Speech of

Shri Trivendra Singh Rawat
Chief Minister, Uttarakhand

On the Occasion of the Visit of the Fifteenth Finance Commission

To

Dehradun

Government of Uttarakhand

16, October, 2018

Hon’ble Chairman Mr. N.K. Singh, distinguished members Shri Shaktikanta Das, Shri Ashok Lahiri, Shri Anoop Singh, Shri Ramesh Chandra, Secretary Shri Arvind Mehta, Joint Secretaries Shri Mukhmeet Bhatia, Shri Ravi Kota and other distinguished member of 15th FC, it gives me great pleasure to welcome you to this Central Himalayan State which is well known as Dev Bhoomi Uttarakhand, and we are keenly looking forward to deliberations with you with utmost optimism.

1. The state is abundantly endowed with natural beauty and it will be our effort to make your stay pleasant and comfortable both as a visiting Commission and also as our revered guest.

2. I would like to bring to your kind notice that right from state’s inception, we were aware of the significant role of the Finance Commission as from the very date of its creation, the state had to face huge financial challenges. At the creation of the state the recommendations of the 11th Finance Commission had been finalised and implemented but we at that time being part of Uttar Pradesh were classified as a general category state and were therefore deprived of the revenue deficit

grant which was given to all the other special category states.

3. We were able to deal with our financial problems in the initial years due to our hard efforts and assistance from the Government of India and also to a great extent were helped by the recommendations of the 12th FC. The 13th FC in appreciation of our prudent financial management gave us incentive allowance. However, the award of 14th FC has not adequately appreciated and addressed the fiscal challenges of the state government. Now, we have high hopes from the 15th Finance Commission and are confident that we will get an award which is just and fair to the state government and we also hope to successfully stand your scrutiny and analysis.

4. Sir, you and your all distinguished colleagues have both practical experience and theoretical expertise in the field of economics and public finance and so you will all appreciate the difficulties and issues relating to hill and border state like Uttarakhand.

5. Sir, before apprising you of the geographic and socio-economic challenges of the state, I would like to draw your attention to some of the terms of reference of the present commission which indicate that the states are not being treated as equal partners in the Cooperative Federal set up. In a federal set up, especially when we are talking in terms of cooperative federalism, where Union and states have to make co-ordinated efforts to ensure socio-economic development and so the role of the Finance Commission assumes even greater significance. However, the mention of review of so called "increased devolution" and the questions being raised on the necessity and relevance of revenue deficit grant has caused concern to the state governments. They seem to run contrary to the principles of fiscal federalism and adversely impacts the interests of the states and requires a thorough scrutiny of its constitutional, legal and financial aspects.

6. Fiscal federalism is based on the principles of efficiency, equity and equalisation. The taxation powers, policy function etc. has been assigned to the Union Government in the interest of uniformity and efficiency, whereas most of the

expenditure functions are with the state governments. The underlying idea is that states and local bodies due to their proximity to the citizens can assess their needs better and the expenditure and outcomes thereof can be more closely monitored resulting in efficiency gains. Hence if the devolution formula is altered in a manner which adversely impacts the finances of the states, it will also adversely affect the development programmes and measures of public welfare.

7. Sir, I would now like to draw your kind attention towards some of important features and issues regarding the state. The state was created on November 2000, and it was felt that in a smaller state there will be a focussed attention on the problems, and suitable need based policies and strategies will be designed accelerating the development process. It was more a political decision based on people's aspirations and expectations, and fiscal capacity and financial viability related issues were not very seriously examined. Since the inception of the state we have been beset with financial problems. In view of difficult geographical conditions, weak financial

structure, limited financial resources, weak fiscal base, strategically sensitive international borders, the state was accorded special category status in 2001. In the initial period additional central assistance was provided in lieu of revenue deficit grant of which a large part was by way of debt, which further increased our debt liability.

8. The state has a total geographical area of 53,487 sq. km out of which more than 80% is mountainous region and almost 70% is classified as forest area which includes snowclad mountains, glaciers, alpine meadows etc. Because of forest area and its geography the villages and habitations are scattered and population density especially in the hill region is very low. Average population density of the state according to 2011 census is 189, whereas the national average is 382. In border districts of Uttarakashi, Chamoli, Pithoragarh, Champawat etc. it is even lower. More than 75% of villages have a population less than 500, which is decreasing further due to out migration. The geography and terrain of the state itself has expenditure implications and moreover due to dispersed population the per capita cost for providing services is much higher. The

advantages of economies of scale and aggregation economies are not possible due to low population density. There are also large disparities in economic development of hills and plains areas.

9. I am glad to inform you that inspite of difficult conditions and lack of resources we have made significant progress in socio-economic indicators and have made sustained efforts to meet the challenges. Before the state came into existence the average growth rate between FY 1993-94 to FY 1999-2000 was approximately 2.9% which increased to 9.52% between FY 2000-01 and FY 2004-05 and further increased to 12.28% in 2005-06 to 2011-12. It however, does not imply that the state has achieved prosperity level as compared to other states and this high growth rate has two aspects which need to be looked into. Firstly, the financial base was quite narrow, so even with relatively high growth rate, rise in income in absolute terms was limited. Secondly, in most of the hill region because of its geography, forest area and environmental constraints, the economic activity was restricted leading to increased intra state disparity.

10. It is often mentioned that the main responsibility of addressing the issues of intra state disparities is of the state itself through allocation of resources and appropriate policy design. While accepting the principle, I would like to submit that there are causal factors on which the state has absolutely no control. Because of the natural geography of the state, and the fact that most of environmental law, rules and regulations etc. are formulated by the centre, the state has a very limited and nominal role. A recent example is the declaration of Bhagirathi area as an eco-sensitive zone, whereby many of the Hydro-Power projects which would have been an important source of revenue for the state have run into difficulties because of environmental restraints.

11. The economy of a state is closely linked to the national economy. Few of the decisions taken at the national level like implementation of goods and services tax (GST) are great achievement of the Indian State and will in the long run strengthen and stabilise the economy of the nation. To accelerate economic growth and development the Government of India has launched many programs like PMKSY, soil health

card, Fasal Beema Yojana etc and plans to double farmer’s income by 2022. Similarly to promote socio-economic development the state government has also initiated programmes for hill horticulture, promotion of home stay and other theme based tourism, setting up of growth centres at Nyaya Panchayat level, quality improvement reforms in education and health sector, development of new tourist destinations etc. We expect that these initiatives would also suitably address the problem of out migration.

12. A major issue in Uttarakhand is migration which directly impacts the local economy of a region. Mostly the young male migrates to other areas for better livelihood opportunities and job options leaving behind the women folk who apart from taking care of the household, old people and children also get involved in agriculture activities. This drudgery has an adverse impact on their health and at the same time has increased the child and old age dependency ratio. The population is predominantly poor and has limited paying capacity, and hence due to inadequate returns on investment the presence of the private sector in remote hill areas is almost negligible and

therefore, the entire expenditure burden, especially in health and education sector falls on the state government. The state government has thus launched many initiatives to curb migration and economically empower its citizen.

13. Majority of the population in the state resides in rural areas and is by and large dependent on agriculture for its livelihood but as almost 70% of total land of the state is forest land and consequently the possibilities of expansion of area in agriculture sector and increasing returns from agriculture are very limited.

14. One of the reasons for the increased growth rate in the initial years was the concessional Industrial Package granted by the Government of India which was prematurely terminated in 2010. Although we are making all efforts for facilitating the growth of the industry through single window system and streamlining the procedures, the industry is not attracted to the state because of discontinuation of Industrial Package, lack of fiscal incentives, availability of raw materials, logistics constraints and environmental restrictions in the hill region.

15. It is noteworthy that the rail network in the state is only 343 km. which is very less as compared to other Indian States. In the absence of rail and aerial network the main means of transportation is the road network. The three dimensional geography of the hill areas leads to extra capital cost as well as increased maintenance requirement. We have quoted an example in our memorandum where the aerial distance from last rail head Kathgodam in Kumaon region to the distant village of Munsiyari is 112 km., but the actual road length is 278 km., out of which 129 km. is in landslide and avalanche prone area leading to double maintenance, once after the monsoon and the other after snowfall in winters. Three dimensionality invariability leads to increased project costs.

    I would also like to apprise you of certain structural issue which have constrained growth in our state.

16. Due to limited availability of land, expansion of area under cultivation is very difficult. Moreover soil erosion, deteriorating soil health, small size of holdings, limitations of agricultural mechanization, drudgery especially in hill areas, limited livelihood

opportunities, cost disabilities coupled with natural disasters due to geological causes result in sub-optimal production, productivity and growth in agriculture sector.

17. Sir, most of area in Uttarakhand is prone to disaster. Every year the state has to face catastrophic damages to lives, infrastructure, property and livelihoods both in monsoon as well as winter seasons. The state thus have to invest its resources every year in disaster recovery and reconstruction.

18. One of the important economic decision in the year 2017-18 has been the implementation of Goods & Services Tax (GST). Its implementation has been beneficial for the nation but it has already adversely impacted the revenue collections of the state. Although the collections within geographical boundaries of the state has improved by about 91%, yet the major share of it has gone to the Union Government and other states as most of the consumers are from others states. In the pre-GST regime our compound annual growth rate for commercial Tax/VAT was 19.25% but in 2017-18 the collections have

decreased by 39%. We have provided the relevant details in our memorandum.

19. Although in the devolution formula proposed by the 14th Finance Commission, forest area was given a weightage but snow clad mountain area, glaciers, High Altitude Grasslands etc. were excluded from the definition of forest area. While glaciers, snow clad mountains etc. are water towers of the nation and provides water to major rivers of the country during lean season, which caters to the needs of drinking water and irrigation requirements of major part of the North Indian population, the high altitude grasslands act as sponge to absorb and ensure controlled release of water from the mountains during summers. Further due to environmental constraints there are foregone opportunity costs. The people of Uttarakhand revere their natural resources but our natural assets and endowments have become a liability for us. Every year we have to deal with forest fires. While it results in damage to the property and environment, it also has expenditure implications. No development activities can be taken up in most of the forest areas and the state has to incur expenditure on their upkeep and

maintenance. The state provides invaluable eco-system services to the country and given the emphasis on climate change the Union Government needs to recognise this fact and compensate the state accordingly. Various committees of the Planning Commission in the past have recommended “green bonus” for our state.

20. Another important issue relates to pilgrimage tourism. Shrines and temples of historical and religious importance located in the state attract a large number of pilgrims, and all the infrastructure and its maintenance along with civic services etc. are the responsibility of the state government. It is low spending tourism activity wherein expenditure is much higher than the revenue income. Similarly size of most of the municipal bodies is small and they have to cater to a large floating population without corresponding revenues. These specificities need to be factored in while devising any fiscal transfers.

21. Inspite of environmental constraints, we have not been lacking in our efforts and have continuously striven for the growth of our economy and betterment of our people. Hydro power and

tourism are our important GDP drivers and revenue generators but because of policy mandated restrictions, we are unable to start new projects and at the same time complete the construction of many hydro power projects, leading not only to loss of revenue but also to supply of power as per our requirements. We thus have to purchase around 60-65% power from the grid which adversely affects our financial position. Thus additional resources need to be provided to the state to bridge this gap.

22. Given the limited revenue base, low fiscal capacity and the huge challenges of development we emphasise before the commission that the special category status of North-East and Western Himalayan states should be retained. To meet the huge developmental challenges before the state we also request that in vertical devolution the share of the states in taxes be increased from 42% to 50%. Keeping in view the special condition of the state, we have proposed a horizontal devolution formula in our memorandum which is based on equity and efficiency principles.

23. There has been an increase in revenue expenditure due to the implementation of the 7th

pay commission. As the major tax sources like VAT have been replaced by GST, states have very little leeway with them to raise revenues and therefore revenue deficit grants and other grants by Government of India is very necessary to ensure suitable development of the state.

24. We have on the basis of trend analysis and ground level realities submitted revenue and expenditure forecasts which I am sure will be looked into in a positive way.

25. There has been a big mismatch between the estimation of revenue and expenditure projection which were worked out by the 14^{th} Finance Commission. The state has also lost heavily due to discontinuation of plan grants. Many of our important development works have come to a standstill because of inadequate fiscal transfers both on plan and non plan account. Primarily because of this we have also requested for special problem and upgradation grants for some important projects in the Annexure to our memorandum.

26. Despite its various handicaps, the State of Uttarakhand is committed to develop itself as one

of the leading states in the country. On this path it requires the help and support from Government of India and the 15th FC to fulfil its obligations towards its citizens and help them to realise their dreams and aspirations.

I again thank you for visiting our state and giving us this opportunity to present our view point before you. I also wish you a very pleasant and enjoyable stay and am sure that you will go back with sweet memories of the state.