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INCLUSIVE AND SUSTAINABLE ECONOMIC DEVELOPMENT: A SUCCESSFUL MODEL FOR THE STATE OF HIMACHAL PRADESH IN INDIA

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ABSTRACT

Himachal Pradesh (HP) is a hill state in India with a population of 6.8 million. Within a short span of time, HP has catapulted itself into a model of inclusive and sustainable development. This paper analyses the development model of HP through an empirical study for the period 1991–2014, and explores the factors behind the state's success. Additionally, the state of governance in HP is assessed based on primary data. The findings show that HP has achieved a high level of inclusive economic development; its Index of Inclusive Economic Development jumped from 0.31 in the year 1991 to 0.82 in 2014. Governance in HP is good. The trinity of HP's development model are human development, development-oriented governance and social inclusion. HP's successful model has wider implications for nations, especially in the developing world, to achieve inclusive development in the shortest possible time.

Keywords: Himachal Pradesh, inclusive development, governance, human development, Index of Inclusive Economic Development

INTRODUCTION

We are often asked: “what does social inclusion and sustainable development look like?” While the question really doesn't have a clear answer, because it is so context-specific, we use Himachal Pradesh as something of a benchmark. This small Himalayan state in India stands apart in advancing sustainable green growth as well as social inclusion.

World Bank (2015, p. vi)

This paper aims to discuss the inclusive and sustainable development model of HP state in India for drawing wider policy lessons. The paper starts with a brief profile of HP in Section 1. A review of literature is done in Section 2. The research methodology for the present study is given in Section 3, followed by the main findings in Section 4. Section 5 highlights the factors behind the success of the development model of HP. The policy lessons derived from HP's model of development are given in Section 6. The paper ends with looking ahead and further points of research. The paper is based on the author's doctoral research on the topic (Jain, 2016a) and encompasses his field-level insights on development and governance as an Indian Administrative Service Officer.

Inclusive development reflects a pattern in which all sections of society, regions and strata of people enjoy the fruits of development and are active partners in it. Inclusive development is expected to reduce poverty faster by giving a higher elasticity of poverty reduction (Jain, 2016b). It includes growth and development, inclusion and inter-generational equity and sustainability (World Economic Forum, 2017, p. 9). Inclusive and sustainable development reflects the aspirations of nation states across the world.

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A BRIEF PROFILE OF HP

HP is a hill state in northern India. Select socio-economic indicators of HP are given in Table 1. HP occupies 1.7% of the total area of India and has a population of 6.8 million (0.57% of the population of India). It is a predominantly rural state with 90% of its population living in villages. HP became a Union Territory in 1948, and a full-fledged state in 1971. It is a deep-rooted democracy, with democratic institutions from state to village levels. There are three-tier Local Self-Government institutions both in rural and urban areas (numbering around 3,400), which have 50% reservation for women and 33% for Scheduled Castes and Scheduled Tribes. The governments in HP change smoothly by way of elections periodically. There is a balance among the various organs of the state – legislature, executive and judiciary.

Table 1: HP – Select Socio-Economic Indicators

Area	55,673 sq.km.
Population (2011)	6.8 million
Year of formation of state	1971
Density (per sq.km.) (2011)	123
Form of government	Democracy
Total villages	20,690
GDP (2015–16 at constant prices) (Base 2011–12)	Rs.962.89 billion (approx. \$15 billion)
GDP per capita (at current prices in Rs.) (2016)	Rs.135,621
GDP per capita (2009 in PPP terms)	\$3781
Share of primary, secondary and tertiary sectors in GDP	19.7%, 38.3% and 41.9% respectively
Sex ratio per 1000 males (2011)	972 (against 943 for India)
Literacy rate (2011)	82.8% (against 74% for India)
Life expectancy at birth (2006–10)	72.4 (Female), 67.7 (Male)
Forest cover (percentage of total land)	66%
Total villages electrified	100%

Sources: Census of India (2011), GoHP (2017), GoI (2016), The Economist (2016), CSO (2017)

HP has been transformed within one generation (around 40 years) from a poor backward hill state to a socio-economically prosperous one. HP has been acclaimed for its socio-economic development by institutions like World Bank (World Bank, 2007, 2015, 2016) and economists such as Amartya Sen (Sen, 1999, 2015; Sen and Dreze, 2002, 2013). In HP, no local person is a beggar, no one sleeps on the road, every house has electricity (even in the remotest tribal village), and every village has telecom connectivity – no mean achievement seen from the perspective of a developing country.

REVIEW OF LITERATURE

Two World Bank Reports (2015; 2016) state that HP has the reputation of being a stable, inclusive, cohesive and well-governed state. According to the World Bank (2015), the state has achieved rapid economic growth and has some of the best human development indicators in the country. HP stands apart from many states of India with its strong track record of social inclusion and sustainable development. It has made remarkable progress in reducing poverty, delivering services and maintaining low levels of caste, tribe and gender-based disparities. It has taken concrete steps toward “green growth” and is moving towards carbon neutrality by the year 2020 (World Bank, 2016). Nobel-laureate economist Amartya Sen has hailed the growth model of HP. Sen (2015) describes how HP has made rapid and notable progress in different socio-economic dimensions especially education, and how the governance model of HP holds lessons for other states in India. The Indian Human Development Report (2011) ranked HP third among Indian states in human development. The Government of HP (2014) holds that HP achieved most of the Millennium Development Goals by the year 2014, and aims to achieve the Sustainable Development Goals by the year 2022, well before the target of 2030.

Radhakrishna (2015) compares the various states of India in terms of progress in the reduction of multi-dimensional deprivations. In this study, HP is ranked first in India on the index involving reduction in income poverty, decline in malnutrition, and improvements in education during the period 1993–2010. Mundle et al. (2016) find that HP ranks among the top six states of India in economic freedom and policy effectiveness, but ranks poorly on ease of doing business and competitiveness.

RESEARCH METHODOLOGY

Objectives: The present study has been conducted with the following four objectives. First, to analyse the pattern and extent of inclusive economic development in HP, and the variations in it during the post-reform period of 1991–2014. Second, to assess the state of economic governance in different sectors of the economy of HP. Third, to explore the factors behind the HP model of development. Fourth, to determine wider policy lessons.

Scope: The performance of various components of inclusive economic development in HP has been seen over a period of time. The state of governance has been assessed for all the three sectors of economy – primary, secondary and tertiary – of HP based on perception/experience-based responses of the actual “recipients” of governance – farmers and horticulturists in the primary sector, industrialists in the secondary sector and service enterprises in the tertiary sector.

Period of Study and Sources of Data: The period of study is 1991–2014. The assessment of inclusive economic development in HP through the formulation of its Index has been done for the post-1991 period at four points of time, i.e. the years 1991, 2001, 2011 and 2014, based on secondary data. The state of economic governance in HP has been studied for one period, i.e. 2014–15, based on primary data.

Formulation of Index of Inclusive Economic Development and Index of Governance: An Index of inclusive economic development for HP has been formulated based on eight indicators – growth rate, inverse of poverty, inverse of rural poverty, literacy rates, sex ratio, child sex ratio, inverse of infant mortality rate and households with access to safe drinking water. The main reason why the above eight indicators have been taken is the non-availability of data for similar periods for various indicators. All these eight indicators have been given equal weight as it has been assumed that none of them has over-riding importance in increasing the pace and inclusiveness of economic development. The maximum value of the index is 1 and the minimum is 0. To arrive at the Index, the technique of aggregation and normalisation has been used. The normalised values of the eight indicators have been taken as:

$$I_x = \frac{X - X_{\min}}{X_{\max} - X_{\min}}$$

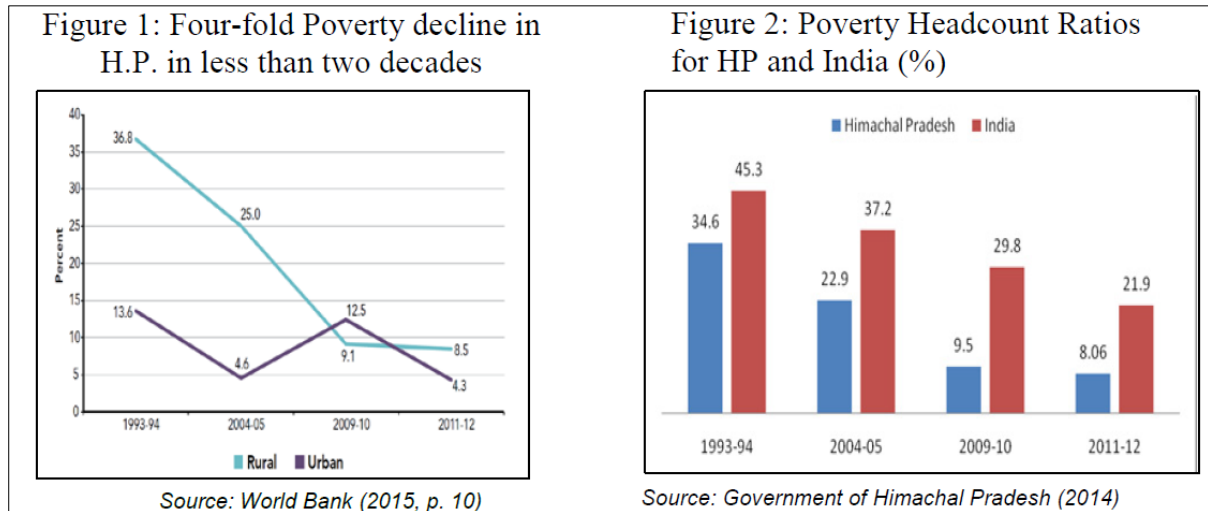
Based on primary data, the governance in HP has been assessed for primary, secondary and tertiary sectors using 22, 21 and 11 indicators, respectively. The overall governance index for HP has been computed by assigning weights to the three sectors (primary, secondary, tertiary) in proportion to their respective contributions to state GDP.

Utility of the Study: This study is inter-disciplinary in nature, involving development economics, institutional economics and development administration. The study is useful for policy-makers, development practitioners, academicians and researchers.

FINDINGS OF THE STUDY – INCLUSIVE DEVELOPMENT IN HP

HP faces various limits on growth such as mountainous terrain, geographical remoteness from other Indian states, and a small size and population – all increasing production and transport costs. Yet HP has achieved inclusive and sustainable development. Starting from economic

growth, during the last ten years, HP has achieved a growth rate of 7.7% (Jain, 2016a) and a compound growth rate of 15.47% during 2006–07 to 2015–16 (CAG, 2016). Beyond growth, the state has removed widespread deprivations. It has achieved a four-fold decline in poverty within two decades (Figure 1) to 8.06%, as compared to India's 21.9% (Figure 2). Poverty decline has benefitted all social groups. Since the purpose of growth is to reduce the deprivation of the people, especially the poverty levels, this achievement of HP is commendable. Moreover, the state has maintained a degree of equality – across income, caste, tribe and gender (World Bank, 2015). HP had a Human Development Index of 0.79 in 2010, which is among the highest in Indian states (Indian Institute of Public Administration, 2012).



In education and health especially, HP has achieved substantial progress. At the time of India's independence, HP's literacy rate was similar to Bihar and Uttar Pradesh – two of India's poorest states. Now it is 82.8%, against 74% in India as a whole (Census 2011). As per the Annual Status of Education Report, HP secured the first rank in achieving learning outcomes in basic reading and mathematics across rural India (Pratham, 2017). The Health Index of HP is 0.72, as compared to 0.56 for India as a whole (Government of India, 2015). Women's labour participation rate in HP (63%) is second highest in India. The state has achieved near universal coverage in sanitation, child immunisation, access to electricity and drinking water (Government of Himachal Pradesh, 2014).

The state has adopted several measures to achieve sustainable development. It has vowed to become "carbon neutral" by 2020; it is the first state in India to have banned the use of plastic bags; it uses plastics for road construction; and the climate and environmental preservation appear to be collective responsibilities of the state and its citizens (World Bank 2015a). In the Environmental Sustainability Index (2011), HP ranks in the top category of "Most Environmentally Sustainable States" (Institute for Financial Management and Research, 2011), and has forest cover of 67% of the total area of the state. The Government of HP has complemented its macro vision with a variety of policies, rules and acts of environmental sustainability, which suggests a culture immersed in environmental awareness and preservation, as well as sensitivity to lingering citizen concerns about the new growth trajectory (World Bank, 2016).

HP ranked as the "Best State of India" during the decade 2003–2012, based on the "State of the States 2013" report from *India Today* magazine (*India Today*, 2014). The state had achieved almost all Millennium Development targets by the year 2014 (Government of Himachal Pradesh, 2014) and aims to achieve the Sustainable Development Goals by 2022 – long before the target of 2030 (Government of Himachal Pradesh, 2016). The performance of

HP in terms of various indicators of inclusive economic development at different points of time is given in Table 2.

Table 2: Performance of HP in sub-components of inclusive development (1991–2014)

Year	Growth rate	Inverse of Poverty	Inverse of Rural Poverty	Literacy	Sex Ratio	Child Sex Ratio	Inverse of Infant Mortality Rate	Rural Households with Access to Drinking Water
1991	0.6	61.3	58.3	63.8	976	951	925	75.5
2001	6.4	76.4	74.3	76.4	968	896	946	87.5
2011	7.7	91.9	91.5	82.8	972	906	962	93.5
2014	6.8	96.1	95.1	90.2	987	891	968	96.5

Source: Jain (2016a, p.150)

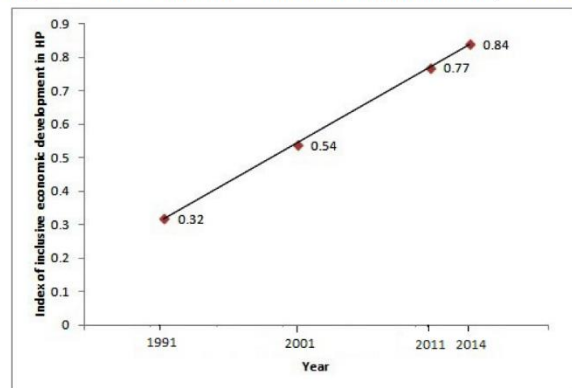
Index of Inclusive Economic Development in HP

The Index of Inclusive Economic Development in HP has risen by more than two and a half times in just over decades, from 0.32 in 1991 to 0.84 in 2014 (Figure 3). The growth in the index has been continuous since 1991. It reflects the outcome of the development model the state has been following.

Governance in HP

The overall economic governance index in HP was found to be 0.634. Sector-wise, the governance was the highest in the secondary sector, followed by the tertiary and primary sectors. One-way ANOVA was found to be statistically significant (F=37.521, p=0.0001). Governance was significantly different in the different sectors of economy (primary, secondary and tertiary). Multiple comparison Post hoc Test (Least Significant Difference test) after one-way ANOVA was statistically significant (Table 3). It shows that governance in the primary sector is significantly associated with the governance in the service sector and in the industry sector.

Figure 3: Index of Inclusive Economic Development in HP (1991-2014)



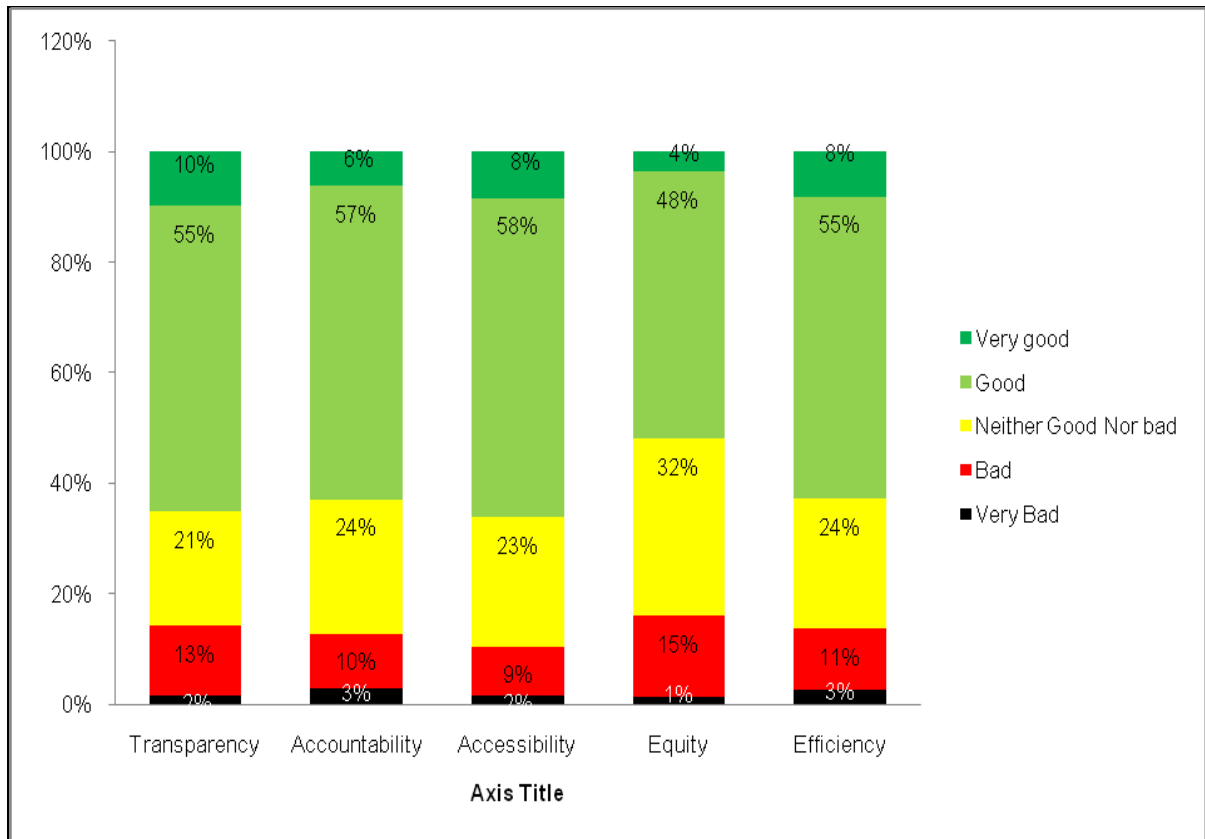
Source: Jain (2016, p. 151)

(I) Sector	(J) Sector	Mean Difference (I-J)	Std. Error	p-value	95% Confidence Interval	
					Lower Bound	Upper Bound
Primary Sector	Services Sector	-0.12239*	.01665	.000**	-.1551	-.0897
	Industrial Sector	-0.13852*	.01665	.000**	-.1712	-.1058
Services Sector	Industrial Sector	-0.01613	.01360	.236ns	-.0428	.0106

Source: Jain (2016a, p. 227)

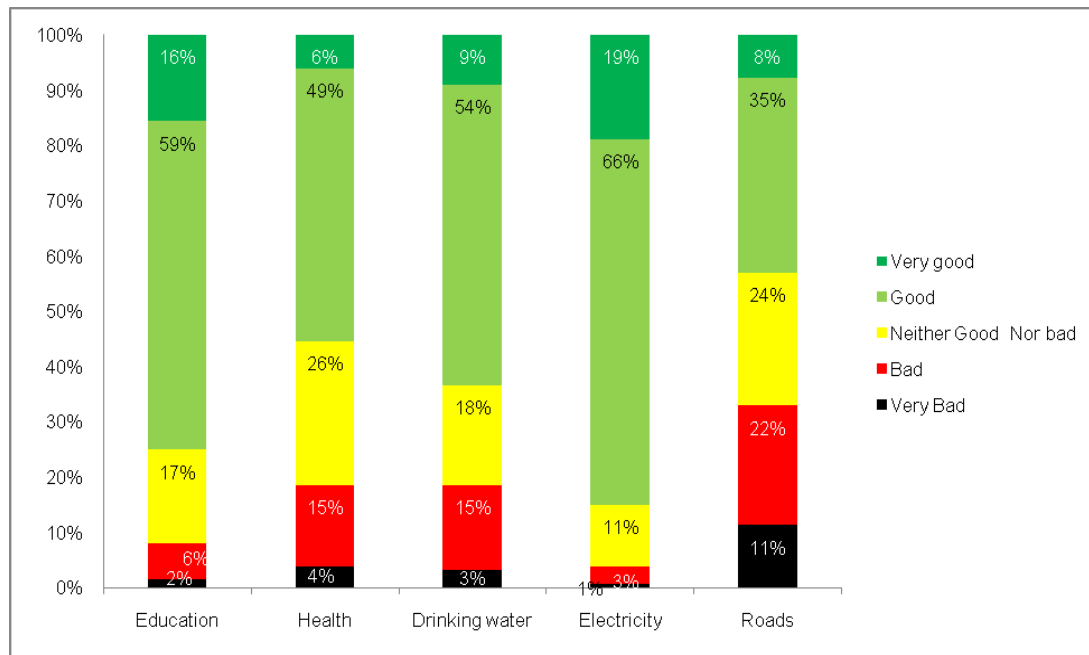
The study shows that the different facets of good governance – transparency, accountability, accessibility, efficiency and equity – have been achieved in HP with few respondents terming them as bad (Figure 4).

Figure 4: Different facets of good governance in HP



Source: Jain (2016a, p. 223)

Figure 5 reflects the rating of public services in HP. It reflects satisfactory levels of public services by and large, though in roads there is scope for improvement (this is due to HP’s hill terrain necessitating the continuous creation and maintenance of roads in view of rains and snow).

Figure 5: Rating of public services in HP

Source: Jain (2016a, p. 224)

The above results of good development and governance outcomes of HP are, by and large, consonant with the literature mentioned in Section 2. The 0.634 index of economic governance in the present study should be seen in the context of typically high expectations of the citizens of HP from the government, even for things which should not be in the government's domain. Additionally, certain other studies observe good governance in HP in many dimensions. HP has a deep-rooted democracy up to village level (GoHP, 2017). The state receives the highest ranking in governance and political stability in the N-SIPI Survey (National Council of Applied Economic Research, 2016). On the Economic Freedom Index, HP stands in fourth position in India (Debroy et al., 2013). In the India Corruption Survey (2005) conducted by Transparency International India and the Center for Media Studies, HP is the second least corrupt state in India (IIPA, 2013). However, in terms of ease of doing business and competitiveness, HP ranks low (Mundle et al., 2016; Tan and Rao, 2015). A reason for this is that HP has never been an industrialised state. In the real sense of the term, industrialisation started in HP just over a decade ago with the granting of an Industrial Package to the state; the state is still learning the nuances of improving the ease of doing business and competitiveness with big states of India such as Gujarat, Maharashtra etc.

Moreover, in the present study, a high, positive and statistically significant relationship between economic governance and economic development has been found in HP ($r=0.89$), indicating that governance and development are mutually and strongly associated.

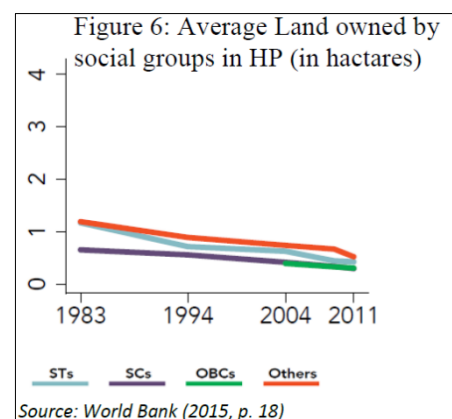
FACTORS BEHIND THE DEVELOPMENT MODEL OF HP

HP has achieved considerable success in inclusive development. The state has used natural resources as the growth engines of the state, specifically hydro-power, tourism and horticulture, supplemented by a recent boost for industries. More than its achievements, it is important to understand what the factors are behind the success of HP in its path towards inclusive and sustainable development. Some of these are listed here:

- **Development-oriented governance:** HP has traditionally followed development-oriented governance. There has been a commitment to this on the part of the state complemented by progressive policies. HP has democratic governance, where hierarchies are intact, but

citizens have both voice and leverage. The political governments have traditionally been benevolent, accountable, transparent and people-friendly. Reasonable credit has to be given to the political class – irrespective of party – in the success of HP; development has been used as a key paradigm of politics. By and large, the politicians do not indulge in caste or religion-based politics in HP. The politicians, even up to the level of Chief Minister, are easily accessible – unlike in many other Indian states. This accessibility makes governance a lot more responsive and transparent. HP fulfils all the three drivers of effectiveness – commitment, coordination, and cooperation – identified by the World Development Report (2017).

- Focus on Human Development:** The state has consistently focused upon human development as a highly valued development objective. In education and health, the state has led from the front. Contrasting HP with many other states in India or elsewhere, the quality of public institutions in education and health is good. In education, for instance, more than Rs.10 million (equivalent to \$160,000) are being spent just for a science lab in a high school. There are government schools with a size bigger than some private universities. The primary health care is good. In many other states in India, private institutions dominate in access and quality – with high costs to users. A focus on human development has created a solid foundation for HP’s development model and further growth.
- Social Inclusion:** HP has ensured the “development with dignity” of various social groups in HP. The state has been conscious of potential caste divisions, and it has wanted to ensure that equality and cohesion, not just poverty reduction, are its priorities. The Government of HP allocates special funds and implements a range of rural programmes for the development of Scheduled Castes, Scheduled Tribes, minorities etc. (Parmar, 1992). The scheduled castes (SC) in HP (25.2%) are higher than the national average (19%) (GoHP, 2017). Unlike other states, SCs in HP have land and have benefitted from the rapid decline in poverty. Their numerical strength, access to land and their inclusion in HP’s social and economic development have lowered the chances of caste-based assertion or social conflict.
- Land Reforms:** Given the importance of land in an agrarian society with natural limits on land use, the policy-makers in HP have implemented land reforms early in the development process (beginning in the 1970s). Land reforms in HP have ensured that 80% of its people possess land. The distribution of land across social groups is more equal in HP (Figure 6) than in many states in India.
- Functioning Institutions:** Acemoglu (2013) and others highlight the importance of inclusive institutions in the development of a nation. The institutions have been functioning well in HP. The “schooling revolution” in HP was based on a policy of universal provision of government schools. HP has a well-functioning Public Distribution System (World Bank, 2015). HP has shown that focusing on outcomes on the ground is more important than the outlay (Bhandari, 2009). Many of the essential services have not only been universal but also free. The rural development schemes have been implemented across the length and breadth of the state. The heroes in these successful efforts have been public institutions – functioning schools, health centres, government offices, Gram Panchayats and cooperatives.
- Gender Mainstreaming:** Much credit for the inclusive development in HP should be given to women, who have traditionally played a strong and supportive role. The role of women has always been strong in the hill states. Women’s labour participation rate in HP (63%) is



second highest in India (27%) (World Bank, 2015). Women in HP are active participants in the development process, leading from the front. A substantial proportion of respondents in the present study (81%) feel that government pays attention towards women in development and governance processes in HP.

POLICY LESSONS FROM HP'S MODEL OF DEVELOPMENT

Figure 7 shows the trinity of HP's development model – human development, development-oriented governance and social inclusion. In debates among economists about development models in India, there is the growth model (represented by Gujarat) and the human development model (represented by Kerala and HP). HP represents a model of rural area-led development similar to the Providing Urban Amenities in Rural Areas Model (Kalam and Pillai, 2004), since 90% of HP is rural. Sen (2013) writes that HP, Kerala and Tamil Nadu are all states that were very poor not so long ago (in the 1950s and 1960s) – unlike Punjab and Haryana, which have been relatively prosperous regions of India for a long time. Within 40 years or so, HP has made the transition from severe social backwardness and deprivation to a relatively advanced state (World Bank, 2015a). Although the HP model is not perfect and has scope for improvement, this does not belittle its achievements.

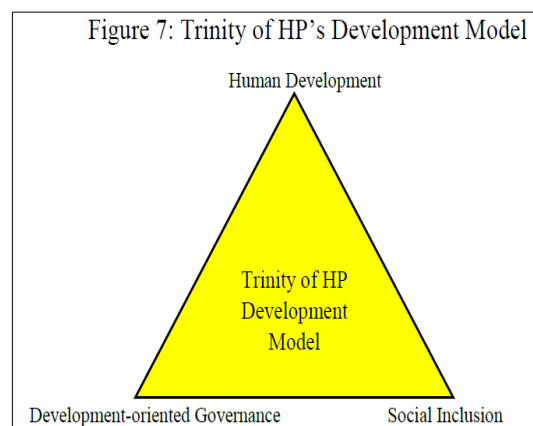
The main lessons emerging from the HP model of development are summarised below:

- Inclusive development can be achieved despite several restrictions. Further, the pace of inclusive development can be increased substantially within a short span of time.
- Poverty can be reduced within one generation.
- A focus on human development yields large-scale and long-term benefits.
- Development-oriented governance is feasible, even politically.
- The state can be the foremost propeller of inclusive and sustainable development.
- Inclusive development can be achieved in a predominantly rural situation.
- Social inclusion is possible despite a large population of traditionally excluded groups.
- Well-functioning institutions propel the whole development process.
- Basic infrastructure can be made available to citizens with equity in access, despite challenging geographical circumstances.

LOOKING AHEAD AND CHALLENGES IN THE MODEL

It is expected that the basic tenets of the HP model – development-oriented governance, human development and social inclusion – are not likely to change in the near future. Successive governments have been following this pattern of development, and there is no major reason why they should stop. Similarly, accessibility, transparency and accountability in governance are likely to remain high in HP. Given HP's track record of inclusive development, there is a strong chance that the future will be a reflection of the past (World Bank, 2015).

The current study finds that despite successes, the HP model of development has grey areas and challenges too. These include sustaining inclusive and sustainable development in a fiscally constrained situation of the state, growing environmental fragilities arising out of the exploitation of natural resources, transitioning from a state-led to market-led growth model, improving GDP, improving the ease of doing business, tackling the low child sex ratio and



creating jobs for rising numbers of educated unemployed youth. Governance and infrastructure need to improve further. New issues of social inclusion and of social exclusion may emerge as a result of HP's previous successes. Because of HP's growth path, with potential externalities on the environment, governance and social relations, some of the state's past gains may be at risk of erosion. The foundations for good outcomes are likely to be tested, since reforms inevitably create winners and losers or introduce new ways of life that may disrupt the previous structures.

The paper suggests that HP should yield to the private sector in driving the economy of the state, and the ease of doing business should be improved. The dependence on the state for non-critical items should decline. Let markets play a more vigorous role. There should be disinvestment/divestment of public sector units of HP involved in manufacturing, running hotels etc.; outsourcing, contracting-out service delivery activities; deregulation; public private partnerships in infrastructure building etc. The growth drivers – hydro-electric power, tourism, horticulture and industries – should be modernised. There is large scope for improvement in the tourism and horticulture sectors in HP. Hydro-power should be pursued in an environmentally sustainable manner. Efforts should be made to retain the industries in the state (which have started to move because of the ending of Industrial Package to HP) by focusing on infrastructure. Sunrise sectors like Information Technology, Bio-technology – which have not taken off much in HP – should be given thrust as the state has suitable conditions for these sectors. HP should learn from other Indian states such as Andhra Pradesh, Karnataka etc. in this regard.

It would be interesting to conduct further research on the sustainability aspects of the growth model of HP, especially in the domain of domestic resource mobilisation, and in how to transition to a situation where markets and private sector perform a greater role in the economy. Research on replicability issues for other states and nations would also be beneficial. In fact, HP has to go a long way and can learn from others as well, while sharing its own secrets of success.

CONCLUSION

This paper discusses the inclusive and sustainable development model of HP state in India. Despite being a small hill state, HP has been a trail-blazer in inclusive economic development, achieving a four-fold decline in poverty in less than two decades. Inclusive economic development has increased by two and a half times in little over two decades in HP. Governance in the state supports economic development. Human development, development-oriented governance and social inclusion are the three pillars of HP's model of development. HP has a few policy lessons for others. Achieving inclusive and sustainable development in any nation involves many challenges, but these challenges can be converted into opportunities to evolve a win-win situation for all. The sooner this is done, the better it will be.

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