



उत्तराखण्ड शासन

Memorandum
To The
Fifteenth Finance Commission

Volume-I

Government of Uttarakhand
2018

Table of Contents

List of Tables	(II-III)
List of Charts	(IV)
List of Abbreviations	(V-VII)
Executive Summary	01-05
Chapter 1: Overall Economic Scenario	06-12
Chapter 2: Terms of Reference	13-16
Chapter 3: State Profile	17-32
Chapter 4: Inadequate Compensation from 14 th Finance Commission	33-43
Chapter 5: Development disabilities: Special case of a Hilly and Small State	44-61
Chapter 6: Fiscal Profile: Structural Constraints	62-82
Chapter 7: Revenue and Expenditure Forecast	83-96
Chapter 8: Eco-system Services: Compensation for Externalities.....	97-109
Chapter 9: Proposed Devolution	110-120
Chapter 10: Natural Calamities	121-129
Chapter 11: Local Bodies	130-137
Annexure-1 Notes on incentive related terms of references	138-147
Annexure-2 State Specific Issues	148-160

List of Tables

Table E1	: Suggested Horizontal Devolution
Table 3.1	: Geographical, Administrative and Demographic profile of Uttarakhand
Table 3.2	: Villages by population size class – Uttarakhand (Census 2001 and 2011)
Table 3.3	: District wise decadal change in population
Table 3.4	: Population Density
Table 3.5	: Dependency Ratio in Uttarakhand
Table 3.6	: Working and non-working population
Table 3.7	: Status of Workforce in state
Table 3.8	: Government Health Institutions in the State
Table 3.9	: Major Health Indicators
Table 3.10	: Educational Status of Districts in Uttarakhand
Table 3.11	: Level of Urbanization
Table 3.12	: Road Network of the state
Table 3.13	: Land holding in Uttarakhand
Table 3.14	: Status of Sown Area and Irrigated Area (Ha.)
Table 3.15	: Comparative poverty estimates in Hill and Plain Districts
Table 4.1	: Additional FFC Transfer (in 2015-16 over 2014-15)
Table 4.2	: Total surplus/shortfall after transfer under CAS but preserving the fiscal space for Centre
Table 4.3	: Projection of gross Central Tax Revenue by 14th FC
Table 4.4	: Year wise plan grants received
Table 4.5	: Composition of devolution in 12 th , 13 th and 14 th FC of various states
Table 4.6	: Revenue deficit grant given to various states by 14 th FC
Table 4.7	: Comparison of 14 th FC assumption with actual figures
Table 4.8	: Over estimation of resources and under estimation of expenditure by the 14 th FC
Table 4.9	: Recommended grant by 14 th FC
Table 5.1	: Cost Index of Hill and Plain areas of Uttarakhand
Table 5.2	: Calculations of Development Disability Index
Table 6.1	: Fiscal Parameters for Uttarakhand
Table 6.2	: Composition of Revenue Receipts
Table 6.3	: Pre GST & post GST tax collection details
Table 6.4	: Projected revenue collection with and without GST
Table 6.5	: Comparison of pre GST and post GST tax collection
Table 6.6	: Composition of Revenue Receipts: Relative Dependence on Central Transfers
Table 6.7	: Non-Tax revenue relative to GSDP
Table 6.8	: Composition of Own Non Tax Revenue
Table 6.9	: Revenue & Capital Expenditure in Uttarakhand
Table 6.10	: Composition of Expenditure
Table 6.11	: Outstanding liabilities of Uttarakhand relative to GSDP
Table 6.12	: Debt GSDP ratio of Hilly and Small states
Table 6.13	: Fiscal Summary of Uttarakhand
Table 6.14	: Expected Salary expenditure
Table 7.1	: CAGR of Revenue Expenditure
Table 7.2	: Growth Rate of Pension Payments
Table 7.3	: CAGR of Pension Expenditure
Table 7.4	: Forecast: Revenue and Expenditure Aggregates (in Rs.)

Table 7.5	:	Forecast: Revenue and Expenditure Aggregates (in %)
Table 7.6	:	Plan, Non-Plan revenue expenditure in various years
Table 8.1	:	Ecological wealth of Uttarakhand at a Glance
Table 8.2	:	Value of Standing Timber
Table 8.3	:	Summary sheet: Valuation of Ecosystem Services (Stock Values)
Table 8.4	:	Summary sheet: Valuation of ecosystem services (Flow values)
Table 9.1	:	State share in central taxes: Recommended and effective
Table 9.2	:	State wise credit deposit ratio of scheduled commercial Banks according to sanction (as of end of March) (percent)
Table 9.3	:	Suggested Horizontal Devolution
Table 10.1	:	Financial Package approved by Central Government
Table 10.2	:	Details of losses in Disaster in different year
Table 10.3	:	Demand for Natural Calamities by the State
Table 11.1	:	Number of Panchayati Raj Institutions
Table 11.2	:	Number of Urban Local Bodies
Table 11.3	:	Sharing of Devolution resource within local bodies
Table 11.4	:	Horizontal share of different local bodies
Table 11.5	:	Details of amount recommended by various SFCs and released by state government
Table 11.6	:	Details of Disbursement of Grant under 14 th FC
Table 11.7	:	Assessed resource transfer to local body
Table 11.8	:	Devolution for Local Bodies requested from 15 th FC
Table A1.1	:	Details of Budget provision and increase in annual actual expenditure with respect to previous year during pre and post rationalisation years
Table A1.2	:	AT&C losses
Table A1.3	:	Transmission Losses
Table A2.1	:	Department wise summary of state specific issues

List of Charts

- Chart 3.1 : Year wise GSDP and its growth rate
- Chart 3.2 : GSDP sectoral Contribution
- Chart 3.3 : Gross District Domestic Product at Current Prices (in Rs.)
- Chart 3.4 : District wise per capita income at current prices (in Rs.)
- Chart 3.5 : District wise Comparative Position on the basis of Composite Index
- Chart 4.1 : GSDP Growth Rate at Current Prices (%)
- Chart 4.2 : Tax GSDP Ratio
- Chart 4.3 : Own Tax Revenue
- Chart 4.4 : Non Tax Revenue
- Chart 4.5 : Revenue Expenditure
- Chart 5.1 : Tax GSDP Ratio of Small and Hilly States
- Chart 5.2 : Per-capita health expenditure of small and hilly states during FY 16 to FY 17
- Chart 5.3 : Per capita education expenditure of small and hilly states during FY 16 to FY 17
- Chart 6.1 : Profile of Fiscal Imbalance
- Chart 6.2 : Year wise receipts under VAT/ GST
- Chart 6.3 : Year wise different scenario under VAT/ GST
- Chart 6.4 : Central Transfers/ GSDP
- Chart 6.5 : Development Revenue Expenditure/ GSDP
- Chart 6.6 : Capital Outlay/GSDP
- Chart 6.7 : Development Expenditure/GSDP
- Chart 6.8 : Social Sector Expenditure/GSDP
- Chart 6.9 : Social sector expenditure to Total disbursement
- Chart 6.10 : Total Outstanding Liabilities /GSDP
- Chart 7.1 : Growth Rate of GSDP at Constant Prices

Abbreviations

Abbreviations	Descriptions
ACA	Additional Central Assistance
ABT	Availability Based Tariff
ANPR	Automatic Number Plate Recognition
ARC	Administrative Reforms Commission
ASHA	Aggregated Social Health Activist
AT &C	Aggregate Technical & Commercial
AYUSH	Ayurveda Yoga and Naturopathy Unani Siddha Homoeopathy
BE	Budget Estimate
BR	Biological Richness
BULI	Barren & Unculturable Land Index
CAG	Comptroller & Auditor General
CAS	Centrally Aided Scheme
CAGR	Compound Annual Growth Rate
CD	Credit Deposit
CGS	Central Generating Stations
CPC	Central Pay Commission
CPI	Consumer Price Index
CPSUs	Central Public Sector Undertaking
Cr.	Crore
CST	Central Sales Tax
CSS	Centrally Sponsored Scheme
CWMI	Composite Water Management Index
DBT	Direct Benefit Transfer
DDI	Development Disability Index
EAP	Externally Aided Project
EESL	Energy Efficiency Services Limited
EIA	Environment Impact Assessment
ERP	Enterprise Resources Planning
FCA	Forest Cover Area
FCI	Forest Cover Index
FD	Fiscal Deficit
FDI	Foreign Direct Investment
FRBM	Fiscal Responsibility and Budget Management
FRBMA	Fiscal Responsibility and Budget Management Act
FSI	Forest Survey of India
FY	Financial Year
GA	Geographical Area
GADI	Geographical Disadvantage Index
GBS	Gross Budgetary Support
GCS	General Category State
GDP	Gross Domestic Product
GHG	Greenhouses Gases
Goi	Government of India
GoUK	Government of Uttarakhand

GP	Gram Panchayat
GSDP	Gross State Domestic Product
GST	Goods and Service Tax
IBC	Indian Bankruptcy Code
IDI	Infrastructure Deficit Index
IGST	Integrated Goods and Services Tax
IHHL	Individual Household Latrines
IIFM	Indian Institute of Forest Management
IMF	International Monetary Fund
IMR	Infant Mortality Rate
INR	Indian Rupees
IPFS	Indian Public Finance Statistics
IPPs	Independent Power Producers
IUCD	Intra-Uterine Contraceptive Device
JnNURM	Jawaharlal Nehru National Urban Renewal Mission
KP	Kshetra Panchayat
LED	Light Emitting Diode
LUS	Land Use Statistics
MEA	Millennium Eco System Assessment
MBT	Main Boundary Thrust
MC	Municipal Corporation
MCT	Main Central Thrust
MoEF&CC	Ministry of Environment, Forest & Climate Change
MFT	Main Frontal Thrust
ML	Medium and Large
MMR	Maternal Mortality Rate
MoWR	Ministry of Water Resources
MOSPI	Ministry of Statistics and Programme Implementation
MW	Mega Watt
NABARD	National Agriculture Bank And Rural Development
NCCF	National Cooperative Consumer Federation
NCDC	National Cooperative Development Corporation
NCA	Normal Central Assistance
NDC	National Development Council
NDRF	National Disaster Relief Fund
NGO	Non-Government Organization
NHM	National Health Mission
NIPFP	National Institute of Public Finance & Policy
NITI	National Institution for Transforming India
NN	Nagar Nigam
NNP	Nagar Palika Parishad
NOC	No Objection Certificate
NP	Nagar Panchayat
NPV	Net Present Value
NSDP	Net State Domestic Product
NGBRA	National Gang Basin River Authority
NSV	National Sozialistische Volkswohlfahrt

PCI	Per Capita Income
PES	Payment For Ecosystem Services
PFMS	Public Finance Management System
PHC	Primary Health Centre
PRI	Panchayati Raj Institution
PSU	Public Sector Undertaking
PTCUL	Power Transmission Corporation Uttarakhand Limited
PPIUCD	Postpartum Intrauterine Contraceptive Device
PAIUCD	Post-Abortion Intra-Uterine Contraceptive Device
RBI	Reserve Bank of India
RD	Revenue Deficit
RE	Revised Estimate
RERA	Real Estate Regulatory Authority
SCA	Special Central Assistance
SCS	Special Category State
SDGs	Sustainable Development Goals
SDRF	State Disaster Relief Fund
SDMF	State Disaster Mitigation Fund
SFCs	State Finance Commissions
SGST	State Goods and Service Tax
SH	Small and Hilly
SIIDCUL	State Infrastructure Industrial Development Corporation of Uttarakhand Limited
SNUSP	Support National Urban Sanitation Policy
SPA	Special Plan Assistance
SRS	Sample Registration Systems
STF	Special Task Force
SWM	Solid Waste Management
SWAN	State Wide Area Network
TEEB	The Economic of Ecosystem and Biodiversity
TFR	Total Fertility Rate
ToR	Terms of Reference
UDAY	Ujwal DISCOM Assurance Yojana
UIPC	Uttarakhand Infrastructure Project Company
UJVNL	Uttarakhand Jal Vidyut Nigam Limited
ULB	Urban Local Body
UPCL	Uttarakhand Power Corporation Limited
UREDA	Uttarakhand Renewable Energy Development Agency
VAT	Value added Tax
ZP	Zila Panchayat

Executive Summary

Overall Economic Scenario

1. There are four critical changes in India's economic and fiscal conditions which need to be taken into account in designing a suitable scheme of fiscal transfers. *First*, under the guidance of a Monetary Policy Committee, the CPI inflation has been brought down on trend basis from its high levels prior to 2014-15. *Second*, the plan non-plan distinction has been abolished. *Third*, with the implementation of GST, both states and Centre have agreed to be guided by the GST Council in the determination of GST rates and the definitions affecting coverage of the GST base. To a large extent, states have much less control on their revenue performance as decisions regarding a core tax base have not remained entirely under their control. In particular, the erstwhile net producing states such as Uttarakhand are losing revenues with respect to taxes merged under GST on a permanent basis. *Fourth* is the new focus of the central government on fiscal consolidation through an amended FRBM Act.

Terms of Reference

2. Under Clause 5 of the ToR of the 15th Finance Commission, 'the Commission may also examine whether revenue deficit grants be provided at all'. In this context, it may be noted that article 275 (1) provides for grants in aid of revenues of a state that are determined to be in need of assistance. In this Memorandum, it is argued that the needs of a state should be determined by applying the equalization principle.
3. The 15th Finance commission has been mandated to give recommendations regarding the devolution principles of resource sharing between the center & state, amongst the states and other issues mentioned in ToR. As defined in the ToR of 15th FC, the overall guiding principles should be based on equity and efficiency taking into consideration the "equalization principle".

Uttarakhand: Socio-economic profile

4. In chapter 3, we have provided in detail the socio- economic, demographic and geographic profile of Uttarakhand. The geology of Uttarakhand has a direct impact on creation and maintenance of infrastructure, provisioning of essential services, cost disabilities associated with the terrain and low

revenue generation due to the scattered nature of habitation and low level of economic development.

5. Uttarakhand has a robust secondary sector but weak primary and services sectors. The growth in secondary sector was primarily due to the special industrial package given to the state which ended in 2010. Due to comparative disadvantages of geography and resource base, the industrialization will be low in the future. Thus the state is actively promoting horticulture and food processing in the primary sector and hydropower, tourism, wellness services in the service sector.

Inadequate Compensation from 14th FC: Over-optimistic Projections

6. Uttarakhand lost heavily in the scheme of fiscal transfers recommended by the 14th FC as no revenue deficit grants was given inspite of it being a special category state at that time. This loss to Uttarakhand was due to four reasons
 - (i) Overestimation of centre's tax revenues by the 14th FC.
 - (ii) Reduction in share of Uttarakhand in the tax devolution from 1.12% in 13th FC to 1.052% in 14th FC.
 - (iii) Overestimation of Uttarakhand's own tax revenues by the 14th FC.
 - (iv) Underestimation of Uttarakhand's expenditure requirements during the forecast period.
7. As explained in chapter 4 of the Memorandum, the 14th FC had overestimated the own tax receipts of the state government by 44.52% and own non-tax revenue by 86.25%. The revenue expenditure was underestimated by 14.21%. The difference in revenue and expenditure forecast in the first 3 years was Rs. 28367 Cr. If this is extrapolated for the entire forecast period of 14th FC, then the revenue shortfall amounts to Rs.47278 Cr.
8. The plan grants like NCA, SCA and SPA were discontinued by 14th FC which led to a revenue shortfall of Rs. 2500 Cr. per annum. The vertical devolution for Uttarakhand was also reduced from 1.12% to 1.05% leading to an annual loss of Rs. 350 Cr. This coupled with the overestimation of revenue receipts and underestimation of revenue expenditure and the consequent denial of revenue deficit grant has adversely affected the development expenditure and capital expenditure of the state as outlined in chapter 6. This has also led to an increase in revenue deficit, fiscal deficit and borrowings over the years.

9. In FY 2016-17, GST was a major change in the fiscal history of the nation. Previously, for the purpose of revenue generation, states were actively focusing on increasing their production capacities but now due to the introduction of GST, the emphasis has shifted to consumption. Uttarakhand has a very low population density and a low consumption base. Consequently GST collections are down by 39% as compared to revenues from the taxes that have been subsumed under GST. GST revenue comprises of more than 65% of state pre-GST tax revenue. Thus, the overall revenue collection will also be low in the future.

Uttarakhand: Fiscal profile

10. Uttarakhand is a tourist State and caters to more than 5 crore tourists annually. Most of the essential services to the tourists are being provided by urban local bodies. The Local Bodies lack sufficient resources, infrastructure and institutions to deal with these huge numbers. The state government through the State Finance Commission (SFC) provides the necessary resources to the local bodies to meet their statutory and legal requirements. Accordingly as per the recommendation of 4th SFC, as outlined in chapter 11, **grants to the tune of Rs.11505.55 Cr. have been requested to supplement the resources of the local bodies.**
11. Detailed revenue and expenditure forecasts have been provided in statement 1-4 and a brief outline of the same has been given in chapters 6 and 7. The revenue expenditure, apart from interest and pension expenditure, has been assumed to grow at 12.8%, given the growth of expenditure in earlier years, this is entirely justified. The rate of growth in interest payment has been calculated as per the existing liabilities and future liabilities to be contracted based on borrowings at the rate of 3% of forecasted GSDP. Similarly, a growth of 18% has been taken in the pension payment which is lower than the historical growth rate.
12. GST growth rate has been taken to be 14% till June 2022 and at 6.1% thereafter. The overall collection of GST (including CGST, SGST and IGST) from Uttarakhand has increased but the revenues of the state government from GST are down by 39%. The reason is that the production in Uttarakhand is strong and most of the produce is sent out of the state. But, the consumption pattern is weak and leads to lower revenue. Detailed assumptions for the growth rates of various tax and non-tax items are outlined in chapter 7 of the Memorandum.

13. Uttarakhand is a land locked state with international borders, a weak economic base, low tax potential, deficient infrastructure, high cost of construction and maintenance of infrastructure. **Due to these deficiencies, the state was categorized as a special category state. In this Memorandum, we have argued that there is a need for special consideration for the erstwhile special category states. We therefore request the 15th FC may maintain this special status.**

Role of Ecosystem services

14. Uttarakhand provides invaluable eco-system services to the nation. The Himalayas are the water tower of the country and provide innumerable ecosystem services like climate regulation, carbon sequestration etc. But due to anthropogenic activities and climate change, the sensitive ecosystem of the Himalayas is under threat. Thus to protect the sensitive eco- system and to maintain the flow of eco-system services, it is requested that the 15th FC make suitable provision in the devolution criteria to account for the eco-system services. **This will also be in the spirit of maintaining the environment for the future generations & sustainable development of the country and will also compensate Uttarakhand for preserving environment even at the cost of its own development.**
15. Uttarakhand, due to its geological terrain, is very sensitive to natural calamities like earthquakes, flash floods, floods, landslides etc. These calamities devastate the lives and livelihoods of the people and also damage the infrastructure thereby adversely affecting the development process. Man-animal conflict in terms of damage done to hill agriculture has assumed alarming proportions in the state and should be included in the category of natural disasters. Similarly there are many highly vulnerable villages which need to be immediately rehabilitated to avoid future disasters, and for this support should be provided by Government of India or these events should be included in the admissible norms under SDRF. The climate change happening in the Himalayas has intensified the severity of the disasters **and accordingly a grant of Rs. 7125 Cr. is being requested to deal with the adverse changing scenario.**

Modifying design of Fiscal Transfers

16. Given the fact that Government of India has recourse to cesses and surcharges to meet its shortfall and also the fact that the central spending on

matters of state and concurrent list has increased, **we suggest that the vertical devolution be increased from 42% to 50%.**

17. **As the special category states have very weak resource base and low fiscal capacity, we suggest that a total of 30% of the total vertical devolution should be earmarked for the special category states.**
18. Given the large volume of ecological services provided by Uttarakhand as it is a forest rich state, we have suggested a modified scheme of devolution which captures both the contribution of Uttarakhand as a provider of large volume of ecological services to the rest of the country and the state's cost disabilities. The suggested formula, the criteria and the weighting structure are summarized in the table below:

Table E 1: Suggested Horizontal Devolution

S.No	Criteria	Weights	Total
1.	Economic Considerations		40%
	1. Income Distance criteria	25%	
	2. Credit-Deposit ratio Distance criteria	15%	
2.	Population		25%
	1. Population of 2011	15%	
	2. Replacement rate achievement	10%	
3.	Eco-system services and conservation of Eco-system		15%
4.	Area weighted by share of hilly area		20%
	Total		100%

19. Uttarakhand is a mountainous state with very low level of economic development. The tax base and revenue potential of the state are very limited and for its development, the state is heavily dependent on central transfers, i.e. share in taxes and grants. The reduction in the share of Uttarakhand in devolution by the 14th FC devolution adversely affected the state finances and has led to low developmental and capital expenditure, thereby constraining future growth and revenue. The state provides invariable eco-system services to the country. The state is saddled with cost and user disabilities due to its terrain and policy mandated restrictions. Thus the 15th FC is requested to consider all the above factors and suitably decide the devolution formula as per the "equalization principle".

Chapter 1

Overall Economic Scenario

“Optimism is the faith that leads to achievement”

Helen Keller

In the light of this quote, it is reassuring to note that the global economy is projected to grow by 3.1% in 2018 (Source: IMF), and reduce slightly over the next two years, concomitantly with the trade and investment moderating and economies maturing. The economics of emerging and developing countries will grow at much faster rates as compared to developed countries. The exports from the developing economies have also seen a rebound in the recent past. But, the slow downturn in the economies of the advanced countries, coupled with job losses, has given an impetus to rapid rise in trade protectionism, which has manifested in soft forms of trade war among major economic powers.

- 1.1 The spillover effects of these trends will not be easy to quantify. Frequent policy changes in trade agreements, the shift away from trade liberalism, and a ceaseless backlash to globalization would decrease the confidence in free market and may slowdown the growth. Besides, the disruptive innovation coupled with job replacing technological advances, aided by Big Data is changing the whole scenario. Upon the advent of this new ecosystem, the challenges we would face are realignment of regulatory systems across the world, accompanied by retraining and skilling of the manpower in adaptation strategies. In this context, with a rapidly changing environment, the task of forecasting any future trend becomes even more challenging and complex.
- 1.2 For India, the past year has been marked by some major and critical reforms, such as, the transformational Goods and Services Tax (GST) and the Indian Bankruptcy Code (IBC) to address the Twin Balance Sheet problem. Since the long festering problems of suboptimal supply chains, multiple taxes, multiple authorities, economy distorting tax incentives are done away with, the investments are slowly firming up. This has raised India's competitiveness in the global market. Policy changes like providing an avenue for major stressed companies to move towards resolution, recapitalization of public sector banks, measures taken to control the black economy and actions to liberalize the FDI inflow have sent a positive signal to the markets. This is also reflected in India jumping 30 points on the 'Ease of Doing Business' rankings. Consequently, the projection of growth for

India is strongly positioned at 7.4% for the next three years according to a World Bank report. This is quite heartening when seen from the global perspective, whereas when we observe the equity aspect within India, not all states/ regions seem to be able to absorb and consolidate the benefits of this growth or contribute as per their capability, due to the structural issues in their economy.

- 1.3 There are four critical changes in the economic and fiscal conditions. First, there is a change in the overall macro-economic management due to the introduction of inflation targeting by setting up a Monetary Policy Committee (MPC) and adopting a monetary policy framework¹. The MPC consists of three members from RBI and three independent members. The monetary policy framework targets CPI inflation at an average of 4% with a range of (+/-) 2% points. Accordingly, after the MPC has been setup the CPI inflation rate has been brought down significantly. From an average of 10.1% in 2012-13, CPI inflation has been brought down to an average of 3.6% in 2017-18. It has also been noted that the implicit price deflator based inflation is lower on average as compared to the CPI inflation. This has a bearing on nominal GDP and GSDP growth rates. This change in the policy framework is important when the Finance Commission undertakes forecasting of central and state tax revenues. In particular historical nominal growth rates of GDP/GSDP are not relevant. It would be worthwhile for the Finance Commissions to adopt realistic nominal growth rates for GDP and GSDP with an explicit recognition of a change in the policy regime concerning management of inflation in the country.
- 1.4 Second, the plan non-plan distinction has been abolished and replaced with more relevant revenue and capital classification.
- 1.5 Uttarakhand state is a Special Category State and this distinction was primarily used by the Planning commission but various Finance Commissions have also recognized this distinction. The 12th FC made a distinction between these two categories of states in their analysis of state finances. In fact, they made a comparison of individual states in each category with the corresponding group averages within the category. The 13th FC utilized the distinction between special and general category states in a more substantive way. In particular, they utilized this distinction in their tax devolution formula where the income distance formula was substituted by a 'capacity distance' formula. In this formula, the distances of the per

¹In February 2015, a Monetary Policy Framework was agreed upon by the Government of India and the RBI which stipulated a CPI target range of 2-6% for 2016-2017 and beyond

capita GSDP of individual states were measured in relation to the highest per capita GSDP state within the groups of special and general category states.

- 1.6 There is a strong reason to make a distinction between Small and Hilly (SH states) states which effectively covers almost all of the erstwhile special category states and Medium and Large states (ML states) which represent the erstwhile general category states². The hilly states suffer from well recognized cost and fiscal capacity disabilities. The average tax GSDP ratio for SH states is tangibly lower than that for the ML states. The per capita density of population and the average cost of providing public services are also much higher in the SH states. There is therefore a strong case for recognizing this difference between the two groups of states in the design of fiscal transfers.
- 1.7 The third important change is the implementation of GST. This has changed the management of federal fiscal relations because both states and centre have agreed to be guided by the GST council in the determination of GST rates and the definitions affecting coverage of the GST base. To a large extent, states have much less control on their revenue performance as decisions regarding a core tax base have not remained entirely under their control. The distinction between the so called net-producing and net-consuming states has also become paramount. In particular, the erstwhile net producing states such as Uttarakhand are losing revenues with respect to taxes merged under GST on a permanent basis.
- 1.8 Fourth is the new focus of the central government on fiscal consolidation through an amended FRBM Act. The amended Act has shifted the fiscal discipline anchor to debt-GDP ratio while fiscal deficit target has been retained as an operational target. Accordingly, the consolidated debt-GDP ratio ceiling has been determined at 60% while the Centre's debt-GDP ratio ceiling has been fixed at 40% by implication, the debt-GDP target for the combined debt of the state government is 20%.
- 1.9 Uttarakhand has been affected in a substantive way by these changes. It is a relatively young state and had concertededly worked to improve its industrial sector, giving a powerful boost to manufacturing and production. This proved to be a very prudent strategy, as under the Constitution, the power

² Small and Hilly states include Arunachal Pradesh, Goa, Himachal Pradesh, Jammu & Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Uttarakhand

to levy sales tax on goods was vested exclusively with the states. At that point of time, GST was not envisioned and hence the policies devised by the state helped it to rapidly industrialize and capitalize on the gains. The Central Government actively promoted this growth with its incentive package, which encouraged many industries to relocate to Uttarakhand and avail the benefits of the central package. The basic intention of the Union Government in these endeavors was to bridge the regional disparities owing to the geographical disadvantages, cost disabilities and human resources drain, faced by the state. The state also benefited considerably from the employment created by industrialization.

- 1.10 On the other hand this division of taxation power between the Union and the states was eroding the competitiveness of India in the world market. Thus, with the consensus of states including Uttarakhand GST was rolled out which has improved the overall efficiency in supply chains, the result of which will be tangible in the near future. Here it is worth considering that the precept of the new taxation system is not in sync with the unidirectional developmental formula hitherto adopted by the states i.e., to industrialize is not in sync with the new taxation system. Pre-GST industrialization especially manufacturing sector contributed both to tax revenue and increased employment. Uttarakhand also gained immensely due to the special industrial package of the Central Government. Due to its efforts towards industrialization, Uttarakhand today is a manufacturing surplus state. However in the post-GST regime, tax accrues financial benefits only to the consuming states. In case of Uttarakhand this has resulted in a huge drain on Uttarakhand's previously assured and hard earned revenue resources. The investment done by the state, till now in development of industrial estates, providing low cost electricity and other infrastructure would not bring the anticipated returns in the future. Not having a strong service sector has also lead to shortfall in revenue for the state. Uttarakhand's revenue forecast, post GST compensation period, is very dismal and is only half of the revenue that was being realized during VAT period. This cannot be attributed to poor tax enforcement or treated as an aberration that could be ironed out over a period of time, this would have a lasting impact owing to the structural changes brought about by GST.
- 1.11 Also as the area based exemptions no longer exist, it is imperative that as a state Uttarakhand moves towards such sectors in which it has an innate strength vis-à-vis other regions. It is also in the interest of the state to promote the production of those goods for which Uttarakhand has a

comparative advantage. The window period available for this transition is very short. By end-June 2022, the GST compensation would cease to exist and the state would need to find ways to bridge this revenue shortfall. The scope for increasing the revenue from GST is not very encouraging in Uttarakhand as consumption is not likely to increase due to low consumption base of the state. Hence, the only way to improve the revenues is to create an ideal environment within the state for investment in services sector, which was hitherto not emphasized enough. To our advantage the state is endowed with the potential to grow in these sectors.

- 1.12 From times immemorial Uttarakhand is known for its natural beauty and more importantly its religious importance as a pilgrimage centre for the entire subcontinent. But due to inadequate infrastructure and lack of investments, the state has not been able to benefit much from this tourist interest and pilgrimage inflow. Now the vision of the state is to develop the required infrastructure for tourism as an all year destination for the country. Similarly, human resource intensive service industries like education, wellness, health would be given priority, along with more emphasis on industries using locally available agricultural and horticultural inputs.
- 1.13 In Uttarakhand, there is an abundant scope for diversified tourism activities like river rafting, trekking, camping, mountaineering, para gliding etc. Many places in Uttarakhand have mythological references which also find mention in the great epics. These places are etched in the collective consciousness of our people, and are a natural attraction with a built in brand value. Uttarakhand also has a lot of assimilated knowledge in the practice of Yoga, Ayurveda and meditation. In this era of lifestyle challenges, the state can certainly capitalise on this inherent wisdom. This is a rapidly growing sector worldwide in which Uttarakhand can have a head start. The state can be an ideal location for health tourism and other related facilities with its core strength in detoxification, rejuvenation and convalescence. The environs in Uttarakhand is also conducive for making it an educational hub. It already has the presence of well-known international schools. IT sector with emphasis on BPOs, backend offices for financial services etc. can be a major driver of growth. The peaceful and cosmopolitan environment of the towns of Uttarakhand is an added advantage for the growth in these sectors. Thus industries which are human resource intensive have to be promoted which would gainfully employ the existing highly educated population of Uttarakhand.

- 1.14 Due to resource availability within the state food processing holds high potential for economic growth of the state. Due to the climatic advantage and unpolluted environment organic farming and production of non-seasonal vegetables can be a huge strength of the state.
- 1.15 The factors hindering our capacity to facilitate the growth of these sectors destinations are weak infrastructure, which is further exacerbated by cost disability poor connectivity & communication facilities, non-availability of land due to stringent forest regulations, over regulations due to presence of eco-sensitive regions and shortage in skilled man power.
- 1.16 After the roll out of GST, Uttarakhand lost its pioneering position in VAT revenue growth (CAGR of 19.75%). GST has affected different states differently. It has affected the manufacturing surplus states most adversely. In this backdrop, it would be very difficult for the state to provide for the existing commitments and legal entitlements of its citizenry. Also, as explained in the following chapters, Uttarakhand lost hugely in the 14th FC grants. Though it was given the status of a special category state, it was not granted any benefit which could be shown to its advantage. Added to this Uttarakhand had to recover from the debilitating effects of the natural calamity which struck the state in 2013. In addition to the disadvantages of being a mountainous state, the development of the state is also curtailed due to the regulations imposed on the 70% forest cover and the abutting areas coming under the influence zones of the sanctuaries and national parks. The state has never been recompensed for the sacrifices it is required to make for providing the ecological services to the country at the cost of its own development. The origin of Ganga and most of its tributaries is in Uttarakhand. Ganga is declared as a national river, and the added regulations which come with it have further restricted the avenues for capitalizing the full potential of hydro-power generation. The regulations have also restricted the local people from engaging in revenue generating economic activities around the river. In a mountainous territory, the limited areas available for development are adjoining the river basin. Thus, in every sphere the state is confronted with formidable challenges.
- 1.17 The state is willing and capable of resuming its growth trajectory but requires the forthcoming support of the Union in re-orienting its economy with an emphasis on the service sector. It would entail considerable amounts of capital, human resource training and institutional support in the interim period which if provided in the right time can stimulate growth in the right direction. The support should not be perceived as a market distortion

of the foregone era, but as a cost incurred for keeping a healthy ecosystem. This would enable Uttarakhand to transit to an economically progressive & ecologically responsive state and transform into an environment friendly service sector economy and an active contributor to the economy of the country.

Chapter 2

Terms of Reference

The Fifteenth Finance Commission (15th FC) has been constituted under Article 280 of the Constitution. Its recommendations will cover a period of five years from FY 2020-21 to FY 2024-25.

- 2.1 The Finance Commission has the Constitutional mandate to give recommendations on the distribution of taxes between centre and state, the allocation of taxes amongst the states, the grants-in-aid to be provided to different states and any other issues that have been referred to it in the terms of reference (ToR).
- 2.2 The constitutional provision under Article 270 for sharing of union taxes is based on the recognition of the fact that for reasons of comparative advantage, like ensuring a country wide market with uniform tax laws and rates which is efficiency enhancing, a centralised collection of taxes is a better option but the proceeds do not belong entirely to the union and must be shared with the states to enable them to fulfil their constitutional mandate of providing goods and services in an efficient manner.
- 2.3 Like the “principle of subsidiarity” in public administration and governance, economic decentralisation is based on the principle that lower tier governments can assess the needs of the local population better because of their proximity and the expenditure responsibilities can be handled more efficiently leading to welfare gains. This automatically implies trust in the working of sub-national and local governments as their accountability is more direct and proximate, and at the same time there is a need for providing them with adequate resources by way of fiscal transfers to meet their important expenditure responsibilities.
- 2.4 Thus in a federal system, vertical fiscal gap is often deliberately created for efficiency gains that result from relative assignments and fiscal transfers are used to balance the situation and close the gap.
- 2.5 Over the years the ToRs have mandated the Commissions to deal with a number of matters other than the core tasks listed under Article 280, namely, devolution of taxes, grants in aid to states, and measures to supplement the consolidated fund of the states to supplement the resources of rural and urban local bodies. This has been done under clause (d) of Article 280 which mandates Finance Commissions to make recommendations under Article 280 (d)- “Any other matter in the interests of sound finance”.

- 2.6 There is an important difference between the ToR of 15th FC and earlier commissions. In the past, the commissions were mandated to take into account 1971 population whereas 15th FC has been mandated to use 2011 population. The use of recent demographic data is quite logical because public services have to be provided to the current population. However, it should not be disadvantageous to states performing well on population control. **Perhaps an incentive in devolution formula based on effort to move towards replacement rate may take care of it.**
- 2.7 While the ToR provides for the commission to adopt a more incentivised approach for making transfer to states, there does not appear any such attempt to influence the behaviour of the Union Government. Tax is an issue relevant to both Union and the state governments, but now that the power to levy GST and take policy decisions rests with the GST council, hence the states have limited maneuverability.
- 2.8 Populism has always been a bane of the electoral politics, an offshoot of political economy based on patronage and patron-client relationship in an evolving democracy. It is equally undesirable for union as well as states. However, a detailed analysis of micro data compiled over a long time period of outlays, outputs and outcomes would be able to bring forward populist trends in the budgetary process. Here the paucity of data is a big limiting factor. In the absence of objective criterion and transparent data it is likely to get subjective, circumstantial, and perceptual. Any incentive or disincentive on this account must take into the consideration the vagueness of the definition of 'populism' without specific acceptable objective criterion.
- 2.9 Two other important issues in the ToR of 15th FC relate to (I) whether revenue deficit grant be provided at all; (II) impact on the fiscal situation of Union Government of "substantially enhanced tax devolution" to states following the recommendation of the 14th FC and to take into account the imperative of the National Development Programmes, including "New India-2022"
- 2.10 These, along with consideration of programme related incentives in certain areas need to be examined in the light of constitutional propriety and principles of fiscal and cooperative federalism, as they have evolved over the years.
- 2.11 The constitution makes specific provisions for grants in aid of revenue of a state. Clause (1) of the Article 275 states as follows: *"Such sums as Parliament may by law provide shall be charged on the Consolidated Fund*

of India in each year as grants-in-aid of the revenues of such States as Parliament may determine to be in need of assistance, and different sums may be fixed for different States”.

- 2.12 Any suggestion that grants to supplement a state's revenues may not be provided is tantamount to asking the commission to ignore Articles 275 and 280-3(b). Furthermore often the legitimacy of grants under Article 282 for central schemes has been questioned and Articles 275 has been opined to be the only legitimate channel. The purpose of grants, revenue deficit or up-gradation grants for specific purposes etc., is to channelize funds from relatively richer jurisdiction to poorer ones based on an equalization formula that measures the “fiscal need” and “fiscal capacity” of states. It provides a more level playing field for inter jurisdictional competition. Tax devolution based on revenues and cost disabilities often leaves some of the states which have limited fiscal capacity and high expenditure needs with a revenue gap which needs to be bridged by way of grants.
- 2.13 In fact, it is desirable to utilize a proper equalization approach such that grants are determined on the basis of equalization principle which is applied jointly to both revenue and expenditure sides of state finances. If an approach regarding grants based on revenue deficits is to be followed, it should be based on application of normative principles applied both to revenue and expenditure sides of the state budgets. These norms should be based on realistic assumptions and benchmarking should be done with appropriate group averages namely HS states and ML states. The key elements of an equalization approach are discussed in greater detail in chapter 5.
- 2.14 Further, in case of sharing of central taxes, only the share of a state is specified. Actual share which gets devolved becomes dependent on the actual performance of the shareable central tax and to a certain extent, on the efficiency of the central government along with the factors like tax-buoyancy. Sharing taxes, thus is a pro-cyclical instrument, partially dependent on performance and policies of the central government, more so in GST regime. Grants on the other hand, are fixed in nominal terms. Being relatively more counter-cyclical in nature, the states are assured of certain specified amounts and it leads to better fiscal planning. In periods of uncertainty attached to the growth of central revenues, these are safer instruments of transfer to the states.

- 2.15 While tax shares cannot be fine-tuned as these are determined by a limited number of factors, grants can be more fine-tuned and can take into account the specific circumstances of a state in the past.
- 2.16 While in the past, post devolution non- plan revenue deficits were obtained by adding the respective state's share in central taxes to the pre-devolution deficit assessed in a normative manner, so as to obviate the effect of inadequate revenue effort or excessive expenditure. However, since the distinction between plan and non-plan has been obliterated, the methodology to assess the gap needs to be worked out, wherein the interests of the states are duly protected.
- 2.17 As far as so called "substantially enhanced devolution" from 32% to 42%, is concerned, it is not as substantial as it prima facie appears to be. Since in the devolution, the plan grants under the **Gadgil formula amounting to 5.5% of the divisible pool and environmental grants amounting to 1.5% of the divisible pool** were subsumed, so it was effectively raised from 39% to 42%. Also the 14thFC analysis showed that union governments spending on the state list increased from 14% during 2002-2005 to 20% during 2005-11, and increase in spending on items in concurrent list was up from 13% to 17%. The increase of 3% from 39% to 42% points was only to give the states greater flexibility. In order to achieve the goals under "New India 2022", it is critical to offset the fiscal disabilities of the states and take them on board in the spirit of cooperative federalism as a partner in the programme.
- 2.18 As cess and surcharge are not sharable with the states, there is an increasing tendency of the Union Government to resort to cess and surcharges to raise revenues. There have been instances where the Centre has cut the extant excise duties and levied cess/ surcharge in its lieu, thus protecting its own revenue at the cost of the states. So we propose that the 15th FC should also look into the sharing of cess/ surcharges amongst the Union and states.
- 2.19 As regards various performance based incentive related issues under Para-4 of the ToR, we would like to submit that this measurement of performance will become very subjective. Different states are at different levels of development and have different geographical, institutional and structural issues, thus to measure all the states with one yardstick is not advisable. Nonetheless we have stated our position on the above performance based incentives in Annexure-1 of this memorandum.

Chapter 3

State Profile

This chapter profiles the state of Uttarakhand in terms of its economic structure, geographic characteristics and certain critical social, demographic and infrastructure parameters.

- 3.1 Each of the indicators discussed in this chapter has direct relevance for the analysis of the public finances of the state. The economic structure determines the tax base and thereby influences the revenue potential of the state. The social and demographic parameters, when seen in a comparative context, justify the need for expanding the provision of public services, which implies higher expenditures for critical departments such as health, education, drinking water, housing and road communications, so as to provide the people better services and access to markets.
- 3.2 The topography of the state also has direct expenditure implications. The terrain does not support large clusters of households. As a consequence, the state is characterised by a relatively large number of 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 characterises many of these services. Some threshold levels of capital and operating expenditures have to be made to achieve even small levels of service delivery. The result is that the average cost of delivery in Uttarakhand, driven by the large number of small habitations, is relatively high. In addition to fragmentation, the difficult terrain itself increases the cost of delivery.

Basic Geographical Features

- 3.3 The state of Uttarakhand was carved out of Uttar Pradesh on 9th November 2000, as the 27th state of the Indian Union. Uttarakhand is predominantly a mountainous state in the Central Himalayan region and has international border with China and Nepal. Its different altitude zonation and complex geographical diversity represent a wide array of climatic and vegetative regions of the world. The total geographical area of the state is 53483 km² out of which 46035 km² (86.07%) is hilly and 7448 km² (13.93%) is plain. It can be divided into Tarai-Bhabar, the plain region below 500 metre altitude covering 15.52% area of the state, the mid Himalayas, between 500 to 3000 metre which is 55.59% of the area and High Himalayas, i.e. above 3000

metre altitude including glaciers, alpine meadows and snow clad mountains covering 28.89% of the area.

- 3.4 The state can be separated into four main drainage basins:
- Western basin drained by Yamuna river and its main tributary Tons river.
 - The Central basin drained by Ganges and its main tributaries Bhagirathi and Alaknanda.
 - The North Eastern basin drained by Kali river and its tributaries.
 - Southern basin drained by the Kosi and Ramganga rivers and their tributaries.
- 3.5 In view of the factors like predominantly hilly and difficult geographical terrain, lack of quality infrastructure, low fiscal capacity, low connectivity, international borders etc. **the state has been designated as a Special Category State.**

Geographical, Administrative and Demographic Profile of State

- 3.6 The following table shows the geographical, administrative and demographic profile of the state.

Table 3.1: Geographical, Administrative and Demographic profile of Uttarakhand

S.No.	Item	Unit	Value
1.	Area	Sq. Kms	53483
	(i) Plain	Sq. Kms	7448 (13.93%)
	(ii) Hill	Sq.Kms	46035 (86.07%)
2.	Population	Nos.	10086292
	(i) Scheduled Caste	%	18.76
	(ii) Scheduled Tribe	%	2.89
3.	Decennial Growth of population	%	18.81
4.	Density	Person/Km ²	189
5.	Urban Population	%	30.23
6.	Rural Population	%	69.77
7.	Literacy	%	78.8
8.	District	Nos.	13
9.	Division	Nos.	2
10.	Tehsils	Nos.	110
11.	Community Development Blocks	Nos.	95
12.	Gram Panchayats (2017)	Nos.	7955
13.	Inhabited Villages	Nos.	15745
14.	Un-Inhabited Villages	Nos.	1048
15.	Towns/Urban Local Bodies (2018)	Nos.	92

Source: (i) Registrar General of India, Census, 2011, GoI, (ii) Economic Survey 2017, GoUK

Table 3.2: Villages by population size class – Uttarakhand (Census 2001 & 2011)

Population Size Class	No. of Villages	
	2001	2011
Total No. of Inhabited Villages	15761	15745
Less than 200	7797	7846
200-499	4902	4670
500-999	1878	1819
1000-1999	752	823
2000-4999	350	470
5000-9999	69	96
10000 and above	13	21

Source: Directorate of Economic & Statistics, GoUK, 2015-16

- 3.7 It can be inferred from the above table that more than 75% of villages in Uttarakhand have a population of less than 500 persons. In hilly areas only 1% villages have a population of more than 2000. The average village population in Uttarakhand (447) is much below the national average (approx. 1300) and this implies higher cost and difficulties in delivery of services.
- 3.8 The district wise decadal changes are shown in the following table:

Table 3.3: District wise decadal change in population

District	1981 (%increase in last decade)	1991% (%increase in last decade)	2001% (%increase in last decade)	2011 (% increase/ decrease in last decade)
Almora	15.80	08.88	03.68	-1.28
Bageshwar	19.58	14.92	09.22	4.18
Chamoli	24.83	21.97	13.87	5.74
Champawat	25.34	26.38	17.60	15.63
Dehradun	31.93	34.66	25.00	32.33
Hardwar	32.72	26.31	28.70	30.63
Nainital	38.08	30.22	32.72	25.13
Pauri	15.45	08.60	03.91	-1.41
Pithoragarh	16.38	14.11	10.95	4.58
Tehri	24.67	16.53	16.24	2.35
Udham Singh Nagar	48.05	38.30	33.60	33.45
Uttarkashi	29.19	25.54	23.07	11.89
Rudraprayag	25.13	18.13	13.43	06.53
State	27.48	23.11	20.41	18.81

Source: Statistical Abstract Uttarakhand, Directorate of Economic & Statistics, GoUK, 2015-16

- 3.9 It is clear from the above table that the population growth rate in hill areas has been much less than the plain area. The lower population growth in hill areas also reflects lack of employment opportunities leading to out-migration

of male workforce whose literacy level is reasonably high (Bora, 1996 and Report of Migration Commission, Uttarakhand). The migration in Uttarakhand is firstly due to **aspirational level** of its population, but predominantly it is because of **distress migration** from the hill areas due to lower employment opportunities, education facilities, health facilities and various other factors.

Dependency and Workforce Participation

- 3.10 Population density of Uttarakhand in comparison to other special category states (SCS) and all India has been given in the following table:

Table 3.4: Population Density

States/Union Territories	2001	2011
Arunachal Pradesh	13	17
Assam	340	398
Himachal Pradesh	109	123
Jammu and Kashmir	100	124
Manipur	97	115
Meghalaya	103	132
Mizoram	42	52
Nagaland	120	119
Sikkim	76	86
Tripura	305	350
Uttarakhand	159	189
Average SCS	125	146
All India	325	382

Source: Registrar General of India, Census, 2001 & 2011, GoI

- 3.11 Population density is an important factor affecting unit costs that are higher for areas having a lower density of population. A clear implication of the lower population density in Uttarakhand is higher per person cost in the provisioning of services provided by the government, particularly those relating to administration, social services, education and health which should be factored into any devolution criteria.

Dependency Ratio

- 3.12 The dependency ratio, is defined as the ratio of population of the dependent age group to the population of the working age group. The dependency ratio in Uttarakhand is quite high. The various dependency ratios as per the census figures of 2011 are presented in the following table:

Table 3.5: Dependency Ratio in Uttarakhand

Age group	Per thousand	Population 2011	Actual group population	Child dependency ratio	Old age dependency ratio	Total dependency ratio
0-14	352	10086292	3129008	0.52		
15-59	561	10086292	6039867			
60 and above	88	10086292	900809		0.15	
0-14 and 60+	440	10086292	4029817			0.67

Source: Registrar General of India, Census, 2011, Gol

3.13 The 11th 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). The high child and old age dependency ratio in Uttarakhand thus implies the higher need for government spending on education, nutrition, health and medical infrastructure in the state.

Work Participation Rates

3.14 The table below shows the number of workers and non-workers of Uttarakhand for the years 2001 and 2011.

Table 3.6: Working and non-working population

Census year	Total Population	Total Workers	Percentage (3/2)	Total Non-Workers	Percentage (5/2)
1	2	3	4	5	6
2001	8489349	3134036	36.92	5355313	63.08
2011	10086292	3872275	38.40	6214017	61.60

Source: Registrar General of India, Census, 2001& 2011, Gol

3.15 The table 3.6 clearly indicates the potential change in demographic patterns, which in turn would require a different kind of expenditure (spending on development and job creation) to enable the government to realize the potential of demographic dividend.

3.16 Status of workforce in the state is shown in table below:

Table 3.7: Status of Workforce in State

Region/ District	Total Workers	Main workers	Cultivators and % over main workers	Agricultural labourers	Female participation in total work force
Plains/lower hills					
Dehradun	582768	488161	60373 (12.37%)	20424 (4.18%)	123934 (21.27%)
Hardwar	578121	495152	87950 (17.76%)	75953 (15.34%)	80311 (13.89%)
U S Nagar	591458	450762	94677 (21%)	107603 (23.87%)	146880 (24.83)
High Hills					
Chamoli	180940	115115	69612 (60.47%)	1072 (0.93%)	87108 (48.14%)
Pithoragarh	216490	145481	87189 (59.93%)	2204 (1.51%)	102951 (47.55%)
Rudraprayag	113032	78950	56884 (72.05%)	1519 (1.92%)	60693 (53.70)
Uttarkashi	157276	128367	96836 (75.43%)	2389 (1.86%)	73011 (46.42%)
Mid Hills					
Almora	298211	201078	132129 (65.71%)	4025 (2.00%)	155751 (52.23%)
Bageshwar	123638	78085	54056 (69.23%)	2733 (3.50%)	64930 (52.52%)
Champawat	99566	62698	31971 (50.99%)	1980 (3.16%)	39139 (39.31%)
Garhwal	274152	164439	75253 (45.76%)	4154 (2.52%)	126779 (46.24%)
Nainital	376181	296424	101221 (34.15%)	19618 (6.62%)	119246 (31.70)
Tehri Garhwal	280442	165912	97523 (58.78%)	3582 (2.16%)	139621 (49.79%)

Source: Registrar General of India Census, 2011, Gol

3.17 The percent share of cultivators and agricultural labourers to the total main workers shows a great degree of disparity among the districts. The share of cultivators to main workers is much higher in the hilly areas as compared to the plain areas. This, coupled with the fact that the primary sector constitutes a higher proportion of GSDP in hill areas, along with low agriculture production and productivity, inherently indicates that most of the workers in the hill areas are trapped in low paying primary sector.

- 3.18 As is also evident from table 3.7, there exists a wide gender gap in work participation rates. High hill districts have very low gender gap in work participation rates. The hill occupational pattern suggests a strong inclination towards the primary activities and mainly it's the women folk, who are involved in the high drudgery work of agriculture sector.

Human Development

- 3.19 Human development today is defined as a process of enlarging people's choice. Its main dimensions are the formation and upgradation of human capacities through improved health, knowledge, skills and the use people make of their capabilities.

Health

- 3.20 Improvement in health status of the population has been one of the cornerstones of the state government's development policy. The state has an extensive network of health care institutions. Although, there has been considerable expansion in the health care services, yet some gaps still remain to be filled to cater to the sparsely dispersed population of the state.

Table 3.8: Government Health Institutions in the State

S.No.	Type of Health Institutions	Nos.
1.	District Hospitals	13
2.	CHCs	85
3.	PHCs	257
4.	Allopathic Dispensaries	319
5.	Ayurvedic Hospitals	544
6.	Homeopathic Dispensaries	110
7.	Health Sub Centres	1897
8.	Medical Colleges (Govt.)	3
9.	Total No. of Beds in Allopathic Instn.	9232
10.	Total No. of Beds in Ayurvedic Instn.	2049
11.	Total No. of Doctors	874
	Sanctioned	2511
	Vacant	1637 (65%)
12.	Total No. of paramedic staff	3242
	Sanctioned	4289
	Vacant	1047 (24%)

Source: (i) Department of Medical Health & Family Welfare, GoUK, 2017,
(ii) Directorate of Economic & Statistics, GoUK

- 3.21 As against a vacancy of more than 1637 doctors in FY 2017-18 the state has filled the posts of 478 doctors in the last one year, and the state government is continuously trying to fill up the remaining vacancies but this would consequently raise the revenue expenditure of the government.
- 3.22 The table 3.9 below gives an outline of various health indicators of Uttarakhand and other states.

Table 3.9: Major Health Indicators

S.No.	Health Indicator	Uttarakhand	Himachal	Kerala	UP	All India
1.	MMR	165*	-	46	258*	130
2.	IMR	38	25	10	43	34
3.	Life expectancy	71.5	72.3	74.9	64.8	68.7
4.	TFR	1.9	1.7	1.8	3.1	2.3
5.	Female Per thousand of Males (2011)	963	972	1084	912	943

Source: (i) Registrar General of India, Census, 2011Gol, (ii) SRS Bulletin, 2012-16
(iii) * AHS 2012-13

- 3.23 As is evident from the above table, Uttarakhand has done well in health indicators as compared to its parent state of UP. In fact in some parameters, the performance is better than the all India average, but still its indicators are far behind the leading states like HP and Kerala. Hence the state has to invest a lot in health infrastructure and services and this would entail increase in both capital and revenue expenditure in the health sector in the coming years.

Education

- 3.24 The Literacy levels in Uttarakhand have nearly doubled from 46.06% to 78.8% in a period of three decades since 1981. The progress made in achieving female literacy is also impressive. Though female literacy has more than doubled from 25.0% in 1981 to 70.0% in 2011, there still exists a considerable gap between female and male literacy rates. The Right to Education Act, mandates opening of government elementary schools within certain distances which implies the need for higher revenue expenditure for employing teachers and non-teachers for schools.
- 3.25 Literacy rate, gender gap in literacy during the year 2001, 2011 and status of schools is shown in the following table:

Table 3.10: Educational Status of Districts in Uttarakhand

Region/ District	Literacy rate % 2011	Gender Gap 2011	Gender Gap 2001	No. of Primary School per lac population	No. of Upper primary school per lac population	No. of Higher Secondary School Per lac population
Plains/lower hills						
Dehradun	84.2	10.9	14.7	88	41	28
Hardwar	73.4	16.3	21.7	84	33	14
U S Nagar	73.1	16.6	21.8	90	29	18
High Hills						
Chamoli	82.7	21.1	28.1	277	80	66
Pithoragarh	82.2	20.5	27.5	285	72	55
Rudraprayag	81.3	23.5	30.2	235	52	62
Uttarkashi	75.8	26.4	36.9	233	70	38
Mid Hills						
Almora	80.5	22.9	28.6	234	26	58
Bageshwar	80.0	23.3	30.7	252	62	45
Champawat	79.8	23.6	33.1	245	60	53
Garhwal	82.0	20.1	25.2	262	65	66
Nainital	83.9	12.8	16.7	136	32	25
Tehri Garhwal	76.4	25.5	35.9	273	78	54
Uttarakhand	78.8	17.4	27.0	158	45	34

Source: (i) Registrar General of India, Census, 2001 & 2011 GoI,
(ii) Directorate of Economic & Statistics, GoUK, 2015-16

3.26 Thus, though the state has made impressive strides in the field of education and its indicators are much above the national average but a lot of work still needs to be done to achieve universal literacy levels. There also exists a huge challenge of providing **quality education** in the state which would entail even more investment in human resources and infrastructure across the state in education sector.

Level of Urbanization

3.27 The intra state disparity gets further aggravated by considering the urbanization levels in the state. The overall level of urbanization in the state is 30%, which is comparable to the national average.

Table 3.11: Level of Urbanization

Region/ District	Level of urbanization (Urban) % 2011	Level of urbanization (Urban) % 2001
Plains/ lower hills		
Dehradun	55.52	52.9
Hardwar	36.66	30.9
Udham Singh Nagar	35.58	32.7
High Hills		
Chamoli	15.17	13.7
Pithoragarh	14.40	12.1
Rudraprayag	4.10	1.2
Uttarkashi	7.36	7.8
Mid Hills		
Almora	10.01	8.6
Bageshwar	3.49	3.1
Champawat	14.77	15.1
Garhwal	16.40	12.9
Nainital	38.94	35.3
Tehri Garhwal	11.33	9.9

Source: Directorate of Urban Development, GoUK

- 3.28 Among the districts, the level of urbanization varies from as high as about 56% in the Dehradun to a low of just 3.49% in Bageshwar. The low level of urbanization in hill areas implies provisioning of citizen centric services to a large rural population scattered in small habitations in the remote areas. It also generally implies a less developed service sector.

Physical Infrastructure

- 3.29 The physical infrastructure status of various districts of the state is given in the following table:

Table 3.12: Road Network of the State

Region/ District	Length of metalled Roads per thousand sq.km (Km) 2017	Length of metalled Roads per lakh of population (Km) 2017	Distance of District H.Q from the nearest Rail Head (Km)	Percentage village with road connectivity (2017)
Plains/lower hills				
Dehradun	1727.33	265.74	0	86.94
Hardwar	1570.73	167.05	0	97.01
Udham Singh Nagar	1588.15	205.91	5	100.00
High Hills				
Chamoli	305.61	580.04	213	50.95
Pithoragarh	322.99	461.14	154	52.62
Rudraprayag	542.10	443.90	139	80.28
Uttarkashi	147.18	337.90	151	55.11
Mid Hills				
Almora	1280.31	650.60	90	57.70
Bageshwar	308.01	259.70	184	65.37
Champawat	810.39	505.18	75	70.89
Garhwal	909.60	571.85	106	72.73
Nainital	989.57	385.22	36	81.14
Tehri Garhwal	1163.68	675.25	75	79.57

Source: Directorate of Economic & Statistics, GoUK

- 3.30 As is evident from table 3.12, the percent of villages with road connectivity varies from about 50.95% in Chamoli to almost 100% in Udham Singh Nagar. The figure ranges from 50.95 to 81.14% for the mid and high hill districts which indicates a lot of intra state disparity. The distance of the district headquarters 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 district of Chamoli and 154 km in Pithoragarh, while Dehradun, Hardwar and Udham Singh Nagar are at the railhead.
- 3.31 It is also evident from table 3.12 that a high degree of disparity in physical infrastructure is observed across the districts of Uttarakhand, which can be associated to their hilly terrain and locational disadvantage. Low connectivity of villages implies a low penetration of government services like health,

education, agriculture extension etc. in the hill areas and reluctance on the part of the government employees to serve in these areas. Sustained efforts and investment in physical infrastructure are required for the overall and consistent development of the entire region, especially the hill areas.

Land Holding Pattern

- 3.32 Land holdings are small in the hill areas of the state and thus are not able to contribute much to the total yield. The scope of application of modern technologies is also restricted in the hilly regions, where the scarcity of irrigation facilities further hampers implementation of new techniques. Status of land holdings in the state is shown in table 3.13

Table 3.13: Land holding in Uttarakhand

Size of Holding (Ha.)	Type of Holding	No. of holdings in lac (% to total holdings)	Area of Holdings in lac ha. (% to total Area)	Average size of holding (ha.)
Less than 1 ha.	Marginal	6.72 (62.57%)	2.96 (36.32%)	0.44
1-2 ha.	Small	1.57 (14.62%)	2.25 (27.61%)	1.43
2-4 ha.	Semi medium	0.64 (5.96%)	1.75 (21.47%)	2.73
4-10 ha.	Medium	1.7 (15.83%)	0.94(11.53%)	0.55
10 ha. & above	Large	0.11 (1.02%)	0.25 (3.07%)	2.27
Total		10.74	8.15	7.41

Source: Agriculture Census 2010-11, Department of Agriculture, GoUK

- 3.33 The district wise status of sown area and irrigated area are shown in table below:

Table 3.14: Status of Sown Area and Irrigated Area (Ha.)

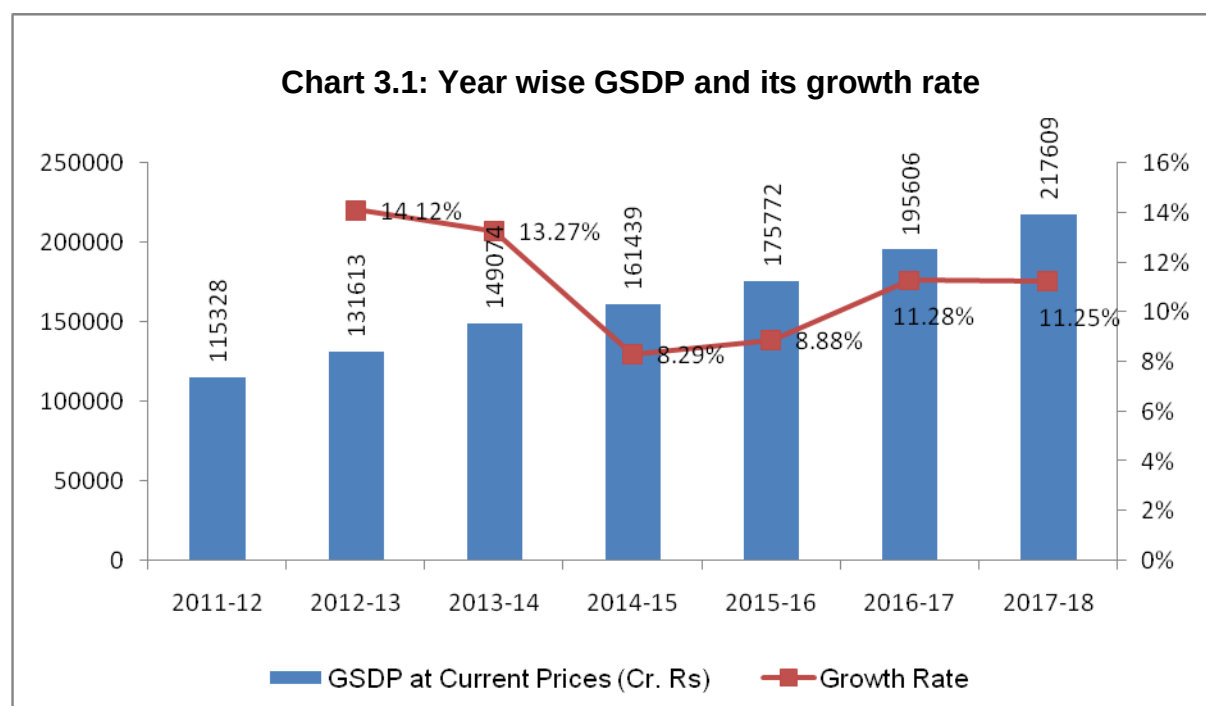
S.No.	District	Area Sown		Irrigated Area		% of Irrigated area to sown area	
		Gross	Net	Gross	Net	Gross	Net
1	2	3	4	5	6	7	8
1	Uttarkashi	42182	30251	8840	4821	20.96	15.94
2	Chamoli	47408	33433	2936	1574	6.19	4.71
3	Tehri Garhwal	81095	53809	14240	7739	17.56	14.38
4	Pauri Garhwal	82364	62087	10064	6176	12.22	9.95
5	Dehradun	57134	39443	29681	21043	51.95	53.35
6	Rudraprayag	31410	20821	3825	2538	12.18	12.19
7	Pithoragarh	71368	41891	7732	4259	10.83	10.17
8	Almora	115796	78278	10077	5751	8.70	7.35
9	Nainital	71849	44005	38246	26545	53.23	60.32
10	Bageshwar	39710	24295	9904	5033	24.94	20.72
11	Champawat	26182	16921	3147	1655	12.02	9.78
12	Udham Singh Nagar	253591	139120	248726	135224	98.08	97.20
13	Hardwar	162615	114059	153581	107479	94.44	94.23
	Uttarakhand	1082704	698413	540999	329837	49.97	47.23

Source: Directorate of Economic & Statistics, Uttarakhand, 2015-16

3.34 As is evident from table 3.14, the percentage of irrigated area is much lower in the hill area leading to lower production and productivity. This coupled with information from table 3.7, that the majority of workers in the hill areas are working in the primary sector, implies that the per capita income of majority of workers in the hill areas is very low.

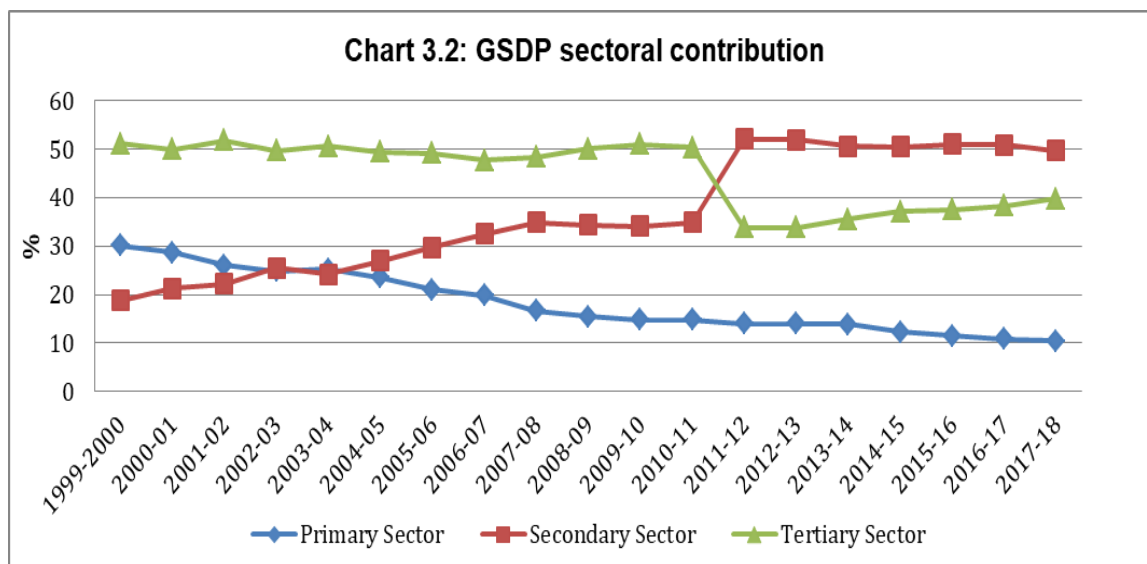
Economic Profile of Uttarakhand

3.35 The economy of Uttarakhand is based on agriculture, horticulture, animal husbandry, forestry, manufacturing, construction, trade & tourism, and other services sectors. The compound annual growth rate (CAGR) of GSDP at constant price for the period from FY 2000-2001 to FY 2017-18 has been very impressive at 14.99% per annum. Likewise, the CAGR of per capita GSDP for the period from FY 2000-01 to FY 2017-18 was 14.73 %. Although the trends in the GSDP and per capita GSDP depict high levels of economic growth, two factors are to be borne in mind. One, this high growth rate was on a relatively low base and in recent years the growth rate has come down to all India level. Secondly the growth was highly skewed with rising inter district and intra district disparities.



Source: Directorate of Economic & Statistics, GoUK

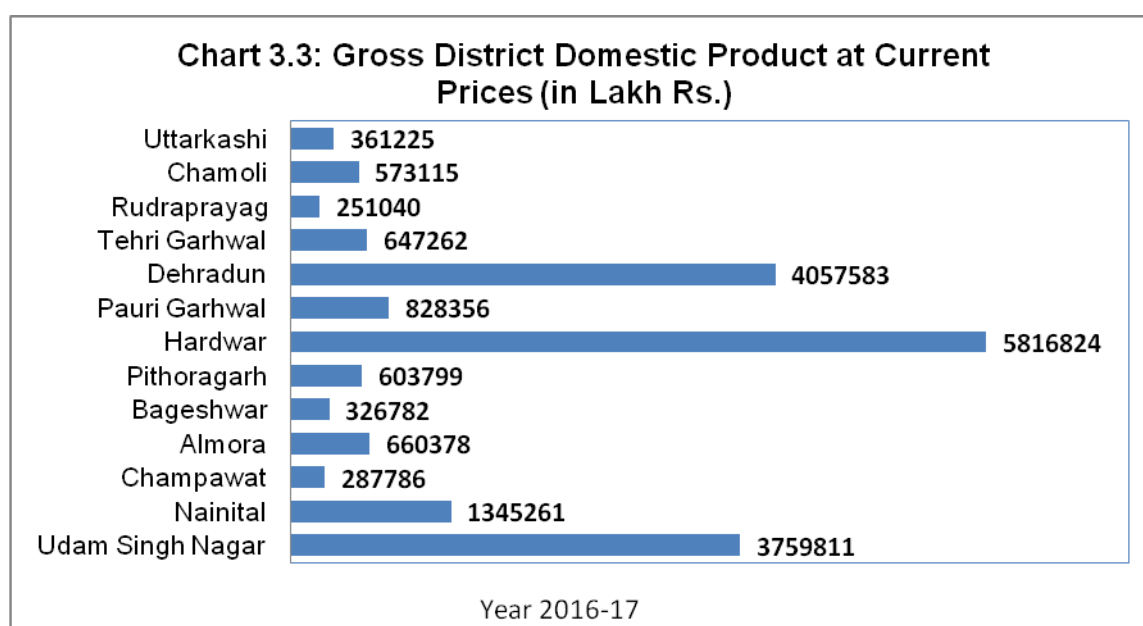
- 3.36 The following graph shows the contribution of primary, secondary and tertiary sector to the state economy from FY1999-2000 to FY 2017-18. Thus the economy has industrialized over the years and the share of primary sector has come down substantially.



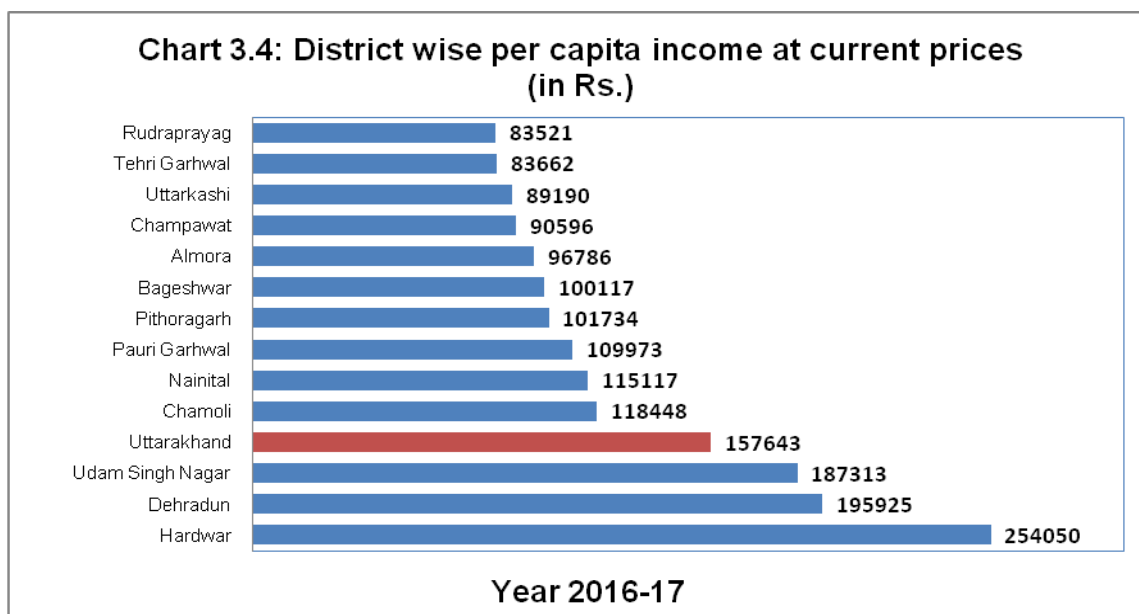
Source: Budget Document, GoUK

- 3.37 The structure of the economy for FY 2017-18 reveals that the contribution of the primary sector is 10.50%, secondary sector is 49.75% and tertiary sector is 39.76%.

Low economic development in hill areas



Source: Directorate of Economic & Statistics, GoUK



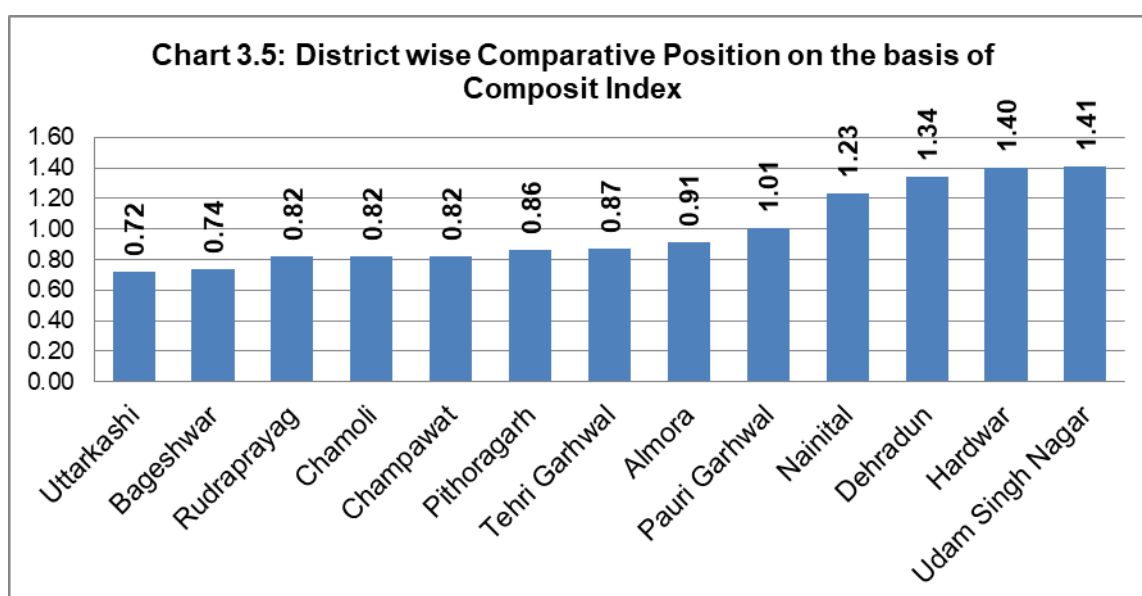
Source: Directorate of Economic & Statistics, GoUK

- 3.38 Although the trends in the GSDP and per capita GSDP depict high levels of economic growth, the district GDP shows a skewed economic growth and huge disparities among the hill and plain districts. The GDP of plain districts is very high as compared to hill districts. This can partly be explained on account of concentration of working population as well as economic activities in the plain areas. All the industries which were established in the state have been in the plain areas. The agriculture sector and services sector are also more robust in the plain areas. Thus the hill areas have lagged behind in economic development and consequently have lower per capita income as compared to the plain areas.
- 3.39 Majority of the population in the hill areas is primarily dependent on mountain agriculture which is not even subsistence agriculture, and does not fully meet the food requirements of a family. The scope for modern input intensive agriculture in hill areas is constrained due to various physical, geographical environmental and structural reasons.

Migration

- 3.40 The low economic development in hill area has resulted in large scale out-migration from the hill areas. Due to out-migration of male population, the rural women become yet another vulnerable group having a large share in the agricultural workforce and allied activities like fuel and fodder collection etc. It also leads to lot of high drudgery work, which combined with nutritional deficiency and lack of adequate health care facilities leads to various health related risks for womenfolk.

- 3.41 The out-migration from hill areas was also evident from table 3.3, where the decadal growth rate of population is much lower in the hill areas, in fact Almora and Pauri district show a negative decadal growth rate. The impact of migration on local economy and society has been significant. Most of the migrants from the rural areas of the hill regions get employment in unskilled low paid salaried jobs as domestic servants, security guards, office attendants etc. in the plain areas. Remittances sent back by them are significant from the point of view of low income group of poor households, but are largely spent on daily consumption expenditure and is unable to generate any multiplier effect at the village economy level.
- 3.42 In the hilly areas due to geographical factors, lack of irrigation facilities, low population density, poor infrastructure, disaster vulnerability, man animal conflict because of proximity to the forest, leave little scope for large scale development, mechanized input intensive modern agriculture as well as market based institutions. The primary concern, therefore is to provide livelihood opportunities in the limited service sector where even private investment is shy and most of the dependence is on public spending.
- 3.43 On the basis of five components of socio- economic development namely basic amenities, demography, education, health & nutrition and economic development, a composite index has been worked out in order to analyse that backwardness of various districts in Uttarakhand.



Source: Directorate of Economic & Statistics, GoUK

- 3.44 It is apparent from chart 3.5 that all the hill districts have lagged behind the plain districts in all facets of development.

Table 3.15: Comparative Poverty Estimates in Hill and Plain Districts

District	Rural	Urban
Hill	19.59	14.91
Plains	17.70	10.67

Source: Directorate of Economic & Statistics, GoUK

- 3.45 It is clear from table 3.15 that the poverty levels in hill districts are higher than the plain districts of the state. Similarly the poverty level in rural area is also higher than the urban area.
- 3.46 Credit Deposit (CD) ratio, which reflects the investment being done in the district also shows the above disparity. The district wise CD ratio is highest for Udham Singh Nagar district at 102% and lowest for Almora district at 22%. Out of 13 districts the CD ratio is above the state average for only 03 districts namely Udham Singh Nagar, Hardwar and Dehradun which are all plain districts and below for all the other 10 hill districts.
- 3.47 The special problems confronting the various development aspects of the state and the corresponding up-gradation grants have been outlined in brief Annexure-2 of this memorandum and a separate booklet containing the relevant details will be separately presented to 15th FC.
- 3.48 **The geographic, demographic as well as economic profile of the state is unique in certain respects which have a critical bearing both in terms of fiscal capacity and fiscal needs of the state.** The economic activity is mainly confined to plain areas. Most of the hilly areas have very low level of economic development and consequently the potential tax base is very low. This coupled with adverse demographical indicators and difficulties of terrain leads to low level of socio-economic development. Most of these factors are not within the control of the state government or its people. **Thus to ensure equality of services to all citizens, all these factors need to be taken in consideration for any design of fiscal devolution.**

Chapter 4

Inadequate Compensation from 14th Finance Commission

Uttarakhand was formed in 2000 after a long sustained demand from the people of the region. The geography of the terrain inherently limits the resource generating capacity of the state and increases the cost of providing basic services to the people. Thus the successive Finance Commissions have given the state special category status.

- 4.1 Prior to the creation of the state, the award of 11th FC had been implemented and Uttarakhand was deprived of the revenue deficit grant during this period, which was availed by all other special category states. The need for special dispensation for Uttarakhand as a special category state due to its low fiscal capacity has been by and large recognized by most of the Finance Commissions, for example apart from special problem and up-gradation grants, 11th FC recommended a revenue deficit grant of Rs. 17 Cr. to Uttar Pradesh for this region, 12th FC recommended a grant of Rs. 5117 Cr. for its award period and 13th FC recommended an incentive grant of Rs. 1000 Cr. to Uttarakhand. However, the grants recommended by the 14th FC have been very unfavorable to the state, for example the other special category states got substantial relief through revenue deficit grant, but, Uttarakhand though being a special category state was denied its due share of revenue deficit grant. To a large extent this was due to unrealistic projections of 14th FC without due consideration to ground realities which will be discussed in this chapter.
- 4.2 The Economic Survey 2014-15, in its chapter 10, based on the recommendations of 14th FC has assessed and quantified the implications for the revenues of states. In this analysis, the revenue implications are reassessed based on more recent data (for FY 2014-15) and slightly differing assumptions about GDP growth, tax buoyancy and other fiscal parameters. The estimated benefits (both from tax devolution and FFC grants together), based on certain assumptions related to both FY 2014-15 and FY 2015-16, are shown in table 4.1.
- 4.3 As is evident from table 4.1, Uttarakhand has been one of the biggest revenue losing state even under the so called enhanced tax devolution. The comparison with other special category states (SCS) is even more stark. The figures of devolution for J&K is Rs. 13970 Cr., HP is Rs. 8533 Cr. in contrast

to Uttarakhand for which it is Rs. 1303 Cr. only. Similarly, the benefits per capita are Rs. 11140, Rs. 12430 and Rs. 1292 for J&K, HP and Uttarakhand respectively. Likewise, the benefits as percentage of OTR and NSDP is worst for Uttarakhand when compared to HP and JK.

Table 4.1 : Additional FFC Transfer (in 2015-16 over 2014-15)

State	Category	Benefits from FFC (Rs. in Cr.)	Benefits Per Capita (Rs.)	Benefits as % of OTR	Benefits as% of NSDP
1	2	3	4	5	6
Andhra Pradesh (United)	GCS	14620	1728	27.40	2.20
Arunachal Pradesh	SCS	5585	40359	1758.10	51.00
Assam	SCS	7295	2338	95.50	5.80
Bihar	GCS	13279	1276	105.30	4.90
Chhattisgarh	GCS	7227	2829	67.50	5.20
Goa	GCS	1107	7591	44.10	3.00
Gujarat	GCS	4551	753	10.30	0.80
Haryana	GCS	1592	628	7.80	0.50
Himachal Pradesh	SCS	8533	12430	207.70	14.60
Jammu & Kashmir	SCS	13970	11140	294.40	22.40
Jharkhand	GCS	6196	1878	89.10	4.80
Karnataka	GCS	8401	1375	18.10	1.80
Kerala	GCS	9508	2846	37.00	3.10
Madhya Pradesh	GCS	15072	2075	55.90	4.50
Maharashtra	GCS	10682	951	12.20	0.90
Manipur	SCS	2130	8286	578.70	19.50
Meghalaya	SCS	1381	4655	198.00	8.60
Mizoram	SCS	2519	22962	1410.10	33.30
Nagaland	SCS	2694	13616	886.50	18.70
Odisha	GCS	6752	1609	50.20	3.20
Punjab	GCS	3457	1246	18.30	1.40
Rajasthan	GCS	6479	945	25.50	1.60
Sikkim	SCS	1010	16543	343.70	10.70
Tamil Nadu	GCS	5973	828	10.00	0.90
Tripura	SCS	1560	4247	181.80	6.90
Uttar Pradesh	GCS	24608	1232	46.80	3.50
Uttarakhand	SCS	1303	1292	23.20	1.40
West Bengal	GCS	16714	1831	67.00	3.00
Total		204198	1715		

Source: Chapter 10, Economic Survey Report, 2014-15.

4.4 Uttarakhand among the SCS has been the least benefited state, as is also clear from the following table:

Table 4.2: Total surplus /shortfall after transfer under CAS but preserving the fiscal space for Centre

State	CAS over and above legally backed schemes(in Cr.)	Surplus/short fall after transfer under CAS but preserving the fiscal space for centre			
		Absolute (Rs. in Cr.)	Per capita (Rs.)	% of NSDP	%of OTR
Andhra Pradesh (united)	5062	10134	1198	1.50	19.00
Arunachal Pradesh	2555	4572	33038	41.80	1439.20
Assam	5860	4378	1403	3.50	57.30
Bihar	6998	8783	844	3.20	69.60
Chhattisgarh	2673	5258	2058	3.80	49.10
Goa	180	995	6820	2.70	39.60
Gujarat	4179	2454	406	0.40	5.50
Haryana	1509	714	282	0.20	3.50
Himachal Pradesh	3593	6826	9944	11.70	166.20
Jammu & Kashmir	8185	10679	8515	17.10	225.00
Jharkhand	2870	4650	1410	3.60	66.90
Karnataka	4873	5300	867	1.10	11.40
Kerala	2778	7834	2345	2.50	30.50
Madhya Pradesh	7959	10389	1431	3.10	38.50
Maharashtra	5365	7496	667	0.60	8.60
Manipur	2029	1250	4861	11.40	339.50
Meghalaya	1536	661	2229	4.10	94.80
Mizoram	1157	1967	17925	26.00	1100.70
Nagaland	2019	1839	9293	12.70	605.00
Odisha	6826	3497	833	1.70	26.00
Punjab	1820	2478	893	1.00	13.20
Rajasthan	6618	2423	353	0.60	9.50
Sikkim	1415	489	8006	5.20	166.30
Tamil Nadu	2376	2644	366	0.40	4.40
Tripura	2139	458	1246	2.00	53.30
Uttar Pradesh	9110	18716	937	2.70	35.60
Uttarakhand	3014	-48	-48	-0.10	-0.90
West Bengal	8386	11365	1245	2.00	45.60
Total	113081	138198			

Source: Chapter 10, Economic Survey Report, 2014-15.

4.5 Thus, Uttarakhand was the only state which had a shortfall both in absolute as well as in per capita terms and percentage of NSDP, not only among the special category states but among all the states of the country.

Reasons for loss to Uttarakhand in 14thFC

It is straight forward to see that the loss to Uttarakhand was due to four reasons

- Overestimation of centre's tax revenues in the projection period of the 14th FC
- Reduction in share of Uttarakhand in the tax devolution from 1.12% in 13th FC to 1.052% in 14th FC
- Overestimation of Uttarakhand's own tax revenues by the 14th FC

- iv. Underestimation of Uttarakhand's expenditure requirements during the forecast period.

Over projection of Centre's tax revenues:

4.6 Table 4.3 gives the gross central tax revenues as projected by the 14th FC along with the corresponding actual/RE for three years namely FY 2015-16, FY 2016-17 and FY 2017-18. It is clear that for gross central tax revenues there was a substantial over projection done by the 14th FC amounting to Rs. 3,28,764 Cr. The 14th FC also projected the divisible pool of central taxes. In deriving this pool they also projected the amount of cesses and surcharges that were to be deducted from the gross central tax revenues along with other relevant components including cost of collection of central taxes. Because the Finance Commission under-projected the cesses and surcharges, the extent of over-projection of the divisible pool has turned out to be even larger. Looking at the actual divisible pool for the first two years under the award period of the 14th FC and the revised estimates for 2017-18, the total over projection of the divisible pool amounts to Rs. 5,59,976 Cr. This implies a loss for every state including Uttarakhand. In the case of Uttarakhand this loss is derived by multiplying Uttarakhand's share (1.052%) by the amount of over projection. It can be seen that the amount of loss in three years comes out to be Rs. 5,891Cr.

Table 4.3 Projection of gross Central Tax Revenue by 14th FC

S.No.	Items	2015-16	2016-17	2017-18	2018-19	2019-20	(2015-20) Total
14th FC Projections (Rs. Cr.)							
1	Divisible Pool**	1379243	1591488	1838820	2127215	2463679	9400444
2	Centre's Gross Tax Revenue	1567373	1802787	2076193	2393939	2763456	10603748
Union Budget (actual, Rs. Cr.)							
S.No.	Items	2015-16	2016-17	2017-18 (RE)			Total (2015-16 to 2017-18)
1	Divisible pool (derived)	1257958	1461893	1529724	--	--	--
2	Centre's Gross Tax Revenue	1455648	1715822	1946119	--	--	--
3	Over-projection of divisible pool (1-4)	121285	129595	309096	--	--	559976
4	Over-projection of Centre's gross tax revenues (2-5)	111725	86965	130074	--	--	328764
5	Amounts devolved to the states	528342	613995	642484	--	--	--

Source: (basic data) report of the 14th FC, Union Budget documents

Loss due to tax devolution

- 4.7 The decline of share in Central Taxes, of the state due to 14th FC award from 1.12% to 1.052% shows a decrease of 0.068% from the previous 13th FC, which led to annual loss of about Rs. 350 Cr. at 2014-15 prices.

Loss due to discontinuation of plan grants

- 4.8 The 14th FC increased the share of states in Central Taxes from 32% to 42% thereby increasing the untied revenue receipts from the Central Government, but, on the other hand, the plan grants channelised through the **Planning Commission, namely Normal Central Assistance (NCA), Additional Central Assistance (ACA) and Special Plan Assistance (SPA) were abolished** and changes were also made in the number of schemes and funding pattern of plan schemes. Due to this, Uttarakhand has suffered more than other states as it is a special category state and used to receive a higher proportion in the above three grants. The quantum of loss can be seen from the table below.

Table 4.4: Year wise plan grants received

Rs. in Cr.				
Year	NCA	SPA	SCA/ACA	Total
2010-11	1154.38	300.00	24.61	1478.99
2011-12	1235.31	99.90	32.98	1368.19
2012-13	1355.03	300.00	33.65	1688.68
2013-14	1463.49	515.00	46.51	2025.00
2014-15	1384.13	810.12	700.00	2894.25

Source: Uttarakhand Finance Accounts, AG, Gol.

- 4.9 Thus, the state suffered a loss of around Rs. 2500 Cr. every year due to the discontinuation of NCA, SPA and SCA/ACA.

Composition of Devolution in 12th, 13th and 14th FC.

- 4.10 J&K, Himachal Pradesh and Uttarakhand are Himalayan states with similar geographical and economic profile. The devolution for above three states in 12th, 13th and 14th FC is given in the following table.

Table 4.5: Composition of devolution in 12th, 13th and 14th FC of various states

State	12 th FC (Rs. In Cr.)	13 th FC (Rs. In Cr.)	Rank in % enhancement from 12 th to 13 th FC	Per capita devolution in 13 th FC (Rs.)	14 th FC (Rs. in Cr.)	Rank in % enhancement from 13 th to 14 th FC	% increase of overall grant in 14 th over 13 th FC	Per capita devolution in 14 th FC (Rs.)
1	2	3	4	5	6	7	8	9
J & K	20880	40438	23	32244	124482	7	208	99258
Uttarakhand	12194	20308	26	20134	45405	26	123	45017
HP	14450	21691	28	31599	72035	4	232	104938
India	755751	1706676		14353	4485540		163	37723

Source: 13th and 14th FC report.

- 4.11 As is evident from column 8 of table 4.5 the percentage rise in devolution from 13th FC to 14th FC was 208% for J&K, 232% for HP but only 123% for Uttarakhand. Even the overall rise for the whole country was 163%. The column 9 in table 4.5 also clearly shows that in per capita terms the devolution for Uttarakhand is half that of HP and J&K. **On an average, the per capita devolution for special category states is Rs 1,57,161 whereas for Uttarakhand it is only Rs. 45,017. Thus, in absolute devolution, fiscal deficit grant & per capita grant the devolution formula has been extremely adverse to Uttarakhand.**

Revenue Deficit Grant

- 4.12 All special category states except Uttarakhand have received substantial non plan revenue deficit grants over the award period of the 14th FC. As shown in table 4.6, comparable states like Himachal Pradesh has received a revenue deficit grant of Rs. 40,625 Cr., while Jammu & Kashmir received a grant of Rs. 59,666 Cr.

Table 4.6: Revenue deficit grant given to various states by 14th FC

Rs. in Cr.

S.No.	State	2015-16	2016-17	2017-18	2018-19	2019-20	2015-20
1	Andhra Pradesh	6609	4930	4430	3644	2499	22113
2	Assam	2191	1188	0	0	0	3379
3	Himachal Pradesh	8009	8232	8311	8206	7866	40625
4	Jammu & Kashmir	9892	10831	11849	12952	14142	59666
5	Kerala	4640	3350	1529	0	0	9519
6	Manipur	2066	2096	2091	2042	1932	10227
7	Meghalaya	618	535	404	213	0	1770
8	Mizoram	2139	2294	2446	2588	2716	12183
9	Nagaland	3203	3451	3700	3945	4177	18475
10	Tripura	1089	1089	1059	992	875	5103
11	West Bengal	8449	3311	0	0	0	11760
	Total State	48906	41308	35820	34581	34206	194821

Source: 14th FC report.

- 4.13 As is evident from the above table, Uttarakhand, though being a SCS did not receive any revenue deficit grant, thereby putting the state finances under severe strain.

Unrealistic projections by 14th FC

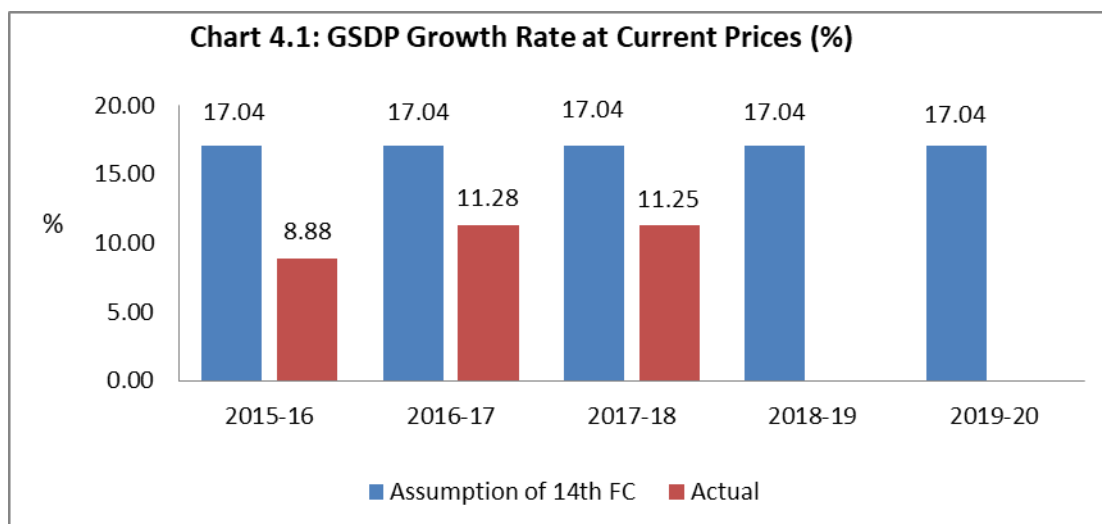
- 4.14 The state did not receive the revenue deficit grant due to unrealistic projections of the 14th FC of GSDP growth rate and Tax GSDP ratio.

Table 4.7: Comparison of 14th FC assumption with actual figures

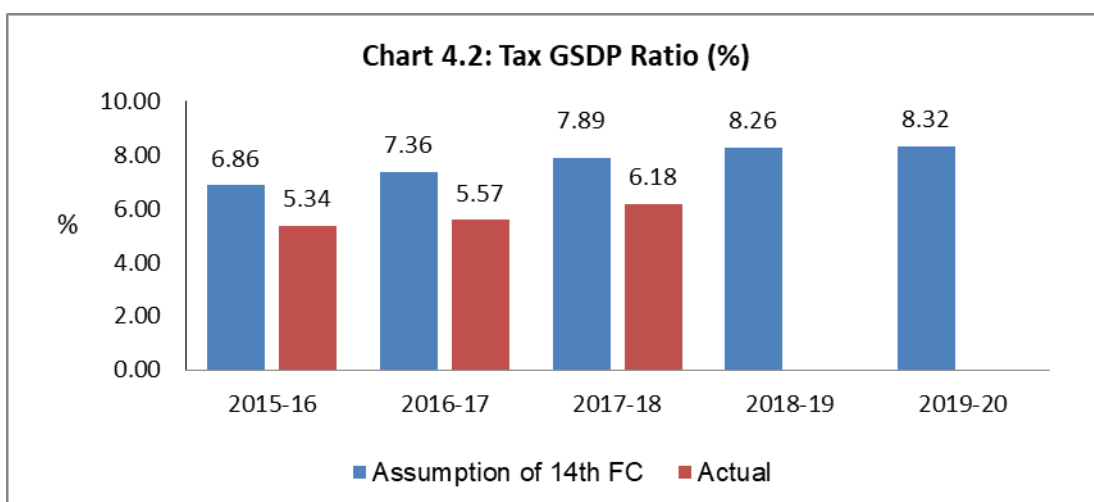
Uttarakhand	2015-16	2016-17	2017-18	2018-19	2019-20	Avg.
14 th FC assumed GSDP growth rate	17.04%	17.04%	17.04%	17.04%	17.04%	17.04%
Actual GSDP growth rate	8.88%	11.28%	11.25%	NA	NA	10.47%
14 th FC assumed tax to GSDP ratio	6.86%	7.36%	7.89%	8.26%	8.32%	7.74%
Actual tax to GSDP ratio	5.34%	5.57%	6.18%	NA	NA	5.69%

Source: Budget Documents, GoUK

- 4.15 The projection of GSDP growth rate for the period FY 2015-16 to FY 2019-20 by the 14th FC was 17.04%, whereas, the actual average growth rate of the state for the first 3 years of the 14th FC period was only 10.47%.
- 4.16 Similarly, as per the 14th FC, the projected Tax GSDP ratio was envisaged to increase from 6.86% in FY 2015-16 and to 8.32% in FY 2019-20, whereas the average actual tax GSDP ratio for the first 3 years of the 14th FC period was only 5.69%.



Source: (i) 14th FC report, (ii) Budget Documents, GoUK



Source: (i) 14th FC report, (ii) Budget Documents, GoUK

4.17 Thus it is obvious from table 4.7 that the 14th FC made quite unrealistic assumptions of the GSDP growth rate and the own tax growth rate of the state.

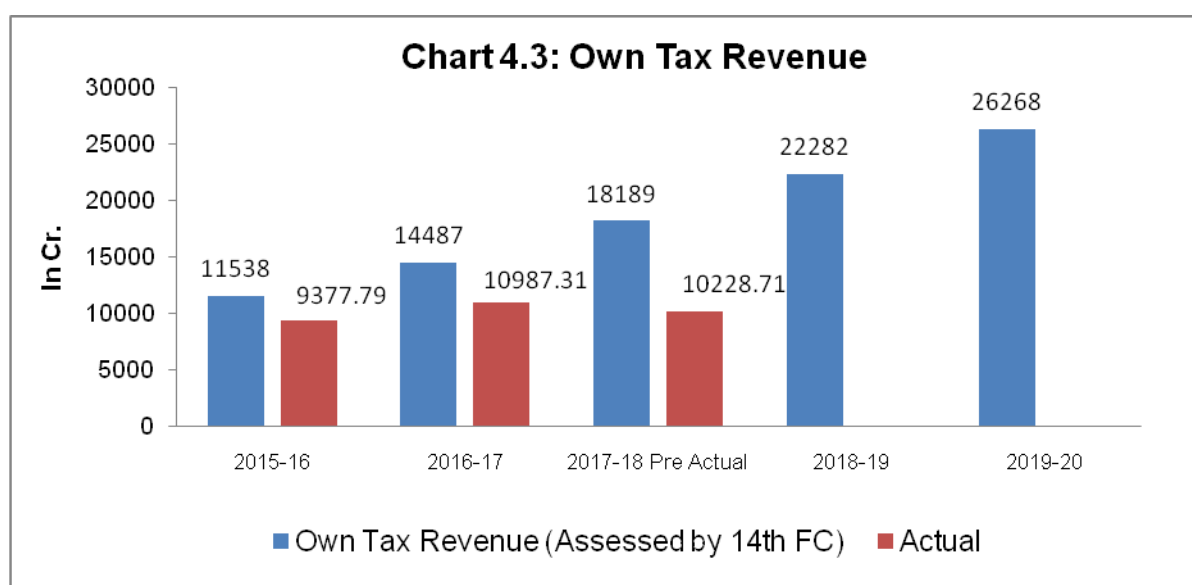
4.18 Similarly the assumption of 14th FC regarding the non tax estimates of the state, the overall revenue as well as the under estimation of the revenue expenditure were also off the mark as is evident from the following table.

Table 4.8: Over estimation of resources and under estimation of expenditure by the 14th FC

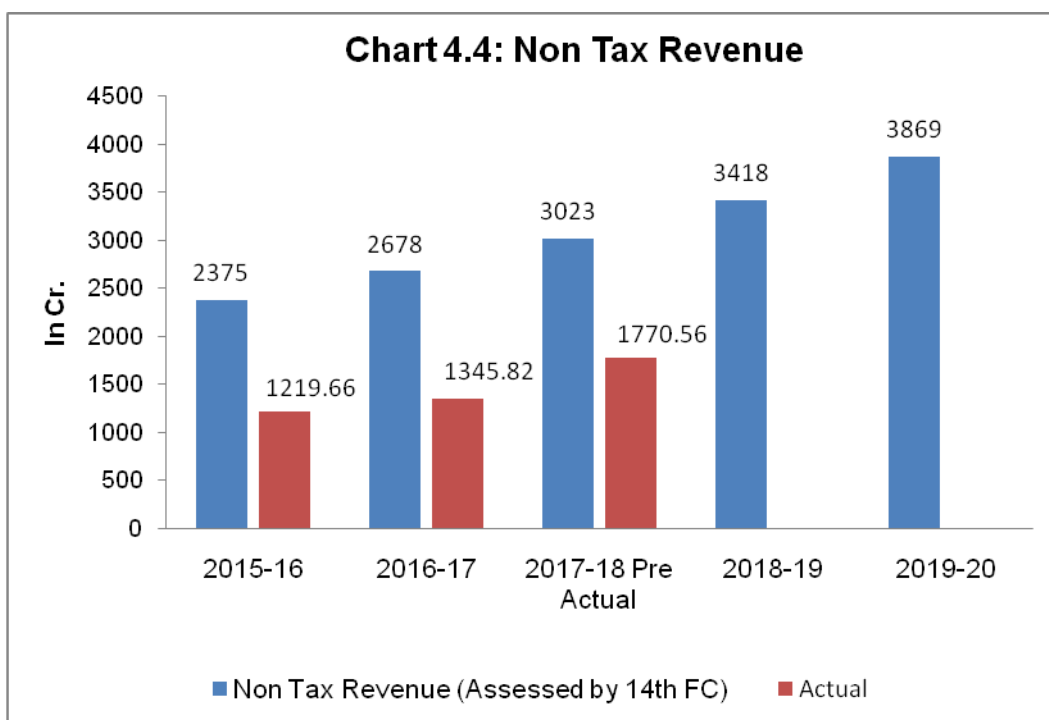
Rs. in Cr.

S.No.	Item	2015-16	2016-17	2017-18	2018-19	2019-20	2015-18	%of over estimation or under estimation
1	2	3	4	5	6	7	8	9
1	GSDP							
2	GSDP (Actual)	175772	195606	217609	242693	271477	-	-
3	By FC	168270	196938	230490	269758	315716	-	-
4	Difference	-7502.46	1332.93	12880.53	27065.37	44239.26	-	-
5	Own tax revenue							
6	Own tax revenue (Assessed by FC)	11538	14487	18189	22282	26268	44214	-
7	Actual	9377.79	10987.31	10228.71	NA	NA	30593.8	-
8	Difference	-2160.21	-3499.69	-7960.29	NA	NA	-13620.19	44.52% over estimation
9	Non tax revenue							
10	Non tax revenue (Assessed by FC)	2375	2678	3023	3418	3869	8076	-
11	Actual	1219.66	1345.82	1770.56	NA	NA	4336.04	-
12	Difference	-1155.34	-1332.18	-1252.44	NA	NA	-3739.96	86.25% over estimation
13	Revenue Expenditure							
14	Revenue Expenditure (Assessed by FC)	19751	22060	24653	27565	30837	66464	-
15	Actual	23086.44	25271.49	29112.52	NA	NA	77470.5	-
16	Difference	3335.44	3211.49	4459.52	NA	NA	11006.45	14.21 % under estimation
17	Total Difference(8+12+16)	6650.99	8043.36	13672.25	NA	NA	28366.6	

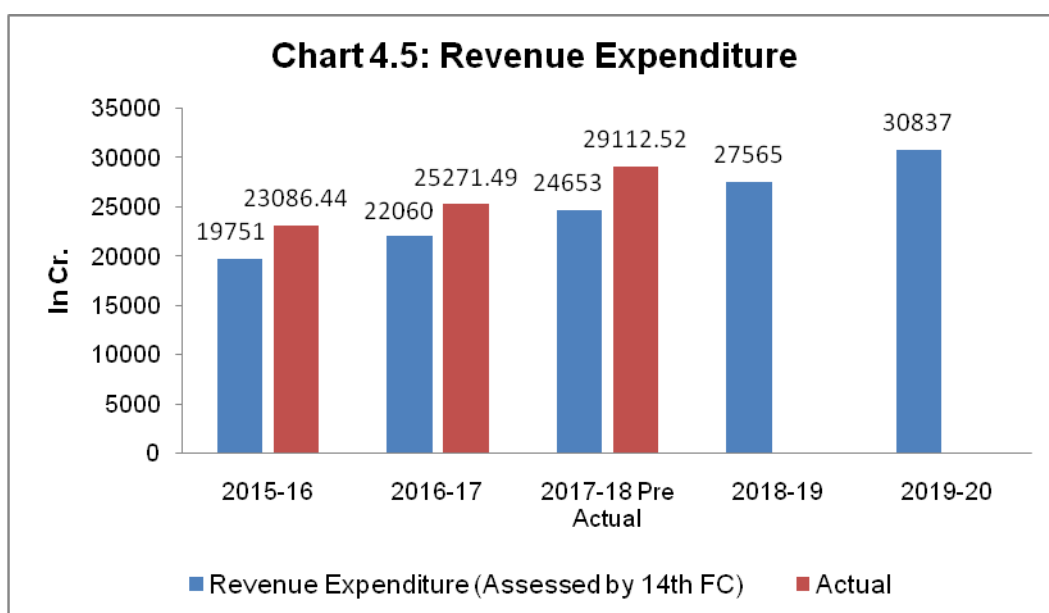
Source: (i) 14th FC report, (ii) Budget Documents, GoUK



Source: (i) 14th FC report, (ii) Budget Documents, GoUK



Source: (i) 14th FC report, (ii) Budget Documents, GoUK



Source: (i) 14th FC report, (ii) Budget Documents, GoUK

- 4.19 It is evident from serial number 6-8 in table 4.8, that own tax revenue forecast for the initial three years of the 14th FC is Rs. 44214 Cr., whereas the actual receipt was Rs. 30,594 Cr., which was an overestimation of Rs. 13620 cr. for just 3 years. **Thus, the own tax revenue estimate of the 14th FC is 44.52% higher than the actual.**
- 4.20 Similarly in serial number 10-12 in table 4.8, the own non tax revenue forecast for the initial three years by the 14th FC is Rs. 8076 Cr., whereas the

actual receipt was Rs. 4336 Cr., which was an overestimation by Rs.3740 Cr. for just 3 years. **Thus, the own non tax revenue estimate of the 14th FC is 86.25% higher than the actual.**

- 4.21 In serial number 14-16 in table 4.8, it is evident that the revenue expenditure forecast for the initial three years of the 14th FC is Rs.66464 Cr., whereas the actual expenditure was Rs.77470 Cr., which was an underestimation of Rs.11006 Cr. for just 3 years. **Thus, the revenue expenditure forecast of the 14th FC is 14.21% lower than the actual.**
- 4.22 As is evident from row 16 in table 4.8, the actual difference in revenue forecast and expenditure for the initial three years is Rs. 28367 Cr. Thus, Uttarakhand had a shortfall of Rs. 9455 Cr. per year, which if extrapolated for the entire forecast period of 14th FC **amounts to Rs. 47,278 Cr.**
- 4.23 **The revenue deficit grant given by 14th FC to HP is Rs. 40625 Cr. and to J&K is Rs. 59666 Cr. Thus it is evident that the state of Uttarakhand, which lost around Rs. 47278 Cr. as stated in para 4.21 should also have received revenue deficit grant of Rs. 47278 Cr. which is comparable to the grant given to HP and J&K.**
- 4.24 The table below gives details of overall grants given to the three similar Himalayan states of Uttarakhand, HP and J&K in 14th FC. Thus it is evident that the major difference in the devolution amount among the three states is due to revenue deficit not being given to Uttarakhand which has adversely impacted development schemes and capital expenditure in the state.

Table 4.9: Recommended grant by 14th FC

Rs. In Cr.								
States	RDG	Central Taxes	Disaster	RLBs	ULBs	Total	Per capita grant (Rs.)	Per Capita grant if RDG of Rs. 47278 Cr. was sanctioned to Uttarakhand
1	2	3	4	5	6	7	8	9
J & K	59666	58779	1268	3463	1306	124482	99258	99258
Himachal Pradesh	40625	28225	1173	1810	202	72035	104938	104938
Uttarakhand	0	41665	1042	1883	816	45406	45017	91505

Source: 14th FC Report

- 4.25 Thus, if revenue deficit grant of Rs.47278 Cr. was sanctioned to Uttarakhand by 14th FC, the per capita grant of Uttarakhand would have been more or less around the grant given to HP and J&K.

- 4.26 **From the above discussion it is clearly evident that Uttarakhand has lost heavily by 14th FC recommendations on account of changes in the horizontal devolution formula, discontinuation of plan grants, unrealistic assumptions of 14th FC regarding revenue growth rate and expenditure of the state and mainly due to revenue deficit grant being denied to the state. This has adversely impacted the various development schemes of the state and also significantly curtailed capital expenditure, thereby adversely affecting its citizens and the growth prospects of the state.**

Chapter 5

Development disabilities: Special case of a Hilly and Small State

The creation of the state was a culmination of the aspirations of the people of region, wherein it was felt that in a smaller state the policy design will be more in accordance with the local needs and resource availability. Being a remote mountainous region of erstwhile state of Uttar Pradesh, it faced problems of inadequate allocation of resources, unwillingness on the part of the government personnel to work in difficult terrain, and inadequate capacity of its institutions. The region thus faced a kind of **‘Development and Infrastructure deficit’** along with insufficient and inefficient delivery systems. This primarily was the ‘rationale’ for creating a new state and issues regarding resource availability, administrative and economic viability and fiscal capacity etc. were not taken into serious consideration. Since the parent state itself was not quite healthy in fiscal terms, so Uttarakhand inherited more liabilities rather than assets and started its journey with a negative cash balance. It was recognised by the Central Government that the state would need hand holding till such time it is able to stand on its own feet, and therefore it was characterized as a special category state, a dispensation which entailed more grants from the Planning Commission and relatively easier terms of assistance.

- 5.1 Since the award of 11th FC had been implemented prior to the creation of the state, it was deprived of the revenue deficit grant which was availed by all other special category states. It was partly compensated by additional plan grants and additional borrowings which created a further debt liability.
- 5.2 The need for special dispensation for erstwhile special category states dominated by hilly states has been by and large recognised by most of the Finance Commissions.
- 5.3 The state is characterised by a difficult geographical terrain with geological surprises at every step along the Himalayan region, sparsely dispersed population, high cost of creation and maintenance of infrastructure, environmental constraints because of large forest area, high transportation costs, inclement weather, disaster proneness and weak infrastructure along with other cost disabilities.
- 5.4 Being a predominantly mountainous state, the economy of the hill region is characterised by lack of robust economic activity and livelihood opportunities, as reflected by low per capita income of hill area. This gets further aggravated by lack of basic amenities and remoteness, leading to intra state

and interstate migration leaving behind an ageing society in rural areas of hills which adversely impacts the consumption pattern. Any remittance sent back home is primarily consumed in subsistence level consumption, leaving no room for any savings to be invested in gainful economic activity.

- 5.5 It is now generally accepted that per capita income by itself as an indicator of development has its own limitations. Nowadays, on the basis of regional profile, micro level strategies for balanced and inclusive development have to be worked out for narrowing the relative gap among the various regions including the sub-national level as an imperative to get rid of backwardness. The second Administrative Reforms Commission (ARC) in its seventh report also recommended addressing the issue of intrastate disparity in development.
- 5.6 Major GDP drivers of the state like agriculture, horticulture, industry, hydro power, tourism etc. are constrained primarily by geographical, environmental and regulatory factors over which the state has no control.
- 5.7 A view has often been taken that intrastate disparities are the responsibility of the state government. However, if the causative factors are geographical or due to policies formulated at the national level, **then it needs to be factored into any scheme of transfer of resources to the state.**
- 5.8 According to calculations based on GST data and as analysed in the Economic Survey 2017-18 Vol. I, a state's GSDP per capita is highly correlated with its export share in GSDP. In terms of interstate trade, the five largest exporting states are Maharashtra, Gujarat, Haryana, Tamil Nadu and Karnataka. The top five in terms of international export of goods and services are Maharashtra, Gujarat, Karnataka, Tamil Nadu and Telangana - all coastal states with port facilities. Uttarakhand being a land locked state with almost minimal rail network (345 Km), poor air connectivity and poor road connectivity in the hill areas will continue to remain handicapped in this regard.

Agriculture

- 5.9 As compared to neighbouring states like Uttar Pradesh, agriculture in Uttarakhand suffers from serious handicaps and a large part of the population is totally dependent on the public distribution system for its consumption requirements of food.
- 5.10 In the hill areas because of geographical factors, lack of irrigation facilities, low population density, poor infrastructure, disaster vulnerability, man animal

conflict because of proximity to the forest, leave little scope for modern development of agriculture sector as well as market based institutions, thereby leading to low production and productivity.

- 5.11 Niche areas like horticulture, floriculture etc. too are constrained by small size of land holdings, natural calamities, man-animal conflict, low technical knowledge of farmers and poor marketing infrastructure.
- 5.12 According to Census 2011, more than 50% of the state's workforce is engaged in agriculture. However, the per capita GSDP share of the households engaged mainly in agriculture is much lower than those working in the secondary and tertiary sector. At the time of formation, Uttarakhand was primarily an agrarian economy but the rapid growth achieved has been witnessed primarily in the secondary sector, the growth rate in the primary sector has been very low, thereby adversely affecting the socio-economic life of farmers especially in the hill areas.
- 5.13 The cultivable area in Uttarakhand as a percentage of total area is 25.84% only as compared to an all India average of 59.09%. The mountain cultivators own very small plots of farm land. A total of 76% cultivators are marginal and 17% are small cultivators. The average net irrigated area in the mountainous districts is just about 10% of the net sown area and hill farming relies substantially on monsoon rains for sustenance. Any variation in rainfall wreaks havoc for hill farming thereby adversely affecting the income and livelihood of farmers, who at times are unable to even afford the cost of inputs.
- 5.14 Thus agriculture in the hills is trapped in a vicious circle of low productivity and low income. Field studies suggest that the returns from farming in the hills are very low and cultivators have to look for off-farm opportunities to fulfil their basic economic needs. Since horticulture yields higher returns than cereal crops, cultivators in the state are gradually switching over to horticulture and other cash crops.

Industries

- 5.15 After the formation of the state, there has been an expansion in the industrial base in the state and this was primarily due to the special industrial package of Government of India. The manufacturing industries were set up mainly in the plain regions of Udham Singh Nagar, Hardwar, Dehradun and Nainital districts due to the incentives under the industrial package of Government of India, which prematurely came to an end in 2010. After the end of the special

industrial package, the possibilities of expansion of industrial base are very low due to geographical, environmental and financial constraints. In Doon Valley industries in red and orange categories are prohibited due to specific environmental restrictions.

- 5.16 Under its own industrial policy, the state government has provided several incentives in the form of concessional finance, energy, industrial land, tax waiver and other basic infrastructure to attract industries. Even these incentives are not enough to attract the industries as there is no competitive/comparative advantage to the industry due to unavailability of raw material, limited size of the domestic market and the high cost of transportation, which adds to the overall cost making most of the products unviable. Similarly in agro-processing and horticulture processing sector, industries have not succeeded primarily due to diseconomies of scale and limited marketing opportunities.

Hydro Power Scenario in Uttarakhand

- 5.17 After formation of Uttarakhand, the state was conceived as an energy state or '**Urja Pradesh**' owing to its rich hydrological natural resources that could be commercially exploited. Moreover, hydro power development in Uttarakhand could have been the major driver of GSDP growth.
- 5.18 The total estimated hydropower potential of Uttarakhand is approximately 25000 MW. Out of this only 3987 MW has been harnessed so far and 2578 MW is under execution by various agencies like Central Public Sector Undertaking (CPSUs), state-owned utilities, and Independent Power Producers (IPPs).
- 5.19 At present there is a huge gap between power demand and supply in the state. The annual energy demand of the state is about 14000 MU out of which the state power generation utility generates about 35% of total demand. Approximately 35% demand is fulfilled through CGS (Central Generating Stations) and 30% power is procured through open market which costs approximately Rs. 1000 Cr. per year and is a huge burden on the state, whereas on the contrary, the neighbouring state of Himachal Pradesh with similar geographical and environmental conditions is generating revenues by selling energy worth **Rs.1000 Cr. annually**.
- 5.20 In view of the directions/ order of Hon'ble Supreme Court, National Ganga River Basin Authority (NGRBA) and Ministry of Environment, Forest and

Climate Change (MoEF&CC) the development of various hydro projects in the State of Uttarakhand has been stalled since 2010.

- NGRBA on 01st November 2010 decided that “**Loharinag Pala, Pala Maneri and Bhairon Ghati hydro-electric power projects on Bhagirathi may be discontinued**” having total capacity of about 1461 MW.
- MoEF&CC notified the entire watershed measuring about 100 kms along river Bhagirathi from Gaumukh to Uttarkashi covering an area of 4179.59 Km² as eco-sensitive zone vide notification dated 18th December 2012, in which setting up “new” hydroelectric power plants and expansion of existing plants (of capacity over 2 MW) are prohibited. Consequently 15 hydroelectric projects worth 1734 MW capacity will not be available to the state.
- Hon’ble Supreme Court in its order dated 07th May 2014 has directed that no further construction activities shall be undertaken on 24 hydropower projects on Bhagirathi river. Accordingly, the construction of hydroelectric projects of capacity 2945 MW has been suspended.
- Ministry of Water Resources (MoWR) has also given directives in October 2015, that clearance of all the projects on Ganga and its tributaries will not be taken up till MoWR decides the norms for releasing minimum environmental flow continuously in to the river.

5.21 On the basis of above directions/ orders, overall 33 hydroelectric projects, with total capacity of about 4084 MW and project cost of Rs. 22607 Cr. have been stalled. Presently Rs. 2728 Cr. have been invested on these projects, out of which state government has invested Rs. 245 Cr., Central Public Sector Undertaking (CPSUs) have invested Rs. 1728 Cr. and private developers have invested Rs. 755 Cr. In the absence of non-resolution of the aforesaid issues the expenditure done till date of Rs. 2278 Cr. has become sunk cost, which will also result in huge escalation of the cost of various projects.

5.22 Apart from the financial losses, the nation has lost about 16491 MU of clean energy and the state of Uttarakhand has lost about 6537 MU of energy as free royalty. Due to this Government of India and the state government have to bear an expected **revenue loss of Rs. 3982 Cr. and Rs. 2020 Cr. per annum.**

- 5.23 Thus, it is apparent from the above discussion that hydro power sector which could have been one of the major drivers of economy of the new state is unable to contribute to the economy due to geographical, environmental, regulatory factors and policies of government of India. This has in turn, led to substantial loss in revenue and employment opportunities in the hill areas thereby contributing to migration from the hill areas.

Other Service Sector

- 5.24 Because of poor paying capacity and low returns on investments in the 9 out of the 13 districts of the state, the investment by the private sector in health, education and other service sectors is not likely to be forthcoming due to viability issues.
- 5.25 Tourism as a sector does offer some possibilities for private investment, but almost 70% of the geographical area is under forests governed by stringent regulatory regime. Another constraint is the lack of quality infrastructure which discourages private sector investments due to viability gaps and environmental constraints.

Use Disability: Compensation for Banned Hydro Power Projects

- 5.26 As explained above, Uttarakhand is not able to use the resources available within its domain, due to various reasons like **Policy Mandated Restriction due to environmental reasons, thus resulting in Use Disability**. Another aspect of Use Disability is that a large part of the natural resources that the Himalayan regions have must continue to remain not harnessed, on account of the environmental benefits for the entire nation. For Uttarakhand, hydro power sector and the tourism sector are typical examples of Use Disability and the state should be adequately compensated for it.

Cost Disability of Uttarakhand as a Himalayan State

- 5.27 The need to protect and conserve forests, wildlife and other biodiversity, besides restricting the land use choices and thus causing developmental disadvantages, adversely affects the unit cost of providing public services. The cost of providing public services also varies across states/regions due to a large number of factors such as geographical terrain, population density, extreme and variable climatic conditions, and are referred to as 'cost-disabilities'. **When 'cost-disabilities' arise from factors that are considered exogenous to a state's control, the states need to be compensated through an additional allocation due to these disabilities,**

by incorporating these in the formulae for intergovernmental grants. In a number of developed countries cost disabilities have been inbuilt in the design of intergovernmental grants.

- 5.28 Factors contributing to 'cost-disability' in forested areas of hill states vis-à-vis non-hill states and/or non-forested areas in hill states can be identified as cost escalation in terms of time and institutional costs due to legal requirements and federal restrictions (e.g. Hon'ble Supreme Court rulings on diversion of forest land for non-forest purposes and associated cost for NPV charges, requirement for central clearances for non-forest activities etc.).
- 5.29 The other factors adversely affecting the unit cost of providing public services in hill states are difficult terrain, extreme climatic conditions, fragile ecosystem, higher technological and material requirements for meeting specific rules and regulations, higher costs of transporting materials and supplies through difficult terrain.
- 5.30 Opportunity costs when expressed in terms of forgone developmental alternatives, restrictions on livelihood options, and mark ups on costs of developmental projects are much higher for the state as compared to other states.

Cost Disability of Uttarakhand is due to following reasons:

- i. Cost on Geological and Environment Impact Assessment (EIA) study.
- ii. Cost of site development and slope stabilization.
- iii. High cost of material transportation and service delivery.
- iv. Low density of population and high number of habitations necessitate increased cost of service provision.
- v. More per capita forest cover and villages being interspersed with forest cause more man-animal conflict leading to loss of life & livelihood (damage to crop & horticultural products). The situation has become so alarming that thousands of people have left agriculture as a source of livelihood and migrated to plain areas working in low paying jobs.
- vi. Limitations of agricultural mechanization puts extra pressure on farmer in terms of drudgery and results in low labour productivity. Furthermore limitations of physical (road, rail and air) & digital connectivity leads to poor market access for farmers.

- vii. In addition to high cost of infrastructure development, frequent repair & maintenance has also to be carried out due to heavy rains, snow fall, frequent landslides and flash floods leading to much higher maintenance cost as compared to other states.
- viii. Since around 70% area of the state is notified as forest, almost any development activity needs forest land diversion. This requires civil land equivalent to twice the amount of forest land diverted and payment of NPV of the forest land. This is like double jeopardy for mountain people. On one hand they protect natural ecosystem which provides ecosystem services to the whole nation and on the other hand they get penalized for their own development. Requirement of NPV causes **cost disability** for state and requirement of double civil land causes **Use Disability** as it deprives the state from its precious scarce civil land which could be used for infrastructure development or for upliftment of people's livelihood.
- ix. **Three dimensionality** of the area whereby circuitous roads have to be built leads to extra capital cost as well as maintenance costs.
- x. Apart from the increased distance, the basic costs of construction in hills and high hills are much higher than the plain region. This is illustrated by the following table:

Table 5.1: Cost Index of Hill and Plain areas of Uttarakhand

S.No.	Hill Area	Cost Index	S.No.	Plain Area	Cost Index
1	Mukteshwar (Nainital)	126	7	Haldwani (Nainital)	109
2	Bageshwar	130	8	Kashipur (U.S. Nagar)	113
3	Gunji (Pithoragarh)	421	9	Khatima(U.S.Nagar)	109
4	Chakrata (Dehradun)	110	10	Dehradun	99
5	Joshimath (Chamoli)	151	11	Hardwar	101
6	Matli (Uttarakashi)	143	12	Rishikesh (Dehradun)	101

Source: CPWD (2016)

Cost of Providing Services to Floating Population

- 5.31 The population of Uttarakhand is little over one crore, but it welcomes around 5 to 6 Cr. tourists/ pilgrims every year. This necessitates the state government to not only create additional infrastructure in terms of stay arrangements, link roads, bus fleets, bus terminals, drinking water facilities,

roadside amenities but also to bear huge cost of frequent maintenance of these infrastructure and facilities. In the backdrop of the religious nature of tourism and the low paying capacity of the pilgrims, the returns are not commensurate with the cost of services being provided by the state government.

Developmental Disability Index for Hill States in India

- 5.32 Development Disability Index (DDI) was first prepared by National Institute of Public Finance and Policy (NIPFP), New Delhi in 2013. The DDI prepared by NIPFP was later revised by Planning Commission which has two broad components. It reflects the comparative socio-economic profile of all the states of the country.
- 5.33 The first component is the endowment effect, which is based on the Geographical Area Disadvantage Index (GADI). This index has been developed based on two sub components, viz (i) Forest Cover Index (FCI) i.e. the proportion of Forest Cover Area (FCA) to Geographical Area (GA), and (ii) Barren & Unculturable Land Index (BULI) i.e. the proportion of Barren & Unculturable Land to Geographical Area. The composite index of this component is based on the combined index of FCI and BULI in the ratio 60:40. For the purpose of FCI as well as BULI, the Land Use Statistics (LUS) data has been used.
- 5.34 The second component is the Infrastructure Deficit Index (IDI), which takes into account deficits in major infrastructural sectors viz. power, road, telecommunication, aviation, ports and railways.
- 5.35 The Development Disability Index has been calculated as an average of Component-1, i.e. Geographical Area Disadvantage Index and Component-2 i.e. Infrastructure Deficit Index and the states have been ranked in terms of DDI. As an alternate mechanism, this DDI has been further superimposed with the connectivity disadvantage factor to arrive at another DDI (called DDI-2) and the states have been ranked in terms of DDI-2.
- 5.36 The table below provides the rankings of the states based on Component-1 (Geographical Area Disadvantage Index), Component-2 (Infrastructure Deficit Index including Hilly Terrain and Flood Prone Area component), Developmental Disability Index-1 [combination of Components-1&2] and Developmental Disability Index 02 (DDI-1 with factor such as connectivity disadvantages).

Table 5.2: Calculations of Development Disability Index

S.No.	States	Forest cover Index (LUS)	Barren and unculturable land (LUS)	Geographical area disadvantage Index	Infrastructure Deficit Index (ID)	proportion of Hilly terrain HT	Proportion of Flood Prone area (FPA)	Combination of Hill terrain & flood prone area	[HT & FPA]* [ID-Index]	Development Disability Index (1)	Development Disability Index-Rank (1)	Connectivity Disadvantage	Combined index of Infradeficit and connectivity disadvantage	Development Disability Index (2)	Development Disability Index-Rank (2)
						0.8	0.2		0.8			0.2			
1	Arunachal Pradesh	4.18	0.12	2.55	5.11	1.00	0.00	0.80	4.09	3.32	1	1.0	3.47	3.01	1
2	Manipur	3.51	1.06	2.53	4.77	1.00	0.00	0.80	3.82	3.18	2	1.0	3.26	2.89	2
3	Mizoram	3.46	0.07	2.10	5.01	1.00	0.00	0.80	4.01	3.06	3	1.0	3.41	2.76	3
4	Uttarakhand	2.82	0.71	1.97	4.83	1.00	0.00	0.80	3.86	2.92	4	0.0	3.09	2.53	6
5	Sikkim	2.17	1.06	1.73	5.01	1.00	0.00	0.80	4.01	2.87	5	1.0	3.41	2.57	5
6	Tripura	2.75	1.06	2.08	4.51	1.00	0.01	0.80	3.62	2.85	6	1.0	3.09	2.58	4
7	J&K	1.25	2.05	1.57	5.07	1.00	0.00	0.80	4.06	2.81	7	0.5	3.35	2.46	8
8	Meghalaya	1.95	1.06	1.59	5.00	1.00	0.00	0.80	4.00	2.80	8	1.0	3.40	2.50	7
9	Nagaland	2.44	0.03	1.47	5.06	1.00	0.00	0.80	4.05	2.76	9	1.0	3.44	2.46	9
10	HP	1.11	2.57	1.69	4.73	1.00	0.01	0.80	3.79	2.74	10	0.0	3.03	2.36	10
11	Assam	1.08	3.20	1.93	4.80	0.24	0.09	0.21	1.03	1.48	11	1.0	1.02	1.48	11
12	Kerala	1.28	0.10	0.81	3.27	0.76	0.03	0.61	2.01	1.41	12	0.0	1.61	1.21	12
13	Karnataka	0.74	0.74	0.74	4.49	0.25	0.00	0.20	0.90	0.82	13	0.0	0.72	0.73	14
14	Maharashtra	0.78	1.00	0.87	4.17	0.23	0.01	0.18	0.76	0.81	14	0.0	0.61	0.74	13
15	Odisha	1.71	0.96	1.41	4.75	0.00	0.04	0.01	0.04	0.73	15	0.0	0.03	0.72	15
16	Chhattisgarh	2.11	0.40	1.42	4.85	0.00	0.00	0.00	0.00	0.71	16	0.0	0.00	0.71	16
17	Tamil Nadu	0.75	0.67	0.72	4.02	0.18	0.01	0.14	0.57	0.65	17	0.0	0.46	0.59	21
18	Jharkhand	1.29	1.27	1.28	4.63	0.00	0.00	0.00	0.00	0.64	18	0.0	0.00	0.64	17
19	Gujarat	0.45	2.41	1.23	3.93	0.00	0.04	0.01	0.03	0.63	19	0.0	0.03	0.63	18
20	Goa	1.59	0.74	1.25	0.00	0.00	0.00	0.00	0.00	0.63	20	0.0	0.00	0.63	19
21	Andhra Pradesh	1.04	1.32	1.15	4.51	0.00	0.04	0.01	0.04	0.59	21	0.0	0.03	0.59	20
22	MP	1.30	0.77	1.09	4.88	0.00	0.01	0.00	0.01	0.55	22	0.0	0.01	0.55	22
23	Rajasthan	0.37	1.24	0.72	4.86	0.00	0.10	0.02	0.09	0.41	23	0.0	0.08	0.40	23
24	Bihar	0.30	0.82	0.51	4.67	0.00	0.13	0.03	0.12	0.32	24	0.0	0.09	0.30	24
25	West Bengal	0.62	0.04	0.39	4.36	0.04	0.08	0.04	0.19	0.29	25	0.0	0.15	0.27	25
26	Uttar Pradesh	0.32	0.37	0.34	4.68	0.00	0.22	0.04	0.20	0.27	26	0.0	0.16	0.25	26
27	Punjab	0.27	0.09	0.20	4.18	0.00	0.11	0.02	0.09	0.14	27	0.0	0.07	0.13	27
28	Haryana	0.04	0.42	0.19	4.44	0.00	0.07	0.01	0.06	0.13	28	0.0	0.05	0.12	28

Source: (i) Land use statistics, Ministry of Agriculture, GoI, (ii) Planning Commission, GoI

- 5.37 It is apparent for table 5.2 that all the hill state suffer from inherent disabilities in socio-economic development as compared to the states of the country. Thus, based on revised Development Disability Index (DDI) prepared by NIPFP and erstwhile Planning Commission and various other factors, it was recommended that compensation to 11 Himalayan States on account of their contribution of environmental Services (Public Goods) to the rest of the nation and in recognition of their special disabilities on account of these and related factors, **should be 2% of the Gross Budgetary Support (GBS) to the plan each year. (Equivalent to Rs. 10000 Cr. in 2013-14).**

Equalization approach to Fiscal Transfers:

- 5.38 The equalization approach to fiscal transfers consists of two critical components, namely, (i) the revenue side and (ii) the expenditure side. The revenue side provides a framework for estimating tax efficiency and tax effort of the state governments. The expenditure side provides a framework for the normative assessment of expenditure needs. Together, these two dimensions would provide a methodological framework for designing a system of fiscal transfers.
- 5.39 A comprehensive normative approach to determining fiscal transfers in India would be relevant in the light of the provisions in the Constitution as well as Clause 5 of the Terms of Reference (ToR) of the 15th FC. This Clause requires that fiscal transfers as well as the fiscal consolidation roadmap be guided by the principles of equity, efficiency and transparency. It also calls for examining whether revenue deficit grants be provided at all. Under article 275 (1), it would be ideal to assess the revenue needs of a state under the equalization principle.
- 5.40 Similar approaches are being followed for determining transfers in some of the well known federal systems in the world such as Canada and Australia. In Canada, the principle of equalization is incorporated in the Constitution and is defined as: "*Parliament and the government of Canada are committed to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation.*" [Subsection 36(2) of the Constitution Act, 1982].
- 5.41 In Australia, equalization is defined by the Commonwealth Grants Commission (CGC) as: "*State governments should receive funding from the pool of goods and services tax [can apply to any relevant sharable pool] such that, after allowing for material factors affecting revenues and expenditures,*

each would have the fiscal capacity to provide services and the associated infrastructure at the same standard, if each made the same effort to raise revenue from its own sources and operated at the same level of efficiency” [2015 Review, Commonwealth Grants Commission, Australia].

- 5.42 The Australian and Canadian approaches are similar in so far as fiscal capacity equalization is concerned. This dimension of equalization relates to the revenue side. It ensures that transfers to states make up for the deficiencies in the fiscal capacities but do not make up for deficiencies in revenue effort relative to a given benchmark. The additional consideration in Australia’s approach relates to the assessment of expenditures needs. In this assessment each state government is considered as operating at the same level of efficiency. Furthermore, in order to consider ‘material factors’ affecting expenditures, that is, factors outside the control of state governments, relevant user and cost disabilities are incorporated. Thus, valid cost differentials or need differentials are taken into account.
- 5.43 In implementing this approach, the Australia’s Commonwealth Grants Commission (CGC) uses four supporting principles namely, (1) focus on what states do collectively, (2) policy neutrality, (3) practicality and (4) contemporaneity. In the principle relating to ‘what states do’, the idea is to focus on averages to capture the collective behaviour of states while allowing departures for individual states from the collective averages on valid grounds of user and cost disabilities. The principle of ‘policy neutrality’ ensures that transfers are made as unconditional transfers. Different budgetary heads may be used to make an assessment of needs, but once the overall transfers are determined, the state can exercise any kind of structure of priorities among different heads. The principle of ‘practicality’ calls for using sound and reliable data and methods that are ‘as simple as possible’. The principle of ‘contemporaneity’ requires that there be minimum lag between the years for which reliable data are available and the years for which an assessment is made.

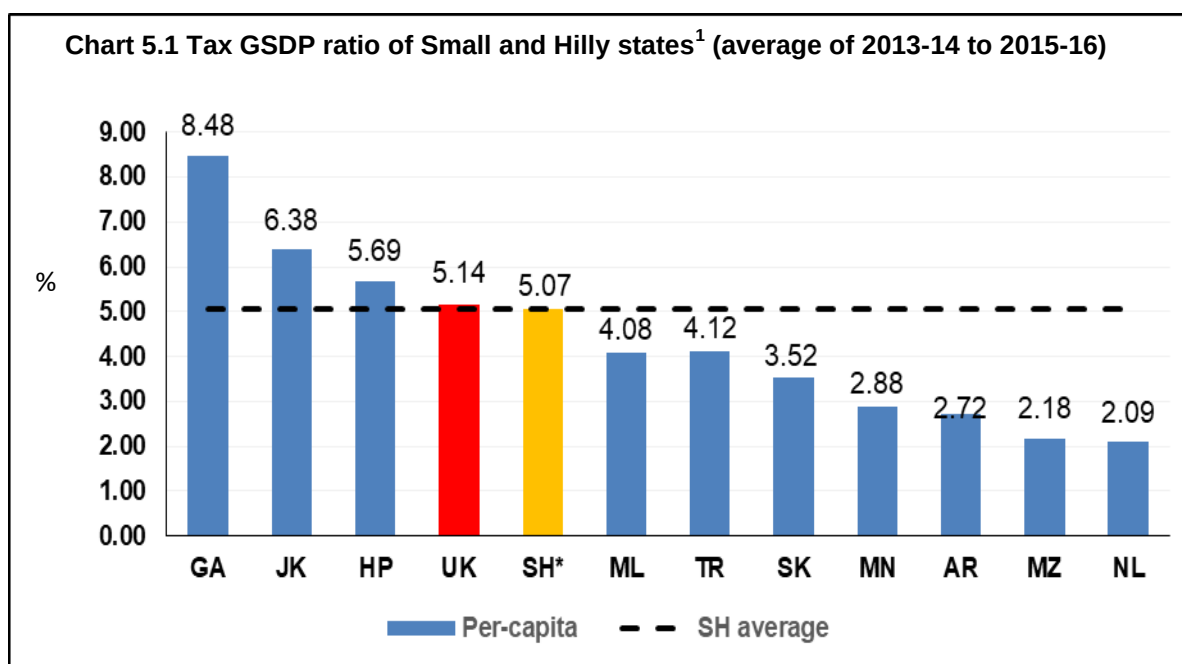
Equalization Approach in India

- 5.44 In developing an equalization approach for India, it is useful to recognize a number of critical considerations. First, the principle of contemporaneity requires that information used for the exercise should be as close to the years of dispensation as possible. The use of 2011 population data would help in this process.

- 5.45 Second, the two instruments of fiscal transfers namely, tax devolution and grants, should be appropriately combined to achieve maximum equalization. In the case of tax devolution only shares are determined using broad based criteria. This gives a built-in buoyancy to the transfers depending upon the performance of the central taxes but these transfers can only be broadly targeted. Grants, on the other hand can be finely targeted but require reliable predictions since grants are fixed in nominal terms in advance for the entire recommendation period. Both components have certain relative advantages. These should be optimally combined to maximize the impact of fiscal transfers on equalization.
- 5.46 Third, inter se differences among the Indian states are extremely large both in terms of fiscal capacity which is linked to per capita income levels and differences in unit costs because of difference in terrain, differences in demographic structure of state populations such as share of young or old populations, shares of disadvantaged populations (scheduled tribes, scheduled castes, backward castes, population living in remote areas etc.). All of these are relevant considerations for equalization.
- 5.47 Fourth, a number of centrally sponsored schemes relating to education, health, and infrastructure serve as instruments of fiscal transfers. These also have equalizing content. The two-sided equalization scheme such as the one used in Australia can treat these as endogenous and utilize the existing schemes for optimally achieving equalization.
- 5.48 Fifth, equalization should be considered as a dynamic exercise in a developmental context. It is itself an instrument for reducing fiscal capacity differences overtime. Post-planning commission, Finance Commission is the only channel of transfers from the centre to the states. It has to have an objective of reducing developmental differences across states. As developmental differences are reduced, the extent of redistributive transfers needed to achieve equalization would also be reduced making the exercise far more acceptable across states.
- 5.49 Sixth, a distinct requirement for the Finance Commission in India is to make its recommendation for a prospective period. The data that it can use is therefore compulsorily lagged. Robust forecasting principles have therefore to be utilized in building the equalization approach while forecasting central resources and state's normatively determined capacities and requirements.

The Revenue Side

- 5.50 Considerations of tax effort, fiscal capacity and tax efficiency are incorporated on the revenue side of the equalization exercise. Fiscal capacity equalization is a core part of the overall equalization exercise. A normative approach can be applied both to tax revenues and non-tax revenues.
- 5.51 Normatively determined tax revenues are given by applying an average tax effort to the actual taxable capacity or fiscal capacity. If adequate information is available on tax bases and tax revenues, this exercise can be done tax by tax. Otherwise, it can be done at an aggregate level. There is a need to recognise that because of their special characteristics, hilly states tend to have a lower average tax-GSDP ratio. These states should be benchmarked against their group average.



Source (Basic data): RBI, MOSPI and CAG

Note: SH* = Population weighted average of Small and Hilly States

- 5.52 Since in the determination of the normative per-capita revenue, average effort is being used, equalization does not make up for the deficiency in tax effort but provides for the deficiency in fiscal capacity. It is consistent with both equity and efficiency.

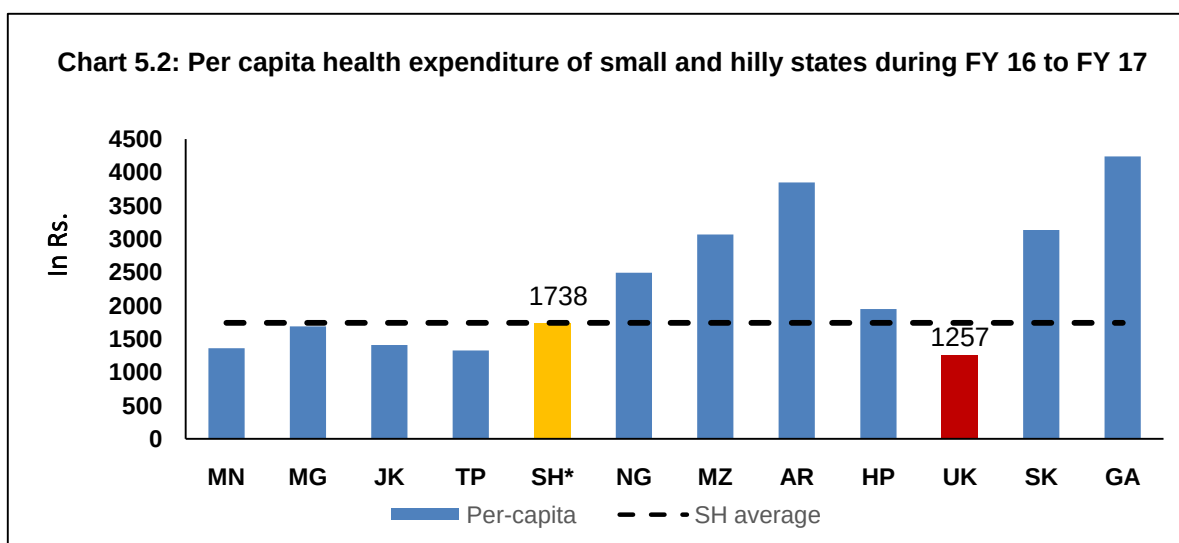
¹GA = Goa, JK = Jammu & Kashmir, HP = Himachal Pradesh, UK = Uttarakhand, ML = Meghalaya, TR = Tripura, SK = Sikkim, MN = Manipur, AR = Arunachal Pradesh, MZ = Mizoram, NL = Nagaland

- 5.53 Three types of variations can be considered relevant for revenue side equalization. First, GSDP can be augmented/ substituted by other determinants of the state-level tax base such as per-capita consumption, per-capita remittances, non-agricultural GSDP etc. A second variation can be obtained by distinguishing between groups of states if there is reason to believe that the average tax effort of two groups of states can be differentiated on valid grounds and one group of state may be allowed a lower average tax effort as compared to the other group.
- 5.54 In the context of GST, it might be relevant to make a distinction between GST and the non-GST taxes for the state governments. For GST, state-wise consumption might be a better tax base than GSDP. Lack of any history of raising GST revenues would pose a major problem in developing a suitable approach. It would also be relevant to divide the period 2020-2025 between the compensation period for revenue losses under GST, that is, up to June 2022 and the period beyond. Major non-GST taxes at the state level are sales tax/VAT on petroleum products, stamp and registration duties, motor vehicle tax, state excise duties, and electricity duty. In the assessment of state tax revenues, at least a distinction should be made between GST and non-GST taxes.

The Expenditure Side

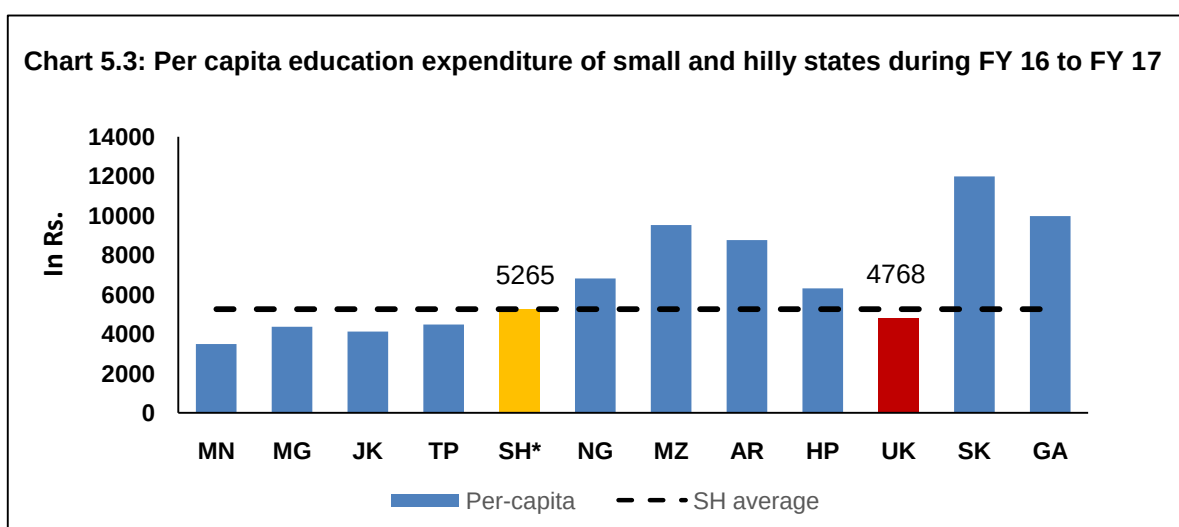
- 5.55 In determining per-capita expenditure for a given expenditure head, allowance is to be made for valid user and cost disabilities. User disabilities refer to demand-side disabilities. For example, in an Indian state where the share of population of the children and/ or the share of population above a certain threshold is relatively higher than the average, there may be additional requirements of per-capita health costs. Similarly, if the share of population of a certain disadvantaged group, for example, share of scheduled caste or scheduled tribe or other backward classes is higher, a higher cost of per-capita education or health may be provided. Cost-side disabilities, on the other hand, refer to higher input costs for providing the same level of service as compared to the average per-capita cost because of the nature of the terrain or density of population. These are particularly relevant for a hilly state like Uttarakhand. Per-capita costs may be higher for hilly areas or areas which suffer from excessive rainfall. Similarly, unit costs may be high in areas which are sparsely populated. Both user and cost disabilities need to be considered service by service.

- 5.56 It may be relevant to consider the state into broad groups characterised by common characteristics such as hilly and small states as compared to medium to large size states and consider different group averages for respective benchmarking. Some of the user disabilities may be reflected in the share of population below specified age groups and the share of population above specified age groups as share of tribal or other disadvantaged segments of population. Some of the cost disabilities may be reflected in density of population, remoteness of areas to be served, etc.



Source (Basic data): RBI, MOSPI and CAG

Note: SH* = Simple average of per-capita health expenditure of Small and Hilly States (States are arranged in increasing order of their per-capita GSDP).



Source (Basic data): RBI, MOSPI and CAG

Note: SH* = Simple average of per-capita education expenditure of Small and Hilly States (States are arranged in increasing order of their per-capita GSDP).

Case for Special dispensation

- 5.57 The National Development Council (NDC) had accorded 11 states of the country, the status of "Special Category States". They are special in the sense that they have special socio-economic, geographical problems, high cost of production with less availability of useful resources and hence low economic base for livelihood activities. This status was based on parameters like:
- a. Low revenue base and tax potential.
 - b. Hilly and difficult remote terrain.
 - c. Low population density.
 - d. Non-viable nature of state's finances.
 - e. Strategic location along the borders of the country.
 - f. Economic and infrastructural backwardness.
- 5.58 Due to its mountains terrain and far flung remote habitations, the cost of providing citizen centric services is very high. Similarly, the cost of construction and maintenance of infrastructure is also very high.
- 5.59 It is evident from the above discussion that Uttarakhand has very limited economic potential. Agriculture is constrained by small land holdings, low production and productivity, reliance on rain fed agriculture, low level of mechanization, low usage of agriculture inputs and low economic research.
- 5.60 Manufacturing sector is also not able to develop after the discontinuation of the industrial package. Though, the state has given its own industrial package, it has not received much response from the industry. The services sector continues to lag due to low level of skill development, technical knowhow, paying capacity and structural issues.
- 5.61 The other major drivers of the economy like the hydro power sector are beset with environmental and regulatory issues. Likewise as explained earlier the tourism sector is unable to develop requisite infrastructure to attract niche tourists.
- 5.62 The main revenue of Uttarakhand comes from GST, Excise, Stamps & Registration, Mining and Vehicle tax. As explained later in chapters 6 and 7, due to various factors the expected growth rate in these sectors would be muted in the coming years. GST which contributes to around 65% of own tax revenue of the state is now controlled by the GST council and the state has seen a drop of 39% in GST collection as explained in chapter 6.

- 5.63 Similarly as was evident from chart 3.2, the development of service sector in the state is very low. Most of the manufacturing sectors production goes out of the state and consequently GST being a destination/consumption based tax also accrues to other state. Thus the consumption base in the state is very low and consequently the potential tax is very low leading to low own revenue.
- 5.64 In the application of the equalization approach, it would be relevant to consider the states in India in terms of two groups: small and hilly states and medium and large states. The small and hilly state due to their geographical terrain suffers from disabilities which are common to them, which are not present in the other category of states. They have a narrow resource base, low fiscal & taxation capacity and thus very limited source of revenue. Hence the 15th FC has to take into consideration these factors both for revenue and expenditure equalization and take appropriate measures to benchmark individual states against their respective group averages.
- 5.65 Thus, due to its low resource base, low economic potential, remote mountainous terrain, high cost of providing services, international border, low level development & consumption, and other cost disabilities arising from facts that are exogenous to state control, **the various finance commissions and Government of India have always given a special consideration to hilly states like Uttarakhand and we humbly request the 15th FC to continue this status in the future also.**

Chapter 6

Fiscal Profile: Structural Constraints

While outlining the fiscal profile of the state, it is pertinent to note that in FY 2015-16, major land mark changes in the system of fund flow from the Central Government to the state governments had taken place.

6.1 One of the major events was the implementation of recommendations of 14th FC, the adverse impact of which on the finances of Uttarakhand has been outlined in chapter 4.

Fiscal Parameters

6.2 The fiscal performance of Uttarakhand has been dependent on **revenue deficit grant** received by the state during the award periods of the previous Finance Commissions. The fiscal parameters for Uttarakhand since the year 2001 are given in table below:

Table 6.1: Fiscal Parameters for Uttarakhand

Rs. in Cr.

FC Period	Year	RD/ incentive Grant by FCs	Revenue Deficit	RD/ GSDP	Fiscal Deficit	FD/ GSDP	RD/FD % (4/6)
1	2	3	4	5	6	7	8
11 th FC	2001-02	17	329.98	2.09	612.00	3.87	53.92
	2002-03		457.29	2.48	888.78	4.81	51.45
	2003-04		759.50	3.72	1405.38	6.88	54.10
	2004-05		950.12	3.83	2171.43	8.76	43.76
12 th FC	2005-06	1113	73.95	0.25	1878.22	6.27	3.94
	2006-07	1064	-896.37	-2.44	885.77	2.41	-
	2007-08	1115	-636.53	-1.39	1742.40	3.80	-
	2008-09	992	-239.53	-0.43	1844.96	3.29	-
	2009-10	830	1171.35	1.66	2783.32	3.94	42.08
13 th FC	2010-11	400	12.92	0.02	1842.57	2.19	0.70
	2011-12	400	-716.09	-0.62	1357.49	1.17	-
	2012-13	300	-1786.99	-1.34	1599.24	1.20	-
	2013-14		-1104.12	-0.74	2650.27	1.78	-
	2014-15		917.10	0.57	5826.17	3.61	15.74
14 th FC	2015-16		1852.01	1.05	6125.34	3.48	30.24
	2016-17		382.54	0.20	5466.95	2.79	7.00
	2017-18 (Pre-actual)		2007.94	0.92	7716.32	3.55	26.02

Source: (i) Various FC report, (ii) Budget Documents, GoUK.

Note: (-) indicates surplus.

6.3 The above table depicts year wise deficits of the state government. It clearly emerges from the table that revenue deficit has been dependent and heavily influenced by central transfers especially revenue deficit grants. From FY 2001-02 to FY 2004-05, the revenue and fiscal deficit increased rapidly but from FY 2005-06, there was a decrease in the deficit figures. This was

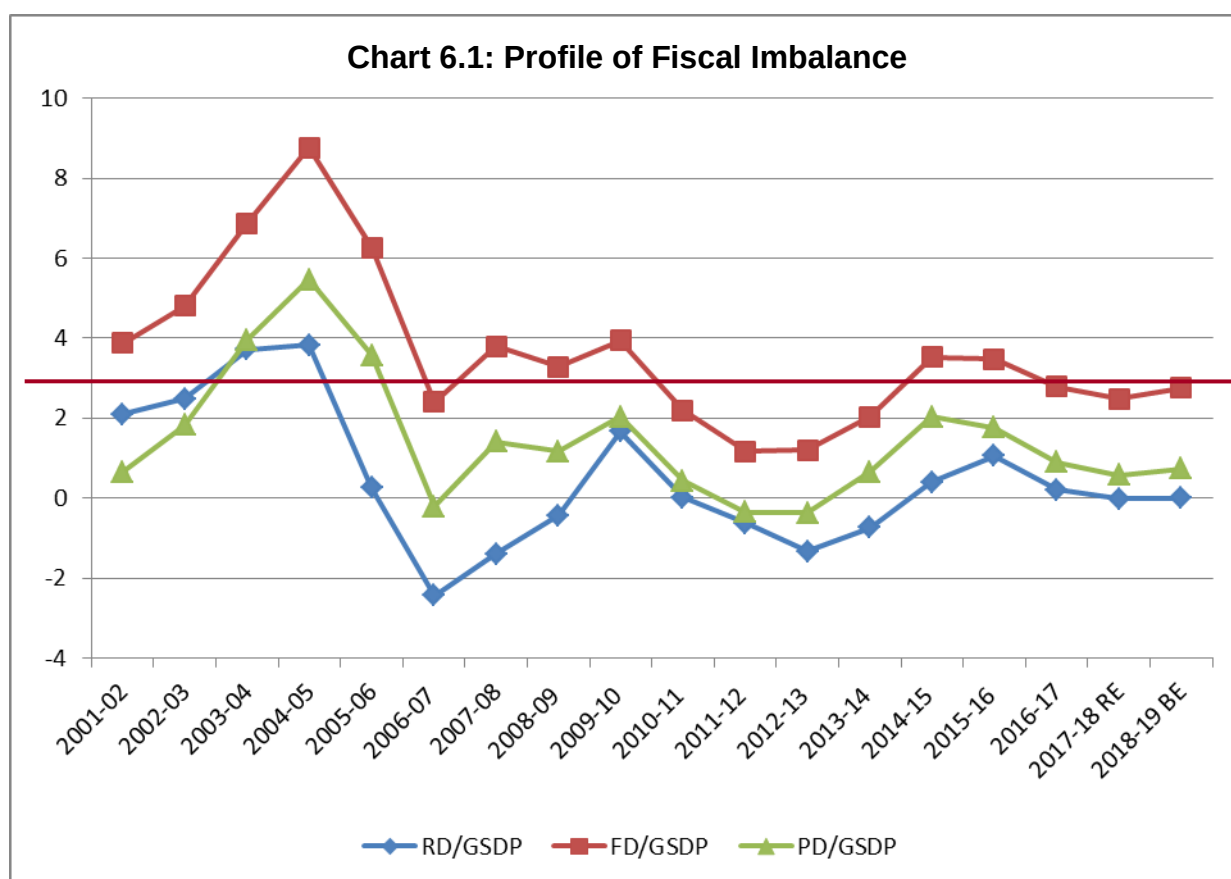
due to the implementation of the 12th FC which had recommended revenue deficit grant for Uttarakhand. Another reason was a major reform in state taxation by way of introduction of VAT, which was introduced in October 2005, and which resulted in increase of own tax revenues of the state. The state remained in revenue surplus for the next three years and in FY 2009-10, the state again slipped into revenue deficit of about Rs. 1171 Cr., which was mainly due to the implementation of 6th pay commission award announced by the state government in 2009. From FY 2011-12 the state again became revenue surplus on account of the pension apportionment from UP and also due to the fact that the state received an incentive grant of Rs. 1000 Cr. on the recommendation of the 13th FC from FY 2010-11 to FY 2013-14. The state again slipped into revenue deficit of Rs. 917.10 Cr. in FY 2014-15. **After the start of 14th FC period i.e. from FY 2015-16 the state has been running huge revenue deficit on account of revenue deficit grant not being given to Uttarakhand by 14th FC.** Thus the state has fallen into grave fiscal stress and huge amount of borrowings have been diverted to meet day-to-day expenditure instead of development activities. This is also evident from table 6.1, in the rising trend of RD/FD ratio from FY 2015-16 onwards.

FRBM and Fiscal Balance

- 6.4 The Uttarakhand Fiscal Responsibility and Budget Management (FRBM) Act 2005, has been amended in April, 2011, and again in 2016, in line with the recommendations of the 14th FC.
- 6.5 Fiscal deficit is the excess of government's total expenditure over total revenues that requires to be financed by borrowing. In FY 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 FY 2006-07, it was contained within 3% of GSDP. There was some slippage from FY 2007-08 to FY 2009-10, but it was again brought within the limit of 3% from FY 2010-11 to FY 2013-14. From FY 2014-15 onwards, the fiscal position of the state has deteriorated due to inadequate award of 14th FC and the state has continuously breached its fiscal targets.
- 6.6 The revenue deficit of Uttarakhand was 3.8% of GSDP in FY 2004-05. Surplus was achieved by FY 2006-07 and was sustained until FY 2008-09. Except for FY 2009-10 and marginally for FY 2010-11, the surplus has been maintained up to FY 2013-14. But, from FY 2014-15 to FY 2017-18, due to

denial of revenue deficit grant to the state by 14th FC, the state has slipped into revenue deficit again.

- 6.7 The ratio of revenue to fiscal deficit shows that nearly 44% of borrowing was used to meet current expenditure in FY 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 payment of arrear of 6th pay commission. From FY 2011-12 to FY 2013-14 surplus in revenue account has allowed the state to improve its spending on capital assets. But from FY 2014-15 onwards, due to deterioration of state finances, the capital expenditure and development expenditure have suffered.



Source: Budget Document, GoUK

- 6.8 Whenever the state received its due share of **revenue deficit grant** the fiscal parameters in Uttarakhand have been managed broadly within the stipulated parameters of the FRBMA. Alongside, a healthy GSDP growth was also witnessed in the initial phase which has now come down to all India average. The state is committed to adhere to the principles laid down in FRBMA and has been improving its tax efforts and reigning in the expenditure, but **the**

major reason for falling fiscal indicators is denial of revenue deficit grant to Uttarakhand by 14th FC.

Trends in Tax Revenue

6.9 Table 6.2 indicates year wise own tax revenues of the state from FY 2011-12 to FY 2018-19. It varies in the range of 37.50% to 44.18% of the total revenue receipts. Own non-tax revenues have contributed only about 5.41% to 10.18% of the total revenue receipts. The relative contribution of grants has been in the range of 24.98% to 34.60% and the contribution of share in central taxes varies from 18.73% to 26.14%.

Table 6.2: Composition of Revenue Receipts (in %)

Revenue Head	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18 RE	2018-19 BE
1	2	3	4	5	6	7	8	9
As % of total revenue receipts								
Own tax revenues	41.02%	40.73%	42.47%	41.18%	44.18%	43.78%	37.50%	41.96%
Share in central taxes	20.93%	20.78%	20.63%	18.73%	25.10%	25.76%	26.14%	23.25%
Own nontax revenues	8.30%	10.18%	7.60%	5.48%	5.74%	5.41%	6.53%	9.74%
Grants	29.75%	28.30%	29.30%	34.60%	24.98%	25.05%	29.83%	25.05%
Total revenue receipts	100%	100%	100%	100%	100%	100%	100%	100%
As % of GSDP* at current prices								
Own tax revenues	4.87%	4.87%	4.93%	5.17%	5.34%	5.57%	4.67%	6.17%
Share in central taxes	2.49%	2.49%	2.40%	2.35%	3.03%	3.28%	3.26%	3.42%
Own nontax revenues	0.99%	1.22%	0.88%	0.69%	0.69%	0.69%	0.81%	1.43%
Grants	3.53%	3.39%	3.40%	4.34%	3.02%	3.19%	3.72%	3.68%
Total revenue receipts	11.87%	11.96%	11.62%	12.54%	12.08%	12.72%	12.46%	14.69%

Source: Budget Documents, GoUK

6.10 As percentage of GSDP, the total revenue receipts have continuously increased from 11.87% in FY 2011-12 to 12.72% in FY 2016-17, indicating that the state has made sustained efforts to expand the tax base and revenues.

Implication of GST on the State's Economy

6.11 Pre-GST, the power to tax goods was with the states and likewise services were with the centre. Also, the location of industries/manufacturing units within the boundaries of the state gave a spur to the growth of the state's economy and brought in tax revenue to the state in the form of CST. Post-GST, the scenario has changed on both fronts.

6.12 In the context of Uttarakhand, goods formed a substantial part of the economy and conversely presence of service sector/services in the state was far lower than the national average. Post-GST, the exclusive power of the state to tax goods does not exist any longer. Consequently, the state lost

out on half of the total revenue, which customarily accrued from the goods sector to the state, with a marginal gain from services sector, which could not offset the overall loss. Added to this, the efforts undertaken by the state since its inception to improve the industrial sector, infrastructure, power etc., would not bear returns as GST is a destination based tax, and the tax paid by the industries would eventually move out to the consuming states as IGST.

- 6.13 The state trade/VAT tax has been growing at a CAGR of 19.75% from the time of the formation of the state. Post- GST, there is a sudden drop in the revenue of the state. After excluding GST compensation, the state is down by 31% in FY 2017-18 in GST collection, when compared to the collection in FY 2016-17 of the taxes subsumed under GST. This is borne out by the table below.

Table 6.3: Pre GST & Post GST tax collection details

Rs. in Cr.

Month	Pre GST (2016-17)		Post GST (2017-18)			Decrease	Remarks
	VAT	Total	SGST+VAT subsumed	IGST settlement	Total after settlement		
Aug	405	405	392	-41	351	-10%	Uttarakhand being an export surplus state and GST being a consumption/ destination based tax, the actual revenue accruing to the state under GST is much lesser as compared to VAT period.
Sep	414	414	335	-22	313	-24%	
Oct	464	464	312	-10	302	-35%	
Nov	495	495	326	28	354	-28%	
Dec	430	430	282	38	320	-26%	
Jan	492	492	276	80	356	-28%	
Feb	460	460	279	23	302	-34%	
Mar	756	756	380	8	388	-49%	
Total	3916	3916	2582	104	2686	-31%	

Source: Department of Tax, GoUK

- 6.14 The negative impact of this structural change on Uttarakhand in taxation, may not be palpable in the near future, as there is a guaranteed compensation with a steady 14% growth (taking base year of FY 2015-16), until June 2022. But when the compensation ceases to exist, there would be a steep fall in the revenue of the state.
- 6.15 The table 6.4 gives a clear picture of the impact of GST on the state over the coming years. Column 3 of the table 6.4 is the assured revenue from the Central government until June 2022. Column 4 gives the projected GST. Earlier to GST, the growth of tax depended on production or manufacturing within the state. Post-GST this has changed, as GST is a consumption based tax. As Uttarakhand is a manufacturing surplus state, and the consumption within the state is marginal, the GST tax buoyancy comes to 0.601%. Thus, with a GSDP growth rate of 11% in FY 2017-18, we arrive at a tax growth rate of 6.61% (11.00x0.601). While we have arrived at a 6.61% tax growth

rate, it is also pertinent to mention that, the direct taxes are more sensitive to growth in GSDP than indirect taxes, and hence 6.61% growth is certainly not a conservative estimate. The current GST buoyancy for the state of Uttarakhand, which is 0.601%, is not likely to increase as the power to change rate of tax in GST does not lie singularly with the state anymore. (The projection of GST buoyancy at 0.601%, for future years itself is on the higher side, because, the buoyancy was calculated including the revenue of VAT period of FY 2017-18, which does not give clear projection of GST). Column 5 gives the projected revenues for Non-VAT (diesel, petrol etc.,) based on historical growth rate. Column 6 gives the total tax collection expected. Column 7 gives the notional value of tax collection, in case GST was not implemented and the state continued to grow at the same rate as before.

Table 6.4 Projected revenue collection with and without GST

Rs. in Cr.

S.No.	Financial Year	Assured revenue (Under GST)	Projected GST (Without compensation)	Projected Non GST	Total projected tax	Projected growth if GST was not implemented
1	2	3	4	5	6	7
1	2017-18	4836+ (1294 Cr. of Apr, May & June)	4029	1654	7,784 (3+5)	8648
2	2018-19	7,350	4301	1882	9,232(3+5)	10356
3	2019-20	8,379	4592	2096	10,475(3+5)	12401
4	2020-21	9,552	4903	2336	11,888(3+5)	14851
5	2021-22	10,890	5234	2602	13,492 (3+5)	17784
6	2022-23 (3 months)	3104	1397	725	3,829 (3+5)	
	2022-23 (9 months)		4191	2174	6,365 (4+5)	
		3104	5588	2899	10,194	21296
7	2023-24	-	5966	3230	9196 (4+5)	25502
8	2024-25	-	6369	3598	9967 (4+5)	30539

Source: Department of Tax, GoUK

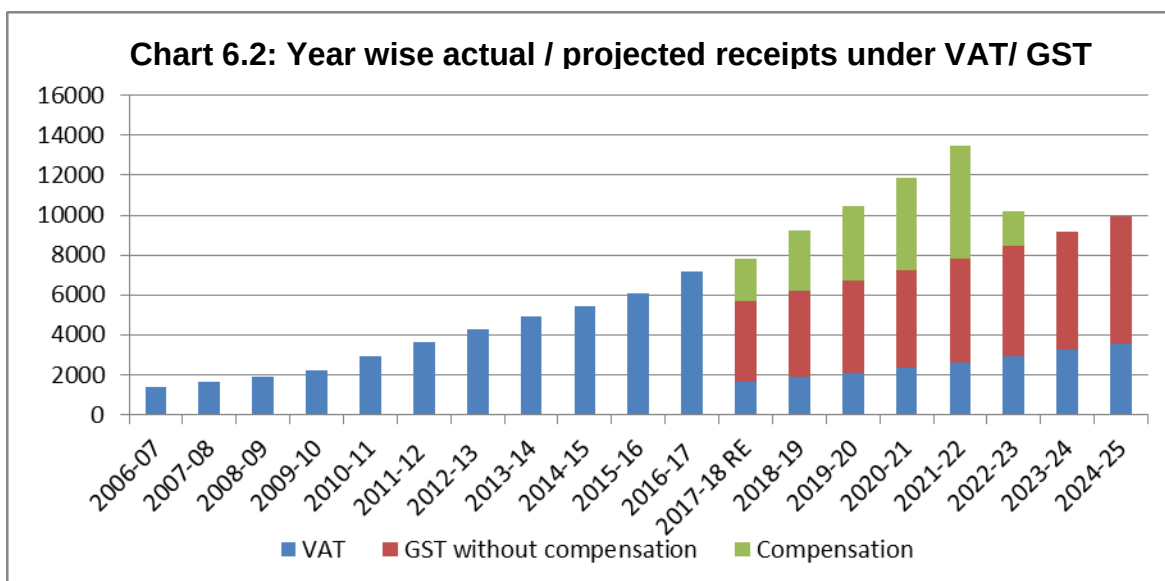
Note 1: The assured receipts are calculated with the growth rate of 14% on the net collection of the base year 2015-16.

Note 2: As GST is a consumption based tax, post GST, the growth of tax revenue is related more with increased consumption capacity rather than production. The tax growth rate is taken to be 6.61%, by taking into account the tax buoyancy and GSDP growth rate of the state. (Even then, 6.61% growth rate seems to be on the higher side, whereas we see no discernible growth in the GST revenue of last 11 months, as per data available till July 2018)

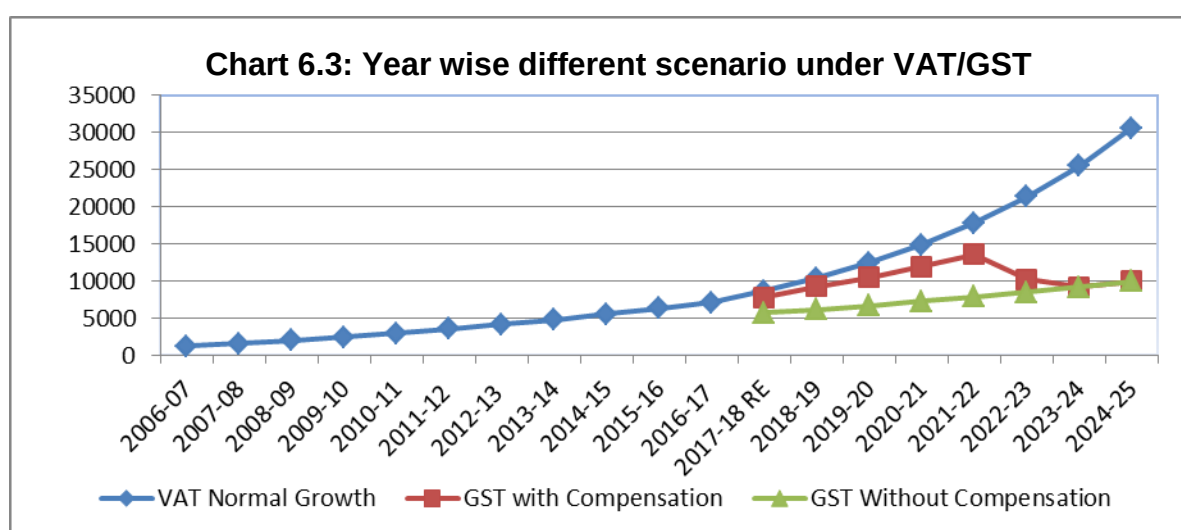
Note 3: The growth rate for non-GST goods is calculated at 11.40%, which is the average rate of growth of last five years.

- 6.16 The above table clearly brings out that the collection in FY 2022-23 would be down by Rs.3298 Cr. from that of FY 2021-22. **More shockingly, in FY 2023-24, the collection would be down by Rs. 4294 Cr. when compared**

to FY 2021-22 and the revenue of FY 2024-25 is likely to be about the same as that of FY 2018-19, which shows that the growth would be stagnant for a long period of time, adversely impacting the development and social welfare of the people. When compared to the scenario, where GST had not been implemented, (and presuming the state continued to grow at the previous rate of growth) with the current scenario (post GST situation), the state would only be collecting 1/3rd of the VAT regime revenue in FY 2024-25.



Source: (i) Department of Tax, GoUK (ii) Budget Document, GoUK



Source: (i) Department of Tax, GoUK (ii) Budget Documents, GoUK

6.17 This loss of revenue due to implementation of GST has a huge negative impact on the revenues of the state and hence the developmental activities. Another adverse impact is that given the imperative for prioritization of the

competing needs and paucity of resources, capital expenditure would have to be curtailed drastically which in effect would lead to lower growth rate or even stagnation in the economy.

- 6.18 As the state tax department used to contribute around 66% of the state's own tax revenue, hence in the current changed scenario where the structure of taxation has changed, it is important to maintain the same level in collection of taxes. The only way is to improve SGST collection by increasing the consumption within the state. The population of the state is too small to enable drastic increase in consumption in the near future. Activities which would promote the service sectors in the state, like health, tourism, adventure tourism, wellness centres, recreational facilities, educational hubs for people from outside and within Uttarakhand can give a spur to the state's economy. Thus it is important to support the state, in its endeavour to diversify during this period and to adjust to the new tax regime.
- 6.19 Since its inception the state has endeavoured to increase its revenues and thus gave impetus to industrialization. It developed large stretches of industrial estates with state of the art facilities with good infrastructure and connectivity. The economy of the state also grew robustly due to these efforts. Huge amounts of resources were diverted to bring about industrialization and many concessional packages were given by the state to make the ecosystem conducive for industrialization. But suddenly with the change in structure of taxation, both the state and the entrepreneurs are hit badly. The state is losing revenue and this would continue to be so. The state also cannot suddenly withdraw the incentives being given currently, though it is a strain on the resources of the state. The entrepreneurs / industrialists and traders are also finding it difficult to be competitive with the additional logistics costs incurred on account of being situated in a land locked state and with the central tax benefits being withdrawn suddenly. This has come about in a sudden manner without a transitional phase. **The only way to come out of this situation is to rebuild the entire economic activities within the state around the service sector.** This turnaround can be brought about only over a period of time with sustained financial support and help from Government of India.
- 6.20 When it comes to efforts in tax administration, Uttarakhand has always shown its commitment towards improvement. The 13th FC clearly states that the achievement of Uttarakhand and Jammu & Kashmir has been commendable in a short period of time. Even in changed scenario of GST, it would be of interest to note that the **tax collected from within Uttarakhand**

has increased by more than 91% post GST but it is moving out of the state in the form of IGST, not benefitting the state per se, but certainly contributing to the economy of our nation and other states. The pre and post GST scenario for both centre and Uttarakhand is shown below.

Table 6.5: Comparison of pre GST and post GST tax collection

Rs. in Cr.

Month	Pre GST Revenue (2016-17)				Post GST revenue (2017-18)					Increase/ Decrease	%+/-
	Central Excise	Service Tax	VAT	Total	CGST	SGST+VAT (subsumed)	IGST	CESS	Total		
1	2	3	4	5	6	7	8	9	10	11	12
Aug	116	81	405	602	150	392	1242	15	1799	1197	190
Sep	142	69	414	625	150	335	999	15	1499	874	140
Oct	170	101	464	735	143	312	1241	23	1719	984	134
Nov	147	88	495	730	144	326	763	24	1257	527	72
Dec	127	99	430	656	132	282	778	12	1204	548	84
Jan	141	84	492	717	154	276	825	14	1269	552	77
Feb	137	91	460	688	141	279	731	21	1172	484	70
Mar	202	118	756	1076	162	380	778	21	1179	103	10
Total	1182	731	3916	5829	1176	2582	7357	145	11098	5269	91

Source: Department of Tax, GoUK

6.21 Thus, it is apparent that the overall tax collection post GST has almost doubled. This is an attestation to the fact that credible work is being done by the state machinery with regard to the policy formulation, implementation, tax administration and tax enforcement. For securing this revenue of Rs.11,098 Cr. (column 10, table 6.5), during the 8 months of GST, the work force in the form of assessment officers, enforcement units, mobile tax units and infrastructure investments, deployed by the state, are disproportionately higher than the deployment by the centre. But the benefits are not accruing to the state. As is evident from above table, **out of a revenue of Rs. 11,098 Cr., only Rs. 2582 Cr. is retained by the state. The Central Government is receiving (1176+half of 7357) around Rs. 4855 Cr., whereas earlier it was getting only Rs. 1913 Cr. Similarly, around Rs. 3678 Cr. is moving out to other consuming states.** Thus, the State of Uttarakhand has been adversely affected by the principle adopted in GST. The implementation of GST was brought about for the good of the macro-economy of the country and is based on the sacrifices some states had to make for the national good and to improve the competitiveness of our country across the globe, but the state should not be punished for this. **We request the 15th FC to kindly consider the above issue and compensate the state for the revenue lost due to GST in the form of revenue deficit grant for its award period.**

Central Transfers

- 6.22 Uttarakhand being a SCS is heavily dependent on central transfers. It is also worth mentioning that the dependence of the state on central transfers would now increase in future, as there is very less maneuverability for revenue generation through tax policy changes within the state.

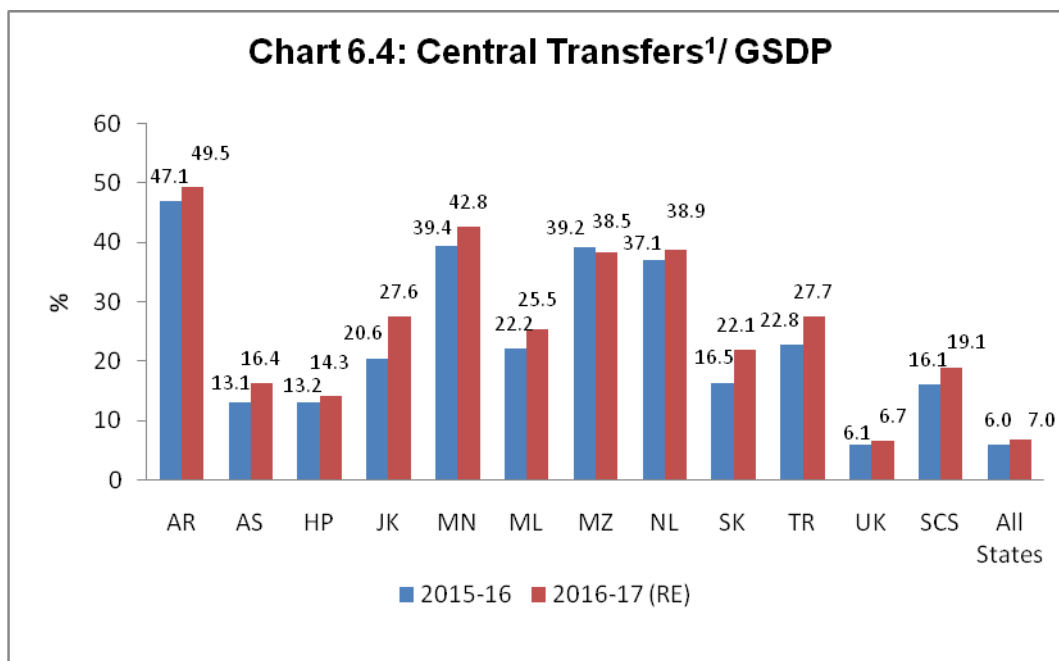
Table 6.6: Composition of Revenue Receipts & Relative Dependence on Central Transfers

Revenue Head	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18 Pre Actual	2018-19 RE
As % of total revenue receipts								
Own Revenue	49.31%	50.91 %	50.07%	46.67%	49.93%	49.19%	44.03%	51.69%
Transfers from the centre of which	50.69 %	49.09 %	49.93 %	53.33 %	50.07 %	50.81%	55.97 %	48.31 %
Share in Central Taxes	20.93 %	20.78 %	20.63 %	18.73 %	25.10 %	25.76 %	26.14 %	23.25 %
Grants	29.75 %	28.30 %	29.30 %	34.60 %	24.98 %	25.05 %	29.83 %	25.06 %
Total revenue receipts	100%	100%	100%	100%	100%	100%	100%	100%
As % of GSDP* at current prices								
Own Revenue	5.85%	6.09%	5.82%	5.85%	6.03%	6.26%	5.48%	7.60%
Transfers from the centre of which	6.02%	5.87%	5.80%	6.69%	6.05%	6.46%	6.97%	7.10%
Share in Central Taxes	2.49%	2.49%	2.40%	2.35%	3.03%	3.28%	3.26%	3.42%
Grants	3.53%	3.39%	3.40%	4.34%	3.02%	3.19%	3.72%	3.68%

Source: Budget Documents, GoUK

- 6.23 The share of own revenue receipts in total receipts used be around 50% till 2016-17. A major portion of this revenue comes from VAT. But, in the year 2017-18, due to GST, there has been a sharp decline in the revenue of the state, whereby the share of own revenue has gone down to 44%. It is important to keep in mind that this drop is inspite of getting the GST compensation, which ensures 14% growth in GST. This means that even the protected revenue is not sufficient to bridge the gap between the current realization and the earlier rate of growth of tax. Another reason which aggravated the problem is that the base year taken for calculating 14% growth was 2015-16, whereas the real growth rate of tax in FY 2016-17 over FY 2015-16 was 17.17%. This has further led to sharp decrease in revenue of the state. This is a trend which is going to sustain and the share of own revenue in the total receipts is going to see a downward trend as Uttarakhand is a net manufacturing state. The dependence of Uttarakhand on central transfers is further highlighted in table 6.6. As can be seen from the table the own revenue as a percentage of GSDP has grown from 5.85% in FY 2011-12 to 7.60% in FY 2016-17. This is an indication that the state had good tax policies, effective implementation and efficient tax

administration, thereby resulting in rising tax to GSDP ratio. But as we can see from FY 2017-18, there has been a drop in growth rate. This is because post-GST, the state does not have the same independence and control over policies as was during the VAT regime, and any shortfall in the revenue cannot be made up through policy changes by the state alone.



Source: RBI, *State Finances, A Study of Budget of 2017-18 and 2018-19*

- 6.24 More importantly, we can observe from the chart above that the central transfers for Uttarakhand stands at 6.7% of GSDP, the year FY 2016-17 (RE) way below the average transfer to special category states at 19.1% of GSDP. Thus though Uttarakhand is a special category state, it has not been treated at par with the other SCS states. But more than SCS it is distressing to note that the average transfer for all states of the country stands at 7% of GSDP, which is higher than the transfers for Uttarakhand. This clearly indicates that something is amiss in the logic adopted for central transfers in the case of Uttarakhand, which is a SCS.

Trends in Non-tax Revenues

- 6.25 Table 6.7 highlights the relative importance of grants in the composition of non-tax revenues. As we can see that the major component of non-tax revenue is the grants. It is also reiterated that the scope for increasing the own non-tax revenue is very less in the state, given the limited resource

¹AS = Assam, JK = Jammu & Kashmir, HP = Himachal Pradesh, UK = Uttarakhand, ML = Meghalaya, TR = Tripura, SK = Sikkim, MN = Manipur, AR = Arunachal Pradesh, MZ = Mizoram, NL = Nagaland, SCS = Special Category State

potential. It is also not very cost effective to provide essential services given the geographical terrain and the scattered habitations. But these services have to be provided and a huge portion of the creation and maintenance cost cannot be recovered from the citizens and has to be borne by the state. Hence, the scope for increasing the non-tax revenue collection is very limited in the mountainous regions. In this context, the grant plays an important role.

Table 6.7: Non-Tax Revenue relative to GSDP

Year	State's Own Non Tax Revenue	Grants	% to GSDP
			Non Tax Revenue
2011-12	0.99	3.53	4.52
2012-13	1.22	3.39	4.61
2013-14	0.88	3.40	4.28
2014-15	0.69	4.34	5.03
2015-16	0.69	3.02	3.71
2016-17	0.69	3.19	3.88
2017-18 RE	0.81	3.72	4.53
2018-19 BE	1.43	3.68	5.11

Source: (Basic Data) Budget Documents, GoUK

Table 6.8: Composition of Own Non Tax Revenue

Revenue Head	Rs. in Cr.							
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18 Pre Actual	2018-19 BE
Total Own non-tax revenue of which	1136.02	1602.88	1316.63	1110.40	1219.66	1345.82	1769.52	3470.53
Interest, Dividend receipts	50.67	114.95	51.42	108.28	94.31	86.98	108.08	82.10
General Services	590.16	846.27	375.41	188.00	118.65	178.39	257.36	1460.10
Social Services	75.45	93.19	107.77	120.94	174.36	253.61	273.41	269.16
Economic Services	419.85	548.47	781.93	693.19	832.33	826.84	1130.66	1659.14
Share in Total %								
Interest receipts	4.46%	7.17%	3.91%	9.75%	7.73%	6.46%	6.11%	2.37%
General Services	51.94%	52.80%	28.52%	16.93%	9.73%	13.26%	14.54%	42.07%
Social Services	6.64%	5.81%	8.19%	10.89%	14.30%	18.84%	15.45%	7.76%
Economic Services	36.95%	34.22%	59.39%	62.43%	68.24%	61.44%	63.90%	47.81%
Total	100%	100%	100%	100%	100%	100%	100%	100%

Source: Budget Document, GoUK

- 6.26 Table 6.8 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 down and that of economic services has gone up over time except for the FY 2018-19 (BE). It is relevant to mention, that the high proportion of general services in the years FY 2011-12, FY 2012-13 and FY 2013-14 is mainly due to receipt of pension dues from Uttar Pradesh.
- 6.27 Efforts have been made by the state, particularly the revenue earning economic departments to improve the non-tax GSDP ratio, which have been detailed in topic note 39.

Trends in Expenditure

- 6.28 Table 6.9 gives the revenue and capital expenditure levels in the state of Uttarakhand and their share in total expenditure.

Table 6.9: Revenue & Capital Expenditure in Uttarakhand

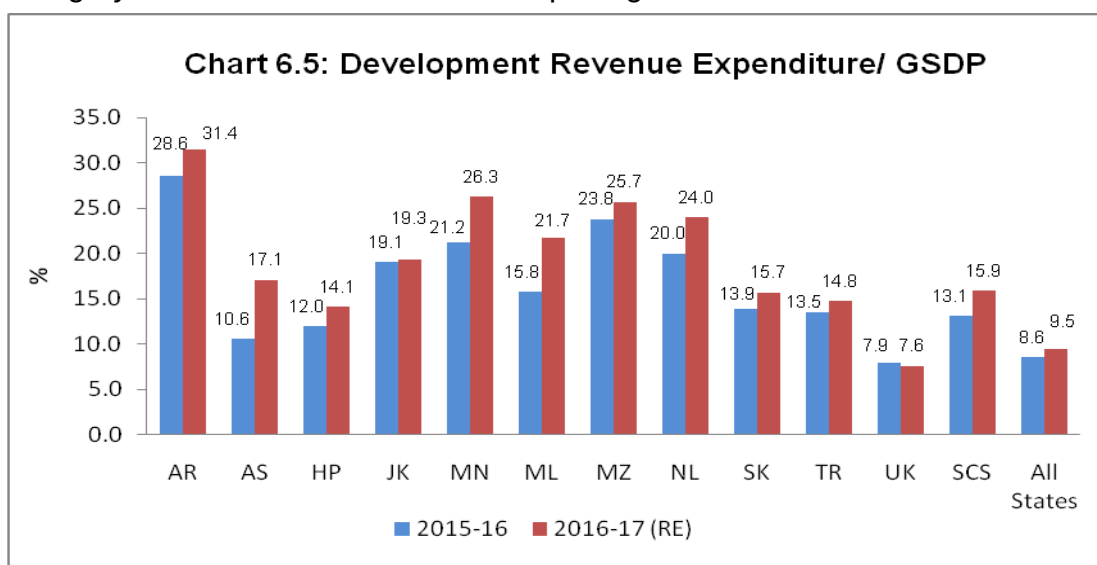
Rs. in Cr.

Head	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18 Pre Actual	2018-19 BE
Revenue expenditure	12975.18	13960.23	16216.39	21163.66	23086.38	25271.11	29112.51	35627.31
Capital outlay + L & A	2564.16	3814.67	3990.02	5089.98	4300.53	5119.67	5991.88	6775.77
Total expenditure	15539.34	17774.90	20206.41	26253.64	27386.91	30390.78	35104.39	42403.08
Share in total expenditure (%)								
Revenue expenditure	83.50	78.54	80.25	80.61	84.30	83.15	82.93	84.02
Capital outlay + L&A	16.50	21.46	19.75	19.39	15.70	16.85	17.07	15.98
As % of GSDP								
Revenue expenditure	11.25	10.61	10.88	13.11	13.13	12.92	13.38	14.68
Capital outlay + L & A	2.22	2.90	2.68	3.15	2.45	2.62	2.75	3.11

Source: Budget Document, GoUK

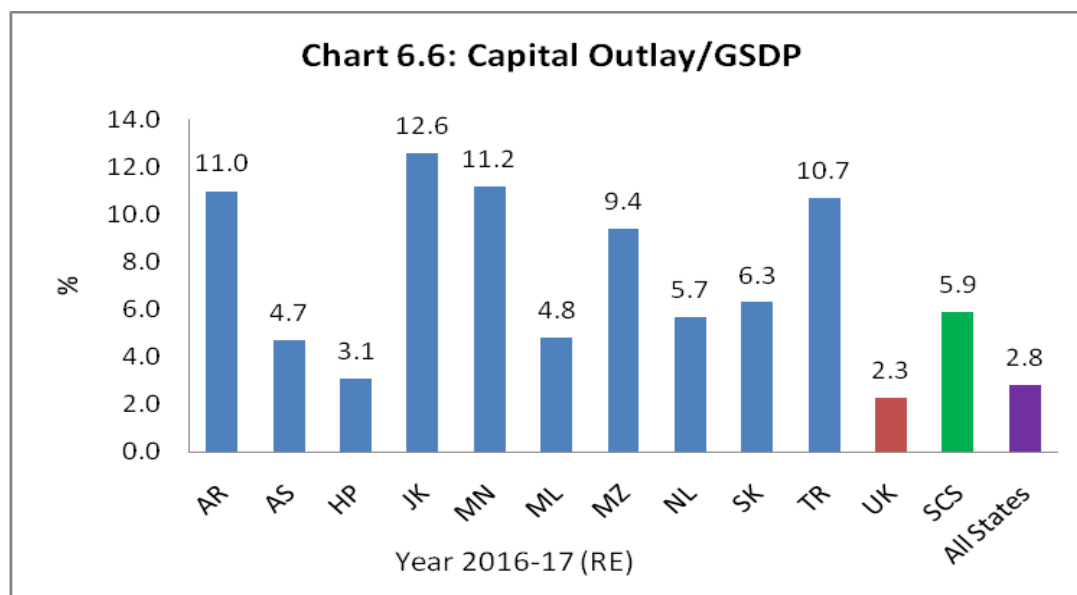
- 6.29 The share of revenue expenditure has accounted for nearly 83% of the total expenditure (excluding loan repayments) consistently. When we see the Revenue expenditure as a percentage of GSDP, it has increased from 11.25% in FY 2011-12 to 14.68% in FY 2018-19 (BE). Thus, a considerable amount of our revenues is going towards meeting the increasing revenue expenditure. This has anyway constrained our capacity to improve the capital expenditure. But, within revenue expenditure, it has also impacted our capacity to provide the required developmental revenue expenditure. As

chart 6.5 shows the development revenue expenditure as percentage of GSDP for Uttarakhand is 7.6% only, whereas the average for special category states is 15.9%. More surprising is the fact that, the all India



Source: RBI, *State Finances: A Study of Budget of 2017-18 and 2018-19*

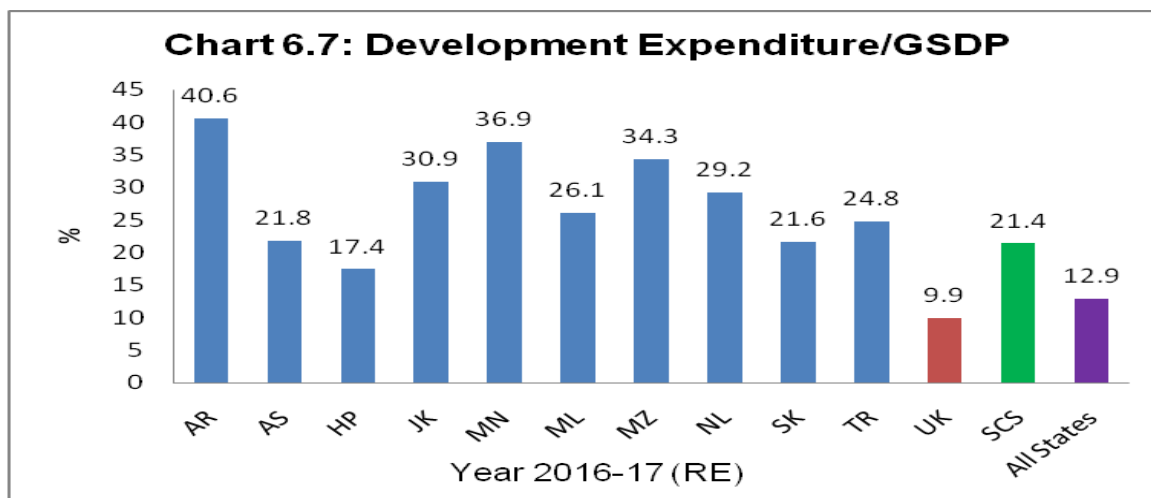
average stands at 9.5%, which is also higher than Uttarakhand. This also indicates, that as revenue deficit grants were not given to Uttarakhand, it was constrained for funds and developmental activities suffered considerably.



Source: RBI, *State Finances: A Study of Budget of 2017-18 and 2018-19*

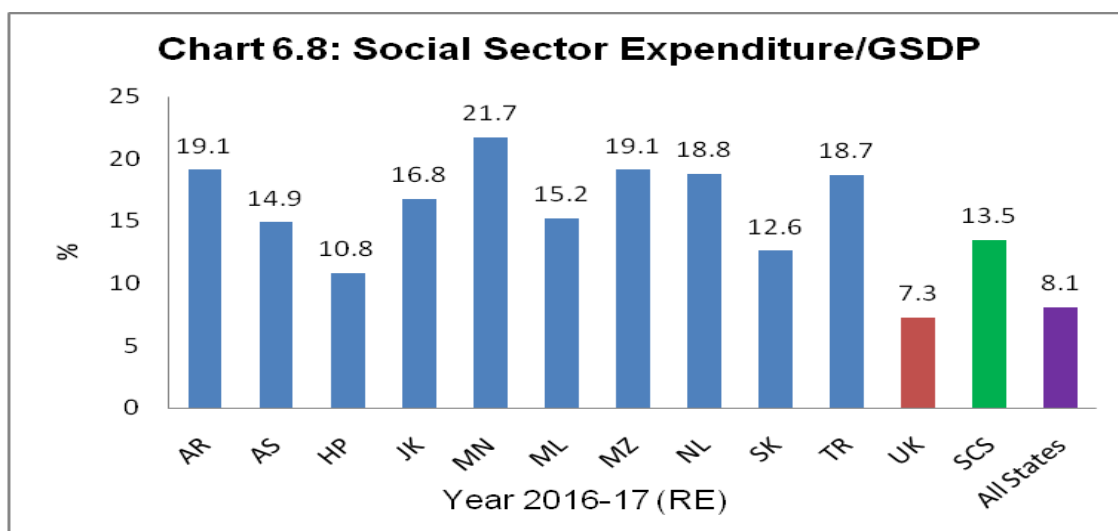
6.30 As can be seen from the chart 6.6, for the FY 2016-17 (RE), the capital outlay to GSDP ratio at 2.3%, is the lowest for Uttarakhand amongst the special category states, which have an average of 5.9% and is even lower than the average of all states of the country inspite of being a SCS. **Thus, it is evident that the development expenditure and capital expenditure**

have suffered in the state due to paucity of resources which in turn is due to non-grant of revenue deficit to the state by the 14th FC.



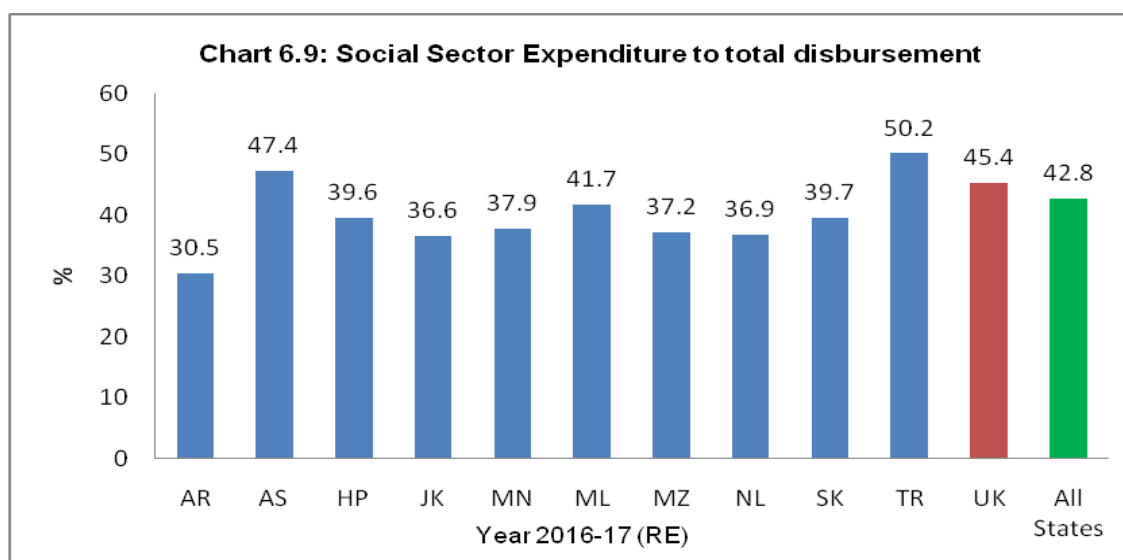
Source: RBI, *State Finances: A Study of Budget of 2017-18 and 2018-19*

- 6.31 Similarly as chart 6.7 shows Uttarakhand has the lowest ratio of development expenditure of GSDP at 9.9%, whereas, the average for special category states is 21.4%. It is noteworthy that, the all India average for development expenditure is 12.9% of GSDP.



Source: RBI, *State Finances: A Study of Budget of 2017-18 and 2018-19*

- 6.32 In social sector expenditure as shown in chart 6.8, the ratio for Uttarakhand is 7.3%, whereas the average of special category states it is 13.5%. Also the figure for Uttarakhand is less than even the average of all states in India which stands at 8.1%. This again implies that even though Uttarakhand was conferred with the status of a special category state, the necessary funds were not transferred to the state to meet the challenges faced by the state.



Source: RBI, State Finance: A Study of Budget of 2017-18 and 2018-19

- 6.33 It is evident from chart 6.9 that social sector expenditure formed 45.4% of the total disbursement, which is higher than the all states average. But inspite of spending a high percentage of its available funds on social sector it constitutes only 7.3% of GSDP. This implies that due to low fiscal capacity of the state, though the state spends a higher amount of its budgeted expenditure on social sector, in net terms it is lower than SCS and all India average. This further implies that only limited budget is available with the state for expenditure on economic sector, thereby significantly impacting capital formation of future growth.

Table 6.10: Composition of Expenditure

(% to total expenditure)

Expenditure Head	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18 Pre Actual	2018-19 BE
General Services of which	28.80	29.96	30.94	28.31	30.77	32.69	35.35	36.51
i. Interest Payments	11.39	11.65	10.29	9.20	10.87	12.25	11.358	13.355
ii. Pension and Other Retirement Benefits	7.30	7.62	10.66	9.38	9.61	10.43	14.34	14.24
iii. Gen. Serv. other than Interest & Pension	10.11	10.70	9.98	9.73	10.29	10.01	9.65	8.92
Social Services	38.74	34.00	36.52	35.27	36.32	34.64	31.13	29.72
Economic Services	13.53	11.13	10.35	14.75	14.57	12.84	12.27	15.72
Grant-in-Aid to Local Bodies	2.44	2.77	3.34	2.61	2.80	2.98	4.18	3.47
Capital Expenditure of which	16.50	22.14	18.85	19.06	15.53	16.84	17.07	14.58
i. Capital Outlay	14.91	19.76	18.58	18.89	15.43	16.30	16.85	14.17
ii. Loans & Advances (gross)	1.59	2.38	0.28	0.17	0.10	0.54	0.22	0.41
Total expenditure	100%	100%	100%	100%	100%	100%	100%	100%

Source: Budget Document, GoUK

6.34 The table 6.10 clearly indicates that while the share of social service expenditure has decreased over time and that of economic services has stagnated at around 14%, the expenditure on general services has increased overtime. The general services expenses are increasing because of the increase in pension and interest payments which are committed expenditure. As the revenue deficit grant was not given to the state, the state had to borrow from the market and this in turn increased the interest payment and also led to decreasing investment by the state in social and economic services.

6.35 In terms of capital expenditure, the share of capital outlay has fluctuated from 14.17% to 19.76% over the period. It is about 19% from FY 2012-13 to FY 2014-15 and after that it has decreased continuously which shows the impact of 14th FC recommendations on the state finances. The low investment in capital assets does not bode well for the economy of the state and will lead to muted growth in GSDP and revenues in the future, thereby further deteriorating the fiscal capacity of the state and adversely affecting its economic growth.

Trends in Debt and Deficit

6.36 Table 6.11 gives the outstanding liabilities of Uttarakhand as percentage of GSDP.

Table 6.11: Outstanding liabilities of Uttarakhand relative to GSDP

Rs. in Cr.							
Year	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Total Outstanding liabilities	21598.44	23609.42	25539.88	28766.5	33480.28	39068.64	44582.68
Fiscal Deficit	1842.57	1357.45	1599.24	3050.26	5856.16	6125.35	5466.95
Debt/GSDP	25.72	20.32	19.21	19.19	20.74	22.18	22.79
Fiscal Deficit/GSDP	2.19%	1.17%	1.20%	2.04%	3.63%	3.48%	2.79%

Source: Budget Document, GoUK

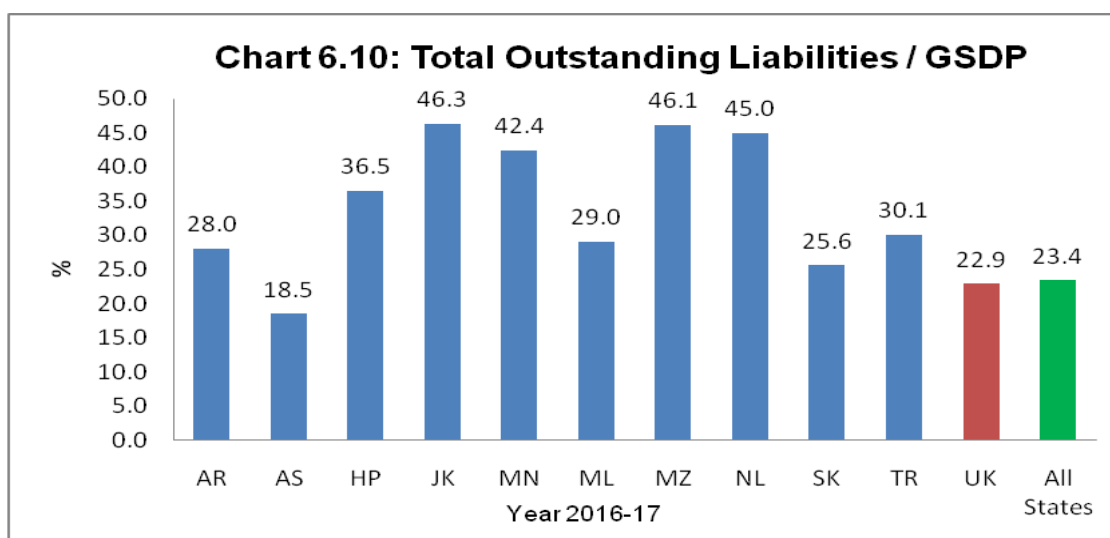
6.37 There has been a steady decline in the debt GSDP ratio up-to FY 2013-14. Thereafter, as the state did not receive its due revenue deficit grant from the 14th FC, there is a reversal in trend and steep increase in the debt GSDP ratio as more borrowings had to be taken by the state to meet its committed expenditure and development needs of the citizen.

- 6.38 The fiscal consolidation path recommended by the 13th FC recommends that the states should reduce their augmented share of debt to GSDP to less than 25%. The state of Uttarakhand has shown considerable fiscal discipline and the debt to GSDP ratio has been continually falling. It has been brought to a level of 22.8% by FY 2016-17.
- 6.39 When compared to other special category states, Uttarakhand has maintained its debt to GSDP ratio within the prescribed limits. Even if we compare with all India average, we can see that the debt to GSDP ratio of Uttarakhand is lower.
- 6.40 This was maintained inspite of not receiving the revenue deficit grants by 14th FC by compromising on the other essential developmental and social sector expenditures. But in the long run if the due revenue deficit grant is not given, then to meet its statutory and Constitutional obligations and given the low fiscal capacity, the state will have to borrow more which will increase the debt to GSDP ratio of the state in the future.

Table 6.12: Debt GSDP ratio of Hilly and Small states

Hilly and Small States	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Jammu and Kashmir	62.3	55.4	46.9	46.5	46.9	49.0	46.3
Mizoram	71.8	73.0	67.7	66.1	60.4	51.9	46.1
Nagaland	52.2	50.2	55.4	52.7	50.3	43.2	45.0
Manipur	67.6	68.0	50.4	49.6	43.8	40.8	42.4
Himachal Pradesh	49.3	46.0	38.8	35.5	35.7	36.8	36.5
Average Debt GSDP ratio of SH states	46.3	43.8	38.7	38.0	37.6	35.7	34.6
Tripura	35.4	34.1	34.1	35.4	34.1	34.0	30.1
Meghalaya	31.0	29.8	26.9	24.1	28.7	29.7	29.0
Goa	28.9	28.4	23.5	29.5	37.0	29.5	28.8
Arunachal Pradesh	42.3	38.9	35.7	34.0	32.3	34.3	28.0
Sikkim	40.5	33.1	25.0	24.2	24.1	22.7	25.6
Uttarakhand	27.8	25.4	21.5	20.4	20.3	21.1	22.9
Average Debt GSDP ratio of ML states	28.9	26.6	24.6	24.1	23.7	22.8	24.4

Source: RBI, State Finances: A Study of Budgets 2017-18 and 2018-19



Source: RBI, State Finances: A Study of Budgets 2017-18 and 2018-19

6.41 The fiscal summary of the state in absolute terms and in per capita is given below.

Table 6.13: Fiscal Summary of Uttarakhand

Rs. in Cr.

Heads	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18 Pre Actual	2018-19 BE
Receipts								
Total Revenue Receipts	13691.25	15747.21	17320.52	20246.56	21234.43	24888.97	27104.57	35659.99
Total Tax Revenue	8481.65841	9687.1201	10928.72	12130.783	14710.98	17308.88	17249.84	23254.83
-State's own Tax Revenue	5615.56	6414.14	7355.34	8338.48	9381.94	10897.31	10164.92	14963.61
-Share in Central Taxes	2866.10	3272.98	3573.38	3792.30	5329.04	6411.57	7084.92	8291.22
Non-Tax Revenue	1136.14	1602.88	1316.53	1110.40	1219.66	1345.82	1769.52	3470.53
Grants from the Centre	4073.45	4457.21	5075.27	7005.37	5303.79	6234.27	8085.21	8934.63
Total Capital Receipts	3734.43	3411.03	4274.11	4934.49	7025.68	10626.80	7809.57	9542.84
Borrowings and other Liabilities	3243.78	2982.59	4038.48	4753.58	6998.48	10591.95	7526.07	9510.00
Recovery of Loans	90.65	428.44	55.23	45.58	27.20	34.85	283.50	32.84
Total Receipts	17425.68	19158.24	21594.63	25181.05	28260.11	35515.77	34914.14	45202.83
Expenditure								
Revenue Expenditure	12975.18	13960.23	16216.39	21163.66	23086.38	25271.11	29112.51	35627.30
- of which, Interest Payments	1769.21	2088.73	2056.04	2405.61	2971.11	3723.05	3987.29	4906.12
Capital Expenditure	4488.20	5302.04	5872.14	6194.03	6497.34	10338.35	7712.60	9951.64
- of which, Loan Payments	1924.04	1487.37	1482.12	1074.06	2196.81	5218.68	1720.72	3175.89
Total Expenditure	17463.38	19262.27	22088.53	27357.69	29583.72	35609.46	36825.11	45578.94
Fiscal Indicators								
Revenue Deficit (RD)	716.07	1786.98	1104.13	-917.10	-1851.95	-382.14	-2007.94	32.69
Fiscal Deficit (FD)	-1357.44	-1599.25	-2650.26	-5856.16	-6125.28	-5466.96	-7716.32	-6710.22
Primary Deficit (PD)	411.77	489.48	-994.22	-3450.55	-3154.17	-1743.91	-3729.03	-1804.10
GSDP	115327.58	131612.86	149074.36	161438.87	175772.46	195606.07	217609.47	242692.63
Fiscal Indicators as percent to GSDP								
RD/GSDP	0.62	1.36	0.74	-0.57	-1.05	-0.20	-0.92	0.01
FD/GSDP	-1.18	-1.22	-2.05	-3.63	-3.48	-2.79	-3.55	-2.76
PD/GSDP	0.36	0.37	-0.67	-2.14	-1.79	-0.89	-1.71	-0.74

Source: Budget Document, GoUK

- 6.42 **Impact of 7th Pay Commission:** The pay parity principle with the Central Pay scales was accepted after the 4th Pay Commission in the parent state of Uttar Pradesh. Thereafter 5th, 6th and 7th State Pay Commission have followed the same principle and the state government employees are getting the same pay scales which are currently equivalent to central posts on a post to post parity basis.
- 6.43 The state has given the benefits of 7th Pay Commission to its employees and pensioners w.e.f. 01st January 2016. However the arrears from 01st January 2016 to 31st December 2016 have been decided to be given in two instalments during FY 2017-18 and FY 2018-19. The Pay and Pension arrears for the above said period is approximately Rs. 1100 Cr. and Rs. 350 Cr. respectively. It is estimated that 40% of the arrear amount of pay and pension has been given so far.
- 6.44 The trend in year wise expenditure on salary of the state government employees from FY 2019-20 to FY 2024-25 is given below:

Table 6.14 Expected salary expenditure

Rs. in Cr.

Item	Year			Forecast					
	2016-17	2017-18 RE	2018-19 BE	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Salary	9570.85	11627.21	13765.37	15141.91	16656.10	18321.71	20153.88	22169.27	24386.19

Source: Budget Document, Estimates of Department of Finance, GoUK

- 6.45 The decision regarding revision of various allowances other than the DA is under consideration of state government. The likely impact of the allowances will be about Rs. 350 Cr. annually. The revision of pension of pensioners (this is apart from pension revision in the 7th CPC) who had retired prior to 01st January 2016, is also under consideration as per Government of India rules. This would further entail an increased expenditure of Rs. 150 Cr. per year.
- 6.46 Thus, we can see that Uttarakhand has been adversely impacted on all economic fronts. The unrealistic projections of 14th FC being way off the ground realities ensured no revenue deficit grant for the state. This has led to reduced expenditure on development activities, social sector and capital formation. The legal and social commitments of the state continuously increased the committed expenditure and given the low fiscal capacity of the state led to higher borrowings and the consequent high revenue deficit and fiscal deficit. The structural changes brought about by GST changed the

paradigm of economic and revenue growth. An entire reorientation of the economy is required to adapt to the new environment.

- 6.47 Uttarakhand has the capacity and willingness to reorient and rebound to its earlier growth trajectory. But it needs to be given the necessary wherewithal in the interim period to overcome the imposition of the structural changes and readjust its objectives to the changed scenario. The challenge in front of Uttarakhand is to move from being a production based to a consumption oriented economy and for this it requires a lot of support in the transitional period from Government of India. It cannot be overemphasized that GST has affected different states in a different way. All states cannot be treated alike, as the reasons for shortfall in GST are different in different areas. In Uttarakhand, the shortfall is not because of tax administration or enforcement, but because of low consumption base. The economy of the state has to be reoriented by helping the state to transition from a manufacturing state to a service providing state. **As the fiscal capacity and revenue base of the state is very limited, therefore substantial support from 15th FC in terms of revenue deficit grant will be required.**

Chapter 7

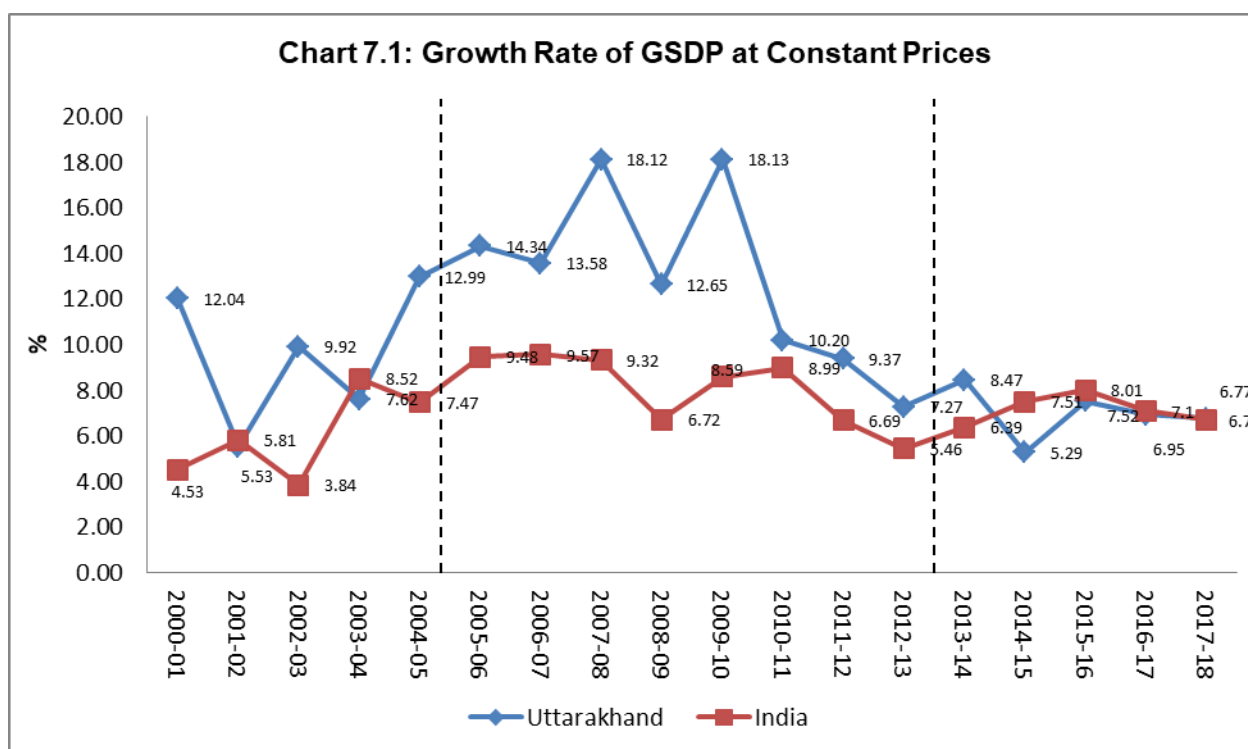
Revenue and Expenditure Forecasts

The 15th FC requires the state governments to provide detailed assessment of their revenues and expenditures for the period from FY 2019-20 to FY 2024-25. 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 expenditure needs for the future relate to the base year and the future values. The base year for the 15th FC is FY 2017-18, for which pre actual figures of state government finances are available.

- 7.1 Fiscal data for Uttarakhand on an actual basis are available for FY 2001-02 to FY 2016-17. Budget estimates for FY 2018-19 are also available. The CAG accounts do not show the expenditure on salary and non-salary separately. Main considerations that need to be taken into account are (a) economy-wide slowdown affecting transfers from the centre to the state governments, and (b) fall in revenues of Uttarakhand mainly due to fall in GST which has changed the tax collection paradigm from production to consumption. These considerations affect both the projections and the medium term prospects.
- 7.2 Although the past time series data are useful for forecasting, it is not possible to predict the future entirely 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 Base: Gross State Domestic Product

- 7.3 The base year of GSDP has changed over a period of time. The present GSDP estimates have been worked out taking FY 2011-12 as the base year. The growth of the real GSDP from FY 2012-13 to FY 2017-18 was in the range of 5.29% to 8.47%. **The CAGR of GSDP from FY 2011-12 to FY 2017-18 at constant prices is 7.04%.** 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 those years. With the end of the incentives to new industries in state and the slowdown in the Indian economy, the GSDP growth is estimated to be much lower now.



Source: Statistical Abstract Uttarakhand 2015-16 (2000-01 to 2015-16) & Press Note of NAD GoI as on 31-05-2018 (2016-17 & 2017-18)

- 7.4 For the forecast period the nominal GSDP growth implicit in our forecast is 11%. The underlying price level assumption in the nominal GSDP growth is 4%.
- 7.5 The expenditure forecasts takes 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 in statement number 3, but the impact of allowances, which are under consideration of the state government, has not been taken into account.
- 7.6 **In arriving at forecast of income and expenditure, figures from FY 2012-13 to FY 2017-18 (pre-actual figure of AG) are taken into consideration and the base year for the calculation has been taken as FY 2017-18.**

Revenue Receipts Forecast (FY 2019-20 to FY 2024-25)

- 7.7 Major sources of tax revenues for Uttarakhand are GST/VAT, excise duties, stamps and registration fees, motor vehicle tax and electricity tax. Non-tax revenues of the state originate primarily in economic services of which power, forestry and mining & minerals are the major ones.

Tax Revenues

- 7.8 **Tax on GST income (0006):** For the forecast period the assured receipts up to FY 2021-22 and first three months of FY 2022-23 are calculated with the growth rate of 14% on the net collections of the base year FY 2015-16. After that a growth rate of 6.61% is taken (growth rate of GSDP for 2017-18 (A) {11%} multiplied by the tax buoyancy of GST {6.01%}) for the remaining period i.e. 9 month of FY 2022-23, FY 2023-24 and FY 2024-25.
- 7.9 **Land Revenue (0029):** The land revenue collections show year to year fluctuation. It fell from Rs. 18.31 Cr in FY 2010-11 to Rs.10.18 Cr. in FY 2011-12 and stood at Rs.159.51 Cr. in FY 2016-17 (which include onetime receipts against a land given to SIIDCUL by the state government) and again it fell to Rs. 24.09 Cr. in FY 2017-18. The share of land revenue in total collection is negligible as a major portion of it comes from collection charges of arrears. Therefore land revenue taxes has been assumed to remain constant at FY 2017-18 level of about Rs. 25 Cr. per year for the whole forecast period.
- 7.10 **Stamp Duty and Registration Fees (0030):** The CAGR for the last 5 years shows a growth rate of only 6.35%.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 are stabilized, but even then the growth in this sector is not expected to be robust primarily due to the country wide slowdown in real estate markets and also due to promulgation of new regulation like RERA. We have assumed a growth rate of 7% during the forecast period which given the adverse market condition is on the higher side.
- 7.11 **State Excise Duties (0039):** The CAGR for this source of revenue for last five years is 13.13% but the rate of excise duties has been reduced in the state with a view to check smuggling from other states. Moreover the per capita excise tax collection in Uttarakhand is Rs. 2324.56 as compared to Rs. 911.21 in UP and Rs.1953.42 in HP. Thus the state has reached a plateau in tax collection and the growth will be much subdued in the coming years. Hence we have assumed a growth rate of 12% in state excise duties for the forecast period.
- 7.12 **Non-GST (0040):** The growth rate of Non-GST goods is calculated at 11.40% which reflects the average growth rate of revenue during last five years.

- 7.13 **Taxes on Vehicles (0041):** The CAGR from FY 2011-12 to FY 2016-17 is 10.70%. The CAGR from FY 2012-13 to FY 2017-18 is 21.08%. This was due to some major reforms as outlined in Topic Note 21 and also due to the fact that major rate revision was done by government of India in FY 2016-17. But in future, the collection will be lower due to lower registration as compared to previous years. We have assumed annual growth rate equivalent to GSDP growth rate of 11% in the forecast period.
- 7.14 **Taxes and Duties on Electricity (0043):** The electricity duty is collected by the Uttarakhand Power Corporation on behalf of the state government and deposited in the government treasury. The CAGR for FY 2011-12 to FY 2016-17 is (-) 3.81%. The CAGR for FY 2011-12 to FY 2017-18 is 5.93% and the CAGR for FY 2012-13 to FY 2017-18 is 160%. So it is obvious that the revenues in this sector are fluctuating and the primary reason is that since the Power Corporation is running into losses, hence it is unable to deposit the duty collected in some financial years and only deposits the money into the government treasury when its own fiscal resources allow. We have assumed a growth rate of 6% in the forecast period (equivalent to the growth rate of FY 2011-12 to FY 2017-18).
- 7.15 **Water Tax:** Water tax for electricity generation is being levied by the Irrigation Department of Uttarakhand on the hydro power projects, having generation capacity of more than 5 MW. **Water tax is determined on volumetric basis** i.e. cubic meter utilization of water meant for electricity generation linked with available head of the hydro power project. However, only the state's electricity generation companies are depositing tax in the state exchequer. The private companies have challenged this tax and the matter is sub-judice in Hon'ble High Court of Uttarakhand. Under the head 0045, the main contributors are entertainment tax and water cess. After the implementation of GST entertainment tax has been subsumed in GST. The state government had received revenue of Rs. 134.29 Cr. in water cess in FY 2017-18. Hence we have assumed Rs. 135 Cr. for the entire forecast period as volume of water used in generation is fixed.

Non-Tax Revenues

- 7.16 The CAGR of non-tax revenue for FY 2012-13 to FY 2017-18 is 2%. Hence in all the sectors of non-tax receipts like general, economic and social services, apart from the ones specifically mentioned below, a growth rate of 4% per annum has been assumed for the forecast period.

- 7.17 **Interest Receipts (0049):** As the PSUs in Uttarakhand are loss making, no interest receipts is expected from them. Only the power utilities pay interest on the Government of India loans through the state government. An amount of Rs.50 Cr. per year has been taken for this source during the forecast period.
- 7.18 **Dividend and Profits:** There are only a few PSUs in Uttarakhand and revenues from this head are meagre. An amount of Rs. 15.20 Cr. equivalent to the value received by the state government in FY 2016-17 per year has been taken for this sector during the forecast period.
- 7.19 **Pension receipts (0071):** With respect to recoveries towards Pension and Retirement Benefits, the state received a sum of Rs. 500 Cr. in 2011-12, Rs.1045.98 Cr. in 2011-12 and Rs. 350.79 Cr. in 2013-14 from Uttar Pradesh as the share of pension apportionment for a period from 09th November 2000 to 31st March 2001. The State Government has not received any pension apportionment from UP thereafter, and the matter of further sharing of pensions is under discussion with UP. Thus an amount of Rs. 250 Cr. per year has been assumed for the forecast period.
- 7.20 **Forest:** In the case of non-tax revenues from forestry and wildlife, the CAGR for last five years was 5.56%, accordingly we have assumed a growth rate of 6% for the forecast period.
- 7.21 **Power:** 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 not forthcoming in the near future due to various environmental and regulatory factors. The scope of generating any revenue through sale of surplus power has also dried up with the growth of domestic demand and Uttarakhand is constrained to purchase power. The CAGR for FY 2012-13 to FY 2017-18 in this sector is 13.8% but this is mainly due to book adjustment due to UDAY and some past pending arrears being paid by the power department. Thus, we have assumed a growth rate of 8% during the forecast period.
- 7.22 **Metallurgical Industries (0853):** The state government has done major reforms in the functioning of this sector like online auction, establishment of special task force (STF) to check illegal mining, establishment of comprehensive data base, use of technology in the assessment of available material for mining among others, which has resulted in a CAGR of 24.38% from FY 2012-13 to FY 2016-17. But due to environmental regulations, mining activity has been restricted in Uttarakhand and this has had adverse

revenue implications for this sector. We have extrapolated the revenue receipts under this head at a nominal rate of 11% per annum equivalent to GSDP growth rate to arrive at our forecast.

Revenue Expenditure Forecasts: Assumptions

7.23 The CAGR of revenue expenditure for different periods are given in table below:

Table 7.1: CAGR of Revenue Expenditure

S.No.	Financial Years	CAGR (%)	CAGR (Excluding interest and pension expenditure)
1.	2010-11 to 2016-17	13.82	12.54
2.	2011-12 to 2016-17	14.26	12.65
3.	2012-13 to 2016-17	15.99	13.83
4.	2011-12 to 2017-18	14.42	11.93
5.	2012-13 to 2017-18	15.83	12.72
	Average	14.87	12.73

Source: Budget Documents, GoUK

7.24 Revenue expenditure is divided into general, social and economic services. It is evident from the above that the average growth rate of revenue expenditure over the years has been around 14.87%. If we exclude interest payments and pension expenditure then the revenue expenditure, over the years is around 12.73%. **Hence a growth rate of 12.80% in revenue expenditure has been assumed for the forecast period.** The sectors where growth has been assumed to be different from above are being explained below. Expenditure forecasts have been made by taking into account the spending requirements of the state on social and economic infrastructure and the committed liabilities of the State. The above growth rate is justified and balanced and **is substantiated by the long term revenue expenditure growth rate of 15.60% from FY 2002-03 to FY 2016-17.**

7.25 The state has already given the benefit of the 7th Pay Commission to its employees and pensioners, hence the impact of arrears has been incorporated in the forecast. The payments of arrears are being given in two instalments during FY 2017-18 & FY 2018-19. However, the decision on the various allowances like HRA, TA etc. is yet to be finalised. The state government had constituted a committee to give recommendations regarding

various allowances. The committee has submitted its report which is under consideration of the government. This is likely to increase the expenditure under allowance category by Rs. 350 Cr. per year. Another issue is regarding the revision of pensions (apart from 7th CPC) on the lines of government of India which is also under consideration by the state government. Though the impact of both the above issues have not been incorporated in the forecast, it is likely to lead to increased expenditure to the tune of around Rs. 500 Cr. per year.

7.26 Interest payments: Despite the fall in interest rates, interest payments continue to consume a major chunk of revenue expenditure of the state. This is a direct consequence of debt being contracted by the state to meet its expenditure needs. The forecast of interest payment has been made on the basis of interest burden of the existing debt stock as well as taking into account the new loans which are likely to be contracted in future. The new debt liabilities to be contracted by the state are taken at the rate of 3% of GSDP and accordingly the figures of the future interest payment have been estimated. Interest burden under each instrument of existing debt has been forecast after considering the applicable interest rates.

7.27 Pension Payments: The growth rate of pension payment is given in table 7.2 below:

Table 7.2: Growth rate of Pension Payments

S.No.	Financial Year	Pension Payment	Growth Rate
1	2010-11	1141.72	
2	2011-12	1135.10	-0.58
3	2012-13	1365.68	20.31
4	2013-14	2130.67	56.01
5	2014-15	2451.91	15.08
6	2015-16	2627.82	7.17
7	2016-17	3170.28	20.64
8	2017-18 RE	5033.47	58.77

Source: Budget Documents, GoUK

7.28 Every year on an average, 5000 people are retiring. These people have to be given gratuity, commutation and leave encashment, apart from the pension and GIS. Majority of the employees after 30 years of service will retire above level-8 of 7th CPC pay matrix. The minimum amount which an employee will

be entitled for the above benefits will be Rs. 25 lac. If we include higher pay levels, the average would be around Rs. 30 lac. So this would entail a minimum expenditure rise of Rs. 1500 Cr. per year (5000 X Rs. 30 lac), apart from the pension which employee will receive. On top of this, there will be a minimum 4% increase in DA (though in our opinion, a realistic assumption will be 6% of DA) and also increase in salary leading to an increase in pension.

- 7.29 The CAGR of pension expenditure for FY 2012-13 to FY 2017-18 is 29.89%. The average rise in pension as per table 7.3 is 24.56%. Hence, given the substantial increase in pension due to 7th CPC and likelihood of civil equivalent of “one rank one pension” being implemented, the state government expenditure on the pension bill will increase substantially in coming years and accordingly a growth rate of 18% for the forecast period has been assumed.

Table 7.3: CAGR of Pension Expenditure

S.No.	Financial Years	CAGR (%)
1.	2010-11 to 2016-17	18.56
2.	2011-12 to 2016-17	22.80
3.	2012-13 to 2016-17	23.43
4.	2011-12 to 2017-18	28.18
5.	2012-13 to 2017-18	29.81
	Average	24.56

Source: Budget Documents, GoUK

- 7.30 **Medical and Public Health:** Against the sanctioned strength of **2511 doctors**, the state has **recruited 478 doctors in the last 1 year**. This in turn, leads to higher revenue expenditure. Thus, a growth rate of 14% per year has been assumed for the forecast period.
- 7.31 **Water Supply and Sanitation:** In water and sanitation sector, the state government is laying a lot of emphasis on the maintenance of the assets. Accordingly, keeping in view higher investment needs especially in drinking water in urban and rural areas a growth rate of 14% has been assumed for the forecast period.
- 7.32 **Crop Husbandry:** A new EAP has been sanctioned in this sector, hence a growth rate of 14% is assumed for the forecast period.
- 7.33 **Village and Small Industries:** A new EAP has been sanctioned in this sector. The state government is putting a lot of emphasis on promotion and

development of service sector in the state. MSME is a priority growth driver of the state government, hence a growth rate of 15% has been assumed for the forecast period.

- 7.34 **Road and Bridges:** The total road network in the state is around 40000 Km. As against a requirement of more than **Rs. 1000 Cr. per year** for the maintenance of this network, the state government is able to give only around Rs. 200 Cr. a year due to its limited fiscal capacity. Uttarakhand has very limited rail network and roads are the main lifeline of the state, hence for proper upkeep and maintenance of this vast road network, a growth rate of 15% has been assumed for the forecast period.
- 7.35 **Tourism:** Tourism sector is the main growth driver of the state economy. In FY 2017-18 the state government has introduced a new “**Home Stay Policy**”. Accordingly, given the higher expenditure required in publicity, implementation and promotion of various tourism policies, etc. a growth rate of 15% has been assumed for this critical services sector for entire forecast period.

Capital Expenditure:

- 7.36 **Statement 4** deals with the capital outlay component of the total expenditure. The capital outlay is divided into three broad categories viz. general services, social services and economic services. Uttarakhand is an infrastructure deficient state and need major investments in the area on urban infrastructure, roads including bridges and tunnels, irrigation, water sector, power sector etc. The CAGR of capital outlay, excluding head Food (4408), from FY 2011-12 to FY 2016-17 is 15.13% and from FY 2012-13 to FY 2017-18 is 11.01%. Many new EAPs have been sanctioned in water supply, major irrigation, power sector hence the capital expenditure will increase in the coming years. Hence, given the higher need of capital investments, the state would like to plan to have a growth rate of more than 15%, but given the paucity of resources, a **growth rate of 13% has been assumed for the forecast period.**
- 7.37 **Water Sector:** Uttarakhand is facing a severe water crisis as water supply to many rural habitations, and urban areas is highly stressed. In FY 2017-18 a new EAP of the World Bank has already been approved by DEA and two new EAPs are under consideration of the state government. Hence given the high investment need and demand in the sector, a capital expenditure growth rate of 17% has been assumed for the forecast period.

- 7.38 **Road Transport Services:** Roads are the critical lifeline of the state and many villages in the state are yet to be connected with roads. The state government is planning a new EAP with ADB support by November 2018, hence, given the high capital investment needs in this sector, a growth rate of 15% has been assumed for the forecast period.
- 7.39 **Urban, Power, Irrigation Sector:** A new EAP of ADB has been sanctioned in Urban sector and Power sector. Similarly a new EAP has been sanctioned in the irrigation sector. Hence given the higher investment needs in these sectors a growth rate of 15% has been assumed for the forecast period for the above three sectors.

Capital Account: Receipts and Disbursements

Receipts

- 7.40 **Internal debt:** This has been kept at 3% of forecasted GSDP for the forecast period.
- 7.41 **Loans and advances from the Central Government:** Loan portion of the externally aided projects has been assumed on actual requirement basis for each year in the forecast period, which is mainly loan portion of EAPs.

Disbursements: Repayment of debt

- 7.42 **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.
- 7.43 **Central government loans:** Repayment of non-plan block loan has been worked out as per the repayment schedule.
- 7.44 **Loans and Advances by the State Government:** These are assumed to grow at 10 % except for power sector for which loans are taken as per the needs of the power sector enterprises.

Summary and Overview of Forecasts

- 7.45 It may be noted that the sudden jump in the fiscal deficit and revenue deficit in FY 2019-20 and the remaining forecast period reflect the effect of the formula given by the Finance Commission by which these values are calculated. The increase in values is the result of non-inclusion of any fiscal transfers in the form of share in central taxes or grants from the centre.

7.46 Table 7.4 gives a summary of forecasts in absolute terms at current prices.

Table 7.4: Forecast: Revenue and Expenditure Aggregate

Rs. in Cr.

HEADS	Pre Actual 2017-18	BE 2018-19	Estimates 2019-20	2020-21	2021-22	2022-23	2023-24	Forecast 2024-25
1	2	3	4	5	6	7	8	9
I. Revenue Receipts (1+2)	27104.57	35659.99	17686.37	19755.30	22083.99	19587.21	19475.32	21226.71
1. State's Own Revenue	11934.44	18434.14	17686.37	19755.30	22083.99	19587.21	19475.32	21226.71
i. Total Tax Revenue	10164.92	14963.61	15851.14	17807.76	20014.54	17385.32	17129.47	18724.28
ii. Total Non-Tax Revenues	1769.52	3470.53	1835.23	1947.54	2069.45	2201.89	2345.85	2502.43
2. Transfers from the Centre (3+4)	15170.13	17225.85						
3. Share in Central Taxes	7084.92	8291.22						
4. Grants from Centre	8085.21	8934.63						
i. Grants under FC	714.28	891.25						
ii. Grants other than FC	7370.93	8043.38						
II. Total Revenue Expenditure (1+2+3+4)	29112.51	35627.30	38669.71	44063.13	50201.55	57191.17	65153.84	74229.45
1. General Services of which	12408.50	14292.07	17526.80	20190.37	23245.22	26751.56	30779.25	35409.39
i. Interest Payments	3987.29	4906.12	5786.04	6589.58	7481.51	8471.56	9570.51	10790.35
ii. Pension and Other Retirement	5033.47	5352.50	7008.60	8270.15	9758.78	11515.36	13588.12	16033.99
iii. Gen. Serv. other than Interest & Pension	3387.74	4033.46	4732.16	5330.64	6004.92	6764.63	7620.61	8585.06
2. Social Services	10929.42	13987.92	13957.61	15773.52	17825.97	20145.81	22767.94	25731.77
3. Economic Services	4306.05	5493.68	5520.93	6251.79	7079.69	8017.56	9080.03	10283.73
4. Grant In Aid to Local Bodies	1468.54	1853.63	1664.37	1847.45	2050.67	2276.24	2526.63	2804.56
III. Capital Expenditure	5991.88	6775.75	7065.11	8075.79	9233.03	10558.42	12076.76	13816.60
i. Capital Outlay	5915.05	6583.77	6834.73	7799.33	8901.29	10160.33	11599.05	13243.36
ii. Loans & Advances (gross)	76.83	191.98	230.38	276.45	331.74	398.09	477.71	573.25
IV. Total Capital Receipts	5767.53	6316.95	7948.00	8752.00	9637.00	10610.00	11680.00	12858.00
i. Misc. Capital Receipts								
ii. Internal Debt (Net)	5731.31	6184.11	7498.00	8307.00	9197.00	10175.00	11250.00	12433.00
iii. Loans from Centre (Net)	74.04	150.00	165.00	160.00	155.00	150.00	145.00	140.00
iv. Recoveries of Loans & Advances	283.50	32.84	35.00	35.00	35.00	35.00	35.00	35.00
v. Outstanding ways and means advance (net)								
vi. Others (Net)	-321.32	-50.00	250.00	250.00	250.00	250.00	250.00	250.00
a. Inter-State Settlement (net)								
b. Contingency Fund (net)	-96.32	-250.00	50.00	50.00	50.00	50.00	50.00	50.00
c. Public Account (net)	-225.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00
V. Revenue Deficit (II-I) *	2007.94	-32.69	20983.34	24307.84	28117.56	37603.96	45678.52	53002.74
VI. Fiscal Deficit [(II+III) - (I + IV (i + iv))]	7716.32	6710.22	28013.44	32348.62	37315.59	48127.38	57720.28	66784.34
VII. GSDP at Current Prices	217609.47	242692.63	271476.74	304732.96	343113.50	387309.94	437937.29	496072.15
VIII. GSDP at Constant Prices (2011-12 Series)	173444.36	185563.07	199057.75	214345.50	231004.45	249223.58	269635.94	291819.93

Source: Department of Finance, GoUK. Note: -ve value indicates surplus. BE indicates budgeted figure for FY 2018-19

7.47 Table 7.5 gives the corresponding values as percentage of GSDP cost at current prices.

Table 7.5: Forecast: Revenue and Expenditure Aggregates (% with GSDP)								
HEADS	Pre Actual	BE	Estimates	Forecast				
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
1	2	3	4	5	6	7	8	9
I. Revenue Receipts (1+2)	12.46	14.69	6.51	6.48	6.44	5.06	4.45	4.28
1. State's Own Revenue	5.48	7.60	6.51	6.48	6.44	5.06	4.45	4.28
i. Total Tax Revenue	4.67	6.17	5.84	5.84	5.83	4.49	3.91	3.77
ii. Total Non-Tax Revenues	0.81	1.43	0.68	0.64	0.60	0.57	0.54	0.50
2. Transfers from the Centre	6.97	7.10						
(3+4)								
3. Share in Central Taxes	3.26	3.42						
4. Grants from Centre	3.72	3.68						
i. Grants under FC	0.33	0.37						
ii. Grants other than FC	3.39	3.31						
II. Total Revenue	13.38	14.68	14.24	14.46	14.63	14.77	14.88	14.96
Expenditure (1+2+3+4)								
1. General Services <i>of which</i>	5.70	5.89	6.46	6.63	6.77	6.91	7.03	7.14
i. Interest Payments	1.83	2.02	2.13	2.16	2.18	2.19	2.19	2.18
ii. Pension and Other Retirement Benefits	2.31	2.21	2.58	2.71	2.84	2.97	3.10	3.23
iii. Gen. Serv. other than Interest & Pension	1.56	1.66	1.74	1.75	1.75	1.75	1.74	1.73
2. Social Services	5.02	5.76	5.14	5.18	5.20	5.20	5.20	5.19
3. Economic Services	1.98	2.26	2.03	2.05	2.06	2.07	2.07	2.07
4. Grant In Aid to Local Bodies	0.67	0.76	0.61	0.61	0.60	0.59	0.58	0.57
III. Capital Expenditure	2.75	2.79	2.60	2.65	2.69	2.73	2.76	2.79
i. Capital Outlay	2.72	2.71	2.52	2.56	2.59	2.62	2.65	2.67
ii. Loans & Advances (gross)	0.04	0.08	0.08	0.09	0.10	0.10	0.11	0.12
IV. Total Capital Receipts	2.65	2.60	2.93	2.87	2.81	2.74	2.67	2.59
i. Misc. Capital Receipts								
ii. Internal Debt (Net)	2.63	2.55	2.76	2.73	2.68	2.63	2.57	2.51
iii. Loans from Centre (Net)	0.03	0.06	0.06	0.05	0.05	0.04	0.03	0.03
iv. Recoveries of Loans & Advances	0.13	0.01	0.01	0.01	0.01	0.01	0.01	0.01
v. Outstanding ways and means advance (net)								
vi. Others (Net)	-0.15	-0.02	0.09	0.08	0.07	0.06	0.06	0.05
a. Inter-State Settlement (net)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
b. Contingency Fund (net)	-0.04	-0.10	0.02	0.02	0.01	0.01	0.01	0.01
c. Public Account (net)	-0.10	0.08	0.07	0.07	0.06	0.05	0.05	0.04
V. Revenue Deficit (II-I) *	0.92	-0.01	7.73	7.98	8.19	9.71	10.43	10.68
VI. Fiscal Deficit [(II+III) - (I + IV (i + iv))]	3.55	2.76	10.32	10.62	10.88	12.43	13.18	13.46

Source: Department of Finance, GoUK. Note: -ve value indicates surplus. BE indicates budgeted figure for FY 2018-19.

- 7.48 As is evident from the above table 7.5, the own tax and revenues as percentage of GSDP show a fall from FY 2022-23 onwards due to the fact that the GST compensation will cease to be given to the state and given the trend in growth rate of GST (6.67%) there will be substantial fall in GST collection from FY 2022-23 onwards.

Constitutional position regarding revenue deficit grant:

- 7.49 In the past post devolution, non-plan revenue deficits were obtained by adding the respective state's share in central taxes to the pre-devolution deficit assessed in a normative manner so as to obviate the effect of inadequate revenue effort or excessive expenditure. However, since the distinction between plan and non-plan has been obliterated, the methodology to assess the gap needs to be worked out wherein the interests of the states are duly protected.

Table 7.6: Plan, Non-Plan Revenue Expenditure in various years

S.No.	FY	Revenue Expenditure (Rs. in Cr.)		% Revenue Expenditure	
		Non Plan	Plan	Non Plan	Plan
1	2010-11	9138.58	2472.47	78.72	21.28
2	2011-12	10654.09	2321.11	82.11	17.89
3	2012-13	11532.46	2427.76	82.61	17.39
4	2013-14	13449.43	2766.97	82.94	17.06
5	2014-15	15531.53	5632.17	73.39	26.61
6	2015-16	16698.21	6388.24	72.33	27.67
7	2016-17	18927.60	6343.89	74.90	25.10
	Average			78.14	21.86

Source: Uttarakhand Finance Account, AG

- 7.50 It is evident from the above table that the ratio of non-plan revenue expenditure to total revenue expenditure averages around 78%. Revenue deficit grant have been given by various Commissions based on non-plan revenue deficit. As the distribution between plan and non-plan has been abolished, the **15th FC is requested to accordingly take the average of 78% of total revenue expenditure for calculation of revenue deficit grants.**
- 7.51 Grants to supplement the revenues of a state that are assessed to be in need of revenues based on suitable principles are mandated by 275 (1) of the Constitution and its rationale is the equalization formula based on the fiscal needs and fiscal capacity of different states due to the different development status of the states. It takes into consideration the present development status and future needs of the states, in order to provide equal

level of services to all citizens of the country, irrespective of their place of stay, so that they can fully realise their human potential.

- 7.52 As was discussed in chapter 4 the state of Uttarakhand lost heavily due to the recommendation of the 14th FC. The revenues accruing in GST also show a down ward trend of more than 39% as compared to the previous VAT collections. The only saving grace is the compensation being received by the state, but that is only till 30th June 2022-23. After that the state is staring at a fiscal abyss. Keeping in view, the low resource base, limited fiscal capacity, low level of consumption pattern, high cost of construction, maintenance and delivery of services, low level of public and private investment, major infrastructure deficit, high level of intrastate disparities, cost disabilities associated with the terrain, stringent environmental regulations compliances and large international boundary, **the state government humbly requests the 15th FC to take into consideration the various factors outlined above and the fact that the state is providing valuable and immeasurable eco-system services to the rest of the country, to provide the state government with revenue deficit grant.** This will enable the state government to fulfil all its constitutional duties towards its citizens and to the rest of the country.

Chapter 8

Eco-system services: Compensation for Externalities

According to a report titled "Composite Water Management Index" (CWMI) released by NITI Aayog in June, 2018, India is suffering from '**The Worst Water Crisis**' in its history, with about 60 Cr. people facing high to extreme water stress and about two lakh people dying every year due to inadequate access to safe water. The report also noted that "By 2030, the country's water demand is projected to be twice the available supply, implying severe water scarcity for hundreds of millions of people and an eventual **6% loss to the country's GDP.**"

- 8.1 Drying up of major rivers in India, drying up of small rivers and springs in Uttarakhand, high frequency of flash floods and disasters in Himalayan region, increasing frequency of sandstorm and hailstorms, acute air pollution in winter in almost all major cities in the country, decreasing ground water level in almost every part of the country etc. are not isolated events, but are linked to larger climate change events. Through these events, nature is sending very unambiguous signals to effect a change in the behaviour and priorities of the human civilization so as to preserve the ecosystem to sustain ecosystem services for posterity.
- 8.2 River Yamuna is slowly drying up. One of the reasons is large scale urbanization in the catchment and encroachment in the river basin area but the main cause is the change in Himalayan ecosystem and retreating glaciers. Uttarakhand is the place of origin of major rivers of North India like the Ganges, Yamuna, Mahakali, Saryu etc. If anything goes wrong in Uttarakhand, **a major part of the country (around 40% of the population) will be adversely affected directly or indirectly.** The crisis can only be averted by preservation of Himalayan ecosystem through more investment in Himalayan states in lieu of their contribution to ecosystem services.
- 8.3 The drying up of river and water resources along with loss of soil health due to erosion or other reasons affects the whole primary sector, a large portion of secondary sector and that portion of services sector which caters to primary and agriculture dependent secondary sector. It requires multipronged strategy to preserve the ecosystem and improve the quantity and quality of ecosystem services.

8.4 The United Nations 2004 Millennium Ecosystem Assessment (MEA) and The Economics of Ecosystems and Biodiversity (TEEB) grouped ecosystem services into four broad categories:

8.4.1 Provisioning services which include food, timber, water, aromatic and medicinal herbs etc.

8.4.2 Regulating services which lead to climate control, carbon sequestration, air quality, moderation of extreme events etc.

8.4.3 Habitat and supporting services like maintenance of biodiversity and gene diversity etc.

8.4.4 Cultural services like recreation, tourism etc.

Himalayan Mountain Ecosystem and its significance for Ecosystem Services

“Mountains are the beginning and the end of all natural scenery.”

-John Ruskin

8.5 Himalayan mountain ecosystem is important for economic growth and human well-being as they provide numerous public goods and services including fresh water, food, lifesaving medicinal products, energy, biodiversity & associated traditional knowledge, as well as cultural diversity.

8.6 Himalayan mountains are characterized by high biodiversity. Because of the compression of climatic life zones with altitude and small-scale habitat diversity caused by different top climates, mountain regions are commonly more diverse than lowlands and are thus of prime conservation value. They support about one quarter of terrestrial biodiversity, with nearly half of the world's biodiversity hot spots concentrated in mountains.

8.7 The Himalayan Mountains are among the most fragile environments in the world and among the most vulnerable ecosystem to catastrophic events. The recent unfortunate developments in the state of Uttarakhand have been testimony to this fact. If mountains become degraded or fail to generate services, the costs will be severe for the entire country.

8.8 Strengthened highland-lowland linkages improve sustainability for both upstream and downstream populations. The environmental conservation and sustainable land use in the Himalayan Mountains are not only a necessary condition for sustainable local livelihoods, they are also key to human well-being for nearly 50% of the country's population who live downstream and depend on mountain resources.

Uttarakhand and its unique significance for the nation

- 8.9 Uttarakhand has 0.827% share in all India population, 1.632% share in total geographical area of the country and 4.77 % share in total forest cover of the country. India has 0.266 Km² forest cover per 1000 population, whereas Uttarakhand has 1.339 Km² forest cover per 1000 population. Moreover, the percentage area under National Parks and Wildlife Sanctuaries is very high in Uttarakhand. The habitations/villages of the State are interspersed with the forest areas.

Table 8.1: Ecological wealth of Uttarakhand at a Glance

S.No.	Ecological features	Uttarakhand	UP	India
1.	Total Geographical Area (Km ²)	53483	240928	3287263
2.	Population density (Per Km ²)	189	829	382
3.	Forest area (Hectare)	3799953	1659000	70827300
4.	Forest areas % to total area	71	6	21
5.	Per capita forest area (Hectare)	0.4	0.008	0.059

Source:(i) Forest Survey of India (FSI), 2017, (ii) Registrar of India Census, 2011, Gol

Forest and Biodiversity

- 8.10 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 carbon sequestration, sediment control and soil conservation, ground water recharge, protection from extreme weather events and preservation of bio-diversity. The benefits of these services extend beyond the boundaries of the state where forests are located. However, the costs of having land under forests are imposed exclusively on the state in whose jurisdiction they lie.
- 8.11 The need for recognizing the implications of these externalities in the context of the emergence of environmental federalism has been recognized by the recent Finance Commissions starting mainly from the 12th FC which gave certain earmarked grants for environmental purposes. The 13th FC increased the amount of these grants. The 14th FC included forests as a factor in tax devolution but did not give separate grants for forests. These approaches are different in nature. There are two approaches for dealing with environment-related externalities emanating from forests and minerals. One approach is to focus on the compensatory aspect which aims at compensating states for bearing economic losses, both direct and in terms of forgone economic opportunities also called opportunity cost. The second approach is to

promote environmental development through supporting or encouraging the development of forests. In the first case, the approach of the 14th FC is the relevant one which provides an unconditional general fiscal transfer. On the other hand, the approach of the 12th FC and 13th FC focused on promoting environmental development through grants. Since these two approaches serve different purposes, both should be given due recognition by 15th FC.

Forests and Environmental Federalism

- 8.12 Forests have been one of the most contentious domains in environmental federalism in India. Their management is distributed between the centre, state and to some extent local bodies depending upon the nature of forests and subject area. Forests and wildlife were recognised as state subjects at the time of framing of the Constitution but were transferred from the state list to the concurrent list through the 42nd Amendment to the Constitution, 1976. Concern for conservation of forests has been cited as the primary reason for making forests a subject of parallel jurisdiction of central and state governments.
- 8.13 The Forest Conservation Act enacted in 1980 made central government approval mandatory before diverting forestland for non-forest use. This was reinforced by the ruling of Supreme Court in T.N. Godavarman vs Union of India. Similarly, in Centre for Environmental Law, (World Wide Fund) WWF vs Union of India, approval from Indian Board of Wildlife was mandated before de-notification of any protected area by the states.
- 8.14 The Indian Forest Act, 1927 defined the procedure for declaring an area to be a Reserved Forest, a Protected Forest or a Village Forest. The Act aims to regulate movement and transit of forest produce. It also defines what constitutes a forest offence, acts prohibited inside a Reserved Forest, and penalties that can be levied for violations.
- 8.15 Thus the combined effect of the forest laws and judgments delivered by the Supreme Court is that while state governments are empowered to notify reserve forests and protected areas, they have to take prior permission from the Centre before diverting forest land toward any other non-forestry purposes.
- 8.16 Forests are associated with large positive externalities in terms of their environmental benefits and large costs in terms of value of forgone economic opportunities. The environmental benefits accrue largely to other states whereas the economic opportunity cost is borne almost entirely where the

forest is located. With a high share of forests, Uttarakhand willingly bears this cost but argues strongly for appropriate recognition of the benefits that flow to other states. In the context of environmental federalism, Uttarakhand should be adequately compensated for playing this role.

- 8.17 While the benefits of the forest linked positive externalities accrue largely to population outside the state, there are certain negative externalities, the costs of which have to be borne by the citizens of the forest-rich states such as Uttarakhand. These negative externalities arise because of the difficulties imposed by the central government on account of environmental concerns for giving forest clearance to developmental projects including hydropower projects. Getting forest clearances is extremely difficult and there are huge cost escalations of these developmental projects because of continuing delays in obtaining the clearances.
- 8.18 It is therefore argued that the 15th FC may utilize both approaches in the design of its fiscal transfers by including the share of forests in the devolution formula and increase the extent of compensation by increasing the weight attached to this factor to 15%. In addition, it may provide an earmarked grant for promoting forests to serve the larger environmental objective and to facilitate meeting commitments made by the government of India in international forum regarding meeting India's Carbon dioxide emission targets.
- 8.19 The wide variations in the topography and climate in Uttarakhand has given rise to diverse ecosystems, supporting large taxonomic variability in flora and fauna. Uttarakhand is among the few states in India that has more than 60% of its geographical area under natural vegetation cover (FSI, 2011) with a rich and diverse array of forest types from tropical to alpine types. With 12 National Parks and Wildlife Sanctuaries covering almost 14% of the total area, the Biological Richness (BR) in the region is quite high. There are about 4700 species of flowering plants and about 146 species of fodder plants. The rich forest cover is not only intricately associated with the hydrological balance but also forms the life support system for the local inhabitants.

Soil and Agriculture

- 8.20 It is ironical that sediments due to landslides & soil erosion instrumental in making the lowland areas prosperous are actually ruining the mountain agriculture. The state is also under constant threat of water erosion. Nearly

65% of the area is affected with soil erosion hazard (more than the tolerance limit of 10t/ha/yr) and nearly 11% area is affected with sheet erosion.

Water

- 8.21 Uttarakhand state is considered as the **"Water Tower" of India**. The average annual rainfall is about 1600 mm spread over a period of about 100 days, which is much above the national average of 1085 mm. It is the storehouse of glaciers which feed the Ganges river system consisting of Alaknanda, Bhagirathi, Yamuna, Ramganga, Sharda and Kali rivers. About 13% of the area of state is snow covered containing over 900 glaciers. The rivers emanating from these glaciers feed millions of people residing in the Indo-Gangetic alluvial plains, yet the hilly part of the state suffers from water crisis due to heterogeneity in rainfall and very high runoff owing to rugged topography.
- 8.22 The status of knowledge regarding the present day glaciers and their environment hold the key to our understanding of the past, present and future environmental conditions. The impact of global warming is already visible in the Himalayas. It is estimated that the 30 km long Gangotri Glacier is receding rapidly, the rate of retreat during the period 1962-1991 being about 20 mt./yr. Various climate change factors including human activity are believed to be the reasons for the enhanced rate of retreat.

Valuation of Ecosystem Services

- 8.23 The precious ecosystem services provided by Uttarakhand need to be valued, but there are issues regarding the way of valuation. Estimating the change in the value of the flow of benefits provided by an ecosystem requires estimation of the change in physical flow of benefits and tracing through and quantifying a chain of causality between changes in the ecosystem conditions and human welfare. A common problem in valuation is that information is only available on some of the links in the chain and often in incompatible units.
- 8.24 The following valuation of ecosystem services of Uttarakhand is based on the **interim report submitted by Indian Institute of Forest Management (IIFM), Bhopal on "Green Accounting of Forest Resources, Framework for Other Natural Resources and Index for Sustainable Environmental Performance for Uttarakhand state & Capacity Building on Environmental Statistics and Green Accounting."**

Various Ecosystem Services

Wood	Recreation	Water Provisioning	Climate Regulation	Research, Education and Nature interpretation	
NTFP	Pollination	Employment Generation	Nutrient Retention	Moderation of extreme events	Waste Assimilation
Food	Carbon Storage	Water Purification	Biological Control	Nursery Function and Habitat Refugio	
Fodder	Cultural Heritage	Gas Regulation	Soil Conservation	Gene pool and Bio prospecting	Water Provisioning

- 8.25 **Valuation of Water:** Water is most important service Uttarakhand gives to the nation. It gives irrigation, drinking water supply and clean energy mainly to the downstream states and lowland dwellers. It brings prosperity to 40% of Indian population and is invaluable for our civilization. It cannot be valued in monetary terms as data available is not adequate.
- 8.26 **Valuation of Fertile Alluvial soil:** It is invaluable, as it is essential for the fertility of agricultural land of whole Gangetic Plain. A monetary value cannot be placed on this, as data is not available.
- 8.27 **Valuation of clean Hydropower Energy:** In India, we are burning around 3000 (High Grade)-7000 (Low grade) tonnes of Coal to produce 1 MW of electricity in a year producing a huge amount of Greenhouse Gases (GHGs). This environmental damage can be reduced to a great extent by using clean hydropower energy. Moreover, dams built for hydro-power generation bring a number of benefits to the downstream habitations and lowland dwellers like reduced flooding, irrigation benefits, drinking water supply and clean energy.
- 8.28 **Valuation of Cultural and Spiritual Services:** These services can only be felt and cannot be valued in monetary terms.
- 8.29 **Valuation of Forest Ecosystem:** The benefits from forest can be categorized into stock and flow benefits. Broadly, stock benefits refer to potential supply, while flow benefits refer to real feasible flow of benefits. Thus, standing timber and carbon stock are stock benefits and carbon sequestration is a flow benefit.
- a. **Standing Timber:** Growing stock of standing timber in each district was sourced from FSI and the economic value of timber at district level is calculated by deriving the weighted average selling price of wood across the state for FY 2013-2014 @ Rs. 19455/m³. Total growing stock in Uttarakhand accounted to approximately 370.65 million.

Table 8.2: Value of Standing Timber

S.No.	District	Value (in Cr.)
1	Almora	17795.00
2	Bageshwar	15670.00
3	Pithoragarh	64632.60
4	Champawat	Data not available
5	Nainital	64569.60
6	U.S. Nagar	Data not available
7	Pauri Garhwal	80915.50
8	Rudraprayag	67224.70
9	Chamoli	94626.30
10	Tehri	90412.80
11	Uttarkashi	153940.00
12	Dehradun	63219.00
13	Hardwar	8096.60
Total		721102.10

Source: IIFM Study, 2017

- b. **Gene Pool Protection:** The economic value of gene-pool protection is envisaged in terms of its biological information value and its insurance value. Biodiversity is not only a source of new drugs with large market potential, but is also a very important source of germ-plasm for agricultural crops. The wild cultivars and crop wild varieties serve as the world's repositories of crop genetic diversity and represent a vital source of genes that can ensure future food security.
- c. **Insurance Value:** The insurance value of forest areas relates to the role of biodiversity in guaranteeing resilience of ecological systems at the local, regional, and national scale, and thereby guaranteeing service provision in the future.
- d. **Carbon Storage:** Carbon storage in forest biomass (biological material) is an essential attribute of stable forest ecosystems and a key link in the global carbon cycle.
- e. **Carbon Sequestration:** Carbon sequestration is the process involved in carbon capture and the long-term storage of atmospheric carbon dioxide and other forms of carbon to mitigate global warming.
- f. **Water Provisioning:** The role of forests in augmenting water flow is widely acknowledged. When precipitation falls on a forested landscape, it is intercepted by the dense canopy cover, thereby reducing its intensity. Some of the water that reaches the land surface evaporates back, some goes away as run-off and some of it is absorbed back by the roots of the trees and moves out into the atmosphere through transpiration. After the

soil moisture reaches its field or saturation capacity, the remaining water recharges the groundwater.

- g. **Water Purification:** Natural ecosystems filter out and decompose organic wastes introduced into inland water.
- h. **Soil Conservation/ Sediment Regulation:** Due to dense canopy cover and thick humus layer on ground, forests play an important role in arresting soil erosion and ensuring slope stabilization.
- i. **Nutrient Cycling/Retention:** Forests and other natural ecosystems prevent significant erosion into nearby rivers and streams. An indirect benefit of prevention of soil erosion is retention of nutrients which would have been lost forever along with the soil.
- j. **Biological Control :** Forests and other natural ecosystems moderate the risk of infectious diseases by regulating the population of disease organisms (viruses, bacteria and parasites), their hosts, or the intermediate disease vectors (e.g. rodents and insects).
- k. **Habitat for Species:** Tiger reserves provide suitable living space and food for wild animals. Natural ecosystems within the tiger reserves with their buffering functions (e.g. cooling effects, interception of precipitation and evapotranspiration, water storage and wind shield) significantly contribute to the mitigation and adaptation to extreme weather events.
- l. **Gas Regulation:** Natural ecosystems regulate chemical composition of various atmospheric gases such as oxygen, ozone and sulphur oxides.
- m. **Waste Assimilation:** Similar to water purification services, natural vegetation and biota within forest areas break down nutrients and compounds and help in pollution control and detoxification.
- n. **Flood Regulation:** Floods are the most frequent natural disasters and cause damage in terms of not only human life, but also physical property.

8.30 The total stock value from the eco system is shown in table 8.3 and is valued at Rs.14,13,676.20 Cr., which is more than six times the state GSDP.

Table 8.3: Summary sheet: Valuation of Ecosystem Services (Stock Values)

Uttarakhand Forest Ecosystem Service (Stock Values)	Physical Volume	Economic Value (Rs. in Cr.)
Timber Stock (million m ³)	370.65	7,21,101.70
Carbon Stock (million tonnes of carbon)	290.33	2,55,725.50
Land Value (km ²)	Total forest cover 38,139.18	4,36,849.00
Total Stock Value	N.A.	14,13,676.20

Source: IIFM Study, 2017

8.31 **18 eco-system services** have been taken in the interim report submitted by IIFM Bhopal and the total flow value assessed from these **services is Rs.95112.52 Cr./year, which is about 44% of state GSDP**. Details of services are shown in table 8.4.

Table 8.4: Summary sheet: Valuation of ecosystem services (Flow values)

Uttarakhand Forest Ecosystem Service (Flow Values)	Physical Volume	Economic Value (Rs. in Cr./ year)
Fuel wood (tonnes/year)	67,90,469	3,395.2
Fodder (tonnes/year)	2,59,20,296.47	7,776.1
Timber (m ³ /year)	6,38,994	1,243.2
Non-Timber Forest Products	Multiple units	303.7
Employment Generation	1 crore person days	300
Gene-Pool Protection	N.A.	73,386.5
Carbon Sequestration (tonnes/year)	61,760.16	1,482.2
Water Provisioning (m ³ /year)	40,43,74,400	745.3
Water Purification (m ³ /year)	12,28,22,047.4	655.7
Sediment Regulation/ Retention (tonnes/year)	2,36,20,000	561
Nutrient Cycling/ Retention (tonnes/year)	NPK present in 2,36,20,000	420.9
Biological Control	N.A.	251.7
Pollination	N.A.	441.1
Habitat for Species	Total forest cover 38,139.18 km ²	892.5
Gas Regulation	N.A.	176.5
Waste Assimilation	N.A.	1,764.6
Flood Regulation	N.A.	1,306.5
Recreation (Tourist)	3,22,936	9.9
Total Flow Value		95,112.52

Source: IIFM Study, 2017

Endangered Ecosystem of Himalayas

8.32 Under the anthropogenically accelerated climate change, the water resources of the highest Water Tower of the earth, viz., the Himalaya are under deep stress, consequently the hydrologic cycle in the region has been perturbed alarmingly leading towards the process of desertification. The sharp hydrologic indicators of the beginning of desertification in Himalaya are:

- Fast diminishing regulatory effect of glaciers.
- Transformation of glacial fed river to non-glacial rivers.
- Very high overland flows on hill slopes.
- Alarmingly accelerated floods.
- Drastic reduction in groundwater recharge.
- Disappearance and fast drying of natural springs.
- Disappearance of perennial streams from their headwater regions.
- Fast dwindling in base flow of rivers.
- Transformation of perennial rivers into non-perennial rivers.
- Dwindling capacity of lakes.

- 8.33 In case of the water resources, the present condition of the Himalayas is approaching similar to the mid 1980s Middle-East and Arabian countries and the process of desertification has been started in the young Himalayan region. Recent studies hydrological and glaciological studies in the Central Himalaya reveal that:-
- a. The snow cover area in the Uttarakhand has reduced about 17.98% (i.e., about 738.34 km² area) during the last one decade.
 - b. The main glaciers are retreating at the rate of 20 m/year to 24 m/year and the tributary glaciers are retreating at faster rates, i.e., 35 m/year to 81 m/year, hence the regulatory effect of glaciers is diminishing gradually resulting in low summer discharge of the mighty glacial fed rivers.
 - c. In Uttarakhand the glacial fed rivers have been started transforming in non-glacial fed rivers due to complete glaciers and snow cover depletion in their catchment areas, e.g., the Saryu river which has recently changed from glacial fed river to non-glacial fed river.
 - d. The rivers like Eastern Ramganga and the Pindar are next in queue which shall be transformed completely in to non-glacial rivers within the next coming decades as at present the snow cover in the catchment areas of these mighty rivers remains, respectively 1.3% and 8.6% only.
 - e. The summer flow of the non-glacial fed rivers of the Uttarakhand State (like the Kosi, Suyal, Gaula, Gomati, Gagas Western Ramganga, Panar, Ladhiya and many others) is dwindling very fast due to very low groundwater recharge caused by anthropogenically accelerated climate change induced disturbance in rainfall rhythm.
 - f. Due to man induced climate change impact in the State, the process of transformation of non-glacial fed rivers in to seasonal rivers has also started as the mighty Kosi and Gagas rivers which are life lines of the Almora and Ranikhet towns have been converted in to seasonal rivers for the first time in their life history in the year 2003 and 2005 respectively.
- 8.34 If no river regenerative measures are taken immediately, all the non-glacial fed rivers of the Uttarakhand State may be converted into seasonal rivers within the next two/three decades, and the summer discharge of all the non-glacial fed rivers will dwindle alarmingly. This would not only impact the hydrological cycle of Uttarakhand but also adversely impact the availability of water resources in 50% of the country. Thus, the Himalayan eco-system needs to be preserved for long term sustainable development of the country.

Payment for Ecosystem Services (PES)

“We won’t have a society if we destroy the environment.”

- Margaret Mead

- 8.35 Are Uttarakhand and other Himalayan states worthy of economic incentives for ecosystem services they provide to the Nation? Can the country even imagine the consequences that will befall if its perennial mighty rivers like Ganga and Yamuna changing into seasonal rivers? The glaciers are formed over millennia and now they need care and investment. Mountains and forests are exceptional natural machines. They suck in rainwater and release water slowly to feed the civilization. In the present form, these have been formed over millennia by interplay of physical forces and now they are dying due to climate change and anthropogenic factors. They need our attention and be looked after as they have looked after human civilization for centuries.
- 8.36 The Hon’ble Finance Commission has been given the Constitutional mandate for development of the nation that is not just inclusive but also sustainable. **Apart from interest of the present generation, it has to think about posterity and inter-generational equity.** Under equalization principle, it must take into account the strengths and weaknesses of states, amount of ecosystem services the state provides to the nation for present and posterity, cost and use disability of states, level of development of the states, and vulnerability of the people in the states, in addition to contribution towards taxes and performances.
- 8.37 Himalayan states carry special burden on account of (a) historically weak infrastructure and economy, (b) the constraints of having to care and protect for a large share of the nation's forests, mountains, water sources, biodiversity and general environmental heritage, and (c) the vulnerability & disability they face in terms of life, livelihood and essential services like health, education etc. **These states need to be compensated on account of the special burdens, that they carry for the rest of the nation and to preserve their ecosystems for posterity.**
- 8.38 It is clear, that Uttarakhand’s mountains and forests provide a variety of eco-system services to the nation having substantial monetary value and 15th FC is requested to consider it to build it in the devolution formula so that the state can get benefit in lieu of ecosystem services, it provides to the rest of the country and it would be a win-win situation for all the states of the country for sustainable overall development and protection of the precarious eco-system.



Nanda Devi Peak: In Uttarakhand the nature is revered as living Gods & Goddess.

"The environment and the economy are really both two sides of the same coin. If we cannot sustain the environment, we cannot sustain ourselves."

-Wangari Maathai

Chapter 9

Proposed Devolution

The 15th FC has been constituted under Article 280 of the Constitution. Its recommendations will cover a period of five year from 1st April 2020 to 31st March 2025.

- 9.1 The constitution of India assigns to the Finance Commission, the important task of laying down the principles of vertical and horizontal devolution of resources. Since, taxes are less decentralised than expenditures, there occurs an imbalance between resources and needs of different tiers of governments. States performing major expenditure functions need resources by way of revenue sharing and grants. The inter-se distribution of fiscal transfers has to take into account equity as well as efficiency issues.

Vertical Devolution

- 9.2 The Terms of Reference of the 15th FC has also stated to study the impact of substantially enhanced tax devolution to states on the fiscal situation of the Union Government following the recommendations of the 14th FC, coupled with continuing imperative of the National Development Programme, including New India-2002. As far as the so called “substantially enhanced devolution’s from 32% to 42%” is concerned, it is not as substantial as it prima facie appears to be. The Union Government has been assigned the expenditure responsibility of defence, railways, telecommunication etc., while the state governments have the onerous duty to incur expenditure on roads, water supply, health, education, irrigation, agriculture and allied activities, policing, law and order, social welfare, forests, environmental conservation etc., along with its share in central and centrally sponsored schemes. In the absence of the untied plan grants which used to flow earlier through the mechanism of the Planning Commission, the above responsibilities put fiscal stress on the states due to reduced budgetary support on the plan side.
- 9.3 Another aspect of non-transparency of fiscal data relates to the information on cost of collection. The cost of collection is determined by the CAG but the methodology for this is not disclosed and therefore it remains an unknown amount. Although in the Union Budget, on the expenditure side, under fiscal services, there is an entry for cost of collection, but what is actually deducted from Centre’s gross taxes is not known. The CAG, in its Report on Compliance of FRBM Act, 2003, published in 2016 (Report No. 27) made the

following observation: *“During the certification of ‘net proceeds’ by the CAG, based on the recommendations of the successive Finance Commissions, it was noticed that during the period 1996-97 to 2014-15 an aggregated amount of Rs. 81,647.70 Cr. was short devolved to the States.”*

- 9.4 As indicated in Article 270, cesses are meant to be earmarked and spent on specific purposes for which the central government may have enacted a separate law. Surcharges are levied for temporary objectives. While revenues from surcharges may be merged for general spending, revenues from cesses levied under specific Union Government Acts should not be so merged. They must be spent for the purpose for which they have been levied.
- 9.5 The central government has often used cesses and surcharges for long periods of time and used these as a means of reducing the divisible pool of the central taxes. Various Finance Commissions have made specific observations regarding this practice and have suggested that these instruments namely cesses and surcharges should be levied for limited periods for the stated objectives and once the objectives have been met, these should be discontinued.
- 9.6 In this context, 13th FC noted the following: *‘8.4 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 state’s 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.’*
- 9.7 Further, 14th FC made the following observation: *‘8.10 A related issue in the assessment of vertical imbalance is the issue of the non-divisible pool of resources, namely cess and surcharges. The share of cess and surcharges in gross tax revenue of the Union Government has increased from 7.53 per cent in 2000-01 to 13.14 per cent in 2013-14. The States have argued that this denies the States their rightful share in the devolution. However, Constitutionally, it is not possible to include cess and surcharges in the divisible pool, as under Article 270, taxes referred to in Article 268 and 269 - surcharges on taxes and duties and cesses levied for specific purposes - should not form part of the divisible pool. Earlier Finance Commissions had recommended that the Union Government review the current position with*

respect to the non-divisible pool arising out of cess and surcharges and take measures to reduce their share in the gross tax revenue. However, this has not happened. There are two ways of addressing this legitimate concern of the States - by amending the Constitution to include these items in the divisible pool, or increasing the share of (states in) the divisible pool to compensate States on this account. We ruled out the first option given the record of experience so far.'

9.8 The new GST regime constrains the capacity of the state to raise their own resources. In order to raise resources, the Union Government has the option of levying cesses and surcharges which are not sharable with the states. The position regarding cess and surcharges has not changed even after the analysis and recommendations of 14th FC. Thus, reiterating, the argument used by 14th FC and taking note of the fact that a constitutional amendment is not possible for this purpose, it is submitted that in order to make the states equal partners in development process, the **vertical devolution may be raised from 42% to 50% of the net proceeds of taxes.**

9.9 As can be seen from table 9.1 the difference between the recommended share and the effective share of states in the central taxes has increased over time because of the excessive use of cesses and surcharges by the central government. For the period FY 2015-16 to FY 2017-18 (RE), on an average only 34.9% of the gross central taxes constituted the share of all states.

Table 9.1 States share in central taxes: Recommended and effective

Commission	Recommended share in divisible pool (%)	Effective share in gross central taxes (%)	Shortfall in effective share relative to recommended (% points)
Tenth (alternative devolution scheme)	29.0	27.4	(-) 1.6
Eleventh	29.5	27.1	(-) 2.4
Twelfth	30.5	26.3	(-) 4.2
Thirteenth	32.0	28.2	(-) 3.8
Fourteenth	42.0	34.9*	(-) 7.1

Source: (basic data) IPFS (2015-16) and Union Budget Documents|*averaged over the period from 2015-16 to 2017-18 (RE)

9.10 As stated earlier, special category states are categorised as such because of their weak fiscal capacity, a narrow economic base, cost disabilities and other various development constraints. While, the 11th FC emphasized the need for special consideration for special category states, the 14th FC treated them at par with the general category states.

- 9.11 The earlier Finance Commissions have provided these states with special purpose grants and up-gradation grants, which were discontinued in the 14th FC award. In the absence of special purpose grants, it is requested that at least **30% of the sharable pool may kindly be set aside to be shared amongst the special category states or the small and hilly states.** It will go a long way in compensating for the loss of assistance by way of plan grants to these states.

Horizontal Devolution

- 9.12 The revenue sharing principles which have emerged over the years have been guided by three main principles, (1) capacity equalization (2) efficiency promoting incentives (3) allowance for cost disabilities.
- 9.13 The revenue sharing is guided by the principle of horizontal equity wherein fiscal resource deficiencies across the states arising out of systemic and identifiable factors have to be evened out, while certain normative principles have to be followed to assess the fiscal capacity, revenue resources and expenditure needs of the state.
- 9.14 To avoid principle of deficiency becoming a 'perverse incentive' to remain resource deficient, efficiency incentives become important.
- 9.15 As we have amply justified that some of deficiencies and constraints are endemic because of geographical & environmental factors and historical baggage on which state policies have little control, which are systemic, clearly identifiable and deserves serious consideration while working out the formula for horizontal distribution.
- 9.16 Finance commission in the past have by and large assigned higher weightage to population and income, as compared to other factors. The state with a forest area of almost 70% which includes tree covered forests, glaciers and Himalayan snow clad mountains, the water towers of the nation, low population density, high operational and maintenance cost for services, diseconomies of scale, deficient infrastructure, disaster vulnerability etc. puts it to a disadvantage with regard to its income generating economic activities and economy of service delivery. A skewed habitation pattern over a far flung area with a low population density leads to higher cost for providing services.

Population Criteria

- 9.17 The state has done commendable work in achieving replacement rate of population growth. **Hence it is suggested that a 25% weightage be given**

to population, out of which 15% be assigned on the basis of 2011 population and 10% as an incentive to move toward replacement rate of population growth to be calculated on the basis that the state closer to and below the replacement level would be assigned higher weightage as compared to states higher than replacement level.

Economic Criteria

- 9.18 While per capita income is a good criterion for determining revenue raising capacity of a state, the structure of economy along with intrastate disparities need to be factored in. With the new GST regime in place where the tax is destination based the impact for Uttarakhand is going to be substantial because of a weak consumption base.
- 9.19 The share of agriculture income in GSDP in the state is around 10% at present and the work force employed in agriculture is more than 50% of the total work force, majority of which is constituted of small, marginal farmers and agricultural labour and therefore the overall per capita income in a macro context gives a different picture. Majority of the people are poor and cannot bear the burden of any additional taxation, thus limiting the revenue raising capacity of the state.
- 9.20 The resource flow to the states is not confined to transfers through the Finance Commission. Most of the special category states on account of their low population, skewed population distribution, geographical factors, diseconomies of scale, problem of agrarian economy, are not able to attract private investment in industry, manufacturing and services sectors. These constraints also leave little scope for projects in a public private partnership mode in remote regions of hill areas. Further, if we look at the credit deposit ratio of the commercial banks, most of the special category states have very low CD ratio, which further goes to show that the resources by way of private investment through bank credit is very limited. Weak infrastructure and disaster proneness too impact investment, therefore any differential treatment does not violate the principle of equity and equalisation.
- 9.21 In the distance criterion, the per-capita GSDP is used as an indicator for measuring fiscal capacity. It is meant to reflect the taxable base with respect to the state taxes. After the implementation of the GST, per-capita GSDP which reflects per-capita output in the state is no longer relevant for reflecting the GST tax base. The tax base of GST is consumption rather than output. That part of income which is not consumed constitutes saving and it should be kept outside the measure of GST tax base. However, state level savings

are not estimated and state level consumption can at best be captured by National Sample Survey data. In fact, the saving of a state, if it is not invested within the state, becomes available for investment in other states. In this sense it represents a financial externality. In other words the savings of one state benefits the investors of other states. This benefit is also difficult to capture. But an indirect indicator of this financial externality is the Credit-Deposit ratio (CD ratio). We have suggested that the credit-deposit ratio should be used to reflect the financial externality that one state offers to others in terms of providing savings over and above its own investment needs.

- 9.22 Economic growth and development are a function of investment, both public and private. A look at credit deposit ratio of the states in table 9.2 makes it amply clear that the CD ratio of most of the special category states is well below the national average. As is evident from the table 9.2 the CD ratio for Uttarakhand for the last few years has been consistently less than 50% of the national average, which clearly demonstrates that resource flow through private investment is very low and most of the savings of the state goes to more developed regions of the country thereby enhancing development in these states.
- 9.23 The state of Uttarakhand is suggesting the utilization of contribution to the overall investment in the country as a whole which is sourced from different states. Some of the states contribute more in the form of savings while the corresponding investment is done in other states. This is so because financial resources move with greatest flexibility within the common market of India. Since state wise savings/investment data are not compiled we are suggesting that a proxy such as the credit to deposit ratio (CD ratio) may be used. The higher is the credit relative to deposits for a state, the larger is the amount that the concerned state draws from the savings of other states. States with a relatively lower CD ratio are the states which provide savings for the benefit of other states. The government of Uttarakhand would like to suggest that this contribution to country's investment by individual states should be rewarded. In fact, a distance formula can be used for this purpose. This formula may be written as follows: Defining the CD ratio of a state as c_i and the highest CD ratio among states as c^* , the relevant criterion can be defined as follows:

$$\text{Share of a state under CD criterion} = \frac{N_i * (c^* - c_i)}{\sum N_i * (c^* - c_i)}$$

Where i varies from $1 \dots\dots n$ where ' n ' is the number of states and N_i refers to the population of the i^{th} state.

- 9.24 Keeping in view the above discussion, we suggest that apart from income distance criteria for devolution to the state, private and public investment being undertaken in the state as symbolised by the CD ratio should also be taken into consideration for devolution. **Accordingly we suggest that 25% weight should be given to the income distance criteria and 15% weight to CD distance criterion**, which will be calculated on the lines similar to income distance criteria, which presumes that the state further from the highest CD norm would be compensated accordingly.

Table 9.2 : State wise credit deposit ratio of scheduled commercial Banks according to sanction (as of end of March) (percent)

Regions/States/UTs	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
NORTHERN REGION	67.7	68.9	74.4	82.5	87.7	88.8	90.6	88.5	83.6	75.0
Haryana	60.1	61.4	63.3	71.7	79.4	76.5	78.1	75.8	69.9	59.1
Himachal Pradesh	43.4	38.6	42.2	41.6	38.9	35.1	35.8	35.3	32.9	29.7
Jammu and Kashmir	56.4	47.2	46.4	38.1	33.8	36.9	40.1	40.2	44.2	39.8
Punjab	67.2	65.7	71.5	77.8	80.9	81.6	79.1	75.1	69.8	69.0
Rajasthan	82.4	80.6	88.4	90.4	90.9	92.6	87.1	86.2	72.4	67.8
Chandigarh	96.2	115.0	131.1	121.6	115.5	127.5	120.0	105.9	97.8	100.7
Delhi	66.9	68.9	74.6	86.8	95.6	97.7	103.7	102.6	100.4	88.3
NORTH-EASTERN REGION	40.7	36.0	35.5	33.8	34.4	33.6	34.8	34.5	38.4	36.8
Arunachal Pradesh	31.7	25.5	27.5	23.7	23.9	21.8	23.7	26.8	29.0	24.0
Assam	42.4	38.5	37.8	36.5	37.7	37.2	37.7	36.7	42.2	40.3
Manipur	48.4	36.0	42.1	34.8	31.3	28.6	33.6	34.0	41.1	38.7
Meghalaya	33.2	28.3	25.6	24.4	25.8	24.0	27.4	25.9	24.8	25.9
Mizoram	62.9	57.9	53.2	46.0	38.9	35.3	37.8	37.8	40.1	36.4
Nagaland	34.0	30.8	30.3	26.1	27.2	28.4	31.0	32.7	34.1	31.5
Tripura	36.1	30.7	30.7	32.2	31.3	32.8	32.4	33.7	35.3	35.9
EASTERN REGION	51.5	48.8	50.8	51.4	50.7	49.4	49.0	46.5	44.9	41.0
Bihar	28.2	26.8	29.0	29.5	29.7	30.5	32.8	33.6	33.4	30.9
Jharkhand	35.3	32.0	35.1	34.4	33.9	32.1	31.8	29.6	29.6	27.1
Odisha	56.3	50.8	54.4	52.5	47.3	46.3	44.6	41.9	40.8	38.1
Sikkim	46.8	41.6	37.2	37.9	33.1	27.2	26.5	25.6	28.0	27.4
West Bengal	62.4	60.7	61.5	63.7	63.8	62.0	61.6	57.8	55.1	50.3
Andaman & Nicobar Islands	30.7	31.7	36.5	38.1	38.5	38.6	39.1	40.1	44.2	38.5
CENTRAL REGION	46.1	44.3	47.3	46.7	47.2	47.6	48.8	48.3	49.3	46.0
Chhattisgarh	49.8	46.3	52.3	52.3	53.6	53.8	59.5	61.6	63.5	62.4
Madhya Pradesh	60.1	57.4	60.6	55.6	56.6	58.2	60.4	54.8	61.2	60.9
Uttar Pradesh	43.7	42.2	43.3	44.0	44.0	44.1	44.6	45.4	44.6	40.0
Uttarakhand	26.2	25.3	33.7	35.4	35.6	34.8	35.6	34.5	34.9	34.3
WESTERN REGION	88.6	85.6	79.1	79.5	87.0	85.5	86.0	87.1	96.0	96.2
Goa	29.4	26.7	26.5	29.1	28.1	28.8	28.7	26.7	27.1	25.7
Gujarat	66.5	63.7	65.3	66.2	70.4	72.8	74.7	72.7	75.4	68.9
Maharashtra	93.9	91.2	82.9	83.0	91.8	89.4	89.8	92.0	102.9	106.0
Dadra & Nagar Haveli	23.9	18.1	60.0	34.8	30.1	37.1	40.8	35.3	35.8	36.5
Daman & Diu	15.0	19.3	20.2	21.3	17.4	19.1	21.9	24.3	22.9	23.5
SOUTHERN REGION	89.1	87.9	92.7	94.5	95.5	97.1	94.9	89.9	89.3	84.2
Andhra Pradesh	90.4	96.4	105.1	109.7	111.3	112.0	111.3	105.3	106.0	101.1
Karnataka	78.1	77.3	77.6	72.7	71.4	71.9	71.0	67.7	70.1	67.0
Kerala	63.4	59.7	63.1	73.1	76.4	73.1	67.7	64.6	62.1	59.8
Tamil Nadu	114.7	108.1	113.8	115.1	116.9	123.3	121.8	119.0	113.7	105.8
Lakshadweep	7.5	5.4	7.3	8.7	9.7	9.9	8.6	9.1	10.5	8.4
Puducherry	49.7	51.4	57.2	62.7	71.5	83.3	77.9	71.5	67.1	63.9
Telangana	-	-	-	-	-	-	-	101.6	104.5	97.0
ALL INDIA	74.4	72.6	73.3	75.6	79.0	78.8	79.0	77.1	78.4	73.8

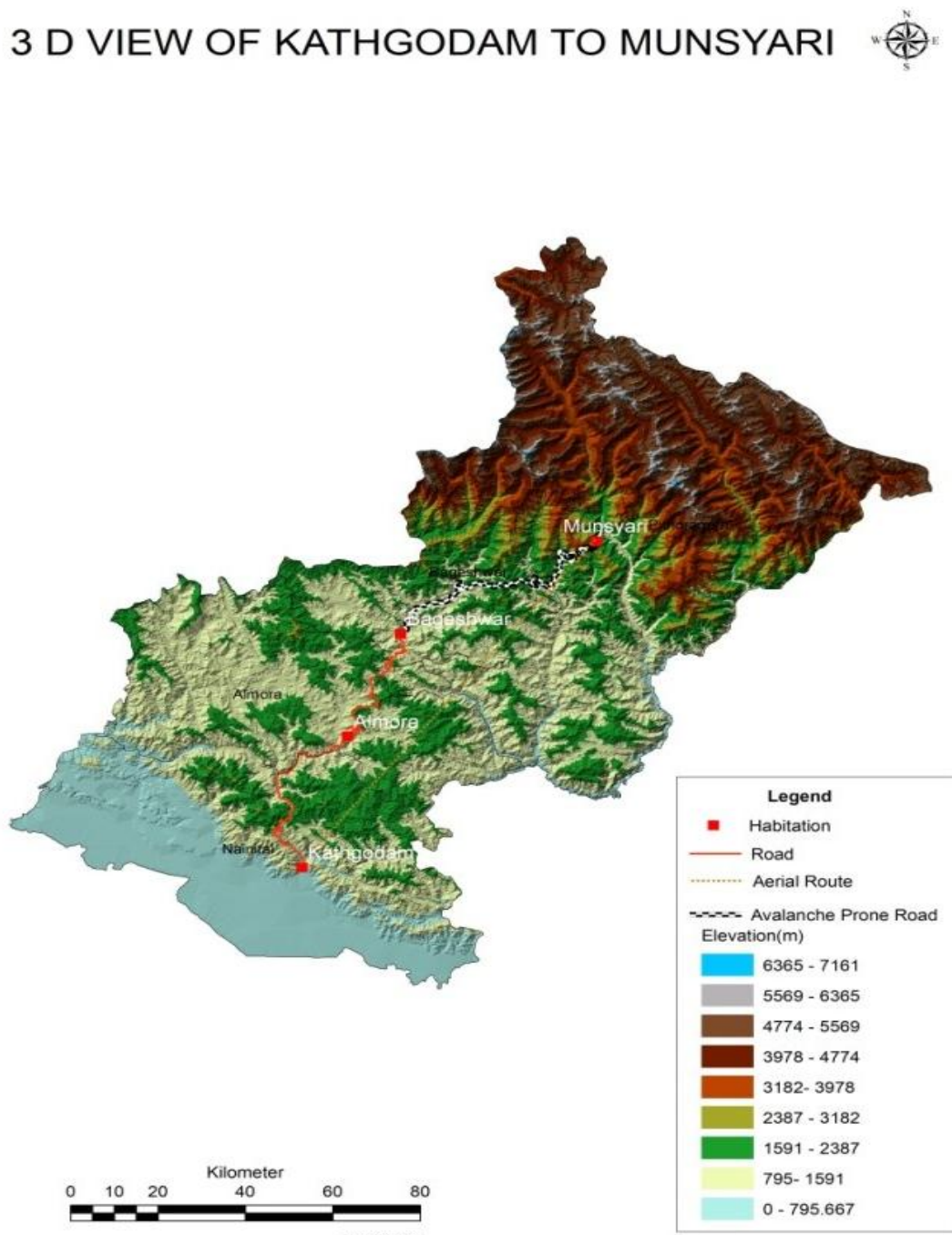
Note: Nil/Not Applicable/Negligible.

Source: Basic Statistical returns of schedule commercial Banks in India RBI. Various issues

Area Criteria

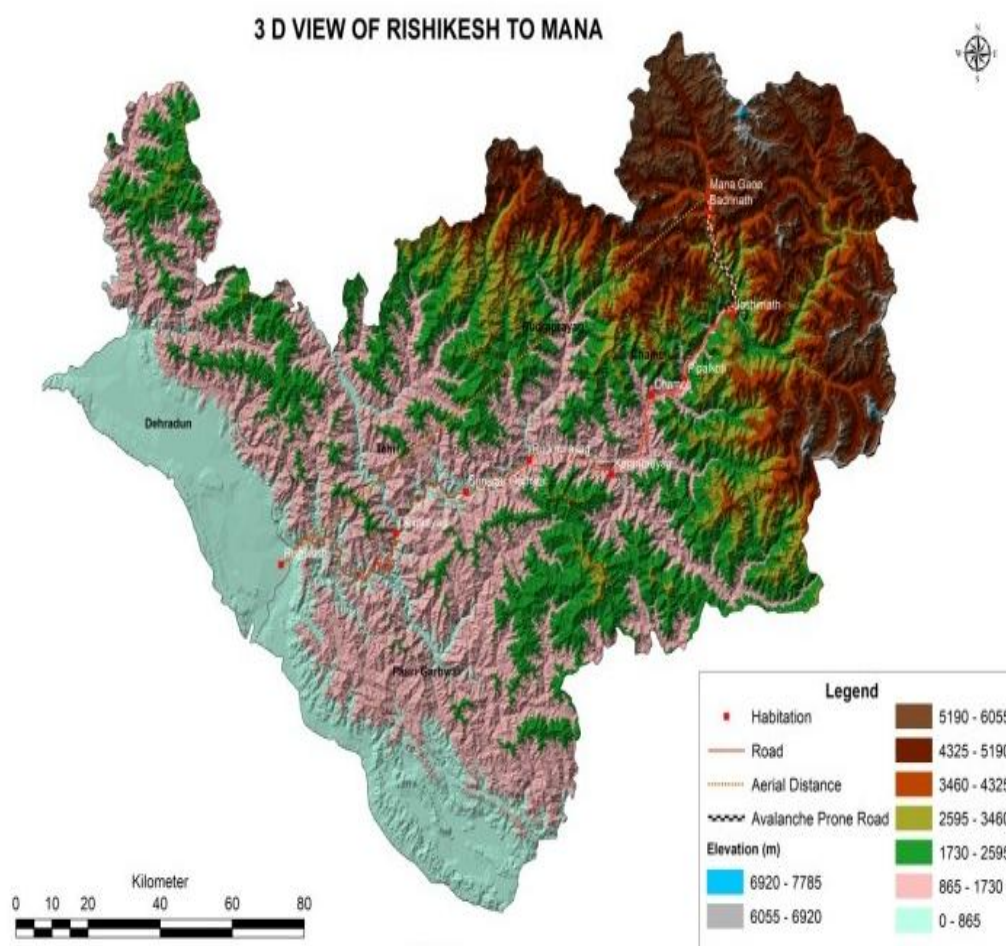
- 9.25 While the criterion of area justifies the fact that catering to a scattered population over a larger area implies higher expenditure needs. However, the

3 D VIEW OF KATHGODAM TO MUNSYARI



geographical area in a hill state has a three dimensional nature in the form of mountain peaks, hill slopes, undulations etc. We are submitting two maps which illustrate the situation. The aerial distance from Kathgodam, the last rail head in Kumaon region, to Munsiyari a border village is 112 kms, while the road distance is 278 kms of which 129 kms is avalanche prone. Similarly, in the Garhwal region the aerial distance, road distance and avalanche prone

distance, from Rishikesh the last rail head to Mana village on the border is 141 kms, 300 kms and 50 kms respectively. Thus, expenditure needs, both capital and maintenance are much higher due to three dimensionality in the area criterion. Accordingly we propose that weightage should also be given to the mountain area of a state as a proportion of the total geographical area.



Modifying the area based criterion

9.26 At present, in the application of the area based criterion, states with small areas which includes most of the states in the group 'Small and Hilly' states are given a minimum share of 2%. The Government of Uttarakhand is of the view that there is a better way of incorporating the basic idea behind this modification of the area criterion. It is meant in our view to reflect the much larger unit costs of providing services in the hilly and sparsely populated states. It would be better if this consideration is introduced more directly in modifying the area criterion. Accordingly, we suggest that the present method of setting a common floor of 2% for states with area equal or less than 2% be given up and a different kind of modification is used for this purpose.

We define the share of hilly area in the total area of a state as $\frac{H_i}{A_i} = h_i$

The share of a state in the total area of all states is given by $a_i = \frac{A_i}{\sum A_i}$. We suggest that instead of using a_i we may use a_i^* as the modified area criterion where

$$a_i^* = \frac{a_i * (1 + h_i)}{\sum a_i * (1 + h_i)}$$

Thus in the case of a state where the share of hilly area to the total state area is zero, its share will be given by $\frac{a_i}{\sum a_i * (1 + h_i)}$. That is to say, a state even with no hilly area would get a positive share in proportion of its actual area except that the denominator would be modified.

- 9.27 **We therefore suggest that 20% weightage in the devolution formula should be given to the total area of the state weightage by an appropriate index to account for the hilly area of the state.**

Eco-System Services Criteria

- 9.28 As stated in chapter 5 and 8, that there exists ample justification for economic incentive for stewardship of eco system services. Following the 'conservation ethic' with regard to natural resources management in the overall national and global interest, we have given the details of the 'cost disability' and 'use disability' as well as 'development disability' along with a broad idea of valuation of eco-system services and its bearing on climate change issues. **Accordingly we suggest that a 15% weightage to be called eco system services should be given to the total forest area including glaciers, alpine meadows, snow-capped areas etc. either in terms of total forest area (approximately 70%) as a proportion of the total geographical area. The share of state based on this parameter in the total devolution will be defined as follows:**

$$f_i^* = \frac{f_i / A_i}{\sum (f_i / A_i)}$$

Where f_i = Forest Area and A_i = Total Geographical area of the respective states.

Suggested Devolution

Vertical Devolution

9.29 The vertical devolution should be increased from 42% to 50%

9.30 A total of 30% of the total devolution should be earmarked for small and hilly states.

Horizontal Devolution

9.31 Thus we suggest the following horizontal devolution:

Table 9.3: Suggested Horizontal Devolution

S.No	Criteria	Weights	Total
1.	Economic Considerations		40%
	1. Income Distance criteria	25%	
	2. Credit-Deposit ratio Distance criteria	15%	
2.	Population		25%
	1. Population of 2011	15%	
	2. Replacement rate achievement	10%	
3.	Eco-system services and conservation of Eco-system		15%
4.	Area weighted by share of hilly area		20%
	Total		100%

Chapter 10

Natural Calamities

The State of Uttarakhand by virtue of its geo-tectonic setting, physiographic condition and extreme seasonal precipitation is vulnerable to a number of disasters that include earthquake, landslides, floods, flash floods, cloudbursts and drought. These repeatedly cause loss of human lives and inflict misery upon the affected population besides causing immense loss of infrastructure and property. Disasters disrupt the pace of growth and development and roll back the efforts of many years in one single stroke. Economic activity is also disrupted seriously by the disasters and there is loss of livelihood for large number of persons. Disasters thus adversely affect the quality of life of the people and massive funds have to be routinely provided for post-disaster reconstruction, rehabilitation and restoration. Disaster management, particularly for the multi-hazard prone state of Uttarakhand is an issue related with development and adequate investment is required to be made in this field for sustaining the pace of growth and development.

- 10.1 The state routinely faces the fury of flash floods, cloudbursts and landslides during the monsoon season. Avalanche, hailstorms and forest fires are other common disasters in the state. Though enhanced by anthropogenic activities, most disasters are caused by natural geological processes and it is not always possible to predict these.
- 10.2 The entire land mass of the state falls under the highly seismic earthquake zone, zone IV and V (area of very high to highest risk of damages due to earthquakes respectively). Out of 13 districts of the state, 4 come under zone V, while 5 other are partially under zone IV and zone V and rest under zone IV. It is thus an area of '**geological belligerence**'.
- 10.3 Moderate magnitude earthquakes that struck the state in the previous decade have exposed the level of seismic vulnerability of the state. Uttarkashi earthquake on 28th October, 1991 and Chamoli earthquake of 29th March, 1999 took toll of 768 and 100 human lives respectively. These earthquakes caused injury to thousands of people, and inflicted significant damage to property, land and infrastructure like roads, bridges, telephones, water and electricity lines.
- 10.4 The state has not witnessed a major earthquake since 1999 Chamoli earthquake, though low magnitude earthquakes are very common. The

state at the same time has not been affected by a Great Earthquake ($M > 8$) for more than 200 years. This has been **designated as a Seismic Gap**, following which the scientific community has been expressing high probability of a major earthquake in this region.

- 10.5 In the year 1998, the state witnessed two major landslide events at Malpa (Pithoragarh) and Ukhimath (Rudraprayag) that took toll of 219 and 109 human lives respectively.
- 10.6 In the year 2003, Varunavrat landslide devastated the town of Uttarkashi. In the year 2010, the entire state was devastated by landslides, flash floods and floods and 233 human lives were lost at various places in different incidences. The actual losses caused by these to property and infrastructure were estimated to be Rs. 22,568.31 Cr. of which only Rs. 6,895.64 Cr. qualified for assistance out of NCCF. As against these losses, the state government received assistance of only Rs. 572 Cr. out of NCCF.
- 10.7 The state witnessed the fury of disasters yet again in the year 2012, when Uttarkashi and Rudraprayag districts were adversely affected by flash flood/cloudburst incidences. 105 human lives were lost at various places in these incidences. The actual losses caused by these incidences were estimated to be around Rs. 658.11 Cr. of which only Rs. 272.88 Cr. qualified for assistance out of NDRF. As against these losses the state government received assistance of Rs. 72.76 Cr. out of NDRF.
- 10.8 The incidences in the year 2012 brought forth the problem of abnormal aggradation in the river beds of Uttarakhand and in case this issue is not addressed timely, many human habitations will be under the threat of being completely annihilated. It is estimated that during the flash flood of August 2012, more than 150 lakh cubic meter sediment got deposited in stretch of 15 Km. along Asiganga and Bhagirathi rivers leading to rise in the river bed to the tune of 3-5 meters.
- 10.9 In the year 2013, the state had witnessed the worst ever catastrophic calamity in the Himalayas. Large stretches of the state in the upper hills extending from Himachal Pradesh in the west to Nepal in the east, received unusually heavy rains. Thousands of people were swept away in the rivers or buried under the debris of the landslides, mainly in the narrow Kedarnath valley. The number of human lives lost and the extensive damage to infrastructure like roads, bridges, drinking water schemes, buildings etc. was estimated to be more than Rs. 15,000 Cr.

The loss to infrastructure was very extensive as all the major rivers were in spate and the upper hill areas had been totally cut-off. Tourism activities came to a standstill with long term adverse impact on the economy of the state. It had also impacted the tourist psychology to the extent that any adverse weather forecast even now, leads to decreased footfalls in all major tourist destinations.

Photo 1: Kedarnath Temple after 2013 disaster



Photo 2: Rudraprayag Bridge during 2013 Flash floods
Before **After**



Photo 3: (a) Landslide at Kapkot, Bageshwar (b) Damaged Bridge at Ramganga, Munsyari, Pithoragarh (2018)



10.10 Consequent to June, 2013 disaster in Uttarakhand, a financial package of Rs. 7346.89 Cr. was approved in 2013 by the Central Government. The sources of funding for the package along with year wise phasing are given below:

Table 10.1: Financial Package approved by Central Government

Rs. in Cr.

S.No.	Sources	2013-14	2014-15	2015-16	Total
1	Centrally Sponsored Scheme (CSS)-Reconstruction-Central Share	516.39	688.42	680.11	1884.92
2	Central Plan	7.50	22.50	20.00	50.00
3	Special Plan Assistance (SPA) Reconstruction	165.00	495.00	440.00	1100.00
4	Externally Aided Project (EAP)	461.84	1367.03	1275.23	3104.10
5	NDRF (Non-Plan)	1207.87	0.00	0.00	1207.87
	Total Assistance	2358.60	2572.95	2415.34	7346.89

Source: Department of Planning, GoUK

10.11 The funds under CSS, Central Plan, EAP and NDRF were to be provided to the state government from the concerned Ministries/Departments. The allocation and recommendation under SPA (Reconstruction) was to be done by the erstwhile Planning Commission.

10.12 Details of disaster induced losses in various years are summarized in the table below:

Table 10.2: Details of losses in Disaster in different year

S.No.	Year	Human losses			Animal loss	Damage to dwelling units		Agriculture land lost (in Ha)
		Dead	Missing	Injured		Full / Severe	Partial	
1	2018 as on 31.07.18	52	09	24	423	54	22	Not available
2	2017	84	27	66	1020	535	1067	21.04
3	2016	119	05	102	1391	1091	2684	112.25
4	2015	55	-	64	3717	206	1313	15.48
5	2014	66	-	66	371	660	1260	1285.53
6	2013	225	4021	238	11268	5296	11938	1308.96
7	2012	176	-	96	997	285	743	40.34
8	2011	83	-	71	876	514	5814	806.35
9	2010	220	-	139	1798	1215	10672	240.93
Total (2010-17)		1028	4053	842	20562	7062	35491	3830.88
Average		129	507	105	2570	883	4436	478.86

Source: Department of Disaster Management, GoUK

- 10.13 Forest and building fires is a common phenomenon in the state of Uttarakhand. Precious life and property is lost on account of this disaster in almost all parts of the state. Haphazard growth of towns and habitations also render them susceptible to fires. Rural villages in the state are particularly vulnerable because the construction of houses involves use of substantial quantity of timber. This is exacerbated by the use of fuel wood, as source of energy for cooking and warming. Every year, there are numerous incidences of fires causing huge losses of material and forest wealth.
- 10.14 Amongst the man induced disasters, road accidents are the cause of most of the deaths. Due to the topography of the state, massive investments are required in proper road constructions, road protection measures and various road safety measures.
- 10.15 Though the damages & loss caused by wild animals is yet to be included in the list of disasters identified in the relief manual, yet the issue has assumed alarming proportions in the hill areas of the state. The damages caused to agriculture and horticulture by the wild animals and monkeys has become a cause of serious concern and a threat to the livelihood of thousands of the farmers in the state, especially in the hill areas.
- 10.16 Agriculture is the mainstay of the economy of the state. Most agriculture in the state is rain fed. The landholdings are small and fragmented. Table 3.13 clearly shows the subsistence nature of agriculture in the state. Over dependence of agriculture upon rainfall, makes the state vulnerable to crop failure. In the year 2006, winter rains were deficient by 79.10% and 63 Tehsils of 11 districts faced the wrath of drought and an assistance of Rs. 284.58 Cr. had to be sought from the Central Government under NCCF. Again in the year 2008, 45 tehsils of the state faced drought conditions and an assistance of Rs. 241.56 Cr. was sought from the Central Government out of NCCF.
- 10.17 The subsistence farmers of the state are at the same time hit hard by severe winters when the crops are often lost due to frost and cold wave. Permanent loss of land due to landslides is also a major issue in the hills.
- 10.18 In case of major disaster incidences as in 2010, 2012 and 2013 the allocation under SDRF falls short of the funds required for search, rescue and restoration of essential services and funds have to be mobilized from various other sources. In view of increasing incidences of extreme climate events there is enhanced possibility of the state being affected by such incidences more frequently. **It is therefore required that SDRF**

allocation of the state be enhanced significantly.

- 10.19 The norms of relief admissible under SDRF for rescue, relief and restoration are inadequate and do not reflect the actual ground realities, especially in the hill areas. **These norms need to be revised to take into consideration the actual requirements of the state.**
- 10.20 In view of the above specificities, vulnerabilities and high-risk profile of the state, it is submitted that the list of natural calamities should be enhanced to include disasters which are specific to various states. It is therefore, necessary to revise eligible list of calamities keeping in view the disasters as defined in the Disaster Management Act, 2005. The issue of man and animal conflict like monkey menace have acquired the dimensions of a disaster in the state of Uttarakhand .It should along with snowstorms, cold waves, road accidents, damages to agriculture and horticulture crops due to extreme cold weather conditions and frost, be included in the list of relief compensation admissible under SDRF.
- 10.21 Post-disaster losses are assessed by the revenue department of the state and in accordance with the norms of relief issued by the Ministry of Home, Government of India, relief is provided to disaster victims, out of State Disaster Response Fund (SDRF). In the event of a major disaster, the state government also provides additional relief to disaster victims out of its own resources and seeks assistance out of National Disaster Response Fund (NDRF).

State specific issues

- 10.22 **Rehabilitation of disaster affected villages:** Landslides and bank erosion that are frequent in the state causes permanent loss of agricultural and other lands and also make some areas prone to ground subsidence and landslides. More than 350 such habitations spread across the state have thus been rendered unfit for human habitation. Geological surveys carried out over the years have indicated that mitigation measures would not be cost effective and most of these villages will have to be rehabilitated at alternative safe locations. People residing in these habitations perpetually face threat of disasters and have therefore to be rehabilitated at alternative safe places to avoid loss of life and property.
- 10.23 The state government has formulated a Rehabilitation Policy for disaster-affected areas and has started the process of rehabilitating these habitations out of its own resources. The task of rehabilitating all the

villages is immense and requires huge amount of resources and cannot be done by the state alone.

- 10.24 To give an example, to rehabilitate an average 50 families of the affected 350 villages at alternative safe locations as per the rehabilitation policy, resources to the tune of Rs. 875 Cr. are required for the rehabilitation of these villages and in addition to this, resources would also be required for providing community assets and facilities in the rehabilitated villages. **Assistance of Rs. 1000 Cr. is therefore requested from 15th FC over the award period of 05 years for rehabilitation of the disaster victims.**
- 10.25 **Disaster Mitigation Fund:** In accordance with the provisions of the Disaster Management Act, 2005 the state government has formulated **State Disaster Mitigation Fund**. A number of natural calamities, particularly landslides can be averted by timely mitigation measures, thereby averting loss of resources, human lives. It is therefore urgently required that a mechanism be formulated for regularly receiving Central Share of the State Disaster Mitigation Fund. Thus a Central Share of Rs. 100 Cr. be provided by 15th FC to the state government every year under the State Mitigation Fund.
- 10.26 **River aggradations to be included in the list of natural calamities:** River beds in many areas in the state of Uttarakhand are rising at an alarming rate. The fast rate of river aggradation is attributed to both increase in the sediment supply and reduced carrying capacity of the rivers. This is mainly due to the increase in the number of landslide, flash floods and cloudburst events together with unscientific debris disposal and reduced water supply.
- 10.27 Raised river bed has made many habitations on the banks of major rivers prone to floods and incidence of excessive rainfall in years to come can devastate many areas. The river beds are therefore required to be excavated and cleared on a regular basis. Inclusion of river aggradation in the list of notified natural calamities would enable the state government to undertake this work out of the funds available under SDRF. **It is therefore requested that removal of river sediment aggradation be included in the list of notified natural calamities.**
- 10.28 In view of the high earthquake vulnerability of the region, the state government is undertaking vulnerability assessment of its lifeline buildings and the results suggest that large proportion of these are required to be retrofitted. If these buildings are not retrofitted or made

earthquake resilient, the state might suffer major losses in the event of an earthquake. It is therefore requested that **special retrofitting grant of Rs. 1000 Cr. be provided to the state** for the retrofitting of the life line buildings and infrastructure such as emergency support buildings, hospitals, police stations, fire stations and schools situated in high risk areas and districts in the state.

- 10.29 At present the only available resource for dealing with disaster is SDRF. However as laid out in the above chapter SDRF is unable to address the various concern of the state government. Some new initiatives are needed to deal with the various emerging facets of disaster risk management.
- 10.30 SDRF norms cover only basic rescue and relief but these norms do not address the issues of recovery, reconstruction and rehabilitation. After a disaster, reconstruction and rehabilitation are as important as rescue and relief. The state government has very limited resource base for post disaster reconstruction process and in the aftermath of a disaster it is constrained to move resources from other development activities. **Hence a new fund for recovery and reconstruction should be constituted on the lines of SDRF.**
- 10.31 The capacities of the state government to deal with disaster are inadequate in terms of infrastructure, trained manpower and equipment. To bridge this infrastructure deficit, an infrastructure fund should be created to build the capacity of the state government, thereby making them more disaster resilient.
- 10.32 **Risk Transfer:** Given the fact that due to climate change disasters will increase in the future, it is very important to provide for risk insurance instruments. Disaster insurance cover may be provided to the people out of SDRF funds. These risk instruments apart from providing financial support to the community in their need of hour, will also lead to sharing and spreading of risks among different stakeholders.
- 10.33 The SDRF norms are based on immediate disaster events and do not take into account the long term disaster events. It has been anticipated that these long lasting disaster events are far more harmful for economics and communities. Hence we need to have separate fund which will address important issues like melting of glaciers, increasing cloud bursts activities, shifting rainfall patterns etc. This fund will also be closely tied up with the commitments of the state government under the state action plan for climate change, thereby addressing the various

adaptation and mitigation strategies to address the long term disaster scenario.

- 10.34 In view of the hazard and vulnerability profile of the state and specific problems being faced by the state, the **15th FC is humbly requested to provide funds to the tune of Rs. 7125 Cr. to the state over the award period.**

Table 10.3: Demand for Natural Calamities by the State

S.No.	Head	Fund requirement (Rs. in Cr.)					
		2020-21	2021-22	2022-23	2023-24	2024-25	Total
1.	SDRF	450.00	475.00	500.00	525.00	550.00	2500.00
2.	Rehabilitation of disaster affected villages	200.00	200.00	200.00	200.00	200.00	1000.00
3.	Mitigation Fund	100.00	100.00	100.00	100.00	100.00	500.00
4.	Retrofitting of lifeline buildings	200.00	200.00	200.00	200.00	200.00	1000.00
5.	Recovery and Reconstruction Fund	400.00	400.00	400.00	400.00	400.00	400.00
6.	Infrastructure Fund	25.00	25.00	25.00	25.00	25.00	25.00
Total		1375.00	1400.00	1425.00	1450.00	1475.00	7125.00

Chapter 11

Local Bodies

While in public administration decentralization is based on 'principle of subsidiarity', in economics it is the '*decentralization theorem*' where welfare gains are based on the argument that the best appreciation and assessment of needs of a local nature can be done at the local level and thereby expenditure corresponding to locally differentiated output leads to greater welfare gains. This perhaps is the rationale for local self-government and consequent existence of both urban and rural local bodies. The Constitution 73rd and 74th Amendment Acts, 1992 are a recognition of the above mentioned principle which along with the provision for setting up of State Finance Commission (SFC) provides a constitutional mandate for strengthening these institutions both administratively and financially for providing quality services within the local framework which is demand driven with need based.

- 11.1 The 10th FC was the first to recommend central grants for local bodies. The subsequent Central Finance Commissions and the 15th FC have been asked in their ToR to make recommendations on measures to augment the Consolidated Fund of a state to supplement the resources of Panchayats (Rural) and Municipalities (Urban) in the state on the basis of recommendations made by the Finance Commissions of the state.

Approach of the Central Finance Commission

- 11.2 Instead of using any indices for devolution, the 14th FC recommended distribution of grants to states with weight of 90% to 2011 population data and with a weight of 10% to area. The grant to each state is to be divided into two parts. One, for duly constituted Gram Panchayats and the other for duly constituted Municipalities, according to their population ratio as per the 2011 census data.
- 11.3 The grant constituted a 90% basic grant and a 10% performance grant for Gram Panchayats on 90:10 basis and 80:20 basis for Municipalities. The grant was to be utilised for delivery of basic services at the Gram Panchayat level. Inter-se distribution was to be determined according to SFCs formula and in case if the SFC recommendations are not available then the devolution will be according to population and area.

Basic Statistics of Local Bodies in Uttarakhand

- 11.4 Rural areas in Uttarakhand have a 3 tier system of Panchayati Raj Institutions (PRIs), governed by a single Uttarakhand Panchayati Raj Act,

2016, which is a recent legislation. Prior to it, PRIs were governed by two UP Panchayati Raj related legislations of 1947 and 1961. The new legislation brings about some clarity in the mutual relations of the three tiers by establishing a hierarchical structure.

Table 11.1: Number of Panchayati Raj Institutions

PRIs	GPs	KP	ZP
Number	7953	95	13

Source: Directorate of Panchayati Raj, GoUK

- 11.5 There are three categories of Urban Local bodies (ULBs) primarily depending on the size and population. Nagar Nigams (NN) or Municipal corporations (MC), Nagar Palika Parishads (NPPs) and Nagar Panchayats (NPs). Till 2011 the total number of ULBs was 63 but now the state government has constituted 29 more new ULBs taking the total to 92.

Table 11.2: Number of Urban Local Bodies

ULBs	NN	NPP	NP
Number	08	41	43

Source: Directorate of Urban Development, GoUK

There are 3 non-elected NPs i.e. Badrinath, Kedarnath and Gangotri where the entire population shifts during the winter period.

4th SFC observations and recommendations

- 11.6 The 4th SFC observed that there is a clear mountain and plain divide in terms of number and population of villages and urban centres. Villages in the mountainous districts are generally scattered over a wide area, have small population, are large in number, have poor connectivity and physical infrastructure. The number of villages in the hill region is 6868 whereas the number of villages in the plain regions is 1085. Similarly, the number of municipal bodies in hills and plains are **55 and 37** respectively, whereas, in terms of urban population, the hill region has a population of about **6.16 lakh** and the plain regions has a population of about **27.69 lakh**.
- 11.7 Many ULBs and PRIs are located in remote areas and at quite a distance from the rail head. Some of these in mountain regions are vulnerable to natural hazards and disturbances in the form of landslides, earthquakes, snowstorms, glacier movement, cloudbursts, flash floods etc. causing considerable damage to roads, bridle paths, irrigation channels, water supply systems, power lines, buildings etc. that adversely affects crops and livelihoods too.

- 11.8 In ULBs a major chunk of the non-plan revenue expenditure is on salary & pension and interest payment which is largely unavoidable. The state government should explore suitable measures for containing the other components of non-plan revenue expenditure so that a surplus of resources could be gained for allowing scope for assets creation and sustainable development. The state should explore the possibility of mobilizing additional resources through tax and non-tax resources by ensuring better tax compliance and rationalising the user charges/fees respectively.
- 11.9 The local bodies in Uttarakhand suffer from deficient infrastructure, low administrative capacity, lack of sufficient resources, remoteness and weak institutions. The 4th SFC also observed that the local bodies have not been given requisite funds, functions and functionaries as mandated by the Constitution and many functions have been taken over by the state government and its para-statal agencies. Further, the ULBs in the state are required to cater to large minimal revenue paying floating population on account of the fact, that many of them are pilgrim destinations or are enroute to the pilgrim destinations. Coupled with this is the seasonality factor which makes it very difficult to benchmark the service levels. When the major shrines like Badrinath, Kedarnath, Gangotri and Yamunotri are closed, it has almost zero local population and almost zero tourist traffic. Thus, while the level of the economic activity and paying capacity are low, the responsibilities are disproportionality more onerous.

The 4th SFC Devolution Formula

- 11.10 As per 4th SFC, 11% of the state's own tax revenue will be the devolution amount to be shared between ULBs and PRIs on 55% and 45% basis respectively. As against the above recommendations, due to its limited financial resource, the state government has accepted only 10.5% sharing of its own tax revenue.

Table 11.3: Sharing of Devolution resource within local bodies

Local Body		Inter-se Devolution share	Total share in devolution
ULBs (55%)	1. NN	40	22
	2. NPP	45	24.75
	3. NP	15	8.25
PRIs (45%)	1. ZP	35	15.75
	2. KP	30	13.50
	3. GP	35	15.75

Source: 4th SFC report, GoUK

11.11 The horizontal share by the 4th SFC of different local bodies based on different parameters has been determined as follows:

Table 11.4: Horizontal share of different local bodies

Local Body		Population	Area	Tax effort	Remoteness	Centrality Index
ULBs (55%)	NN	50	20	20	-	10
	NPP	60	10	20	-	10
	NP	60	20	20	-	-
PRIs (45%)	ZP	50	20	15	15	-
	KP	50	30	-	20	-
	GP	60	20	-	20	-

Source: 4th SFC report, GoUK

11.12 The recommendations by different SFC and the corresponding release by the state government are shown below:

Table 11.5: Details of amount recommended by various SFCs and released by state government

Rs. in Cr.

S.No.	Institutions/Tenure of Commission	Amount recommended by the Commission	Amount released by the state government
1	2	3	4
A. Panchayati Raj Institutions			
1	First State Finance Commission (01.04.2001- to 31.03.2006)	149.28	145.28
2	Second State Finance Commission (01.04.2006 to 31.03.2011)	824.22	824.84
3	Third State Finance Commission (01.04.2011 to 31.03.2016)	1686.77	851.99
4	Fourth State Finance Commission (01.04.2016 to 31.03.2021)	4087.64	752.55 (up to July 2018)
B. Urban Local Bodies			
1	First State Finance Commission (01.04.2001- to 31.03.2006)	186.44	204.04
2	Second State Finance Commission (01.04.2006 to 31.03.2011)	549.48	551.31
3	Third State Finance Commission (01.04.2011 to 31.03.2016)	1686.78	1156.47
4	Fourth State Finance Commission (01.04.2016 to 31.03.2021)	4996.00	1136.76 (up to July 2018)

Source: Reports of the State Finance Commission and Directorate of Finance Commission

11.13 Disbursement of grant under 14th FC from FY 2015-16 to FY 2017-18 is as under:

Table 11.6: Details of Disbursement of Grant under 14th FC

Rs. in Cr.

Financial Year	ULBs	PRIs	Total
FY 2015-16	75	203	278
FY 2016-17	118	318	436
FY 2017-18	108	325	433
FY 2018-19 (as on July 2018)	54	188	242

Source: Directorate of Finance Commission, GoUK

11.14 FY 2020-21 would be the 1st year of 15th FC and the last year of 4th SFC. Hence an assessment of requirement of the local bodies has been made for the period from FY 2021-22 to the end of award period. Taking FY 2020-21 as the base figure, an 11% enhancement (equivalent to growth of GSDP) has been taken till the end of 15th FC award period and divided in the ratio of 55:45 between ULBs and PRIs as per 4th SFC recommendations.

Table: 11.7 Assessed resource transfer to local body

Rs. In Cr.

Year	Assessed resource transfer to local body		
	ULBs	PRIs	Total
2020-21	1016.10	831.35	1847.45
2021-22	1127.87	922.80	2050.67
2022-23	1251.93	1024.31	2276.24
2023-24	1389.65	1136.98	2526.63
2024-25	1542.51	1262.05	2804.56
Total	6328.06	5177.49	11505.55

Source: Projections of Directorate of Finance Commission, GoUK.

11.15 It is thus evident from table 11.7 that the state government has to provide Rs.**11505.55 Cr.** to local bodies during the award period of 14th FC.

Suggestions for the 15th FC.

11.16 The inter-se distribution of grants for local bodies amongst different states needs a micro and more localized approach because of large scale local variations in socio-economic geographical circumstances. The unit cost of providing local public goods and services may be introduced as a factor for distribution since unit cost are considerably higher in states with low density of population. The mountainous regions also suffer from cost disabilities due

to various factors like limited connectivity, various environmental regulations like forest clearances etc. and disaster vulnerability. Since, most of the local bodies, urban-rural both suffer from capacity deficiencies, hence the conditionalities should be minimal.

- 11.17 An amount of Rs. 30 Cr. is required for the establishment of an Urban Training and Research Institute, so that capacities of urban development functionaries, as well as, representatives could be enhanced.
- 11.18 For effective implementation of SWM, there is a need of sufficient land for the construction of landfill sites. Hence, an amount of Rs. 250 Cr. should be provisioned for the purchase of land for the said purpose.
- 11.19 There are about 1,75,000 light points in Municipalities (excluding Municipal Corporations), which cannot be converted to LED under EESL scheme. On the basis of the cost of Rs. 6000 per LED, the state would require approximately Rs. 60 Cr. for the installation of one lakh LED street lights. This would help to bring down the power consumption and lower expenditure of ULBs.
- 11.20 Many of the ULBs, especially on the routes of Chardham Yatra, have huge parking problem, hence reasonable grants amounting to Rs. 300 Cr. should be provisioned for the construction of multilevel parking.
- 11.21 Since many cities of Uttarakhand face water logging during monsoon season, therefore it is very necessary to develop proper drainage plan. Hence an amount of Rs. 500 Cr. should be provisioned for storm water drainage for the cities of the state.
- 11.22 An amount of Rs. 50 Cr. should be provisioned for the creation of database through GIS and strengthening of IT network of ULBs. This will also help them in correct assessment of property taxation, thereby leading to enhanced revenues for ULBs.
- 11.23 Most of the ULBs are tourist towns and attract lakhs of visitors throughout the year. The condition of urban roads is not good as the resources with ULBs are very limited, hence a provision of Rs. 500 Cr. is requested for the above purpose.
- 11.24 Proper master planning is very necessary for planned development of ULBs, hence a provision of Rs. 50 Cr. may be given for this purpose. Similarly, most of the ULBs in the state are tourist towns and hence good wayside amenities

should be provided. Accordingly, a provision of Rs. 70 Cr. be provisioned for this purpose. Most ULBs do not also have proper bus stand or parks, hence a grant of Rs. 50 Cr. is requested for building of bus stands in ULBs and a further grant of Rs. 25 Cr. is requested for the beautification of parks.

- 11.25 Badrinath, Kedarnath & Gangotri ULBs are not getting grant due to non-conduct of elections. However, there is immense pressure on these ULBs during Yatra period for providing amenities and services to tourists/ pilgrims. Hence, precondition of election should be relaxed and accordingly, grant must be provisioned for these ULBs. As mentioned earlier, the local body has been constituted for facilitation purpose of tourist and these towns do not have permanent resident population.
- 11.26 Two main tourist towns of the state namely Nainital and Mussoorie, attract a very large number of tourists during the summer season, long weekends and holidays. Traffic management and parking facilities pose a big challenge. Suitable grant may be provided for developing better infrastructure including parking facilities to meet the challenge of increased tourist inflows in an environment friendly manner. These ULBs also face severe water crisis during the summer month due to increase in the number of tourists. Hence an allocation of Rs. 500 Cr. should be provisioned for infrastructure upgrade and drinking water facilities of these tourist towns.
- 11.27 The state government has to provide resources to the local body as per the recommendations of the 4th SFC to fulfil the statutory duties and other functions as mandated by law. As the resources of the state are very limited, **hence it is requested that the above resources amounting to Rs.11505.55 Cr. annually for the award period of the 4th SFC and subsequent 5th SFC should be given to the state government as an untied transfer.**
- 11.28 The state government has endeavoured to implement the recommendation of 4th SFC in letter and spirit, but as the resources of the state are very limited and due to the fact that no revenue deficit grant was given to the state by the 14th FC, the state has been unable to meet the aspirations of the local bodies. **Hence, in view of above the 15th FC is requested to enhance the devolution substantially to the state, especially the revenue deficit grant so that state can fulfil its constitutional obligations towards the local bodies.**

11.29 Based on the above discussion the financial devolution requested from 15th FC for local bodies is as follows:

Table 11.8 Devolution for local bodies requested from 15th FC

		Rs. in Cr.
A.	Devolution to the Local Bodies during 14 th FC award period based on the recommendations of 4 th SFC	11505.55
	Total (A)	11505.55
B	Special Purpose Grants	
1	Establishment of Training and Research Institute	30.00
2	Purchase of land for Solid WM	250.00
3	Installation of one Lakh LED	60.00
4	Construction of parking in ULBs	300.00
5	Construction of storms water drainage in ULBs	500.00
6	Strengthening of IT infrastructure in Local Bodies	50.00
7	Maintenance of roads of ULBs	500.00
8	Master planning study of all ULBs	50.00
9	Construction of way side amenities	70.00
10	Construction of modern bus stands in ULBs	50.00
11	Beautification of parks and tourist ULB towns	25.00
12	Infrastructure up-gradation & Drinking Water Supply in Mussoorie and Nainital	500.00
	Total (B)	2385.00
	Total (A+B)	13890.55

Annexure 1

Notes on Incentive related terms of references

We have submitted detailed information regarding various points listed in Para 4 of the TOR, by way of topic notes. However, a brief mention is being made here in the Annexure to this memorandum.

A. Efforts made by the State in expansion and deepening of tax net under GST

1. Goods and Services Tax was implemented from 1st July 2017. Since inception of the new system, a multi-dimensional strategy for bringing efficiency in tax collection is being implemented. Various important steps have been taken in this direction.
2. **Training of personnel:** Prior to GST, Commercial Tax Departments was dealing merely with goods and not with services. With GST, a new concept of supplies got introduced instead of sales, along with allowances of credit of tax paid during inter-state transactions. To adapt to these changes and to gain knowledge about the new law and rules thereof, the officers and staff of the tax department have been imparted elaborate training for proper implementation.
3. **Outreach Programmes for tax payer's awareness:** Regular meetings with different stakeholders i.e. tax payers, advocates and public have been organised in order to create awareness as also to encourage voluntary compliance and get useful feedback.
4. Uttarakhand is a hilly state, with a difficult geographical terrain and problem of accessibility. Therefore, to increase the outreach **GST Mitra** have been appointed on the basis of certain prescribed qualifications and trained for increasing awareness among tax payers.
5. **Migration of dealers:** Efforts were made for complete migration of VAT dealers to the new regime. By the timely migration, it was ensured that all eligible dealers have adopted the new system and have registered with GST.
6. **Information gathering and bringing new dealers on record:** Four units of Special Task Force (STF) at Dehradun, Haridwar, Kashipur and Rudrapur respectively have worked for cross verifications and information gathering purpose. Elaborate information has been gathered in this regard, particularly in the field of security services, works contract services, rent a cab service etc. so as to increase the tax base.

7. **Creating awareness among tax payers:** Tax payers were made aware of the benefits of registration and were persuaded to take registration, as a result of which 57218 new registrations were applied for and granted under GST in state this year, whereas last year only 15502 new registrations were granted in the comparable period.

B. Efforts & progress made in moving towards replacement rate of population growth

8. The state formulated its Population Policy in 2002, which was thereafter revised in 2013. Among the various measures for moving towards the replacement rate of population growth, some are outlined below:
- a. In Uttarakhand “State Population Stabilization Fortnight” is celebrated every year, under which related commodities are distributed.
 - b. To increase the participation of men in the family planning programme, every year doctors are trained in NSV method.
 - c. Post Partum IUCD insertion Service is being provided to pregnant women within 48 hours of child birth, to promote spacing between children.
 - d. In all districts, ASHA activists have been deployed, through which the pregnant mothers are being followed up, till the vaccination of the new born child.
 - e. Health and nutrition day is organised in rural and urban areas on second Wednesday of every month, under which Anganwadi / ASHA/ANM workers give health related information during pregnancy and adolescent phase.
 - f. World Vasectomy Fortnight is being organised in the month of November, every year for increasing the participation of men, under family planning programme.
 - g. Under the National Health Mission, RMNCH+A counsellors have been appointed in all districts to spread awareness by providing information related to reproductive health to overcome various types of misconceptions.
 - h. For increasing the service providers of spacing method in family planning services, training programme of IUCD, PPIUCD, PAIUCD and injectable contraceptive (Antara) are conducted every year in the state.

C. Rationalisation of Centrally Sponsored Schemes in 2015-16 & its effect on implementation.

9. Based on the recommendations of Sub-Group of Chief Ministers on the rationalisation of Centrally Sponsored Schemes, Government of India has taken a major decision to overhaul and rationalize all the existing Centrally Sponsored Schemes in 2015.
10. In year 2015, for the financial year 2015-16, out of the existing 66 CSS, 49 schemes were clubbed together and rationalized into 29 schemes, 6 schemes were delinked and 11 Schemes were made Central Sector Schemes. Out of 29 CSS, the Core CSS are 90:10 and optional CSS are in 80:20 basis between centre and the state. Presently, as per Public Finance Management System report, under different components of CSS, the state is getting disbursement from Central Government under 86 components.
11. After rationalisation of schemes, it has become easier for the state government and district administration to implement and monitor the schemes with due emphasis on outcomes and impacts. Almost, every scheme has its own MIS and many of the MIS has geo-tagging facility. In rationalization process although the number of schemes was reduced but the guidelines of the schemes, with few exceptions, were not modified to give states more flexibility to suit their local existing condition during implementation of schemes. The country has states with different level of development facing different issues and challenges. Even within state, different districts/regions have different situations with a specific challenge on the ground. In this context, it is very important to modify the guidelines of the schemes so that the states can customize the schemes during implementation.
12. For hilly states like Uttarakhand, which has very unique characteristics like difficult terrain, extreme climate condition, fragile eco-system, need of strategic infrastructure in border, national and moral duty to preserve forest eco-system and environment, higher cost of infrastructure development and service delivery due to difficult terrain, it is all the more important for the Union Government to indicate allocation to the state, at least for Optional or Non-Core Schemes based on current year allocation and let the state choose the schemes they prefer to implement or customize the available scheme or devise their own scheme. Even after rationalization, many new schemes were introduced by the Union Government, without any serious consultation

with state governments. So, the idea behind the rationalization of schemes to address the problem of “one-size-fits-all” still exists.

13. Analysis of expenditure with respect to budget provisions and increase in annual actual expenditure with respect to previous years during Pre and post rationalisation years:

Table A1.1: Details of Budget provision and increase in annual actual expenditure with respect to previous year during pre and post rationalisation years

Financial Year	% of Expenditure against Approval	Increment in Absolute Expenditure Amount in respect to previous year
2012-13	70%	44%
2013-14	49%	13%
2014-15	47%	45%
2015-16	51%	4%
Post Rationalisation Years		
2016-17	56%	3%
2017-18	56%	14%

Source: Directorate of Budget, GoUK

14. The Centrally Sponsored Schemes in many departments like education, water resources/ irrigation, agriculture department etc. were getting more allocation / resources during pre-rationalization period. It is therefore, requested to look in to the implementation issues and actual releases to states under CSS and start new CSS for Himalayan states or give more flexibility to Himalayan states in CSS, to suit their local existing conditions.

D. Uttarakhand State’s Plan for Sustainable Development Goals (SDGS)

15. State government has taken major initiatives to develop the vision 2030 on the line of SDGs. The state has achieved a lot in terms of high economic growth, per capita income, and has good social/human development indicators. The poverty is also low at around 11% (FY 2011-12) with very little rural-urban difference.
16. However, the economic growth as mentioned earlier has been concentrated mainly in the three districts which are in the plains areas and bypassing to a great extent the remaining ten districts in the hills.
17. The vision for 2030 comprising the SDGs and its indicators will address the followings issues :
 - a. Maintain / accelerate the present high growth regime.
 - b. The gains from development must close the hills-plains gap, which needs creation of sustainable livelihoods in the hills.

- c. More than 60% of the people in the state are dependent on agriculture and thus transforming agriculture and horticulture is a major priority.
- d. Enhancing of human development, especially by improving access to doctors / health facilities in the mountainous regions which is facing a great shortage of doctors.
- e. Enhancing the environmental sustainability by adopting the green energy and green technology for the infrastructure development and opting for renewable sources of energy also.

Growth Drivers and Core Areas:

- 18. Five major growth drivers of the economy identified for hill regions are horticulture / hill agriculture including aromatic and herbal development, tourism (wellness, adventure, rural, eco-tourism and leisure tourism), forestry particularly the non-timber forest products, hydropower (micro and mini) and AYUSH as wellness promotion.
- 19. State government has also developed its vision of development in the line of SDGs with the statement of **“To achieve inclusive and holistic human development of Uttarakhand through socio, economic and environmental sustainability”** and adhered with the motto and mission statement. **“To impart excellence in society through quality education, health well being, improved sanitation, sustainable livelihood, green energy, innovation and technology”**.

Major Theme/Sectors for SDGs:

- 20. State government has divided 17 SDGs into four major and focused sectors/themes which would be easily accessible and monitorable.
 - a. **Human Development:** Three SDGs namely inclusive & equitable quality education, good health & well being and clean water & sanitation are covered under this theme/sector.
 - b. **Sustainable Livelihood:** Four SDGs namely zero hunger, no poverty, decent work & economic growth, industry, innovation & infrastructure are covered under this theme/ sector.
 - c. **Social Development:** Three SDGs namely gender inequality, reduced inequality, peace, justice & strong institutions are covered under this theme/sector.
 - d. **Environmental Sustainability:** Six SDGs, namely affordable & clean energy, sustainable cities & communities, responsible consumption &

production, climate action, life on land and life below water are covered under this theme / sector.

21. About 370 priority, schematic and proxy indicators of different SDGs have been identified and three year action plan, seven year strategy and fifteen year vision is being prepared by the respective departments.

Measures taken by the state government to achieve SDGs targets

22. Mapping of the SDGs targets with Union and state government schemes for effective plan formulation and monitoring of SDGs.
23. State government has taken innovative step to map the important indicators of the Sustainable Development Goals (SDGs) with projected output and outcome of the respective scheme proposed in the budget, wherein the output and outcome are co-related to the budget provision.
24. Mapping of SDGs indicators with outcome budget from FY 2018-19.
25. Six working groups have been formed under the chairmanship of Additional Chief Secretary, Principle Secretary and Secretary for guiding the preparation of roadmap and action plan of achieving the SDGs in systematic and timely manner

E. Disaster Resilience in Uttarakhand

26. Uttarakhand state falls in Zone IV and V as per the seismic zonation and is therefore susceptible to earthquake hazards. The main frontal thrust (MFT), main boundary thrust (MBT) and main central thrust (MCT) pass through the state and it has been experiencing frequent seismic activity- major earthquakes in Year 1991 in Uttarkashi and in Year 1999 in Chamoli. It is more than 200 years since the 1803 Garhwal earthquake and potential threat for a bigger event looms large. Effects of climate change are also contributing to the frequency and severity of disaster events, specifically flash floods, cloud bursts avalanche and landslides.
27. The state government has been proactively taking steps towards disaster risk reduction so that the loss of life and property is minimal and investment on infrastructure development does not suffer recurring disaster induced losses.
28. Following are the major initiatives of the state government towards building Disaster Resilience:
 - a. Standard house designs, have been made which incorporate disaster resilient features.

- b. **Transport Sector Specifics:** As road connectivity is the lifeline for the hill areas, steps are being taken to incorporate disaster resilience features in the design of roads (mainly slope / landslide and river bank protection), bridges (design of structure and abutment design) so that in times of a major seismic event road connectivity is not lost. The state is adapting new techniques for slope stabilization and a dedicated slope cell has been created in the Public Works Department. Plans are to take up bridge construction in the Design Build concept so that new technology, material and design can be adopted.
- c. **Capacity Building:** Major trainings are being done by the state government to all the stakeholders like government employees, police, SDRF, fire, district administration, NGOs and local communities to enhance their capacity and capability to fight disaster and build disaster resilience.
- d. **Multi-Risk Hazard and Vulnerability Assessment:** A specialized agency has been engaged by the state to carry out a multi-risk hazard and vulnerability assessment study across the entire state. In addition to seismic hazards this study will take into account four other hazards and prepare a digital risk database of the state for informed decision making.

F. Progress made in increasing capital expenditure, eliminating losses of power sector and improving the quality of such expenditure in generating future income streams.

29. Generating utility is taking the following steps for improving the quality of expenditure:
 - a. Renovation and modernisation of old plants is being undertaken to enhance the power generation and increase the working life of the plants.
 - b. ERP solution is in the advance stage of implementation.
30. AT&C Losses has been achieved as per target. The details of actual AT&C Losses as against the targets fixed under UDAY are as follows:

Table A1.2: AT&C losses

S.No.	Year	Target	Achievement	Remarks
1	2015-16	17.00%	17.19%	
2	2016-17	16.00%	15.85%	
3	2017-18	15.00%	*15.73%	*provisional
4	2018-19	14.50%		

Source: Department of Energy, GoUK

*Commercial data yet to be compiled and finalized.

31. **Action Plan/Action already taken to reduce AT&C losses:**

- a. Vigilance raids have been conducted and cases are registered under Sections 126 and 135 of Electricity Act, 2003 to reduce AT&C losses. Legal proceedings have been initiated against the persons found indulging in theft of electricity.
- b. Mechanical meters are being replaced by electronic meters and defective meters are being replaced with an aim to reduce the level of defective meters to below 3%, as against existing level of 4%
- c. 100% metering of consumers has been completed. Action is being taken to ensure 100 % meter reading.
- d. Automatic meter reading is being done of high value consumers.
- e. L.T. aerial bunch cable is being laid in theft prone areas.
- f. Consumer billing is being checked by internal audit wing to detect errors/ omissions / malafides.

32. **Action Plan/Action already taken to reduce transmission losses:**

- a. All the mechanical meters have been replaced by electronic meters.
- b. Replacement of low accuracy class measuring instruments and energy meters by high accuracy class (0.2) measuring instruments and Availability Based Tariff (ABT) energy meters for efficient and higher accuracy measurement.
- c. Construction of new transmission lines have been taken up to reduce the load on overloaded lines and the losses.
- d. By up-gradation of system & lines, transmission losses have reduced continuously as here under:

Table A1.3: Transmission Losses

Financial Year	Transmission Losses
2013-14	1.81%
2014-15	1.78%
2015-16	1.71%
2016-17	1.51%
2017-18	1.46%

Source: Department of Energy, GoUK

G. The details regarding tax efforts and resource mobilization have been stated in the Topic Note No-39.

33. The State Treasury System and Public Finance Management System (PFMS) have been linked together in 2016, which has been further strengthened by ensuring daily exchange of expenditure data between cyber treasury and PFMS.
34. Regarding Direct Benefit Transfer (DBT), the State DBT cell has been activated in 2017. The State Aadhar Act has been passed and notified. State has developed a DBT portal to bring all DBT schemes of state as well as centre on DBT platform.

H. State has made concerted efforts towards delivery at citizen's door step with following measures.

35. Introduction of single window system for clearances of projects in industry, housing etc.
36. The state has been proactive about digitization. 'Ease of Doing Business' initiative includes rendering departmental services through on line portal by removal of physical touch points.
37. "Uttarakhand Right to Service Act-2011" and "Uttarakhand Single Window facilitation and Clearance Act. 2012" are operational. More than 200 services have been notified under Right to Service Act, 2011.
38. On line services are being provided for various citizen centric services.

I. Provision of grants in aid to local bodies for basic services, including quality human resources, and implementation of performance grant system in improving delivery of services.

39. To support the ULBs and to strengthen the delivery of basic services including water supply, sanitation, sewerage/ sewage and solid waste management besides maintaining of roads, footpaths, street lights, cremation grounds and other basic services, the state government disburses the grant for the said purpose under the state schemes of (1) **Development of urban infrastructure** in which ULBs are given grants for construction and maintenance of parks, drains, retaining walls, cremation grounds etc., (2) Construction of animal birth control centers for controlling the street dogs, (3) Construction of night shelter, (4) Health scheme for sweepers, (5) Assistance for eradication of begging.

40. State government has introduced the scheme of incentives (Uttarakhand Urban Local Bodies Reform Incentive Fund) for the ULBs to improve the delivery of services by Urban Local bodies.

J. Progress made in Sanitation, Solid Waste Management and Behavioral changes in Open Defecation.

41. The State target under Swachh Bharat Mission (U) for Individual Household Latrines (IHHL) construction was 27,640 out of which 11,235 have been completed and 11235 are under construction. Similarly the targets for community/publictoilets are also being actively pursued.
42. Under the 'Support National Urban Sanitation Policy' (SNUSP), Integrated City Sanitation Plans (ICSP) covering solid and liquid waste management have been prepared for 24 local bodies, including 16 Ganga towns with the technical support of GIZ (German International Cooperation).
43. Increase in toilet coverage has led to increase in access to toilets, thereby leading to open defecation free status in cities/ towns of Uttarakhand.
44. State Septage Management Protocol has been prepared regarding proper collection, transportation and disposal of septage / foecal sludge from septic tank/pits.
45. Comprehensive City Sanitation Plans are being prepared.
46. The State Solid Waste Management Plan has been formulated in accordance with SWM Rules 2016, and door-to-door collection and transportation is being encouraged.
47. It is expected that the State Solid Waste Management Strategic Plan (SSWMSP) will ensure scientific waste management in all the urban local bodies of the state.
48. CT/PT- The state target under Swachh Bharat Mission (U) for CT / PT construction is 2000, out of which 433 has been completely constructed and 394 are under construction.
49. Urinals- State target under Swachh Bharat Mission (U) for CT/PT construction is 1000, out of which 65 has been completely constructed and 185 are under construction.

Annexure 2

State Specific Issues (Project of Crucial Importance)

Introduction

Within a few years of its formation in the year 2000, Uttarakhand has emerged as one of the fastest growing state in the country. The recommendations of Finance Commissions in the past for state specific grant to address special problems of Uttarakhand had played a very important role in the high growth rate achieved by the state. After the implementation of the recommendations of 14th FC, the special grants by erstwhile Planning Commission to special category states had stopped which along with other factors like implementation of 7th Pay Commission, low revenue base etc. have led to a situation in which the capital expenditure has suffered adversely. Being a small state with low revenue base faced with numerous challenges due to Cost Disability, "Use Disability" on account of Policy Mandated Restrictions, high floating population on account of religious tourism, responsibility to protect and preserve Forest & Environment for the whole Nation and proneness to disaster, the state has not been able to provide funds for certain urgent state specific requirements.

We humbly request the 15th FC to consider special dispensation for the following state specific problems:

1. **Animal Husbandry, Dairy and Fisheries**

These sectors along with agriculture and horticulture are very important for farmer's income and sustainability of agriculture Sector. Doubling farmer's income can only be achieved through the promotion and development of these allied sectors in a scientific and decentralized manner. The state has proposed 13 trout and carp hatchery and Feed plant in districts, state level veterinary hospital cum referral centre in Dehradun to provide latest modern health facilities for livestock and up-gradation and Modernization of Milk Processing Plants and Cattle Feed Plants.

Therefore, a grant of Rs. 200 Cr. is requested for above aforesaid measures.

2. **Up-gradation and modernization of state orchard**

The state of Uttarakhand has 93 orchards spread throughout the state which require urgent intervention to make them resource centre for demonstration of new technologies and organic farming, nursery requirements etc. This is

also important from agricultural diversification point of view for Hon'ble Prime Minister's vision of doubling farming income.

Therefore, a grant of Rs. 500 Cr. is requested for strengthening, up-gradation and modernization of state's orchard.

3. Irrigation

a. Upgradation of existing irrigation infrastructure and providing new efficient irrigation technologies in hilly areas

Agriculture and allied sectors is the mainstay of state's economy and more than 60% of state's population is dependent on agriculture for livelihood. Irrigation is one of the most important components for sustainability of agriculture and allied sectors. The net irrigated area of the state is around 50% of the total cultivated area, whereas in hilly areas this ratio is only 13% which is one of the factors responsible for farmers leaving the agriculture sector and migrating to nearby cities and other states. Since doubling farmer's income by 2022 is the most important goal set by our Hon'ble Prime Minister, it is important to upgrade the existing irrigation infrastructure and scale up the new efficient irrigation technologies throughout the state.

Therefore, a grant of Rs. 1000 Cr. is requested for upgradation of existing irrigation infrastructure and providing new efficient irrigation technologies in hilly areas.

b. Song River Drinking Water Project

After the formation of the state, Dehradun has grown manifold and requires additional drinking water supply to meet the required norm of 135 lpcd and reduce the burden on already depleting ground water. The state government has constituted and accorded administrative approval for Song drinking water dam project for the aforesaid purpose. This project will also help control the flash flood in foothills areas of Dehradun district.

Therefore, a grant of Rs. 900 Cr. is requested for the construction of the Song river drinking water project.

c. Jamrani River Multipurpose Dam Project

Haldwani and its surrounding areas are gateway to the Kumaon Himalayan region and also the business capital of Kumaon Division. After the formation of the state, this area like Dehradun has grown manifold and requires additional water supply to meet its drinking water and irrigation requirements. The state government has accorded high priority

to this project considering the increased tourism & other economic activities in the Kumaon region. This project will also provide irrigation benefits to neighboring districts of Uttar Pradesh.

Therefore, a grant of Rs. 2800 Cr. is requested for construction of this multipurpose project.

4. Forest Department

a. Development of wildlife habitat and creation of buffer zone for prevention of man-animal Conflict

The growing man-animal conflict over the years is responsible for huge loss of agricultural and horticultural produce and at times even loss of human and animal lives. As agriculture and allied activities are mainstay of people's livelihood, this conflict has resulted in large scale migration from hilly areas. In some of the districts of the state many villages have become ghost villages due to migration.

Therefore, to create wildlife habitat and much required buffer between human being and wildlife habitat to ensure a harmonious survival of both, a grant of Rs. 250 Cr. is requested.

b. Forest Fire Management

Every year the nation is losing precious and invaluable forest resource due to forest fire which needs urgent intervention from both State and Central Government. Once lost forest either requires hundreds of years to regenerate or may not regenerate at all and the vegetation deficient land is very prone to soil erosion and landslides.

Therefore a grant of Rs. 500 Cr. for forest fire management, protection of forests and soil and moisture conservation to prevent the forest fire is requested.

5. Medical Health & Family Welfare

a. Two super specialty hospitals for care of neurological, cardiological & cancer patients

In Uttarakhand and Western UP region, we do not have any higher referral center for neurological, cardiological and cancer problems. People from hilly and far flung areas are forced to go to New Delhi, Lucknow, Chandigarh to get requisite medical intervention. Already living in relatively deprived conditions the people from hilly areas have not only to spend large sum of money but face numerous challenges while visiting distant places for medical interventions.

Therefore, a grant of Rs. 1000 Cr. for establishment of two super specialty hospitals, one in Garhwal and other in Kumaon region is requested.

b. Tele Medicine

To address the health service delivery to habitations in hilly and remote areas the state has adopted the model of tele-medicine as an alternative mode of service delivery and plans to scale it up to all un-served areas.

A grant of Rs. 250 Cr. for creating state wide facility of Tele-Medicine is requested.

6. Education and Skill Development

Education is regarded as panacea of all human and social problems. Compared to other sectors, investment in education brings maximum benefits to the society and economy. It is the most important endowment that enables an individual to take advantage of the opportunities created in the economy. Impact of investment in inclusive and qualitative education goes beyond the benefits accruing to the present generation and brings inter-generational change. It brings change in individuals, adds values to the state and nation and helps in building a sustainable future of the nation. It is not only required to make an individuals a good citizen but also important for their employability, ecological awareness and holistic thinking of a nation-state.

We are still in a process of building inclusive and prosperous state which requires quality educational institutions accessible to all. We have done a good job so far in providing educational facilities to all citizens of the state. It is time to consolidate, bring quality and strive for excellence in educational institutions.

Therefore, a grant of Rs. 2200 Cr. for establishing residential schools in hilly areas, providing facilities like laboratories, libraries in schools, bridging infrastructure gaps in degree colleges, modernization of ITIs and polytechnic colleges and providing basic facilities in schools is requested.

7. Rural Growth Centers at Nyaya Panchayat level

To achieve and sustain the goal of doubling farmer's income by 2022, it is important to have extension services at the doorstep of the farmers. In the state of Uttarakhand, we have 670 Nyaya Panchayats where growth centers

are proposed to cater to the extension services, market linkage and storage needs of farmers residing in far flung areas of the state.

Therefore, a grant of Rs. 600 Cr. is requested to conceptualize and establish growth centers at Nyaya Panchayat level.

8. Strengthening of Public Distribution System

In order to control the delivery cost and to save time during emergency condition specially in hill areas state government proposes to adopt innovative hub and spoke model wherein the base godowns will act as hub and the interior food godowns in far flung areas will act as spoke. At present the state has 23 base godowns and 174 interior food godowns. To meet the requirement the state has proposed 43 new godowns to cater to the needs of people living in disaster prone far flung areas.

Therefore, a grant of Rs. 200 Cr. is requested to repair and upgrade the existing godowns and construction of new godowns.

9. Tourism

a. Development of Meeting, Incentives, Convention & Exhibition (MICE) Center in Rishikesh

Considering the high end tourism and industrial growth potential of the region, the state urgently requires a large capacity convention center along with required infrastructure for exhibitions, luxury accommodations, motels etc to realize the untapped tourism and industrial potential of the state. NITI Aayog is providing technical support for the development of the proposed convention center under "Development Support Services to State Infrastructure (D3s-i) Scheme".

Therefore, a grant of Rs. 450 Cr. for development of convention center is requested.

b. Development of Tourism Infrastructure and products across the state

The state has a tourist footfall of 5 to 6 crore annually. Most of these tourists are pilgrims and have low paying capacity, but the state has to invest in ensuring requisite infrastructure. There is a huge infrastructure deficit like parking, way-side amenities, inadequate SWM, etc. and lack of attractive tourism related products.

To bridge the infrastructure deficit in tourism and develop requisite tourism related activities, a grant of Rs. 500 Cr. is requested.

c. Development of Ropeways in the state

Ropeways are a great tourist attraction but are very cost intensive. The state has great potential in development of Mussoorie-Dehradun, Kedarnath, Yamnotri and Hemkund Sahib ropeways. Their construction will boost tourism activities and also provide livelihoods to local communities.

To develop ropeways in various scenic part of the state a grant of Rs. 400 Cr. is requested.

d. Development of Tehri Lake as Tourist Destination

Tehri lake is one of the highest man-made lake in Asia and has an area of 42 Sq. Km. A whole new tourism town is being planned around it. The whole area around the lake can be developed as a world class tourist destination offering the tourists all sorts of tourism related products. The development would require huge investment in roads, drinking water, sewerage, power and development of various tourism facilities and products.

To develop the Tehri lake area as a tourist destination a grant of Rs. 5000 Cr. is requested.

10. Modernization of Police and Strengthening of Emergency Services

Considering the importance of police in speedy delivery of justice, control of law and order for peace and tranquility, disaster management, fire management etc., it is important to upgrade the existing infrastructure, construct new infrastructure and bring new technologies to increase the effectiveness and efficiency of police force.

Therefore, a grant of Rs. 300 Cr. is requested for construction of residential building, multipurpose complex for Nationwide Emergency Response System (NERS), State Disaster Response Force (SDRF), State Crime Record Bureau, Crime & Criminal Tracking Networking System (CCTNS), Training Center and Fire Stations.

11. Upgrading the Infrastructure and Modernization of Prison

The various prisons in the state of Uttarakhand have about 4900 prisoners against the sanctioned capacity of 3378 prisoners. Most of the prisons are old requiring urgent upgradation and moreover 6 districts have no district prison.

Therefore, a grant of Rs. 400 Cr. is requested for upgradation and modernization of prisons in Uttarakhand to bring them at par as per Hon'ble Supreme Court guidelines on prison modernization.

12. Up-gradation/Modernization of Revenue Police & Revenue Department

Uttarakhand is the only state in the country which has this unique institution of revenue police system applicable only in hilly areas of the state. In hilly areas revenue police looks after the work related to both land related matters and law & order. As Uttarakhand has 70% of its area under forest with hilly terrain bordering two international boundaries, the importance of revenue police has never been given its due regard. This system was introduced by the British and has worked well till now, but urgently requires training of its personnels, up-gradation & modernization of infrastructure and provision of basic support system.

Therefore, a grant of Rs. 100 Cr. is requested for the aforesaid project.

13. Roads and Bridges

a. Safety Measures at Accident Prone Areas

Uttarakhand is prone to accident due to its hilly terrain. Many roads in the hill areas have defects which make these places highly accident-prone. Such accident-prone sites have been identified all over the state. In 246 roads and a total length of 2764 Km, it is proposed to erect crash barriers and improve sight distance to ensure safe traffic flow.

Therefore, a grant of Rs. 150 Cr. is requested for the provision of the aforesaid measures.

b. Up-gradation of Road Network and Treatment of Chronic Slip Zones

Due to hilly terrain, heavy rains, floods and landslides, the roads and bridges in the state requires urgent up-gradation. Due to similar reasons a number of chronic landslide zones have formed which are responsible for continuous disruption of traffic in monsoon and accidents.

Therefore, a grant of Rs. 600 Cr. is requested for upgradation of road network and treatment of chronic landslide zones in the state.

14. Urban Development

a. Decongestion and Upgradation of Infrastructure facilities in Mussoorie and Nainital

These cities are very old and attract a large number of tourists throughout the year and basic infrastructure of water supply, sewerage, parking

facilities etc. have become old and inadequate, they urgently require decongestion and up-gradation of infrastructure facilities to meet the requirements of citizens as well as tourists. Although, the state government is providing infrastructure facilities to newly developed areas but old part of these cities requires immediate intervention.

Therefore, a grant of Rs. 500 Cr. is requested to decongest and upgrade the infrastructure facilities for Mussoorie and Nainital.

b. Solid Waste Management as per SWM Rules 2016

The state of Uttarakhand has 92 Urban Local Bodies which are the backbone of the state's economy. To keep the cities and towns livable and sustainable, Solid Waste Management (SWM) is of utmost importance. State action plan of Solid Waste Management for all the cities and towns of the state will require about Rs. 855 Cr. grant.

Therefore, a grant of Rs. 855 Cr. is requested for Solid Waste Management in the Urban Local Bodies of the state.

c. Storm Water Drainage System Improvement in the Urban Areas

Due to unplanned development and lack of adequate drainage facilities most of the urban areas in the state are facing temporary flood like situation during monsoon. The state government is preparing a storm water drainage master plan for the urban areas in the state.

Therefore, a grant of Rs. 500 Cr. is requested for the implementation of storm water drainage master plan.

d. State Capital Infrastructure Development

Dehradun is an interim capital of our state and recently Gairsain has been declared as summer capital of the state. After formation of the state various state level offices have been set up in the city of Dehradun. The official buildings and residences of employees are under construction. Dehradun is basically a tourist city and is now facing the problem of congestion and unplanned development. It needs to be developed systematically as a capital city. Similarly, Gairsain the Summer Capital, also needs to be developed with a master plan. Thus a huge infrastructure has to be created in both of the cities.

Therefore, a grant of Rs. 1000 Cr. is requested for State Capital Infrastructure Development.

15. Development of District Business Resource cum Incubation Center and Establishment of State Traditional Craft Development Institute

To make a conducive environment in the state for the growth of entrepreneurship and employment generation, the state government proposes to set up district business resource cum incubation centre in all 13 districts headquarters. This is also important to create enabling environment for youths to take advantage of start-up and stand-up policy of government of India. The state of Uttarakhand has rich traditional culture of handicraft know how which requires a centre for excellence for its promotion and linkage with market.

Therefore, a grant of Rs. 300 Cr. is requested for District Business Resource cum Incubation Center and Establishment of State Traditional Craft Development Institute.

16. Upgradation of Drinking Water Supply and Sewerage System

The State of Uttarakhand has 39,360 rural habitations, 92 urban local bodies. According to the norms for requisite drinking water fixed by government of India i.e. 70 lpcd for rural habitation and 135 lpcd for urban habitations, 16,934 rural habitations are categorized as partially covered and 39 towns have service level below 70 lpcd. At present the state has 3,919 rural gravity schemes, 296 rural pumping schemes, 26 urban gravity schemes and 66 urban pumping schemes, Total 4,307 water supply schemes to cater all the habitations of the state. Most of the drinking water and sewerage schemes have become very old and requires urgent upgradation and modernization.

Therefore, a grant of Rs. 1800 Cr. is requested for upgradation and modernization of State's Water Supply and Sewerage Schemes.

17. Up-gradation of Power Distribution System

The state of Uttarakhand has achieved 100% electrification and strives to provide quality and uninterrupted power supply to all its citizens. However, many transmission and distribution network and power stations have become out-dated and are not able to cope with load requirements. Therefore, these outdated distribution network and power stations need urgent upgradation to reduce transmission and distribution losses and improve quality of power in remote areas.

Therefore, a grant of Rs. 1000 Cr. is requested for upgradation of these systems in rural and remote areas.

18. Information Technology

The information technology has emerged as one of the most important tool for good governance, bringing transparency in the system and improving efficiency of the government and the administration. The State Wide Area Network (SWAN) of the state has now become slow and outdated as compared to rest of the states. To keep pace with the high speed data transmission technologies in other parts of globe, it has now become a necessity to upgrade and modernize the SWAN system of the state. As Uttarakhand is highly disaster prone and remote, it is also important from the point of view of connectivity to the remote areas of the state. The state is also bringing in Balloon Technology for providing Internet facility in far flung and remote areas.

Therefore, a grant of Rs. 500 Cr. is requested for upgradation of SWAN System and introduction of new technology to provide Internet facilities in remote areas.

19. Heritage Buildings, State Protected Monuments and Temples

The state of Uttarakhand has rich cultural and religious heritage. It has many temples and heritage buildings and 71 state protected monuments. These monuments require urgent state intervention to protect and preserve the rich cultural heritage of the state and Nation for the posterity.

Therefore, a grant of Rs. 150 Cr. is solicited for renovation and restoration of monuments and upgradation & strengthening of Govind Ballabh Pant Museum in Almora.

20. Estate Department

a. Construction of Vidhan Sabha and Secretariat Complex at Dehradun

The State of Uttarakhand came into existence on 09th November, 2000 and Dehradun was declared as the interim capital of the new state. As a stop gap arrangement, the Secretariat was started from abandoned building of education department. Some addition, alterations and renovations have been made in the existing campus but there is lack of sufficient space in the campus to house Secretariat of adequate size. The campus is located on the main Rajpur road which is a congested place. The present temporary legislature building is located a few kilometres away from the Secretariat and is now proposed to be constructed at a site near Raipur on the outskirts of the city. The new Vidhan Sabha and Secretariat building along with the residences for ministers and senior officers are proposed to be constructed there for administrative efficiency.

The forest land transfer case is under process. An amount of Rs. 500 Cr. is required for construction of the new Vidhan Sabha Complex and other buildings at Raipur, Dehradun.

Therefore, a grant of Rs. 500 Cr. is solicited for construction of Vidhan Sabha and Secretariat Complex at Dehradun.

b. Construction of Mini Secretariat at Gairsain

The government has declared Gairsain as summer capital of the state, although there is persistent demand from the people in the hills to declare Gairsain to be the capital of the state. Gairsain town is situated almost at the centre of Kumaon and Garhwal division of the state and is located in Chamoli district. However, the town does not have any infrastructure facilities and is not connected with rail and air. A new Assembly building has already been constructed at Bhararisain, Gairsain. As the Vidhan Sabha Sessions are regularly being organized in Gairsain, it is proposed to construct a Mini Secretariat at Gairsain along with transit hostels and other buildings. An amount of Rs. 250 Cr. is required for the above purpose.

Therefore, a grant of Rs. 250 Cr. is solicited for construction of Mini Secretariat Building at Gairsain.

Table A2.1: Department wise summary of state specific issues

S.No.	Name of Work/Scheme	Proposed Amount (Rs. in Cr.)
1	Animal Husbandry, Dairy& Fisheries	
i)	Trout Carp Hatchery+ Feed Plants+ State Level Veterinary Hospital	200.00
	Total	200.00
2	Department of Horticulture	
i)	Strengthening, Modernization of Government Gardens	500.00
	Total	500.00
3	Department of Irrigation	
i)	Upgradation of Existing Irrigation Network (Canals, Gool etc.)	1000.00
ii)	Song River Dam Project	900.00
iii)	Jamrani River Dam Project	2800.00
	Total	4700.00
4	Department of Forest	
i)	Development of Wildlife and Creation of Buffer Zone for Prevention of Man-Animal Conflict	250.00
ii)	Forest Fire Management	500.00
	Total	750.00

5	Department of Medical Health & Family Welfare	
i)	Setting up 02 Super Specialty Hospitals	1000.00
ii)	Tele Medicine	250.00
	Total	1250.00
6	Education and Skill Development	
i)	Residential Schools + Bridging Infrastructure Gaps+ Modernization of ITI & Polytechnics	2200.00
	Total	2200.00
7	Rural Development + Panchayats	
i)	Rural Growth Centres	600.00
	Total	600.00
8	Food and Civil Supply and Consumer Affairs	
i)	Strengthening of PDS	200.00
	Total	200.00
9	Tourism Department	
i)	Meeting, Incentives, Convention & Exhibition Centre (MICE) Rishikesh	450.00
ii)	Development of Tourism Infrastructure and products across the state	500.00
iii)	Development of Ropeways in the state	400.00
iv)	Development of Tehri Lake area as a tourist destination	5000.00
	Total	6350.00
10	Home (Police) Department	
i)	Modernization Programme	300.00
	Total	300.00
11	Prison	
i)	Modernization Programme	400.00
	Total	400.00
12	Revenue Department	
i)	Modernization of Revenue Police	100.00
	Total	100.00
13	Roads & Bridges	
i)	Safety Measures in Accident Prone Zone	150.00
ii)	Upgradation of Road Network+ Treatment of Chronic Slip Zones	600.00
	Total	750.00
14	Urban Development	
i)	Decongestion & Upgradation of Burdend Cities	500.00
ii)	SWM in 92 ULBs	855.00
iii)	Storm Water Drainage Master Plan	500.00
iv)	Construction of Infrastructure facilities in Dehradun	1000.00
	Total	2855.00
15	Industry	
i)	Development of District Business Resource cum Incubation Centre+ State Traditional Craft Development Institute	300.00
	Total	300.00
16	Drinking Water	
i)	Up-gradation of Urban Drinking Water & Sewerage	1800.00
	Total	1800.00

17	Energy Department	
i)	Up-gradation of Power Distribution System	1000.00
	Total	1000.00
18	Information Technology	
i)	Up-gradation of SWAN system & Introduction of New Technology	500.00
	Total	500.00
19	Culture Department	
i)	Protecting Heritage Buildings, Monuments & Temples	150.00
	Total	150.00
20	Estate Department	
i)	Construction of New assembly building at Raipur, Dehradun	500.00
ii)	Construction of Mini Secretariat at Bhararisain	250.00
	Total	750.00
	Grand Total	25655.00