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GS Paper II: Current Affairs

1. Skill Development in India: Challenges and Reforms

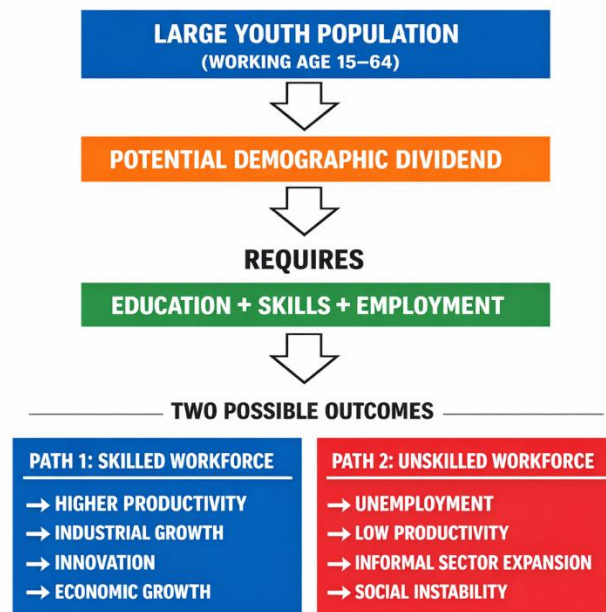
a. Introduction

Skill development refers to the process of equipping individuals with practical abilities, technical knowledge, and occupational competencies that enable them to participate productively in the labour market. In a developing economy such as India, skill development forms a crucial bridge between the education system and employment opportunities.

India is currently experiencing a favourable demographic phase in which a large proportion of the population belongs to the working-age group. This demographic dividend presents a major opportunity for accelerated economic growth, provided that the workforce possesses the skills demanded by modern industry. However, this demographic advantage is temporary. Demographers estimate that the window of opportunity will gradually narrow around the year 2040.

If the expanding workforce remains inadequately trained, the potential demographic dividend could transform into a demographic burden characterised by unemployment, low productivity, and social instability. Consequently, building a robust skill development ecosystem has become essential for employment generation, industrial competitiveness, and inclusive economic growth.

Demographic Dividend and Skill Development Nexus



b. Demographic Dividend and the Imperative of Skill Development

A demographic dividend arises when the share of the working-age population—generally defined as individuals between fifteen and sixty-four years of age—becomes significantly larger than the dependent population consisting of children and the elderly. During such periods, countries have the potential to achieve higher economic growth because a greater proportion of the population is capable of productive economic activity.

However, the demographic dividend does not automatically translate into economic prosperity. Its benefits materialise only when the workforce is adequately educated, properly trained, and productively employed.

India's labour market reflects two simultaneous realities. On one hand, millions of young individuals enter the workforce every year. On the other hand, many industries report shortages of workers possessing appropriate technical and vocational skills.

This mismatch between labour supply and industry demand highlights the central importance of skill development within India's development strategy.

c. Current Status of Skill Development in India

India's skill ecosystem remains relatively underdeveloped when compared with several advanced and emerging economies.

Country or Region	Share of Students in Vocational Education
Germany	Approximately fifty percent
European Union	Around forty to fifty percent
China	Around fifty percent
India	About 1.3 percent

- The extremely low participation rate in vocational education reflects a long-standing structural neglect of skill training within India's education system.
- Traditional schooling pathways have largely prioritised general academic education over technical or vocational competencies.
- As a result, a significant proportion of the workforce enters the labour market without industry-relevant skills.

Recognising this gap, the National Education Policy (NEP) 2020 proposes significant reforms in vocational education. One of its key targets is to ensure that approximately half of all learners receive exposure to vocational education by the year 2025 through school-based vocational courses and experiential learning.

d. Major Skill Development Initiatives in India

i. Skill India Mission

- Launched in 2015, the Skill India Mission seeks to build a large pool of skilled workers capable of supporting India's industrial expansion.
- The mission integrates multiple training programmes under a unified framework and promotes standardised skill certification across sectors.
- It also emphasises improving the quality of training institutions and aligning skill development efforts with national economic priorities.

ii. Pradhan Mantri Kaushal Vikas Yojana (PMKVY)

- PMKVY functions as the flagship skill training scheme of the government.
- It provides short-term training programmes for youth, particularly individuals who have left formal education or remain unemployed.
- The scheme focuses on industry-relevant training modules, skill certification, and job placement assistance.

iii. National Skill Development Corporation (NSDC)

- The National Skill Development Corporation operates as a public-private partnership designed to expand the country's skill training ecosystem.
- It provides financial support to private training institutions and sector skill councils.
- NSDC also collaborates with industry bodies to develop sector-specific skill standards and improve training quality.

Despite these initiatives, the overall impact of skill development programmes has remained modest due to several structural and institutional challenges within the skill ecosystem.

e. Key Challenges in India's Skill Development System

i. Supply-Driven Nature of Training Programmes

- Many skill programmes are designed and financed primarily by government agencies.
- Training targets often emphasise the number of trainees rather than the relevance of the skills imparted.
- Consequently, graduates may possess certifications but lack competencies demanded by employers, creating a persistent skills mismatch.

ii. Limited Participation of Industry

- Successful skill systems in countries such as Germany, Switzerland, and Singapore rely heavily on strong partnerships between industry and training institutions.
- Employers actively participate in curriculum design, apprenticeship programmes, and certification processes.
- In India, industry participation remains limited, which reduces the employment relevance of training programmes.

iii. Governance and Monitoring Challenges

- Audits and evaluation studies have highlighted delays in financial reporting and weak monitoring mechanisms.
- Training agencies often face difficulties in tracking whether trained individuals secure employment.
- These weaknesses reduce the effectiveness of public expenditure and undermine the credibility of skill programmes.

iv. Fragmented Institutional Framework

- Skill development initiatives are spread across multiple ministries, departments, and agencies.
- This fragmentation creates overlapping responsibilities and coordination challenges.
- The absence of a unified institutional framework complicates policy implementation and monitoring.

v. Social Preference for Academic Degrees

- Cultural attitudes in India traditionally favour university degrees over vocational training.
- Many families perceive vocational courses as inferior even when academic degrees do not guarantee employment.
- This perception discourages students from pursuing technical training pathways.

vi. Absence of Reliable Labour Market Information

- Effective skill planning requires accurate information about labour demand and emerging occupations.
- India currently lacks a comprehensive real-time labour market information system.
- Without reliable data on sectoral employment trends, training programmes struggle to align with evolving industry needs.

f. Reforming the Skill Development Ecosystem

i. Skill Loans

- Expanding access to skill loans would allow individuals to finance training programmes independently.
- This approach encourages competition among training providers and improves accountability.
- Students gain the freedom to select courses that align with their career goals.

ii. Skill Development Levies on Industry

- Many countries finance skill development through employer contributions or payroll-based levies.
- Under this model, companies contribute a small proportion of their payroll to a national training fund.
- Firms that invest in training their workers can recover part of their contributions, encouraging industry participation.

iii. Skill Vouchers for Trainees

- Skill vouchers provide financial support directly to individuals rather than training institutions.
- Learners can use these vouchers to enrol in training programmes of their choice.
- This model improves accountability and competition among training providers. Countries such as Singapore and Croatia have successfully implemented similar systems.

iv. Real-Time Labour Market Information System

- A modern labour market information system can analyse data from job portals, recruitment platforms, and employer surveys.
- Advanced analytics and artificial intelligence can forecast future labour demand across sectors.
- Strengthening digital platforms such as the National Career Service can improve the matching of skilled workers with employment opportunities.

g. Importance of Skill Development for India's Development

i. Economic Growth and Productivity

- A skilled workforce improves industrial productivity and technological capability.
- Sectors such as manufacturing, information technology, healthcare, and renewable energy depend heavily on specialised technical skills.

ii. Employment Generation

- Skill development enhances the employability of young people.
- When training programmes align with labour market demand, they facilitate smoother transitions from education to employment.

iii. Global Workforce Mobility

- Many countries face labour shortages in sectors such as healthcare, construction, and advanced manufacturing.
- With appropriate training and certification, Indian workers can participate in international labour markets.
- Such mobility contributes to remittance inflows and strengthens India's global economic integration.

iv. Inclusive Development

- Skill programmes can expand economic opportunities for marginalised groups.
- Rural youth, women, and economically disadvantaged communities benefit from access to vocational training.
- By improving access to employment, skill development supports broader social and economic inclusion.

h. Way Forward

India's skill development strategy must gradually shift from a predominantly government-driven model toward a demand-oriented ecosystem that integrates education systems, industry participation, and labour market institutions.

- Industry participation in curriculum design and apprenticeship programmes must be strengthened.
- Vocational education should be expanded within the school system so that skill training becomes a normal part of education from an early stage.
- Innovative financing mechanisms such as skill levies and training loans can diversify funding sources and encourage private sector engagement.
- Governance reforms, stronger monitoring systems, and the development of a comprehensive labour market information platform will be essential for ensuring that training programmes remain aligned with economic realities.

Conclusion

Skill development occupies a central position in India's economic transformation. The country's demographic advantage offers a historic opportunity to build a large and productive workforce capable of supporting rapid industrial and technological growth.

However, the demographic dividend represents a temporary window of opportunity. Unless India significantly strengthens its skill ecosystem through institutional reform, stronger industry participation, improved financing mechanisms, and data-driven planning, the potential benefits of this demographic phase may remain unrealised.

A well-designed and responsive skill development system can transform India's expanding workforce into a globally competitive human resource, thereby sustaining economic growth and promoting inclusive development.

GS Paper III: Economics

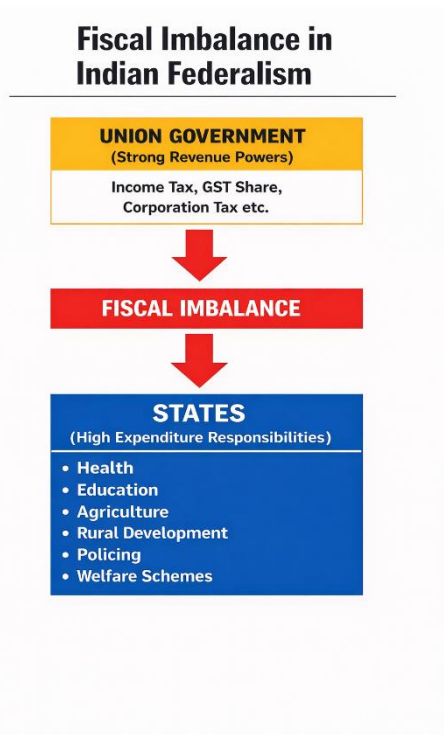
2. Finance Commission in India: Principles, Evolution and Issues in the Sixteenth Finance Commission

a. Introduction

India's constitutional framework establishes a federal system in which both the Union government and the State governments possess distinct legislative and administrative responsibilities. However, the distribution of financial powers within this system is not symmetrical. The Union government enjoys comparatively stronger taxation powers, while the States bear a larger share of public expenditure responsibilities in sectors such as health, education, agriculture, rural development, and policing.

This structural imbalance between revenue-raising capacity and expenditure obligations creates what is often described as a fiscal imbalance within the federal system. To address this imbalance and ensure an equitable distribution of financial resources, the Constitution provides for the establishment of the Finance Commission.

The Finance Commission functions as an independent constitutional body that recommends how financial resources should be shared between the Union and the States, and among the States themselves. In doing so, it



plays a crucial role in sustaining fiscal federalism and promoting cooperative relations between different levels of government.

b. Constitutional Basis of the Finance Commission

The Finance Commission derives its authority from Article 280 of the Constitution of India. According to this provision, the President of India constitutes a Finance Commission at intervals of five years, or earlier if required.

The Commission's primary task is to recommend the principles governing the distribution of financial resources between the Union and the States. In addition to tax devolution, it also advises on grants-in-aid and other fiscal matters that may be referred to it by the President.

Several constitutional provisions collectively shape the fiscal transfer system in India.

Constitutional Article Provision

Article 280	Establishment and functioning of the Finance Commission
Article 270	Distribution of certain central taxes between the Union and the States
Article 275	Grants-in-aid to States requiring financial assistance

Through these provisions, the Constitution institutionalises a structured mechanism for managing financial relations within India's federal framework.

The Finance Commission's work generally focuses on two major dimensions of fiscal distribution: vertical devolution and horizontal devolution.

c. Vertical Devolution: Distribution Between the Union and the States

Vertical devolution refers to the proportion of the Union government's tax revenues that should be transferred to the States. Since the Union collects a significant portion of national taxes, an appropriate share must be allocated to the States so that they can fulfil their expenditure responsibilities.

Over time, Finance Commissions have gradually increased the share of States in central taxes in order to strengthen fiscal autonomy at the State level.

Finance Commission	Share of States in Central Taxes
Eleventh to Thirteenth Finance Commissions	Approximately twenty-seven to twenty-eight percent
Fourteenth Finance Commission	Forty-two percent
Fifteenth Finance Commission	Forty-one percent
Sixteenth Finance Commission	Forty-one percent retained

Expansion of fiscal autonomy

- The Fourteenth Finance Commission introduced a major reform by increasing the States' share in central taxes from around thirty percent to forty-two percent.
- This change aimed to enhance fiscal autonomy and provide States with greater flexibility in determining their development priorities.

Continuity in the devolution framework

- The Fifteenth Finance Commission slightly reduced the share to forty-one percent due to the reorganisation of the State of Jammu and Kashmir.

- The Sixteenth Finance Commission has retained this level, thereby maintaining continuity in the vertical devolution framework.

d. The Issue of Cesses and Surcharges

Under India's fiscal framework, only certain central taxes form part of the divisible pool that is shared with the States. Cesses and surcharges imposed by the Union government are excluded from this pool.

Impact on fiscal transfers

- When the Union government increasingly relies on cesses and surcharges for revenue mobilisation, the proportion of total tax revenue that is shared with the States declines.
- Consequently, even if the States' share of the divisible pool remains fixed at forty-one percent, the effective transfer to States may decline.

Implications for fiscal federalism

- The growing use of non-shareable taxes has generated debate about the balance of fiscal power between the Union and the States.
- Many States argue that excessive reliance on such instruments undermines the spirit of cooperative federalism.

e. Horizontal Devolution: Distribution Among States

Horizontal devolution refers to the allocation of the States' share of central taxes among individual States. The objective of horizontal distribution is to ensure fairness in fiscal transfers while addressing differences in economic capacity and development levels across States.

Finance Commissions typically employ a set of criteria designed to balance the principles of equity and efficiency.

Criterion	Purpose
Income distance	Enables poorer States to receive higher transfers
Population	Reflects demographic needs and public service requirements
Area	Recognises that larger States require greater administrative expenditure
Forest and ecological indicators	Compensates States that maintain ecological resources
Indicators of fiscal performance	Encourages responsible financial management

Through this multi-criteria approach, the Commission attempts to support fiscally weaker States while also encouraging improved governance and fiscal responsibility.

f. Introduction of the Contribution Criterion in the Sixteenth Finance Commission

The Sixteenth Finance Commission introduced a new criterion referred to as contribution, which is measured through the share of a State in the country's Gross State Domestic Product (GSDP).

Objective of the criterion

- The indicator acknowledges that some States contribute more significantly to national economic output.

- By incorporating this factor, the Commission sought to address concerns raised by economically stronger States regarding the fairness of fiscal transfers.

Incorporation of performance considerations

- The inclusion of this indicator represents an attempt to integrate performance-based factors into the fiscal transfer system.
- It reflects a shift from purely redistributive principles toward a balance between equity and economic contribution.

g. Concerns Regarding the Use of Gross State Domestic Product

Uneven Distribution of Economic Activity

- Economic production in India is unevenly distributed across States.
- Factors such as industrial infrastructure, historical advantages, and access to capital often concentrate economic activity in certain regions.
- If fiscal transfers reward higher economic output, they may unintentionally reinforce existing regional inequalities.

Tension with the Principle of Equalisation

- A core objective of fiscal transfers in federal systems is equalisation, which aims to ensure that all States possess sufficient financial capacity to provide essential public services.
- When stronger economies receive larger transfers, the equalisation principle may weaken.

Technical Adjustment in the Formula

- To moderate disparities among States, the Commission used the square root of GSDP rather than the actual value.
- This mathematical adjustment reduces the dominance of very large State economies within the formula.
- Nevertheless, debates continue regarding the effectiveness of this adjustment.

h. Removal of the Fiscal Discipline Criterion

Earlier Finance Commissions incorporated indicators such as tax effort and fiscal discipline within the devolution formula.

Role of fiscal discipline indicators

- These indicators rewarded States that improved revenue mobilisation.
- They also encouraged responsible fiscal management and adherence to fiscal deficit limits.

Implications of their removal

- The Sixteenth Finance Commission has removed these criteria from the horizontal distribution framework.
- Critics argue that this may reduce incentives for States to strengthen fiscal management.

i. Discontinuation of Revenue Deficit Grants

In earlier Finance Commissions, revenue deficit grants were provided to States that continued to face fiscal gaps even after receiving tax devolution.

Purpose of revenue deficit grants

- These grants helped financially weaker States meet essential expenditure obligations.
- They supported the functioning of critical public services.

Implications of discontinuation

- The Sixteenth Finance Commission has discontinued these grants.
- This decision has raised concerns among States that depended on such transfers to maintain basic services.

j. Significance of Equalisation Grants

The Constitution allows the Union government to provide grants-in-aid under Article 275 to States requiring financial assistance.

Purpose of equalisation transfers

- Equalisation grants aim to address disparities in fiscal capacity across States.
- They enable States to provide comparable levels of public services.

Role in balanced regional development

- These transfers support investments in healthcare, education, infrastructure, and welfare programmes.
- They contribute to reducing regional economic disparities within the federation.

k. Broader Implications for Fiscal Federalism

The debates surrounding the Sixteenth Finance Commission reflect deeper structural questions about India's fiscal federalism.

- **Growing financial centralisation:** The increasing reliance on cesses and surcharges has raised concerns about fiscal centralisation.
- **Potential widening of regional disparities:** Changes in devolution criteria may influence the distribution of financial resources among States.
- **Need for cooperative fiscal governance:** A balanced fiscal framework is essential for maintaining cooperative relations between the Union and the States.

1. Way Forward

Strengthening India's fiscal federal framework requires several policy adjustments.

- The use of cesses and surcharges should be moderated so that a larger share of tax revenues remains within the divisible pool.
- The devolution formula should maintain a careful balance between rewarding economic performance and supporting fiscally weaker States.
- Equalisation transfers should be strengthened to ensure balanced regional development.
- Greater transparency in fiscal transfers and stronger institutional coordination between the Union and the States will improve fiscal governance.

Conclusion

The Finance Commission remains one of the most important constitutional institutions governing financial relations within India's federal structure. By recommending principles for the distribution of taxes and grants, it attempts to reconcile the objectives of fiscal equity and administrative efficiency.

The debates surrounding the Sixteenth Finance Commission highlight evolving challenges in India's fiscal federalism, particularly concerning the role of non-shareable taxes, the design of devolution criteria, and the future of equalisation transfers. Addressing these issues thoughtfully will be essential for sustaining balanced regional development, strengthening fiscal stability, and preserving the cooperative spirit that defines India's federal system.

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While every effort has been made to balance depth with brevity, please keep the following in mind:

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- visual cues

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