

POLICY ISSUES IN REVENUE GENERATION AND EXPENDITURE MANAGEMENT IN HILL STATES WITH SPECIAL REFERENCE TO HIMACHAL PRADESH

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The present paper focuses on the challenges of fiscal management in hill States in India, with special reference to Himachal Pradesh. Policy options are considered to reduce dependencies of these States on special central transfers. This is sought to be achieved through a combination of revenue enhancing and expenditure management policies within an eco-system of good governance.

The paper highlights that the difficult mountainous terrain, extreme weather conditions, little capacities of these economies to generate their own resources, sparsely disbursed population, high cost of providing public goods & services and high transportation cost are some of the bottlenecks in fiscal sustainability of these hill states. It then examines the problems being faced by Himachal Pradesh in managing its finances and steps being taken by it to come out.

The paper explains the policy options like expenditure containment, improving the service delivery and governance with an objective to reduce the cost of delivery, improving the tax administration and enhancement of the non-tax revenue by harnessing the hydro power are some of the measures, which could reduce the dependence of these States on Union Government for special financial assistance.

1. Preface

- 1.1 The present paper is an attempt to look into the peculiar challenges the hill States, especially along the Eastern and Northern Himalayas in India, are facing in their fiscal management. These States due to their hilly topography and extreme climatic conditions have been recognized as the Special Category States and are given preferential treatment in fund devolution by the Union Government.
- 1.2 The paper attempts to illustrate how these hill States face hardships in their financial management and how limited tax capacity in these States has always made these States to look towards the Central Government for financial assistance for meeting their development needs. It then examines the problems being faced by Himachal Pradesh in managing its finances and the policy options available with it for enhancing its receipts and managing its expenditure, without compromising the developmental needs.

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2 Introduction

2.2.1 The decision with regard to creation of hill States in India along the Himalayas, was never based on the economic and financial considerations. It was merely out of the political, social and developmental aspirations of the people inhabiting these areas that these States were carved out of the larger States. The geo-climatic conditions characterized by difficult mountainous terrain and extreme climatic conditions prevailing in these States would never have permitted making these small hill States economically and administratively a viable proposition. However, peoples' aspirations prevailed and the decision was taken. Ever since, these small hill economies have been able to barely sustain themselves and that too due to continuous handholding in the form of Special plan assistance from the Planning Commission and the non-plan revenue deficit grants by the Finance Commission.

3 Why Hill States have Poor Economic Base?

3.2.1 Most of these States are primarily agrarian, as a large proportion of people living in these States are dependent on agriculture for earning their livelihoods indicating to the fact that a very large proportion of the population in these States inhabit rural areas. Most of the rural areas of these States are located in the interiors of the states which have poor or no connectivity at all. Roads are the only means of communication in these States, as the presence of rail network is scant and negligible. The tough terrain and the limited transport facilities make transportation costs exorbitantly high taking away all the advantage in setting up industries. High transportation costs also make the infrastructure creation a very costly affair.

3.2.2 **Low Population Density and Sparsely Dispersed Population:** Low population density in most parts of these States makes the per capita cost of infrastructure creation manifold high as compared to that in the non-Special Category States. High per capita expenditure in providing education and health services in these States is required to be viewed in the context of relatively high cost of providing these services in hill States. The teacher-pupil ratio in Himachal Pradesh is much better than the national average but the average distance covered by a student to reach school is much longer. The average distance covered to reach school by a student is much more as the student has to travel on the meandering paths along the slope of a hill.

3.2.3 The Government of Himachal Pradesh has obtained district-wise three dimensional surface area(3D) through the Centre for Geo-informatics, Research and Training of the CSK Himachal Pradesh Agricultural University, Palampur which used GIS applications to work out the three dimensional surface area of the State. Two dimensional area of Himachal Pradesh as reported officially is only 55,673 square kilometres whereas three dimensional area of the State has been worked out to be 86,384 square Kilometres. The State Government is required to provide the services and infrastructure to cater to 86,384 Sq. Km. The cost of building infrastructure and its maintenance is therefore much more in the State, due to the 3D area. It is proposed that the three dimensional surface area of all the States should be taken into consideration, while deciding the fund transfer under various schemes by the Union government.

3.2.4 **Low Agriculture Productivity:** Agriculture in these States is characterized by low productivity and shows a marked presence of disguised unemployment. Small farm size make, technical interventions in the farm operations a difficult alternative. Presence of steep slopes results in high water lifting costs contributed by the huge energy charges for operation of lift irrigation schemes. All these factors contribute to incidence of low agriculture productivity in these States. If number of agricultural labourers is also added to the number of cultivators, the proportion of population engaged in Agricultural activities will work out to be very high in the hill States-

Table 1: Low Productivity of Agriculture in Special Category States

S. No.	State	Total Workers as %age of Population	Cultivators as %age of Total Workers	Cultivators as %age of Population	Agriculture GSDP as % of Total GSDP*	GSDP PER Capita (Rs.)	Agriculture GSDP per Cultivator (Rs.)
GENERAL CATEGORY STATES							
1	ANDHRA PRADESH	46.61	16.47	7.67	19.16	77462.18	193385.63
2	BIHAR	33.36	20.72	6.91	23.54	28279.50	96316.82
3	CHHATTISGARH	47.68	32.88	15.68	15.39	62707.56	61566.93
4	GOA	39.58	5.43	2.15	4.23	246356.33	484840.85
5	GUJARAT	40.98	21.99	9.01	18.29	101219.41	205402.48
6	HARYANA	35.17	27.82	9.79	19.88	121336.44	246509.94
7	JHARKHAND	39.71	29.12	11.56	10.95	44816.40	42445.09
8	KARNATAKA	45.62	23.61	10.77	12.62	86339.22	101126.80
9	KERALA	34.78	5.77	2.01	12.53	94355.83	589314.93
10	MADHYA PRADESH	43.47	31.18	13.55	23.84	49826.49	87634.90
11	MAHARASHTRA	43.99	25.43	11.19	8.69	111097.68	86322.72
12	ODISHA	41.79	23.40	9.78	17.18	61643.58	108298.68
13	PUNJAB	35.67	19.55	6.97	26.24	106694.68	401452.25
14	RAJASTHAN	43.60	45.57	19.87	25.53	60797.11	78130.47
15	TAMIL NADU	45.58	12.92	5.89	10.26	100226.76	174565.47
16	UTTAR PRADESH	32.94	28.96	9.54	25.74	38858.11	104875.87
17	WEST BENGAL	38.08	14.72	5.61	18.00	69063.43	221793.84
SPECIAL CATEGORY STATES							
1	ARUNACHAL PRADESH	42.47	51.51	21.88	26.75	91794.19	112222.06
2	ASSAM	38.36	33.93	13.02	20.08	46006.78	70989.36
3	HIMACHAL PRADESH	51.85	57.93	30.04	14.03	104997.23	49032.28
4	JAMMU & KASHMIR	34.47	28.81	9.93	15.87	60691.70	97003.49
5	MANIPUR	45.09	39.51	17.81	20.65	45568.96	52818.90
6	MEGHALAYA	39.96	41.72	16.67	11.14	61894.63	41336.64
7	MIZORAM	44.36	47.17	20.93	12.82	63720.03	39051.32
8	NAGALAND	49.24	55.20	27.18	19.80	67331.80	49048.54
9	SIKKIM	50.47	38.10	19.23	7.63	137572.82	54559.16
10	TRIPURA	40.00	20.14	8.06	14.34	60259.45	107244.54
11	UTTARAKHAND	38.39	40.81	15.67	8.77	106628.13	59706.61

Source: Table arrived from Census, 2011 and CSO State Domestic Product (State Series) 2011-12

* Agriculture GSDP does not include contribution from Forestry and Logging, Fishing and Mining and Quarrying

3.1.5 When it comes to comparing per capita contribution to the Gross State Domestic Product, apparently, most of the Special Category States appear to have performed reasonably well in comparison to most of the Larger States. However, Table 1 indicates per cultivator contribution

to the Gross State Domestic Product from Agriculture. It is seen from the table that in most of the Special Category States, the per cultivator contribution to the agriculture GSDP is much below than the non-Special Category States. Per cultivator contribution to the agriculture GSDP in Himachal Pradesh is even lower than most of the States placed in the lowest bracket of per capita GSDP. If the number of Agricultural Labourers is also added to the number of cultivators, per person (engaged in the agricultural activities) contribution to the GSDP from agriculture would come down even further for the Special Category States.

- 3.1.6 High cost of Providing Public Goods and Services:** A very high cost of providing public goods and services in these States due to difficult terrain limit the recovery of costs. Thinly populated areas in the interiors of these States also require same kind of health care, education and other infrastructure facilities as are required by the inhabitants of the densely populated areas, to give them a good quality of life. The Electricity boards/companies and State Transport Corporations of these States have to undertake such operation in the public interest which are not financially viable and economically feasible otherwise.
- 3.1.7 Extreme Geo-climatic Conditions:** The climatic conditions in these hill States are diverse and are extremely hostile particularly in the winter season. Higher altitudes witness only one crop season that too during summer and the production is largely determined by the weather conditions. The life of people living in these areas becomes quite miserable during winters, as all the economic activities come to a standstill. People are forced to stay inside their dwelling units, due to harsh climate and consume the provisions stored during summers.
- 3.1.8 Other Cost Disabilities:** These hill States are characterized by little or no presence of rail and inland water transport facilities. Roads are the only means of transportation available in these States. The difficult terrain in the hill states adds to the cost of goods and materials as the cost of transporting them along the narrow hilly tracts is very high. This makes the cost of creation and subsequent maintenance of physical infrastructure exorbitantly high in the hill States. Frequent damage caused to the roads, irrigation schemes, water supply schemes and other infrastructure by the hostile weather conditions in the hill States shorten the life span of these assets considerably. This involves frequent maintenance expenditure and expenditure on account of replacement of existing assets with the newer ones much earlier than the normal life span of these assets.
- 3.1.9 Low Tax Potential:** The per capita income and GSDP of a State cannot be viewed as the only factors determining the tax paying capacity of the people. The population in these hill States is largely rural and a very large proportion of it depends on agriculture that is inflicted with very low levels of productivity due to disadvantages inherent to the hill economies. Most of the land holdings are either marginal or small and per cultivator contribution to the Agriculture GSDP is among the lowest in the country. High transportation cost arising out of scanty presence of means of communication makes it highly uneconomical to set up industry in interior areas of these States. Whatever, little industry is present in these States is confined to the peripheral areas. Most of these States are consumer States for the finished goods rather than being producer States. All these factors reduce the tax potential in these States.
- 3.1.10 The per capita income of these States also needs to be looked at in the perspective of high cost of living in these areas. Requirement of relatively more clothing, higher consumption requirements for meeting essential needs, higher fuel requirements, requirement of reasonably strong shelter of the people living in the hilly areas, together with high transportation costs make cost of living in the hilly areas high. Higher cost of living leaves the people inhabiting these areas with little taxable capacity.

Table 2

(i) Percentage Contributions of Sectoral Gross Domestic Product and total Workers Employed in Himachal Pradesh

Year	Primary Sector	Secondary Sector	Tertiary Sector
1	2	3	4
1980-81	50.35	18.69	30.96
1990-91	35.10	26.50	38.40
2000-01	25.25	35.77	38.98
2003-04	25.07	36.04	38.89
2006-07	23.15	39.96	36.89
2009-10	19.02	42.91	38.07
2010-11	18.65	41.67	39.68
2011-12	19.15	40.20	40.65
2012-13(A)	19.16	40.26	40.58

(ii) Percentage of Total Workers employed in:

Year	Primary Sector	Secondary Sector	Tertiary Sector
1	2	3	4
1980-81	73.59	10.71	15.70
1990-91	69.28	9.99	20.73
2000-01	68.47	1.76	29.77
2010-11	62.85	1.65	35.50

Source: (i) Economics and Statistics Department, HP.
(ii) Census, 1981, 1991, 2001 & 2011.

3.1.11 Further, the income accrual in some of the activities rests outside these States whereas they are accounted for while calculating their GSDP. Many of the industrial and hydel power production units existing in Himachal Pradesh are owned by the individuals and companies residing/ having their corporate offices outside the State. The very fact (Table-2) that the secondary sector that contributes 40.26% to the GSDP employs only 1.65 per cent of the total workers is sufficient to infer that a large proportion of the income arising out of the manufacturing and power sectors is actually accruing to the investors outside the State. Similarly, most of the industrial workers reside in the neighbouring States and commute to and fro on daily basis from the work place, and purchase goods in that State. This is so because most of the industrial activity is concentrated near the borders common with the neighbouring State.

3.1.12 The Data in the Table 2, indicates the Structural transition that the economy of Himachal Pradesh has undergone since 1980s. The contribution of the Primary Sector in the State Domestic Product has declined and Secondary and Tertiary sector are now competing with each other for dominant share in the economy. However, the very fact that about 62.85% of the Total Workers are either cultivators or are agriculture labourers (Census 2011) indicates the existence of low productivity per worker in the agriculture sector. Reasons for low productivity in agriculture sector are (a) average size of the holding in the State is just 1.04 hectares; in 2005-06 as per the land records maintained by the Directorate of Land Records). (b) steep slopes and rugged terrain are not conducive for providing low cost irrigation facilities; (c) weak market linkages of the farm operations because of large distances to the markets for buying necessary inputs and also for disposing of marketable surplus adds to the transportation Costs.

4. Revenue Receipts

- 4.1.1 Own Tax Revenue:** The issue of revenue collection and revenue effort is crucial in the context of fiscal management of the hill States. The issue assumes even more importance when analysed in the perspective of the larger issue of central funds transfer to the States where it is generally assumed that large fund transfer from the Union to the States leave the State Governments reluctant to mobilize additional tax, as they would always look forward to the Central government for repeated fiscal bail outs

Table 3- Own Tax Revenue of Special Category States

S. No.	State	2010-11 (Accounts) Rs. Billion	2011-12 (RE) Rs. Billion	2012-13 (BE) Rs. Billion	Per Capita Own Tax Revenue 2010-11 (Rs.)
1	ARUNACHAL PRADESH	2.1	2.5	2.9	1696
2	ASSAM	59.3	73.0	80.1	1907
3	HIMACHAL PRADESH	36.4	42.8	50.6	5432
4	JAMMU & KASHMIR	34.8	47.9	54.2	2582
5	MANIPUR	2.7	3.0	3.3	996
6	MEGHALAYA	5.7	5.9	7.2	2178
7	MIZORAM	1.3	1.8	1.9	1286
8	NAGALAND	2.3	2.7	2.9	1019
9	SIKKIM	2.8	2.5	3.5	4575
10	TRIPURA	6.2	7.8	8.9	1712
11	UTTARAKHAND	44.1	55.6	59.8	4477
12	All States	4607.1	5514.7	6450.7	3872

Source: State Finances: A Study of Budgets of 2012-13, RBI

- 4.1.2 However, when the figures pertaining to per capita Own Tax Revenue receipts of the Special Category States are observed, they clearly indicate that the per capita collection in Himachal Pradesh, Sikkim and Uttarakhand is above the average for all the States taken together (Table 3). Small population dispersed sparsely over mountainous terrain limit the tax capacity of these hill States. Despite these constraints, Himachal Pradesh has achieved the distinction of not only being the State with the highest per capita Own Tax Revenue Receipts among the Special Category States but it is also considerable higher than the average taken for all States together. The experience of Himachal Pradesh in this regard strongly refutes the allegation that the States with extra central fund devolution tend to do less on the tax effort.
- 4.1.3 During the period between 2008-09 and 2012-13, the percentage of State Own Tax Revenue (SOTR) to State's GSDP increased from 5.5% to 6.4 % in Himachal Pradesh and it signifies increased own tax mobilization by the State. The point that has been attempted to be driven home is that Himachal Pradesh has not lagged behind any other State of the Union of India, in mobilizing additional tax revenue.
- 4.1.4 Own Non-Tax Revenue:** Himachal Pradesh has considerable high per capita non-tax revenue receipt. It is almost two and a half times higher than the average per capita non-tax revenue receipts taken for all the States together (Table 4).

Table 4 -Own Non Tax Revenue of Special Category States

S. No.	State	2010-11 (Accounts) Rs. Billion	2011-12 (RE) Rs. Billion	2012-13 (BE) Rs. Billion	Per Capita Own Tax Revenue 2010-11 (Rs.)
1	ARUNACHAL PRADESH	5.3	3.7	4.2	4281
2	ASSAM	23.7	27.1	34.9	762
3	HIMACHAL PRADESH	17.0	18.3	20.0	2537
4	JAMMU & KASHMIR	10.9	18.5	21.2	809
5	MANIPUR	2.6	2.9	3.9	959
6	MEGHALAYA	3.0	3.9	4.7	1146
7	MIZORAM	1.5	2.4	2.3	1484
8	NAGALAND	1.8	1.7	2.0	798
9	SIKKIM	11.4	12.0	10.3	NA
10	TRIPURA	1.3	1.6	1.8	359
11	UTTARAKHAND	6.8	10.4	12.4	690
12	All States	916.5	1063.9	1199.0	770

Source: State Finances: A Study of Budgets of 2012-13, RBI

- 4.1.5 The Forest Conservation Act coupled with Apex Court orders/judgment in Civil No. 202 of 1995 (titled T.N. Godavarman versus Union of India) has completely banned the green felling in the State. Forestry receipts mainly accrue from sale of timber of salvage lots of trees consisting of dry standing and fallen trees which are removed by the State Forest Corporation. There is a complete ban on felling of green trees. As the State's forest stock is constant, the quantum of salvage lot of trees is also constant. Hence the income depends on the salvage lots of trees.
- 4.1.6 As far as recovery from service delivery by the health Institutions in the State is concerned, the Government has formed Rogi Kalyan Samitis or Hospital Welfare & Development Societies to decentralize decision making including on levying user charges and their utilization and improve the effectiveness of the public health systems in the State. The user charges collected by the Societies are retained and used locally for patient care.

5. Revenue Expenditure

- 5.1.1 Himachal Pradesh continues to have high Revenue Expenditure as a percentage of total expenditure. It was 79.41% of the total expenditure in 2012-13. This figure has hovered between 77% to 80% during the 5 year period of 2007-08 to 2012-13. Within the Total Revenue Expenditure, the Non-Plan Revenue Expenditure (NPRE) has shown a consistent increase at an average rate of 9.73% over the 2007-08 to 2012-13 period and it continued to have the dominant proportion ranging from 84% to 89% of total revenue expenditure in this period (i.e.2007-08 to 2012-13).
- 5.1.2 The reasons for the high levels of NPRE are the committed liabilities of the Government on account of Salaries, Interest Payments, Pension expenditure and Maintenance expenditure. NPRE as a percentage of total expenditure continues to be high in the State as in most Special Category States, which are characterized by a weak Revenue Base and high costs of development and administration. The achievements made by Himachal Pradesh, in the field of human development in general and in the areas of health and education in particular, required higher salary expenditure in these sectors. A comparative table of the revenue expenditure on some of the committed liabilities of the Special Category States has been given in the Table 5.

- 5.1.3 A first look at the figures in the Table 5 may easily make one to infer that the Special Category States have extremely high proportions of the expenditure on salary, pension and interest payment. However, this expenditure on Salaries and Pensions requires an insight into the need for a higher employee-population ratio on account of our low population density and scattered nature of the habitations in these States.

Table 5- Selected Committed Expenditure as Ratio to State's own Resources

S. No.	State	2010-11 (Accounts) Interest Payments	2010-11 (Accounts) Administrative Services	2010-11 (Accounts) Pensions	2010-11 (Accounts) Total (Interest + Admst Services + Pensions)
1	ARUNACHAL PRADESH	53.7	752	29.8	158.7
2	ASSAM	23.0	32.3	28.7	84.0
3	HIMACHAL PRADESH	36.5	17.1	39.4	93.1
4	JAMMU & KASHMIR	49.9	65.5	49.0	164.4
5	MANIPUR	69.2	145.9	45.9	291.1
6	MEGHALAYA	29.4	7.2	34.3	136.0
7	MIZORAM	90.7	199.3	90.2	380.1
8	NAGALAND	96.1	244.1	81.9	422.1
9	SIKKIM	13.2	17.5	11.3	42.0
10	TRIPURA	59.3	96.5	86.8	242.6
11	UTTARAKHAND	29.1	96.5	22.5	72.9
12	All States	22.6	21.3	19.6	55.8

Source: State Finances: A Study of Budgets of 2012-13, RBI

- 5.1.4 There is an argument that the States particularly, the Special Category States require to improve the composition of expenditure by cutting down heavily on the revenue expenditure. However, salaries and wages given to the employees engaged in health, education and other social sectors need to be viewed as an investment in human resources as this expenditure will be very difficult to avoid, if a continuous and sustainable process of human development is to be maintained.

- 5.1.5 **Debt Situation:** Himachal Pradesh Debt to GSDP ratio in the year 2012-13 is 39.18 % which is almost double in comparison to all India (i.e.20.51%) and it is a matter of serious concern. The Table 6 below gives a comparative picture of the debt liabilities of some Special Category States, which shows that Himachal Pradesh has the highest debt liability even among special category States:

Table-6: Percentage of Debt Liabilities to Total GSDP-StatesComparison

States	%age of liability to total GSDP 2012-13
Arunachal Pradesh	26.37
Assam	20.76
Himachal Pradesh	39.18
Meghalaya	24.12
Tripura	28.91
Uttarakhand	23.38
All India	20.51

Source: RBI Publication: 2012-13, State Finances, A Study of Budget 2013

- 5.1.6 Even in terms of per capita debt, the State has a very high debt level as is evident from Table 7. This high debt is affecting the State's development expenditure as interest and loan repayments pre-empt resources for development.
- 5.1.7 The State has got into acute debt stress because of the State's weak Revenue base and due to high committed expenditure on salary, pension & interest, to cater to service delivery of the remote & dispersed population. Except for some special intervention providing considerable debt relief to the State, interest servicing will continue to be a major part of Revenue Expenditure of the State.

Table 7 : Per Capita Debt - States Comparison (in Rupees)

States	2012-13
Arunachal Pradesh	26131
Assam	9198
Himachal Pradesh	41136
Meghalaya	16359
Tripura	17080
Uttarakhand	24647
All India	15678

Source: RBI Publication: 2012-13, State Finances, A Study of Budget of 2013

6. The Policy options

- 6.1.1 The preceding text has pointed to the limited Tax capacity and reasons for higher revenue expenditure in the Hill States. However, it does not mean that these States should increase their dependence on the special Central transfers to meet the expenditure requirements on revenue account. Then what are the policy options available? Should Hill States continue to incur higher revenue expenditure than their revenue receipts? How would the hill States put their economies on to the path of sustainable development? The following section gives some suggestions to contain revenue expenditure and to increase revenue resources in an environment of improved governance. These suggestions are based on the experience of Himachal Pradesh. The initiatives taken by Himachal Pradesh are listed below which can be replicated depending on their contextual suitability.

6.1.2 Expenditure Containment

- All the new appointments in Himachal Pradesh are being made only on Contract basis by making necessary amendments in the Recruitment & promotion rules. The contract employees are paid, the basic of the pay band plus grade pay corresponding to the pay scale applicable to the regular employees. It is clarified that the recruitment on contract basis is done through the HP Public service Commission or the HP subordinate services selection Board from eligible qualified persons, without compromising with their merit and competence. Further, there is a clear policy of regularization of these contract employees after 6 years of service. Thus, the morale and motivation of these employees are also maintained as they are mainstreamed on completion of 6 years of service. HP has already recruited nearly 15 thousand contract employees in last few years, leading to an annual saving of Rs. 300 Crore. Apart from present saving the subsequent pay and allowances and retirement benefits are also hugely reduced due to initial recruitment on contract.
- Further, none of the Government Departments has any freedom to fill up the vacant posts without the approval of the Finance Department and then of the Cabinet. New posts are

created only in the departments where there is a dire need of creation (like Health and Education departments) and that too with the approval of the Cabinet. In fact, the State Government is committed to maintain the current level of Employees.

- A pool of surplus employees has been established from which the surplus employees are deployed in the departments which are in need of the personnel, instead of resorting to fresh recruitments.
- Contributory Pension Scheme (now NPS) was introduced in May 2003 in Himachal Pradesh. 42,500 Employees have been covered under contributory pension scheme instead of the existing defined benefit scheme. The impact of both these measures in containing the expenditure will be felt in the medium term.
- Delivery of a large number of public services is being outsourced thereby cutting down on the requirement of Government employees.
- Budgetary support to several PSUs has been discontinued or frozen except in case of HRTC & HPSEBL which needs to be supported because of their social responsibility.
- All India LTC to the Government employees has been discontinued. Travelling Allowance (TA) & Transfer Travelling Allowance (TTA) given to State Government employees is less than those of the Central Government and neighbouring States and the HRA given to State Government employees is also much less than the House Rent Allowance given by Central Government and neighbouring States. Air travel has been restricted to a few occasions and is allowed on case to case basis. The expenditure on the residential Government phones for the officers of the State Government has been fixed on bimonthly basis. The monthly limit on consumption of petrol for Government vehicles has been imposed and the officers have to pay minimum fixed amount for use of Government vehicle for private use up to a limit. If this limit is breached officers have to pay extra amount on per Km. basis.
- Estimated annual saving on restricting House Rent Allowance compared to the Government of India rate is about Rs.150 crore. Employees in Himachal Pradesh are also not entitled to Education Allowance. If Himachal had allowed this allowance on Government of India pattern it would have increased the expenditure by Rs 180 crore. On account of low rates of Travelling Allowance and Transfer Travelling Allowance government saves another about Rs 150 crore. By discontinuing All India LTC State saves another Rs 60 crore. Thus the annual saving of these different measures is about Rs 600 crore. The above illustrations have been given to highlight that different measures add up to large short-term and long-term expenditure compressions which are paramount in expenditure management in hill states.

6.1.3 Governance and Service Delivery Improvement

- Improvement in governance is a continuing process. HP Public Services Guarantee Act has been enacted for time bound delivery of services to the people. HP Special Courts (Attachment and Confiscation of Property) Act has been enacted to deter ill-gotten property. All the Departments are required to prepare the Results Framework Document (RFD), under the Performance Monitoring & Evaluation System (PMES). Lak Mitra Kendras have been set up at the Panchayat level at the doorstep of the citizens. A State Services Delivery Gateway (SSDG) established to enable citizens to apply online for various Government services. All payments of salaries, pension and to the suppliers are being made through RTGS/NEFT directly from the treasury. E-procurement in major Departments like PWD, IPH and Controller of Stores has been implemented. Ambulance Services, parking, ropeways and bus stands are being constructed on PPP mode. All these initiatives and enactments ensure better service delivery and proper utilization of meagre resources of the State.

- There is a need to recognize the need to involve private sector in more and more fields of service delivery. Construction of roads and other infrastructure needs to be created in partnership with the private sector on priority to increase connectivity in the hills States, as roads are the only viable means of transportation in these States. The State has to facilitate the role of private sector in Health and Education, so that the expenditure of the Government in these sectors is reduced and public get alternative service delivery.
- There is a need to transfer functions, fund and functionaries to the Panchayati Raj Institutions and the Urban Local Bodies, keeping in with the spirit of the 73rd and 74th amendments to the Constitution of India. This will on one hand provide sense of ownership and participation to the local community and on other hand will reduce the administrative cost of the State government in future. To begin with the primary schools and the functions of the agriculture department should be transferred to the PRIs along with necessary fund and functionaries.

6.1.4 Steps to Tap Resources

- **Tax Revenue Resources:**
 - The Improvement in the tax administration and rationalization of the tax structure have always been prescribed as the two important measures to increase tax revenue collection. The VAT is the most important source of revenue for the state. The state government has provided various e-services like e-registration, e-return, e-tax payment, e-forms to facilitate the dealers. Further, the data provided by the dealers are being used for detection of tax evasion by cross examining the documents and sale transactions. Recently, the taxation department has started the online inter-state and intra-state declaration on movement of goods, which will curb the practice of non-showing the sale in the books of accounts. This will increase the VAT revenue.
- **Non-Tax Revenue Resources:**
 - The hill States have huge potential of harnessing the hydro power. Himachal Pradesh is a good example in this regard. It has already allotted power projects with the capacity of 22,531 MW, out of the total available potential of about 23,000 MW, through the transparent international competitive bidding, by replacing the earlier MOU system. In HP, 9000 MW of hydro power projects have already been commissioned and 4500 MW of projects are under execution. The state government gets 12% free power for 1st 12 years, 18% free power for next 18 years and then 30% for remaining period of project from the Independent power producer, to whom the project is allotted apart from getting the upfront premium. HP has higher per capita non-tax revenue in the country, due to proactive harnessing of the hydro power. The other hill States can also benefit from this policy, which will not only help these States to have additional income but it would contribute to meet the power requirements at the national level. However, there is a need to reform the process of according the Forest and Environment clearances by the Ministry of Environment and Forest, as the present system leads to inordinate delays, leading to time and cost overruns. The other issue is the fair rates to the power producers, as the sale rate of short-term electricity being sold on power exchanges have come down drastically, where the Merchant power producers are not getting even the cost recovered. This could have adverse impact on future generation, as there are no takers for the new hydro projects.
- **Other Potential Revenue Resources:**
 - State Legislative Assembly has passed the Himachal Pradesh Electricity (taxation on Generation) Bill, 2011 in line with the Article 288 (2) of the Constitution of India and

has proposed levy of generation tax on electricity in the State. The generation tax on hydro electric energy in the State at the rate of 25 paisa per unit will marginally increase the electricity tariff but will generate additional revenue to the tune of Rs.700 crore per annum. The bill has been sent to the HE President of India for his assent.

- The Himalayan Forests provide multitude of eco-system services like watershed services, climate regulation, Carbon sink etc. benefiting all the downstream States. The forest wealth of Himachal Pradesh has been estimated at Rs. 1.50 lakh crore. However, the Forest Conservation Act coupled with Apex Court orders in Godavarman case have put a total ban on even the scientific forest logging leading to revenue loss to the State. As per the rough estimates made by the Himachal Pradesh Forest Department, the State has to forego an amount of about Rs 3800 Crore per annum on this account. This loss due to revenue forgone by not exploiting forest wealth and payment not being received for the eco services being provided to the people living downstream if, start accruing to the State will come as a big relief for the adverse financial health of Himachal Pradesh. Therefore, there is strong case for undertaking scientifically managed and ecologically viable forest logging, which can be pleaded in the Hon'ble Supreme Court that can take care of the revenue generation and the environmental concerns simultaneously.

7. Conclusion

- 7.1.1 The major challenge with the hill States is to generate their own resources and reduce their dependence on the Special financial assistance from the Union Government. The challenges being faced by them are many and the available solutions are few in the perspective of the cost disabilities and limited resource endowments of these States. The current financial condition of these hill States does not appear to be permitting the modification in preferential treatment being given by the Central Government to these States by conferring the status of Special Category States to them. However, there are some policy options like expenditure containment, efforts to improve tax administration, enhancement in non- tax revenue and improvement in service delivery and governance with an objective to reduce the cost of service delivery.
- 7.1.2 All these States are rich in natural resources. The exploitation of hydropower in these States will improve the revenue resources of these States considerably and also meet the energy demand of other States. Similarly, permitting the scientific forest logging will balance the environmental concerns and revenue requirement of these States. These coupled with expenditure containment measures could reduce the dependence of these hill states on Union Government for special financial assistance.

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