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Institute for IAS Examination

The Analyst

CURRENT AFFAIRS Handout

6th August 2026

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6th August, 2026

Fiscal Federalism: Efficiency vs Equity

CONTEXT: The 16th Finance Commission: Period 2026-31.
EDITORIAL - Equity Concerns.

Constitutional Background

- **Article 270**
- **Article 280 -** *Correct* - *FISCAL IMBALANCE*
- Main Task - 280(3) & Objective
- Divisible Pool of Taxes -
    - Excludes - Cesses & Surcharges
    - For 2025-26 - Divisible Pool -

Evolution of Vertical Devolution (Centre → States)

- 13th FC (2010–15) -
- 14th FC (2015–20) -
- 15th FC (2020–26) -

Horizontal Devolution Distribution criteria (since 13th FC) largely emphasised:

- Equity
- Need
- Efficiency

16th FC's Key Recommendations (2026–31)

A. Vertical Devolution - Retained at 41% - Rationale -

- States receive - significant share - total revenue
- Higher devolution can strain Centre's capacity
- CSS spending flows to States

B. Horizontal Devolution - Key Guiding Principles -

- *Gradualism*
- Recognition of Efficiency
- New criterion introduced
- Resulting pattern - *directional shift toward efficiency*

Challenges in the 16th FC Recommendations

- Exclusion of Cess & Surcharge - FY24 - ~19%
- Balancing Equity vs Efficiency
- Limited Increase Despite Demand
- Fiscal Federalism vs Central Priorities

EDITORIAL HIGHLIGHTS

- **Grants Substantially Reduced -** ~8.3%; Only Two Grants Remain
- **RDGs? - REMOVED - FC's Logic -**
- **Shift towards Performance-Based Fiscal Transfers -** e.g. Fiscal Discipline

Concerns/Issues

- **Grants-in-Aid - Instruments Of Equalisation** - West Bengal, NE States
- **CASE STUDY -** Punjab & Kerala
- Coupled with **LOW-WEIGHTAGE** - **Income Distance -**
- **Conditionalities Attached**

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IMPLICATIONS

POSITIVE	NEGATIVE
• Promotes fiscal prudence. • Encourages outcome-based governance. • Strengthens local governments. • Improves accountability. • Incentivises better public finance management.	• Weakens equalisation function. • Increases regional disparities. • Limits States' fiscal space. • Strengthens Union's fiscal dominance. • Risks undermining cooperative federalism.

Way Forward: Reforms & Recommendations

- Restore Balance between Efficiency & Equity
- Reconsider Revenue Deficit Grants - Punchhi Commission (2010) - Fiscal Federalism
- Rationalise Cess & Surcharge - *sunset clause or cap*
- Greater Fiscal Autonomy - 2nd ARC
- Strengthen Own Revenue Mobilisation
- Fiscal Responsibility & Budget Management

Mains Practise Question

The 16th Finance Commission marks a shift from need-based equalisation to performance-based fiscal transfers. Discuss the associated challenges and examine its implications for India's fiscal federalism. Suggest measures to strike a balance between efficiency and equity.

(15 Marks, 250 words)

The Structural Shift In India's R&D

CONTEXT: Private R&D spends should be used to bolster manufacturing

Context: According to the **DST**, for the **first time in India's history**, the **private sector accounted for 51.8% of India's total R&D expenditure in 2023-24**, overtaking government spending.

- Significant shift in India's innovation ecosystem.
- Industry also employs more core researchers.
- Leading corporate R&D investors include: Transport; Pharmaceuticals, etc.

Why Has Private R&D Increased?

- Post-COVID recognition - **innovation drives competitiveness**.
- Government Push - SC, AI, etc.
- Growing Investments - Fabs, Data Centres, etc.

India's R&D Status: Global Comparison

Country	R&D Expenditure (% of GDP)
South Korea	4.94%
United States	3.45%
China	2.58%
India	0.84%

Researchers per Million Population

- **India:** ~354 researchers/million
- **South Korea:** >8,000 researchers/million
- **Israel:** >8,000 researchers/million

Importance for India: Higher private R&D can -

- Improve technological self-reliance.
- Promote innovation-led growth.
- Support **Make in India** and **Atmanirbhar Bharat**.
- Boost high-value manufacturing.
- Enhance export competitiveness.
- Generate high-skilled employment.
- Reduce dependence on imported technologies.

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The Structural Shift In India's R&D

CONTEXT: Private R&D spends should be used to bolster manufacturing

Major Challenges

- Low Overall R&D Intensity -
- Shortage of Researchers -
- Private Sector Priorities - *advertising than on research*
- Measurement vs Reality
- Weak Academia–Industry Linkages
- Limited Deep-Tech Innovation

Government Initiatives

- Anusandhan National Research Foundation (ANRF)
    - Corpus: **₹50,000 crore** over five years.

Other Initiatives

- National Quantum Mission
- India AI Mission
- Semiconductor Mission
- Biotechnology Industry Research Assistance Council
- Atal Innovation Mission (AIM)
- PM Research Fellowship (PMRF)
- Startup India
- Digital India

Way Forward

- Increase R&D Spending - ~2%
- Strengthen Industry-Academia Collaboration - Joint research centres
- Develop Human Capital - STEM education
- Encourage Private Investment -Tax incentives
- Focus on Frontier Technologies - Space, Clean Energy, etc.
- Improve Commercialisation - VCs for Deep-Tech

Mains Practise Question

Private sector participation is increasingly shaping India's research and innovation ecosystem. Examine its significance for achieving technology-led economic growth. Also highlight the key challenges that continue to constrain India's R&D ecosystem.

(10 Marks, 150 words)

Mains Value Addition

Newspaper : The Hindu, **Page No : 3**

Political Representation Of Women - The Hindu, Pg. 3

Parliament

- **18th Lok Sabha (2024):**
  - **74 women MPs** out of 543
  - Around **13.6–14%** representation (slightly lower than 2019).
- **Rajya Sabha**
  - Women constitute around **16–17%** of members.

State Legislatures

- Women constitute only **about 9–10%** of MLAs across India.

Local Governments

One of India's greatest democratic successes:

- Over **14 lakh women** have been elected to Panchayati Raj Institutions.
- Women constitute **around 46%** of all elected Panchayat representatives.
- Many States (e.g., **Bihar, Rajasthan, Madhya Pradesh, Kerala, Odisha, Chhattisgarh**) provide **50% reservation**.

Example: *Women-led Panchayats in **Kerala** and **Karnataka** have often been highlighted for effective local governance and participatory planning.*

Asiatic Lion

SYLLABUS: Prelims: Conservation
Newspaper : The Hindu, **Page No :** 8

Key Takeaways - Article

- **Only wild population:** The **Asiatic lion (*Panthera leo persica*)** survives exclusively in and around the **Gir landscape, Gujarat**, making it globally unique.
- **Conservation success:** Lion numbers have increased from **100–150 (1960s)** to **over 1,000 (2025 estimation)** due to sustained conservation efforts.
- **Beyond Protected Areas:** Nearly **50% of lions now live outside Protected Areas**, highlighting the shift from **protected-area conservation to landscape-level conservation**.
- **Importance of Corridors:** Areas such as **Babarkot** serve as crucial **wildlife corridors**, connecting Gir with satellite populations like **Jafrabad (Satellite IV)**.
- **Mining concerns:** Proposal to divert **75 hectares of reserved forest** for limestone mining may fragment habitats, disrupt connectivity, and increase human-lion conflict.
- **Disease vulnerability: 2018 Canine Distemper Virus (CDV)** outbreak killed over **20 lions**, while **babesiosis-related deaths (2026)** underline risks of keeping the entire population in one landscape.
- **Need for second home:** Continued delay in establishing a **second free-ranging population** remains one of the biggest conservation concerns.
- **IUCN status:** Asiatic lion has improved from **Critically Endangered to Endangered**, but recovery is still incomplete.

Value Addition

1. Project Lion (2020)

- Announced by the Government of India for **holistic conservation of Asiatic lions**.
- Focus areas:
  - Habitat expansion
  - Corridor conservation
  - Disease surveillance
  - Human-lion coexistence
  - Genetic conservation

2. Second Home for Asiatic Lions

- **Kuno National Park (Madhya Pradesh)** was identified by the **Supreme Court (2013)** as the alternate habitat.
- Objective:
  - Reduce extinction risk from **single-population concentration**.
  - Improve long-term genetic security.
- However, implementation has been delayed.

Asiatic Lion

SYLLABUS: Prelims: Economy
Newspaper : The Hindu; **Page No** : 10

3. IUCN Red List

- **Status: Endangered (EN)**
- Population trend: **Increasing**
- The Asiatic lion remains **the only stable northern lion population** globally.

4. Wildlife Corridors

- Corridors facilitate:
    - Gene flow
    - Seasonal dispersal
    - Reduced inbreeding
    - Climate resilience
- Protected under principles of **landscape-level conservation**.

Examples:

- Kanha–Pench Corridor; Kaziranga–Karbi Anglong Corridor; Babarkot Corridor (Gir)

5. Major Threats

- Habitat fragmentation
- Mining and infrastructure projects
- Disease outbreaks (CDV, Babesiosis)
- Road and railway mortality
- Open wells
- Human-wildlife conflict

Urban Cooperative Banks

SYLLABUS: **Prelims:** Banking
Newspaper : The Indian Express; **Page No : 13**

About Urban Cooperative Banks

- **Urban Cooperative Banks (UCBs)** are not formally defined but refer to **primary cooperative banks located in urban and semi-urban areas**.
- **History:** The first formal co-operative legislation in India came with the **Co-operative Credit Societies Act of 1904** (during **Lord Curzon's tenure**) and was followed by the more comprehensive **Co-operative Societies Act of 1912**.
    - The first urban cooperative credit society, **Anyonya Sahakari Mandali**, was established in **1889 in Baroda**.
- **Functions:** Provide services like **housing finance, personal loans, MSME credit, and deposits** to small borrowers, traders, and small-scale industries.
- They are registered as cooperative societies under the provisions of either the **State Cooperative Societies Act** of the concerned State or the **Multi-State Cooperative Societies Act, 2002**.
- **Regulation:** The **Reserve Bank of India (RBI)** regulates and supervises the banking functions of UCBs under the provisions of the **Banking Regulation Act, 1949**.
    - **Banking-related functions** (such as licensing, area of operations, interest rates, etc.) are governed by the **RBI**.
    - **Registration, management, audit, and liquidation** are governed by the **State Governments** as per the provisions of their respective **State Acts**.
    - The **RBI** has the power to issue licenses to UCBs under **Sections 22 and 23 of the Banking Regulation Act, 1949**, enabling them to carry on banking business and open new places of business (branches, extension counters, etc.), respectively.

DGMA

SYLLABUS: **Prelims:** Institutions

Newspaper : The Hindu; **Page No : 12**

The **Directorate General of Maritime Administration** is an attached office under the **Ministry of Ports, Shipping and Waterways, Government of India**. It deals with all executive matters related to merchant shipping.

Prior to independence, Indian shipping remained a neglected subject. It was only after independence that the development of the shipping industry attracted focused state policy. Initially, the subject of shipping was handled by the **Ministry of Commerce** until 1949. In 1951, it was transferred to the **Ministry of Transport and Shipping**.

In 1947, the Government of India announced the **National Policy on Shipping**, aiming at the comprehensive development of the industry. To accelerate these developmental efforts, the need for a centralized administrative organization was recognized. Accordingly, the **Directorate General of Shipping** was established in **September 1949**.

This Directorate deals with all matters concerning **Maritime Administration, Maritime Education and Training, development of the Shipping Industry**, and other related subjects.

The Directorate is responsible for implementing shipping policy and legislation to ensure: **regulation of employment of seamen and their welfare**, **development of the sailing vessel industry**, and **regulation of ocean freight rates in overseas trades**.

The Directorate deals with implementation of shipping policy and legislation so as to ensure the **safety of life and ships at sea**, **prevention of marine pollution**, **promotion of maritime education and training** in coordination with the **International Maritime Organization**, **regulation of employment and welfare of seamen**, **development of coastal shipping**, **augmentation of shipping tonnage**, **examination and certification of Merchant Navy Officers**, and **supervision and control of the allied departments and officers under its administrative jurisdiction**.

The **Director General of Shipping** is vested with statutory powers under **Section 7 of the Merchant Shipping Act, 1958**. He is assisted, on the administrative side, by the **Senior Deputy Director General of Shipping, Deputy Directors General of Shipping, Assistant Directors General of Shipping, and Executive Officers**; whereas on the technical side, by the **Nautical Advisor**, supported by **Deputy Nautical Advisors and Nautical Surveyors**; and on the engineering side, by the **Chief Surveyor**, supported by **Deputy Chief Surveyors, Deputy Chief Ship Surveyor, Engineer & Ship Surveyors, and Ship Surveyors**, along with supporting staff. The **Nautical Advisor** and the **Chief Surveyor** are also the **Chief Examiners of Masters/Mates and Engineers**, respectively, on behalf of the **Director General of Shipping**.

Ceuta

SYLLABUS: **Prelims:** Important Events/Places
Newspaper : The Hindu; **Page No : 14**

Daily Quiz

Q1. Consider the following statements regarding the 16th Finance Commission of India:

1. Cesses and surcharges levied by the Union Government are included in the divisible pool of taxes.
2. It has retained the States' share in the divisible pool at 41% for the period 2026–31.
3. Horizontal devolution among States takes into account factors such as equity, need and efficiency.

Which of the statements given above are correct?

a) 1 and 2 only
b) 1 and 3 only
c) 2 and 3 only
d) 1, 2 and 3

Answer: c

Q2. Consider the following statements regarding the Asiatic Lion:

1. The Asiatic lion is found in the wild exclusively in the Gir landscape of Gujarat.
2. Wildlife corridors can facilitate gene flow and reduce inbreeding in fragmented populations.
3. Kuno National Park in Madhya Pradesh was identified as an alternative habitat for Asiatic lions by the Supreme Court.
4. The Asiatic lion is currently classified as Vulnerable on the IUCN Red List.

How many of the statements given above is/are correct?

a) Only One
b) Only Two
c) Only Three
d) All Four

Answer: c

Q3. Consider the following statements regarding Urban Cooperative Banks (UCBs) in India:

1. UCBs are regulated by the Reserve Bank of India with respect to their banking functions under the Banking Regulation Act, 1949.
2. Their registration, management and liquidation are governed by the respective State Governments.
3. All UCBs are registered exclusively under the Multi-State Cooperative Societies Act, 2002.
4. The RBI has powers relating to licensing of UCBs and opening of new places of business.

Which of the statements given above are correct?

a) 1, 2 and 4 only
b) 1 and 3 only
c) 2 and 4 only
d) 1, 2, 3 and 4

Answer: a

Q4. With reference to the Directorate General of Shipping (DG Shipping), consider the following statements:

1. It functions under the Ministry of Ports, Shipping and Waterways.
2. The Director General of Shipping derives statutory powers under the Merchant Shipping Act, 1958.
3. It is responsible for matters relating to the safety of life and ships at sea, maritime training and regulation of employment and welfare of seafarers.

How many of the statements given above is/are correct?

a) Only One
b) Only Two
c) All Three
d) None

Answer: c

Q5. Ceuta, recently seen in the news, is a Spanish territory located on the coast of which of the following countries?

a) Algeria
b) Morocco
c) Tunisia
d) Libya

Answer: b

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