

1. Macroeconomic context

POLITICO-ADMINISTRATIVE STRUCTURE

As a union territory (UT) with a legislature, the National Capital Territory (NCT) of Delhi has a unique position in the country's politico-administrative structure, particularly in respect of the division of functions and responsibilities between the union government and the NCT and the financial arrangements between them. In the division of functions, the NCT is endowed, in accordance with the provisions of the *Constitution (sixty-ninth) Amendment Act, 1991*, and the *Government of National Capital Territory of Delhi Act, 1991*, with all functions enumerated in the state list or in the concurrent list, excepting public order (1), police (2), and land (18), and entries (64), (65), and (66) of the state list in so far as these relate to entries (1), (2) and (18).¹ These subjects continue to vest in the union government. The financial arrangement between the union government and NCT is complex in that while all taxation powers ordinarily available to states under the *seventh schedule* of the Constitution of India stand delegated to the NCT, other financial disbursements to NCT are determined outside of the established centre-state fiscal arrangements. Thus, the union government, instead of sharing with NCT such central taxes as non-corporate income taxes and union excise duties, provides a grant-in-aid in lieu thereof; similarly, assistance for plan purposes to NCT is determined annually but outside of the *Gadgil formula*. The NCT has powers to borrow from the union government but is not permitted access to market borrowing or institutional finance to supplement its resources, nor is it empowered to give guarantees on the security of its consolidated fund.² Guarantees for the purposes of administration of NCT under the existing arrangement are given by the Government of India under *Article 292* of the constitution. In sum, the fiscal and financial sphere of NCT is different in important ways from that of the other states of the union.

A number of institutional changes that have a direct bearing on the finances of NCT have taken place since the constitution on December 1, 1993 of Delhi as the National Capital Territory with an elected legislature. The Delhi Transport Corporation (DTC) which was under the direct control of the union government was transferred to the Government of NCT on August 5, 1996, and is now the responsibility of the NCT Government. The Delhi Electric Supply Undertaking (DESU) which formed a part of the Municipal Corporation of Delhi (MCD) was replaced vide a notification of February 24, 1997 by a board, called the Delhi Vidyut Board (DVB), and given jurisdiction over the whole of the capital territory excluding the areas under the jurisdiction of the New Delhi Municipal Council (NDMC) and Delhi Cantonment Board (DCB). Similarly, the Government of NCT delinked vide notification of April 6, 1998, the Delhi Water Supply and Sewage Disposal Undertaking (DWSSDU) from the MCD, and created in its place, a water board, called the Delhi Water Board (DWB). The DWB's jurisdiction is identical to that of the DVB. The New Delhi Municipal Council—earlier called the New Delhi Municipal Committee and regulated by the provisions of the *Punjab Municipal Act, 1911*—is now governed by the *New Delhi Municipal Council Act, 1994*, and enjoys a greater measure of commonality

1 The figures in parenthesis relate to the subjects enumerated in List II of the state list of *Article 246* of the Constitution of India.

2 The Government of the National Capital Territory of Delhi now maintains a consolidated fund of its own. It also maintains a contingency fund. There is, however, no public account of the Government of NCT. The transactions of the government pertaining to public account are included in the public account of the union government. The Government of Delhi is not permitted to hold cash balances at the end of the fiscal year.

with MCD in matters relating to functions, taxation, audit, and accounting procedures. The process of institutional changes is continuing as several other agencies currently under the control of the union government are expected to be brought within the fold of the NCT. The NCT of Delhi may itself undergo structural changes and acquire full statehood with major implications for the finances of Delhi.

DEMOGRAPHIC, ECONOMIC AND SOCIAL PARAMETERS

Delhi's unique position is not confined to only the politico-administrative and institutional structure; it extends as much to its demographic, economic and social composition which, as this study will indicate, has a crucial impact on the finances of the Government of NCT. Delhi is an overwhelmingly urban territory, resembling in its characteristics and structure of demand, a *city state* and a *mega city*.³ In 1991, 89.9 percent of its total population of 94.2 lakh was urban, with trends towards further consolidation of its urban base. It is also a territory with a rapidly growing population; during the census decade of 1981–91, Delhi's population increased by 51.46 percent compared to 23.9 percent for the country and by 36.2 percent for the country's total urban population. Estimates indicate that approximately 3 lakh persons are added every year to Delhi's population, placing an enormous burden on its infrastructure and civic services, and also on the already distorted land and housing market. Delhi is additionally confronted with a large *floating, day time* population which further strains the availability of infrastructure and basic services. The key point to note is that Delhi's population is projected to continue to rise at an annual rate of about 3.8 percent over the period 1998–2005, and to reach a massive total of 166 lakh by the year 2005.⁴ It is the one single fact that will significantly impact the future fiscal policy of the Government of NCT.

Table 1: NCT: Growth of Population

Year	Total	Percent change	Population (in lakh)	
			Urban	Percent change
1971	40.66	–	36.47	–
1981	62.20	52.98	57.68	58.16
1991	94.21	51.46	84.72	46.88
1998	128.56	36.46	114.49	35.14
2005	166.08	29.18	132.54	15.77

The economic structure of Delhi is weighted in favour of services and small-scale manufacturing. In 1991, services comprising trade and commerce, transport and communications, public administration, and other services including the financial sectors, such as, banking accounted for 66.23 percent of the

³ In terms of its population, Delhi is the fifteenth largest city in the world (United Nations 1997. World Urbanization Prospects. The 1996 Revision. Draft. New York). Delhi's 1998 population is estimated at 128.56 lakh (Registrar General, India. 1996. Population Projections for India and States: 1996–2016. New Delhi).

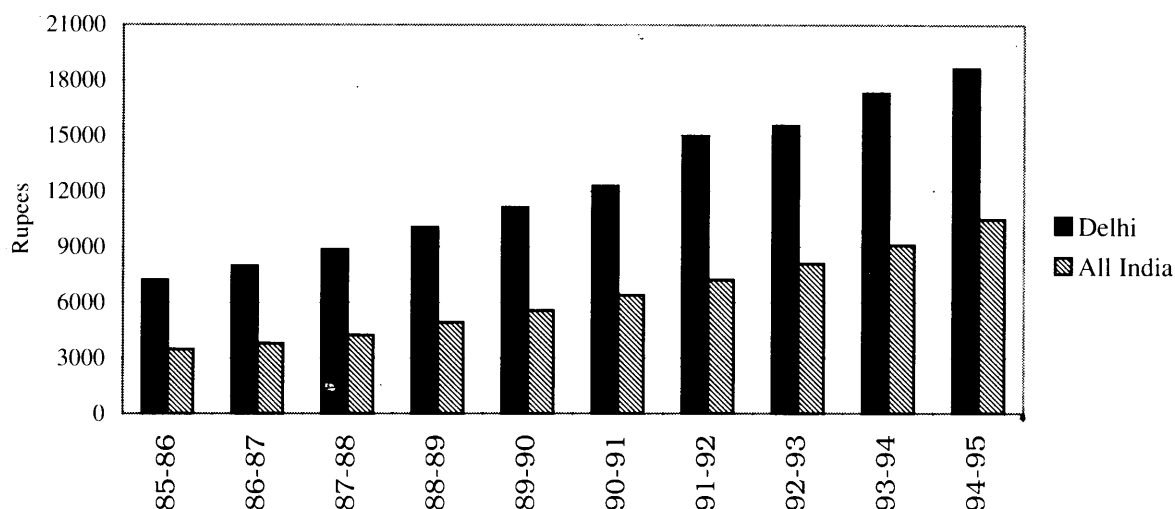
⁴ Registrar General, India. 1996. Population Projections for India and States 1996–2016. New Delhi.

main work force. Over 32 percent of the work force was engaged in highly diversified small-scale manufacturing composed of metal and engineering, textile and textile products, transport equipment, leather goods and chemicals. Employment in agriculture and allied primary sector activities is infinitesimal (1.27 percent).⁵

Delhi enjoys the highest per capita income in the country. At current prices, Delhi's per capita income, estimated at Rs. 18,660 in 1994–95 and Rs. 21,175 in 1995–96 is 78–90 percent higher than the all-India average and about 35–45 percent higher than the average for the five high income states.⁶ Delhi's share in the country's gross domestic product (GDP) is about 2.12 percent, making Delhi 1.78 times more productive compared to the country as a whole. Over a ten-year period, starting from a high base by national standards, Delhi's gross state domestic product (GSDP) has increased at rates that are higher than those for the country as a whole as also the five fast growing states. Between 1985–86 and 1994–95, Delhi's GSDP, at 1980–81 prices, grew at an annual average rate of 7.3 percent which was 1.7 percentage points higher than the national average of 5.6 percent and 0.7 percentage point higher than the average for the five fast growing states. However, GSDP growth rate has fluctuated over the 1985–86 to 1994–95 period, signalling the sensitivity of the territory to exogenous factors and forces.

A distinguishing feature of Delhi's GSDP lies in its structure. In the year 1994–95, 69.8 percent of GSDP (at current prices) accrued from the services sector and 27.5 percent from industry and other secondary sector activities. Agriculture contributes only 2.8 percent of GSDP. Services and industry sectors have displayed consistently high growth rates.

Graph 1: Trends in Per Capita GSDP (at current prices)

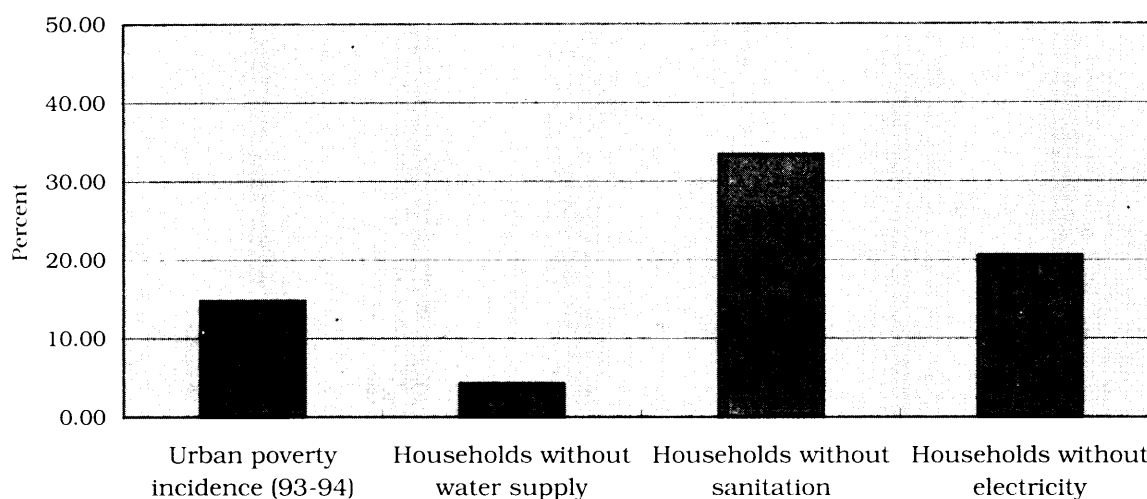


5 The shares of the primary sector, secondary sector and tertiary sector in the all-India urban work force are 23.3%, 28.5% and 41.5% respectively (Census of India: 1991).

6 The five high income states are Punjab, Haryana, Goa, Maharashtra, and Gujarat. The gap between Delhi's per capita GDP and that of other states is beginning to narrow down. In the mid-1980s, Delhi's GSDP was more than twice that of all-India per capita GDP.

Notwithstanding the unique position which Delhi enjoys as being an overwhelmingly urban territory, characterised by a diversified and expanding economic base and high GSDP, poverty and deprivation continue to be a matter of serious concern. Between 1987–88 and 1993–94, the incidence of poverty as measured by the calorie intake criterion rose from 12.4 percent to 14.7 percent.⁷ Worse still, non-food poverty, as manifest in such indicators as the number and proportion of households living in slums and squatter settlements and those without access to water supply and sanitation, has risen steeply. An estimated 500,000–600,000 households live in slums and sub-human conditions. According to the 1991 census, 34 percent of households in Delhi had no access to basic sanitation, 3.8 percent had no regular source of potable water supply, and a little over 20 percent households had no electricity. Given the fact that over 75 percent of Delhi's population is *literate*, other social indicators such as the birth and death rates and infant mortality rates are high. Air, water and waste-related pollution levels in Delhi are among the highest in the country.⁸

Graph 2: Poverty and Deprivation Levels in Delhi (1991)



Delhi thus presents a complex situation of having on the one hand, a highly diversified, growing and vibrant sector, continually in need of quality infrastructure and services, and on the other hand, a large subsistence sector seeking basic services and minimum quality of life.

7 Government of India. Press Note of March 11, 1997. Report of the Expert Group on the Number and Percentage of Population below Poverty Line.

8 It is estimated that about 3000 metric tonnes (mt) of air pollutants are emitted everyday in Delhi. According to a WHO report published in 1994, Delhi is the fourth most polluted city in the world. The amount of pollutants the transport sector pumps into Delhi is more than the sum of the vehicular pollutants emitted in Mumbai, Bangalore and Calcutta. Water quality has also deteriorated considerably due to discharge of sewage and industrial effluents. Upstream of Wazirabad, the dissolved oxygen (DO) level is 7.5 mg/l and bio-chemical oxygen demand (BOD) level is 2.3 mg/l, whereas, downstream at Okhla, the DO level declines to 1.3 mg/l with the BOD at 16 mg/l. The prescribed ambient water quality in terms of DO is 5 mg/l or above, and 3 mg/l or below in terms of BOD. See Government of India. White Paper on Pollution in Delhi with an Action Plan. 1997. (mimeo).