Unit-V

Backward Areas or Regions

Traditionally backward area is an area where there is no industrial development. Backward regions having the characteristics of high level of equilibrium trap, economy is largely subsistence one, lack of infrastructure facilities, adverse geo-climate conditions, low investment rate, high rate of population growth and low levels of urbanization and industrialization.

Identification of Backward Areas.

The study attempts to assess the spread effects of development process in India with a view to identify the regions of iniquitous distribution of development. Identification of forces adversely affecting the process of development requires to be made for evolving criteria for identification of backward areas in the country. Studies by various Committees constituted by Planning Commission, Government of India have been made in this connection.

2. These Committees are :

(a) Study Group Constituted in the context of the formulation of the Draft Fourth Five Year Plan (1966-71) to identify areas with high density of population, low level of income, employment and living conditions etc. in the country through a set of indicators of regional development.

(b) The Pande Committee with the intention to ultimately suggest a strategy whereby regionally imbalances could be minimized or even eliminated by arranging establishment of industries of all sizes in selected backward areas or regions through financial and fiscal incentives.

(c) The Wanchoo Committee was the second working Group appointed by the National Development Council in 1986 to make a careful study of the issue of regional imbalance.

(d) Committee on Backward Areas under the Chairmanship of Prof. Sukhamoy Chakravorty in October 1972.

(e) National Committee on the Development of Backward Areas (N.C.D.B.A.) under the chairmanship of Shri B. Shivaraman was appointed by planning commission in November, 1978.

(f) Planning Commission appointed another committee on 6.2.1997 to evolve criteria for identification of 100 most backward poorest districts in the country. This committee was headed by Dr. E.A.S. Sarma.

The criteria recommended by these committees for identification of backward areas can be summarized as follows:

(i) Density of population per sq.km. of area.

(ii) Percentage of agricultural workers to total workers.

(iii) Percentage of literate population.

(iv) Percentage of school going children.

(v) Total per-capita income.

(vi) Per capita income from agriculture.

(vii) Sex ratio, industry and mining.

(viii) Availability of infrastrutural facilities.

(ix) Per capita consumption of electricity

(x) Chronically drought prone areas.

(xi) Chronically flood prone areas.

(xii) Length of surfaced roads per 100 sq. km. Of area.

(xiii) Public health care system.

(xiv) Safe drinking water facility. And

(xv) Poverty rates.

With a view to reduce regional imbalance and to bring equality in distribution of fruits of development a Group of Members of Planning Commission had submitted its report on 11th October 1996. This group recommended to evolve a built in system in planning system to ensure performance and accountability. It had further recommended that the plan assistance for basic minimum services should not have loan element in it. It had felt that the objective of the development planning should be raise commitment through greater participative character planning.

Strategies followed under backward area development

Addressing backwardness was primarily about encouraging industries and industrial infrastructure. Backwardness therefore was sought to address under economic intervention and it took sometimes before backwardness was identified under the broader definition to include political, social and ecological backwardness.

The main strategies followed were;

1. Industrial licencing policy

2. The growth pole strategy

3. Rural industrialisation under the cottage sector

4. Setting up industrial estate

NABARD

Nabard is set up as an apex development bank with a mandate for facilitating credit flow for promotion and development of agriculture, small scale industries, cottage and village industries, handicrafts and other rural crafts. It also has the mandate to support all other allied economic activities in rural areas, promote integrated and sustainable rural development and secure prosperity of rural areas.

The committee to review arrangements for institutional credit for agriculture and rural development (CRAFICARD), set up by the Reserve Bank of India (RBI) under the chairmanship of SHRI B. Sivaraman, conceived and recommended the establishment of the National Bank for Agriculture and Rural Development (NABARD). It was established on 12 July 1982 by a special act by the parliament and its main focus was to uplift rural India by increasing the credit flow for elevation of agriculture.

NABARD’s MicroFinance Vision

Empowerment of rural poor by improving their access to the formal credit system through various MF innovations in a cost effective and sustainable manner.

Mission

Promoting sustainable and equitable agriculture and rural development through effective credit support, related services, institution building and other innovative initiatives.

Objectives

- The national bank will be an apex organization in respect of all matters relating to policy, planning operational aspects in the field of credit for promotion of agriculture, small scale industries, cottage and village industries, handicrafts and other rural crafts and other allied economic activities in rural areas.
- The bank will also provide direct lending to any institution as may approved by the central government.
- The bank will have organic links with the Reserve Bank and maintain a close link within.
- The bamk will serve as a refinancing institution for institutional credit such as long-term, short-term for the promotion of activities in the rural areas.

Roles and Functions

- Credit functions
- Development and promotional functions
- Supervisory functions
- Institutional and capacity building
- Role in training

Credit functions

- Farming policy and gruidelines for rural financial institutions
- Proving credit facilities to issuing organizations
- Monitoring the flow of ground level rural credit

Development and Promotional functions

- Help cooperative banks and regional rural banks to prepare development actions plans for themselves
- Monitor implementation of development action plans of banks and fulfilment of obligations under MoUs.
- Provide financial support for the training institutes of cooperative banks

Supervisory Functions

- Undertakes inspection of Regional Rural Banks (RRBs) and cooperative banks(other than urban/primary cooperative banks) under the provisions of Banking Regulation Act, 1949.
- Undertakes inspection of State Cooperative Agriculture and Rural Development Banks (SCARDBs) and apex non-credit cooperative societies on a voluntary basis
- That’s help full for more development.

Institutional and Capacity building

- Help cooperative banks and RRbs to prepare development actions plans for themselves
- Monitor implementation of development action plans of banks and fulfllment of obligations under Moue.
- Provide financial assistance to cooperatives and RRBs for extablishment of technical, monitoring and evaluations cells.
- Provide organization development intervention (ODI) through reputed training institutes like Bankers Institute of Rural Development (BIRD), Lucknow, National Bank Staff College, Lucknow, College of Agriculture Banking, Pune etc.
- Provide financial support for the training institutes of cooperative banks
- Provide training for senior and middle level executives of commercial banks, RRBs and cooperative banks.

Role in Training

- Maintain expert staff to study all problems relating to agriculture and rural development and be available for consultation to te central government, the reserve bank, the state governments and the other institutions engaged in the field of rural development.
- Provide facilities for training, for dissemination of information and the promotion of research including the undertaking of studies, researches, techno-economic and other surveys in the field of rural banking, agriculture and rural development.
- May provide consultancy services in the field of agriculture and rural development.
- The role of training in nabard and the role played by it for capacity building in client institutions, partner agencies and other developmental agencies is important.

NCDBA


8
National Committee on the Development of Backward Areas
National Committee on the Development of Backward Areas (N.C.D.B.A.) under the chairmanship of Shri B. Shivaraman was appointed by planning commission in November, 1978, evolved an innovative method in identifying and classifying the backward areas in the country, i.e. instead of relying upon any indicators of development/backwardness or indexes there of (either sectoral or composite), it settled upon recommending the following six types of problem areas as backward:
Chronically drought-prone areas
Desert areas
Tribal areas
Hill areas
Chronically flood affected areas
Coastal areas affected by salinity
These six categories can be viewed as six types of fundamental backwardness. In this sense an area may suffer from the handicap of more than one type of fundamental backwardness.
Backward regional development plan
1/30/2016

9

Variables recommended by the committees for the Identification of BACKWARD regions

I. Density of population per sq.km. of area.
II. Percentage of agricultural workers to total workers.
III. Percentage of literate population.
IV. Percentage of school going children.
V. Total per-capita income.
VI. Per capita income from agriculture.
VII. Sex ratio, industry and mining.
VIII. Availability of infrastructural facilities.
IX. Per capita consumption of electricity
X. Chronically drought prone areas.
XI. Chronically flood prone areas.
XII. Length of surfaced roads per 100 sq. km. Of area.
XIII. Public health care system.
XIV. Safe drinking water facility.

11

Indices Method

- An index of development of each district was computed on the basis of the above six indicators taking the national average position as 100. The index of development of the district was then obtained by taking the arithmetic average for all indications.
- The districts with indices below 100 are treated as backward in this case. The results of this exercise as indicated below:

Values of Indices	No.of Districts
Less than 50	81
60 – 80	66
81 – 100	39
101 – 120	45
121+	75

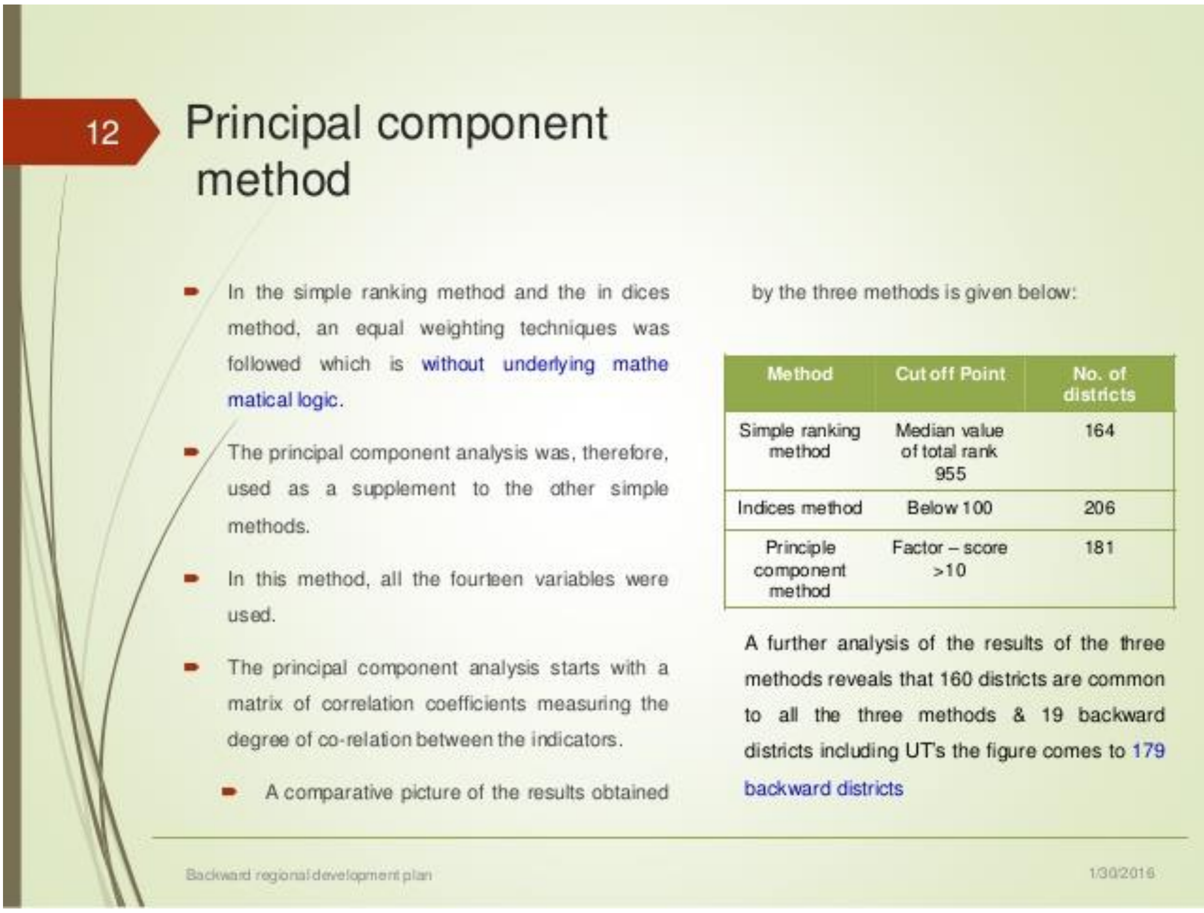
- ***206 districts get classified as backward***

Simple Ranking Method

- Each district was ranked as per the various indicators.
- The individual ranks were added to get a total rank for the district
- Taking the median value (955) as the cut-off point, all those districts which had a value below the median value were classified as backward.

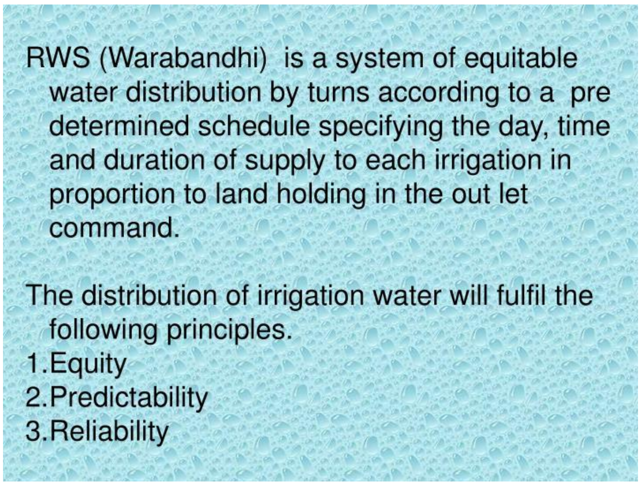
Total ranks	No. of districts
<400	8
401 – 650	59
651 – 955	97
956 – 1250	65
1251 – 1500+	97

- ***164 districts get classified as backward areas***



COMMAND AREA DEVELOPMENT AUTHORITY (CADA)

In pursuance of the polices of Government of India, with an objective to ensure rapid and optimum utilisation of Irrigation potential created under major and medium irrigation projects and to increase the agriculture production. The main objective of the CADA is to reduce the gap between potential area created and actual area utilised.



FUNDING PATTERN BY GOVERNMENT OF INDIA OR FUNCTIONS OF CADA

1. **CAD Establishment**:- Grant on matching basis. This includes expenditure on establishment of Command Area Development Authorities and expenditure on State Level Establishment. The total expenditure on the above component should be restricted to 20% of the expenditure on field channel, field drain, Warabandi and reclamation of water logged areas.

2. Surveys, Planning and Design:- Grant on matching basis. This includes expenditure on establishment cell for carrying out soil and Topographical surveys, expenditure on conducting surveys, expenditure on planning and design of CAD works and expenditure on supervision of OFD works.

3. Field Irrigation Channel:- Grant on matching basis. This includes expenditure on lined channel restricted to 20% of the total length of channel on outlet command basis and expenditures on control structures and unlined channels. The Government of India will pay Rs.3000/Ha. or 50% of the actual expenditure whichever is less.

4. Field Drain:- Grant on matching basis. This includes expenditure on earth work, road cutting and drop structures. The Government of India will pay Rs.500/ Ha. or 50% of the actual expenditure whichever is less.

5. Warabandi:- Grant on matching. This includes expenditure on construction of measuring devices in the field channel, expenditure on providing gates on out lets if required, expenditure on display board at outlet head, expenditure on wireless communication network and expenditure on necessary staff for formulation and implementation of Warabandi. The Government of India will pay Rs. 150/Ha. or half of the actual expenditure whichever is less.

6. Reclamation of Water Logged Areas:- Grant on matching basis. This includes expenditure on survey, planning, Design and Reclamation. The Government of India will pay Rs.6000/Ha. Or 50% of the actual expenditure whichever is less.

7. Crop Compensation for DFD Works:- Grant on matching basis. This includes 2/3 value of crops foregone for land development works in Rabi Season.

8. Adaptive Trial:- Grant on matching basis. This includes expenditure on items as included in the guidelines on adoptive trials. The proposal of adoptive trials should have an approval from CAD wing of the Ministry of Water Resources.

9. Demonstration and Training: - Grant on matching basis.

10. Orientation Training for senior level officers sponsored by Central Government: - 100% expenditure will be borne by Government of India.

11. Subsidy for small and marginal farmers on IRDP Pattern:- Grant on matching basis. Subsidy admissible on sprinklers, Drip, land leveling/ shaping and development of ground water.

12. Management Subsidy for farmers association:- Functional grant of Rs.500/Ha. (Rs. 225 from Central, Rs.225 from State and Rs.50 from Farmers). The amount to be paid where farmer's associations are formed registered and actually engaged in distribution of water.

13. Evaluation Studies:- Grant on matching basis. However, for the studies sponsored by Government of India, Central Government will pay full cost on the studies and for the studies sponsored by the State Government the grant will be on matching basis.

14. Equipment and Machinery:- Loan on matching basis.

15. Equity support to land development corporations and Farmers service societies:- Loan on matching basis.

16. Special Loan Account:- Loan on matching basis for financing ineligible farmers for execution of OFD works.

Centre State Resource Transfer

The constitution of India provides for decentralization of revenue and expenditure at two levels of the Federation, the Union and the States. It specifies the revenue raising power and areas of expenditure broadly on considerations of efficiency based on comparative advantage of the governments at the two levels. An imbalance arises in this process since the Union (Central) government is assigned most of revenue raising power while the State governments are expected to carry out most of the development and welfare oriented expenditure. Hence, the constitution provides for devolution of part of the union revenue to the states.

Fiscal imbalance at different level of government is a common feature in many federal countries1, the lower level of governments are generally confronted with inadequate resources for meeting their expenditure needs. In the Indian case, the Centre has the authority2 to decide on broad based and buoyant taxes such as income tax, corporation tax and excise duties while the states have the authority on items like sales tax, stamp duties, entertainment tax, and land revenue most of which are not as buoyant.

In terms of expenditure decentralization, the central government is entrusted with the responsibilities of provision of nationally important areas like defence, foreign affairs, foreign trade and exchange management, money and banking, cross- state transport and communication. The state governments are given the responsibility of facilitating agriculture and industry, providing social sector services such as health and education, police protection, state roads and infrastructure. The third level local self-governments– municipalities and panchayats3 -provide public utility services such as water supply and sanitation, local roads, electricity etc. In addition, both central and state governments are responsible for provisioning services in the concurrent list. The resultant vertical fiscal gap, which also occurs in India, necessitates intergovernmental revenue transfer. The observed imbalance is not entirely due to revenue instruments and functions assigned in the constitution, but it is partly an outcome of fiscal choices exercised by different levels of government in practice.

Revenue decentralization results in the sharing of revenue raising powers and the use of instruments, especially various types of taxes, by different levels of government. The Indian government has been undertaking tax reforms on continuous basis aimed at increasing the tax base of both direct and indirect taxes, reduction in tax evasion and a resultant increase in the revenues of both state and central governments. The Central government has greater revenue raising powers in India, keeping in view considerations such as administrative efficiency in collecting taxes with a nationwide base. However, expenditure decentralization gives freedom to states to spend according to state specific needs given the huge diversity in preferences of citizens in different states and in levels of their economic and social development.

The possibility of fiscal imbalance is well recognised in the Indian Constitution which provides for an institutional mechanism to tackle the imbalance in the form of the Finance Commission (FC) which makes recommendations on the magnitude of transfer of resources from the Centre to the states for a period of 5 years. The Constitution stipulates the primary terms of reference (ToR) of the FCs: (a) distribution of net proceeds of Union divisible taxes between Union and States and among states inter-se, (article 280) (b) grants in aid from Union revenue to be given to states. A third ToR, has been added later after the 73rd and 74th Constitutional Amendments in

1992 which relates to recommendation of measures needed to augment the consolidated funds of States to supplement resources for rural and urban local governments in the States based on recommendations of the State Finance Commissions. Besides, the President may include additional ToR for the FC on any other matter in the interest of sound finance of the governments. These additional matters are normally context specific and vary from one FC to another. While the tax devolution and grants recommended by FC forms bulk of Central transfers to states, it may also be noted that transfers from Union to States are not limited to FC recommendations. Other channels include specific purpose transfers by Central Ministries and grants transferred earlier by the erstwhile Planning Commission.

The FC has been recommending transfers under two heads for a period of 5 years. First, it recommends tax devolutions which are general purpose transfer without being earmarked for expenditure in any specific area and are specified as a percentage of sharable tax revenue. Second, it states the principles governing grants in aid and recommends amount of specific purpose grants. The Centre has generally accepted the recommendations of the FCs4.

It may be noted that the FC interacts with Central Ministries, state governments, industrial and business bodies, academicians and several other stakeholders during the course of its deliberations. Individual states and several central ministries provide their opinion and suggestions to the Finance Commission. In making transfers, the FCs consider issues related to vertical equity (deciding about the share of all states in the revenue collected by centre) and horizontal equity (allocation among states their share of central revenue). The horizontal transfers, distribution of funds meant for states, depends on criteria adopted by specific FCs and has varied over time. These have been discussed in more details in later sections of the report.

This study relates to some issues in resource sharing between Centre and states and allocation across states. The specific Terms of Reference of the study are:

1. Review of the approach and recommendations of the various Finance Commissions with respect to vertical and horizontal devolution of resources

2. Describe the trends and changing patterns in vertical devolution by focusing on the revenue and expenditure of the Union and the States

3. Summarize the trends and patterns in horizontal fiscal devolutions across states along with states' own effort to raise resources and maintain fiscal discipline

4. Analysis of major factors affecting the horizontal and vertical devolution trends

5. Understand the current status on key fiscal parameters related to the resource allocation between Centre and states and further across states

6. Highlight the major emerging concerns in resource devolution with specific reference to merits and demerits of criteria used for vertical and horizontal balances

In keeping with the overall objective of the report to examine alternative approaches to understand vertical fiscal imbalances and degree of equalization in the light of current status and recent trends the report is organised as follows. The rest of Chapter 1 provides a review of the recommendations by various FCs, especially the last four with respect to vertical and horizontal devolution in India. Chapters 2 and 3 discuss trends and changing patterns in vertical devolution and horizontal devolution respectively. Chapter 4 provides an analysis of factors affecting the vertical and horizontal devolution. Chapter 5 describes the current status on key fiscal parameters related to resource allocation. Chapter 6 relates to some emerging concerns about vertical and horizontal devolution. Chapter 7 provides summary and recommendations.

Besides analysis of issues and trends in revenue and expenditure of centre and states, we highlight some specific focus points of investigation in this study as follows:

1) Population stabilization: The recommendations of the FCs for horizontal distribution across states generally use the size of the population in deciding the magnitude of transfers to states. The ToR of the 15th FC mandates the Commission to use 2011 population for this purpose. At the same time, the ToR 4(ii) refers to a measurable performance based incentives for States in respect of efforts and progress made in moving towards replacement rate of population growth. In Chapter 6, we propose an indicator of population stabilisation to devise a performance based incentive structure for the states. Such indicators could either be used as a component of considerations of horizontal

equity to offset any disadvantage faced by states which have moved towards population stabilization or could be part of the transfer through a grant mechanism.

2) Environment: The 14 FC brought in dense forest cover as a criteria determining horizontal devolution. A re-look is taken at the formulation, in keeping with the TOR of the 15 FC. The TOR mentions in 3(ii) resource demands for climate change, among other factors and in ToR 4(iii), sustainable development goals. In this context, data based analysis is done to examine the implications for states under varying scenarios, both for inclusion in the formula or as a conditional grant. There is a need to expand the coverage beyond dense cover in order to address the intent to compensate for fiscal disability while performance based indicators can incentivize states and contribute towards the international environmental commitments

3) Inequality: The rising inter-state inequality in recent decades might require some consideration of non-linearity in the income distance formula to give more weight to states at the bottom end of the income scale. One way of doing it is to introduce an inequality aversion parameter. We show alternative weights for horizontal devolution based on linear and non-linear considerations.

4) Social sector expenditure: Another questions we examine is whether social sector expenditure is responsive to increase in both NSDP and general purpose devolution. Our findings show that specific central transfers may not be required to meet the social sector expenditures. Specific transfers can be designed for meeting specific national objectives other than those covered under existing social sector expenditure or where there are major inter-state implications.

As stated above, origin of vertical imbalance lies in assignment of revenue generating powers and functional responsibilities to Union and States on the basis of comparative advantage. The Union government generally collects 60-68% of combined revenue receipts due to buoyant and broad based taxes assigned to it and the states together collect the balance. The revenue expenditure of the states, on the other hand, has been in the range 50-60% of the combined revenue expenditure. The approaches followed by various FCs to bridge the above imbalance have been evolutionary drawing upon those of the previous ones.

Different FCs have approached the issue of providing vertical balance taking into considerations various factors that include assessment of fiscal balances of Centre and States, merits of devolution and transfer, possible laxity on gap filling approach, types of expenditure, constitutional amendments carried out by the Parliament, and the overall need to maintain stability in the fiscal system. We discuss below under a few heads how these issues have been approached by the FCs, particularly the recent ones.

Assessment of Need

The 1st FC set the tone of general procedure of seeking information and views of Centre and the states, industry bodies, academics and other stakeholders and this procedure has been followed by successive commissions. It assessed the needs of the states and Centre's capacity to accommodate assistance even as it meets its own need. In this process, the Commission's assessment regarding priority for expenditure need of the Centre and States finally gets reflected in its recommendations. While states needed more resources for meeting their expanded responsibilities for welfare and development of the citizens, the Centre was responsible for services important at the national level. Thus, ability of the Centre to assist was an important factor to be considered.

The 6th FC (award period 1976-79) observation that "when the emphasis is on social justice, there is no escape from the realignment of resources in favour of the states because services and programmes which are at the core of a more equitable social order come within the purview of the states in the Constitution.

The 14 FC stated that two main issues to assessing the vertical imbalance were "a realistic estimation of revenue accruing solely to the Union as well as its expenditure needs and the resources required to meet its obligations under the Constitution" and "a realistic assessment of the revenue capacities of the States and the expenditures required to meet obligations mandated under the Constitution." It mentioned that the States had argued that "functional overlap has led to an increase in the Union Government's expenditure and a concomitant reduction in the revenues available for vertical devolution."

Given that the need for vertical transfers arise from the asymmetric assignment of revenue collection and expenditure responsibility, Finance Commissions have used their own normative assessment of vertical imbalance. Exact quantification of the imbalance is not only difficult, there has been no attempt to do so. In the final analysis, magnitude of vertical imbalance depends on subjective judgement of the Commission and the feedback it receives from the stakeholders. Nevertheless, successive commissions have attempted to strike a balance between the demands of Centre and States with a great degree of success

Tax Effort and Buoyancy

The 3rd FC noted increasing dependence of states on Centre and laxity in raising resources on the belief that gaps will be filled by the Centre. The 9th FC advocated for phasing out of revenue deficit and tried to promote fiscal responsibility for both Centre and States. In this context, we may note the view of Reddy and Reddy (2019) who state that while norms proposed by the FCs are not so difficult to impose on the States, there is no agency to impose such norms on the Centre.

Several FCs have noted the differential tax buoyancy of the Centre and the states. This was an important consideration for the 12th FC which argued for increasing the share of states without directly stating what portion of the change may be attributed to this factor. Srivastava (2010) estimated that the Central tax buoyancy was 1.559 compared to 1.212 for combined own taxes of the states during the 2004-05 to 2008-09. He justified a 1.5 percentage point increase in the share of the states by the 12th FC on the basis of the product of GDP growth rate and difference in central tax buoyancy over that of states.

The 13th FC felt that “vertical devolution must be informed by the revenue-raising capacity of the Centre and states as well as emerging pressures on their expenditure commitments.” The 13th FC also observed that the “buoyancy of central taxes at 1.49 was higher than states (1.18) during the period 2000-08 and that there are reasons to believe that the Centre’s revenue buoyancy will continue to remain higher than that of States”. In addition, the 13th FC noted that “the share of states after transfers will be constant only if their share in central taxes is increased by a margin by which the buoyancy of central taxes exceeds the buoyancy of combined tax revenue.” The 13th FC recommended 32% as the share of tax devolution as against 30.5% by 12th FC.

Planning for Tribal Development

The government of India has included 427 communities the scheduled tibes, given in the Eighth Schedule of the Constitution of India. These are the first people who are living in areas of isolation and have been exploited throughout history. Their cultural ethos (language, religion, faith, traditions, and customs) are different from the other sections of society.

The most important tribes of India are Gonds, the Bhills, Santhals, Minas, Mundas, Oraons, Hos, the Khonds, Kols etc. The smallest tribal community is the Jarawa and Sentales of the Andaman and Nicobar islands.

Economically most of the 90% of ST population are cultivators, remaining 10% engaged in food gathering, hunting, fishing etc.

Programmes for the Development of Scheduled Tribes

Centrally Sponsored Programme

1. Post-matric scholarships

2. Girl’s hostels

3. Pre-examination training

4. Tribal development blocks

5. Co-operation

6. Research, training and special projects

7. Improvement of working and living conditions of those engaged in unhygienic occupation

8. Coaching-cum-Guidance centres and

9. Grants for All-India non-official organisations doing welfare work among the Scheduled Tribes and Scheduled Castes.

Programmes in the State Sector

1. Pre-matric scholarships and stipends

2. Exemption from tuition and examination fee

3. Provision of education equipments

4. Provision of mid-day meal

5. Setting up of Ashram schools

6. Grants for the constitution and maintenance of hostel and school buildings

7. Provision of land and irrigation

8. Supply of bullocks, agricultural implements, seeds and fertilizers

9. Development of cottage industries

10. Development of communications

11. Cooperation

12. Colonisation of shifting cultivation

13. Supply of poultry, sheep, pigs, goats etc

14. Medical facilities

15. Drinking water supply schemes

16. Provision of house sites and houses

17. Legal aid and

18. Grants-in-aid to non-official organisations working at state level

Areas of Development

Education, employment, agriculture, co-operation, communications, land distribution and land alienation, industrialization, tribal development agency projects and other schemes of development (housing, drinking water, sanitary and medical facilities).

Integrated Development of Tribal Areas

The strategy in the integrated development is;

- Sectoral-cum-temporal integration
- Spatial integration
- Integration between the development of different people and groups of people and
- Integration of the conflicting goals of economic, social and environmental development

To take account of these factors, the Fifth Five Year Plan introduced the concept of sub-plan. The features of the sub-plan are;

1. It caters to the special needs of the designated areas
2. It employs a total (as against sectoral) approach to problems of the area
3. It accepts the uniqueness of the problem of each viable area and community and formulation programmes with reference to it.

4. It resources will be the sum total of resources of the State Plan for the sub-plan area, the Central sectoral outlays, special central assistance and institutional finance.

The structure of planning proposed in a tribal sub-plan is a three tier structure involving micro, meso and macro levels of planning.

Micro region: will be conterminous with a development block,

Meso region: will be contiguous in the development block involving 3 to 5 lakh people having comparable levels of socio-economic development and

Macro region: will be formed of bigger tribal belts for planning of tribal development.

The functions of micro, meso and macro levels have been visualised as follows;

Micro Level

- Education up to higher secondary level
- Elementary health services
- Agricultural extension
- Supply of agricultural inputs
- Minor irrigation schemes
- Elementary veterinary services
- Multi-purpose co-operatives
- Local panchayat
- Household industry and
- Village approach roads

Meso Level

- Higher general education
- Technical and vocational training
- Manpower planning and employment services
- Advanced health services with referral facilities
- Agricultural research extension
- Seed multiplication farms
- Soil conservation and land management
- Apex integrated credit marketing structure with adequate storage and buffer stock facilities

- Development of road and communication infrastructure connecting market with state/district highways
- Distribution of network of power, rural electrification, etc
- Local resource based industries with adequate market linkages
- Forest management
- Horticulture development
- Complementary development programme in hinterland and bigger industries
- Medium irrigation projects and
- Research statistics and evaluation

Macro Level

- Co-ordination of activities in tribal development projects
- Agricultural research on regional basis
- Direction of the various sectoral programmes in the project
- Major irrigation projects
- River valley development
- Industrial and mineral development of the region to ensure complementarity of the project level development programme
- Marketing support projects and evaluation

Directions of Regional Planning

Multi-Level Planning

A planning process can be either single-level or multi-level. In the single level planning, the formulation of plans and decision making are done at the national level: the process is centralised and the lower territorial level come into the picture only at the implementation stage. In the multi-level planning process, the territory is divided into small territorial units, their number depending upon the size of the country, the administrative, the geographical and cultural settings.

The concept of multi-level regional planning may be defined as "planning for a variety of regions which together form a system and subordinate system". In multi-level planning, the various levels of planning provide bases for higher-level planning. Similarly, the higher-level regional plans provide the basic fame-work for the lower-level plans. In such plans, there is direct participation of the people in the planning process. In multi-level planning, every region/unit constitutes a system and hence, the planning process become more effective.

The various levels of multi-level planning in India are: 1. Centre, 2. States, 3. Districts, 4. Blocks, and 5. Villages. Amendment of the Constitution in 1922, the task of plan formulation was basically carried out by the centre and the state government.

1. The First Level Planning (Centre)

In the context of multi-level planning in India, the first is constituted by the central government.

The head of the government is the President (who acts under the advice of the Council of Ministers headed by the Prime Minister)

v

The business of the government is transacted through a three tier set up;

a. Top Layer (The Prime Minister, Cabinet Minister, Minister of State, Deputy Ministers and Partliamentary Secretaries constitute the first layer)

b. Second Layer (constituted by the secretariat organisation of the ministry with the secretary as head).

c. Third Layer (The executive organisation of the department, comprising ministry, forms the third layer.)

The actual task of plan formulation is done by the Planning Commission at the Centre which has the Prime Minister as Chairman, and some members of the Cabinet and three or four full-time professional experts as members.

2. The Second Level or State Level Planning

The second level is constituted by the states.

v

The executive head of a state is the Governor (who is appointed by the President of India on the advice of the Prime Minister of India)

V

They are exercised through the Council of Ministers headed by the Chief Minister

V

The Council of Ministers works through the secretariat that is headed by a secretary

V

The main functions of the secretariat relate to assisting the ministers in policy making and in discharging their legislative responsibilities, co-ordination of policies and programmes, supervision and control of expenditure, efficient running of administration, etc.

V

The Council of Ministers has a number of departments functioning under it which can be broadly classified in to three categories;

a. Development departments (agriculture, animal husbandry, rural development, public works and industries)

b. Social welfare department (education, health and social welfare)

c. Coordinating departments (home, revenue, finance and planning departments)

The Indian Union is a federation of States, the framers of the Constitution have provided for division of powers between the Centre and the States, so that the chances of confrontation between the two levels of government may be minimised. The division of powers between the Centre and the State is according to the seventh schedule and Article 246 of the Constitution. Article 246 gives three lists of subjects;

i. Union List (containing 97 items)

ii. State List (containing 66 items) and

iii. Concurrent List (containing 49 items)

The central government has the power to legislate on the subjects given in the Union List while State governments have powers to legislate on the subjects given in the State List. As far as subjects contained in the Concurrent List are concerned, Central and State governments have powers to legislate on them. But in case of conflicts, the Central law prevails.

Organised activities such as industries, minerals, railways and telecommunications come under the Centre's responsibilities, while agriculture, collection of land revenue, irrigation, power, public health, education, local self-government and other several important subjects come under the control of states.

3. The Third Level or District Level Planning

There are generally three levels below the state level, district, block and village.

The district administration is under the overall charge of the collector, also known as deputy commissioner in some states.

V

District collector is responsible for maintaining law and order in the district.

V

District collector works as a coordinator among various departments (agriculture, minor, medium, and major irrigation, animal husbandry, dairying, forestry, industries, public works, cooperation, education, medical and public health, social welfare and panchayat raj etc.

V

Besides there are autonomous agencies with offices in the district such as electricity, state transport and special agencies set up for special programmes such as SFDA, DPAP etc.

V

The collector generally works as a co-ordinator, his or her role is not defined properly and differs in different states. This introduces complexities and difficulties in the task of administration.

4. The Fourth Level or Block Level Planning

Each district was divided into a number of block comprised about 100 villages with a population of about 60,000. The programme visulaised (i) mobilisation of local resources, and (ii) participation of people in the decision making and implementation of the development scheme. Hence a new unit of planning was created at block level under the leadership of a block development officer and a team of various specialists and village level workers. The general supervision of blocks was made by the Block Samitis under the chairmanship of the Block-Pramukh and elected representatives.

The set up basically consists of a block development officer who is assisted by five extension officers, one each in the field of agriculture, animal husbandry, cooperation, panchayats, and rural industries. The other staff consists of an overseer, a social education organiser, a progress assistant and village level workers. In the block, there are also veterinary stockmen, a medical officer, a sanitary inspector, and a lady health visitor; some of them with necessary supporting staff. In some states, there is also an extension officer for programmes relating to women and children.

The block level planning focuses more on local problems. At the micro level it becomes easier to identify target groups which enables the optimum utilisation of local resources. The entire strategy of the block-level planning is based on employment planning, growth-centre planning and credit planning. The following activities are planned at the block level;

i. Agriculture and allied activities
ii. Minor irrigation
iii. Soil conservation and water management
iv. Animal husbandry and poultry
v. Fisheries
vi. Forestry
vii. Processing of agricultural products
viii. Organising input supply, credit and marketing
ix. Cottage and small industries
x. Local infrastructure and
xi. Social services
    a) Drinking water supplyhealth and nutrition
    b) Education
    c) Housing
    d) Sanitation
    e) Local transport
    f) Welfare programmes and
    g) Training of local youth and updating of skills of local population

5. The Panchayat Level Planning

A Panchayat is an elected body at village level. The Panchayat Raj System involves a three tier structure

(i) village level

(ii) block level

(iii) district level

The first tier at the village level is commonly known as Gram Panchayat or Gram Sabha, the second tier at the block level as Panchayat Samiti, and the third tier at district level as Zila Parishad. The the Constitution Amendment Act 1992, the Panchayat also call Gram Sabha, has been authorised to look after the preparation and implementation of plans for economic development and social justice on tan illustrative list of 29 subjects. The respective states have been given discretionary powers to prescribe powers and fnctions of the Gram Sabha to act as an institution of self government. It has also been advised to constitute a District Planning Committee to consolidate the plans prepared by the Panchayats and Municipalities, and prepare an integrated development plan for the district as a whole. It has also been directed to constitute a State Finance Commission to review every five years, the financial position of Panchayats, to make recommendations about the principle governing the distribution of revenue between the state and the Panchayats, and determination of the grants-in-aid to the Panchayats from the Consolidated Funds of the State.

The implementation of the plan at the Panchayat-level is the responsibility of the Village Development Officer and the secretary, and is supervised by the Gram Sabha which is headed by the Gram Pradhan. Under the existing provisions, funds for the Gram-Sabha (village panchayat), are directly being allocated from the centre to execute rural development programmes like Integrated Rural Development and Jawahar Rojgar Yojna.

The Panchayat has also been entrusted with the responsibility for the

(i) promotion of agriculture,

(ii) rural industries,

(iii) provision of medical facilities,

(iv) maternity, women and child welfare,

(v) Maintaining common grazing grounds,

(vi) village roads, tanks, wells,

(vii) sanitation and execution of other socio-economic development programmes. The Panchayats have also been authorised to identify the beneficiaries in anti-poverty programmes.

Recent Policies in India

1. The National Urbanisation Policy

It gives first priority to urban housing in which both public and private sectors have been invited to contribute. Here, public sector responsibilities have been limited with the improvement of slums, and providing cheap housing to weaker sections of the urban society.

The policy puts greater emphasis on the improvement of slums rather than on their demolition or removal. For this purpose, slum beautification programme have been launched in several cities to provide the basic civic amenities to the slum dwellers.

The urbanisation policy also puts greater emphasis on the development of infrastructural facilities in small and medium sized towns and cities.

Under the policy, incentives have been given to industrial houses and entrepreneurs to establish new industries in small, medium and intermediate towns. Such facilities include tax concessions, land for factory at a cheaper rate, infrastructural facilities free of cost or at concessional rates.

Objectives of the national urbanisation policy: balanced urban growth, growth of urban centres, dispersed location of towns, provision of qualitative infrastructure and civic amenities, development of small and medium towns, development of suburbs, and rural-urban fringe, improvement of slums rather than their demolition of removal, land ceiling and restriction on building plot size, co-ordination in civil amenities, provision of cheap and suitable mass housing, policy to check air, water, noise pollution and preparation of master plan for all categories of towns and cities.

2. The New Industrial Policy

The main objectives of the Industrial Policy of the Government are (i) to maintain a sustained growth in productivity;(ii) to enhance gainful employment;(iii) to achieve optimal utilisation of human resources; (iv) to attain international competitiveness; and (v) to transform India into a major partner and player in the global arena. To achieve these objectives, the Policy focus is on deregulating Indian industry; allowing freedom and flexibility to the industry in responding to market forces; and providing a policy regime that facilitates and fosters growth. Economic reforms initiated since 1991 envisages a significantly bigger role for private initiatives.

Features of New Industrial Policy

- **De-reservation of Public sector:** Sectors that were earlier exclusively reserved for public sector were reduced. However, pre-eminent place of public sector in 5 core areas like arms and ammunition, atomic energy, mineral oils, rail transport and mining was continued.
    - **Presently, only two sectors- Atomic Energy -** reserved exclusively for the public sector.
- **De-licensing:** Abolition of Industrial Licensing for all projects except for a short list of industries.
    - There are only 4 industries at present related to security, strategic and environmental concerns, where an industrial license is currently required-
        - Electronic aerospace and defence equipment
        - Specified hazardous chemicals
        - Industrial explosives
        - Cigars and cigarettes of tobacco and manufactured tobacco substitutes
- **Disinvestment of Public Sector:** Government stakes in Public Sector Enterprises were reduced to enhance their efficiency and competitiveness.
- **Liberalisation of Foreign Investment:** This was the first Industrial policy in which foreign companies were allowed to have majority stake in India. In 47 high priority industries, up to 51% FDI was allowed. For export trading houses, FDI up to 74% was allowed.
    - Today, there are numerous sectors in the economy where government allows 100% FDI.
- **Foreign Technology Agreement:** Automatic approvals for technology related agreements.

- **MRTP Act** was amended to remove the threshold limits of assets in respect of MRTP companies and dominant undertakings. MRTP Act was replaced by the Competition Act 2002.

3. New Educational Policy

- The **National Education Policy 2020** (**NEP 2020**), which was approved by the Union Cabinet of India on 29 July 2020, outlines the vision of India's new education system. The new policy replaces the previous National Policy on Education, 1986. The policy is a comprehensive framework for elementary education to higher education as well as vocational training in both rural and urban India. The policy aims to transform India's education system by 2021.
- Shortly after the release of the policy, the government clarified that no one will be forced to study any particular language and that the medium of instruction will not be shifted from English to any regional language. The language policy in NEP is a broad guideline and advisory in nature; and it is up to the states, institutions, and schools to decide on the implementation. Education in India is a Concurrent List subject.
- Himachal Pradesh has become the first state to implement New Education Policy 2020. The national educational policy should be implemented in all schools over India by 2022.

4. Policies for women and child development

The **Ministry of Women and Child Development**, a branch of the Government of India, is an apex body for formulation and administration of the rules and regulations and laws relating to women and child development in India. The current minister for the Ministry of Women and Child Development is Smriti Irani having held the portfolio since 31 May 2019.

For holistic into development of the child, the Ministry has been implementing the world's largest outreach programme of Integrated Child Development Services (ICDS) providing a package of services comprising supplementary nutrition, immunization, health check-up and referral services, pre-school non-formal education. There is effective coordination and monitoring of various sectoral programmes. Most of the programmes of the Ministry are run through non-governmental organisations. Efforts are made to have more effective involvement of NGOs. The major policy initiatives undertaken by the Ministry in into the recent past include universalisation of ICDS and Kishori Shakti Yojana, launching a nutrition programme for adolescent girls, establishment of the Commission for protection of Child Rights and enactment of Protection of Women from Domestic Violence Act.

The ministry also gives the annual Stree Shakti Puraskar in six categories, namely Devi Ahilya Bai Holkar, Kannagi Award, Mata Jijabai Award, Rani Gaidinliu Zeliang Award, Rani Lakshmi Bai Award and Rani Rudramma Devi (for both men & women).

5. National Transport Policy

The Ministry of Transport issued the policy which is known as National Transport Policy to safeguard the rights of Transportation in India. Road Transport is vital to economic development, trade and social integration, which rely on the conveyance of both people and goods .To conduct road transport faster with integration of economy, National Transport Policy is initiated.

Objectives:

- Road Infrastructure
- Public transport and requisite quality of service
- Quality and Productivity of goods transportation
- Ensure availability of adequate trained manpower
- Road Safety
- Accident Trauma Care
- Emphasis on energy efficiency, environmental conservation and social impact
- Increasing use of modern technology and research in road transport development
- Strengthen database collection and management system

6. New Agricultural Policy: The Three Agri Reforms

In September 2020, three agri reform bills—The Farmers 'Produce Trade and Commerce (Promotion and Facilitation), the Farmers' (Empowerment and Protection) Price Assurance and Farm Services Agreement and the Essential Commodities (Amendment) Act—were introduced by the government as a step to raise farmers' incomes in the coming years.

The government said that the bills would transform the agriculture sector. It would also raise the farmers' income, the Centre said. Further, the government had also promised to double farmers' income by 2022 and the Centre said that the Bills will make the farmer independent of government-controlled markets and fetch them a better price for their produce.

The Bills propose to create a system in which the farmers and traders can sell their purchase outside the Mandis. Further, it also encourages intra-state trade and this proposes to reduce the cost of transportation.

Further, the Bill formulates a framework on the agreements that enable farmers to engage with agri-business companies, retailers, exporters for service and sale of products while giving the farmer access to modern technology.

It also provides benefits for the small and marginal farmers with less than five hectares of land. The Bill also will remove items such as cereals and pulses from the list of essential commodities and attract FDI. To create an ecosystem where farmers and traders enjoy the freedom to sell and purchase farm produce outside registered 'mandis' under state APMCs.

* To promote barrier-free inter-state and intra-state trade of farmers' produce
* To reduce marketing/transportation costs and help farmers in getting better prices
*To provide a facilitative framework for electronic trading. Farmers can enter into a contract with agribusiness firms, processors, wholesalers, exporters or large retailers for the sale of future farming produce at a pre-agreed price.
* Marginal and small farmers, with land less than five hectares, to gain via aggregation and contract (Marginal and small farmers account for 86% of total farmers in India)
* To transfer the risk of market unpredictability from farmers to sponsors
*To enable farmers to access modern tech and get better inputs
*To reduce the cost of marketing and boost farmer's income.

* Farmers can engage in direct marketing by eliminating intermediaries for full price realisation.

It aims at opening up agricultural sale and marketing outside the notified Agricultural Produce Market Committee or APMC mandis for farmers. It removes barriers to inter-State trade and provides a framework for electronic trading of agricultural produce.

It also prohibits state governments from collecting the market fee, cess or levy for trade outside the APMC markets.

This Bill relates to contract farming, providing a framework on trade agreements for the sale and purchase of farm produce.

Further, the Bill formulates a framework on the agreements that enable farmers to engage with agri-business companies, retailers, exporters for service and sale of products while giving the farmer access to modern technology.

It also provides benefits for the small and marginal farmers with less than five hectares of land. The Bill also will remove items such as cereals and pulses from the list of essential commodities and attract FDI. The Centre had promised to double farmers' income by 2022. It says the Bills will make farmers independent of government-controlled markets and fetch them a better price for their produce.

7. Government Policies and projects

Schemes

- Pradhan Mantri Jan Dhan Yojana (PMJDY) ...
- From Jan Dhan to Jan Suraksha. ...
- Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) ...
- Pradhan Mantri Suraksha Bima Yojana (PMSBY) ...
- Atal Pension Yojana (APY) ...
- Pradhan Mantri Mudra Yojana. ...
- Stand Up India Scheme. ...
- Pradhan Mantri Vaya Vandana Yojana.
- Iron Ore Policy, 2021
- Bharat Griha Raksha Policy: The Home Insurance Policy
- Gujarat Solar Power Policy, 2021
- Standard Travel Insurance Policy
- National Policy on Skill Development (The Pradhan Mantri Kaushal Vikas Yojana)

8. Social Welfare Policy

Social welfare policy is defined as acts, laws and rules that help to improve the lives of people in the community. An example of a social welfare policy is one that ensures better healthcare for all.

NITI Aayog

The **NITI Aayog** (Hindi for *Policy Commission*) (abbreviation for **National Institution for Transforming India**) is a policy think tank of the Government of India, established with the aim to achieve sustainable development goals with cooperative federalism by fostering the involvement of State Governments of India in the economic policy-making process using a bottom-up approach. Its initiatives include "15-year road map", "7-year vision, strategy, and action plan", AMRUT(**Atal Mission for Rejuvenation and Urban Transformation (AMRUT)** was launched by Prime Minister of India Narendra Modi in June 2015 with the focus to establish infrastructure that could ensure adequate robust sewage networks and water supply for urban transformation by implementing urban revival projects.), Digital India (**Digital India** is a campaign launched by the Government of India in order to ensure the Government's services are made available to citizens electronically by improved online infrastructure and by increasing Internet connectivity or making the country digitally empowered in the field of technology.), Atal Innovation Mission, Medical Education Reform, agriculture reforms (Model Land Leasing Law, Reforms of the Agricultural Produce Marketing Committee Act, Agricultural Marketing and Farmer Friendly Reforms Index for ranking states), Indices Measuring States' Performance in Health, Education and Water Management, Sub-Group of Chief Ministers on Rationalization of Centrally Sponsored Schemes, Sub-Group of Chief Ministers on Swachh Bharat Abhiyan, Sub-Group of Chief Ministers on Skill Development, Task Forces on Agriculture and up of Poverty, and Transforming India Lecture Series.

It was established in 2015, by the NDA government, to replace the Planning Commission which followed a top-down model. The NITI Aayog council comprises all the state Chief Ministers, along with the Chief Ministers of Delhi and Puducherry, the Lieutenant Governor of the Andaman and Nicobar Islands, and a vice-chairman nominated by the Prime Minister. In addition, temporary members are selected from leading universities and research institutions. These members include a chief executive officer, four ex-official members, and two part-time members.

History

29 May 2014, Independent Evaluation Office submitted an assessment report to Prime Minister Narendra Modi with the recommendation to replace the Planning Commission with a "control commission." On 13 August 2014, the Union Cabinet scrapped the Planning Commission, to be replaced with a diluted version of the National Advisory Council (NAC) of India. On 1 January 2015, a Cabinet resolution was passed to replace the Planning Commission with the newly formed NITI Aayog (National Institution for Transforming India). Union Government of India announced the formation of NITI Aayog on 1 January 2015. The first meeting of NITI Aayog was chaired by Narendra Modi on 8 February 2015.

Finance Minister Arun Jaitley made the following observation on the necessity of creating NITI Aayog, "The 65-year-old Planning Commission had become a redundant organisation. It was relevant in a command economy structure, but not any longer. India is a diversified country and its states are in various phases of economic development along with their own strengths and weaknesses. In this context, a 'one size fits all' approach to economic planning is obsolete. It cannot make India competitive in today's global economy." It is a reformation scheme of the day-to-day lifestyles of the people of India.

NITI Lectures

NITI Aayog has started a new initiative on the advice of Prime Minister Narendra Modi called *NITI Lectures: Transforming India*. The aim of this initiative is to invite globally reputed policy makers, experts, administrators to India to share their knowledge, expertise, experience in policy making and good governance with Indian counterparts. This initiative will be a series of lectures started with first lecture delivered by Deputy Prime Minister of Singapore Mr. Tharman Shanmugaratnam. He delivered lecture on subject called "India and the Global Economy" at Vigyan Bhavan, New Delhi. The Prime Minister spoke about the idea behind this lecture series and stated that his vision for India is rapid transformation, not gradual evolution.

On 31 August 2017, NITI Aayog developed a State Statistics Handbook that consolidates key statistics across sectors for every Indian State/UT. While the State data on crucial indicators is currently fragmented across different sources, this handbook provides a one-stop database of important State statistics.

Initiatives

NITI Aayog has taken initiative on Blockchain usages in E-governance and has conceptualized the tech stack as 'IndiaChain'. IndiaChain is the name given to Niti Aayog's ambitious project to develop a nation-wide blockchain network.

Artificial intelligence, machine learning, Internet of Things, blockchain and big data hold potential to take India to new heights

— *Prime Minister Narendra Modi, at the 2016 World Economic Forum.*

The vision is to link IndiaChain with IndiaStack, the digital infrastructure that forms the backbone of the Aadhar project. The NITI Aayog initiative on the blockchain system will enforce contracts quicker, prevent fraudulent transactions, and help farmers through the efficient disbursement of subsidies. This project is the first step to a larger system of record keeping and public good disbursement.

NITI Aayog is developing a job portal to connect employers with workers who have returned to their home states due to nationwide lockdown.

Other initiatives

Student Entrepreneurship Programme

The Student Entrepreneurship Programme (SEP) 1.0 was launched in 2019 while the SEP 2.0 launched in 2020 aimed to convert the grassroot innovations of Atal Tinkering Lab (ATL) students into end products. The SEP 2.0 which was launched in 2020 provided the opportunity to the students of ATL to work with Dell volunteers and to get mentor support, end user feedback, manufacturing support and launch support of their products in the market. The scheme would be launched and run by "Atal Innovation Mission" (AIM) under NITI Aayog in association with Dell technologies.

Central to State Resource Transfer

The Finance Commission is a constitutional body formed every five years to give suggestions on centre-state financial relations. Each Finance Commission is required to make recommendations on: (i) sharing of central taxes with states, (ii) distribution of central grants to states, (iii) measures to improve the finances of states to supplement the resources of panchayats and municipalities, and (iv) any other matter referred to it.

Composition of transfers: The central taxes devolved to states are untied funds, and states can spend them according to their discretion. Over the years, tax devolved to states has constituted over 80% of the total central transfers to states. The centre also provides grants to

states and local bodies which must be used for specified purposes. These grants have ranged between 12% to 19% of the total transfers.
Over the years the core mandate of the Commission has remained unchanged, though it has been given the additional responsibility of examining various issues. For instance, the 12th Finance Commission evaluated the fiscal position of states and offered relief to those that enacted their Fiscal Responsibility and Budget Management laws. The 13th and the 14th Finance Commissionassessed the impact of GST on the economy. The 13th Finance Commission also incentivised states to increase forest cover by providing additional grants.

15th Finance Commission: The 15th Finance Commission constituted in November 2017 will recommend central transfers to states. It has also been mandated to: (i) review the impact of the 14th Finance Commission recommendations on the fiscal position of the centre; (ii) review the debt level of the centre and states, and recommend a roadmap; (iii) study the impact of GST on the economy; and (iv) recommend performance-based incentives for states based on their efforts to control population, promote ease of doing business, and control expenditure on populist measures, among others.

Why is there a need for a Finance Commission?

The Indian federal system allows for the division of power and responsibilities between the centre and states. Correspondingly, the taxation powers are also broadly divided between the centre and states. State legislatures may devolve some of their taxation powers to local bodies.

The centre collects majority of the tax revenue as it enjoys scale economies in the collection of certain taxes. States have the responsibility of delivering public goods in their areas due to their proximity to local issues and needs.

Sometimes, this leads to states incurring expenditures higher than the revenue generated by them. Further, due to vast regional disparities some states are unable to raise adequate resources as compared to others. To address these imbalances, the Finance Commission recommends the extent of central funds to be shared with states. Prior to 2000, only revenue income tax and union excise duty on certain goods was shared by the centre with states. A Constitution amendment in 2000 allowed for all central taxes to be shared with states.

Several other federal countries, such as Pakistan, Malaysia, and Australia have similar bodies which recommend the manner in which central funds will be shared with states.

Tax devolution to states

The 14th Finance Commission considerably increased the devolution of taxes from the centre to states from 32% to 42%. The Commission had recommended that tax devolution should be the primary source of transfer of funds to states. This would increase the flow of unconditional transfers and give states more flexibility in their spending.

The share in central taxes is distributed among states based on a formula. Previous Finance Commissions have considered various factors to determine the criteria such as the population and income needs of states, their area and infrastructure, etc. Further, the weightage assigned to each criterion has varied with each Finance Commission.

The criteria used by the 11th to 14th Finance Commissions are given in Table 2, along with the weight assigned to them. .

- **Population** is an indicator of the expenditure needs of a state. Over the years, Finance Commissions have used population data of the 1971 Census. The 14th Finance

Commission used the 2011 population data, in addition to the 1971 data. The 15th Finance Commission has been mandated to use data from the 2011 Census.

- **Area** is used as a criterion as a state with larger area has to incur additional administrative costs to deliver services.
- **Income distance** is the difference between the per capita income of a state with the average per capita income of all states. States with lower per capita income may be given a higher share to maintain equity among states.
- **Forest cover** indicates that states with large forest covers bear the cost of not having area available for other economic activities. Therefore, the rationale is that these states may be given a higher share.