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Memorandum

# To The

# Fourteenth Finance Commission

**Volume-I**

# Government of Uttarakhand

**2014**

# Memorandum

**To The**

# Fourteenth Finance Commission

## Volume-I

# Chapter 1

# Terms of Reference and the National and State Fiscal Contexts

The Fourteenth Finance Commission (FFC) has been constituted under Article 280 of the Constitution. Its recommendations will cover the five-year period from 2015-16 to 2019-20. Apart from the constitutionally mandated tasks of determining States' share in central taxes under article 270 and grants-in-aid under article 275, a number of other tasks and considerations have been included in the Commission's Terms of Reference. The Commission may consider its terms of reference after taking cognizance of (a) the current macro-economic scenario, (b) the current fiscal scenario both of the Union Government and the State Governments, and (c) the key changes in the Terms of Reference to the Fourteenth Finance Commission compared to those given to its immediate predecessor in particular and the previous Finance Commissions in general.

## 1.1 The Macro-economic Scenario

The contemporary macro-economic scenario poses a special challenge in visualizing the position of resources and responsibilities of the central and state governments. Growth of GDP at factor cost at 2004-05 prices has plummeted to 5 percent in 2012-13. It is, however, usually the GDP at market prices, which serves as the base for revenue projections. GDP at market prices, in real terms, came down to a mere 3.2 percent in 2012-13. In making its forecasts, the Finance Commission need not focus on the year to year variation in growth rates. Instead, given its mandate covering a five year period, it should focus on the underlying trend. As such, it should make reference to 'potential' or 'trend' growth rate of GDP to make up its mind on the medium term prospects of the Indian economy. In particular, given the cyclical movement of the trend growth rate, which is currently in the downward phase, the Commission would need to correctly time the turning point at whichthe upswing is likely to take off. This might itself be a function of the fiscal coordination between the centre and the states, which can provide the fiscal push that can serve to stimulate the economy.

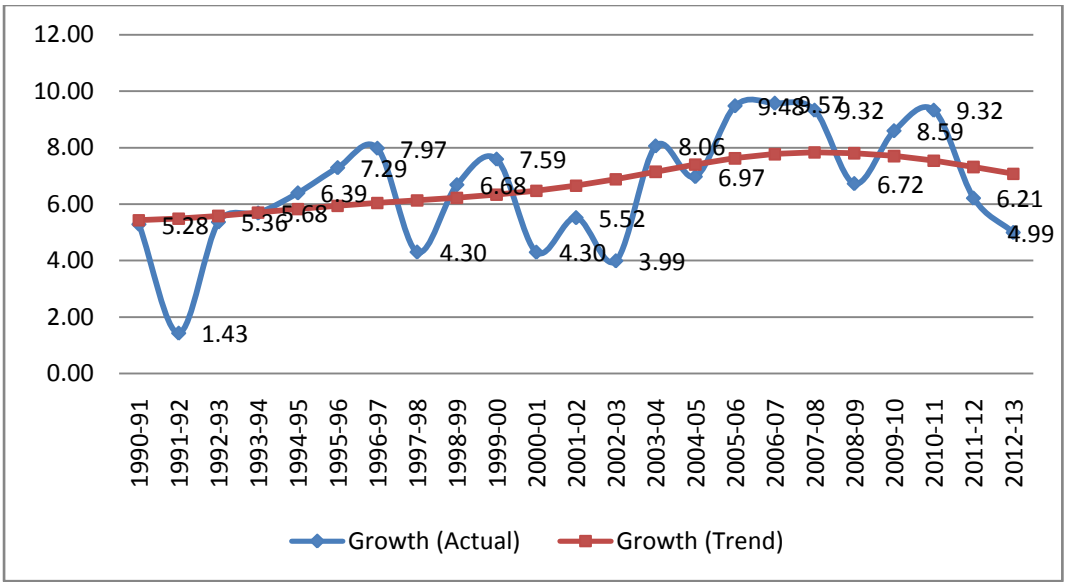


**Chart 1.1: Actual and Trend Growth Rate of GDP at Factor Cost at 2004-05 prices**

Chart 1.1 shows actual and trend growth rates of GDP at factor cost at 2004-05 prices of GDP at factor cost. Both the actual and trend growth rates have fallen in 2012-13: actual growth to 5 percent and trend growth to 7 percent. A key task for the FFC will be to make up its mind as to whether this falling trend will continue in 2013-14 and beyond and when the turning point may be reached. In particular, a key question is the likely growth in 2014-15, which may be the base year for the Commission to forecast tax revenues of the central and state governments for the period 2015-16 to 2019-20.

Table 1.1 shows actual and trend growth rates for both GDP at factor cost and GDP at market prices. The trend growth has been estimated using the H-P filter for the longer period covering the period from 1951-52 to 2012-13 although the figures are given only from 1990-91. It may be noted that with reference to GDP at market prices, the actual growth in 2012-13 was only 3.2 percent and the trend growth rate is estimated at 6.5 percent. One or both may fall further in 2013-14.

**Table 1.1 GDP at Factor Cost and GDP at market prices (2004-05 prices): Actual and Trend Growth**

(Percent)

| | GDP at factor cost | | GDP at market prices | |
|---|---|---|---|---|
| | **Growth (Actual)** | **Growth (Trend)** | **Growth (Actual)** | **Growth (Trend)** |
| **1990-91** | 5.28 | 5.43 | 5.533 | 5.408 |
| **1991-92** | 1.43 | 5.49 | 1.057 | 5.434 |
| **1992-93** | 5.36 | 5.58 | 5.482 | 5.502 |
| **1993-94** | 5.68 | 5.70 | 4.751 | 5.602 |
| **1994-95** | 6.39 | 5.83 | 6.659 | 5.720 |
| **1995-96** | 7.29 | 5.94 | 7.575 | 5.835 |
| **1996-97** | 7.97 | 6.04 | 7.550 | 5.935 |
| **1997-98** | 4.30 | 6.13 | 4.050 | 6.028 |
| **1998-99** | 6.68 | 6.23 | 6.184 | 6.133 |
| **1999-00** | 7.59 | 6.34 | 8.463 | 6.254 |
| **2000-01** | 4.30 | 6.48 | 3.975 | 6.393 |
| **2001-02** | 5.52 | 6.66 | 4.944 | 6.574 |
| **2002-03** | 3.99 | 6.88 | 3.908 | 6.799 |
| **2003-04** | 8.06 | 7.15 | 7.944 | 7.052 |
| **2004-05** | 6.97 | 7.40 | 7.849 | 7.287 |
| **2005-06** | 9.48 | 7.62 | 9.285 | 7.470 |
| **2006-07** | 9.57 | 7.77 | 9.264 | 7.569 |
| **2007-08** | 9.32 | 7.83 | 9.801 | 7.574 |
| **2008-09** | 6.72 | 7.80 | 3.891 | 7.488 |
| **2009-10** | 8.59 | 7.70 | 8.480 | 7.340 |
| **2010-11** | 9.32 | 7.54 | 10.546 | 7.120 |
| **2011-12** | 6.21 | 7.32 | 6.331 | 6.832 |
| **2012-13** | 4.99 | 7.08 | 3.319 | 6.511 |

Source (Basic data): National Income Accounts, CSO

Note: Trend growth rate has been estimated using the H-P filter over the sample period from 1951-52 to 2012-13.

## 1.2 Union Government Finances

Union government finances show persistent fiscal imbalances since 2008-09. The extent of fiscal imbalances has been high and central government has consistently breached its FRBMA targets.

Table 1.2 indicates the profile of central fiscal imbalances. Not only has the central government missed out on achieving the FRBMA targets of achieving balance on revenue

account and containing the fiscal deficit within the limit of 3 percent of GDP, it has shown no sign of moving towards these targets. The fiscal deficit at its peak, in recent years, was about 6.5 percent in 2009-10. By 2012-13 (RE), it could only fall to 5.2 percent. The revenue deficit was at its lowest in 2007-08 at marginally above 1 percent. Thereafter, it increased to reach a peak of 5.2 percent in 2009-10 and has since fallen to about 4 percent in 2012-13 RE. As a result, the quality of fiscal deficit has been low as the ratio of revenue deficit to fiscal deficit, has been about 75 percent both in 2011-12 and 2012-13.

**Table 1.2: Indicators of Central Fiscal Imbalance**

(Percent to GDPMP)

| Year/indicator | Revenue deficit | Primary deficit | Fiscal deficit | Revenue deficit/Fiscal deficit (%) |
|---|---|---|---|---|
| 2004-05 | 2.42 | -0.04 | 3.88 | 62.27 |
| 2005-06 | 2.50 | 0.37 | 3.96 | 63.03 |
| 2006-07 | 1.87 | -0.18 | 3.32 | 56.27 |
| 2007-08 | 1.05 | -0.88 | 2.54 | 41.42 |
| 2008-09 | 4.50 | 2.57 | 5.99 | 75.24 |
| 2009-10 | 5.23 | 3.17 | 6.46 | 81.01 |
| 2010-11 | 3.24 | 1.79 | 4.79 | 67.52 |
| 2011-12 | 4.39 | 2.71 | 5.75 | 76.43 |
| 2012-13 (RE) | 3.90 | 2.04 | 5.19 | 75.11 |

Source (Basic Data): Union Budget, Receipts Budget, 2013-14

A basic feature of the central finances in recent years has been the overall stagnation of the central gross tax revenues relative to GDP even though there have been major changes in the composition of central tax revenues. In particular, the share of corporation tax, personal income tax, and service tax has gone up while that of the Union excise duties and customs has gone down. Table 1.3 gives the details.

**Table 1.3: Relative Share of Major Central Taxes in Centre's Gross Tax Revenues**

(Percent)

| Year/Tax | Corporation Tax | Income Tax | Customs | Union Excise Duties | Service Tax | Others |
|---|---|---|---|---|---|---|
| 2004-05 | 27.11 | 16.16 | 18.89 | 32.50 | 4.66 | 0.68 |
| 2005-06 | 27.56 | 15.60 | 17.71 | 30.27 | 6.27 | 2.60 |
| 2006-07 | 30.48 | 15.86 | 18.23 | 24.84 | 7.94 | 2.65 |
| 2007-08 | 32.52 | 17.30 | 17.55 | 20.84 | 8.65 | 3.13 |
| 2008-09 | 35.25 | 17.52 | 16.50 | 17.94 | 10.07 | 2.71 |
| 2009-10 | 39.19 | 19.61 | 13.34 | 16.49 | 9.35 | 2.02 |
| 2010-11 | 37.66 | 17.54 | 17.12 | 17.36 | 8.95 | 1.36 |
| 2011-12 | 36.31 | 18.50 | 16.79 | 16.30 | 10.97 | 1.14 |
| 2012-13 (RE) | 34.57 | 19.26 | 15.88 | 16.50 | 12.78 | 1.00 |
| 2013-14 (BE) | 33.95 | 19.49 | 15.16 | 15.92 | 14.58 | 0.90 |
| Difference ( Percentage Points) | | | | | | |
| 2012-13 (RE) minus 2004-05 | 7.46 | 3.10 | -3.01 | -16.00 | 8.13 | 0.32 |

Source (Basic Data): Union Budgets, various years.

There has been a major change in the structure of central tax revenues during the period 2004-05 to 2012-13 (Table 1.3). The share of corporation tax has gone up by nearly 7.5 percentage points and that of personal income tax by about 3.1 percentage points. Together, the share of direct taxes has gone up nearly 10.5 percentage points during this period. On the other hand, the share of the Union excise duties has gone down by 16 percentage points, which has been partially made up by the increase in the share of service tax, which has gone up by 8 percentage points. This leaves a net fall of about 8 percentage points relating to the domestic indirect taxes. To this, we may add the fall of about 3 percentage points with respect to the customs duties. Together, the fall in the share of indirect taxes add to about 11 percentage points.

Comparing the relative shares in GDP, the central gross taxes to GDP ratio has remained stagnant at about 10 percent of GDP at market prices as shown by Chart 1.2 since the increase in direct taxes is more than fully negated by the net fall in indirect taxes,

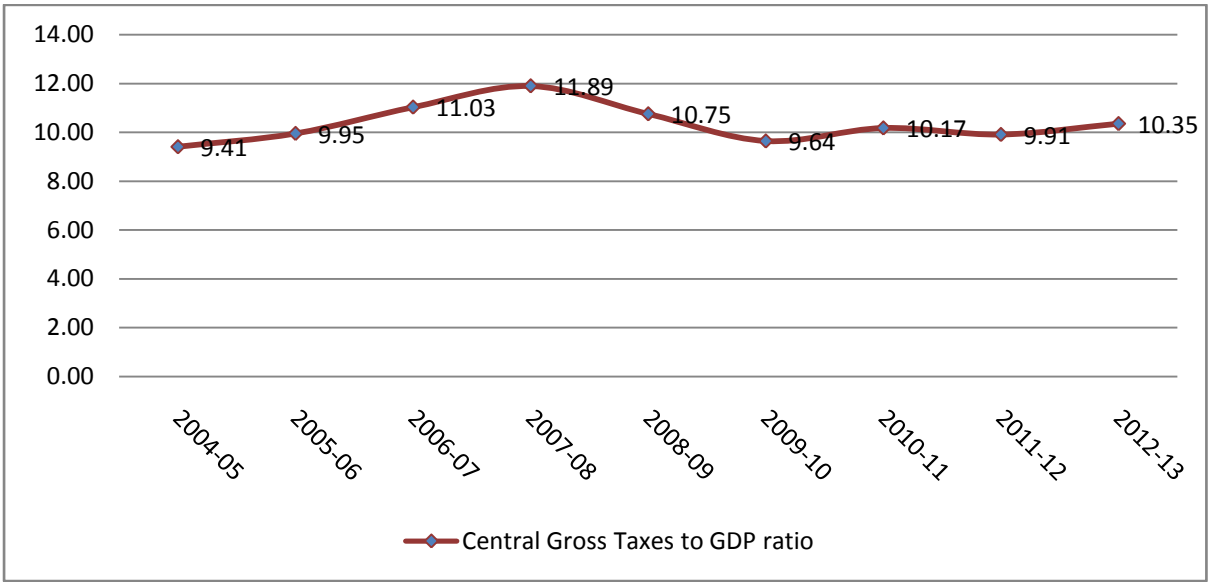


**Chart 1.2: Central Gross Tax Revenues as Percentage of GDP at Market Prices**

## 1.3 State Government Finances

In contrast, the state finances have shown a far healthier profile having contained both fiscal deficit and revenue deficit relative to GDP within or close to the expected norms of achieving balance on the revenue account and keeping their aggregate fiscal deficit below 3 percent of GDP. The Fiscal deficit to GDP ratio has not breached the 3 percent threshold since 2007-08 and revenue account surplus has been achieved in all but one year since 2007-08.

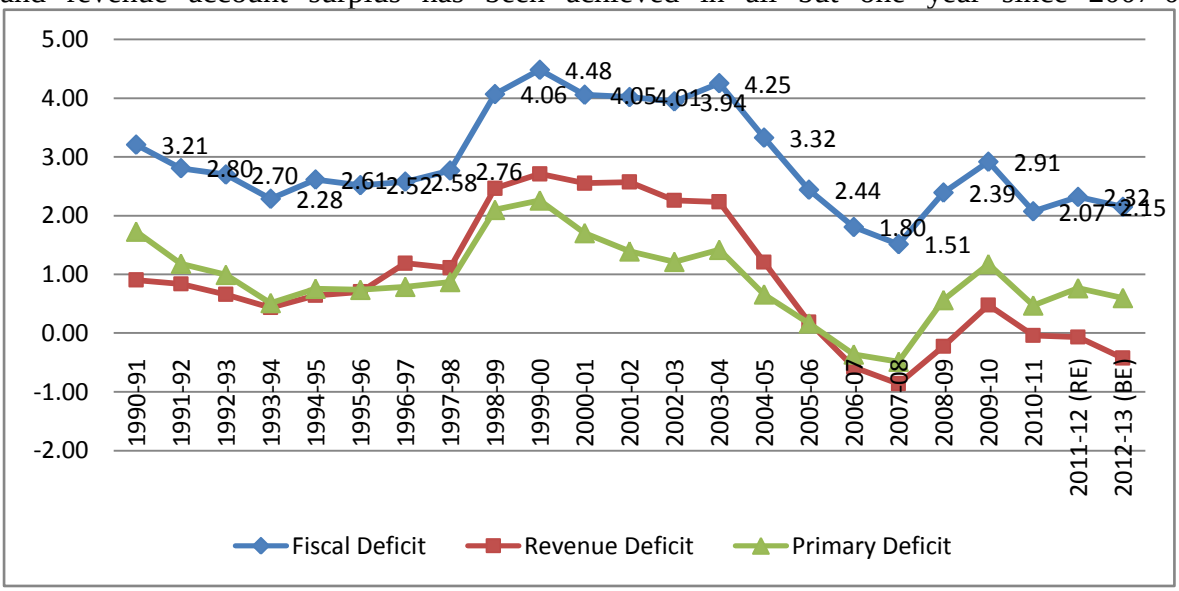


**Chart 1.3: Deficit Indicators as % of GDP at Market Prices**

Chart 1.3 shows the profile of fiscal imbalances, measured by fiscal deficit, revenue deficit and primary deficit relative to GDP at current market prices since 1990-91. A clear improvement is visible from 2004-05 onwards, with some slippage during 2008-09 and 2009-10.

For the states, as indicated in Table 1.4, from a peak of 4.25 percent of GDP at market prices, the fiscal deficit to GDP ratio consistently fell to 1.5 percent in 2007-08. Thereafter it increased, becoming close to 2.9 percent in 2009-10, but has remained in the range of 2.0 to 2.3 percent since then. In other words, the State governments have been able to meet the norm of keeping the fiscal deficit to GDP ratio below 3 percent ever since 2005-06, in line with the norms spelt out by the TWFC.

In respect of revenue deficit, States were able to achieve a revenue surplus in 2006-07. They retained the revenue surplus for three consecutive years, in the period 2006-2009. Thereafter, there was a small slippage. In fact, during the seven years from 2006-07 to 2012-13, States considered together, have been able to achieve the target of balance or surplus on the revenue account, for six years. The exception was 2009-10, but even in this year, the slippage was less than half a percent of GDP at market prices.

**Table 1.4: Major Deficit Indicators of State Governments**

(Percent to GDPMP)

| Year | Fiscal Deficit | Revenue Deficit | Primary Deficit |
|---|---|---|---|
| **2000-01** | 4.05 | 2.55 | 1.70 |
| **2001-02** | 4.01 | 2.57 | 1.39 |
| **2002-03** | 3.94 | 2.26 | 1.21 |
| **2003-04** | 4.25 | 2.23 | 1.42 |
| **2004-05** | 3.32 | 1.21 | 0.66 |
| **2005-06** | 2.44 | 0.19 | 0.16 |
| **2006-07** | 1.80 | -0.58 | -0.36 |
| **2007-08** | 1.51 | -0.86 | -0.49 |
| **2008-09** | 2.39 | -0.23 | 0.56 |
| **2009-10** | 2.91 | 0.48 | 1.17 |
| **2010-11** | 2.07 | -0.04 | 0.47 |
| **2011-12 (RE)** | 2.32 | -0.07 | 0.76 |
| **2012-13 (BE)** | 2.15 | -0.42 | 0.60 |

Source (Basic Data): State Finances, Reserve Bank of India

## 1.4 Approach to Terms of Reference

Compared to the Thirteenth Finance Commission (THFC), the terms of reference to the Fourteenth Finance Commission (FFC) differ in certain important respects as given below. Annexure 1 provides a comparison between the terms of reference of the THFC and FFC.

### a. Fiscal Imbalance of the Union and State Governments

The FFC like the THFC has been asked to review the state of the finances, deficit and debt levels of the Union and the States, keeping in view, in particular, the fiscal consolidation roadmap recommended by the Thirteenth Finance Commission, and suggest measures for maintaining a stable and sustainable fiscal environment consistent with equitable growth.

In this part of the Para, the specific reference to deficit and debt levels is new. This is the only place where a reference to debt levels is being made. In several of the TORs of the previous Commissions, the issue of review of state debt and debt relief used to be referred to in a separate clause. However, after the discontinuation of on-lending to the state governments by the central government as recommended by the Twelfth Finance Commission, the issues of debt relief has been rendered unnecessary and a separate clause on levels of debt has been dropped. This point is pursued further in clause 3 of the TOR, where the 'considerations' that the Commission should bear in mind in making its recommendations have been spelt out. Here, the concept of 'debt-stressed' states has been brought out in the TOR.

The second difference is the specific mention of the fiscal consolidation roadmap recommended by the Thirteenth Finance Commission. Here, the FFC will have to consider the question whether the THFC roadmap for fiscal consolidation has any relevance since the macro-assumptions on which the roadmap was constructed has been rendered irrelevant.

In continuation, the TOR also makes reference to the "suggestions to amend the Fiscal Responsibility Budget Management Acts currently in force and while doing so, the Commission may consider the effect of the receipts and expenditure in the form of grants for creation of capital assets on the deficits; and the Commission shall also consider and recommend incentives and disincentives for States for observing the obligations laid down in the Fiscal Responsibility Budget Management Acts." This part of the para brings into focus

whether the FFC should recommend to the state governments to amend their FRBMAs and redefine the revenue account deficit so that grants to local bodies or other bodies meant for creation of capital assets, presently counted as revenue expenditure, may be excluded from revenue expenditure so that an adjusted revenue deficit figure may be estimated.

The FFC may also consider incentives and disincentives for meeting the FRBMA targets whether defined in the Act or in the Rules. If such incentives and disincentives are designed by the FFC, it is suggested that similar incentives and disincentives should be considered for the central government, who has violated its own FRBMA targets far more than the States.

In so far as reference to develop an incentive framework is concerned, it can be justified in the interest of sound finance only if the approach of the FFC is symmetrical between the centre and the states. It cannot be the case that incentive and disincentives should apply only to the state governments whereas the central government can be allowed to follow any fiscally profligate policy unmindful of its impact on the overall fiscal imbalance in the economy. In particular, the central government should be asked to reduce and rationalize its numerous central and centrally sponsored schemes.

Even the approach to countercyclical interventions should be developed in a manner such that both the centre and the states follow a coordinated approach. The central government cannot be allowed to indulge in runaway deficits unmindful of its impact on state economies and finances.

**b. Sharing of Subsidies**

Under clause 3, where various 'considerations' are listed, under sub-clause (vi), two issues have been raised in regard to subsidies. First, the Commission has been asked to determine the appropriate levels of subsidies consistent with the need for sustainable and inclusive growth. Secondly, the issue of equitable sharing of subsidies between the Central Government and State Governments has been raised. What it means is that the state governments should share the burden of subsidies designed by the central government like the food and fertilizer subsidies. If the state governments are to share the burden of subsidies, two important requirements are that the subsidy scheme should be designed in consultation with the states, and secondly such subsidies should then be made part of the assessment of expenditure undertaken by the Finance Commission for the determination of transfers.

**c. Pricing of Public Utility Services**

Another new sub-clause under 'considerations' makes reference to 'the need for insulating the pricing of public utility services like drinking water, irrigation, power and public transport from policy fluctuations through statutory provisions'. The implication here is to make sure that pricing of such public utility services is such that the utilities do not run into losses. This requires determination of costs at uniform standards of quality. Unit costs of providing these services are bound to differ from area to area depending on the nature of the terrain etc. The total costs would also be a function of 'needs' determined by population and income characteristics, share of agriculture in GSDP etc. The reference to policy fluctuations may be recognition of the 'political economy' cycle where the governments tend to commit to offers of free electricity, drinking and irrigation water and other give away at the time of elections. In their assessment exercise, the Finance Commission should apply cost-recovery norms for public utilities so that such norms are uniform across states but genuine reasons for variations in the unit costs are allowed.

**d. Public Sector Enterprise Reform**

The issue of public sector enterprise reforms has also been brought to the consideration of the FFC by the reference to the 'the need for making the public sector enterprises competitive and market oriented; listing and disinvestment; and relinquishing of non-priority enterprises'. Here, the Commission is required to make recommendations that would lead to non-tax revenues to the States by way of getting suitable returns on investment by the State Governments into their public enterprises. Some disinvestment norms including closure of enterprises may also be provided for.

**e. Goods and Service Tax**

The reference to the Goods and Services Tax has been made again to the FFC as the GST has not become a reality either as recommended by the THFC or in any other form. However, there are some differences in the way this clause has been referred to the FFC. First, there is no reference to the impact of GST on foreign trade, which was an important part of the THFC reference. In the case of FFC, the reference focuses on the impact of the proposed Goods and Services Tax on 'the finances of Centre and States' rather than the impact on the general economy and there is a clear reference to 'the mechanism for compensation in case of any revenue loss.' If the GST is designed as a destination-based tax, it has a clear implication for the design of fiscal transfers. In particular, fiscal capacity would need to be determined in a way that it reflects 'consumption' of goods and services in the states rather than 'production' of goods and services, which is what is implied in the use of GSDP at factor cost to reflect fiscal capacity in the determination of share of states in the divisible central taxes under the distance formula.

**f. 1971 Population and Demographic Changes**

The Finance Commissions since the eighties have been mandated to use the 1971 population data even though this may have become dated with the results of a new census having become available. For the FFC, the 2011 census results are available but it is required to use 1971 data. The relevant clause has been formulated as follows: "In making its recommendations on various matters, the Commission shall generally take the base of population figures as of 1971 in all cases where population is a factor for determination of devolution of taxes and duties and grants-in-aid; however, the Commission may also take into account the demographic changes that have taken place subsequent to 1971." This formulation would require the FFC still to use the 1971 population as the general methodology in the devolution of taxes and duties and grants-in-aid. The demographic changes that have since occurred may be used in two conflicting ways: first as a determinant of 'need' where the relatively larger addition to population gives rise to relatively higher absolute need; and secondly, 'performance' where the states that have reduced birth rate more successfully in relative terms may need to be rewarded. An ideal solution would be to assess the need taking the latest available census, that is 1971 population and the incremental population since then, and separately reward states that have shown better performance in regard to population growth. With the demographic dividend being a key driver of the higher growth potential for the Indian economy, the needs of states with higher population require to be assessed properly.

**g. Public Expenditure Management System**

Another important reference to the FFC is with reference to the need for reviewing the present Public Expenditure Management Systems in place including the budgeting and

accounting standards and practices and the existing system of classification of receipts and expenditure and for linking outlays to outputs and outcomes. The Commission has also been asked to make reference to the best practices within the country and internationally and make appropriate recommendations thereon.

It may be observed that it is not enough to just review the public expenditure management systems (PEMS) in different states but also introduce a reward system based on a ranking for PEMS performance. Secondly, such a review should be done not just for the states but also for the central government.

## 1.5 Summary

In this Chapter, we have suggested that the Fourteenth Finance Commission may consider its terms of reference after taking cognizance of (a) the current macro-economic scenario, (b) the current fiscal scenario both of the Union Government and the State Governments, and (c) the key changes in the Terms of Reference to the Fourteenth Finance Commission compared to those given to its immediate predecessor in particular and the previous Finance Commissions in general.

In terms of the macro-economic situation, the current situation will have a bearing on the fiscal projections both for the central and state governments. GDP at market prices, in real terms, has plummeted to a mere 3.2 percent in 2012-13. It is suggested that given its mandate covering a five year period, the Commission should focus on the 'potential' or 'trend' growth rate of GDP to make up its mind on the medium term prospects of the Indian economy.

Both the actual and trend growth rates have fallen in 2012-13. With respect to GDP at factor cost, the actual growth has fallen to 5 percent and trend growth to7 per cent. It may be noted that with reference to GDP at market prices, the actual growth in 2012-13 was only 3.2 percent and the trend growth rate is estimated at 6.5 percent. One or both may fall further in 2013-14.

A basic feature of the central finances in recent years has been the overall stagnation of the central gross tax revenues relative to GDP even though there have been major changes in the composition of central tax revenues during the period from 2004-05 to 2012-13. The share of direct taxes has gone up nearly 10.5 percentage points during this period, which is matched by a fall in the share of indirect taxes of 11 percentage points, leaving the centre's tax-GDP ratio stagnant at about 10 percent of GDP at market prices.

In respect of meeting the FRBMA norms, while the central government has shown slippages of large magnitudes both in respect of fiscal deficit and revenue deficit relative to GDP, the State governments have been able to meet the norms of keeping the fiscal deficit to GDP ratio below 3 percent and also achieve revenue account balance in most of the years since 2007-08.

With respect to individual State governments, the Commission will have to consider the question whether the roadmap indicated by the Thirteenth Finance Commission for fiscal consolidation has relevance since the macro-assumptions on which the roadmap was constructed has been rendered irrelevant.

In so far as the reference to developing an incentive framework is concerned, it can be justified in the interest of sound finance only if the approach of the Commission is symmetrical between the centre and the states. It cannot be the case that incentive and disincentives should apply only to the state governments whereas the central government can

be allowed to follow any fiscally profligate policy unmindful of its impact on the overall fiscal balance in the economy.

The approach to countercyclical interventions should be developed in a manner such that both the centre and the states follow a coordinated approach. The central government cannot be allowed to indulge in runaway deficits unmindful of its impact on state economies and finances.

If the state governments are to share the burden of subsidies then two important requirements are that the subsidy schemes should be designed in consultation with the states, and secondly such subsidies should be made part of the assessment of expenditure undertaken by the Finance Commission for the determination of transfers.

Pricing of public utility services should be such that the utilities do not run into losses. This requires determination of costs at uniform standards of quality. Unit costs of providing these services are bound to differ from area to area depending on the nature of the terrain etc. The total costs would also be a function of 'needs' determined by population and income characteristics, share of agriculture in GSDP etc. The Commission may take these considerations into account while applying norms with respect to pricing of public utility services.

In the context of the goods and services tax, which is a destination based tax, it is important that fiscal capacity should be determined in a way such that it reflects 'consumption' of goods and services in the States rather than 'production' of goods and services, which is what is implied in the use of GSDP at factor cost to reflect fiscal capacity in the determination of share of states in the divisible central taxes under the distance formula.

In regard to the ToR with respect to population data, an ideal solution would be to assess the need taking the latest available census, that is 1971 population and the incremental population since then, and separately reward states that have shown better performance in regard to population growth. With the demographic dividend being a key driver of the higher growth potential for the Indian economy, the needs of states with higher population require to be assessed properly.

It may be observed that it is not enough to just review the public expenditure management systems (PEMS) in different states but also introduce a reward system based on a ranking for PEMS performance. Secondly, such a review should be done not just for the states but also for the central government.

# Chapter 2

# Economic Profile of Uttarakhand

Uttarakhand was constituted as a State on November 9, 2000. It was carved out of Uttar Pradesh as the 27th state (11th Special Category state) of the Indian Union. The economic profile of Uttarakhand is unique in a number of ways and some of these features have a critical bearing in the context of India's federal structure, particularly in the design of fiscal transfers. In particular, there are externalities and special cost considerations that require special attention. Some of the main features that need to be highlighted are indicated below:

1. Uttarakhand has a large forest area that serves as a carbon sink for the rest of the country and serves as a natural barrier to provide rainfall to the neighbouring regions.

2. Uttarakhand caters to an all-India influx of religious pilgrims that puts tremendous economic pressure on its civic services.

3. Mountainous terrain and a low density of population have implied a high per capita cost of provision of services and maintenance of infrastructure.

4. Both employable youth and available savings both migrate out of the state, thereby contributing to the economic growth of other states.

5. Uttarakhand provides extensive educational facilities, particularly technical education, to the youth of other states who eventually find employment in the rest of the country and contribute to their economic growth.

These features are discussed in detail in the discussion below starting with an analysis of the growth performance and the sectoral composition of GSDP.

## 2.1 GSDP: Composition and Growth

Uttarakhand has shown exceptional growth performance both by attracting industry and by developing some of the traditional areas of economic activities.

Table 2.1 shows that Uttarakhand experienced a phenomenal growth in real terms (at constant 2004-05 prices), which was in the range of 12.7 to 18.1 percent during 2005-06 to 2009-10. The main sectors that drove this growth were manufacturing and trade, hotels, transport, storage and communications, and to some extent, electricity, gas and water supply. However, some of the drivers that accounted for the phenomenal growth in these sectors are now drying up.

**Table 2.1: GSDP Growth at constant 2004-05 prices: Main Sectors**

(Percent per annum)

| Sectors | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11(prov) | 2011-12(QK) | 2012-13(Adv) |
|---|---|---|---|---|---|---|---|---|
| **Agriculture & Allied** | -3.22 | 4.66 | 2.09 | -3.66 | 9.63 | 5.52 | 3.31 | 3.90 |
| **Mining & Quarrying** | 32.59 | -4.68 | 1.70 | -18.45 | -14.33 | 35.13 | 12.92 | 2.27 |
| **Manufacturing** | 46.66 | 26.52 | 46.05 | 20.96 | 24.43 | 9.45 | 2.52 | 6.83 |
| **Construction** | 9.79 | 16.26 | -7.78 | -4.25 | 9.94 | 10.09 | 12.91 | 12.66 |
| **Electricity, Gas & Water Supply** | 8.54 | 8.66 | 18.44 | 13.17 | 13.17 | 14.13 | 12.79 | 13.22 |
| **Trade, Transport, Hotels, Storage and Communications** | 21.75 | 16.91 | 27.09 | 19.07 | 28.49 | 14.17 | 5.22 | 5.97 |
| **Financial real estate and business services** | 10.85 | 11.51 | 10.85 | 10.75 | 8.46 | 10.56 | 11.45 | 11.28 |
| **Social, public and community services** | 7.13 | 6.43 | 14.72 | 19.59 | 6.87 | 2.56 | 2.65 | 4.42 |
| **GSDPFC** | 14.34 | 13.58 | 18.12 | 12.65 | 18.13 | 9.94 | 5.28 | 6.87 |

Source (Basic Data): Department of Statistics, Government of Uttarakhand

In terms of the sectoral composition of GSDP, Table 2.2 highlights the relative importance of different sectors.

**Table 2.2: GSDP at Factor Cost at Constant prices: Sectoral Shares**

(Percent)

| Sector | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11(prov) | 2011-12(QK) | 2012-13(Adv) |
|---|---|---|---|---|---|---|---|---|---|
| **Agriculture & Allied** | 22.27 | 18.85 | 17.37 | 15.01 | 12.84 | 11.92 | 11.44 | 11.22 | 10.91 |
| **Mining & Quarrying** | 1.21 | 1.40 | 1.17 | 1.01 | 0.73 | 0.53 | 0.65 | 0.70 | 0.67 |
| **Manufacturing** | 12.73 | 16.33 | 18.19 | 22.49 | 24.15 | 25.44 | 25.33 | 24.66 | 24.65 |
| **Construction** | 12.74 | 12.23 | 12.52 | 9.77 | 8.31 | 7.73 | 7.74 | 8.30 | 8.75 |
| **Electricity, Gas & Water Supply** | 1.55 | 1.47 | 1.41 | 1.41 | 1.42 | 1.36 | 1.41 | 1.51 | 1.60 |
| **Trade, Transport, Hotels, Storage and Communications** | 23.50 | 25.02 | 25.75 | 27.71 | 29.29 | 31.86 | 33.08 | 33.07 | 32.79 |
| **Financial real estate and business services** | 10.23 | 9.92 | 9.74 | 9.14 | 8.98 | 8.25 | 8.29 | 8.78 | 9.14 |
| **Social, public and community services** | 15.78 | 14.78 | 13.85 | 13.45 | 14.28 | 12.92 | 12.05 | 11.75 | 11.48 |
| **GSDPFC** | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source (Basic Data): Department of Statistics, Government of Uttarakhand

The share of agriculture and allied sectors has gone down from 22.3 percent in 2004-05 to 10.9 percent in 2012-13. On the other hand, during the same period, the share of manufacturing has nearly doubled increasing from 12.7 percent in 2004-05 to 24.7 percent in 2012-13. The share of sector, trade, hotels, transport, storage and communications has also increased from 23.5 percent in 2004-05 to 32.8 percent in 2012-13. Thus, both industry and the service sector have grown at a fast rate and the state is now much more industrialized and service-sector oriented that when it became a state.

Table 2.3 shows the relative shares of agriculture, industry and services

**Table 2.3: Relative Shares of Agriculture, Industry and Services**

(Percent)

| Sector | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11(prov) | 2011-12(QK) | 2012-13(Adv) |
|---|---|---|---|---|---|---|---|---|---|
| **Agriculture and allied sectors** | 22.27 | 18.85 | 17.37 | 15.01 | 12.84 | 11.92 | 11.44 | 11.22 | 10.91 |
| **Industry** | 28.23 | 31.43 | 33.29 | 34.69 | 34.61 | 35.06 | 35.13 | 35.18 | 35.68 |
| **Services** | 49.50 | 49.72 | 49.34 | 50.30 | 52.55 | 53.02 | 53.43 | 53.60 | 53.41 |

Source (Basic Data): Department of Statistics, Government of Uttarakhand

The sectoral contribution to growth rate has been highlighted in Table 2.4

**Table 2.4: Sectoral Growth: Percentage Contribution to Overall Growth**

(Percent)

| Sectors | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11(prov) | 2011-12(QK) | 2012-13(Adv) |
|---|---|---|---|---|---|---|---|---|
| **Agriculture & Allied** | -5.00 | 6.46 | 2.00 | -4.34 | 6.82 | 6.62 | 7.17 | 6.37 |
| **Mining & Quarrying** | 2.74 | -0.48 | 0.11 | -1.47 | -0.58 | 1.88 | 1.60 | 0.23 |
| **Manufacturing** | **41.42** | **31.88** | **46.23** | **37.26** | **32.54** | **24.19** | **12.08** | **24.52** |
| **Construction** | 8.69 | 14.64 | -5.37 | -3.28 | 4.56 | 7.85 | 18.95 | 15.30 |
| **Electricity, Gas & Water Supply** | 0.92 | 0.94 | 1.43 | 1.47 | 1.03 | 1.93 | 3.42 | 2.91 |
| **Trade, Transport, Hotels, Storage and Communications** | **35.63** | **31.16** | **38.50** | **41.77** | **46.02** | **45.44** | **32.73** | **28.71** |
| **Financial, real estate and business services** | 7.74 | 8.40 | 5.83 | 7.76 | 4.19 | 8.77 | 18.00 | 14.41 |
| **Social, public and community services** | 7.85 | 7.00 | 11.26 | 20.83 | 5.41 | 3.32 | 6.06 | 7.56 |
| **GSDPFC** | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source (Basic Data): Department of Statistics, Government of Uttarakhand

Two sectors alone have contributed significantly to the phenomenal growth performance of Uttarakhand: manufacturing and trade, hotels, transport, storage and communications. While the high growth performance in manufacturing was specific to Uttarakhand, the high growth in trade, hotels, transports, storage and communications was witnessed at the all India level and by many states. The manufacturing growth can be linked to the special area incentive scheme in the central excise provisions. This has now been withdrawn. The growth in the 'trade, transport, storage and communications' sector has come down in most states. Furthermore, Uttarakhand has been subjected to a major natural shock in terms of the recent floods that has caused a major structural break in Uttarakhand's growth story, which will also erode its fiscal performance.

Thus the key drivers of growth in Uttarakhand have dried up and we expect to see moderate growth performance in the near future. With the disruption of economic activities caused by the recent floods and the consequent drying up of the flow of tourists, there would be a discontinuity in the growth performance in 2013-14. Historical growth performance should not therefore be taken as a guide to future growth to which revenue prospects would also be linked.

## 2.2 Economy of Uttarakhand: Special Features and Cost Constraints

The terrain of Uttarakhand, its geographic features, its special position as a centre of pilgrimage, and its economic characteristics pose considerable constraints in the management of its finances. The state caters to the rest of the country in terms of accommodating massive influx of tourists and pilgrims that pose a heavy burden on its ecology, environment and civic services. The state also maintains a large forest area, which provides environmental benefits to the rest of the country. The state is a special education hub attracting students from all over the country. Given the large externalities and services that are provided to citizens of the rest of the country, adequate compensation in the form of fiscal transfers need to be given to Uttarakhand.

Located between latitudes $29^{o}5'$-$31^{o}25'$N and longitudes $77^{o}45'$-$81^{o}$E, covering a geographical area of 53,483 sq km, Uttarakhand has a very diverse topography ranging from the plains in the south to the snow-covered peaks in the north. About 61.1% of its geographical area is under forest cover. As per the 2011 Census, the population of Uttarakhand was 101.17 lakh. On the basis of its terrain, the 13 districts of the state can be roughly classified into three zones:

1. The plains/lower hills comprise of the districts of Udham Singh Nagar, Hardwar and parts of Dehradun. These districts border Uttar Pradesh.
2. The high hills include the districts of Uttarkashi, Rudraprayag, Chamoli and Pithoragarh. These districts have international boundaries with China and Nepal.
3. Mid-hills covering the districts of Tehri, Pauri, Nainital, Almora, Champawat and Bageshwar are sandwiched between the low and the high hills. Champawat is the only mid-hill district sharing an international border with Nepal.

The geography of the state also has a direct expenditure implication. The terrain does not support large clusters of households. As a consequence, the state is characterized by relatively small habitations. Each of these has to be provided with some minimal level of services. In doing so, the state is unable to take advantage of agglomeration economies that characterize many of these services. Some threshold levels of investment and operating expenditures have to be made to achieve even small levels of service delivery. As a result, the average cost of service delivery in Uttarakhand, driven by the large number of small habitations, is relatively high. In addition to fragmentation, the nature of the terrain itself increases the cost of delivery.

## 2.3 Employment, Sex Ratio, Dependency and Migration

The dependency ratio in Uttarakhand is quite high. As per the 2011 Census figures, the child dependency ratio with respect to population in the age group 0-14 was 63 percent and the old age dependency ratio with respect to age group of 60 years and above was 16 percent. The total dependency ratio is estimated to be 78 percent if population in age group of 15-60 years is taken to be the working age population (Table 2.5). If however, the working age population is considered to be in the age range of 20-59 years, the child dependency ratio for 0-19 years is as high as 113%, the old age dependency ratio is 21% and the total dependency ratio is 134%.

**Table 2.5: Dependency Ratio in Uttarakhand**

| Age group | Per thousand | Population 2011 | Projected group population | Child dependency ratio | Old age dependency ratio | Total dependency ratio |
|---|---|---|---|---|---|---|
| **0-14** | 352 | 10116752 | 3550375 | 0.63 | | |
| **15-59** | 561 | 10116752 | 5658410 | | | |
| **60 and above** | 88 | 10116752 | 887594 | | 0.16 | |
| **0-14 and 60+** | 440 | 10116752 | 4437968 | | | 0.78 |
| Dependency ratio is defined as the ratio of population of the dependent age group (0-14 years/60+years) divided by the population of the working age group (15-59 years). | | | | | | |
| **Age group** | **Per thousand** | **Population 2011** | **Projected group population** | **Child dependency ratio** | **Old age dependency ratio** | **Total dependency ratio** |
| **0-19** | 485 | 10116752 | 4891852 | 1.13 | | |
| **20-59** | 428 | 10116752 | 4316933 | | | |
| **60 and above** | 88 | 10116752 | 887594 | | 0.21 | |
| **0-19 and 60+** | 573 | 10116752 | 5779445 | | | 1.34 |
| Dependency ratio is defined as the ratio of population of the dependent age group (0-19 years/60+years) divided by the population of the working age group (20-59 years). | | | | | | |

Source: Registrar General of India (Census 2011)

A clear implication of the higher dependency ratio is higher expenditure requirement by the state government on both education and health. The Eleventh FC had taken cognizance of the age profile of the population while reassessing the expenditure requirements of the state. The Commission noted, *"On the expenditure side, the normative approach would imply in essence that the expenditure per capita that a state has to incur on the revenue account will be worked out broadly on the basis of average expenditure per capita that a state has to incur on the revenue account to provide public services at a 'reasonable' level after allowing for cost differentials among them arising from factors not within their control, such as terrain, age-profile of the population, varying rates of inflation and other relevant factors". (Chapter 5, Para 5.5)*

Population density is also an important factor affecting unit costs that are higher for areas that have a lower density of population. Uttarakhand is placed 25$^{th}$ in both 2001 and 2011 census when the states are sorted from high to low in terms of population density. Table 2.6 shows the population density in Uttarakhand vis-à-vis India. A clear implication of the lower population density in Uttarakhand is higher per person cost in the provision of services provided by the government particularly those relating to administration, judiciary, education and health.

**Table 2.6: Population Density in Uttarakhand and All-India**

| India/State | 2001 | 2011 | Change from 2001 | % Change |
|---|---|---|---|---|
| Uttarakhand | 159 | 189 | 30 | 18.87 |
| India | 324 | 382 | 58 | 17.90 |

Source: Census 2001, 2011

Sex ratio, defined as the number of females per thousand males, in the country has traditionally been low compared to the global scale (984 during 2011[1]). As indicated in Table 2.7, the sex ratio in Uttarakhand has remained higher than that for India.

**Table 2.7: Sex Ratio**

| India/State | 2001 | 2011 | Change from 2001 | % Change |
|---|---|---|---|---|
| Uttarakhand | 962 | 963 | 1 | 0.10 |
| India | 933 | 940 | 7 | 0.75 |

Source: Census 2001, 2011

2011 census figures indicate that the sex ratio of Uttarakhand is 963 females per thousand males, is more than the national average by a margin of 23. In 2001, it was 962 females per thousand males, more than the national figures by 29.

**Table 2.8: Working and Non-working population**

| Census year | Total Population | Total Workers | Total Non-Workers |
|---|---|---|---|
| **2001** | 8489349 | 3134036 | 5355313 |
| **2011** | 10116752 | 3872275 | 6214017 |
| | **% of Total population** | | |
| **2001** | 100 | 36.92 | 63.08 |
| **2011** | 100 | 38.40 | 61.61 |

Source: Census 2001, 2011

Table 2.8 shows the number of workers and non-workers of Uttarakhand for the years 2001 and 2011. 'Total workers' is the sum of main and marginal workers. The rest form the non-workers. In 2001, the work participation rate was nearly 37%, meaning, 37% of the total population were involved in economically productive activity while the non-work participation rate was 63%. In 2011, the work participation rate was 38.4% and the non-work participation rate was 61.61%. It can be observed that the increase in the proportion of total population involved in economically productive activity was only by a little more than a percentage over the decade. The growth in the total number of workers over the decade was 23.5% while the growth of non-workers was 16.03%. Thus, although the proportion of total workers in total population has increased marginally by 1.5%, the increase of their absolute numbers has been at a decent pace of nearly 24% during the decade 2001-11. Further, the increase in working population is greater than the increase in the rate of non-working population (16%). Hence, the proportion of non-working population as part of total population has fallen from 63.1% to 61.6%. Taking this as a proxy indicator for dependent population, the government needs to allocate proportional resources to support the welfare of the non-working population. However, the growth trend suggests that the share of working population in total population is expected to be on the rise while at the same time the proportion of non-working population is expected to gradually decline in the future. This indicates the potential change in demographic patterns in the future. This would require a different kind of expenditure (spending on development and job creation) to enable the government to realize the potential of demographic dividend. In either case, the state is required to spend more on public welfare, infrastructure creation, education and job creation, among other things.

[1]World Population Prospects 2008 revision UN.

## 2.4 Intra-State Disparity

With a mix of hilly areas and plains, a noticeable feature of the economic profile of Uttarakhand is intra-state disparities which can be highlighted through a number of inter-district indicators such as the availability of infrastructural facilities, demographic patterns, and land holding pattern of the individuals, irrigation facility, and level of urbanization, literacy rates and work participation trends. Some of these are captured in Table 2.9.

**Table 2.9: Intra-State Disparity: Some Indicators**

| | Unit | Year | Range | | Mean | Standard Deviation | Coefficient of Variation (%) |
|---|---|---|---|---|---|---|---|
| | | | Minimum | Maximum | | | |
| Level of Urbanisation (Urban) | (%) | 2011 | 3.49 | 55.52 | 20.29 | 15.43 | 76.05 |
| | | 2001 | 1.2 | 52.9 | 18.10 | 15.17 | 83.82 |
| Population Density | (Persons per Sq.Km) | 2011 | 41.18 | 649 | 251.07 | 238.38 | 94.95 |
| | | 2001 | 37 | 612 | 202.62 | 173.60 | 85.68 |
| Gender Gap in Literacy Rate (Total) | (%) | 2011 | 10.87 | 26.43 | 20.26 | 4.62 | 22.80 |
| | | 2001 | 14.7 | 37 | 27.09 | 6.85 | 25.29 |
| Number of Higher Secondary Schools per lakh of population | Number | 2011 | 8.00 | 58.00 | 33.35 | 15.67 | 46.99 |
| Number of beds in allopathic hospitals/Clinics and PHC per lakh of population | Number | 2011 | 33 | 191 | 105.82 | 43.85 | 41.44 |
| Length of Metal Roads per thousand sq. km. | Km | 2011 | 160 | 1333 | 644.85 | 414.20 | 64.23 |
| Length of Metal Roads per lakh of population | Km | 2011 | 154.73 | 568.63 | 318.25 | 99.58 | 31.29 |
| Villages connected with Pucca Road | (%) | 2011 | 37.94 | 99.69 | 68.14 | 18.22 | 26.74 |

Source: Census of India 2011 and Uttarakhand Statistical Diary,2011-12

Based on Table 2.9, the following points can be highlighted:

1. A high degree of variability in the level of urbanization is observed over the decade and is still very high at 76 percent in 2011.
2. The dispersion in the population density has increased significantly over the decade with both the range and the coefficient of variation increasing noticeably. The increase implies a more sparsely distributed population associated with greater costs in terms of effort and transportation.
3. The Urban-Rural gap in the literacy rates has recorded a narrowing of the range but it shows an increase in the coefficient of variation to a level of 21 per cent in 2011. The indicator of ‘number of higher secondary schools per lakh of population’ shows a coefficient of variation of 47 percent.

4. The coefficient of variation associated with the 'number of beds in allopathic hospitals, Clinic and PHC's' is at a level of 41 percent for the year 2011. The range for the indicator also stands very high (33/191).
5. The dispersion associated with the physical infrastructures is very significant. The coefficient of variation in the 'length of metal roads per thousand sq. km.' was at a level of 64.23 percent in 2011.

The population density across the districts varies from as low as 41 persons per sq km in Uttarkashi district, to a high of 801 persons per sq km in Haridwar. The increase recorded by these districts in the population density follows a pattern associated to the terrain of the district. Plains and districts in low hills like Dehradun recorded a population density growth rate of about 33 percent, while the Mid hills districts like Almora and Pauri Garhwal show a negative growth rate (-3.26 & -0.02). High hills districts like Chamoli and Rudraprayag had population density growth rate of only 2 percent in the decade. Almost half of the population is concentrated in Hardwar, Udham Singh Nagar and Dehradun.

The sex ratio has registered an increase over the decade, with significantly higher ratios for the rural areas as compared to the urban areas. The sex ratio in the rural area of Almora was as high as 1177 in 2011, while that in urban areas was around 927 females per thousand males in district Bageshwar. The rate of growth in the sex ratio is higher in rural areas for the districts in plains / lower hills. However, for high hills districts it is higher in the urban areas. The sex ratio exceeds 1000 mainly for the districts in mid and high hills.

The intra-state disparities have a bearing both on needs and costs of providing services. Costs are affected by differences in access to various infrastructure facilities. The length of metalled roads per thousand sq. km in 2011 varied from 1333 km in Udham Singh Nagar to just 160 in Chamoli. Within each district, the percent of villages with 'pucca' roads varies from about 37.94 percent in Champawat to almost 99.7 percent in Udham Singh Nagar. The figure ranges from 37.94 to 84.32 percent for the mid and high hill districts. The distance of the district Headquarter from the nearest Rail head, also serves as a good indicator of the prevailing disparity in the access to physical infrastructure. The distance is as high as 213 km in districts of Chamoli and 154 kms for Pithorgarh, while Dehradun, Hardwar and Udham Singh Nagar are at the railhead.

Since considerable disparities exist across regions/districts and even within districts in Uttarakhand with respect to the availability of social and physical infrastructure, an attempt has made here to quantify the disparities among the districts with respect to availability of social and physical infrastructure by developing an index of access to basic public services for all the 13 districts. These indices suggest how far each district is from the desirable level of access to public services. For this purpose, six indicators for social infrastructure and three for physical infrastructure were taken into account. These are:

> **Social**: *Junior basic schools & senior basic schools for Boys; Higher secondary schools for boys; senior basic schools & higher secondary schools for girls; and Allopathic hospitals/dispensaries/ PHCs.*
> **Physical**: *Metalled roads, electricity, and bus stops*

The Districts' Statistical Diary of Uttarakhand for 2012 gives the number of villages in each district and provides data relating to the above-mentioned indicators with the specification whether these are available within the village or within a range of 3-5 km. A desirable level of access of services for each district will be that all the villages have access to these services. An 'ideal village' is the one that has access to some basic services listed above within the

village and some within a range of 3-5 km. If a particular village has junior basic school, pucca roads, bus stop and electricity within the village; senior basic schools (boys and girls) within a range of 3 km and higher secondary schools and a hospital/dispensary/PHC within a range of 5 km then it is called an 'ideal village'.

The widely accepted 'range equalisation method' has been used to construct the index for access to services. Using this method, for a particular district, the index for access is calculated as follows:

> Index for access to service i = (Actual Value – Minimum Value) / (Maximum Value – Minimum Value),
> Where i takes value from 1 to 9

Actual value is the number of villages having access to service i, according to the 'ideal village' criteria. Maximum value is the total number of villages in the district. To get the minimum value, the number of villages having access to service i within the district is calculated as a proportion of the total number of villages in the district. These ratios are obtained for all the districts in the state. The lowest value of these ratios is the threshold value and is kept as constant for the entire state. For example, if this threshold value for a service comes out to be 0.1, this would mean that across all the districts, at least 10 percent of the total villages in each district have access to a particular service.

This method places an index value 1 to the district that comprises the 'ideal villages', that is, all the villages in this district have access to service i such that actual value is equal to the maximum value. The index value lies between 0 and 1. For each district, these indices are calculated for all the nine indicators. The composite index for the district is the geometric mean of these indices. For calculating geometric mean we replace index value '0' by next minimum value for each 9 parameters. The geometric mean is preferred over simple mean to ensure that improvement in one indicator does not get offset by a decline in another.

Table 2.10 presents the index for access to both social and physical infrastructure services across the districts. The index shows that across the districts access to physical infrastructure is better than social infrastructure in eight districts out of thirteen districts. Social infrastructure, which means availability of schools and hospitals within a desirable range, is inadequate in most of the districts, but is more pronounced in high and mid-hill districts. Eight districts out of thirteen districts have social infrastructure index value less than 0.5. This means that the access to social infrastructure in these districts is even less than half of the desired level. On the other hand, physical infrastructure, particularly in the plains, looks satisfactory. Among the districts, Udham Singh Nagar tops the index chart both for access to physical as well as social infrastructure.

**Table 2.10: Index for Access to Services**

| Location | District | Index | | |
|---|---|---|---|---|
| | | Total | Social | Physical |
| **Plains** | Udham Singh Nagar | 0.72 | 0.61 | 1.00 |
| **Plains** | Haridwar | 0.53 | 0.48 | 0.66 |
| **Plains** | Dehradun | 0.44 | 0.31 | 0.85 |
| **Mid Hills** | Nainital | 0.64 | 0.56 | 0.86 |
| **Mid Hills** | Tehri | 0.54 | 0.55 | 0.52 |
| **Mid Hills** | Pauri | 0.28 | 0.21 | 0.50 |
| **Mid Hills** | Almora | 0.37 | 0.31 | 0.53 |
| **Mid Hills** | Bageshwar | 0.29 | 0.32 | 0.24 |
| **Mid Hills** | Champawat | 0.16 | 0.17 | 0.14 |
| **High Hills** | Uttarkashi | 0.45 | 0.43 | 0.48 |
| **High Hills** | Rudraprayag | 0.54 | 0.52 | 0.61 |
| **High Hills** | Pithoragarh | 0.54 | 0.68 | 0.34 |
| **High Hills** | Chamoli | 0.25 | 0.29 | 0.18 |

Source (Basic data): Statistical Diary, Uttarakhand

Apart from quantifying the regional disparity within the state, this index also suggests as to how far the district is from the desired goalpost. It is quite evident from Table 2.10 that majority of the districts are far away from the desired level. Therefore, the state has an onerous task to improve access to social and physical infrastructure in the lagging districts. This would call for substantial investment which the state alone will not be able to undertake and thus would need the support from Finance Commission.

One dimension of differences in the economic capacities is reflected by the differences in the credit-deposit ratios (Table 2.11). At the lower end of the credit-deposit ratio (25 % or little more) are districts like Pauri Garhwal, Almora, and Champawat. At the higher end, it is more than 100 percent for Udham Singh Nagar. The all-district average at about 46 percent is quite low.

**Table 2.11: District-wise Credit-Deposit Ratio (As on 30.06.2013)**

(` in Crore)

| Districts | Number of Branches | Deposits | Advances | CD Ratio (%) |
|---|---|---|---|---|
| Nainital | 180 | 6796 | 3040 | 44.73 |
| Hardwar | 200 | 10182 | 5699 | 55.97 |
| Uttarkashi | 54 | 925 | 374 | 40.43 |
| Bageshwar | 42 | 832 | 345 | 41.47 |
| Pauri Garhwal | 174 | 3932 | 992 | 25.23 |
| Chamoli | 78 | 1520 | 427 | 28.09 |
| Rudraprayag | 50 | 798 | 247 | 30.95 |
| Almora | 118 | 3000 | 759 | 25.30 |
| Dehradun | 407 | 21802 | 7418 | 34.02 |
| Pithoragarh | 95 | 1911 | 646 | 33.80 |
| Champawat | 45 | 856 | 241 | 28.15 |
| Tehri Garhwal | 113 | 2100 | 781 | 37.19 |
| US Nagar | 263 | 6633 | 7109 | 107.18 |
| Total | 1819 | 61287 | 28078 | 45.81 |
| RIDF | | | 2220 | |
| Total | 1819 | 61287 | 30298 | 49.44 |

Source: Government of Uttarakhand
RIDF: Rural Infrastructure Development Fund

## 2.5 Geographical Terrain of Uttarakhand: Economic Implications

Out of Uttarakhand's vast expanse of 53,483 $km^2$of area, 64.81% is laden with forests. The northern part of the state is mostly covered in Himalayan peaks and glaciers, as they are a part of the Greater Himalayan ranges. The lower foothills, which were earlier covered with dense forests, have been denuded eventually, though recent efforts of reforestation have brought about a positive result to a certain extent.

The state lies on the southern slope of the Himalayan range, and the climate and vegetation continuously vary with the altitude and elevation. Right at the top are the covers of ice and bare rock and tundra and alpine meadows cover the highest elevations. Following this, between 3000 and 5000 meters are the Western Himalayan alpine shrub and meadows. Beyond this between 2600 to 3000 meters lie the Western Himalayan subalpine conifer forests, which transitions into the Western Himalayan broadleaf forests between 2600 to 1500 meters. Below 1500 meters lie the Himalayan subtropical pine forests. The drier lower belt is covered with Terai-Duar savanna grasslands and the Upper Gangetic Plain moist deciduous forests. The kinds of forests found in this region are the Teak Forests, Poplar Forests, Sal Forests and Eucalyptus Forests. Jatropha curcas is used as an alternative for petroleum.

Some relevant information on Uttarakhand is given in Table 2.12.

**Table 2.12: Some Relevant Information on Uttarakhand**

| S. No | Details | Area/ Number |
|---|---|---|
| 1. | Geographical Area (GA) of Uttarakhand ($km^2$) | 53483 |
| 2. | Total Population (2011) | 10116752 |
| 3. | Number of districts | 13 |
| 4. | Agricultural land as percentage of total geographical area | 14.25 |
| 5. | Legal forest area ($km^2$), percentage of GA in parenthesis | 34651 (64.79%) |
| 6. | Per capita forest area (ha) | 0.41 |
| 7. | Total Forest Cover ($km^2$), in parenthesis percentage of GA | 24496 (45.8%) |
| 8. | Area under snow, rocks and alpine meadows etc. where trees cannot be grown (Barren area) (sq km) | 7038.28 |
| 9. | Forest Cover as percentage of GA that can support forest and tree cover | 45.8% |
| 10. | Number of Protected Areas (National Parks, Wildlife Sanctuary and Conservation Reserves) Forest area under PAs in $km^2$ in parenthesis | 16 (7706.013 ) |
| 11 | National Park (sq. km.) | 4915.44 |
| 11. | Wildlife Sanctuaries (sq. km) | 2490.046 |
| 12. | Conservation reserves (sq. km) | 100.5266 |
| 13. | Total Protected Areas (sq km) | 7706.013 |
| 14. | Major Rivers | Ganga, Yamuna, Sarju and Kali |
| 15. | Major source of occupation | Agriculture, Forest based activities |

Source: Forest Department of Uttarakhand

The state's main natural resources are forests and minerals. Forests account for nearly 65% of the state's terrain. Thus, these are the most important natural resource of Uttarakhand and have a direct role in supporting rural livelihoods not only by meeting people's day-to-day needs of fuel, fodder and timber but also by providing employment in some areas. Agriculture is the primary occupation of the people in the state. Yet, along with allied services, it contributed only 10.9% to the GSDP in 2012-13. Moreover only 12.6% of the area in the state is said to under cultivation. Agriculture, forest and animal husbandry form an interlinked production system and the role of forests in sustaining the agriculture and husbandry system is immense.

**Table 2.13: Gross State Domestic Product at Factor Cost by Forestry & Logging: 2004-05 to 2012-13 at Constant (2004-05) Prices, Sectoral Share in GSDP and Growth Rate**

| **Years** | **2004-05** | **2005-06** | **2006-07** | **2007-08** | **2008-09** | **2009-10** | **2010-11$^{P}$** | **2011-12** | **2012-13** |
|---|---|---|---|---|---|---|---|---|---|
| Forestry and logging (Rs. Cr) | 139751 | 139232 | 143436 | 146924 | 154304 | 154276 | 166366 | 175489 | 185293 |
| Share of Forestry and logging in GSDP (%) | 5.64 | 4.91 | 4.46 | 3.86 | 3.60 | 3.04 | 3.00 | 3.00 | 3.04 |
| Forestry & logging Growth Rate (%) | **-** | **-0.37** | **3.02** | **2.43** | **5.02** | **-0.02** | **7.84** | **5.48** | **5.59** |

Source: Directorate of Economics and Statistics, Uttarakhand

Table 2.13 gives the contribution of forestry and logging to the state's GSDP and its growth rate over the period 2004-05 to 2012-13. The share of forestry and logging in the state's GSDP has been decreasing. From 5.64% in 2004-05, it fell to 3.04% in 2012-13. The year-on-year growth rate on the other hand has been increasing. From a negative growth in 2005-06, it has reached a growth rate of 5.59% in 2012-13. It is in fact the fastest growing sector within primary sector.

However, the difficult terrain increases plantation costs in mountains. Plantations are also scattered due to the widely hostile weather conditions. This increases transaction costs to an unaffordable level and makes success in international carbon trade even more difficult to achieve. Due to limited accessibility, monitoring even micro-hydropower project is a costly affair. It is far more difficult to get carbon credits approved internationally on plains than on mountains. However, the mountain states substantially contribute to the carbon budget of the country by sequestering carbon through forests, generating hydroelectricity, and keeping $CO_2$ emissions low (through fossil fuel use).

The basic purpose for the creation of the new state was to accelerate the economic development of the hill region for improving the living standard of the people. Forests' being one of the abundant natural resources of the state, the potential for revenue from it is huge. The state of Uttarakhand has, but, taken strict measures when it comes to using the forest resource. The measures taken by the government along with their impact on the potential revenue earned by the state is given below:

- Measure: Establishment of Corbett and Rajaji national parks in productive lowland areas. It may be pointed out that the foothill belt of Uttarakhand is highly productive.

  Impact: The establishment of two protected areas, along with elephant corridors and the maintenance of some good tropical forests in this belt amounted to a huge

opportunity cost. The combined area of these is 7,000 $km^2$ that could have been put to intensive agricultural activities.

- Measure: Ban on converting biodiversity-rich oak forests (quercuss spp.) into chir pine forests (pinus roxburghii) of a commercial value (source of timber and resin). During the British period some oak forests were converted into chir pine forests. This convention does not take place now.

  Impact: Chir pine forest has the potential for more tangible and commercial products like timber and resin. By not allowing the conversion, revenue from such commercial products is negated.

- The state does not allow commercial charcoal making from oak trees, despite serious energy supply problem in remote mountainous areas.

  Impact: Affects development as energy is key to enable the functioning of any economic activity.

- Measure: The forest department has developed a huge infrastructure to take several measures to manage forests and meadows in the alpine zone, while enforcing ban on commercial felling, raising seedlings and plantations, encouraging formation of community forests, forest fire control and regulating non-timber forest products among others. No green or commercial felling is being carried out in the State in areas, which are above 1000 meters. Only uprooted, wind-fallen, dry, dead, dying, diseased trees are removed.

  Impact: While the view of the state to preserve its natural eco-system is commendable, it is a little too rigid to allow the state to enjoy any kind of advantage that is naturally due to it.

- Measure: First preference is given in terms of the obtaining timber from the trees of the state to meet the demand of local people through their record rights, concessions and petty demands. Timber in excess of such demand is extracted through Uttarakhand Forest Development Corporation (UAFCD). Also, the forest department of Uttarakhand is planning to develop green belts in cities with the help of local bodies and local governments. It also plans to plant soil binding and conserving species along the banks of rivers and rivulets.

  Impact: There is more spent on the forests than earned from them.

- Measure: Universities and NGOs, impart training, regulate extraction of non-timber forest product (NTFPs), organize workshops and seminars, etc.

  Impact: Protection of precious forestland and conservation of biodiversity

A considerable area of the state is under forest cover and often development projects suffer as due care needs to be taken to conserve forest wealth. In fact, the organization structures that have been set up for the very purpose of providing protection for the forest reserves such as the Van Panchayats, suffer due to lack of funds and thus they cannot function or deliver their functions properly. Regulatory imperatives that induce a state to preserve its forests should be backed up by suitable economic incentives. It is often suggested that as long as ecosystem

services are not included in the market system, governments should incorporate them in their accounting systems so that the service providers have economic rewards for their efforts.

## 2.6 Ecosystem Services

Ecosystem services (ESS) are the condition and processes through which natural ecosystems sustain and fulfil human life. They are created by interaction between biotic and abiotic components of ecosystems. Examples of ecosystem services are soil formation and hydrologic regulation by forests, waste assimilation by wetlands, etc.

The big question is how to measure the efforts of states and people towards the maintenance of ecosystem services flow. The states' initiatives could be assessed in two ways:

a) Efforts made to keep the natural capital and ecosystem services flow in a good health;
b) Benefits that accrue to the nation or its parts because of that.

Uttarakhand stands out among the Indian states with regard to ecosystem services that flow to and are utilized by the people of the country.

1. India's first Protected Area, Corbett National Park was established in Uttarakhand way back in 1936.
2. It has a higher percentage of geographical area under PAs as can be seen in the Table 2.14.

**Table 2.14: Percentage of Protected Areas in certain Himalayan States**

| Sl.No. | State | Percentage of PAs |
|---|---|---|
| **1.** | Sikkim | 15.7% |
| **2.** | Uttarakhand | 14.4% |
| **3.** | Himachal Pradesh | 11.7% |
| **4.** | Manipur | 1.0% |

Source: Government of Uttarakhand

3. The state has devoted 1340.8 km2 of productive low land area to national parks (Corbett and Rajaji National Parks). Here the land, by and large is convertible into productive agriculture. Obviously, the opportunity cost is high, easily in many billions per year. To manage forests Uttarakhand government thus spends more money per unit area than most other states.

Ecosystem Services from the forests of Uttarakhand benefit the people living in downstream areas to a great extent in the following ways:

a) The glaciers of Uttarakhand are a source of the Great Gangetic river system
b) The forests of Uttarakhand play a significant role in the hydrological cycle and soil formation
c) The watershed services that are a result of these forests are the cause of the large sustaining population of this region.
d) The sediments carried out by the rivers have created an extraordinary deep soil base with a huge capacity to hold water.
e) The extremely high wall of forest cover in the mountains is a massive source of water vapors, keeping the Gangetic plains humid throughout the year, which allows for all-year round cultivation.

Owing to all these factors, it is important that country-level accounting should give due consideration to the value of ESS flowing from Uttarakhand so that people continue to give support to the maintenance of its Protected Areas (PAs) even in economically productive areas, and take steps to keep the watersheds healthy.

Uttarakhand being the origin of the Gangetic watershed supports nearly 8% of the global population. The potential value of ESS flowing from Uttarakhand has been estimated at Rs. 137 billion per year. The state also has a heritage value because the Gangetic watershed originates from here.

## 2.7 Minerals and Mining

Mineral resources of Uttarakhand play a significant role in the economy of Uttarakhand. The Chamoli district of Uttarakhand is especially famous for housing a number of mineral resources in Uttarakhand. The northern division of the district consists entirely of medium to high-grade metamorphic rocks, which also contains bands of volcanic rocks in some areas. The southern division contains sedimentary and low-grade metamorphic rocks, with bands of volcanic rocks in some regions. Although much is not known about the geology of the first division of Chamoli, yet the mineral resources contain rocks such as quartzite, marble, and various types of schist and gneiss. The southern division contains rocks such as gneiss, limestone, phyllites, quartzite, sericite-biotite schist and slate. Some of the important minerals that form a major part of the mineral resources of Uttarakhand are: Asbestos, Magnesite, Soapstone or Steatite, Copper, Iron, Graphite, Gold, Gypsum, Lead, Slate, Limestone, Building Stone, Sulfur, and Bitumen. Due to ecological and environmental considerations, Uttarakhand will not be able to fully exploit the minerals.

A new mining policy has been initiated in Uttarakhand. Due to strict environment norms and court orders, the riverbed mining was banned in the forests and other areas in 2010-11. Mining has been banned on the banks of river Ganga. In a bid to control mining on the banks of other rivers such as Alekhnanda and Mandakini, the Uttarakhand government also announced that private parties would not participate in mining and quarrying in these areas. This is a strong step that has been taken by the government to protect the mighty river Ganga that has both ecological and religious importance. However, doing this has put considerable stress on the revenue that was being generated from the mining activity.

**Table 2.15: Gross State Domestic Product at Factor Cost by Mining & Quarrying: 2004-05 to 2012-13 at Constant (2004-05) Prices, Sectoral Share in GSDP and Growth Rate**

| Year | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 |
|---|---|---|---|---|---|---|---|---|---|
| **Mining and Quarrying (Rs. Cr)** | 29894 | 39635 | 37781 | 38423 | 31335 | 26844 | 36273 | 40961 | 41891 |
| **Share of Mining & quarrying in GSDP (%)** | 1.21 | 1.40 | 1.17 | 1.01 | 0.73 | 0.53 | 0.65 | 0.70 | 0.69 |
| **Growth rate of Mining & quarrying (%)** | | 32.59 | -4.68 | 1.70 | -18.45 | -14.33 | 35.13 | 12.92 | 2.27 |

Source: Directorate of Economics and Statistics, Uttarakhand

Table 2.15 shows that while the share of mining and quarrying has been quite low in GSDP of Uttarakhand, the year-on-year growth rate has been better, though highly fluctuating.

## 2.8 Water Resources and Hydroelectricity

Uttarakhand has very rich water resources. It is home to 238 glaciers spread over 735 $km^2$. The total annual rainwater received over the state is estimated to be more than 66,000 million litres spread over 100 days on an area of 53,484 $km^2$. Uttarakhand is also the source of many major rivers (Ganga, Yamuna, *etc.).* Being a state rich in water resource, the opportunity to harness hydropower is immense. At the same time, there are challenges in terms of handling environmental, socio-cultural and economic issues in planning, development and construction of hydroelectric projects in Uttarakhand due to its sensitive ecology. A holistic approach for sustainable development of the entire river valley watershed.

Uttarakhand's own demand and input for electricity provides an interesting scenario. The power sector has been identified as a key driver for development in the State in view of abundant hydropower potential to facilitate the economic growth of the State. The Energy input for the FY 2010-11was at 9249.43 MU, which was 11.71% higher than that of 2009-10 (Table 2.16). Energy consumption for the FY 2011-12 was projected at 9263.61 MU. Energy input for the FY 2012-13 has been taken as per approved by UREC at 10634.25 MU which translates into 3.50% increase over provisional actual for FY 2011-12.

**Table 2.16: Year-wise Energy Consumption**

| **Financial Year** | **2010-11 (Actual)** | **2011-12 (Budgeted)** | **2011-12 (Provisional Actual)** | **2012-13 (Approved by UERC)** |
|---|---|---|---|---|
| **Energy Input (MU)** | 9249.42 | 9263.61 | 10275 | 10634.25 |
| **% Rise/ Fall Over last year** | +11.71% | +0.02% | +10.92% | +3.50% |

Source: Government of Uttarakhand

The installed power capacity has been shown in Table 2.17.

**Table 2.17: Installed Capacity** (at the end of 11th plan i.e. 31.03.2013)

(All figures in MW)

| **Sl. No.** | **SECTOR** | **HYDRO** | **THERMAL** | | | | **NUCLEAR** | **R.E.S. (MNRE)** | **TOTAL** |
|---|---|---|---|---|---|---|---|---|---|
| | | | **COAL** | **GAS** | **DIESEL** | **TOTAL** | | | |
| **1.** | STATE | 1252.15 | 0 | 0 | 0 | 0 | 0 | 142.971 | 1395.12 |
| **2.** | PRIVATE | 400 | 0 | 0 | 0 | 0 | 0 | 108.25 | 508.25 |
| **3.** | CENTRAL | 1800 | 0 | 0 | 0 | 0 | 0 | 0 | 1800.00 |
| **4.** | TOTAL | 3452.15 | 0 | 0 | 0 | 0 | 0 | 251.221 | 3703.37 |
| **5.** | % | 93.22 | 0 | 0 | 0 | 0 | 0 | 6.78 | 100 |

Source: Government of Uttarakhand

Table 2.18 depicts the total power availability at the end of 11th plan i.e. 31.0313 in the State from various sources situated within and outside the State. This includes State's share & royalty from Central Generating Stations and royalty & power purchase from private sector projects within the State:

**Table 2.18: Details of Power Availability from Various Sources**

(All figures in MW)

| Serial No. | SECTOR | HYDRO | THERMAL | | | | NUCLEAR | R.E.S. | TOTAL |
|---|---|---|---|---|---|---|---|---|---|
| | | | COAL | GAS | DIESEL | TOTAL | | (MNRE) | |
| **1.** | STATE | 1134.25 | 0 | 0 | 0 | 0 | 0 | 142.971 | 1277.22 |
| **2.** | PRIVATE | 48 | 0 | 0 | 0 | 0 | 0 | 108.25 | 156.25 |
| **3.** | CENTRAL | 336.03 | 261.26 | 69.35 | 0 | 0 | 22.8 | 0 | 689.44 |
| **4.** | TOTAL | 1518.28 | 261.26 | 69.35 | 0 | 330.61 | 22.8 | 251.221 | 2122.91 |
| **5.** | % | 71.52 | 12.31 | 3.27 | 0 | 15.57 | 1.07 | 11.83 | 100 |

Source: Government of Uttarakhand

Uttarakhand's power requirement varies from about 32MU/day during summer to about 33 MU/day during winter. Its own generation varies from about 21 MU/day during summer to as low as 7 MU/day during winter. Along with the share from Central Sector Projects of the Northern Region, the state records surplus during monsoon season only and about 12MU/day deficits during winter months. However, this surplus is entirely dependent on the vagaries of the South West monsoon.

In terms of shortage of Power in MW, the situation of Uttarakhand is given in Table 2.19.

**Table 2.19: Shortage of Power in Uttarakhand in MW**

| Particulars | Summer Season | Winter Season |
|---|---|---|
| Peak Hours Shortage | 250 | 300 |
| Off-Peak Hours Shortage | 100 | 150 |

Because of its hilly terrain, the growth in electricity demand is not expected to be huge on account of industries or agriculture, as could be expected from the states in plains. Instead of large or energy intensive industries, if forestry based and agro based industries are carefully planned and operated, they can not only be a sustainable source of employment but can also contain the electricity demand within a manageable level.

The Uttarakhand Electricity Regulatory Commission for the financial year 2010-11 had estimated the energy sales to Low Tension Industry category as 211.91 MU. The Uttarakhand Electricity Regulatory Commission for the financial year 2010-11 had estimated the energy sales to High Tension Industry category as 3581.02 MU. The details are shown in Table 2.20

**Table 2.20: Sales Forecast for LT and HT Industry Category for FY11**

| Sub-Category/ Category | Consumers | Connected Load (MW) | Demand (MU) | |
|---|---|---|---|---|
| | | | Estimated by Commission | Revised Estimate by Petitioner |
| **LT Industry** | 8,458 | 1,53,714 | 231.49 | 211.91 |
| **HT Industry** | 1,513 | 11,23,275 | 3,438.76 | 3,581.02 |

Source: Central Electrical Authority

By virtue of its topographic location, the State has a number of perennial streams where water is available throughout the year. Uttarakhand has been working diligently to harness its abundantly available hydropower potential. The power generating utilities in the state are as follows:

- UJVN Limited
- Irrigation Department
- Central Public Sector Undertakings (CPSUs)
- Uttarakhand Renewable Energy Development Agency (UREDA)
- Independent Power Producers (IPPs)

The details of hydropower potential in Uttarakhand are given in the Table 2.21.

**Table 2.21: Details of Hydro Power Potential in Uttarakhand**

| Project Particulars (MW) | UJVNL | CPSUs | IPPs | UREDA | ID | UIPC | PDA | State Identified | Self-Identified | Total (MW) |
|---|---|---|---|---|---|---|---|---|---|---|
| Under Operation | 1310.25 | 1800.00 | 508.25 | 4.29 | - | - | - | - | - | 3622.79 |
| Under Construction | 168.50 | 1520.00 | 551.40 | 2.32 | - | - | - | - | - | 2242.22 |
| DPR Approved, Clearances Obtained/Under Process | 832.50 | 2832.00 | 670.30 | - | - | 42.15 | | | | 4376.95 |
| Projects for which DPR Prepared | 1475.00 | 179.00 | 296.00 | - | 178.50 | 19.00 | 6620.00 | | | 8767.50 |
| Under S&I Stage | 984.80 | 1949.00 | 540.00 | - | - | 2042.95 | | 12.80 | 2500.00 | 8029.55 |
| **Total** | **4771.05** | **8280.00** | **2565.95** | **6.61** | **178.50** | **2104.10** | **6620.00** | **12.80** | **2500.00** | **27039.01** |

Source: Central Electrical Authority

Apart from the above, UJVNL and private developers are in the process of development of Gas based power plant of total capacity of about 1600 MW.

There has been a declaration of the Eco-sensitive zone, over a stretch of about 100 km of River Bhagirathi from Gomukh to Uttarkashi covering an area of 4179.59 sq. km. Due to this, 16 projects worth 1743 MW will not be available to the State. The approximate generation loss, revenue loos and royalty loss accruing to the state is enumerated in Table 2.22.

**Table 2.22: Eco-sensitive zone- Annual Loss of Generation/ Revenue to the States, CPSUs and IPPs**

| S. No. | Name of project | Capacity (MW) | Generation Loss (MU) | Revenue Loss due to generation (` crores) | Royalty Loss @ 13% from IPPs (` crores) | Royalty Loss @ 13% from CPSUs (` crores) | Total Revenue Loss |
|---|---|---|---|---|---|---|---|
| **1.** | State | 905 | 3619 | 1809.5 | 15.6 | 214.69 | 2039.79 |
| **2.** | CPSUs | 790 | 3303 | 1436.805 | - | - | 1436.81 |
| **3.** | IPPs | 48 | 240 | 104.4 | - | - | 104.40 |
| # | Grand Total | 1743 | 7162 | 3350.705 | 15.6 | 214.69 | 3581 |

Also, under the chairmanship of Mr. B.K. Chaturvedi, a committee has been constituted by NGRBA to look into various issues related to development of hydropower projects on river Ganga including review of ecological flow releases from existing projects. In case the releases are further increased, the state may face enhanced deficit of power, which may worsen the power situation particularly in the lean season. The Committee has recommended 17 projects of capacity 2633.83 MW on river Ganga for review based on the studies of IIT Roorkee and WII Dehradun. The review study will have an impact on 1398.8 MW UJVNLs, 1211 MW on CPSUs and 24 MW on IPPs projects which will definitely delay the development of the projects and thereof revenue loss to the state. The committee has also recommended that only 69 existing projects should be allowed to develop on river Ganga as per the study. Due to this, projects of capacity 3423 MW cannot be developed in different river valleys. Addition to the above 2633.83 MW capacity projects will worsen the position of State by cumulative hydro potential loss of 6057 MW to the State of Uttarakhand.

The untapped potential that could be harnessed before 2020 through Micro / Mini / Small Hydro projects is about 600 MW. The State Government is committed to exploiting this potential. Keeping all this in view, that the state will not need the large number of additional power projects (150 projects as per one estimate) proposed to meet its own legitimate demand for electricity during next 10-15 years. The question of harnessing the vast hydro-electricity potential of the state largely for export should be considered objectively, and a sustainable development model has to be arrived at for the overall interest of the state. While it may appear that there is huge potential for exploiting its natural resources for net revenue earning, there are also credible risks of upsetting the delicate and complex equation of ecological sub-systems of the nature.

## 2.9 Summary

Constituted in 2000 as the 29$^{th}$ State of the India, Uttarakhand is a young special category State characterized by a number of distinguishing features. The main features that need to be highlighted are indicated below:

1. Uttarakhand has a large forest area that serves as a carbon sink for the rest of the country and serves as a natural barrier to provide rainfall to the neighbouring regions.

2. Uttarakhand caters to an all-India influx of religious pilgrims that puts tremendous economic pressure on its civic services.

3. Mountainous terrain and a low density of population have implied a high per capita cost of provision of services and maintenance of infrastructure.

4. Employable youth and available savings both migrate out of the state, thereby contributing to the economic growth of other states.

5. Uttarakhand provides educational facilities, particularly technical education, to youth of other states who eventually find employment in the rest of the country and contribute to economic growth.

Both industry and the service sector have grown at a fast rate and the state is now much more industrialized and service-sector oriented that when it became a state. However, there is now a discontinuity in the growth process because of withdrawal of the special concessions, the prevailing macro-economic situation in the country, and because of the major calamity that the State had to face in 2013-14.

The spectacular manufacturing growth of recent years can be linked to the special area incentive scheme in the central excise provisions. This has now been withdrawn. The growth in the trade etc. sector has come down in most states. Thus the key drivers of growth in Uttarakhand have dried up and we expect to see moderate growth performance in the near future. With the disruption of economic activities caused by the recent floods and the consequent drying up of the flow of tourists, there would be a discontinuity in the growth performance in 2013-14 and subsequent years. Historical growth performance should not therefore be taken as a guide to future growth to which revenue prospects would also be linked.

Uttarakhand maintains a large forest cover, which has beneficial environmental externalities for the rest of the country. Given the large externalities and services that are provided to citizens of the rest of the country, adequate compensation in the form of fiscal transfers need to be given to Uttarakhand. This calls for a comprehensive evaluation of the value of the ecosystem services provided by Uttarakhand.

There are special circumstances affecting costs of providing services in Uttarakhand. The total dependency ratio is estimated to be 78 percent if population in age group of 15-60 years is taken to the working age population. A clear implication of the higher dependency ratio is higher expenditure requirement by the state government on both education and health. Similarly, the lower population density in Uttarakhand implies higher per person cost in the provision of services provided by the government particularly those relating to administration, judiciary, education and health.

# Chapter 3

# Fiscal Profile of Uttarakhand

## 3.1 Management of Fiscal Imbalances

Management of fiscal imbalances within the stipulated parameters is not only a requirement of the Fiscal Responsibility and Budget Management Acts of State Governments as also of the Central Government, but it is also indicative of the quality of the overall fiscal management of a government. A well-managed profile of fiscal balance at the state level should be consistent with sustainable growth. The main indicators of fiscal imbalance are (a) revenue deficit, (b) fiscal deficit, and (c) primary deficit. Further, the ratio of revenue to fiscal deficit indicates the extent to which borrowing has been used to finance current or non-asset forming expenditures. Table 3.1 and Chart 3.1 indicate the profile of fiscal imbalances in Uttarakhand relative to GSDP at current prices.

**Table 3.1: Major Fiscal Indicators of Uttarakhand**

| Year | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 |
|---|---|---|---|---|---|---|---|---|---|
| **Percent to GSDP at current Prices** | | | | | | | | | |
| Revenue Deficit/ GSDP | 3.83 | 0.25 | -2.44 | -1.39 | -0.43 | 1.66 | 0.02 | -0.77 | -1.63 |
| Fiscal Deficit/ GSDP | 8.76 | 6.27 | 2.41 | 3.8 | 3.29 | 3.93 | 2.22 | 1.46 | 1.66 |
| Primary Deficit/ GSDP Ratio | 5.47 | 3.57 | -0.21 | 1.41 | 1.17 | 2.04 | 0.44 | 0.44 | 0.31 |

Source: Budget Documents, Government of Uttarakhand

***Note: '-'denotes surplus***

Fiscal deficit is the excess of government's total expenditure over total revenues that requires to be financed by borrowing. In 2004-05, fiscal deficit in Uttarakhand as a percentage of GSDP was quite high at 8.8%. Fiscal deficit as a percentage of GSDP continuously fell for the next 2 years and in 2006-07, it was contained within 3% of GSDP. There was some slippage in 2007-08 and 2009-10 but it was again brought within the 3% limit in 2010-11, 2011-12 and 2012-13.

Revenue deficit of Uttarakhand was 3.8% of GSDP in 2004-05. Surplus was achieved by 2006-07 and was sustained until 2008-09. Except for 2009-10 and marginally for 2010-11, the surplus has been maintained in the remaining years.

Primary deficit, that is, fiscal deficit excluding interest payments, was as high as 5.5% of GSDP in 2004-05. In 2006-07 a surplus was achieved on the primary account. It again peaked in 2009-10 crossing the level of 2 percent of GSDP but was successfully reduced to less than 0.5 percent of GSDP thereafter.

The ratio of revenue to fiscal deficit shows that nearly 44% of borrowing was used to meet current expenditure in 2004-05. For the next three fiscal years (2006-09), revenue surplus allowed more fiscal space for the state to enhance its capital spending. In FY 2009-10, the state again had to rely on borrowing to the extent of 42% to meet its current expenditure. This could be attributed to the general slowdown in the economy and arrear payment of $6^{th}$ pay commission. Since 2010-11, surplus in revenue account has allowed the state to improve its spending on capital assets. Overall, the quality of deficit in the state of Uttarakhand has been improving.

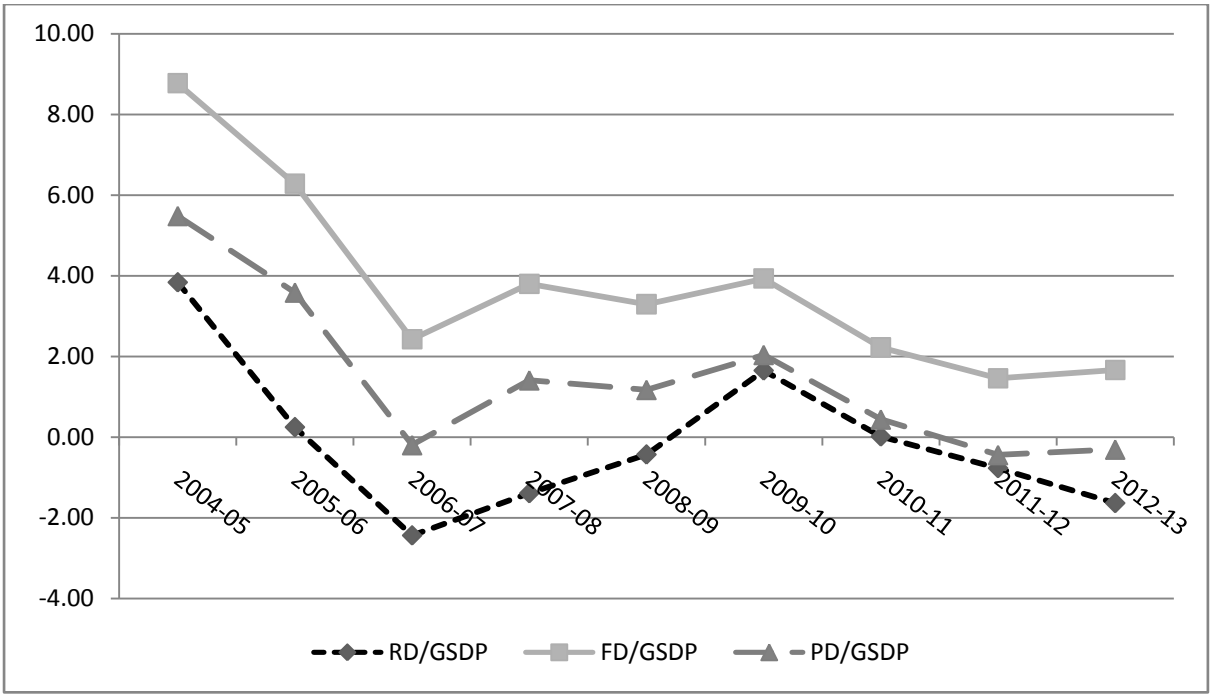


**Chart 3.1: Profile of Fiscal Imbalance: 2004-05 to 2012-13**
Notes: RD, FD and PD refer to revenue, fiscal and primary deficits, respectively.

Chart 3.1 highlights the improvement in the profile of fiscal imbalances of Uttarakhand. Thus, fiscal imbalances in Uttarakhand have been managed broadly within the stipulated parameters of the FRBMA. Alongside, a healthy GSDP growth was also witnessed as brought out in Chapter 2.

## 3.2 Trends in Revenue Receipts

Fiscal imbalance is the outcomes of the balance between revenue receipts and expenditures. We look first at the trends in revenue receipts, in terms of its tax and non-tax components. The composition of revenue receipts can be considered in two ways.

Revenue receipts=Tax revenues +Non-tax revenues
Where
Tax revenues= Own tax revenues +share in central taxes
Non-tax revenues=Own non-tax revenues +grants
In this case, the emphasis is on the relative shares of tax revenues and non-tax revenues, whether from own sources or in the form of transfers.

This can be reorganized in terms of own revenues and transfers from the centre.

Thus,

Revenue receipts= Own revenues+ Transfers from the centre
Where
Own revenues= Own tax revenues +Own non-tax revenues
Transfers from the centre=Share in central taxes + Grants
Grants= Statutory Grants+ Plan Grants+ Other grants

In this case, the emphasis is to distinguish between own sources of revenues and revenues based on transfers received from the centre.

### a. Trends in Tax Revenues

Table 3.2 indicates that own tax revenues contributed in the range of 34.7 to 41.0 percent of the total revenue receipts. Own non-tax revenues have contributed only about 6.4 to 8.8 percent of the total revenue receipts. The relative contribution of grants, which has been in the range of 30 to 39 percent, exceeds the contribution of share in central taxes.

**Table 3.2: Composition of Revenue Receipts**

| Revenue head | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 BE |
|---|---|---|---|---|---|---|---|
| **As % of total revenue receipts** | | | | | | | |
| Own tax revenues | 34.7 | 35.3 | 37.5 | 38.0 | 41.0 | 40.7 | 37.5 |
| Share in central taxes | 18.1 | 17.4 | 16.3 | 21.2 | 20.9 | 20.8 | 20.6 |
| Own non-tax revenues | 8.5 | 8.1 | 6.7 | 5.8 | 8.3 | 10.2 | 6.4 |
| Grants | 38.7 | 39.2 | 39.5 | 35.0 | 29.8 | 28.3 | 35.5 |
| Total revenue receipts | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| **As % of GSDP* at current prices** | | | | | | | |
| Own tax revenues | 5.97 | 5.43 | 5.03 | 5.31 | 6.03 | 5.96 | 5.87 |
| Share in central taxes | 3.11 | 2.69 | 2.19 | 2.97 | 3.08 | 3.04 | 3.22 |
| Own non-tax revenues | 1.46 | 1.25 | 0.89 | 0.82 | 1.22 | 1.49 | 1.00 |
| Grants | 6.66 | 6.04 | 5.29 | 4.90 | 4.37 | 4.14 | 5.56 |
| Total revenue receipts | 17.21 | 15.41 | 13.41 | 14.00 | 14.70 | 14.64 | 15.65 |

Source: Budget Documents, Government of Uttarakhand
* GSDP for 2013-14 is projected

As percentage of GSDP, the total revenue receipts have fallen from the 2007-08 level of 17.2 percent. It was lowest in 2009-10 at 13.4 percent. It has since recovered and expected to reach a level of 16 percent in 2013-14 BE.

The dependence of Uttarakhand on central transfers is further highlighted in Table 3.3. The relative share of own revenue receipts in total receipts has been stable around 44 percent while the transfers from the centre to the state considering both the share in central taxes and grants has been about 56 percent. In this case, the dependence on plan grants has been very high while the share of non-plan grants has fallen over time.

**Table 3.3: Composition of Revenue Receipts: Relative Dependence on Central Transfers**

| Revenue head | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 BE |
|---|---|---|---|---|---|---|---|
| As % of total revenue receipts | | | | | | | |
| Own Revenues | 43.18 | 43.36 | 44.18 | 43.79 | 49.31 | 50.91 | 43.93 |
| Transfers from the centre *of which* | 56.82 | 56.64 | 55.82 | 56.21 | 50.69 | 49.09 | 56.07 |
| Non-plan grants | 16.92 | 14.70 | 12.47 | 12.36 | 5.57 | 4.88 | 3.30 |
| Plan grants | 21.81 | 24.49 | 27.01 | 22.65 | 24.19 | 32.14 | 32.22 |
| As % of GSDP* at current prices | | | | | | | |
| Own Revenues | 7.43 | 6.68 | 5.93 | 6.13 | 7.25 | 7.45 | 6.88 |
| Transfers from the centre *of which* | 9.78 | 8.73 | 7.49 | 7.87 | 7.45 | 7.19 | 8.78 |
| Non-plan grants | 2.91 | 2.27 | 1.67 | 1.73 | 0.82 | 0.78 | 0.50 |
| Plan grants | 3.75 | 3.77 | 3.62 | 3.17 | 3.55 | 5.14 | 4.90 |

Source: Budget Documents, Government of Uttarakhand
* GSDP for 2013-14 is projected

### b. Trends in Non-tax Revenues

Table 3.4 highlights the relative importance of grants in the composition of non-tax revenues and the fact that grants as a percentage of GSDP have been coming down from a peak of 8.4 percent in 2006-07 to 4.14 percent by 2012-13.

**Table 3.4 Non-tax Revenues Relative to GSDP**

(Percent to GSDP)

| Year | Non Tax Revenue | State's Own Non-Tax Revenue | Grants |
|---|---|---|---|
| 2004-05 | 8.56 | 2.21 | 6.35 |
| 2005-06 | 9.15 | 2.17 | 6.98 |
| 2006-07 | 10.13 | 1.76 | 8.37 |
| 2007-08 | 8.12 | 1.46 | 6.66 |
| 2008-09 | 7.29 | 1.25 | 6.04 |
| 2009-10 | 6.19 | 0.89 | 5.29 |
| 2010-11 | 5.72 | 0.82 | 4.90 |
| 2011-12 | 5.59 | 1.22 | 4.37 |
| 2012-13 | 5.63 | 1.49 | 4.14 |

Source (Basic Data): Budget Documents, Government of Uttarakhand

Table 3.5 gives the composition of own non-tax revenues. In terms of relative importance, the main contributors of Uttarakhand non-tax revenues have been general services and economic services. The share of general services has gone up and that of economic services has gone down over time.

**Table 3.5: Composition of Own Non-tax Revenues**

(` Crore)

| Head | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 RE |
|---|---|---|---|---|---|---|
| Total Own non-tax revenues *of which* | 668.38 | 699.14 | 632.36 | 677.90 | 1136.04 | 1602.59 |
| Interest Receipts | 42.09 | 68.49 | 53.71 | 53.76 | 50.62 | 114.76 |
| General Services | 107.96 | 101.04 | 106.38 | 164.25 | 590.2 | 846.26 |
| Social Services | 49.75 | 58.1103 | 72.69 | 97.28 | 75.44 | 93.16 |
| Economic Services | 468.58 | 471.50 | 399.57 | 362.61 | 419.78 | 548.42 |
| Share in Total (%) | | | | | | |
| Interest Receipts | 6.30 | 9.80 | 8.49 | 7.93 | 4.46 | 7.16 |
| General Services | 16.15 | 14.45 | 16.82 | 24.23 | 51.95 | 52.81 |
| Social Services | 7.44 | 8.31 | 11.50 | 14.35 | 6.64 | 5.81 |
| Economic Services | 70.11 | 67.44 | 63.19 | 53.49 | 36.95 | 34.22 |
| Total | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |

Source: Budget Documents, Government of Uttarakhand

## 3.3 Trends in Expenditure

Expenditure is classified as revenue or capital expenditure. Table3.6 gives the revenue and capital expenditure levels in the state of Uttarakhand and their share in total expenditure.

**Table 3.6: Revenue and Capital Expenditure in Uttarakhand**

(`Crore)

| Head | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 |
|---|---|---|---|---|---|---|
| Revenue expenditure | 7253.63 | 8393.41 | 10653.49 | 11620.86 | 12975.02 | 13988.84 |
| Capital expenditure | 3231.99 | 3169.86 | 3049.45 | 3094.80 | 4487.85 | 6194.17 |
| Total expenditure | 10485.62 | 11563.27 | 13702.94 | 14715.66 | 17462.87 | 20183.01 |
| Share in total expenditure (%) | | | | | | |
| Revenue expenditure | 69.18 | 72.59 | 77.75 | 78.97 | 74.30 | 69.31 |
| Capital expenditure | 30.82 | 27.41 | 22.25 | 21.03 | 25.70 | 30.69 |
| As % of GSDP | | | | | | |
| Revenue expenditure | 15.82 | 14.98 | 15.07 | 14.01 | 13.93 | 13.01 |
| Capital expenditure | 7.05 | 5.66 | 4.31 | 3.73 | 4.82 | 5.76 |

Source: Budget Documents, Government of Uttarakhand

The share of revenue expenditure has accounted for nearly three-fourth of the total expenditure in two of the six years in the period since 2007-08. In three years, it has been in range of 73-79 percent. As percentage of GSDP however, the revenue expenditure has fallen over time from 15.8 percent in 2007-08 to 13.01 percent in 2012-13. At its lowest, the capital expenditure as percentage of GSDP was about 3.73 percent in 2010-11. It has increased since then and was estimated at 5.76 percent of GSDP in 2012-13.

Table 3.7 indicates that the share of social services expenditure has increased over time while that of economic services has gone down. In terms of plan and non-plan expenditures on general services (other than interest payments and pensions), and social and economic services, the share of plan expenditure has gone down while that of non-plan expenditure has increased.

**Table 3.7: Composition of Expenditure**

(Per cent to Total Expenditure)

| Expenditure Head | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 |
|---|---|---|---|---|---|---|
| General Services *of which* | 25.8 | 26.61 | 26.11 | 27.47 | 24.66 | 25.93 |
| i. Interest Payments | 10.45 | 10.27 | 9.76 | 10.05 | 10.13 | 10.49 |
| ii. Pension and Other Retirement Benefits | 5.94 | 7.16 | 7.64 | 7.76 | 6.50 | 6.77 |
| iii. Gen. Serv. other than Interest & Pension | 9.40 | 9.17 | 8.71 | 9.65 | 8.03 | 8.66 |
| a. Plan | 1.51 | 1.14 | 0.73 | 0.77 | 0.42 | 0.63 |
| b. Non-Plan | 7.89 | 8.03 | 7.98 | 8.88 | 7.61 | 8.03 |
| Social Services | 32.40 | 33.50 | 38.77 | 38.38 | 37.99 | 35.22 |
| a. Plan | 15.03 | 14.86 | 13.18 | 13.32 | 11.57 | 13.17 |
| b. Non-Plan | 17.37 | 18.64 | 25.59 | 25.06 | 26.42 | 22.05 |
| Economic Services | 29.34 | 27.54 | 22.52 | 22.96 | 22.75 | 23.25 |
| a. Plan | 21.50 | 19.25 | 10.09 | 15.35 | 13.16 | 12.94 |
| b. Non-Plan | 7.84 | 8.29 | 12.43 | 7.61 | 9.59 | 10.31 |
| Grant-in-Aid to Local Bodies | 2.95 | 2.38 | 2.37 | 2.77 | 2.17 | 2.46 |
| Capital Expenditure *of which* | 30.82 | 27.41 | 22.25 | 21.03 | 25.70 | 30.69 |
| i. Capital Outlay | 21.31 | 17.44 | 12.01 | 12.60 | 13.27 | 17.55 |
| ii. Loans & Advances (gross) | 2.03 | 1.05 | 0.22 | 0.41 | 1.41 | 1.84 |
| Plan revenue expenditure | 17.49 | 18.80 | 16.77 | 16.80 | 13.29 | 12.02 |
| Non-plan revenue expenditure | 51.69 | 53.78 | 60.98 | 62.17 | 61.01 | 57.29 |
| Total expenditure | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: Budget Documents, Government of Uttarakhand

In terms of capital expenditure, the share of capital outlay has gone down from 21.31 percent in 2007-08 to 13.27 percent in 2011-12. It increased to 17.55 percent in 2012-13.

**Table 3.8: Capital Expenditure of Uttarakhand**

(` Crore)

| Year | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Plan | 1209.33 | 1777.21 | 1720.22 | 2352.25 | 2018.52 | 1023.87 | 1894.74 | 2304.01 | 3337.64 | 17637.79 |
| Non Plan | 975.41 | 533.77 | 1000.44 | 879.73 | 1151.34 | 2025.58 | 1200.06 | 2183.84 | 2856.53 | 12806.7 |
| Total Capital Expenditure | 2184.74 | 2310.98 | 2720.66 | 3231.99 | 3169.86 | 3049.45 | 3094.80 | 4487.85 | 6194.17 | 30444.50 |
| Plan (%) | 55.35 | 76.90 | 63.23 | 72.78 | 63.68 | 33.58 | 61.22 | 51.34 | 53.88 | 57.93 |
| Non Plan (%) | 44.65 | 23.10 | 36.77 | 27.22 | 36.32 | 66.42 | 38.78 | 48.66 | 46.12 | 42.07 |
| Total Capital Expenditure (%) | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

Source: Budget Documents, Government of Uttarakhand

While the absolute trends of both plan and non-plan capital expenditure in the state of Uttarakhand shows an increasing trend over the period, the same is not true of their share in total capital expenditure.

While on the one hand, the absolute share of plan capital expenditure is greater than non-plan capital expenditure, the trend over the years for plan capital expenditure shows a falling pattern. Aided by an increase in the years 2008-09 and 2009-10, non-plan capital expenditure has been slowly increasing.

## 3.4 Trends in Debt and Deficit

Table 3.9 gives the outstanding liabilities of Uttarakhand as percentage of GSDP. There has been a steady decline in the debt GSDP ratio.

**Table 3.9: Outstanding Liabilities of Uttarakhand relative to GSDP**

(` Crores)

| Year | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 |
|---|---|---|---|---|---|---|---|---|---|
| Total Outstanding liabilities | 9377.6 | 11037.0 | 12145.6 | 13037.5 | 14443.4 | 17029.5 | 19807.0 | 21720.3 | 25028.1 |
| GSDP | 24785.7 | 29967.5 | 36795.4 | 45855.6 | 56024.8 | 70736.3 | 82918.0 | 93161.7 | 107548.3 |
| Debt/GSDP | 37.8 | 36.8 | 33.0 | 28.4 | 25.8 | 24.1 | 23.9 | 23.3 | 23.3 |
| Fiscal Deficit/GSDP | 8.8 | 6.3 | 2.4 | 3.8 | 3.3 | 3.9 | 2.2 | 1.46 | 1.66 |

Source: Budget Documents, Government of Uttarakhand

The fiscal consolidation path recommended by the Thirteenth FC states that the States should reduce their augmented share of debt to GSDP to less than 25% by 2014-15. The state of Uttarakhand has shown considerable fiscal discipline overall and their debt to GSDP ratio has been continually falling and it has been brought to a level of 23.3 percent by 2011-12.

## 3.5 Summary

In 2004-05, fiscal deficit in Uttarakhand as a percentage of GSDP was quite high at 8.8%. Fiscal deficit as a percentage of GSDP continuously fell for the next 2 years and in 2006-07, it was contained within 3% of GSDP. There was some slippage in 2007-08 and 2009-10 but it was again brought within 3% in 2010-11, 2011-12and 2012-13.

Revenue deficit of Uttarakhand was 3.8% of GSDP in 2004-05. Surplus was achieved by 2006-07 and was sustained until 2008-09. Except for 2009-10 and marginally for 2010-11, the surplus has been maintained in the remaining years.

Own tax revenues have contributed in the range of 34.7 to 41.0 percent of the total revenue receipts. Own non-tax revenues have contributed only about 6.4 to 8.8 percent of the total revenue receipts. The relative contribution of grants, which has been in the range of 30 to 39 percent, exceeds the contribution of share in central taxes.

The dependence of Uttarakhand on central transfers is quite high. The relative share of own revenue receipts in total receipts has been stable around 44 percent while the transfers from the centre to the state considering both the share in central taxes and grants has been about 56 percent. Grants as a percentage of GSDP have been coming down from a peak of 8.4 percent in 2006-07 to 5.2 percent by 2012-13.

As percentage of GSDP, revenue expenditures have fallen over time from 15.8 percent in 2007-08 to 14.9 percent in 2012-13. At its lowest, the capital expenditure as percentage of GSDP was about 2.3 percent in 2010-11. It has increased since then and has reached the level of 5.76 percent of GSDP in 2012-13.

# Chapter 4

# Forecasts

The Fourteenth Finance Commission requires the state governments to provide detailed assessment of their revenues and expenditures for the period spanning 2014-15 to 2019-20. A realistic estimate of the revenue receipts and expenditures is critical for working out the grants-in-aid to be provided to the states. The two components of the assessment of revenue resources and expenditures needs for the future relate to the base year and the future values. The base year for the 14th Finance Commission is 2012-13, for which actual figures of state government finances are available.

## 4.1 Issues and Approach: Base Year

Fiscal data for Uttarakhand on an actual basis are available for 2001-02 to 2012-13. However the C&AG accounts do not show the expenditure on salary and non salary separately. Budget estimates for 2013-14 are also available. Main considerations that need to be taken into account are (a) discontinuities faced by Uttarakhand in the form of disruptions in economic activities in 2013-14, (b) economy-wide slowdown affecting transfers from the centre to the State government, and (c) fall in revenues of Uttarakhand that are dependent on economic activities of other States like the central sales tax. These considerations affect both the projections of 2013-14 and the medium term prospects.

Although the past time series data are useful for forecasting, it is not entirely possible to predict the future on the basis of historical trends in the presence of discontinuities and policy changes that may have an effect on the economic relationships. An eclectic approach has, therefore, been followed for revenue and expenditure projections. Revenue has two components: tax and non tax.

## 4.2 Impact of Natural Calamity during June 2013 on Forecasts

Uttarakhand witnessed a natural calamity of catastrophic proportions on $16^{th}/17^{th}$ June 2013 when very heavy rains close to being called a cloudburst lashed the upper Himalayas in a vast area extending from Himachal Pradesh in the east to Nepal in the west. This resulted in heavy flash floods and massive land slide along the rivers cutting off the higher regions of the state. A very large number of pilgrims were also killed mainly in the Kedarnath valley and at a few other places. The Chardhaam Yatra to the holy shrines of Badrinath, Kedarnath, Yamunotari and Gangotri came to a grinding halt. Due to adverse publicity of the natural calamity, the tourist flow to even the tourist places in the plains or adjacent to the plains like Mussoorie, Haridwar, Rishikesh and Nainital came to almost zero. This has serious implications for the state economy as a large portion of state revenue comes from the tourism sector. This has the potential of adversely affecting revenue realisation from VAT, excise duty, vehicle tax and hotel tax etc immediately as well as in the medium term. A large section of the population depending on the tourism sector has been rendered jobless. It is going to take at least two to three years for economic activities to become normal.

## 4.3 Revenue Base: Gross State Domestic Product

Although the real average GSDP growth during 2005-06 to 2009-10 had been an impressive 15.36%, the growth rate has slowed down to 9.94% in 2010-11, 5.28% in 2011-12 (QE) and to 6.87% in 2012-13 (AE). The forecast of the real growth rate at 2004-05 prices for the period from 2013-14 to 2019-20 is in the range of 7.63% to 7.97%. We have assumed a uniform growth rate of 12.6% at current prices, which was the growth rate projected by the 13th FC from 2011-12 to 2014-15 over the forecast period. In the initial years after the creation of the state, the growth rate was high as it was on a very low base and the industrial package also helped in the establishment of new industries. The Indian economy as a whole was also buoyant during these years. With the end of the incentives to new industries and the slowdown in the Indian economy, the GSDP growth is estimated to be much lower now. In addition, because of the natural calamity this year, a further slowdown in the growth rate is expected. However for the forecast period, we have retained the original estimate of GSDP at constant prices provided by the Department of Economics and Statistics, Government of Uttarakhand before the occurrence of the natural calamity so as to provide a medium term perspective.

The expenditure forecasts take into account the state-specific features and expenditure requirements of the state. Expenditures are reprioritized by curtailing unproductive/unnecessary expenditure and boosting the expenditures on health, education and infrastructure. The impact of the 7th pay commission has been incorporated separately in Statement No. 3. The specific assumptions underlying the base year estimates and projections are detailed in the following sections.

**Forecast Assumptions**

**A. Tax Revenues**

1. Tax on agricultural income (0022): This tax is not levied in Uttarakhand.
2. Tax on Hotels etc. (0023): Although budget estimates assumed a healthy growth rate of 24.4%, following the natural calamity, a decrease of 50% in 2013-14 is considered realistic. After that, a 10% growth in 2014-15 and 15% growth after that has been incorporated.
3. Land Revenue (0029): This source is highly volatile and contributes a very small share in revenue. It has been kept constant at the 2012-13 level during the forecast period.
4. Stamp Duty and Registration Fees (0030): The CAGR for the last 5 years shows a growth rate of only 6.21 %. In line with JNNURM conditionalities, the stamp duty rate was brought down from 12% to 5% and the additional stamp duty was abolished. Now the revenues from the Stamp Duty and Registration fees have stabilized. We have assumed a growth rate 7% during the forecast period.
5. Tax on Immovable Property other than Agricultural Land: This is not levied in Uttarakhand.
6. State Excise Duties (0039): The CAGR for this source of revenue is 20.4 % but the rate of excise duties has been reduced in the state with a view to checking smuggling from other states. Following the natural calamity and expected reduction in tourist arrivals, the collection in 2013-14 is expected to 25% lower than the budget estimates, a 10 % growth in the forecast period is considered realistic.
7. Taxes on Sales and Trade (0040): Sales Tax and Central Sales Tax: After the introduction of VAT, revenue from VAT showed a CAGR of 21.4%. After reaching a peak, the growth rate declined to 17.5% during 2012-13. With the adverse impact of the natural calamity on consumption of petroleum products, liquor and food items, the

collection in 2013-14 is expected to be 25% lower than the budget estimates. For the forecast period, we have assumed a growth rate of 10%.

8. Taxes on Vehicles (0041): Although the CAGR is 14.4 percent, it reflects a onetime increase in 2011-12 of `80 crore in a total revenue of ` 334.69 crore on account of book transfer of arrears of passenger tax of several years due from SRTC. A fall of at least 25% is expected in 2013-14 on account of the calamity related down turn. After that we have assumed a growth rate of 10% in the forecast period.
9. Taxes and Duties on Electricity (0043): The electricity duty is collected by the Uttarakhand Power Corporation and deposited in the government treasury. Since the Power Corporation is running into heavy cash losses, it is unable to deposit the duty collected. In 2011-12, Government of Uttarakhand had to provide ` 227 crore to the corporation and this was deposited by the Corporation by way of book transfer into the government account as arrears of electricity duty. A receipt of `80 crore per year has been assumed as electricity duty during the forecast period, although any actual receipt from the UPCL is unlikely.
10. Other Taxes and Duties (0045): This includes entertainment tax, betting tax etc. This is projected to grow at 10% during the forecast period.

**B. Non-Tax Revenues**

1. Fiscal Services (0047): 10% growth; there is no noticeable growth pattern historically.
2. Interest Receipts (0049): As the PSUs are loss making, no interest receipts is expected from them. Only the power utilities pay interest on the GOI loans through the State government. An amount of `50 crore per year has been taken for this source during the forecast period.
3. Dividend and Profits: There are only a few PSUs in Uttarakhand and revenues from this head are meagre. No revenue is assumed for the forecast period.
4. General Services: A 10 % growth is assumed for revenues coming from Public Service Commission, Police, and Jails. There is no revenue from Supplies and Disposals. Revenue from Stationary and Printing has been kept at 2012-13 levels. Revenue from Public Works has been grown at 5% given the CAGR of 5.4%.

With respect to recoveries towards Pension and Retirement Benefits (0071), the state received a sum of ` 500 crore in 2011-12, ` 1045.98 crore in 2011-12 and ` 350.79 crore in 2013-14 from Uttar Pradesh as the share of its pensioners retired before 9$^{th}$ of November 2000 for the period 2000 to 2009. The matter of further sharing of pensions of old pensioners is now disputed regarding the applicability of a cut-off date. Even then an amount of ` 200 crore per year for the forecast period has been assumed as receipts from Uttar Pradesh for its share of pension payments to the employees of undivided UP.

General Miscellaneous Services: There are no receipts under State Lotteries and Guarantee Fees. A 5% growth rate is applied to 2012-13 actual figures with respect to receipts from sale of land and property.

Social Services: A 5% growth rate on 2012-13 actuals is applied.

Economic Services: In most cases, a growth rate of 10% on 2012-13 actuals is applied. This includes crop husbandry, animal husbandry, dairy development, fisheries, cooperation, other agricultural programmes, other rural development, irrigation, non-conventional sources of energy, industries, metallurgical industries civil aviation, roads and bridges, road transport, tourism, civil supplies and general economic services.

In the case of forestry and wildlife, given that the CAGR was only 2.58 percent, this is the growth rate used also for the forecast period.

Under the heads of plantation, food, storage and warehousing, agricultural research and education, and land reforms, hill areas, north eastern areas program, other special area program, other industries, ports and lighthouses and shipping, inland water transport, other transport services and other scientific research, and export trade promotion there are no receipts.

In the case of power, the situation is changing fast. Although Uttarakhand has significant hydro power potential and can get a 12% royalty in the form of free power, any actual development of the power potential is at a standstill due to environmental and rehabilitation issues. The scope of generating any revenue through sale of surplus power has also dried up with the growth of domestic demand. Now Uttarakhand is constrained to import power. Under the power development fund, the state could garner some revenue through a cess on old power projects. However, with the incremental maintenance costs of these old projects, there is hardly any net revenue from the cess. In the aftermath of the natural calamity, construction of any new power projects is likely to be delayed considerably. No revenue from this source is therefore being assumed for the forecast period.

## 4.4 Expenditure Forecasts: Assumptions

Revenue expenditure is divided into general, social and economic services. The two main items under general services are interest payments and pension payments. The forecast procedures for individual items are given below.

Interest payments: Debt stock is grown by new loans. Interest payment is estimated instrument by instrument by applying the relevant interest rate.

Sinking Fund: 10% growth rate has been applied.

Police: About 18% posts are vacant. These are proposed to be filled up in three years in the ratio of 40:40:20. Expenditure on salary has been accordingly estimated.

Pension Payments: Pensioners of undivided UP, numbering around 42000 are now receiving pensions from Government of Uttarakhand. This matter has been referred to the central government. A growth rate of 10% has been applied on the BE of 2013-14 for the forecast period.

Social Services and Economic Services: 10 percent annual growth under salary expenditure and 12.5 under non-salary expenditure has been applied. Vacancies are to be filled up in 3 years in the ratio of 40:40:20 and additional salary expenditure has been accordingly provided.

Plan Expenditure

For the wage component of all services, general, social and economic, a 10 % annual growth has been applied and the non-wage component has been grown at 12.5% for the forecast period.

Expenditure under CSS/CPS: Plan expenditure under CSS/CPS for general, social and economic services has been grown at 12.5% per year for the forecast period. In regard to plan capital outlay assumptions, details are given in Table 4.1.

**Table 4.1: Capital Expenditure: Plan Capital Outlay Assumptions**

| Item/Head | Growth Rate Per Year |
|---|---|
| Police | 15% on 2013-14 BE up to 2019-20 |
| Public Works | 20% on 2013-14 BE up to 2019-20 |
| Education, Sports, Art and Culture | 20% on 2013-14 BE up to 2019-20; higher investment needs in this sector |
| Medical and Public Health | 20% on 2013-14 BE up to 2019-20; higher investment needs in this sector |
| Housing | 10% on 2013-14 BE up to 2019-20 |
| Urban Development | 15% on 2013-14 BE up to 2019-20; covers schemes under JNUURM and EAP |
| Welfare of SCs, STs and OBCs | 15% on 2013-14 BE up to 2019-20 |
| Social Security and Welfare | 10% on 2013-14 BE up to 2019-20 |
| Economic Services (Crop husbandry, Soil and water conservation, Animal husbandry, Fisheries, Dairy development, Other rural development programmes, Village and small industries, Telecommunication and electronic industries) | 15% on 2013-14 BE up to 2019-20 |
| Forestry and wildlife | 20% on 2013-14 BE up to 2019-20 |
| Cooperation | 5% on 2013-14 BE up to 2019-20 |
| Major and Medium Irrigation | 10% on 2013-14 BE up to 2019-20 |
| Flood Control and Drainage | 10% on 2013-14 BE up to 2019-20 |
| Civil Aviation | 25% on 2013-14 BE up to 2019-20; higher investment needs in this sector are identified. |
| Roads and Bridges | 20% on 2013-14 BE up to 2019-20 |
| Tourism | 25% on 2013-14 BE up to 2019-20; higher investment needs in this sector are identified. |

Source: As per assumptions

Power: For the power sector, capital expenditure estimates are based on equity needs of the power utilities as per business plans.

Road Transport Services: The expenditure under this head is mainly the state share for the construction of railway lines. As the actual expenditure plan is not available, a constant expenditure of `52.58 crores as provided in BE of 2013-14 is used for the forecast period.

## 4.5 Capital Account: Receipts and Disbursements

### A. Receipts

Internal debt: This has been kept at 3% of forecasted GSDP for the forecast period.

Loans and advances from the central government: Loan portion of the externally aided projects have been assumed to be constant at `50 crores for each year in the forecast period.

### B. Disbursements: Repayment of debt

Internal debt: Repayments of loans from market borrowing, NABARD, NCDC, Small Savings, and Power bonds have been worked out on the basis of past loans as well as fresh borrowings.

Central government loans: Repayment of non-Plan block loan has been worked out as per the repayment schedule.

Loans and Advances by the State Government: These are assumed to grow at 10 percent except for power. For the power sector, loans are taken as per the needs of the power sector enterprises, viz., UPCL, PTCUL and UJVNL.

## 4.6 Summary and Overview of Forecasts

Tables 4.2 and 4.3 give a summary of forecasts in absolute terms and relative to GSDP at current prices.

**Table 4.2: Forecasts: Revenue and Expenditure Aggregates**

| Heads | R.E. | B.E. | Estimate | Forecasts | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| **I. Own Revenue Receipts** | **15746.8** | **18955.2** | **7003.9** | **7616.2** | **8288.0** | **9024.5** | **9832.2** | **10718.0** |
| **1. State's Own Revenue** | 8016.7 | 8327.2 | 7003.9 | 7616.2 | 8288.0 | 9024.5 | 9832.2 | 10718.0 |
| **i. Total Tax Revenue** | 6414.1 | 7111.4 | 6067.9 | 6643.1 | 7275.1 | 7968.8 | 8730.4 | 9566.6 |
| **ii. Total Non-Tax Revenues** | 1602.6 | 1215.7 | 936.0 | 973.1 | 1012.9 | 1055.7 | 1101.8 | 1151.4 |
| **II. Total Revenue Expenditure (1+2+3+4+5+6)** | **13990.9** | **18054.2** | **19930.3** | **23306.9** | **29478.0** | **32920.0** | **36492.9** | **40529.9** |
| **1. General Services of which** | 5105.2 | 6455.9 | 6926.3 | 7896.4 | 8835.6 | 10034.6 | 11235.0 | 12650.8 |
| **i. Interest Payments** | 2117.3 | 2540.9 | 2742.3 | 3302.7 | 3769.5 | 4392.9 | 5062.6 | 5787.0 |
| **ii. Pension and Other Retirement Benefits** | 1365.7 | 1989.6 | 2188.5 | 2407.4 | 2648.1 | 2912.9 | 3204.2 | 3524.6 |
| **iii. Gen. Serv. other than Interest & Pension** | 1622.2 | 1925.5 | 1995.6 | 2186.3 | 2418.0 | 2728.8 | 2968.2 | 3339.2 |
| **a. Plan** | 4.1 | 14.4 | 5.2 | 5.8 | 6.5 | 7.3 | 8.2 | 9.3 |
| **b. Non-Plan** | 1616.0 | 1911.2 | 1990.4 | 2180.5 | 2411.4 | 2721.5 | 2960.0 | 3330.0 |
| **2. Social Services** | 6393.8 | 8114.9 | 8471.5 | 8960.1 | 9905.0 | 10950.6 | 12107.5 | 13387.9 |
| **a. Plan** | 1949.5 | 2771.6 | 2598.4 | 2644.0 | 2940.6 | 3270.9 | 3638.7 | 4048.4 |
| **b. Non-Plan** | 4444.3 | 5343.2 | 5873.0 | 6316.1 | 6964.4 | 7679.7 | 8468.8 | 9339.6 |
| **3. Economic Services** | 1995.0 | 2755.7 | 2448.7 | 2724.0 | 3030.5 | 3371.9 | 3752.2 | 4176.0 |
| **a. Plan** | 472.7 | 845.2 | 596.7 | 670.4 | 753.2 | 846.2 | 950.8 | 1068.2 |
| **b. Non-Plan** | 1522.3 | 1910.5 | 1852.1 | 2053.6 | 2277.3 | 2525.7 | 2801.4 | 3107.7 |
| **4. Grant In Aid to Local Bodies** | 496.9 | 727.7 | 836.8 | 903.8 | 976.1 | 1054.1 | 1138.5 | 1229.5 |
| **5. Impact of seventh Pay commission** | | | | 979.3 | 4213.7 | 4739.8 | 5213.8 | 5735.2 |
| **a. Plan** | | | | 50.5 | 127.0 | 244.5 | 269.0 | 295.9 |
| **b. Non-Plan** | | | | 928.8 | 4086.6 | 4495.3 | 4944.8 | 5439.3 |
| **6. Impact of filling Vacant Posts** | | | 1247.0 | 1843.5 | 2517.3 | 2769.0 | 3045.9 | 3350.5 |
| **a. Plan** | | | 81.1 | 119.8 | 163.6 | 180.0 | 198.0 | 217.8 |
| **b. Non-Plan** | | | 1165.9 | 1723.6 | 2353.6 | 2589.0 | 2847.9 | 3132.7 |
| **Non-plan Revenue Expenditure** | 11564.6 | 14423.0 | 16649.0 | 19816.4 | 25487.1 | 28371.1 | 31428.3 | 34890.4 |
| **Non-Plan revenue Gap (pre-devolution)** | 3547.8 | 6095.8 | 9645.1 | 12200.2 | 17199.1 | 19346.6 | 21596.0 | 24172.3 |
| **III. Capital Expenditure** | 3814.6 | 5122.9 | 5547.6 | 6655.8 | 6595.0 | 7615.6 | 8448.1 | 9745.6 |
| **i. Capital Outlay** | 3542.1 | 4874.2 | 4897.6 | 5826.8 | 6431.5 | 7457.1 | 8374.9 | 9665.1 |
| **ii. Loans & Advances (gross)** | 272.6 | 248.7 | 650.0 | 829.0 | 163.5 | 158.6 | 73.2 | 80.5 |
| **IV. Total Capital Receipts** | **3425.6** | **4226.1** | **4600.7** | **5106.2** | **5686.5** | **6340.0** | **7075.9** | **7904.5** |
| **V. Revenue Deficit (II-I) *** | -1755.9 | -901.0 | 12926.4 | 15690.7 | 21190.1 | 23895.5 | 26660.7 | 29811.9 |
| **VI. Fiscal Deficit [(II+III) - (I + IV (i + iv))]** | 1690.6 | 3537.3 | 18414.0 | 22296.5 | 27735.1 | 31461.1 | 35058.8 | 39507.5 |
| **VII. GSDP at Current Prices** | 107548.3 | 121099.3 | 136357.8 | 153538.9 | 172884.8 | 194668.3 | 219196.5 | 246815.2 |
| **IX. GSDP at Constant Prices (2004-05 Series)** | 62585.5 | 67361.5 | 72002.1 | 77322.2 | 83184.0 | 89490.4 | 96489.3 | 104179.5 |

Source: Government of Uttarakhand Estimates

Notes: 1. * (surplus to be indicated by a -ve sign)
2. Loans from the Centre (net) exclude outstanding ways and means

It may be noted that the sudden jump in the fiscal deficit and revenue deficit in 2014-15 and the forecast period and amounts reflect the effect of the formula given by the Finance Commission by which these are calculated. This jump is the result of not including any fiscal transfers in the form of share in central taxes or grants from the centre.

Table 4.3 gives these amounts as percentage of GSDP at factor cost at current prices.

**Table 4.3: Forecasts: Revenue and Expenditure Aggregates Relative to GSDP at Current prices**

| Heads | R.E. | | B.E. | | Estimate | | Forecasts | |
|---|---|---|---|---|---|---|---|---|
| | 12-13 | 13-14 | 14-15 | 15-16 | 16-17 | 17-18 | 18-19 | 19-20 |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| Own Revenue Receipts | 14.64 | 15.65 | 5.14 | 4.96 | 4.79 | 4.64 | 4.49 | 4.34 |
| 1. State's Own Revenue | 7.45 | 6.88 | 5.14 | 4.96 | 4.79 | 4.64 | 4.49 | 4.34 |
| i. Total Tax Revenue | 5.96 | 5.87 | 4.45 | 4.33 | 4.21 | 4.09 | 3.98 | 3.88 |
| ii. Total Non-Tax Revenues | 1.49 | 1.00 | 0.69 | 0.63 | 0.59 | 0.54 | 0.50 | 0.47 |
| II. Total Revenue Expenditure (1+2+3+4+5+6) | 13.01 | 14.91 | 14.62 | 15.18 | 17.05 | 16.91 | 16.65 | 16.42 |
| 1. General Services of which | 4.75 | 5.33 | 5.08 | 5.14 | 5.11 | 5.15 | 5.13 | 5.13 |
| i. Interest Payments | 1.97 | 2.10 | 2.01 | 2.15 | 2.18 | 2.26 | 2.31 | 2.34 |
| ii. Pension and Other Retirement Benefits | 1.27 | 1.64 | 1.60 | 1.57 | 1.53 | 1.50 | 1.46 | 1.43 |
| iii. Gen. Serv. other than Interest & Pension | 1.51 | 1.59 | 1.46 | 1.42 | 1.40 | 1.40 | 1.35 | 1.35 |
| a. Plan | 0.00 | 0.01 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| b. Non-Plan | 1.50 | 1.58 | 1.46 | 1.42 | 1.39 | 1.40 | 1.35 | 1.35 |
| 2. Social Services | 5.95 | 6.70 | 6.21 | 5.84 | 5.73 | 5.63 | 5.52 | 5.42 |
| a. Plan | 1.81 | 2.29 | 1.91 | 1.72 | 1.70 | 1.68 | 1.66 | 1.64 |
| b. Non-Plan | 4.13 | 4.41 | 4.31 | 4.11 | 4.03 | 3.95 | 3.86 | 3.78 |
| 3. Economic Services | 1.86 | 2.28 | 1.80 | 1.77 | 1.75 | 1.73 | 1.71 | 1.69 |
| a. Plan | 0.44 | 0.70 | 0.44 | 0.44 | 0.44 | 0.43 | 0.43 | 0.43 |
| b. Non-Plan | 1.42 | 1.58 | 1.36 | 1.34 | 1.32 | 1.30 | 1.28 | 1.26 |
| 4. Grant In Aid to Local Bodies | 0.46 | 0.60 | 0.61 | 0.59 | 0.56 | 0.54 | 0.52 | 0.50 |
| 5. Impact of seventh Pay Commission | 0.00 | 0.00 | 0.00 | 0.64 | 2.44 | 2.43 | 2.38 | 2.32 |
| a. Plan | 0.00 | 0.00 | 0.00 | 0.03 | 0.07 | 0.13 | 0.12 | 0.12 |
| b. Non-Plan | 0.00 | 0.00 | 0.00 | 0.60 | 2.36 | 2.31 | 2.26 | 2.20 |
| 6. Impact of filling Vacant Posts | 0.00 | 0.00 | 0.91 | 1.20 | 1.46 | 1.42 | 1.39 | 1.36 |
| a. Plan | 0.00 | 0.00 | 0.06 | 0.08 | 0.09 | 0.09 | 0.09 | 0.09 |
| b. Non-Plan | 0.00 | 0.00 | 0.86 | 1.12 | 1.36 | 1.33 | 1.30 | 1.27 |
| Non-plan Revenue Expenditure | 10.75 | 11.91 | 12.21 | 12.91 | 14.74 | 14.57 | 14.34 | 14.14 |
| Non-Plan revenue Gap (pre-devolution) | 3.30 | 5.03 | 7.07 | 7.95 | 9.95 | 9.94 | 9.85 | 9.79 |
| III. Capital Expenditure | 3.55 | 4.23 | 4.07 | 4.33 | 3.81 | 3.91 | 3.85 | 3.95 |
| i. Capital Outlay | 3.29 | 4.02 | 3.59 | 3.79 | 3.72 | 3.83 | 3.82 | 3.92 |
| ii. Loans & Advances (gross) | 0.25 | 0.21 | 0.48 | 0.54 | 0.09 | 0.08 | 0.03 | 0.03 |
| IV. Total Capital Receipts | 3.19 | 3.49 | 3.37 | 3.33 | 3.29 | 3.26 | 3.23 | 3.20 |
| V. Revenue Deficit (II-I) * | -1.63 | -0.74 | 9.48 | 10.22 | 12.26 | 12.27 | 12.16 | 12.08 |
| VI. Fiscal Deficit [(II+III) - (I + IV (i + iv))] | 1.57 | 2.92 | 13.50 | 14.52 | 16.04 | 16.16 | 15.99 | 16.01 |

Source: Government of Uttarakhand Estimates

As explained, the own tax and non-tax revenues as percentage of GSDP show a fall due to adverse effects of natural calamity and withdrawal of stimuli to growth linked to the industrial package. The sudden jump in revenue and fiscal deficit numbers is due to the reason mentioned earlier.

# Chapter 5

# Vertical Sharing and Horizontal Distribution of Resources

The core task of the Finance Commission is to determine the share of the States in the shareable proceeds of the central taxes and to determine grants-in-aid to the States that are assessed to be in need of such grants. Together, these fiscal transfers should aim to resolve both the vertical and horizontal imbalances in the country.

## 5.1 Resolving Vertical Imbalance

An excess of central revenues relative to its responsibility and a corresponding deficit in the state accounts where expenditures exceed own revenues, together are referred to as the vertical fiscal gap. The notion of a vertical fiscal gap conceptually contrasts with a benchmark situation in which responsibilities and own resources perfectly match for the two tiers of government. In federal systems, a vertical gap is often deliberately created for efficiency gains that result from the relative assignments and fiscal transfers that are used to close the gap or convert it into a balance. Revenues are more centralized and expenditures are more decentralized, often by constitutional provisions, in order to achieve efficiency gains on both revenue and expenditure sides. This is also the case in India. With centralization of revenues, advantages of a common market are taken by ensuring that the same tax rates and statutory definitions of the taxable base and the taxable event apply across the country so that resource allocation takes place independent of any differentials of state level tax regimes. Expenditure decentralization facilitates reflection of local preferences and priorities in the allocation of budgetary resources in the provision of public and merit goods and services thereby increasing the efficiency and impact of government expenditures. This deliberate strategy of imbalance can however work satisfactorily only with a suitable system of fiscal transfers that resolves the vertical imbalance. Fiscal transfers restore balance in the resources and responsibilities for both the central government and state governments. In addition, fiscal transfers need to be designed in a manner such that these also eliminate horizontal imbalances across states.

## 5.2 Vertical Transfers: Emerging Pattern

In the context of pattern of shares of states and the centre in the total revenues of the centre and the states, it is useful to review the situation at three levels:

a. Transfers that cover all transfers including Finance Commission transfers, plan transfers, and transfers through the central ministries are taken into account. This will provide a comprehensive view of transfers. It may also be useful to recognize that some transfers are made directly to implementing agencies in the states such as autonomous societies bypassing the state budgets.
b. Transfers recommended by the Finance Commission covering share in central taxes and grants.
c. Transfers covering only states' share in central taxes.

### a. Overall Transfers

In determining the relative share of central revenues between the centre and the states, the Finance Commission has to decide whether it would take a view as to the total transfers to the states covering not only the Finance Commission transfers but also that through the Planning Commission and the central ministries or it would take a view only with respect to the Finance Commission transfers, leaving the central government to take a view on the rest.

The Eleventh FC for the first time made reference to the total transfers from the centre to the states from all channels and provided an indicative benchmark at 37.5 percent of the Centre's gross revenue receipts. This has progressively been raised by the subsequent Commissions. The Twelfth FC raised it to 38 percent and the Thirteenth FC raised it to 39.5 percent of the Centre's gross revenue receipts.

The Twelfth FC also recommended an increase in the share of states in central taxes to 30.5 per cent of the divisible revenues. There has been an argument that this share should be fixed in nominal terms for a few decades or so. It can be argued that the objective of stability will not be served by fixing the share of states central taxes in nominal terms as long as the central and state taxes are growing with different buoyancies. In particular, some upward adjustment is needed if central taxes are growing more than that of the states. At the present juncture this was justified as centre's tax buoyancy is expected to be relatively higher due to their exclusive power to tax the base of growing services while for some time states will be undergoing adjustments on account of moving to the state level VAT.

Table 5.1 highlights the relative importance of different channels of transfers from the central to the state governments. About 56-57 percent of total transfers are through share in central taxes and non-plan grants. Grants for state plan and centrally sponsored schemes account for about 22-23 percent of total transfers. An important trend is that direct release to implementing agencies account for 19-20 percent of the total transfers.

**Table 5.1: Resources Transferred to States as Share in Central Taxes and Grants**

(Amounts in crores of rupees; share in Percent)

| Heads | 2011-2012 | 2012-2013 RE | 2011-2012 | 2012-2013 RE |
|---|---|---|---|---|
| States' share of taxes | 250522 | 294047 | 46.39 | 49.53 |
| Non-Plan Grants | 51523 | 57901 | 9.54 | 9.75 |
| Grants for State Plans | 86271 | 93676 | 15.98 | 15.78 |
| Grants for centrally sponsored schemes | 40027 | 37869 | 7.41 | 6.38 |
| Direct release under central plan to imp agencies including MP LADS | 111681 | 110169 | 20.68 | 18.56 |
| **Total** | **540024** | **593662** | **100.00** | **100.00** |

Source: based on Union Budget 2013-14.

### b. Transfers Under the Recommendations of the Finance Commission

While the Finance Commission may take a view regarding the overall transfers, its substantive recommendations relate to transfers given as share in the divisible central taxes and grants under article 275.

The relative importance of states share in central taxes is much more than that of the grants recommended by the Finance Commissions.

## c. States' Share in Central Taxes

The sharing of central taxes with the states changed fundamentally after the 80th amendment to the constitution. Earlier, proceeds of the income tax and Union excise duties were to be shared with the States. The status of sharing was also different. While the income tax was to be compulsorily shared with the states, the sharing of the Union excise duties was at the discretion of the central government. With the 80th amendment, the net proceeds of all central taxes are to be shared with the state governments except the cesses and surcharges. An important recommendation of the Finance Commission relates to determining the share of states in the divisible net proceeds of the central taxes. The Thirteenth FC had recommended a share of 32 percent for the states.

The roots of the present arrangement can be traced back to 'Alternative Scheme of Devolution' of the Tenth Finance Commission which had suggested that after a constitutional amendment, proceeds of all central taxes are to be shared with the state governments. This was meant to give a significant revenue interest to the central government in all taxes that it was levying and also to facilitate tax reforms by distributing more evenly the burden of adjustment (in terms of any initial revenue loss) between the centre and the states. In the original scheme suggested by the Tenth Finance Commission, gross proceeds of the central taxes were to be shared excluding cesses and surcharges. Articles 268/269 taxes were also kept outside of the purview of such sharing. The alternative scheme was accepted by the central government and implemented through the 80th constitutional amendment. However, sharing was to be with reference to the net proceeds (net of cost of collections) rather than gross proceeds, as originally recommended. With the 80th amendment, states' share of the central taxes also ceased to be part of the Consolidated Fund of India. It is implied in Article 270 that the same percentage share will apply to all central taxes that are to be shared. Article 272 was dropped. Later, the 88th amendment to the Constitution, brought about in 2004, placed the service tax under Article 268, thereby excluding it from the purview of Article 270. However, the FCs have separately made recommendations for sharing the service tax revenue.

Prior to the 80th amendment, apart from the two main taxes, *viz*., income tax and the Union excise duties, two other arrangements for transfers were in vogue, *viz*., grant in lieu of tax on railway passenger fares and additional excise duties in lieu of sales tax on specified commodities (textiles, tobacco and sugar). Both of these arrangements were tax rental arrangements in the sense that the original power to levy the tax was vested with the state governments but were transferred to the centre for the sake of uniformity across states among other reasons. With the 80th amendment to the Constitution, the separate identity of these arrangements was also abolished.

Under the global sharing agreement, only one set of shares is to be determined replacing four distinct sets, which were needed prior to the 80th constitutional amendment, relating respectively to (i) portions of income tax and Union excise duties subjected to common criteria; (ii) portion of devolution according to assessed deficits; (iii) grant in lieu of tax on railway passenger fares; and (iv) additional excise duties in lieu of sales tax on cotton textiles, tobacco and sugar. The criteria followed by the Tenth Finance Commission (Alternative Scheme), and the subsequent Commissions relate to this generalised sharing arrangements. These criteria jointly reflect four considerations: (i) vertical transfers, (ii) horizontal equity, (iii) incentives for efficiency, and (iv) cost disadvantages.

The literature on vertical sharing of resources has taken note of a long term observed stability in the relative shares of the Centre and the states in the combined revenue receipts and in the combined revenue expenditure. It was noted in Rangarajan and Srivastava (2008) that the share of states after transfers will be constant only if their share in central taxes is increased by a margin by which the buoyancy of central taxes exceeds the buoyancy of combined tax revenue. The Thirteenth FC observes (Para 8.8) that the buoyancy of central taxes has been higher than that of state taxes in the immediately preceding years thereby highlighting the need for increasing albeit by a small margin the share of states in central tax revenues and recommended an increase in the share of states in the net proceeds of shareable central taxes from 30.5 percent to 32 percent. The Thirteenth FC considered such fiscal stability to be a desirable feature of transfer arrangements. They observed: 'We are of the view that such fiscal stability be maintained during our award period'.

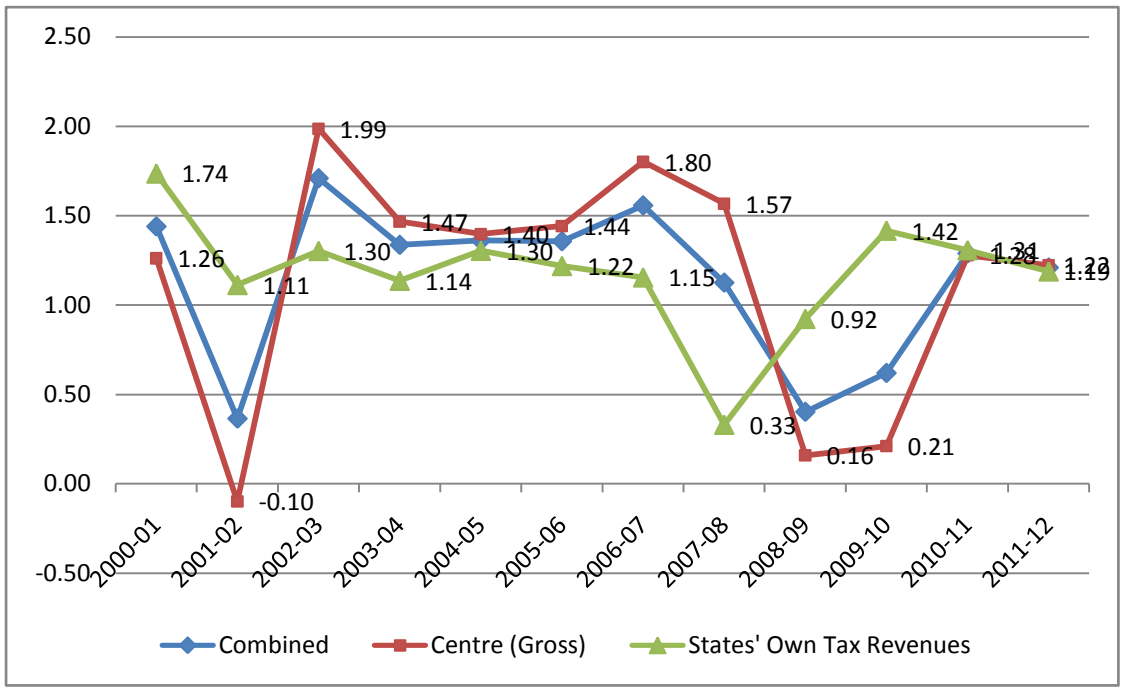


**Chart 5.2: Buoyancy of Tax Revenues wrt GDP: Combined, Centre's Gross Tax Revenues and States' Own Tax Revenues**

Although the States have been asking for including the central cesses and surcharges in the divisible pool, the Commission did not recommend this. However, they did recommend that the central government should review the current surcharges and cesses with a view to reducing their share in the gross tax revenues.

Chart 5.2 shows the buoyancy of state and central tax revenues with respect to GDP. Since 2008-09, the central taxes have shown a lower buoyancy compared to that for the states and for the combined tax revenues. This, however, should not be taken as an argument not to increase the share of the States in the divisible pool. The appropriate approach would be make reference to the respective expenditure responsibilities; centre should be asked to curtail expenditures on items under the state list and the share of the States in the divisible pool should be increased.

States had taken a joint position with the Thirteenth FC, that the share of the states should be increased to 50 percent. Para 8.4 of the Thirteenth FC Report mentions this "The states have,

for the first time, submitted a joint memorandum to the Commission. In this joint memorandum, the Commission has been urged to enhance the share of the states in the net proceeds of central taxes from 30.5 per cent to at least 50 per cent considering the fact that the states' share in the combined developmental expenditure is much higher than that of the Centre. The states have further urged that the divisible pool of central taxes should include all cesses and surcharges."

A scheme of assignment of resources, heavily in favour of the centre purely for efficiency reasons, is always prone to lead to a centralization of expenditures in direct and indirect ways. There is a noticeable tendency in India for various expenditures in the concurrent list, and often even if these belong to the State List, to be incurred by the central government.

It is suggested that the share of States in the sharable central taxes be raised to 40 percent. Further, a recommendation should be made for amending the constitution so that cesses and surcharges can be included in the divisible pool if these are continued beyond a period of three years by the central government.

Vertical transfers also have a bearing on the horizontal distribution of resources. The higher the vertical share of the states, the lower may be the weight to the equalizing component of tax revenue sharing like the distance formula for horizontal distribution.

## 5.3 Horizontal Imbalance in India

In India, states are characterized by considerable horizontal imbalances in terms of their fiscal capacities as well as differences in the unit costs of providing public and merit services. These differences arise because of differences in the size of population, area and density of population, per capita GSDP, nature of terrain (mountainous, hilly and plains), location (coastal, non-coastal, international boundary, domestic boundary, mineral resources), composition of population (SC/ST, backward classes), as well as differences in the initial conditions characterizing economic activities.

Table 5.2 highlights the considerable heterogeneity amongst the general category States in India that are currently 17 in number, in terms of four key dimensions, namely, size of population, area, density, and per capita GSDP at current prices.

**Table 5.2: Inter-State Variations in Population Size, Area, Density, and Per Capita GSDP at Current prices: General Category States**

| State | Population (in crore) | Density of population (persons per sq km) | Area ('000 sq km) | Per capita GSDP at current prices ` Average (2009-10 to 2011-12) |
|---|---|---|---|---|
| Andhra Pradesh | 8.467 | 308 | 274.89 | 67182 |
| Bihar | 10.380 | 1102 | 94.20 | 20859 |
| Chhattisgarh | 2.554 | 189 | 135.13 | 47562 |
| Goa | 0.146 | 394 | 3.70 | 187955 |
| Gujarat | 6.038 | 308 | 196.05 | 89225 |
| Haryana | 2.535 | 573 | 44.25 | 104873 |
| Jharkhand | 3.297 | 414 | 79.63 | 36885 |
| Karnataka | 6.113 | 319 | 191.63 | 67943 |
| Kerala | 3.339 | 859 | 38.87 | 78935 |
| Madhya Pradesh | 7.260 | 236 | 307.62 | 37023 |
| Maharashtra | 11.237 | 365 | 307.87 | 94610 |
| Orissa | 4.195 | 269 | 155.94 | 45918 |
| Punjab | 2.770 | 550 | 50.37 | 78360 |
| Rajasthan | 6.862 | 201 | 341.40 | 50559 |
| Tamil Nadu | 7.214 | 555 | 129.98 | 83555 |
| Uttar Pradesh | 19.958 | 828 | 241.04 | 30298 |
| West Bengal | 9.135 | 1029 | 88.77 | 53071 |
| Maximum | 19.96 | 1102.00 | 341.40 | 187955 |
| Minimum | 0.15 | 189.00 | 3.70 | 20858.67 |
| Max/min | 137 | 6 | 92 | 9 |

Source (Basic Data): Registrar General of India and CSO

In terms of population Uttar Pradesh is 137 times as large as Goa; in terms of area Rajasthan is 92 times as large as Goa; in terms of population density, Bihar has a density of population which is six times more than that in Chhattisgarh; and in terms of per capita GSDP at current prices, Goa's per capita GSDP is nine times that of Bihar.

For special category states also inter-state variations are high but the magnitude of differences is relatively less than that for the general category states. Table 5.3 makes a similar comparison for the eleven special category states. In terms of population, Assam is 51 times as large as Sikkim; in terms of area, Jammu and Kashmir is 14 times as large as Sikkim. Assam has a density of population which is 17 times that of Arunachal Pradesh. The per capita GSDP of Sikkim is four times that of Assam.

**Table 5.3: Inter-State Variations in Population Size, Area, Density, and Per Capita GSDP at Current prices: Special Category States**

| State | Population (in crore) | Density of population (persons per sq km) | Area ('000 sq km) | Per capita GSDP at current prices (`.) Average (2009-10 to 2011-12) |
|---|---|---|---|---|
| Arunachal Pradesh | 0.138 | 17 | 81.33 | 66443 |
| Assam | 3.117 | 397 | 78.51 | 36675 |
| Himachal Pradesh | 0.686 | 123 | 55.74 | 82858 |
| Jammu & Kashmir | 1.255 | 124 | 101.20 | 48923 |
| Manipur | 0.272 | 122 | 22.31 | 33352 |
| Meghalaya | 0.296 | 132 | 22.45 | 55412 |
| Mizoram | 0.109 | 52 | 20.98 | 53764 |
| Nagaland | 0.198 | 119 | 16.64 | 57886 |
| Sikkim | 0.061 | 86 | 7.07 | 118511 |
| Tripura | 0.367 | 350 | 10.49 | 48909 |
| Uttarakhand | 1.012 | 189 | 53.53 | 83125 |
| Maximum | 3.12 | 397 | 101 | 118511 |
| Minimum | 0.06 | 17 | 7 | 33352 |
| Max/min | 51 | 23 | 14 | 4 |

Source (Basic Data): Registrar General of India and CSO

## 5.4 Horizontal Distribution of Resources

The twin objectives that need to be served in the scheme of horizontal distribution of resources are equity and efficiency. There is a trade-off between the two, but if distribution of resources is 'equalizing' it is supposed to serve both objectives. Equalization transfers serve equity since they make up for the deficiency in fiscal capacity but not in tax effort. They also serve efficiency as people do not cause congestion in limited number of locations in search for better public and merit services like health and education since the service standards are equalized across states subject only to the condition that citizens are entitled to similar levels of services if they are willing to pay the same level of taxes per unit of their respective tax bases or fiscal capacities. Migration is driven by the search for better income earning opportunities, which also promotes efficiency.

(a) Locational inefficiencies that can result from inefficient migration induced by fiscal surpluses is neutralized by equalization transfers; and
(b) The redistribution implied by equalization transfers from the richer to poorer states gives a return also to the richer states by avoiding congestion resulting from excessive migration in the context of services provided by these states that are in the nature of 'congestible' goods.

### a. Revenue Sharing Criteria: Basic Principles

There has been a gradual attempt in the dispensation of the Finance Commissions in India, to move away from conventional devolution towards revenue-sharing which is guided by three main principles, *viz*., (i) capacity equalization; (ii) efficiency promoting incentives; and (iii) allowance for cost disabilities.

The principle of horizontal equity is guided by the consideration that as a result of revenue sharing, the fiscal resource deficiencies across states arising out of systemic and identifiable factors, and under normative revenue effort, are evened out. Thus, the revenue-sharing exercise is supposed to provide to the states resources complementary to their own, so that they may all be enabled to provide an agreed common set of public and merit services at comparable standards in terms of quality and quantity to all citizens living in the different states. Thus, a citizen of India, no matter which state he resides in, becomes entitled to and is provided with, the same level of services (state level public goods and merit goods of high priority) throughout the country. This also calls for recognition of valid cost differentials in providing a service in different states. The principle of equity, however, is a compensatory principle as it makes up for resource deficiencies. As such, it also creates a vested interest in continuing with the resource deficiency, rather than making efforts to improve own revenue bases, thereby reducing the differences in revenue per unit of resource base across states. To neutralize this adverse incentive, it needs to be complemented by criteria that either neutralizes the effect of deficiencies of tax effort relative to average and/or reward 'efficiency', i.e., efforts to improve the resource bases and deliver services at minimum (efficient) costs. The latter is useful when the overall tax effort is also required to be improved for improving the average level of public services.

### b. Alternative Factors

The income-based criteria have received the highest weights in the dispensation exercises of recent Finance Commissions (FCs). Income, however, is peroxide by per capita State Domestic Product (net or gross). Per capita income or per capita GSDP is taken as a proxy for per capita fiscal capacity. Two main criteria have been used in this context. One is based on the distance of per capita income of a state from the highest per capita income among all states. The other is based on the inverse of per capita income of a state [see, Srivastava and Aggarwal (1994) for a detailed analysis of the properties of these two criteria]. These criteria attempt to reduce post-transfer differences in the fiscal bases of the states through progressive dispensation. The difference between them is that while the distance criterion looks at the absolute resource gaps, the inverse income criterion looks at the relative gaps. Since, in the context of provision of services at equal standards across states, it is the absolute costs (and absolute gaps) that are relevant, successive FCs have given the highest weight to the distance criterion. The inverse criterion was given a weight of 25 percent by the Seventh and Eighth Commissions. The Ninth Commission reduced this weight to 12.5 percent. The Tenth Commission dropped it altogether. Since then, the full weight of the income-based criterion was loaded on the distance criterion.

Table 5.4 gives the different criteria and related weights followed by the Tenth (Alternative Scheme), Eleventh, Twelfth, and Thirteenth Finance Commissions.

**Table 5.4: Criteria and Relative Weights for Determining *Inter-Se* Shares of States: Phase III Tenth (Alternative Scheme), Eleventh, and Twelfth Finance Commissions**

| Criteria | Relative Weight (Percent) | | | |
|---|---|---|---|---|
| | Tenth (Alternative Scheme) | Eleventh | Twelfth | Thirteenth |
| 1. Population | 20.0 | 10.0 | 25.0 | 25.0 |
| 2.Distance/Capacity Distance | 60.0 | 62.5 | 50.0 | 47.5 |
| 3. Area | 5.0 | 7.5 | 10.0 | 10.0 |
| 4. Index of Infrastructure | 5.0 | 7.5 | - | |
| 5. Tax Effort | 10.0 | 5.0 | 7.5 | |
| 6. Fiscal Discipline | - | 7.5 | 7.5 | 17.5 |

Source: Reports of Finance Commissions, Government of India.

It may be noted that area is the only factor that represents costs and the weight given to has ranged between 5 to 10 percent. We suggest that costs factors should not only be given a higher weight but a proper index of unit cost of providing public and merit services should be constructed by the Finance Commission in which area may be a factor.

### c. Role of Incentives

The Tenth and Eleventh Finance Commissions had also endeavoured to evolve a structure of incentives in the mechanism of fiscal transfer. The Tenth Finance Commission had utilised an index of tax effort made by the states. The Eleventh Finance Commission had utilised an index of tax effort and an index of fiscal discipline, and given these a combined weight of 12.5 percent. The Twelfth FC used both tax effort and fiscal discipline and gave a weight of 7.5 percent to each. The Thirteenth FC has used only one indicator, namely, fiscal discipline as an incentive factor and given it a weight of 17.5 percent.

## 5.5 Summary

The core task of the Finance Commission is to determine the share of the States in the shareable proceeds of the central taxes and to determine grants-in-aid to the States that are assessed to be in need of such grants. Together, these fiscal transfers should resolve both the vertical and horizontal imbalances in the country.

### a. Vertical Transfers

The indicative ceiling on all revenue account transfers by the Eleventh Finance Commission at 37.5 percent of the Centre's gross revenue receipts has progressively been raised by the subsequent Commissions. The Twelfth FC raised it to 38 percent and the THFC raised it to 39.5 percent of the Centre's gross revenue receipts. It is suggested that this ceiling may be raised to 50 percent.

The Twelfth FC also recommended an increase in the share of states in central taxes to 30.5 per cent of the divisible revenues. The Thirteenth FC increased it to 32 percent.

There has been an argument that this share should be fixed in nominal terms for a few decades or so. It can be argued that the objective of stability will not be served by fixing the share of states central taxes in nominal terms as long as the central and state taxes are growing with different buoyancies. In particular, some upward adjustment is needed if central

taxes are growing more than that of the states. At the present juncture this would not justify any further increase in the states' share as centre's tax buoyancy has been less than that of the states in recent years.

Reference should now be made to the respective responsibilities of the centre and the states in the constitutional arrangement. It is the case that the centre occupies unduly large space in the subjects listed in the concurrent list and the state list. These expenditures should be taken up by the states by transferring the centrally sponsored schemes to the states or giving them autonomy to design their own expenditure priorities.

Accordingly, it is suggested that the share of States in the sharable central taxes be raised to 40 percent and that cesses and surcharges be included in the divisible pool if these are continued beyond a period of three years. A constitutional amendment should be recommended by the Finance Commission in this context.

**b. Horizontal Transfers**

In India, states are characterized by considerable horizontal imbalances in terms of their fiscal capacities as well as differences in the unit costs of providing public and merit services. These differences arise because of differences in the size of population, area and density of population, per capita GSDP, nature of terrain (mountainous, hilly and plains), location (coastal, non-coastal, international boundary, domestic boundary, mineral resources), composition of population (SC/ST, backward classes), as well as differences in the initial conditions characterizing economic activities.

In terms of population Uttar Pradesh is 137 times as large as Goa; in terms of area Rajasthan is 92 times as large as Goa; in terms of population density, Bihar has a density of population which is six times more than that in Chhattisgarh; and in terms of per capita GSDP at current prices, Goa's per capita GSDP is nine times that of Bihar.

For special category states also inter-state variations are high but the magnitude of differences is relatively less than that for the general category states. Table 5.5 makes a similar comparison for the eleven special category states. In terms of population, Assam is 51 times as large as Sikkim; in terms of area, Jammu and Kashmir is 14 times as large as Sikkim. Assam has a density of population which is 17 times that of Arunachal Pradesh. The per capita GSDP of Sikkim is four times that of Assam.

The twin objectives that need to be served in the scheme of horizontal distribution of resources are equity and efficiency. There is a trade-off between the two, but if distribution of resources is 'equalizing' it is supposed to serve both objectives. Equalization transfers serve equity since they make up for the deficiency in fiscal capacity but not in tax effort. They also serve efficiency as people do not cause congestion in limited number of locations in search for better public and merit services like health and education since the service standards are equalized across states subject only to the condition that citizens are entitled to similar levels of services if they are willing to pay the same level of taxes per unit of their respective tax bases or fiscal capacities. Migration is driven by the search for better income earning opportunities, which also promotes efficiency.

In terms of determining the share of States in the central taxes we suggest that given the importance of maintaining the environment and the externalities associated with it, the share in forest cover of a State in the total forest cover of all States may be used an additional criterion with a weight of 10 percent. An index of cost of providing services should be

prepared and included in the list of factor used for determining the share of states in the divisible pole of central taxes.

The two main instruments of transfers for achieving horizontal equalization are share in central taxes and grants. The way these instruments in India have evolved, they have important distinguishing features. Share in central taxes are formula bound. Since only a limited number of criteria can be used, these shares can take into account broad indicators and considerations. Also, for five years only shares are fixed; the actual amount gets determined based on the actual amount raised with respect to each central tax. Grants are fixed in nominal terms. These two important features: grants can take into account the special circumstances of States, which may differ from state to state and these can be much better targeted. Further, since they are fixed in amount in nominal terms, these offer a cushion against fall in central revenues during downturns.

The Commission may establish a suitable balance between share in central taxes and grants. Issues concerning the determination of grants are discussed in the next chapter.

# Chapter 6

# Determination of Grants

Apart from tax revenue sharing, the main alternative channel of fiscal transfer available to the Finance Commission is grants-in-aid of revenues of the states under Article 275 of the Constitution. In addition to the general purpose non-Plan revenue gap grant, the Finance Commissions have over time included a number of special purpose grants along with conditionalities attached to these.

The key issue in the context of Finance Commission grants relate to determining the relative share of grants in total fiscal transfers recommended by the Finance Commission; the principles that underlie the determination of unconditional grants; the number, amounts, and principles of conditional grants, and follow-up, monitoring and release of grants during the recommendation period.

## 6.1 Relative Importance of Grants in Finance Commission Transfers

Sharing of central taxes and grants are both instruments of fiscal transfers to the states. However, in terms of their instrumentality, these have significant differences. Some of these are noted below:

1. In the case of sharing of central taxes, only the share of a state is specified. The actual amount gets determined on the basis of the actual performance of the sharable central tax. If the tax is buoyant in a certain year, the revenue yield of the tax and consequently the amount given to each state goes up automatically given its fixed share. Sharing of central taxes is thus a pro-cyclical instrument as it puts larger resources in the hands of the states precisely in years when the economy is buoyant.
2. Grants on the other hand are fixed in nominal terms. The specified amounts need to be given to the states, whatever may be the performance of centre's revenue sources. As such, grants tend to be relatively more counter-cyclical in nature.
3. Tax shares cannot be finely tuned as these are determined by a limited number of factors. Grants can be more finely tuned and these can take into account the special circumstances of a state.
4. This also implies that sharing of central taxes is more akin to following objective and transparent principles while grants can be more discretionary.
5. In periods when there is greater uncertainty attached to the growth of central revenues, grants are the safer instrument of transfers for the states.

Considering that the growth performance of the central tax revenues, linked as they are with the growth prospects of the Indian economy, are relatively subdued, the Fourteenth FC may consider relying relatively more on grants as the safer vehicle of transfers for the states.

As per the report of the Thirteenth FC, the size of the grants has varied from 7.7 per cent of total transfers under Seventh FC to 26.1 per cent of total transfers under Sixth FC.

As far as Uttarakhand is concerned, it is likely to be assessed in non-plan revenue deficit as the performance of own revenues would be lower than the earlier years as discussed in Chapters 3 and 4. While a revenue gap grant was not given to Uttarakhand by the Thirteenth

Finance Commission, this may need to be done by the Fourteenth Finance Commission given the changed circumstances.

The post-devolution non-plan revenue deficits are obtained by adding the respective states' share in central taxes to the pre-devolution deficit. The pre-devolution deficit is to be assessed in normative terms so that the effect of inadequate revenue effort or excessive expenditure is weeded out. According to the estimates given by Thirteenth FC, all general category states as well as three special category states, namely Assam, Sikkim and Uttarakhand were expected to have a post-devolution surplus over their entire award period (2010-15). It may be pointed out that the situation has changed dramatically since then. The macro-situation indicates that the share in central taxes may prove to be less buoyant and unless the overall states' share in central taxes is increased significantly, there would have to be considerable reliance on post-devolution revenue grants. In Uttarakhand's case, there has been a significant discontinuity in economic activities and consequently a lower growth of own revenues is forecasted. For Uttarakhand, post-devolution revenue gap grant would be of considerable importance in the new situation.

Uttarakhand has made substantial progress in its fiscal correction path due to the considerable efforts made by the state government. It enacted the Uttarakhand Fiscal Responsibility and Budget Management Act in 2005 to ensure prudence in fiscal management and fiscal stability. A medium term fiscal framework was worked out consisting of several targets. The Act along with the targets was amended in April 2011. The targets of each category were relaxed to make them more achievable (Table 6.1).

**Table 6.1: Targets set by Uttarakhand Fiscal Responsibility and Budget Management Act**

| April 2005 | Amendment in April 2011 |
|---|---|
| • Reduction of Revenue deficit each year from 1st April 2005 onwards to bring it to nil by 31.3.2009<br>• Reduction of fiscal deficit as a percentage of GSDP to below 3% by 31.3.2009; and<br>• Within 10 years ending 31.3.2005, the state government would ensure that its total liabilities at the end of the financial year 2014-15 shall not exceed 25% of the estimated GSDP for that year | • Reduction of revenue Deficit in four years starting from 1st April, 2011 till 31st march 2015<br>• Reduction of fiscal deficit in the year 2011-12 and 2012-13 to not more than 3.5% of the GSDP and 3% in the year 2013-14 and 2014-15<br>• To ensure that during the period of four financial years starting from 1.04.2011 and ending on 31.3.2015 the total estimated debt liability does not exceed 41.1, 40, 38.5 and 37.2 percent respectively of its estimated GSDP<br>• State government shall constitute a committee under the chairmanship of Chief Secretary to review the progress against the above targets atleast once every six months |

The rules under the Act, though, have not been framed as yet.

## 6.2 Principles for Determining Unconditional Grants

Under clause 1(ii) of the ToR, the Commission has been asked to make recommendations as to "the **principles** which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India and the **sums** to be paid to the States which are in **need of assistance** by way of grants-in-aid of their revenues under article 275 of the Constitution for purposes other than those specified in the provisos to clause (1) of that article".

Both the principles that should government the grants-in-aid and the actual sums or nominal amounts have to be considered with reference to determining the **need of assistance**.

Our preference is for a relatively larger share of unconditional fiscal transfers in the form of share in central taxes and grants for normatively determined post-devolution revenue needs as modified by state-specific considerations.

Under the provisions of article 275, grants that have come to be known in the literature as 'revenue-gap' grants are given. The determination of these grants follows from two exercises carried out by the Finance Commissions: One, assessment of expenditures of each state on revenue account (non-plan or total), and two, assessment of own revenues. Once tax devolution to each state has been determined, grants-in-aid are determined as a residual, which is the difference between the assessed expenditure and the sum of the projected own revenues and shares in central taxes. In other words, grants-in-aid under the Finance Commission are meant to fill up a 'gap' which represents expenditure not covered either by own revenues or share in central taxes.

The main issue here is as to whether this gap should be projected on the basis of historical trends or by an assessment of expenditures and revenues on a normative basis. It is clear that if historical basis is followed, it will give rise to strong adverse incentives where it will be to the benefit of each state to maximize their histories of expenditures and minimize their histories of raising revenues. On the other hand, if the gap is determined strictly on normative basis, such an adverse incentive will not be present.

It may also be mentioned here that the Thirteenth FC changed the formula for tax sharing particularly that related to fiscal capacity distance in a manner that some of non-plan revenue gap of the special category states was embedded in the tax devolution formula. This should not be done. There is no need to make a distinction between general and special category states as this distinction has been made for plan grants where developmental needs are considered whereas in the case of Finance Commission the paramount consideration is that equalization of publically provided public services and merit services.

## 6.3 Specific Purpose Conditional Grants: Thirteenth FC

The Thirteenth FC recommended grants under ten categories. These included apart from grant to meet the post-devolution non-plan revenue need, grants for local bodies, disaster relief, performance incentives, elementary education, environment, improving outcomes, maintenance grants, state-specific grants, and grants meant for implementation of GST (Table 6.2).

**Table 6.2: Grants-in-Aid to States recommended by the Thirteenth Finance Commission**

(` in Crore)

| | Categories | Amount | Amount | Share of Total |
|---|---|---|---|---|
| **I** | Local Bodies | | 87,519 | 27.5% |
| **II** | Disaster Relief (including for capacity building) | | 26,373 | 8.3% |
| **III** | Post-devolution Non-plan Revenue Deficit | | 51,800 | 16.3% |
| **IV** | Performance Incentive | | 1,500 | 0.5% |
| **V** | Elementary Education | | 24,068 | 7.6% |
| **VI** | Environment | | 15,000 | 4.7% |
| **(a)** | Protection of Forests | 5,000 | | 1.6% |
| **(b)** | Renewable Energy | 5,000 | | 1.6% |
| **(c)** | Water Sector Management | 5,000 | | 1.6% |
| **VII** | Improving Outcomes | | 14,446 | 4.5% |
| **(a)** | Reduction in Infant Mortality Rates | 5,000 | | 1.6% |
| **(b)** | Improvement in Supply of Justice | 5,000 | | 1.6% |
| **(c)** | Incentive for Issuing UIDs | 2,989 | | 0.9% |
| **(d)** | District Innovation Fund | 616 | | 0.2% |
| **(e)** | Improvement of Statistical Systems at State and District Level | 616 | | 0.2% |
| **(f)** | Employee and Pension Data base | 225 | | 0.1% |
| **VIII** | Maintenance of Roads and Bridges | | 19,930 | 6.3% |
| **IX** | State-specific | | 27,945 | 8.8% |
| **X** | Implementation of model GST | | 50,000 | 15.7% |
| **Total** | | | **3,18,581** | 100% |

Source: Report of the Thirteenth Finance Commission, Government of India

Table 6.2 details the grants made for various purposes and their respective shares. Grants to local bodies and for disaster relief management constituted 27.5% and 8.3% of the total grants, respectively. A grant of ` 50,000 crores for the implementation of GST accounted for a share of 15.7% of the total grants. Grants towards state-specific needs, elementary education, maintenance of roads and bridges, environment sustainability and improving outcomes of government expenditure accounted for 8.8%, 7.6%, 6.3%, 4.7% and 4.5% of the total grants-in-aid respectively.

### a. Performance Incentive Grant

Recognising the efforts of Uttarakhand, Assam and Sikkim in bringing about a major positive change in their NPRDs, the THFC recommended a performance grant as an incentive for them to continue on the path of fiscal prudence. Uttarakhand as a newly created state had received the NPRD grant for the first time during the period of the Twelfth FC. The incentive was also granted as a means to encourage other special category states to follow suit. The details of the performance grant are given in Table 6.3.

**Table 6.3 Performance Grant given by Thirteenth Finance Commission**

| State | 2010-11 | 2011-12 | 2012-13 | Total |
|---|---|---|---|---|
| Assam | 150 | 150 | 300 | |
| Sikkim | 80 | 60 | 60 | 200 |
| Uttarakhand | 400 | 300 | 300 | 1000 |

Source: Report of the Thirteenth Finance Commission, Government of India

The performance grant to Uttarakhand should be continued.

### b. Grant for Elementary Education

The grant for elementary education is in pursuance of the goal of universalisation of elementary education, underpinned by the constitutional right of all children, in the age group 6 to 14, to free and compulsory schooling. This grant is designed to help states overcome their resource constraint in funding the education sector. As such, all the states receive a share of this grant.

The Thirteenth FC relied upon the estimated expenditure under the Sarva Shiksha Abhiyan (SSA) program as a means to determining each state's share of the grant. The Commission recommended a grant of 15% of the SSA expenditure of each state over the award period. The SSA norms and the estimates of annual funding requirements, state-wise, were given by MHRD focussing only on the recurrent items of expenditure on the grounds that they eventually need to become part of the state non-plan budgets. The THFC's projections, therefore, excluded the requirements of civil works.

The SSA began with a matching fund requirement of 15 per cent from states in 2001-02 which increased progressively to 35 per cent in 2007-08 and 2008-09 and to 40 per cent in 2009-10. It went up to 45 per cent in 2010-11 and was expected to reach 50 per cent in 2011-12, the terminal year of the Eleventh Five Year-Plan. However, various states expressed difficulties in providing this matching share, especially since the size of their annual plans has increased over the years. Hence, the 15% grant was recommended as a means to bridge the gap between the targeted state share of 50 per cent by the terminal year of the Eleventh Plan and the contribution required to be made in 2008-09, i.e., 35 per cent of the individual states' SSA share except for the north-eastern states. Uttarakhand attaches high priority to education. Given the fiscal pressure, we look forward to grant for elementary education beyond the 5% share of the State for special category States. This may be derived based on the equalization principle used by the Twelfth FC or the methodology followed by the Thirteenth FC.

### c. Environment Related Grants

The Thirteenth FC had the mandate to provide recommendations while keeping in mind 'The need to manage ecology, environment and climate change consistent with sustainable development.' A similar mandate has been given to the Fourteenth FC. With respect to environment, the Thirteenth FC identified three types of risks:

- *Growth-related risks* resulting from unconstrained release of industrial pollutants into the air and into water bodies

- *Poverty-related risks* resulting from inadequate access to potable water, absence of adequate sanitation and indoor air pollution from burning freely collected biomass for cooking
- *Policy-induced environmental risks*, several of which fall within the decision sphere of states

Several policy risks fall in the domain of the central government such as the fertiliser subsidy. Uneven price interventions have led to biased use of nutrients which have further resulted in decline in soil quality. Many policy risks also fall under the domain of the state governments. These include:

- Mispricing of electricity
- Coal-based thermal generation
- Ground-water depletion
- Lack of adequate infrastructure and services of surface water irrigation

Pollution has also become an issue of national importance. The THFC had left the issue of pollution control to the national government to coordinate and fund.

Besides the above, the THFC proposed steps which would serve to attenuate policy related risks and influence the formulation of policies that would reduce growth and poverty related risks. In this context, the THFC recommended forest grants.

The forests of India mitigate the impact of pollution resulting from economic activity, whether of agricultural or industrial origin. They provide a wide variety of services including regulatory services such as carbon sequestration, sediment control and soil conservation, ground water recharge, and protection from extreme weather events and preservation of bio-diversity. The benefits of these services exist beyond the boundaries of the state. However, the costs of having land under forests are imposed exclusively on the state in whose jurisdiction it lies.

Restrictions on deforestation are imposed through various acts such as The Forest (Conservation) Act, 1980 and judgements of the Supreme Court especially its order of 12 December 1996. Thus, states with a large proportion of area under forests, such as Uttarakhand, suffer from the combination of benefit externalities and internalised costs. The benefit externalities yielded by forests are a function of several factors including the density and the bio-diversity of the forest. However, the State Forest Reports estimate the data using the small area estimation technique, whereby small-sampling area results are used to generate the estimates for growing stock at the state level.

The formula used by the THFC takes into consideration three factors:

- The share of the total forest area in the country falling in any particular state;
- A further enhancement factor for those states where the share of forested area in the total area of the state is greater than the national average. This enhancement serves to add a further compensation for the economic disability posed by forest cover; and
- The quality of the forest in each state, as measured by density. The weights are progressively higher for area under moderately dense and dense forest cover.

We suggest the continuation of forest grants. The amount under the forest grants should however be significantly increased compared to the sum of `5000 crore by the Thirteenth FC.

### d. Incentive for Grid Connected Renewable Energy

Approximately 60 percent of the total generation of electricity in India is done through thermal plants using coal as an input. This acts a major contributor to carbon-di-oxide emissions. Moreover Indian coal has high ash content. The extracted ash needs approximately one acre of land per MW to be disposed off. The best alternative to coal produced energy is renewable energy which includes energy from wind, biomass, small hydro, bagasse based cogeneration and geothermal energy. However, several states have small or negligible potential from these sources. Moreover, the cost of renewable energy is much higher than other conventional forms of energy. Thus the cash-strapped state utilities have difficulty in procuring it.

In order to incentivise generation of grid electricity from renewable resources, the Thirteenth FC formulated a grant of `5,000 crores that rewards state efforts to generate electricity from renewable resources. The grant is to be based on states' achievement in renewable energy capacity addition in MW from 1 April 2010 to 31 March 2014. The performance of states is to be measured based on data published by the Government of India. Another conditionality attached is that the states would need to permit renewable energy sources developers/projects access to competitive power markets ensuring that the charges do not exceed the level prescribed by CERC.

### e. Grant for Water Sector Management

Several issues ail the water sector in India, the major ones being injudicious inter-sectoral and intra-sectoral distribution of water amongst various categories of water users, low water use efficiency, fragmented approach to water resources planning and development, low water user charges and meagre recovery. The policies with respect to surface water irrigation need urgent correction. A vicious circle has been created with poor maintenance of irrigation networks leading to poor recovery of user charges which further leads to poor maintenance of irrigation networks. The sector is mainly plagued with the lack of technical personnel who can monitor the usage of water, recommend appropriate steps for its conservation and devise methodologies to address the issue of structure and level of user charges.

The Thirteenth FC recommended a grant of `5,000 crores for this sector conditional upon the setting up of an independent Water Management Authority by 2011-12. The regulatory authority is expected to perform the following functions:

- To fix and regulate the water tariff system and charges for surface and sub-surface water used for domestic, agriculture, industrial and other purposes
- To determine and regulate the distribution of entitlement for various categories of uses as well as within each category of use
- To periodically review and monitor the water sector costs and revenues

The grants to each state would be in proportion to the share of its expenditure on irrigation (under major heads 2700/2701 and 2702) in the non-plan revenue expenditure of the state. To become eligible for the grants, the states are also expected to achieve the projected recovery rates determined by the State Water Regulatory Authority. Where no rates have been determined, the rates determined by the Thirteenth FC would apply.

The objective was to make the states self-reliant in governing matters of water usage and related cost recovery through decentralised maintenance of water bodies and local funding.

## f. Grants for Improving Outcomes

The mandate of the THFC included examining the 'need to improve the quality of public expenditure to obtain better outputs and outcomes'. Accordingly, the THFC focused on three issues through its recommendations:

a) How to ensure that intended expenditure reaches the target group, that is, elimination of untargeted groups from the scope of benefits
b) How to ensure that the expenditure contains the right mix of inputs to provide an acceptable level of service, e. g. for ensuring that a medical service contains elements of hospitals, doctors as well as medicines
c) How to ensure that the service provider has the required capacity and is fully incentivised to provide the service at the desired standard. This would include but not be limited to training of service providers on technical as well as IT skills wherever required.

Amongst the many indicators of human development the THFC zeroed in on the IMR as a target for improvement. It proposed to use the data from the survey under the Sample Registration System (SRS) conducted annually by the Registrar General of India (RGI) as a means to determine progress of the states on the basis of which the amount of grant would be calculated. The SRS measuring IMR for 2009 would be the base line from which improvement of each state would be measured. Moreover considering the fact that improvement is tougher from a higher base, states were to be rewarded both for improvement in the parameter as well as the level at which the improvement is made.

A total sum of ` 5,000 crore was recommended as a grant under this head. Data pertaining to 2009-10, which would be available in 2010 would be the base line for computing eligibility for all the succeeding years. Disbursal of grants would commence from 2012-13. To determine the grant available for each year, the cumulative improvement between 2009 and the preceding year would be taken into account.

## g. Grants for Maintenance of Roads and Bridges

Recognising the need for adequate maintenance of roads and bridges, The THFC provided a grant of `19,930 crores for ordinary repairs of roads and bridges in addition to the normal maintenance expenditure as assessed within the overall non-plan revenue expenditure of the states. The grants-in-aid for roads maintenance was provided to the extent of 50 per cent of the requirement assessed for non-PMGSY roads and 90 per cent of the requirement assessed for PMGSY roads for four years starting 2011-12.

Norms for ordinary repairs for each category of roads were applied to the road length in that category in a state, separately for hill and plain area roads. The data for road length was obtained for each type of road from each state. The assessment of annual requirement of maintenance in the case of special category states was increased by 20 per cent.

## h. State-specific Grants

The THFC also made recommendations for state-specific issues and issues that arise across states but need to be implemented locally. It accorded priority to the following areas with respect to the states' needs:

a) The specific needs of marginal areas and marginal groups within states
b) Provision of infrastructure to alleviate some of the problems faced by the local population in blocks and tehsils along the international borders.

c) Protection of historical monuments, archaeological sites and heritage buildings which are not with the Archaeological Survey of India (ASI)
d) Provision of safe drinking water, especially in regions afflicted with arsenic, salinity and fluoride related problems
e) Gaps in critical infrastructure for health, including care for children
f) Setting up and strengthening of skill-building institutions to help provide employable skills
g) Meeting the training requirements of police personnel at various levels

## 6.4 Summary and Suggestions

In regard to grants, the following suggestions are made taking into account the present macr-economic scenario and the changed economic circumstances of Uttarakhnad.

1. Uttarakhand would require grants to meet non-plan revenue grants. We also suggest that grants to special category states should not be hidden in the formula for tax sharing as was done by the Thirteenth FC.
2. Other grants should be continued and their amounts should be inflation-adjusted.
3. Forest grants should be significantly increased in real terms as forests play a critical long term role in the maintenance of forests leading to positive externalities extending well beyond the boundaries of the state.
4. Performance grants for Uttarakhand should be continued but targets should re-fixed given the likelihood of slippage in the current and next year.
5. If any amount is earmarked for GST compensation, this should be considered as a separate one-time provision and for this reason other grants to states should not be reduced or adjusted.
6. There should be minimum conditionalities.
7. State-specific grants for Uttarakhand are discussed separately in the chapter on special problems.

# Chapter 7

# Local Body Finances

## 7.1 Local Bodies: Role in the Constitutional Scheme

Local bodies constitute the constitutionally recognized third tier of governance in India. In the constitutional scheme, these are extensions of the state government and operate within the laws framed by the state governments. Still the constitution has made clear provisions for ensuring that adequate resources are accessed by these bodies to provide local public goods and services at acceptable standards in the respective local jurisdictions across the states.

The Constitution (73rd Amendment) Act, 1992 and the Constitution (74th Amendment) Act, 1992, that came into effect in April 1993, brought about major reforms in local governance in the country respectively for the rural and urban areas with an emphasis not only on provision of local public goods and services but also on development and social justice.

Both the central and state Finance Commissions have been entrusted with the task of ensuring adequate overall resources for the local bodies which may be provided (a) by assigned resources, tax and non-tax, to the local bodies under the relevant state legislation, (b) sharing of state resources by way of sharing in state tax revenues and grants, and (c) grants from the central government under the recommendations of the central Finance Commission.

The Tenth Finance Commission was the first to recommend central grants for local bodies. The subsequent central Finance Commissions have been asked in their ToR to make recommendations on the measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats and Municipalities in the State on the basis of recommendations made by the Finance Commission of the State. The Fourteenth FC, like its predecessors from Eleventh FC onwards, has been asked in the ToR, in making its recommendations, to give regard to "…the measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats and Municipalities in the State on the basis of the recommendations made by the Finance Commission of the State. ..".

## 7.2 Structure of Local bodies in Uttarakhand

Uttarakhand has a three-tier Panchayat Raj structure consisting of Gram Panchayats (GPs) at the lowest (village) level, Kshetra Panchayats (KPs) at the intermediate or development block level and Zila Panchayats (ZPs) at the district level. There are at present 7709 GPs, 95 KPs and 13 ZPs in the state.

There are 3 categories of urban local bodies (ULBs) in Uttarakhand: Nagar Nigam (NN) or Municipal Corporation (MC), Nagar Palika Parishads (NPPs) and Nagar Panchayats (NPs). There are at present 72 ULBs comprising 6 NN and 28 NPPs, 35 elected and 3 non-elected Nagar Panchayats (Annexure 2).

### a. Panchayats

Article243G of the Constitution states that subject to the provisions of this Constitution, the Legislature of a State may, by law, endow the Panchayats with such powers and authority as may be necessary to enable them to function as institutions of self-government and such law

may contain provisions for the devolution of powers and responsibilities upon Panchayats at the appropriate level, subject to such conditions as may be specified therein, with respect to:

- The preparation of plans for economic development and social justice; and
- The implementation of schemes for economic development and social justice as may be entrusted to them including those in relation to the matters listed in the Eleventh Schedule.

Article 243H of the Constitution states that the legislature of a State may, by law-

- authorise a Panchayat to levy, collect and appropriate such taxes, duties, tolls and fees in accordance with such procedure and subject to such limits;
- assign to a Panchayat such taxes, duties, tolls and fees levied and collected by the State Government for such purposes and subject to such conditions and limits;
- provide for making such grants-in-aid to the Panchayats from the Consolidated Fund of the State; and
- Provide for Constitution of such Funds for crediting all moneys received, respectively, by or on behalf of the Panchayats and also for the withdrawal of such moneys.

**b. Municipality/Urban Local Bodies**

As per Article 243Q, every State should constitute three types of municipalities in urban areas as under:

- Nagar Panchayat: Nagar Panchayat (by whatever name called) for a transitional area, that is to say, is an area in transition from a rural area to an urban area.
- Municipal Council (Nagar Palika Parishad): A Municipal Council is constituted for a smaller urban area; and
- Municipal Corporation (Nagar Nigam): A Municipal Corporation is constituted for a larger urban area.

Article 243W of the Constitution states the powers, authority and responsibilities of Municipalities. Subject to the provisions of this Constitution, the Legislature of a State may, by law, endow:

(a) the Municipalities with such powers and authority as may be necessary to enable them to function as institutions of self-government and such law may contain provisions for the devolution of powers and responsibilities upon Municipalities, subject to such conditions as may be specified therein, with respect to

- the preparation of plans for economic development and social justice;
- the performance of functions and the implementation of schemes as may be entrusted to them including those in relation to the matters listed in the Twelfth Schedule;

(b) Article 243X of the Constitution states the power to impose taxes by, and Funds of, the Municipalities. The Legislature of a State may, by law:

- authorise a Municipality to levy, collect and appropriate such taxes, duties, tolls and fees in accordance with such procedure and subject to such limits;
- assign to a Municipality such taxes, duties, tolls and fees levied and collected by the State Government for such purposes and subject to such conditions and limits;

- provide for making such grants-in-aid to the Municipalities from the Consolidated Fund of the State; and
- provide for constitution of such Funds for crediting all moneys received, respectively, by or on behalf of the Municipalities and also for the withdrawal of such moneys therefore.

## 7.3 Approach of the Central Finance Commissions

The Tenth FC was the first to make a provision for explicitly supporting local bodies through grants, subsequent to the passage of the 73rd and 74th amendments to the Constitution in 1993. Subsequent Finance Commissions have been recommending grants meant for local bodies as one specific measure for augmenting their resources.

The Thirteenth FC noted a number of lacunae with respect to the funding, operation and administration of local bodies. The commission noted the need for the local bodies to provide core services like drinking water, sewerage, solid waste management, and street lights at acceptable standards. It noted that services that are currently provided are highly inadequate.

With a view to providing a predictable and buoyant source of revenue, the Thirteenth FC recommended that local bodies be transferred a percentage of the divisible pool of taxes (over and above the share of the states) for the previous year, after converting this share to grant-in-aid under Article 275. Overall, the proposal was to award 2.28 percent of the relevant divisible pool (2009-14) as a grant to local bodies. This is equivalent to 1.93 per cent of the 2010-15 divisible pool.

The Thirteenth FC grant has two components: a basic component and a performance-based component. The basic grant is equivalent to 1.50 per cent of the previous year's divisible pool. All states have access to this grant for all the five years as per the criteria and weights mentioned below. The performance grant-effective from 2011-12 was 0.50 per cent for the year 2011-12 and 1 per cent thereafter, up to 2014-15. Only those states which meet certain stipulations have access to the performance grant. The inter se distribution of these grants was based on factors as summarized in Table 7.1.

**Table 7.1: Weights Allotted to Criteria for Grants to Local Bodies: 13th Finance Commission**

| Criterion | Weights Allotted (%) | |
|---|---|---|
| | PRIs | ULBs |
| Population | 50 | 50 |
| Area | 10 | 10 |
| Distance from highest per capita Sectoral income | 10 | 20 |
| Index of devolution | 15 | 15 |
| SC/STs proportion in the population | 10 | |
| FC local body grants utilisation index | 5 | 5 |
| Total | 100 | 100 |

Source: Report of the Thirteenth Finance Commission, Government of India

All the states are eligible to draw down their share of the general basic grant subject to submission of a utilisation certificate (UC) for the previous instalment drawn. However, for the years 2011-2012, 2012-13, 2013-14 and 2014-15, a State Government will be eligible to draw down its share of the general performance grant only if it complies with the following nine conditions (Table 7.2).

**Table 7.2: Incentive Framework for General Performance Grant**

| Sl. No. | Condition to be met | Demonstration of Compliance |
|---|---|---|
| **1.** | The State Government must put in place a supplement to the budget documents for local bodies (separately for PRIs and ULBs)furnishing the details (other than those relating to Finance Accounts) such as those of plan- and non-plan-wise classification of transfers separately for all categories of ULBs and all tiers of PRIs.<br>They should require the PRIs to maintain accounts according to the Model Panchayat Accounting System as finalised by the C&AG and the Ministry of Panchayati Raj. Similarly accounts of the PRIs need to be consolidated at the State and National Level by allotting specific codes to each Zila parishad, block panchayat and Gram Panchayat.<br>They should also require urban local bodies to maintain accounts according to an accounting framework consistent with the accounting format and codification pattern suggested in the National Municipal Accounts Manual. | (a) Submission of the relevant supplement to the budget documents and<br>(b)Certification that the accounting systems as recommended have been introduced in all rural and urban local bodies |
| **2.** | The State Government must put in place an audit system for all local bodies. The C&AG must be given TG&S over the audit of all the local bodies in a state at every tier/category and his Annual Technical Inspection Report as well as the Annual Report of the Director of Local Fund Audit must be placed before the state legislature. | Certification from the C&AG |
| **3.** | The State Government must put in place a system of independent local body ombudsmen who will look into complaints of corruption and maladministration against the functionaries of local bodies, both elected members and officials, and recommend suitable action. | Passage of relevant legislation and its notification |
| **4.** | The State Governments must put in place a system to electronically transfer local body grants provided by this Commission to the respective local bodies within five days of their receipt from the Central Government. Wherever this is not possible due to lack of easily accessible banking infrastructure, the State Governments must put in place alternative channels of transmission such that funds are transferred within ten days of their receipt. | Self-certification by the State Governments with a description of the arrangements in place |
| **5.** | The State Governments must prescribe through an Act the qualifications of persons eligible for appointment as members of the SFC consistent with Article 243I (2) of the Constitution | The passage of relevant legislation and its notification |
| **6.** | All local bodies should be fully enabled to levy property tax (including tax for all types of residential and commercial properties) and any hindrances in this regard must be removed. | Self-certification by the State Government |
| **7.** | State Governments must put in place a state level Property Tax Board, which will assist all municipalities and municipal corporations in the state to put in place an independent and transparent procedure for assessing property tax. The functions of the board are also listed by the THFC. | Passage of the relevant legislation or issue of the necessary executive instructions by the State Government for creation of the Property Tax Board as well as publication of the work plan by the Board in the State Government gazette |
| **8.** | State Governments must gradually put in place standards for delivery of all essential services provided by local bodies. For a start, State Governments must notify or cause all the municipal corporations and municipalities to notify by the end of a fiscal year (31 March) the service standards for four service sectors-water supply, sewerage, | Publication of such a notification in the State Government gazette |

| Sl. No. | Condition to be met | Demonstration of Compliance |
|---|---|---|
| | Storm water drainage and solid waste management proposed to be achieved by them by the end of the succeeding fiscal year. | |
| **9.** | All municipal corporations with a population of more than 1 million (2001 census) must put in place a fire hazard response and mitigation plan for their respective Jurisdictions. | Publication of these plans in the respective State Government gazettes |

Source: Report of the Thirteenth Finance Commission, Government of India

These conditions aimed at improving processes and putting in place a credible framework for analysing the performance of all local bodies as well as making them responsible for their service levels.

Provisions were also made for special area basic grant and special area general grant subject to specific conditions. Moreover, the states also have the option to appropriately allocate a portion of their share of the general basic grant and general performance grant, to the 'excluded areas' in proportion to the population of these areas. This allocation would be in addition to the special area basic grant and special area performance grant. The Thirteenth FC also recommended the payment of appropriate civic service charges by the departments of central governments to the local bodies whose services are being used.

The states play an active role in devolution of powers and funds to local bodies. Recommendations regarding measures to be taken by the state bodies to increase funding include:

1. Sharing of Mining Royalties received by the state with the local bodies in whose jurisdiction the royalty arises
2. Mandating some or all local taxes as obligatory at non-zero rates of levy
3. Deducting deemed own revenue collection from transfer entitlements of local bodies or through a system of matching grants
4. Payment of appropriate civic service charges by the departments of state governments to the local bodies whose services are being used.

The Thirteenth FC also made several recommendations to increase the responsibilities of the local bodies as well as make them more accountable:

1. Local bodies should be associated with city planning functions wherever other development authorities are mandated this function. These authorities should also share their revenues with local bodies.
2. State Governments should lay down guidelines for the constitution of Nagar Panchayats. Ad-hoc declaration of small regions as Nagar Panchayats can deprive it of benefits of rural development programmes. Further these institutions may incur higher development costs than Gram Panchayats.
3. The development plans for civilian areas within the cantonment areas (excluding areas under the active control of the forces) may be brought before the district planning committees.
4. The finance accounts should include a separate statement indicating head-wise details of actual expenditures under the same heads as used in the budget for both PRIs and ULBs. This would ensure greater uniformity, comparability and accountability.
5. Strengthening the local fund audit departments by State governments through capacity building as well as personnel augmentation.

The Thirteenth FC also made recommendations related to the functioning of the State Finance Commissions as summarized below.

1. The tenure of State Finance Commissions (SFCs) needs to be synchronous with that of the Central Finance Commissions (CFCs), so that the reports that they produce can be used in a timely manner by the CFCs. Hence, the THFC recommended that Article 243-I of the Constitution which requires that SFCs be appointed at the 'expiration of every fifth year', should be amended to include the phrase 'or earlier' after the words 'every fifth year'.
2. Moreover the reports of the SFCs are generally not of the required quality. Article 280 (3) (bb) & (c) of the Constitution which requires the CFC to make its recommendations 'on the basis of the recommendations of the Finance Commission of the State' should be amended such that the words 'on the basis of the recommendations of the Finance Commission of the State' are changed to 'after taking into consideration the recommendations of the Finance Commission of the State'.
3. To incentivise the SFCs to improve the quality of its reports and provide sound recommendations, State Governments should ensure that the recommendations of SFCs are implemented without delay and that the Action Taken Report is promptly placed before the legislature.
4. To make the reports of SFCs more uniform and consequently more usable, the THFC suggested a template which could be adopted by them.
5. SFCs form an important instrument for coordination between the local bodies and the state governments. Bodies similar to the SFC should be set up in states which are not covered by Part IX of the Constitution.

Uttarakhand has been compliant with these conditions.

## 7.4 State Finance Commissions in Uttarakhand

The appointment of a state finance commission is provided for under Articles 243 I and 243 Y of the Constitution, whereby in every five year, the state is required to constitute such a commission. The first State Finance Commission of Uttarakhand was constituted on 31st March 2001. Its recommendations were applicable from 1 April 2001 to 31 March 2006. The Second State Finance Commission was constituted on 30 April 2005, which submitted its report on 6 June 2006. Its recommendations were applicable from 1 April 2006 to 31 March 2011. The Third State Finance Commission was constituted on 2nd December 2009 with Shri I. K. Pandey as Chairman. Its recommendations are to apply from 1 April 2011 to 31 March 2016.

The main tasks of the state finance commissions are:

1. Distribution between the state and panchayats/municipalities of the net proceeds of the taxes, duties, tolls and fees liveable by the state.
2. Determination of the taxes, duties, tolls and fees which may be assigned as, or appropriated by, panchayats/municipalities
3. Grants-in-aid to panchayats/municipalities from the Consolidated Fund of the State
4. Measures needed to improve the financial position of panchayats/municipalities
5. Any other matter referred to the Finance Commission by the governor in the interest of sound finance of panchayats/municipalities.

## 7.5 Local Bodies in Uttarakhand: Main Features

The revenue collections in a particular region are impacted by the level of economic activity as measured by the gross domestic product. This impacts the tax base as well as the tax paying capacity of the citizens. Although at the state level Uttarakhand has performed well, there are wide inter-district variations in terms of economic performance within the state. This can be seen from Table 7.3.

**Table7.3: District Domestic Product of Uttarakhand (2008-09 Advance Estimates)**

| | | At Constant Prices (1999-2000) | | At Current prices | |
|---|---|---|---|---|---|
| **S.No.** | **District** | **GDDP** | **Per Capita in `** | **GDDP** | **Per Capita in `** |
| **1** | Uttarkashi | 65,361 | 19,598 | 96,136 | 28,826 |
| **2** | Chamoli | 1,12,775 | 26,936 | 1,58,560 | 37,871 |
| **3** | Rudraprayag | 48,608 | 18,905 | 70,744 | 27,515 |
| **4** | Tehri Garhwal | 1,79,385 | 26,239 | 2,61,787 | 38,292 |
| **5** | Dehradun | 5,01,701 | 34,614 | 7,27,215 | 50,172 |
| **6** | Garhwal | 1,81,292 | 23,006 | 2,54,912 | 32,348 |
| **7** | Pithoragarh | 1,20,273 | 23,014 | 1,71,228 | 32,764 |
| **8** | Bageshwar | 47,893 | 16,983 | 72,653 | 25,762 |
| **9** | Almora | 1,66,152 | 23,308 | 2,33,608 | 32,771 |
| **10** | Champawat | 55,224 | 21,756 | 80,100 | 31,555 |
| **11** | Nainital | 2,78,787 | 32,325 | 4,07,192 | 47,213 |
| **12** | Udham Singh | 3,64,327 | 26,082 | 5,39,839 | 38,647 |
| **13** | Haridwar | 6,29,780 | 38,495 | 9,41,952 | 57,576 |
| | **Total** | **27,51,558** | **28,671** | **40,15,926** | **41,846** |

Source: Report of the Third State Finance Commission of Uttarakhand, 2011-16

Per capita DDP at current prices varies between `25,762 (Bageshwar) and `38,292 (Tehri Garhwal) among hill districts. Amongst plain districts the per capita income varies between `38,647 (U.S. Nagar) to ` 57,576 (Haridwar). Only Nainital despite being a hilly region had a per capita DDP of `47.213. Industrial and concomitantly services growth has occurred predominantly in the districts of US Nagar, Dehradun and Haridwar.

The structure of decentralised governance in Uttarakhand is similar to other states. The rural governance system consists of three tiers of Panchayati Raj institutions (PRIs) – gram panchayats at the village level, kshetra panchayats at the level of development block and zilla panchayats at the district level. Urban Local bodies are similarly divided into Nagar Nigams, Nagar Palika Parishads and Nagar Panchayats. Nagar Panchayats represent places that are in transition from a rural status to an urban status.

Both the systems face several issues that the Third State Finance Commission highlights in its report.

### Panchayati Raj Institutions (PRIs)

In 2010, there were 7,541 gram panchayats covering 15,761 villages, 95 kshetra panchayats and 13 zila panchayats. Key characteristics of the PRI system in Uttarakhand are as follows:

1. **Large number of Gram Panchayats:** After the formation of the new state, the government tried to rationalise the number of gram Panchayats to prevent the proliferation of small rural bodies. It fixed the minimum and maximum population for a gram panchayat at 300 and 1,000 in the hilly parts and at 1,000 and 5,000 for the plains respectively. However, its efforts have been unsuccessful so far. More than 812 gram panchayats still exist with a population of less than 300. The total number of panchayats too increased from 7055 in 2002 to 7541 in 2010.
2. **Overlapping functions:** The UP Zila Panchayat and Kshetra Panchayat Act, 1961 assigns almost similar functions to Zila Panchayats and Kshetra Panchayats. Similarly the U.P. Panchayat Raj Act, 1947 assigns similar functions to the Gram Panchayats. This has resulted in a non-hierarchical structure of the PRIs with independent functioning of each level.
3. **Large variation in Size of Zila Panchayats:** In terms of population size, zila panchayats vary from a minimum of 2 lakhs (approx.) in Champawat to a maximum of 10 lakhs (approx.) in Haridwar. In terms of area too, the zila panchayat size varies from a low of 1,000 sq. kms in Champawat to 8,000 sq kms in Uttarkashi. Table 7.4 gives the population and area details of each zila.

**Table 7.4: Population and Area of Zila Panchayats**

| Zila Panchayat | Population (2001) | Area (in sq. km) |
|---|---|---|
| Almora | 5,78,361 | 3,665 |
| Bageshwar | 2,41,659 | 1,080 |
| Chamoli | 3,20,000 | 7,448 |
| Champawat | 1,98,865 | 993 |
| Dehradun | 5,10,199 | 3,048 |
| Hardwar | 9,90,085 | 1,960 |
| Nainital | 7,62,909 | 3,422 |
| Pauri Garhwal | 6,24,740 | 5,329 |
| Pithoragarh | 4,62,289 | 8,856 |
| Rudraprayag | 2,24,707 | 1,971 |
| Tehri Garhwal | 5,44,901 | 3,565 |
| Udham Singh Nagar | 8,32,600 | 2,995 |
| Uttarkashi | 2,72,095 | 7,999 |

Source: Report of the Third State Finance Commission, Uttarakhand

An important deficiency that underlines the relatively inadequate performance of local bodies both rural and urban pertains to inadequate capacities of these bodies interms of human resources as well as physical infrastructure. In the case of urban local bodies, such capacities are needed not only to meet the regular responsibilities but also additional programmes like JNNURM, IDSMT, BSUP and IHSDP, which require sophisticated skills and capacities. The Third State Finance Commission has also observed that the 63 ULBs in Uttarakhand are at present extremely deficient in terms of these capacities, both in terms of human resources and infrastructure that could facilitate more effective functioning through e-governance and other capacity enhancing initiatives.

These ULBs in the state are also saddled with certain major constraints on account of their peculiar situation. They are required to cater for a large non-minimal revenue paying floating population on account of the fact that a large number of them are pilgrim destinations or on the Yatra route. Many others are important tourist destinations. While the level of economic activity and paying capacity is low, given their hill nature, the responsibilities on this account are onerous.

## 7.6 Devolution of Funds to Local Bodies

### a. Rural Local Bodies

The Third State Finance Commission determined the devolution scheme of funds for PRIs (50% of the total amount) for the years 2011-15 as given in Table 7.5.

**Table 7.5: Shares of various Categories of Panchayati Raj Institutions**

| Sl. No. | Category of PRI | Number of respective PRIs in the state | Weightage |
|---|---|---|---|
| **1** | Gram Panchayats | 7541 | 50% |
| **2** | Kshetra Panchayats | 95 | 20% |
| **3** | Zila Panchayats | 13 | 30% |

Source: Report of the Third State Finance Commission, Uttarakhand

The maximum weight has been given to the Gram Panchayats by the Commission. The share of Kshetra Panchayats and Zila Panchayats was determined as 30% and 20% respectively by the Second State Finance Commission. However, the Third State Finance Commission devolved a greater percentage of funds to the Zila Panchayats keeping in mind that Kshetra Panchayats have neither any independent functions, functionaries, funds or assets of their own.

Devolution to the Zila Panchayats and Kshetra Panchayats was determined on the basis of the common criteria of population, area and remoteness. Tax effort was used as an additional criterion for Zila Panchayat, while the number of gram panchayats was used as a criterion for Kshetra Panchayats. Table 7.6 gives details of the devolution criteria used within each category of PRI.

**Table 7.6: Weightage Scheme for Inter-se Distribution of the devolution within each category of PRI**

(Percent)

| Criteria | Zila Panchayats | Kshetra Panchayats | Gram Panchayats (GPs) |
|---|---|---|---|
| Population | 50 | 60 | 80 |
| Area | 20 | 15 | 20 |
| Remoteness | 15 | 15 | |
| Tax Effort | 15 | | |
| No. of GPs | | 10 | |

Source: Report of the Third State Finance Commission, Uttarakhand

Due to unavailability of data, only two factors namely population and area have been considered to devolve funds amongst gram panchayats. To overcome the problem of inadequate funding determined by the formula, the floor population was fixed at 300 for gram panchayats having population lesser than this threshold. This was in accordance with the minimum population size prescribed for Gram Panchayats in the hilly parts of the state under the Uttarakhand amendment to the U.P. Panchayat Raj Act, 1947.

For determination of remoteness of Zila Panchayats and Kshetra Panchayats, distance from railhead was considered. The distance bands and the weight attached to each band are given in Table 7.7.

**Table 7.7: Weightage Scheme to determine remoteness of Zila Panchayat and Kshetra Panchayat**

| Distance bands (kms) | 0-25 | 26-75 | 76-150 | 150+ |
|---|---|---|---|---|
| Weightage for ZPs and KPs | 15% | 35% | 60% | 100% |

Source: Report of the Third State Finance Commission, Uttarakhand

### b. Urban Local Bodies

Uttarakhand has a total of 72 municipal bodies consisting of one old Nagar Nigam (Dehradun) and five recently notified Nagar Nigams (Haridwar, Haldwani, Kashipur, Rudrapur and Roorkee), 28 Nagar Palika Parishads and 35 elected Nagar Panchayats and 3 non-elected Nagar Panchayats, 12 Census Towns and two Industrial Townships. The U.P. Municipal Corporation Act, 1959 governs all municipal corporations while the U.P. Municipalities Act, 1916 is applicable to the Nagar Palika Parishads and Nagar Panchayats.

The key issues facing the ULBs in Uttarakhand are as follows:

1. **Urban degradation:** Rapid urbanisation has led to additional pressure on urban infrastructure such as roads, slums, sewage etc. This has resulted in increased pollution, environmental degradation, filth and squalor in the cities of Dehradun, Haldwani, Haridwar, Roorkee and Kashipur among others.

2. **Wide Variation in Population:** The classification of urban bodies in the state exhibits wide variation in its population covered. For example, excluding the 6 Nagar Nigams, the most populated Nagar Palika Parishad (Rishikesh) has more than 32 times the population of the least populated one (Dogadda). Similarly, the most populated Nagar Panchayat (Laksar) has more than 10 times the population of the least populated pachayat (Nandprayag). The population of Laksar itself is more than that of 11 Nagar Palika Parishads. The population of census towns too ranges from 3,739 (Dharchula Dehat) to 24,921 (Raipur). Hence, there is an urgent need to reclassify the various levels of governance systems to make them more symmetric in terms of population coverage. The Third State Finance Commission of Uttarakhand proposes that the 2011 census could be used as the basis for such a reclassification.

The Third State Finance Commission determined the devolution scheme of funds for Urban Local Bodies for the years 2011-15. Population size was given the maximum weightage to determine the share of funds of each urban local body. The overall shares of various ULBs are given in Table 7.8.

**Table 7.8: Shares of Various Categories of ULBs**

| Sl. No. | Type of ULB | Number of respective ULBs in the state | Weightage |
|---|---|---|---|
| **1** | Nagar Nigams | 3 | 25% |
| **2** | Nagar Palika Parishads | 30 | 60% |
| **3** | Nagar Panchayats | 30 | 15% |

Source: Report of the Third State Finance Commission, Uttarakhand

The then existing three Nagar Nigams namely Dehradun, Haridwar and Haldwani have been allotted a greater share taking into account their greater needs and responsibilities. Dehradun, being the state capital, needs to cater to several institutional and tourism needs amongst others.

Similarly the share of Nagar Palika Parishads has been kept higher than those of Nagar panchayats which are essentially townships in transition from rural to urban status.

Three common criteria namely population, area and tax effort were used for the weightage scheme across the three categories of ULBs. However, while tax effort was used as a criterion for devolution amongst Nagar Nigams, per capita own revenue was used for Nagar Palika Parishads and Nagar Panchayats. Special circumstances such as the condition of being a state capital, district headquarter; tourist destination or being located along the yatra route was also used as a criterion. But consideration was given to only one if multiple criteria were applicable to a single ULB. Table 7.9 to 7.10 give the weightage scheme for distribution of funds amongst each ULB.

**Table 7.9: Weightage Scheme for Inter-se Distribution of the devolution within each category of ULB**

(Percent)

| Criteria | Nagar Nigams | Nagar Palika Parishads | Nagar Panchayats |
|---|---|---|---|
| Population* | 75 | 60 | 65 |
| Area** | 10 | 10 | 10 |
| Tax Effort | 10 | - | - |
| Per Capita Own Revenue | - | 15 | 15 |
| Special Circumstances | 5 | 15 | 10 |

Source: Report of the Third State Finance Commission, Uttarakhand

*Actual Population subject to a minimum of 5,000

**For consideration of Area NPPs and NPs would be placed in one of the four bands as given below:

**Table 7.10: Weightage given to Area for determination of devolution to Nagar Palika Parishads and Nagar Panchayats**

| **Nagar Palika Parishads** | | | | |
|---|---|---|---|---|
| **Area bands (sq. kms)** | **0-10** | **11-20** | **21-30** | **31-40** |
| Weights | 50% | 70% | 85% | 100% |

**Nagar Panchayats**

| **Area bands (sq. kms)** | **0-10** | **11-20** | **Above 20** |
|---|---|---|---|
| Weights | 65% | 95% | 100% |

Source: Report of the Third State Finance Commission, Uttarakhand

## 7.7 Suggestions for the Fourteenth Finance Commission

In considering their scheme of transfers to augment the resources of local bodies and other related matters, the following suggestions are made:

1. In the inter se distribution of grants for local bodies amongst states, differences in the unit costs of providing local public goods and services may be introduced as a factor. The unit costs are considerably higher in states with low density of population in hilly areas with limited connectivity.
2. Excessive conditionalities in the incentive-linked part of grants for local bodies may be reduced or instead of having two parts, only one general grant with a limited number of conditionalities may be recommended.
3. The Fourteenth Finance Commission may provide information and an analysis of reasons for differences in the levels of locally provided public goods and services across states for the benefit of state finance commissions.
4. A key objective of transfers from the central government aimed at local bodies should be to create and sustain adequate capacity at the local level both in terms of human resources and physical infrastructure.
5. The Fourteenth Finance Commission may recommend the setting up of an independent national agency with financial support for research on the working and performance of local bodies in an inter-state comparative perspective and for acting as a platform for information exchange amongst state governments and state finance commissions on matters relating to the working of local bodies in India.

# Chapter 8

# Calamity Relief and Grants for Up-gradation and Special Problems

Finance Commissions in the recent past have been recommending grants for up-gradation of facilities and infrastructure for the provision of public and merit services like health and education. They have also been recommending grants for special problems or considerations, which are not covered by broad formula based transfers or norm based assessment of routine expenditure. As already noted in the earlier chapters, Uttarakhand incurs significant expenditures with a view to serving the citizens of other states. Of these, two specific needs relate to (a) externalities associated with maintenance and development of large forest resources, (b) maintenance of a large road network and communications facilities to cater to pilgrims coming from different parts of the country. The natural calamity that Uttarakhand suffered in June 2013 is linked to both (a) and (b) and the subsequent relief, rehabilitation and reconstruction has the highest priority.

## 8.1 Relief, Rehabilitation and Reconstruction linked to June 16-17 Natural Disaster in Uttarakhand

The state of Uttarakhand regularly faces the fury of flash-floods and landslides during monsoons. Earthquakes, avalanches, hailstorms and forest fires are other common disasters in the state. Enhanced by anthropogenic activities, most disasters are caused by natural geological processes and it is not always possible to prevent them. The impact of these natural events can, however, be greatly reduced by careful planning and timely and effective action, thereby reducing human sufferings.

The state suffered massive damage following the massive landslides, cloud bursts and floods on June 16-17, 2013. Uttarakhand areas had earlier also suffered due to natural calamities. There were earthquakes in 1991 and 1999 in Uttarkashi and Chamoli. In 1998, there were major landslides in Malpa and Okhimath. There were landslides and flash-floods in 2010 and 2012. But the fury and damage caused by the 2013 natural disaster has been quite unprecedented.

The disaster took place in the Mandakini valley in Rudraprayag district on the night of June 16, 2013 and in the morning hours of June 17, 2013 following cloud burst and massive flash floods. The volume of water was enormous and it carried with it huge glacial boulders and outwash material that ravaged Kedarnath. There was absolutely no warning and most people were taken by surprise and there was no time to respond to the calamity. Besides Kedarnath, this event caused devastation in Rambara, Gaurikund, Sonprayag, and other places. Similar catastrophe struck mountains all over the higher reaches of the Himalayan terrain spreading across Yamnotri, Gangotri, Badrinath, Hemkund Sahib, and mountains along the holy Kailash-Mansarovar Yatra route.

The entire government machinery has since been involved in rescue, relief, repair, and reconstruction work in their multiple dimensions. The main requirement of funds relate to the Department of Disaster Management, Public Works Department, Power, Irrigation, Urban

Development Department, and Shri Badri-Kedar Mandir Samiti. Initially the total requirement of funds for relief and reconstruction was estimated to be Rs`13844.33 crores. The details have been separately documented after detailed consultations with the Government of India, Planning Commission, World Bank and Asian Development Bank whose teams visited the state after the natural calamity. The State Government has accorded the highest priority for the relief, repair, restoration and re-construction work. The overall revised estimated cost is ` 8697.33 crores. Out of this `1187.87 crores is related to NDRF/SDRF funds. ` 7000 crore has been sanctioned by the Government of India and Planning Commission as EAP, CSS and SPA funds over a period of 3 years. In view of the recurrent nature of calamities in Uttarakhand, the share of the State under CRF may be suitably increased.

While this grant is for the short term relief and reconstruction, there are longer term considerations with respect to special problems and up-gradation needs.

## 8.2 Ecosystem Services and Green Bonus

Forest resources of Uttarakhand should be treated as a special feature with important implications for the centre-state financial transfers. Contemporary economic perspectives of ecosystem services (ESS) emphasize that the benefits from the state's ESS flow to a set of stakeholders far beyond its boundaries. The benefits of the ecosystem services are not reflected fully by the market system and governments should incorporate these in their accounting systems so that the service providers have economic rewards for their conservation efforts. Taking note of this, the Twelfth FC had allocated `1000 crore as grants-in-aid, spread over the period 2005-10, for the maintenance of forests, of which the share of Uttarakhand was `35 crore. While this was, no doubt, a step in the right direction, the next step should be differentiation of forest covers across the states on the basis of ESS flow. This means rewarding those states more whose ESS serve a larger number of people as against the ones whose ESS serve few people, even if they have a similar forest cover.

Ecosystem services are defined as a wide range of conditions and processes through which natural ecosystems, and the species that make them up, sustain and fulfil human life. The ESS is generated as a consequence of interaction and complex exchange between biotic and a biotic components of an ecosystem through the universal driving forces of matter and energy. In other words, ecosystem functions (such as nutrient cycling and biomass productivity) generate ecosystem services, but it is not always necessary that they show a one-to-one correspondence. Based on available scientific evidences, three general statements may be made:

1. ESS are essential to human civilization,
2. They operate at such large scale and in complex and little explored ways that, most cannot be substituted by human endeavours or available technology, and
3. Human activities are already damaging the flow of ESS on a large scale.

According to contemporary thinking, ESS may be categorized as:

1. Regulatory, such as climate moderation, disease and pest control, pollination, and hydrological regulation
2. Cultural, covering recreational, spiritual, educational, and aesthetic aspects, and
3. Supporting services like soil formation, nutrient cycling, biodiversity and succession.

Compensation for externalities linked to ecosystem services may be referred to as the '**green bonus'.**

### a. Uttarakhand: Forest Related Facts

Forests are one of the most important resources of Uttarakhand and have a direct role in supporting rural livelihoods not only by meeting the people's day-to-day needs of fuel, fodder and timber but also by providing employment in some areas. Of the total forest area under the control of the state forest department, the area occupied by sal (shorea robusta), chir pine (pinus roxburghii), and oak (quercus spp) forests is 3151 sq km, 3993 sq km and 3000 sq km respectively. Further, at the high elevations (above 2000 m), deodar (cedrus deodara), blue pine (pinus wallichiana), cypress (cupressus torulosa), fir (abies pindrow) and spruce (pricea smithiana) together cover nearly 5.4% of the total forest area.

The remaining forest area is under the management of local forest institutions known as van panchayats (Forest Councils) (15.7%), state revenue department (13.7%) as Civil and Soyam forests, and very small area (0.46%) under the control of others including private ones. The van panchayat forests occupy approximately half a million hectares and are being managed through more than 12000 van panchayats.

Many of the biomass and productivity values are on the higher side of ranges for similar forest types found elsewhere. The potential regional productivity appears to be above that previously predicted form measurements of climate (Singh, et al 1994). The area between the timber line (> 2800 m amsl) and snowline is represented by vast stretches of alpine meadows locally known as buggyals and adjacent sub-alpine forests are not only of unparallel scenic and aesthetic value, but also harbour many life-saving medicinal plants (e.g. taxus baccata, podophyllum hexandrum, picrorhiza kurooa, aconitum heterophyllum etc). Some endangered wild animals also live there and more importantly these meadows serve as grazing grounds for a large number of livestock and are known historically as a sacred land for saints, trekkers and nature lovers. The alpine meadows are going to be the hub of activities with rising global temperatures because of the upward march of species and humans.

### b. Forest Ecosystem Services

The state lying in the Central Himalayan region has a high ecosystem value with above 45% area under good forest cover and also because of its river connections nurturing a large territory downstream the Gangetic Plains. There is no such receiver territory for ecosystem services in the eastern Himalayan region though this area is given higher priority internationally for conservation.

Thus, the forest ecosystems of Uttarakhand play a major role in the ecological security of the country. The forests of Uttarakhand contain 496 million tc in their biomass and soil components and contribute significantly in terms of carbon sequestration which has great significance from a climate change stand point.

Apart from the C-sequestration, the forests play a significant role in providing ESS to the adjacent Gangetic Plains, one of the most productive agricultural areas of the world. Though the formation of the great Gangetic Plains was a geological process, ESS flowing from the Himalayas have played a pivotal role in making it fertile and robust. The principal forest ESS includes soil formation, hydrologic regulation, and maintaining suitable moisture regimes for the rich and highly endemic biodiversity and maintenance of productive agriculture in the Gangetic Plains. These ESS are important for the well being of not only 50 crore people

living in the Gangetic Plains but also for over `50 lakh local farmers of Uttarakhand as traditional agriculture is heavily dependent on surrounding forests for resources. According to an estimate, to generate one unit of energy from agriculture, 10-12 energy units of forest biomass are required. According to a rough estimate, contribution to forest ESS of the state to food production in the Gangetic Plains is worth about `1000-5000 crore annually. These figures simply indicate a cautious guess. The maintenance of genetic diversity of crops, livestock, fodder plants, soil microbes and organically produced food grains and pulses in the traditional mountain agriculture of the state can also be recognized as services provided by the forests.

**c. ESS Flow to the Gangetic Plain**

Although it is difficult to obtain precise estimates of the magnitude of ESS flowing from Uttarakhand to the Gangetic Plains, there are certain evidences that testify their value:

- High water status in the low land forest ecosystems than in highlands despite lower precipitation: For example, though the sal forests in the plains receive 100 cm less rainfall than the forests in the Nainital catchments, the water potential both in soil and tress are significantly higher in the sal forests largely because of downstream movement of water, soil and nutrients resulting in a high productivity.
- Increase in the proportion of sand and gravel in downstream areas subsequent to deforestation upstream: The grasslands in plains adjacent of the mountains are among the most productive ecosystems of the world.
- In many parts of the world (e.g. western coastal United States), ecosystem productivities are much lower in the plains than in the adjacent mountains (Zobel et. Al. 2001). In some regions, desert vegetation in the plains surrounds forest vegetation in the mountains. In contrast, the productivity in the plains of the Himalayan region is generally greater than in the mountains, indicating an effective downstream flow of the ESS.
- Resumption of crop cultivation in the plains immediately after scooping out one meter of soil for brick-making is testimony to the build-up to soil fertility.
- Crop cultivation in the Gangetic Plains for several thousands of years without widespread degradation has been possible because of the ongoing replenishment of soil and its fertility from the mountains.

**d. Humidity**

Much of the high humidity of the Gangetic Plains is due to the forest cover of the Himalayas. Delhi's humidity, for example, is very high considering that from the standpoint of precipitation it is a semi-arid place. In contrast to the temperate region, where forest cover is limited to 1000-1500 m altitudes, in the Himalayan region, forests clothe the slopes even beyond 3000 m altitudes. A high humidity level plays a significant role in promoting growth of both cultivated food crops as well as trees. Valuation of these services is difficult because several other factors can suppress their effects, nevertheless these are quite real.

**e. Carbon Value**

A reasonable detailed carbon data-set for various forest types of Uttarakhand is available. In least disturbed forests of various types, such as sal (shorea robusta), pine (pinus roxburghii) and oaks (quercus spp) forests carbon sequestration rates in the total biomass range between 4.0 and 5.6 t C $ha^{-1}$ $yr^{-1}$ , which are reasonably close to values reported for tropical forests. However, these high rates are not found everywhere and for some areas forest types may

reflect a range between 2.5-3.5 C $ha^{-1}$ $yr^{-1.}$ The amount of carbon accumulated in total forest biomass in the state is estimated at 6.61 M t $yr^{-1}$, and valued at Rs.382 crore at the rate of $13 per t carbon. These values are not dissimilar from the profitability from growing cereals or millets in terraced fields. Thus, if current carbon credit trading values are taken, the economic gains from the forests protection should rival that from terraced agricultural fields. These figures do not even put a worth on the increase in biodiversity, groundwater recharge, climate mitigation and other beneficial impacts of the forests or increase in tourism potential which can add real economic value.

Carbon has become a commodity which can be traded at national and international levels with no cost of transportation and quality control. There are serious threats to the C-stock of Uttarakhand as conservation measures were not seen to be positively linked to economic growth. The poor people in Uttarakhand depend heavily on firewood as a source of cooking energy. Fuel wood consumption per capita in the 1500-2000 m zone in the Garhwal region is approx two kg $day^{-1}$(Bhatt and Sachan 2004). It varies from 2.8 kg at higher altitudes (>2000m) to 1.42 kg $capita^{-1}day^{-1}$ at lower altitudes (1000-1500 m) and lower still in the foot hills.

**f. Valuation of Forest ESS of Uttarakhand: Payment for Environmental Services**

Thus, the intangible services of the forests such as carbon sequestration, watershed protection, landscape beauty, biodiversity conservation, prevention of soil erosion, nutrient cycling etc seldom enter into the development planning process and therefore do not command a market valuation. As many of these services are facing increasing threats there is recognition that existing and traditional regulatory approaches alone may not suffice to ensure their protection and sustained flow. Thus, in many parts of the world, explicit value is being placed on these services and real payments are being generated for forest owners and managers acting as an incentive for conservation. Such an approach is clearly the need of the hour particularly when two-thirds of Uttarakhand's geographical area has to be maintained as forests and while the cost of conservation is borne by the forest conserving local communities, the large benefits are reaped by other key stakeholders. Given this scenario, payment for ecosystem service to the state are extremely relevant as they offer the potential of addressing both conservation and livelihood concerns.

It is almost impossible to give a precise value of ESS flowing from a state to other states/regions of the country. However, in order to maintain the nature capital and flow of ESS, individuals, communities and states must be given economic incentives. Needless to say, the Central Government is expected to take the lead. The Twelfth and Thirteenth FCs have already taken the first steps by relating the value of ESS to forest area.

Costanza et al. (1997) identified 17 specific goods and services provided by ecosystems: gas regulation, water regulation, water supply, erosion control and sediment retention, soil formation, nutrient cycling, waste treatment, pollination, biological control, refugia, food production, raw materials, genetic resources, recreation and cultural services. The study provides a rough estimate of the magnitude of ecosystems service values on a global scale and reported values can serve as a basis for estimates of forest ecosystems values for tropical, temperate and boreal forests of the world. In order to make the estimation of total value of ESS the authors estimated the total global extents of ecosystems and classified them into 16 primary categories such as coastal areas, open areas, tropical and temperate and grasslands. Valuation of each type of the ecosystem and each type of ecosystem services was done

separately. Though the figures of Costanza et al are global but from them one could draw some conclusions for the Himalayan area. The Himalayan forests are closer to temperate forests as far as species richness are concerned and are closer to tropical forests in terms of the ecosystem functioning. Since the latter is more important in relation to ESS for the Himalayan forests taking the mid-point values of ESS estimated for tropical forest and temperate/boreal forests has been considered to be safe for estimating an indicative value of various forest ESS of the state (Singh 2007). With an average value of about \$1150 $ha^{-1}yr^{-1}$ the total value of ESS from the forests of Uttarakhand (area under forest cover 3465057 ha) works out to be approximately \$3.98 billion $yr^{-1}$. The magnitude of the value coming out of the valuation exercise mentioned above at first glance look quite large. The report from which these estimates are taken qualifies the results by saying that they are rough-cut estimates.

Another way of looking at the issue would be to measure the opportunity cost for preserving forest resources. The finance division of the Planning Commission worked out an interesting index called the 'forest disability index' based on the reasoning that on account of keeping large area under forest cover there has been a loss of `1291420 per sq km net revenue from forest conservation in relation to agricultural income. This translates into an overall loss of `4474.8 crore annually to the state on account of forest conservation. The contribution of the forest sector to the GSDP is ` 569 crore (2005-06). If we subtract this contribution from the value at par with agriculture, i.e. `4474.8 crore. The final annual loss to the state on account of forest conservation comes to `3905.8 crore. However, while calculating the opportunity cost it will be unrealistic to assume that the entire area under forest in Uttarakhand irrespective of its slope, terrain, soil etc could have been used for agricultural purposes. In our view, a more realistic way of calculating the opportunity cost of forests in case of Uttarakhand would be to assume that at least the area under forest in the foothills districts of Udham Singh Nagar, Haridwar and Dehradun could have been put to agricultural use fairly easily. The total area under forest in these three districts works out to be 3680 sq km. Thus, the revenue loss from forest conservation as against agricultural income works out to be `475.2 crore. Correcting it further for contribution of forest sector this amount becomes `343.9 crore. Thus the total amount of loss over the five year period would be `1480 crore. The commission is requested to recommend a Green Bonus of `1480 crore.

**g. Other Related Problems**

In addition to the green bonus linked to the externalities arising from eco-system services, grants are also needed to cater to certain forest related requirements as listed below:

1. Conservation and Development of traditional water sources in the forest areas
2. Assisting Natural Regeneration of different forest types for maintaining biodiversity
3. Implementation of prescriptions of Management Plans
4. Habitat Management and biodiversity conservation
5. Mobility and facilities for Forest Protection (Against Forest Fire, Encroachment, Illicit Felling, Poaching etc.)
6. Infrastructure development of Roads/Bridges/Bridle paths/Non Residential Buildings/Residential Building
7. Plantation of trees outside reserve forest
8. Provision of sustained livelihoods and their daily need for forest fringe villages
9. Management and development of Van Panchayats.

## 8.3 Religious Tourism

Tourism in Uttarakhand can be classified into two broad categories, viz., pilgrimage tourism and leisure tourism. Uttarakhand is home to Haridwar, Rishikesh, the Char Dhaam and the sacred Ganga and Yamuna. Beside these there are many other pilgrim sites like Hem Kund Sahib, Nanak Matta, Peeran kaliyar etc. and sites of historical and religious importance. These pilgrimage sites are a national heritage and play an important role in promoting national unity and integrity.

Although pilgrimage has traditionally been the major tourism related activity in the state, the state has enormous potential for cultural, adventure, wildlife, nature, leisure and eco-tourism. There also exists potential for a wide variety of entertainment and sporting activities that attracts modern tourists.

Despite the wealth of scenic beauty, the tourism industry is yet to exploit the vast potential of this sector. Its contribution therefore to the economy of the area and the people is suboptimal, although the 'Trade, Hotel and Restaurants' sector contributes about 17% of GSDP of the state.

The Uttarakhand government has taken a number of steps to boost tourist activities within the state. It is the first state to have created a Tourism Development Board by legislation as the highest body to function as the promoter, adviser, regulator and licensing authority for tourism in the state.

To attract leisure tourists, the state will have to step up its spending on tourism related infrastructure. It will have to upgrade as well as set up new tourism related infrastructure. Although the endeavour of the state is to attract more private investment in tourism and related activities, **the state will still have to shoulder the responsibility of providing basic infrastructure like roads, electricity, sanitation, cleanliness at the tourist spots etc. Moreover, it will also have to focus on conserving the ecology and environment of the state.**

The tourism on the Yatra Routes (yatra tourism) puts tremendous pressure on the local infrastructure. As a consequence, the tourists as also the permanent residents of the state have to bear the brunt of erosion of infrastructure.

Every year, a large number of devotees visit the Char Dhaam region and the number is growing with each passing year. However, to visit each of the Char Dhaam, one has to undertake a minimum stretch of 200-300 km of the hilly terrain, the condition of which further degrades during rains. Although the state has made an effort to provide basic facilities like drinking water, accommodation, electrification etc, these have turned out to be insufficient considering the heavy rush in the summers.

The pressure of yatri inflow mounts during the May-November period when most of the shrines become accessible. Moreover, in recent past, the July-August period has begun to witness huge influx of Shiva devotees known as Kanwars. Their numbers are so large that often normal traffic to Haridwar has to be suspended or diverted to make way for them. While the number of tourists has increased from 12.9 million in 2003 to 28.4 million in 2011-12, the population of the state is only 1.017 crore as per the 2011 Census. Thus, the floating population puts enormous pressure on urban infrastructure in the state. The local authorities

(Nagar Palika etc), who have the responsibility to maintain civic infrastructure, sanitation and drinking water, health and medical facilities besides law and order, come under tremendous stress more so during summer, rains and autumn. As the average spending power of yatris or Kanwars is very low, the onus of providing these services become even more critical for the local authorities. Further, since a significant portion of the Char Dhaam or Kanwar Yatra is undertaken on foot, safety of the tourists has also become a major concern for local authorities. Thus, while the state's revenue earnings from these yatris is very little or negligible due to their low spending power, the state has to incur huge expenditure in providing them basic infrastructure. As the planning norms of local authorities have to give due consideration to the floating population, the state will need help and support from the Centre to handle the situation arising out of tourist influx more effectively and efficiently.

The state government has a detailed master plan listing out the activities that needs to be taken up in the government sector for augmenting infrastructure facilities on the Char Dhaam Yatra routes. Similarly, development plans of five Prayags (Devprayag, Nandaprayag, Karnprayag, Ruprapayag and Vishnuprayag) are also ready. This includes development of old ghats, improving of road junctions, development of parking lots, slope stabilization, construction of suspension bridge, basic/emergency accident relief infrastructure, development of landscape gardens, developing SOS notification posts with emergency communication lines etc.

Besides the Char Dhaam and the prayags, there are a number of other pilgrimage sites and sites of historical and religious importance which attract a lot of visitors. Also, the kanwar mela has emerged as a major activity, which attracts over 50 lakh pilgrims in the month of August. This not only becomes a charge on the state's limited resources but also restricts economic activity, as the national highway (between Haridwar and Meerut) remains closed for almost two weeks.

**In view of the tourist related special problems, the commission is requested to grant a sum of `114.15 crores for up-gradation of tourism infrastructure.**

## 8.4 Up-gradation Grants

### a. Literacy Programme in Mission Mode

As per census 2011, literacy rate in Uttarakhand is higher than the national average. The figure for Uttarakhand stands at 79.63%, higher than the national average by 5.59%. Male literacy rate at 88.33% is higher than the national average and so is the female literacy rate. **Ironically, the gender gap in literacy rate is higher than the national average for the state, even though only marginally.**

| Sl. No | Districts | Year 2011 | | | |
|---|---|---|---|---|---|
| | | Male | Female | Total | Gender Gap |
| 1 | Dehradun | 90.32 | 79.61 | 85.24 | 10.71 |
| 2 | Uttarkashi | 89.26 | 62.23 | 75.98 | 27.03 |
| 3 | Tehri | 89.91 | 61.77 | 75.1 | 28.14 |
| 4 | Rudraprayag | 94.97 | 70.94 | 82.09 | 24.03 |

| Sl. No | Districts | Year 2011 | | | |
|---|---|---|---|---|---|
| | | Male | Female | Total | Gender Gap |
| 5 | Chamoli | 94.18 | 73.2 | 83.48 | 20.98 |
| 6 | Pauri | 93.18 | 73.26 | 82.59 | 19.92 |
| 7 | Haridwar | 82.26 | 65.96 | 74.62 | 16.3 |
| 8 | Pithoragarh | 93.45 | 72.97 | 82.93 | 20.48 |
| 9 | Bageshwar | 93.2 | 69.54 | 80.69 | 23.66 |
| 10 | Almora | 93.57 | 70.44 | 81.06 | 23.13 |
| 11 | Champawat | 92.65 | 68.81 | 80.73 | 23.84 |
| 12 | Nainital | 91.09 | 78.21 | 84.85 | 12.88 |
| 13 | Udham SinghNagar | 82.48 | 65.73 | 74.44 | 16.75 |
| **Total Uttarakhand** | | **88.33** | **70.7** | **79.63** | **17.63** |
| **India** | | **82.14** | **65.46** | **74.04** | **16.68** |

**Table 8.1: District wise Literacy Rate Uttarakhand**

Source: Statistical Diary 2011-12, Government of Uttarakhand

Table 8.1 shows the literacy rate, district wise for the state of Uttarakhand. This reveals the fact that literacy rate in the districts of Uttarkashi, Tehri, Haridwar and Udham Singh Nagar is lower than the state average in 2011 census. The districts of Rudraprayag, Chamoli, Pauri, Pithoragarh, Bageshwar, Almora and Champawat which have exhibited literacy rates higher than the state average paradoxically have gender gap higher than the state average.

### b. Right to Free and Compulsory Education

The state of Uttarakhand has adopted the RTE Act. Under the RTE rules, private schools are required to reserve 25% of the total seats to students belonging to the economically and socially disadvantaged groups. 15102 and 17255 students of the said category were admitted in private schools in financial years 2011-12 and 2012-13, respectively. Fees of these students are reimbursed to schools by the state. On an average, a sum of `18311 per annum is reimbursed on per child cost basis. In coming years, it is going to be a huge burden on the state. Table 8.2 shows the burden on the state finances:

**Table 8.2: No. of Students admitted under RTE and the Fee Reimbursement to Schools**

(In Lakhs)

| | Student admission in Financial Year | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2011-12** | **2012-13** | **2013-14** | **2014-15** | **2015-16** | **2016-17** | **2017-18** | **2018-19** | **2019-20** |
| **Class 1** | 15102 | 17205 | 27024 | 27024 | 27024 | 27024 | 27024 | 27024 | 27024 |
| **Class 2** | | 15102 | 17205 | 27024 | 27024 | 27024 | 27024 | 27024 | 27024 |
| **Class 3** | | | 15102 | 17205 | 27024 | 27024 | 27024 | 27024 | 27024 |
| **Class 4** | | | | 15102 | 17205 | 27024 | 27024 | 27024 | 27024 |
| **Class 5** | | | | | 15102 | 17205 | 27024 | 27024 | 27024 |
| **Class 6** | | | | | | 15102 | 17205 | 27024 | 27024 |
| **Class 7** | | | | | | | 15102 | 17205 | 27024 |
| **Class 8** | | | | | | | | 15102 | 17205 |
| **Total** | 15102 | 32307 | 59331 | 86355 | 113379 | 140403 | 167427 | 194451 | 206373 |
| **Per child cost** | 0.18311 | 0.18311 | 0.18311 | 0.18311 | 0.18311 | 0.18311 | 0.18311 | 0.18311 | 0.18311 |
| **Total Expenditure** | 2765.33 | 5915.735 | 10864.1 | 15812.46 | 20760.83 | 25709.19 | 30657.56 | 35605.92 | **37788.96** |

Source: Director School Education, Uttarakhand

Since the state government reimburses the fees for the reserved category seats to the private schools, this expenditure has amounted to 14% of total expenditure of the department in 2011-12 and 27% in 2012-13. The expenditure on this ground is increasing and the stress on govt. finances is considerable. Therefore, in order to honour its statutory commitment to RTE, the state requires budgetary support as the stress on state's finances is considerable. The Finance Commission is request to take into account this expenditure while making assessment of expenditure forecasts.

Transition rate refers to the rate at which students move from primary to secondary education. In FY 12, the transition rate of 98.69% (class 8 to 9) for the whole state is a significant achievement indicating nearly universal transition from elementary school to secondary school. The major concern for the state, though, remains in retention of these kids in secondary schools.

The state's dropout rate for the financial year 2010-11 stood at 10.15%. The dropout rate among the SCs and STs were in particular higher than the overall dropout rate indicating the existence of social inequalities in the state. While the dropout rate of SCs stood at 15.18%, for the STs the figures stood at 12.66%. The net enrolment ratio for the year 2011-12 stood at 43.99%.

Thus, while the transition rate from elementary to secondary classes is satisfactory, retention of students is low, in comparison as indicated by the dropout rates. This could be attributed to the inability of the state to keep up with the rapid expansion of secondary education. The State govt. has not been able to provide the requisite infrastructure in the schools nor has it been able to upkeep the existing physical infrastructure in good shape due to budgetary constraints. In order to create perfect ambience for teaching learning process a school building with requisite infrastructure for carrying out all curricular and co-curricular activities is necessary. In order to take a small but decisive step towards quality secondary education, the state govt. has established Rajiv Gandhi Navodaya Vidhyalayas (RGNV) in eight districts so far.

### c. Capital Funding of RGNV

The State Government initiated to establish residential schools in all the 13 districts of the state. These schools named Rajiv Gandhi Navodaya Vidhyalayas (RGNV) were to provide quality education to rural talented children. The State Government established 8 such schools from its own resources in the first phase. These schools are now functioning in a proper way with adequate infrastructure. Due to paucity of funds to establish the remaining 5 schools, the State Government has decided to run these schools under PPP mode. **As such there is viability gap funding of `40 crore (at 50% share out of the total outlay of ` 16 crores per school) to build the infrastructure of these schools.**

Thus, if the state has to honour its commitment to RTE, to execute the various plans and initiatives suggested to improve the education levels in the state, it needs centre's financial assistance. Given that the state has a good literacy rate, a financial reward in the form of assistance from the centre will help the state in a long way in improving its welfare indicators.

## 8.5 Up-gradation Grants: Physical Infrastructure

### a. Roads

Roads play an important role in the infrastructure of a state. Especially in a hilly state like Uttarakhand, roads are the prime route to reach out due to lack of adequate availability of other modes and means of transport.

**Table 8.3: State-wise Road Availability in India (2007-08)**

| S. No. | State | Length of metalled roads per lakh of population | Length of metalled roads per thousand sq km |
|---|---|---|---|
| 1. | Andhra Pradesh | 231.4 | 688.5 |
| 2. | Assam | 89.5 | 341.2 |
| 3. | Bihar | 62.4 | 618.5 |
| 4. | Gujarat | 236.0 | 675.1 |
| 5. | Haryana | 117.3 | 629.6 |
| 6. | Himachal Pradesh | 324.9 | 378.5 |
| 7. | Karnataka | 268.0 | 797.6 |
| 8. | Kerala | 341.5 | 2985.8 |
| 9. | Madhya Pradesh | 119.9 | 267.6 |
| 10. | Maharashtra | 167.5 | 578.1 |
| 11. | Orissa | 77.1 | 196.4 |
| 12. | Punjab | 141.7 | 749.7 |
| 13. | Rajasthan | 192.6 | 361.4 |
| 14. | Tamil Nadu | 222.7 | 1133.4 |
| 15. | Uttar Pradesh | 106.9 | 840.2 |
| 16. | West Bengal | 56.2 | 551.8 |
| 17. | Uttarakhand | 325.4 | 575.0 |
| 18. | Jharkhand | 33.6 | 125.5 |
| 19. | Chhattisgarh | 185.4 | 322.4 |
| 20. | Arunachal Pradesh | 817.0 | 116.1 |

| | | | |
|---|---|---|---|
| 21. | Goa | 476.6 | 1916.0 |
| 22. | Manipur | 255.7 | 303.7 |
| 23. | Meghalaya | 217.0 | 248.7 |
| 24. | Mizoram | 530.7 | 246.1 |
| 25. | Nagaland | 438.4 | 561.2 |
| 26. | Sikkim | 239.9 | 202.6 |
| 27. | Tripura | 349.0 | 1218.2 |
| 28. | Delhi | 123.8 | 20873.0 |
| 29. | Jammu & Kashmir | 83.1 | 45.7 |
| | **India** | **153.0** | **531.0** |

Source: Statistical Diary 2011-12, Government of Uttarakhand.

Table 8.3 indicates that Uttarakhand is at a better level than Himachal Pradesh and the national average in terms of length of metalled road per lakh of population. This is in a way related to the sparsely located clusters of population in the state owing to its uneven terrain. In fact on a closer look, it can be noticed that the availability in Uttarakhand exceeds that of most of the states in India, leaving aside states with barely any population such as Mizoram, Arunachal Pradesh and Goa. Even the length of metalled roads per thousand square kilometer in Uttarakhand is also higher than that of Himachal Pradesh and the national average. This is directly related to the nature of terrain where roads become critical for transporting goods as well as passengers due to limited air and rail links. This also implies higher per capita expenditure on the maintenance of roads in hills on account of both higher per capita length availability of roads and terrain related issues.

Table 8.4 gives a detailed account of the types and length of roads available in Uttarakhand.

**Table 8.4: Proper roads constructed by Public Works Department in Uttarakhand (2010-11)**

| S.No. | Type of Road | Length |
|---|---|---|
| 1. | National Highway | 1375.76 km |
| 2. | State Highway | 3788.20 km |
| 3. | Main District Roads | 3289.74 km |
| 4. | Other District Roads | 2945.04 km |
| 5. | Village Roads | 14543.89 km |
| 6. | Light vehicle Roads | 858.22 km |

Source: Statistical Diary 2011-12, Government of Uttarakhand.

Looking at the current scenario of the floods, it can be said undoubtedly that the roads have been destructed and this needs large amounts of fund for repair. A massive road reconstruction programme has to be taken up by all the agencies involved.

### Shelter, Sanitation and Drinking Water

Shelter, sanitation and drinking water are important physical amenities as well. As per the July 2008-June 2009 data, Uttarakhand has 98% of its population living in pucca houses, which is a good indicator of strong infrastructure. As for the semi-pucca houses, Uttarakhand has 1.8% of its population living in them, which is also lower than the national average. 2.1% of the population lives in katcha houses in the state.

**Table 8.5: State-wise Share of population living in Pucca, Semi-pucca and Katcha houses**

| All-India/State/Union | Pucca Houses: | Semi-Pucca Houses: | Katcha Houses: |
|---|---|---|---|
| All-India | 91.7 | 6.2 | 2.1 |
| Andhra Pradesh | 92.8 | 3.4 | 3.9 |
| Arunachal Pradesh | 62 | 17.2 | 20.8 |
| Assam | 75.5 | 22.1 | 2.4 |
| Bihar | 79.4 | 10 | 10.3 |
| Chhattisgarh | 79.9 | 18.8 | 1.1 |
| Delhi | 94.4 | 2.8 | 2.8 |
| Goa | 94.6 | 3.1 | 2.4 |
| Gujarat | 96.1 | 2.9 | 1 |
| Haryana | 98.8 | 0.7 | 0.5 |
| Himachal Pradesh | 98 | 1.7 | 0.3 |
| Jammu and Kashmir | 93.6 | 3.4 | 3.1 |
| Jharkhand | 90.4 | 7.7 | 1.9 |
| Karnataka | 89.3 | 9.2 | 1.5 |
| Kerala | 88.7 | 10.1 | 1.2 |
| Madhya Pradesh | 88.6 | 10.4 | 1 |
| Maharashtra | 95.5 | 4.1 | 0.4 |
| Manipur | 29.1 | 64.3 | 6.6 |
| Meghalaya | 88.3 | 11 | 0.7 |
| Mizoram | 92.1 | 7 | 0.9 |
| Nagaland | 72.7 | 24.7 | 2.6 |
| Odisha | 79.8 | 14.8 | 5.4 |
| Punjab | 98.2 | 1.3 | 0.5 |
| Rajasthan | 96.9 | 1.8 | 1.3 |
| Sikkim | 99.9 | 0.1 | NA |
| Tamil Nadu | 87.7 | 8.6 | 3.6 |
| Tripura | 57.6 | 40.9 | 1.5 |
| Uttar Pradesh | 94 | 3.8 | 0.2 |
| Uttarakhand | 98 | 1.8 | 2.1 |
| West Bengal | 90.9 | 7.9 | 1.1 |
| North Eastern States | NA | NA | NA |
| Union Territories$ | NA | NA | NA |
| A. & N. Islands | 93.4 | 6.5 | 0.1 |
| Chandigarh | 97.5 | 2.3 | 0.2 |
| Daman and Diu | 97.5 | 1.4 | 1.1 |
| D. & N. Haveli | 94.4 | 5.6 | NA |
| Lakshadweep | 92.9 | 4.7 | 2.3 |
| Puducherry | 88.2 | 4.6 | 7.2 |

Source: CSO and Registrar General of India

However, Uttarakhand does not fare so well in terms of sanitation vis-à-vis other comparator states. In terms of percentage of households having access to toilet facilities, while it is ahead of all India averages, it is way behind the average of Special Category States. Table 8.6 gives a detailed account of families that do or do not have access to toilet facilities in the various districts.

**Table 8.6: Account of families that can or cannot avail toilet facilities according to 2011 census**

| S.No. | Territory | Total | Available | Unavailable |
|---|---|---|---|---|
| **1.** | Uttarkashi | 66558 | 29106 | 37452 |
| **2.** | Chamoli | 85765 | 45572 | 40193 |
| **3.** | Tehri Garhwal | 133494 | 74477 | 59107 |
| **4.** | Dehradun | 322700 | 278971 | 43729 |
| **5.** | Pauri Garhwal | 161688 | 89437 | 72251 |
| **6.** | Rudraparyag | 53492 | 28272 | 25220 |
| **7.** | Pithoragarh | 111542 | 61543 | 49999 |
| **8.** | Almora | 139257 | 76958 | 62299 |
| **9.** | Nainital | 187108 | 148745 | 38363 |
| **10.** | Bageshwar | 57712 | 31604 | 26108 |
| **11.** | Champawat | 52356 | 24284 | 28072 |
| | **Hilly terrain (Total)** | **1371672** | **888969** | **482703** |
| **12.** | Haridwar | 325344 | 216744 | 108600 |
| **13.** | Udham Singh Nagar | 300052 | 207848 | 92204 |
| | **Flat terrain (Total)** | **625396** | **424592** | **200804** |
| | **Uttarakhand** | **1997068** | **1313561** | **683507** |

Source: Statistical Diary 2011-12, Government of Uttarakhand

As for the availability of drinking water, Uttarakhand fares better in respect of safe drinking water availability. The detailed availability of drinking water from 2009-2012 and the drinking water facility available from taps in Uttarakhand are given in the Table 8.7.

**Table 8.7: Drinking Water Availability via Taps in Uttarakhand**

| S. No. | Area | 2009-10 | 2010-11 | 2011-12 |
|---|---|---|---|---|
| **1.** | Number of villages covered | 15546 | 15545 | 15545 |
| **2.** | Population with access (in lakhs) | 62.58 | 62.87 | 63.12 |
| **3.** | Uncovered villages | 2 | 2 | 2 |
| **4.** | Uncovered Hamlets | | | |
| **a)** | Not Covered | 2638 | 2219 | 1901 |
| **b)** | Partially Covered | 8514 | 7609 | 6885 |

Source: Statistical Diary 2011-12, Government of Uttarakhand

## 8.6 Requirement of Up-gradation/Special Problems of Other Departments

In the background of the state specific parameters and the needs for upgradation of certain services and specific problems, the following proposals for upgradation of standard of administration and specific problems are proposed.

### Estate Department

A new secretariat building is proposed to be a constructed on the outskirts on the town as the present building is inadequate and is located at the centre of the town. The new building is proposed to be constructed near the new Legislative Assembly building. An amount of `250 crores is required for construction of the new secretariat, ministers and other senior officers residences buildings complex.

Gairsain in Chamoli district has been declared as the summer capital of Uttarakhand. An Assembly building and transit hostel etc. has to be constructed at Gairsain. An amount of `80 crores is required for construction of the new Assembly and other buildings complex.

The Uttarakhand Niwas in New Delhi needs reconstruction for which an amount of `40 crores is required.

**Medical Education**

The state needs to complete the work of government medical college at Almora and Uttarakhand medical college university in the state. ` 250 crore are required for construction of medical college at Almora and `40 crore are required for establishment of Uttarakhand medical college university.

**Library**

The state needs a good library system with a state central library and other libraries at district block and village levels having good connectivity with other libraries. The commission is requested to recommend the grant of `20 crore for this purpose.

**Urban Development**

The state does not have a state institute of urban development. With increasing urbanisation and complex problem of urban governance, a training and research institute of urban development is a must. The commission is requested to recommend the grant of ` 20 crore for establishment of urban development institute.

**Culture**

The Uday Shankar Dance Academy at Almora was established in 2001 but it needs upgradation. Pandit Govind Ballabh Pant government museum was established at Almora in 1979 but it does not have a proper building. It is proposed to construct a new building for the museum at the Dance Academy campus and upgrade the Dance Academy. The commission is requested to recommend a grant of `30 crores.

**Public Works Department**

An amount of `123 crores is required for safety measures at accident prone zones, `92.50 crore is required for treatment of chronic slip zones and an amount of `110.55 crore is required for strengthening of Char Dhaam Yatra state highway and ` 256.50 for major repairs. The commission is requested to recommend the grant of `582.55 crore.

**Health and Family Welfare**

The state needs up-gradation of health services by constructing a super specialty hospital at Dehradun at a cost of `290 crores and construction of residential and other facilities in the health and family welfare department at a cost of `115 crores. The commission is requested to recommend a grant of `405.00 crores.

**Drinking Water**

The Almora town source augmentation scheme is proposed to be constructed at a cost of `10 crore. The commission is requested to recommend the grant of `10 crore.

**Technical Education**

To promote technical education in the State, it is proposed to open 35 polytechnics, 64 ITIs and 5 engineering colleges in the state. Two training and placement institutes are also proposed to be setup. The commission is requested to recommend the grant of `280.59 crore.

**Sports**

There is no sports college in the state for girls. It is proposed to establish a girls' sports college at Haldwani at a cost of ` 100 crores. There is no outdoor stadium in the districts of Champawat, Bageshwar and Tehri Garhwal. `30 crores is needed for construction of one outdoor stadium. `50 crores is needed for phase one of the international cricket stadium at Dehradun. The commission is requested to recommend a grant of `180 crores for this purpose.

**Transport Department**

A drivers training institute at Haldwani to cater to the needs of Kumaon region is proposed to be established. An automated testing lane at Rishikesh is also proposed for computerised mechanical inspections of vehicles. The total cost of the two projects is `33 crore. The commission is requested to recommend the grant of `33 crores.

**Police Administration**

Construction of 108 police check posts, 4 police stations, buildings for India Reserve Vahini and construction of additional administrative buildings is proposed at a cost of `177 crores. The commission is requested to recommend a grant of `177 crores.

**Higher Education**

Doon University has been established at Dehradun as a centre of excellence. Due to budgetary constraints, the upgradation works are delayed. An amount of `35 crore is estimated for certain upgradation works. Similarly `39.09 is estimated for strengthening of government degree colleges in the state. The commission is requested to recommend the grant of `74.09 crores.

**Jail Administration**

Four districts in the state do not have district jail which is a must for administration of the criminal justice system. An amount of `140 crores is required for construction of the four jails and sub jails etc. The commission is requested to recommend a grant of `140 crores.

## 8.7 Summary

The grants for upgradation and special problems as detailed in Vol-IV are summarised in Table 8.8.

**Table 8.8: Grants for Upgradation and Special Problems**

| Sl. No. | Name of Work/Scheme | Amount (₹ in Crores) |
|---|---|---|
| | **Special Problems** | |
| **1.** | Construction of new Secretariat and other buildings at Dehradun | 250.00 |
| **2.** | Construction of new Assembly and other buildings at Gairsain | 80.00 |
| 3. | Assistance for Construction/Establishment of Govt. Medical College Almora | 250.00 |
| 4. | Assistance for Construction/Establishment of Uttarakhand Medical College University | 40.00 |
| 5. | Support for Establishing a State Central Library | 20.00 |
| 6. | Establishment of a State Institute of Urban Development | 20.00 |
| 7. | Strengthening of Uday Shankar Dance Academy and construction of a museum building at Almora | 30.00 |
| 8. | Safety measures at accident prone zones | 123.00 |
| 9. | Treatment of chronic slip zones in the state | 92.50 |
| 10. | Strengthening of char dham yatra state highway | 110.55 |
| 11. | Augmenting infrastructure facilities at tourism centres | 114.15 |
| | **Total** | **1130.20** |
| | **Up-gradation of Standards of Services** | |
| 12. | Establishment of a Super Specialty Hospital at Dehradun | 290.00 |
| 13. | Strengthening of Medical Health & Family Welfare infrastructure | 115.00 |
| 14. | Augmentation of Drinking water scheme of Almora town. | 10.00 |
| 15. | Capital Funding of Rajiv Gandhi Navodaya Vidhyalayas (RGNV) | 40.00 |
| 16. | Establishment of 35 Polytechnic in the State | 124.25 |
| 17. | Establishment of 64 ITI in the State | 83.84 |
| 18. | Establishment of Five Engineering Colleges in the State | 62.50 |
| 19. | Establishment of two Government Institutes for Training and placement | 10.00 |
| 20. | Establishment of Sports College for Girls at Haldwani | 100.00 |
| 21. | Construction of outdoor Stadiums at district Champawat, Bageshwar and Tehri Garhwal | 30.00 |
| 22. | Up-gradation of facilities in Transport department for prevention of road accidents | 33.00 |
| 23. | Up-gradation of Police administration | 177.00 |
| 24. | Up-gradation of Doon University | 35.00 |
| 25. | Strengthening of higher education departmental buildings | 39.09 |
| 26. | Up-gradation of Judicial Administration | 135.00 |
| 27. | Up-gradation of Jail Administration | 140.00 |
| 28. | Construction of Building of NRDMS at Almora | 9.00 |
| 29. | Renovation/Major repair of PWD roads | 256.50 |
| 30. | Construction of Uttarakhand Niwas at New Delhi | 40.00 |
| 31. | Construction of Rajiv Gandhi International cricket stadium, Dehradun | 50.00 |
| | **Total** | **1780.18** |
| | **Grand Total** | **2910.38** |

Source: Government of Uttarakhand Estimates

# Chapter 9
# Summary and Conclusions

## 9.1 Macro Situation and the Terms of Reference

We have suggested that the Fourteenth Finance Commission may consider its terms of reference after taking cognizance of (a) the current macro-economic scenario, (b) the current fiscal scenario both of the Union Government and the State Governments, and (c) the key changes in the Terms of Reference to the Fourteenth Finance Commission compared to those given to its immediate predecessor in particular and the previous Finance Commissions in general.

In terms of the macro-economic situation, the current situation will have a bearing on the fiscal projections both for the central and state governments. GDP at market prices, in real terms, has plummeted to a mere 3.2 percent in 2012-13. It is suggested that given its mandate covering a five year period, the Commission should focus on the 'potential' or 'trend' growth rate of GDP to make up its mind on the medium term prospects of the Indian economy.

Both the actual and trend growth rates have fallen in 2012-13. With respect to GDP at factor cost, the actual growth has fallen to 5 percent and trend growth to 7 per cent. It may be noted that with reference to GDP at market prices, the actual growth in 2012-13 was only 3.2 percent and the trend growth rate is estimated at 6.5 percent. One or both may fall further in 2013-14.

A basic feature of the central finances in recent years has been the overall stagnation of the central gross tax revenues relative to GDP even though there have been major changes in the composition of central tax revenues during the period from 2004-05 to 2012-13. The share of direct taxes has gone up nearly 10.5 percentage points during this period, which is matched by a fall in the share of indirect taxes of 11 percentage points, leaving the centre's tax-GDP ratio stagnant at about 10 percent of GDP at market prices.

In respect of meeting the FRBMA norms, while the central government has shown slippages of large magnitudes both in respect of fiscal deficit and revenue deficit relative to GDP, the State governments have been able to meet the norms of keeping the fiscal deficit to GDP ratio below 3 percent and also achieve revenue account balance in most of the years since 2007-08.

With respect to individual State governments, the Commission will have to consider the question as to whether the roadmap indicated by the Thirteenth Finance Commission for fiscal consolidation has relevance any more since the macro-assumptions on which the roadmap was constructed has been rendered irrelevant.

In so far as the reference to developing an incentive framework is concerned, it can be justified in the interest of sound finance only if the approach of the Commission is symmetrical between the centre and the states. It cannot be the case that incentive and disincentives should apply only to the state governments whereas the central government can be allowed to follow any fiscally profligate policy unmindful of its impact on the overall fiscal balance in the economy.

The approach to countercyclical interventions should be developed in a manner such that both the centre and the states follow a coordinated approach. The central government cannot

be allowed to indulge in runaway deficits unmindful of its impact on state economies and finances.

If the state governments are to share the burden of subsidies then two important requirements are that the subsidy schemes should be designed in consultation with the states, and secondly such subsidies should be made part of the assessment of expenditure undertaken by the Finance Commission for the determination of transfers.

Pricing of public utility services should be such that the utilities do not run into losses. This requires determination of costs at uniform standards of quality. Unit costs of providing these services are bound to differ from area to area depending on the nature of the terrain etc. The total costs would also be a function of 'needs' determined by population and income characteristics, share of agriculture in GSDP etc. The Commission may take these considerations into account while applying norms with respect to pricing of public utility services.

In the context of the goods and services tax, which is a destination based tax, it is important that fiscal capacity should be determined in a way such that it reflects 'consumption' of goods and services in the States rather than 'production' of goods and services, which is what is implied in the use of GSDP at factor cost to reflect fiscal capacity in the determination of share of states in the divisible central taxes under the distance formula.

In regard to the ToR for with respect to population data, an ideal solution would be to assess the need taking the latest available census, that is 1971 population and the incremental population since then, and separately reward states that have shown better performance in regard to population growth. With the demographic dividend being a key driver of the higher growth potential for the Indian economy, the needs of states with higher population require to be assessed properly.

It may be observed that it is not enough to just review the public expenditure management systems (PEMS) in different states but also to introduce a reward system based on a ranking for PEMS performance. Secondly, such a review should be done not just for the states but also for the central government.

## 9.2 Economic Profile of Uttarakhand

Constituted in 2000 as the 29$^{th}$ State of the India, Uttarakhand is a young special category State characterized by a number of distinguishing features. The main features that need to be highlighted are indicated below:

1. Uttarakhand has a large forest area that serves as a carbon sink for the rest of the country and serves as a natural barrier to provide rainfall to the neighbouring regions.

2. Uttarakhand caters to an all-India influx of religious pilgrims that puts tremendous economic pressure on its civic services.

3. Mountainous terrain and a low density of population have implied a high per capita cost of provision of services and maintenance of infrastructure.

4. Employable youth and available savings both migrate out of the state, thereby contributing to the economic growth of other states.

5. Uttarakhand provides educational facilities, particularly technical education, to youth of other states who eventually find employment in the rest of the country and contribute to their economic growth.

Both industry and the service sectors have grown at a fast rate in Uttarakhand and the state is now much more industrialized and service-sector oriented that when it became a state. However, there is now a discontinuity in the growth process because of withdrawal of the special concessions, the prevailing macro-economic situation in the country, and because of the major calamity that the State has had to face in 2013-14.

The spectacular manufacturing growth of recent years can be linked to the special area incentive scheme in the central excise provisions. This has now been withdrawn. The growth in the 'trade, transport, storage and communications' sector has come down in most states. Thus the key drivers of growth in Uttarakhand have dried up and we expect to see moderate growth performance in the near future as also the medium term. With the disruption of economic activities caused by the recent floods and the consequent drying up of the flow of tourists, there would be a discontinuity in the growth performance in 2013-14 and subsequent years. Historical growth performance should not therefore be taken as a guide to future growth to which revenue prospects would also be linked.

The State maintains a large forest cover, which has beneficial environmental externalities for the rest of the country. Given the large externalities and services that are provided to citizens of the rest of the country, adequate compensation in the form of fiscal transfers need to be given to Uttarakhand.

There are special circumstances affecting costs of providing services in Uttarakhand. The total dependency ratio is estimated to be 78 percent if population in age group of 15-60 years is taken to the working age population. A clear implication of the higher dependency ratio is higher expenditure requirement by the state government on both education and health. Similarly, the lower population density in Uttarakhand implies higher per person cost in the provision of services provided by the government particularly those relating to administration, judiciary, education and health.

## 9.3 Fiscal Profile of Uttarakhand

In 2004-05, fiscal deficit in Uttarakhand as a percentage of GSDP was quite high at 8.8%. It fell for the next 2 years and in 2006-07, it was contained within 3% of GSDP. There was some slippage in 2007-08 and 2009-10 but it was again brought within 3% in 2010-11, 2011-12and 2012-13.

Revenue deficit of Uttarakhand was 3.8% of GSDP in 2004-05. Surplus was achieved by 2006-07 and was sustained until 2008-09. Except for 2009-10 and marginally for 2010-11, the surplus has been maintained in the remaining years.

Own tax revenues have contributed in the range of 34.7 to 41.0 percent of the total revenue receipts. Own non-tax revenues have contributed only about 6.4 to 8.8 percent of the total revenue receipts. The relative contribution of grants, which has been in the range of 30 to 39 percent exceeds the contribution of share in central taxes.

The dependence of Uttarakhand on central transfers is quite high. The relative share of own revenue receipts in total receipts has been stable around 44 percent while the transfers from the centre to the state considering both the share in central taxes and grants has been about 56 percent. Grants as a percentage of GSDP have been coming down from a peak of 8.4 percent in 2006-07 to 5.2 percent by 2012-13.

As percentage of GSDP, revenue expenditures have fallen over time from 15.8 percent in 2007-08 to 14.9 percent in 2012-13. At its lowest, the capital expenditure as percentage of GSDP was about 2.3 percent in 2010-11. It has increased since then and has reached the level of 5.76 percent of GSDP in 2012-13.

## 9.4 Forecasts

The base year for the 14th Finance Commission is 2012-13, for which actual figures of state government finances are available.

The main considerations that need to be taken into account are (a) discontinuities faced by Uttarakhand in the form of disruptions in economic activities in 2013-14, (b) economy-wide slowdown affecting transfers from the centre to the State government, and (c) fall in revenues of Uttarakhand that are dependent on economic activities of other States like the central sales tax. These considerations affect both the projections of 2013-14 and the medium term prospects.

Although the past time series data are useful for forecasting, it is not entirely possible to predict the future on the basis of historical trends in the presence of discontinuities and policy changes that may have an effect on the economic relationships. An eclectic approach has, therefore, been followed for revenue and expenditure projections.

The June 15,17 2013 calamity of catastrophic proportions has the potential of adversely affecting the revenue realisation from VAT, excise duty, vehicle tax and hotel tax etc not only immediately but also in the medium term. A large section of the population depending on the tourism sector has been rendered jobless. It is going to take at least two to three years for economic activities to become normal.

Forecasts have been made on the basis of specific assumption at a disaggregated level both on the revenue and the expenditure sides. The own tax and non-tax revenues as percentage of GSDP show a fall due to adverse effects of natural calamity and withdrawal of stimuli to growth due to the industrial package. It may be noted that the sudden jump in the fiscal deficit and revenue deficit in 2014-15 and the forecast period and amounts reflect the effect of the formula given by the Finance Commission by which these are calculated. This jump is the result of not including any fiscal transfers in the form of share in central taxes or grants from the centre.

## 9.5 Resolving Vertical and Horizontal Fiscal Imbalances

The core task of the Finance Commission is to determine the share of the States in the shareable proceeds of the central taxes and to determine grants-in-aid to the States that are assessed to be in need of such grants. Together, these fiscal transfers should resolve both the vertical and horizontal imbalances in the country.

### a. Vertical Transfers

The indicative ceiling on all revenue account transfers by the Eleventh Finance Commission at 37.5 percent of the Centre's gross revenue receipts has progressively been raised by the subsequent Commissions. The Twelfth FC raised it to 38 percent and the Thirteenth FC raised it to 39.5 percent of the Centre's gross revenue receipts. It is suggested that this ceiling may be raised to 50 percent.

With the 80$^{th}$ amendment, the net proceeds of all central taxes are to be shared with the state governments except the cesses and surcharges. An important recommendation of the Finance Commission relates to determining the share of states in the divisible net proceeds of the central taxes. The Thirteenth FC had recommended a share of 32 percent for the states.

The buoyancy of central taxes has fallen in recent years as compared to that of the states. The argument used by the Thirteenth FC that if the buoyancy of central taxes is higher than that of the states, the share of states in the divisible pool of central taxes may be increased to provide stability to the post devolution access to tax resources may not be used at the present juncture. Instead, it is suggested that reference should be made to the over-centralization of expenditures in the concurrent and state lists of the constitution and the share of the states in the divisible pool should be increased. The central government should progressively withdraw from undertaking expenditures on subjects listed in the concurrent and state lists.

It is suggested that the share of States in the sharable central taxes be raised to 40 percent and that cesses and surcharges be included in the divisible pool.

### b. Horizontal Transfers

In India, states are characterized by considerable horizontal imbalances in terms of their fiscal capacities as well as differences in the unit costs of providing public and merit services. These differences arise because of differences in the size of population, area and density of population, per capita GSDP, nature of terrain (mountainous, hilly and plains), location (coastal, non-coastal, international boundary, domestic boundary, mineral resources), composition of population (SC/ST, backward classes), as well as differences in the initial conditions characterizing economic activities.

In terms of population Uttar Pradesh is 137 times as large as Goa; in terms of area Rajasthan is 92 times as large as Goa; in terms of population density, Bihar has a density of population which is six times more than that in Chhattisgarh; and in terms of per capita GSDP at current prices, Goa's per capita GSDP is nine times that of Bihar.

For special category states also inter-state variations are high but the magnitude of differences is relatively less than that for the general category states. Table 5.3 makes a similar comparison for the eleven special category states. In terms of population, Assam is 51 times as large as Sikkim; in terms of area, Jammu and Kashmir is 14 times as large as Sikkim. Assam has a density of population which is 17 times that of Arunachal Pradesh. The per capita GSDP of Sikkim is four times that of Assam.

The twin objectives that need to be served in the scheme of horizontal distribution of resources are equity and efficiency. There is a trade-off between the two, but if distribution of resources is 'equalizing' it is supposed to serve both objectives. Equalization transfers serve equity since they make up for the deficiency in fiscal capacity but not in tax effort. They also serve efficiency as people do not cause congestion in limited number of locations

in search for better public and merit services like health and education since the service standards are equalized across states subject only to the condition that citizens are entitled to similar levels of services if they are willing to pay the same level of taxes per unit of their respective tax bases or fiscal capacities. Migration is driven by the search for better income earning opportunities, which also promotes efficiency.

In terms of determining the share of States in the central taxes we suggest that given the importance of maintaining the environment and the externalities associated with it, the share in forest cover of a State in the total forest cover of all States may be used an additional criterion with a weight of 10 percent. Further, the use of area as a factor reflecting cost differentials in providing public and merit services is not enough. A proper index of costs of providing services should be developed in which area may be a factor. This may be used in the devolution formula.

The two main instruments of transfers for achieving horizontal equalization are share in central taxes and grants. The way these instruments in India have evolved, they have important distinguishing features. Share in central taxes are formula bound. Since only a limited number of criteria can be used, these shares can take into account broad indicators and considerations. Also, for five years only shares are fixed; the actual amount gets determined based on the actual amount raised with respect to each central tax. Grants are fixed in nominal terms. These two important features: grants can take into account the special circumstances of States, which may differ from state to state and these can be much better targeted. Further, since they are fixed in amount in nominal terms, these offer a cushion against fall in central revenues during downturns.

The Commission may establish a suitable balance between share in central taxes and grants.

## 9.6 Grants

With respect to grants, the following suggestions are made for the consideration of the Commission in the context of Uttarakhand.

1. In view of the changed economic circumstances, Uttarakhand would require grants to meet non-plan revenue gaps. We also suggest that grants to special category states should not be hidden the formula for tax sharing as was done by the Thirteenth FC.
2. Other grants should be continued and their amounts should be inflation-adjusted.
3. Forest grants should be significantly increased in real terms as forests play a critical long term role in the maintenance of forests leading to positive externalities extending well beyond the boundaries of the state.
4. Performance grants for Uttarakhand should be continued but targets should re-fixed given the likelihood of slippage in the current and next year.
5. If any amount is earmarked for GST compensation, this should considered as a separate one-time provision and for this reason other grants to states should not be reduced or adjusted.
6. There should be minimum conditionalities.
7. State-specific grants for Uttarakhand are discussed separately in the chapter on special problems.

## 9.7 Local Bodies

Local bodies constitute the constitutionally recognized third tier of governance in India. In the constitutional scheme, these are extensions of the state government and operate within the laws framed by the state governments. Still the constitution has made clear provisions for ensuring that adequate resources are accessed by these bodies to provide local public goods and services at acceptable standards in the respective local jurisdictions across the states.

Both the central and state Finance Commissions have been entrusted with the task of ensuring adequate overall resources for the local bodies which may be provided (a) by assigned resources, tax and non-tax, to the local bodies under the relevant state legislation, (b) sharing of state resources by way of sharing in state tax revenues and grants, and (c) grants from the central government under the recommendations of the central Finance Commission.

Uttarakhand has a three-tier Panchayat Raj structure consisting of Gram Panchayats (GPs) at the lowest (village) level, Kshetra Panchayats (KPs) at the intermediate or development block level and Zila Panchayats (ZPs) at the district level. There are at present 7709 GPs, 95 KPs and 13 ZPs in the state.

There are 3 categories of urban local bodies (ULBs) in Uttarakhand: Nagar Nigam (NN) or Municipal Corporation (MC), Nagar Palika Parishads (NNPs) and Nagar Panchayats (NPs). There are at present 72 ULBs comprising 6 NN and 28 NPPs, 35 elected and 3 non-elected Nagar Panchayats.

With a view to providing a predictable and buoyant source of revenue, the Thirteenth FC recommended that local bodies be transferred a percentage of the divisible pool of taxes (over and above the share of the states) for the previous year, after converting this share to grant-in-aid under Article 275. Overall, the proposal was to award 2.28 percent of the relevant divisible pool (2009-14) as a grant to local bodies. This is equivalent to 1.93 per cent of the 2010-15 divisible pool.

The Thirteenth FC grant has two components-a basic component and a performance-based component. The basic grant is equivalent to 1.50 per cent of the previous year's divisible pool.

In considering the scheme of transfers to augment the resources of local bodies and other related matters, the following suggestions are made:

1. In the inter se distribution of grants for local bodies amongst states, differences in the unit costs of providing local public goods and services may be introduced as a factor. The unit costs are relatively much higher in states with low density of population in hilly areas with limited connectivity.
2. Excessive conditionalities in the incentive-linked part of grants for local bodies may be reduced or instead of having two parts, only one general grant with a limited number of conditionalities may be recommended.
3. The Fourteenth Finance Commission may provide information and an analysis of reasons for differences in the levels of locally provided public goods and services across states for the benefit of state finance commissions.
4. A key objective of transfers from the central government aimed at local bodies should be to create and sustain adequate capacity at the local level both in terms of human resources and physical infrastructure.

5. The Fourteenth Finance Commission may recommend the setting up of an independent national agency with financial support for research on the working and performance of local bodies in an inter-state comparative perspective and act as a platform for information exchange amongst state governments and state finance commissions on matters relating to the working of local bodies in India.

## 9.8 Calamity Relief, Special Problems, and Upgradation Grants

Finance Commissions in the recent past have been recommending grants for up-gradation of facilities and infrastructure for the provision of public and merit services like health and education. They have also been recommending grants for special problems or considerations, which are not covered by broad formula based transfers or norm based assessment of routine expenditure. As already noted in the earlier chapters, Uttarakhand incurs significant expenditures with a view to serving the citizens of other states. Of these, two specific needs relate to (a) externalities associated with maintenance and development of large forest resources, (b) maintenance of a large road network and communications facilities to cater to pilgrims coming from different parts of the country. The natural calamity that Uttarakhand suffered in June 2013 is linked to both (a) and (b) and the subsequent relief, rehabilitation and reconstruction has the highest priority.

The grants needed for up-gradation and special problems as detailed in Vol –IV submitted to the Commission are summarised in Table 8.8.

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**Annexure 1**

**Comparison of Terms of Reference of the Thirteenth and Fourteenth Finance Commissions**

| Thirteenth Finance Commission | Fourteenth Finance Commission |
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| The Commission shall make recommendations as to the following matters, namely :- | The Commission shall make recommendations regarding the sharing of Union taxes, principles governing Grants-in-aid to States and transfer of resources to local Bodies.<br>Terms of Reference and the matters that shall be taken into consideration by the Fourteenth Finance Commission in making the recommendations are as under : |
| 1. (i) The distribution between the Union and the States of the net proceeds of taxes which are to be, or may be, divided between them under Chapter I Part XII of the Constitution and the allocation between the States of the respective shares of such proceeds; | 1. (i) The distribution between the Union and the States of the net proceeds of taxes which are to be, or may be, divided between them under Chapter I, Part XII of the Constitution and the allocation between the States of the respective shares of such proceeds; |
| (ii) The principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India and the sums to be paid to the States which are in need of assistance by way of grants-in-aid of their revenues under article 275 of the Constitution for purposes other than those specified in the provisos to clause (1) of that article; and | (ii) The principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India and the sums to be paid to the States which are in need of assistance by way of grants-in-aid of their revenues under article 275 of the Constitution for purposes other than those specified in the provisos to clause (1) of that article; and |
| (iii) The measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats and Municipalities in the State on the basis of the recommendations made by the Finance Commission of the State. | (iii) The measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats and Municipalities in the State on the basis of the recommendations made by the Finance Commission of the State. |
| 2. The Commission shall review the state of the finances of the Union and the States, keeping in view, in particular, the operation of the States' Debt Consolidation and Relief Facility 2005-2010 introduced by the Central Government on the basis of the recommendations of the Twelfth Finance Commission, and suggest measures for maintaining a stable and sustainable fiscal environment consistent with equitable | 2. The Commission shall review the state of the finances, deficit and debt levels of the Union and the States, keeping in view, in particular, the fiscal consolidation roadmap recommended by the Thirteenth Finance Commission, and suggest measures for maintaining a stable and sustainable fiscal environment consistent with equitable growth including suggestions to amend the Fiscal Responsibility Budget Management Acts |

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| growth.<br><br>3. In making its recommendations, the Commission shall have regard, among other considerations, to -<br><br>(i) The resources of the Central Government, for five years commencing on 1st April 2010, on the basis of levels of taxation and non-tax revenues likely to be reached at the end of 2008-09;<br><br>(ii) The demands on the resources of the Central Government, in particular, on account of the projected Gross Budgetary Support to the Central and State Plan, expenditure on civil administration, defence, internal and border security, debt-servicing and other committed expenditure and liabilities;<br><br>(iii) The resources of the State Governments, for the five years commencing on 1st April 2010, on the basis of levels of taxation and non-tax revenues likely to be reached at the end of 2008-09;<br><br>(iv) The objective of not only balancing the receipts and expenditure on revenue account of all the States and the Union, but also generating surpluses for capital investment;<br><br>(v) The taxation efforts of the Central Government and each State Government and the potential for additional resource mobilisation to improve the tax-Gross Domestic Product ratio in the case of the Union and tax-Gross State Domestic Product ratio in the case of the States;<br><br>(vi) The impact of the proposed implementation of Goods and Services Tax with effect from 1st April, 2010, including its impact on the country's foreign trade;<br><br>(vii) The need to improve the quality of public expenditure to obtain better outputs | currently in force and while doing so, the Commission may consider the effect of the receipts and expenditure in the form of grants for creation of capital assets on the deficits; and the Commission shall also consider and recommend incentives and disincentives for States for observing the obligations laid down in the Fiscal Responsibility Budget Management Acts.<br><br>3. In making its recommendations, the Commission shall have regard, among other considerations, to –<br>(i) the resources of the Central Government, for five years commencing on 1st April 2015, on the basis of levels of taxation and non-tax revenues likely to be reached during 2014-15;<br><br>(ii) the demands on the resources of the Central Government, in particular, on account of the expenditure on civil administration, defence, internal and border security, debt-servicing and other committed expenditure and liabilities;<br><br>(iii) the resources of the State Governments and the demands on such resources under different heads, including the impact of debt levels on resource availability in debt stressed states, for the five years commencing on 1st April 2015, on the basis of levels of taxation and non-tax revenues likely to be reached during 2014-15;<br>(iv) the objective of not only balancing the receipts and expenditure on revenue account of all the States and the Union, but also generating surpluses for capital investment;<br><br>(v) the taxation efforts of the Central Government and each State Government and the potential for additional resource mobilisation to improve the tax-Gross Domestic Product ratio in the case of the Union and tax-Gross State Domestic Product ratio in the case of the States;<br>(vi) the level of subsidies that are required, having regard to the need for sustainable and |

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| and outcomes;<br>(viii) The need to manage ecology, environment and climate change consistent with sustainable development;<br>(ix) The expenditure on the non-salary component of maintenance and upkeep of capital assets and the non-wage related maintenance expenditure on plan schemes to be completed by 31st March, 2010 and the norms on the basis of which specific amounts are recommended for the maintenance of the capital assets and the manner of monitoring such expenditure;<br>(x) The need for ensuring the commercial viability of irrigation projects, power projects, departmental undertakings and public sector enterprises through various means, including levy of user charges and adoption of measures to promote efficiency. | inclusive growth, and equitable sharing of subsidies between the Central Government and State Governments;<br>(vii) the expenditure on the non-salary component of maintenance and upkeep of capital assets and the non-wage related maintenance expenditure on plan schemes to be completed by 31st March, 2015 and the norms on the basis of which specific amounts are recommended for the maintenance of the capital assets and the manner of monitoring such expenditure;<br>(viii) the need for insulating the pricing of public utility services like drinking water, irrigation, power and public transport from policy fluctuations through statutory provisions;<br>(ix) the need for making the public sector enterprises competitive and market oriented; listing and disinvestment; and relinquishing of non-priority enterprises;<br>(x) the need to balance management of ecology, environment and climate change consistent with sustainable economic development; and |
| 4. In making its recommendations on various matters, the Commission shall take the base of population figures as of 1971, in all such cases where population is a factor for determination of devolution of taxes and duties and grants-in-aid. | (xi) the impact of the proposed Goods and Services Tax on the finances of Centre and States and the mechanism for compensation in case of any revenue loss.<br><br>4. In making its recommendations on various matters, the Commission shall generally take the base of population figures as of 1971 in all cases where population is a factor for determination of devolution of taxes and duties and grants-in-aid; however, the Commission may also take into account the demographic changes that have taken place subsequent to 1971. |
| 5. The Commission may review the present arrangements as regards financing of Disaster Management with reference to the National Calamity Contingency Fund and the Calamity Relief Fund and the funds envisaged in the Disaster Management Act, 2005(53 of 2005), and make appropriate recommendations thereon. | 5. The Commission may review the present Public Expenditure Management systems in place including the budgeting and accounting standards and practices; the existing system of classification of receipts and expenditure; linking outlays to outputs and outcomes; best practices within the country and internationally, and make |
| 6. The Commission shall indicate the basis | |

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| on which it has arrived at its findings and make available the estimates of receipts and expenditure of the Union and each of the States.<br><br>7. The Commission shall make its report available by the 31st day of October, 2009, covering the period of five years commencing on the 1st day of April, 2010.<br><br>**ADDITIONAL TERM OF REFERENCE**<br>**"8. A. Having regard to the need to bring the liabilities of the Central Government on account of oil, food and fertilizer bonds into the fiscal accounting, and the impact of various other obligations of the Central Government on the deficit targets, the Commission may review the roadmap for fiscal adjustments and suggest a suitably revised roadmap with a view to maintaining the gains of fiscal consolidation through 2010 to 2015."**<br>*[Inserted vide Presidential Order dated 25th August, 2008]* | appropriate recommendations thereon.<br><br>6. The Commission may review the present arrangements as regards financing of Disaster Management with reference to the funds constituted under the Disaster Management Act, 2005(53 of 2005), and make appropriate recommendations thereon.<br><br>7. The Commission shall indicate the basis on which it has arrived at its findings and make available the State-wise estimates of receipts and expenditure.<br><br>8. The Commission shall make its report available by the 31st October, 2014, covering a period of five years commencing on the 1st April, 2015. |

## Annexure 2: Population and Area of Urban Local Bodies in Uttarakhand: 2011

| Urban Local Body | Population (2011) | Area ($km^2$) | Urban Local Body | Population (2011) | Area ($km^2$) |
|---|---|---|---|---|---|
| **Nagar Nigam** | | | Badrinath** | 2438 | 2.01 |
| Dehradun | 650113 | 52.00 | Barkot | 6720 | 5.00 |
| Hardwar* | 231338 | 11.91 | Bhimtal | 7722 | 3.95 |
| Roorkee*** | 132889 | 7.74 | Chamba | 7771 | 4.00 |
| Rudrapur * | 154554 | 12.43 | Chinyalisaur* | 5994 | |
| Kashipur * | 121623 | 5.46 | Devprayag | 2868 | 5.18 |
| Haldwani * | 201461 | 10.62 | Dharchula | 6,324 | 15.19 |
| **Nagar Palika Parishad** | | | Didihat | 4,806 | 4.00 |
| Almora | 35513 | 7.36 | Dineshpur | 11343 | 4.50 |
| Bageshwar | 9079 | 5.00 | Doiwala | 8709 | 1.91 |
| Bajpur | 25524 | 2.62 | Dwarahat | 2749 | 2.87 |
| Bhowali | 6309 | 1.32 | Gangotri** | 110 | 0.14 |
| Chamoli-Gopeshwar | 21447 | 15.02 | Gangolihat* | 5741 | 6.62 |
| Champawat | 4801 | 5.00 | Gairsain* | 5972 | 7.53 |
| Dogadda | 2422 | 2.59 | Gauchar | 8864 | 15.00 |
| Gadarpur | 19301 | 3.40 | Herbertput | 9782 | 7.33 |
| Jaspur | 50523 | 4.00 | Jhabrera | 11186 | 0.09 |
| Joshimath | 16709 | 11.49 | Swargasharam (Jonk)* | 4027 | 8.00 |
| Khatima | 15093 | 8.40 | Kaladhungi | 7611 | 1.16 |
| Kichha | 41965 | 4.02 | Kapkot* | 5024 | 4.01 |
| Kotdwara | 33035 | 2.59 | Karnaprayag | 8297 | 25.00 |
| Manglaur | 52971 | 1.32 | Kedarnath** | 612 | 2.79 |
| Mussoorie | 33657 | 64.75 | Kelakhera | 10929 | 4.00 |
| Nainital | 42775 | 37.05 | Kirtinagar | 1517 | 1.50 |
| Narendra nagar | 6049 | 10.36 | Landhaura | 18370 | 0.82 |
| Pauri | 25440 | 41.44 | Laksar | 21760 | 3.30 |
| Pithoragarh | 44,964 | 9.00 | Lalkuan | 7644 | 4.25 |
| Ramnagar | 54787 | 2.46 | Lohaghat | 7926 | 4.50 |
| Rishikesh | 70499 | 10.00 | Nandprayag | 1641 | 2.16 |
| Rudraprayag | 9313 | 1.00 | Mahuakheraganj | 12584 | 8.15 |
| Sitarganj | 29965 | 2.00 | Mahuadabara Haripura | 7326 | 2.00 |
| Srinagar | 20115 | 7.77 | Muni-ki-Reti | 10620 | 1.82 |
| Tanakpur | 17626 | 1.01 | Nandprayag | 1,704 | 2.15 |
| Tehri | 24014 | 37.05 | Pokhri* | 4227 | 8.75 |
| Uttarkashi | 17475 | 12.02 | Purola* | 4818 | 5.52 |
| Vikasnagar | 13927 | 1.40 | Shaktigarh | 6309 | 1.80 |
| **Nagar Panchayat** | | | Sultanpur | 9881 | 2.00 |
| Augustmuni* | 4873 | 5.01 | Ukhimath* | 2637 | 2.74 |

** Non elected Nagar Panchayat

Chinyalisaur, Augustmuni, Ukhimath, Gairsain, Pokhri, Kapkot & Gangolihat population as per census 2001.