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by the UNDP**

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Editorial

The Rajiv Gandhi Institute for Contemporary Studies (RGICS) works on five themes:

1. Constitutional Values and Democratic Institutions
2. Governance and Development
3. Growth with Employment
4. Environment, Natural Resources and Sustainability
5. India's Place in the World

We bring out the monthly Policy Watch on each of these themes sequentially and every sixth issue is a Special Issue, where we carry articles from each theme. The previous issue was on the theme Constitutional Values and Democratic Institutions which covers the Preamble values of Justice, Liberty, Equality and Fraternity and democratic institutions such as the Legislature and the Judiciary and the relationship of the Union and the states.

This issue is on the theme, Governance and Development. In our view, Governance covers the Executive functions of the State, which involve execution of constitutional, legislative and at times judicial mandates. Thus matters related to law and order, welfare and development, and specific programmes and their financing through tax revenues are all part of governance.

For this issue, we have identified three topics for consideration: (a) data driven and evidence based programme design, implementation and monitoring; (b) a state government's natural resource based livelihoods programme; and (c) linkage of tax revenue with government's development programmes. We carry two articles on each of these three topics.

The first pair of article is data driven and evidence based programme design, implementation and monitoring. In this the first article is the summary of an Appraisal by the UNDP of the Aspirational Districts Programme of the NITI Aayog. The article describes the main features of the programme and highlights its successes. One of the key aspects of the programme was the data driven nature of the programme design as well as monitoring. This was stated to be a paradigm shift in Indian government programme, from intuitive-administrative to evidence based policy. The second article by Jean Dreze is on evidence, policy and politics and it takes a contrarian view. He argues that the relation between evidence and policy needs further thought. Based on his involvement with social policy in India, Dreze believes that while economists can contribute to more informed policy discussions and public debates they ought to be cautious in offering advice on policy design.

The next pair of articles deal with a programme of the Chhattisgarh Government under the rubric "Narwa, Gharwa, Ghurva, Badi" loosely meaning streams, cattle, manure and homestead land, in other words, natural resource basis for livelihoods. The first article describes a scheme of establishing Gothans (livestock area) in each village and Godhan Nyaya (cattle wealth based justice). The second article gives the comments of eminent economist Dr Raghuram Rajan on the schemes, after he visited Chhattisgarh in July 2022.

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The third pair of articles deals with the issue of does India have enough tax revenue to finance the governance, welfare and development functions of the government. The first article by Soaib Daniyal argues that India has too few tax payers and the government is thus structurally short of adequate financing, whereas the second by Dr Surjit Bhalla makes the claim that India's tax-GDP ratio may be higher than the level at which India's GDP is. This is based on recent IMF estimates taking into account local taxes, which did not figure into central and state tax collection figures.

We hope the readers find the articles interesting and Policy Makers use some of the lessons to design better policies and programs with people's participation.

Vijay Mahajan,
Director, Rajiv Gandhi Institute for Contemporary Studies

2 Aspirational Districts Programme: An Appraisal

by the UNDP

2.1 Introduction

The Aspirational Districts Program was launched by the Honorable Prime Minister, Sh. Narendra Modi in 2018, with the objective of expediting the transformation of 112 most backward districts across 28 states through the convergence of government programmes and schemes. The districts were chosen by senior officials of the Union government in consultation with states officials. To shortlist states a composite index of deprivation was constructed using a range of socio-economic indicators. A minimum of one district was initially chosen from every state (except Goa). Predictably, more districts made it to the list of backward regions from the smaller states or states ranking lower in the development spectrum such as Bihar, Odisha, Jharkhand, Chhattisgarh, Uttar Pradesh, and Madhya Pradesh.

As the programme is a policy priority of the Government of India, it is anchored by the NITI Aayog which works in collaboration with central and state governments for the programme to streamline the effectiveness and provide regular checks and guidelines. As a result, officers of Additional Secretary and Joint Secretary ranks have been nominated as 'Central Prabhari Officers' of each district, who together with state nodal officers work with the respective District Collectors/ District Magistrates to drive change at the grassroots level.

Furthermore, an Empowered Committee – comprising of Secretaries (Department Heads) of key Central Ministries – has also been set up under the Chief Executive Officer, NITI Aayog to support the various levels of government. This institutional structure is based on an inclusive approach to governance – termed as “Sabka Saath Sabka Vikas” which aims to facilitate growth and development of the entire district, rather than any single group of population. This motto is mirrored in the principle of Leave No One Behind (LNOB), the central and transformative promise of the 2030 Agenda for Sustainable Development.

2.2 Institutional structure and sectoral focus: A transformative approach

The Aspirational Districts Programme marks an important shift in the approach towards inclusive development by focusing on five critical sectors – i.e. Healthcare, Education, Agriculture & Water Resources, Financial Inclusion and Skill Development and Basic Infrastructure. The selection of these five themes is based on the fact that they have a direct bearing on the quality of life and economic productivity of citizens. At the core of this sectoral development ideology, is the ADP's theory of change based on the 3 pillars, popularly referred to as the 3Cs, i.e. –

- ◆ Convergence – which is based on the synthesis of different government schemes and authorities (state, district, block level), and
- ◆ Collaboration which focuses on partnerships between civil society organisations, philanthropies and government for achieving the targets.
- ◆ Competition – which is expected to foster competition and accountability among district governments for achieving the development targets.

In accordance with this approach, the programme requires the involvement of central, state and district government authorities. The programme also involved collaboration with knowledge partners such as Tata Trusts and IDInsight for monitoring and data collection purposes, and several development partners to assist the district administrations in improving the key performance indicators. The development partners on-boarded for the programme are Piramal (Health, Education and Sarwajal), BMGF, Tata Trusts, Microsave, IdInsight, ITC Ltd, CSBC, Lupin, Bharatiya Jain Sangathan, Vedanta, Plan India, Save the Children, L&T, CII and NSE Foundation.

In addition, a Project Management Unit (PMU) has been set up at NITI Aayog where experts from United Nations Development Programme and Asian Development Bank are providing technical support to districts in preparing proposals to access funds through various sources. This highlights the collaborative nature of the programme, and an attempt to converge schemes across the sectors at the national, state or district levels aiming to improve the coordination among central and state governments to improve social development indicators. Each of the sectors have been allocated different weightage and indicators which serve as the basis for measuring performance. The sector-wise breakup of indicators is given in Table I below.

Table 1: Sectors, weightage and areas of focus

Themes	Overall weightage	Data-points	Areas of focus
Health & Nutrition	30%	31	<ul style="list-style-type: none"> Some of the key areas of focus are antenatal care, postnatal care, contagious diseases, growth of health infrastructure. Aspects of childcare such as Severe Acute Malnutrition, supplementary nutrition under ICDS are also covered under this.
Education	30%	14	<ul style="list-style-type: none"> The education sector focusses mostly on learning outcomes at primary and secondary level, especially students' performance in Mathematics and Language It also focuses on infrastructure pertaining to education institutions such as girls' access to toilets, electricity supply, drinking water, etc.
Agriculture & Water Resources	20%	12	<ul style="list-style-type: none"> Indicators for this domain involve improving access to water management as well as market access for farmers, improved agricultural inputs, livestock, among others.
Financial Inclusion and Skill Development	10%	16	<ul style="list-style-type: none"> There are six indicators for Financial Inclusion which include improved access to bank accounts, especially through major schemes such as Pradhan Mantri Jan Dhan Yojana, disbursement of loans under Pradhan Mantri Mudra Yojana. Indicators for the skill development includes both short- and long-term training schemes and the number of apprentices trained. There are 10 indicators for skill development.
Basic Infrastructure	10%	8	<ul style="list-style-type: none"> This domain focusses on access to housing water, electricity, and road connectivity. It mainly involves community level infrastructure.
Total	100%	81	

2.3 Data driven governance – The key to programme efficiency?

While the core approach of the programme is based on the 3Cs (Convergence, Competition and Collaboration) a key component in facilitating these, especially pertaining to Competition is through the real time data collection and monitoring undertaken by the NITI Aayog. While district officials are responsible for updating a majority of real time data against the indicators, NITI Aayog commissions regular surveys to ensure validity of data entered on the dashboard. The baseline assessment for instance, was conducted in March 2018 upon commencement of the programme and used 49 indicators (81 data points) to rank the status of the districts across the five sectors. Since then, districts are ranked on a month-on-month basis, which is displayed on the Champions of Change (CoC) Dashboard dedicated solely for the purpose of monitoring data and providing districts updated information on their performance as compared to other districts. The CoC dashboard provides sector wise ranking as well. This is expected to bring in a sense of competition and accountability, as well as serve as a mechanism for identifying key development sectors that may need further handholding and support. Although the delta rankings are subject to change frequently, it must be noted that the competitive and dynamic culture fostered by the programme, has resulted in several lesser ranked districts (in baseline ranking) in performing better over the last 3 years. For instance, our evaluation found districts of Simdega (Jharkhand), Chandauli (Uttar Pradesh) and Sonbhadra (Uttar Pradesh) and Rajgarh (Madhya Pradesh) to be among the top performing districts when progress is measured since the beginning of the programme.

2.4 Findings

A majority of the work undertaken across the sectors has been in the areas of Health and Nutrition, Education, and Agriculture and Water Conservation. Almost all districts officials interviewed mentioned a number of programmes and activities implemented across these three sectors and identified them as better performing areas or strengths in some cases. They are also the three largest sectors within the Aspirational districts programme, and together constitute 80% of the programme weightage. Therefore, improvements in these sectors may be viewed as a positive indication of meeting the programme's targets of development.

However, while most districts have mentioned that a majority of their efforts were focused across the sectors of Health and Nutrition, Education, and even Agriculture and Water resources, the sectors of Skill Development and Financial Inclusion require immediate prioritisation among the ADs to reach their full goals. This trend in sectoral disparity was observed across all the districts interviewed. As per the findings of the interviews, stakeholders mentioned a number of initiatives in the sector of Basic Infrastructure indicating significant improvements. However, there is still scope for further improvement in the sector. This is especially the case with the more remote districts among the Aspirational districts, and those plagued with the double burden of countering LWE activities. Districts located in more favourable geographic areas, such as proximity to national highways or cities have been able to reap more benefits and implement more infrastructural projects than those in very remote areas.

2.4.1 Mapping Sector-wise growth - Health and Nutrition

Findings of the qualitative interviews indicate that significant improvements have been made in the sector. In fact, almost all the district officials interviewed, mentioned some of the major programmes implemented over the last three years to have been in the area of Healthcare and Nutrition. The most common achievements among these initiatives involve setting up model ananganwadi centres, efforts to increase the number of institutional deliveries, reduction in Severe Acute Malnutrition (SAM) among infants and children, improving ANC coverage for pregnant women and improving service delivery in PHCs in remote areas. For instance, a common example given by district officials during the interviews was improvements in the method of measuring and recording infants' weight and height using standardised index and protocol at Anganwadi centres rather than staff using their own judgement to determine if infants were malnourished or underweight. This change according to the district officials has come about due to two reasons; first, better monitoring of these indicators as required by the Aspirational districts programme and; second, the prioritization of these sectors has led to better identification of gaps and requirements such as training for staff or better medical equipment at the centres.

Additionally, the fact that some of the districts admitted to coping better with the COVID-19 situation due to better healthcare infrastructure introduced through ADP, is also an indication that Aspirational Districts Programme is contributing to strengthening of healthcare and nutrition services. For instance, the district of Malkangiri in Odisha, which is located in close proximity to both neighbouring states of Chhattisgarh and Andhra Pradesh, became an entry point for several migrant workers returning back to the state during the initial phases of lockdown in India. The district official in this case, claimed to have used their new infrastructure facilities (both in healthcare and otherwise) to serve as institutional quarantine centres for the migrants. Other districts such as Goalpara in Assam saw more pro-active and synchronised efforts of different departments due to existing foundations of convergence model laid by the programme.

A similar example was provided by a development partner, Piramal Health which works across 25 Aspirational districts in the area of Healthcare and Nutrition. While the development partner faced severe setbacks in projects during the initial 30-40 days of the pandemic (mainly during the nationwide lockdown), they soon leveraged their prior engagement with District Commissioners, panchayats, and community leaders to build a strong COVID-19 response and cope with the challenges of the pandemic. The development partner especially credited the role played by religious leaders within the community in contributing towards creating better awareness and understanding of health issues over the last three years.

2.4.2 Education

The Education sector has also experienced substantial improvement among the aspirational districts. The credit lies in the initiatives taken by several districts to adapt and innovate, leading to the development of bespoke programmes best suited for their district's requirement. A suitable example of this is the development of Gyanodaya app and Rath in Godda district of Jharkhand. Inspired by the award winning Unanyan Banka App developed in Banka district of Bihar, the Gyanodaya app aims to promote digital learning by converting the Jharkhand Academic Council (JAC) Board's approved syllabus into smart classes format for over 260 schools and covering over 70,000 students.

According to the officials, this initiative was the chief reason for the significant improvement in the district's performance in the delta rankings. Another example of technology and innovation includes the 'Hamara Vidhyalaya' in Namsai district of Arunachal Pradesh, which is adapted from the Hamara Vidhyalaya model developed in Ahmedabad. As per the initiative, a school prabhari is appointed for each school in the district to ensure monitoring, performance assessment, and guidance for the school. As a result of this initiative, the district witnessed tremendous improvements in the learning outcomes and overall teaching practices. Both these initiatives are examples of successful use of technology and innovation. More importantly, it is also an example of replication of best practices across districts, which is a key tenet of the Aspirational Districts Programme.

2.4.3 Agriculture and water resources

Given that most of the rural areas depend on agriculture for income, it is no surprise that many districts have been making considerable efforts to improve services and infrastructure within this sector. Interviews with district officials provided a varied range of initiatives being undertaken. For instance, while districts like Washim have collaborated with private organisations to develop cost effective methods of better irrigation and water resources such as recharge pits, others like Chanduli (Uttar Pradesh), Simdega (Jharkhand) and Godda (Jharkhand) have used their unique topographic features to harvest crops best suited for their regions. Many of these are high value crops that can be exported or used in different industries, such as the production of lemongrass in Godda. Still other districts such as Goalpara in Assam, have used technology to develop a digital platform, called 'Goalmart' for local producers to sell their products online instead of being confined to physical market spaces.

However, while district officials may have mentioned an impressive set of initiatives, development partners as well as findings from other studies highlight the scope for further improvement in the sector. An interesting suggestion received from development partners was that the sector of Agriculture and Water sanitation, should be allotted the same amount of weightage as Health and Education under the ADP. Reason given for this, was that agriculture directly impacts socio-economic conditions of beneficiaries which in-turn, leads to higher investments in education, or increased health and nutrition priorities of households. Another suggestion by development partners was collaboration among the different development partners in providing services across sectors, while specialising in one area, much like the convergence model being used for district administration.

2.4.4 Infrastructure

Although this sector has lesser weightage within the ADP, it has nevertheless witnessed substantial focus. In fact, interviews with district officials of remote areas suggested that basic infrastructure is a priority as it is essential for improving connectivity in their districts. For instance, districts such as Bijapur (Chhattisgarh) and Malkangiri (Odisha) have improved their roadways and infrastructure projects as an attempt to reduce LWE activities. Other districts such as Goalpara (Assam) have significantly improved their roadways in the last three years, resulting in an addition of 234 kms of new roads which coincidentally is the same number of roads constructed in last 18 years. This is a clear indication of the impact of Aspirational Districts in bringing about swift and effective sector wise growth. Similarly, the district of Namsai (Arunachal Pradesh) has achieved 100% household electricity and 90% road connectivity under the PMGSY scheme. Instances such as these, indicate towards the increased focus on sectors such as basic infrastructure in remote areas, which may have been neglected previously. However, according to district officials the challenges for this sector lie with the fact that infrastructure projects especially for districts with forest reserves require additional approvals and clearance procedures. This was cited as one of the reasons for delays in a number of projects implemented in the sector. Another potential challenge is the lack of sufficient technical capacity leading to complete reliance on the state for all the development work. For districts that may not be technically strong or lack human resource capacity, this absence of development or CSR partners poses more difficulties.



2.4.5 Financial inclusion and skill development

Among the Aspirational Districts, the sectors of Financial Inclusion and Skill Development require more focus. Although the two sectors comprise only 10% of weightage under the Aspirational Districts Programme, development in these sectors is the need for the future. Discussions with Prabhari officers, knowledge partners and development partners provided useful insights for the potential lag in these sectors. One of the chief reasons highlighted for the sectors progressing at a slower pace has been the lack of dedicated departments for the two sectors at the district level, unlike in the case of all other sectors. This implies that activities related to the two sectors must be coordinated with different departments within the district, with no one department to claim ownership for the responsibilities. This lack of coordination at the district level has undoubtedly created a gap or inconsistency in the provision of services.

Development partners such as Microsave, mentioned during the interviews that they have tried to resolve this issue by appointing dedicated personnel to coordinate among the different administrative departments. Although the development partner mentioned this has been a successful strategy, they also highlighted the need for a dedicated department at district level as the ideal way forward. In the case of skill development, feedback from stakeholders points to the lack of supplementary factors such as absence of market demand for skills, or lack of suitable employment opportunities at appropriate industries within a district, despite the training provided. This results in either migration of residents to bigger cities in search of skilled job opportunities, or lesser uptake of the skills training programme due to lack of opportunities. Therefore, indicators developed for skills training must be revised to suit the requirements of each district. The quote below by a previous district commissioner, best explains this situation: “Washim is an agrarian district. So, in this district if we provide training for beauty parlours or IT sector, there is no industry to support those jobs in the district. So, for skill development indicators we need to do much better”.

Furthermore, according to stakeholders, sustainable and actual improvements in Financial Inclusion (and not just registration of bank accounts) is linked to socio-economic factors such as low literacy and income levels among many rural households, both of which may require initiatives that bear fruit only after a few years and not in a period of 2-3 years. Additionally, banking services are often sparse in rural and remote areas, which is the case with most Aspirational Districts. More importantly, even if these factors are addressed, a crucial reason highlighted by development partners was the general lack of trust among beneficiaries in availing banking services and the lower priority for availing banking services over other services such as healthcare or education.

There is a need for better outreach programmes on sectors such as financial inclusion and skills training in order for it to gain priority among both beneficiaries and service providers. Development partners such as Microsave seem to be already implementing such strategies by providing counselling services on financial inclusion and establishing a network of bank agents to create awareness and help in accessing the services. Another effective solution could be introducing bespoke programmes based on the needs of each district, just as it has been done in the districts for the sectors of health, education and agriculture.



2.5 Governance, Administration and Capacity building

2.5.1 The 3Cs Approach

As mentioned earlier, a core ideology of the ADP's is the triple approach of Convergence, Competition, and Collaboration in achieving the targets. Discussion with different stakeholders presented varied insights into the merits of these three approaches:

◆ **Convergence:** Almost all the officials interviewed mentioned that the Convergence approach has been one of the positive effects of the ADP. The approach is said to have bolstered better administration and has helped transition to a synchronised method of working rather than in silos. However, other stakeholders such as development partners, Aspirational District Fellows (ADFs) and United Nations Volunteers (UNVs) working in the districts shared a slightly different viewpoint. Although, these stakeholders acknowledged the improvements in governance through the convergence model, they also highlighted that they continue to face difficulties in navigating through the many administrative and bureaucratic processes. This is especially the case for sectors such as Agriculture and Water Resources, as they comprise an amalgamation of multiple departments (from horticulture to animal husbandry) making coordination among different departments and approval processes time consuming.

Another aspect which seemed to pose minor difficulties for both district officials and development partners was the mismatch of priorities or thematic areas of focus set by states and those mandated by the ADP. This mismatch hinders the growth for ADPs, as district officials are required to strike a balance between the two. For development partners such mismatch often results in delays for approvals and programme implementation. Overall, in spite of the issues, all stakeholders agreed that the convergence model has been one of the positive contributions of the ADP and must be propagated further.

◆ **Collaboration:** Although most states stressed on the success of convergence, collaboration was seen as a promising approach moving forward. Districts appreciated the collaborative efforts of different development partners in providing sector specific technical expertise. It should be noted that the list of partners collaborated with do not just include development partners and knowledge partners commissioned by NITI Aayog, but also include local NGOs and CSO organisations. In addition to the expertise offered by different organisations, district administrations especially credited the constant support received from Aspirational Districts Fellows (ADFs) for the programme. In fact, a key suggestion provided by district administrations and development partners was the appointment of dedicated personnel like ADFs in each district to support day to day project implementation activities.

Overall, the collaboration model has potential to be explored further under the ADP, as many districts highlighted the need for more partners or Technical Support Unit (TSU) deployed in the district. This finding although consistent among all districts, is more relevant for those located in remote areas as they face larger gaps in human resources capacities. In fact, the engagement of development partners, especially local and smaller CSOs may be a useful method for building capacities among the ADP districts.

◆ **Competition:** This approach seemed to espouse mixed opinions from stakeholders. While all stakeholders were of the belief that competition has increased districts' efforts to perform better and enabled better monitoring mechanisms, it however may not be the best approach in assessing development efforts. This view was consistent among the different stakeholders - district officials, Prabhari officials, knowledge partners, development partners and UNVs. One of the chief reasons cited for this was that, despite Aspirational Districts being grouped together on the criteria of lower performance, they nevertheless comprise districts that differ on geographic, political, economic and cultural contexts. These variations may pose several internal challenges such as countering LWE conflicts or even geographic or topographic differences leading to economic or infrastructural challenges. Other concerns raised were around excessive reliance on competition and rankings leading to improvements centred only on indicators being measured instead of achieving sustainable or holistic growth that may be most relevant to the district⁴¹. Still others pointed to the possibility of data discrepancies and misreporting caused due to excessive competition. Therefore, several stakeholders suggested that competition be used only to promote monitoring mechanisms and not serve as an indicator of development.

2.5.2 Targeting the low hanging fruits

In addition to sectoral disparities, there exists significant disparity in strategy adopted by the districts. This is expected in a federal set up where states have significant autonomy in policy choices. The KPIs provide an over-arching but non-prescriptive framework which can facilitate planning and policy prioritization at the implementing level. While one of the reasons for the disparity could be due to the difficulties posed by geographic and socio-political reasons, other potential reasons could be the employment of successful strategies used by some of the best performing districts. For instance, a key reason for these significant improvements in the areas of Healthcare, Education and Agriculture among some of the best performing districts can be attributed to the pre-existing schemes and facilities within the sectors, making it possible for the districts to adopt the strategy of “achieving the low hanging fruits” first. Other efficient strategies were constant monitoring and innovation. The quotes below, from officials of some of the best performing districts best illustrate this:

“We have been following a two pronged strategy: one, in terms of setting achievable goals, focusing on low hanging fruits, putting in place Data Driven systematic systemic improvements and the other in terms of Big Bang interventions and innovations”. - District Magistrate, Goalpara (Assam)

"There were a lot of low hanging fruits in the district, which we knew existed but could never be prioritised. The Aspirational Districts Programme has provided a direction to place focus on the low hanging fruits by seamlessly incorporating them into to the programme's indicators especially across the priority sectors of health, nutrition and education which has enabled us to achieve these indicators with work pending in those which require long term structural changes such as RTI Mechanisms in schools” - Team member of District Magistrate’s Team for Ranchi (Jharkhand)

Monitoring and Measurement Methods:

All stakeholders interviewed strongly agreed that monitoring has helped improve and identify internal capacities and activities within the districts. In fact, to quote the District Magistrate of Goalpara, (one of the top performing districts) on the topic, “What gets measured, gets done”. Interviews with district officials revealed that constant monitoring and training for measurement methods have been key to improving the indicators. Of importance is also the focus on trainings provided to many stakeholders on measurement and data collection methods as stakeholders faced confusions ADP indicators in the initial stages. In fact, the interviews with the stakeholders highlighted the need for regular training sessions, and most importantly the need for dedicated personnel for the programme. Many district officials mentioned that Aspirational District Fellows have been instrumental in this, providing technical skills and documentation, support for the programme, especially since district officials are likely to change during the course of the entire programme. Given such instances, having a dedicated office or a set of personnel for the ADP was seen as the best way forward.

Capacity building:

There is no doubt that the ADP programme has helped districts improve their internal capacities across sectors and departments. In addition to sectoral improvements mentioned earlier in the report, instances of internal capacity building comprise of examples ranging from training of frontline healthcare workers in using appropriate measurement methods, providing schools with technology enabled interactive platforms to even supporting junior administrative officials in using online project management and data collection tools such as google forms. Additionally, it even includes providing support and guidance to district magistrates from experienced Prabhari officers to facilitate better planning and policy implementation. However, despite these positive contributions, many districts continue to struggle with insufficient human resources to achieve their full potential. This need for capacity building is more prominent among districts located in remote and challenging areas as they lack connectivity and facilities common to urban pockets. This, according to many district officials has been the chief barrier in attracting suitable human resources leading up to 40% vacant posts. Therefore, despite the three-pronged approach of the 3Cs, or successful strategies of achieving the low hanging fruits, most districts continue to stay incapacitated from achieving their full potential. Some suggestions received from different stakeholders in countering this issue are:

◆ **Dedicated Personnel or unit:** The ADP designates the District Magistrates or District Collectors as directly responsible for their districts' performance. While this is an effective strategy to focus the attention of district administrations on ADP goals, it is also important to note that DMs and DOs are tasked with several other responsibilities. Therefore, this strategy faces the risk of becoming a person-centred approach and poses challenges when official appointments are subject to frequent changes as in the case in India. Hence, appointing a set of dedicated personnel (such as Aspirational District Fellows) or a Technical Support Unit within each district was suggested by many stakeholders as an effective solution to countering both issues of human resources and moving from a person driven model.

◆ **Flexibility in recruitment policies:** Discussions with many of the officials highlighted the need for relaxing hiring policies so that vacancies can be filled. Officials also suggested the use of better incentives to attract suitable persons for remote districts.

◆ **Learning programmes for administrative officers and ADP fellows:** Another important suggestion provided by many Prabhari officers and district officials was to introduce learning programmes to share best practices. These could be visits to best performing districts to learn about the successful strategies, best practices and methods.

◆ **Technical skills trainings:** Officials expressed need for technical training requirements at block and district levels. Some of the skills mentioned are digitalisation, data analysis, bid writing skills, and coordination at the grassroots level. Currently the Aspirational District Fellows and UNVs provide some of the skills, but there is need for further technical expertise and hand holding support. In fact, one of the major capacity building requirements mentioned was bid/proposal development, as traditionally this is not a task executed at the district level.

Hence, appointing a set of dedicated personnel (such as Aspirational District Fellows) or a Technical Support Unit within each district was suggested by many stakeholders as an effective solution to countering both issues of human resources and moving from a person driven model.

2.5.3 The role of Champions of Change (CoC) Dashboard in data driven decision making

Data driven decision making has been one of the key features of the Aspirational Districts Programme, be it for the purpose of competition or self-monitoring activities. The Champions of Change (CoC) dashboard was developed solely for the purpose of tracking and measuring growth. Qualitative interviews with stakeholders found that most districts use the portal for both data entry (as mandated under the programme), and also for basic data analysis, as it displays monthly progress on the indicators. The district of Ranchi for instance, has developed its own dashboard enabling a more in-depth data analysis and tracking of indicators at the block level. This is yet another example of how the ADP has successfully brought in a culture of accountability and transparency among the districts. However, this data driven aspect is not without its disadvantages and stakeholders highlighted a few features that may need improvement. These are as follows:

Relevance of Delta rankings: Although most stakeholders admitted to using the Champions of Change (CoC) portal, they also mentioned that their usage of the portal for data analysis had decreased over time. The chief reason cited for this was the frequent and drastic changes in delta rankings leading to inconsistencies. This has led to districts developing their own platforms for data analysis. In line with this, stakeholders suggested that updates be monitored quarterly or bi-annually rather than on a monthly basis as very few improvements can be achieved through 30 days period.

Data analysis and reporting: In addition to the unpredictability of delta rankings, stakeholders mentioned that discrepancies in data existed due to possible misinterpretations or misreporting of indicators. For instance, errors such as annual estimates instead of monthly indicators were entered by many districts in the initial days of the programme. Although the districts have gained better understanding of the indicators over time, some errors and misreporting practices are still reported to exist. A possible solution suggested by stakeholders was frequent training programmes on indicators.

2.5.4 Effectiveness of indicators

Among the issues highlighted by stakeholders, some were regarding the need for revision of some indicators. Development partners suggested the removal of certain indicators that have reached saturation for most districts, such as “electrification of households”. Revision maybe required for such indicators and new indicators need to be added to the list. Development partners also highlighted that there is a need to move from input-based indicators to outcome indicators. Within the education sector, stakeholders suggested the inclusion of indicators on girl’s education, co-curricular and vocational programmes as they need to be implemented in aspirational districts, and even community engagement in education activities as it is an influencing factor.



However, inclusion of such indicators is likely to be affected by practicality and availability of data at the district level on frequent intervals. Many of the suggestions provided were pertaining to the sector of Agriculture and Water resources. For example, it was highlighted that micro irrigation indicator has an in-built disadvantage for some geographical areas as it is recorded only for locations where irrigated land is available. Therefore, it does not present the ground realities. In line with this issue, one of stakeholders suggested that the “Ideal denominator should be total irrigated land in a district, and then the numerator can be the micro irrigated land of the district”.

2.6 The impact of Aspirational Districts Programme and what sets it apart

Based on the insights of the different stakeholders, it is evident that Aspirational Districts Programme has resulted in sectoral growth and improvements in governance and administration. Discussions with stakeholders illustrate the fact that a key feature that sets the ADP apart from other development programmes is the framework it provides to the districts through the categorical focus on sectors and a pre-determined set of indicators to be achieved. District administration officials with experience of serving in both aspirational as well non-aspirational districts especially highlighted the fact that the set of pre-determined indicators provided by the programme has helped them focus on specific targets and sectors instead of broad government schemes or new initiatives as in the case of previous programmes.

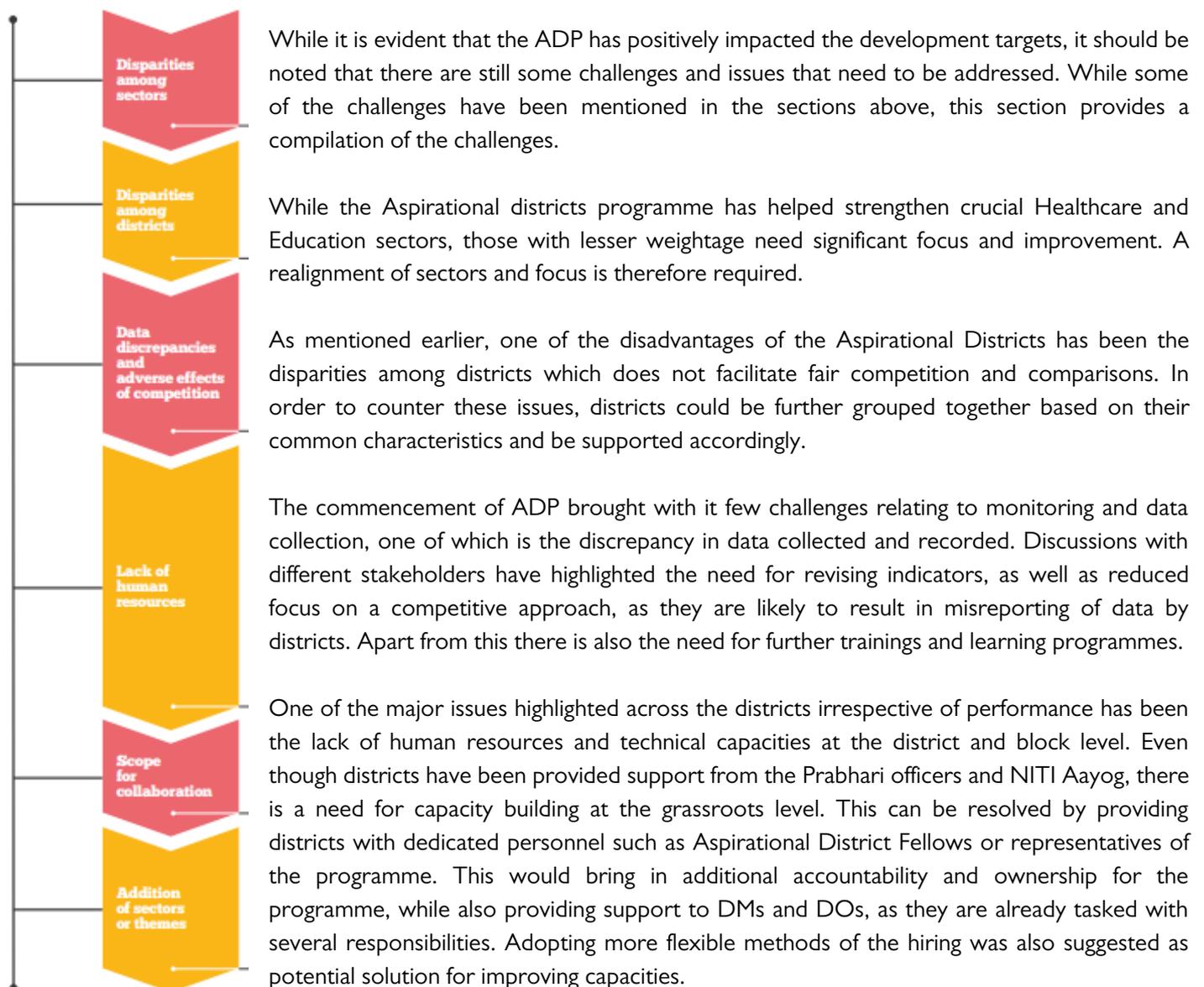
Furthermore, a chief finding on the difference between Aspirational and non-Aspirational districts programme has been the political salience given to aspirational districts. This could be due to the pressures faced by states and districts to perform well in the ranking system, or simply due to the support provided by different components of the programme. For instance, while certain differences in priorities or focus areas exist among different states and the aspirational districts, overall it was found that the level of political support has increased for the districts as states also face the pressure of displaying better results and do not want their districts to be ranked low.

Moreover, discussions with district officials revealed that the appointment of Prabhari officers for districts and regular support from NITI Aayog are beneficial elements that previous programmes and non-Aspirational Districts lack. This was especially highlighted by district officials with experience in serving in both ADP and non-ADP districts. More importantly, the programme was launched with the objective of reducing inter and intra-state disparities and it is on track of achieving it.

The unique features of introducing competition, handholding support from the centre and state and collaboration with various agencies is proving successful in realising the vision of holistic development. This is clearly demonstrated by the Difference-in-Difference methodology adopted in this evaluation. When compared with other districts with similar socio-economic indicators, aspirational districts have fared much better on all development indicators since the launch of the programme. However, stakeholders such as Prabhari officers and development partners also warned that the momentum gained at the inception of the programme is starting to diminish and efforts must be made to motivate the districts. In fact, as the programme has completed 3 years, it may be advisable to introduce re-training and learning programmes on best practices among the districts to regain momentum and work towards achieving the remaining targets.

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2.7 Recommendations for the way forward: countering the existing gaps and challenges



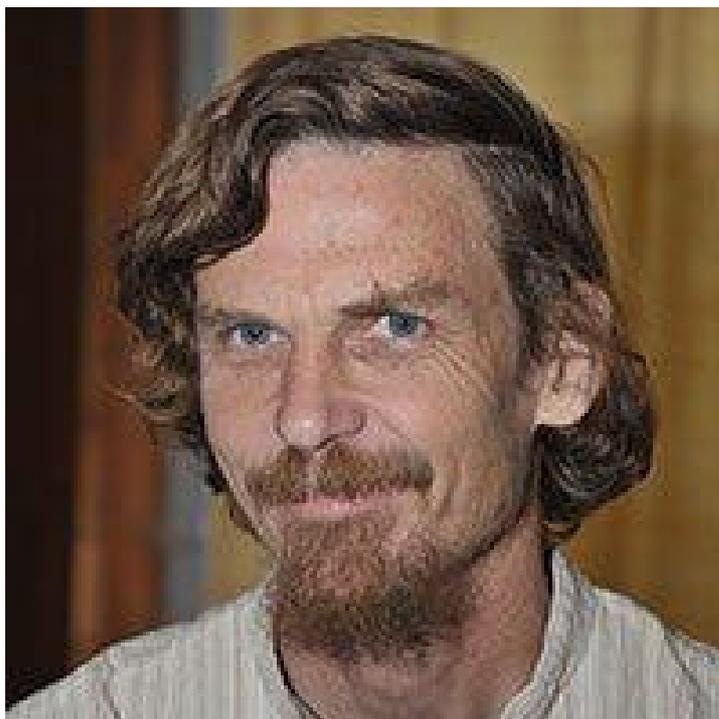
Given the disparities in sectors, districts and also capacities, furthering collaboration with different organisations may provide the immediate and required support to districts. This can especially be provided for districts located in remote and challenging areas.

A useful suggestion from the Aspirational District Fellows (ADFs) who work closely with the programme was to include additional sectors or themes centered around key topics of environment and gender. This, according to the stakeholders, should not just be targeted for the beneficiaries of the programmes, but also integrated within the governance model as indicators of inclusive and sustainable growth.



3 Evidence, policy, and politics

by Jean Drèze ¹



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Commenting on the concept of evidence-based policy, Jean Drèze argues that the relation between evidence and policy needs further thought. Based on his involvement with social policy in India, he believes that while economists can contribute to more informed policy discussions and public debates they ought to be cautious in offering advice on policy design.

Once upon a time, ‘evidence’ was widely confused with randomised controlled trials (RCTs). The latter were held to be the paragon of rigour, and other forms of evidence, though not necessarily dismissed, were certainly devalued. Whenever observation, experience, reasoning, or even statistical analysis suggested one thing and some RCT another, there was a tendency to assume that the RCT got it right. If not with evidence tout court, RCTs became synonymous with ‘rigorous evidence’ or ‘hard evidence’. The privileged status of RCTs was expressed in statements such as “all too often development policy is based on fads, and randomised evaluations could allow it to be based on evidence” (Duflo and Kremer 2005).

Today, the fever has come down and most economists would take a more nuanced view of what constitutes evidence. We also have a better understanding of the uses and misuses of RCTs. For this we owe a great deal to Angus Deaton and Nancy Cartwright, as well to many others who have contributed to the debate on both sides. Deaton and Cartwright (2018) present a particularly lucid and insightful assessment of the logic, power, and limits of RCTs.

As the authors argue, what ultimately matters is not just evidence (broadly defined) but understanding. That, it seems to me, is a far-reaching insight, because understanding can grow in many ways. Evidence certainly contributes to “the process of cumulative understanding”, as Cartwright and Deaton call it, but so do, say, personal experience and public debate. Even reading fiction can enhance our understanding of real-world matters – John Le Carré’s novels, for instance, are no less enlightening (and more fun to read!) than the best RCTs when it comes to political economy.

¹ From Ideas for India, more evidence based policy. Published by the International Growth Centre on 3rd Aug, <https://www.ideasforindia.in/topics/miscellany/evidence-policy-and-politics.html>

3.1 From evidence to policy

Just as the meaning of evidence in the term ‘evidence-based policy’ has gone through some healthy revision, it seems to me that the relation between evidence and policy needs further thought. Evidence is about facts, policy is a political decision – in what sense is it to be ‘based’ on evidence?

An extremist view, in this regard, would be that RCTs – or evidence – can be held as an impartial arbiter of public policy. As one commentator puts it: “The proof of the pudding is in the eating: if something works, it is worth doing” (Rodrik 2009). It is easy to see that this proposition, taken literally, is untenable. Even if something works, something else may work even better. More importantly, whether or not something should be done involves value judgements that no RCT, or for that matter no evidence, can settle on its own (as Deaton and Cartwright aptly note, “what works is not equivalent to what should be”). I do not think that the leading lights of the RCT school, so to speak, subscribe to this extremist view, but the trap is worth mentioning because it is easy to fall into it.

Aside from this glaring trap, however, it is important to avoid a myopic view of the long bridge that takes us from evidence to policy. Let me share some thoughts on this, with reference to development economics, based on recent experiences of involvement with social policy in India. For several reasons, I believe that economists ought to be cautious in offering ‘evidence-based’ policy advice in this field.

First, as noted earlier, giving advice requires some serious reflection about values and objectives. No value judgements are required to conduct an RCT aimed at examining whether adding eggs in school meals helps to enhance pupil attendance or child nutrition. But advocating the inclusion of eggs in school meals is a very different ballgame. It means dealing with the arguments of upper-caste vegetarian lobbies (eggs are considered non-vegetarian in India) and animal-rights activists, aside from those of the Finance Ministry, the Education Department, and teachers’ unions. Commercial interests, too, are likely to come into play as the poultry business eyes big contracts. The debate can easily get very charged. Any ‘advice’ offered in this charged atmosphere may have serious repercussions, good or bad. A worst-case but not uncommon scenario is that a piece of advice turns out to be counterproductive. Dealing with these choices, conflicts, and dilemmas requires much more than ‘evidence’.

Quite often, public policy is flawed due to wrong priorities rather than lack of evidence. Just to give one example, the central government’s contribution to social security pensions in India has stagnated at an abysmal Rs. 200 (barely US\$ 3) per month since 2006, even as the salaries and pensions of government employees went up by leaps and bounds. Most economists, I believe, would support an increase in the pension amounts. In fact, 60 eminent economists wrote to the Finance Minister last December, recommending a modest increase (from Rs. 200 to Rs. 500 per month), also backed by some of the Minister’s key advisors. Yet the 2018-19 Union Budget ignored this recommendation and upheld the measly norm of Rs. 200 per month. More evidence on pension schemes could certainly help to overcome this resistance, but the crux of the matter is ethical and political.

Second, the advice one might give on a particular issue generally depends on who one advises. The general presumption, in development economics, is that in matters of public policy the researcher is advising the government (indeed, the words ‘policy’ and ‘government policy’ are more or less interchangeable in much of that literature). This is understandable, because government policy does look – rightly or wrongly – like the most powerful lever one can activate to change the world. But there are also other means of achieving practical change. And even government policy, in a country like India, is the outcome of democratic processes that involve not only the government but also a range of non-government institutions. There is no reason for economists to restrict their advice to the government.

Even advising the government calls for reflecting on one’s position in the system. For instance, including eggs in midday meals may be good for the government in terms of its stated objective of improving child nutrition, but bad in terms of re-election prospects (for example, because of the power of vegetarian lobbies). In the world-view of mainstream economics, the ‘policymakers’ have a ‘social welfare function’ that integrates these diverse objectives, and policy recommendations are essentially geared to this objective function. In practice, however, conflicts of objectives may be rife, both within the government as well as between the government and the researchers.

Another example may help to convey how our best advice often depends on who we are advising and in what capacity. There is a lively debate, in India, on the pros and cons of cash transfers vis-à-vis food transfers through the public distribution system (PDS). It is easy to imagine an economist giving the following sort of advice to the government:

Our RCT shows that people essentially treat food transfers as an implicit cash transfer. Considering the high transaction costs of food subsidies, a transition to cash transfers seems advisable. Since the banking infrastructure is still weak in many areas, the transition should be gradual, starting with urban areas and the more developed districts. Cash transfers should be indexed, so that their real value is not eroded by inflation.

It is possible, however, that based on the same research a person who addresses herself to poor people (not to the government) would give the following – very different – advice:

The government is planning to replace food transfers with cash transfers. You should resist this at all cost. Our work shows that the banking infrastructure is not ready. If you get cash instead of food, you will have to travel long distances and queue for hours to collect your meagre benefits. The government is paying no attention to this. Also, as you know from the experience of social security pensions, you cannot trust the government to index cash transfers, or even to ensure timely payments. Right now, food subsidies are a lifeline for many of you, do not give them up unless and until the government proves that it has something better to offer.

In the first instance, the researcher positions herself as a government advisor who has (or thinks she has) an opportunity to influence the modalities of cash transfers. In the second, s/he looks at the same problem from the point of view of people who are powerless to influence the way things are done, and have a sobering experience of how the government works. The evidence is the same, but the advice that flows from it is contingent on where we stand.

Third, policy advice often requires going into difficult operational, legal, ethical, political, and other issues that need not be familiar to development economists. Just to pursue the first angle, a development scheme can stand or fall on minor details such as whether the monthly cheques are signed by the district magistrate or village head, whether a government-sponsored latrine has one pit or two pits, or whether biometric authentication is necessary to apply for benefits. This point is well discussed in a recent paper by Esther Duflo (2017), who rightly stresses the importance of ‘detail’ in policy design. Duflo argues that policy design is analogous to “plumbing” in so far as it requires tinkering with nuts and bolts until the contraption works.

So far so good. Where I would differ with Duflo is the idea that economists are generally good plumbers. She argues that they are well-qualified, by virtue of their disciplinary training, to influence if not take charge of policy design. I am not so sure. Economists certainly have much to contribute, but in many cases they have no special competence on the relevant details. This has often struck me in the context of discussions of India’s MNREGA (Mahatma Gandhi National Rural Employment Guarantee Act), a complex programme that makes exacting demands on the administrative machinery. In my experience, it is possible to have enlightening discussions on the operational details with local administrators, village-level functionaries, and even MNREGA workers. For one thing, they tend to be well-informed, being in the thick of the implementation process. In academic seminars on this subject, by contrast, the ignorance of operational matters is epic. Economists do have valuable expert knowledge (for example, of the international experience with public works programmes), and nothing prevents them from learning about operational details as well, but it is not something for which they are particularly well-trained.

Sometimes, in fact, their training puts them at a disadvantage. Returning, for instance, to the issue of eggs in school meals, one of the critical operational issues is whether eggs should be supplied in bulk by a private contractor or bought locally by the school cook. There is much to be said for local purchase, but private contractors often lobby really hard for centralised procurement. Despite Adam Smith’s historic warning that policy proposals from business sources should be examined “not only with the most scrupulous, but with the most suspicious attention”, economists are not well-placed to recognise the anti-social aspect of corporate interests, partly because of their theoretical training and partly because of the cosy relationship between the corporate sector and academia. Even if they have valuable expertise on other aspects of this procurement issue, their advice may need a pinch of salt.



Fourth, policy advice can have all sorts of unintended consequences. If you advise A , you may get $a.A$ (a fraction of A), or A' (a variant of A), or B (or an alternative to A), or even $-A$ (the opposite of A). In the first case, should one actually advise $(1/a).A$, in the hope of getting A ? That is, indeed, a common tactic among activists – ask for the loaf, settle for a slice. To put this in a different way (familiar to economists), policy advice can be seen as a kind of ‘game’, where the outcome depends on the strategies of all players, and the players must take each other’s strategies into account. Or perhaps it would be unprincipled to look at it that way, and economists should just give the advice they think is right, irrespective of the consequences? It is hard to tell.

Here again, the point can be illustrated with reference to the issue of eggs in school meals. In some Indian states with a strong vegetarian lobby, the government responded to the demand for eggs with milk. But milk has a short shelf life, and is not always safe. It is quite possible that in these states, it would have been better to argue for a fruit than for an egg, even if eggs are better in principle.

These caveats have varying relevance, depending on the context. If an RCT suggests that the colour version of an application form is more effective than the black-and-white version, perhaps some useful advice can be given without worrying about these complications. They do matter, however, whenever economic research deals with issues such as teacher incentives, alternative payment systems for pensioners, the grouping of students in schools, the case for cash versus in-kind transfers, the design of vaccination programmes, and so on. In general, there is no escape from the fact that research is a scientific act, and policy advice a political act.

Some RCT enthusiasts may respond that the purpose of RCTs is precisely to de-politicise public policy and shield it from the pernicious influence of ideology, fads and such. Perhaps they would prefer public policy to be left to experts, sitting across the table with the policymakers. But going to bed with the government is hardly an apolitical step. In any case, this approach would not de-politicise public policy, because policy decisions would still require values and objectives, which are political by nature. What it would do is to shield these value judgements from public scrutiny and debate. That is the trend in India today, with more and more policy decisions being taken behind the ramparts of the Finance Ministry, the Prime Minister’s Office, and NITI Aayog (handsomely peppered with “consultants” from international agencies and the corporate sector). It does not strike me as a healthy trend. For one thing, most of the social benefits that poor people have won in India over the years came their way in the context of electoral politics. De-politicising social policy – if such a thing were possible – would deprive them of this vital foothold.

3.2 Concluding remarks

In short, I feel that economists need to be cautious and modest when it comes to giving policy advice, let alone getting actively involved in ‘policy design’. Their expertise and research can certainly contribute to more informed policy discussions and public debates. But if they give advice, it is best done as concerned citizens rather than plumber-like economists, in collaboration with others from different disciplines and walks of life. In the field of social policy, at least, I see no reason to privilege the advice of economists.

None of this detracts from the value of RCTs (correctly understood), or from the case for evidence-based policy. If the idea is to bring more evidence to bear on public policy, there is much to be said for it. This endeavour, however, is likely to be all the more useful if we bear in mind that evidence involves more than RCTs, understanding more than evidence, and policy more than understanding.

This article first appeared in Social Science and Medicine (<https://www.sciencedirect.com/science/article/pii/S0277953618301928?via%3Dihub>) as part of a special issue (<https://www.sciencedirect.com/journal/social-science-and-medicine/vol/210/suppl/C>).

3.3 Notes

1. For further thoughts on these matters, see Drèze (2017).
2. This is perhaps an unguarded statement, which does not quite do justice to the author’s considered case for “pragmatism” in development policy – not necessarily based on RCTs.
3. I am not aware that pension schemes in India have been the subject of any RCT, but evidence from other sources suggests that they are doing quite well in many respects; see, for example, Chopra and Pudusery (2009), Drèze and Khera (2017), and the literature cited there.
4. For a similar argument, from a different perspective, see Hausman and McPherson (1997). The authors argue that “the framework of theoretical welfare economics from which economic advice usually issues has serious normative limitations and distortions” (p. 16).

3.4 Further reading

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4 छत्तीसगढ़ के चार चिन्हारी- नरवा, गरवा, घुरवा अऊ बारी



Gothan is a place where the community of a village such as Ban Charoda in Raipur District, above has made arrangements to house abandoned and stray cattle belonging to the particular village as a state model. This initiative has been taken under the Gothan Yojana of NARWA-GARWA-GHURWA-AUR-BADI Scheme by the Government of Chhattisgarh for Farmers.

Gothan houses two types of cattle:

- Cattle who are owned and productive but the farmer does not have place to house them and bring them to the Gothan after mulching them
- Cattle abandoned by owners since they have reached an age and are no more productive for the owner

The advantages are:

- The Gothan provides shelter to abandoned cattle which would otherwise stay and sleep on roads
- Provides shelter for productive animal where the farmer would ordinarily keep them in unhygienic makeshift shelters
- Both category of animal get proper housing, food and water.
- Gothan involves breeding of cattle. Gothan provides veterinary care for the animals in form of vaccines and other first aid requirements.
- Agriculture Crop of the village are protected from such animals who tend to enter farms and eat the crops
- Women use this dung along with other innovations to make products and commodities.

Women's self-help groups (SHGs) have been involved in the activities of Gothan. 3 - 4 SHGs are made in charge of one Gothan, The SHGs are not paid in cash for their contribution towards the Gothan. Instead the SHGs have right over all the cow dung available in their respective Gothan.

The women of the SHGs use the cow dung for multiple purposes, including developing kitchen gardens on land provided by Panchayats along with small scale production activities. This has made a substantial secondary source of income for the SHG members. The products are either used by the women or market it with the support of Nation Rural Livelihood Mission (NRLM).

Using the dung obtained along with bio waste, the women are making vermiculture manure which they are consuming or selling after packing it.



Members of the SHGs grow vegetables for consumption and market using cow dung manure/vermicompost.

A Rural Industrial Park has been established in the Gothan premises which is electrified through the solar panels where the women can make products or conduct activities which require electrification - one example is fodder cutting. Solar panels have been installed to generate the power required for electricity within the Gothan and pumping of water from the bore wells. Biogas units have been installed to produce energy which will be used in the rural industrial park. A pilot has been initiated where poultry cages have been built over small water tank which has fish. Chicken dropping is excellent fish feed and ensures fast growth of fish.



5 Raghuram Rajan on Chhattisgarh schemes - Gothan and Godhan Nyay Yojana²

On July 31, former RBI Governor Raghuram Rajan praised the Gothan and Godhan Nyay programme of the Chhattisgarh government and stated that the Yojana was working to improve livestock conditions by securing the participation of communities.

According to Rajan, the state's plan is "an example for other states" in the nation. Bhupesh Baghel, the chief minister of Chhattisgarh, introduced the programme in July 2020.

He noted that income-generating activities like the production of organic manure, mushrooms, large-scale vegetable production, oil distillation, fisheries, poultry, and goat rearing are carried out by women groups in the Gauthan of Navagaon. He also appreciated the management of livestock care, the provision of free fodder and water, health check-up, treatment, and vaccination of animals in the Gauthan.

"This initiative of the Chhattisgarh government is the best bottom-up approach in the country," he said during a visit to Adarsh Gauthan in the village of Navagaon (L) in the Abhanpur block of Raipur district while scrutinising the income-oriented activities conducted by women's groups there.

"Through this, we can not only get a better solution for farming and livelihood but also reduce the problems of decreasing fertility of the land due to indiscriminate use of chemical fertilizers and pesticides in agriculture. The availability of food items can also be improved greatly. Many problems like toxicity, damage to the environment and global warming can be reduced to a great extent," Rajan added.

"The livelihood-oriented activities conducted in the Gauthans have proved to be helpful in providing economic support to the villagers during Covid-19. Under the Godhan Nyay Yojana, the purchase of cow dung in Gauthans for ₹2 per kg and its use in the manufacture of vermicompost, super compost and farming is a commendable initiative by the state government. This will improve the fertility of the land as well as reduce the cost of agriculture and cut down the risk of food poisoning due to the use of harmful pesticides," he said. (With ANI inputs)

² From the MINT, 01 Aug 2022, By Sounak Mukhopadhyay

<https://www.livemint.com/news/india/raghuram-rajan-highly-impressed-with-this-government-scheme-11659322251415.html>



6 Why does such a small number of Indians pay income tax?

By Shoaib Daniyal³

Last fortnight was characterised by the rush and bustle that routinely accompanies the income tax returns deadline. For the India Fix readers, it might have seemed like the entire country was filing their returns. But peer groups are a poor way to sample data. Numbers released by the Union Ministry of Finance, in fact, show that by July 31, the due date for salaried taxpayers and others who are not required to have their accounts audited, only 5.83 crore returns were filed.

That's a little more than 4% of India's population. This 5.83 crore number will go up by a bit as small sections of the income tax-paying population do not fall under the July 31 deadline. But overall, the upshot will be the same: the proportion of Indians who pay direct taxes is incredibly small. In fact, as the Union Finance Minister told Parliament in March, adding up both individuals and corporations, India has just a little over 8 crore direct tax payers.

Direct taxes are charged on income and profits. They are paid directly to the government. Indirect taxes, on the other hand, are paid on goods and services, and are usually collected by an intermediary.

6.1 Tax net

It is often claimed that India does not collect enough direct taxes. This is, actually, not true. It is an error that arises from the erroneous habit of comparing the country to the industrialised nations of the West, even though India is much poorer. If we do an apples-to-apples comparison, India's direct taxation receipts are what could be expected for a country of its per-capita income level.

Where India is really a puzzle is the number of people who pay income tax. Only 4% of Indians pay income tax but a calculation by the Economic Survey, 2015-'16 argues that the number should actually be six times higher, at 23%.

This low number is a stark indictment of both India's economy and its politics. For one, in spite of being a very large economy, India is not industrialised. Its large economic size is simply the result of its large population. As economists Thomas Piketty and Nancy Qian explain in a 2009 paper, "One reason why India faces more difficulties than China in making its income tax a mass tax might be that the proportion of formal wage earners in the labour force is ridiculously low."

6.2 Falling behind

The paper compares India and China to show just how bad India's performance has been. Till 1993, in fact, India had more income taxpayers than China given "the Indian income tax is a much older institution, since it was created in 1922 by the British".

However, since then, the situation has completely reversed: "income tax has become a mass tax in China, while it has remained an elite tax in India".

The period they chart coincides almost exactly with the period of India's liberal reforms, pointing to the fact that the changes, though remarkable for India, fall significantly short of what has been achieved in East and Southeast Asia.

Since the 1990s, China has outstripped India when it comes to income tax payers. Source: Income Inequality and Progressive Income Taxation in China and India, 1986–2015

³ <https://scroll.in/article/1029956/the-india-fix-why-do-such-a-small-number-of-indians-pay-income-tax>

6.3 White collar capture

However, the economy is only one part of the picture. India's political structure, where white-collar workers (contrary to self-perception) enjoy disproportionate lobbying power with policy makers, has also played a part. The Indian government's policies exempt many relatively wealthy Indians from paying income tax.

In fact, Piketty and Qian identify it as the primary reason for India's poor income tax base:

“Most importantly, the tax schedule has been changed almost constantly in India during the 1986-2008 period, with a general decline in tax rates and a continuous increase in the exemption threshold and income brackets. In effect, the rise in the exemption threshold (from Rs 15,000 in 1986 to Rs 150,000 in 2008) has been almost as large as the rise in nominal income growth (from Rs 4,400 to Rs 56,300 for average income and from Rs 14,400 to Rs 192,400 for the P99 threshold).”

The tax rate refers to the percentage at which an individual or corporation is taxed. Several countries have a progressive tax rates on income: the higher an entity's earnings, the greater the percentage of tax it must pay.

India's income tax exemption limit has, unusually, been significantly above its per capita income – a trend that has got exacerbated in the past few decades. Credit: Economic Survey, 2015-'16.

Under Narendra Modi, whose Bharatiya Janata Party government enjoys strong support from members of the upper castes (and hence white collar workers), this trend has got reinforced. In the run-up to the 2019 Lok Sabha elections, his government exempted incomes up to Rs 5 lakh per annum from paying any tax – up from Rs 2.5 lakh.

This is not only bad for government revenues, it is simply unfair because it then forces the state to look to regressive taxes like the goods and services tax to make up for lost income. In effect, a blue-collar worker below the poverty line ends up paying high taxes on everyday items like food and clothing so that a relatively well-off urban office worker does not have to pay income tax.

It is also bad for democratic policy making if something as critical as state revenue is dependent on a small number of individuals (and corporations). A broader base would give politicians more freedom to design effective policies.

Finally, this low tax base is both a symptom of and a factor in the low faith Indians display in the state. To fix this, more Indians need to be bought into the tax net – even at low rates, if need be initially.



7 India's tax-GDP ratio may be too high

by Surjit S Bhalla⁴

One of the stylised beliefs in India, and amongst some leading economic commentators both in India and abroad, is that our tax/GDP ratio is lower than what it “should” be. Many ills are laid at the door of this hypothesised low tax/GDP ratio. It is conjectured that we have a lower rate of investment, a higher fiscal deficit, and lower GDP growth — and all because the tax ratio is too low. There can be reasonable doubts about the presumed links, an issue on which I have relatively little to say. For the record, I have long argued that there is no empirical evidence to indicate a causal relationship between tax ratios or fiscal deficits and growth — or even a statistical relationship. There is, however, a well-established relationship between investment and growth.

Gross Tax Collection/GDP ratio 2011-2019 : India is Higher than "Normal"

Region	Means 2011-2019 weighted by share in world				
	per capita GDP\$ in 000 1	Tax/GDP % 2	Predicted Tax/GDP % 3	TaxGap % 4	Fiscal Deficit/GDP % 5
Advanced Economies	49.2	22.5	23.5	-1.0	-4.0
East Asia	10.7	16.6	19.3	-2.4	-1.9
Russia and East Europe	11.5	21.5	20.6	0.9	-2.3
Latin America	10.4	18.2	19.5	-1.3	-3.9
Middle East and N Africa	10.0	17.3	20.0	-2.6	-5.1
South Asia	1.7	15.5	15.6	0.0	-6.7
Sub-Saharan Africa	3.4	16.9	15.2	1.6	-3.9
Above (104 countries)	26.7	19.5	20.8	-1.3	-3.6
India	2.070	16.9	15.6	1.2	-7.2

Source: IMF World Revenue database, <https://data.imf.org/?sk=77413f1d-1525-450a-a23a-47aeed40fe78>
 Resource Rich economies, population < 3 million not in sample
 Predicted tax/GDP based on a regression of tax/GDP ratio on log per capita GDP PPP

Proceeding, there are three important fiscal variables in the economy — taxes, fiscal deficit, and debt. They are inter-related — lower tax revenue means higher fiscal deficit, for the same level of expenditures, and higher deficit means higher debt. All three, directly or indirectly, are assumed to affect growth and/or inflation. The relationships are complicated, and have provided grist for a number of PhDs, with many more to come. Our goal in this article is to look at the first of the trinity — the tax/GDP ratio (hereafter Xtax). We look at Xtax in an uncomplicated way, just facts, and interpret the evidence.

Two common observations on Xtax for India — first, it is low at around 10-11 per cent of GDP and it has stayed at close to that level for the last 20 years. In 2019, it hit a decade low of 10 per cent of GDP, the same as in 2014. Second, in comparison with our peers, it is much lower. Hence, logic dictates that we should strive to increase Xtax.

⁴ Indian Express 13 August 2022

<https://indianexpress.com/article/opinion/columns/the-wrong-diagnosis-india-tax-gdp-ratio-quality-of-expenditure-8076901/>

But which country should we compare India with? A common observation (surprisingly also offered by economic experts) is to look at the tax-GDP ratio in G20 countries. This is the beginning of a set of misinterpretations committed either knowingly, or unknowingly. Because simple logic dictates that tax collected is a function of the average level of per capita income. Per capita income in the G20 varies from around \$2,100 (India) to around \$65,000 (US). But before going “there”, there is a more fundamental issue that needs to be resolved. The 10-11 per cent figure for India is the tax/GDP ratio for taxes administered at the central level. Taxes in India, as in many other large, especially federal, countries, are collected at both a federal and state level. And many economies have local (municipal) taxes as well. The tax collected is the sum of all these taxes. That is the Xtax that needs comparison.

Until now, collecting such disaggregated data for a large set of countries was, well, impossible. In a recent web publication, the IMF has come to the rescue and for which kudos are due. On their World Revenue Longitudinal Data set (<https://data.imf.org/?sk=77413f1d-1525-450a-a23a-47aead40fe78>) data are presented for all countries, from 1990-2019.

In this pre-pandemic year, among G20 economies, India’s tax-GDP (Xtax) ratio of 16.7 per cent was higher than that of China (15.9 per cent), Mexico (14.1 per cent), Indonesia (11.0 per cent), Saudi Arabia (5.9 per cent) and Turkey (15.9 per cent). While reassuring, such a simple head-to-head comparison is not very meaningful. A more informative indicator of whether a country is taxing too much or too little in comparison with others is to look at the tax-GDP ratio adjusted for PPP per capita income (and excluding resource-rich economies like Russia and Saudi Arabia and countries with population less than 3 million). Prediction via a simple regression of Xtax on log PPP per capita GDP can yield one estimate of the tax gap — the difference between actual and actual adjusted for level of income.

Table 1 reports the averages for 104 countries for the period 2011-2019. The world average tax gap is -1.3 per cent; India is +1.2 per cent for the nine years 2011-2019. So, India’s tax GDP ratio averages 2.5 percentage points more than an average economy. Among 70 Emerging economies (excluding AEs and countries belonging to the former Soviet Union), India’s rank is 20 — Xtax in India is higher than 50 peers on a systematic basis. Zilch evidence, therefore, that India’s tax/GDP ratio is too low. For every year for which data are available 1990-2019, India has had a positive tax gap — there is little evidence that a higher tax/GDP ratio helps growth.

But this is all before the tax collection revolution post-2019 (a structural change?), a subject matter to which we now turn.

Corporate tax cut 2019: For years, the advocacy in India was to increase revenue from corporate tax (one of three major components of tax revenue, the other being income and indirect taxes). The slogan: India Xrat was low, so raise corporate and income tax rates. “Because the rich should pay more taxes”; because inequality was increasing, and high, and because such higher taxation would lower the fiscal deficit and increase growth. A small minority had argued the opposite — that higher corporate tax rates stifle investment, increase tax un-compliance, and lower growth.

In a series of articles starting with ‘Maximise revenue, minimise tax’ (IE, July 13, 2019) Karan Bhasin and I argued against the heightened Indian wisdom. We argued that to increase tax revenue, we needed to decrease tax rates. (Incidentally, I had also argued that demonetisation would have a very positive effect on tax compliance a week after November 8, 2016!) We were dubbed Laffer curve groupies and faced criticism (and ridicule!) from more knowledgeable “experts” who said that empirical evidence around the world (for example, the US) meant that if tax rates were lowered, revenues would decline, the fisc would increase, as would inequality. A triple whammy that is best avoided.

In September 2019, Finance Minister Nirmala Sitharaman, going well against Indian established conventional wisdom, lowered the corporate tax rate by around 10 percentage points. This was one of the largest corporate tax cuts in world history. Unfortunately, the pandemic struck the world a few months later and disrupted world economies. However, now, three years later, we can assess the efficacy (or not) of this bold experiment in Modi 2.0.

For the three months April-June 2022, corporate tax revenues, y-o-y, are up 30 per cent. Using fiscal 2019-20 as a base, corporate tax revenue has increased by 66 per cent, GDP by 33 per cent — an average tax buoyancy of 2.0 over three years. The previous largest tax buoyancy was in 2006-7 when the world was buoyant — and this was when the world was Covid-depressed! Tentatively, the tax-GDP ratio in the fiscal year 2022-23 will average over 18 per cent in India, a level close to Japan and the US.

What the data conclusively show is that the debate on the Indian economy should shift away from simplistic notions (borrowed from the West?) of the tax-GDP ratio being low in India. The debate should shift to expenditures, and quality of expenditures (and perhaps to reform of the direct tax code). In this regard, PM Modi's suggestion that freebies be critically examined is most timely and welcome.

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