments get 33.3 per cent grant from the Central Government. In regard to museums, archaeological activities, anthropology and archives, the Central Government contributes 50 per cent of the expenses.

Ministry of Health

There are thirty-one schemes for which the Ministry of Health makes grants to the States. These schemes are classified under the following groups :

(1) Water Supply and Sanitation—Rural/Urban.
(2) Education and Training.
(3) Control of Diseases.
(4) Primary Health Units and Family Planning.
(5) Other Schemes—Health.
(6) Other Schemes—Medical.

One principle that runs as a common denominator in these cases is the recognition that an important social service like public health and sanitation should not suffer for lack of finance. All the aid programmes are therefore so contrived that they act as inducements to the State Governments to undertake measures which have been accorded priority by the Central Government.

An example is the establishment of Child Guidance Clinics and Psychiatric Departments by the State Governments, with the co-operation of and assistance from the Centre. The Central Government bears 75 per cent of the non-recurring and 50 per cent of the recurring expenditure in this regard. Two conditions are attached, viz. that the State Government should continue the operation of the clinics established under the scheme after the financial help from the Government of India is terminated and that the State Government should provide free accommodation for clinic, laboratory and office.

Another instance is the establishment of diet kitchens in teaching hospitals. The Government of India bears the entire non-recurring expenditure on these and also pays an annual recurring grant.

For the establishment of Subsidiary Centres in the Leprosy Control Scheme, the grant is 100 per cent of the non-recurring expenses, and 80 per cent of the recurring expenditure for the first year, 70 per cent for the next, 50 per cent for the third year, 30 per cent for the fourth year and 20 per cent for the fifth year. The grant ceases after this. In the case of the National Malaria and Filaria Control programmes the grant is in the form of free supply of materials, equipment and insecticides to the participating States who bear the operational cost. The Government of India also pays grants-in-aid in lieu of customs duty on certain imported supplies. The Government of India also makes an outright grant of 50 per cent of the cost of each approved water supply and sanitation scheme for rural areas. This is conditional upon the State Government providing the other half through contributions from villagers, local bodies and State revenues. For the establishment of new medical colleges, including dental colleges and the expansion of existing colleges, the Central Government pays 75 per cent non-recurring and 50 per cent recurring grant.

Ministry of Labour

The Union Ministry of Labour also has a grant programme. This Ministry bears a portion of the expenditure on employment and training schemes. On 1st November, 1956, the Government of India transferred to the State Governments responsibility for the establishment, maintenance and administration of Employment Exchanges in the country. The financing of the service is done on the basis of the recommendations of the Shiva Rao Committee, the share of the Central and State Governments being in the ratio of 60 : 40.

The State Governments are obliged to send to the Government of India, for review and approval, annual budget estimates along with plans setting forth the organisation of the employment service in the State and other details. Day-to-day administration of the Employment Exchanges including appointment, promotion, control, etc. of the staff is the exclusive responsibility of the State Government. The Central Government will concern itself with laying down the general policies and procedures and arranging

co-ordination. There is no Central inspection in the ordinary sense, but the Central staff have the power to examine the local procedure in order to ensure that the general policies laid down are being adhered to.

In regard to the training of craftsmen, the Central Government meets the entire expenditure on the Directorate of Vocational Training and also on the Central Training Institutes for Instructors, including the Craftsmen Training Centres attached to them. The Centre also contributes an amount equal to its present share of expenditure on the Directorate General of Resettlement and Employment training schemes in the States on condition that the State Governments continue to spend the same amount as they used to spend before. In addition, the Government of India pays up to 60 per cent of the expenditure on schemes for new training centres or for effecting improvements in the existing ones, provided such schemes are undertaken with the concurrence of the Government of India. The Union Government may also pay 60 per cent of the expenses on giving stipends to the trainees, provided the State Government pays the other 40 per cent. Only 33.3 per cent of the total number of trainees are eligible for stipend.

The State Governments are required to make provision in the first instance for the entire expenditure and recover 60 per cent thereof from the Government of India at the end of each year.

CHAPTER IV

STATE GRANTS TO LOCAL BODIES

Historical Retrospect

LOCAL self-government institutions in India have a long history. They are known to have flourished in ancient India; however, their emergence into something like the present-day local bodies is a development of the British period. Although the three presidency towns of Bombay, Calcutta and Madras had established municipal corporations in the early part of the nineteenth century, it was not until the passing of the Charter Act of 1793 that municipalities were started on a statutory basis. The Bengal Act of 1842, which introduced municipalities in the mofussil towns of Bengal, followed by the Act of 1850, applicable to the whole of India, gave further impetus to the starting of local government institutions in the country. Nevertheless, it was only after a Resolution of Government in 1870 that a deliberate policy regarding local bodies was adopted by the Government. This resolution was necessitated by the need for greater financial decentralisation and as a consequence of this, several Municipal Acts were passed by Provincial Governments. Attempts were also made to set up district boards in rural areas. The passing of the Bengal District Road Cess Act of 1871 marked the beginning of rural self-government in Bengal.

The provision of grants-in-aid to these newly started local bodies, both rural and urban, had its beginning with a Government Resolution of 1882, in which it was said that the Provincial Governments should apply to their financial relations with local bodies the same principle of financial decentralisation which the Central Government had adopted in its relations with the provinces.[1] There-

[1] *Report of the Local Finance Enquiry Committee* (1951), Ch. I, p. 9.

after grants were made available to these bodies, the amounts increasing gradually and being larger in the case of those bodies in urban areas.

The report of the Decentralisation Commission (1909), while not favouring regular grants-in-aid to local bodies, recommended the sanctioning of larger grants to them for special large projects, such as schemes of drainage and water supply.[2] With the passing of the Government of India Act, 1919, local self-government became a transferred subject, and this gave a new fillip to local bodies. Grants-in-aid increased in scope and extent in this period, and later, under the Government of India Act, 1935. The following figures show State Government grants to local bodies excluding village panchayats in 1946–47.[3]

	Government Grants (Rs. Crores)	*Per Cent of the Total Revenue of Local Bodies*
Madras	2.13	19.4
Bombay	0.78	5.7
West Bengal	1.15	20.4
Uttar Pradesh	2.28	33.1
Punjab	0.69	36.0
Bihar	1.40	40.43
Orissa	0.50	66.4
Madhya Pradesh	0.53	17.0

Local self-government institutions received further encouragement under the new Constitution, which in Article 40 asked the Government to take measures to set up village panchayats.

Types of Local Bodies

Local bodies in India may be placed in two categories, urban and rural.[4] In the former category may be included municipalities

[2] N. L. Bhatnagar, *Rural and Municipal Economics* (1st Edition), Part II, Ch. I, p. 5.
[3] *Report of the Local Finance Enquiry Committee* (1951), Ch. III, p. 59.
[4] Ibid., Ch. III, pp. 53–54.

and municipal corporations. In the latter class are to be included district boards and village panchayats. The main functions of urban bodies are education, public health, sanitation, medical relief and public works. The principal functions of district boards are the construction and maintenance of roads, hospitals, schools, provision and protection of drinking water, canals, tanks, etc., establishment of rest houses and markets, and management of ferries. The functions of village panchayats vary from State to State.[5] In some cases, they are given judicial, police and civil functions while in some others they are concerned with village roads, primary schools, village dispensaries, etc. According to the laws of some States, they may be entrusted with "productive and economic activities" such as farming, marketing, etc. However, in actual practice they are primarily concerned with "construction, repair and maintenance of wells for drinking water, construction and maintenance of village roads and drains, provision of village lighting, organising voluntary manual labour, occasionally the construction of buildings for primary schools or village dispensaries, and a few minor duties of a casual nature such as the 'registration of births and deaths'".

Items of Aid

Grants given to local bodies by State Governments vary from State to State. The Local Finance Enquiry Committee (1951) made an extensive survey of the grants given by the various State Governments to local bodies. In Madras grants are made for the following purposes :

(1) Construction of roads, bridges, culverts, etc.
(2) Payment of dearness allowances to the staff of local bodies, to the extent they are not able to meet such expenditure.
(3) Education.
(4) Medical and public health measures including protection of water supply and drainage schemes.

[5] *Report of the Taxation Enquiry Commission*, Vol. III (1953–54).

In Bombay, municipalities are given the following grants :

(1) 50 per cent of the dearness allowance paid to the staff except of the richer municipalities of Ahmedabad, Poona, Surat, Sholapur and Hubli.
(2) 50 per cent of the capital cost of water supply and drainage schemes in the case of district municipalities and 33·3 per cent in the case of borough municipalities.
(3) 50 per cent of the expenses on municipal medical officers, and 33.3 per cent on Sanitary Inspectors and Chief Sanitary Inspectors.
(4) 33.3 per cent of the cost of housing Harijan employees in the case of borough municipalities.
(5) 50 per cent of the municipalities' cost on primary education, except in the case of Ahmedabad which gets 25 per cent and Poona, Surat, and Sholapur which get 33.3 per cent each.
(6) Non-recurring grants for epidemic control.

In the case of district boards, both statutory and non-statutory grants are paid by the Government of Bombay. The former include the following :

(1) Two-thirds of the salaries of the Chief Officer or Engineer and Health Officer, provided the appointments are approved by Government.
(2) A compensatory grant paid on account of the abolition of tolls.
(3) Grants for primary education.

Non-statutory grants paid to district boards by the Bombay Government are the following :

(1) Grants for local public works.
(2) 50 per cent of the dearness allowance of staff.
(3) Grants towards the cost of village water supply schemes.
(4) Dispensary grants.

In West Bengal grants are given to the municipalities for the following purposes :

(1) Dearness allowance to staff.
(2) Health grants.
(3) Public works programmes.

In the case of district boards, the grants take the following forms :

(1) All the above three grants.
(2) Annual subsidy not exceeding Rs. 2,000 to approved thana health units maintained by local boards.
(3) Subsidies and two-thirds of the annual cost of permanent thana vaccinators who are employees of district boards.
(4) Pay of one health assistant in a thana unit for compilation of vital statistics.
(5) Kala-azar grants.
(6) Grants to village and thana dispensaries maintained by district boards at the rate of Rs. 5,000 and Rs. 250 per annum respectively.

In Uttar Pradesh grants are paid towards the expenditure of local bodies on education, medical relief, public health, drainage and water works, roads and civil works, and other activities and dearness allowance paid to staff.

In the Punjab grants are paid for education, medical, public health, engineering works, miscellaneous expenses, and general expenditure such as block grants to district boards and panchayats.

Local bodies get no statutory grants in Bihar although non-statutory grants are paid both to municipalities and other rural bodies for specific purposes. For the former, grants are given for educational and medical purposes and for the maintenance of roads. They also get grants in lieu of fines and penalties imposed under certain Acts. Other grants to individual municipalities are also given. District boards get grants for improvement of communications, maintenance of hospitals and dispensaries, education grants for the maintenance of schools, and the proceeds of some taxes.

In Orissa, local bodies are given grants for medical relief, education, and communications.

Grants are paid for education, public health and communications in Madhya Pradesh.

Grants given in Assam fall into five categories, viz. education, medical relief, public health, communications and general purposes.

The grants may take three forms. Firstly, they may be payments towards the cost of certain items of expenditure by local bodies in relation to specific services like the payment of the salaries of certain municipal officers. A second form of State grants-in-aid is the block grants given as a kind of general assistance to the poorer local bodies to enable them to balance their budgets. Thirdly, there are the percentage grants and unit grants in which the grants form a specified proportion to the total expenditure.

A broad classification of the purposes of grants to municipalities, was made as follows by the Taxation Enquiry Commission :[6]

(1) to meet a part of the capital cost of water supply and drainage schemes of municipalities ;
(2) for the maintenance of primary schools where the State Governments themselves have not assumed responsibility for this service ;
(3) for payment of dearness allowance to staff ;
(4) to meet part of the cost incurred on secondary schools, medical institutions, maternity and child-welfare centres and public health measures such as anti-malaria operations ;
(5) for payment to certain officers such as engineers and health officers ; and
(6) in rare cases, for assisting municipalities with poor resources to balance their budgets.

Income from grants-in-aid ranged in 1951–52 from 1.6 per cent of their total income in the case of municipalities in Saurashtra to 59.1 per cent in the case of Vindhya Pradesh. Grants-in-aid received by district boards and panchayats showed similar variations.

[6] *Report of the Taxation Enquiry Commission*, Vol. III, p. 366.

Principles of Grants-in-aid

Although State grants-in-aid to local bodies are fairly extensive, there are no clearly defined principles which govern such distribution. As the Taxation Enquiry Commission pointed out, no State had a grant-in-aid code containing well-defined principles on the basis of which grants were given.[7] Usually the grant takes the form of a fixed uniform proportion of the cost of a particular service, and not much consideration is given to the varying needs and resources of local bodies. Moreover, the quantum of the grants is contingent upon the financial resources of the State Governments, which are subject to yearly variations. Some of the grants are statutory while others are non-statutory. For example, in Madras, according to the Village Panchayats Act of 1950, village panchayats are entitled to receive a quarter of the land cess received by the district boards under Section 78 of the Madras Local Boards Act, 1920. Also 12.5 per cent of the land revenue collected in that State is to be distributed to panchayats with a minimum population of 500.[8] In Bombay, according to the Bombay Motor Vehicles Tax Act, 1935, every local body is given a grant equal to the average annual income of the body from tolls during the three years ending 31st March 1939, plus 10 per cent.

In regard to non-statutory grants, no general principles have been enunciated. There are, however, instances where allocation is made on the basis of well-defined principles. For example, in Bihar, municipalities and district boards receive no statutory grants for medical and public health purposes, but grants are sanctioned on the basis of their needs, their capacity and the efficiency of administration.[9] In Bombay, local boards are given financial assistance in respect of roads on the basis of their income in relation to the area to be provided for and the length of the roads, the comparative cost of maintenance and construction, the manner in which the previous years' grant was utilised, the amount spent by the boards from their own funds and additional expenditure required on special projects like bridges, etc.

[7] *Report*, Vol. III, Part II, Ch. II, p. 366.
[8] R. Argal, *Municipal Government in India* (1954).
[9] *Local Finance Enquiry Committee Report*, Ch. XXII, p. 261.

In some cases the grants are conditional and in others unconditional. According to the Bihar Education Code, recurring grants to schools which have introduced compulsion is limited to two-thirds of the cost of educating 10 per cent of the male population of the municipality at the rate of Rs. 11 a person, and the municipality is to make a matching contribution of 50 per cent of the Government grant.[10] In Madhya Pradesh, the local bodies open schools and come up to the Government for grants. The grants are sanctioned if the local bodies satisfy certain prescribed conditions regarding the school building, staff, equipment, etc.[11]

[10] *Local Finance Enquiry Committee Report*, Ch. XVIII, p. 248.
[11] Ibid., Ch. XVIII, p. 251.

CHAPTER V

GRANTS TO NON-GOVERNMENTAL BODIES

Introduction

THE GOVERNMENT of India is relying to a great extent on non-official bodies for undertaking development schemes particularly in the field of social services. The First Five-Year Plan stipulated that, as voluntary social welfare organisations develop, they may be able to perform a number of functions at present handled by Government agencies. Such devolution of functions can only take place progressively and on a selective basis, but without such devolution the responsibilities of administration tend to increase to an extent which it may be difficult to cope with. Some of the programmes that receive Central assistance are :

(1) Social welfare activities ;
(2) Village industries ;
(3) Local development works ;
(4) Subsidised housing schemes ;
(5) Training of personnel for Community Development projects ;
(6) Public Health ;
(7) Scientific Research ;
(8) University Education ;
(9) Public Administration.

Social Welfare

When the First Five-Year Plan was put into operation, it was decided by the Government of India that a major share of responsibilities for the provision and development of social services should rest with voluntary organisations which should be provided with Government assistance whenever required. To give this proposal a

concrete shape, the Central Social Welfare Board was set up in August 1953. A financial provision of Rs. 4 crores was also made for the First Plan period.

Functions

The functions of the Board are to assist in the improvement and development of social services and in particular :

(1) to cause a survey to be made of the needs and requirements of social welfare organisations ;
(2) to co-ordinate the assistance extended to social welfare activities by various Ministries in the Central and State Governments ;
(3) to promote the setting up of social welfare organisations on a voluntary basis in places where no such organisations exist ;
(4) to render financial aid, when necessary, to deserving organisations or institutions on terms to be prescribed by the Board ; and
(5) to evaluate the programmes and projects of aided agencies.

Any voluntary welfare institution or agency rendering social service to women, children, juvenile delinquents, the physically and mentally handicapped, the aged and the infirm, and persons needing after-care services, can apply for aid from the Central Social Welfare Board. Subjects for which aid is given may broadly be divided into the following five categories :

(1) Child welfare ;
(2) Women's welfare ;
(3) Correctional and rehabilitation services for delinquents ;
(4) Welfare services for the handicapped ; and
(5) Other programmes.

Under the child welfare programme, assistance is given by the Board to orphanages, foundling homes, homes for the children of unemployed mothers and creches. Another form of aid is the provision of equipment for pre-primary schools, infant health centres, cultural and recreational centres for children, libraries for children hobby clubs and other institutions and services for children needing help.

In the field of women's welfare, grants are provided to institutions devoted to the care and protection of destitute women, homes for women in distress such as deserted widows, reception homes, shelters and other institutions for rescued women, maternity centres and services, social education centres for women including literary classes, women's clubs, arts and crafts centres, and recreational activities for women.

Institutions receiving grants for welfare of juvenile delinquents are hostels for probationers, remand homes, certified schools and institutions, after-care hostels and after-care workshops.

In regard to welfare of the handicapped, assistance is given to such institutions as homes, schools and sheltered workshops, for the physically handicapped like the blind, the deaf and the mute, the crippled and those mentally disordered.

In the category of general welfare are included homes for the aged and the invalid. Voluntary organisations undertaking small schemes to supplement the works of the Board itself in the field of after-care and social and moral hygiene are also given grants-in-aid.

Up to the end of March 1957, the total amount of grants given under the four heads, viz., child welfare, women's welfare, welfare of the handicapped and general welfare, amounted to Rs. 186 lakhs, and the number of institutions which received aid was 4,000.

Principles of Grants-in-aid

The principles of grants are determined according to the purpose for which grants are given. Broadly, such purposes may be grouped into the following two categories :

(1) For improving the quality and standard of work of some selected institutions and for starting new activities by them ;
(2) For programmes to be undertaken by new institutions and improving their standard of work.

The Board has set out the following criteria for selecting the institutions ;

(1) Established standing, i.e. 5 to 10 years of continued work ;
(2) A managing committee constituted properly ;
(3) Existence of suitable assets, including buildings ;
(4) Present level of activities of the institution, as expressed in terms of expenditure ;
(5) Estimated capacity for raising matching contributions in addition to maintaining the present level of activities and meeting expenditure thereon ;
(6) Availability of suitably trained personnel and equipment ;
(7) Need for a particular service in each area, ensuring at the same time avoidance of duplication within a reasonable distance.

The criteria for grants to new institutions are the following :

(1) Bonafides of the institutions should be clearly established ;
(2) The institution should be registered ;
(3) The prospect of its raising the matching contributions should be ensured and the programmes should be undertaken at the Central Social Welfare Board's instance or with the Board's prior approval ;
(4) The institution should establish the need for starting these programmes in a particular area ;
(5) The institution should satisfy the Board about the availability of trained personnel to run the new scheme.

Matching Contributions

From the beginning, the Board took the view that the main object of making grants is to encourage voluntary effort. It was, therefore, decided that in one year no institution should receive more than Rs. 15,000 as aid. The only exception is where an institution wants to start a new scheme in areas where the benefits of institutionalised services are not available. Even then, such grants are restricted to the minimum possible. In almost all cases when the Board makes grants, the grantee is expected to provide a matching contribution to complete the aided programme. In the case of recurring expenditure, the Board generally provides one-third of the expenditure on the new scheme or of the existing level of activities. In the case of new institutions, the Board's share is usually *two-thirds* of the estimated recurring expenditure. In the case of capital grants the matching contribution may take the form of cash, kind and voluntary services required for implementing the scheme. The exact proportion in which these three forms of contributions are calculated is determined by the Board in each case.

One important point about the Board's grants is that from 1956 onwards, some institutions are sanctioned at a time grants for the entire Second Plan period, while others are given grants for only one year at a time. Generally, smaller institutions are given grants for one year at a time.

At no time is any institution in any particular place entitled to receive more than one grant. The money given as grant is to be used only for the purpose for which it is sanctioned. No grant is given unless the institution is open to all communities. Only institutions registered under appropriate Acts can apply for grants. The institution should not in any way consider the grant as a substitute for its resources, and all its efforts to maintain the current sources of revenue have to be continued. Strict economy has to be maintained by the grantee in the use of the grant and separate accounts have to be kept for each grant. A chartered accountant is to audit the accounts of the institution, and the annual audit report is to be submitted to the Board. All aided institutions have also to allow their accounts to be inspected by the Board.

The Board has prescribed a standard procedure for seeking grants from it. Applications have to be submitted through the Social Welfare Advisory Board of the State. In the case of a branch of an all-India or regional organisation, the Head Office also must be informed of the application and it has the right to comment upon it. The institution is informed directly by the Central Board whether its application has been accepted or rejected.

The following steps have to be taken by an institution before the sanctioned grant is released :

(1) The institution should send a written acceptance of the conditions of the grant.

(2) It should send an estimate, in sufficient detail, showing the expenditure proposed on the programme for which the grant is sanctioned. This should be of a size according to the conditions, and for the whole period of the grant. A separate estimate of expenditure on the maintenance of existing activities should be given. In each case, an estimate of receipts should also be given, indicating the amount expected to be received from each source. After the estimates have been accepted by the Board, the Board's prior approval should be obtained for any subsequent change, or for an extension of the period of utilisation of the grant.

(3) A copy of the registration certificate should be sent. If an institution is a branch of a registered organisation, a letter to that effect from the parent organisation should be sent. Where registration has not been complete, the steps taken should be indicated, and efforts made to get the registration certificate completed soon.

(4) If the institution has received a grant from the Board, a statement of accounts should be sent, audited by a chartered accountant or Government Audit Department. This should show the total income and expenditure during the period, and, separately, the items in sufficient detail of expenditure from the Board's grant, and the period of utilisation. If auditing is expected to take some time, an unaudited statement should first be prepared by the institution and furnished to the Board, to be followed by an audited statement as soon as it is available.

(5) Some grants are released in instalments. In such cases, as soon as one instalment has been utilised, an unaudited statement of expenditure should be furnished indicating the date by which it was used, and an estimate of expenditure for the next period. As soon as the institution's accounts are audited after the close of its accounting year, an audited statement should be sent without delay.

Among other social welfare activities may be included the youth camps for Labour and Social Service, grants for which are given by the Union Ministry of Education, and schemes for the welfare of Scheduled Castes and Backward Classes under the Home Ministry. The idea behind the youth camps for Labour and Social Service is that students should be given some training in disciplined national service in activities such as Community Development, irrigation works, buildings of public utility, roads, slum improvement, sanitation, etc.

The amount of the grant is Rs. 2 per head per day for food and other incidental expenses. Transport charges of the campers on the basis of third class railway or bus fare are also paid. The conditions for grants are the following :

(1) The application must come through a University or State Government or a recognised voluntary organisation.
(2) The strength of the camp should not be less than 50, but should not exceed three hundred.
(3) The normal duration of the camp should be four weeks.
(4) The campers must put in at least five hours of manual work daily.

In the case of schemes for the welfare of Scheduled Castes and Backward Classes, although no definite amounts have been earmarked in favour of non-official organisations, any non-official organisation prepared to undertake a scheme approved by the Ministry of Home Affairs is paid 80 per cent of the cost as grants-in-aid. The conditions prescribed are the following :

(1) The institution must be a well-established one and should have worked for the Backward Classes.
(2) The institution must be able to raise 20 per cent of the cost.
(3) Audited accounts must be submitted.
(4) Inspection by the nominees of the Ministry must be permitted.

Village Industries

Village industries receive substantial grants from the Government of India. The Ambar Charka programme may be considered in this connection as an example. The programme is being administered by the Khadi and Village Industries Commission. The Ambar Charka Committee in its report (1956) recommended that, since the price of cloth produced by Ambar Charka would be higher than

mill-made cloth of the same quality, it would be necessary to subsidise the production and distribution of the former. The Committee, therefore, recommended a single-point subsidy at the cloth stage at the rate of four annas in the rupee. The distribution of Ambar Charka sets is also subsidised in that the cost is initially met by Government and is repayable in easy instalments over five years free of interest. In cases where the spinner demonstrates that he has used the Charka gainfully to roughly 75 per cent of the rated capacity, it is open to Government, when approximately half the cost has been collected, to decide whether or not the other half should also be collected.

The Ministry of Commerce and Industry which is in overall control of the scheme determines in consultation with the Commission the number of Charkas to be introduced in a year and makes the financial provision required for it. The funds are placed at the disposal of the Commission, which distributes the grants (and loans) according to a procedure that it has laid down. The Commission has a list of institutions like co-operative societies which are recognised by it, and which only are eligible for the grant. Each of these institutions may have in its turn a number of smaller institutions to which it distributes the grants received from the Commission. In the first instance, the Commission allots to the institutions concerned 80 per cent of the total grant, the other 20 per cent being paid only after the completion of the sales. The institution is also obliged to send to the Commission a monthly statement of the progress of sales.

Grants are also made under the Ambar Charka training programme. The Government of India, through the Commission, meets the entire expenditure for the opening and running of manufacturing centres, training-cum-production centres, workshops, etc.

Local Development Works

Grants for local works are made by the Planning Commission. Normally grants are made to State Governments on the basis of population and are limited to 50 per cent of the cost of each approved work, subject to a ceiling of Rs. 10,000 in each case. The balance of the cost is to be met through contributions from the people of the locality in the form of cash or supplies in kind or voluntary labour. The local contribution can also include cash contributions of State Governments and/or local bodies.

No scheme is eligible for a Central grant without a specific contribution by the people as such, in cash, kind, and/or labour. The Central grant is paid only on the completion of the work and on the production of a certificate of completion by the liaison officer appointed for this purpose by the State Government. Advance payments of Central grants may however be made, if justified, on the recommendations of the liaison officer. All applications have to be sent to the State Government through local authorities. The estimate has to be certified by a recognised architect or an engineer of the local board or the State Public Works Department.

To this category of schemes may be added the programme for the organisation of public co-operation for implementing some of the Plan schemes for which a provision of Rs. 5 crores has been made in the Second Plan. Schemes for enlisting this co-operation will be organised through the agency of non-political voluntary organisations in close co-operation with the State Governments and local bodies. To facilitate systematic and integrated action on the part of the Central Government Ministries and to approve proposals to be financed, a Co-ordination Committee was set up in November 1956. The grants are outright grants and no matching condition is ordinarily attached to them.

Subsidised Housing Scheme

This scheme operated by the Ministry of Works, Housing and Supply was started in 1952. The First Plan made a provision of Rs. 38.5 crores for housing schemes sponsored by the Government of India. The most important scheme sponsored during the Plan period was the subsidised Industrial Housing Scheme.

Non-governmental bodies participating in the scheme get 25 per cent of the approved ceiling cost from the Central Government. The Central Government also provides funds on loan. In the case of employers, the loan will be 37.5 per cent of the cost of the house and in the case of Co-operative Societies of Industrial Workers 50 per cent. Interest charged on these loans varies ; while the former

is charged at the rate of 4.75 per cent, the latter pays only 4.25 per cent. Money is made available in instalments *pari passu* with the progress of construction.

In addition to grants for the industrial housing scheme, the Government of India pays 25 per cent of the cost of approved schemes for slum clearance and sweepers' housing.

Training of Personnel

Another scheme for which the Central Government provides grant is the training of Social Education Organisers for the Community Development Programme. The Ministry of Community Development and Cooperation is the agency through which these grants are made available. The Ministry entrusts the work to institutions of established standing such as the Tata School of Social Work. At present there are six institutions receiving Central assistance from the Ministry.

The Ministry makes 100 per cent grant of all the expenses of the institutions in connection with the training programmes. The only conditions are that the money should be utilised for the purpose for which it is granted and that the accounts of the institutions relating to their expenditure from the grants should be open to inspection by the Ministry. Annual reports are also called from these institutions.

Public Health

Grants to voluntary institutions for public health purposes are made by the Union Ministry of Health. A provision of Rs. 1 crore has been made for this purpose in the Second Five-Year Plan. The grants are made to a large number of hospitals, sanatoria, tuberculosis and leprosy treatment centres and various other institutions, all of which serve a reasonably wide area and which, therefore, are in urgent need of expansion and improvement, in the form of equipment, additional accommodation, water supply, etc.

All grants are in the nature of *ad hoc* grants with no matching provision. The amount of grant varies according to the nature of each scheme. Allotments are made only to efficient institutions of established standing, engaged in useful work in the field of public health. The institutions should also be of more than local importance. The Ministry does not ordinarily entertain applications from the institutions directly. Each year the Ministry asks the State Governments for a list of institutions and organisations to which grants may be made. In order to ensure that the money sanctioned is utilised for the purpose for which it is given, the grantee is to submit to the Ministry a utilisation certificate in which details regarding the use of the fund are to be given.

Scientific Research

Large grants are given by the Government of India for purposes of scientific research. These fall into two main groups, viz., grants to individuals and grants to research institutions. Grants to individuals are restricted to scientists of standing, who are attached to or approved by a University, college or industrial firm. The grants are designed to enable the scientist to obtain scientific and laboratory assistance and to purchase special equipment, materials or services not normally provided by the institution in which the work is done. Retired scientists of standing, who are active in the field, are also given grants, provided they are sponsored by an institution having necessary facilities and provided the subject chosen is of scientific value.

Grants to research schools consist of block grants for periods of five years at a time for the development of schools of research in specific scientific, technological or engineering subjects, whether applied or fundamental, in Universities and colleges. These are subject to the condition that the programmes of work are realistic and are co-related to the needs of the country. Universities or colleges may sponsor schemes for assistance, indicating the position regarding facilities available, future needs and details of personnel. For scrutinising these proposals, the Council of Scientific and Industrial Research has several committees of experts in various fields of scientific study. After scrutiny by the appropriate research committee, the proposals are submitted to the Standing Committee of the Council which makes recommendation to the Board of Scientific and Industrial Research. Grants are paid out every six months and the recipients have to submit to the Council reports

of progress of work and expenditure. In some cases, lump sum grants are also made by the Council to research bodies.

A brief mention may also be made here of the grants-in-aid received by the Indian Statistical Institute which has been declared an institution of national importance. The Indian Statistical Institute Act, 1956, says that for the purpose of enabling the Institute to discharge its functions efficiently, the Central Government may pay to the Institute in each financial year such sums of money as may be considered by Government to be necessary, by way of grant, loan or otherwise. Payment of funds will be in accordance with proposals accepted by the Government of India and will depend upon the actual amount of work entrusted by Government to the Institute. Auditors of the Institute are appointed with the prior approval of the Government of India and a copy of the audit report is submitted to the Central Government.

University Education

Grants-in-aid to the Universities are made by the University Grants Commission. The Commission is a statutory autonomous body working within the framework of the University Grants Commission Act, 1956. It came into being towards the end of 1953, as a result of a resolution of Parliament. It is modelled partly upon the University Grants Committee in Britain. The main purpose of setting up the Commission is to have a body which could tender impartial advice to the Government of India regarding the amounts to be made available to the universities from the finances of the Government, as also to distribute such funds in the most useful manner. The Commission derives its entire funds from the Government of India and works in close collaboration with the Union Ministry of Education. In matters of general policy, the Commission is subject to any directive that the Government of India may issue. The Act says : " In the discharge of its functions under this Act, the Commission shall be guided by such directives on questions of policy relating to national purposes as may be given by the Central Government." In this way an attempt is made to protect national interests, at the same time safeguarding the essential autonomy of the Commission, and through it of the Universities.

It is the general duty of the Commission to take, in consultation with the Universities or other bodies concerned, such steps as it may think fit for the promotion and co-ordination of University education and for the determination and maintenance of standards of teaching, examination and research in Universities. For the performance of these functions, the Commission has been given powers to inquire into the financial needs of the Universities and to allocate and disburse grants out of its funds. In making grants, the Commission has to give due consideration to the development of the University concerned, its financial needs, the standard attained by it, and the national purpose which it may serve.

Out of the thirty-three Universities at present in India, four, viz. Delhi, Aligarh Muslim, Banaras Hindu and Viswa Bharati are Central Universities, the rest having been created by Acts of State Legislatures. The Central Universities being the direct concern of the Central Government, their entire expenditure is met by the Commission. This takes the form of a block grant to each of the four Universities and is determined for a quinquennium (usually fixed in relation to the Five-Year Plans) on the recommendations of a high-level committee appointed by the Commission. This committee called the Reviewing Committee makes a review of the resources of these four Universities and their future expenses, and makes its recommendations. The Commission may modify the recommendations of the Committee. Particular mention must be made of the Delhi University, which unlike the other three Central Universities is an affiliating and teaching University. It has a number of constituent colleges under it, and the Commission meets the bulk of their expenditure. For this purpose the Commission considers the "approved expenditure" and "approved income" of these colleges and makes good 90 per cent of the deficit.

In regard to the State Universities, the position is different in that they are not paid these block grants. The Commission, however, makes to them what may be called development grants. The Central Universities are also eligible for these grants. Development grants are usually provided for a five-year period. The Commission has appointed a high-level Scrutiny Committee, which examines in the first instance all the development schemes proposed by the Universities and makes recommendations. When the Committee

is satisfied about the soundness of a scheme, it recommends it to the Commission as being acceptable in principle. When the Committee feels that a scheme is basically sound, but has to be examined in greater detail, the matter is considered further by a Visiting Committee, which is an expert committee that is sent to the University concerned by the Commission. The Visiting Committee makes its recommendations, on the basis of which the Commission decides whether or not to accept the scheme as being eligible for grant. After this the University is asked to furnish the Commission with detailed estimates of cost of the scheme. In case the scheme involves the construction of buildings, the estimate must be accompanied by a certificate from the local Public Works Department to the effect that the estimate is in conformity with local rates. Based on these data, the Commission makes final allocations under certain conditions which the Universities have to comply with.

The Commission's contribution for development schemes is 50 per cent of the recurring cost and 66.6 per cent of the non-recurring cost. The balance is to be provided either by the University or the State Government or by both jointly. The money is made available as and when required. Progress reports are called for, and usually they are to be accompanied by a certificate from the local P.W.D. when construction of buildings is involved. A completion certificate is also to be sent to the Commission when work is completed. Only after this the last 20 per cent or so of the grant is made over to the University.

Ever since its inception the Commission has laid considerable stress on the improvement of basic facilities in the Universities. Special attention has been given to salaries of teachers and the expansion of libraries and laboratories. The Commission has divided University teachers into three categories, viz. Professors, Readers and Lecturers with fixed salary scales for each category. In the case of State Universities, the Commission pays 80 per cent of the difference between the scales so fixed and scales prevalent on 1st April 1956. A large slice of the Commission's funds goes for the development of libraries in the Universities. Grants for this purpose are outright grants with no matching conditions attached to them.

The figures of the Commission's grants for 1953–54 and 1954–55, are as given in the table on next page.

under which the county and county borough councils were assigned revenues from certain national taxes.

In spite of the reforms of 1888, the position remained unsatisfactory and the local authorities were unable to cope with the increasing demands made upon their resources in the wake of the Industrial Revolution. The Local Government Act, 1929, was meant to rectify the situation. For the first time, a system of " block grants " was introduced. While maintaining local freedom and initiative, this permitted more of national supervision and gave more consideration to local needs. The Act provided that the Government should make yearly " General Exchequer Contribution " which was an amount determined by the Government and periodically revised. The amount of grant was to be related to the actual expenditure of the local authorities. The total contribution was divided among the county councils and county boroughs according to a formula which, among other things, took into account the income of the local authorities, the cost of services to the needy, and the extra cost of services in counties where the population was less concentrated than in county boroughs. Besides the block grant, there was the supplementary exchequer grant which was a grant made towards the cost of a specific service.

Grants-in-aid under the Local Government Act, 1948. The Local Government Act, 1948 introduced a new system of financial assistance based on the equalisation principle. According to this, the Government paid equalisation grants calculated each year to those local authorities whose financial position did not conform to a minimum standard.[2] If the standard in any county or county borough was below the average for the whole county, the deficit was to be made good.

Departmental Grants. Besides the grants discussed above, specific Ministerial grants are being made by a number of Ministries such as the Ministry of Agriculture and Fisheries, Ministry of Education, Ministry of Health, Ministry of Town and Country Planning, Home Office, Board of Trade, Ministry of Transport, Ministry of Works and the Treasury.[3] The grants are made for the construction of

[2] *The Structure of Local Government in England and Wales* (1948), W. Eric Jackson, Ch. VI, p. 114.

[3] D. N. Chester, *Central and Local Government* (1951), p. 380.

bridges, sub-ways, erection of traffic signs, etc. on a percentage basis. In the case of local police and health services, Government pays a 50 per cent grant, while for the maintenance of the local fire fighting service—a service essentially of local interest—the grant may be up to 25 per cent of the cost. The schemes of the local authorities and their estimated cost are subject to the prior scrutiny and approval of the department concerned.

Housing grants are also made, the usual form now used being based on the unit cost. The grants take the form of yearly payments to the local authorities on a long-term basis in respect of each house erected. These are generally given on a matching basis, the condition being that the local authority shall contribute out of their income a sum which is usually less than half the annual Government contribution. Special provision has been made for increased grants for houses erected on expensive sites and in thinly populated rural areas.[4]

In the field of town planning, local authorities may be paid grants in respect of the costs of their town-planning operations including the compensation paid to owners adversely affected by such operations. Local authorities are paid 90 per cent of the cost incurred by them in borrowing money for acquiring land for their town-planning schemes.[5]

Another important local function for which large grants are generally made is education. Local authorities receive 100 per cent grant for such ancillary services as the provision of school meals. Besides this, there is an education grant designed to give 60 per cent of the approved net expenditure of the local authority " minus or plus the amount by which a local rate of 2 s. 6 d. in the £ exceeds or falls short of a sum representing £ 6 a head of the school population."[6]

Ministerial Powers. According to Section 6 of the Local Government Act, 1948, power has been given to the Minister to cut down any Exchequer Equalisation Grant if he thinks that a local council has not maintained a reasonable standard of efficiency, or if he is satisfied that the expenditure of the Council is excessive or unneces-

[4] W. Eric Jackson, op. cit., Ch. VI, p. 116.

[5] Ibid., Ch. VI, p. 117.

[6] Ibid., Ch. VI, p. 117.

sary. It is obligatory for the Minister to lay before both Houses of Parliament the reasons for any such reduction.[7]

Assigned Revenues. There is one grant which has survived all the reforms in the grant system, viz. the assigned revenues from licences on dogs, guns and games. County councils and the borough councils still continue to receive them.

County Grants. One peculiar system of grants that exists in England is the grant paid to a county council by other councils from funds raised from certain county districts.[8] There are a number of statutes giving the local authorities power to contribute towards the expenses of a work undertaken by another authority. In addition, they have a general power to contribute to any expenses of a district council within the county subject only to the consent of the Minister of Health.

France

Historical Development. In France too, the system of grants-in-aid has come to stay. In recent years, it has played an important role in the development of its economic life which was unsettled by the second world war.

At the time France entered the second world war, there were three types of grants given by the Central Government. The first was the direct subvention given to augment the resources of local authorities for meeting their obligatory expenses, for instance, on schools. The second was the creation of a fund known as the "Subvention Marchandeau", from which grants were given to local authorities to meet a part of the expenditure incurred by them on behalf of the Central Government, e.g. the issue of ration books. The third was the creation of what were called " Common Funds " by putting aside revenues from certain national taxes. These funds were shared between the centre, the departments and the communes.

During the war, the Vichy Government substituted all these by " State subvention for expenses of general interest " and " exceptional subventions ".[9] The former was an automatic grant made

[7] D. N. Chester, op. cit., Ch. VI, p. 139.
[8] *Local Finance Enquiry Committee Report* (1951), p. 236.
[9] Brian Chapman, *Introduction to French Local Government*, Ch. VI, p. 171.

annually from Government resources, calculated at a standard rate of 20 francs for each commune, the figure being modifiable. The latter was the provision for exceptional subventions to those local authorities whose population and resources had been depleted as a result of the war.

Post-war Reforms. The end of the war again witnessed the overhauling of the system of grants-in-aid.[10] By the law of December 31, 1945, a new system of grants was established and 5.5 million francs were set apart in 1946 for aiding the local authorities. These grants were divided into two categories, the first being grants to those local agencies which needed immediate and special assistance. The second was automatic grants based on a formula which reflected the comparative needs of the various areas. A new form of subvention called " subvention D'equilibre " was also introduced to aid such local bodies as had exhausted all their local resources and had to impose new burdens on the ratepayers.

The Present System. In December 1948 there was another reform of the system.[11] All the previous grants were abolished and a new Equalisation Fund was set up amalgamating the grants formerly made for expenses of general interest and "subvention D'equilibre". The fund is financed from the receipts of a local tax on business transactions. The proceeds of the tax are divided among the communes, departments and the Fund. When the commune in which the tax is collected has less than 10,000 inhabitants, it gets 60 per cent of the tax and the department in which the commune is situated 15 per cent. When the population of the commune is between 10,000 and 100,000 the respective percentages would be 65 and 15, and when the population is over 100,000 the proportion would be 70 : 15. By a law of March 27, 1951 every commune is guaranteed an annual income of 1,300 francs per head of the population. A similar guarantee for 400 francs per head is also made to the department. Those communes whose annual income per head is over this minimum are required to hand over the balance to the Equalisation Fund.

Ministerial Grants. Another part of the grants-in-aid system in France is the Ministerial grants made by the Ministries from funds

[10] Brian Chapman, *Introduction to French Local Government*, Ch. VI, p. 173.
[11] Ibid., Ch. VI, p. 184.

allotted to them by Parliament.[12] Any project of local interest which normally would justify the raising of a loan by the local authority would *ipso facto* be eligible to receive grants from the Centre. The grant cannot exceed a certain proportion of the total cost of the scheme. The proportion, however, can be changed in special cases. Each Ministry has fixed a standard scale of charges for a particular type of work, and grants are made on this basis. The scale of the charges and the size of the grants are calculated according to the size of the local authority, the number of people to be benefited by the work, the fiscal capacity of the local authority, and finally the results that would be obtained from alternative schemes.

The subjects for which grants are made form a large group. Prominent among them are town-planning schemes, construction of physical education centres, dispensaries and sanatoria, training schools for nurses, and roads of agricultural importance. Aid has also been extended to schemes of reafforestation, soils and municipal slaughter-houses. Another scheme for which grants are made is the campaign by local authorities against social maladies like venereal diseases, cancer and tuberculosis.

Conditions to Grants-in-aid. Several conditions are attached to the provision of grants-in-aid to local authorities.[13] The plans proposed by local authorities must be submitted to a technical committee of the Government department concerned before any action is taken and resources committed. The local authority is obliged to accept any alterations made in the scheme by the technical committee. Approval of the Minister from whose department the aid is given has also to be obtained. Besides these, from the beginning of the operations, the department exerts control. The scheme when complete, is subject to examination by experts of the Ministry to ensure that the standards prescribed have been adhered to. Close financial supervision is maintained by officials of the Ministry of Finance to see that the aid does not get mixed up with the general revenues of the local agency. Further, the stipulation is made that, if the grant is not availed of during the specified period, it has to be returned to Government. These conditions ensure that proper standards are maintained in the execution of the project.

[12] Ibid., Ch. VI, p. 184.
[13] Brian Chapman, *Introduction to French Local Government*, Ch. VI, p. 185.

The United States

Historical Development. Perhaps in no other country with a federal constitution have grants-in-aid played so great a role in balancing the financial position of the various units of government as in the United States. The reasons for this are many. Industrialisation and urbanisation placed new responsibilities upon the States and local governments. The mass unemployment that followed the great industrial expansion of the United States, the new problems of public health and sanitation that resulted from the congested conditions of the new towns, and finally the devastating depression of the 1930's proved the inability of the States and local governments to assume new responsibilities that were formerly within their purview. The New Deal under President Roosevelt gave recognition to this change. Most important among such new responsibilities have been in highway construction and maintenance, education, agricultural research, training and experimentation, public assistance and welfare, health, conservation and housing.[14]

Federal Grants to States. In the United States the constitution being a federal one, grants are allocated on a three tier basis, viz., federal grants to States, State grants to local governments and federal grants to local bodies. The first instance of Federal grants-in-aid was in 1887 when, under the Hatch Act, the Federal Government offered each State and territory an annual contribution of $ 15,000 for the establishment and maintenance of agricultural experiment stations.[15] Thereafter, federal grants to States increased in scope and extent although the sum involved was not in anyway phenomenal as compared to its present magnitude. Today the Federal Government gives annually over 2 billion dollars as aid to States. Most of this is covered by permanent appropriations with practically little reconsideration by the Congress.[16]

Basis of Grants to States. Generally, a federal grant takes the form of appropriation of a definite sum to a State by Congressional enactment for specific purposes on the basis of service needs.

[14] Jewell Cass Phillips, *State and Local Governments in America*, Ch. I, p. 21.
[15] W. J. Schultz and C. Lowell Harris, *American Public Finance*, Ch. XXIV, p. 536.
[16] Ibid., p. 537.

Regarding the basis of allocation, there have been changes in emphasis on the principles that govern such grants. Till 1923, the basic consideration for aid to a State was stimulation of activity in the State. Little consideration was given to other factors. This was soon replaced by a policy based on the principle of equalization of resources of the various units. It was realised that, if the people of the United States were to have a more or less common standard of living, it was necessary to support those areas which were financially behind the richer areas. Today more importance is being given to such factors as the population of the State, its financial stability and fiscal capacity measured by its per capita income, and the nature and proportion of its debt burden.

Conditions to Grants-in-aid to States. One important feature in the development of grants-in-aid in the United States is the gradual introduction of conditions to the granting of aid to the States. Today there is hardly any federal grant to which conditions are not attached.[17] When the federal grants were first given, no conditions were attached except that the fund should be utilised for the broad purpose for which it was given. By 1911 the approach to the system was changing, and commencing with the forest preservation grants in that year Congress started imposing definite conditions to the granting of aid. Now the Federal Government prescribes the conditions which State Governments must fulfil before funds are allocated. The conditions[18] are as follows :

(1) Provision for an administrative agency with which the federal officials are to deal in the carrying out of a particular programme for which funds have been given.
(2) Compliance by the States with certain engineering, professional or technical requirements, such as observance of provisions regarding the width of the roadbed, equipment and, in the case of vocational educational programmes, standards of training for teachers.
(3) Use of a merit system in the selection of personnel in administering certain programmes such as public assistance or unemployment service or unemployment compensation.

[17] *Report of the Finance Commission* (1952), Sec. VII, para 11.
[18] Jewell Cass Phillips, *State and Local Government in America*, Ch. I, p. 21.

(4) Provision or inspection by federal officials and for reporting by the State to the national Government.
(5) Specifications regarding the purposes for which federal grants may be used.
(6) Matching requirements as illustrated in the financing of old age and blind assistance schemes. (The Federal Government meets 66.6 per cent of the first $ 15 of monthly payments and 50 per cent of the balance up to a minimum of $ 40. So also the Social Security Act, 1935, authorises grants equal to expenditure from State and local funds to help finance certain projects of public assistance which fall within the scope of the federal Acts.)

Strict enforcement of these conditions has ensured the maintenance of a high standard of efficiency in the administration on a uniform scale at the national level.

State Grants to Local Bodies. A second feature of the grants-in-aid system in the United States is the grant by States to local institutions. This form of grant has assumed great significance in recent years. State assistance to local bodies which was about $2 billion in 1940 amounts today to well over $4.5 billion.[19] Grants are given from State revenues by appropriation by the Legislature for particular local functions in which there is a State interest. In the beginning, these grants were made from the income of the funds and sometimes from the funds themselves created from the sale of public lands given for this purpose by the Federal Government to the various States. In course of time, these were supplemented by grants from earmarked State taxes. Later on, regular appropriations began to be made from the general revenues of the State for purposes such as educational activities of local authorities, construction of highways and a large number of welfare measures.

Basis of Grants. The principles on which the grants are made differ according to the purpose and circumstances of the aid.[20] When the State Government is interested only in supplementing local expenditure for particular functions, it gives fixed or propor-

[19] Jewell Cass Phillips, op. cit., Ch. XII, p. 285.
[20] W. J. Schultz and C. Lowell Harris, op. cit., Ch. XXIII, p. 512.

tionate amounts to local bodies. When the funds available to the State are small, distribution is done in such a manner as to stimulate local activity. If the State has sufficient funds at its disposal, allocations are made in a way that will bring about parity between districts. The latest trend is to emphasise the last principle.

Conditions to State Grants. The States' grants to local bodies are subject to a variety of conditions and standards that must be adhered to by the local authorities.[21] For example, aid might be given to a school on the condition that the curriculum is approved by the State authorities. Or else, the condition might be that the local authorities must contribute matching funds according to a certain fixed proportion. A third condition might be the use of technically qualified personnel, and the maintenance of prescribed standards of equipment and material in the administration and execution of the project for which State funds are provided. Within the framework of these rules, the local authorities have received liberal aid from State Governments in recent years.

Federal Grants to Local Bodies. A remarkable feature of the grants-in-aid programme has been the gradual extension of federal aid to local bodies.[22] Beginning with the depression of the 1930's, Congress began a policy of aiding the municipalities and other local bodies directly, or through a redistribution of grants made to States. The Emergency Relief and Reconstruction Act, 1932, permitted the newly started Reconstruction Finance Corporation to make loans to municipalities to finance self-liquidating projects. The large number of relief and rehabilitation programmes of the New Deal brought the Federal Government and the cities nearer through projects financed by the Civil Works Administration and the Works Progress Administration. It also made grants to cities and school districts for constructing hospitals, athletic fields, sewerage systems, etc., through the Public Works Administration.

Present Grants. Under the Federal Highway Act, 1944, and the subsequent Acts of a similar nature, federal money was made available to cities for street construction. Besides, the Act provided that one-fourth of the aid funds was to be used for the extension

[21] Charles R. Adrian, *Governing Urban America* (1955), Ch. XV, p. 317.
[22] Ibid., Ch. XII, p. 265.

of United States highways within the cities. All the highway grants were channelled through the State Highway Department. The 1944 War Mobilization and Reconstruction Act provided cities with funds for planning public works, and the Federal Airport Act, 1946, permitted cities to buy sites and build airports with grants received from the Federal Government. Further, aid is being given for the control of infectious and venereal diseases, through the agency of the States. Housing, slum-clearance and hospital construction schemes of the cities also receive federal aid, in some cases on a matching basis. Approximately 1.9 per cent of the total public elementary and secondary school revenues in 1950 was provided by the Federal Government. So also about 20 per cent of the total highways of the United States is nationally aided.

Conditions to Federal Aid to Local Bodies. As in the case of aids by the Federal and State Governments to other bodies, conditions have been attached to the provision of grants by the Federal Government to the local authorities. In some cases the condition is for the recipient to provide matching funds. In some others, it is the requirement that local bodies should adhere to certain standards, technical as well as administrative, that are set by the national Government. Periodic reports have to be submitted and the local agencies have to follow a system of accounting as prescribed by Government. In some cases, prior sanction of the Central Government is to be obtained before the work is taken up.[23] Another interesting condition is the prohibition of political activities by non-policy determining officers and employees of local authorities working in departments using national aid.[24]

Australia

Historical Retrospect. In Australia, the framers of the Dominion Constitution had realised the importance of grants-in-aid in a federal system, and therefore they provided for it in the Constitution itself. Section 96 of the Constitution provides that the

[23] L. D. White, *Introduction to the Study of Public Administration* (1955), Ch. XII, p. 152.
[24] Ibid., Ch. XXII, p. 335.

Commonwealth Parliament could give grants to the units on such terms and conditions as it considers fit.

However, despite this constitutional backing the amounts given were small. The States themselves were not keen to receive the grants, for they feared that acceptance would undermine their autonomy *vis-a-vis* the Commonwealth. There were, however, certain States which clamoured for special assistance. Some recognition was given to this demand by the Commonwealth Government, which began to aid Western Australia from 1910, Tasmania from 1912 and South Australia from 1929.

Agitation by these States, however, continued till the passing of the Commonwealth Grants Commission Act, 1933, by which a permanent commission consisting of three members was set up to make annual recommendations to the Commonwealth Government about the quantum of grants to be given to each State under Section 96 of the Constitution.

Present Grants. Grants are made to States from the Commonwealth Consolidated Revenue to provide services which according to the Constitution fall within the purview of their activities and in the provision of which the Commonwealth Government cannot directly intervene.[25] Thus money is given for road construction, University education, gold mining, production of meat, and the improvement and construction of houses. Central assistance is also given for such social services as improvement of public health, mental hospitals, campaign against tuberculosis, provision of free milk to school children, long service leave for coal miners, and unemployment benefits.

Basis of Grants.[26] Before the Grants Commission was appointed, there were two methods of providing grants to the States. The first was the system of giving grants to the three claimant States of Tasmania, Western Australia and South Australia. Generally, these grants were made after elaborate public enquiry. The second kind of grants consisted of specific allocations made to the units for purposes such as construction of roads or relief and rehabilitation.

[25] *Essays on the Australian Constitution* (1952), Ed. R. Else Mitchell, Ch. V., p. 114.
[26] H. S. Nicholas, *The Australian Constitution* (1952), Ch. XIV, pp. 171–72.

After the Commission came into being, it formulated certain principles for the making of grants. First of all the Commission recognised the right of the claimant States to maintain the same standards of service as the non-claimant States. The Commission stated that the proper basis for determining special grants to the States should be their financial position as reflected in their budgets.

Commonwealth grants to States take three forms at present, viz., grants recommended by the Commonwealth Grants Commission, grants coming under the Uniform Tax Plan and finally grants made to tide over special difficulties.[27] Generally, grants recommended by the Commission are sanctioned by Parliament. Each year the States submit their claims to the Commission, and the Commission after detailed examination of the demands and other related matters make final recommendations to Government. The Commission usually tries to give more funds to the poorer States, since it has been the Commission's practice to consider that no Australian citizen should suffer just because he was born in a poorer State.[28] The second form of grants is the allocation of funds to States to compensate for the loss of revenue from income and entertainment taxes which were taken over by the Commonwealth under the Uniform Tax Plan. Generally, the allocation is made on the basis of the taxes collected from the respective States. Grants are also made to enable the States to meet special difficulties such as depression, fire and drought.

Conditions to Grants. In Australia both conditional and unconditional grants exist side by side. Conditional grants are backed by Section 96 of the Constitution. In the South Australia *vs* the Commonwealth Case (1942), the High Court also held that Parliament could impose conditions and even induce a State to refrain from using its taxing power. Out of the eighteen grant Acts passed by Parliament between 1944 and 1951 no less than fifteen contained specific conditions. Nevertheless, many grants still continue to be unconditional and they are paid to the treasuries of the various States and appropriated by their legislatures.[29]

[27] *Essays on the Australian Constitution*, Ch. IV, pp. 121–34.
[28] Mitchell, Ibid., Ch. X, p. 271.
[29] Ibid., Ch. X, p. 281.

Conclusion

Grants-in-aid now play a very important role in the field of local self-government in all the countries discussed above. In Australia they have helped a great deal in keeping the poorer States solvent. They have also helped in establishing a general level of prosperity in this new and developing country. In the United States, another federal country, they have been responsible to a large extent in overcoming the disastrous consequences of the depression and war. In France, the emergence of the war-weary countryside owes a great deal to the Central grants-in-aid. And finally in Britain, their importance has been steadily increasing. In fact the foundation of the British welfare state is to be found in the activities of these local bodies.

CHAPTER VII

EPILOGUE

WHAT IS stated in the preceding pages will show that except in regard to the grants recommended by the Finance Commission, there is a lack of coherence and conformity to any broad principles in the system of grants-in-aid at present in force in India. It is difficult to make even a broad generalisation regarding the pattern of assistance at various levels. Since during the early period assistance was given to individual schemes as and when they came up, no general principles could be framed for the country as a whole. Thus till recently, the basis of grants under the Grow-More-Food Scheme for Part A and Part B States differed from the basis governing grants to Part C States. Grants for elementary education even today vary from scheme to scheme, and sometimes from programme to programme. Thus, while 50 per cent is given for ordinary schools under the special schemes relating to education of girls, 60 per cent is given for basic schools under the same scheme.

A significant fact is the comparatively heavy dependence of the States on Central resources. In the case of most of the grants considered in this study, the Centre's contribution is generally larger than that of the States. The Centre usually bears 50 to 75 per cent of the cost, though many of the schemes are primarily the concern of the States. Almost all grants by the Ministry of Education are in excess of 50 per cent of the cost of the schemes. The Ministries of Labour and Home Affairs meet about 60 per cent of the cost. In the case of the Ministry of Health, the general pattern is to give 75 per cent of the non-recurring and 50 per cent of the recurring costs.

In the case of the State Government grants to local bodies also, each State has its own method of allocating grants. As the Local Finance Enquiry Committee commented, " . . . the system of Government assistance does not follow any fixed principle ; much less is there any uniformity regarding the basis on which grants are given".[1] Though grants to local bodies have increased in recent years, the existing scale of assistance towards education, medical relief, public health, communication, etc., is inadequate. In contrast to the heavy dependence of the States on the resources of the Centre, the local bodies do not receive sufficient assistance which would enable them to carry out many responsibilities under the purview of their activities.

As far as the system of grants to non-governmental bodies is concerned, it is still in its formative stages. Difficulties have been experienced by these organisations in the matter of getting adequate grants for their needs. Complaints have been heard of too much "red-tape" attached to these grants. In many cases, they are tied up with individual schemes and the voluntary organisations have very little chance in directing the amount to other useful items. In several cases, the voluntary organisations complain that even the sanctioned amount is not made available to them in time. In this way, voluntary institutions which have a number of useful schemes requiring financial assistance are handicapped and they are unable to contribute their maximum efforts. The system of grants-in-aid, as it exists today, does not seem to serve fully the purposes for which it is intended.

A difficulty arising from the federal nature of a democracy is that the States as well as the local bodies are more or less autonomous units. Federalism does not mean undue dependence of one authority on another, whether it be of the States on the Centre, or of the local bodies on the States. Contributions from the Centre or from the State Governments are by way of assistance which should not result in restricting the activities of the recipient units. In no way grants-in-aid of the revenues either by the Centre or the States can be taken as mere doles distributed out of charity. The problem of integration in a federal system of government becomes difficult but this has to be surmounted for the better co-ordination of the national activities. This is particularly so in a country like India comprising several States with unequal resources and at different stages of development with varying levels of basic social standards.

[1] *Local Finance Enquiry Committee Report* (1951), Ch. XIX, p. 263.

Therefore, grants have to be channelled in a manner that they produce fullest benefits without impinging upon the resources, integrity or independence of the recipients as far as possible. During the Second Plan period, the procedure adopted for assisting States, local bodies and voluntary organisations is being modified to a great extent. The introduction of Annual Plans which is bringing flexibility and re-thinking every year on the allied problems, has been very helpful for evolving a system which could remove difficulties faced by different organisations seeking assistance. In order to give greater latitude to the States, the schemes are grouped under different heads, and the Ministries have enough scope for meeting the requirements of the States and to remove the handicaps facing them. In spite of these changes, there is still room for further improvement in the system. The Centre might assign broad priorities and allow the States to spend out of the sanctioned amounts on the items of developments in accordance with these priorities. At present, the States have to go by the pattern laid down by the Centre and they do not possess enough discretion to re-arrange their schemes. Such impediments might be removed and the Centre's function could be limited to supervise the expenditure and to see that it is incurred according to the priorities laid down.

In regard to grants-in-aid by the Centre to voluntary organisations, the basic consideration should be the determination of the targets of achievement in the respective spheres. These targets should be fixed for well-defined purposes so that provision could be made for them in the Ministerial budgets. Once the targets have been fixed, the procedure should be to leave administration of the grants to the States. Conditions differ from State to State; so it may be more advantageous to make the States responsible for administering these grants. The funds assigned for the purpose may be placed at the disposal of the States so that each State could plan the work in its own way. The function of the Central body should be primarily, to set standards, watch achievements, and, where necessary, to effect improvements.

As regards the grants-in-aid from the States to local bodies, it has already been stated how each State has its own pattern of assistance. Viewed as a whole, the picture is far from comprehensive. It would be useful to try to work out some formula for grants, which would reflect the relative backwardness of the areas. Each State should work out a formula for itself. While doing so, it must take into consideration such factors as the population of the locality, attainments in the fields of education, public health, communication, the rate structure of the local body, and any other factor which may be relevant in the State.

As the scope of grants by the States to local bodies expands, the problem inevitably would assume greater magnitude. It may, therefore, be desirable to explore the possibility of entrusting the work of assessing the needs of local bodies and determining the scale of grants to be paid to them to a permanent board or commission in each State. This body should also maintain a continuous check on the expenditure by local bodies met from grants. This will enable the Government to make an objective assessment of the needs of the local bodies and at the same time it will give the latter the satisfaction that their needs are carefully looked into and necessary resources are made available to them.

Another point is that State grants to local bodies must be given more and more for schemes which are of extra-local importance. As the sphere of social services expands, the number of such schemes will tend to increase and therefore State aid will be useful in establishing a common measure of achievement in that specific field. Such grants should not necessarily be dependent upon the tax revenue of the State. This means that the State Government must be in a position to make commitments regarding the size of the grant which a local body could expect for a certain period so that it could plan ahead. For, ultimately it is finance which has proved the biggest bottleneck for local bodies, and if the requisite funds could be made available, it would go a long way in enabling local self-government institutions to fulfil many of the tasks entrusted to them.

About 55 per cent of ordinary revenue of local bodies as a whole (excluding panchayats) is derived from taxation of which property taxes form slightly less than one-half. Government grants which account for about a quarter of the total revenue are relatively more important for district boards than for cities and towns; in 1948–49 they formed about 12 per cent of the ordinary receipts of corporations and municipalities as against 47 per cent in case of

district boards. Increased financial assistance from State Government to local bodies is one of the outstanding developments in local finance, since the 'thirties. Grants-in-aid help the local units to bridge the gap between their ordinary receipts and expenditure but there is a potential danger in a liberal use of this system, that such assistance tends to stimulate extravagance and undermine local initiative and responsibility which is a *sine qua non* of stable democracy. If local government is to be significant, local authorities should be supported in a manner that fosters local autonomy and responsibility. It is, therefore, essential that local bodies should have adequate financial resources of their own, as far as possible, for meeting expenditure on locally determined projects and programmes. There is, of course, the problem of local inequalities in standards of services, if the local units were to depend wholly or largely on their own resources. Such regional disparities could be set right through differential grants, but the main emphasis should, however, be placed on stability of local revenues and their augmentation. This aspect was considered in detail by the Local Finance Inquiry Committee (1951) and later by the Taxation Inquiry Commission (1953–54). Some progress has been made during the last ten years in the matter of transfer of more financial resources by the States to local bodies, in particular, panchayats. However, the local bodies by and large have failed to exploit fully the tax sources that were made available to them by the State Governments. Moreover, the standard of collection of the taxes levied by them has remained generally poor. These deficiencies can be overcome only if the local bodies themselves show keenness to face the problems involved in a realistic manner.

It is recognized that borrowing by local bodies on favourable terms is very difficult particularly for the smaller units, in order to finance their capital outlays. Therefore an effective method of extending aid to local bodies would be to establish a statutory Loan Corporation to serve as a credit institution especially for the benefit of those local bodies which have little or no credit standing to borrow in the open market on reasonable terms.

Inter-governmental fiscal relationship through the instrument of grants-in-aid is bound to grow as the activities of the Government expand. This particular device has enormously extended the power of the Central Government. The rules and regulations that have been laid down by the Centre while making grants, have resulted in the States following uniform pattern of expenditure with the help of such grants. But it has had its adverse effects too. While the Centre has the money it does not always have the power to execute a project; while generally the States have the latter, they do not have full control over the purse, nor have they always an effective voice in the manner of execution. Success will come only when any such conflict that may exist under the present arrangements is resolved and harmony established. It should be the genius of administration at both levels to find a working synthesis so that the great task of development does not suffer and the tempo of progress is maintained.

STATE-WISE DISTRIBUTION OF STATUTORY GRANTS-IN-AID FROM THE CENTRE (1957-58 TO 1959-60)*

	(Rupees in lakhs)		
	1957–58 (*Actuals*)	1958–59 (*Revised Estimates*)	1959–60 (*Budget Estimates*)
Andhra			
Substantive provision of Article 275 (1) of the Constitution.	400	400	400
Assam			
Article 273	75	75	75
Substantive provision of Article 275 (1).	375	375	375
Provisos to Article 275 (1)	199	201	195
	649	651	645
Bombay			
Provisos to Article 275 (1)	38	68	58
Section 74 (2) of the States Reorganisation Act, 1956.	114	108	106
	152	176	164
Bihar			
Article 273	72	72	72
Substantive provision of Article 275 (1).	350	350	350
	422	422	422
Jammu and Kashmir			
Substantive provision of Article 275 (1).	300	300	300

* Figures relating to grants-in-aid shown under individual States are as taken from the State Budgets for 1959-60. Grand Total of grants-in-aid to States is taken from the Union Budget for 1959-60.

STATE-WISE DISTRIBUTION OF STATUTORY GRANTS-IN-AID FROM THE CENTRE (1957–58 TO 1959–60)—(*cont.*)

	(*Rupees in lakhs*)		
	1957–58 (*Actuals*)	1958–59 (*Revised Estimates*)	1959–60 (*Budget Estimates*)
Kerala			
Substantive provision of Article 275 (1).	175	175	175
Provisos to Article 275 (1)	7	...	...
	182	175	175
Madhya Pradesh			
Substantive provision of Article 275 (1).	300	300	300
Provisos to Article 275 (1)	146	51	60
	446	351	360
Madras			
Provisos to Article 275 (1)	6	7	5
Mysore			
Substantive provision of Article 275 (1).	595	600	600
Provisos to Article 275 (1)	11	4	8
Section 74 (2) of States Reorganisation Act, 1956.	21	6	2
	627	610	610
Orissa			
Article 273	15	15	15
Substantive provision of Article 275 (1).	325	325	325
Provisos to Article 275 (1) ...	23	28	39
	363	368	379

STATE-WISE DISTRIBUTION OF STATUTORY GRANTS-IN-AID FROM THE CENTRE (1957–58 TO 1959–60)—(*contd.*)

	(*Rupees in lakhs*)		
	1957–58 (*Actuals*)	1958–59 (*Revised Estimates*)	1959–60 (*Budget Estimates*)
Punjab			
Substantive provision of Article 275 (1).	226	225	225
Provisos to Article 275 (1)	10	9	17
	236	234	242
Rajasthan			
Substantive provision of Article 275 (1).	250	250	250
Provisos to Article 275 (1)	38	16	14
	288	266	264
Uttar Pradesh	...	...	...
West Bengal			
Article 273	153	153	153
Substantive provision of Article 275 (1).	325	325	325
Provisos to Article 275 (1)	18	23	29
	496	501	507
Total Grants-in-Aid to States			
Article 273	315	315	315
Substantive provision of Article 275 (1).	3,625	3,625	3,625
Provisos to Article 275 (1)	296	630	835
Other grants-in-aid	135	115	109
GRAND TOTAL	4,371	4,685	4,884

APPENDIX II

DISTRIBUTION OF GRANTS FROM CENTRE TO THE STATES

(*Rupees in Lakhs*)

Sl. No.	Purpose	First Five-Year Plan Period	Second Five-Year Plan Period: Actuals 1956–57	Actuals 1957–58	Revised 1958–59	Budget 1959–60
I.	GRANTS MET FROM REVENUE					
1.	Art. 273 of the Constitution	14,45	3,15	3,15	3,15	3,15
2.	Substantive Provision of Art. 275 (1)	27,03	7,74	36,25	36,25	36,25
3.	Provisos to Art. 275 (1)	13,45	5,11	2,97	6,30	8,35
4.	Art. 278	49,47	...	...	...	...
5.	Grants to meet revenue deficit of Union Territories (former) Part C States.	19,79	4,37	...	...	...
6.	Grants-in-aid under Sec. 74 of the S.R. Act	...	3,54	1,35	1,15	1,09
7.	Welfare of scheduled tribes and development of scheduled areas in Union territories.	33	10	...	...	...
8.	Grants to Jammu and Kashmir					
	(i) Food Subsidy	6,42	1,25	1,25	1,25	75
	(ii) For Dearness Allowance Schemes	...	50	...	...	...
	(iii) Other Grants	...	2,50	...	...	...
9.	Grants for Animal Husbandry	12	46		1,763	1,74
10.	Agricultural Production	15,57	3,21	5,87	6,58	7,60
11.	Fisheries	...	...	...	6	34
12.	Schemes for Agricultural Research	...	...	...	35	46
13.	Forestry and Social Conservation Scheme	30	34	82	1,36	1,65
	COMMUNITY DEVELOPMENT					
14.	Community Development Scheme	9,80	3,07	3,13	9,93	14,74
15.	National Extension Service	5,09	5,17	5,59	1,27	2,20
	EDUCATION SCHEMES					
16.	Education Schemes	13,27	5	3,66	11,28	16,18
17.	Scientific and Technical Education	2,12	1	51	71	2,15
18.	Reorganisation and Development of Museums	...	...	...	...	6
	MEDICAL SCHEMES					
19.	Training of Auxiliary Health Workers	...	...	...	2	4
20.	Establishment of New Dental Colleges and Expansion of existing ones.	...	...	6	15	20
21.	Establishment of T.B. Demonstration and Training Centres.	...	...	5	4	...
22.	Training Centres for Nursing and Public Health	...	2	6	2	3
23.	Social and Preventive Medicine in certain Medical Colleges.	...	...	2	8	7
24.	Paediatric Centres in the various States	...	...	2	7	6
25.	Upgrading of certain departments in Medical Institutions.	...	3	4	6	6
26.	Maintenance of Mental Patients evacuated from Pakistan.	...	...	...	1	1
27.	Training of Refractionists and Opticians	...	...	2	2	3
28.	Training of Laboratory Assistants	...	...	...	4	3
29.	Establishment of a neuro-surgery unit at the KEM Hospital, Bombay.	...	...	...	...	80

APPENDIX II

DISTRIBUTION OF GRANTS FROM CENTRE TO THE STATES—(*cont.*)

(*Rupees in Lakhs*)

Sl. No.	Purpose	First Five-Year Plan Period	Second Five-Year Plan Period: Actuals 1956–57	Actuals 1957–58	Revised 1958–59	Budget 1959–60
30.	Establishments of Cancer Research Institute etc.	...	...	...	...	8
31.	After-care and Rehabilitation Centre for T.B. Patients	...	...	...	5	10
32.	Establishment of Dental Clinics in District Hospitals	...	...	...	5	5
33.	Medical Colleges	...	23	76	1,40	1,40
34.	Diet Kitchen Teaching Hospitals	...	...	...	1	1
35.	Tuberculosis Clinics	...	...	11	15	10
36.	Establishment and maintenance of Health Units	1	...	...	...	...
	PUBLIC HEALTH SCHEMES					
37.	B.C.G. Vaccination Campaign	...	...	...	2	3
38.	Establishment of Maternity and Child Welfare Services	...	...	2	...	...
39.	Maintenance of Health Centres in N.E.S. Blocks	...	...	59	3,00	1,50
40.	Scheme for Control of Leprosy	...	3	5	29	35
41.	Relief to destitute Displaced Persons	...	7	7	9	9
42.	Control of Venereal Diseases	...	...	...	8	10
43.	Training of Dais under various M.C.H. Schemes	...	...	...	8	8
44.	Development of Public Health Laboratory Services	...	...	...	10	10
45.	Training for Public Health Engineering	...	...	...	2	1
46.	Training of Health personnel for Community Projects	...	...	...	12	12
47.	National Malaria Eradication	6,67	3,15	3,79	5,44	7,40
48.	National Filaria Control	13	36	87	...	...
49.	Family Planning	15	...	...	24	42
50.	Establishment of Health Bureau	...	...	...	...	5
51.	Training of Health Visitors	...	...	...	...	6
	WELFARE OF BACKWARD CLASSES					
52.	Welfare of Backward Classes and Scheduled Tribes and Development of Scheduled Areas.	8,42	2,13	2,83	4,22	7,82
	OTHERS					
53.	Construction of certain Strategic Roads, Bridges, etc., in Assam.	...	77	...	...	...
54.	Assistance to Assam towards expenditure on Police Force borrowed from the States for maintenance of Law and Order.	...	...	40	...	18
	STATISTICAL SCHEMES					
55.	Grants-in-aid to State Govts. for the improvement of statistics.	...	30	42	24	35
	INFORMATION AND BROADCASTING SCHEMES					
56.	Grants-in-aid to State Govts. for Community Listening Scheme.	3	20	12	15	15
	RESETTLEMENT AND EMPLOYMENT SCHEMES					
57.	National Employment Service and Training	...	...	1,54	2,84	4,61

APPENDIX II

DISTRIBUTION OF GRANTS FROM CENTRE TO THE STATES—(*cont.*)

(*Rupees in Lakhs*)

Sl. No. Purpose	First Five-Year Plan Period	Second Five-Year Plan Period: Actuals 1956–57	Actuals 1957–58	Revised 1958–59	Budget 1959–60
SMALL INDUSTRIES DEVELOPMENT SCHEMES					
58. Development of Handloom Industries	1,60	1,98	2,07	3,00	3,00
59. Development of Handicrafts	16	...	37	40	43
60. Small Scale Industries	...	...	...	...	1,30
61. Silk Industry	...	...	...	...	49
62. Coir Industry	...	...	...	...	7
63. Industrial Scheme for Rehabilitation of Displaced Persons.	...	...	...	...	4
RELIEF AND REHABILITATION SCHEMES					
64. Rehabilitation of Displaced Persons	21,38	3,32	3,66	4,07	3,99
65. Relief of Displaced Persons	14,84	9,31	8,44	7,25	3,63
OTHER MISCELLANEOUS GRANTS					
66. Natural Calamities	17,41	5,24	3,00	5,00	5,00
67. Raising the emoluments of low-paid employees	...	...	6,52	12,00	14,45
68. Small Saving Schemes	...	...	...	13	18
69. Development of Tourist Centre	...	1	6	15	21
70. Economic Rehabilitation of Tribal areas in Assam	...	...	...	25	30
71. Metric System	...	...	...	17	25
TOTAL—GRANTS MET FROM REVENUE	2,48,01	67,92	1,00,94	1,32,92	1,56,54
II. GRANTS MET FROM CAPITAL					
1. Local Development Works	12,66	4,28	3,84	3,95	5,00
HOUSING SCHEMES					
2. Industrial Housing and Slum clearance	4,65	1,53	1,41	2,73	4,91
3. Rural Housing Cells set up for implementation of Village Housing Project Scheme.	...	...	...	3	5
4. Grant to Punjab Government for construction of Capital at Chandigarh.	...	1,00	...	...	...
TRANSPORT SCHEMES					
5. State Roads of Economic or Inter-State Importance	3,93	2,93	2,84	3,00	3,35
6. Grant from Central Road Fund	15,93	4,99	3,30	5,17	5,62
OTHER GRANTS					
7. National Water Supply Programmes	2,52	87	1,68	2,00	3,00
8. Grants under the Gadgil Committee's award	...	75	40	40	17
TOTAL—GRANTS MET FROM CAPITAL	39,69	16,35	13,47	17,28	22,10

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