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NITI Aayog has Failed. India Needs a New Institutional Compact

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Since it was created in 2015, NITI Aayog has neither been able to offer fresh thinking on the economy nor has it functioned as a a mediator between the centre and the states. A federal institution facilitating political-level cooperation is crucial to respond to the demands of a modern economy.

On 15 August 2014, delivering his maiden Independence Day speech, Prime Minister Narendra Modi unveiled his government's ambition to dismantle the Planning Commission and replace it with a "new institution having a new design and structure, a new body, a new soul, a new thinking, a new direction […] to lead the country based on creative thinking […] to empower state governments and to empower the federal structure".

There were no tears shed.

The Planning Commission had long lost its sheen.It was widely recognised as a relic of a bygone era when centralised planning was in vogue and had no place in a modern, 21st century market economy. By 2014, the Planning Commission had reduced itself to functioning as an outdated tool of centralisation that used its budgetary powers to approve state development plans and advance the union government's agenda. Prime Minister Modi - fresh in his 'reformist' avatar that catapulted him to power in 2014 as the leader who would take India down the path of "maximum governance" - was doing what many had urged in the past: reforming India's institutional landscape and making it 21st century ready.

In January 2015, the government unveiled its new institution, the National Institute for Transforming India (NITI) Aayog, via a cabinet resolution. NITI Aayog was imagined as"a directional and policy dynamo" that would provide a "shared vision of national development […] and respond to the changing and integrated world". Crucially, NITI Aayog was going to shift policy-making away from the centralised plan model to foster genuine co-operative federalism. It was the "quintessential platform" to bring "Team India" to work towards a "national development agenda."

The NITI Aayog turned 10 in January 2025 in a world that looks dramatically different to its founding moment. With the rise of populism, the Western turn to de-globalisation, rapid technological advancement, and an accelerating climate crisis, the globe has entered a new, turbulent era. Intellectual traditions of the neoliberal era - open markets, deregulation, globalisation, a smaller state -that dominated policy-making in India since the 1991 moment are increasingly inadequate to respond to this. The grim realities of our economic trajectory - a stalled structural transformation, persistent unemployment, and growing inequality - add to the turbulence. Moreover, fault lines in India's federal bargain are widening and key guiding principles that shaped the federal bargain are now in contention.

Now, more than ever, India needs an institution mandated to be a "directional and policy dynamo" to help navigate these choppy waters. Yet, the NITI Aayog, despite its decade-long presence in the policy ecosystem, lacks the power and credibility for the generative thinking and strategic visioning with states needed today. For years now, policy observers and veteran policy-makers, have been calling for its rehaul. A reimagined institution can evolve as a much needed organ of federalism.

Techno-managerial knowledge creation

Two factors have contributed to the NITI Aayog's underwhelming performance.

The NITI Aayog was birthed with a mandate for "new thinking to lead team India." However, the political project it was designed to serve actively attacks academic freedom and open enquiry, both critical ingredients for "new thinking." The space for critique and public contestation of ideas has shrunk as the government has routinely weaponised laws to silence critical voices. Moreover, this is, and indeed remains, a political project that sustains itself on the persona of the prime minister. All arms of administration are expected to support and legitimise this personality cult. None of this is conducive to the pursuit of "new thinking".

The goal of knowledge generation in this political culture is not to understand reality. Rather it is to affirm political narratives and sustain the personality cult. For policy-making, this has meant that credible, independent research and ideas is increasingly scant.

Consider the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS). From its launch in 2006, the scheme has been studied by researchers of all hues, creating a vibrant evidence base on what works, what does not, and why. The government has accepted what it liked and ignored what it did not, and the public has debated key ideas.

> The NITI Aayog's vision and strategy documents offered little by way of a strategic vision and pathway, and they have disappeared without a trace.

Today, you will be hard pressed to find wide-ranging evidence on any government scheme. Those that get publicised usually tell good stories and inconvenient data is actively delegitimised. This is also the fate of critical sources of government data.

For the NITI Aayog, in its critical founding moment, it is this broader political culture that shaped the knowledge infrastructure, the type of state capacity, and the modes of interaction it adopted as it sought a carve a role within India's complex institutional landscape. Rather than set itself up for new thinking, which requires the state to be in learning mode and open to engagement with academics, experts, and civil society, it curtailed its ambitions to focus on 'evidence' generated through technology-led monitoring of administrative action.

The vision and strategy documents (a vision for 'India @75' and a three-year action agenda) aligned to the NITI Aayog's original mandate were placed in the public domain. But they offered little by way of a strategic vision and pathway, and they have disappeared without a trace. The last report was presented in 2018, and based on material available in the public domain, the visioning exercise appears to have been abandoned altogether.

The NITI Aayog's most visible, knowledge-building effort has focused on developing indexes for measuring performance amongst states and building management information systems (MIS) to infuse a "competitive" evidence-based performance culture to improve public service delivery outcomes. It is this that gave it visibility, a role, and some legitimacy within the structure of the bureaucratic hierarchy. However, the objectives, nature, and form of knowledge infrastructure that this "monitoring" and indicator development process generated has been shaped by the political culture within which it evolved.

The contrast with the knowledge infrastructure the planning commission relied on in its founding moment illustrates the argument. As is well documented by historian Nikhil Menon in *Planning Democracy*, the planning process established its legitimacy and power in India's statecraft via the creation of a robust data and knowledge complex (2022). Planning required the state to make the economic realm legible and this prompted the creation of India's globally renowned statistical infrastructure in which P.C. Mahalanobis played a defining role. The need to build India's statistical system aligned with the Nehruvian state building project of infusing a scientific temper in the pursuit of India's development aspiration.

Regardless of the critique that the early plans have now been subjected to, there is no denying that the rigour and quality of knowledge creation that undergirded them, commanded global envy that lasted well into the first decade of the 21st century. Crucially, Menon highlights that this project of knowledge-based planning and infusing scientific temper into statecraft was intertwined with the political project of democracy.

> Monitoring and evaluation was a tool to bring about a range of democratising outcomes from transparency to a more responsible and rights guaranteeing state. This is the techno-democracy imaginary.

The application of technocratic expertise to generate plans was not limited to offering tools to the state to govern. Rather it was deployed as a vehicle to infuse a deliberative, democratic culture. It was seen as part of the process of the imaginary of the practice of democracy. There were no doubt many contradictions in this technocratic process of planning and the democratic culture that it was deployed for, as Menon documents in his book. However, it is this fusing of knowledge and democracy that shaped the vision, capacity, and ultimately the legitimacy and power of the Planning Commission in its early years.

In another context, sociologist Diana Graizbord coins the phrase the "techno democracy imaginary" while describing a similar political project that undergirded the creation of the monitoring and evaluation office (CONEVAL) in Mexico, which has resonances with the political imaginary the shaped the early years of the Planning Commission. The CONEVAL technocrats, she argues, did not see measurement and benchmarking as a technocratic end, rather they articulated their purpose in the vocabulary of democracy. Monitoring and evaluation was a tool to bring about a range of democratising outcomes from transparency to a more responsible and rights guaranteeing state.

This is the techno-democracy imaginary. It shaped, as Menon documents, the foundations of the early years of the Planning Commission. And even though the power and legitimacy of this original mission eroded with time, the institutional legacy of the knowledge infrastructure it built was powerful and long lasting.

In contrast, the NITI Aayog's knowledge infrastructure -its indices and data dashboards - have been framed within a techno-managerial imaginary.

The NITI Aayog relies on its indices for administrative data and designing shiny new data dashboards or management information systems. 'Evidence' is limited to what the state can 'see' and 'control' rather than generating new knowledge and ideas that can be deployed to analyse policy problems. This aligns with the political project of the present moment which has deployed India's digital prowess as the foundation for state building and, indeed, the basis of a new social contract.

> Techno-managerial think-tanking is simply not aligned with the goal of developing knowledge-based policy ideas.

However, it circumscribes the knowledge function of the think tank, making it perfectly compatible for India to witness a deluge of administrative data (the World Bank has recorded the development of over 400 MIS systems in 2019) as 'evidence' while weakening the credibility of its vaunted knowledge system, its statistical infrastructure. The techno managerial culture has also limited the incentive structure for the NITI Aayog to fuel a 'thinking' ecosystem, as was its mandate.

Rather than build platforms and create opportunities for generative thinking and bringing a diversity of voices and ideas into policy-making, NITI Aayog has limited its talent scouting to management professionals and implementation partnerships with non-governmental organisations (NGOs). While this has its place in policy-making, it is a far cry from the high-value talent that the Planning Commission attracted in its heyday and certainly does not match the ambition that the NITI Aayog started out with of being the "directional and policy dynamo" that India needs. Techno-managerial think-tanking is simply not aligned with the goal of developing knowledge-based policy ideas.

Team India

The NITI Aayog was crafted in a policy context that was wary of the centralising tendencies of the Planning Commission. In its original formulation, the budgetary powers assigned to the Planning Commission - which ought to have been distributed to states based on the Gadgil formula - were cannibalised by centrally sponsored schemes, which were neither uniform nor criterion based. This, combined with the power to approve state plans, enabled the Planning Commission to function as a centralising force, advancing the union government's agenda.

Moreover, the plan/non-plan distinction, embedded in the planning process, contributed to cumbersome accounting and increased opacity in India's public finances. Thus the shift away from the planning process paved the way to reorient public finances in a way that enabled greater fiscal autonomy for state governments. The broad policy consensus was to strip the new institution of all budgetary powers. However, this resulted in an institutional vacuum that unexpectedly opened new sites for centralisation.

A significant percentage of government expenditure pertaining to development (25% of transfers from the union government to states in financial year 2026), fall outside the remit of the Finance Commission. These transfers are made through centrally sponsored schemes administered via line departments through an annual budget cycle. In the days of the Planning Commission, the funds transferred were part of plan negotiations with states. But with its dismantling, line ministries (that have a siloed perspective) and the finance ministry (whose logic is to limit expenditure) have taken over this function. Moreover, annual transfers to states became more unpredictable as these are ad hoc decisions taken by the finance ministry.

In the era of planning, the plan allocations would provide a broad benchmark even if there were variations in annual transfers. And political bargaining over financing had a home in the planning commission. However, this function has now shifted to line departments and the finance ministry. Neither is well equipped for this role nor do they have institutionalised mechanisms for intergovernmental mediation.

> In the arena of welfare schemes, in particular, Modi's governance style is personalistic and centralising. Welfare schemes are being used to manufacture political power to establish a direct, emotive connection with voters.

Added to this is a shift made in 2015 in cost sharing ratios. The union government altered the cost-sharing ratio for centrally sponsored schemes, making a 40% state contribution mandatory. While this increased the states' financial burden, it also reduced their ability to collectively negotiate funding terms. This combination of factors has added to growing discontentment amongst states, who complain that the centralising tentacles of the union government remain visible though the planning commission has gone.

Without budgetary powers, the NITI Aayog sought a place in the power hierarchy of policy-making through its indices and ranks, and an aspirational districts programme directed at promoting competitive federalism. This left it susceptible to the critique that it lacks the autonomy needed to be a credible think tank for 'Team India' and instead serves as a vehicle for centralisation, promoting the union government's policy priorities.

The charge has credibility, particularly when considered against the backdrop of the new administrative culture that was fast entrenching itself in the union government-a culture aligned to centralising power within the persona of the prime minister.

In the arena of welfare schemes, in particular, Modi's governance style is personalistic and centralising. Welfare schemes are being used to manufacture political power to establish a direct, emotive connection with voters. This kind of welfare delivery is inevitably centralising as the strategy is aimed at aggregating credit to the party leadership (Aiyar and Sircar 2024). The administration has to align to this political approach and technology has been deployed to bypass state governments and establish direct lines of communication with district-level administrators to monitor implementation. This, the argument goes, improves efficiency. But this veneer of efficiency legitimises centralisation.

NITI Aayog too, with its aspirational districts programme and other indices, has been a participant in this politics of centralisation. In so doing, it has given credibility to the charge that it is a vehicle for furthering the union government's agenda and this takes away from its capability to be an impartial broker between the centre and states.

In effect, the NITI Aayog is viewed from the perspective of states just as the Planning Commission was, but without budgetary teeth. And worse, it is seen as an institution in service of the Prime Ministers' Office (Swenden 2019)

Towards a fresh federal compact

The failure of the NITI Aayog to function as an effective institution of federalism has costs for India's development trajectory. In dispensing with a 20th century relic of 'planning' and the budgetary powers of the Planning Commission, has India thrown the baby out with the bath water?

> The centre can identify five to 10 national development goals that it finances through schemes and the NITI Aayog can then work with states to develop medium to long-term strategies that are funded via the development fund.

In an important intervention in 2019, Vijay Kelkar, chairperson of the 13th Finance Commission, made a persuasive argument for a "new fiscal federal" compact that responded to the needs of India's growing regional disparity between states, or what he termed the "development imbalance."

Poorer states need resources for their development. Indeed, this is the logic behind the principle of "fraternity" baked into the Finance Commission's devolution formulae. However the growing spatial inequality in India puts new pressures. Responding to this, as Kelkar persuasively argues, requires focused attention and finances.

To extend the argument, I would make the case that the best mechanism to address the need for budgetary resources aligned to the developmental imbalance would be to pool the disparate, siloed centrally sponsored schemes into a development fund. The centre can identify five to 10 national development goals (education, health, social protection, food, and the like) that it finances through schemes. The NITI Aayog can then work with states to develop medium to long-term strategies that are funded via the development fund.

This proposal could also serve to address the current friction in centre-state relations over tax devolution formulae, as richer states, particularly in south India, question the logic of fiscal devolution formulae designed to favour poorer states.

The second critical role that India confronts relates to centre-state coordination in multiple domains of the economy. As the economy becomes more complex and integrated, the need for developing institutional structures for centre-state deliberation is increasing rather than decreasing. There is today a sound economic rationale for moving in the direction of integrating taxes (through the goods and

services tax), developing structures for regulating national markets (agriculture and labour), creating provisions for portable public services, and developing coordinated strategies to address environmental challenges from pollution to climate change.

However, managing this integration requires an institutional structure for enabling inter-state and centre-state cooperation at a political level. The NITI Aayog has thus far proved ineffective in performing this function. India needs a genuine federal institution to respond to the demands of a modern economy.

Several interlocutors have suggested disbanding the NITI Aayog in favour of empowering the constitutionally mandated Inter-State Council. Its capacity to perform the mediation function, the argument goes, is greater than any other institutional structure because it has constitutional backing.

Each of these meaningful suggestions merits debate.

The case and, indeed, urgency to restructure the NITI Aayog is strong. However, no progress will be made if the political culture militates against the two conditions - open enquiry and federalism - necessary for a NITI Aayog-like body to fulfil its mandate.

For the moment, neither of these conditions exists. So, the NITI Aayog will continue to underperform even as global uncertainties and domestic challenges make the case for its existence more pressing in 2025 than it was in 2015.

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