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# STANDING COMMITTEE ON FINANCE
# (2015-16)

## SIXTEENTH LOK SABHA

## MINISTRY OF PLANNING

## PLANNING PROCESS - A REVIEW

## TWENTIETH REPORT

**LOK SABHA SECRETARIAT**
**NEW DELHI**

**September, 2015, Bhadrapada, 1937 (Saka)**

# TWENTIETH REPORT

STANDING COMMITTEE ON FINANCE
(2015-2016)

(SIXTEENTH LOK SABHA)

MINISTRY OF PLANNING

PLANNING PROCESS - A REVIEW

Presented to Speaker on *07 October, 2015*

Presented to Lok Sabha on __ August, 2015

Laid in Rajya Sabha on __ August, 2015

LOK SABHA SECRETARIAT
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4. Shri Tenzin Gyaltsen - Committee Officer

## INTRODUCTION

I, the Chairperson of the Standing Committee on Finance, having been authorised by the Committee, present this Twentieth report on the subject "Planning Process- A Review".

2. The Committee heard the views of the representatives of the Ministry of Planning (NITI Aayog) at their Sittings held on 20 November, 2014 and 12 February, 2015 .

3. The Committee heard the views of experts *viz.* Professor Arun Maira, Dr. N.C. Saxena, Former Secretary, Planning Commission (Erstwhile), Ms. Sudha Pillai, Former Secretary, Planning Commission (Erstwhile) and Dr. Shankar Acharya, Honorary Professor, ICRETR at their Sittings held on 2 and 28 January, 2015.

4. The Committee also heard the views of experts *viz.* Dr. M. Govind Rao, Emeritus Professor, NIPFP, Professor Y. K Alagh, Chancellor, Central University of Gujarat, Professor D'Souza Errol, Faculty (IIM-A) and Dr. Rathin Roy, Director, NIPFP at their Sittings held on 5 and 18 February, 2015.

5. The Committee at their Sitting held on 10 September, 2015 considered and adopted the draft report and authorised the Chairperson to finalise the same and present it to the Speaker/Parliament.

6. The Committee wish to express their thanks to the officials of the Ministry of Planning (NITI Aayog) and various aforementioned experts for appearing before the Committee and furnishing the requisite material and information which were desired in connection with the examination of the subject.

7. The Committee would also like to place on record their special thanks to the various State Governments for furnishing the requisite material and information which were desired in connection with the examination of the subject.

8. For facility of reference, the observations/recommendations of the Committee have been printed in thick type in the body of the Report.

**NEW DELHI**
**21 September, 2015**
**30 Bhadrapada, 1937 (Saka)**

**DR. M. VEERAPPA MOILY,**
**Chairperson,**
**Standing Committee on Finance**

## PART - I

## CHAPTER - I

**History, background and functions of Planning Commission:**

**(i) HISTORY:**

1.1 The foundations of future India were not laid in one day. Planning for India was a system to realise the aspirations and dreams of the future. The cherished dream about future India had evolved through a long-drawn process of the entire period of the freedom struggle. These goals and aspirations got their proper places and due importance in the reports of the National Planning Committee (NPC), in the deliberations of the Constituent Assembly and finally in the Constitution of India. From the margins of the evolving nationalist movement as well as taking ideas from the Soviet and the French ways of planning, the NPC began the objectives of planning in India. The process of planning in India tried to adjust all the aspirations of nationalist movement as well as of the upcoming generations. The social and economic philosophy evolved over decades, the Constituent Assembly decided that to guide this 'revolution of burgeoning expectations' into constructive channels, India should make concentrated efforts through diligently planned large-scale social and economic model and the application of scientific and technological advancements, to bring about a swift and appreciable rise in the standard of living of the people, with the maximum measure of social justice attainable. On the whole it was a call for India becoming a Welfare state.

1.2 By the end of 1930s, the idea of planning had already inculcated into the domain of intellectual and political discussion in India. The National Planning Committee presented its Report (1949) and there was a inclusion of the need for 'Economic and Social Planning' in the Constitution and the stage was set for the formal launching of planning in the country. The Constitution has under Part-IV mentioned the Directive Principles of State Policy. These inform the policies of various wings of the Government and act as an overriding philosophical basis. While these are not enforceable in the same way the Fundamental Rights mentioned in the Constitution, they indicate the overall policies which should govern various laws. It is, therefore, important that these are fully kept in mind when the policies for development of the economy are made. Some of the landmark articles, leading the way forward for the description and comprehensible future roadmap of Planning Commission are as follows:

***Article 38 of the Constitution mentions as follows: "38. State to secure a social order for the promotion of welfare of the people.***

(a) The State shall strive to promote the welfare of the people by securing and protecting as effectively as it may a social order in which justice, social, economic and political, shall inform all the institutions of the national life.

(b) The State shall, in particular, strive to minimize the inequalities in income, and endeavour to eliminate inequalities in status, facilities and opportunities, not only amongst individuals but also amongst groups of people residing in different areas or engaged in different vocations."

**(ii) BACKGROUND:**

1.3 The national government makes policies to minimize inequalities not only amongst individuals or groups of people living in States but also amongst these people residing in different areas of the country. The Government resolution announcing the setting up of the Planning Commission (March 1950) started with a reference to the constitutional provisions bearing on the socio-economic objectives of the Constitution. The Fundamental Rights and the Directive Principles of the Constitution assure every citizen, among other things, adequate means of livelihood, opportunities for employment and a socioeconomic order based on justice and equality. ***Article 47*** of the Constitution mentions that it is the duty of the State to raise the level of nutrition, standards of living of its people and improve public health. Specifically, under ***Article 45*** of the Constitution mentions ". Provision for early childhood care and education to children below the age of six years. – The State shall endeavor to provide early childhood care and education for all children until they complete the age of six years." Given the need for employment, the Directive Principles have made a special mention of this. ***Article 41*** mentions Right to work as an important principle which should govern the policies of the States. It states ". Right to work, to education and to public assistance in certain cases. – The State shall, within the limits of its economic capacity and development, make effective provision for securing the right to work, to education and to public assistance in cases of unemployment, old age, sickness and disablement, and in other cases of undeserved want."

1.4 It is, thus, clear that the provisions of the Constitution specifically mandate the governments to ensure provision of certain basic services including employment, education, health and raise the level of welfare. On the whole it was a call for India becoming a Welfare state. This important deliberation does not only call for the need of planning for the nation but it also outlines the broader objectives of planning process, too. These are the major cornerstones of planning and its objectives enshrined in the Constitution that will lead to Union–State friction in coming decades. We can see the methodology of planning taking a decisive turn in the era of the economic reforms since early 1990s. In other words, the objective was co-operative federalism. Finally, a broad consensus evolved through crystallization of the process of planning on major objectives and roadmap of planning in India which are as follows:

(a) Economic development through Sustained increase in the levels of production in the economy was the foremost objectives of planning in India which continues till date and will be same in future, without any doubt in it.

(b) Poverty Alleviation its consequent was the most important issue which polarised the members of the NPC as well as the Constituent Assembly that a highly emphatic decision in favour of a planned economy evolved even before independence. Several programmes were launched in India directing the cause of poverty alleviation by all the Governments till date and the process continues even today with more seriousness (the National Rural Employment Guarantee Programme—NREGP—being launched by the Government in 2006 by passing an Act in the Parliament is a living example of such a commitment).

(c) Employment Generation and Providing employment to the poor has been the best way of economics to deal with poverty. Thus, this objective of planning in India comes naturally once it committed itself to alleviate poverty. Employment generation in India has been a, part and parcel of the objective of poverty alleviation in India. many programmes and schemes have been launched by the Governments from time to time in this direction.

(d) There were definite economic inequalities in India at various levels. Economic planning as a tool of checking all kinds of economic disparities and inequalities was an accepted idea by the time India started planning. To achieve this objective of planning the Governments have enacted highly innovative economic policies at times even inviting a clash with regard to the Fundamental Rights Constitution.

(e) There was an ardent desire among the nationalists, capitalists and the NPC for making the economy self-reliant in every economic aspect. Self-reliance was defined not as autarchy but as an effort to strike against a subordinate position in the world economy. As former Prime Minister Jawaharlal Nehru asserted: self-reliance, "does not exclude international trade, which should be encouraged but with a view to avoid economic imperialism." India is still defining self-reliance in every field of economy as well as facing the realities of higher interdependence in the globalising world post-World Trade Organisation (WTO).

(f) Modernising the traditional economy was set as a topmost objective of the planning. Specially, the agriculture sector of the economy demanded an immediate inclusion of modern methods and techniques, etc. Similarly, in education too, India required to go for inclusion of modern education system. India did not let go of opportunity of accepting the importance of modern science and technology. The economy had selected industry as its priority area and it was essential to adopt the changing dimensions of science and technology.

1.5 On the issue of replacement and reform process of the Planning Commission, the Secretary, Ministry of Planning stated that:

> "The issue of replacing the Commission, I just want to make one distinction. The Planning Commission is an institution which performs certain functions which are essential, whether it is that of planning for the economy or setting a GDP target, plan scheme monitoring and implementation – all of which, in my view, are encapsulated in the Objectives of the Plan which is higher growth, more inclusiveness and sustainability. Each one of them has a huge repercussion and a background. Reform in the Planning Commission is an ongoing exercise. It has been going on internally as well as in the public domain over the last so many years. The Cabinet, in its meeting on August 13, 2014 decided to replace the Resolution of 1950 by a new Resolution that has delegated the task to the hon. Prime Minister for detailing the Resolution and the content thereof. The hon. Prime Minister desired that extensive consultations should take place on this issue since it involved a very time-honoured institution that has done commendable work. Consultations have been on different areas. We have undertaken a consultation with experts and former members of the

Commission. The hon. Prime Minister has invited comments on the web site called “mygov.in” in which, I am happy to say, more than 4000 suggestions and comments have been posted on what the task the new Planning Commission should do; what should be its name, etc. So, this is also in line with the existing Planning Commission’s social media outreach. We have a very impressive following on both the Face Book and the Twitter. It is just indicative of the interest particularly the younger generation and the digitally-aware generation takes in developmental issues. It is extremely heartening. The consultations are continuing. On a daily basis, we receive comments both in the media as well as on paper on the functions that this new Commission should perform. The hon. Members have also expressed their opinions on what this new institution should be doing. The first consensus appears to be that there should be a very deep and extensive and inclusive engagement with the States; this new institution should endeavour to reach out to the States in a structured manner. The second consensus appears to be that it should continue to be the Think Tank for the Government; should be able to perform inter-Ministerial and inter-sectoral coordination among the Central Ministries. On the allocation functions, there are divergences. I am as yet to receive a consensus view on what allocation function should be there. It is intrinsically linked to the entire issue of Plan and Non-Plan which has been one of the recommendations of the Rangarajan Committee on Efficient Management of Public Expenditure. This report is with the Finance Ministry. The last Planning Commission discussed this issue at great length and felt that it would involve a large range of structural and institutional changes if this distinction is done away with. It is part of every State Government Budget; every Central Government Ministry’s Budget and in terms of what way the Government expenditure is managed. This Plan and Non-Plan has a particular implication. However, it was felt that it is necessary to look at Government resources as a whole which will include, of course, Plan Expenditure as well as subsidies. So, the matter is still receiving a lot of deliberations and considerations. We expect that this new institution will also take forward the discussion. Suffice it to say that the new institution is supposed to reflect the changing character of the Indian economy recognising that resources are not only with the public sector but also with a very dynamic private sector; the consultations and the outreach should be deepened and should be more extensive. On the Plan cycles, again, the comments that have been received are that while the Five Year Plan has a certain justification, there is need for longer-term perspective planning. But, at the same time, there is also to be a recognition of the fast-changing, rapid-changing economy both at the national level as well as the global level. These are very huge challenges and as yet it is clear that some institution will need to perform this role. In terms of continuity nothing has stopped. There is no break in our day to day functions. Despite very small team, we are still dealing with the same number of issues and tasks which the earlier Commission was dealing with."

1.6 The major objectives of planning in India are not only broad but open-ended and diverse. It means, after the completion of one plan the objectives for the new plan are automatically set. Coming to the composition of the objectives, we may confidently conclude that all the aspirations of the Preamble, the Directive Principles of the State Policy, the Fundamental Duties and the Fundamental Rights have got their due place and weightage. All the aspirations of the nationalists and the freedom fighters look resonating in the very soul of the planning system of our country.

1.7 The direction of planning in India was so broad a term that gradually it encompassed the entire sphere of administration *.* The objectives of planning tremendously evolved and got cemented together once the functions of the Planning Commission were announced by the Government in 1950 itself. The notable features included in the Constitutional provisions which deal with the objectives and outline of planning in the country are:

(a) ‘Economic and social planning’ was kept as concurrent subject. Therefore, while framing the ‘Union’, ‘State’ and ‘Concurrent’ list, allocating subjects and other provisions, the Constitution vests power in the Union to ensure co-ordinated development in essential fields of activity while preserving the initiative and authority of the states in the spheres allotted to them.

(b) The Constitution includes provisions for promoting co-operation on a voluntary basis between the Union and the states and among states and groups of states in investigation of matters of common interest, in legislative procedures and in administration, thus avoiding the rigidities inherent in federal constitutions ***(Articles 249, 252, 257, 258, 258-A, and 312)***

(c) The Constitution also sets out in broad outline the pattern of the welfare state envisaged and the fundamental principles on which it should rest.

**(iii) FUNCTIONS:**

1.8 The Commission (Yojana Aayog) broadly concerned itself with technical questions relating to planning and the planning organization itself. The policy and details of specific schemes included in the Plan are matters to be dealt with by the Central Administrative Ministries and State Governments. However, the Planning Commission, being an advisory body, was consulted by the Central Ministries on all important economic and development issues. This enabled the Government to have expert advice and ensure that the decisions taken from time to time are in conformity with the strategy and policies indicated in the Plan. From a highly centralised planning system, the Indian economy is gradually moving towards indicative planning where Planning Commission concerned itself with the building of a long term strategic vision of the future and decide on priorities of nation. It worked out sectoral targets and provides promotional stimulus to the economy to grow in the desired direction. Planning Commission played an integrative role in the development of a holistic approach to the policy formulation in critical areas of human and economic development. In the social sector, schemes which require coordination and synthesis like rural health, drinking water, rural energy needs, literacy and environment protection have yet to be subjected to coordinated policy formulation. It has led to multiplicity of agencies. An integrated approach can lead to better results at much lower costs. The emphasis of the Commission was on maximising the output by using our limited resources optimally. Instead of looking for mere increase in the plan outlays, the effort is to look for increases in the efficiency of utilisation of the allocations being made. With the emergence of severe constraints on available budgetary resources, the resource allocation system between the States and Ministries of the Central Government is under strain. This required the Planning Commission to play a mediatory and facilitating role, keeping in view the best interest of all concerned. It had to ensure smooth management of the change and helped in creating a culture of high productivity and efficiency in the Government. The key to efficient utilisation of resources lies in the creation of appropriate self-managed organisations at all levels. In this area, Planning Commission attempted to play a systems change role and provide consultancy within the Government for developing better systems. In order to spread the gains of experience more widely, Planning Commission also played an information dissemination role.

1.9 Questioned on the scheme of things, as to whether the Planning Process should occupy a pre-dominant place in NITI Aayog or whether this function could be performed by a new system altogether, Prof. Errol D' Souza, Faculty, Department of Economics, Indian Institute of Management, Ahmedabad, while deposing before the Committee submitted that:

"Given the slide in the social indicators, the way forward for India, as I see it, is really developing its human capital. That means, basic health, education etc. have to be given more emphasis than earlier. This is something where States will deliver. This is not something where the Centre can deliver. If the States have to deliver, then, it requires a more decentralised system. There is no doubt about it. So, the NITI Aayog would have to play a role in which it is actually able to put out policy documents with achievable goals by the States. With that, it should be able to correlate what is the fund that should be made available to make those goals possible. Then, it should have, as you have very well said, a clarified approach as to how those funds are going to be distributed across the States. You can change the allocation rules, modify the Gadgil or whatever formulae you have but you should change it in such a way that it is rule-based and transparent so that States do not start fighting about it. So, you will have to take that through consultation with the States. It is an exercise which needs to be done. But, if the NITI Aayog starts doing that, you can start thinking that it is nothing but a revised version of the Planning Commission. It is not really any way different. What I have seen from the public documents, I am sure they are more looking at it as an advisory role. I do not see an advisory group. Even in a market-driven economy, an advisory group is not in a position to actually deliver all these socio-political goals. I do not see that as feasible and this is actually a time in India, as we all know, where in the next 20 years we are going to have the youngest population in the world. Giving them the capabilities which then they can actually extract from a market economy is really the role for any Government in power. It is a missed opportunity if we do not do that. We missed many opportunities in the past because of exogenous events. I think we are in a position now to plan these out and we should not be failing on these counts."

1.10 While deposing before the Committee, the Secretary, Ministry of Planning on the issue of the process of Mid-Term Appraisal (w.r.t. Twelfth Five Year Plan) and achieving GDP growth targets, stated before the Committee that:

"An issue was raised about how the GDP targets are set. The targets are set in the Approach Paper to the Plan which is prepared about a year or two before the regular Plan document is detailed. It is approved by the Cabinet. The Twelfth Five Year Plan Approach Paper was also approved by the National Development Council which means that it has the broad endorsement of the State Governments as well as the Central Government. The 8 per cent target which was fixed was in the background of what has been called in the Plan as scenario-one which is a scenario which expects a certain policy action and certain other

> Government actions and the conditions in the economy which will lead to 8 per cent growth. Again, I would not be saying anything highly learned by saying that we do not today have the condition to achieve 8 per cent growth. We need to move on a large number of areas. I am expecting that we will be able to pinpoint those areas in the official analysis that is currently under way."

1.11 Planning Commission was therefore set up with a definite purpose of planning, nobody knew that it would extend its functions over the entire spectrum of administration in the country. It was described as the 'economic Cabinet of the country as a whole' sometimes even encroaching upon the constitutional body like the finance commission and not being accountable to the parliament to an extent. Through time it built up a heavy bureaucratic organisation which led even former Prime Minister Nehru himself to observe— "The Commission which was a small body of serious thinkers has turned into a government department complete with a crowd of secretaries, directors and of course a big building." For formal planning to begin, for the whole economy at national level, there was a need for a permanent expert body which could take over the responsibility of the whole gamut of planning i.e. plan formation, resource aspects, implementation and review—as planning is a technical matter. Thus, in March 1950 the Planning Commission (PC) was set up by the Government by Cabinet Resolution (without resorting to legislation).The 1950 resolution setting up the Planning Commission outlined its functions as to:

- To Make an assessment of the material, capital and human resources of the country, including technical personnel, and investigate the possibilities of augmenting such of these resources as are found to be deficient in relation to the nation's requirement;
- To Formulate a Plan for the most effective and balanced utilisation of country's resources;
- On a determination of priorities, define the stages in which the Plan should be carried out and propose the allocation of resources for the due completion of each stage;
- To Indicate the factors which are tending to retard economic development, and determine the conditions which, in view of the current social and political situation, should be established for the successful execution of the Plan;
- To Determine the nature of the machinery which will be necessary for securing the successful implementation of each stage of the Plan in all its aspects;

- To Appraise from time to time the progress achieved in the execution of each stage of the Plan and recommend the adjustments of policy and measures that such appraisal may show to be necessary; and
- To Make such interim or ancillary recommendations as appear to it to be appropriate either for facilitating the discharge of the duties assigned to it, or on a consideration of prevailing economic conditions, current policies, measures and development programmes or on an examination of such specific problems as may be referred to it for advice by Central or State Governments.

**Government of India's Resolution setting up the Planning Commission GOVERNMENT OF INDIA CABINET SECRETARIAT` RESOLUTION (Planning) New Delhi, the 15th March, 1950**

1.12 No.1-P(C)/50 - For some years past, the people of India have been conscious of the importance of planned development as a means of raising the country's standard of living. This consciousness found expression in the appointment in 1938 of the National Planning Committee by the Indian National Congress. The work of the Committee was, however, interrupted by political and other developments in the beginning of the war, although much useful material has since been published. In 1944, the Government of India established a separate Department of Planning and Development and at its instance, the Central as well as the Provincial Governments prepared a number of development schemes to be undertaken after the war. Problems of planning were reviewed towards the end of 1949 by the Advisory Planning Board which was appointed by the Interim Government of India, an important recommendation of the Board being the appointment of a Planning Commission to devote continuous attention to the whole field of development, so far as the Central Government was concerned with it.

1.13 During the last three years, the Centre as well as the States have initiated schemes of development, but experience has shown that progress has been hampered by the absence of adequate co-ordination and of sufficiently precise information about the availability of resources. With the integration of the former Indian States with the rest of country and the emergence of new geographical and economic facts, a fresh assessment of the financial and other resources and of the essential conditions of progress had now become necessary. Moreover, inflationary pressures inherited from the war, balance of payments difficulties, the influx into India of several million persons displaced from their homes and occupations, deficiencies in the country's food supply aggravated by partition and a succession of indifferent harvests, and the dislocation of supplies of certain essential raw materials have placed the economy under a severe strain. The need for comprehensive planning based on a careful appraisal of resource and on an objective analysis of all the relevant economic factors has become imperative. These purposes can best be achieved through an organization free from the burden of the day-to-day administration, but in constant touch with the Government at the highest policy level. Accordingly, as announced by the Honourable Finance Minister in his Budget speech on the 28th February, 1950, the Government of India decided to set up a Planning Commission.

1.14 The Constitution of India has guaranteed certain Fundamental Rights to the citizens of India and enunciates certain Directive Principles of State Policy, in particular, that the State shall strive to promote the welfare of the people by securing and protecting as effectively as it may a social order in which justice, social economic and political, shall inform all the institutions of the national life and shall direct its policy towards securing, among other things:-

- that the citizens, men and women, equally, have the right to an adequate means of livelihood;
- that the ownership and control of the material resources of the community are so distributed as best to subserve the common good; and
- that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment.

1.15 Having regard to these rights and in furtherance of these principles as well as of the declared objective of the Government to promote a rapid rise in the standard of living of the people by efficient exploitation of the resources of the country, increasing production, and offering opportunities to all for employment in the service of the community.

The Planning Commission will:-

- make an assessment of the material, capital and human resources of the country, including technical personnel, and investigate the possibilities of augmenting such of these resources as are found to be deficient in relation to the nation's requirements;

- formulate a Plan for the most effective and balanced utilisation of the country's resources;
- on a determination of priorities, define the stages in which the Plan should be carried out and propose the allocation of resources for the due completion of each stage;
- indicate the factors which are tending to retard economic development, and determine the conditions which, in view of the current social and political situation, should be established for the successful execution of the Plan:
- determine the nature of the machinery which will be necessary for securing the successful implementation of each stage of the Plan in all its aspects;
- appraise from time to time the progress achieved in the execution of each stage of the Plan and recommend the adjustments of policy and measures that such appraisal may show to be necessary; and
- make such interim or ancillary recommendations as appear to it to be appropriate either for facilitating the discharge of the duties assigned to it, or on a consideration of the prevailing economic conditions, current policies, measures and development programmes; or on an examination of such specific problem as may be referred to it for advice by Central or State Governments.

1.16 The Planning Commission will be composed of the following:

**Chairman : Shri Jawaharlal Nehru**

**Deputy Chairman : Shri Gulzarilal Nanda**

**Members : Shri V.T. Krishnamachari , Shri Chintaman Deshmukh, Shri G.L. Mehta, Shri R.K. Patil Secretary , Shri N.R. Pillai**

**Deputy Secretary : Shri Tarlok Singh**

1.17 The Planning Commission will make recommendations to the Cabinet. In framing its recommendations, the Commission will act in close understanding and consultation with the Ministries of the Central Government and the Governments of the States. The responsibility for taking and implementing decisions will rest with the Central and the State Governments. The Government of India feel confident that the States will give the fullest measure of help to the Commission, so as to ensure the maximum coordination in policy and unity in effort.

1.18 The work of the Planning Commission will affect decisively the future welfare of the people in every sphere of national life. Its success will depend on the extent to which it enlists the association and cooperation of the people at all levels. The Government of India, therefore, earnestly hope that in carrying out its task the Commission will receive the maximum support and goodwill from all interests and in particular, from industry and labour. The headquarters of the Commission will be at New Delhi.

1.19 While deposing before the Committee, Prof. Errol D'Souza, Faculty, Department of Economics, Indian Institute of Management, Ahmedabad, gave his view on the perceived difference between the erstwhile Planning Commission and NITI Aayog. In this regard he stated:

> "Planning Commission was actually moving towards indicative planning trying to plan for a market economy. I think it has very adequately stated its objective in that fashion if you look at the Eleventh Plan and the Approach to the Twelfth Plan as well. I think the only difference that I can see is the NITI Aayog now becomes an organisation which does not deal with funds. It basically becomes an advisory sort of a group which does not allocate plan funds like the Planning Commission was doing. I think if you take away the Centrally-sponsored Schemes, it is just an advisory role. The Centrally-sponsored Schemes were creating a lot of heart-ache at the level of the States because they were accepting funds as it was a good money. Then, they found that they had to put in a matching grant which they were not able to do. Then, they were not able to deliver. It is just a big waste of money. If you take it that way, by and large, the Planning Commission was playing a large advisory role as well. It was collating information across the States. It is supposed that the NITI Aayog will also be doing it. Then, it will tell the States that these are best practices which are available; these are programmes which are helpful; they should consider doing it. If the NITI Aayog is not going to be the fund decider for funding, then, it will go back to the Ministry. If it has to go back to the Ministry, then, each State has to do bilateral bargaining with many Ministries like Health Ministry or whatever Ministry that you want funds from. I think that can create a different type of an issue which will be non-solvable in many cases. It is easier to have a Centralised system. Or, you must have a Council of Ministers. It basically says that these are the programmes which it is funding. Then, States basically apply on the basis of the parameters."

1.20 Elaborating further, the witness added:

"Under the Planning Commission, division took place on the basis of the modified Gadgil and other formulae. You have to devise some means like that which seem to be transparent over which the States do not fight. Otherwise, it is going to be discriminatory. If every time a State is going to ask for funds - Every State has its own programme - it is going to be very difficult to negotiate between the States. If the NITI Aayog is now going to play that role, then the Ministry has to play another role. If the Ministry has to play that role, is the expertise available at the level of the Ministry? I do not think it is so. I am saying this from my experience of having interacted with two or three Ministries on other reasons. The Ministries have very good bureaucrats with them. But you require technocrats as well. Typically, in our system, a bureaucrat is available for two or three years. Then he is shunted out elsewhere. So, the person who accepted the role gets changed."

**(v) <u>Different Phases of Five year plans:</u>**

**The Five-Year Plans**

1.21 Planned economic development in India began in 1951 with the inception of First Five Year Plan, theoretical efforts had begun much earlier, even prior to the independence. Setting up of National Planning Committee by Indian National Congress in 1938, The Bombay Plan & Gandhian Plan in 1944, Peoples Plan in 1945 (by post war reconstruction Committee of Indian Trade Union), Sarvodaya Plan in 1950 by Jaiprakash Narayan were steps in this direction. After independence, India launched its First FYP in 1951, under socialist influence of first Prime Minister Jawaharlal Nehru. The process began with setting up of Planning Commission in March 1950 in pursuance of declared objectives of the Government to promote a rapid rise in the standard of living of the people by efficient exploitation of the resources of the country, increasing production and offering opportunities to all for employment in the service of the community. The Planning Commission was charged with the responsibility of making assessment of all resources of the country, augmenting deficient resources, formulating plans for the most effective and balanced utilisation of resources and determining priorities. Indian planning is an open process. Much of the controversy and the debates that accompany the preparation of the plans are public. The initial aggregate calculations and assumptions are either explicitly stated or readily deducible, and the makers of the plans are not only sensitive but responsive to criticism and suggestions from a wide variety of national and international sources. From original formulation through successive modifications to parliamentary presentation, plan making in India has evolved as a responsive democratic political process and the culmination of the same in the final document is an impressive manifestation of the workings of an open society. But by its very nature it also generated many problems from the point of view of mapping an optimal strategy for economic development. The first Five-year Plan was launched in 1951 and two subsequent five-year plans were formulated till 1965, when there was a break because of the Indo-Pakistan Conflict. Two successive years of drought, devaluation of the currency, a general rise in prices and erosion of resources disrupted the planning process and after three Annual Plans between 1966 and 1969, the fourth Five-year plan was started in 1969. The Eighth Plan could not take off in 1990 due to the fast changing political situation at the Centre and the years 1990-91 and 1991-92 were treated as Annual Plans. The Eighth Plan was finally launched in 1992 after the initiation of structural adjustment policies. For the first eight Plans the emphasis was on a growing public sector with massive investments in basic and heavy industries, but since the launch of the Ninth Plan in 1997, the emphasis on the public sector has become less pronounced and the current thinking on planning in the country, in general, is that it should increasingly be of an indicative nature.

**<u>Current Plan (12th Plan)</u>**

1.22 The theme of the Approach Paper to the Twelfth Five year Plan is ***"faster, sustainable and more inclusive growth".*** The NDC approved the 'Approach Paper' on August 20, 2011. The Approach Paper lays down the major targets of the Plan, the key challenges in meeting them, and the broad approach that must be followed to achieve the stated objectives which are summed-up as follows :

- Growth rate of 9 per cent is targeted for the Plan. However, in view of the uncertainties in the global economy and the challenges in the domestic economy, the Approach Paper indicates that it could be achieved only if some difficult decisions are taken.

- It emphasizes the need to intensify efforts to have 4 per cent average growth in agriculture sector during the Plan period; with foodgrains growing at about 2 percent per year and nonfood grains (notably, horticulture, livestock, dairying, poultry and fisheries) growing at 5 to 6 per cent.

- The higher growth in agriculture would not only provide broad based income benefits to the rural population but also help restrain inflationary pressure, which could arise if high levels of growth are attempted without corresponding growth in domestic food production capabilities.

- It proposes that the major flagship programmes which were instrumental for promoting inclusiveness in the Eleventh Plan should continue in the Twelfth Plan – there is a need to focus on issues of implementation and governance to improve their effectiveness.

- The Plan indicates that the energy needs of rapid growth will pose a major challenge since these requirements have to be met in an environment where domestic energy prices are constrained and world energy prices are high and likely to rise further.

- For the GDP to grow at 9 per cent, commercial energy supplies will have to grow at a rate between 6.5 and 7 per cent per year. Since India's domestic energy supplies are limited, dependence upon imports will increase. Import dependence in the case of petroleum has always been high and is projected to be 80 per cent in the Twelfth Plan.

- Even in the case of coal, import dependence is projected to increase as the growth of thermal generation will require coal supplies which cannot be fully met from domestic mines.

- It suggests the need to take steps to reduce energy intensity of production processes, increase domestic energy supply as quickly as possible and ensure rational energy pricing that will help achieve both objectives viz. reduced energy intensity of production process and enhance domestic energy supply, even though it may seem difficult to attempt.

- It draws attention to evolving a holistic **water** management policy aiming at more efficient conservation of water and also in water use efficiency particularly in the field of agriculture.

- It argues that a new legislation for **land acquisition** is necessary, which strikes an appropriate balance between the need for fair compensation to those whose land is acquired and whose livelihood is disrupted, and the need to ensure that land acquisition does not become an impossible impediment to meeting our needs for infrastructure development, industrial expansion and urbanisation.

- It maintains that **health, education** and **skill development** will continue to be focus areas in the Twelfth Plan and that there is a need to ensure adequate resources to these sectors –***'universal healthcare'*** proposed by it, emphatically. Simultaneously, it also points to the need to ensure maximum efficiency in terms of outcomes for the resources allocated to these sectors. The need to harness ***private investment*** in these sectors has also been emphasised by the approach.

- It takes cognizance of the fact that achieving 9 percent growth will require large **investments** in infrastructure sector development – notes greater momentum to public investment and Public Private Partnerships (PPPs) in infrastructure sector needs to be imparted so that present infrastructure shortages can be addressed early.

- It has emphasised the importance of the process of **fiscal correction**. However, the paper cautions that fiscal consolidation would imply that total resources available for the Plan in the short run will be limited. Resource limitations imply the need to prioritise carefully and that some ***priority areas***, e.g., health, education and infrastructure will have to be funded more than others.

- It also emphasizes the need for focusing more on **efficient use** of available resources in view of the resource constraints. The Paper makes several suggestions in this regard, including giving implementing agencies greater amount of freedom, flexibility, promoting convergence between resources from different Plan schemes and the need for much greater attention to capacity building, monitoring and accountability.

**(vi) <u>Constitution of NITI Aayog:</u>**

1.23 The Government has replaced Planning Commission with a new institution named NITI Aayog (National Institution for Transforming India). The institution will serve as 'Think Tank' of the Government-a directional and policy dynamo. NITI Aayog will provide Governments at the central and state levels with relevant strategic and technical advice across the spectrum of key elements of policy, this includes matters of national and international importance on the economic front, dissemination of best practices from within the country as well as from other nations, the infusion of new policy ideas and specific issue-based support.

1.24 Questioned inter-alia about the evolution and new role of NITI Aayog, Dr. M. Govinda Rao, Former Member, Finance Commission and Prof. Emeritus, National Institute of Public Finance and Policy, while deposing before the Committee stated that:

> "The abolition of the Planning Commission does not mean that there should not be planning. Obviously there is a need for planning. What is the change in which we can do planning for a market economy? I will talk about a bit on decentralised planning which the Cabinet Resolution does

talk about, there are issues of approval of the State Plans and the plan transfers which the Planning Commission used to undertake under the Gadgil Formula. What happens to those transfers and how should the NITI Ayog take the whole exercise of planning forward basically the type of indicative planning or the decentralised planning that one is talking about? What sort of a role you can play in the decentralised planning? So, there was a feeling that the functioning of the Planning Commission had lost quite a considerable relevance. In fact, the former Prime Minister himself had indicated to the Planning Commission to re-invent itself. In fact, world over countries which had centralised planning had evolved over a period of time. Obviously, there was a concern that the whole exercise of planning needs to be changed. The abolition of Planning Commission and setting of NITI Ayog provide an important opportunity for the decentralised planning to come in because there were two problems when we deal with the type of centralised planning that we had, not entirely centralised but it followed from the Second Five Year Plan. The two problems are obviously how much of space are you going to give to the market *vis-à-vis* the Government. Dr. Rajachallaiah used to say that centralised planning is negation of federalism. If you really want the States to play an important role, after all they too are sovereign entities, they have to do the planning in the areas where the Constitution gives them the responsibility. The Seventh Schedule to the Constitution says that this is the Union subject, the State subject and the concurrent subject. In those areas if they have to do the planning, it is their responsibility. Obviously, in that circumstance if somebody comes up and say that the Union Government will have to approve the planning, in a market oriented economy I am not sure how much of it is really in the interest of the people of the State. So, the NITI Ayog provides an important opportunity for decentralised planning. However, a number of issues need clarification. I do not think the Cabinet Resolution makes things clearer. Some of these issues will have to be resolved as the NITI Ayog evolves. One does not really know how it is going to evolve. Depending upon how it is going to evolve, obviously it requires 'a considerable amount of research capacity'. When I talk about some of the tasks that it has been assigned to, it has to access international research, international best practices. How it is going to do one has to see. In fact, it has yet to be evolved and how that has to be seen. But at this particular moment of time some clarification is certainly needed. Of course, orderly development, sustainable, stable development in the country and ensuring the required level of infrastructure and services in which the Government has a predominant role either in terms of provision or in terms of regulation at all levels of Government will depend upon how the new institution evolves and how the decentralised levels take to planning for orderly development."

1.25 Asked further, whether there seems to be any similarity in the genesis of erstwhile Planning Commission and the new NITI Aayog and on the issue of importance of planning in an economy, the witness stated:

> "There is a bit of birth defect in the Planning Commission and in a sense that is going to happen with the Niti Ayog as well that it is based on a cabinet resolution unlike the Finance Commission which is a constitutional body. Article 280 of the Constitution says that the President shall appoint a Finance Commission within two years of the commencement of the Constitution and thereafter every five years or earlier with the following terms of reference. Now though designed as a technical body, overtime it became a political institution and it became a body of the Union Government. In fact, in a system that we lived we do need an institution which promotes inter-governmental body and resolves conflicts. In the initial years when you had parties in power at the Union and the States were the same. There was no difficulty because all the issues of disputes could be settled in an informal environment but today we do need the inter-state council. After the Sarkaria Commission recommendation the Inter-State Council was placed in the Home Ministry and obviously when you are a part of the Union Government, you do not become an impartial arbiter and In a market economy, abolition of the Planning Commission does not mean abolition of planning. We do need planning. Obviously, the economy has to grow at a particular rate and obviously you need the required infrastructure, services and they have to compliment each other and much has to come from the Government sector, public sector and public enterprises. Probably, we have to do it. So strategic and long term planning is extremely important to ensure competitive levels of infrastructure and services. It is not just macro-strategic planning one is talking about but we need to make sectoral planning as well because we need to plan for energy, we need to plan for environment, and we need to plan for a variety of things like roads, railways, transport, etc. So, as I said, strategic planning will have to be done both at macro and sectoral levels. This requires considerable technical work and research capability."

1.26 The following is the full text of the Cabinet Resolution :-

**RESOLUTION**

> Mahatma Gandhi had said: “Constant development is the law of life, and a man who always tries to maintain his dogmas in order to appear consistent drives himself into a false position”. Reflecting this spirit and the changed dynamics of the new India, the institutions of governance and policy have to adapt to new challenges and must be built on the founding principles of the Constitution of

India, the wealth of knowledge from our civilisation history and the present day socio-cultural context.

- The Planning Commission was set up on the 15th of March, 1950 through a Cabinet Resolution. Nearly 65 years later, the country has metamorphosed from an under-developed economy to an emergent global nation with one of the world's largest economies.

- From being preoccupied with survival, our aspirations have soared and today we seek elimination, rather than alleviation, of poverty. The people of India have great expectations for progress and improvement in governance, through their participation. They require institutional reforms in governance and dynamic policy shifts that can seed and nurture large-scale change. Indeed, the 'destiny' of our country, from the time we achieved Independence, is now on a higher trajectory.

- The past few decades have also witnessed a strengthening of Indian nationhood. India is a diverse country with distinct languages, faiths and cultural ecosystems. This diversity has enriched the totality of the Indian experience. Politically too, India has embraced a greater measure of pluralism which has reshaped the federal consensus. The States of the Union do not want to be mere appendages of the Centre. They seek a decisive say in determining the architecture of economic growth and development. The one-size-fits-all approach, often inherent in central planning, has the potential of creating needless tensions and undermining the harmony needed for national effort. Dr. Ambedkar had said with foresight that it is "unreasonable to centralise powers where central control and uniformity is not clearly essential or is impracticable".

- At the heart of the dynamics of transforming India lies a technology revolution and increased access to and sharing of information. In the course of this transformation, while some changes are anticipated and planned, many are a consequence of market forces and larger global shifts. The evolution and maturing of our institutions and polity also entail a diminished role for centralised planning, which itself needs to be redefined.

1.27 The forces transforming India are many and include:

a. The industry and service sectors have developed and are operating on a global scale now. To build on this foundation, new India needs an administration paradigm in which the government is an "enabler" rather than a "provider of first and last resort". The role of the government as a "player" in the industrial and service sectors has to be reduced. Instead, government has to focus on enabling legislation, policy making and regulation.

b. India's traditional strength in agriculture has increased manifold on account of the efforts of our farmers and improvements in technology. We need to continue to improve, and move from pure food security to a focus on a mix of agricultural production as well as the actual returns that farmers get from their produce.

c. Today, we reside in a 'global village', *connected* by modern transport, communications and media, and networked international markets and institutions. As India 'contributes' to global endeavours, it is also influenced by happenings far removed from our borders. Global economics and geo-politics are getting increasingly integrated, and the private sector is growing in importance as a constituent within that. India needs to be an active player in the debates and deliberations on the global commons, especially in relatively uncharted areas.

d. India's middle class is unique in terms of its size and purchasing power. This formidable group is increasing with the entry of the neo-middle class. It has been an important driver of growth and has enormous potential on account of its high education levels, mobility and willingness to push for change in the country. Our continuing challenge is to ensure that this economically vibrant group remains engaged and its potential is fully realised.

e. India's pool of entrepreneurial, scientific and intellectual human capital is a source of strength waiting to be unleashed to help us attain unprecedented heights of success. In fact, the 'social capital' that is present in our people has been a major contributor to the development of the country thus far and, therefore, it needs to be leveraged through appropriate policy initiatives.

f. The Non-Resident Indian community, which is spread across more than 200 countries, is larger in number than the population of many countries of the world. This is a significant geo-economic and geo-political strength. Future national policies must incorporate this strength in order to broaden their participation in the new India beyond just their financial support. Technology and management expertise are self-evident areas where this community can contribute significantly.

g. Urbanisation is an irreversible trend. Rather than viewing it as an evil, we have to make it an integral part of our policy for development. Urbanisation has to be viewed as an opportunity to use modern technology to create a wholesome and secure habitat while reaping the economic benefits that it offers.

h. Transparency is now a *sine qua non* for good governance. We are in a digital age where the tools and modes of communication, like social media, are powerful instruments to share and explain the thoughts and actions of the government. This trend will only increase with time. Government and governance have to be conducted in an environment of total transparency – using technology to reduce opacity and thereby, the potential for misadventures in governing.

- Technology and information access have accentuated the unity in diversity that defines us. They have helped integrate different capabilities of our regions, states and eco-systems towards an interlinked national economy. Indeed, Indian nationhood has been greatly strengthened on their account. To reap the benefits of the creative energy that emerges from the Indian kaleidoscope, our development model has to become more consensual and co-operative. It must embrace the specific demands of states, regions and localities. A shared vision of national development has to be worked out based on human dignity, national self-respect and an inclusive and sustainable development path.

- The challenges we face as a country have also become more complex:

    - India's demographic dividend has to be leveraged fruitfully over the next few decades. The potential of our youth, men and women, has to be realized through education, skill development, elimination of gender bias, and employment. We have to strive to provide our youth productive opportunities to work on the frontiers of science, technology and knowledge economy.

    - Poverty elimination remains one of the most important metrics by which alone we should measure our success as a nation. Every Indian must be given an opportunity to live a life of dignity and self respect. The words of Tiruvalluvar, the sage-poet, when he wrote that "nothing is more dreadfully painful than poverty", and "gripping poverty robs a man of the lofty nobility of his descent", are as true today as they were when written more than two thousand years ago.

    - Economic development is incomplete if it does not provide every individual the right to enjoy the fruits of development. Pt. Deen Dayal Upadhyaya had enunciated this in his concept of Antyodaya, or uplift of the downtrodden, where the goal is to ensure that the poorest of the poor get the benefits of development. Inequalities based on gender biases as well as economic disparities have to be redressed. We need to create an environment and support system that encourages women to play their rightful role in nation-building. Equality of opportunity goes hand in hand with an inclusiveness agenda. Rather than pushing everyone on to a pre-determined path, we have to give every element of society – especially weaker segments like the Scheduled Castes and Scheduled Tribes - the ability to influence the choices the country and government make in setting the national agenda. In fact, inclusion has to be predicated on a belief in the ability of each member of society to contribute. As Sankar Dev wrote centuries ago in the Kirtan Ghosh: "To see every being as equivalent to one's own soul is the supreme means (of attaining deliverance)".

- Villages (*Gram*) continue to be the bedrock of our ethos, culture and sustenance. They need to be fully integrated institutionally into the development process so that we draw on their vitality and energy.

- India has more than 50 million small businesses, which are a major source of employment creation. These businesses are particularly important in creating opportunities for the backward and disadvantaged sections of the society. Policy making must focus on providing necessary support to this sector in terms of skill and knowledge upgrades and access to financial capital and relevant technology.

- Responsible development implies environmentally sound development. India is one of the mega-diverse countries. Our environmental and ecological assets are eternal, and must be preserved and safeguarded. The country's legacy of respect for environment is reflected in our reverence for trees and animals. Our legacy to future generations must be sustainable progress. Each element of our environment (*paryavaran*) and resources, namely water, land and forest *(Jal, Jameen evam Jungle*) must be protected; and this must be done in a manner that takes into account their inter-linkages with climate (*jal vayu*) and people (*jan*). Our development agenda has to ensure that development does not sully the quality of life of the present and future generations.

- The role of the government in achieving 'national objectives' may change with time, but will always remain significant. Government will continue to set policies that anticipate and reflect the country's requirements and execute them in a just manner for the benefit of the citizens. The continuing integration with the world – politically and economically - has to be incorporated into policy making as well as functioning of the government.

**In essence**, **effective governance** in India will rest on the following pillars:

a. **Pro-people agenda** that fulfils the aspirations of the society as well as individual,
b. **Pro-active** in anticipating and responding to their needs,
c. **Participative,** by involvement of citizens,
d. **Empowering** women in all aspects

e. **Inclusion** of all groups, with special attention to the economically weak (*garib*), the SC, ST and OBC communities, the rural sector and farmers (*gaon and kisan*), youth and all categories of minorities.

f. **Equality of opportunity** to our country's youth,

g. **Transparency** through the use of technology to make government visible and responsive.

- Governance, across the public and private domains, is the concern of society as a whole. Everyone has a stake in ensuring good governance and effective delivery of services. Creating Jan Chetna, therefore, becomes crucial for people's initiative. In the past, governance may have been rather narrowly construed as public governance. In today's changed dynamics – with 'public' services often being delivered by 'private' entities, and the greater scope for 'participative citizenry', governance encompasses and involves everyone.

- The institutional framework of government has developed and matured over the years. This has allowed the development of domain expertise which allows us the chance to increase the specificity of functions given to institutions. Specific to the planning process, there is a need to separate as well as energize the distinct 'process' of governance from the 'strategy' of governance.

  In the context of governance structures, the changed requirements of our country, point to the need for setting up an institution that serves as a Think Tank of the government – a directional and policy dynamo. The proposed institution has to provide governments at the central and state levels with relevant strategic and technical advice across the spectrum of key elements of policy. This includes matters of national and international import on the economic front, dissemination of best practices from within the country as well as from other nations, the infusion of new policy ideas and specific issue-based support. The institution has to be able to respond to the changing and more integrated world that India is part of. An important evolutionary change from the past will be replacing a centre-to-state one-way flow of policy by a genuine and continuing partnership with the states. The institution must have the necessary resources, knowledge, skills and, ability to act with speed to provide the strategic policy vision for the government as well as deal with contingent issues. Perhaps most importantly, the institution must adhere to the tenet that while incorporating positive influences from the world, no single model can be transplanted from outside into the Indian scenario. We need to find our own strategy for growth. The new institution has to zero in on what will work in and for India. It will be a Bharatiya approach to development.

- The institution to give life to these aspirations is the NITI Aayog (National Institution for Transforming India). This is being proposed after extensive consultation across the spectrum of stakeholders including *inter alia* state governments, domain experts and relevant institutions. The NITI Aayog will work towards the following objectives:

- To evolve a shared vision of national development priorities, sectors and strategies with the active involvement of States in the light of national objectives. The vision of the NITI Aayog will then provide a framework 'national agenda' for the Prime Minister and the Chief Ministers to provide impetus to.

- To foster cooperative federalism through structured support initiatives and mechanisms with the States on a continuous basis, recognizing that strong States make a strong nation.

- To develop mechanisms to formulate credible plans at the village level and aggregate these progressively at higher levels of government.

- To ensure, on areas that are specifically referred to it, that the interests of national security are incorporated in economic strategy and policy.

- To pay special attention to the sections of our society that may be at risk of not benefitting adequately from economic progress.

- To design strategic and long term policy and programme frameworks and initiatives, and monitor their progress and their efficacy. The lessons learnt through monitoring and feedback will be used for making innovative improvements, including necessary mid-course corrections.

- To provide advice and encourage partnerships between key stakeholders and national and international like-minded Think Tanks, as well as educational and policy research institutions.

- To create a knowledge, innovation and entrepreneurial support system through a collaborative community of national and international experts, practitioners and other partners.

- To offer a platform for resolution of inter-sectoral and inter-departmental issues in order to accelerate the implementation of the development agenda.

- To maintain a state-of-the-art Resource Centre, be a repository of research on good governance and best practices in sustainable and equitable development as well as help their dissemination to stake-holders.

- To actively monitor and evaluate the implementation of programmes and initiatives, including the identification of the needed resources so as to strengthen the probability of success and scope of delivery.

- To focus on technology upgradation and capacity building for implementation of programmes and initiatives.

- To undertake other activities as may be necessary in order to further the execution of the national development agenda, and the objectives mentioned above.

- The NITI Aayog will comprise the following:

  - Prime Minister of India as the Chairperson

  - Governing Council comprising the Chief Ministers of all the States and Lt. Governors of Union Territories

  - Regional Councils will be formed to address specific issues and contingencies impacting more than one state or a region. These will be formed for a specified tenure. The Regional Councils will be convened by the Prime Minister and will comprise of the Chief Ministers of States and Lt. Governors of Union Territories in the region. These will be chaired by the Chairperson of the NITI Aayog or his nominee.

  - Experts, specialists and practitioners with relevant domain knowledge as special invitees nominated by the Prime Minister

  - The full-time organizational framework will comprise of, in addition to the Prime Minister as the Chairperson:

    (a) Vice-Chairperson: To be appointed by the Prime Minister

    (b) Members: Full-time

    (c) Part-time members: Maximum of 2 from leading universities research organizations and other relevant institutions in an ex-officio capacity. Part time members will be on a rotational basis.

    (d) Ex Officio members: Maximum of 4 members of the Union Council of Ministers to be nominated by the Prime Minister.

    (e) Chief Executive Officer : To be appointed by the Prime Minister for a fixed tenure, in the rank of Secretary to the Government of India.

    (f) Secretariat as deemed necessary.

1.27 Prof. Errol D' Souza, Faculty, Department of Economics, Indian Institute of Management, Ahmedabad, while deposing before the Committee, stated as follows with regard to NITI Aayog position to function according to the economic and social mandate enshrined in the constitution and whether these could be fulfilled by the new Institution:

> "One big role that actually the NITI Aayog will have to take on board is that the erstwhile Planning Commission actually spent 30 per cent of its funds which were not under the formula for States in the North East, Jammu and Kashmir etc., and, if I am right, one more State. These States were Special Category States and the reason was that they require more grant funding and not a mix of grant and loan just in order to bring them up to various national levels. If you start treating all States as equal, which is what will happen when it is an advisory group, you cannot be differentiating between different States in terms of what device that you give out. You would have to set a median level to which everyone would have to rise. It will be very difficult for some States to actually achieve the levels of development. One of the very positive things that happened with the Plan was that the States which were poorer, after devolution from the Planning Commission, actually found more resources to make available for development. So, if they had to only recourse to their own resources, you would have seen more gross inequities between States. If the NITI Aayog is just an advisory group, how will these gross inequities between States be managed is an open-ended question. Some answer has to be given to that. The devolution, once it takes place to a State, they have to work out the means of accountability because now if it is only an advisory group and a devolution takes place to a State and the State does not, for example, use the money in ways which are beneficial to the State or diverts it to other purposes, what is the accountability mechanism that you have in place in order to ensure that these public funds are actually being used for the devised purposes for which they have been given so, I do not think we have got the administrative regulatory requirement out correctly in looking at the NITI Aayog. The NITI Aayog's sensibility is right to decentralise more, but, to my mind, the processes are not in place to make sure the sensibilities deliver."

1.28 While deposing before the Committee, the Secretary, Ministry of Planning gave an overview of the role as Secretary, Ministry of Planning and a new role of CEO NITI Aayog. In this regard the Secretary, Ministry of Planning stated:

> "I continue to be the Secretary, Ministry of Planning. However, I appeared before you on 20$^{th}$ November as Planning Secretary and on 1$^{st}$ January, 2014, the NITI Aayog has been constituted, namely, the National Institution for Transforming India or NITI Aayog. The Resolution has stated the broad purposes and objectives of why the change which the hon.

Members of the Committee had also commented upon earlier on. It has listed 12 functions for the Aayog. The 12 functions can be broadly categorized into three baskets. One is the functions related to cooperative federalism. The second set is the functions relating to performing a very high quality role as a think-tank and the third basket would be the functions relating to implementation, monitoring and evaluation. I would add two additional functions which are security and development taken together and governance. Now these functions are to be performed within a governance structure of the NITI which comprises a Governing Council of all Chief Ministers of States, Chief Ministers of Delhi and Puducherry and the Lt. Governors of UTs such as A&N Islands. In addition, there is a provision of creating Regional Councils and a full-time organizational framework. The full-time organizational framework comprises of the Prime Minister, a Vice-Chairman, two full-time members who have been appointed so far, two ex-officio members who will be appointed on rotation."

1.29 On the issue of doubts, challenges and future role of the new found NITI Aayog, the Secretary, Ministry of Planning stated before the Committee that:

"The challenge lies in its name itself that it is national and it aims to transform India. That in itself encapsulates the ambition of the country and the ambition of the tasks, and the magnitude of the tasks that lie before us. Every transition and every change brings with it a great deal of uncertainty and a great deal of hope as well. We on this side look to the hon. Members and the Chairman to guide us through this process of an orderly transition from an institution that existed for 64 years and has now transitioned into another one which we hope will last another 64 years, if not more. That is the greatness of this country. I am absolutely humbled by the kind of thoughts that have been expressed around this table which bring clarity to the fact no task can ever be finished. I do not think that there is a kind of clarity that is being sought around the table. We expect the guidance of this Committee as we go along. Only two factual issues I would like to place before the hon. Committee. One is that as part of the transition arrangement, NITI has been put as successor in interest to the Planning Commission. The Government has issued an order saying that for all practical purposes, all the residuary matters which stayed with the Planning Commission will continue to be looked after by the NITI. The organisation changes, the restructuring will all depend on how the functions are actually articulated. Two aspects I would just like to briefly touch. The Planning Commission was severely criticized on two counts almost universally. One was that it had no “legal basis” and that it was a resolution of the Government. The second was that it had taken on itself allocative functions which were not part of the 1950 resolution. NITI, in both ways, is a very worthy successor of both the concerns. The resolution merely replaces the 1950 resolution. The 1st January 2015 resolution replaces the 1950 resolution. Second, it does not take on itself, as part of the twelve functions, allocative functions; they are not part of NITI's direct mandate. If they devolve on the Aayog, of course, they will be performed as asked for by the Governing Council, which comprises of all the State Governments together. The second part is that this transition should not be disruptive. Therefore, the Plan will run its course; the Twelfth Five-year Plan will run its course. For 2015-16, since most of the States have almost finalised their Budgets, they will continue to do so as they did last year and came actually after the event to seek Centrally Sponsored Schemes' allocations, and block grants which in any case were predetermined by formulas most of the time. How these will be impacted will be known only after the Fourteenth Finance Commission recommendations are finally accepted and the ATR is placed before Parliament. We are as yet not clear on how exactly they will impact the Plan Budgets of every State. Beyond that, on the issue relating to how NITI will conduct its business, all the States are members. Like any large joint family, you will agree, we are not equals. No State is equal and; even within a State, people are not equally placed to grasp the opportunities. The difference I see from the Central planning and now is that all the States themselves are members. They will themselves decide on how the national agenda should be framed, what should comprise it, which elements should be prioritised, and presumably each State, even the so-called weakest one has some strength and great potential – potential that its people carry and the States have within themselves. Let us see how these strengths and potential can be leveraged into a national strength, so together the States and the Centre will become a great entity on its own.

Once again I will be absolutely frank and say that every little 'i' and every little 't" has not been dotted; it has just started; the journey has just started. Our former Chairman in the Planning Commission and the Prime Minister told us that India's development story is a work in progress. This institution has been given work, so I seek your indulgence to carry it forward. The Ministry of Planning remains because the allocation of business rules allows the Ministry of Planning to address all issues relating to national planning before the Parliament. That has not changed; there is no change in that part. The final factual aspect I would like to place is that the NDC was created by a separate resolution in 1952 and was amended in 1967. That remains as of now on the books. The Governing Council of NITI and the resolution has certain overlaps with the NDC as well as with the Inter-State Council. Each one has its own separate status and place. It is being examined as to whether these overlaps can be harmonised or should they be harmonised. We will be also consulting the Law Ministry in the matter before we proceed ahead and then come to a decision. Insofar as the Regional Councils are concerned, already, as you are well aware, the States Reorganisation Act has the Zonal Councils which are functioning under the Home Minister, and the Chief Ministers are members. The North East Council is a statutory entity which stands on its own for the North Eastern States. These territorial Councils have their own place under the statute. The Councils which will be smaller groups of States will be decided by the Governing Council and the focus, the subjects, the topics, how long they should be, whether they should be functioning for a short period or long period, or permanent, etc., will also be decided by the Governing Council."

- Swami Vivekananda said "Take up one idea. Make that one idea your life – think it, dream of it, live on that idea. Let the brain, muscles, nerves, every part of your body, be full of that idea and just leave every other idea alone. This is the way to success." Through its commitment to a cooperative federalism, promotion of citizen engagement, egalitarian access to opportunity, participative and adaptive governance and increasing use of technology, the NITI Aayog will seek to provide a critical directional and strategic input into the development process. This, along with being the incubator of ideas for development, will be the core mission of NITI Aayog.

1.30 Questioned on the future role and responsibility of NITI Aayog, Dr. N.C. Saxena, Former Secretary, Planning Commission, while deposing before the Committee that :

"The next point is whether NITI Ayog should have executive powers or it should concentrate only as a think tank. My experience is that both are important. If it is only think tank, after sometime they will find that their advice is not being heard. Also, to improve quality in the think tank role is also not that easy. So, to some extent, there has to be a balance. One needs to find out why Planning Commission could not do the think tank role properly. I have listed here one of the main reasons was the staff. IAS officers who were posted were not interested. They wanted to be Secretaries. Those who were not fit enough to be Secretaries were posted. So, it became a dumping ground. So, if we really want to strengthen the Ayog, we have to really improve the kind of staff which will be given to it. At the same time, if both think tank and executive powers are given, it will not be any different from the Planning Commission except that the Planning Commission was also doing Gadgil-Mukherjee transfer to the States which cannot be done now. It is a very small amount – Rs. 29 crore which could be given to the Finance Commission. My own feeling is that both these roles need to be harmonised and both are important. Otherwise, there could be problems. I think, investment planning etc. is very important but investment planning also needs to combine this with the social structure which requires revenue expenditure. Capital expenditure is important, but revenue expenditure is also. It is because social protection schemes, whether they are related to pension, education or health, are also equally important. I would also say that centrally sponsored programmes also had a design flaw. Many schemes were not functioning well not because of the governance issues which are also there. Schemes like ICDS and NREGA have a design flaw and that design flaw was not getting proper attention. For instance, ICDS concentrates on the field in the age of more than three years. Whereas malnutrition has to be attended from six months to two years. Child of one year old cannot walk to the anganwadi centre. In NREGA, we focus on giving employment. We do not measure assets; we do not try to find out whether the pond which was constructed three years back is still functioning or not. So, monitoring and quality measurement have never been done. In 2006, we had decided that outcomes will be measured. But somehow or the other, it never happened. There were organisations set up and they had to be wound up. So, unless we evaluate the schemes properly and then disseminate those evaluation reports, it will be difficult because due to governance problems, we give a lot of money but our outcomes are not commensurate with the expenditure that we make. Of course, expenditure again needs to be increased on education and health. But governance issues have been totally neglected. It is like a black box. We do not know why it is not happening. We need more studies and that is a think tank role to be done by the new organisation."

1.31 While deposing before the Committee, Prof. Y.K. Alagh, Chancellor, Central University of Gujarat, on the issue of a new role expected of the NITI Aayog stated briefly that:

"I do not see the kind of transitional thinking which one would have liked. As for the need for transition, I will go into that a little later, but immediately there are these problems. Article 275, we give grants under Finance Commission but Article 282 and 285, you give grants for development. Now Planning Commission used to play a role in that which is decided on an annual plan with the discussion with the Planning Commissions of the States. On each one of these areas, as you very rightly said, there have been some achievements and some problems. The issue is to look at these achievements and replicate the best practices; multiply them, and where we have deficiencies you reform them. That is the need. To throw away the baby with the bathwater is to my mind a mistake. But it is true that we had a cluster model of planning in the 1970s. we gave it up in the 1980s and in the last 35 years, we have been working at open level planning. The issue is to aid policy reform that the government is doing. So strategic planning has to be your focus. For that, to give up the process, to abolish one and to talk about the other is in my mind not a very fair kind of thing."

## CHAPTER- II

**Allocative Role of Planning & Investment Planning**

### (i) Introduction

2.1 The principal task of the Planning Commission was to formulate the Five Year and Annual Plans for the most effective and balanced utilization of the country's material, capital and human resources, appraise from time to time the progress in their implementation and recommend adjustments of policy and measures that are considered to be necessary in the light of such appraisal. In formulating the Five Year Plan the Planning Commission coordinated and oversaw the development programmes of the Central Ministries and State Governments and integrated these in a national Plan covering both the public and private sectors. Specific schemes of financing were worked out for the Centre and each State, indicating clearly the additional resource mobilization efforts that they would have to undertake; these were integrated with the overall scheme of flow of funds for the economy as a whole. At the Centre, the role of the Planning Commission in investment planning was crucial as the Commission provided an objective method of resource allocation reconciling claims of various Ministries taking into account the broad national objectives and priorities. Similarly, the Commission sought to ensure through the Annual Plans which are the operational plans that the sum total of outlays of the Centre and the State is consistent with the estimates of resources available to the public economy. The plan outlays in both the public and private sectors were matched by resources in order to ensure orderly growth in conditions of relative stability, without introducing any distortions in investments or the production pattern.

2.2 Besides, the Government of India (Allocation of Business) Rules had assigned responsibilities to the Planning Commission in respect of

(a) Public co-operation in National development
(b) Hill area development programme (except in the North Eastern Region), and
(c) Institute of Applied Manpower Research.

2.3 The day to day working of the Commission was carried out on a collective responsibility. However, for convenience, each Member has been given charge of a group of subjects. While, each Member individually dealt with various technical and other problems pertaining to his allotted subject, the important policy matters were considered by the Commission as a whole. The Prime Minister in his capacity as Chairman of the Planning Commission, participated and gave direction to the Commission on all major issues of policy.

2.4 The work of the Commission was organized into technical Divisions/Units. They were headed by Principal Advisers/Advisers/Joint Secretaries. All the Divisions in the Planning Commission were grouped into three types of Divisions as indicated below :

(a) Administrative Divisions: They render services pertaining to administration, accounts, library, training and other general services to the employees of the Commission.

(b) General Divisions: These were concerned with certain aspects of the entire economy e.g. Perspective Planning, Financial Resources, International Economics, Plan Coordination, State Plans including Multi-Level Planning, Hill Area Development Programme, Labour Employment and Manpower, Science & Technology, Project Appraisal and Management, Development Policy and Socio-Economic Research.

(c) Subject Divisions: These were concerned with specific fields of development e.g. Agriculture, Environment and Forests, Water Resources, Power and Energy, Industry and Minerals, Transport, Communication and Information, Village and Small Industries, Rural Development, Education, Health, Nutrition and Family Welfare, Housing & Urban Development, Social Development and Women's Programme, and Backward Classes.

2.5 All the Divisions in the Planning Commission maintained close contacts with the concerned Central Ministries/State Governments and various non-official agencies, study and examined various problems and issues in relation to the formulation as well as implementation of the Plan Programmes and Policies in their respective fields. They also organized research studies, which are deemed necessary for planning either on their own or through competent external institutions/organizations.

2.6 The senior officers of the Planning Commission were also designated as Principal Adviser (State Plans) or Adviser (State Plans) who helped the Commission in keeping close touch with the progress of planning and its implementation in States. Each Principal Adviser(SP) or Adviser (SP) has a group of States/UTs. allotted to him or her and helped in maintaining close liaison between Central Government and these States/UTs. He/she visited from time to time the concerned States/UTs, gives necessary advice and guidance to the Planning Commission and Executive authorities at the State/UT level and brings the difficulties and problems of the latter to the notice of the Planning Commission and Ministries/Departments at the Centre. The State Plans work was co-ordinated by Joint Secretary (State Plans).

2.7 The first step in the process of formulating a Five Year Plan was preparation of a paper on `Approach to the Plan'. While undertaking work in this connection, Steering Committees/ Working Groups were also set up for reviewing the progress in the implementation of the current Five Year Plan and making detailed recommendations regarding programmes, projects, schemes and policies as well as outlays and targets both financial and physical for the various sectors and sub-sectors. Members of these Groups were drawn from officials in the Planning Commission, Central Ministries/Departments, other Institutions, State Governments and experts in the respective fields.

**(ii) Preparation of Approach Paper :**

2.8 The Approach Paper was prepared on the basis of the preliminary exercises undertaken in the Planning Commission projecting the growth profile of the economy over a period of 15-20 years covering the ensuing Five Year Plan period and the papers prepared by the Sectoral Divisions bringing out the issues to be tackled in their respective sectors during the ensuing five year plan period. Also, experience of the past projected requirements, likely availability of resources and such information as becomes available as a result of the work undertaken by the various Steering Committees/Working Groups are also kept in view while formulating the Approach Paper. Views of the Central Ministries, State Governments, Consultative Committee of Members of Parliament, Panel of Economists, experts and cross-section of the public were also taken into account. Objectives, targets, strategy, policies and programme thrusts of the five year plan were enunciated in Approach Paper. Sometimes alternative scenarios, requiring different degrees of effort, were also presented. The paper was first considered in the meeting of the full Planning Commission, then by the Union Cabinet and finally by the National Development Council. After approval by the Council, it was placed before the Parliament. While initiating work on the approach at the national level, the State Governments were also advised to take preliminary steps for formulating their approach and set up Working Groups wherever considered necessary. After the Approach Paper is approved by the National Development Council, the Planning Commission addresses the Central Ministries and State Governments for undertaking the exercise of formulating detailed proposals for the Five Year Plan. Suitable guidelines were indicated for this purpose based on the mandate given by the NDC while approving the Approach Paper.

**(iii) <u>Annual Plans:</u>**

2.9 The procedure for the formulation of the Annual Plan has been the same as for the Five Year Plan in the case of the States till 1993-94. However, while formulating the Annual Plan 1993-94, the Planning Commission attempted a change in the process of formulation and finalisation of the State Plans. Earlier, the State Plan proposals which used to be need-based, were first discussed in the Working Groups consisting of the officers of the States, the Planning Commission and the Central Ministries and this used to form the basis of discussion between the Deputy Chairman and the Chief Ministers concerned. Invariably, in the process, the Plan proposals were far in excess of the resources and efforts had to be made to match the plan size to the resources in the discussions with the Chief Ministers. For the formulation of Annual Plan 1993-94, the resource evaluation was made first, on the basis of which, the Plan size was decided in the discussion between the Deputy Chairman and the Chief Ministers. The detailed Sectoral allocations were worked out thereafter. This realistic approach in finalising the Plan size has been highly appreciated by the States.

2.10 The Secretary, Ministry of Planning while deposing before the Committee stated as follows with regard to finalisation of State plan earlier being looked after by the Planning Commission:

> "I would like to inform that the State Plans have been finalised. We have sent response to the State Governments indicated to them what will be there overall allocations depending on how much of the Centrally sponsored schemes they are drawing. Most of the States have passed their budgets. We are now really looking at the next year's budget cycle. We talked at the official level. That used to be more of a frank exchange of views and the Plan size was something which the States would proposed and the overall size now is mainly changed by the amount of money that the States are getting from Centrally sponsored scheme. Otherwise, States which are self-sufficient called the General Category States managed their own resources. In fact, as Finance Ministry tells us on a daily basis that they are better placed than the Central Government today in terms of their fiscal resources but the Special States which are about 11 in number, who have lesser population who have less resources, they are reliant on managing their budget on the Central Government and their Special Plan Assistance and the Special Central Assistance have been finalised based on the Budgetary allocations which were finalised in August after the Budget was passed."

**(iv) <u>Central and Sectoral Plans (Outlays and Transfers):</u>**

2.11 The Central and State Plans, together with the scheme of financing for these, as finally formulated are incorporated in the draft Five Year Plan. After approval by the full Planning Commission and the Union Cabinet, the Plan was presented before the National Development Council. After the Council has approved/endorsed the Plan, it was laid on the tables of both Houses of the Parliament. The Planning Commission also laid particular emphasis on the need for improving planning process and capabilities in the States, which bear the primary responsibility for creating and maintaining most of the economic and social infrastructure in the country. Over the years, the Indian planning system had moved from centralized investment planning to a more directional planning methodology. The Planning Commission concerned itself with evolving a long-term strategic vision of the economy, decides on priorities and works out the sectoral targets consistent with the strategic vision and priorities. It also indicated the initiatives the government needed to take both in terms of investments and policy changes to realize these objectives.

2.12 The Financial Resources Division of the Planning Commission requests the State Governments to furnish detailed forecasts of their resources for the Plan and the estimates of State resources for the five year plan is made by the Working Group on State Resources. For the Centre, the estimates of resources were formulated by the Steering Committees/Working Groups on Financial Resources of the Centre, which includes, inter alia, representatives of the Planning Commission, Ministry of Finance and Reserve Bank etc. The recommendations of the State Plan Sectoral Working Groups on the plan proposals of a State were considered by the concerned State Plan Adviser. He takes a view on these recommendations in the light of his informal discussions with the State and Central Officers and also his knowledge of the development activities in the State. He prepares a report making detailed recommendations covering the programmes, targets and outlays. This report forms the basis of discussion between the Planning Commission and the State Government for finalising the Plan of the State concerned. The final position regarding the state's own resources, including market borrowing and additional resource mobilisation, Central assistance and programme content emerges after discussion. In the case of Central Plan, the procedure adopted for the Tenth Plan was that the Division concerned prepared a Background paper taking into account the guidelines laid out in the Approach Paper, the recommendations of the concerned Working Group(s), Ministry's proposals and the Division's own assessment of the development programme that was considered feasible and necessary. This Paper constituted the basis of discussion between the Planning Commission and the Secretaries of the concerned Central Ministries/Departments. In the light of the discussions with the Ministries and the anticipated availability of the total resources for the Central Plan, the Planning Commission took a view on the development programme of each Ministry/Department and the respective outlays. In the process of finalising the Plan, the Planning Commission, if deemed necessary, also consulted the Consultative Committee of Members of Parliament attached to the Ministry of Planning representatives of organised groups of industrialists, labour leaders, agriculturists, social scientists and other experts. The views expressed in the Parliament and at other fora are also taken into account. Members of Parliament are also addressed individually seeking their valuable suggestions in this regard.

2.13 In the sectoral allocations in the State Sector, a change in the system by limiting the earmarking of funds to around 50% of total outlay, contrary to much higher percentages prescribed earlier, was attempted, so as to provide greater flexibility to the States to meet local requirements. This also meets the long standing demand of Chief Ministers in the National Development Council for greater flexibility in the State Plan. In the case of the Centre, firstly, estimates of Centre's resources are called for from the Ministry of Finance and finalised in consultation with that Ministry. In this connection Planning Commission participates in a series of meetings convened by the Ministry of Finance with the Central Ministries to consider and finalise the Internal and Extra Budgetary Resource (IEBR) of the Public Sector Undertakings under the jurisdiction of the concerned Ministries. Secondly, discussions with Central Ministries are held on the draft Plan proposals sent by them and meetings for this purpose are taken by Member-Secretary/ Secretary, Planning Commission with the Secretaries of the Ministries/Departments.

2.14 The emphasis of the Commission is also on maximizing the output of the economy by using our limited resources optimally. Although ways f increasing the availability of resources was an important component of planning, it is equally important to look for increasing the efficiency of utilization of the available resources. The priorities, programmes and strategies of the Plan, therefore, had to take into account all these factors. With the emergence of severe constraints on available budgetary resources, the resource allocation system between the States and Ministries of the Central Government are under strain. This required the Planning Commission to play a mediatory and facilitating role, keeping in view the best interests of the country. It had to ensure smooth management of change and help in creating a culture of high productivity and efficiency in Government, both at the Centre and in the States. The key to efficient utilization of resources lies in the creation of appropriate institutions and self-managed organizations at all levels. In this area, Planning Commission plays a systems change role and provides capability within the Government for developing better systems and institutional design. In order to spread the gains of experience more widely, Planning Commission also played an information dissemination role regarding best practices obtaining in different States and institutions

2.15 Questioned on the new role of NITI Aayog with regard to the allocation made to the States and the role of Finance Ministry in the new disposition, Dr. Rathin Roy

> "I will say three things. Well, there is a Finance Commission coming. I think lot of the answer to what you are saying will depend on the call that that Finance Commission takes with respect to the divisible pool and the vertical devolution of that divisible pool. I would hope that the vertical devolution is far more generous. In general, part of the solution to the States taking responsibility is because the States in general have proved themselves, for whatever reason, to be able to be fiscally more sound, to be able to deal more with the extraordinary shocks and political imperatives than the Centre is able to, and there is nothing pejorative with what I am saying. I am saying as a matter of fact. For example, I am saying that if a certain State decides to give out free laptops, that has not prevented that State from maintaining its fiscal responsibility requirements. You know whether it is populist or desirable, if a certain State has managed to give out cheap urban meals, that State has also met its fiscal responsibility requirements. When in the Centre an attempt is done, a lot of fiscal pressure that applies. So, something is clearly working in the States in terms--I think it is FRBM which will be very successful--of their ability to deal with fiscal responsibility. My experience working with the States--I have been working very closely with them now for five years--is that the political value of both medium term planning and fiscal responsibility has been internalised, and they do it in different ways. So, I think, as I said, if the States are able to see in a spirit of co-operative and competitive federalism that they have fungible resources through essentially getting a greater share of their share in the divisible pool of taxes--it is not a devolution—and become generally less dependent on grants other than NPRD grants, other grants meant for general purpose and specific purpose, then, the States can be persuaded to see that they need to create a similar sort of reform there. The level and extent of fiscal reforms in all the States I have worked with is of a far higher order of magnitude than in the Centre. In my own State, Maharashtra, we have been a conversation now for four years on different types of fiscal reforms. The former Andhra Pradesh has been doing it since 1999. In your own State, Karnataka, very interestingly, reforms are taking place now. So, in the sense the States are ahead of curve. When it comes to special category States, there we will certainly need to have an intermediary institution that is able to both empower the special category States as a collective and be able to act as a bridge between the framework I am proposing, which assumes that the States are solvent, and to the structural problems of insolvency that they have. And, I understand that

the Government has proposed things like the North-Eastern Council being reactivated and empowered through that. That is a separate conversation. But I think parts of our institutional infrastructure can be revitalised to deal with the problem of the special category States. We would not need a Planning Commission to do that or a Gadgil formula automatic. I think there are other ways we could resolve that. I would like to agree with your fundamental point very emphatically. The business process of fiscal planning in this country is, in my opinion, and I will put it on record, broken, meaning it was okay when we were a half billion dollar economy. It is not fit for purpose where we are a three trillion dollar economy. In 2004, again I would like to place on record that in September there was a report produced by the Ministry of Finance saying, 'The Ministry of Finance to the Twenty First Century'. So, even that report, which contains all these reforms, actually exists with the Government. Should Government like to make use of it? The date is significant because it is a bipartisan date because by the time the report was commissioned and it was presented, you have reasonable bipartisanship. There is a window of opportunity there for the reforms. So, we have the furniture in place. We have the institutional mechanisms in the Budget. We have the know-how. We have the capacity. There are two or three key political decisions which should be taken on the special category States and on special problems faced in the delivery of national public goods like airports or even cleaning the Ganga. On those, I think, the NITI Aayog could actually play a role to find solutions. But I do not think there is any great constraint if the desire is there now to go ahead and implement this. But piecemeal reform will not work. I do not think just having an end to the Planning Commission, as you said on the beginning of the NITI Aayog, is either necessary or certainly not sufficient to do the reforms I think India is asking for being a three trillion dollar or four trillion dollar economy."

**(v) <u>Plan and Non Plan Expenditure:</u>**

2.16 The classification of expenditure into Plan and Non-Plan, although not rooted in the Constitution, has evolved with planning process. In the initial years of planning, the emphasis was to direct capital investment in sectors according to priorities of each Plan. The bulk of Plan expenditure was capital expenditure and the aim was to increase the productive capacity of the economy. However, the composition of the plan expenditure in both Centre and States has changed over time as the bulk of the plan expenditure is now revenue expenditure. Over a period of time, several issues have cropped up from the distinction between Plan and Non-Plan. Budget classification of expenditure is one of the fundamental building blocks of a sound budget management system. The way it is classified and presented has a direct impact on the transparency and coherence of the budget. The classification of expenditure is important for policy formulation as well as performance analysis. The present expenditure classification system is partly constitutional and partly evolved to serve certain desired objectives of the Government. The classification of expenditure into Plan and Non-Plan by both Centre and States has been one of the central characteristics of the structure of fiscal management. Although not rooted in the Constitution, this distinction is a result of the overall fiscal and governance framework that has evolved since the beginning of the planning process in 1950s. In the initial years of planning, the emphasis was to direct capital investment in sectors according to priorities of each Plan. The bulk of plan expenditure was capital expenditure and the aim was to increase the productive capacity of the economy. However, the composition of the plan expenditure in both Centre and States has changed over time as the bulk of the plan expenditure in now revenue expenditure. Over a period of time, several issues have cropped up from the distinction between Plan and Non-Plan.

## CLASSIFICATION OF GOVERNMENT EXPENDITURE

2.17 The expenditure of the Government is classified into functional heads that have evolved with the changes in the role of the Government. The functional classification signifies broadly the function of Government for which the expenditure has been incurred and the activity on which the expenditure has been incurred. The functional classification being followed as of now is a six tier structure with a hierarchy of major, sub-major, minor, subhead and detailed heads. Below the fifth tier of functional heads is the sixth tier of object heads that provide details about the object of expenditure. Thus, this forms a two dimensional classification where the expenditure is classified into object heads for each functional head. The first tier of the functional classification, called the major head denotes the functions of the Government that are discharged through the expenditure. For example, there are major heads for judiciary, police, education, health, rural development, power, transport etc. The second tier of functional classification provides the description of sub functions within the function indicated by the major head of account. The third tier denoted by the minor head indicates the objective of the Government being achieved through the particular expenditure. Till the minor head of account, the classification is rigid, provided by the Government of India, in consultation with the Comptroller and Auditor General of India (CAG) and is uniform across Centre and States. Another important feature of the heads till the level of minor heads are that the Finance Accounts of the Centre as well as the States report Government expenditure upto the level of minor head. Below the minor head are the two tiers of sub heads and detailed heads. The Sub head indicates specific schemes or activities of the Government under which the expenditure has been incurred and the detailed head indicates various components of the schemes or sub schemes. This classification currently, in force, has emanated from the original structure recommended by the Mukherjee Committee in 1974. The sixth tier, the object head is an important component of the classification structure which provides the details about items of expenditure e.g. salaries, allowances, travel expenses, office expenses, minor and major works, maintenance, machinery and equipment etc. This tier is very significant as it provides the cost of inputs classified under various items. It is also important because, consequent to the recommendations of Ramchandran Committee, the object heads are uniform across all functional heads. Thus, expenditure aggregated on the basis of object heads, across functional heads can provide cost of inputs for a particular function/sub-function. Currently, the budgets as well as the accounts follow the same classification subsequent to the recommendations of Ramchandran Committee.

### (vi) PLAN and NON-PLAN DIFFERENTIATION

2.18 Laid over the functional and object classification briefly outlined above is the division provided by Plan/Non-Plan classification. This division cuts across the entire classification hierarchy into two columns. Although this practice began in 1959-60, it was formally recommended by the Mukherjee Committee in its first report submitted in 1971.

**PLAN**

2.19 Plan expenditure in the Government, generally, signifies expenditure taken up under development schemes during a particular Five Year Plan. However, some of these schemes can be continued from a previous plan or some may be 'spill-overs'. At the initial stages of the exercise of preparation of a Five Year Plan, Planning Commission issues detailed instructions directing what should be classified as 'Plan Expenditure'. The plan schemes are mostly expected to be limited to a Five Year Plan period. But they may have implications that may extend beyond the plan period. For example, maintenance of assets created out of plan expenditure, salary of establishment created for a plan scheme. These expenditure liabilities of the Government, arising out of plan expenditure are called committed liabilities which get shifted to the Non-Plan budget of the department. Various instructions have been issued regarding shifting of expenditure from Plan to Non-Plan budget and it is no longer a simple policy due to complex and diverse nature of plan schemes. These instructions go along with the instructions regarding what items of plan budget can continue within plan budget.

**NON PLAN**

2.20 Non Plan expenditure is estimated first, from the budgeting exercise where the divisions originate. The division originates from the budgeting exercise where the Non-Plan expenditure is estimated first. Since the Non-Plan expenditure is of a committed nature, it is mostly budgeted based on historic parameters. For example, salary expenditure is based on the salary expenditure of previous year, the real change due to estimated change in number of employees and due to increase in real wage level (increment) and the inflation adjustment (dearness allowance). The interest payments are estimated on the basis of the existing debt profile and the estimated borrowing for the year. The pension payments are estimated on the basis of the previous year's pension payment, the change in number of pensioners and adjustment for changes in price levels. After estimation of the Non-Plan expenditure, the resources (both tax and nontax) are estimated. The amount of resources left after meeting the Non-Plan expenditure is called the Balance from Current Revenue (BCR) and is a part of the non-debt resources that is available for plan expenditure. The second part of non-debt resources is the Miscellaneous Capital Receipts (MCR) taken on net basis. These non-debt resources added to the amount of net borrowing planned to be incurred would give the total amount of resources available for plan expenditure. This amount is called the Gross Budgetary Support (GBS) for Plan. The Gross Budgetary Support is then allocated into sectors, down to development heads and finally to plan schemes. For this purpose, Planning Commission follows a five tier classification structure that broadly follows the same structure as that of the budget/ accounts but not exactly the same. These allocations are then reclassified into the budgetary classification The Plan and Non-Plan budget put together comprise the expenditure budget of the Government. The natural corollary of this budgetary practice is that while the Non-Plan envelope is based broadly on the requirement of the departments depending on the expenditure items that are more or less committed, the plan envelope is broadly based on the availability of resources.

2.21 In a response to a concern expressed by the Committee with regard to Plan and Non-plan distinction, Dr. N.C. Saxena, Former Secretary, Planning Commission stated before the Committee that:

> "The distinction between Plan and Non-Plan is totally artificial. It makes sense only at the time we have a new Plan when all the staff salary will go into Non-Plan. This is not happening today. The distinction between Plan and Non-Plan gives an impression as if teachers' salary and doctors' salary is a non-essential expenditure. Therefore, it should be done away with. In any case, because of greater devolution from the Finance Commission perhaps this distinction may not be so valid and time has come when we should do away with it because today in the villages I find that there is focus on constructing new hand pumps rather than repairing faulty ones because repair comes under Non-Plan and construction comes under Plan. Therefore, there is a huge pressure to spend money more under Plan. This means, maintenance and operations get ignored whereas new construction gets importance. So, the Plan and Non-Plan distinction could be done away with."

**(vii) Planning Commission (Management Aspect and Programme Evaluation):**

2.22 The Planning Commission also undertook certain management and training programmes and catered to management support services through its Management

Consultancy Development Scheme in selected public utilities with a view to improving efficiency, work environment, performance, management systems and procedures in various Central and State Public Sector Undertakings and other organisations. After the formation of the Department of Programme Implementation in 1985, the monitoring function of the Planning Commission, namely, Central Sector Projects was transferred to that Department. valuation of Programmes.

2.23 The process of Evaluation and assessment of the development projects/schemes played a key role in generating vital data for effective development planning, particularly in the developing countries. The results of the quick evaluation studies of the ongoing programmes provided results which guide in making mid-course corrections if necessary, in their implementation. Also feedback through evaluation results is an important requirement for assessing the performance, comparing the envisaged with the actual operations and using these information to guide the future line of action. The other detailed post evaluation assessment studies/surveys created data base for future effective and viable planning of development schemes/projects. For the above purpose scientific evaluation/assessment studies/surveys are being undertaken by the Programme Evaluation Organisation of the Planning Commission and also State Evaluation Bodies to assess the achievement of plan programmes against the stated objectives/goals and targets; impact on the beneficiaries and socioeconomic structure of the community; the mechanism and the adequacy of the delivery system etc. The basic data that becomes available through conduct of the studies/survey, helped in the formulation of Medium and Long Term Plans.

## CHAPTER- III

## Centrally Sponsored Schemes and Role of Planning Commission

### (i) Introduction

3.1 The process of Planned Development in India has evolved over the time into a system of two types of schemes. Central Sector Scheme and Centrally Sponsored Schemes. These names were derived from the pattern of funding and the modality for implementation. Within the sphere of Public Expenditure of India a lot of importance has been given to central sponsored schemes spreading over various development sector beings implemented by most of the States. The Central Sector Schemes are 100 per cent funded by the Union Government and implemented by the Central Government machinery. These schemes are mainly formulated on subjects from the *Union List*. In addition, the Central Ministries also implement some schemes directly in states / UTs which are called Central Sector Schemes but resources under these schemes are not generally transferred to states. The Centrally Sponsored Schemes (CSSs), a certain percentage of the funding which is borne by the Centre and the states in the ratio of 50:50, 70:30, 75:25 or 90:10 and the implementation is done by the state governments. CSSs are formulated in subjects from the *State List* to encourage states to prioritise in areas that require more attention. Funds are routed either through the Consolidated Fund of states and or are transferred directly to State/district level Autonomous Bodies / Implementing Agencies.

3.2 Conceptually, both CSS and Additional Central Assistance (ACA) schemes have been passed by the Central Government to the state governments. The difference between the two has arisen because of the *historical evolution* and the way these are being budgeted and controlled and release of funds takes place. In case of CSSs, the budgets are allocated under concerned ministries themselves which look after the entire process of the release of funds, too. Over the period of time there has been proliferation of CSS's. The consequent criticism of the CSS, the government (i.e. Planning

Commission) had proposed restructuring of these schemes for the $10^{th}$ and $11^{th}$ Five Year Plan.

3.3 The Government of India is involved in a large number of programmes in sectors/area such as education, health, labour, skill development etc. that are in the State List through operation of Centrally Sponsored Schemes (CSS) and provision of Central Assistance to State Governments. These programmes essentially arose from the above national objectives and cut across State boundaries. The CSSs are operationalized by the central and state legislatures who are responsible for law making, they are responsible for the implementation of laws and policies, and the judiciary interprets laws. Subjects are divided between the centre and the states on the basis of the union, state and concurrent lists. The centre is responsible for subjects that fall within the union list, the states for those subjects which fall in the state list and both the centre and the states are jointly responsible for subjects that fall within the concurrent list.

3.4 States are primarily responsible for major sectors like health, education, employment, etc. which often involve large public expenditures. Since successful implementation of development programmes requires availability of adequate funds, appropriate policy framework, and effective delivery machinery, the Central Government needs to work with the States to undertake their responsibility in effective manner. Recognising the higher resource requirements of the States relative to their resource raising powers, the Constitution mandates to transfer funds to the State Governments through statutory transfer of tax receipts collected by the Centre through the Finance Commission award. In addition, the States access central plan funds through Centrally Sponsored Schemes and Central assistance to State Plans. The Constitution has under Part-IV mentions the Directive Principles of State Policy. These inform the policies of various wings of the Government and act as an overriding philosophical basis. While these are not enforceable in the same way the Fundamental Rights mentioned in the Constitution, they indicate the overall policies which should govern various laws. It is, therefore, important that these are fully kept in mind when the policies for development of the economy are made

3.5 Dr. M. Govinda Rao, Former Member, Finance Commission and Prof. Emeritus, National Institute of Public Finance and Policy, while deposing before the Committee, stated as follows with regard to the Centrally Sponsored Schemes and its restructuring:

> "Over a period of time, there had been centrally-sponsored schemes and many of them are one-size fits all type schemes. This distorted the entire resource allocation. In fact, there as an attempted consolidation of the schemes and 147 schemes were consolidated into 66 schemes by the previous Planning Commission. But if you look at them carefully, there is A, B, C and D within the 66, there is not much of a rationalisation that really took place. As a result, what happened is that the States were complaining that they have to put matching requirements. In the process of doing that, they distorted their budgets. This one size fits all type of the schemes were created and if the Union Government suddenly stops a particularly scheme, that scheme is left with the State Government. Again I do not want to go into the details of that but then there have been issues of that nature. Of course, there has been a bit of bureaucratisation of the Planning Commission as well and it seized to be a technical body in many ways. Even the technical work was repetitive. There were three-four institutions which were asked to do the macro-modelling but the inputs which came from the macro-modelling exercises, I am not very sure to what extent they went into the formulation of the targets or the strategies."

## (ii) CENTRAL PLAN ASSISTANCE

3.6 Financial assistance provided by the Government of India to support State's Five Year Plans is called Central Plan Assistance (CPA) or Central Assistance (CA) which primarily comprises of following:

### A. Normal Central Assistance (NCA):

The distribution of the NCA is formula based (Gadgil-Mukherjee Formula) and is untied. Gadgil Formula of determining the Central Assistance to the State is being adopted from the Fourth Plan and revised subsequently-allocation is made by the Planning Commission.

### B. Additional Central Assistance (ACA)

This is provided for implementation of externally aided projects (EAPs), and for which recently there is no ceiling. Unlike NCA, this is scheme based. The details of such schemes are given in the Statement 16 of the Expenditure Budget Vol. I. There can be one time ACA and advance ACA.

One time ACA are assistance given by Planning Commission to particular states for undertaking important state specific programmes and schemes. These are one time assistance and thus not recurring. These assistances are discretionary in nature. Advance ACA are advances given to Special Category States in times of financial stress and recoverable in 10 years.

**C. Special Central Assistance (SCA):**

This is provided for special projects and programmes e.g., Western Ghats Development Programme, Border Areas Development Programme etc. (in exceptional situations, Advance Central Assistance, may also be provided). This special plan assistance is given only to Special Category States to bridge the gap between their Planning needs and resources. In other words, SPAs are ACA to special category states.

3.7 CPA is provided, as per scheme of financing applicable for specific purposes, approved by the Planning Commission. It is released in the form of grants and/or loans in varying combinations, as per terms and conditions defined by the Ministry of Finance, Department of Expenditure. Central Assistance in the form of ACA is provided also for various Centrally Sponsored Schemes, viz., Accelerated Irrigation Benefits Programme, Rashtriya Krishi Vikas Yojana, etc., and SCA is extended to states and UTs as additive to Special Component Plan (renamed Scheduled Castes Sub-Plan) and Tribal Sub Plan. Funds provided to the states under Member of Parliament Local Area Development Scheme (MPLADS), i.e., Rs. 5 crore per annum per MP also count as CA.

3.8 Questioned on the issue of negotiating mechanism between States and erstwhile Planning Commission and whether the NITI Aayog would be doing or attempting some of the functions perform hitherto by Planning Commission, Prof. Errol D' Souza, Faculty, Department of Economics, Indian Institute of Management, Ahmedabad, while deposing before the Committee submitted as follows:

> "Ministry will have to spend a lot of time and effort in negotiating with various States. That is going to be a large exercise. I do not think if they have the capacity to deal with it currently. In order to deal with that, first of all, you would actually have to break up a Ministry’s allocation which is available to it within the budgetary exercise. Then the Ministry has to decide how to break that up. The Ministries have not been involved in the negotiation with the States. So, this is a new learning exercise that would

have to take place. The Ministries do not have the technical expertise in many areas to work. We do not have a system in which technocrats come and join Government for a period of time as is available in many other countries. As a result of that, a pool of manpower is not available to make that happen. So, I do not know how this process is going to be worked out. Unless this process is worked out and is made explicit, we will be opening ourselves to a grant bargaining in which anyone can get away with something if he has a good negotiating capital. That is not the way policy should be done. Policy should be done as far a possible by rules. Sometimes, rules are not applicable to certain cases. I do not see that framework in place as of now. There is no sense having an advisory group if it is not influential enough to actually push the advice in a certain direction with the backing of funds. That was the problem as we saw within the earlier plans. It was a very good plan on record but the funding of the plan became a big issue. Similar things are going to happen again. So, we should learn the lessons of the past mistakes. I think it is important to keep this in mind."

3.9 Plan Schemes implemented by Government of India may be broadly classified into two categories:

- Schemes which are implemented by the Central Ministries called 'Central Sector' Schemes.
- Schemes funded with Gross Budgetary Support that are implemented through the State Governments. These Schemes are called **Centrally Sponsored Schemes (CSS).** Relatively, large fund flows to States take place under these schemes. In 2013-14, central budgetary release to the States through these 66 schemes was Rs. 2.10 lakh cr. In 2014-15 budgetary provision for these 66 schemes is Rs. 2.53 lakh crore. Presently there are 34 Ministries/ Departments that have CSS. Majority of these schemes are in social sector like MGNREGA, National Health Mission, Mid Day Meal, SarvaSikshaAbiyaan etc.

3.10 The 12th plan has recommended restructuring of CSS as a major governance reform. For some time now, State Governments have been asserting that 'one size fits all' approach was not tenable and demanded that CSS should be restructured so that they can get more flexibility in implementing the schemes. Secondly, they have been demanding that assistance under these schemes should flow to the Consolidated fund (The Rangarajan Committee on Rationalization of Public Expenditure observed that almost 33% of Plan transfers to the States were to sub-State entities like District Health Societies and bypassed the State legislatures) of the State to ensure accountability to the state legislature and the releases in the schemes should be made more predictable to enable efficient planning and projection of outcomes.

3.11 In June 2013, Planning Commission, after extensive consultations, proposed a major restructuring of CSS which was subsequently approved by the Government. The major elements of the re-structuring were as follows:

(a) To reduce the then existing 142 CSS/Additional Central Assistance Schemes in the Twelfth Five-Year Plan into 66 Schemes, including 17 Flagship Programmes to improve their impact and visibility. Details of these schemes are given at "Annexure-A".

(b) To designate, 17 schemes out of the 66 Schemes, in critical areas like agriculture, drinking water sanitation, health, education, irrigation, nutrition and child development, rural roads, pensions, urban development, etc. which have significant outlays as Flagship Programmes:

(c) To Keep at least 10% of the outlay of each CSS/ACA/Flagship Scheme as Flexi funds.

(d) To formulate state specific guidelines for each CSS/ACA/Flagship scheme and constitution of an Inter-Ministerial Committee comprising Ministry of Finance, Planning Commission, the Administrative Ministry and the State Government to consider suggestions from the States in this regard.

(e) To classify and budget all Plan schemes under which Central Assistance is provided to the States together as Central Assistance to State Plans with effect from 2014-15 (BE) onwards.

(f) To place the funds for all CSS/ACA schemes with the Administrative Ministries and transfer CSS/ACA funds to the States through the Consolidated Fund of the States concerned. This mode of transfer to be implemented in a phased manner in BE 2014-2015.

3.12 Subsequently, the Commission invited proposals from State Governments. Proposals from some of the States and UTs have been received which are under consideration of the Government.

### (iii) Restructuring of Centrally Sponsored Schemes:

3.13 The existing 137 CSSs (Centrally Sponsored Schemes) and 18 ACA (Additional Central Assistance) Schemes have been restructured into 66 schemes in the Twelfth Plan, including 17 Flagship Programmes. This has been done for greater energy-funds under these programmes are released by the GoI as Central Assistance to State Plans, thus giving states greater authority and responsibility. To suit the requirement of the states, the GoI has also approved that a scheme ma have state specific guidelines which may be recommended by an Inter-Ministerial Committee constituted for this purpose. For each new CSS/ACA / Flagship scheme, at least 25 per cent of funds may be contributed by the General Category States and 10 per cent of funds by the Special Category States including J&K, Himachal Pradesh and Uttarakhand. How much expenditures on these schemes should be shared by the states has been a matter of debate in recent years with the GoI having the view that states should shoulder increased financial responsibility in their implementation. The Union Budget 2014-15 (Interim) says that states have the fiscal space to bear a reasonable proportion of the financial costs of implementing flagship programmes and must willingly do so, so that the Central Government can allocate more resources for subjects such as defence, railways, national highways and telecommunication that are its exclusive responsibility.

3.14 The Finance Minister in his budget speech (Union Budget 2014-14) had stated that government is concerned about the proliferation of CSSs and ACA schemes and that each scheme would be reviewed and restructured. Earlier, the National Development Council (NDC), while approving the Twelfth plan in its meeting in December 2012 had also recommended building flexibility in the schemes to suit the requirements of the state governments.

3.15 Questioned on the overall structure of Government of India with respect to the Centrally Sponsored Schemes and whether these schemes are still relevant or not, Dr. N.C. Saxena, Former Secretary, Planning Commission, while deposing before the Committee submitted as follows:

> "There is a tendency among the Government of India Ministries to keep on increasing the schemes. It reached 300 at one point of time and came

down to 150 but the amount involved is very high. Arguments could be made on either side. One could say that States are for political bodies in their own right and therefore they should decide where to spend their money. The other argument is that States are often guided by immediate interests. There are many programmes like primary health, gender, and sometimes education where the demand is not so much high from the people. They would like to have roads; they would like to have maybe hospitals; they would like to have schools. The other point is there is a lot of pressure on the States to appoint Class IV and Class III staff. If you look at the composition of government staff, you will find that 93 percent are in that class like peons, drivers, etc. Again, you find that support staff not needed are too many and the line staff which is needed whether it is nurses, teachers or even police are in short supply. Therefore, unless there is someone to advise them on these larger issues, it is quite likely that States because of pressure from their MLAs and others will push for populist schemes and much of the money which will go to the States may not be used not for the purpose for which they are sent. This may not be true for all the States. There are States which are more responsible. There are States which might construct airports and not think of poor people. So, as I said, arguments could be made on both sides. I have read recently in a newspaper article that the Fourteenth Finance Commission has increased the share of taxes from 32 per cent to 42 per cent. It will mean that the money which has to come from Centrally-sponsored schemes will come down by rupees one lakh crore and money which will come by the Finance Commission will go up by rupees one lakh crore. So, one would say that we are moving in favour of funds tied transfers based on a formula rather than discretionary transfers through the Ministries which are tied to particular schemes. But there are also dangers in making tied transfers because the untied transfers made by the Finance Commission is based on a formula which keeps on changing but the population is taken on 1971 which often acts against the poorer States. When we say that population of 1971 will be taken, it means if Kerala's population was four per cent in 1971, it will keep on getting four per cent though today their population and share might have come down to two and a half per cent. It was only in the 14$^{th}$ Finance Commission that the Government of India made a reference to compensate those States where population has been rising at a rapid rate. The other point is should we link our population with performance? It is a practical idea. I had suggested this when I was examined by the 13$^{th}$ Finance Commission. I said, we should divide the States into three categories: special category States, States which are poorer than the national average and States which are richer; and allocate funds based on needs so that Bihar does not have to compete with Tamil Nadu but with UP and Rajasthan, Kerala with compete with Karnataka and so and so forth. They agreed to make some allocation based on this. For reduction in IMR and for improvement in forest cover, there was provided a special incentive. The same kind of exercise has been given to the 14th Finance Commission. I can hope that they would have made a bigger allocation which will link performance with population, although the poorer States where the capacity building needs a lot of attention may to some extent lose out."

# CHAPTER- IV

## (i) Developing Role of Finance Commission *vis-a-vis* Planning Commission

4.1 Federal political systems provide independent financial control to the central as well as the state Governments so that they are able to perform their typical functions. The Constitution of India has made elaborate provisions towards setting up of a Finance Commission to recommend to the President certain measures relating to the distribution of financial resources between the Union and the States. The powers given to the Finance Commission by the Parliament outlined its functions to finding out revenue gap of the states besides recommending for the ‘grant-in-aids, to the states from the centre. The finance commission cannot determine the capital related issues of the states (though the constitution does not classify between the capital or revenue related roles of the commission while determining the centre’s assistance to the states). In the meantime, to promote the process of planning, an extra-constitutional body i.e. the Planning Commission was set up even before the First Finance Commission was set up. The Planning Commission played a very crucial role in the process of determining central assistance to the states as all development plans, programmes and projects which are within its purview. All grants or loans given by the centre to the states for developmental works are practically dependent on the recommendations of the Planning Commission. Therefore, role of the Planning Commission was said to ‘confine’ the role of the Finance Commission i.e. a non-constitutional body eclipsing a constitutional body. P.J. Rajamannar who headed the Finance Commission (1966–69) suggested to clearly define the relative scope and functions of the two commissions by amending the Constitution, and the Planning Commission was advised to be made a statutory body independent of the Government. Although, most of the Finance Commissions devoluted some extra shares in the central taxes (i.e. the income tax and the central excise) and grants-in-aid. Since the 1990s, certain events made the Government at the centre changed its mindset with regard to the role of the states in the process of development.

4.2 On a query as to whether the whole allocation function should be given to Finance Commission and NITI Aayog may only be reduced to an Advisory Body or a think tank it was deposed as under:

> "The Finance Commission basically devolves funds and the Finance Commission will not be setting targets for States. I think that is a basic sort of a distinction. If the devolution is going to be given to the Finance Commission, the Finance Commission will have to devolve more funds than it currently does out of the Central Pool. That is, again, going to be an issue which is going to be hotly debated, I am sure, by States because earlier they would work out their budgetary processes as to how much they would get from the Finance Commission, how much they would get from the Plan and do a bit of market borrowing, which is allowed under certain limits, and sort of figure out what they want. But if more and more taxation is going to be centralised but the expenditure is decentralised, then the Finance Commission has a huge task of actually devolving much more to the States and leaving less to the Centre. That requires more efficiency of administration in the Centre because you should be able to spend less money but have more effect with that less money. States should have more money and also be more effective with that more money. It requires a different logic actually. I do not see the NITI Aayog having any role to play if the Finance Commission is going to be the only body which is actually going to devolve funds. The NITI Aayog, at most, will bring out academic and working papers on what is happening as a consequence of what is going on which will try to influence the debate. But I do not think it will have a role beyond being an influencer. The Planning Commission used to influence earlier. But the Planning Commission also had a stick which it could also use. I think for matters like these you require a mixture of both. You cannot be just an external advisor saying what you think is best. You have to put your money where you put your mind and mouth down. That has impacts really on society."

4.3 The events may be listed as under :

(i) The constitutional requirement of 'participatory planning' mandated by the 73rd and the 74th Constitutional Amendments was enacted in 1993.

(ii) The process of economic reforms started in 1991–92 required active economic participation from the states.

(iii) The arrival of coalition era at the centre when over dozen political parties, having regional affiliations came together to form the Government.

(iv) The recommendations of the Tenth Finance Commission followed by a constitutional Amendment making Alternative Method ofDevolution a law in 1995.

(v) Various new needs of the time such as tax reforms, agricultural development, industrial expansion, etc.

4.4 An important milestone was created in the enactment of the Fiscal Responsibility and Budget Management (FRBM) Act in 2003 which empowered state Governments to go for market borrowings to fulfill their plan expenditure without prior permission from the central Government (provided that they would have enacted their respective Fiscal Responsibility Acts). This boosted the participatory planning in the country by guaranteeing greater autonomous plan participation from the states. In the realm of the tax reforms process, we see a general tendency to enable the states to collect more and more taxes, the Value Added Tax (VAT) being a shining example by which almost all states were able to increase their gross tax revenue receipts. Further advancement can been envisioned once the economy goes for the proposed enactment of the Goods and Services Tax (GST) Thus, an overall change in the mindset of the Government towards allocating more financial resources in favour of the states which has been also shown by the Tenth and Eleventh Plans.

# CHAPTER-V

## International Practices on Centralised Planning

5.1 Federations like Australia and Canada make provisions in their Constitutions for equalizing levels of service. For this purpose, they provide for transfer of resources from Central Government to State Governments so that people living in different parts of the federation are given similar level of public services. While the Finance Commission transfers in India, under Articles 275–280 of the Constitution have similar purpose, these are meant to transfer resources to the States to meet their requirements of expenditure. There is no specific mention in our Constitution unlike those of other federations. The provisions in the Canadian and Australian Constitutions are mentioned below:

Inter-Governmental Transfers: The Canadian & Australian Models

### (i) CANADA

5.2 As per the Canada Constitution Act 1982, Article 36(2) Parliament and the Government of Canada are committed to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of services at reasonably comparable levels of taxation. There are three major programs of federal transfers to the provinces:

(a) The Equalization Program: a constitutionally mandated unconditional block transfer program to support reasonably comparable levels of services at reasonably comparable levels of taxation in all provinces. The Canadian equalization program uses a notional average standard as the basis for equalization. The basic calculation for the equalization formula is that of a province's tax capacity. Tax capacity is calculated as the amount of per capita revenue that a province could raise by applying the national average tax rates to its tax bases. The tax capacity of each province is then compared with the amount of per capita revenue that could be raised if the province has a standard (five province average) per capita tax base. A province whose per capita tax base is below the standard receives an equalization payment equal to the difference between the province's tax capacity and the standard tax capacity, multiplied by the province's population.

(b) Established Programs Financing (EPF): conditional block (per capita) transfers for health and education with federal conditions on accessibility and standards of service. EPF transfers are made on an equal per capita basis to all provinces. This program is based on the terms of the Federal-Provincial Fiscal Arrangements and Federal Post-Secondary Education and Health Contributions Act of 1977. The federal government has provided each province with a total tax abatement of equalized under the terms of the equalization program. ANNEXURE-I Inter-Governmental Transfers: The Canadian & Australian Models 51.

(c) Canada Assistance Plan (CAP): conditional matching transfers for welfare assistance. CAP evolved from the federal provincial shared-cost programs that existed in the areas of old age assistance, blind persons allowance, disabled persons allowance, and unemployment assistance. Currently, the CAP encompasses not only those four categories of assistance but also assistance to any other persons who require public support, such as needy mothers, dependent children, homes for special care, nursing homes, homes for unmarried mothers, hostels for transients, child-care institutions, work activity programs, and welfare programs for native people. The costs of direct financial assistance, welfare services, and administrative costs are eligible for subsidy. Capital costs and the operating costs of plant and equipment, however, are not. The primary advantage of the CAP is that it leaves wide discretion to the provinces in the allocation of expenditures to particular areas of social assistance in accordance with provincial circumstances. Grants under the CAP are matching and open-ended. The federal government pays 50 percent of all provincial expenditures for assistance to persons in need and for welfare services. Provincial welfare expenditures must meet only a few requirements to be eligible for federal grants. The provinces must agree to meet adequately the basic requirements of the recipients, including food, shelter, clothing, fuel, utilities, household supplies, and personal requirements. The only "eligibility" requirement is that of the individual recipient (as opposed to the income or means test). In addition, no residence requirement may be imposed as a condition of receiving aid. Provinces are free to choose their own rates and categories of assistance, since federal support is completely open-ended.

## (ii) <u>AUSTRALIA</u>

5.3 In Australia, the tax bases of the federal and lower level governments (state and local governments) are divided in such a way that the federal government receives about two thirds of the total government revenues. In terms of expenditure, however, the federal government spends only one third of the total government revenues. This means half of the federal government revenues are distributed through various forms of transfers to the state and local governments. The Australian federal government grants to lower level governments include general purpose grants and specific purpose grants. Many countries that developed their formula-based transfer systems later has adopted methods substantially similar to those used in Australia. Currently, the Grants Commission distributes general purpose grants using a system that measures the States' fiscal capacities and fiscal needs. The objective of this system is to make it possible for any state with reasonable tax efforts to provide the level of public services not substantially below other states. The formula used for calculation the distribution has several alternative presentations, which are mathematically equivalent.

5.4 General Purpose Payments (GPPs) (or untied grants): which are grants to states for specific projects decided by the Commonwealth, e.g. schools, hospitals, or roads.The majority of these grants are "General Purpose Payments" (GPP); i.e., they can be used by states for any purpose. The remainder, called "Specific Purpose Payments" (SPP), are earmarked for specific services such as health, education, roads and housing. The Australian government's GPP can be seen as the equivalent of equalization payments in Canada. The GST revenue pool is distributed among all states on the basis of recommendations by the Commonwealth Grants Commission (CGC).

**Specific Purpose Payments**

5.5 SPP constitute a significant portion of Australian government funding to the states. The Australian government makes SPP to the states as a contribution to important areas of state responsibility.

SPP can be classified into three groups:

- those paid "to" the States – direct payments to state governments,
- those paid "through" the States – payments that state governments pass on to local governments (for example, financial assistance grants to local governments) and to others (for example, to non-government schools);
- those paid directly to local governments to help fund roads, child-care programs and disability services administered by those governments;

5.6 SPP agreements often include agreed-upon national objectives, and generally contain conditions to help ensure those objectives are achieved.

Such conditions may include:

- general policy requirements (for example, the provision of free public hospital access for Medicare patients);
- matching funding arrangements; and
- reporting on performance. In making SPP payments, however, the Australian government does not seek to assume responsibility for state functions.

**(iii) CHINA**:

5.7 The National Development and Reform Commission (NDRC) of the Government of the People's Republic of China, is a macroeconomic management agency under the Chinese State Council, which has broad administrative and planning control over the Chinese economy. Besides Chairman, NDRC has 7 Vice Chairmen, of which 5 are at the Minister level. The NDRC has twenty-six functional departments/bureaus/ offices with an authorized staff size of about 890 civil servants. It operates through various divisions like Development Planning and Policy Studies, Foreign Capital, Industry, Environment, Climate Change, Social Development, Employment and Income Distribution, Trade, Fiscal and Financial Affairs, Price, Laws and Regulations, International Cooperation, etc. The main functions of NDRC are as under:-

- To formulate and implement strategies of national economic and social development, annual plans, medium and long-term development plans; coordination, research, regulation of the overall price level, to submit the plan for national economic and social development to the National People's Congress on behalf of the State Council.
- To monitor macroeconomic and social development trend and provide forecast, national economic security and overall industrial security, to analyze fiscal and financial situation, participate in the formulation of fiscal, monetary and land policies, and formulate and implement price policies; to set and adjust the prices of important commodities that are regulated by the state and important tariffs and charges and according to relevant legislations investigate and deal with price monopoly and activities that breaches the price regulations; to control and

monitor the total size of China's foreign debts, optimize its mix, and promote the balance of international payments.

- To formulate regulatory targets, policies and measures concerning the total size and structure of fixed asset investment in the whole society; to approve, authorize, and review key construction projects, foreign funded key projects and investment projects utilizing large amount of foreign exchange as mandated by the State Council; review utilization of foreign loans.

- To formulate comprehensive industrial policies, to coordinate major issues in agricultural and rural economic and social development, Monitoring and assessment, to formulate plans for the overall volume of import and exports, supervise the implementation of these plans and adjust them in accordance with the performance of the national economy.

- To formulate development policies with regard to population and family planning, science and technology, education, culture, health, employment, income distribution, social security. It looks at policies related to climate change and State Defense Mobilization Commission.

  Administration of State Grain Administration and National Energy Administration.

5.8 Prof. Y.K. Alagh, Chancellor, Central University of Gujarat, while deposing before the Committee, stated with respect to the new Chinese Planning model:

> "The question of China has been talked about. China has done precisely that. It has moved from the state planning. It used to plan for the entire country as well as the state. It has moved over to strategic long-term plans about seven or eight years ago. But it does have still the New National Reform and Development Commission which allocates resources. It is not like in our case where we say the NITI Aayog will make long-term plans. Please remember, if you read the literature of the Aayog, it is meant for policy advice and planning comes much later. They say, 'yes, planning' but the point is in China with the medium-term plans for specific sectors which we have already listed, resources are allocated by the same planning body. I happen to be a researcher on planning. I wrote a book on planning. I am happy to report that my last book on planning has been sold out and a new edition is coming out."

**(iv) Russian Federation :**

5.9 The Ministry of Economic Development of the Russian Federation is the federal executive body responsible for developing state policy and providing regulation in the sphere of analysis and forecasting of socioeconomic and business development through various departments. They are Department of Development of Contract System; Tariffs, Infrastructural Reforms and Efficient Energy Use; Investment Programs and Capital Investment; Property Relations; Real Estate; Special Economic Zones and Projects of Regional Development; Small and Medium Business and Competition; Development of Economic Sectors; Strategic Management, Government Programs and Investment Projects; Trade Negotiations; Social Development, Economy and High Priority Programs; Economic Cooperation and Integration with CIS Countries; Law; Development and Governance of Foreign Economic Relations; Macroeconomic Forecasting; Finance; Regulatory Impact Assessment; Innovative Development; Department of administrative support to the Minister and Department of State.

5.10 The State Planning Committee, commonly known as Gosplan in the erstwhile Soviet Union, was the agency responsible for central economic planning. It was dissolved in 1991 with the dissolution of the Soviet Union.

5.11 The Ministry is headed by the Minister of Economic Development of the Russian Federation. There are 9 Deputy Ministers; one among them is Head of the Federal Agency for State Property Management and one is State Secretary. The major functions of the Ministry are as under:-

- Building of long-term priorities of a state in socio-economic development, allowing private companies to reduce risks, including when making long-term investment decisions;

- Deploying of long-term solutions (with a period of implementation of 7 or more years) in the range of medium-and short-term targets that are agreed upon among themselves;

- Balancing of planned actions that require significant organizational and resource costs (projects in energy, transportation, demographics, national security, in the field of human development);

- Orientating of the Russian Federation and municipal entities to operate in accordance with the established long-term goals;

- Linking solutions which were taken during the state of strategic management and budgetary constraints, that were determined both for medium-and long-term perspectives;

- Monitoring of the implementation of decisions.
- Formation of strategic management systems;
- Development and monitoring of the implementation of the concept of long-term socio-economic development of the Russian Federation;
- Monitoring of implementation of projects in the main areas of activities of the Government of the Russian Federation.

**(v) Germany:**

5.12 In Germany, there is Federal spatial planning and State spatial planning. The primary factors involved in the planning process are the federal government (Bund), the 16 state governments (La¨nder), the 114 planning regions and the approximately 14,000 municipalities. In recent years, the European Union (EU) has also played an increasing (albeit non-binding) role. The federal government does not create or implement plans, but rather sets the overall framework and policy structure to ensure basic consistency for state, regional and local planning, while states, regions and municipalities are the actual planning bodies. The framework distinguishes between Bauleitplanung, or local land use planning, and Raumordnung, or spatial planning. These are organized by two federal acts. First, the Federal Building Code requires lower levels of government to make plans that are vertically and horizontally consistent and standardizes the level of expertise, rules and symbols utilized in compiling plans. Second, spatial planning is guided by the Federal Spatial Planning Act. This act outlines broad guidelines to be met at the Land level, and defines the relationship between the La¨nder and the federal government. Much federal activity is spent advising lower tiers of government on the interpretation of the regulatory framework. Furthermore, municipal plans are required to take into account federally mandated goals laid out in both the Federal Building Code and the Federal Spatial Planning Act. Planning is organized as a process of reciprocal influence by federal, state and municipal authorities on each other’s proposals, commonly referred to as the ‘counter-current principle’. The level of responsibility and degree of plan detail increases with lower levels of government. Specialized sectors (i.e. ministries for transportation, water, energy) provide input through sector plans, which are formulated independently from spatial plans and then integrated by planning authorities.

5.13 As administrative boundaries often do not align with planning issues, regional associations have traditionally been the most flexible and experimental level of planning. Sectoral planning handles the final authorisation of special projects (e.g. railways). Local urban land-use planning is to prepare and control the use of land for building or other purposes.

**(vi) Brazil:**

5.14 The Ministry of Planning, Budget and Management (MPOG) is a Ministry of the Brazilian Federal Government. Its function is to plan the government's administration, plan its costs, analyze the usability of projects, manage budgets and distribute funds to state as well as government projects. MPOG research activities are mainly been realized through the institutes, which are directly linked to the ministry viz. Brazilian Institute of Geography & Statistics and Institute of Applied Economic Research.

5.15 Some of its roles include: (i) assessing socioeconomic impacts of the policies and programs of the Federal Government; (ii) developing, monitoring and evaluating multi-year investment plan and annual budgets viability of new sources of funding for government plans; (iii) coordinating the management of public-private partnerships; (iv) monitoring external financing of public projects; (v) coordinating and managing the federal budget, civilian personnel, resource management information and information technology.

**(vii) United States of America :**

5.16 The National Capital Planning Commission (NCPC) is a U.S. Government Agency that provides planning guidance for Washington, D.C. and the surrounding National Capital Region. Through its planning policies and review of development proposals, the Commission seeks to protect and enhance the extraordinary resources of the national capital. The 12-member commission includes three presidential appointees, of which one must be from Virginia and one from Maryland, the mayor of Washington, D.C., the chairman of the Council of the District of Columbia, two mayoral appointees, and the chairmen of the House and Senate committees with review authority over the District. Other commission members include the heads of the three major land holding agencies, which are the Department of Defense, the Department of the Interior, and the General Services Administration. The Commission is supported by a professional staff of planners, architects, urban designers, historic preservation officers, among others. Principal responsibilities include Urban Design and Plan Review, Comprehensive Planning, Signature Planning, Federal Capital Improvements Program.

**Extracts from Former Prime Minister Dr. Manmohan Singh's Remarks During Meeting with Members of Planning Commission held on 30.04.2014**

> "The Planning Commission has played a historic role in this story so far. But, there is a lot of distance that is still to be covered. The external world is changing rapidly. The structure of the economy and the role of the state in the economy are also changing. With an increasingly open and liberalised economy with a greater reliance on market mechanisms, we need to reflect on what the role of the Planning Commission needs to be in the new world. Are we still using tools and approaches which were designed for a different era? Have we added on new functions and layers without any restructuring of the more traditional activities in the Commission? What additional role should the Planning Commission play and what capacities does it need to build to ensure that it continues to be relevant to the growth process? Governance issues being integral to economic growth, are these areas for the Planning Commission to delve into? What the Planning Commission has achieved over the last decade gives me confidence that it can address these challenges and questions. I am sure it will subject itself to a critical review and will continue to play a leading role in the policy debate in government and in the development of our nation."

## PART - II

## OBSERVATIONS/RECOMMENDATIONS

**1. The erstwhile Planning Commission was set up in March, 1950 by a resolution of the Government of India. The Country has since followed a path of planned development under the aegis of Planning Commission. Planning process with special emphasis on economic planning has been a central tenet of India's development strategy since independence. It is well recognised that after independence the nation was faced with several teething problems. The country faced extreme shortage of capital, which required planning and prudence in the process of allocation of scarce resources, necessitating the need for reasonable centralisation. The Planning Commission was therefore, created as a non-constitutional as well as non-statutory body at the centre, which could frame Five Year Plans that would be able to provide a base for overall national development and growth. The Planning Commission was also entrusted with the duty to decide on the areas and magnitude of Central Government's intervention in State level plans, schemes and policies. The Planning Commission's development strategy as reflected in the successive plans, has undergone shifts in focus over the years in response to the evolving situation and consequential priority of the economy. In the post-liberalisation period, the role of Planning Commission changed from being an omnipotent body to that of a facilitative, decentralisation instrument and subsequently to an official think tank. The planning process thus did not remain stagnant, as it evolved over time. The Commission also played a role in holding Central Ministries accountable for delivering on the plan targets; mid-term appraisal of the 5 year plans, half yearly and quarterly reviews were undertaken to evaluate the targets achieved and analyse the reasons for relative deficiencies. However, with passage of time, the extent of resilience and resurgence that was required was perhaps not forthcoming. Thus, the need arose for the planning process and mechanism to re-invent itself in the present-day scenario.**

**2. It is against this backdrop of attainments, transformation, transition and restructuring the replacement of the Planning Commission by the newly constituted National Institution for Transforming India (NITI) needs to be viewed and commented upon. In keeping with its mandate of promoting and facilitating cooperative federalism, the Committee would expect the NITI to become a key institution not merely as a think tank giving policy inputs to Central Government, but also serve as an instrument for coordinating the policies of the Union and the States for a sustainable developmental agenda. Need for such coordination, cooperation and problem-solving arises due to considerable overlap in carrying out legislative and executive functions with regard to concurrent subjects enumerated in the Constitution, even though approval of plan outlays of Central Ministries and the States have been excluded from the ambit of the NITI. The Committee desire that the role and responsibilities of the erstwhile Planning Commission, wherever found relevant and useful, could still be gainfully institutionalised, albeit in a modified form and with greater result orientation.**

**3. The Committee note that a body like Planning Commission was supposed to address the national and regional objectives of poverty elimination together with balanced equitable regional development with a holistic perspective. They are of the view that leaving these issues to sectoral ministries could lead to a fragmented policy, which may be inefficient in a way that it fails to internalise the synergies and inter- linkages. In this connection, the Committee had pointed out in their Report on the Demands for Grants (2015-16) of the Ministry of Finance that setting aside amounts as large as Rs. 20,000 crore for transfer to States on the recommendation of the NITI was at odds with its restricted mandate with regard to plan outlays and funds transfers to States. The Committee would therefore expect the Government to sort out such ambiguities, so that the newly created NITI can play a significant role in allocation of resources. Accordingly, its specialised role in regard to dissemination of central funds to identified backward regions/areas etc. should also be well delineated. It bears recognition that the erstwhile Planning Commission helped development of weaker States and poorer regions by making available untied funds. This enabled equitable distribution of**

scarce resources. The Central funding for the key social sectors and human development programmes since the mid 90's resulted in significant achievements on the parameters of literacy and education. As outcome deficit and gaps still remain, it is necessary that the NITI plays an interventionist role in this regard. The mandate of the NITI therefore, may be broadened with a view to not only accelerating economic growth but also bridging the gaps in social and economic development across different social categories/segments as well as regions. It may thus play key allocative role with regard to Special Central Assistance for Hill Areas Development, Remote Areas and Tribal Districts, obligations under the 73rd and 74th Constitutional Amendments (11th and 12th Schedules) for the local bodies and Panchayati Raj Institutions, Region-specific programmes like that for the Kalahandi-Bolangir-Koraput and Bundelkhand regions, obligations under tripartite agreements such as that for Gorkha Hill Council and the Integrated Action Plan for the Security Related Expenditure (SRE) districts etc.

4. The role of the NITI in authoritatively coordinating between various Central Ministries/Departments with regard to their schemes and programmes, particularly the centrally sponsored progammes also requires greater clarity. As observed earlier, the functional necessity for such inter-ministrial and inter-sectoral coordination without compromising on domain autonomy by an independent, expert and empowered body has not diminished at all.

5. With the welcome inclusion of cooperative federalism in the mandate of NITI, the Government has sought to put in place a "bottom to top" i.e. grass root approach with emphasis upon decentralised planning, allowing States to have a greater say in policy making initiative. The NITI would, therefore, have to facilitate not only the States but also the District Planning bodies (wherever they exist) to formulate their own plan according to their priorities and ground realities. They will have to provide strategic and technical advice to these agencies. In order to achieve the gigantic task of achieving the planned growth of the country, the NITI would thus have to continuously track emerging trends

**both in the national and international sphere, analyse the opportunities and risks and formulate policy changes accordingly. In this regard, the Committee would like the NITI to develop the wherewithal in key areas critical to the country's development. They should work on creating a repository of domain experts and networks, both within and outside the Government and not rely heavily on generalists. This will enable this body to emerge inter-alia as an independent expert body, advising and counselling both the Central and State Governments and take a holistic perspective towards development of the country.**

**6. Many experts have expressed the view that the distinction between plan and non-plan expenditure is not relevant any longer and needs to be dispensed with. Accordingly, the Committee would recommend that while integrating the plan and non-plan heads, the onerous exercise of distribution of central funds between Centre and the States; (excluding those for special areas / regions as indicated earlier) and among the States *inter-se* including determination of appropriate criteria for the same should be entrusted to the Finance Commission, which is a constitutional body that has so far played an important and catalytic role in the devolution of funds to the States. In this process, the NITI may be empowered to collaborate with the Finance Commission in a structured manner. The State Finance Commissions may also be made an integral part of this process.**

**7. As the approach towards planning becomes more decentralised with both States and Central Ministries securing greater autonomy, it also becomes necessary that the process of planning also undergoes a transformation. However, the Committee are of the view that planning *per se* cannot be dispensed with. In fact, it may assume greater importance in the current scenario, where market forces are yet to mature in the country and inequitable distribution of resources remains a serious issue. In a "bottom to top" approach, wherein the Districts and the States will have their own plan and a planning mechanism of their own, the central plan will no doubt assume different contours, as it will seek to dovetail and integrate the significant aspects of different state plans. The**

Committee would, however, suggest that while adopting this modified approach by integrating the decentralised planning process, the national plan should also spell out certain priorities and focus areas, which are considered as national goals requiring special attention on a country-wide scale. There has to be centralised planning including long-term perspective planning for areas/sectors such as roads, highways, railways, ports, communication, energy, water and irrigation. Uniformity in governance standards across the country to achieve the desired objectives, both social and economic is also a milestone to be factored in.

In this regard, the need for an independent appraisal and monitoring mechanism to oversee performance of States with regard to funds transferred to them also cannot be over-emphasised. The mandate of NITI should, therefore, be appropriately modified keeping in view the aforementioned functional requirements as also best international practices in planning and development.

8. In the light of the factors cited above and the suggestions received from eminent experts, the Committee believe that it would be quite appropriate and purposeful to confer suitable executive powers upon the NITI at this nascent stage itself, particularly considering the broad-based composition and stature of its Governing Council and also the fact that this will enable the this body to deal and interact with both Central Ministries as well as the States in a more authoritative and decisive manner.

9. In sum, the Committee would expect the newly constituted NITI to play in concrete terms the following futuristic role :

(i) Becoming a vibrant think-tank advising and counseling not only the Central Government but also the State Governments in various matters related to planning and development.

(ii) Formulate a periodical National Plan including a long term Perspective Plan dovetailing the salient features of State Plans in a bottom to top approach of decentralised planning, while also

**incorporating aspects of important national programmes and social priorities.**

**(iii) In a scenario where the distinction between plan and non-plan heads is dispensed with, developing a structured collaborative relationship with the Finance Commission, which will recommend resource transfers to the States based inter-alia on the National Plan. In this regard, Deputy Chairman/Member of NITI Aayog may be made ex-officio Member of the Finance Commission as a part of the proposed structured relationship between the two.**

**(iv) Performing allocative role with regard to transfer of funds for (a) Special Central Assistance for identified chronic backward regions including Hilly Areas and Tribal Districts, (b) resource transfers as a consequence of tri-partite agreements (as in the case of Gorkhaland Territorial Administration (GTA) ; (c) obligations under the 73rd and 74th Constitutional Amendments for local bodies for select national programmes as identified by Central Government.**

**With such a broadened mandate, the Committee hope that the NITI will be in a position to play a significant role in the overall development of the country.**

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| **NEW DELHI** | **DR. M. VEERAPPA MOILY,** |
| **21 September, 2015** | **Chairperson,** |
| **30 Bhadrapada, 1937 (Saka)** | **Standing Committee on Finance** |

**Minutes of the Twelfth sitting of the Standing Committee on Finance**

**The Committee sat on Thursday, the 20th November, 2014 from 1100 hrs. to 1335 hrs. in Committee Room 'D', Ground Floor, Parliament House Annexe, New Delhi.**

**PRESENT**

**Dr. M. Veerappa Moily - Chairperson**

**LOK SABHA**

2. Shri Nishikant Dubey
3. Shri. P.C. Gaddigoudar
4. Shri Rattan Lal Kataria
5. Shri Bhartruhari Mahtab
6. Shri Prem Das Rai
7. Prof. Saugata Roy
8. Shri Jyotiraditya M. Scindia
9. Shri Gopal Shetty
10. Shri Kiritbhai Solanki
11. Dr. Kirit Somaiya

**RAJYA SABHA**

12. Shri Naresh Agrawal
13. Shri Brajesh Pathak
14. Shri P. Rajeeve
15. Shri Digvijaya Singh
16. Dr. Manmohan Singh

**SECRETARIAT**

| | | | |
|---|---|---|---|
| 1. | Shri R.K.Jain | - | Joint Secretary |
| 2. | Shri P.C.Koul | - | Director |
| 3. | Shri Ramkumar Suryanarayanan | - | Additional Director |
| 4. | Shri M.L.K. Raja | - | Deputy Secretary |
| 5. | Shri Kulmohan Singh Arora | - | Under Secretary |

**WITNESSES**

**Planning Commission**

1. Ms. Sindhushree Khullar, Secretary
2. Shri Rakesh Ranjan, Adviser
3. Shri Dheeraj Gupta, Adviser

4. Ms. Anjali Goyal, Adviser
5. Shri Praveen Mahto, Adviser

2. At the outset, the Chairperson welcomed the Members to the Sitting of the Committee. The Committee then congratulated Dr. Manmohan Singh on the conferment of "The Grand Cordon of the order of the Paulownia flowers" by Japan. Thereafter, the Committee expressed their deep sense of happiness on the appointment of Shri Jayant Sinha, a Member of the Committee in Union Council of Ministers as a Minister of State in the Ministry of Finance on 9th November, 2014 and decided to send a Resolution congratulating him in this regard.

3. The Chairperson then welcomed the representatives of Ministry of Finance (Department of Revenue) to the Sitting of the Committee.

4. After the customary introduction, the Secretary, Department of Revenue briefed the Committee on the Subject "Review of measures taken for unearthing unaccounted money and curbing generation thereof."

5. After the initial briefing, the Members sought clarifications on a wide range of issues, which included delay in the constitution of Special Investigation Team (SIT), scope of SIT, tax evasion, over-invoicing of export under invoicing of import, bemami transactions, shell companies, illegal mining, illicit real estate operations etc., mechanism available with the Government to track and curb generation of unaccounted money, steps taken for enforcement and amendments to legislation like Narcotics and Psychotropic Substances Act, Foreign Exchange Management Act and Prevention of Money Laundering Act, the Automatic Exchange of Information Agreement under the aegis of G20, Common Reporting Standard, renegotiation of certain tax treaties, viz. Double Taxation Avoidance Agreement (DTAA), Generation Anti Avoidance Rule (GAAR) etc. introduction of new tax code, widening of ambit of TDS, TCS, trust deficit between the Government and the Supreme Court on the issue of black money, study of estimation of black money by National Institute of Public Finance and Policy (NIPFP) and the National Institute of Financial Management (NIFM) etc.

6. The Witnesses replied to some of the issues raised by the Members. The Chairperson, considering the vast number of points raised and clarifications sought by the Members directed the representatives of the Department of Revenue to furnish detailed written replies to the Committee Secretariat within 15 days.

(The witnesses then withdrew)

**A verbatim record of the proceedings has been kept.**

**The Committee then adjourned.**

**Minutes of the Fifteenth Sitting of the Standing Committee on Finance**

**The Committee sat on Thursday, the 02nd January, 2015 from 1500 hrs. to 1640 hrs. in Committee Room 'D', Ground Floor, Parliament House Annexe, New Delhi.**

**PRESENT**

**Dr. M. Veerappa Moily - Chairperson**

**LOK SABHA**

2. Shri Venkatesh Babu T.G.
3. Shri Nishikant Dubey
4. P.C. Gaddigoudar
5. Shri Prataprao Jadhav
6. Shri Prem Das Rai
7. Prof. Saugata Roy
8. Shri Gopal Shetty
9. Dr. Kiritbhai Solanki
10. Dr. Kirit Somaiya

**RAJYA SABHA**

11. Shri Naresh Agrawal
12. Shri Naresh Gujral
13. Shri Digvijay Singh
14. Dr. Manmohan Singh

**SECRETARIAT**

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|---|---|---|---|
| 1. | Shri R. K. Jain | - | Joint Secretary |
| 2. | Shri P.C. Koul | - | Director |
| 3. | Shri Kulmohan Singh Arora | - | Deputy Secretary |

**WITNESS**

1. Shri Arun Maira, Ex-Member, Planning Commission

2. At the outset, the Chairperson welcomed the Members to the Sitting and updated them on the proposed Study Visit of the Committee to Mumbai, Bengaluru and

Hyderabad. The Committee deliberated on the business for the Study Visit for a while and finalised it. The Chairperson then directed the witnesses be ushered in

(At around 1515 hours the Witness took his seat)

3. The Chairperson welcomed the witness. The witness thereafter made an audio-visual presentation on the Subject 'Planning Process - A Review'. The Members, sought clarifications from the witness on a range of issues pertaining to the Subject. The major issues discussed included planning process, working of erstwhile Planning Commission, past efforts for reforming Planning Commission, nature and scope of functioning of NITI Aayog, need for centralised planning for education, health and employment, need for special scheme for recharge of ground water, appraisal of all five year plans, grassroot planning and participation of all stakeholders in planning process, plan and non-plan budgeting, de-centralisation, implementation of recommendations of Rangarajan Committee, etc.

4. The witness responded to the queries of the Members. The Chairperson directed the witness to send information on points that had remained unanswered/ unclarified to the Secretariat of the Committee at the earliest.

(The witnesses then withdrew)

**A verbatim record of the proceedings has been kept.**

**The Committee then adjourned.**

**Minutes of the Seventeenth Sitting of the Standing Committee on Finance**

**The Committee sat on Thursday, the 28th January, 2015 from 1500 hrs. to 1750 hrs. in Committee Room 'D', Ground Floor, Parliament House Annexe, New Delhi.**

**PRESENT**

**Dr. M. Veerappa Moily - Chairperson**

**LOK SABHA**

2. Shri Nishikant Dubey
3. Shri Shyama Charan Gupta
4. Shri Prataprao Jadhav
5. Shri Rattan Lal Kataria
6. Shri Bhartruhari Mahtab
7. Shri Rayapati Sambasiva Rao
8. Prof. Saugata Roy
9. Shri Jyotiraditya M. Scindia
10. Shri Gopal Shetty
11. Shri Anil Shirole
12. Dr. Kirit Somaiya

**RAJYA SABHA**

13. Shri Satish Chandra Misra
14. Dr. Mahendra Prasad
15. Shri C. M. Ramesh
16. Dr. Manmohan Singh

**SECRETARIAT**

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|---|---|---|---|
| 1. | Shri P.C. Koul | - | Director |
| 2. | Shri Ramkumar Suryanarayanan | - | Additional Director |
| 3. | Shri Kulmohan Singh Arora | - | Deputy Secretary |

**WITNESSES**

1. Dr. N.C. Saxena, Former Secretary, Planning Commission
2. Smt. Sudha Pillai, Former Member Secretary, Planning Commission
3. Prof. Abhijit Sen, Former Member, Planning Commission; and
4. Prof. Shankar Acharya, Honorary Professor, ICRIER.

At the outset, the Chairperson welcomed the Members to the Sitting and informed them about the business to be transacted during the Sitting.

2. The Chairperson then directed that the first witness be ushered in (At around 1510 hours Dr. N.C. Saxena took his seat). The Chairperson welcome the Witness and apprised him of Direction of Speaker, Lok Sabha about the confidentiality of discussion held till the Report of the Committee was presented to Parliament. Thereafter the Witness made an audio-visual presentation on the Subject 'Planning Process - A Review'. The Members, sought clarifications from the witness on a range of issues pertaining to the Subject. including planning process as being carried out, hitherto, actual role of NITI Aayog vis-a-vis erstwhile Planning Commission; points related to centralised planning in the light of emerging cooperative federalism; command structure within the NITI Aayog; identification and rectification of systemic shortcomings of the erstwhile Planning Commission; implication of conferring the new organisation with only an advisory role and as a think tank; mechanism of coordination between the Aayog and the States, while maintaining the sanctity of the federal structure and the issue of allocation and transfer of resources to Ministries and States and distinction between Plan and Non-Plan expenditure. The Witness responded to the queries of the Members. The Chairperson directed the witness to send information on points that had remained unanswered/ unclarified to the Secretariat of the Committee at the earliest. The Chairperson also requested the Witness to furnish to the Committee a detailed note on the desirability of having the differentiation between plan and non-plan in the Union Budget.

(The witnesses then withdrew)

3. The Chairperson directed that the next witness to be ushered in (At around 1600 hrs. Ms. Sudha Pilla took her seat). The Chairperson welcome the Witness and apprised her of Direction of Speaker, Lok Sabha about the confidentiality of discussion held till the Report of the Committee was presented to Parliament. The Members, sought clarifications from the Witness on a range of issues pertaining to the Subject. The major issues discussed during the Sitting broadly related to issues concerning the erstwhile planning process; identification of BPL criteria; role of Advisors in the previous Commission; emerging views and steps to achieve the thirteen point objective of the

new Aayog and the structural changes required to achieve them; position regarding the executive powers and mandate enjoyed by the Planning Commission in the formulation of plans and allocation of funds.

4. The Committee also discussed issues related to changing scenario of planning requirements at present; role expected to be played by NITI Aayog towards the upliftment of backward States and regions; ways of achieving inter ministerial coordination and evaluation of flagship schemes; process of advising the State Governments and approval to the State plans; removal of distinction between Plan and Non-Plan expenditure as suggested by Dr. C. Rangarajan; steps taken on various representations and suggestions received and need for specially addressing the issue of public expenditure in health and education in the context of planning. The Witness responded to the queries of the Members. The Chairperson directed the witness to send information on points that had remained unanswered/ unclarified to the Secretariat of the Committee at the earliest.

(The witnesses then withdrew)

5. The Chairperson directed that the next witness to be ushered in (At around 1705 hrs. Dr. Shankar Acharya took his seat). The Chairperson welcome the Witness and apprised him of Direction of Speaker, Lok Sabha about the confidentiality of discussion held till the Report of the Committee was presented to Parliament. The Members, sought clarifications from the Witness on a range of issues pertaining to the Subject. The major issues discussed during the Sitting broadly related to deficiencies in the concept of NITI Aayog; probability of delegation of power of allocating funds to the Finance Ministry or Finance Commission; vesting the Aayog with the power to provide strategic inputs for the development process; new dynamics in respect of investment policies and planning in a free-market mechanism; restructuring of the planning process per se; role played by centralised planning to achieve growth in agriculture, industry and in reduction of poverty; reasons leading to reduction in efficacy of Planning Commission and the continued relevance of issues such as energy efficiency and management and environmental impact of plans in the new set up. The Witness responded to the queries of the Members. The Chairperson directed the Witness to send information on points

that had remained unanswered/ unclarified to the Secretariat of the Committee at the earliest.

(The witnesses then withdrew)

**(A verbatim Record of the proceedings has been kept.)**

**The Committee then adjourned.**

**Minutes of the Eighteenth Sitting of the Standing Committee on Finance**

**The Committee sat on Thursday, the 05th February, 2015 from 1500 hrs. to 1715 hrs. in Committee Room 'C', Ground Floor, Parliament House Annexe, New Delhi.**

**PRESENT**

**Dr. M. Veerappa Moily - Chairperson**

**LOK SABHA**

2. Shri S.S. Ahluwalia
3. Shri Nishikant Dubey
4. P.C. Gaddigoudar
5. Shri Prataprao Jadhav
6. Shri Rattan Lal Kataria
7. Shri Bhartruhari Mahtab
8. Shri Prem Das Rai
9. Shri Rayapati Sambasiva Rao
10. Prof. Saugata Roy
11. Shri Gopal Shetty
12. Shri Anil Shirole
13. Dr. Kiritbhai Solanki
14. Dr. Kirit Somaiya

**RAJYA SABHA**

15. Shri Naresh Gujral
16. Shri P. Rajeeve
17. Shri C.M. Ramesh
18. Dr. Manmohan Singh

**SECRETARIAT**

1. Shri P.C. Koul - Director
2. Shri Ramkumar Suryanarayanan - Additional Director
3. Shri Kulmohan Singh Arora - Deputy Secretary

**WITNESS**

1. Dr. M. Govinda Rao, former Member, Fourteenth Finance Commission

2. At the outset, the Chairperson welcomed the Members to the Sitting. The Committee, thereafter, deliberated for a while on the Subject under consideration i.e. 'Planning Process- A Review' and the progress made in its examination, thus far. The Chairperson then directed that the Witness be ushered in.

3. The Chairperson welcomed the Witness. The witness, thereafter, made an audio-visual presentation on the Subject. The Members, sought clarifications from the witness on a range of issues including planning process per se, assessment of the impact of ongoing transition; future roadmap and process of centralised planning with regard to federalism; specific role expected of the newly constituted body; link between decentralised planning and NITI Aayog; need for planning to enable development of backward regions to bring about equitable distribution of wealth and resources; role of planning in public health and education; Parliamentary oversight over the NITI Aayog and the constitutional mandate for developmental planning, market economy and planning, funds transfer aspects, research capacity of the new entity to identify, follow and emulate global best practices, downslide in capital investment from 70% to 22-25% due to proliferation of schemes and transfers, creation of NITI Aayog through a Cabinet Resolution quite like that of Planning Commission, making the Finance Commission a permanent entity, requirement of a centralised planning body to coordinate downwards movement of funds in view of a symmetry in availability of funds, utilising Inter-State Council as a problem solving body under NITI, introspection on nationalisation and the need for privatisation, how investment planning would be achieved in the new planning regime, role of Finance Ministry and Ministry of Planning in the new set-up, etc.

4. The Witness responded to the queries of the Members. The Chairperson directed the Witness to send information on points that had remained unanswered/ unclarified to the Secretariat of the Committee at the earliest.

(The Witnesses then withdrew)

A verbatim record of the proceedings has been kept.

**The Committee then adjourned.**

**Minutes of the Nineteenth Sitting of the Standing Committee on Finance**

**The Committee sat on Thursday, the 12th February, 2015 at 1500 hrs. to 1715 hrs. in Committee Room 'D', Ground Floor, Parliament House Annexe, New Delhi.**

**PRESENT**

**Dr. M. Veerappa Moily - Chairperson**

**LOK SABHA**

2. Shri S.S. Ahluwalia
3. Shri Nishikant Dubey
4. Shri P.C. Gaddigoudar
5. Shri Rattan Lal Kataria
6. Shri Bhartruhari Mahtab
7. Shri Prem Das Rai
8. Shri Gajendra Singh Sekhawat
9. Shri Gopal Shetty
10. Shri Anil Shirole
11. Dr. Kirit Somaiya

**RAJYA SABHA**

12. Shri Naresh Agrawal
13. Dr. Mahendra Prasad
14. Shri P. Rajeeve
15. Dr. Manmohan Singh

**SECRETARIAT**

| | | | |
|---|---|---|---|
| 1. | Shri P.C. Koul | - | Director |
| 2. | Shri Ramkumar Suryanarayanan | - | Additional Director |

**WITNESSES**

**Ministry of Planning**

1. Ms. Sindhushree Khullar, Secretary and CEO, NITI AAYOG
2. Shri Rakesh Ranjan, Adviser
3. Shri Dheeraj Gupta, Adviser
4. Ms. Anjali Goyal, Advise
5. Ms. Savita Sharma, Adviser

2. At the outset, the Chairperson welcomed the Members and the representatives of Ministry of Planning to the Sitting. After the customery introduction the Committee took the Oral Evidence of the Witnesses on the Subject 'Planning Process - A Review'. The Members raised queries and sought clarifications from the Witness on a range of issues pertaining to the Subject. The major issues discussed included institutional framework of the planning process *per se*; constitution of NITI Aayog through a Cabinet Resolution as in case of its predecessor, the Planning Commission; need for critical appraisal of the planning process over the years instead of jettisoning it; lack of clarity and contradictions in the wording of the present Resolution; evolving a mechanism for fixing accountability of the new institution to the Parliament; issue of coordination between Centre and States and federal implications of the new set up; need for preferential treatment to backward and hill States; status of plan/non-plan expenditure and crucial central schemes; status of mid-term review; lack of impetus for the agricultural sector in the new Resolution; extending financial de-centralisation to the lowest tiers of the Government and steps to improve efficiency in public goods delivery, dimensions of inclusive growth and federal cooperatism, overlap with Inter State Council, etc.

3. The Witnesses responded to the queries of the Members. The Chairperson directed the Witness to send information on points that had remained unanswered/unclarified to the Secretariat of the Committee at the earliest.

(The witnesses then withdrew)

**A verbatim record of the proceedings has been kept.**

**The Committee then adjourned.**

**Minutes of the Twentieth Sitting of the Standing Committee on Finance**

**The Committee sat on Thursday, the 18th February, 2015 from 1500 hrs. to 1730 hrs. in Committee Room 'D', Ground Floor, Parliament House Annexe, New Delhi.**

**PRESENT**

**Dr. M. Veerappa Moily - Chairperson**

**LOK SABHA**

2. Shri Venkatesh Babu T. G.
3. Shri Nishikant Dubey
4. Shri Shyama Charan Gupta
5. Rattan Lal Kataria
6. Shri Prem Das Rai
7. Shri Jyotiraditya M. Scindia
8. Shri Gopal Shetty
9. Dr. Kirit Somaiya

**RAJYA SABHA**

10. Shri Digvijaya Singh
11. Dr. Manmohan Singh

**SECRETARIAT**

| | | | |
|---|---|---|---|
| 1. | Shri R.K.Jain | - | Joint Secretary |
| 2. | Shri P.C.Koul | - | Director |
| 3. | Shri Ramkumar Suryanarayanan | - | Additional Director |
| 4. | Shri Kulmohan Singh Arora | - | Deputy Secretary |

**WITNESSES**

| | | | |
|---|---|---|---|
| 1 | Prof. Y.K. Alagh | - | Chancellor, Central University of Gujarat |
| 2. | Prof. Errol D'Souza | - | Faculty, Department of Economics, Indian Institute of Management, Ahmedabad |
| 3. | Dr. Rathin Roy | - | Director, National Institute of Public Finance and Policy, New Delhi |

At the outset, the Chairperson welcomed the Members to the Sitting and informed them about the business to be transacted during the Sitting.

The Chairperson then directed that the first Witness be ushered in.

***(At around 1505 hours Prof. Y.K. Alagh took his seat)***

2. The Chairperson welcomed the witness and apprised him of Direction 58 of the Directions by the Speaker, Lok Sabha about the confidentiality of discussion held till the Report of the Committee was presented to Parliament. The witness then briefed the Committee on the Subject 'Planning Process - A Review'. The major issues and concerns brought forth by the witness pertained to the allocation of resources and sectoral investment; status of five year and periodical plans; transfer of block grants to States and interdepartmental coordination with regard to Centrally Sponsored Scheme's; factoring of Finance Commission's mandate; role and function of NITI Aayog in the change scenario; future of the essential function related to the social and economic progress of the country along with equitable distribution; need for increasing investment in the agriculture sector; promotion of skill development sector and elimination of poverty instead of alleviation; fundamental changes appearing in the NITI Aayog and major challenges facing the country in the coming decades; issues related to the powers of NITI Aayog and conflict with the Ministry of Finance; proper utilisation of the rich demographic dividend, issues related to co-operative and competitive federalism; need for clear and coherent vision with regard to safeguards to stable and sustainable growth and equity and equality of opportunity; withdrawal of plan and non-plan distinction; development of strategic vision for human resource development and need to channelize investment into health and education sectors. The Members raised several queries on these aspects and the Witness responded to them. The Chairperson directed the Witness to send information on points that had remained unanswered/unclarified to the Secretariat of the Committee at the earliest.

(The witnesses then withdrew)

The Chairperson then directed that the next Witness be ushered in.

(At around 1620 hrs. Prof. Errol D'Souza took his seat)

3. The Chairperson welcomed the witness and apprised him of Direction 58 of the Directions by the Speaker, Lok Sabha about the confidentiality of discussions held till

the Report of the Committee was presented to Parliament. After the customary introduction was over, the witness with the permission of the Chairperson briefed the Committee about the chronological history of planning in the Country and how it has evolved with the changing dynamics of a developing economy. He also dwelt upon several other issues including absence of capacity in the Ministries to negotiate and several other issues including absence of capacity in the Ministries to negotiate and plan, lack of explicitness in planning process leading to parties with better negotiating capital gaining at the cost of the less influential ones, need to decentralised State's delivery mechanism, incapability of an advisory group in delivering socio-political goals, setting median levels for all States being counter-productive, absence of administrative regulatory methods would mean that the accountability mechanism for States will be missing, the new system and institution leading to an increased competition and infighting among States; possibility of allocation function being assigned to the Finance Commission and consequent role of NITI Aayog, etc. The Members raised several queries and sought clarifications on various issues and the witness responded to them. The Chairperson directed the Witness to send replies to the queries which could not be clarified by him during the Sitting to the Committee Secretariat at the earliest.

(The witnesses then withdrew)

The Chairperson then directed that the next Witness be ushered in.

4. The Chairperson welcomed the witness and apprised him of Direction 58 of the Directions by the Speaker, Lok Sabha about the confidentiality of discussions held till the Report of the Committee was presented to Parliament. After the customery introduction the witness briefed the Members on several crucial aspects of the Subject including the need for change in working of the Ministries complimenting with that of NITI Aayog, especially the Ministry of Finance; status of States in the new set up; increase in influence of the line Ministries with regards to the scheme related to them; increased focus towards systemic cohesion at the level of Central Government; need for radical reformation in the line and Finance Ministry, the fate of top down approach followed in planning till date, need for a special mechanism for special category States,

almost 3/4th of funds being utilised presently on consumption expenditure, etc. The Member sought several clarifications from the witness, who responded to them. The Chairperson directed the Witness to send information on the points on which information could not be readily provided by him during the Sitting to the Committee Secretariat at the earliest.

**(The witnesses then withdrew)**

**A verbatim record of the proceedings has been kept separately.**

***The Committee then adjourned.***

**Minutes of the First sitting of the Standing Committee on Finance**

**The Committee sat on Thursday, the 10 September, 2015 from 1100 hrs. to 1245 hrs. in Committee Room 'D', Ground Floor, Parliament House Annexe, New Delhi.**

**PRESENT**

**Dr. M. Veerappa Moily - Chairperson**

**LOK SABHA**

2. Shri S.S. Ahluwalia
3. Shri Sudip Bandyoypadhyay
4. Shri Nishikant Dubey
5. Shri Shyama Charan Gupta
6. Shri Rattan Lal Kataria
7. Shri Bhartruhari Mahtab
8. Prof. Saugata Roy
9. Shri Jyotiraditya M. Scindia
10. Shri Gajendra Singh Sekhawat
11. Shri Gopal Shetty
12. Shri Anil Shirole
13. Shri Kiritbhai Solanki
14. Dr. Kirit Somaiya
15. Shri Shivkumar Udasi

**RAJYA SABHA**

16. Shri Naresh Agrawal
17. Shri K.N. Balagopal
18. Shri Naresh Gujral
19. Shri Satish Chandra Misra
20. Dr. Mahendra Prasad
21. Shri C. M. Ramesh
22. Shri Ajay Sancheti
23. Dr. Manmohan Singh

**SECRETARIAT**

| | | | |
|---|---|---|---|
| 1. | Smt. Abha Singh | - | Joint Secretary |
| 2. | Shri P.C. Tripathy | - | Director |
| 3. | Shri Ramkumar Suryanarayanan | - | Additional Director |

2. At the outset, the Chairperson welcomed the Members to the Sitting of the Committee. The Committee then took up the following draft Reports for consideration and adoption :

(i) Draft Report on Action Taken by the Government on the recommendations contained in the Fourth Report of the Committee on Finance on Demands for Grants (2014-15) of the Ministry of Planning.

(ii) Draft Report on the Subject - 'Planning Process - A Review'.

(iii) Draft Report on the Subject - 'Efficacy of Regulation of Collective Investment Schemes, Chit Funds, etc.

3. After some deliberations, the Committee adopted the reports with minor modifications and authorised the Chairperson to finalise and present the same to the Hon'ble Speaker, Lok Sabha / Parliament.

4. XX XX XX XX XX

***The Committee then adjourned.***