

Strengthening Cooperative Federalism and Inclusive Policy Innovation

Addressing Regional Disparities and Enabling Equitable Development in India

BACKGROUND GUIDE

Central question: How can India build a federal system in which different regions have the resources, autonomy, institutional capacity and incentives to pursue their own development pathways while ensuring equitable access to basic opportunities?

Delegate Edition

INDEX

Delegate Briefing: The India You Live In

Part I: Understanding the Federal Challenge

1. One Country, Unequal Development
2. Why Regional Disparities Persist
3. What Does Equitable Development Actually Mean?

Part II: Understanding Cooperative Federalism

4. India's Federal Architecture
5. From Centre and State Relations to Cooperative Federalism
6. The Fiscal Dimension of Federalism

Part III: Taking Development Closer to Citizens

7. States Are Not the Same
8. Districts, Cities and Local Governments
9. The Aspirational Districts and Aspirational Blocks Approach
10. Data, Evidence and Measuring What Matters

Part IV: Innovation as a Federal Strategy

11. Policy Innovation Across States
12. Learning From What Works
13. Building State Capacity
14. Digital Public Infrastructure and Local Innovation

Part V: The Difficult Questions

15. Equality Versus Efficiency

- 16. National Standards Versus Local Flexibility
- 17. Competition Versus Cooperation
- 18. Growth Versus Redistribution
- 19. Central Direction Versus State Autonomy

Part VI: Building the Roadmap

- 20. A New Model of Cooperative Federalism
- 21. The NITI Aayog Challenge
- 22. Questions for the Committee

Reference Material: Key Terms and Selected Research Base

DELEGATE BRIEFING

The India You Live In

Imagine two children born in India on the same day.

Both are Indian citizens. Both have the same constitutional rights. Both are entitled to public services.

But their opportunities may look very different depending on where they grow up.

One may attend a well equipped school, live close to a major hospital, have reliable internet, find a formal job locally and benefit from strong transport connections.

Another may grow up in a district where schools face teacher shortages, healthcare facilities are difficult to reach, roads and public transport are limited, internet access is weaker and formal employment opportunities are scarce.

The difference is not necessarily the result of individual effort. It can be shaped by geography, historical investment, State capacity, infrastructure, industrial structure, urbanisation, natural resources, access to markets and the ability of governments to design and implement effective policies.

How can India become more prosperous without allowing the place in which a person is born to determine the opportunities available to them?

This is the federalism challenge.

India is not one uniform economic or social space.

A coastal manufacturing region faces different challenges from a landlocked agricultural region. A Himalayan State faces different infrastructure constraints from a densely populated plains State. A metropolitan city faces different problems from a remote tribal district.

A State with a large industrial base may need to focus on technological upgrading, while another may first need to strengthen basic health, education and connectivity.

Trying to solve all these problems through one uniform policy is difficult. But allowing every State and district to operate completely independently also creates problems.

India therefore needs national direction with regional flexibility, common standards with local solutions, cooperation alongside competition, redistribution alongside incentives for growth, and most importantly, a federal system that learns.

NITI Aayog describes cooperative federalism as bringing States together as Team India around the national development agenda. Its work includes State engagement, policy support, capacity building, the Aspirational Districts Programme and the State Support Mission.

How should India redesign the relationship between the Union, States, districts and local governments so that every region can develop according to its own strengths while every citizen has access to a basic floor of opportunity?

That is the problem before the committee.

PART I: UNDERSTANDING THE FEDERAL CHALLENGE

Part I: Understanding the Federal Challenge

1. One Country, Unequal Development

India's economic growth has generated substantial improvements in living standards, but development has not occurred evenly across geography.

Differences exist between States, districts, rural and urban areas, metropolitan and smaller cities, coastal and interior regions, plains and hill regions, and tribal and non tribal areas.

These differences are visible in income, poverty, education, health, infrastructure, employment, innovation and institutional capacity.

NITI Aayog's Multidimensional Poverty Index uses several dimensions rather than income alone. Its 2023 progress review showed substantial differences in multidimensional poverty across States and Union Territories, even as poverty declined nationally.

The SDG India Index 2023 to 24 also showed continuing variation in development outcomes across States and Union Territories.

These patterns mean that asking whether India is developing is not enough. The more useful questions are where development is occurring, who is benefiting, which regions are moving faster, which face structural constraints and why similar policies produce different outcomes in different places.

2. Why Regional Disparities Persist

Regional disparities rarely have a single cause. They are usually the result of several factors interacting over time.

Historical advantages

Some regions industrialised earlier and accumulated infrastructure, firms, skilled workers and institutions. These advantages can reinforce themselves.

Geography

Mountainous regions may face higher infrastructure costs. Landlocked States may face greater logistics costs. Coastal States can have advantages in maritime trade. Regions affected by floods, droughts or extreme weather may require greater public investment.

Human capital

States differ in educational attainment, health outcomes, workforce skills and access to higher education. These differences affect productivity and the ability to attract investment.

Infrastructure

Roads, railways, electricity, telecommunications, irrigation, ports, logistics and urban infrastructure influence the cost of economic activity.

State capacity

A State may have funding available but lack sufficient administrative capacity to design, implement, monitor and evaluate programmes.

Economic structure

States differ in industrial, service, agricultural, mineral, tourism and technology strengths. A national strategy therefore needs to recognise regional economic specialisation.

Development is not simply a question of how much money a government receives. It is also a question of how effectively that money is converted into outcomes.

3. What Does Equitable Development Actually Mean?

Equitable development does not necessarily mean making every State economically identical. India's States will continue to differ. The objective is instead to reduce unjustified differences in opportunities and basic outcomes.

Approach A: Equal allocation

Every State receives the same amount. This appears fair, but States have different populations, costs, needs and starting points.

Approach B: Need based allocation

States with larger populations, greater development gaps or higher costs receive greater support. This can improve equity, but may raise questions about incentives and fiscal discipline.

Approach C: Capability based support

Resources are combined with technical assistance, institutional reform, data systems and capacity building. The objective is not merely to transfer money but to help governments use resources effectively.

The real policy challenge is to determine the appropriate combination of needs, capacity, incentives and outcomes.

PART II: UNDERSTANDING COOPERATIVE FEDERALISM

Part II: Understanding Cooperative Federalism

4. India's Federal Architecture

India's Constitution divides responsibilities between the Union and the States.

Union List

Subjects primarily under Parliament and the Union Government.

State List

Subjects primarily under State legislatures and governments.

Concurrent List

Subjects on which both the Union and States can legislate, subject to constitutional rules.

But India's governance system goes beyond these three lists. Development increasingly requires cooperation across levels.

Consider healthcare. The Union may finance national programmes and establish standards. States manage major parts of health administration. District administrations implement programmes. Local governments influence sanitation, water and public health. The final outcome therefore depends on several levels working together.

Constitutional division of responsibilities does not eliminate the need for institutional cooperation.

5. From Centre and State Relations to Cooperative Federalism

Cooperative federalism means that different levels of government work together towards shared objectives. NITI Aayog identifies strengthening cooperative federalism as a core part of its role and describes States as essential partners in India's development.

Consultation

States should have opportunities to participate in national policy design.

Coordination

Union and State programmes should avoid duplication and conflicting incentives.

Capacity building

States should have access to knowledge, institutions, data and technical expertise.

Learning

Successful solutions developed in one State should be available for adaptation elsewhere.

India effectively has a laboratory of governance involving dozens of States and hundreds of districts. The question is whether the country can systematically learn from that diversity.

6. The Fiscal Dimension of Federalism

Federalism cannot work without money. States are responsible for many expenditure intensive services including health, education, agriculture, policing and local infrastructure. Yet revenue raising powers are not distributed equally between the Union and States. This creates the need for fiscal transfers.

The Constitution provides mechanisms including tax devolution and grants. Article 280 provides for a Finance Commission, which recommends the distribution of certain Union tax revenues between the Union and States and the allocation among States, along with principles governing grants in aid.

This creates several policy questions.

How should resources be distributed?

- Population
- Income distance
- Area
- Demographic performance
- Forests and ecology
- Fiscal capacity
- Cost disabilities
- Development needs

Should transfers be unconditional or conditional?

- Unconditional transfers provide flexibility.
- Conditional transfers can encourage specific outcomes.

How should incentives be designed?

- Support poorer regions without eliminating incentives for States to improve revenue collection, governance and economic performance.

How should local governments be supported?

- Development ultimately happens at the level of cities, towns, villages and districts.

PART III: TAKING DEVELOPMENT CLOSER TO CITIZENS

Part III: Taking Development Closer to Citizens

7. States Are Not the Same

One of the biggest mistakes in development policy is assuming that every State requires the same solution.

State A

High industrialisation, strong infrastructure and skilled workforce. Its challenge may be technological upgrading and innovation.

State B

Large population, low per capita income and significant agricultural dependence. Its challenge may involve basic human capital, urbanisation and employment.

State C

Mountainous geography, dispersed settlements and difficult connectivity. Its challenge may involve the high cost of delivering public services.

The national government can define the destination. States can determine the route.

8. Districts, Cities and Local Governments

State level averages can hide enormous differences within a State. A State may perform well overall while containing districts with significantly weaker outcomes. This makes the district an important unit of development policy.

Cities generate economic activity, employment, innovation and connectivity. Poorly managed urbanisation can create:

- Congestion
- Housing shortages
- Pollution
- Water stress
- Unequal access to services
- Infrastructure pressure

India needs a system connecting Union → State → District → City or Town → Village.

The challenge is ensuring that responsibilities, funding and accountability are aligned across these levels.

9. The Aspirational Districts and Aspirational Blocks Approach

One of India's most important experiments in place based governance is the Aspirational Districts Programme. Launched in 2018, the programme focuses on transforming some of India's most developmentally challenged districts.

Convergence

Aligning Central and State schemes around common development objectives.

Collaboration

Bringing together different levels of government and other stakeholders.

Competition

Using data and rankings to encourage districts to improve.

NITI Aayog's programme materials describe the Aspirational Districts and Aspirational Blocks approach as focused on outcome based governance, real time monitoring and grassroots innovation.

Federalism does not have to mean governments working separately. It can mean governments solving problems together while retaining distinct responsibilities.

The model also raises questions about whether rankings should be used everywhere, whether competition creates pressure to improve, whether it can encourage gaming, and how successful district innovations can be transferred elsewhere without simply copying them.

10. Data, Evidence and Measuring What Matters

Good federalism requires good information. Governments need to know which regions are falling behind, which programmes are working, which interventions are failing, where resources are underutilised, which districts require additional support and which State innovations can be adapted elsewhere.

NITI Aayog's SDG India Index is one example of using comparable indicators to track progress across States and Union Territories.

Diagnosis

Identify the problem.

Monitoring

Track whether interventions are producing results.

Learning

Identify what appears to work and under what conditions.

Measurement has limits. Not everything important is easily captured through an indicator. India's development measurement architecture therefore needs to balance comparability with context.

PART IV: INNOVATION AS A FEDERAL STRATEGY

Part IV: Innovation as a Federal Strategy

11. Policy Innovation Across States

Policy innovation does not always mean inventing something completely new. It can involve:

- Adapting an existing programme
- Combining existing schemes
- Using technology differently
- Changing administrative processes
- Decentralising decisions
- Creating new partnerships
- Improving targeting
- Using data to identify beneficiaries
- Changing how frontline workers operate

Different States can therefore become laboratories for public policy.

Experiment locally, evaluate rigorously and learn nationally.

12. Learning From What Works

The existence of successful State programmes does not automatically mean that they can be replicated.

Before copying a policy, policymakers should ask:

1. What problem was the programme solving?
2. What made it successful?
3. What institutional capacity was required?
4. How much did it cost?
5. What role did local officials play?
6. What role did technology play?
7. Were citizens involved?
8. What contextual conditions existed?
9. Can those conditions be recreated elsewhere?

Policy adaptation

Instead of copying a policy exactly, governments identify its underlying mechanism and adapt it to local circumstances.

NITI Aayog's State Support Mission explicitly includes knowledge sharing and cross learning among States as one of its objectives.

13. Building State Capacity

A major constraint on equitable development is not always policy design. Sometimes it is implementation capacity.

A State may lack:

- Skilled policy professionals

- Data analysts
- Monitoring systems
- Programme managers
- Evaluation capacity
- Procurement expertise
- Project management systems
- Research institutions
- Effective planning departments

Capacity building needs to be treated as infrastructure.

NITI Aayog's State Support Mission, launched in 2022, aims to support States and UTs in areas including planning institutions, growth strategies, evidence based policymaking, monitoring and evaluation and data analytics.

Can India create State governments that have enough institutional capability to design their own development strategies rather than simply implement centrally designed programmes?

14. Digital Public Infrastructure and Local Innovation

Technology provides another opportunity for federal innovation. Digital systems can allow governments to identify beneficiaries, track service delivery, integrate databases, monitor infrastructure, deliver payments, improve grievance redressal, track outcomes and share information across departments.

But digitalisation does not automatically create inclusion. Questions remain around:

- Digital literacy
- Connectivity
- Accessibility
- Language
- Data quality
- Privacy
- Cybersecurity
- Institutional capacity

The federal challenge is not simply to build national digital platforms. It is to ensure that States and local governments can use them effectively.

PART V: THE DIFFICULT QUESTIONS

Part V: The Difficult Questions

15. Equality Versus Efficiency

Should India prioritise regions that are furthest behind? Or should it invest more heavily in regions with the greatest capacity to generate economic growth?

The first approach may improve equity. The second may potentially generate larger aggregate economic returns. But the choice does not necessarily have to be binary.

A region can receive support for basic capabilities while being encouraged to develop its own economic strengths.

Minimum standards + differentiated strategies.

16. National Standards Versus Local Flexibility

National governments need common standards. A child should not receive dramatically different access to essential services simply because of geography. But excessive standardisation can prevent local governments from responding to local conditions.

What should be nationally standardised, and what should be locally designed?

- Nationally defined learning outcomes may coexist with State specific teaching methods.
- National health standards may coexist with State specific delivery models.
- National digital infrastructure may coexist with locally designed applications.

17. Competition Versus Cooperation

Competition can motivate governments to improve. Rankings can create visibility. Successful States can become examples for others. But excessive competition may encourage governments to focus on indicators rather than outcomes and may make governments reluctant to share successful ideas.

Cooperation creates knowledge sharing. Competition creates incentives.

How can the federal system make States compete without making them stop cooperating?

The Aspirational Districts Programme offers one example by combining convergence, collaboration and competition.

18. Growth Versus Redistribution

A central challenge in federal policy is balancing redistribution with growth.

Redistribution

Support regions with weaker fiscal capacity and larger development deficits.

Growth

Create incentives for States to increase investment, productivity, employment and revenue generation.

If redistribution dominates entirely, incentives may weaken. If growth dominates entirely, existing regional disparities may persist or deepen.

The policy challenge is to create a system where redistribution builds capabilities rather than permanent dependence.

19. Central Direction Versus State Autonomy

The Union Government has the ability to coordinate national priorities. States possess contextual knowledge and administrative responsibility. Neither level can solve every problem alone.

- When should the Union lead?
- When should States lead?
- When should both jointly lead?
- When should local governments have greater autonomy?
- How should disagreements be resolved?
- How can successful State experiments influence national policy?

This is the heart of cooperative federalism.

PART VI: BUILDING THE ROADMAP

Part VI: Building the Roadmap

20. A New Model of Cooperative Federalism

The committee can consider building India's federal development system around five pillars.

Pillar 1: A Common Development Floor

Every citizen should have access to a minimum level of essential capabilities.

- Basic education
- Primary healthcare
- Nutrition
- Drinking water
- Sanitation
- Electricity
- Digital connectivity
- Basic financial access
- Physical connectivity

Pillar 2: Differentiated State Strategies

States should identify their own development pathways.

- Economic structure
- Demography
- Geography
- Human capital
- Natural resources
- Urbanisation
- Infrastructure
- Innovation capacity

Pillar 3: Stronger State Institutions

States need institutional capacity to design and implement policy.

- State institutions for transformation
- Policy research units
- Monitoring and evaluation cells
- Data analytics teams
- Programme management units
- University government partnerships
- Training for civil servants
- State innovation platforms

Pillar 4: A National Policy Learning System

India could systematically identify promising State and district innovations.

- Experiment → Evaluate → Document → Adapt → Replicate → Monitor

Pillar 5: Outcome Based Federalism

Government performance should increasingly be assessed through outcomes rather than expenditure alone.

- Education learning
- Health access and quality
- Road travel time and market access
- Employment outcomes

21. The NITI Aayog Challenge

How can India build a system of cooperative federalism in which different States and regions have the resources, autonomy, institutional capacity and incentives to pursue their own development pathways while ensuring that every citizen receives equitable access to basic opportunities?

Fiscal Federalism

How should resources be distributed between the Union and States?

State Capacity

How can weaker administrative systems be strengthened?

Regional Development

How should policy respond to persistent differences between States, districts and regions?

Local Governance

How can development planning move closer to citizens?

Policy Innovation

How can successful State level experiments be identified, evaluated and scaled?

Data and Accountability

How can India measure development without reducing complex realities to simplistic rankings?

22. Questions for the Committee**Diagnosis**

- What exactly is the regional disparity we are trying to solve?
- Is it income, poverty, education, health, employment, infrastructure, innovation or State capacity?

Responsibility

- Which level of government is best placed to solve the problem?
- Union, State, district, municipality, panchayat, private sector or civil society?

Resources

- Who pays?
- How should resources be allocated?

Autonomy

- How much flexibility should States have?

Innovation

- How should India encourage States to experiment without creating unacceptable risks?

Evidence

- How will we know whether a policy worked?

Scaling

- How will a successful experiment move from one district or State to another?

Accountability

- Who is responsible when implementation fails?

Sustainability

- Can the proposed system continue to function over decades rather than only during a particular programme cycle?

CONCLUSION

From Cooperative Federalism to Equitable Development

India's diversity is often described as a challenge. It can also be an advantage.

Different States are effectively experimenting with different approaches to governance, economic development, social policy, technology and public service delivery.

The challenge is to turn that diversity into a learning system.

A strong federal system should not require every State to follow the same development model. It should enable different States to pursue different paths while ensuring that citizens are not left without basic opportunities.

Equality does not necessarily mean identical policies. It can mean giving different regions what they need to reach a common standard of opportunity.

A mountainous State may require more expensive connectivity. A densely populated State may require greater investment in schools and healthcare. A rapidly urbanising State may require metropolitan infrastructure. A State with weak administrative capacity may need institutional support before large programmes can generate results. A State with strong institutions may need greater flexibility to experiment.

The role of cooperative federalism is to make these differences manageable.

The role of NITI Aayog is not to replace State governments. It is to help governments learn from one another, use evidence, build capacity and coordinate around national development objectives.

The State Support Mission reflects this approach by supporting State planning institutions, evidence based policymaking, monitoring and evaluation, data systems and cross learning.

The Aspirational Districts and Aspirational Blocks programmes provide another example of how convergence, collaboration, competition and data can be combined to address development gaps at a more local level.

But these are only starting points. The committee must think beyond individual programmes. The deeper question is institutional.

Can India build a federal system that continuously identifies problems, allows regions to experiment, learns from evidence, shares successful solutions and directs additional support towards places that need it most?

If the answer is yes, regional diversity need not become a source of permanent inequality. It can become one of India's greatest policy assets.

The objective is not to make every State the same. It is to build an India in which where a person is born does not determine how far that person can go.

REFERENCE MATERIAL

Key Terms for Delegates

Term	Meaning
Cooperative Federalism	Collaboration between different levels of government to achieve shared objectives
Competitive Federalism	Encouraging States to improve performance by comparing outcomes and attracting investment or talent
Fiscal Federalism	The division of taxation, expenditure and financial transfers between levels of government
Horizontal Devolution	Distribution of resources among different States
Vertical Devolution	Distribution of resources between the Union and States
Regional Disparity	Differences in economic, social or development outcomes between geographical regions
Equitable Development	Development that seeks fair access to opportunities and essential capabilities
State Capacity	The ability of government institutions to design, implement and evaluate policies effectively
Policy Innovation	New or improved approaches to solving public problems
Outcome Based Governance	Measuring government performance through results rather than expenditure or activity alone
Aspirational Districts Programme	NITI Aayog initiative focused on improving development outcomes in selected districts
State Support Mission	NITI Aayog initiative supporting State planning, evidence based policymaking, monitoring, evaluation and cross learning
Convergence	Coordinating different programmes or institutions around a common objective
Decentralisation	Transferring decision making, responsibilities or resources closer to citizens
Fiscal Capacity	The ability of a government to raise and mobilise financial resources
Policy Diffusion	The spread or adaptation of policy ideas between governments

Selected Research Base

Source	Relevance	Link
NITI Aayog: Cooperative Federalism	Institutional understanding of Union and State cooperation	https://www.niti.gov.in/cooperative-federalism
NITI Aayog: State Support Mission	State planning, capacity building, evidence based policy and cross learning	https://www.niti.gov.in/divisions/mission/state-support-mission
NITI Aayog: Aspirational Districts and Blocks Programme	Place based development, convergence, collaboration and	https://www.niti.gov.in/node/1789

	competition	
NITI Aayog: India MPI Progress Review 2023	State and district level multidimensional poverty disparities	https://www.niti.gov.in/node/868
NITI Aayog: SDG India Index 2023 to 24	Comparable development outcomes across States and Union Territories	https://www.niti.gov.in/sites/default/files/2024_07/SDG_India_Index_2023_24.pdf
Finance Commission of India	Constitutional and institutional framework for fiscal federalism	https://fincomindia.nic.in/constitutional-provisions
Sixteenth Finance Commission	Contemporary fiscal federalism and State finance issues	https://fincomindia.nic.in/commission-reports-sixteenth
NITI Aayog: India Innovation Index	Regional variation in innovation capacity and State policy ecosystems	https://www.niti.gov.in/sites/default/files/2025_02/EOI India Innovation%20Index_dated 14th%20Feb 2025.pdf
Economic Survey 2025 to 26	Contemporary evidence on regional differences in areas such as apprenticeships and skills	https://www.indiabudget.gov.in/economicsurvey/doc/eschapter/echap12.pdf

A Note for Delegates

The statistics and rankings in this guide should be treated as evidence for understanding the problem, not as a substitute for policy reasoning.

A State performing poorly on one indicator is not necessarily poorly governed.

A State performing well on one indicator is not necessarily successful across every dimension.

The purpose of comparative data is to identify questions, understand patterns and investigate what may explain them.

The Central Question

What should India change in the way the Union, States and local governments work together so that regional diversity becomes a source of innovation rather than a source of unequal opportunity?

That is the federalism challenge before NITI Aayog.