

**Hon'ble Chairman and respectable Members of the
Thirteenth Finance Commission.**

1. I have the great pleasure of welcoming you to our beautiful State, described as the crown of India and paradise on the earth. We are thankful to you for having made a detailed programme to visit all the regions of our State for on the spot assessment of our development issues and for interactions with a cross Section of the society apart from the State Government.

2. It is now universally recognised that due to the sustained efforts of the last six decades, wise dynamic planning and evolution of a comprehensive financial structure to suit the changing development needs in the global environment, India has achieved the distinction of joining the group of leaders among the developing economies. It is the current strength of our economy and responsive wisdom of our policy makers that despite the global melt down, we have been in a position to protect the rate of growth of our economy to a great extent and hope to improve upon this growth rate in the coming years. In order to be a part of the growth story, all states and regions of the country have to perform a participatory role. While there are regions whose contribution is more significant, there are weaker states like that of ours which have remained at the lower rung of the national growth. With over 1% of the national population, our contribution to National GDP is just about 0.7%.

3. We have already submitted a detailed Memorandum to the Commission explaining the broad features, issues and problems peculiar to the economic structure of our State and also the important features of the State finances. Separately, we have uploaded the budgetary, financial and other details as per formats prescribed by the Commission. I am sure that the contents of our Memorandum will receive due consideration by the Commission at the time of finalisation of their Award. As such, I will try to flag only key issues for providing the backdrop of today's deliberations. While doing so, some repetitions of facts, figures and arguments already included in the Memorandum may become inevitable. I request the Commission to kindly bear with me on this account.

4. The fact that the State of Jammu and Kashmir suffers from chronic economic backwardness because of its adverse geographic, agro climatic, topographic and other factors is too well known and widely recognized by now. On the positive side, Almighty God had endowed our J&K State with abundant natural wealth of lush green & extensive forests and running streams, springs and copious river waters. These two resources could have normally generated significant regular income for the State. Unfortunately for us, we realised that we have been restrained from exploiting both these valuable resources, even before we were in a position to fathom the richness of this wealth.

5. I will take the case of forests first. The State used to earn annual revenue of about Rs.100 crore from extraction and sale of timber from these forests with potential to increase the revenue further. In view of the ban imposed by the Supreme Court, the revenue from forests has considerably dwindled. It has been estimated that the total economic value of the ecological services rendered by the forests located in our State exceeds Rs. Eleven lakh crore. The net present value of our forests computed on the basis of norms prescribed by the Supreme Court works out to more than Rs. two lakh crore. Excluding the cold desert area of Ladakh, the forest cover of our State comes to 45% of our geographical area. While direct revenues to our State have fallen, the environmental benefits from these forests are plentiful and global in nature. However, the cost of maintenance, up keep and development of these forests has to be borne by the State. In consideration of the vast forest cover, we have to maintain, of necessity, an organisation the establishment cost of which does not leave much scope for making adequate budgetary allocations for meeting the genuine conservation and developmental needs of this sector. While providing the relevant details in the Memorandum, we have requested the Commission to allocate special resources for maintenance and up keep of these national & global assets as the meagre plan and non plan resources of our State cannot do justice to the full requirements of maintenance, upkeep and development of these forests.

6. Talking of the other natural wealth of running waters of our State, I will briefly dwell upon the issues of energy and irrigation sectors. At the time of independence, just about two small hydel projects met the limited lighting needs of small, privileged parts of Srinagar and Jammu towns for short hours in the evenings. Only after independence, energization of towns and villages started taking place and the energy requirements, mostly for lighting started growing. The increasing energy needs, still small in size, were met by imports from the Northern Grid. Our State created additional hydel capacity of about 150 MW in its first major initiative in early 70's. During this period NHPC initiated work on a few major hydel projects. Share of our State was fixed by GOI at 12% of energy generated from these power-houses. The consumption and demand grew further in the meanwhile. The element of subsidy built into the tariff started showing up. This is the period when we realised for the first time that the Indus Waters Treaty had literally sealed our economic fate, both in energy and irrigation sector.

7. Despite having a potential of about 20,000 MW of hydel energy, we cannot harness it optimally because of this Treaty. We have to choose less economic Hydel Project designs suited to 'run of the river' projects. The actual generation from such projects cannot go beyond 70% of the installed capacity because of reduction of water discharge in the rivers in autumn and winters. Thus the average cost of

generation per unit goes up further by about 50%. The same Treaty also deprives us from using our waters for irrigation except to a limited acreage of 13.96 lakh which is about to be exhausted in near future. Irrigation potential already created is 12.65 lakh acres. The total cultivable area of the State is 25.98 lakh acres.

8. While the hydel projects constructed in the Central sector allow us only 12% of the energy actually generated, even in the State sector 450 MW Baghlihar Hydel Project commissioned recently, we have to sell out 50% of the energy to outside buyers as a pre-condition imposed by the lending institutions while our own consumers starve for energy.

9. We have been pressing for adequate compensation to the State by the Central Government time and again and also before the successive Finance Commissions. We hope and urge the Thirteenth Finance Commission again to address this issue afresh and find a just, timely and long lasting solution. We feel that pending final quantification of a proper compensation package the Commission may allocate a sum of Rs.15, 000 crore exclusively for fully funding about 1500 to 2000 MW of hydel capacity under the State sector so that we are not required to raise any loans from the market for funding our hydel projects upto this extent. Such an allocation by the Commission shall introduce the much needed correction in the financial structure of our State which is currently getting distorted on account of ever increasing expenditure on

purchase of high cost energy from the Northern Grid. I urge the Commission to recommend to the Centre to adopt this principle for future as well.

10. After talking of the fate of these two rich natural resources of our State, I would like to speak of the status of three important plus points of our otherwise fragile economy. Firstly, we have inherited a rich tradition of handicrafts which have no parallel anywhere else. We have been trying to preserve and expand this activity for preserving our rich heritage, sustaining a wide employment base and strengthening its revenue earning capacity. Kashmir carpets are also a major foreign exchange earner.

11. Secondly, we have been endowed with numerous extremely attractive tourist destinations of unsurpassable natural beauty, albeit seasonal in nature, and several very important centres of pilgrimages. These destinations have been attracting lakhs of tourists & pilgrims from all parts of the Country and many parts of the world. This means that we have to maintain high class infrastructure and facilities at all such places and on the tourist routes and have to continuously upgrade them.

12. A mid sixties phenomenal growth in apple production at commercial scale has added a third important plus point to our economy. The annual production of apple is worth around Rs.1700 crore. Fruit industry provides large scale employment in our State and massive government support is needed to sustain this industry.

13. Incidentally, all these three important revenue earning sectors in our economy make only a marginal contribution to the Government's budgetary income. Out of these three sectors, Tourism has been taking regular beatings due to now two decades old turmoil initiated by militancy. Handicrafts sector has been generally a co-sufferer along with Tourism. Its fate also hangs in balance due to fluctuating domestic & international market demands. The current global melt down has seriously impacted carpet exports. We have accordingly sought the help of the Commission in sustaining our Tourism industry as per details indicated in our Memorandum. A sustained level of tourist inflow will help indirectly in promotion of handicrafts and fruit industry.

14. For the reasons already mentioned by me, J&K economy has evolved primarily into a consumption economy. Our local production of consumption goods continues to be marginal. Even these small numbers of locally manufactured goods are generally struggling to remain competitive against similar goods purchased from outside the State, not to speak of these goods competing well in the neighbouring markets or exports. This is mainly due to lack of requisite infrastructure, poor investment environment, long distances from the main markets and slow and expensive mode of transportation of goods and raw materials. Consequently, the State's dependence on consumption goods purchased from outside the state is so large that it takes away a major chunk of our GSDP. We are trying to apply the much

needed government - stimulated corrections to this situation. The process is, nevertheless, time consuming and also challenging in view of the inherent weaknesses of our manufacturing environment. We are willing to face this challenge if the pace of plan development is kept up as a result of the Award of the Commission.

15. Before coming to the issues of restructuring of the State's finances, I will give out very briefly some of the parameters to outline the current status of our economy. The last census placed our literacy rate at 55.5% which is well behind the national average of 64.8%. In the field of health cover, we are slightly better than the national average. Our unemployment rate of 4.21% is much worse than national average of 3.09%. The average rate of growth of our GSDP at about 6% for the last five years is much below the national growth rate of 9% for the three year period up to 2007-08 and an average growth rate of 8.20% for the last five years despite the global meltdown. On the other hand the growth of our tax revenue collection has been among the best in the country. The total tax collection as a ratio of our GSDP is 7.1 % in comparison to All States average of 6.2 %. The ratio of total tax and non-tax revenue collection as a ratio of GSDP is 10.2% in comparison to corresponding All States average of 7.5%.

16. I seek the Commission's permission to put forward my views on some criteria for devolution of resources for their kind consideration. I would request the Commission to

kindly keep in mind that the average per capita cost of sustenance (expenditure on food, fuel, clothing and shelter) in our State would work out to be amongst the highest in the Country. This factor would also be responsible for a large BPL population of 22% (26% in rural areas and 8% in urban areas) in our State as per BPL survey conducted in 2008 by the State Directorate of Economics and Statistics. The Commission may kindly take note of this figure as the 2001 census kept our BPL figure only at about 5.4%. Cost of sustenance and BPL population should be recognised as important considerations for devolution of resources.

17. In our Memorandum, we have also suggested that the remoteness of our State from the main centres of economic activities involving extra cost of transportation should be factored into the devolution mechanism.

18. We have also recommended that while dealing with the devolution issues in which population is a factor, the TFC may adopt a realistic approach by taking into account the latest estimated population rather than 1971 population figures.

19. While dealing with the matters pertaining to FRBM Act, due regard should also be given to the two adverse factors of global melt down and the Sixth Central Pay Commission apart from the fragile structure of State finances common to special Category States.

20. While dealing with the grants allocated to the Panchayats, due regard should be given to the peculiar law and order conditions prevailing in J&K. Though we seriously

intend to hold panchayats elections as early as possible, any delay on this account should not be taken as wilful breach of the condition. A liberalised view needs to be taken in respect of J&K. We also urge upon the TFC to find a way to release the amounts of grant in aid for the panchayats recommended by the Twelfth Finance Commission which have been withheld because panchayats elections could not be held during the period of Award of the Twelfth Finance Commission.

21. We have also given our views on some more areas like assessment of geographical area in hilly States, minimum guaranteed devolution, Centrally Sponsored Schemes etc. I request the Commission to give their kind consideration to these views.

22. I may add a few points pertaining to our budgetary features. The over all arrangement of revenue receipts in the budget seemingly works favourably in respect of Special Category States in as much as 90% of the Plan assistance flows to the States as grant-in-aid where as the corresponding plan expenditure is largely shown on capital side. The revenue surplus in the budget, therefore, is not indicative of financial health of the State. It may rather hide its intrinsic weaknesses.

23. The Commission might have already taken note of the fact that in view of the growing needs of the successive annual plans coupled with the limited resources available with the Planning Commission, our state has been compelled to increasingly depend on the market borrowings for funding of successive annual plans. As a result, we are now in a classical

debt trap. The State expenditure on debt servicing has been going up. The irony is that the debt relief recommended by the Twelfth Finance Commission has not benefited us because the conditionalities related to FRBM Act could not be and could not have been met by the State. We have already requested the Commission through our Memorandum to review these conditionalities set by its predecessor Commission and find a way to extend this relief to us now in order to avert further distortions in the budgetary structure on this account. We also plead before the Commission not to attach similar conditionalities in their Award. The Commission may kindly also consider to writing off all the outstanding old loans.

24. Our weakest spots have been higher expenditure on establishment, debt servicing and expenditure on purchase of energy. Our total revenue expenditure accounts for 36.3% of GSDP as against All States average of 12.9%. However, it may be noted that Departments of Home, Health, Education and other economic services account for the major share in the total salary expenditure. A comparatively larger police force is required to be maintained in the interest of internal security. Therefore, for maintaining peace and accelerating the pace of economic development in our State, final views of the Thirteenth Finance Commission on this aspect of our revenue expenditure are going to be very very crucial.

25. We note that the TFC is mandated to assess the resources of the Centre and the States for the five year period of their Award on the basis of estimated levels of

income and expenditure for the year 2008-09. These estimates are to be developed from the actual receipts and expenditure for and up to the year 2007-08. I would draw the attention of the Commission to the subsequent two developments which have adversely impacted our state's revenue and expenditure. These are global melt down resulting into reduction of our share in the Central taxes and implementation of pay structure recommended by the Sixth Central Pay Commission which the State government has decided to adopt. We have separately supplied the relevant information to the Commission. I am sure that the Commission are already seized of these two additional factors.

26. We have projected the sectoral needs of crucial sectors giving out the relevant details in our Memorandum, such as Power, Roads, Tourism, Agriculture, Forests, Education, Health & Housing. Additionally, we have also projected the special needs of buildings and computerisation for Judiciary, Legislature Complex, MLAs Hostel, Secretariat, District Administration and other field offices. These requirements may be considered sympathetically. Any further details needed or clarifications required for this purpose can be provided by us to the Commission.

27. Before concluding, I seek your permission to flag three important issues dealing with creation of corpus for introduction of New Pension Scheme, one time TFC's support

for correcting the overdraft with the J&K Bank and bailing out the state from the adverse impact on account of the Central Sixth Pay Commission Award.

28. The Commission's visit to our State in the very first year of the new government, popularly mandated by the people with high hopes of joining the development march, could not have taken place at a more opportune movement. I thank the Hon'ble Chairman and the Members of the Commission for visiting the State and giving me a patient hearing. I conclude with high hopes that the Commission shall not leave any stone unturned to ensure that the genuine needs and aspirations of our people are met by their generous Award.