



Speech of
Shri Harish Rawat
Chief Minister, Uttarakhand

On the Occasion of the

Visit of the
Fourteenth Finance Commission
To
Dehradun
Government of Uttarakhand

February 11, 2014

Hon'ble Chairman Dr. Y. Venugopal Reddy, distinguished members Prof. Abhijit Sen, Madam Sushma Nath, Dr. M. Govinda Rao and Dr. Sudipto Mundle, Secretary Shri A.N. Jha and other officers of the Fourteenth Finance Commission, I warmly welcome you all on your visit to this Himalayan State of Uttarakhand.

2. In recognition of the aspirations of the people of this predominantly mountainous region which had been lagging behind in development, Uttarakhand was carved out of Uttar Pradesh in November 2000. Given the specificity of predominantly hilly nature of this Himalayan State, its weak economic structure, scarce resource endowments and low fiscal capabilities and international borders, it was accorded the 'Special Category State' status in 2001.

Covering an area of 53483 sq kms, Uttarakhand has a very diverse topography ranging from plains in the South to snow covered peaks in the North. About 64 per cent of its area is under forest cover. Development deficit which characterised it before creation of the State is obvious from its growth rate during the period between 1993-94 and 1999-2000, which was as low as 2.9 percent as against the national growth rate of 6.6 per cent per annum. After its separation from Uttar Pradesh, the State's GDP has grown at robust rates of 9.62 percent from 1999-2000 to 2004-05 and 12.28 percent from 2004-05 to 2012-13. Both industry and the service sector have grown at a faster rate and the state is now much more industrialised and service-sector oriented than when it came into existence in the year 2000. However, the growth tempo could not be sustained

in the recent past because of factors beyond our control like withdrawal of the concessional industrial package, the prevailing macro-economic situation in the country and a major calamity/disaster that the state had to face in 2013.

3. The State experienced abnormally high rainfall between 15th and 17th June 2013 resulting in heavy landslides, cloudburst and floods throughout the State causing damage in almost all districts of the state and resulting in major loss of life and property. Across five districts of the State namely Rudraprayag, Chamoli, Uttarakashi, Pithoragarh and Bageshwar the damages was very severe. While there was extensive damage to the physical infrastructure like roads, bridges, drinking water schemes, and power and communications networks,

it also led to excessive loss of private property like land and building like houses, hotels, restaurants, shops and road side commercial properties apart from crop damage, cattle loss etc. Due to inclement weather, damaged roads and a psychological scare as an aftermath of the disaster, tourism all over the state and specifically on Yatra/Pilgrim routes was impacted in a very adverse manner. So much so that tourists stopped visiting even completely safe locations like Nainital, Mussoorie and Hardwar. Since a major part of the population in the state are dependent on tourism for their livelihood especially in the hill regions, yatra routes, pilgrimage places like Haridwar, Rishikesh and Piran Kaliyar etc. and gateway towns and cities. The residents are facing serious problems because their livelihood is directly linked to the inflow of tourists. As soon as the

'Himalayan Tsunami' struck the State, the immediate challenge before the government was relief and rescue operations. Rising to the challenge, the State Government with the unstinted support of Government of India started the rescue operations in full swing by requisitioning the services of Army, Air-force and Central Para-Military forces like ITBP and NDRF. Given the most arduous and difficult terrain, inclement weather and major lack of connectivity, approximately 1,50,000 persons, stranded/trapped in different locations, pilgrims as well as local residents, were safely rescued by air, road and makeshift pathways on foot and taken to the relief camps. This was one of the biggest rescue operations in the history of the country. Tragically, more than five thousand people lost their life in this Himalayan Tsunami. In 2010 and 2011 also there was

widespread damage in the state due to flash flood and landslides because of very heavy rains and cloudbursts the rehabilitations process for the damages due to the calamity during this period is still going on. About 2 percent of the states very fertile agricultural land also got eroded and was washed away resulting in livelihood problems for the local inhabitants.

4. The State Government, in view of the enormous scale of the disaster and its limited financial capacity, approached GoI as well as various donor agencies for post disaster reconstruction and rehabilitation support. Among the donor agencies UNDP, World Bank and Asian Development Bank came forward to support the post disaster restoration and rehabilitation efforts of the State Government. After

detailed deliberations, the planning commission has approved a reconstruction plan of ` 7,000 crores to be completed within three years pooling the resources under EAP, CSS and Special Plan Assistance. The disaster also adversely affected the growth tempo of the State which suffered massive losses and has set the State back by a few years in its developmental efforts. About 40000 to 50000 hands are required for the reconstructions work during the next 3-4 years. Because of the difficult topography and adverse climatic condition, a small window in terms of time is available for reconstruction work. Therefore, the support of the Fourteenth Finance Commission at this juncture is going to be critical for the State.

Hon'ble Sir,

5. I would like to draw your attention to the recommendation of the 11th Finance Commission on the restructuring of finances of Special Category States. In Para 3.77 of its report, the Commission has recommended a fundamental restructuring of system of financing of expenditure which includes:-

Assessing the non-plan revenue gap of these States on the basis of norms relevant in their case after taking into account their share in central taxes and it should be met out of Finance Commission grants. There should be no need for any Plan grant to meet these gaps. Responsibility for development of infrastructure of vital importance to the region requiring large investment should be that of the Centre and the

system of plan assistance for special category States may be reviewed.

We request the Fourteenth Finance Commission to recommend that the financing of Special Category States, which are all mountainous states and hence form a class by itself, should continue for both plan and non-plan funding even if some of them stand on a better footing on Human Development Index as their expenditure requirements continue to be very high due to the very nature of their topography.

6. The Fourteenth Finance Commission has to make an assessment of the revenue and expenditure requirement of the Centre and the States on the non-plan side over its award period. The Thirteenth Finance Commission, while making forecast of salary, assumed a net increase of one percent in the

working strength of employees in the three newly created States of Chattisgarh, Jharkhand and Uttarakhand as against one percent attrition in case of other States. However, to keep the salary expenditure at a minimum, to meet requirements of the FRBM Act, fresh recruitment in sufficient numbers could not be made. Apart from the existing vacancies, even the vacancies caused by the retirement of regular staff could not be fulfilled. About 43811 employees retired since creation of the State up-to October 2013 but only 22607 fresh recruitments could be made. The shortage of regular staff and lack of adequate capacities at crucial levels is adversely affecting the delivery of services and completion of infrastructure development schemes. We have built in our forecast, recruitment to 40 percent vacancies in 2013-14, 40

percent in 2014-15 and remaining 20 percent in 2015-16, excluding group D posts. This does not exceed the permissible limit fixed by the Thirteenth Finance Commission. The possible impact of the recommendations of the 7th Pay Panel has also been incorporated taking a modest increase of 20 percent in salary and allowances. The Thirteenth Finance Commission had assumed 35% onetime increase in basic pay and only 6% per annum increase in Dearness Allowance whereas the increase in DA has been 53% since January 2010, which amounts to more than 15% increase per annum. We humbly request the Commission to take these aspects into consideration while determining the expenditure forecast of salary instead of making routine normative assessment.

7. As the committee to study development in hill states constituted by the Planning Commission under the chairmanship of Mr. B.K. Chaturvedi has observed that states of Himalayan regions like Uttarakhand are “at disadvantageous situation in terms of difficult terrains, severe weather conditions, large forest land, dispersed habitations, small and under developed markets, long international borders, poor connectivity and inadequate general infrastructure”, the cost of delivery of public services, cost of creation and maintenance of assets, transports cost etc. are much higher compared to other states due to its typical topography. Added to it are high child and old age dependency ratios in remoter hill areas and diseconomies of scale. The State, thus, is not in a position to take advantage of agglomeration economies. The recent natural

calamity has increased the requirement on the expenditure side and lowered revenue on the receipt side due to its adverse impact on tourism and other economic activities. Our forecast takes into account the endeavour of the State to step up its revenue efforts. The expenditure requirements of this fiscally disadvantaged State are higher both on account of higher cost of delivery of services (due to terrain) and for bridging the gap with respect to the more prosperous States. Private investment in health and education sector in rural and remote areas is not forthcoming and the capacity of people to pay is also limited. Therefore Government will have to continue to shoulder the responsibility and will have to support whatever private institutions are functioning. Therefore, the support of the Finance Commission in meeting the projected revenue gap of

Uttarakhand will go a long way in ensuring the future prosperity as well as financial viability of Uttarakhand at this critical juncture of reconstruction.

8. Natural resource management is the most critical issue for a hill state like Uttarakhand. The Forests, alpine meadows, glaciers and snow peaks of Uttarakhand, which occupy about two-third of its area, provide a large range of eco system services to the rest of the nation. The green cover also provides services to the whole world by sequestering carbon dioxide in the atmosphere. About 64% of the area of Uttarakhand is under such forest cover and grasslands and is managed by the forest department as well as participatory local bodies called the '*Van Panchayats*'. We are also in the process of increasing

the area under *Van Panchayats* by notifying additional tracts of wastelands and alpine areas for management under them. The fragile topography, remoteness, disaster proneness, two long international borders and severe infrastructure deficit makes the management and protection of our natural resources all the more difficult. Indeed, 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 incentive. The Indian Institute of Forest Management in its paper presented at the World Forestry Congress, 2009 at Buenos Aires, Argentina has estimated ecosystem services of Uttarakhand at around `32000 crores per year at the then prevailing prices. I, therefore,

humbly request the Fourteenth Finance Commission to either incorporate forest cover in the devolution formulae or, alternately, allocate at least an additional `2000 crores per year as “Green Bonus” to our State. The Thirteenth Finance Commission has only recommended `205.40 crores over the five year period for the management of forests as per working plan prescriptions and hence cannot be construed even close to a “**green bonus**”. Extensive forest area with a need for conservation in overall national and global context prevents alternate economic use of these land resources which can result in higher marginal returns on one hand, and also increases the transaction costs because of the time and effort needed for getting forest and environmental clearances and causing time and cost overruns. A natural endowment thus becomes more of a

handicap. Forest fires cause extensive damages and adequate resources are needed to combat it. I therefore make an earnest request to the Finance Commission to give due weight to the role of Uttarakhand's forests as a national and even global resource and the best way to address it is to build it into the devolution formula with appropriate weightage and treat it as a special problem while arriving at the total quantum of transfer to the State.

9. Another unique feature of Uttarakhand is tourism, which includes both pilgrimage or the yatra tourism and leisure tourism. Uttarakhand is home to a number of holy shrines for different communities and numerous 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 tourist related activity in the state, the state has enormous potential for cultural, adventure, wildlife, nature, leisure and eco-tourism.

10. 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 Kanawarias so much so that the normal traffic to Hardwar has to be diverted or suspended, and the National Highway from Meerut to Hardwar has to be closed for vehicular traffic for about a fortnight. Tourism on the Yatra Routes causes a tremendous pressure on, civic infrastructure, sanitation, drinking water, health and medical facilities and law and order machinery. The need to provide these facilities

assumes greater significance in view of the fact that average spending ability of 'Yatris', unlike leisure tourists, is quite low. Further, since a significant portion of the Char Dham Yatra and Kailash-Mansarovar Yatra is undertaken on foot, safety of the tourist is also a major concern. Thus, there is a dire need of funds to provide and improve the infrastructural facilities, including the road connectivity alternate routes and maintenance thereof since the rail network is very limited and air services are almost non-existent.

11. Another unique feature of Uttarakhand, which often becomes a handicap, is the small size of its Municipalities. Small municipalities had to be set up to cater to the needs of Yatris. The average population of a Municipal Corporation in the state is 248663, of a Nagar Palika Parishad 27836 and that of

a Nagar Panchayat is just 7623. The Thirteenth Finance Commission general grant of ` 124.38 crores in five years to Urban Local Bodies has been inadequate in generating substantial infrastructure. Most of the Municipalities have to bear the burden a large floating population without corresponding revenue generation. The Thirteenth Finance Commission gave a weight of 50% to the population of Municipalities in its devolution formula for local bodies which fails to address the problem of smaller Municipalities. We therefore request for a minimum population floor for each body. Also, the urban local bodies have not been able to access the incentive grant due to their weak capacities. We request the Finance Commission not to put any conditionalities relating to their independent functioning as third tier of government to access the grants.

12. The Thirteenth Finance Commission general grant of ₹386.42 crores in five year to Panchayati Raj Institutions needs substantial enhancement as the village Panchayats with even small population have large areas in which to develop civic amenities hence substantial funds are required. The average population of a Gram Panchayat is only 987, with most of them specially in the hills having a population of less than 500. Our request is to review of the devolution formula for Panchayats keeping in view of the problem of Panchayats with small population and large areas. Local Body Institutions in hill areas both urban and rural suffer from resource constraint, cost disabilities and there is need to provide funds to cover critical gaps in the organisational structure, physical infrastructure, solid waste management and sanitation. An amount of ₹204.56 crores for

PRI's and `65.84 crores for ULB's was earmarked as incentive grants to the PRI's and ULB subject to fulfilling the nine conditionality's which could not be availed of by the local bodies. We request that in future no conditionality should be attached to these grants.

13. The State is committed to maintain fiscal discipline. The FRBM act was amended in 2011 to conform to the targets fixed by the Thirteenth Finance Commission. The State has been adhering to the targets. The fiscal deficit to GSDP ratio has been below 3.5% from 2009-10 onwards, the revenue deficit has been eliminated except in 2010-11 when it was marginally negative by just 0.02% of GSDP, the public debt has been well below the targets fixed under the FRBM act. The state of Uttarakhand has

thus shown considerable fiscal discipline overall and our debt to GSDP ratio is continuously falling. However, the State, as mentioned by me earlier, has been able to contain its revenue expenditure by leaving a large number of vacant posts which is creating serious governance problems now.

14. Despite the fiscal disadvantages implicit in its profile, Uttarakhand has made commendable revenue raising efforts ever since it came into existence. Its per capita tax revenue at ₹4460 in 2010-11 is the second highest among the special category States and has been growing at a CAGR of about 18.55% during the last five years. Forestry and Mining were important sources of non-tax revenue. However environmental concerns and legal constraints have considerably reduced the full

revenue potential from these sectors. Mining and quarrying is mainly confined to collection of sand and boulders etc., but that too faces strict environmental restrictions. Due to these environmental considerations, the share of mining and quarrying in the GSDP of the state is less than one percent.

15. Uttarakhand has been working diligently to harness its abundantly available hydropower potential. Power generation although undoubtedly, the most critical input because of its overarching impact on all socio-economic sectors has been facing more and more restrictions on environmental and religious grounds and many projects are pending clearance from the centre while some of them have been forced to close down. There has been a

declaration of the Eco-sensitive zone, over a stretch of about 100 km of River Bhagirathi from Goumukh to Uttarakashi 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 revenue loss due to non-generation only is about ₹3350 crores per year. Our limitation due to environmental considerations notwithstanding, our endeavour is to improve the revenue raising and collection effort of the State. Power and tourism has the potential to emerge as an important source of revenue for the State and the State has initiated a number of steps in this direction. But, given the long gestation period of hydro projects, the revenue flow will take place only after a time lag. These flows will also remain controlled due to the regulatory mechanism of the Central and State Commissions.

16. The expenditure requirements of the state government towards providing merit services like education and health is ever increasing therefore it needs higher allocations from the Centre. The shareable pool of Gross Union Tax Revenue should also include surcharge on income tax and the share of States in the sharable central taxes be raised to 40%. The share of Special Category States should be insulated against shortfalls in central tax revenues by a mechanism wherein a minimum amount of tax devolution be prescribed. For working out the horizontal devolution of Union Tax revenues a divisible pool be separately earmarked for Special Category States.

The Thirteenth Finance Commission has given 25% weight to Population, 47.5% weight to Distance (Income), 10 % weight to Area and 17.5% weight to

Fiscal Discipline for determining the *Inter-Se* shares of States. Thus only one indicator, namely, Fiscal Discipline has been used as incentive factor in the devolution formulae. We agree to the importance of fiscal discipline as a factor. However we suggest that a proper index of cost of providing public and merit services like health and education should be worked out and used in the devolution formulae with adequate weight. This should be in addition to the area factor, which does not fully reflect cost variations. We also suggest that given the importance of maintaining the environment and the externalities associated with it, the share of forest cover of a state in the total forest cover of all States may be used as additional criteria with a weight of 10%.

17. The cost of construction of water supply schemes, roads and buildings, power lines etc is much higher in the hills than in the plains. The per capita cost of supply of water works out to be very high in sparsely populated remote areas and full cost recovery is just not possible in these low income areas. For example, 47.50% population of Chamoli, 47.30% of Bageshwar and 47.60% of Almora are in the BPL category. Even those living above the BPL do not have the paying capacity. Low lifeline tariffs for the poor and vulnerable section of society is an accepted norm in both developing and developed countries. The same is true of provision of health and education services. In addition to normal salary and allowances, remote area allowance has to be paid to attract/motivate officials to work in far-flung and relatively backward areas of Uttarakhand.

18. In spite of large number of vacancies in critical areas like tax department, education, health etc reflecting sub normal expenditure levels, the high proportion of committed liabilities is also a major concern for the State. The expenditure under salary head has increased by a CAGR of 23% mainly on account of the impact of 6th Pay Commission recommendations and very high increase in Dearness Allowance rates in recent years. Pension payments have been growing at 17%. Interest payments have been growing at the rate of 14%. Our expenditure forecasts have been made keeping in mind the requirements of the State to spend on social and economic infrastructure as well as servicing the committed liabilities of the State. The increased focus on social security schemes and new schemes announced by the Central Government will

also push up the non-plan expenditure in social sector. The Finance Commission is requested to evaluate our revenue and expenditure forecasts in the light of the above facts as detailed in our Memorandum and make recommendations for providing us adequate non plan revenue deficit grants.

19. The requirements of Uttarakhand under State Specific special problems and up-gradation of standards grants have been given in a separate Volume IV of our memorandum.

As I conclude on my behalf and on behalf of our Council of Ministers, I feel it my bounden duty to once again thank you for visiting us here giving us a patient hearing with all our warmth.

Jai Hind

