Rajasthan Perspective

Memorandum to the Thirteenth Finance Commission

1. The Constitution of India has given the states the responsibility of undertaking a major portion of developmental activity but endowed them with rights to use a less than proportionate and relatively inelastic quantum of fiscal resources. However, in order to provide additional financial resources to the states for not only discharging their constitutional responsibilities but also the progressive reduction of regional imbalances/income inequalities, the Constitution has provided additional discretionary finances under Article 280. This discretion is to be exercised by the Finance Commission in recommending a transfer of funds from the centre to the states every five years.

2. Some peculiar problems confront the development of states like Rajasthan which need to be taken into account by the Thirteenth Finance Commission while making its recommendations for devolution of funds from the centre to the states for the period 2010-15. Rajasthan continues to be one of the most economically backward states of the country with a per capita income which is less than three-fourths of the national average, giving it a rank of 27 out of 34 Indian states and union territories. The Twelfth Finance Commission has ranked states in terms of the Human Development Index (HDI) and Infrastructure Index (II) and classified them into four categories: high, high middle, middle and low. In terms of both indices the Commission ranks Rajasthan as "low", which implies that the state still requires large doses of financial assistance.

3. Its continuing economic backwardness can be attributed in a major part to its geographical constraints. With a total geographical area of 342.24 thousand square kilometers (10.45% of the country's total area), Rajasthan is the largest state in the country. The Thar Desert which lies to the North and North-West of the Aravali Mountains comprises 11 (out of 32) districts and about 60% of the total area of the state and is inhabited by 40% of its population, The immenseness of this desert can be gauged from the fact that only one desert district, viz., Jaisalmer is equal in area to that of Kerala. In the same vein, four border districts, namely, Barmer, Jaisalmer, Bikaner and Sriganganagar together account for an area of 1.15 lakh sq. km. which is more than the area of Punjab and Haryana put together, and almost equal to that of Tamil Nadu. Not only is the desert large it is hard to administer; human movement and communication is difficult and installation of suitable mitigating infrastructure is expensive. Such extraordinary expenses need to be taken into account by the 13th Finance Commission.

4. Furthermore, development becomes more complicated and difficult because the state has a long international border of 1048 kilometers passing through difficult and inhospitable terrain. The infrastructure in the border areas is woefully inadequate and the inhospitable geographical and climatic conditions make it susceptible to illegal trafficking of goods and narcotics. The management of these problems in border areas has put a heavy strain on the scarce resources of the State. Of late, the border has become very sensitive to attempts from external forces and cross-border terrorist groups aimed at destabilizing the country. This is a matter of national concern which calls for national effort and allocation of additional national resources.

5. Patterns of human settlement also present a unique problem. As per the 2001 census, the population density of the state was 165 persons per sq. km. as against 325 for the country as a whole. The desert district of Jaisalmer has the lowest population density (just 13 persons per sq.km.). With desert and hilly terrain covering more than 2/3rds of the state, human settlement patterns are segmented. In rural areas, a major section of population

lives in settlements outside the main villages, which are known as “dhanies” and “magras”. The number of such dhanies and magras, which are not recorded as revenue villages, is around one lakh and they house 30 percent of the state’s rural population. The profile of low density and nucleated settlement patterns around farm holdings and on isolated hill tops in tribal areas raises the unit cost of delivery of services enormously, particularly in the fields of education, drinking water, medical and health care services, power supply, revenue and general administration.

6. Water, the most critical input for habitation and development, is a scarce resource in large parts of Rajasthan. There is no perennial river in the state apart from the Chambal, which traverses some parts of the south-eastern portion of the state. Out of 32 districts, 27 districts are not traversed by any perennial river. The erratic behaviour of the monsoon and scanty rainfall makes Rajasthan the most water deficient state in the country. Rajasthan accounts for 10.45 percent of the land area of the nation, houses 5.58 percent of its population but has access to only 1.04 percent of its available water. Traditional sources of water such as wells are still the major source of irrigation and drinking water. As per the latest state government estimates, over 60 percent of the total utilizable ground water resources have already been exploited. Due to the increased demand for groundwater for irrigation, domestic and industrial purposes and consequent overexploitation, 81 blocks out of 237 have been classified as dark zones (severely depleted) and 31 blocks as grey zones (seriously, but not severely depleted).

7. Due to geographical, topographical and climatic conditions the state is visited by famines and droughts regularly. During the period from 1981-82 to 2007-08, only 3 out of 27 years were drought and famine free. In last three years of this period the state has experienced famine/drought in as many as 22 districts in the first two and 12 districts in the latest year. A huge amount of financial resources are required for mitigating the adverse impacts of such frequent natural calamities which otherwise could have been spent on more productive/developmental activities.

8. Notwithstanding its poverty which can be attributed in large part to the vagaries of nature, its rich culture and heritage and unique terrain make Rajasthan the primary source of attraction for tourists to the country. It thereby creates spin-offs for the tourism sectors of other states as tourists who are attracted mainly by the charms of Rajasthan visit the other states too. However, if Rajasthan is to retain and augment its charm for tourists existing infrastructure needs to be maintained and new infrastructure has to be developed to keep up with modernization the world over. Not only Rajasthan but other states will benefit from such efforts.

9. Though Rajasthan is not a very affluent state it has contributed to India’s development through its large deposits of both metallic and non-metallic minerals. It is the second largest mineral producing state in India and accounts for about 24 percent of non-metallic minerals of the country. This state is the largest producer of minor minerals and it is the only producer of jasper, garnet, and wollastonite. It is also the third largest producer of limestone in the country. Likewise it is an important producer of ceramic minerals, mica, feldspar, stones, etc. Lignite reserves of this state, estimated at 300 million tons, are valuable for power generation. Natural gas reserves are estimated at 6600 million cubic metres. Heavy oil of good quality has been discovered in small wells in the state.

10. The Chief Minister of Rajasthan has criticized the latest mineral policy approved by the Empowered Group of Ministers (EGoM) of the Government of India, which reduces the

royalty on minerals to states from the existing level of 20 percent ad valorem to 12.5 percent. Similarly, we too feel that states possessing minerals should be compensated adequately for the substantial fiscal resources they spend on the development of mineral reserves as well as the environmental costs they bear during extraction. On profits from petroleum the recommendation of the Twelfth Finance Commission for 50:50 sharing between the centre and states should be continued.

11. Keeping in mind the above mentioned arguments and facts we would like the Thirteenth Finance Commission to recommend the provision of more financial resources to the state of Rajasthan and on more liberal terms. Thus, it is proposed that at least 33 percent of the net proceeds of shareable central taxes must be provided to the states, building on that provided by the Eleventh Finance Commission (29.5 percent) and the Twelfth Finance Commission (30.5 percent). This will automatically result in larger grants for Rajasthan. Till now Rajasthan has not been included by the Central Government in "special category" states (which is a long standing and genuine demand given its climatic and topographical drawbacks) i.e. those which are provided grants-in-aid to compensate for chronic problems created by nature. In addition to the enhancement of the share of states in shareable central taxes, the Finance Commission should use the Constitutional provision under Article 275 to provide grants-in-aid more liberally (raising these to at least 10 percent of total Central resources compared to around 8 percent by the 12th FC). In horizontal distribution of the shareable central tax revenue pool the area factor should be given a weight of at least 20 percent (building on 10 percent in case of 12th FC, 7.5 percent by 11th FC and 5 percent by 10th FC) and that to "income distance" should be raised to 60 percent (50 percent in case of 12th FC, 62.5 percent by 11th FC) so as to accommodate fiscal needs of states which are large and handicapped by nature such as Rajasthan.