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EDITORIAL ANALYSIS

Rich Ground, Poor People: The Mineral States' Paradox

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Rich Ground, Poor People: The Mineral States' Paradox

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INTERVIEW ANGLE

"A District Mineral Foundation holds money raised from mining in the district and is meant to spend it on the people affected by that mining. In practice much of it funds general district infrastructure. If you were the Collector, how would you tell the difference between a road that serves the affected and a road that simply serves the district?"

Every fact web-verified against primary sources

THE LIFT LINE

The royalty goes to the state capital. The dust stays in the village. Almost everything about the mineral districts follows from that sentence.

WHY THIS EDITORIAL MATTERS FOR YOUR EXAM

The resource curse is usually answered at the level of Nigeria and Venezuela. This locates it inside India, where the mechanism is not currency appreciation or petro-authoritarianism but the **incidence of rent**: who receives it, and at what administrative level. That reframing connects GS3 mineral policy to GS1 tribal society and GS2 Fifth Schedule governance in a single argument, which is exactly what a high-scoring answer does.

GS Paper 3: Mineral resources; infrastructure; inclusive growth and issues arising from it; land reforms; environmental degradation.

GS Paper 1: Salient features of Indian society; effects of globalisation; poverty and developmental issues; tribal communities.

GS Paper 2: Provisions for Scheduled Tribes; devolution; mechanisms for protection of vulnerable sections.

INSTRUMENT	CONTENT	WHY IT IS TESTABLE
District Mineral Foundation (DMF)	Non-profit trust in every mining-affected district, funded by a levy on lessees, created by the **MMDR Amendment Act, 2015**	The principal rent-sharing device; levy is a percentage of royalty
PMKKKY	Pradhan Mantri Khanij Kshetra Kalyan Yojana, the framework for DMF spending	Prescribes high-priority sectors and a share for directly affected areas
Fifth Schedule	Governs administration of Scheduled Areas in states other than the north-eastern ones	Overlaps heavily with the mineral belt
PESA, 1996	Panchayats (Extension to the Scheduled Areas) Act	Requires Gram Sabha consultation on land acquisition and minor minerals
Forest Rights Act, 2006	Recognises individual and community forest rights	The Gram Sabha consent route used in the Niyamgiri case
Samatha v. State of Andhra Pradesh (1997)	Voided mining leases to non-tribals in Scheduled Areas, holding that mining there could be conducted only by the State Mineral Development Corporation or by tribal cooperatives	The leading judgment on Fifth Schedule land and mining, **but decided on the terms of Andhra Pradesh's own Scheduled Areas Land Transfer Regulation, 1959**; its extension to other Fifth Schedule states with different transfer regulations has been contested and was never uniformly applied
Mineral Area Development Authority v. Steel Authority of India (2024)	Nine-judge Constitution Bench held **8:1** that **royalty is not a tax**, and that States have independent power to tax mineral rights and mineral-bearing lands under **Entries 49 and 50 of List II**	The most consequential recent ruling on who may capture mineral rent

BACKGROUND AND CONTEXT

The overlap is the starting fact. The mineral-bearing belt running through **Jharkhand, Odisha and Chhattisgarh**, with extensions into eastern Maharashtra, Telangana and Madhya Pradesh, accounts for a very large share of India's coal, iron ore and bauxite output. The same belt records among the country's highest rates of multidimensional poverty and its highest concentrations of Scheduled Tribe population, and much of it lies within **Fifth Schedule** areas.

THE CORE ARGUMENT / ISSUE

The incidence of rent is the mechanism

The central point is administrative rather than economic, and it is simple once stated.

Royalty on minerals accrues to the State Government. It enters the consolidated fund of the state and becomes general revenue, competing with every other claim on the budget: salaries, subsidies, capital works, debt service. Nothing in that arrangement returns it to the district from which it was raised, still less to the households whose land, water or air paid for it.

The result is a **spatial mismatch between benefit and burden**. The benefit is fiscal, diffuse and captured at state level. The burden is environmental, social and concentrated at village level. A mine can be an unambiguous fiscal asset to a state and an unambiguous net loss to the settlement beside it, and both facts can be true simultaneously without anyone behaving improperly.

Why the burden falls where it does

COST	WHO BEARS IT
Land acquisition and displacement	Households on the lease area, disproportionately Scheduled Tribe
Forest diversion	Communities dependent on minor forest produce and grazing
Water	Downstream users, through depletion of aquifers and contamination from tailings
Air and dust	Settlements along haul roads and near washeries
Overburden and subsidence	Adjacent villages, often for decades after closure

Each of these is concentrated, local and difficult to value, which is precisely why compensation regimes have historically undervalued them. A one-time payment for acquired land does not compensate for the loss of a commons, a water source or an occupation.

The industry structure compounds it

Mining is **capital-intensive**. Direct employment per hectare disturbed is low, and modern mechanised operations employ fewer people per tonne than the operations they replaced. So the local labour-market benefit is modest relative to the physical footprint.

More consequentially, **value addition has historically occurred elsewhere**. Ore is railed out; beneficiation, smelting, fabrication and final manufacture happen near ports, near power, near markets. The producing district therefore captures the **narrowest margin in the entire chain**, the one attaching to raw extraction, while every subsequent stage of value creation accrues to another place.

This is the same structural point that arises in the critical-minerals debate at national level, and it is worth noticing that the argument India makes internationally about the reserve-to-refining gap is the argument these districts could make domestically.

What the corrective instruments do, and where they fall short

The **District Mineral Foundation** was designed for exactly this problem. Created by the **MMDR Amendment Act, 2015**, it is a trust in every mining-affected district funded by a levy on lessees calculated as a percentage of royalty, and the **Pradhan Mantri Khanij Kshetra Kalyan Yojana** prescribes how it should spend. Under the **revised guidelines of January 2024**, the split is **70 per cent to high-priority sectors and 30 per cent to other priority sectors**, raised from the earlier 60:40, with a requirement that at least 70 per cent of funds be spent in the **directly affected area** and on high-priority sectors. High-priority sectors include drinking water, environment, health, education, welfare of women and children, and skill development. The 2024 revision also added Members of Parliament and of State legislatures to the Governing Council and created a State Level Monitoring Committee under the Chief Secretary.

Two problems have recurred in practice.

Utilisation has lagged accrual, leaving substantial balances unspent in many districts, which is the standard pattern where a fund is created faster than the capacity to plan and execute against it.

Expenditure has drifted toward general district infrastructure, and there is now an exact illustration of it. A **draft audit by the Comptroller and Auditor General submitted in March 2026** found that in **Keonjhar district of Odisha, Rs 983 crore of District Mineral Foundation funds went to 976 villages with no connection to mining, while not a single project was implemented in the 488 directly affected villages**.

That is the failure mode in its purest form. A district administration holding a large discretionary fund faces continuous demand from across the district, and the directly affected villages are a small and politically weak subset of that demand. The result is DMF money financing works that are useful but that would have been the state's ordinary obligation anyway, which converts a compensation instrument into a supplementary budget line.

The aggregate picture is consistent. Roughly **Rs 82,371 crore had accrued to DMFs against about Rs 45,150 crore utilised**, an utilisation rate near 55 per cent, and utilisation varies widely by state, with Chhattisgarh among the higher performers and Odisha around half.

Why the counter-argument matters

The resource-curse framing is powerful and can become lazy, so a strong answer bounds it.

Mineral endowment is **not the only variable** distinguishing these states. They also carry long histories of low investment in schooling and primary health, difficult and forested terrain that raises the cost of every kind of infrastructure, and in significant areas the effects of left-wing extremism, which has itself deterred investment and disrupted administration for decades. Any development strategy in these districts would have faced those constraints.

There has also been movement, and one development is large enough to change the legal position rather than merely improve it. In **Mineral Area Development Authority v. Steel Authority of India (25 July 2024)**, a **nine-judge Constitution Bench held by 8:1** that **royalty is not a tax**, and that States possess an independent constitutional power to tax mineral rights and mineral-bearing lands under **Entries 49 and 50 of the State List**. That materially enlarges what a mineral-bearing State may raise from extraction, over and above royalty fixed by the Centre.

It does not, however, answer the question this article is about. A larger State entitlement is still an entitlement captured **at State level**, and nothing in the judgment routes it to the affected district or village. The ruling changes the size of the pot and not the desk at which the cheque arrives.

Beyond it, royalty rates have been revised upward over time, the DMF and PMKKKY did not exist before 2015, and auction-based allocation has replaced discretionary allotment for major minerals. A static account describing extraction as unchanged plunder misstates the current position.

The defensible claim is narrower and stronger: **mineral wealth has failed to accelerate development in these districts**, which for an asset of this magnitude is itself a serious finding, rather than that mineral wealth caused their poverty.

HOW TO THINK ABOUT THIS (ANALYTICAL FRAME)

When a resource generates concentrated local costs and diffuse fiscal benefits, ask at what administrative level the benefit is captured, because that level determines who has standing to demand it. A benefit captured at national or state level creates no claim for the affected village, which must compete with every other constituency for a share of general revenue. A benefit captured at district or village level creates an entitlement. This is the same structure that governs forest revenue, hydropower royalties, tourism receipts at heritage sites and compensatory afforestation funds. The diagnostic question is never whether the resource generates value; it is at which desk the cheque arrives.

THE DIAGRAM IN WORDS

Picture a district with a very large hole in it. Trucks leave the hole loaded and come back empty. The ore travels several hundred kilometres to a plant, where it becomes steel, and the steel becomes machinery somewhere else again, and at each stage the material is worth more than it was at the last. Meanwhile a payment is calculated on the value of the ore as it left the hole, the smallest number in the whole sequence, and that payment is posted to a treasury in the state capital, where it joins every other rupee the state has and is spent according to priorities set there. Beside the hole is a village whose well has gone dry and whose grazing land is now overburden. Nothing in the arrangement is illegal. Nothing in it connects the two ends either.

WAY FORWARD

1. **Target District Mineral Foundation expenditure at the directly affected**, with beneficiary-level published accounts and a hard floor on the share going to directly affected villages rather than to district-wide works.
2. **Publish DMF accrual, expenditure and balances district-wise**, since unspent balances and expenditure drift are both invisible without disclosure.
3. **Enforce Gram Sabha consent under PESA and the Forest Rights Act**, treating the Niyamgiri consent process as the standard rather than the exception, and recognising community forest rights before lease approval rather than after.
4. **Shift from one-time compensation to continuing income**, through annuity payments or equity stakes for affected households, on the reasoning that a mine generates income for decades and a displacement payment is spent in months.
5. **Locate value addition in the producing region** through industrial policy, since the district that hosts the mine capturing only the ore margin is the core of the problem.
6. **Fund mine-closure and post-closure obligations up front** in an escrowed instrument, because subsidence, drainage and overburden outlast the lease and currently fall on the district with no funding attached.

PYQ LINKAGE AND PRACTICE

UPSC has repeatedly tested mineral policy, the Fifth Schedule, PESA, the Forest Rights Act, land acquisition and tribal displacement across GS1, GS2 and GS3. The incidence-of-rent framing is what allows those separate topics to be written as a single argument rather than as adjacent paragraphs.

Practice question: “In India’s mineral districts the benefit of extraction is captured at state level while its costs are borne at village level, and no existing instrument fully closes that gap.” Examine this claim, and assess whether the District Mineral Foundation has changed the position. (250 words, 15 marks)

Interview angle: A District Mineral Foundation holds money raised from mining in the district and is meant to spend it on the people affected by that mining. In practice much of it funds general district infrastructure. If you were the Collector, how would you tell the difference between a road that serves the affected and a road that simply serves the district?

Sources: The Indian Express, Ministry of Mines, Ministry of Tribal Affairs

KEY ARGUMENTS AT A GLANCE

The coexistence of India's largest mineral reserves with its poorest populations is not a paradox of geography but a predictable outcome of how extraction rents are captured, distributed and spent: royalty accrues to state treasuries and enters general revenue, district-level instruments are recent and unevenly used, and the populations bearing the environmental and displacement costs of mining are largely the ones with the weakest claim on its proceeds.

✓ SUPPORTING

- The mineral-bearing belt across Jharkhand, Odisha, Chhattisgarh and adjoining regions overlaps closely with Fifth Schedule areas and with the highest concentrations of Scheduled Tribe population, which means the costs of extraction fall disproportionately on communities whose land rights are constitutionally protected but administratively weakest, and whose displacement has historically produced neither adequate compensation nor durable livelihood restoration.
- Mining is capital-intensive and generates limited direct employment relative to the land and water it commands, so the local economic footprint of a large mine is far smaller than its physical footprint, and value addition, refining, fabrication and manufacture, has generally occurred elsewhere, which means the producing region exports the ore and imports the finished product.
- The District Mineral Foundation, created by the Mines and Minerals (Development and Regulation) Amendment Act, 2015 and funded by a levy on lessees, was designed precisely to route a share of rent to affected people, and the Pradhan Mantri Khanij Kshetra Kalyan Yojana provides its framework, but utilisation has been uneven and expenditure has frequently gone to general district infrastructure rather than to the directly affected.

⚠ COUNTER

The resource-curse framing can be pushed too far and should not become a general explanation. Mineral endowment is not the only variable distinguishing these states, which also carry the legacies of low historical investment in education and health, difficult terrain, left-wing extremism that has itself deterred investment, and administrative capacity deficits that would constrain any development strategy.
Some mineral-producing states have also seen genuine improvement in recent years, and royalty rates have been revised upward, so a static account of extraction as pure extraction

misstates the position. The honest claim is that mineral wealth has failed to accelerate development in these districts, not that it caused the underdevelopment.

→ **WAY FORWARD**

Tie rent to the affected rather than to the jurisdiction: require District Mineral Foundation spending to be geographically and demographically targeted at directly affected populations with published beneficiary-level accounts, strengthen Gram Sabha consent and its enforcement under PESA and the Forest Rights Act, shift from compensation for displacement toward equity or annuity models that give affected households a continuing income stream, and use industrial policy to locate value addition within the producing region rather than at the point of consumption.

MAINS ANSWER FRAMEWORK

QUESTION

Examine the proposition that persistent poverty in India's mineral-rich districts reflects a failure of rent distribution and institutional design rather than of resource endowment, and assess the adequacy of existing corrective mechanisms. (250 words)

INTRODUCTION

India's mineral belt runs through some of its poorest districts. Jharkhand, Odisha and Chhattisgarh together account for a very large share of national coal, iron ore and bauxite production, and also record among the highest rates of multidimensional poverty in the country.
The conjunction is often described as a paradox, which obscures the more useful point: it is the predictable result of who captures the rent from extraction and where it is spent.

BODY

Four mechanisms account for it. First, the incidence of rent.
Royalty on minerals accrues to the State Government and enters general state revenue, where it competes with every other claim on the budget and is not tied to the district from which it was raised, so a mine can generate substantial fiscal flows that never return to the place bearing its costs. Second, the geography of harm.
The mineral belt overlaps closely with Fifth Schedule areas and with the highest Scheduled Tribe concentrations, meaning that land acquisition, forest diversion, water depletion and dust and tailings pollution fall on populations with constitutionally protected but administratively fragile land rights. The Supreme Court's judgment in Samatha v. State of Andhra Pradesh (1997) voided mining leases to non-tribal parties in Scheduled Areas, though it turned on Andhra Pradesh's own land-transfer regulation and its extension to other Fifth Schedule states has been contested; the Forest Rights Act, 2006 and PESA, 1996 require Gram Sabha consultation and, in the Niyamgiri proceedings, made Gram Sabha consent decisive; enforcement has nonetheless been uneven.
Third, the structure of the industry. Mining is capital-intensive, so direct employment per hectare disturbed is low, and value addition has historically occurred at the point of consumption rather than of extraction, so the producing region exports ore and imports finished goods, capturing the narrowest margin in the chain.
Fourth, the corrective instruments are recent. The District Mineral Foundation, created by the MMDR Amendment Act, 2015 and operationalised through the Pradhan Mantri Khanij Kshetra Kalyan Yojana, was designed to route a levy on lessees to people and areas affected by mining, but utilisation has lagged and much expenditure has gone to general district infrastructure rather than to the directly affected.
Against all this, a caution: these states also carry legacies of low historical social investment, difficult terrain and insurgency, so mineral wealth is better described as having failed to accelerate development than as having caused its absence.

CONCLUSION

The corrective is to attach the rent to the affected rather than to the jurisdiction. That means District Mineral Foundation expenditure targeted at directly affected populations with published beneficiary-level accounts, genuine enforcement of Gram Sabha consent under PESA and the Forest Rights Act, a shift from one-time displacement compensation toward annuity or equity models that provide a continuing income stream, and industrial policy that locates beneficiation and downstream manufacture within the producing region, so that the district retains more of the value chain than the ore.

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