



APPROACH PAPER

ELEVENTH FIVE-YEAR PLAN

(2007-2012)

HIMACHAL PRADESH

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APPROACH PAPER TO ELEVENTH FIVE-YEAR PLAN FOR HIMACHAL PRADESH

INTRODUCTORY

Himachal Pradesh became the 18th State of India when it was granted Statehood on 25th January, 1971. It is classified as a Special Category State due to its geographical and topographical disadvantages and weak economic base.

2. At the beginning of the First Five Year Plan, Himachal Pradesh was one of the most backward regions in the country. The planning process has been vital for its economic growth and development. Himachal Pradesh is now regarded as a model example of development for a hill State. This has been made possible by the State's continuous commitment to development, as well as generous central support.

3. The initial Five Year Plans of the State emphasized connectivity and there was a push for an extensive network of roads. Universal rural electrification was achieved in the 1980's. Rapid progress has been made towards safe drinking water. The State has witnessed an educational revolution along with the concomitant benefits of a speedy demographic transition.

4. Himachal Pradesh is predominantly agrarian. It has therefore pursued a planning strategy for high value fruit and vegetable crops. This has led to a rise of farm incomes. The State's enviable social indicators now include a per capita income which is higher than the national average.

5. The fiscal health of the State is a serious concern and it is necessary for the State to rapidly augment its internal financial

resources. This is possible only through rapid actualization of its large hydro electric potential.

PAST GROWTH TRENDS

6. The rate of growth of the State economy remained generally lower than the national average during the first 35 years of planned development. From the Seventh Five Year Plan onwards the economic growth rate of the State has been higher than the national average. The State achieved its highest growth rate of 8.8% over the Seventh Plan (1985-90). Due to severe fiscal problems, the economic growth of the State slowed down during the Eighth and the Ninth Plan. In the Ninth Plan (1997-2002), the economic growth was 6.4% per annum against the national average of 5.6%.

7. For the Tenth Five Year Plan (2002-07), the State's targeted growth rate was 8.9%. Mid term appraisal assessed this growth rate at 6.9%. As per latest estimates, the average annual growth rate is now targeted at 7.4%. During the Tenth Plan the primary sector is expected to achieve an average annual growth rate of 8.5% against its original target of 4.5%. Annual growth rates of the secondary and tertiary sectors are expected as 7.42% and 7.53%. The detailed sectoral growth rate data is as follows:-

(per cent per annum)

Year/period	Primary Sector	Secondary Sector	Tertiary Sector	Total
10 th Plan target	4.55	12.49	8.26	8.9
2002-03(Actual)	6.71	3.21	9.20	4.8
2003-04(Actual)	8.40	9.72	6.66	8.1
2004-05(Quick)	9.50	7.31	6.76	7.6
2002-05(Average)	8.20	6.75	7.54	6.8
2005-06(Advance)	9.52	7.14	8.39	8.2
2006-7(Prelim.Est.)	8.40	9.72	6.66	8.0
Average 10th Plan	8.50	7.42	7.53	7.4

8. Sectoral contributions to the gross state domestic product (GSDP) for the Tenth Plan are summarized as follows:-

(per cent share in the GSDP)

Year	Primary Sector	Secondary Sector	Tertiary Sector	Total
2001-02	22.85	35.90	41.25	100.00
2002-03	21.67	35.36	42.97	100.00
2003-04	21.72	35.88	42.40	100.00
2004-05	22.12	35.80	42.08	100.00
2005-06	22.39	35.45	42.16	100.00
2006-07(E)	22.45	35.98	41.57	100.00

Thus, the relative shares of the primary, secondary and tertiary sectors have remained almost unchanged during the Tenth Plan period.

OBJECTIVES FOR THE ELEVENTH PLAN

9. In consonance with the vision of the Planning Commission, the Eleventh Plan provides an opportunity for faster and more inclusive growth. The major plan objectives would include the provision of essential public services (especially for the poor and disadvantaged sections of society), increasing farm incomes, developing vital infrastructure, nurturing human capital, protecting the environment and improving governance. The focus would remain on reduction of poverty, enhancing equity among various sections of the society and a balanced regional development.

GROWTH PROJECTIONS FOR THE ELEVENTH PLAN

10. The State will aim for an annual growth rate of 8.5%, the same as the national target for the Eleventh Plan. To achieve

this, the sectoral growth rate targets are projected at 7.5% for the primary sector, 9.3% for the secondary sector and 9% for the tertiary sector. The comparative trends with the Tenth Plan are summarized as follows:-

Item/detail	Primary Sector	Secondary Sector	Tertiary Sector
Tenth Plan			
(i) Growth Rate (%)	8.50	7.42	7.53
(ii) Per cent share in GSDP	22.45	35.98	41.57
Eleventh Plan			
(i) Growth Rate (%)	7.50	9.30	9.00
(ii) Per cent share in GSDP	21.16	36.85	41.99

11. Achieving the targeted growth rates should not be difficult if the Planning Commission maintains the same trends of financing as for the Tenth Five Year Plan of Himachal Pradesh. Central investments would also be necessary in sectors such as Railways, Civil Aviation and Power. Planning Commission financing norms would need to make a reasonable distinction for higher costs of development in Himachal, due to the sparse and spread out population and the adverse topography/climate of this hill state.

HYDRO-POWER

12. The overarching vision and mission of Himachal Pradesh for the Eleventh Five Year Plan is to accelerate the actualization of its hydro power potential of about 20,000 MW. Such actualization would have the following twin benefits:-

- (a) The country would gain in ameliorating shortages in this critical infrastructure sector, through enhanced production of “green energy”.

- (b) The State's financial resources would be augmented in such manner that its financial dependence on central resources would diminish.

13. Currently, 6183 MW i.e. 31% of the total hydro-potential of the state, is actualized. 5676 MW potential (28% of the total) stands allotted and with a greater pace of investment, this potential can be actualized within the eleventh plan period. Thus, by 2012, H.P. can hope to actualize 11,859 MW, i.e. 59% of its total potential.

14. Work on the balance 41% (@8200 MW) needs to be allotted at the earliest and targeted for completion within the twelfth plan, i.e. by the year 2017.

15. To achieve the actualization of the balance hydro power potential of Himachal Pradesh, a total investment of about Rs.98,000 crore would be required by the various entities of the State Government and Central Government, as well as by the private sector.

16. During the next Plan, the State Government would like to invest in equity participation for 3,000 MW additional capacity. This would necessitate investment through the State Plan of about Rs. 2500 crore. In addition, the transmission and distribution networks would also need to be considerably strengthened through the APDRP; such schemes would include investment for renovation/modernization of earlier power stations and rural electrification of the few left out villages. An outlay of Rs. 1,000 crore would be necessary for such investments. Thus, the total power sector outlay for the Eleventh Plan is proposed as Rs. 3500 crore.

FARM SECTOR STRATEGIES

17. As a corollary of the Eleventh Plan objective of 'faster and more inclusive growth', it is very vital for the state to

concentrate on accelerating agricultural growth. The twin objectives would be to increase the incomes from farming and allied activities and the employment opportunities within this sector. The emphasis will be on modernization of agriculture/horticulture practices so as to increase the farm productivity and accelerating diversification of agriculture towards high value crops.

18. The framework for opening up of the farm sector for contract farming as also for organic farming has been put in place. The focus shall also be on improvement of irrigation facilities, facilitation of effective market linkages, adequate credit, fertilizer, high quality seeds and other inputs. Research and extension work would also need to be suitably supported. All this is expected to lead to substantial value addition in this sector.

19. The total geographical area of Himachal Pradesh is 55.67 lakh hectares. Only 10.47% of this area, i.e. 5.83 lakh hectares is the net sown area. It is estimated that the ultimate irrigation potential is 3.35 lakh hectares i.e. 57% of the net sown area. Currently, a total culturable command area of 2.07 lakh hectare has irrigation access. The vision for the eleventh plan is to maximize irrigation sources for the balance 38% irrigation potential of 1.28 lakh hectares. The State Government has already prepared a blue print for bringing an additional 98,000 hectares under irrigation through the Bharat Nirman Programme. Ongoing irrigation projects are being prioritised for speedy completion. Water conservation technologies will also be propagated for increasing farm productivity.

20. The State Government is acutely aware of the existing gap between irrigation potential created and its utilization. Bridging this gap will be accorded high priority during the Eleventh Plan through farmers' associations and extension work by the agriculture and horticulture departments.

21. For meeting all these objectives, the State Government envisages an investment of Rs. 2000 crore in the farm and irrigation sector, during the Eleventh Plan.

EDUCATION

22. The 2001 census enumerated the literacy rate of Himachal Pradesh as 76 per cent with male literacy rate at 85 per cent and female literacy rate at 67 per cent. Thereafter, Himachal Pradesh has made further rapid strides towards universal elementary education, which has resulted in almost 100% literacy among the youth of this State.

23. At the start of the Eleventh Five Year Plan, the overall literacy rate is estimated to be around 88 per cent, with male literacy rate at 94 per cent and female literacy rate at 82 per cent. The gains in literacy will now come at a slower pace because of the overall demographic trends of Himachal Pradesh. The projections are to achieve a literacy rate of more than 92 per cent by the end of the Eleventh Plan.

24. Despite the fact that Chamba, Kullu and Sirmour districts were covered under earlier central programs for universal primary education, these districts still have literacy rates much below the State average. With the goal of inclusive growth and development, special attention shall be paid to increase the literacy rates of these districts. The earlier literacy gains in these districts will be taken forward under 'Sarva Shiksha Abhiyan', through area/target group interventions.

25. As a specific gender issue, by continuing all programs for universal education and ensuring suitable interventions to minimize the drop out rates for the girl child, the goal shall be to achieve a female literacy rate of at least 88%, by the end of the Eleventh Plan.

26. The educational objective in the next Plan shall also be to improve the quality of higher education imparted through an enhanced network of Government and private sector educational institutions. Through innovative forms of public – private partnerships, the stress shall be to upgrade the employability and entrepreneurial abilities of students graduating from senior secondary schools/colleges/technical institutions.

27. A specific focus shall be to increase the computer literacy and English language fluency skills of Himachal's school/college graduates. Through appropriate affirmative measures, under-privileged categories of scheduled castes/scheduled tribes/other backward classes would be facilitated to gain access to such quality education, so as to enhance their employability skills.

28. For all the various initiatives to be undertaken in the education sector and to sustain the ongoing educational infrastructure, it is estimated that a total investment of Rs. 1000 crore will be required in the next five year plan.

HEALTH AND ALLIED SECTORS

29. At the start of the Tenth Plan, the life expectancy (at birth) in Himachal Pradesh was 66 years, against the national average of 63 years. By the end of the Eleventh Plan, the vision is to raise the life expectancy to at least 68 years. Through synergies between the National Rural Health Mission and the ICDS programme, the goal is also to reduce the Infant Mortality Rate from 51/1000 live births to below 20/1000 live births.

30. The population policy shall include the goal to achieve a reduction in birth rate from 19/1000 population at present to about 16/1000 by the year 2012. The death rate is also expected to decline from the present 7/1000 population to 6/1000. This shall ensure that by the end of the Eleventh Plan,

the population growth rate of Himachal Pradesh would be only 1 per cent per annum.

31. Above trends of population growth augur well for Himachal Pradesh to reap the benefits of the 'sweet spot' of the demographic transition, with larger labour participation rates leading to higher saving rates. To translate into faster growth rates, such savings need greater opportunities for investment within Himachal. To fully benefit from the 'sweet spot', it is imperative that we also specifically plan for enhanced employment opportunities for the increased working age population.

32. Since more than 90 per cent of Himachal population is rural, a paramount health and welfare objective is to ensure safe drinking water for all villages. For this purpose, the Eleventh Plan interventions shall be suitably integrated with the accelerated rural water supply (ARWSP) scheme of Bharat Nirman. One of the most important links in the chain for improved quality of life is the need for sanitation. To meet such needs, the existing water supply systems will need to be augmented. New water supply projects will also have to be planned for higher per capita requirements.

33. It is estimated that fulfillment of all Eleventh Plan objectives of this sector (and allied activities) would require total State plan investment of Rs. 2500 crore.

RURAL CONNECTIVITY

34. In the absence of any other meaningful transport infrastructure, the entire economic activity of Himachal Pradesh is critically dependent on the quality and reach of its road network. Over 90 per cent of Himachal Pradesh population is rural, as compared to the all-India figure of 72 per cent. Rural connectivity is, therefore, crucial for the people of Himachal Pradesh. The goal for the Eleventh Plan is to synergize with the Pradhan Mantri Gram Sadak Yojana, to

ensure that by 2012 all villages of population more than 250 are served by all weather roads. In this context, the norms of PMGSY under Bharat Nirman need to be revised for the hill States.

35. Policy interventions are also urgently required for improving the quality of the State's main arterial roads. Given the mountainous terrain and topographical constraints of Himachal Pradesh, this objective can only be sub-served through substantial financial investments. Unlike the States in the plains where the volumes of traffic make it eminently possible to attract private investment, such possibilities do not exist in the hill States. The existing viability gap funding mechanisms are inadequate to attract private investment in roads and allied infrastructure in Himachal Pradesh. Therefore, it becomes imperative that this critical infrastructure sector receives desired budgetary support through the State plan.

36. To properly manage the road network for the economic activities in Himachal Pradesh (including tourism), it is estimated that the State's total plan outlay for this sector shall have to be pegged at Rs. 2,500 crore.

DEMOCRATIC DECENTRALIZATION

37. The District Planning committees are being constituted in all districts of Himachal Pradesh. Much of the planning investment will be finalized in consultation with these committees. Plan resources shall also be placed at the disposal of the Panchayats/Local Bodies, as per the recommendations of the Twelfth Finance Commission and the Third State Finance Commission.

38. Well planned urban growth of cities and towns of Himachal Pradesh is vital for the provision of essential infrastructure services. The requisite urban services for Shimla shall be provided through the initiatives of the Jawahar Lal Nehru Urban Renewal Mission. Essential infrastructure services for the other towns and cities of Himachal Pradesh will need to be integrated into the State Plan since the JNURM does not cover these other towns.

39. It is estimated that for promoting the ends of decentralized planning for the rural and urban local governments, a total provision of Rs. 500 crore will be required over the Eleventh Plan period.

FORESTRY AND ENVIRONMENT

40. Adequate forest cover in Himachal Pradesh is essential to minimize problems of floods and soil erosion. Such forest cover is essential not only for retention of precipitation but also to induce adequate and regular rainfall. Although 67% of the geographical area of Himachal Pradesh is legally classified as 'forest area', actual tree cover is not possible in this entire area because much of this legally classified area is above the tree line/incapable of sustaining forests. The goal of the state is to ensure that 35.5 percent of the total geographical area of the state is brought under forest and tree cover. The balance 'forest area' would be managed as alpine pastures, snow peaks and water bodies, glaciers, etc.

41. The data on forest cover released by the remote sensing agencies indicates an increase in the forest cover in Himachal Pradesh over the last two decades. This has resulted from a conscious decision of the State Government to completely ban green commercial felling. This decision signifies enormous loss of revenue to the State Government. The State Government needs specific compensation on this account. The Twelfth Finance Commission acknowledged this issue but provided

only token amounts for the protection of forests. For Himachal Pradesh the annual maintenance provision is only Rs. 4 crore for the State's vast forest of area of over 37,000 square kilometers. Thus, it will be essential to considerably step up Plan investments for nurturing and preserving the forest cover as also the wild life sanctuaries.

42. In addition to the various Centrally Sponsored Schemes for afforestation/ watersheds/ management of wild life sanctuaries, it is estimated that total State plan requirements for this sector would be Rs. 1500 crore.

EMPLOYMENT

43. A vital thrust of the Eleventh Plan for Himachal Pradesh will be to tackle the un-employment problem. This would require a holistic approach for rapid growth strategies in all such sectors which have good employment potential. Since the majority of the labour force is still in the primary sector which contributes only 22 per cent to the State domestic product, the challenge is to find greater productive employment for this labour force.

44. The employment strategy will have to simultaneously target the primary, manufacturing and services sectors. The burgeoning educated youth of Himachal Pradesh would need to be groomed with specific skill sets, to meet the requirements of the expanding service sectors, including IT enabled services, financial/banking services, tourism and hospitality, etc. Specifically, there shall be greater focus on the disadvantaged and economically challenged sections of the youth, to improve their skill sets through targeted training and education, so as to improve their employability.

45. For purposes of enhancing rural employment, adequate linkages would need to be built with the National Rural Employment Guarantee Programme and the Swaran Jayanti Rozgar Yojna. It would be important to ensure that such rural

employment programmes build durable rural infrastructure and enhance irrigation potential for increasing farm productivity.

46. To meet all such employment and general economic/social welfare services, we will need to provide for a total five year outlay of Rs.500 crore.

ISSUES FOR CENTRAL SECTOR PLAN

47. The present system of inter-State allocations in investment by the Railways Ministry needs to address the specific requirements of Himachal Pradesh. The construction of the Bhanupalli-Bilaspur-Beri line is important for the economy of the State. The Prime Minister had agreed to consider this project as a national priority. The standard formulae for assessing the viability of such projects would need to be modified for this project, which is vital for the economy of the State.

48. Himachal Pradesh is still not on the regular air-map of India. It is important that the State capital is given a round the year air link. Ministry of Civil Aviation is examining upgrade proposals for 35 non-metro airports through the in-house capacity of AAI/PPP possibilities. Airports of the State capitals should get first priority under this program. The need to upgrade the existing airstrip at Shimla is vital for tourism related activities.

PROPOSED STATE PLAN SIZE AND FISCAL CONSTRAINTS ON INTERNAL RESOURCES OF THE STATE GOVERNMENT

49. The Tenth Plan for Himachal Pradesh was originally approved at Rs. 10,300 crore and was agreed to be financed by total Central support of Rs. 5,440 crore. The resources for the Tenth Plan were firmed up without regard to the dispensation

of the Twelfth Finance Commission, which became operative in the last two years of the Tenth Plan.

50. Committed liability transfers from Plan to Non-Plan should have taken place during 2002-03 with regard to the provisions permitted by the Eleventh Finance Commission. The State Government took a conscious view to shift such liabilities from the year 2003-04, to the Non-Plan account which resulted in a considerable dip in the plan size. The outlay for 2002-03 was Rs. 2,040 crore whereas the outlay for 2003-04 was fixed at Rs. 1,335 crore. The subsequent annual plans for 2004-05, 2005-06 and 2006-07 were fixed at Rs. 1400 crore, Rs. 1600 crore and Rs. 1800 crore, respectively. Thus, in nominal terms, the final aggregate Tenth Plan approved outlay for Himachal Pradesh is Rs. 8,175 crore

51. Even if a nominal 10 per cent increase is provided on the base year outlay of Rs. 1,800 crore for 2006-07, the aggregate outlay for the Eleventh Plan would work out to about Rs. 12,100 crore. This, however, will be inadequate to meet the projected outlays in the various sectors as broadly indicated above. It may be recalled that the growth rate anticipated during the Tenth Plan for Himachal Pradesh is 7.4 per cent per annum and the target for the Eleventh Plan is 8.5 per cent per annum. Although, no specific data on incremental capital output ratios is available to make projections for required investment to meet the targeted growth rate, it would be very reasonable to propose a 15 per cent annual increment in the outlays for the Eleventh Plan over the base year figure of Rs. 1,800 crore. This would bring the total plan size to about Rs. 14,000 crore, which will also meet the above outlined specific thrust objectives of Himachal Pradesh for the Eleventh Five Year Plan.

52. The total Tenth Plan outlay of Rs.8,175 crore was agreed by the Planning Commission, to be financed to an extent of Rs. 7,240 crore by central assistance including the additional central assistance and special plan assistance. This constitutes

about 89 per cent of the aggregate plan resources. In the context of the Eleventh Plan, the State Government proposes that Central support should continue to be provided in the same ratio. This would entail Central support of the order of about Rs. 12,600 crore for the projected Plan size of Rs.14000 crore. Such a level of support would mean about 15 per cent increase annually, over the base year (2006-07) central support figure of about Rs. 1,518 crore.

53. Since the Twelfth Finance Commission award only provides for the State's non-plan liabilities, resources for the Eleventh Five Year Plan would need to be met by an appropriate combination of Central Plan Assistance and raising of loans by the Himachal Pradesh State Government.

54. The Twelfth Finance Commission has already noted that Himachal Pradesh is a severely debt stressed State. Total outstanding debt liabilities of Himachal Pradesh Government are now more than Rs. 19,000 crore, as compared to its gross domestic product of Rs. 20,000 crore. This existing debt liability entails an interest burden of more than Rs. 1,700 crore per annum, which continues to grow, through the need to raise additional debt to finance each annual plan.

55. There is a limited scope for the State Government to compress revenue expenditure, since the liabilities are committed expenditures on account of salary, pension and interest payments. As and when the next Pay Commission award is announced, the salary and pension liabilities shall increase beyond the Twelfth Finance Commission estimates and the State shall be forced to borrow also on the non-plan account.

56. In all probability, after announcement of the Sixth Pay Commission award, a new pay structure will commence at the beginning of the Eleventh Plan. This will disrupt the estimates made by the Twelfth Finance Commission of the States'

revenue expenditure, thereby deepening the fiscal crisis of all revenue deficit States, including Himachal Pradesh.

57. Keeping in view the above financial scenario, it is imperative that the Planning Commission and the Central Government recognizes the special category status and needs of Himachal Pradesh.

58. Keeping in view the past enormous debt liabilities of the State, the limits of fiscal prudence for the State would be to not borrow more than 10% of its aggregate Plan size. This implies the need for total Central Assistance of Rs. 12,600 crore for an aggregate eleventh plan size of Rs.14,000 crore. As already stated earlier, this central assistance projection is feasible and in consonance with the tenth plan financing pattern for Himachal Pradesh.

59. Himachal's economy is at an inflection point and "is poised to soar"! The State Government earnestly enlists the support of the Planning Commission in its endeavor to make this hill state a developmental model, for all other hill states to emulate.

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