Economic Planning in India
Did We Throw the Baby Out with the Bathwater?

Ajay Chhibber

Abstract

India has a long and checkered history of planning with some success but many failures. Despite India’s federal structure India’s approach to planning has been top-down with the union government controlling many levers – financial and otherwise to determine the direction of the economy and social programs. India has tried 3 types of planning – “directed planning”, “indicative planning” and now just a “strategy but no planning”. India needed to replace the Planning Commission but not give up on planning altogether. Just as the rest of the world was going back to a “new planning” surge to handle climate change and the desire to meet the SDGs, India abolished planning altogether. The successor to the planning commission - the Niti Aayog needs to get back to “new planning”, that is now being adopted by many countries with stronger leadership. A legitimised authorising environment and effective use to plan can help India achieve the SDGs by 2030 and become a prosperous country by 2047.

Keywords: Indian Planning, Niti Aayog, SDG, Climate change, ”new planning"

Publication Date: 20 May 2022

* Ajay Chhibber is a Distinguished Visiting Scholar, Institute for International Economic Policy, George Washington University, USA and Senior Visiting Professor, Indian Council for Research on International Economic Relations, New Delhi, India

* I am grateful to Emily Tyler for research assistance for this paper and to Nitin Desai and M Govinda Rao for very useful comments.
I Introduction

In this paper, we examine what role planning systems and their efficacies have played in delivering different socio-economic outcomes. The three distinct types of planning – “directed planning”, “indicative planning” morphed into what could be described as “prescriptive planning “and now just a “strategy but no planning”. India offers a mix of experiences from which to draw lessons.

It is difficult to disentangle the role of planning and planning systems from broader economic policy choices in determining socio-economic outcomes. India followed a policy of import substitution with state-led development in its first four decades of development from 1950-1990. But then starting in 1991, India changed course and opened considerably to the world allowing the private sector to play a much bigger role in the economy. It also shifted its approach to planning from more directed planning to indicative planning and finally since 2018 to no overt planning.

Despite India’s federal structure, India’s approach to planning and managing its economy has been top-down. Whether this has served India well will be examined in this paper.

Finally, the paper will try to assess where India stands today – with no overt planning and whether this approach serves India well given its stage of development and with huge challenges – especially climate change and increasing inequality – that confront its policymakers. India abolished planning just when the rest of the world was seeing a resurgence in planning. The paper argues for a thoroughly revamped Niti Aayog, with a return to new planning systems, with much stronger political leadership, greater intellectual capacity and authorising (but not necessarily financial) powers over union and state plans.

II: History of Indian Planning and Its Efficacy

India’s long history of planning, starting well before independence, has made seminal contributions to the concepts of planning. However, India’s planning systems have had, at best, mixed success in helping India achieve economic and social development.

A Brief History

From 1950 to 2017, the concept of planning was carried through the Five-Year Plans, developed, executed, and monitored by the Planning Commission (1951-2014) and the NITI Aayog (2015-2017). Between 1950-65, India shifted to state-led industrialisation, import substitution, and directed planning including industrial licensing. As a result, India’s economy grew slowly at around 3-4% GDP growth and poverty increased.¹ From 1965 onwards the focus was on agriculture as food shortages dominated and more populist policies were introduced from 1970 onwards under the slogan “Garibi Hatao” when banks were nationalised.

India’s economy started to do better since 1980 when there was some internal liberalisation. But the more sustained jump in economic growth came from the 1991 reforms when India started opening the economy to the rest of the world and did away with industrial licensing in many sectors which allowed the private sector to invest and grow. In line with economic policy India also changed its approach to planning. The 8th Five-Year plan (1992-97) clearly recognised this change when it stated
“In line with the changed circumstances, we have redefined the role of the Planning Commission. From a highly centralized planning system, we are gradually moving towards indicative planning.”

This shift was cemented further in the Ninth Five-Year Plan which was put together under Prime Minister Atal Bihari Vajpayee of the BJP. It stated

“The Eighth Five-Year Plan had explicitly indicated a shift from directive to largely indicative plan...... The planning process today, therefore, focuses on planning for policy so that the signals that are sent to the economic system induce the various economic agents to behave in a manner which is consistent with the national objectives.”

As India’s growth accelerated and inequalities widened, the Eleventh Five-Year Plan 2007-2012, shifted its focus to more inclusive growth. But as it recognised, it began to infringe heavily through a resurgence in centrally sponsored schemes (CSS) into areas which were the domain of the states “An important aspect of the Eleventh Plan is that most of the public sector programmes are in areas that are normally in the domain of State Governments ....”

According to a study done for NITI Aayog by NIPFP, in 2012, there were 147 such schemes initiated by various Central ministries (Rao 2015). In 2013, these schemes were consolidated into 66 and in 2014, after the 14th Finance Commission made the recommendation to increase the tax devolution to 42 per cent of the divisible pool, the Central government consolidated the schemes into 28 and classified them into “Core of the core”, “Core” and “Optional” with matching requirements from the States stipulated at 30 per cent, 40 per cent and 50 per cent respectively. But this just meant that each scheme now had many sub-schemes, with even larger matching funding requirements. As a result, indicative planning began to look more like “prescriptive planning” and created huge resentment amidst states. A typical district administrator does not know how many programs are being implemented in his/her district, let alone how well they are delivering.

Concerns with the controlling nature of the Planning Commission led to its abolishment in 2014 and the creation of NITI Aayog. The new NITI Aayog was expected to prepare a 15-year vision, a 7-year strategy and a 3-year implementation plan. But all it has done is prepare a New India Strategy @75 and even that has been upended by the pandemic.

India is now going against the global trend where we see the number of countries with a national development plan has more than doubled, from about 62 in 2006 to 134 in 2018. More than 80 per cent of the global population now lives in a country with a national development plan of one form or another. This is a stunning recovery of a practice that had been discredited in the 1980s and 1990s as a relic of directed economies and state-led development. Several factors have fostered this re-emergence of what is called “new national planning” but from about 2015 the momentum for producing plans has accelerated, driven in part by a need to plan for the Sustainable Development Goals (SDGs) according to Chimhowu, Hulme and Munro (2019).

NITI Aayog has the twin mandate to oversee the adoption and monitoring of the SDGs in the country and promote competitive and cooperative federalism among States and UTs. As its SDG report states “The first element of the strategy is to ensure that attainment of SDGs become central to the policy goals of not only the different Ministries in the Central Government but also of the State Governments. Given the complex nature of the task involved, NITI Aayog uses the framework of
cooperative as well as competitive federalism to align the policies and schemes of State and Central Governments in these sectors to achieve the SDGs” (see Figure 1) (2019).

But Niti Aayog as the government’s premier think tank needs to do more than just prepare indices of progress. Achieving the SDGs will require a better understanding of synergies between various indicators, so that progress on several indicators can be made by ensuring development programs that address key constraints. For example, health outcomes will depend on access to health but will also depend on clean water and sanitation, education (especially for girls), clean air, transport, better housing, and access to modern energy among some of the key factors. How well these are provided in a coordinated package at the local level makes all the difference. Under the Addis Ababa Action Agenda – the financing framework that followed the adoption of the SDG’s – the Integrated National Financing Framework (INFF) has been developed. Several countries have adopted this and made progress in developing INFF’s – among them Indonesia is a prominent one. One way to make progress towards the SDG’s maybe to have the NITI Aayog take the lead in developing an INFF for achieving the priority SDGs for India by 2030.

Figure 1: SDG Index for India by States and Union Territories

Performance of States - SDG Index

<table>
<thead>
<tr>
<th>State</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jarkhand</td>
<td>52</td>
</tr>
<tr>
<td>Uttar Pradesh</td>
<td>57</td>
</tr>
<tr>
<td>Meghalaya</td>
<td>60</td>
</tr>
<tr>
<td>Nagaland</td>
<td>60</td>
</tr>
<tr>
<td>Odisha</td>
<td>61</td>
</tr>
<tr>
<td>West Bengal</td>
<td>62</td>
</tr>
<tr>
<td>Tripura</td>
<td>64</td>
</tr>
<tr>
<td>Mizoram</td>
<td>65</td>
</tr>
<tr>
<td>Telangana</td>
<td>67</td>
</tr>
<tr>
<td>Maharashtra</td>
<td>68</td>
</tr>
<tr>
<td>Karnataka</td>
<td>70</td>
</tr>
<tr>
<td>Uttarakhand</td>
<td>71</td>
</tr>
<tr>
<td>Himachal Pradesh</td>
<td>72</td>
</tr>
<tr>
<td>Kerala</td>
<td>74</td>
</tr>
</tbody>
</table>


India’s constitution also recognised a third tier of local government, but this third level of government has remained weak. This inability to plan and deliver services at the level of local administration has meant that planning approaches have been more top-down and not grassroots based. An Aspirational (earlier backward) Districts Programme (ADP)– was set up under NITI Aayog in 2018 designed to reach directly down to the district level ostensibly in cooperation with states. These 112 aspirational (earlier called backward) districts across the country have been learning from and competing against each other to record improvement across the SDGs 3, 4, 6, 8, 9, 10: focusing on health and nutrition, education, agriculture and water resources, financial inclusion and skill development, and basic infrastructure.

But despite progress in these areas, some 7 years since the establishment of NITI Aayog, questions are being raised as to whether India can continue to function without medium-term planning. Annual budget allocations are made by the Finance Ministry to meet various investment goals and objectives but without a well-defined plan. NITI Aayog’s advice is also not taken seriously by state governments as it comes without resources. Some feel that NITI Aayog should have resources it allocates to address development imbalances and that the Ministry of Finance is naturally focused on budgetary management rather than development outcomes. While no one wants a return to the old Planning Commission, a more involved and competent NITI Aayog, with a stronger voice is clearly needed.
Going forward any new planning system will need to address three major lacunae. First, India saw a huge rise in inequality, both individual and across states (see Figure 2) and across other dimensions such as gender, caste and even religion, despite planning. Poverty saw decline but India still has substantial challenges on this front. Second, India placed heavy emphasis on industrialisation but despite all its best efforts, India saw premature de-industrialisation. As a result, a large share of its population remains dependent on agriculture and now faces a farm crisis. Third, India’s ability to provide adequate healthcare and social protection to a large mass of its population has remained a huge drawback – now laid bare during the COVID pandemic. And to add to this climate change – the mother of all market failures- looms as a major challenge which will require planned government interventions.

III: Structure of the Planning System and Authorising Environment.

What were the Key Problems with the Planning Commission? 

Concerns Regarding Federalism: The Planning Commission, by performing the role of a control commission rather than a recommending body exceeded the scope of its authority. This overreach was egregious due to the Planning Commission’s influence on the allocation of funds to the State governments which directly impacts Centre-State relations. The explicit allocation of the responsibility to determine the distribution of Central funds between the Centre and the various States to the Finance Commission is clear from Article 280, Constitution of India. Art. 280(2): It shall be the duty of the Commission to make recommendations to the President as to a) the distribution between the Union and the States of the net proceeds of taxes which are to be, or may be, divided between them and the allocation between the States of the respective shares of such proceeds; b) the principles which should govern the grants in aid of the revenues of the States out of the Consolidated Fund of India; and c) any other matter referred to the Commission by the President in...
the interests of sound finance. By assuming the crucial function of allocating resources to the States, the Planning Commission clearly came into conflict with the role of Finance Commission.

**Concerns of Accountability:** Unlike the Ministers of Central Government Ministries, the Deputy Chairman is not subject to Parliamentary oversight by means of questioning in Parliament. He is answerable to Parliament only indirectly through the offices of the Minister of State for Planning and Statistics. Since the Deputy Chairman holds Cabinet rank and outranks the Minister of State for Planning and Statistics, the latter cannot be expected to effectively supervise his actions. This means that the Planning Commission is not subject to Parliamentary oversight through its leader like regular Ministries of the Central Government. This lack persists with the NITI Aayog. This lack of authorising environment eventually affected its legitimacy.

**Concerns Regarding Human Resources and Organisational Structure:** The Planning Commission was criticised for becoming a monolithic bureaucracy no different from other Central ministries in the way it was administered. The staff of the PC and even the NITI Aayog do not report to the experts but to a Secretary with administrative experience but no domain knowledge. The organisation has also been accused of becoming a ‘parking lot’ for officers from various ministries (IAS or IES officers) between assignments or who were in dis-favour at that time, who have neither the specialised domain level expertise nor the training to carry out long term economic planning.

**Consultation Process:** The consultation process around the formulation of the Five-Year Plans was also a huge factor in making the PC unpopular. According to Sen there were three tiers of consultation (2020). The first was -in the Planning Commission itself – where there were divisions corresponding to each ministry in the government, with a mapping also to each state and union territory.

The second part of the consultation process was the Steering Committees and Working Groups that were set up by the PC prior to the preparation of the Plan. The Steering Committees were chaired by a Member (Minister of State) of the Planning Commission and were composed of Secretaries of Ministries relevant to that subject. The Steering Committees established Working Groups to dig deeper into sub-components of these broader subjects and were chaired by the relevant Secretary of that subject and were composed of experts from the PC and from the states.

The third level of consultations was at the political level, where an Approach Paper to the Plan would be sent to the states to get their feedback and subsequently discussed at the National Development Council (NDC) chaired by the Prime Minister. Over time as more and more states were led by parties other than the government at the Centre, more frustration built in, and states felt the NDC meeting were just a façade. The consultation process at the Centre also lost its value as line ministries felt their views were disregarded.

**Prioritisation:** India’s failure on key issues like education, health, sanitation could also be laid at the priorities set by the PC. For example, on education Sudarshan (2020) argues that the shift to promote heavy industry in the early stages of planning – led to placing greater emphasis on higher and
technical education and to somewhat greater neglect of elementary education. In subsequent phases of Indian planning, the shift to private education especially after 1990 for secondary and tertiary education was also influenced by thinking in the PC. A major outcome of this approach was greater inequalities in India’s education system as reflected even today in the UNDP’s inequality adjusted HDI, where loss due to educational inequality is significant.

In the initial years of planning the PC placed heavy emphasis was on industrialisation – but not in labour-intensive basic industry which could have provided lots of employment and helped move people out of agriculture. As a result, India’s structural transformation has been hugely distorted, with a very large share of its labour force remaining in agriculture. Between 1950-51 and 2010-11, agriculture share in income fell from 51.8% to 18.21 % but its share in the labour force fell from 68.85% to 54.59% and as late as 2019-20 was still over 40% and beginning to rise again. And despite all the efforts to industrialise in fact the opposite happened. India has had what could be called “premature industrialisation”.

There are many factors responsible for this from complex labour laws to problems in land acquisition and access to capital, which have raised costs to industry and are spelt out in greater detail in Chhibber (2021). In addition, as argued by Mehrotra (2020), India reduced its tariffs very substantially since 1991 but along with its Free Trade Agreements led to the creation of Inverted Duty Structure (IDS) in many key manufacturing sectors, which have hurt its competitiveness and forced India to reverse course and increase tariffs. This shows that India did not have a central policy coordination system which many East Asian countries developed – such as MITI in Japan and the National Development and Reform Commission in China.

**Perspective Planning:** Over the last 70 years perspective planning has also been tried and emphasised somewhat inconsistently by the PC. Long-term thinking on water, energy, land use has been attempted but without consistency as the focus was always on the Five-year plan. This will become more important as climate change looms heavily on India’s future economic and social outcomes. But even the NITI Aayog has failed, so far, to address these longer-term perspectives.

**IV: Financing and Budgeting of Plan Expenditure, Costing, Learning and Evaluation**

India’s mechanisms and formulations for assessing development needs have in the past largely been top-down. As a result, development finance allocations are not needs based but driven by decisions taken at the top. This was done through five-year plans with resources assigned to plan and non-plan expenditure.

For horizontal (between states) and vertical balance (between the union government and the states) a mechanism for revenue sharing was needed and that is why the constitution created the Finance Commission. But that could only cover committed expenditure as including new expenditure planned by the states in such a statutory mechanism would have been difficult. The distinction between plan and non-plan got extended even to Union Ministries because approving committed expenditure was the responsibility of the Finance Ministry while plan expenditure had to be discussed
with the Planning Commission. This was often criticised because it was felt that the non-plan provision for maintenance of established projects like say roads often suffered. All this led the Rangarajan Committee to recommend that the distinction between plan and non-plan expenditure did not serve any useful purpose (2011).

Moreover, with the emergence of opposition run states the Planning Commissions block grants were based on a formula (Gadgil formula) rather than a state-by-state analysis of development needs. There was another development—the rapid increase in centrally sponsored schemes on matters within the remit of States.

Decisions on how plan expenditure was to be financed was largely in the hands of the Union Government. External assistance, even for state level projects had to have union government approval, though over time a formula emerged giving some additionality to the states where the externally assisted projects were to be implemented. The PC would usually prepare an overall budget projection that allowed for generous development spending and the Finance Ministry would do the opposite, but the final decision rested with the finance minister. All this has changed now, not just because of the elimination of the plan/non-plan distinction, but also the widening terms of reference of the Finance Commissions, the shift of a lot of public sector funding to the capital market, Goods and Services Tax (GST) and the growing complexity of Union-State political relations. But now with the NITI Aayog having no financial powers, an annual exercise within the Finance Ministry is done to make allocations to sectors and between capital and revenue expenditure.11

**Figure 3: Changes in Shares of Gross Fixed Capital Formation: 1950-51 to 2019-20**

![Graph showing changes in shares of gross fixed capital formation](image)

Source: RBI Handbook of Statistics on the Indian Economy
There were three major problems with the financing framework for planning. The first was that the government’s own resources were subject to considerable uncertainty. The second, was that increasingly over time (see Figure 3) a substantial part of investment was now in the hands of the private sector not the government and there was no way for the government to know precisely how much investment would be realised. The third was huge cost over-runs in various projects both in item wise EPC (engineering, procurement and contracting) projects, in fixed cost EPC projects and subsequently in PPP projects as well.

By way of illustration of the first problem, we look at the plan vs realised financing of the 11th Five-Year Plan from 2007-2012, the last plan which was completed by a government committed to planning. The current revenue projections were far short as the Global Financial Crisis in 2008 reduced revenues and counter cyclical measures required more expenditure. In addition, the Sixth Pay Commission provided large unanticipated salary increases eating into current revenue surpluses. These gaps had to be made up by huge borrowings which in turn reduced credit for the private sector and hurt private investment. Moreover, investment by public enterprises also fell as the government-imposed price controls – to address the high inflation that was a result of high fiscal deficits – which ate into their investable profits. The lack of an adequate macroeconomic financing model that could help better understand these linkages was a major lacuna of the financing plan.

To illustrate the second problem, we look at the planned and actual investment in the 11th and 12th Five-Year Plan. In the 11th Five-Year Plan the shortfall in public investment was to be made up by increases in private investment but this did not materialise. As stated by Deputy Chairman of the Planning Commission, “While there may be a shortfall of about 8.7 per cent (Rs.1,25,266 crore) in public investment as compared to the initial targets for the Eleventh Plan, this is likely to be made good by an increase of about 20 per cent (Rs.1,23,321 crore) in private investment.”

This problem was even more acute in the 12th Five-Year Plan. According to NITI Aayog “The revised share of private investment in Twelfth Plan is now projected at about 34 per cent, compared with 48 per cent in the original projection and is less than the 37 per cent achieved in the Eleventh Plan.” (Verma 2017)

With the advent of indicative planning, there should have been a better effort at understanding of the objectives and the instruments available to the government in making the plan a reality. This dissonance between instruments and objectives existed even during the phase of directed planning as pointed out by Mohan and Aggarwal (1990), but continued to a greater degree after 1991 liberalisation. While the state now had a much smaller share in investment it continued to have considerable presence in the economy through State-owned enterprises and through other means of control such as the regulatory bodies, spectrum, licenses and land and mineral allocations. Thus, the state was unable to ensure that instruments and objectives were aligned, because it had no clear framework or model to understand the behaviour of the market economy.12

The third major issue was cost over-runs in projects. Costing of projects is done by taking known costs for various types of projects and building into them cost-escalation clauses for WPI inflation. Initially cost escalation due to delays and new contingencies was allowed but the rules for these were changed to reduce disincentives for project delays. Different types of projects have also been used to improve completion time and costs from piece wise EPC contracts, to fixed cost EPC contracts to BOT (Build-Operate-Transfer) contracts for PPP projects. These changes according to Ram Singh
have led to a decline in delays and cost overruns since the 1980s (2010). Project delays are one of the crucial causes behind the cost overruns.

Bigger projects have experienced much higher cost overruns compared to smaller ones. Percentage cost overruns also escalate with the length of the implementation phase – *ceteris paribus*, the longer the implementation phase, the higher the cost overruns in absolute as well as percentage terms. Compared to other sectors, projects in road, railways, urban-development sectors, as well as those in civil aviation, shipping and ports, and power sectors have experienced much longer delays and significantly higher cost overruns.

**Table 1: Revisions to Investment in Twelfth Five-Year Plan by Infrastructure Sector**

<table>
<thead>
<tr>
<th>SECTORS</th>
<th>Twelfth plan projection</th>
<th>Twelfth plan (revised projection)</th>
<th>Eleventh plan (actual)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity</td>
<td>15,01,666</td>
<td>10,99,266</td>
<td>6,93,480</td>
</tr>
<tr>
<td>Renewable Energy</td>
<td>3,18,626</td>
<td>1,68,415</td>
<td>89604</td>
</tr>
<tr>
<td>Roads and Bridges</td>
<td>9,14,536</td>
<td>7,64,323</td>
<td>4,60,286</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>9,43,899</td>
<td>4,53,792</td>
<td>3,79,414</td>
</tr>
<tr>
<td>Railways</td>
<td>5,19,221</td>
<td>3,77,610</td>
<td>1,99,939</td>
</tr>
<tr>
<td>Metro Rail Projects</td>
<td>1,24,158</td>
<td>87605</td>
<td>43457</td>
</tr>
<tr>
<td>Irrigation</td>
<td>5,04,371</td>
<td>3,96,021</td>
<td>2,28,736</td>
</tr>
<tr>
<td>Water Supply and Sanitation</td>
<td>2,55,319</td>
<td>1,76,523</td>
<td>1,16,936</td>
</tr>
<tr>
<td>Ports</td>
<td>1,97,781</td>
<td>67016</td>
<td>48846</td>
</tr>
<tr>
<td>Airports</td>
<td>87714</td>
<td>27832</td>
<td>35537</td>
</tr>
<tr>
<td>Storage</td>
<td>58441</td>
<td>41769</td>
<td>21430</td>
</tr>
<tr>
<td>Oil and Gas Pipeline</td>
<td>1,48,933</td>
<td>60608</td>
<td>60080</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>55,74,663</strong></td>
<td><strong>37,24,078</strong></td>
<td><strong>23,77,746</strong></td>
</tr>
</tbody>
</table>

Source: Niti Aayog

Learning by doing has led to some of these improvements but these benefits have run their course. Nevertheless, cost escalation remains a huge issue as can be seen from Figure 4, with cost escalation in the range of 20% year after year and the accumulated cost over-run on large projects running to 50-60%. The solution is to have smaller projects (break bigger projects into more manageable bits) and to avoid very long gestation projects when it’s hard to predict future uncertainties. A good example of a successful project is the Delhi – Metro project which was broken into 4 phases – had a firm financing plan (under the principal financier JICA rules) and had strong leadership which did not brook political interference (Bandyopadhyay 2017).

Several other issues need to be highlighted regarding financing India’s plans:

**Dealing with PPP’s:** As regards Public Private Partnership (PPP) projects, since both annuity payments and Value gap funding (VGF) are provided from budgetary support, these will form part of the Plan of the Centre or the State. It is important to have regular information on the investment realised through PPPs. Therefore, there should be supplement to the Central/ State Budgets providing Project-wise, Ministry-wise, and Sector-wise information on PPPs. In addition to
inadequate VGF, experience shows that many PPP projects get derailed because government’s have not adequately planned for and budgeted ancillary investments that lie in the public domain that will be needed to complete the PPP project. There are also risk guarantees and payment guarantees that must be accounted for in any financing plan. Some face value of these guarantees based on the probability they may be triggered is also needed.

**Figure 4: Share of cost overrun in infrastructure projects across India from FY 2010-21**

*Cost Overruns have declined, but remain substantial*

![Cost overrun share](image)

Source: MOSPI, Statista

In India the PC also pushed for model PPP concession agreements in various areas— but the reality was that these model agreements were not flexible or suitable for projects in varying conditions. In 2015, given the difficulties in implementation of PPP projects a committee chaired by noted economist Vijay Kelkar was established to review PPP projects (2015). The Kelkar committee has suggested the revival of a defunct proposal to establish 3PIndia to support PPP projects. It has also called for a rational allocation of risks among various stakeholders in a project and moving away from the one-size-fits-all approach to PPP model concession agreements (MCAs).

**Investment by State Owned Enterprises and Undertakings:** A substantial part of public investment in India (and many developing countries) comes from SOE’s. How these decisions are made with respect to plan outlays must be examined and clarified. Large, retained earnings of SOE’s for investment reduce dividends for the government which finances plan expenditures. In some cases, excessive dividend demands neglect investments needed by SOE’s. Opaque budgetary systems between SOE’s and government make decision making erratic. In the 11th Five-year plan, for example, as inflation picked up price controls on SOE’s reduced their profits and or increased their losses. This
affected not only their dividend payments to government which were reduced but also affected their investment plans. This type of cascading effects, where decisions taken for a particular reason start to have implications down the line for other targets in the plan need better understanding and more careful consideration.

**Foreign Assistance and Financing:** What role did foreign assistance – both technical and financial play in India’s planning system? Foreign assistance played an important role in the early stages – especially from the First (1951-56) to the Fifth-Year plan (1974-78) but began to play a much smaller role subsequently. By the Eleventh and Twelfth Five-Year Plans, the net external assistance had declined to become negligible in India’s plan financing. Nevertheless, as the role played by JICA in ensuring timely and proper completion of the Delhi Metro shows that the role of foreign financing in helping establish proper institutions remains an important one. Such assistance in bringing international experience, guidelines, and processes and in helping build institutions whether from ADB, World Bank, and other multi-lateral institutions may still be valuable even if their role in overall financing has dwindled.

**Evaluation systems** in India have remained weak with a much greater focus on monitoring spending and inputs than on outcomes. Insufficient attention has been placed on trying to understand what determines outcomes – especially on health and education. As a result, India’s planning system has had insufficient mechanisms to make course correction and optimise returns. The internal evaluation units have lacked expertise and hard-hitting evaluation reports have been suppressed. An Independent Evaluation Office was started in 2013 but was not allowed to continue. At the state level, with some exceptions, there are no evaluations systems at all. India has lagged behind many other middle-income countries in this regard. There is growing body of civil society evaluation entities – and some are very successful – but they remain external to the planning and financial allocation process. The learning and adaptation – a la Hirschman – have been missing and bureaucratic top-down rules have led to a system focused on monitoring spending rather than adjusting to deliver outcomes.13

**V: Lessons and The Way Forward**

This section will summarise 9 lessons from India’s planning experience and suggest a way forward for strengthening the planning process.

**Lesson 1: Political Authorisation and Legitimacy.** The authorising environment must reflect the political system. India had a parliamentary democracy yet developed a planning system and apparatus which had no legislative or constitutional legitimacy. The PC was set up by a government decree and reported directly to the PM, with no parliamentary oversight. The Deputy-Chairman of the PC was given the rank of Cabinet Minister but was not a member of the parliament. This lack of parliamentary oversight eventually came to be a major drawback to its functioning and its acceptability. The constitutionally established inter-state council was neglected and utilised only occasionally but was never involved in the planning process. Without a proper political authorisation – especially in a democratic set-up – the planning process loses legitimacy and implementation suffers. 27 countries have planning processes embedded in their Constitutions which ensures continuity when government’s change.
Lesson 2: Overlap with Other Bodies  The relationship between the PC and the Finance Commission – the constitutional body which decides on the share of revenues that are to be allocated between the union government and state governments and between states and increasingly to local government was never clarified. As a result, there was never any clarity at state level as to how much resources they would receive. With the establishment of a GST Council that has legislative authority there is now confusion between the role of this council and the Finance Commission. The NITI Aayog has no financial authority but does prepare a strategy – how this strategy gets implemented is not clear.

Lesson 3: Healthy Consultative Process is Vital. In a market-oriented economy, the role of planning changes from directed to indicative planning. But if the approach is not sufficiently consultative, it risks becoming more ‘prescriptive’. But now India has swung to the other extreme – where there is no long-term planning at all. The Finance Ministry draws up an annual plan – based on feedback from sectoral ministries – the NITI Aayog can provide its inputs, but these can be easily ignored and the Vice-Chair of NITI Aayog has no presence in the Cabinet where the voice of a body designed for more long-term thinking is needed. The voice of state and local bodies in the planning process is also critical and top-down processes eventually create resentment and resistance.

Lesson 4: Shift from Input-Output Models to Behavioural and Pathway Models. Under indicative planning, the PC (or relevant planning institution) must be capable of understanding the responses and reactions to various policy changes. In India the PC continued with traditional input-output models which had lost their relevance after India liberalised in 1991. These models were unable to anticipate how the private sector would react to policies. System wide interlinkages were also not properly understood, as there was no capacity to understand them. In a market-oriented economy – the planning body – must have the analytical capacity to understand the complete and complex relationships between policies and programs. Such capacity was never developed in the PC and surprisingly does not even exist in the NITI Aayog which was set up as a think-tank. This becomes even more important in view of the need for planning under uncertainty due to climate change.

Lesson 5: Development Finance Assessment. The financing plan must be realistic and if underlying realities change, the plan must be revised in an appropriate manner. In India’s case the plan’s financing needs were not realistic and adjustments were not made if unforeseen expenditures emerged. Also, persistent cost over-runs, which improved somewhat over time – but nevertheless have persisted have put huge strains on the financing plans and resulting outcomes. Breaking large and long-term projects into more manageable bits is one possible solution. The new PPP models also had insufficient consideration of the government’s contingent liabilities. Sometimes ad hoc pricing policies led to reduction in SOE investments. This led to excessive market borrowing, which then increased interest rates and reduced access to credit for the private sector.

Lesson 6: Staffing and Expertise. The planning bodies must be staffed with the best and the brightest with domain expertise that commands respect across the system. India started with this in the initial years of planning – but over time became a parking lot for administrative officers not needed elsewhere in the system. Without domain expertise their views and judgements lacked credibility and were resented by the rest of the governmental system. Ad-hoc appointments of Members of the Commission without any specified requisites and attributes were another issue that affected the credibility of the planning process. This problem persists with the NITI Aayog where ad-hoc
appointments continue. The Vice-Chair of the planning body (assuming the PM is the Chair) must not only have technical capability but some political heft as well to be able to deal directly with state CM’s and local bodies.

**Lesson 7: Evaluation, Learning and Feedback.** Unlike many middle-income countries, India lacked a proper independent evaluation system with feedback from its findings into the planning process. India has many civil society institutions doing evaluation, but their findings are used as and when convenient. There is no independent systematic evaluation system in government. An Independent Evaluation Office was set up in 2013 but was abolished in 2014. An evaluation department existed in the PC and continues in NITI Aayog, but its findings are not paid adequate attention. The Comptroller and Auditor General’s office does financial audits and occasionally performance audits, but they are not a substitute for a proper evaluation system. Evaluation must also be made part and parcel of planning at the state level and every ministry so that there is a greater focus on outcomes and impact – not just on how much is spent.

**Lesson 8: Long-term Planning and Link to SDG’s.** In India, long-term planning was given importance somewhat sporadically. India also did not align its planning targets to any global goals and targets until recently when the NITI Aayog has focused on the SDG’s. But while NITI Aayog has set up the SDG monitoring system across the country and for each state it is not clear how these enter plan allocations. The planning bodies must be staffed with the right expertise to draw lessons from international experience and help states and districts make progress on the SDGs and help achieve them by 2030. India should also have the NITI Aayog take the lead to prepare an Integrated National Financing Framework, working closely with MOF and the state planning bodies to achieve the SDGs by 2030 as has been done by Bappenas in Indonesia.

**Lesson 9: Cooperative Devolution and Convergence:** Rising regional and inter-state imbalances that have developed since India shifted to a market economy have not been easy to address and have increased. An NIPFP study for NITI Aayog, has shown that while Finance Commission allocations are equalising, the transfers from the Planning Commission through general purpose and special CSS were in fact un-equalising (2015). Reducing central allocations to richer and more developed states also risks political backlash as they feel they are being penalised for better performance. But reducing the number of CSS to at best 10 core schemes, with 100% central funding and using them specifically for correcting horizontal imbalance may be the way forward with a greater role for the Inter-State Council.

**India’s Planning Process Going Forward**

India went away from planning just when the rest of the world discovered “new “national development planning. A review by Chimhowu et al (2019) of planning across the world shows that over 130 countries have produced national development plans to show their priorities for achieving SDGs. Many of the plans are a product of national consensus processes although some are produced mainly technocratic elites. The five-year (medium term) plan is the most popular although some countries have longer term visions documents. National Planning Commissions are back and play a lead role although Economic Ministries still dominate the process. Most national plans lack financing strategies a factor that can affect implementation and achievement of SDGs.
For India, clearly the old Planning Commission had reached its useful life and needed to be ended. But India still needs some form of planning. NITI Aayog needs a revamp. It should be given a much clearer and central role and with a leadership team that has the requisite political heft and technical skills. The head of NITI Aayog should be a cabinet minister with the title of Minister of Economic Development and should be invited to all Cabinet meetings, to be a voice for long-term sustainable development, which often gets a short shrift in the hurly burly of short-term political calculus. The institution should be authorised through an Act of Parliament so that it can have the required legitimacy and be answerable to Parliament. The technical skills in addition to sectoral expertise should also include expertise in economic systems and behavioural modelling, critical to understanding how market forces react to policy changes under indicative planning and in how development outcomes are affected by a variety of interventions, to achieve the SDGs. It should have the expertise to be a systems reform commission – to address intersectoral linkages and future challenges such as climate change and meeting the SDG targets as well as ensure greater horizontal equity between states through a few core CSSs and lead the way forward – not be just a reactive body or tasked with piecemeal special projects.

The NITI Aayog should be preparing a long-term perspective vision, now possibly all the way to 2047 India’s 100th anniversary, an interim target of 2030 to dovetail that vision to the agreed SDG’s and 5-year plans that are needed to move towards that vision. Without such a compass, it’s not clear what direction is the country headed towards and how it should try and get there. The NITI Aayog should also prepare a National Investment Financing Framework to outline how best to achieve that vision and in the interim phase to achieve the SDG’s. It need not be given financial power as was the case under the old PC - especially as the distinction between plan and non-plan expenditures does not exist anymore, but it should have the power to sign off on capital and recurrent expenditure allocations both to central ministries and to the states and to local administration. Without such a sign off power it can be easily by-passed and ignored.

The current NITI Aayog needs stronger leadership, a legitimised authorising environment and effective use by the government to play a central and key role in helping India achieve the SDGs by 2030 and become a prosperous country by 2047.
References


**Notes**

1 For a fuller description of India’s economic history since independence see Chhibber, A and S.A. Soz (2021): *Unshackling India: Hard Truths and Clear Choices for Economic Revival*, Harper-Collins India, and a good review of India’s planning shifts during this phase is available in Desai Nitin, Planning in a Liberalized Economy in Policymaking for Indian Planning, ed. Sameer Kochar, Skoch Foundation, New Delhi, 2012.

2 Even former Prime Minister Manmohan Singh lamented the lack of reform in the Planning Commission in April 2014 and had suggested it be turned into a Systems Reform Body.

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


5 Below the State governments, in urban areas as of 2016 there were 96 municipal corporations, 1,494 municipalities, and 2,092 smaller municipalities (called Nagar Panchayats). There are 247,033 rural local bodies or panchayats, of which 515 are at the district level, 5,930 at the block level, and 240,588 at the village level. India also has an administrative structure with 741 districts with an appointed – not elected - district administrator.

6 See Vijay’s Kelkar Sukhamoy Chakravarty Lecture (2019)


8 A good discussion of the problems of the Planning Commission can be found in “Role and functions of NITI Aayog”, Article in *Economic and Political Weekly* - January 2015, Govinda Marapalli Rao, The Takshashila Institution.

9 In 2014 when it was abolished more than half the posts in the PC were occupied by officers on deputation. Mukherjee, S (2015) ‘Niti Aayog to be Leaner ‘Business Standard, 25 March 2015.

10 The Gadgil formula was formulated with the formulation of the third five-year plan for the distribution of plan transfers amongst the states. It was named after D. R. Gadgil, then deputy chairman of the Planning Commission. The central assistance provided for in the first three plans and annual
plans of 1966–1969 lacked objectivity in its formulation and did not lead to equal and balanced growth in the states. The National Development Council (NDC) approved the following formula:

1. Special Category states like Assam, Jammu and Kashmir and Nagaland were given preference. Their needs should first be met out of the total pool of Central assistance.

2. The remaining balance of the Central assistance should be distributed among the remaining states on the basis of the following criteria: 60 per cent on the basis of population; 7.5 per cent on the basis of tax effort, determined on the basis of individual State’s per capita tax receipts as percentage of the State’s per capita income; 25 per cent on the basis of per capita state income, assistance going only to States whose per capita incomes are below the national average; 7.5 per cent for special problems of individual states.

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11 This section is based on discussion with Dr Nitin Desai who served both in the Ministry of Finance as Chief Economic Advisor and in the Planning Commission.

12 The plan modelling exercise continued with input-output models totally unsuited to the new reality of a market economy.


14 It could be Minister of Development and Planning as well.