Center-state relations in India are at a crossroad. In the last few years, India has undertaken significant reforms aimed at transforming the institutional and financial landscape for negotiating center-state relations. However, these reforms highlight important tensions like how best to harness center’s resources, technical capacity and potential to negotiate conflict, while preserving the constitutional rights of the states; growing regional inequality; and the relationship of center and the state governments with the local governance. Negotiating these tensions requires rethinking the institutional landscape for managing center-state relations. CPR faculty examine these issues through the lens of social policy financing, urban local governments and the challenge of inter-state water conflicts. An important new contribution is to examine the potential for deepening the role of states, specifically border states, in Indian foreign policy.
Towards ‘Cooperative’ Social Policy Financing in India

AVANI KAPUR

A unique feature in India’s federal architecture is the pivotal role played by the Union government in financing and monitoring social welfare programmes, and in ensuring that all states have adequate resources and are held accountable for meeting social policy goals. During 2000-2018, the Government of India (GoI) spent over Rs 14 lakh crores on social services. A significant proportion of this expenditure is met through Centrally Sponsored Schemes (CSSs) — a specific purpose transfer from the Union to states, usually in the form of schemes.

While the practice of using specific purpose transfers dates to the pre-Independence era, over time, CSSs have emerged as the primary vehicle through which the GoI finances and directs state expenditure towards national priorities. Their dominance can be seen in their sheer numbers and the quantum of money flowing through them. During the 11th Five Year Plan (2007-2011), there were 147 scheme specific transfers accounting for over 40% of total central transfers to states. This increased significantly in the 12th Plan period. Of the total Rs 8.61 lakh crore transferred by the Union government to states between 2012 and 2015, Rs 5.88 lakh crore (68%) was released as assistance under CSSs.

The importance of CSSs as a fiscal instrument lies in the fact that they are the primary source of non-wage, uncommitted funds available to states. With a majority of states’ own resources tied to wages, pensions and other committed liabilities (sometimes over 80-90%), CSSs were designed as a top-up to augment state expenditure, allowing them to address infrastructure and human development deficits.

In principle, the rationale for CSSs is sound and in keeping with first principles: fiscal equalisation to ensure
that minimum standards of public services are provided to all citizens. Over time, however, the design and proliferation of CSSs have undermined this very rationale. Richer states with better administrative capacities have been able to capture a larger share of CSS funds, resulting in a significant misallocation of resources. Analysis by the Economic Survey 2016-17 of the six top CSSs—Pradhan Mantri Awaas Yojana (PMAY), Sarva Shiksha Abhiyan (SSA), Mid-Day Meal (MDM), Pradhan Mantri Gram Sadak Yojana (PMGSY), Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) and Swachh Bharat Mission (SBM)—found that under no scheme did the poorest district receive even 40% of the total resources. In fact, for the MDM and SBM, the share was under 25%. Other studies of the SSA and National Health Mission (NHM) found similar results—that is, states with poorer health indicators did not necessarily get larger per capita transfers.

Moreover, the centralised nature of CSSs often makes them an inefficient tool to address state-specific needs and has undermined the autonomy of states to undertake expenditure decisions based on their local needs. Recognising these limitations, numerous attempts have been made to restructure schemes and restore them to their rightful place—the states. The last major impetus came with the adoption of the recommendations of the 14th Finance Commission, which increased state governments’ share in tax devolution by 10 percentage points. The resultant decrease in the fiscal space available with the GoI reiterated the need to significantly decrease and restructure CSSs. This led to the constitution of a committee of chief ministers under the aegis of the NITI Aayog. The committee made several recommendations including scheme rationalisation, determination of a transparent criterion for interstate allocation, and greater flexibility in and creation of an institutional mechanism for centre-state negotiation.

The changes that followed were minimal. While schemes were reordered under ‘umbrella’ programmes, within each umbrella programme, sub-schemes continued as before. As per the Union Budget 2016-17, even after the creation of 28 umbrella programmes, there were 950 Central Sector and CSS sub-schemes accounting for about 5% of the GDP and 9% of the total GoI expenditure. Three years later, in the Interim Budget for 2019-20, Central Sector Schemes constituted 12% of GoI expenditure, up from 9% in 2016-17; CSSs accounted for another 9%.

More importantly, there was no real change in the design or implementation of the schemes. Meetings for the planning of education and health programmes continued as before, and the notification to allocate 25% as flexible, discretionary funds was not reflected in many of the scheme planning documents. Instead, the dismantlement of the Planning Commission has resulted in an institutional vacuum with respect to planning. CSSs now fall under the domain of central ministries, leading to further centralisation of social policy financing.

A call for rationalising CSSs, however, has again gained momentum. The GoI recently committed to evaluating all CSSs before fresh appraisals are made and making scheme approval coterminous with the Finance Commission cycle. Accordingly, the Development Monitoring and Evaluation Office (DMEO) under the NITI Aayog has invited proposals to evaluate 28 umbrella CSSs under 10 sectors. Real change in social sector financing, however, will only be visible if the current design of CSSs is completely overhauled, in addition to the scheme rationalisation being carried out.

Before I offer some indicative steps on how this can be achieved, it is useful to highlight some of the main inefficiencies in the current design of CSSs. Broadly, these can be classified into four interrelated areas: planning failures, implementation failures, fiscal inefficiencies and administrative red tape. Each of these is described below.

**Planning Design Failures**

Budgets for CSSs are determined based on incremental plans prepared by the respective state governments and approved by a committee at the central level. This has given individual ministries significant discretion in determining scheme design and approving state-specific plans and budgets. There is often an inherent tension between union government priorities and
states’ perceived needs. However, since GoI controls the purse strings, central priorities dominate. To illustrate: in 2010, the Bihar chief minister had launched several state entitlement schemes for education, such as cycles, uniforms, etc. In its SSA budget, thus, the state proposed a low allocation for entitlement. However, the GoI’s own prioritisation of entitlements meant that despite no demand, Bihar’s entitlement budget under SSA was enhanced by over 200%. In another example, in 2013–14, one state government wanted to use the SSA budget to provide vehicles for block-level officials to improve school-level monitoring. The approval board at the Centre, however, denied this request as purchase of vehicles was not permitted under SSA rules.9

Implementation Failures

CSSs are typically designed by the Union government but implementation rests with the state and local governments. Most CSSs come with rigid guidelines for execution which privilege a top-down, ‘one size fits all’ model with fixed norms and unit costs. For the NHM, for instance, the guidelines lay down fixed population norms to set up health facilities. These, however, underestimate requirements in states such as Rajasthan and Madhya Pradesh which have a population density lower than the national average. More importantly, even granular implementation details such as hiring processes, training modules and schedules, communication strategies, etc. are laid down by the Centre. Consequently, states and local governments have very little flexibility in adapting implementation based on their specific jurisdiction. The problem is even more acute at the point of service delivery. In education, for instance, if a school wants to spend more money on buying teaching material rather than painting walls, the norms simply don’t allow it. Similarly, a survey conducted by Accountability Initiative in 2013 found that the pressure to meet RTE infrastructure requirements resulted in money for boundary walls being sent to all schools in Himachal Pradesh even though construction couldn’t be undertaken due to land unavailability.10

Fiscal Inefficiencies

Most CSSs are designed as a cost-sharing programme between the Union and the states. With the division of CSSs into ‘core’, ‘core of the core’ and ‘optional’, states are expected to contribute 50%-60% of the total approved budgets from their own plan funds.11

Within a scheme, however, the matching ratio is uniform across states irrespective of their fiscal capability. Release of funds by the GoI is contingent on states releasing their own share and meeting other conditionalities such as the submission of Utilisation Certificates (UCs). This has three important consequences with respect to distribution of resources. First, the uniform fund-sharing ratio often makes it difficult for the low-income states to put in their requisite share. As subsequent fund release is contingent on states submitting their share, this has an effect on the total quantum of money received particularly by fiscally weaker states. Thus, while Karnataka may perform better than Bihar on most development indicators, it may also be able to avail the CSS grant by making its matching contribution, while Bihar may find it difficult to put in its share. Second, the presence of conditionalities for fund release means that there is a considerable difference between the approved allocation and actual grants. In 2016-17, for instance, only 85% of total NHM approved budgets were released. These differences are amplified at the state level. Thus, while Bihar (one of the poorest states) received 79%, Gujarat and Haryana (fiscally stronger states) received over 100%.12 This creates uncertainty in implementing schemes and invariably states with greater shortfall in services levels suffer the most. Finally, the fixed fund-sharing ratios may create perverse incentives for the states to try and get additional CSS funds, even if they not need it.

Layered Bureaucracy and Administrative Red Tape

Finally, detailed and rigid guidelines, complex paperwork and numerous conditionalities for fund release under CSSs have also created considerable administrative red tape, resulting in inefficiencies in approvals and
fund flows. The situation is exacerbated by the fact that for some CSSs, the Union government has set up parallel institutional structures responsible for CSS implementation in states, thereby creating a new stakeholder in the implementation process. Under the SSA and NHM, for instance, scheme planning and implementation rests with autonomous bodies known as State Implementation Societies. The multiplicity of roles means that even simple tasks require approval and technical sanctions from different authorities. A study of the NHM in Uttar Pradesh conducted by Accountability Initiative found that it took a minimum of 22 desks through which the file had to pass for the release of funds from the Treasury to the State Health Society (SHS). Other studies have found that the figures for Bihar and Maharashtra stood at 32 desks and 25 desks, respectively. Possibly as a consequence, release of funds from the SHS to the Treasury took as long as five months in Maharashtra and over three months in Bihar and Uttar Pradesh.

Delays at one level have a knock-on effect and often funds reach the last mile in the last quarter of the financial year.

Five-step Process in Reforming the CSS Design

These challenges highlight the need to move away from past reform efforts (which have focused on minor tweaks in CSSs) towards the first principles of the rationale behind specific purpose transfers. This will require a five-step process.

Moving from a Schematic to a Sectoral Approach

The first step is to limit the number of schemes. One way of doing this is to link finances to ‘national goals’. The committee of CMs on restructuring CSSs laid out nine key areas as part of the National Development Agenda for Vision 2022. It recommended that instead of the previous government’s strategy of bundling schemes under 22 umbrella programmes, funds could be released specifically for priority areas rather than multiple sub-schemes. This would give states the flexibility to plan activities within each priority area as per their own development needs. Steps in this direction have already been taken. The recently launched Samagra Shiksha – an overarching programme for school education extending from pre-school to class 12 – merged three previously independent CSSs. In theory the scheme allows states to prioritise interventions and sectors as per their need. Preliminary analysis of the scheme budget shows that indeed states are making decisions in keeping with their specific needs (albeit still guided by the GoI). Thus, while Uttar Pradesh and Bihar—which continue to lag behind in elementary education—allocated over 80% of their Samagra Shiksha budget for elementary education, states such as Haryana and Himachal Pradesh have focused on secondary education, allocating over 40% to the same. Similar steps should be taken in other sectors.

Moving towards Block Grants

Having identified priority areas, the next step would be to ensure states have enough resources to fund these areas. Instead of allocations being linked to detailed and cumbersome planning and budgeting processes with restrictive, centralised guidelines, block grants could be given to states. This would allow for prioritisation of different inputs and secure greater ownership by state governments. An example of this can already be seen in the Rashtriya Krishi Vikas Yojana (RKVY), a CSS established in 2007 to rejuvenate falling agricultural growth rates. Unlike most other CSSs, RKVY offers the flexibility to a state to choose activities under the scheme that most suit its requirements. Projects are prepared by the departments concerned and then scrutinised by a committee under the the state government’s Agricultural Production Commissioner. Most importantly, project approval is not done by GoI but by the State Level Sanctioning Committee (SLSC), chaired by the Chief Secretary and with representatives from the Ministry of Agriculture and NITI Aayog as members.

Ensuring Equitable Interstate Distribution

Third, interstate distribution of the normative block grant portion of funding amongst states can be based on a formula that takes into account aspects like population, area and proportion of difficult areas, along with sector-specific needs. Differential cost-sharing norms that take note of the shortfall in service levels could further assist in ensuring that the distribution of funds fulfils the criteria of need and equality. Moreover, the formulaic nature of the grants will ensure predictability of fund flows and allow for better planning.
Reforming the Public Finance Management System

The fourth step is streamlining inefficiencies in the approval and fund flow process. This can be done by building a just-in-time Expenditure Information Network (EIN) which brings all expenditure units under one system. The first step in this process was undertaken in 2017, when the GoI mandated all CSS expenditure to be routed through the Public Finance Management System (PFMS). The system envisages each implementation unit to be under one system, thereby allowing GoI and states to monitor funds at different levels. The problem, however, is that the system still functions as a push system, with funds being routed through multiple levels requiring approvals at every stage. By moving towards a pull system, each implementing unit could have the ability to automatically withdraw funds as needed. A defined resource envelope and appropriate access codes would ensure that funds are not misused.

Augmenting Capacity of the Evaluation Office

Finally, instead of focusing on monitoring the nuts and bolts of implementation, the GoI must build its capacity to develop a credible database on monitoring outcome indicators on a real-time basis. Currently, an inherent weakness in the CSS design is its focus on inputs. This creates perverse incentives for the entire administrative machinery to focus on ensuring adequate inputs, or at best, meeting output targets. Here, the DMEO’s role could be expanded by investing in systems to generate regular, credible and granular data on various outcome indicators and to conduct concurrent evaluations of key programmes. Over time, performance on outcomes could be linked to additional financial incentives available to states.

END NOTES

11. The Centre provides 90% for Northeast and Himalayan states.
13. In NHM, it is known as State Health Society.
Cities are seen as the key drivers of growth and managing urban expansion is a major policy challenge. But Indian urbanization is marked not just by expansion but also by the transformation of a large pool of rural areas. Together, these two factors contributed about 40% of urban population growth between the 2001 and 2011 censuses, with an equal contribution coming from natural growth, and the rest from migration. India’s urbanization is thus as much a story of its large megacities as it is a story of the in situ transformation of its rural population, not just in the periphery of cities but also beyond.

Indian Urbanization on the Ground: A Rurban Story?

In India, very large cities coexist with a dense network of small towns. The six major urban agglomerations – Delhi, Mumbai, Kolkata, Bengaluru, Hyderabad and Chennai – had about 74 million inhabitants in 2011. They are followed by a series of secondary metropolitan areas – state capitals and other big cities; all these million-plus cities accounted for a little under a third (31%) of the urban population in 2011. Some are recent upstarts like Gurugram, but most have been around for some time, as medieval or colonial cities.

While the large cities are commonly regarded as growth engines, urban growth in the past decade is not concentrated in these but is actually quite evenly distributed across various urban categories and locations. One-third of the fastest growing cities are small towns – 40% of the urban population in 2011 lived in small towns of less than 100,000 – and their economic activities are confined to the development of specialized clusters involving cities of various sizes as well as villages.
Not all these towns are administratively ‘urban’ or statutory towns (STs), but they are counted as urban by the Census since they are above the demographic and economic threshold of being ‘urban’. These settlements are known as census towns (CTs). Together with smaller STs, they bridge the gap between India’s large cities and rural areas as nodes that supply essential goods and services to the hinterland.

While the CTs are administrative villages that are counted as urban, there are many villages that do not cross the Census threshold but show visible non-agricultural functions. Together, these new ‘rurban’ spaces are slowly becoming a vital part of India’s settlement hierarchies, and their importance is rising in terms of filling the spaces between the interconnected city systems. They provide two main kinds of crucial linkages: between rural and urban, spatial and economic.

**Spatial Periphery:** While the peripheries of large cities like Delhi, Mumbai or Kolkata are growing at a faster rate than the core cities, growth of population and construction is occurring around smaller cities as well, and across different geographical locations. For example, Mallappuram, which used to be a small municipality of 10,000 people in northern Kerala during Census 2001, grew to an urban agglomeration of 1.7 million people by 2011. This growth came from CTs — administered by panchayats — around the city, which constituted 80% of the population of the Mallappuram urban agglomeration in 2011.

**Spatial Corridor:** Rurban areas are also emerging along industrial corridors, combining cities of different sizes and villages between two distinct city clusters to create an extended urban region. For example, many such settlements connected to textiles and light manufacturing stretch along NH 45, from Bengaluru to Salem in southern India. Such spaces blur the inter-urban boundaries while facilitating integration of the rural with the urban.

**Economic Aspects:** Economically, non-agricultural activities are spatially diffused, much of it outside the larger cities. In 2005, the share of the districts where the largest 50 metropolitan areas are located was only 41% of the total non-farm value added in the country. As per the latest Periodic Labour Force Survey (PLFS), 2017-18, about 45.8% of the manufacturing employment in India is rural. In these rurban areas, economic activities are not just non-farm but also agricultural, with returns from farms and remittances being invested in services like transport and retail trade. Even in large cities, stringent land use regulations and urban density policies can push firms beyond the formal city boundaries. The pace of manufacturing employment growth was fastest (41%) over 1998-2005 in rural areas adjacent to the largest metropolitan cities.

In India, therefore, it may be more accurate to characterize this phenomenon as a rural-urban gradation, not just in terms of economic indicators like non-farm activities but also in terms of other measures like built-up growth or night-light intensity. These places are also not very different from smaller towns in terms of consumption levels or investment in private assets like septic tanks or motorized two-wheelers. Neatly classifying such settlements as urban or rural biases our understanding of India’s structural transformation and its associated welfare outcomes.

**Dichotomous Governance**

Yet, our administrative structure valiantly attempts to govern India’s settlements across clear administrative boundaries of rural and urban. The Constitutional framework of rural and urban governance, introduced by the 73rd and 74th Constitutional Amendments — gram panchayats in the case of villages and municipalities in the case of urban areas — reflects this dichotomy. This is historically evident at both state/local and union government levels. Only the STs are administrative urban areas, and are governed by an elected urban local body (ULB) constituted by Article 243 P & Q of the Constitution, which varies across different sizes and scales; they include municipal corporations, municipalities or municipal councils, and nagar panchayats or ‘transitional urban areas’. The criteria to designate (or declassify) a place as a ULB and categorize them across different scales are a prerogative...
of the state governments. These criteria vary across states, from population cut-offs to workforce character, revenue generation capacity, etc. What is recognized as a ULB in one state may not be so in another.

CTs and villages, which constitute the rural-urban gradation, are not designated as administratively urban by the state, and continue to be governed by the appropriate gram panchayat. However, socioeconomic changes in these rapidly transforming spaces make them appear quite similar to formal urban areas in terms of economic activities, human capital and the nature of services required by the citizens.

This administrative classification also results in differences in functional domains and financial incentives of the urban areas and smaller STs. The 11th Schedule of the Constitution places important functions like agriculture, irrigation and housing under the ambit of panchayats, while the 12th Schedule places urban planning, land use, water supply, roads, bridges, health sanitation and slum improvement under the purview of municipalities. But the states are not obliged to transfer these functions to local bodies, and there is variation across states as to the extent of transfer. These functionally distinct structures for rural and urban mean that a panchayat may not be able to pursue policies that respond to the changes happening in its jurisdiction.

At the Union government level, where the focus is more on financial incentives and grants for development, there is historically a sharp differentiation between rural and urban, where Union schemes have given preference to rural over urban in centrally sponsored schemes (CSSs). For instance, the estimated allocation for Swachh Bharat Mission-Criameen (SBM-G) is Rs 134,386 crore, which is about seven times the support for the urban counterpart, SBM-U. As a result, many states prefer to urbanize places like CTs to remain rural, rather than classifying them as urban, to benefit from the larger budget for rural development. Indeed, in 2004, Tamil Nadu switched the classification of over 500 urban areas to rural, to obtain more funds from the central government.

The Dissonances

**Gap in services:** Differences in governance across the formal urban (ULBs) and rural settlements is responsible for the gap in public services like piped sewage or in-house water connections across them, despite a private demand for these services. Although these rural spaces – that is, the CTs and large villages – are very different in economic structure, built-up area and services from other rural settlements, they are not capacitated to meet their changing requirements of services such as drainage, septage management or street lighting. This is because all of them are governed by the same rural governance structure. Even within the urban periphery, public service provisions like piped sewer falls off sharply once the formal administrative boundary of the core city is crossed. In most cities, it is lower in all settlements around the core city, and drops markedly with increasing distance from the core city.

**Resistance to reclassification:** One consequence of this ‘denied urbanization’ is that citizens resist state government proposals to reclassify their areas as ULBs. While there is regional variation, several services, especially sanitation, are individualized due to poor provision of sewerage network, piped water facilities, etc. However, Article 243 X of the Constitution permits the ULBs to collect taxes and duties, as authorized by the state legislature. Hence, the absence of property taxes and higher subsidies in rural areas can drive strong local interest to retain the rural-urban binaries, as people are often reluctant to pay extra for the services that they have already self-provided. The inadequate provision of public services in smaller towns adds strength to this preference.

**Resistance to integration:** Concomitantly, in large metropolitan areas where public services may be the responsibility of parastatal agencies (such as metro water boards), people prefer to be in smaller municipalities rather than become part of an expanded core city. For example, 18 new municipalities were created around Hyderabad in August 2018 to regulate land development in the city’s peripheries. In the course of this process, the elected representatives of
the erstwhile gram panchayats negotiated with the government to make the areas separate ULBs instead of merging with Hyderabad, as they feared taxes may be higher in the latter case.

Employment: These unequal service provisions across the rural-urban spectrum affect the economic transformation of rurban areas. While some specific labour-intensive manufacturing industries are moving out of the municipal boundary, growth restrictions prevent significant employment growth in such districts. In some of these districts, there are concentrated clusters of well-developed household industries, such as the carpet and handloom clusters of Uttar Pradesh or bidi clusters of West Bengal. These, if integrated with the wider economic geography, can enhance the growth machine and provide substantial local employment.

Transport: This is another issue that falls between two stools. The movement of labour and the spatial distribution of jobs in urban peripheries are linked to the availability of multimodal and intermediate public transport like three wheelers, but there is no clear functional domain in the rural governance framework to regulate this. As a result, despite having a low cost of operation, these modes are pushed to the fringes rather than becoming an integral part of the public transit system, making it harder for labour to access employment.

Over time, these limitations can have repercussions on the future growth of CTs and bigger villages, where large sections of the workforce are only precariously engaged in non-farm jobs as small entrepreneurs or casual workers. Even where necessary factors to provide a more solid non-farm transformation are present, the prevailing functional and fiscal domains can prove to be a bottleneck for such growth. Overcoming these dichotomies could result in significant employment growth.

**Policy Recommendations**

The onus of prevailing over these rural-urban binaries in the governance framework and integrating a variety of interlinked rural-urban functions is on both the Union and federal levels of government.

State: At the state level, the effort should be to make the functional domain flexible in case of rurban spaces. Even within the prevailing framework of the 11th and 12th schedules, it is possible to make such provisions. For example, the 12th Schedule does not make any distinction between the categories of urban areas like municipal corporations, municipal councils and nagar panchayats in devolving urban management functions. The language of the Act does not restrict the states from devolving functions from the 11th Schedule to ULBs or from the 12th Schedule to panchayats. Using this flexibility, states can transfer certain functions—such as permitting building licenses, sub-divisioning and readjusting land for variable uses, or regulating permits and lay-out routes for transport modes such as e-rickshaws—to the rural areas.

The size-insensitive character of the urban governance framework can also be used to functionally empower smaller ULBs or panchayats to provide ‘urban’ services so that citizens in CTs and other rurban spaces get the desired levels of services and incur an obligation to pay, where appropriate. However, these devolutions should be made keeping local capacities and political environments in mind.

More coordination in land use and key infrastructure across the rural-urban gradation is necessary, especially in transport, water treatment plants, solid waste management, etc. As most rurban development, especially in the periphery and along corridors, usually follows the trunk routes of transport infrastructure, urban planning needs to occur simultaneously with the expansion of transport networks. The use of spatial data over time can help with this.
There is also a role for mechanisms (some defunct in many states) like the District Planning Committee (DPC) and Metropolitan Planning Committee (MPC) to institutionally coordinate between rural and urban local governments. These or similar structures can also enable states to blend funding from various sources to address the needs of rurban spaces.

Union: At the Union level, there is an urgent need to break out of the hardcoded definition of rural and urban. There is wisdom in being cautious about absolute conversions of CTs into STs. Given the variety of circumstances under which CTs are formed, states would need to deploy a case-specific approach to leverage their urban characteristics.

Designs for central schemes must not impose restrictions by typology of location because services in rurban areas need a fit-for-purpose approach. For example, SBM-G focuses on constructing twin-pit latrines on a priority basis in rural areas, but many rurban spaces (where the use of septic tanks was already high at the start of the scheme) would have been served better by efficient septage and faecal waste treatment management. Therefore, hard coding of central scheme interventions by specifying technologies for urban and rural spaces should be avoided.

At the implementation level, states must have the flexibility to evolve modus vivenda to address rurban needs. For example, given how mobile labour is, states should be able to use funds from the National Urban Livelihoods Mission (NULM) in a variety of locations, including peripheries and corridors. Similarly, although the affordable housing scheme Pradhan Mantri Awas Yojana (PMAY) avoids some of the pitfalls of hard coding by supporting state- and region-centric variations in materials and technology, PMAY-Urban – rather than PMAY-Rural – may be more suited for peripheral villages.

Disassociating schemes from their location is hobbled by the existence of separate ministries for rural and urban development, but schemes like SBM that do not come under these ministries can choose to function outside of this binary. For example, the central scheme for working women’s hostels has transcended this binary; since its inception in 1972-73, it has been catering to urban, rural and even semi-urban areas where employment opportunities exist for women under the umbrella of the Ministry of Women and Child Development.

Another approach is to allocate funds from different schemes to fill the gap in key infrastructure and bridge the service vacuum between rural and urban. The Shyama Prasad Mukherji Rurban Mission (SPMRM) is a step in this direction, but its location within the Ministry of Rural Development limits its ability to aid ‘urban’ spaces.

Conclusion

With cities and their associated economic engines beginning to be viewed as connected to their peripheries and as part of a wider city system throughout South and South East Asia (rather than in isolation), this is a good moment for the new government to introduce an integrated approach to urbanization, bridging the artificial divides of the 11th and 12th schedules. It is time to build mechanisms that can facilitate inter-ministerial interlinkages. It might even be prudent to imagine a single ministry of local governance in the long run. For now, a category-agnostic approach to central government schemes and an architecture that allows states to respond flexibly would enable India to leverage the latent opportunity in rurban spaces.
REFERENCES


1. The authors gratefully acknowledge the inputs of Kanhu Charan Pradhan while writing this piece.

2. Only if the core city is taken into account, not the entire urban agglomeration.

3. A census town is a settlement which has a population of 5000 or more, a population density of more than 400 persons/sq.km, and a male main workforce participation of 75% or more. All STs, which constitute an urban local body (ULB), are automatically defined as urban. Unlike India, many countries rely only on a population size to distinguish between rural and urban areas. If only population size was used to identify census towns in India, and villages with more than 5,000 inhabitants were considered urban, the share of the urban population would increase by about 15 percentage points.

4. For example, the growth rate of the core city in the Mumbai metropolitan region is 0.4% while the periphery grew at 3.6%, within 2001-11.

5. NSS 2011-12 consumer expenditure data reveals that a small town consumer spends about 70% of a consumer in million-plus cities. However, their spending pattern is very similar to large cities, with similar amounts being spent on items like conveyance, rent or consumer durables, as in million-plus cities. The share of households which owns a motorized two-wheeler is 28% in these urban areas, and 27.8% in smaller STs, which has a population of less than 50,000. The share of households with septic tank is 58.8% in urban areas, while it is 55.7% in smaller towns.

6. The share of households with in-house access to water is 35% in villages, 59% in urban areas (CTs and large villages) and 62% in smaller STs, which have less than a hundred thousand population.

7. The share of households connected to the piped sewerage network is 86% in the municipal area of Hyderabad, but drops to 50% in the other ULBs and 27% in the all the CTs in the Hyderabad metropolitan area. The share of villages with piped sewer in HMUDA is 7%. Interestingly, the outgrowths of HMUDA, which are also rural but are contiguous to the core city, have a higher share of piped sewer coverage at 32%.

8. The interests of the state governments to reclassify the STs or other forms of rurban spaces into ULBs also varies by the shifting growth trajectories across states. While states like Gujarat reclassified 24 CTs to STs within 2001-11, UP chose to not reclassify any of them into formally urban categories.

9. There are a lot of self-provisions of public services like roads, piped connection of water to households in some of the richer peri-urban neighbourhoods of larger cities (Randhawa et al, 2014; Mehta et al, 2015).


11. The Kolkata city is dominated by yellow taxis and auto-rickshaws, while the periphery is served by a variety of different modes of IPT services like the batter operated e-rickshaws, and diesel-fuelled vehicles like Tata Magic and Piaggio Ape. A lack of regulations at the RTA, police and local levels lead to contestations across there different kinds of services, which leads to operational issues and easy movement in the peripheries, instead of facilitating the services (CPR, 2016).

12. An analysis of the 6th Economic Census (2012-13) data shows only about 20% of the CT population resides in such kind of settlements where the share of manufacturing to total workforce is more than 50%.

13. The ambiguous part of the act has usually led to different responses from the state governments so far. There has been persistent resistance from the state governments to implement the provisions of the act in totality, and issues like water and sanitation management remains the prerogative of parastatal agencies under the control of state governments for a majority of cities. Very few financial and human resources functions have been transferred to municipalities and ULBs remain weak highlighting the unwillingness of the state to relinquish its control over the urban (Nandi and Gamkhar 2013, Ruet and Tawa Lama-Rewal 2009).

14. While MPCs have rarely been set up in most states, they have been only involved into mere consultations while dealing with issues, rather than any active involvement in planning functions (Sivaramakrishnan, 2013).

15. During May 2016, the erstwhile Ministry of Urban Development came out with a notification that asked all the 28 states to take ‘immediate and necessary action’ to convert all the census towns (CTs) into statutory urban local bodies (STs) to promote planned development.

16. An ongoing CPR analysis of the PMAY-U data shows that approximately eighty villages have been included in the projects enlisted under PMAY-Urban, most of which are neighboring larger Urban local bodies.
Interstate River Water Governance: Shifting the Focus from Conflict Resolution to Enabling Cooperation

SRINIVAS CHOKKAKULA

Interstate Rivers and National Water Security

India’s 29 states and seven UTs (Union Territories) share its 20 major river basins. This simple framing presents how India’s water security is embedded in a canvas of deeply interdependent interstate hydrogeographies. The country’s water security is defined and determined by how its interstate rivers are governed.

The current state of policy and institutional set-up for interstate river water governance, however, does not inspire confidence. Interstate river water disputes emerge and recur frequently. Their adjudication involves long delays, characterized by adversarial litigations. States often defy judicial directives from either the tribunals or the Supreme Court, leading to constitutional crises. Implementation of the tribunal awards/decisions suffers from an acute absence of reliable interstate institutional models or mechanisms. Each escalation or recurrence of disputes causes huge costs to the economy. Antagonistic politics and politicization characterize interstate river water relations. On the other hand, the implementation of interstate river development projects and rejuvenation programmes, too, is impaired by the larger void of a robust ecosystem for interstate coordination or collaboration.

The history of interstate river water governance of India partly explains this state of affairs. Since Independence, such governance has been driven by exigency-driven contingent responses. The policy ecosystem is primarily set to respond to the exigencies of conflicts and has remained oblivious to the idea of interstate cooperation. There is practically no reliable mechanism for interstate coordination and collaboration over river
waters. A simple fact attests to this assessment. The Interstate (River) Water Disputes Act, 1956, for resolving interstate river water disputes has been amended at least a dozen times. Yet another amendment Bill was tabled before the Parliament in 2018. In contrast, the River Boards Act, 1956, enacted at the same time as the former and meant to enable interstate collaboration, has never been touched since its inception. Further, it has never been used to create any boards, not even once! For some inexplicable reason, the river boards created so far draw on alternative and ad hoc channels—of notifications of the government, state-bifurcation laws or separate Acts of Parliament. The Act has remained untouched even when it was found unusable for the purpose for which it was intended.

The constitutional division of powers with respect to water and its implementation is the other reason. The subject of water is listed under Entry 17 of the State List. This, however, is subject to Entry 56 of the Union List pertaining to the regulation and development of interstate rivers. In the initial years of single-party dominance, the negligence in definitively carving out the Centre’s role has led to the states assuming unfettered and exclusive powers over water governance. Ramaswamy Iyer has called it the ‘wilful abdication of its role’ by the Centre. This trajectory of evolution has contributed to the entrenchment of territorialized perceptions and competitive approaches of states towards water resource development. This has been aided generally by the transformation of Indian state and polity over the years. The initial single-party dominance has given way to coalitional politics, leaving greater room for subregionalism and territorialized assertions of states.

An outcome of this for the center-state relations over water governance is the increasing resistance of states to any attempt by the Center to assert its role under the Entry 56, over interstate river water governance. Central institutions like Central Water Commission (CWC) and Central Ground Water Board (CGWB) are perceived to be increasingly irrelevant. States pursue their respective territorial visions of water resource development with little or no appreciation for the cumulative impact, with adverse implications for national water security.

Ambitious Plans and Ambiguous Foundations

Several practical reasons necessitate this revisiting of interstate river water governance with particular focus on Centre-state relations. The country has set itself ambitious plans for greater economic growth, and these depend on strong and reliable interstate river water cooperation. These plans have both development and conservation goals. The development projects are not just the conventional supply augmentation, but also include inland waterways. Over 105 proposed inland waterways pose new challenges for interstate river water governance. The controversial interlinking of rivers has received patronage from consecutive governments, yet has not made much headway, partly due to the hurdles of interstate coordination.

The flagship programme of Ganga rejuvenation is a response to the intensely stressed river ecosystems. It has received unprecedented attention and investments. Yet the ‘blind spot’ with respect to the tenuous Centre-state and interstate relations remains an unaddressed challenge. Fully funded by the central government, this programme may have some temporary impact. But sustaining it over a longer term will require a deeper institutionalization of the programme among the states, in addition to closer interstate coordination and collaboration.

The necessary strategic shift towards broader Integrated Water Resource Management (IWRM), also proposed by the National Water Policy 2012, will itself require a consensus among states. A simple articulation of national policy will not achieve compliance by states. The historical geographies of uneven water resource development among states will require deliberations over the trade-offs in shifting to IWRM. The shift has to be led by the Centre with the consent of the states.

Above all, there are the new challenges of coping with climate change-linked risks. This big unknown adds to the problem of interstate coordination with its uncertainties over space as well as time. Interstate collaboration and cooperation is central to coping with the risk of disasters such as floods.
Shift Focus to Enabling Cooperation

In order to realize the development goals of these ambitious projects, and in the interest of longer-term water security, the government has to begin proactively engaging with the challenge of interstate river water governance. This requires a fundamental strategic shift, away from the current reliance on conflict resolution, and making deliberate efforts to enable and nurture an ecosystem for interstate river water cooperation. Such an ecosystem is useful for dispute resolution as well in essential terms. Interstate river water dispute resolution often fails because there are no reliable mechanisms for implementing the tribunal awards or decisions. It can only be possible when the states party to a conflict collectively contribute to ‘giving effect’ to the decisions. Thus, interstate river water cooperation ecosystem is a necessary condition for effective conflict resolution.

This intricate link, in fact, accentuates the emerging understanding about the nature of transboundary relationship when rivers are shared between territorial entities. The binary of either conflict or cooperation is a flawed premise to address the challenges of transboundary river sharing. Instead, it is increasingly evident that the complex political ecology of transboundary river water sharing constitutes a coexistence of conflict and cooperation. The design of policy and institutional solutions has to acknowledge this character, and cannot rely on legal instruments alone. It has to be supplemented with other elements of the ecosystem: policy, institutions and politics.

First, there has to be clearly articulated policy intent. The next iteration of the National Water Policy must declare the creation and nurturing of an ecosystem for interstate river water cooperation as one of its priorities, and enunciate specific steps towards setting the process in motion.

Second, politics have to make the policy reforms possible. In view of the historical evolution of Centre-state water relations in practice, the policy and institutional reforms for interstate cooperation will have to be built on a political consensus for adoption of this path. In other words, the water agenda has to be elevated for a federal consensus, say, along the lines of the GST reforms. At the core of this consensus will be the need for the Centre to (re)position itself. The political process has to aim at redefining the Centre’s role under Entry 56 of the Union List, considering the emerging challenges of interstate river water governance. This does not mean reorganizing the constitutional division of powers, which is likely to face vehement resistance from states. Instead, the goal will be to redefine the existing Centre-state division of powers in terms of functional and operational responsibilities required to pursue the ambitious plans and programmes. For instance, the Union government may assume a preeminent role in credible data gathering and providing knowledge and capacity inputs.

The idea of building federal consensus for water reforms is not new. The need for such a political process and forum was felt before as well. For instance, the National Water Resources Council has been created under the aegis of the Ministry of Water Resources. The National Development Council is another forum for such federal deliberations. These forums failed to deliver for a variety of reasons. A key reason is their failure to assuage states about their neutrality and objectivity in enabling deliberations; they are perceived as politically subjective and serving the agendas of the particular political regimes in power.

The Inter-state Council may be nurtured as an institutional space for these federal deliberations. The Constitution provides for the Inter-State Council for the specific purpose of interstate coordination. This crucial federal forum has been neglected and undermined due to its ill-conceived purpose and location. The Inter-State Council has been ill conceived as a department of the Ministry of Home Affairs and is seen as politically subjective. Instead, it should have been conceived and cultivated as an institution at par with other institutions serving key constitutional functions for deliberative democracy.

Article 263 providing for the Inter-State Council incidentally follows the peculiar Article 262 that provides for barring the jurisdiction of the Supreme Court. The constitutional framers were conscious of the limitations
of the courts in addressing challenges posed by interstate river water disputes; they also realized that a robust deliberative process is essential for their resolution. The success stories of water reforms in other comparable federal contexts—for example, Germany or Australia—are often celebrated. Central to these success stories is a strong institution offering a space for federal deliberations: the LAWA (Working Group of the Federal States) in Germany, or the COAG (Council of Australian Governments) in Australia. The Inter-State Council has to serve a similar function to pursue the proposed reforms. Just like these deliberative spaces, the Inter-State Council can be a permanent deliberative forum to take forward reforms. The Council’s scope, however, may not be restricted to water resources; it can have working groups for different sectors serving the purpose of interstate coordination.

The third element is to develop strong and resilient institutional models for interstate coordination, compliance or collaboration—primarily to give effect to any interstate project, programme or agreement. A River Basin Management Bill, 2018, has been proposed for the purpose, replacing the River Boards Act, 1956. But it assumes that centrally driven river basin authorities can serve these functions. Some states have already resisted this conception. It is unlikely that these authorities will be effective without a consensus about the functional roles of the Centre and states, and the operational domain of river basin authorities. The Bill does not build on such a consensus; instead, it assumes that inclusion of representations from states is sufficient to make the institutions work. River Basin Authorities, or any other forms of interstate institutional models, need to emerge from and build upon the contours of the respective functional spaces emerging from the federal consensus. An enduring and empowered deliberative forum, such as the Inter-State Council, will enable such consensus building and evolution of collaborative solutions.

The fourth factor is pursuing an effective strategy for interstate river water disputes resolution. This requires a course correction. A historical understanding of the unusual approach—of barring courts’ jurisdiction and setting up tribunals for adjudication—reveals that these arrangements were conceived with the intent of ensuring finality to the resolution, in a swift manner. Deliberative approaches were integral to tribunals’ adjudication of the disputes. This was the approach used by the first generation of tribunals, constituted for Krishna, Godavari and Narmada disputes. Over time, the subsequent amendments to the Act have turned tribunals into courts and have increasingly incentivized adversarial litigations. This is one of the reasons for extended delays in giving away awards. The recent decision of the Supreme Court modifying the Cauvery tribunal award is just another instance of this trend. Extending Supreme Court’s jurisdiction opens up additional layers of judicial litigation. The processes of adjudication by tribunals needs to be reviewed, with due attention to courts’ limitations in addressing interstate river water disputes. The Centre must consider strengthening the adjudication with deeper integration of deliberative processes, and building on the cooperation ecosystem. The Interstate River Water Disputes Amendment Bill, 2018, by proposing a Permanent Tribunal, has made a feeble attempt to incorporate this element, while continuing with the adversarial character of tribunals’ functioning. A Disputes Resolution Committee has also been proposed, to attempt resolution through mediation. Its proposed composition, however, does not inspire confidence.

END NOTES

1. To illustrate, the Supreme Court is currently deliberating on the suit filed by the Tamil Nadu for a compensation of about INR 25,000 crore for crop losses due to alleged failure of timely release of Cauvery waters by Karnataka in just one season.
2. This was the basis for enacting the River Boards Act, 1956.
India’s neighbourhood policy makes for a feel-good narrative of reimagining borders as bridges and speaks a comfortable cosmopolitan language, laying claim to a universal vision of globalism. The country’s diplomatic engagement has begun to acquire a level of diversity and complexity in recent years with a host of subregional initiatives such as the Bay of Bengal Multi-Sectoral Initiative for Technical and Economic Cooperation (BIMSTEC), the Mekong Ganga Economic Cooperation (MGC), and the Bangladesh China India Myanmar Economic Corridor (BCIM). The past five years have seen a further deepening of this idea at the substantive as well as rhetorical levels with initiatives such as the Neighbourhood First policy, the rechristened Act East policy, Prime Minister Modi’s high-profile visits to South Asian capitals, and the setting up of a States Division at the Ministry of External Affairs (MEA).† But for all its enthusiastic rhetoric, there is a curious paradox at the heart of India’s subregional discourse. While the border states are projected as bridges between India and the neighbourhood, in actual practice India’s neighbourhood policy remains unambiguously top-down and continues to be firmly led and steered by New Delhi. This is both puzzling and problematic since the notion of subregional cooperation is fundamentally premised on making geographically proximate border regions within two or more countries important sites of cooperation. Standing this logic virtually on its head, it is New Delhi that has regularly hosted BIMSTEC’s Working Groups on regional governance issues such as disaster management, customs cooperation and regulation of passenger and cargo vehicular traffic. A comparison with the working of China’s subregional discourse is both revealing and sobering. China’s border province
of Yunnan, for example, regularly hosts the Greater Mekong Sub-region Working Groups on a range of regional governance issues such as environment, tourism and agriculture. The centralising impulse is again all too evident in India’s discourse on border trade, for instance in Dharchula, Uttarakhand, an ancient border town located on the trans-Himalayan trading routes with Nepal and China. Trade permits required to conduct trade are no longer issued at the border but instead in Dehradun, the state capital, entailing protracted procedural delays and costs. Taken together, dichotomies such as these represent a classic instance of suboptimal subregionalism at work, a discourse that has clearly ended up aiming low and hitting lower.  

These dichotomies also indicate that there has been virtually no political incentive to invest in an institutionalised two-way engagement between national and subnational policy actors. This is a cause for serious concern and can result in institutional gridlocks between the Centre and states at a time when international engagement by border states is increasing. If recent trends are anything to go by, resource conflicts between the national and subnational governments could be a potential minefield. Bihar’s demand for an equity stake in power projects being executed by India in Bhutan as well as the Teesta river dispute between India and Bangladesh arising out of the deadlock between the Centre and West Bengal bring out the inadequacy of existing institutional arrangements in negotiating such conflicts. This is also adding an edge to domestic resource conflicts as can be seen in the recent constitutional dispute between Nagaland and the Centre wherein the Centre contested Nagaland’s claim that Article 371 (A) of the Constitution conferred upon it the right to develop its natural gas reserves. If New Delhi does not attempt to fill this policy vacuum, these growing federal-state conflicts will erode overall state capacity in damaging ways. The capacity or the mandate of existing institutional forums such as the MEAs States Division or the Inter-State Council, in their current makeup, to mediate and resolve these conflicts is open to debate. Recalibrating these federal-state platforms to more effectively anticipate and address such challenges has to be the first order of business for the Indian government.

**When Practice Meets Policy**

By privileging the formal, state-led, inter-governmental processes, Indian diplomacy has ended up completely overlooking a range of practices at the border regions that are fundamentally reshaping India’s engagement with its neighbourhood. Subnational-steered policy networks need to be recognised as a field of governance in their own right, with a capacity to rescale India’s foreign policy beyond solely national frames. Local networks, both formal and informal, can work with – and not necessarily at cross-purposes – with the Centre on regional public goods. What is most striking about India’s evolving subnational diplomacy is the sheer diversity of transborder exchanges being steered by border states in terms of their nature (formal and informal), activities (social, economic, cultural, political), duration (sustained and episodic), and actors (public and private).

Bottom-up market-driven processes of economic integration are today resulting in the rise of a new set of stakeholders with stakes in subregional integration processes. There are three reasons why a serious engagement with these processes is vital. First, there is growing evidence that border regions are beginning to effectively engage the Centre to deepen subregional integration processes. The effects of this lobbying can be seen in India’s decision to open 70 border haats along its boundary with Bangladesh, with 35 along the border with West Bengal, 22 at the Meghalaya border, five in Tripura and four in Assam. Tripura recently successfully lobbied the central government to permit the export of surplus power to Bangladesh. Second, direct transborder subnational links have on occasion bypassed the Centre to break difficult logjams and bottlenecks. A case in point is the construction of the 726 MW Palatana gas power project in southern Tripura. Given the challenges in transporting heavy equipment to Tripura due to the
difficult terrain, Bangladesh allowed transhipment of heavy turbines and machinery through its territory. Bangladesh’s decision to allow transhipment became a critical factor in the successful completion of the project. Palatana will be bookmarked in India’s evolving subnational cross-border engagement as arguably one of the first instances of subregional problem solving. Third, the greatest discursive potential of subregionalism arguably lies in its capacity to position the local as a central actor in the governance agenda. It will be suboptimal to conceive them as mere agents for monitoring the implementation of service delivery systems. Consultative processes between key institutional actors have to be both continuous and inclusive, bringing together relevant local line departments and officials across all levels – from planning, through monitoring to implementation. The locational advantage of border states as primary points of contact with the neighbourhood can also help plug critical transboundary governance gaps. For instance, border regions can play an important bridging function by facilitating networked governance in subregional Asia. Several such networks – such as the Asian Environmental Compliance and Enforcement Network (AECEN), South Asian Biosphere Reserve Network (SeaBRNet), Asian Network of Sustainable Agriculture and Bioresources (ANSAB), Freshwater Action Network South Asia (FANSA), Himalayan Conservation Approaches and Technologies (HIMCAT), and South Asian Network on Environmental Law (SANEL) – are already in existence.

The Future is Federal

Nudging Indian foreign policy towards a practice-based template has the potential to incorporate a rich and hitherto untapped corpus of domain and field knowledge that national-level policymakers have no means of acquiring on their own. Policy need not always dictate practice; instead, policy and practice need to co-evolve into an institutionalised two-way flow of communication. Institutionalising consultations with a new set of border stakeholders such as legislative bodies both at the central and state levels, media and civil society organisations can go a long way in ensuring that these actors become informed interlocutors in shaping India’s evolving neighbourhood policy. A lot will, however, depend on the feedback loops that are put in place for creative ways of power sharing, institutional learning and adaptation to produce inclusive outcomes. It is only then that one can create a level playing field and a measure of parity between central and state level policy actors. India’s neighbourhood policy has the potential to produce a modest but valuable space for border states to become active partners in framing and fashioning the terms of India’s engagement with its neighbourhood. But this potential institutional innovation in Indian foreign policy is neither guaranteed nor infallible. If it is to succeed, leveraging the location of border states needs to go hand in hand with the federalisation of India’s foreign policy.

END NOTES

1. Ministry of External Affairs, Government of India. 2014. https://mea.gov.in/lok-sabha.htm?dtl/24347/Q_NO687_SEPARATE_DIVISION_FOR_CENTRESTATE_RELATIONS. The political signalling has however been neither consistent nor credible. For instance, while Prime Minister Modi projected his government’s Neighbourhood First Policy, the then Chief Economic Advisor Arvind Subramanian has been on record in 2014 stating that ‘regional economic integration in South Asia is not a first priority for India’, The Hindu, 29 September 2015.


3. The Inter-State Council, a forum designed to bring all Chief Ministers to work on operationalising the coordination mechanism between the Centre and the states, was convened in 2017 after a gap of 12 years.