ADVOCACY PAPER

THIRTEENTH FINANCE COMMISSION

(2010-2015)

Memoranda by the Government of Bihar and Political Parties & Professional Organisations & Brief Recommendations for the State

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PART A

Brief Recommendations by the Thirteenth Finance Commission

Background

In the existing federal financial arrangements of India, the financial resources are transferred from the centre to the states through a number of mechanisms. However, among them, it is the Finance Commission awards that are most important, both because of its size and the mandatory character of these recommendations. When the Thirteenth Finance Commission was formed in 2008, the Centre for Economic Policy and Public Finance (CEPPF) had already been established by the Government of Bihar in the Asian Development Research Institute (ADRI). As such, the CEPPF was entrusted with the responsibility of preparing the memorandum of the state government, to be presented to the Commission.

For the three earlier Commissions, ADRI had presented a memorandum to the Tenth and Eleventh Finance Commission on its own behalf and, for the Twelfth Finance Commission, it had prepared and submitted a memorandum on behalf of all the political parties and professional organisations in the state. This practice of submitting a joint memorandum, prepared by ADRI, was also continued for the Thirteenth Finance Commission. As before, this joint memorandum was appreciated by the Commission and it had added weightage to the memorandum by the state government, resulting in higher devolutions to Bihar.

The present document first records below in brief the recommendations of the Thirteenth Finance Commission for Bihar. In addition, it also contains two memorandums, the first prepared by the CEPPF for the state government, and the second prepared by ADRI on behalf of the political parties and professional organisations.

Recommendations

The FC13 retained the population criteria with unchanged weightage of 25 percent adopted by FC12. In place of income distance, FC13 had introduced a new criterion of fiscal capacity distance (47.5 percent) and fiscal discipline had a higher weightage of 17.5 percent (7.5 percent in FC12). For area, the weightage had remained unchanged at 10 percent. Based on the criteria and weights, Bihar’s inter-se share among the states is 10.917 percent and in service tax 11.089 percent. The average devolution to Bihar works out to 19.44 percent of GSDP which is higher by 5.87 percentage points compared to FC12.

Considering a number of factors including the demands from states including Bihar, the important departures made by the FC13 in the scheme of tax devolution and grants from the FC12 are :

- Share of states in the net proceed of the shareable central taxes was raised from 30.5 percent by FC12 to 32.0 percent by the FC13.
- The indicative limit of revenue transfers to states was raised from 38.0 percent by the FC12 to 39.5 percent by the FC13.
- Application of norms in assessment of non-plan revenue gap for determining amounts of grants-in-aid to states left with deficits in non-plan revenue account after tax devolution.
- Introduction of equalisation principle to provide grants for education and health to relatively more deficient states in their revenue capacity provided they maintain their normal expenditure on these heads at current level.
- Providing grants for maintenance of roads and bridges, heritage conservation, state specific needs, local bodies and calamity relief on a larger scale.
- Enlarging grants to local bodies substantially and modifying formula for their allocation among states to take account of deprivation in providing drinking water and sanitation.

Debt Consolidation and Relief Facility

- Loans to states from National Small Savings Fund contracted till 2006-07 and outstanding amount at the end of 2009-10 was to be reset at a rate of interest of 9 percent subject to conditions prescribed.
- A window borrowing from central government is to be made available for fiscally weak states unable to raise loans from market.
- Benefit of interest relief on NSSF and write-off was to be made available to states only if they bring about necessary amendments/enactment of FRBM.

Local Bodies

Against a total sum of Rs. 25,000 crore as recommended by FC12 as grant-in-aid to augment the consolidated fund of states to supplement the resources of municipalities and Panchayats, the FC13 recommended an aggregate grant of Rs. 87,519 crore for local bodies. This amounts to 1.93 percent of the total transfer from the divisible pool.

For inter-se allocation of grants to states, the FC13 enhanced the weight of population criterion to 50 percent, as against 40 percent by FC12. The distance from highest per capita sectoral income criterion was given a weight of 20 percent for ULBs and 10 percent for PRIs. Area and index of devolution was given a weight of 10 percent and 15 percent, respectively. Based on these criteria the local bodies of Bihar were allotted a sum of Rs. 5682.1 crore.

Calamity Relief Fund (CRF)

The FC13 enhanced the total size of CRF to Rs. 26,373.00 crore from Rs. 21,333.33 crore as recommended by the FC12. Though FC13 recommended higher CRF for each state, it retained the shares of centre and states at 75 percent and 25 percent respectively as adopted by FC12 (Bihar had suggested the state's contribution to be nil).

Grants-in-aid

(i) The FC13 recommended a total grant of Rs. 24,068 crore grant for elementary education for all states and, for Bihar, it was Rs. 4018 crore as against Rs. 2683.76 crore by the FC12.

(ii) The recommended environment related total grants is Rs. 10,000 crore with Rs. 5000 crore each for forests and water sector management. For Bihar, the recommended amounts are, Rs. 38.4 crore (forest) and Rs. 304 crore (water management), making a total of Rs. 342.4 crore for five years award period (2010-15).

(iii) A grant of Rs. 19,930 crore over the award period is recommended for maintenance of roads and bridges in all states and, for Bihar, the recommended amount is Rs. 464 crore as against Rs. 309.36 crore by FC12.

(iv) For improvement in justice delivery, FC13 recommended a total of Rs. 5000 crore; for Bihar, the amount is 385 crore.

(v) Total amount recommended as incentive for issuing UIDs for the five years (2010-15) is Rs. 2989 crore; for Bihar, it is Rs. 369 crore.

(vi) The District Innovation Fund for increasing the efficiency of capital assets already created, a fund of Rs. 1 crore is made available to every district in the country and Bihar gets Rs. 38 crore.

(vii) For improvement in statistical system at the state and district level, the FC13 recommended a sum of Rs. 616 crore with Rs. 1 crore for each district and Bihar gets Rs. 38 crore.

(viii) For setting up a pensioners' data base, FC13 recommend a total sum of Rs. 225, of which Bihar gets Rs. 10 crore.

State specific Needs

A total grant of Rs. 27,945 crore is recommended to all state for state specific needs, of which Bihar gets Rs. 1845.0 crore for a five years period. The details are as under :

Sl. No.	Item	Amount (Rs. crore)
1.	Construction of Panchayat Sarkar Bhavan	1000
2.	Public Training Academy	206
3.	Police Housing	106
4.	Nalanda Heritage Zone	50
5.	Conservation of Archaeological Sites	50
6.	Establishment of new ITIs	100
7.	Interlinking of Rivers for Flood prevention	333
	Total	1845

Thus, Bihar gets a total of 1,72,944.10 crore for a period of five years (2010-15). The break-up of this total sum is presented below.

Sl. No.	Items	Amount (Rs. crore)
1.	Share in Central Taxes and Duties	1,58,341.20
2.	Grants-in-Aid :	14,602.80
	(i) Elementary Education	4,018.00
	(ii) Local Bodies	5,682.10
	(iii) Calamity Relief Fund (CRF)	1,411.20
	(iv) For Improving Outcomes	
	(a) Improvement in Justice Delivery	385.00
	(b) Incentive for Issuing UIDs	369.00
	(c) District Innovation Fund	38.00
	(d) Improving Statistical System at State/Districts	38.00
	(e) Employee and Pension Data Base	10.00
	(v) Environment Related Grants	
	(a) Forests	38.40
	(b) Water Sector Management	304.00
	(vi) Maintenance of Roads and Bridges	464.00
	(vii) State specific Needs	1845.00
3.	Total Transfers Items 1+2	1,72,944.10

Note : An amount of Rs. 60,000 crore was given to states as grants-in-aid which comprised of (a) GST compensation grants (Rs. 50,000 crore), (b) Grants for reduction in IMR (Rs. 5000 crore), (c) Renewable energy grant (Rs. 5000 crore). The state-wise allocation of these grants are not given, and hence not included.

Statement of Recommended and actual transfers from Eighth, Ninth, Tenth, Eleventh, Twelfth and Thirteenth Finance Commission to Bihar

	Recommended			Actual Transfers			
	Devolution of Central Tax	Grants-in-aid	Total	Devolution of Central Tax	Grants-in-aid	Total	Total
Eighth Finance Commission							
1984 - 89	4005.82	214.65	4220.47	4780.12	214.65	4994.77	774.30
Ninth Finance Commission (1st Report)							
1989-90	1372.99	81.95	1454.94	1570.12	247.93	1818.05	363.11
Ninth Finance Commission (2nd Report)							
1990-95	9670.53	1505.25	11175.78	11166.57	1505.52	12672.09	1496.31
Tenth Finance Commission							
1995-2000	23302.50	1353.11	24655.61	21218.98	806.33	22025.31	-2630.30
Eleventh Finance Commission							
2000-05	**44630.83**	**1148.47**	**45779.30**	**36046.48**	**1295.13**	**37341.61**	**-8437.69**
Twelfth Finance Commission							
2005-10	**67671.04**	**7919.49**	**75590.53**	**76373.69**	**6896.11**	**83269.80**	**7679.27**
Thirteenth Finance Commission							
2010-11	22260.00	1535.61	23795.61	23978.38	1484.74	25463.12	1667.51
2011-12	26109.00	2604.20	28713.20	27935.23	2549.45	30484.68	1771.48
2012-13	30797.00	3119.07	33916.07	33026.93	1437.58	34464.51	548.44
2010-13	**79166.00**	**7258.88**	**86424.88**	**84940.54**	**5471.77**	**90412.31**	**3987.43**
2013-14	36327.00	3495.70	39822.70				
2014-15	42849.00	3848.32	46697.32				
2010-14	**158342.00**	**14602.90**	**172944.90**				

PART B

Bihar Government Memorandum to the Thirteenth Finance Commission

CONTENTS

Chapter One: Introduction

1.1 The Context

Despite impressive levels of economic growth achieved in India in recent years, the widening social and regional disparities have had a serious impact on underdeveloped states like Bihar. As a matter of fact, Bihar comes out at the very bottom of the table for almost all state level indicators of growth and development. The Bihar Economic Survey for 2007-08 reports that for four recent years (2001-02 to 2004-05) for which comparable estimates are available, per capita income in Bihar was the lowest in the country. To be more specific, in the year 2004-05, per capita income of Bihar (Rs. 5,772) was only 25.1 percent of the national average (Rs. 22,946). Bihar’s current poverty ratios are 42.1 percent (rural), 34.6 percent (urban) and 41.4 percent (overall) and there has been only a marginal decrease from 42.6 percent in 1999-2000. Similarly, Bihar has consistently remained at the bottom of the states’ ranking based on Human Development Index in the years 1981, 1991 and 2001. Bihar also has the lowest literacy rate (47.53 percent) and the lowest female literacy rate (33.57 percent) in the country.

In academic studies on inter-regional disparity in India, the evidence clearly indicates that different regions of the country have ‘diverged’, if measured in terms of per capita income since the early 1970s with this divergence accelerating further since the mid-1980s. Data over the last two decades further shows that group of low-income states in India has remained unaltered since the early 1980s, with Bihar being consistently at the bottom of the table.

The widening income gap and lag in human development in Bihar vis-à-vis the national average demands substantial policy intervention both at the Central and State level. The bulk of the literature on Bihar has emphasized the deficits in the institutional capacity of the government, poor infrastructure, poor quality and reach of public service delivery. The trends in infrastructure deficit and poor quality of public service delivery cannot be reversed unless the deficit in the institutional capacity of the government is addressed as the primary need of the State. To do this, it needs to be recognized that Bihar’s ‘backward’ status in the country is the result of a deep historical legacy that started way back in the period of colonial rule and has spanned the entire post-independence period.

1.2 State's Institutional Capacity: Historical Perspective

Colonial rule institutionalised a property system in this State based on the Permanent Settlement of 1793. The system failed to create an incentive structure for generation of agrarian surplus, which could not only become the basis of 'primary accumulation', but could also lead to subsequent diversification of the economy. The Permanent Settlement ensured that Bihar, in spite of its rich mineral endowments, became a typical 'colonial hinterland' providing a systematic source of raw materials and labour supply for colonial industrialisation. This warped absorption of agrarian surplus meant no incentive was left for the accumulators to diversify into trade or industry. Thus, lack of industrialisation in Bihar, except for the Tata group in Kalimati, was a product of an explicit colonial policy towards maintaining this hinterland as a feeder economy to the main centres of colonial capitalism.

The Permanent Settlement also meant that colonial system of revenue administration could function without penetrating the entire region, as revenue administration was left to the landlords who collected it on behalf of the State at a 'settled rate'. Further, that land revenue was fixed also implied a limited revenue generation capacity of the provincial government. This, in turn, led to a lower government expenditure, the accumulated effect of which was a disabled State. Low expenditure on creation of administrative capacity during the colonial period was thus a direct fall-out of the minimalist presence of institutions of the State at the district and lower levels.

The Memorandum for the Indian Statutory Commission (1930) on the "Working of the Reforms in Bihar and Orissa" noted that the standard expenditure of Bihar and Orissa, worked out on the basis of actual expenditure prior to 1912, came to just Rs 8 lakh per million of the population against Rs 13 lakh per million of the population in Bengal. It must be noted that the expenditure on administration in Bengal itself was the lowest in British India as compared to the Bombay or the Madras Presidencies; and within this low expenditure, Bihar was accorded the lowest priority. This led to a relative deficit of institutional capacity for governance in Bihar as compared to the other states of India during the colonial period.

After independence, attempts at land and tenurial reform in Bihar remained a partially fulfilled promise due to impediments raised by the vested interests. This perpetuated the social relations inherited from the colonial legacy. Further, with the introduction of the policy of Freight

Equalization in 1948 (this was withdrawn only in 1991); the prospect of growth in Bihar by attracting investments from outside the State was completely ruled out. This policy not only accentuated the extant inequity in regional location of industrial production, but also seriously distorted the comparative cost of location for industries using the freight equalized commodities as inputs. Thus, there was no incentive for industrial capital to come to places like Bihar having rich mineral resource base, but a very poor infrastructure. This policy facilitated the process of agglomeration of industrial production in the country to already developed industrial pockets in two major ways: firstly, the already developed industrial pockets in the country did not have to face cost-disabilities owing to their distant geographical location from key input sources, and secondly, the industrial capital preferred the strong infrastructure base of such pockets rather than suffer from the paucity of infrastructure in regions like Bihar. One of the most bizarre consequences of this policy was that cost-disabilities of developed states of India were subsidized by resource rich and yet extremely backward states like Bihar. Under this policy, for consumption of every unit of a key input like steel, the industry in Bihar had to subsidize its competitors in more developed states as it paid a freight element in the price of steel which would otherwise have been paid by the industries in more distant locations. Thus, the substantial barriers to growth and development that were erected in the colonial period were further intensified by post-independence policies like freight equalization.

Further, even after the withdrawal of freight equalization policy, the industrial agglomeration bias continued as no significant policy was introduced at the national level to reverse decades of discrimination against Bihar by denying it the right to build up its ‘dynamic comparative advantage’ during the era of licensing and controls. Thus, even in the post-liberalisation era, the gap in institutional capacity of the State compared to other States further widened as its internal resource raising capacity remained limited due to the vicious cycle of ‘low investment-low growth’ within which this State was forced to function.

The last blow of history was delivered by the bifurcation of the State in the year 2000, when three-fourths of the population remained in Bihar, while the entire mineral rich area along with the prime industrial agglomerations went to Jharkhand. Three fourths of the assets of erstwhile State of Bihar went to Jharkhand, while only one fourths of the financial liabilities went there (assets were distributed on “as is where is basis”, whereas the financial liabilities were divided on the basis of population). Bihar was left with sand and tears as 73 percent (69,000 sq. km out of a total area of 94,000 sq. km) of its present geographical area lies in the worst flood prone basins of the country and is ravaged by floods induced destruction year after year.

Richer States have always complained about excessive transfer of resources to poor States like Bihar. A mere look at Annexure Table 1.1 is sufficient to blow this myth away. The source is the RBI document "State Finances: A Study of Budgets 2007-08". The first column of the table gives per-capita internal revenues of the States and the second column per-capita net devolutions as per the recommendations of the Finance Commission. The third column is the total per-capita revenue resource of each State. **It is shocking to see that Bihar continues to be at the very bottom and still only half of the national average as late as 2007-08.**

1.3 Equalizing Development Expenditure

Given these attenuating circumstances, the State's capacity to build infrastructure and ensure public service delivery comparable to the national average remained severely constrained. This, together with inadequate devolution of central resources during the periods of previous Finance Commissions, only perpetuated Bihar's development deficit vis-à-vis the other States. The traditional incremental capital output ratio theory does not work well for Bihar, as after decades of underdevelopment and loss of confidence, private investment has become notoriously difficult to attract. In other words, Bihar, with all its disadvantages, cannot break the vicious cycle of underdevelopment as neither private investment is forthcoming, nor is the State Government, by itself, capable of undertaking public investment of a large magnitude. The only way Bihar can break the vicious cycle is through development of its human resources and through investment in physical infrastructure, which together would incentivise private investment in the long run. Thus, to neutralize the historical disadvantage, the State Government immediately needs to step up its development expenditure at par with the national average. Even though this is not a sufficient condition for total equalization (in terms of per-capita income), it is a necessary condition for putting this State on a high growth path, and only this would bridge the development deficit and ensure we provide a quality of public service to our citizens at par with the national average. Unfortunately, Per Capita Developmental Expenditure (PCDE) in Bihar is the lowest in the country today and it has been persistently so over the past many decades. We present some evidence of this, in the form of recent data received from the Reserve Bank of India (Annexure

Table 1.2). [Development Expenditure, by definition, includes all Revenue and Capital Expenditure, Plan as well as Non Plan, under the Economic and Social Services]

A mere inspection of this Table points to a structural break (see time series for Bihar) between fiscal years 2004-05 and 2005-06. And it is a no brainer to guess that this structural break was brought about by the heightened activity of the State and Good Governance. For the first time Bihar is transcending to be a functioning State and this has resulted in a steady increase in the Per Capita Development Expenditure since 2005-06. To be more specific, in 2001-02, Bihar's Per Capita Development Expenditure was less than half of the national average. This gap widened for the next two years, but has started converging since 2005-06 after the new popular government took over. It must not be missed that the trend rate of growth of per capita development expenditure in Bihar in the last three fiscals has been higher than the national average (Annexure Table 1.3) and that this acceleration of development expenditure in Bihar has been consciously achieved by the State Government amidst a secular decline in the share of developmental expenditure in total disbursements of all States from 69.6 percent in 1990-91 to 58.8 percent in 2005-06.

But it must be noted that even with this accelerated growth in Per Capita Development Expenditure, equalization with national average would not take place before 2038-39, assuming the national average does not change. This is the probably maximum this State could possibly achieve by its own effort if the improved governance were to sustain and persist over the next three decades. But this would be too late!

In the other scenario, if the 11th Five Year Plan growth and development targets were to be made the basis of development expenditure, this gap is likely to further accentuate, and that unless corrective action is taken now, the convergence will never take place (this will be discussed further in chapter 4). The State Government is seriously concerned that, unless per capita development expenditure catches up with the national average in a reasonable time frame, Bihar would continue to languish. Towards this objective, the State Government has already done much in the last three years by stepping up its development expenditure. All it requires now is a complimentary effort by the Central Government to help it achieve a level of development expenditure that is at least equal to the national average. It is in this background that the State

Government urges the Thirteenth Finance Commission to grant it resources that would enable it to ***equalize per capita development expenditure to the national average by the end of the period of the 13th Finance Commission, i.e. by 2015***. As a matter of fact, the State Legislature has already declared "the goal of making Bihar a developed State by 2015". The urge is strong, the opportunity is historical and it is at this time the Finance Commission should not let Bihar down, otherwise India as a whole shall never achieve the goal of inclusive growth, that is, growth with equity and justice.

This memorandum, in subsequent chapters, provides an overview of how the State Government proposes to march along this path and presents the actual levels of devolution from the Centre that is required through the recommendations of Thirteenth Finance Commission to achieve this goal.

Annexure to Chapter 1

Table 1.1 : Per-capita Own Revenue and Net Devolutions and Transfers

	Per Capita Own Tax and Non- Tax Revenue (in Rs.)	**Per Capita Net Devolution of Transfers (in Rs.)**	**Per Capita Total Revenue Receipts (in Rs.)**
Andhra Pradesh	3825.19	1625.02	5613.08
Bihar	**535.62**	**1838.16**	**2505.89**
Chhattisgarh	2953.76	2263.88	5217.20
Goa	13678.39	3170.57	16497.40
Gujarat	4106.98	1321.56	5556.97
Haryana	5875.18	937.03	6908.55
Jharkhand	1563.72	1756.70	3477.07
Karnataka	5020.75	1749.83	6768.44
Kerala	3885.73	1851.11	5650.15
Madhya Pradesh	1871.53	1744.58	3721.50
Maharashtra	4384.65	1380.73	5789.11
Orissa	1947.61	2516.32	4518.99
Punjab	6019.40	1540.27	7651.29
Rajasthan	2322.24	1673.05	4073.94
Tamil Nadu	4742.04	1421.22	6199.87
Uttar Pradesh	1620.34	1506.89	3265.06
West Bengal	1602.01	1328.28	3152.37
Arunachal Pradesh	2376.07	18512.82	20452.99
Assam	1786.34	3438.24	5521.73
Himachal Pradesh	3733.85	7083.27	10810.89
Jammu and Kashmir	2160.65	8516.76	10325.78
Manipur	1077.70	9203.44	11667.32
Meghalaya	1783.26	7885.16	9939.34
Mizoram	1916.23	18418.85	20879.58
Nagaland	952.16	11651.03	12865.85
Sikkim	20275.86	20620.69	41672.41
Tripura	1239.40	7930.43	9298.45
Uttarakhand	3232.77	4144.33	7425.94
All States	2855.53	1894.81	4852.36

Source: Calculated from State Finances: A Study of Budgets 2007-08, RBI. Revenue Figures relate to 2006-07 R.E, Population figures relate to 2006.

Table 1.2: Per Capita Development Expenditure of States

State	Per Capita Development Expenditure (Rs.)						
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Goa	8861	9507	10578	11766	13247	15098	15250
Gujarat	3399	3007	3440	3508	3963	4615	4524
Haryana	3195	2829	3795	3287	4097	5857	5979
Punjab	2848	2514	3059	3133	3392	4947	5517
Karnataka	2702	2705	2842	3503	4073	5216	5936
Andhra Pradesh	2595	2542	2942	3132	3687	5026	6633
Maharashtra	2516	2741	3182	3740	4184	4658	4626
Tamil Nadu	2244	2591	2751	3173	3402	4711	5114
Kerala	2091	2769	3048	3054	3233	4222	4291
Jharkhand	1975	2439	2170	2790	3348	4046	3885
Rajasthan	1885	2002	2440	2534	2810	3230	3505
West Bengal	1858	1525	1799	1833	2039	2420	2633
Madhya Pradesh	1808	1872	2285	2757	2925	2885	3109
Chhattisgarh	1707	2059	4673	4130	3011	4409	4866
Orissa	1612	1713	2072	1795	1980	2653	3021
Uttar Pradesh	1112	1199	2278	1470	1793	2388	3007
Bihar	943	1091	1168	1030	1447	2124	2184

State Finances : A Study of Budgets of 2007-08, Reserve Bank of India.

Table 1.3 : Trends in Development Expenditure: All-States and Bihar

Year	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	CAGR
Developmental Expenditure								
All States (Rs. crore)	2,16,697	2,13,022	2,72,849	2,86,475	3,30,045	4,19,050	4,67,695	16.55
Bihar (Rs. crore)	7,899	9,290	10,127	9,095	12,988	19,291	20,168	19.26
Per Capita Development Expenditure								
All States (Rs.)	2,145	2,059	2,597	2,686	3,048	3,826	4,207	14.90
Bihar (Rs.)	953	1,090	1,167	1,030	1,446	2,123	2,184	17.37
Gap in Development Expenditure								
Per Capita Development Expenditure (Rs.)	1,192	969	1,429	1,655	1,602	1,702	2,023	
Aggregate (Rs. crore)	9,882	8,252	12,401	14,614	14,383	15,462	18,687	

Source : 1. Bihar Budget 2004-05, 2006-07, 2008-09
2. State Finances: A Study of Budgets of 2007-08, Reserve Bank of India.

Table 1.4 : Bihar's Gross State Domestic Product (GSDP) at Factor Cost at Constant (1999-00) Prices (in Rs crore)

Sl. No.		Sector	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06 (Prov)	2006-07 (Quick)	Growth Rate
1	Agriculture & Animal Husbandry		15202.5	20861.4	16287.3	20665.7	16899.2	19417.2	17069.6	22821.0	2.61
2	Forestry & Logging		910.6	962.9	987.7	1023.2	1066.1	1116.8	1165.3	1215.4	4.11
3	Fishing		696.7	769.2	984.8	1069.3	1091.5	1095.3	1144.7	1243.3	7.89
4	Mining & Quarrying		94.4	133.4	242.5	68.0	55.6	43.9	54.7	68.5	-13.35
Sub Total (Primary)			16904.2	22727.0	18502.3	22826.1	19112.3	21673.2	19434.3	25348.2	2.84
5	Manufacturing		3614.0	3389.9	3144.4	3386.1	3317.2	3526.5	4404.5	4593.2	4.02
	5.1	Registered	1150.7	785.8	678.1	841.6	621.8	790.4	1487.0	1553.8	6.70
	5.2	Un-registered	2463.4	2604.1	2466.3	2544.5	2695.4	2736.1	2917.6	3039.4	2.91
6	Construction		1929.2	1952.6	2121.2	2522.2	2472.9	3037.1	3440.0	5082.9	13.54
7	Electricity, Water Supply & Gas		718.5	778.0	602.1	615.7	631.7	654.4	672.5	717.0	-0.56
Sub Total (Secondary)			6261.7	6120.5	5867.7	6524.0	6421.8	7218.1	8517.0	10393.2	7.15
8	Transport, Storage & Communication		3724.0	4054.0	4030.7	4319.4	4576.8	4938.0	5236.1	5646.2	5.96
	8.1	Railways	1563.8	1755.2	1789.1	1827.7	1940.6	2047.0	2204.6	2374.4	5.54
	8.2	Other Transport & Storage	1392.6	1503.8	1497.8	1575.4	1582.0	1672.9	1675.4	1755.9	3.02
	8.3	Communication	767.6	795.0	743.8	916.3	1054.2	1218.1	1356.1	1515.9	11.38
9	Trade, Hotel & Restaurant		7540.9	8700.9	9529.8	11357.2	11419.5	13880.5	13397.9	13496.3	9.17
Sub Total (Transport, Communication & Trade)			11264.8	12755.0	13560.5	15676.7	15996.2	18818.4	18634.0	19142.5	8.19
10	Banking & Insurance		1819.1	2014.3	2473.6	2366.7	2311.2	2494.1	2704.3	2932.1	5.90
11	Real Estate, Ownership of Dwelling & Business		2097.1	2209.8	2304.4	2399.7	2508.6	2637.6	2768.9	2920.5	4.75
Sub Total (Finance & Real Estate)			3916.2	4224.1	4778.0	4766.4	4819.7	5131.7	5473.2	5852.6	5.29
12	Public Administration		3793.6	4138.9	4471.5	3854.5	4372.3	4378.1	4348.5	5067.6	2.82
13	Other Services		8059.4	8295.1	8267.4	8328.6	8663.4	8689.1	9549.1	10718.4	3.50
Sub Total (Tertiary)			27034.1	29413.0	31077.3	32626.1	33851.6	37017.3	38004.8	40781.1	5.78
Total GSDP			**50199.9**	**58260.4**	**55447.4**	**61976.2**	**59385.7**	**65908.6**	**65956.2**	**76522.5**	**4.94**
Per Capita GSDP (Rs.)			**6304**	**7116**	**6571**	**7243**	**6816**	**7434**	**7315**	**8351**	**2.92**

Source: Bihar Economic Survey 2007-08

Chapter Two: Status of State Finances

2.1 Review of State Finances

State Finances of Bihar have been geared towards a gradual and steady financial turnaround. Till 2003-04, the State Government was running a deficit on revenue account. In 2004-05, for the first time the State generated a surplus of Rs.1076 crore on revenue account, albeit due to fortuitous circumstances. This was an exceptional year as the State had to undergo both parliamentary and assembly elections during which (due to model code of conduct) there was little public expenditure on development activities. The scenario changed considerably in subsequent years as revenue surpluses came hand in hand with increasing expenditure on development activities. The size of this surplus by the end of 2007-08 was about Rs. 4647 crore. This has been made possible by increasing tax revenues (especially since 2005-06), restriction of revenue expenditure and prudent debt management. After debt consolidation, interest payments have been contained at below Rs. 4,000 crore a year on a public debt of less than Rs. 40,000 crore. On the expenditure side, since 2004-05, State Government's spending on social and economic services has picked up steadily with the biggest increase taking place in the investment on public infrastructure. Expenditure on general services has also increased in 2006-07 and 2007-08 due to larger government spending on district administration, police, judiciary and public order. The gap between plan and non-plan expenditure has been steadily narrowing since 2005-06. In 2007-08, the non-plan expenditure was less than twice the plan expenditure as compared to it being almost four times six years ago (Annexure Table 2.1).

2.2 Resource Mobilization

The State Government's own revenue, tax and non-tax combined, on an average meets about 20 percent of its total expenditure, while the rest comes from its share of Central Taxes and Grants received from the Central Government. While total revenue of the State Government has grown by more than 150 percent during the last five years (from Rs. 10,968 crore in 2002-03 to Rs. 28,210 crore in 2007-08), its internal revenue, tax and non-tax combined, has grown by 84 percent (from Rs. 3,045 crore in 2002-03 to Rs. 5,611 crore). An analysis of the tax receipts of the State Government reveals that its major sources of taxes are Sales Tax/VAT, Stamp and Registration fees, State Excise Duty, Taxes on Goods and Passengers and Taxes on Vehicles. These five taxes put together make up more than 95 percent of total tax receipts of the State Government. Of these, Sales Tax/VAT alone comprises more than 50 percent of tax receipts, followed by Stamp and Registration Fees (15 percent) and State Excise Duty (9 percent). These taxes are moderately buoyant and given a low tax base of Bihar's predominantly agrarian economy, their yield increases only moderately with the general increase in income levels as reflected by the GSDP.

The State Government shifted to a VAT regime from April 2005 onwards by substituting the erstwhile Sales Tax with VAT. The State Government also undertook a number of reform measures in the tax system. Consistent with the recommendations of the Empowered Committee of State Finance Ministers, VAT rates have been reduced substantially for as many as 150 items. VAT rates were reduced from 12.5 percent to 4.0 percent in respect of LPG, tea, coffee, diesel, tractor, plastic appliances etc. In respect of all food-grains, the VAT rate has been reduced from 4.0 percent to 1.0 percent. The State Government did lose some revenue in the short run, however, these measures are expected to generate additional resources for the State in the long run as tax diversion is avoided and compliance improves. Computerization of the Commercial Taxes Department has been undertaken in a big way. Next to the Sales Tax, the other important taxes are taxes on property and capital transactions (i.e. Stamp and Registration fees), Taxes on Vehicles and State Excise Duty. The registration rates in Bihar were very high and they were brought down in 2006-07 to improve tax compliance (from 15.4 percent to 8.0 percent in urban and from 8.4 percent to 6.0 percent in rural areas). State Excise collections have also registered a handsome increase after the new Excise policy was announced, and the wholesale liquor business was taken over and brought directly under the control of the State Government by constituting a Beverage Corporation.

Taxes pertaining to all major heads have registered a substantial growth during the period 2002-03 to 2007-08. Direct taxes contributed almost 25 percent of internal tax revenue of the State with the indirect taxes contributing the remaining 75 percent. The tax and non-tax revenues of Bihar together constituted only around 5 percent of its GSDP (Annexure Table 2.4), which is low compared to the national average. This is primarily due to structural constraints in Bihar's predominantly agrarian economy, which has a very small industrial base and a largely informal services sector. Still, by examination of the buoyancy ratios (Annexure Table 2.5), it can be seen that due to strong tax effort in the recent years, buoyancy ratios have improved considerably for Sales Tax/VAT, Stamp and Registration Fees and State Excise. Only for the Taxes on Goods and Passengers (commonly called Entry Tax) buoyancy ratios have gone down, which is desirable given the national policy mandates it be brought down and totally eliminated as the GST is introduced in 2010.

Since total tax revenues of the State as well as its internal revenues are rising faster than the change in its GSDP, it is expected that the tax-GDP ratio will continue to gradually improve in the near future (Annexure Table 2.4). It must be noted that buoyancy of Sales Tax, Stamp and Registration fees and State Excise Duty is more than the buoyancy of total tax revenues meaning thereby that future prospects of increasing yields from these taxes seem to be good. But even with this increase in State's internal revenue, the overall share of State's own revenue in the total tax revenue has decreased over the years (from 28 percent in 2002-03 to 22 percent in 2007-08). This reinforces the dependence of State Government on Central transfers which makes the devolution through the recommendations of Finance Commission very, very critical for Bihar.

2.3 Expenditure Management

On the expenditure side, it must be noted that development expenditure of Bihar now constitutes about two-thirds of its total expenditure and it share has been steadily rising from 58 percent in 2002-03 to 69 percent in 2007-08 (Annexure Table 2.6). In terms of the absolute amount it has more than doubled between 2002-03 and 2007-08. The total non-plan expenditure as well as the plan expenditure have increased by the same absolute amount during the period 2002-03 to 2007-08 (i.e. by Rs 8800 crore and Rs 8900 crore respectively). However, the plan expenditure has increased by 289 percent while the non-plan expenditure has increased by 71 percent over this period.

The structure of expenditure of the State Government (Annexure Table 2.7) indicates that general services constituted a major portion of expenditure from the Consolidated Fund (42 percent) in 2002-03, followed by social services (25 percent) and the economic services (11 percent). In the year 2007-08 the share of general services came down to 30 percent, while the share of social and economic services rose to 34 and 31 percent respectively.

The expenditure on administrative services has also been growing steadily since 2003-04, mainly because of increased expenditure on police, jail and judiciary. Given the historically weak institutional capacity of the State, this expenditure is necessary to improve law and order and ensure security of life and property without which no development can take place. Items of charged expenditure in the general services like pension, interest payment etc., have also been rising steadily.

The State Government has accorded high priority to social sectors, in view of the low levels of education and health indicators in the State. As already mentioned, the expenditure on social services has been rising steadily. Amongst social services, the revenue expenditure on education, health and family welfare has shown a considerable increase over the years (Annexure Table 2.8). The overall allocation to social sectors increased from Rs. 4058 crore in 2002-03 to Rs. 10560 crore in 2007-08. This reflects the State Government's commitment to improving standards of social services for its people. In 2007-08, the expenditure on social services was 30 percent of the total expenditure and nearly 50 per cent of the total development expenditure. Overall, the non-salary component of social services expenditure has increased steadily from 44 percent in 2002-03 to 64 percent in 2007-08 (Annexure Table 2.8).

For improving the quality of education and health services, the Twelfth Finance Commission had recommended that, under non-plan heads, the salary expenditure under education and health and family welfare should increase by only 5-6 percent, while non-salary expenditure should increase by at least 30 percent per annum. During the last two years, the salary component of revenue expenditure in education had actually increased by 9.3 percent, while the non-salary component had increased by 104 percent. In health and family welfare, increase in the salary component was 35 percent in 2005-06, followed by a small 5 percent decrease the next year, while the non-salary component increased by 74 percent and 54 percent respectively during the last two years. Thus, the expenditure patterns, both in the health and education sectors, were broadly in consonance with the recommendations of the Twelfth Finance Commission.

The expenditure on economic services has also been rising steadily over the years (Annexure Table 2.7). In 2007-08, the economic services accounted for almost one third of the total expenditure and about half of the total development expenditure. Agriculture and allied activities, irrigation and flood control, energy and transport (roads) together account for more than 60 percent of the expenditure on economic services. Further, more than half the total expenditure on economic services was made on capital account, especially in the road/transport (80 percent) and irrigation and flood control (53 percent) sectors. Also, as much as 76 percent of the total revenue expenditure in economic services was incurred on the non-salary components (Annexure Table 2.9).

Capital outlay, which was stagnating prior to 2005-06, has now been accorded a high priority. From a meager amount of Rs. 2,083 crores in 2005-06, it has been consciously stepped up to Rs.

6,104 crores in 2007-08 (Annexure Table 2.1). Infrastructure vital for economic development is now the highest priority of the State Government. All this indicates a significant improvement in the expenditure pattern of State Finances during the recent years.

To summarize, the status of State Finances in Bihar shows an overall break from the recent past and is expected to improve even further. However, given the structural constraints of the State's economy, adequate Finance Commission devolutions are critical to ensure this improvement can be sustained through the period of the Thirteenth Finance Commission (2010-2015).

2.4 Impact of GST

The State Government is committed to implementing GST in accordance with the decisions taken by the Empowered Committee of State Finance Ministers. A consultative meeting with leading academics, financial practitioners and representatives of chambers of commerce and industry associations was organized to assess the likely impact of GST on State Finances.

The experience of implementation of VAT in Bihar has shown that it led to a higher collection as well as a moderate expansion of the tax base. The impact of GST may not be very different from that of VAT given the predominantly agrarian nature of State's economy and the informal character of its services sector. However, the overall impact of GST is still expected to be positive as Bihar is a relatively consumption-rich, production-poor State.

As the GST regime is to be worked out in consultation with Centre as well the other States, to ensure a minimum distortionary impact on Bihar's economy, several levels of consultation are necessary. In this context, it is pertinent to mention that State Government is committed to:

1. Implementation of GST along with the other States by 2010.
2. Development of an effective Tax Information and Management System.
3. Building up a framework for defining the 'services' component of GST in consultation with the Centre and other States, but factoring in the predominantly informal character of the services sector in Bihar.

2.5 Public Debt: A Review of DCRF

The Debt Consolidation and Relief Facility (DCRF), which was a direct result of the Twelfth Finance Commissions recommendations, has had a mixed impact on the public finances of Bihar. A overview of the structure of debt (Annexure Table 2.10) shows that internal debt constitutes the major component (60 percent) of total outstanding liabilities of the State Government, followed almost equally by loans and advances from the Central Government (20 percent) and liabilities on account of provident funds (20 percent). Market loans constitute about 40 percent of the internal debt, loans from financial institutions account for another 10 percent, while special securities issued to the National Small Savings Fund account for the remaining 50 percent.

The loans and advances from the Central Government consist mostly of block loans including share of small savings collections and loans taken before 1984-85. These block loans amounted to Rs. 8,377 crore and Rs. 8,065 crore respectively during 2005-06 and 2006-07 (Annexure Table 2.10). The total annual interest liability on market loans is about Rs. 900 crore out of which, loans bearing interest rates in excess of 10 percent (high cost loans) have an annual interest liability of Rs 400 crore (Annexure Table 2.11). Even though most of these loans were raised prior to 1998-99 some of these are yet to be discharged. The DCRF covered only loans from the Ministry of Finance, Government of India. It did not cover the loans from other Ministries. **The Thirteenth Finance Commission is requested to bring the other Central loans also within the facility of DCRF so that debt consolidation of all Central loans is made possible for the States.**

The Twelfth Finance Commission had devised a simple formula to assess debt stress of States. If the percentage of debt stock to revenue receipts exceeded 300 percent, the State was considered debt stressed. In 2003-04, this ratio for Bihar was 212 percent. By 2008-09, this has come down to 122 percent. Thus, Bihar has not only consolidated debt through market borrowings, it has actually brought down this ratio by not resorting to further borrowing (Annexure Table 2.12). Given this scenario and the fact that Bihar needs to step up its development expenditure (both plan and non-plan); Bihar needs to borrow more as long as it can safely avoid the debt trap. However, the FRBM targets have severely constrained this space, preventing Bihar from stepping up its development expenditure. This will be elaborated further in Chapter Three.

Another very important point to be noted is that Bihar, in spite of achieving its FRBM targets, did not get the “Debt Waiver” promised under DCRF due to arbitrary fixation of 2004-05 as the base-year for the Fiscal Deficit. As mentioned earlier, this was a low expenditure year due to two elections and repeated application of model code of conduct leading to a decline in development expenditure and a Fiscal Deficit (FD) of only 1.68 percent. Since then, even though the expenditure has gone up, Bihar has still consciously achieved its FRBM targets year after year. But since the base year Fiscal Deficit was arbitrarily low, the Government of India held back the

Debt Waiver due to Bihar for the years 2005-06 and 2006-07 resulting in a loss of Rs. 1926 crore to the State exchequer. While the Twelfth Finance Commission took average of three preceding years (2001-02, 2002-03 and 2003-04) for fixing the Revenue Deficit target, it unfortunately used only one base year for fixing the Fiscal Deficit target causing a huge loss to this poor State. **The Government of Bihar requests the Thirteenth Finance Commission to compensate us for this loss.**

To conclude, public finances of Bihar have seen tremendous improvement over the period of implementation of recommendations of Twelfth Finance Commission. This has not come at the cost of expenditure cuts in the priority sectors for development, but the increase in not as much as desired. Resource mobilization, expenditure trends and debt consolidation show a very clear move towards prudent fiscal management. Based on its performance, the Government of Bihar requests the Thirteenth Finance Commission to consider the following:

1. Increase the devolution to Bihar so that it can fund its development priorities to meet the target of equalizing Development Expenditure to the national average by 2015.
2. Extend the DCRF to cover loans from all Central Ministries so that debt consolidation of all Central loans is made possible for the States.
3. Bihar must be freed of the injustice done to it in terms of the denial of Debt Waiver facility due to arbitrary fixation of the base year for Fiscal Deficit. The State Government must be compensated for the loss of Rs 1926 crores on this account.
4. Allow Bihar the flexibility of using its internal borrowings to fund its development needs as long as it does not become ‘debt stressed’.

Annexure to Chapter 2

Table 2.1 : Receipts and Expenditure of the Bihar Government

	Description	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
1	***Total Revenue Receipts***	**10968**	**12456**	**15714**	**17838**	**23083**	**28210**
a	Tax Revenue	9310	10518	12465	13983	17325	21852
b	State Own Tax Receipts	2784	2919	3342	3561	4032	5085
c	State's Own Non-Tax Receipts	261	320	418	522	511	526
2	**Total Revenue Expenditure**	**12255**	**12711**	**14638**	**17756**	**20585**	**23563**
a	General Services, of which	6574	7175	7803	8523	8643	9252
b	Interest payments	3022	3343	3474	3649	3416	3707
c	Social Services	3916	4033	4795	6862	7917	9868
d	Economic Services	1763	1498	2036	2367	4021	4438
3	**Revenue Deficit**	**1287**	**255**	**-1076**	**-82**	**-2498**	**-4647**
4	**Capital Receipts**	**4213**	**7930**	**7641**	**3821**	**2365**	**1638**
a	Public Debt	4197	7920	7626	3770	2358	1612
b	Recovery of Loans/Advances	16	10	15	51	7	26
5	**Capital Expenditure**	**3250**	**9771**	**5420**	**4812**	**6551**	**8008**
a	Capital Outlay	970	1549	1205	2083	5211	6104
b	Repayment of Public Debt	1533	5653	3087	981	1025	1632
c	Loans and Advances Disbursed	747	2569	1128	1748	315	273
6	**Total Expenditure**	**15505**	**22482**	**20058**	**22568**	**27136**	**31571**
a	Plan Expenditure	3071	5202	3476	4899	9397	10795
b	Non Plan Expenditure	12434	17280	16581	17670	17740	15122
7	**Debt Outstanding**	**32016**	**34401**	**39344**	**42498**	**44226**	**4422**
8	**Gross Fiscal Deficit**	**2988**	**4363**	**1242**	**3698**	**3021**	**1703**
9	**Primary Deficit**	**-34**	**1020**	**-2232**	**49**	**-395**	**-2004**
10	**GSDP**	**65117**	**66960**	**73791**	**79682**	**94251**	**104148**

Table 2.2 : Receipts and Expenditure of the Bihar Government (As percentage of GSDP)

	Description	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
1	**Total Revenue Receipts**	**16.84**	**18.60**	**21.30**	**22.39**	**24.49**	**27.09**
a	Tax Revenue	14.30	15.71	16.89	17.55	18.38	20.98
b	State Own Tax Receipts	4.28	4.36	4.53	4.47	4.28	4.88
c	State's Own Non-Tax Receipts	0.40	0.48	0.57	0.66	0.54	0.50
2	**Total Revenue Expenditure**	**18.82**	**18.98**	**19.84**	**22.28**	**21.84**	**22.62**
a	General Services, of which	10.10	10.72	10.57	10.70	9.17	8.88
b	Interest payments	4.64	4.99	4.71	4.58	3.62	3.56
c	Social Services	6.01	6.02	6.50	8.61	8.40	9.47
d	Economic Services	2.71	2.24	2.76	2.97	4.27	4.26
3	**Revenue Deficit**	**1.98**	**0.38**	**-1.46**	**-0.10**	**-2.65**	**-4.46**
4	**Capital Receipts**	**6.47**	**11.84**	**10.35**	**4.80**	**2.51**	**1.57**
a	Public Debt	6.45	11.83	10.33	4.73	2.50	1.55
b	Recovery of Loan and Advances	0.02	0.01	0.02	0.06	0.01	0.03
5	**Capital Expenditure**	**4.99**	**14.59**	**7.35**	**6.04**	**6.95**	**7.69**
a	Capital Outlay	1.49	2.31	1.63	2.61	5.53	5.86
b	Repayment of Public Debt	2.35	8.44	4.18	1.23	1.09	1.57
c	Loans and Advances Disbursed	1.15	3.84	1.53	2.19	0.33	0.26
6	**Total Expenditure**	**23.81**	**33.58**	**27.18**	**28.32**	**28.79**	**30.31**
a	Plan Expenditure	4.72	7.77	4.71	6.15	9.97	10.36
b	Non Plan Expenditure	19.09	25.81	22.47	22.18	18.82	14.52
7	**Debt Outstanding**	**49.17**	**51.38**	**53.32**	**53.33**	**46.92**	**4.25**
8	**Gross Fiscal Deficit**	**4.59**	**6.52**	**1.68**	**4.64**	**3.21**	**1.64**
9	**Primary Deficit**	**-0.05**	**1.52**	**-3.02**	**0.06**	**-0.42**	**-1.92**

Table 2.3 : Composition of the Tax Revenue of Bihar Government (%)

Sources of Revenue	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Taxes on Sales, Trade etc.	59.18	56.09	56.56	48.68	51.62	49.84
Stamp and Registration Fees	12.51	14.30	12.84	14.19	11.28	12.86
Taxes on Goods and Passengers	9.44	10.48	14.15	17.22	19.42	18.44
State Excise	8.69	8.22	8.15	8.95	9.47	10.33
Taxes on Vehicles	6.39	7.18	6.37	8.49	4.50	5.37
Land Revenue	1.30	1.16	1.00	1.55	1.85	1.61
Other Taxes and Duties on Commodities and Services	1.98	1.97	0.65	0.41	0.30	0.27
Taxes & Duties on Electricity	0.51	0.60	0.29	0.51	1.56	1.26
Taxes on Agricultural Income	0.00	0.00	0.00	0.00	0.00	0.00
Total	100.00	100.00	100.00	100.00	100.00	100.00

Table 2.4 : Tax and Non-tax Revenue as Percentage of GSDP

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Own Tax Revenue as % of GSDP	4.28	4.36	4.53	4.47	4.28	4.88
Own Non-Tax Revenue as % of GSDP	0.40	0.48	0.57	0.66	0.54	0.50
Buoyancy of State's Own Taxes (Ratio)	-	1.71	1.42	0.82	0.72	2.21

Table 2.5 : Buoyancy of Important Tax and Non-Tax Revenue Sources

	2003-04	2004-05	2005-06	2006-07	2007-08
Major Sources of Tax Revenues					
Taxes on Sales, Trade etc.	-0.23	1.45	-1.22	1.08	1.88
Stamp and Registration Fees	6.03	0.29	2.04	-0.71	3.20
Taxes on Goods and Passengers	5.10	3.82	3.10	1.40	1.74
State Excise	-0.29	1.29	1.96	1.07	2.87
Taxes on Vehicles	5.47	0.17	4.01	-4.32	3.54
Major Sources of Non-Tax Revenues					
Non-Ferrous Mining and Metallurgical Industries	6.01	0.91	2.79	1.36	3.00
Interest Receipts	-47.12	7.48	8.83	-1.47	-0.33

Table 2.6 : Expenditure of Bihar Government

(Rs. crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 (BE)
Developmental Expenditure	8929.40	15302.62	12250.14	14041.44	18489.34	22966.26
Non-Developmental Expenditure	6574.10	7175.42	7803.45	8522.74	8642.99	10290.67
Total Expenditure	15505.32	22481.80	20057.86	22568.38	27136.33	33256.95
Dev Expenditure as % of Total Expenditure	**57.59**	**68.07**	**61.07**	**62.22**	**68.14**	**69.06**
Plan Expenditure	3071.00	5202.00	3476.00	4898.74	9397.00	11965.82
Non-Plan Expenditure	12434.00	17280.00	16581.00	17669.74	17740.00	21291.26
Interest Payments	3021.79	3343.04	3473.90	3648.89	3416.00	3909.41

Table 2.7 : Structure of the Expenditure from Consolidated Fund (%)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
General Services	42.40	31.92	38.90	37.76	31.85	30.36
Social Services	25.25	17.94	23.91	30.40	29.18	34.19
Economic Services	11.37	6.66	10.15	10.49	14.82	30.51
Grants-in-Aid	0.01	0.02	0.02	0.02	0.01	0.02
Capital, Public Debt, Loans	20.96	43.46	27.02	21.32	24.14	4.92
Total Consolidated Fund	100.00	100.00	100.00	100.00	100.00	100.00

Table 2.8 : Expenditure on Social Services

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Education, Sports, Arts & Culture						
Total Expenditure (Rs crore)	2750.00	2876.00	3160.00	4423.00	5359.00	5638.00
Revenue Expenditure (Rs Crore)	2704.00	2822.00	3142.00	4394.00	5253.00	5548.00
(a) Salary component (%)	64.00	75.00	68.00	53.00	45.00	46.00
Capital Expenditure (%)	2.00	2.00	1.00	1.00	2.00	2.00
Health and Family Welfare						
Total Expenditure (Rs Crore)	572.00	539.00	629.00	1015.00	1153.00	1331.00
Revenue Expenditure (Rs Crore)	553.00	534.00	607.00	877.00	985.00	1198.00
(a) Salary component (%)	54.00	89.00	76.00	71.00	60.00	46.00
Capital Expenditure (%)	3.00	1.00	3.00	14.00	15.00	10.00
Water Supply and Sanitation, Housing and Urban Development						
Total Expenditure (Rs Crore)	294.00	276.00	321.00	532.00	766.00	1384.00
Revenue Expenditure (Rs Crore)	219.00	200.00	251.00	407.00	514.00	734.00
(a) Salary component (%)	25.00	36.00	29.00	20.00	18.00	18.00
Capital Expenditure (%)	26.00	27.00	22.00	23.00	33.00	47.00
Other Social Services						
Total Expenditure (Rs Crore)	442.00	506.00	822.00	1221.00	1235.00	2207.00
Revenue Expenditure (Rs Crore)	440.00	477.00	794.00	1184.00	1166.00	2057.00
(a) Salary component (%)	25.00	40.00	27.00	28.00	14.00	11.00
Capital Expenditure (%)	0.00	6.00	3.00	3.00	6.00	7.00
Total (Social Services)						
Total Expenditure (Rs Crore)	4058.00	4197.00	4932.00	7190.00	8513.00	10560.00
Revenue Expenditure (Rs Crore)	3916.00	4033.00	4795.00	6862.00	7917.00	9537.00
(a) Salary component (%)	56.00	71.00	60.00	49.00	40.00	36.00
Capital Expenditure (%)	4.00	4.00	3.00	5.00	7.00	10.00

Table 2.9 : Expenditure on Economic Services

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Agriculture and Allied Activities						
Total Expenditure (Rs Crore)	255.00	254.00	407.00	504.00	596.00	866.00
Revenue Expenditure (Rs Crore)	249.00	249.00	397.00	410.00	585.00	862.00
(a) Salary component (%)	51.00	70.00	44.00	47.00	39.00	30.00
Capital Expenditure (%)	2.00	2.00	3.00	19.00	2.00	0.50
Irrigation and Flood Control						
Total Expenditure (Rs Crore)	667.00	840.00	916.00	1074.00	1067.00	1880.00
Revenue Expenditure (Rs Crore)	357.00	319.00	473.00	483.00	435.00	592.00
(a) Salary component (%)	53.00	78.00	51.00	55.00	68.00	66.00
Capital Expenditure (%)	46.00	62.00	48.00	55.00	59.00	69.00
Energy and Power						
Total Expenditure (Rs Crore)	37.00	302.00	28.00	303.00	1514.00	1304.00
Revenue Expenditure (Rs Crore)	37.00	1.00	2.00	1.00	1081.00	729.00
(a) Salary component (%)	0.00	0.00	0.00	0.00	0.00	0.00
Capital Expenditure (%)	0.00	100.00	94.00	100.00	29.00	44.00
Transport						
Total Expenditure (Rs Crore)	285.00	266.00	369.00	560.00	2076.00	2942.00
Revenue Expenditure (Rs Crore)	194.00	205.00	225.00	285.00	414.00	564.00
(a) Salary component (%)	98.00	42.00	37.00	38.00	25.00	28.00
Capital Expenditure (%)	32.00	23.00	39.00	49.00	80.00	81.00
Other Economic Services						
Total Expenditure (Rs Crore)	1267.00	1199.00	1316.00	1609.00	3227.00	3571.00
Revenue Expenditure (Rs Crore)	1267.00	1199.00	1316.00	1609.00	3227.00	2069.00
(a) Salary component (%)	7.00	39.00	21.00	21.00	19.00	18.00
Capital Expenditure (%)	27.00	40.00	29.00	26.00	53.00	42.00
Total (Economic Services)						
Total Expenditure (Rs Crore)	2510.00	2862.00	3035.00	4051.00	8481.00	10563.00
Revenue Expenditure (Rs Crore)	1763.00	1498.00	2036.00	2367.00	4021.00	4816.00
(a) Salary component (%)	33.00	53.00	34.00	34.00	23.00	24.00
Capital Expenditure (%)	30.00	48.00	33.00	42.00	53.00	54.00

Table 2.10 : Detailed Statement of Debt and Other Obligations of the Government

(Rs. Crore)

	Balance as on	Balance as on
Internal Debt the State Govt.	**1/4/2006**	**1/4/2007**
Market Loans	10805 (25.4)	10393 (23.5)
Loans from Financial Institutions and Others	2279 (5.4)	2298 (5.2)
Of which, NABARD	121 (0.3)	336 (0.8)
Compensation and other Bonds	2102 (4.9)	1894 (4.3)
Of which 8.5% tax free special power bonds	2076 (4.9)	1868 (4.2)
Special Securities issued to the National Small Savings Fund of the Central Government	12089 (28.4)	14130 (31.9)
Other Loans	7 (0.0)	7 (0.0)
Total Internal Debt of the State Govt.	**25182 (59.3)**	**26829 (60.7)**
Loans and Advances from the Central Govt.		
Non-Plan Loans	101 (0.2)	98 (0.2)
State Plan Schemes, of which	8377 (19.7)	8065 (18.2)
Block Loans incl. Share of Small Savings Collections and pre 1984-85 loans	8377 (19.7)	8065 (18.2)
Total Loans for Central Plan Schemes	9 (0.0)	9 (0.0)
Total Loans For Centrally Sponsored Plan Schemes	17 (0.0)	18 (0.0)
Total W&M Advances	43 (0.1)	43 (0.1)
Other Loans	8 (0.0)	8 0.0)
Total Central Loans and Advances	**8551 (20.1)**	**8237 (18.6)**
Provident Funds etc		
GPF	9024 (21.2)	9425 (21.3)
Other Civil PF	8 (0.0)	44 (0.1)
Other PF	-32 (-0.1)	-40 (-0.1)
State Government EGIS	-234 (-0.6)	-269 (-0.6)
Provident Funds etc	**8766 (20.6)**	**9160 (20.7)**
Total Outstanding Liability	**42499 (100.0)**	**44226 (100.0)**

Table 2.11 : Analysis of Market Loans (Rs. Crore)

Type of Market Loans	Outstanding Liability		Interest Liability		Average Interest Rate (%)
Bihar State Development Bond Bearing Interest	**End of March 2006**	**End of March 2007**	**2005-06**	**2006-07**	
Less than 8%	6083	6083	408	408	7
Between 8-10%	946	946	81	81	9
Between 10-12%	1794	1794	199	199	11
More than 12%	1801	1569	229	197	13
Non- Interest- Bearing Loans	181	0	0	0	0
Total	**10805**	**10393**	**916**	**884**	

Table 2.12 : Public Debt Stock of Bihar (Rs. Crore)

	2003-04 (Actuals)	2004-05 (Actuals)	2005-06 (Actuals)	2006-07 (Actuals)	2007-08 (Actuals)	2008-09 (BE)
Internal Debt						
Opening Balance	12471.61	16298.90	21906.53	25182.42	26828.55	30394.69
Receipt During the Year	7100.13	5971.91	3768.54	2354.64	1143.64	4492.59
Payment During the Year	3272.89	364.24	492.65	707.66	1203.34	1247.34
Closing Balance (A)	**16298.85**	**21906.57**	**25182.42**	**26829.40**	**26768.85**	**33639.94**
Loan and Advances						
Opening Balance	11665.58	10105.60	9037.03	8550.99	8236.86	7821.49
Receipt During the Year	819.71	1654.18	1.81	3.21	468.26	7.73
Payment During the Year	2379.71	2722.73	487.85	317.36	428.51	428.61
Closing Balance (B)	**10105.58**	**9037.05**	**8550.99**	**8236.84**	**8276.61**	**7400.61**
Total debt Stock (A+B)	**26404.43**	**30943.62**	**33733.41**	**35066.24**	**35045.46**	**41040.55**
Total Rev. Receipts	12455.56	15714.14	17836.67	23083.20	28209.72	33550.97
Total Debt Stock x 100 / Revenue Receipts	**211.99**	**196.92**	**189.12**	**151.91**	**124.23**	**122.32**

Chapter Three: Overview of Fiscal Reforms

3.1 Fiscal Management

When the erstwhile state of Bihar was bifurcated into the present states of Bihar and Jharkhand, almost the entire forest and mineral resources went to Jharkhand and the economic scenario of present Bihar looked very bleak. The revenue receipts plummeted by a quarter (from Rs 3,085 crore in 1999-2000 to Rs 2,319 crore in 2001-02) and the non-tax revenue receipts by more than three-quarters (from Rs 1,166 crore to Rs 287 crore) as compared to the pre-bifurcation levels. While the GSDP went down by almost 30 percent, the financial liabilities decreased by only 8 percent. On the expenditure front, revenue expenditure went down by about Rs 3,200 crore (from Rs 14,362 crore in 1999-2000 to Rs 11,159 crore in 2001-02), and the already low capital expenditure by another Rs 500 crore in a State that was crying for public investments to lift it out of the vicious cycle of poverty and underdevelopment.

From 1999-2000 to 2003-04, the fiscal situation of the State improved, but it was still far from satisfactory. At the end of the financial year 2004-05, the State had a fiscal deficit of Rs. 1,242 crore (1.68 percent of GSDP) and a revenue surplus of Rs 1,076 crore, but both of these were the result of low public expenditure (manifest in a cash balance of Rs 4,000 crores at the end of the year) owing to two elections separated by a period of President's Rule in the fiscal year 2004-05. On the negative side, as on 31st March, 2005, there was a huge accumulated debt of Rs 42,000 crores (74 percent of GSDP), the capital expenditure was just Rs 1,462 crore and the total state plan expenditure was a mere Rs 3,124 crore. From 2001-02 to 2004-05, the average levels of revenue deficit and fiscal deficit were Rs 600 crore and Rs 3,000 crore respectively. Further, on an average, the State government took a loan of Rs 3,000 crore every year to finance its public expenditure (excluding debt repayment). Since the average GSDP over this period was approximately Rs 55,000 crore, the average fiscal deficit remained at the level of 5.45 percent of GSDP and Bihar continued to be a low expenditure State. Its financial administration was highly centralized with more emphasis on procedures rather than outcomes. As a result, decision-making remained tardy and the State Government was always carrying a significant baggage of unutilized funds.

In March 2006, the State Government published a White Paper on the state of its finances. The White Paper stated that development had to be sustainable in the long run and resources had to be mobilized keeping in view the structural constraints in the economy. It was also mentioned that the State Government needed to have significant plan expenditure with a higher component of capital expenditure as well as adequate non-plan revenue expenditure on operation and maintenance of physical assets in addition to investments in human capital. At the same time, the State could not mortgage the resources of its future generation by running large fiscal deficits and could not place itself in a situation where all resources in future would be consumed in debt servicing rather than in meeting the critical needs of development.

With the aim of improving its fiscal health, the State Government has taken several major initiatives over the last three years. These include:

1. Following up on the recommendations of the Twelfth Finance Commission, the Fiscal Responsibility and Budget Management (FRBM) Act was passed in 2006, limiting the level of borrowing and setting targets to bring down the fiscal deficit to a level of 3 percent of GSDP by 2008-09.
2. High coupon loans of NABARD and National Cooperative Development Corporation (NCDC) were paid back in a single installment.
3. Debt consolidation and rescheduling of loans extended by the Ministry of Finance, Government of India has been completed in accordance with the recommendations of Twelfth Finance Commission.
4. Emphasis is being given on financing additional schemes from NABARD's Rural Infrastructure Development Fund (RIDF) as it provides loans cheaper than the market rate. Procedures have been simplified so that individual departments can send their proposals to NABARD directly and also commence execution of these schemes from their own budgets.
5. Special attention is being paid towards better utilization of grant funding for infrastructure projects. Cheaper sources of loan like IDA, IBRD, ADB etc are being accessed and fully tapped keeping within the overall FRBM limits.

3.2 FRBM Act

The State Legislature has passed the Bihar Fiscal Responsibility and Budget Management Act in February 2006. In passing the FRBM Act, the State Government made the following commitments:

1. The State Government should take appropriate steps to eliminate the revenue deficit by 2008-09 and build up adequate revenue surpluses thereafter.

2. The State Government should take appropriate steps to bring down fiscal deficit to a level of three percent of GSDP by 2008-09 and maintain it thereafter.

3. The State Government should pursue policies to raise non-tax revenue with due regard to cost and equity.

4. The State Government should lay down norms for prioritization of capital expenditure and pursue expenditure policies that would provide impetus for economic growth, poverty reduction and improvement in human welfare.

With the passing of the FRBM Act, focus of the State Government has shifted to finding ways and means to finance the existing deficit through appropriate debt management and tax mobilization without compromising the essential development expenditure. But this is a tightrope walk as growth-enhancing policies require a huge public investment in the face of infrastructure disability afflicting the State, and this in turn threatens breach of fiscal limit year after year. Notwithstanding this sword dangling over Government’s head, the State Government has done reasonably well to gain the confidence of the people. However, the FRBM targets need to be designed to sustain the State Government’s ability to fulfill its commitment to the needs of public expenditure, in an economy where the private investment is abysmally low.

3.3 Fiscal Deficit

Table 3.1 shows the position on revenue account as well as the combined position of the revenue and capital accounts of some major States for the year 2005-06 to 2007-08. As noted earlier, the revenue deficit in Bihar had been effectively controlled from 2004-05 onwards generating surpluses on revenue account. As far as the combined revenue and capital account is concerned, the budget deficit could be contained due to this large surplus on revenue account in 2007-08. In the context of vulnerability of public finances in Bihar, it must be noted that the Balance of Current Revenue (BCR) for Bihar turned positive in 2004-05. A positive BCR shows that the State Government now has funds to meet the requirements of its plan expenditure. But this situation would quickly reverse, if the State Government was to implement the recommendations of Sixth Central Pay Commission (which it will anyway be forced to do), or undertake (as per norms) the required maintenance expenditure, or increase spending on health and education that the poor in this State so badly need.

Given the division of the budget into revenue and capital components, there are revenue deficit/surplus and capital deficit/ surplus, representing the excess of expenditure over receipts under each component. The conventional budget deficit is the algebraic sum of revenue and capital deficits. But this does not actually show the total resource gap in the economy as it also includes the borrowings under the sub-head of capital receipts. The Gross Fiscal Deficit (GFD) reflects this resource gap, which is to be bridged by borrowings of one sort or another. Table 3.2 presents the GFD of a few major states. Bihar had a high GFD exceeding Rs. 4,000 crore or about 6.5 percent of the GSDP in 2003-04. It now stands very marginally above 3 percent, almost within the limit of the FRBM target of 3 percent to be achieved by 2008-09. In Maharashtra and West Bengal the position is worse than in Bihar; in Punjab and Rajasthan, the position is similar to Bihar, and only in Uttar Pradesh the position is better as per the budget estimates for the year 2007-08. However, the focus on revenue as well as fiscal deficits has led to following problems for the State of Bihar:

1. Revenue expenditure is important for the maintenance and upkeep of existing assets and infrastructure in a resource constrained economy like Bihar. Further, Bihar's developmental goals, which are critically dependent on public delivery of social services, cannot be achieved if revenue expenditure on account of health and education is curtailed. Thus, though Bihar has successfully eliminated its revenue deficit, it has been severely constrained by this success in as much as it has resulted in inadequate provisioning for maintenance of infrastructure, for health, education and social welfare.

2. The fiscal and revenue deficit targets in the FRBM Act were direct fallout of the DCRF implemented by Government of India in keeping with the recommendations of the Twelfth Finance Commission. In the last chapter, it was pointed out that, although Bihar has achieved its targets, it was not given the promised relief due to the arbitrary fixation of 2004-05 as the base year for benchmarking the fiscal deficit. It should have been a three year average like in the case of other important parameters.

3. Most of the capital investment falls under the plan head. The State Plan is financed through the balance of current revenue, central grants and borrowings. By imposing a cap on the fiscal deficit, the FRBM Act has also limited the state's capacity to borrow for development. There can be no two opinions that the capital investment in Bihar needs to be substantially stepped up in order to address the development deficit of the State. Given the tight budget constraint imposed by the FRBM Act any attempt to further increase the balance of current revenues would result in further squeezing of the non-plan maintenance expenditure. Hence,

the solution lies in effecting a significant hike in central grants together with allowing a higher fiscal deficit cap to the State, especially as it can sustain a higher level of borrowing. In other words, the 'one size fits all' approach of the 12^{th} Finance Commission for fiscal deficit should make way for a fiscal deficit determined by the 'debt stress' of a State particularly for the underdeveloped States like Bihar, and States with low level of 'debt stress' (again like Bihar) should be allowed a higher ceiling of fiscal deficit at least over the five year period of the Thirteenth Finance Commission.

4. Further, to sustain fiscal health, all that a Government needs to do is to contain its fiscal deficit within prescribed limits and completely eliminate its primary deficit. Since fiscal deficit is a function of the primary deficit once we know the position of debt stock, all we need to specify in the FRBM Act is the upper limit of the fiscal deficit. By including the revenue deficit in the framework, the system becomes actually "over-determined". And this is now beginning to affect Bihar adversely as it has severely constrained its spending on health, education and maintenance of infrastructure assets. We request the Thirteenth Finance Commission to be careful on this account and ensure that its targets and benchmarks are confined to fiscal deficit alone.

Thus, the State Government requests the Thirteenth Finance Commission to:

1. *Compensate the State for "Debt Waiver" promised in the DCRF but not granted to Bihar due to wrong benchmarking of the base year.*
2. *Drop revenue deficit targets in the framing of performance designs by the Thirteenth Finance Commission and confine its achievement benchmarks to fiscal deficit alone.*
3. *Develop a 'debt stress' linked formula for determining the limits of fiscal deficit allowing States like Bihar greater flexibility in exercising policy options to balance the prudent debt management objective with the need to accelerate developmental expenditure in order to achieve the goal of convergence to national average per-capita development expenditure by 2015.*

Annexure to Chapter 3

Table 3.1: Deficit/Surplus position of States

(Rs. Crore)

State	Revenue Deficit(+) / Surplus(-)			Conventional Deficit (+) / Surplus(-)		
	2005-06	2006-07	2007-08 (BE)	2005-06	2006-07	2007-08 (BE)
Bihar	**-82**	**-2498**	**-4647***	**910**	**1688**	**1723***
Maharashtra	-1419	-3402	2386	3875	-10234	-371
Punjab	-1710	2191	1429	1890	913	-196
Rajasthan	-865	-96	-215	15713	-1868	-2728
UP	-3132	-4901	-6146	-477	-3703	-13408
West Bengal	-8598	4955	7168	227	727	133

Table 3.2 : Gross Fiscal Deficit

(Rs. Crore)

State	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08 (BE)**
Bihar	**2988**	**4363**	**1242**	**3700**	**3021**	**1703***
Maharashtra	14290	17929	18620	17631	4495	8408
Punjab	4410	4880	4115	2654	3789	3848
Rajasthan	6114	7367	6146	5150	3164	2953
UP	9497	16648	12997	13167	2815	-2125
West Bengal	10569	12869	10652	9602	8053	10158

* Actual figures from Finance Accounts

Chapter Four: Devolution of Central Taxes

As already mentioned, the State has set for itself the goal of converging its Per Capita Development Expenditure (PCDE) to the national average by 2015. The historical and political economy perspective behind this aim has already been elucidated in Chapter 1. It is critical that the Thirteenth Finance Commission recommends adequate devolution of central taxes to help Bihar achieve this aim. It must be noted that if both state's development expenditure and national average keep growing at the present rates, convergence, if it takes place at all, will only be in the year 2038-39. That would be too late.

4.1 Equalization of Per Capita Development Expenditure

This section presents the methodology behind calculation of resources required to achieve the goal outlined in Chapter 1. These projections have been made assuming that Bihar should converge to the all-States average in terms of PCDE by the end of the period of Thirteenth Finance Commission (assuming that annual growth rate of all-state average in the next five years does not change from the rate recorded in the recent past (Annexure Table 1.1). This exercise is based on the Reserve Bank of India's definition of Developmental Expenditure which includes all Revenue and Capital Expenditure (both Plan and Non-Plan heads) under Economic Services and Social Services.

Sources of Data and Methodology

The sources of data for this exercise were the following:

a. Figures for Developmental Expenditure taken from State Finances: A Study of Budgets of 2007-08, Reserve Bank of India.

b. Population figures taken from the Statistical Abstract, India (Combined issue 2005-06), Central Statistical Organisation, and also from www.censusindia.gov.in.

c. All components of Plan and Non Plan Expenditure have been taken from the State's Finance Accounts and Demand for Grants for various years.

The final estimate for the required transfer of resources from the Centre was prepared using the following methodology:

Step 1

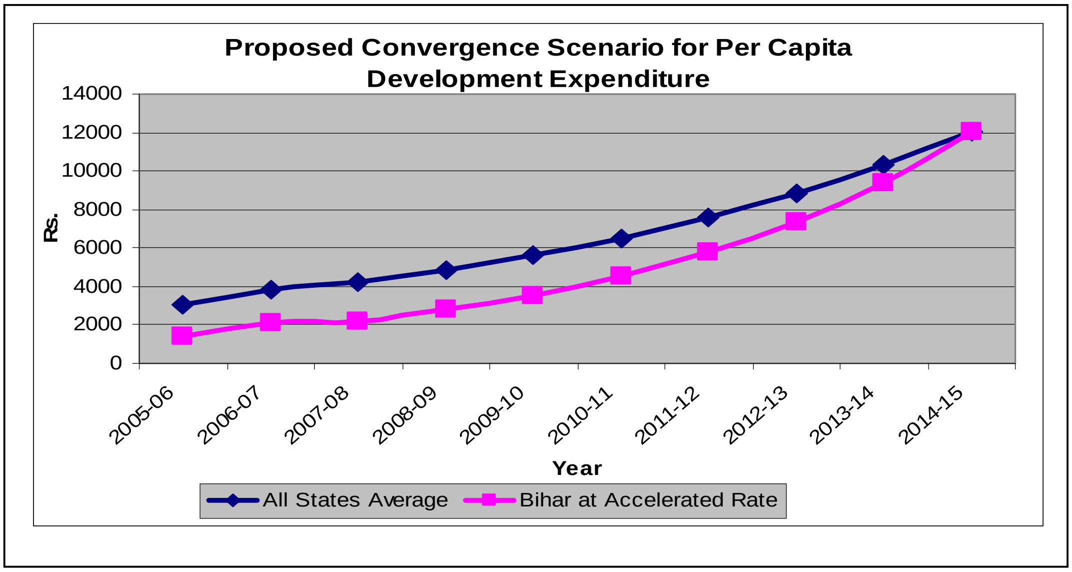
Data on aggregate Developmental Expenditure was taken for six years (2002-03 – 2007-08) and the compound annual growth rate for all States and Bihar were calculated. The compound annual growth rate of Per Capita Development Expenditure was also calculated for Bihar as well the all-States average. The results are presented in Table 4.1. Bihar's Development Expenditure has been growing faster than the national average in both per capita and aggregate terms as is evident from Table 4.1 below:

Table 4.1 : Development Expenditure – Bihar and All State Average

Year	Aggregate Development Expenditure (Rs. Crore)		Per Capita Development Expenditure (Rs.)		Gap in Per Capita Development Expenditure (Rs.)	Aggregate Gap in Per Capita Development Expenditure (Rs. Crore)
	All States	Bihar	All States average	Bihar		
2001-02	216697	7899	2145	953	1192	9882
2002-03	213022	9290	2059	1090	969	8252
2003-04	272849	10127	2597	1167	1429	12401
2004-05	286475	9095	2686	1030	1655	14614
2005-06	330045	12988	3049	1446	1602	14383
2006-07	419050	19291	3826	2123	1702	15462
2007-08	467695	20168	4208	2184	2023	18687
CAGR (%)	**16.55**	**19.26**	**14.90**	**17.37**	—	—

Step 2

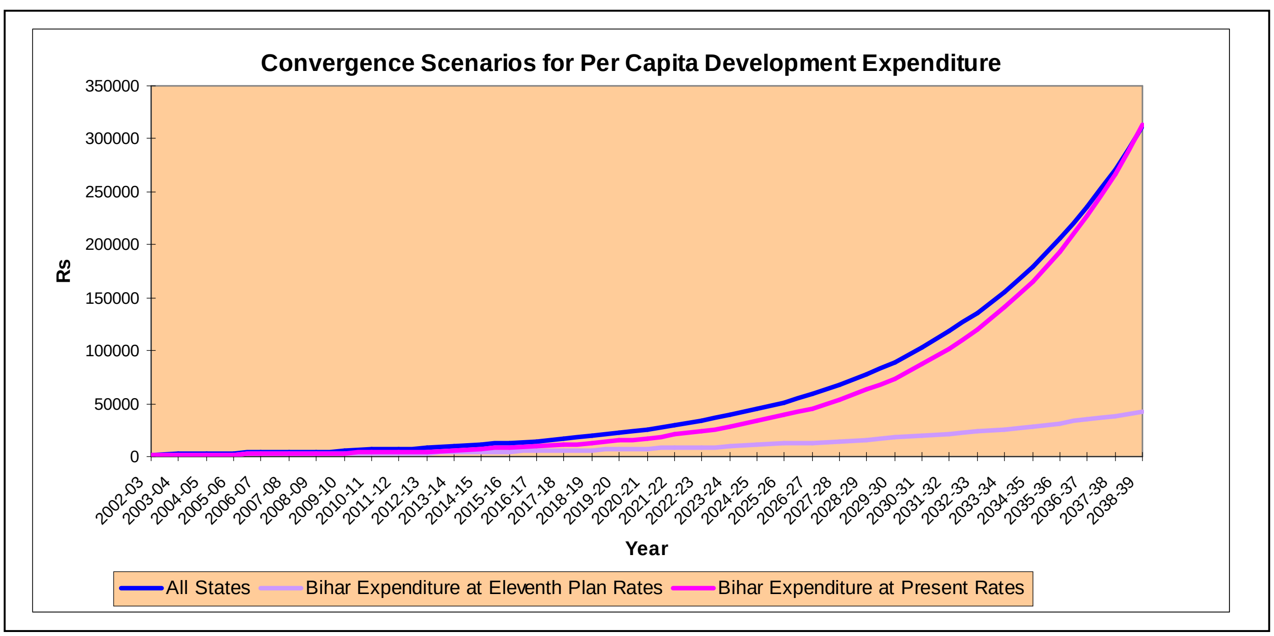
Assuming a log-linear convergence path from 2008-09 to 2014-15, the annual Per Capita Development Expenditure for each year from 2008-09 to 2014-15 is estimated for Bihar and all-States average to achieve convergence by 2015 (Appendix Table 4.2). This can also be seen in the chart below:



Step 3

From Tables 4.1 and 4.2, based on an imputed average growth rate of population at 1.66 percent, the required compound annual growth rate of aggregate Development Expenditure is calculated for Bihar. This comes to 26.46 percent.

We have also explored the alternative scenarios. If the present growth rates of development expenditure were to be simply sustained (and not accelerated), Bihar would have to wait as late as 2038-39 to converge to the national average. If the growth rates of development expenditure for Bihar were to be maintained at the rates projected in the 11th Plan document, Bihar would not converge at all! This is shown graphically in the chart below:



Development expenditure cannot be stepped up merely through a gap filling approach. To accelerate development expenditure, we need to augment the entire financial resource and step up the size of the state budget. The various components of development expenditure have different roles and grow at different rates. The revenue expenditure is extremely critical because bulk of spending on social sectors like health, education and welfare is non-plan revenue expenditure; and so is the expenditure on maintenance of physical infrastructure like roads and bridges, buildings, irrigation and flood control schemes. Equally critical is the Plan Expenditure which is borne out of the Balance of Current Revenues. The size of the State Plan has a direct relationship with the State Share of Central Taxes as recommended by the Finance Commission. One of the chief reasons why Bihar has been able to accelerate Plan Expenditure in the last three years is the buoyancy of Tax Revenues (both state share of Central Taxes and Internal Tax Revenue). Recommendations of the Finance Commission are critical in determining the size of the State Plan and convergence to national average cannot be achieved unless the devolutions are adequate.

Step 4

The required growth rate of Development Expenditure has to be broken down and analyzed in terms of the various components. The required growth rate of Development Expenditure is given by the following equation:

$G_{DE} = G_{NWNP} + G_{WNP} + G_{NWP} + G_{WP} + G_{NWCSS} + G_{WCSS} + G_{NWCSP} + G_{WCSP}$ ------ (Equation 1)

where G = Weighted growth rate; DE = Development Expenditure; NW = Non-Wage; W = Wage; NP = Non-Plan; P = Plan; CSS = Centrally Sponsored Schemes and CSP = Central Sector Plan Schemes.

From the above, one can estimate the required growth rate of the non-wage (non-salary) Plan Expenditure as follows:

$G_{NWP} = G_{DE} - (G_{NWNP} + G_{WNP} + G_{WP} + G_{NWCSS} + G_{WCSS} + G_{NWCSP} + G_{WCSP})$ ------ (Equation 2)

Assumptions behind the annual growth rate for different components of the right hand side of Equation 2 are as follows:

1. The growth rates of wage (salary) components of Non-Plan Expenditure, Plan Expenditure[1], CSS and CSP (i.e., G_{WNP}, G_{WP}, G_{WCSS}, G_{WCSP}) have been held at the normal budget rate of 10 percent (effect of annual increments and dearness allowances put together) in addition to the one-time impact of the 6th Pay Commission recommendations in 2009-10.
2. The growth rates of non-salary components of Non-Plan Expenditure has been held at 20 percent for health, education, roads, buildings, irrigation and flood control schemes, and at the normal budget rate of 10 percent for the remaining sectors.
3. Each component of expenditure is weighted by its share in the state budget.

Based on these assumptions, Equation 2 was used to calculate the required annual growth rate of non-salary Plan Expenditure. These results are then used to compute the annual size of the State Budget in terms of the Plan and Non-Plan expenditure. The State's own revenues are projected on the basis of compounded annual growth rates (using simple linear regressions) and the estimates of permitted borrowings have been kept within the limits prescribed by the FRBM Act. The residual of the estimates is the net transfers required from the Centre, if the State is to converge to the average national Per Capita Development Expenditure by 2014-15.

These projections are presented in Table 4.3. It is clear that the total budget for the period 2010-11 to 2014-15 needs to be Rs 489152 crore. Out of this, State Government's internal revenues will account for Rs 45341 crore. The resources that the State Government should be able raise through internal borrowings (keeping within the limits of the FRBM Act) amount to Rs 25994 crore. The total Central Plan Assistance over this period is expected to be Rs 37090 crore. This implies the total support needed for the state budget through the recommendations of the Thirteenth Finance Commission needs to be Rs 380727 crore. Any devolution formula that leads to an amount less than this will lead to further perpetuation, if not widening, of the state's gap with the national average per capita development expenditure.

[1] Wage components account for just 2% of Plan expenditure.

Table 4.3 : Estimate of Budgetary Requirements for Equalization of Per Capita Development Expenditure by 2014-15 (Rs Crore)

Year	Non-Plan	Plan	Total Budget Size	State's Own Revenue	Permitted Borrowing	Central Plan Transfers	Required 13th FC Transfers
2010-11	44024	24694	68719	7223	4216	6087	51192
2011-12	50884	30603	81487	8047	4658	6752	62030
2012-13	54919	38034	92952	8964	5147	7418	71423
2013-14	63917	47388	111305	9985	5688	8084	87548
2014-15	75508	59181	134689	11122	6285	8749	108533
Total	289252	199900	489152	45341	25994	37090	380727

This projection includes all transfers (Grants-in-aid and State Share of Central Taxes) through the recommendations of the Thirteenth Finance Commission. Transfers based on devolution through the Finance Commission (as mandated by the Constitution) account for the bulk of Central Transfers to the State. This is in keeping with the reality that, while States are obligated by the Constitution to discharge a larger share of developmental duties, it is the Centre which is vested with the higher capacity to raise taxes. It is imperative that transfers from the Centre to the States should be in proportion to the development roles required to be played by the latter. This devolution, which is the constitutional right of the States, should be adequate to effectively cater to their developmental needs. The sector-wise breakup of the estimated non-plan and state plan expenditure over the Thirteenth Finance Commission period is summarized in Annexure Tables 4.7 and 4.8.

4.2 Vertical and Horizontal Devolution of Taxes

The total recommended share of Bihar (for the period 2005-10) from the Central divisible pool, as per the award of the Twelfth Finance Commission was Rs. 75,591 crore, out of which Rs 67,615 crore (89.5 percent) was in the form of State Share of Central Taxes and the rest was in the form of Grants-in–aid. This amounted to an inter-se share of 11.03 percent in Taxes and 10.01 percent of overall transfers including grants. The data on actual transfers for three years 2005-06 to 2007-08 show that the overall share had been only 8.78 percent in 2005-06, 9.52 percent in 2006-07 and it touched 10.5 percent only in 2007-08 (Annexure Table 4.5).

Based on the projection above, if the Finance Commission devolutions are to be effective in bringing about equalization of Per Capita Development Expenditure, the overall vertical devolution of Central Taxes and Duties has to increase substantially from the Twelfth Finance Commission award of 30.5 percent. A fair principle for sharing of Central Taxes with the States has to be evolved. The Central Taxes (net of transfer to the States) and the State Taxes including States' Share in Central Taxes should be in proportion of the development expenditures borne respectively by the Centre and the States. On the basis of this principle, and available data on the trends of existing as well as required development expenditure, it is clear that the State's share of Central Tax Revenues should be at least 50 percent of the Gross Tax Proceeds of the Central Government. Thus, it is only logical to ask for a commensurate absolute increase in the total vertical devolution of Central Taxes. Moreover, cesses and surcharges, which are taxes in another name, should be brought into the divisible pool, especially if they have continued for more than two financial years. The Centre should also share with the States the revenues accruing to it from the sale proceeds of the Telecom Spectrum.

Within any tax administration, certain amount of levied taxes are likely to remain unrealised. However, in case of the Central Government, such unrealised taxes are substantial. The recent data (March, 2008) shows that the unrealised taxes (which are all sharable with the States) is as much as Rs. 1,09,769 crore - Corporation Tax (Rs. 39,444 crore), Income Tax (Rs. 40,746 crore), Union Excise Duty (Rs. 20,063 crore), Customs Duty (Rs. 7,303 crore) and Service Tax (Rs. 2,213 crore). Some of these unrealised taxes are because of disputes, the rest remaining so due to the limitations of the taxation machinery of the Central Government. In either case, this diminishes the size of the divisible pool of taxes by Rs. 60-70 thousand crore, inflicting loss to both Centre and the State Governments. If these tax arrears were cleared, it would mean an additional sum of Rs. 6-7 thousand crore for Bihar. The Thirteenth Finance Commission should factor in this disadvantage to the State Government while deciding on the vertical distribution of Taxes.

As argued in Chapters 1 and 2, the bulk of constraints on Bihar's public finances are structural. Annexure Table 4.6 illustrates that Bihar's per capita income distance has diverged further from the national average as well as from the highest income State since the beginning of this decade. Thus, it is imperative that income distance criterion which forms the very basis of equity, needs to be given a higher weight. Unfortunately, the Twelfth Finance Commission had reduced the overall weight for the income distance criteria from 62.5 percent (Eleventh Finance Commission's recommendation) to 50 percent. Even over the previous Finance Commissions, the average weight of income distance (or income distance, inverse of income and poverty ratio put together) has been on an average of 70 percent. **To ensure justice to Bihar, this should at least be restored to 70 percent, if not hiked further.**

Secondly, if we may take the liberty of saying so, area is a useless criterion. It is people who are beneficiaries of State's development expenditure, not the vast tracts of empty land. **The area needs to be dropped altogether.**

Lastly, two fiscal parameters namely Tax Effort and Fiscal Discipline had been accorded equal weights of 7.5 percent each by the Twelfth Finance Commission. While Fiscal Discipline is a parameter which is desirable, Tax Effort is highly controversial. Tax effort is a function of tax rates, tax base and tax compliance. For a low-income state like Bihar, which is structurally constrained by an overwhelming dependence on agricultural income, a tiny industrial base and a largely informal services sector, the tax base is so small that even the most heroic tax effort would only produce a minor blip in the Tax/GDP ratio. **Thus, the uniform criterion of Tax Effort fails to take into account the divergent nature of States' economies and the structure of their GSDP.** As a matter of fact, it only tries to compare the non-comparables and should not be used as a criterion for Central Transfers at all. Further, with dynamic changes taking place in the structure of taxation in the country, from Sales Tax to VAT and from VAT to GST; the controversies surrounding the tax effort criteria would never go away. If it is necessary to have an incentive design in the tax devolution formula, Fiscal Discipline should remain the sole benchmark incentive criterion with a weight of 10 percent. This would be transparent, easy to compute and less controversial (remember, tax effort is also built into the fiscal discipline!).

With minimum deviations from the Twelfth Finance Commission recommendations, we suggest a very simple formula for the horizontal devolution of Taxes as summarized in the box below:

Table 4.4 : Suggested Formula for Horizontal Devolution of Taxes

Criteria	Weight (percent) Assigned by 12th FC	Weight (percent) Suggestions for 13th FC
Income Distance	50	70
Population	25	20
Area	10	Drop
Tax Effort	7.5	Drop
Fiscal Discipline	7.5	10

To summarise, the entire exercise of vertical and horizontal devolution should be designed to cater to the requirement of equalizing Per Capita Development Expenditure. In this exercise,

1. *Total devolution to Bihar from the Centre on the recommendations of Thirteenth Finance Commission for the period 2011-15 should be at least Rs 3,80,727 crore for any meaningful equalization of development expenditure.*
2. *Vertical devolution of taxes should be increased to 50 percent.*
3. *All central cesses, surcharges and spectrum sale proceeds should be part of the central divisible pool.*
4. *For horizontal devolution, the formula should give at least 70 percent weight to the income distance criterion.*
5. *The geographical area should be dropped altogether from the tax distribution formula as it is the people who are the beneficiaries of State's development activity.*
6. *The incentive criteria should also be modified to focus exclusively on fiscal discipline, rather than on both tax effort and fiscal discipline.*

Annexure to Chapter Four

Table 4.2 : Projections of Annual Per Capita Development Expenditure for Convergence

Year	All States average (Rs.)	Bihar (Rs.)
2005-06	3049	1446
2006-07	3826	2123
2007-08	4208	2184
2008-09	4834	2786
2009-10	5555	3554
2010-11	6383	4534
2011-12	7334	5784
2012-13	8427	7378
2013-14	9683	9413
2014-15	11125	10298
2015-16	12783	12852

Table 4.5: Central Transfers: Actuals and Recommendations of 12th FC

	Share in Central Taxes and Duties (Rs. Crore)	Percentage Share in Central Taxes and Duties	Share of Total Transfers (Rs. Crore)	Percentage Share of Total Transfers (Rs. Crore)
Recommended Share of Bihar by 12th Finance Commission (2005-10)	67614.65	11.082	75590.52	10.01
Actual Transfers				
2005-06	10420.91	11.083	11076.53	8.78
2006-07	13291.72	11.484	14455.59	9.52
2007-08	16766.29	12.311	17871.45	10.51

Table 4.6 : Per Capita Net State Domestic Product at Current Prices (Rs) for Major Indian States

	State	2001-02	2002-03	2003-04	2004-05
1	Andhra Pradesh	17932 (9)	19087 (9)	21372 (8)	23153 (9)
2	Assam	11423 (14)	12247 (13)	12821 (14)	13633 (14)
3	**Bihar**	**5004 (18)**	**5606 (18)**	**5362 (18)**	**5772 (18)**
4	Chhattisgarh	12032 (13)	12369 (12)	14963 (12)	15073 (12)
5	Gujarat	19713 (7)	22624 (6)	26672 (4)	28355 (4)
6	Haryana	24883 (2)	26818 (2)	29504 (1)	32712 (1)
7	Himachal Pradesh	21570 (4)	22902 (4)	25059 (5)	27486 (5)
8	Jharkhand	10129 (15)	11139 (15)	11999 (16)	13013 (16)
9	Karnataka	18091 (8)	19576 (8)	21238 (9)	23945 (8)
10	Kerala	20287 (6)	22776 (5)	24492 (6)	27048 (6)
11	Madhya Pradesh	12209 (12)	11500 (14)	13722 (13)	14069 (13)
12	Maharashtra	24044 (3)	26858 (1)	28848 (2)	32170 (2)
13	Orissa	9879 (16)	10164 (16)	12645 (15)	13601 (15)
14	Punjab	25868 (1)	26395 (3)	28607 (3)	30701 (3)
15	Rajasthan	13621 (11)	12641 (11)	15738 (11)	16212 (11)
16	Tamil Nadu	20326 (5)	21740 (7)	23358 (7)	25965 (7)
17	Uttar Pradesh	9320 (17)	9963 (17)	10637 (17)	11477 (17)
18	West Bengal	17499 (10)	18494 (10)	20548 (10)	22497 (10)
	India	17800	18899	20936	22946
	Bihar's Income Gap (All India Average)	0.2811	0.2966	0.2561	0.2515
	Bihar's Income Gap (Highest Inc. State)	0.1934	0.2087	0.1817	0.1764

Note: Figures in Brackets indicate Ranks

Table 4.7

Non Plan : Sector-wise Projected Expenditure for the 13th Finance Commission Period 2010-11 to 2014-15

(In Rs. Crore)

Sector Description	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**
Total Non-Plan	**44024.32**	**50883.60**	**54918.68**	**63916.68**	**75508.53**
Total General Services	**17743.30**	**20003.11**	**20635.39**	**22400.27**	**24902.07**
of which :					
Police	3705.02	3986.76	3570.84	3912.66	4291.53
Interest Payments	4593.20	5052.52	5557.77	6113.55	6724.91
Pensions & other retirement benefits	5240.61	5903.98	6656.75	7498.00	8455.96
Repayment of Internal Debt	1698.92	2371.49	2398.61	2211.81	2535.10
Total Social Services	**14458.33**	**16729.12**	**17767.41**	**21241.49**	**25581.56**
of which :					
Education	10075.53	11667.48	12335.81	14798.00	17891.75
Health & Family Welfare	2446.58	2856.99	3072.74	3716.22	4529.24
Relief	672.84	806.99	967.28	1160.39	1392.09
Social Security	113.68	122.20	113.91	123.72	134.24
Welfare of SC/ST/OBC	119.99	128.75	119.92	129.96	140.71
Total Economic Services	**11822.70**	**14151.37**	**16515.89**	**20274.92**	**25024.90**
of which :					
Road & Bridges	4969.62	6374.02	8114.73	10474.85	13536.75
Buildings	1725.67	2201.20	2780.40	3577.70	4611.18
Rural Development Programmes	1116.35	1206.59	1176.96	1282.03	1395.46
Power	872.41	959.65	1055.62	1161.18	1277.30
Irrigation & Flood Control	1104.97	1261.89	1343.88	1559.30	1812.62

Table 4.8

State Plan: Sector-wise Projected Expenditure for the 13th Finance Commission Period 2010-11 to 2014-15

(In Rs. Crore)

Sector Description	2010-11	2011-12	2012-13	2013-14	2014-15
Total State Plan	**21626.49**	**27236.62**	**34339.11**	**43335.22**	**54734.44**
Total General Services	**721.18**	**791.85**	**869.20**	**953.88**	**1046.59**
of which :					
District Administration	445.02	489.52	538.48	592.32	651.55
Judiciary	55.12	60.00	65.14	70.55	76.25
Land Revenue	60.60	65.89	71.55	77.61	84.10
Total Social Services	**7289.21**	**9251.47**	**11742.98**	**14906.61**	**18923.79**
of which :					
Education	2212.30	2809.62	3568.22	4531.64	5755.19
Health & Family Welfare	223.38	283.65	360.20	457.41	580.86
Social Security	1257.31	1595.42	2024.68	2569.69	3261.69
Urban Development	1383.02	1756.44	2230.68	2832.96	3597.86
Welfare of SC/ST/OBC	288.74	366.25	464.64	589.54	748.12
Nutrition	482.85	613.22	778.78	989.06	1256.10
Total Economic Services	**13616.10**	**17193.30**	**21726.92**	**27474.74**	**34764.07**
of which:					
Road & Bridges	5245.54	6639.75	8408.38	10652.40	13500.09
Rural Development Programmes	2095.12	2651.07	3356.08	4250.36	5384.94
Power	1684.41	2139.20	2716.78	3450.31	4381.89
Irrigation & Flood Control	2615.30	3271.09	4099.18	5145.87	6469.91

Table 4.9 : Actual Transfers against Recommendations of Twelfth Finance Commission for Bihar

(Rupees in crore)

	Items	2005-06	Actuals	2006-07	Actuals	2007-08	Actuals	2008-09*	Actuals	2009-10	2005-10	Actuals
1	Devolution of Taxes											
	State's Share in Shareable Pool	91376.00		104610.00		120029.00		138027.00		159076.00	613118.00	
	Share of Bihar @ 11.028%	10076.95	10420.59	11536.39	13291.72	13236.80	16766.29	15221.62	11281.04	17542.90	67614.65	51759.64
2	Grants											
(a)	Grants for PRIs	324.80	324.80	324.80	324.80	324.80	324.80	324.80		324.80	1624.00	974.40
(b)	Grants for ULBs	28.40	28.40	28.40	28.40	28.40	28.40	28.40	14.20	28.40	142.00	99.40
3	Grants for Calamity Relief											
(a)	Central Share	111.69	111.70	114.92	114.92	118.31	118.31	121.86	121.86	125.59	592.37	466.80
(b)	State's Share	37.23		38.31		39.44		40.62		41.86	197.46	
	Total	148.92		153.23		157.75		162.48		167.45	789.83	
4	Grants in-aid for Education Sector (Major head 2202-Nonplan)	443.99	443.98	486.17	486.17	532.36	266.18	582.93	638.39		2683.84	1487.80
	State's own expenditure should be	3376.63		3697.41		4048.66		4433.29		4854.45	20410.44	
	Total Expenditure Required	3820.62		4183.58		4581.02		5016.22		5492.84	23094.28	
5	Grants in-aid for Health Sector(Major Head 2210&2211-Nonplan)	289.30	289.30	322.57	322.57	359.66	179.83	401.02	200.51	447.14	1819.69	992.21
	State's own expenditure should be	500.82		558.41		622.63		694.23		774.07	3150.16	
	Total Expenditure Required	790.12		880.98		982.29		1095.25		1221.21	4969.85	
6	Grants in -aid for Maintenance of Roads & Bridges(Major Head 3054 Submajor head-03&04-Nonplan	0.00		77.34	77.34	77.34	77.34	77.34	77.34	77.34	309.36	232.02
	State's own expenditure should be	258.90		271.84		285.44		299.71		314.69	1430.58	
	Total Expenditure Required	258.90		349.18		362.78		377.05		392.03	1739.94	
7	Grants in -aid for Maintenance of Public Buildings(Major Head 2059&2216 Sub major head-053-Nonplan)			89.90	89.90	89.90	44.95	89.91	44.95	89.90	359.61	179.80
	State's own expenditure should be	120.97		127.01		133.36		140.03		147.03	668.40	
	Total Expenditure Required	120.97		216.91		223.26		229.94		236.93	1028.01	
8	Grants in-aid for Maintenance of Forest	1.00	1.00	1.00	1.00	1.00	1.00	1.00	0.50	1.00	5.00	3.50
9	Grants in-aid for Heritage Conservation			10.00	8.97	10.00	10.00	10.00	3.44	10.00	40.00	22.41
10	State's Specific Needs Grants			100.00	119.47	100.00	43.10	100.00		100.00	400.00	162.57
	TOTAL GRANTS RECEIVABLE FROM GOI	11276.13	11619.77	13091.49	14865.26	14878.57	17860.21	16958.88	12035.31	19385.46	75590.52	56380.55

*Amount received up to 15th Nov., 2008.

Chapter Five: Calamity Relief

5.1 Scale of Calamity in Bihar

Floods are a calamity for those areas where they occur infrequently and as a consequence of some unforeseen event. But this is not the situation in Bihar, where it is a regular annual event, though of varying intensity. Bihar is India's most flood-prone State, with about 68,800 sq. kms., comprising 73.06 percent of its area, being flood prone. The plains of north Bihar are particularly vulnerable to floods and 76 percent of its population is flood prone. This area has recorded the highest number of floods during the last 30 years. In the years 1978, 1987, 1998, 2004, 2007 and 2008, Bihar witnessed high magnitudes of floods. The total area affected by floods has also increased over the years.

The flood of 2004 demonstrated the severity of flood problem in the State, when a vast area of 23490 sq kms. was badly affected by floods of Bagmati, Kamala and Adhwara group of rivers. Table 5.1 provides a perspective based on the comparison of the devastation caused by floods in Bihar over the period 1998-2008, taking into account the destruction caused by five episodes of floods in those eleven years. In 2007, the entire north Bihar was hit by severe floods due to heavy rainfall in catchments of nearly all the rivers. There were 28 breaches at different locations of the embankments during 2007 flood season. The floods in 2007 brought with it massive destruction of life, livelihood and property and affected 22 out of 38 districts in Bihar. In all, 50 percent of blocks (264 out of 533) were inundated. This covered 3,574 panchayats, 12,610 villages and touched the lives of 47 lakh households. This flood was even more severe than the flood in 2004 when 212.99 lakh people and 41 lakh households were affected.

The scale of human deaths has also been increasing with every flood in Bihar. In 2007, as many as 741 people died in the floods. The loss to cropped area was also significantly higher than previous episodes of floods and stood at 16.63 lakh hectares in 2007. The number of houses damaged, however, was 34 percent less in 2007 compared to 2004. Thus, by almost every measure of damage and devastation, the floods in Bihar in 2007 were unprecedented.

While the State was yet to recover from the 2007 floods, on August 18, 2008, the Kosi unleashed its destructive powers as the river breached its left embankment at Kusaha, twelve kilometers upstream the barrage. The resulting floods have affected 35 blocks of five districts of the State (Saharsa, Supaul, Madhepura, Araria and Purnea), drowning 412 panchayats and 993 villages. A total of about 3.34 million people have been affected, of which about 1 million had to be evacuated. The deluge has so far taken 275 human lives, with the numbers likely to go up, as people return to their villages. An area of 3.4 lakh hectares has been affected while about 3.5 lakh houses have been damaged (Annexure 5.3). An area of about 2.84 lakh hectares has suffered siltation, of which 2.69 lakh hectares is agricultural land.

While the human tragedy caused by these floods is difficult to estimate, the entire existing infrastructure in the area has been wiped out. About 92 percent of the existing rural road network of the five affected districts (721.2 kms. out of 782.5 kms.) has been damaged. About 251 kms of state highways and major district roads and 61 kms of national highways in these districts have also been damaged. Likewise, 351 bridges/ culverts have been completely damaged in the affected districts. Similarly, massive damage has been done to power infrastructure in those five districts, as well as adjoining districts of Katihar, Kishanganj and Bhagalpur. Likewise, educational and health infrastructure in the affected areas too have been severely damaged.

The cost of reconstruction and rehabilitation in the wake of the Kosi floods has been worked out to be Rs. 14,808.59 crore by the State Government (Annexure 5.5). However, the financial damage done by the Kosi floods is not limited to loss of infrastructure and cost of relief and rehabilitation alone. In fact, even more significant aspect of damage is the indirect damage done to the economy of the affected region. Due to severely damaged infrastructural capacity, and a badly dented agricultural production capacity (due to sandy-silt deposition on the fields), the State is set to face a major output loss. This loss of output, while important for state's overall economy, is of immediate importance to the lives of millions affected, as their basic existence was threatened because of these losses.

Besides the Kosi floods, other regions of Bihar too were flooded in the current year. Altogether, the floods in 2008 affected 18 out of 38 districts in Bihar. In all, 117 blocks out of 533 were inundated. This covered 928 Panchayats, 2,534 villages and touched the lives of 50.52 lakh people and 12.63 lakh households.

5.2 Scale of Relief Operations

In keeping with the new concerted efforts at disaster management, the emphasis of the State Government had been on mitigating the impact of the flood in 2008. The State Government's own resources and the resources from the Calamity Relief Fund were pooled to deliver one of the largest ever evacuation in the history of country when 9,93,992 marooned persons were evacuated. More than 1,500 country boats, 516 motor boats, 3,500 police personnel, approximately 5,000 civilian personnel, 35 columns of army, 4 columns of navy and 855 NDRF personnel were all put on the job. As many as 360 relief camps were established to accommodate 4,40,739 inmates. Besides food and safe drinking water, the camp inmates were also provided with adequate health and education facilities. A payment was also made for every child born in the relief camp, Rs. 11000 for a girl child and Rs. 10000 for a boy child. Towards rehabilitation of families, each family was paid — one quintal of rice, Rs. 1000 for utensils, another Rs. 1000 for clothes and another cash support worth Rs. 500. Till date, all the above facilities had cost the State Government Rs. 1162.48 crore. The final cost will obviously be more, since some relief camps are still continuing.

In 2007, the floods in Bihar were no less damaging and the State Government had to spend Rs. 1365.19 crore for relief operations then, which was nearly five times the expenditure in 2004 at Rs. 231.32 crore, again a major flood year. There was a five-fold increase in food grains allotment, a doubling of the amount for cash payments, and a more than 100 times increase in the agricultural input subsidy, compared to 2004. In 2008, so far 393 human and 1,489 livestock deaths have been reported. Rs. 5.90 crore for human and Rs. 1.49 crore for livestock deaths is to be paid as ex-gratia from CRF and Mukhya *Mantri Relief Fund*. The actual expenditure in this regard will go up after final reports are received from the concerned District Magistrates.

From the scale of relief operations launched in the 2007 and 2008 floods, it is clear that the entire allocation of Rs.789.83 crore, recommended by the Twelfth Finance Commission for Bihar from the Calamity Relief Fund for the period between 2005-06 and 2009-10, even if released in full, is grossly insufficient to cover the relief work necessary even for a single annual flood in Bihar.

The evidence in Table 5.2 shows that the scale of relief cannot be captured though past levels of expenditure. In fact, allocations based on such a measure actually constrain the capacity of the State to rise up to the situation. As can be seen in case of Bihar, a critical evaluation of what qualifies for subject of relief should be undertaken in the light of the motive of providing relief. If relief is about providing rehabilitation/strengthening of emasculated life capacity of the affected masses, then subjects of relief need immediate expansion from the existing criterion of ‘immediate relief’. Reconstruction of infrastructure and rehabilitation of masses to a minimum material environment to sustain life and livelihood broadly constitutes state action during floods. If communication is not restored, relief work cannot be carried out. Thus the stricture on expenditure on restoration of damaged infrastructure and capital assets in the Calamity Relief Fund provisions is self-defeating.

5.3 Estimates of Damage

The State Government has estimated the total damage from the Kosi floods to be Rs. 14808.59 crore. From the detailed sector/department wise assessment of damage prepared by the Department of Disaster Management, capital loss is to the tune of Rs. 9888 crore (Annexure 5.6). Applying a capital-output ratio of 2.78 (Approach Paper to 11th Five Year Plan, Bihar), we get an output loss of Rs. 3556 crore. Given the fact that this capital is not likely to be replaced completely soon, the loss of output would be cumulative over these years and the total loss of output would be in multiples of the above figure. Thus, it must be noted that even this detailed assessment is an underestimate.

The above estimate does not also include damage done to agricultural production by the floods. While almost entire standing kharif crop has been washed away, there is very little possibility of a late Kharif crop also. In fact, production capacity of the entire agricultural area affected by floods would suffer a huge loss due to sandy-silt deposited by Kosi waters. Net crop area of the five majorly affected districts and Katihar is 9.66 lakh hectares of which 2.69 lakh hectares have been affected by floods (Annexure 5.4). Total primary sector output of these districts was Rs. 4079 crore in 2004-05 (Annexure 5.7). Assuming about 80 percent of the primary sector output coming from agriculture, the agricultural production in these districts is about Rs 3263 crore (the figures would increase for 2007-08). As about 28 percent of net crop area of these districts is flood-affected which has very limited scope of production in the current year due to deposited sandy-silt, total loss of agricultural output comes to be Rs. 914 crore. Allowing for a 10 percent increase in agricultural production over last two years, the figures for loss of agricultural output due to floods for the current year would be about Rs. 1005 crore.

To the loss of agricultural output has to be added loss due the damage suffered by animal husbandry and fisheries sector. The floods have affected 12.5 lakh animals, out of which about 1.5 lakh are milch animals producing about 6.0 lakh kg of milk per day. While the exact loss of animals is yet anybody’s guess, official estimates put the loss on count of milk production to be Rs. 20 crore in sixty days. The total loss of dairy and poultry products has been estimated to be a sum of about Rs. 25 crore in sixty days. Further, 18 lakh poultry has been lost to floods, thereby causing a damage of about Rs. 554 crore. Likewise, about Rs. 50 crore worth of fish in ponds and *jalkars* has been wiped off by the floods. Thus, cumulative loss due to animal product, poultry and fisheries amounts to about Rs. 650 crore. The effect of all these damages, it should be noted, will be felt for long, with substantial decimation of income potential in the post-flood rural agrarian economy. Thus, loss of output due to losses of agriculture, poultry, fisheries and dairy products comes to around Rs. 1635 crore (Rs. 650 crore + Rs. 1005 crore).

This total loss of output due to Kosi floods comes to be Rs. 5190 crore (Annex 1.8). It needs to be noted that the above estimate is only on the lower side as loss of capital has a more debilitating effect on economic production than this estimate would suggest. While there may be a recovery of production over time as the capital base is revitalised, the adverse shock would push these districts back by many years.

Although floods are the most serious source of calamity in Bihar, other calamities also visit Bihar quite frequently. The second most serious source of calamity of Bihar is the droughts, to which the districts in south Bihar are more vulnerable, because of lower annual rainfalls in the region. In the years of drought, the State Government has to provide considerable input subsidies for seed, fertilizer, diesel, etc. to help the farmers in the rabi cultivation immediately after the drought and the next kharif. A third source of calamity is the fire which too is frequent and, finally, although the State has not experienced any major earthquake, it does lie in the highest seismic zones of the country.

As regards the ambit of CRF, the Twelfth Finance Commission had added landslides, avalanches, cloud burst and pest attacks to the existing heads of flood, drought, cyclone, earthquake, fire and hailstorm. In the context of Bihar, however, there are a few more natural destructive events which are quite frequent, like heat wave, cold wave, course change of rivers, soil erosion and lightning. Because these calamities generally do not draw sustained media attention, the damages caused by them are often underestimated. The Thirteenth Finance Commission may thus revisit the issue of ambit of CRF to make it sufficiently inclusive.

5.4 Calamity Relief Fund

The Twelfth Finance Commission had acknowledged in its report that taking expenditure as a measure of criterion for providing relief may not do justice to the poorer states in view of their low fiscal capacity. As a corrective measure, the Commission had made 25 percent additional allocation for selected poor states including Bihar. But even this additional allocation is far from adequate. Any major calamity, as staggering as the floods in Bihar in 2007 or 2008, very significantly alters the economic pattern of livelihood in Bihar. Therefore, appropriate parameters need to be devised for calculating not just the immediate economic loss, but the recouping of the loss in the years to come. With disruption in communication links and inevitable rise in the prices of essential commodities, the hardships faced by the flood-affected people continue for long. Hence, the period of support required for rehabilitation needs should be looked at afresh. The assessment of requirements should be based on the river systems in the State and their patterns of behavior and not just isolated floods. It is suggested that the parameters of assessment should be based on the following:-

- Periodicity,
- Severity,
- Duration of floods,
- Damage caused, and
- Cost of restoration of infrastructure

All these aspects put together in a basket could lead to a fair assessment of the impact of the calamity and the required disbursement out of Calamity Relief Funds.

The contribution of the states to CRF was retained by the Twelfth Finance Commission at 25 percent as was the case before. In view of the difficult fiscal situation in most States of India, the Thirteenth Finance Commission may recommend that the share of the Centre to CRF should be 100 percent. Not only the entire fund should be from the contributions of the Central Government, but bearing in mind the increased frequency of national calamities across the country, the size of CRF should also be enhanced considerably.

The Eleventh Finance Commission, in course of its discussion on Calamity Relief Fund (CRF) and National Calamity Contingency Fund (NCCF), had made several important suggestions, besides making specific recommendations on the size of the funds and their inter se allocation among the States. One of these suggestions was related to the unspent balance in the CRF. The Eleventh Finance Commission had recommended that balance in the fund at the end of the five-year plan period, should be made available to the States for being used as a resource for the state plan. However, this recommendation was not implemented; and instead the Ministry of Finance, Government of India directed that unspent balance will be taken as the opening balance for the

CRF for the next plan period. This is against the spirit of the recommendation leading to denial of useful cash balances to the States.

Yet another suggestion of the Twelfth Finance Commission was related to the allocation of food grains by the Central Government to meet the drought situation in the State in recent years. The Ministry of Rural Development had formulated a scheme of its own, which included both free food grains and cash for rural employment. Since this scheme is essentially in the nature of calamity relief, the Twelfth Finance Commission had suggested putting in place a transparent policy for the scheme. Within that transparent policy, it is suggested that the scheme should include food and employment support, not just for drought, but should also include other calamities particularly floods. However, what is unfortunate is that the Central Government is yet to outline the suggested policy, and as a result, Bihar could not take any advantage of this scheme during the last two floods and it had to buy food grains at open market prices to meet its relief obligations.

Calamities, be it flood or drought, invariably entails loss of crop, the pressure of which on the numerous small, marginal or even middle farmers is severe. Addressing this critical issue, the Twelfth Finance Commission, had appreciated the initiative of the Insurance Regulation and Development Authority (IRDA) for creation of an 'earthquake pool' by the General Insurance Company and hoped it would gradually expand to cover other calamities. But, the Central Government has not taken this suggestion seriously. The Thirteenth Finance Commission may pursue this issue more emphatically and, if necessary, allocate some dedicated fund at least to start an insurance cover fund which may later be managed by the specialised insurance agencies.

The recommendations of the Thirteenth Finance Commission should also address the requirements of mitigation. The National Disaster Management Act has mandated a fund for mitigation at the national and state level. Investments in mitigation will result in long term benefits and reduce recurring expenditure on relief. Investment in mitigation also appears to be a sine-qua-non for reduction in disparities between advanced and disadvantaged states. Within this perspective, the Commission should recommend that about 10-20 percent of the mitigation fund should be earmarked for procurement of search and rescue equipments (like motorboats, etc.) so that response time to calamities is considerably reduced.

In view of the discussions above, the State Government urges the Thirteenth Finance Commission to consider the following suggestions, relating to calamity relief, sympathetically:

1. **For a proper assessment of the loss due to calamity, one should take into account not just the expenditure on relief, but the total damage including both income and asset loss.**
2. **The period of assistance under the CRF, which has been restricted to 30-45 days, is quite insufficient under many circumstances. This period should be decided according to the requirements of the area, nature and magnitude of the calamity.**
3. **As regards the ambit of CRF, the Thirteenth Finance Commission should widen it to include heat wave, cold wave, course change of rivers, soil erosion and lightning.**
4. **The contribution of the Central Government to CRF should be made 100 percent, considering that State Government is already devoting its resources to cover multiple dimensions of the damage caused by a calamity. Further, bearing in mind the increased frequency of national calamities, the size of the fund needs to be enhanced significantly.**
5. **The Eleventh Finance Commission had recommended that unspent balances in CRF at the end of a plan period should be made available to the States for being used as resource for the state plan. This has not being done and the unspent amount is being treated as opening balance of the CRF for the next plan period. The Thirteenth Finance Commission should strongly take up this issue and ensure this recommendation is implemented.**
6. **For allocation of food grains and cash for employment programmes, the Twelfth Finance Commission has suggested formulation of a transparent policy. This task remains unfinished. The Thirteenth Finance Commission should reiterate this prescription and make it obligatory for the Central Government.**
7. **Calamities often entail loss of crop by the farmers. Towards a crop insurance policy, the Twelfth Finance Commission had suggested some steps, including some initiatives by the IRDA, which remain unimplemented. The present Commission should make adequate provisions for financially supporting a crop insurance scheme.**
8. **For mitigation of natural calamities, the Thirteenth Finance Commission should recommend earmarking about 10-20 present of the mitigation fund for procuring search and rescue equipments.**

Annexure to Chapter 5

Table 5.1 : Scale of Devastation of Floods in Bihar

Year	Number of				Cropped Area Loss (Lakh hectares)
	Persons Affected (in lakhs)	Households Affected (in lakhs)	Damage of Houses (in lakh)	Human Deaths	
1998	134.7	26	2.00	381	12.84
2002	160.18	31	4.19	489	9.4
2004	212.99	41	9.30	885	13.99
2007	248.13	47	7.37	741	16.63
2008	50.52	12.63	3.49	393	2.68

Table 5.2 : Scale of Response to Devastation Caused by Floods in Bihar

	1998	2002	2004	2007	2008
Food grains distributed ('000 tonnes)	79.4	63.5	84.3	468.6	90.8
Allocated Amount (Rs. crore)					
Food grains	96.48	27.44	75.00	432.53	247.00
Cash Dole	45.00	15.00	57.78	156.24	45.00
Agricultural Input Subsidy	0.00	2.25	3.75	354.95	75.50
Ex-gratia payment for human deaths	1.69	2.63	3.05	10.50	28.50
Compensation for house damage	0.00	2.25	0.87	291.60	180.00
Total	178.17	67.57	231.33	1365.19	1162.48

Table 5.3 : Impact of Kosi Floods as on November 6, 2008

Activities	Supaul	Saharsa	Madhepura	Araria	Purnea	Total
No. of Blocks Affected	5	6	11	4	9	35
No. of Panchayats Affected	65	59	140	71	77	412
No. of villages Affected	173	169	370	141	140	993
Population Affected (lakh)	6.97	449	14.20	6.26	1.64	33.56
No. of Families affected (lakh)	1.87	1.30	3.75	1.41	0.42	8.74
Livestock affected (lakh)	1.32	1.61	3.04	0.80	0.35	7.12
Area Affected (lakh ha)	0.51	0.38	1.59	0.45	0.47	3.4
No. of house Damaged (Pucca / Kuccha / Jhopadi) (lakh)	1.30	0.26	1.68	0.08	0.08	3.41
No. of persons Evacuated (lakh)	3.70	1.16	3.35	1.08	0.65	9.94
No. of Human death	15	35	222	2	1	275

Table 5.4 : Agricultural Area Affected by Kosi Floods (2008)

Sl. No.	District	Net Sown Area (lakh ha)	Total Agr. Area affected (lakh ha.)	Total Agr. Area where crop loss is >50% (lakh ha.)
2	Supaul	1.10	0.29	0.21
1	Saharsa	1.55	0.51	0.47
3	Madhepura	1.31	1.05	0.80
5	Araria	2.21	0.25	0.10
4	Purnia	1.81	0.38	0.19
6	Katihar	1.67	0.22	0.09
	Total	9.66	2.70	1.87
Total	% of Net Sown Area			

Table 5.5 : Financial Proposals based on Assessment of Damage due to Kosi Floods with regard to different Sectors/Departments

Department / Activity	Cost (Rs. Crore)
Disaster Management	
Rural Development	
Construction of Rural Houses and Block Buildings	6633
construction of 3.5 lakh rural houses @ 1.5 lakh per house	5250
common related Infrastructure	525
SGSY	750
Block Buildings	108
Rural Works	
Construction of disaster shelter cum Community Centre, Cattle sheds	1930
Disaster Shelter cum Community Centre, (one for each 1000 population)	1520
Cattle Shed (one for each 1000 population)	400
Roads	
Restoration of National Highway, State Highway, MDR and Rural Roads	1581.01
Temporary Restoration of NH	17.15
Temporary Restoration of State Highway and MDRs	23.5
Permanent Restoration of National Highway	153.32
Permanent Restoration of State Highways and MDRs	380.3
Reconstruction of 721 km of rural roads and 351 bridges/culverts	781.74
Other Rural Roads (750 km)	225
Agriculture	
Restoration of Agricultural Activities	1762.7
Soil Testing	1.5

Desiltation	1278
Seed Distribution	271.67
Fertilisers	49.51
Agriculture implements & input subsidy	113.56
Others	48.46
Water Resources	
Restoration of Embankment and Canal System	426.5
Restoration of Canal Structure	368.22
Restoration of irrigation Public Buildings	53.4
Restoration of Transformers Tools and Plants	4.87
Minor Water Resources	
Restoration of Tubewells and Irrigation Channels	50.11
Restoration & Reconstruction of old structures and Assets	30.09
Upgradation of schemes & assets	20.02
Education	
Reconstruction and Restoration of education Infrastructure	125.16
Restructure and Rehabilitation of Primary School Buildings	91.72
Restructuring and Rehabilitation of Secondary School Buildings	29.05
Restructure and Rehabilitation of colleges Buildings	4.38
Health	
Reconstruction of health Infrastructure	74.47
Compensation for equipment & Medical stock	1.12
Compensation for damage buildings	50.85
Expenditure on Health Services during flood	22
Building Construction	
Reconstruction and Restoration of Public building	58.27
Urban Infrastructure	
Restoration of Urban Infrastructure	600.56
Storage Infrastructure	
Construction of Godowns (Seven 1000M.T.Godowns @ Rs. 51.37 lakh and Eighty 500 MT godowns @Rs. 37.36 lakh)	33.48
Power	
Restoration of Electricity infrastructure	126.7
Restoration of Electricity Infrastructure in Rural Areas	97.95
Public Health & Sanitation	
Restoration of Drinking Water and Sanitation facilities (New handpumps @ Rs 10000, minor repair @ Rs. 500, Individual Toilets @ Rs.2500)	112.84
Drinking Water and Sanitation in Relief Camps	5.07
Rehabilitation & Reconstruction in Flood affected areas	62.61
Others	45.16
Animal Husbandry	
Reconstruction and Restoration of Veterinary Infrastructure and Fodder	341.73

Sector	
Replacement of Animal	0.25
Medicine & Vaccines	9
Civil Construction & Equipments	62.76
Compensation for Boats, Seeds & Standing fish crops	53.6
Loss of embankments & Siltation	216.12
Social Welfare	
Short Stay Home, Children Home and Old Age Home	112.09
Repair of Anganwadi Centres & CDPOs office	0.62
Replacement of Damaged Equipments	1.81
Nutritional Rehabilitation Centre	66.85
Short Stay Home	6.4
Children Homes	12.8
Old Age Homes	23.6
Total	14808.59

Table 5.6 : Estimate of Damage done to Infrastructure/Capital in Different Sectors due to Kosi Floods

Department	Head	Cost (Rs. In Crore)
Rural Development	Construction of Rural Houses and Block Buildings (Excluding SGSY component generating rural emp. Costing Rs. 750 cores)	5883
Roads	Restoration of National Highway, State Highway, MDR and Rural Roads	1581
Agriculture	Seed Distribution	271.67
	Agriculture implements & input subsidy	113.56
Water Resources	Restoration of Embankment and Canal System	426.5
Minor Water Resources	Restoration of Tubewells and Irrigation Channels	50.11
Education	Reconstruction and Restoration of education Infrastructre	125.16
Health	Compensation for equipment & Medical stock	1.12
	Compensation for damage buildings	50.85
Building Construction	Reconstruction and Restoration of Public building	58.27
Urban Infrastructure	Restoration of Urban Infrastructure	600.56
Storage Infrastructure	Construction of Godowns (Seven 1000M.T.Godowns @ Rs. 51.37 lakh and Eighty 500 MT godowns @Rs. 37.36 lakh)	33.48
Power	Restoration of Electricity infrastructure	126.7
Public Health & Sanitation	Restoration of Drinking Water and Sanitation facilities (New handpumps @ Rs 10000, minor repair @ Rs. 500, Individual Toilets @ Rs.2500)	112.84
Animal Husbandry	reconstruction and Restoration of Veterinary Infrastructure and Fodder Sector	341.73
Social Welfare	Short Stay Home, Children Home and Old Age Home	112.09
	Total	9888.64

Table 5.7 : Gross District Domestic Product of Affected Districts

GDDP at Current Prices (2004-05) (Rs. Lakh)							
Name of Districts	Agriculture & Animal Husbandry	Sub-Total Primary Sector	Sub-Total secondary Sector	Sub-Total Tertiary Sector	Total GDDP	Population (000)	Per Capita GDDP (Rs.)
Saharsa	44617	53474	11881	52356	117711	1631	7217
Supaul	63366	68252	10656	32198	111106	1853	5998
Madhepura	53994	60340	7740	27494	95574	1635	5845
Purnia	71780	80038	16379	78904	175321	2768	6335
Araria	56285	60902	13892	44375	119170	2339	5094
Katihar	76852	84905	18971	84434	188310	2573	7319
Sub-Total	366894	407911	79519	319761	807192	12799	6306.680209
Bihar	**1971750**	**2224486**	**880780**	**4273841**	**7379107**	**88662**	**8323**

Table 5.8 : Loss of Output/Income in Current Year from Kosi Floods

Sl. No.	Head	Loss of Output (in Rs. Crore)
1	Damage done to infrastructure/Loss of Capital (Assuming ICOR of 2.78, given Capital loss of Rs. 9888.64 crore)	3556
2	Agricultural Production	914
3	18 lakh Poultry lost	540
4	Dairy and Poultry Products	25.4
5	Fisheries	50.0
	Total	5099.0

Table 5.9: Total Damage Done by Kosi Floods

Sl. No.	Head	Loss / Damage in Rs. Crore
1	Cost of Reconstruction/Rehabilitation	14808.59
2	Loss of Total Output/Production	5099.0
3	Total Damage	19907.59

Chapter Six: Grants-in-aid

The Twelfth Finance Commission gave a rightful place to the grants-in-aid as a mode of transfer to the States. It laid out the principles on the basis of which grants-in-aid were to be distributed, particularly taking into account the financial requirements of the States on their non-plan account. Moreover, the grants were to be determined in absolute terms and made norm-based, providing more scope for taking into account the cost-disabilities and redistributive concerns.

Based on the recommendations of the Twelfth Finance Commission, Bihar was awarded an inter se share of 11.08 percent through devolution of taxes and a total share of 10.01 percent with taxes and grants put together (Table 4.5). Actual transfers from the Centre by way of grants in the first two years period of the Twelfth Finance Commission have been below 10 percent. As reported in Table 10.1 of the Twelfth Finance Commission Report, the share of grants-in-aid has increased from 7.72 percent of total devolutions in 1979-84 to 18.87 percent in 2005-10. The Eleventh and Twelfth Finance Commissions periods saw an increase of around 5 percentage points each. However, in spite of increasing importance of grants-in-aid in the overall devolution framework, they have been too restrictive for the States in terms of their normative basis, stated objectives and implicit and explicit conditionalities.

6.1 Revenue Deficit Grant

Revenue deficit grants have generally been the largest component of the Finance Commission grants. Bihar was not eligible for this grant under the 11th and 12th Finance Commission recommendations.

Professor Amaresh Bagchi recorded the following dissenting note in the Report of the Eleventh Finance Commission:

> *"…it is noticed that in several States (mainly in the low income group) the per capita NPRE (excluding interests and pensions) is far below the national average. For instance, in Bihar the per capita NPRE for the year 2000-01 works out to be less than 60 percent of the average for the general category States. Similar is the case with a few other low income States. Even with the State's share in Central taxes recommended by the Commission, the per capita revenue capacity of Bihar remains well below the group average for the year 2000-01. Paradoxically, Bihar does not get any non-Plan revenue deficit grant although its revenue capacity, even after it is augmented by statutory*

transfers, that is to say its revenue availability in the non-plan account falls significantly below the national average."

The normative basis for allocation of revenue deficit grant was based on the Twelfth Finance Commission's own estimates of revenue and expenditure for each State guided by the overall macro-approach of restructuring of public finances. In other words, the very principle for defining the basis of revenue deficit grant contained an element of implicit conditionality. State's own projections of revenue and expenditure were totally discounted. And more importantly, even though Finance Commission admitted that heterogeneity was an important factor in this exercise, the base year was again uniformly fixed at 2004-05, but the budget estimates were revised to control for laxity. Lastly, the concentration on non-plan revenue deficit without considering the structure of plan expenditure and how the two are related meant that revenue deficit grant was based on a partial understanding of the composition of State's revenue deficit. This approach had three important consequences for Bihar:

1. The revenue and expenditure estimates presented by the State, with stepped up plan and non-plan revenue expenditure necessary for a state like Bihar that is caught in a low-level development trap, were not factored in the calculations of revenue deficit by the Twelfth Finance Commission.
2. The significance of treating 2004-05 as the base year for all States, which for political compulsions was atypical vis-à-vis Bihar's usual fiscal scenario, has already been discussed in the memorandum. Apart from the estimates being widely off mark, the normative considerations defining the estimates were adverse to the concerns of stepping up expenditure for a revenue constrained state like Bihar.
3. These normative considerations, along with the overall aim of bridging the fiscal responsibility targets through revenue deficit grants, meant that prospects of Bihar being a revenue surplus state by the start of the period of devolution under the Twelfth Finance Commission were pre-ordained.

The end result ! Bihar did not qualify for any revenue deficit grant even though its pre-devolution non-plan revenue deficit was projected to reach the level of Rs 10,130.36 crore in 2009-10 starting from Rs 8,327.27 crore in 2005-06 (Table 10.2, Twelfth Finance Commission Report). The post-devolution surplus was projected to grow from Rs 1,757.18 crore in 2005-06 to Rs 7,428.01 crore in 2009-10 (Table 10.3, Twelfth Finance Commission Report). Contrast this with the state's actual revenue surplus in 2005-06, which was just Rs 82 crore (Table 3.1). There has been a significant increase in the revenue surplus since then, but this is primarily the result of a stringent limitation of non-plan revenue expenditure in order to meet the FRBM targets on one hand and to provide resources for capital outlay under the State Plan head on the other. For a political government that came to power on the plank of good governance, higher plan provision was considered essential to meet the aspirations of the people. The end result is that there is no room to focus on the critical non-plan components of development expenditure like education, health, maintenance and repair of roads, buildings, irrigation and flood control assets.

In view of the analysis done in the foregoing paragraphs, the Thirteenth Finance Commission is requested to consider a shift in its approach to allocating grants to meet the revenue expenditure needs of the states. It is obvious that the past strategy of meeting the revenue deficit has had no equalizing effect in terms of the revenue expenditures of the States. As such, a more equitable and practical solution needs to be explored. It is suggested that the Commission may consider making Revenue Expenditure Grants, instead of Revenue Deficit Grants, to the States based on the distance of the per capita revenue expenditure of the State from the national average. This will have the desired equalization effect that would help the lagging states to catch up with the top of the pack in course of time.

6.1.1 Impact of Sixth Central Pay Commission

The recently announced Sixth Central Pay Commission recommendations, which have been duly implemented by the Government of India, have raised expectations amongst the state employees for a similar package. The State has still not forgotten the traumatic experience of implementation of the recommendations of Fifth Central Pay Commission leading to severe deterioration of fiscal parameters, almost wiping out the balance of current revenues. Confronted with this situation, the Chief Ministers and Finance Ministers of all the States had unanimously demanded in the meeting of the National Development Council (February 19, 1999) that since, the originating cause lay in the Central action, Government of India should bear at least 50 percent of the additional financial burden of the States on account of the pay revision. The Central Government assured accordingly, but the assurance was not followed by action, and the States continued to suffer.

Given this background, it would only be fair if the States were given at least 50 percent financial assistance for the additional burden of implementation of the recommendations of Sixth Central Pay Commission. The Empowered Committee of the State Finance Ministers has already submitted a joint memorandum to the Thirteenth Finance Commission to this effect. On implementing the recommendations of Sixth Central Pay Commission, the additional annual burden on account of revised salaries and pension as well as payment of arrears would impose a heavy strain on the State finances.

6.1.2 Pre-devolution Deficit

The impact of implementing the recommendations of Sixth Central Pay Commission would have to be built into the projections of non-plan revenue expenditure for the period of Thirteenth Finance Commission (2010-15). Further, given the present neglect of non-plan development expenditure, at least the critical components of non-plan development expenditure like education, health and maintenance-repair of roads, bridges, buildings, irrigation and flood control assets etc. would have to provided for on a normative basis. Table 6.1 below gives the projected Non-Plan Revenue expenditure over the period of the Thirteenth Finance Commission and the Revenue Gap that needs to be filled in with both the Revenue Deficit grants and the State share of Central Taxes.

Table 6.1 : Projected Non-Plan Revenue Expenditure and Pre-devolution Deficit for the Thirteenth Finance Commission period (2010-15)

Year	Non-Plan Revenue Expenditure	State's Own Revenue	Pre-devolution Deficit
2010-11	41,573.65	7,338.86	34,234.79
2011-12	47,732.25	8,220.53	39,511.72
2012-13	51,715.67	9,208.12	42,507.55
2013-14	60,846.44	10,314.36	50,532.08
2014-15	72,077.71	11,553.50	60,524.21
Total	**2,73,945.72**	**46,635.37**	**2,27,310.35**

These projections should be taken into account for considering revenue deficit grants to Bihar.

6.2 Equalization Grants for Health and Education

In the estimation of partial equalization grants in health and education, the Twelfth Finance Commission focused on those States, which had not been able to allocate for education and health an amount equal to the group average. Aggregate expenditure for this purpose was taken net of interest payments, pensions and some other adjustments which it termed “preference correction”.

The expenditure data (both plan and non-plan) of each of the States was examined for just one year i.e. 2002-03. In case of education, the ratio of revenue expenditure under the major head 2202 (plan and non-plan) was worked out for each state with reference to its "adjusted" total revenue expenditure (plan and non-plan). For health, major heads 2210 and 2211 were considered. Based on this expenditure preference for one single beginning year, those States whose per capita expenditure on health and education was less than the group average, were reckoned as needing financial assistance (expenditure projections based on gap estimates arrived at from a single year's data suffer from an inherent bias). The amount of grant required for covering 15 per cent of the distance by which a below-average State was lagging behind its group average per-capita expenditure was recommended as equalization grant for education. For health, the recommended equalization grant was 30 percent of the gap (Table 6.2).

Table 6.2 : Equalization Grants from Twelfth Finance Commission (Rs crore)

	Education		Health	
Year	Bihar	All States	Bihar	All States
2005-06	443.99	1686.23	289.30	938.00
2006-07	486.17	1844.51	322.57	1044.71
2007-08	532.36	2017.84	359.66	1163.69
2008-09	582.93	2207.62	401.02	1296.37
2009-10	683.31	2415.45	447.14	1444.31
Total	2728.76	10171.65	1819.69	5887.08
Overall Percentage Share	26.83		30.91	

The recommended share for Bihar in the equalization grants came to almost 27 percent for education and 31 percent for health. Given Bihar's distance from the normatively desired expenditure, this appeared reasonable. However, the release of the grants were subject to the condition that in each year non-plan revenue expenditure should not be less than the projected normal expenditure for that year and each year's grant was linked to the actual expenditure of the previous second year. This conditionality has been applied rather rigidly and for a shortfall of expenditure by less than one percent in case of Bihar, 50 percent of the annual grant for Education and Health for the years 2007-08 and 2008-09 has been withheld amounting to a loss of Rs. 937.98 crore to the poorest people. Such conditionality defeats the very purpose of equalization for which these grants were designed in the first place. The right course in such cases should be to release the grant as per the recommendation and allow the State to utilize the balance of one year, if any, in the following year.

Most importantly, partial equalization to the extent of a mere 15 percent for education and 30 percent for health is only a token measure for the low-income States like Bihar that are trapped in the low levels of human development and are sliding further downwards from the national average. Thus, for any equalization exercise to make a perceptible difference, the Central government must devolve enough resources to ensure at least 50 percent equalization in terms of health and education expenditure. Only this could give Bihar the much needed human capital to build to a knowledge economy. For a State like Bihar, which is almost completely devoid of industrial agglomerations, building up a critical mass of human capital is a necessary condition for take off. **We urge the Thirteenth Finance Commission to not only continue with the health and education grants, but also to step them up further to achieve the desired goal of 50 percent equalization.**

6.3 Other grants

Maintenance of Roads and Bridges: The Twelfth Finance Commission recommended a grant of Rs 15,000 crore for maintenance of roads and bridges, based on the road length data provided by the States and a projected expenditure with the base-year again fixed at 2004-05. Bihar was entitled to a grant of Rs 309.36 crore, spread over four financial years from 2006-07 to 2009-10 (Table 10.7, Twelfth Finance Commission Report). Bihar's share in the overall grant pool for maintenance of roads and bridges came to only 2.06 percent. Bihar has received and fully utilized this grant in 2006-07, 2007-08 and 2008-09 as per the recommendations of Twelfth Finance Commission. It must be noted that local body roads and hilly roads were given additional weight, but differentiation between kutcha and pucca roads and additional vulnerability of roads in frequently flooded areas are important considerations to assess the different maintenance needs that have cost implications.

Road maintenance work is carried out under the aegis of two departments: Road Construction Department and Rural Works Department. Road Construction Department is responsible for the upkeep of 3,989 Km of State Highways and 8,095 Km of Major District Roads. Rural Works Department has to look after a further 24,000 Km of Rural Road Network. It needs a minimum of Rs 40 lakh per km for special repairs of State Highways, Rs 30 lakh per km for special repairs of Major District Roads and Rs 20 lakh per km for special repairs of Rural Roads. The cost of ordinary repairs is 10 percent of the cost of special repairs. This amounts to, at the present rates, a minimum of Rs 3,500 cores for the basic maintenance and upkeep of State Highways, Bridges and Rural Roads critical to the development of this State. This requirement is going to increase further over the 13th Finance Commission period as the road length for State Highways and Rural Roads rapidly increases (at the rate of twenty percent every year due to capital investments being made under various plan programmes) to overcome the development deficit accumulated in the past. At normal rates of increase in cost of materials, the funds requirement over the Thirteenth Finance Commission period are summarised in Table 6.3 below.

Maintenance of Public Buildings: The Twelfth Finance Commission recommended a total grant of Rs 5,000 crore for maintenance of public buildings based on data on plinth area provided by the States. However, average rather than differentiated data was used as States were unable to provide the required data. Bihar was entitled to Rs 359.61 crore, spread over four financial years from 2006-07 to 2009-10 under this head (Table 10.8, Twelfth Finance Commission Report). Thus, Bihar's share in the overall grant pool for maintenance of public buildings came to 7.2 percent. Strangely enough, expenditure over maintenance of residential quarters for employees was kept out of the ambit of this grant. Also, for maintenance of public buildings, differentiated data to capture the maintenance needs of public buildings built in different historical periods and put to different uses needs to be taken into account.

The plinth area of buildings in the State is at present about 84,00,000 sq. meters, which is increasing at the rate of ten to fifteen percent every year given the capital investment under the plan heads every year. The present budget provision is too meager and the majority of buildings remain in a dilapidated state. As per norms, we need to provide on an average Rs 1000/- per sq. meter of plinth area to ensure proper upkeep and maintenance of public buildings. The funds requirements for maintenance and upkeep of buildings over the Thirteenth Finance Commission period is given in Table 6.3 below.

Maintenance of Irrigation and Flood Control Assets:

No provision was made by the Twelfth Finance Commission for maintenance of irrigation and flood control assets. This is probably the single most important item of non-plan revenue expenditure, without which investment in every other physical asset in flood affected areas becomes useless. Bihar has 3,430 kilometers of embankments, 28.63 lakh hectares of installed irrigation capacity in addition to flood control schemes crying for regular maintenance. As per present cost schedules, the provisions for normal maintenance of embankments needs to be increased to at least Rs 2.00/- lakh per km and flood period maintenance needs to be increased to at least Rs 3.00/- lakh per km. Irrigation schemes presently need maintenance at the rate of Rs 1400/- per sq km of the Irrigated area. The essential fund requirements projected over the Thirteenth Finance Commission period for maintenance of irrigation and flood control schemes if given in Table 6.3 below.

Table 6.3 : Funds Requirement for Maintenance and Upkeep of Physical Infrastructure during the Thirteenth Finance Commission period (2010-15)

Year	Roads and Bridges	Public Buildings	Irrigation & Flood Control
2010-11	4,606.19	1,548.39	629.21
2011-12	5,988.05	2,012.91	755.05
2012-13	7,784.47	2,616.78	906.07
2013-14	10,119.81	3,401.82	1,087.27
2014-15	13,155.75	4,422.37	1,304.72

Maintenance of Forests: The Twelfth Finance Commission recommended a total grant of Rs 1,000 crore for maintenance and conservation of forest, based on existing all-India area under forest. Bihar was entitled to just Rs 5 crore out of a total pool of Rs 1,000 crore (Table 10.9, Twelfth Finance Commission Report). Thus Bihar's share in the overall grant pool for maintenance of forests came to only 0.5 percent. Bihar has been getting this grant regularly and has also utilized it effectively. In a flood devastated state, maintenance of existing forest area has additional importance. The security situation in the forest areas calls for better infrastructures for the field staff. These factors need to be weighted in and the present grant should at least be doubled and it should be made more than 10 crore.

Heritage Conservation: The Twelfth Finance Commission recommended a total grant of Rs 625 crore for heritage conservation. Bihar was entitled to Rs 40 crore out of a total pool of Rs 625 crore (Table 10.10, Twelfth Finance Commission Report). Thus, Bihar's share in the overall grant pool for heritage conservation came to 6.4 percent. Since 2006-07, Bihar has received Rs 22.41 crore against the recommendation of Rs 30 crore for these years.

Historical and cultural heritage of Bihar deserves special attention. Protection, renovation and development of places of archeological importance need to be done urgently, which requires funds worth Rs 25 crore. It is also proposed to build a modern museum at Patna (*Patliputra*) for preservation of priceless antiquities, which needs an additional 75 crore. It is requested that given the rich cultural heritage of Bihar, allocation under this head be increased to at least Rs 100 crore.

Though the relative share of these grants is small compared to the total pool, the approach towards devolution needs to be considered in terms of the real needs of the State. For a State like Bihar with infrastructure constraints, maintenance of existing roads and bridges, public buildings, and irrigation and flood control assets are of paramount importance. The use of a low expenditure base year fails to capture these needs. If the grants are to be meaningful and also utilized in an effective way, they need to be stepped up in accordance with the practical requirements.

To conclude, the State Government requests the Thirteenth Finance Commission to:

(a) reconsider the basis of recommendation for the revenue deficit grants by removing the bias of the base year and considering the entire revenue expenditure under both plan and non-plan heads which will present a more holistic picture of the developmental needs.

(b) take into account State's projection of revenue receipts and expenditure in revenue deficit calculation. Alternatively, consider allocating a revenue expenditure grant based on the distance of per capita revenue expenditure of the State from the national average.

(c) consider at least 50 percent equalization of health and education expenditure to ensure the distance by which a below-average state is lagging behind its group average so that per-capita health and education expenditure is speedily narrowed.

(d) remove the strictures and conditionalities accompanying equalization grants and allow states to utilize the balance, if any, of equalization grants of one year in the next year, and

step up the grants for maintenance of roads and bridges, government buildings, and for irrigation and flood control schemes to ensure basic maintenance and upkeep of physical assets which is critical to achieving faster economic growth.

Chapter Seven : State Specific Needs

The Twelfth Finance Commission had recommended a total of Rs 400 crore as grants for Bihar's state specific needs. These were - Technical education (Rs 50 crore), Establishment of Administrative Training Institute (Rs 50 crore), E-governance (Rs 40 crore), Construction of Juvenile Justice Home (Rs 20 crore), Improvement of Urban Water Supply and Drainage (Rs 180 crore), Fire Services (Rs 10 crore), and Construction of Residential Schools and Hostels for SC/ST/OBC (Rs 50 crore). The specific needs being placed before the Thirteenth Finance Commission by the State Government are based on key areas of intervention within its overall strategy of building up institutional capacity, promoting development expenditure and accelerating growth with equity and justice. These consist of affirmative action for marginalized communities and classes, general enhancement of human resource base, public expenditure in agriculture, flood mitigation and control and strengthening institutional capacity of local governments.

7.1 Social Welfare and Empowerment

7.1 A: *Mahadalit:*

The state government formed the "State *Mahadalit* Commission" for the development of the most deprived amongst the Scheduled castes. Evidence shows that the 20 scheduled castes comprising a population of 49.0 lakh in Bihar are acutely deprived in terms of educational, economic, socio-cultural and political status. The selected castes for *Mahadlit* are: *Bantar, Bauri, Bhogta, Bhuiya, Chaupal, Dabgar, Dom, Dhangad, Ghasi, Halalkhor, Hari, Mehtar, Bhangi, Kanjar, Kurariar, Lalbegi, Musahar, Nat, Pan, Sawasi, Rajwar, Turi, Pasi, and Dobhi*. The Commission identified these 20 castes primarily on the basis of their literacy rate. While the total literacy rate of Bihar is 47 percent, and that for all scheduled castes is 28.5 percent, it is only 16.7 percent in case of *Mahadalits*. (Table 7.1).

Table 7.1 : Comparative Literacy Status of *Mahadalits*

Population Groups	Literacy Rate
India	64.8
Bihar	47.0
Scheduled Castes of Bihar	28.5
Mahadalits of Bihar	16.7

On the recommendation of the Commission, the state government has taken initiatives for the development of these 20 *Mahadalit* Scheduled castes. It has been felt that the special schemes for the development of these castes need to be introduced so that they may be brought in the mainstream of the society. For the implementation of the special schemes and to have focused approach, an organisation known as "Bihar *Mahadalit* Development Mission" has been established. During 2007-08, administrative approval for a package of schemes worth of Rs.288.19 cores had been given by the State Government. A comprehensive project has been formulated for the 11th Plan for targeted development of *Mahadalits*. The major programmes and schemes, designed by the Commission, are as follows;

1) **Purchasing of Residential Land – Most** of the *Mahadalits* do not have their own residential land, and live in the outskirts of the village on government land or on other land. Land will be purchased or acquired for the construction of houses for the *Mahadalit* families.

2) ***Mahadalit* Awas Yojna –** Residential houses would be built on purchased/ acquired land for the *Mahadalit* families under the *Indira Awas Yojna Scheme*.

3) ***Mahadalit* Water-supply Scheme – Safe** drinking water is still a problem in the tolas for these castes. It has been proposed that at least one source of safe drinking water in each tola will be provided.

4) ***Mahadalit* Toilet Construction Scheme -** There is a big problem of toilet facility in *Mahadalit Tolas*. Under the scheme of Total Sanitation Campaign, toilets are constructed for the BPL families where the beneficiary contributes Rs. 300. The *Mahadalit* Development Mission will bear the cost of Rs. 300 for the construction of toilet for *Mahadalit* families.

5) ***Mahadalit Basti Sampark Path Yojna* –** This scheme is meant to link *Mahadalit Tolas* with the village road.

6) ***Mahadalit Anganwadi* – Anganwadi** Centre is the backbone for the initial development of children. There is special requirement to open new *Anganwadi* centres at the *Mahadalit Tulsa* for the children of *Mahadalit* families.

7) ***Mahadalit* Crèche – It** is proposed to establish *Mahadalit* Crèche adjacent to the *Mahadalit Anganwadi* Centre. The Crèche will have the facility to nurture children in the

age group of 0-3 years. This will facilitate the young couple to continue with their work while ensuring that the other children continue their education.

8) **Special School or Hostel for *Mahadalits* –** The concept of special school for *Mahadalits* is to promote the inherent skills of the community. The *Mahadalit* communities have special expertise in farming, bee-keeping and raising mice, snake, etc. Their skills and expertise are still not much promoted, although there is good scope for development of such professions.

9) ***Mukhyamantri Mahadalit Poshak Yojna* –** *This scheme* is being launched to provide school uniforms/note books/shoes @ Rs. 700 per to the children of *Mahadalit* communities studying in class I-V. This initiative will motivate the children to continue their education.

10) ***Dashrath Manjhi Shramik* Training Institute –** To provide skills in specialised vocational trades, a unique Training Institute is proposed to be established. The training institute will facilitate development and sharpening of specialised skills.

11) ***Mukhyamantri Nari Jyothi* Programme –** *Mukhyamantri Nari Jyothi* Programme is designed to empower the women of Mahadalit communities with the strategy of forming and nurturing Self Help Group (SHGs).

12) ***Dhanvantari* Mobile *Ayurvedic Chikitsha* –** *Ayurvedic Chikitsha* System is very much popular among the *Mahadalits*. To facilitate the *Ayurvedic Chikitsha* among *Mahadalits*, Mobile vans equipped with essential medical requirements will be arranged. This system will provide Ayurvedic Medical facility at the remote *Mahadalit Tolas*.

13) **Mobile Public Distribution System – T**he concept of Mobile Public Distribution System is to support the *Mahadalit* Communities living in the remote areas by making available essential goods such as rice, wheat, Kerosene etc at their doorstep. Under the scheme, Mobile vans stocked with essential goods will visit the Mahadalit tolas regularly.

14) **Eradication of Scavenging System -** The State Government is committed to eradicate scavenging system in the society by introducing schemes for economic upliftment. This scheme will be a special effort apart from the existing schemes. All the identified persons will be rehabilitated with the close coordination of Urban Development Department.

15) **Construction of Community Hall-cum-Workshade –** The Mission proposes to construct one Community Hall-cum-Workshade in each *Mahadalit* Tola. This will provide a common workplace as well as space for social and cultural functions.

16) ***Mukhyamantri Jeevan Drishti* Programme – Under** the scheme a Transistor would be provided to each *Mahadalit* family and a colour TV would be arranged at the community hall.

17) **Survey, Research Study, Advertisement, Innovative scheme –** To understand the existing condition and problem of *Mahadalit* communities, a detailed survey of *Mahadalit* families is required. Their problems should be carefully analyzed and by using Information, Education and Communication (IEC), a favorable environment can be generated.

18) Establishment of District & Block Resource Centre for Training and Research-

The Mission will establish a District and Block Resource Centre to provide scheme-related information to the *Mahadalit* Communities. These centres can be used as training centres for those officials who are involved in the *Mahadalit* Development Mission. These centres will also function as data centres for the movement and channelizing of information.

19) *Vikas Mitra*

Vikas Mitra is a very important concept of the Mission. The *Vikas Mitra* will be the link between Block Resource Centre and the *Mahadalit* Tolas.

20) Community Radio

Under the awareness programme, Mahadalit hamlets will have Community Radios.

7.1AA Upgradation of 36 Residential Schools for SC/ST to 10+2Level– It is proposed to upgrade the existing sanctioned 36 Residential High Schools to 10+2 residential schools. Such schools will require additional construction of new buildings and repairing of the existing building as the number of students will increase in the same premises. At the same time, additional teachers will be required to be appointed. This will be an important requirement under 13th Finance Commission.

7.1AB Construction, Renovation & Modernisation of Residential Schools and Hostels & Other Facilities - The Department is running 66 SC & ST residential schools and the state government has sanctioned 14 new residential high schools, so that there are 80 residential schools in all. There are 163 hostels for SC & ST. The department provides the basic facilities such as room, electricity, utensils and cook. It is proposed to construct new buildings for hostels and residential schools and equip them with modern facilities such as computer with internet facilities, vocational training, solar light systems, and connecting roads. The existing residential schools and hostel buildings will also renovated.

It is proposed to provide Rs 3,353.91 crore for the project on Mahadalits and SC/ST, out of grants under the 13th Finance Commission (Annexure Table 7.1A). The Commission is requested to provide the necessary support for these Schemes.

7.1 B: Backward and Extremely Backward Classes Welfare Schemes

The bulk of the population under BC and EBC status are economically and educationally marginalized. The state government, through its department of BC and EBC Welfare, is implementing various schemes out of the state funds, but there is a huge resource gap between available funds and the requirement. Support from the 13th Finance Commission is required for the following schemes:

Construction of hostels for BC & EBC students: There are five such hostels in the state, but there is a huge demand for additional hostels in 10+2 level schools and in colleges. To meet this demand, it is proposed to build four 50-seat hostels (two for men and two for women) in each district. Thus, a total of 152 hostels would be constructed at an estimated cost of Rs 284.24 crore.

Construction of New BC and EBC Residential School Buildings: The state government has sanctioned 12 residential secondary schools for girls from OBC background. The schools will provide free amenities. The state government proposes to construct these schools at an estimated cost of Rs 144.50 crore.

Upgradation of 12 OBC Residential Secondary Schools to 10+2 Level: The state government has decided to upgrade the aforesaid 12 residential high schools for OBCs to 10+2 level. To upgrade the schools, there will be a need to construct additional buildings for class room, hostel and quarters. The construction cost is estimated at Rs 18.47 crore.

Establishment Cost for New and Existing Schools: The new schools and the ones being upgraded would require teacher appointments, laboratory facilities, expenditure on food and dress for the new students. This recurring expenditure over a five-year period is estimated to be Rs 19.50 crore.

Keeping in mind the role of education in enabling and empowering students from backward classes, the state government requests the 13th Finance Commission to provide Rs 466.72 crore (Annexure Table 7.1B) for BC and EBC education schemes.

7.1 C: Women's Empowerment

The Women's Development Corporation is implementing the '*Mukhya Mantri Nari Shakti Yojana*' in the state. This programme aims to sensitize, empower and assist women to lead a life based on self-respect and confidence by strengthening their economic status through a collective endeavour.

The programme comprises schemes for social, economic and cultural empowerment of women. Besides, it would provide support for Information and Documentation Centres as well as innovations. A brief description of the schemes is given below:

Social Empowerment

1 - Helpline - This is a crisis intervention centre for women in distress and will be set up in all the 38 districts of Bihar.

2 - Short stay home - Under the provisions of Immoral Traffic Prevention Act-1986 and Protection of Women against Domestic Violence Act-2005, short stay homes will be established for social & economic rehabilitation of women who are victims of trafficking or domestic violence.

3 - Protection home: This would be a centre for providing shelter and rehabilitation support to the victims of trafficking.

4 - Working women hostel - It is proposed to extend boarding and lodging facilities to working women staying away from their homes as a support measure to encourage women in the service sector.

5 - Crèche: The crèche would provide care and support to children upto the age of 5 years of working mothers and provide nutritional food, game facilities, etc for the overall development of young children.

6 - Social Awareness- this programme proposes to create awareness amongst masses on various women related issues by promoting family schools and use of various traditional media as Nukkad-natak, puppet shows etc.

7 - Social Rehabilitation Fund: This is a fund which will provide medical, educational and other economic support to women in distress.

Economic Empowerment

1 - Organising, nurturing & capacity Building of Women SHGs: This programme will be implemented in all the districts to enable women to access services and schemes available, raise their awareness levels and help women to undertake various income generating activities. The objective is to help develop collective strength and leadership qualities among women so that they can manage and own their institutions i.e. SHGs & Federations.

2 - Training in the Service Sector: Through this programme, women and adolescent girls will be trained so they can earn a livelihood in the service sector such as housekeeping, computer operation, etc.

3 - Initial capitalization fund: Grant support would be extended to women federations amounting to Rs.20, 000/- per SHG which will help them in on-lending to groups until bank loan is accessed.

4 - Infrastructure development and Livelihood promotion: Turn key projects will be supported for the economic empowerment of women through training and setting up production centers.

5 - Preparation of project proposals, workshop and seminars/monitoring: various action researches will be undertaken for the purpose of economic empowerment of women and presented in workshop and seminars for replication and scaling up. Monitoring activities will be also be undertaken under this sub-component.

Cultural Empowerment

Organizing cultural Melas: To promote traditional folk art & theatre as well as promote sales of handicrafts, melas would be organized from time to time. Awards would also be given to promote these art forms among women.

Information and Documentation Centres: The centres will collate all data related to women in the state and serve as a Data centre to track progress of the various programmes.

Innovative Schemes

Support fund would be given to promote new and innovative programmes related to processes, strategies and concepts aimed at social and economic empowerment of women.

The total cost of this programme over the five year period is estimated to be Rs 130.36 crore, as presented in Annexure Table 7.1(C). ***The state government requests the 13th Finance Commission to provide an appropriate grant for women's empowerment in the state.***

7.1 D Minority Welfare

The state government is committed to the welfare of the minorities in Bihar. In view of the special socio-economic problems faced by the minorities, the state government has launched several welfare schemes for their upliftment as targeted programmes. The Department of Minority Welfare plans to undertake some more programmes during 2010-11 to 2014-15. The names of these programmes, along with their financial requirements are presented below:

Sl. No.	Programmes	Amount (Rs. crore)
1.	Construction of Hostels for Minority Students (some hostels are already running and some more are planned for girl students)	90.00
2.	National Minority Development and Finance Corporation (provision of share capital by the state government)	9.00
3.	State Minority Financial Corporation (provision of the share capital by the state government)	14.00
4.	Survey and computerisation of Waqf properties	10.00
5.	Scholarship for meritorious College students from minority community	28.00
6.	Scholarship to help college students to prepare for Public Service Commission and other competitive examinations	10.00
7.	Financial assistance to divorced and abandoned Muslim women through Waqf Board	10.00
8.	*Mukhyamantri* Minority students *Protsahan* Scheme (For student passing in 1st Division in Secondary Examination)	25.00
9.	*Mukhyamantri Shram Shakti Yojana* (For minority artisans and skilled labour)	16.00
10.	*Mukhyamantri Alp Sankhyak Kanya Vivah Yojana* (For marriage of girls of minority families living below poverty line)	78.00
	Total	290.00

The total expenditure for all the programmes of minority welfare will be Rs. 290.00 crore.

7.2A : Technical Education

A comparative picture of higher education institutions in Bihar is presented in Annexure 7.2. From the table, it is clear that Bihar is lagging behind in technical, medical and vocational education. It can be seen from this table that the number of Engineering/Architecture Degree Colleges in Bihar is only 7 as against 66 in Kerala and the number of Medical and related colleges in the two states is 23 and 40 respectively. While Kerala has more number of colleges providing Medical and Technical Education, the number of Arts and Science Colleges in Bihar is 4 times as many as that in Kerala. The number of Polytechnic Institutes is also low in Bihar (13) as compared to Kerala (56).

The state government, since 2005-06, has proposed to correct this lacuna through establishment of 11 new engineering colleges (cost: Rs. 501.82 crore), 27 new polytechnic institutes (cost: Rs 777.90 crore) and the upgradation of existing polytechnic institutes (cost: Rs 236.13 crore). In addition, there is a proposal to construct buildings for 6 existing engineering colleges (cost: Rs

114.83 crore). The details of the proposals are included in Annexure Table 7.3. The total expenditure over the period of the Thirteenth Finance Commission is estimated to be Rs 1,630.68 cores.

The Thirteenth Finance Commission is requested to provide grant support to the proposals outlined above.

7.2 B: Industrial Training Institutes (ITI)

Bihar needs to generate skilled manpower to fulfill the demands of industry and to keep pace with its technological demands. For the creation of such skilled manpower, the state must have training institutions of high quality. This requires creation of new Industrial Training Institutes (ITI) and upgradation of existing ITIs. The proposal for period of recommendation of the Thirteenth Finance Commission includes the following.

(a) Construction of buildings for the new Industrial Training Institutes (ITIs): Presently, Bihar has 38 ITIs, including 8 women ITIs. It is proposed to set up at least one ITI in each sub-division of the state by the year 2014-15. There will be around 86 new ITIs. The expenditure required for the construction of the proposed new building for each new ITI would entail a sum of Rs. 2.25 crore. This implies a total expenditure of Rs. 193.50 crore. Similarly, the cost of the construction of 5 existing ITIs would be around Rs. 10.00 crore (Rs. 2.00 crore per ITI). The construction of buildings of ITIs in Hajipur, Hathua, Bhojpur and the women ITI, Siwan would require Rs. 9.00 crore. The above proposal for building construction requires a total sum of Rs. 212.50 crore.

In addition, a sum of Rs. 2.25 crore would be required for provision of tools and equipments in each Institute and the establishment cost would be Rs 0.50 crore per Institute, totaling to an expenditure of Rs. 236.50 crore. The proposed new ITI would require land acquisition. This would entail an expenditure of Rs. 86.00 crore, assuming Rs. 1.00 crore for each ITI. Thus, in all, the fund requirement for expansion ITIs will be Rs. 535.00 crore.

(b) Establishment of new ITI for Women: It is proposed to establish ITI for women in five divisional headquarters which do not have women ITI in the current five year plan. They will be established in the next five year plan. This would require a sum of Rs. 11.25 crore.

(c) <u>Supportive Arrangements</u>: For all the ITIs, existing and new, to function properly, there should be in place some supportive arrangements, each of its components requiring additional financial support. These arrangements and the required expenditure are as follows:

Heads	Expenditure (Rs. crore)
Training for ITI personnel and staff at the Directorate	0.50
Management Information System	5.00
Designing of new employment oriented trade	2.00
Research and Development	0.50
Modernisation of equipments	50.00
Total	58.00

The total fund requirement for strengthening ITI education in Bihar will be Rs. 604.25 crore, as presented below:

Head	Amount (Rs. crore)
Establishment / Upgradation of ITIs	535.00
Establishment of Women ITIs	11.25
Supportive Arrangements	58.00
Total	604.25

The Thirteenth Finance Commission is requested to provide grant support to the proposals outlined above.

7.3 : High School Development

Bihar has 77,000 elementary schools to cater to education up to class 8 level. In contrast, there are only 3,000 secondary schools, which is quite inadequate to cater to the requirement of students coming out of the primary schools. This deficiency in availability of high school facilities is one reason for high drop out rates after primary levels and the overall low enrolment ratio. Because of different state and central initiatives, the number of students passing class 8 has increased significantly. According to the Common School System Report, Bihar should have 16,000 secondary schools by the year 2015-16.

To bridge the gap in high school facilities in the state, the state government proposes to open 5,000 new secondary schools and to upgrade 5,000 existing upper primary school to secondary school during Thirteenth Finance Commission period. It is also proposed to upgrade 1,900 secondary schools to senior secondary school during the same period. The funds required for construction of additional classrooms, new school buildings, laboratories and library will cost around Rs 20,000 crore and the salary for new teachers will be around Rs 12,000 crore.

In view of the urgent need to expand high school facilities in the State, the Thirteenth Finance Commission is requested to recommend a specific grant for high school development.

7.4 : Special Package for Flood Moderation, Rehabilitation and Reconstruction

The scale of devastation and misery caused by floods has been indicated in Chapter Five of this memorandum. The state government in a concerted development strategy has initiated several measures for the all-round development and upgradation of physical and social infrastructure in the state in tune with its 11^{th} plan objective of accelerated inclusive development. All these efforts come to a nought in large areas of Bihar, when faced with the fury of floods; large amounts are spent on restoration of infrastructure, only to be destroyed again. Besides, no amount of relief can compensate for the dehumanizing existence of millions of people who are faced with the situation of no place to live, cook, sleep, no access to drinking water and health facilities, helplessness against disease and no way to dispose off even the dead. To address this situation, one needs to move away from prescribed norms, model estimates and standard policies. Six issues need consideration:

1. The massive deforestation in the catchment areas of the scores of small and big rivers of North Bihar has caused heavy silting of the rivers, thereby reducing their water carrying capacity leading to immediate flooding with increasing intensity year after year. Floods also lead to extensive sand cashing by the river.

2. Roads constructed under various schemes, according to the standard norms and specifications, get inundated and washed away during floods disrupting the connectivity of villages for a prolonged duration.

3. Nearly a million houses have been constructed under IAY for weaker sections, but even these houses, leave alone the thatched and mud houses, cannot provide shelter for the duration of the floods that last for at least 2-3 months. This is because the habitations of the

communities belonging to weaker sections are generally located on the fringes of the villages and are in relatively low lying areas.

4. Relief activities are hampered in the absence of adequate infrastructure for storage and management of relief centers.

5. The predominantly agricultural economy with the predominance of animal husbandry requires transport, storage and distribution facilities for cattle feed and fodder. This is vital to any rehabilitation exercise.

6. The restoration of agrarian livelihoods depends on desiltation, access to seeds, implements, farm infrastructure and inputs.

Interlinking of Adjacent Rivers

While studying the possibility of inter-linking of rivers, an Expert Team constituted for the purpose came out with the finding that intensity of floods could be moderated by diverting the flow of a river in spate into an adjoining river basin. It has been observed that many a time, while flood of a great magnitude was in progress in one basin, the adjoining basin was in a near normal condition or was having flood of a much lesser magnitude, and therefore the channel running much below its carrying capacity could be utilized to carry flood discharges from the adjacent flooded basin. This points to a possibility of inter-basin linking of rivers for the purposes of flood moderation. A similar concept had been examined by the Second Bihar State Irrigation Commission 1994. Several drainage channels on both sides of the *Burhi Gandak* river basin could be used to connect river *Burhi Gandak* with river *Bagmati* on its east and the river *Gandak* on its west, by construction of cuts through them. Similar possibilities also exist for providing a cut near Mansi to facilitate rapid drainage of the combined flow of rivers Bagmati, Gehua and Kamla into the *Ganga* River in *Kosi's* last stretch to ease the flood pressure.

Experts have identified a number of such schemes for North Bihar and it is proposed to take up the following schemes in this context:

a) ***Kohra- Chandrawat* Link**, for diverting *Burhi Gandak* flood water to river *Gandak*, through river Kohra and Chandrawat ;

b) ***Burhi Gandak – None – Baya – Ganga* Link**, for diverting *Burhi Gandak* flood water to river Gandak through river None and Baya;

c) ***Bagmati-Burhi Gandak Link***, for diverting river Bagmati floods to river *Burhi Gandak* through *Belwadhar,* an old *Bagmati* channel and

These schemes are estimated to cost Rs 3,580 cores. Table 7.4A below summarizes the estimated cost of the three schemes to interlink some river basins.

Table 7.4 a: Cost of Interlinking of Rivers

Sl. No.	Name of Links	Length of links (km)	Design discharge of Link Canal (Cusecs)	Cost		
				Link Canal (Rs. crore)	Head regulator (Rs. crore)	Total
1	*Kohra-Chandravat*	14	900	478.80	5.33	484.13
2	*Bagmati-Burhi Gandak* through *Belwadhar*	30	1,415	1,613.10	5.33	1,618.43
3	*Burhi Gandak-None-Baya-Ganga*	12+19=31	1,250	1,472.50	5.33	1,477.83
	Total	**75**	**—**	**2,114.40**	**15.99**	**3,580.39**

It must be noted that the construction of reservoirs on *Bagmati* and *Kosi* are dependent upon resolution of international issues with Nepal and depends on the central government. The inter-linking of the basins is independent of such constraints and can be undertaken without delay if funds are available.

From the foregoing, it would be obvious that Bihar needs a special package to tackle the problem of floods. The essential elements of the package are listed below:

1. Desiltation of rivers with usage of the earth to raise embankments for roads, flood protection and raising the ground level for the houses to be constructed or reconstructed under IAY.
2. Raising levels of all roads – National Highways, State highways, Major District Roads and Major Rural Roads — above flood levels to ensure basic connectivity, and management of relief and rehabiltation.
3. Building godowns for transport, storage and handling of food grains in flood affected blocks and a bigger one at the district headquarters of the flood prone blocks.

4. Creation of fodder banks.
5. Construction of IAY houses on raised platforms with reinforcement to also withstand earthquakes and floods.
6. A comprehensive package to restore agricultural cultivability.
7. Flood moderation through inter-linking of river basins

This requires a comprehensive, synergized programme. The state government has put forward a realistic estimate of the financial requirements for such a strategy.

Table 7.4B : Special Package for Flood in Bihar

Proposal	Amount (Rs. crore)
De-silting of rivers	5,098
Reconstruction of Highways and MDRs	1,843
Reconstruction of Rural Roads	2,055
Support for Construction of houses that could withstand the onslaught of floods	4,200
Godown Construction	156
Fodder Banks	128
Agriculture Support	826
Interlinking of River Basins	3,580
Total	**17,886**

The State Government requests the Thirteenth Finance Commission to take into consideration the social and economic impact of the devastation of the floods on Bihar's people and address the gravity of this state specific need. We request the Commission to allocate the largest possible amount to support this comprehensive programme to address the flood moderation, relief and rehabilitation exercise in Bihar.

7.5 : Empowering Local Government: *Panchayat Sarkar*

There are 8,463 *Gram Panchayats* in Bihar. Following amendment to the *Panchayati Raj* Act, elections to the PRIs were held in 2006 and elected representatives are now in position at all the three tiers. *Gram Panchayats* being the basic unit for decentralized governance in the rural areas, they need to be seen as the local government – the *Panchayat Sarkar*. In order to enable and empower the *Gram Panchayats* to serve their role of *Panchayat Sarkar* effectively, there is an urgent need to build *Panchayat* offices, catering to multiple administrative needs. The *Panchayat* Building will be the center of work for the elected representatives like the *Mukhiya, Up-mukhiya* and *Sarpanch* as well as the employees of the *Panchayats*, like the *Nyay Mitra, Panchayat* Secretary, employees of the health, public services and revenue department, anganwadi sevikas, and other technical staff. The *Panchayat* Building will be equipped with e-governance facilities including broadband connection. The cost of each such building has been estimated to be Rs 46 lakhs by the state government. The total cost of this project will be Rs. 3,893 crore. ***The Thirteenth Finance Commission is requested to allocate a specific grant for this project to strengthen the Panchayati Raj system that has started to gain roots in Bihar.***

7.6: Roadmap for Agriculture and Allied Sectors in Bihar

Fluctuations in Bihar's agricultural production and its impact on State's Gross Domestic Product remain an area of concern. With nine out of every ten persons in Bihar living in the villages and with three out of every four persons employed in agriculture, a concerted programme for development of agriculture and allied sectors is the need of the hour today. Bihar is the future bread bowl of India and it is only an increase in agriculture productivity that can generate the required surplus to break 'hysteretic' and kick-start industrial development in this State. Keeping this in view, the State Government has drawn up a Roadmap for Agriculture and Allied Sectors. This road map for agriculture is not about farming alone, but it is about the lives of the people of Bihar. It is critical to our battle against poverty. The primary objective of this roadmap is to provide income to the majority of hungry people living in rural areas. The major goals of this roadmap are:

- To ensure an increase in income of small and marginal farmers to the levels of human sustenance.
- To ensure food security through increase in productivity combined with profitability
- To foster nutritional security through raising levels of productivity as well as raising living standards of rural societies
- To revitalize farming in order to create gainful employment and to check migration
- To ensure agricultural growth with justice, with programmes focusing on gender and weaker sections.

To achieve these goals, five types of programmes have been conceived:

1. Inputs access, supply and quality
2. Transfer of technology and extension
3. Income generation schemes
4. Marketing
5. Capacity building and institutional development

The sector wise strategies for this roadmap have been developed in minute details. Table 7.4 below presents a summary of the estimated fund requirement of Rs 6,135.97 crore for financing the road map between 2008-09 and 2011-12.

Table 7.4 : Funds Required For Agricultural Roadmap

(Rs crore)

Year	Fund required (Rs. crore)					Total Requirement
	Agriculture	Animal Husbandry	Dairy	Fish	Cooperatives	
2008-09	922.13	180.99	115.97	122.34	60.75	1,402.18
2009-10	916.70	196.02	116.07	157.31	118.10	1,504.20
2010-11	977.02	213.45	114.38	199.41	92.92	1,597.18
2011-12	941.27	228.65	125.34	197.63	139.48	1,632.37
Total	3757.12	819.13	471.78	676.69	411.25	6,135.97

By simple projections, the total requirement of funds for the period 2010-15 is estimated to be Rs 8,200 cores.

The Thirteenth Finance Commission is requested to consider a special grant for strengthening the agricultural sector in Bihar. This is absolutely essential for the State in its overall aim of equalizing per capita development expenditure by 2015.

7.7 : e-Governance

Till date, the state government has been able to make only modest efforts towards promoting e-governance in Bihar. In view of enormous opportunities that the computer technology offers, it is very desirable that more substantive steps are undertaken in Bihar towards widening and strengthening e-governance here. The four specific steps that the state government proposes in this direction are:

(a) Information Technology Park at Biota

The State does not have an exclusive IT Park which will provide for basic ready–to- move infrastructure facilities for the IT industries to set up their business in Bihar even though the state has relatively cheaper skilled manpower. The facilities will include — (i) Basic infrastructure – internal roads, water supply, electricity, etc., (ii) Developed office space, (iii) Residential complex, (iv) Uninterrupted power supply, and (v) Other amenities like shopping complex and entertainment facilities..

A project report has been prepared, and State Government has allotted 500 acre land for IIT Patna and 100 acre land for NIT Patna at Bihta. Since IIT Patna and NIT Patna are in the same area, to ensure synergy and industry-academic interaction, it is proposed that Rs 100.00 crore may be provided for setting up IT park in Bihta during the 13^{th} Finance Commission period. It will finance the land acquisition and infrastructure development cost only, with Commercial Space/ residential complex, etc being self-financed.

(b) Management Information Systems in all key departments

Providing hardware like PCs, printers, connectivity is easier, but to make use of the same is difficult. In the last few years, State Government has provided basic hardware and connectivity in various government offices. However, they are not efficiently utilized in a systematic way. There is a felt need of having key Management Information Systems in all the key departments to effectively monitor the functioning of the department, including implementation of ever-increasing schemes. Presently, rudimentary monitoring through excel is being done at the initiatives of the particular incumbent Secretary which is lost with the transfer of the Secretary. The MIS will vary from department to department. State Government has provided a Value Added Tax Management Information System and Integrated Financial Management Information System for Commercial Tax department and Finance departments respectively. Similar MIS need to be developed for all key departments. A sum of Rs 50.00 crore will be required for having an industry – standard Management Information Systems in all the key departments.

(c) Finishing School in every block in Bihar

Recently, the State Government has set up Bihar Knowledge Centre in Patna for making final year graduates (science, accountancy, engineering) industry-ready. This is on a pilot basis. MOUs have been entered into with Intel, Oracle, Microsoft, IBM for providing cheap software, PCs, and manpower resources for training the trainer and organizing tests for issuing of certificates in the respective fields. Soft skills like communication, English speaking are also being provided. The pilot has to be rolled out initially in every district in the first phase and then in every block in the second phase. It has been estimated that a sum of Rs 1.00 crore for big districts and Rs 0.75 crore for smaller districts are required for creating basic infrastructure facilities like networked lab, furniture, PCs etc. The recurring cost of trainer and manpower will be charged from the students. It is requested that a sum of Rs 34.00 crore (Rs 25.00 crore for 25 big districts, excluding Patna, and Rs 9.00 crore for 12 smaller districts) may be given for rolling out the project in every district. For rolling out in every block, it will require a sum of Rs 267.00 crore (@Rs 0.50 crore for each of 534 blocks). This may be done after the scheme is rolled out in every district. Therefore, a total of Rs 301.00 crore may be provided for rolling out the scheme at the block level during the 13th Finance Commission Award period.

(d) e-District:

The State Government is implementing e-District pilot in three districts – Nalanda, Aurangabad and Madhubani at a total cost of Rs 12.00 crore. The project will be implemented by March 2009. The Project aims to target certain high volume services, currently not covered by any MMP under the NeGP and undertake backend computerization to e-enable the delivery of these services through Common Service Centers. The implementation strategy of e District suitably takes into account the infrastructure currently being created under NeGP such as the SWANs, SDCs, CSCs and State Gateways. This needs to be rolled out in all the districts. A sum of Rs 100.00 crore will be required for rolling out in all the districts in terms of providing infrastructure, licenses for the software and data digitization.

The total financial requirement for the above four programmes is Rs. 551.00 crore, divided as follows —

Project	Amount (Rs. crore)
IT park at Bihta	100.00
MIS in Key Departments	50.00
Finishing Schools	301.00
e-Districts	100.00
Total	551.00

7.8 : Police Modernisation

Historically, the role of the police has evolved and widened with the political, economic, social and cultural changes. Specifically in Bihar, the police force has had to respond to changes not just in the nature of crime, but also to constrained administrative structures and resources. The Bihar Police Act 2007, a pioneering effort in the country, takes into account respect for promotion of human rights and the emerging challenges of policing and security of the State and redefines the role of the police. The state government has taken significant steps towards police modernization. Expenditure in police administration has recorded a substantial growth of 27.4 percent between 2005-06 and 2006-07. In 2006-07, 5000 ex-service men were recruited to help the police administration and 11,500 more have been inducted subsequently. The defunct Bihar Police Building Construction Corporation (BPBCC) has been revived. To increase the esteem of the policemen, the uniform allowances of Rs. 2,650 have been sanctioned. Several police stations and police subdivisions have been created. Regular post of the bodyguards and other police personnel has been sanctioned. The daily allowances of the Home Guards have been increased, and a new set of 20,000 volunteers are being enrolled. Towards further modernization, the state government proposes the following activities:

<u>Bihar Police Academy and Research Centre (B-PARC)</u>: The proposed institution will be a premier training and research centre of excellence for the State Police. The academy will run various basic and specialised training programs for new recruits and in-service personnel. The objective of setting up the academy is to develop the state police into a professional unit of highest integrity, as envisaged in Section 48 of the Bihar Police Act 2007 and also as recommended by the Committee on Police Training (Gore committee).

The academy will liaise with the bureaus and academies of the national and international repute to provide the best training and learning environment. The academy will also have a fully functional research and development centre as proposed in Section 53 of the Bihar Police Act 2007. Policemen interested in research on different fields related to police, will also get the best facility and, consequently, the academy will emerge as a knowledge hub of the country.

As far as the resource generation is concerned, the academy will not be fully dependent on the state exchequer. It will also raise funds on it's own by providing services of Forensic Science Laboratory, Arms Workshop, Communication Workshop to various organisations and dog breeding in Canine School.

Women Police Stations: Level 4 Women Police Stations are required to be set up in every district of Bihar to deal with the offences against women. These police stations will be set up near the Women's College / Girls senior secondary school in 37 districts.

Jungle Warfare Unit and Training Centre: The Ministry of Home, GOI, has given guidelines to construct training centre on the pattern of Greyhounds. Presently, the officers and men of the Jungle warfare unit, i.e., Special Task Force (CHEETAH) are sent to the Greyhounds, Hyderabad for Anti Extremist Course for which the Government has to bear the cost at the rate of Rs. 25,000 per trainee. In view of the recent spurt in the naxal activities, it is in the interest of the state to provide such training in the state itself. Counter Insurgency and Jungle Warfare Training School is proposed to be constructed in the 97 acres of Gandak project land at Valmikinagar under West Champaran District. This unit will function as the permanent base camp of the Jungle Warfare Unit of the State Police. The total cost for this is estimated to be Rs. 291.88 crore.

Border Check Posts on Indo-Nepal Border: The Bihar-Nepal border is a porous and open border and is about 735 kms in length, allowing free access to anti-socials, criminals and anti-nationals. In order to prevent smuggling of food grains, cattle, counterfeit currency notes, narcotics, human trafficking and also the infiltration of terrorists, extremists and anti-social elements, creation of six additional Check posts is necessary, in addition to 11 existing check posts. The proposed locations are —

Sl. No.	Name of check posts	Name of District
1.	Deeghal Bank	Kishanganj
2.	Sikti	Araria
3.	Madhwapur	Madhubani
4.	Laukha	Madhubani
5.	Bairganiya	Sitamarhi
6.	Ghorasahan	Motihari

Cyber Crime and Computer Forensic Cell: Bihar does not have a computer crime unit to investigate cases of high-tech crime. Since more and more cases now involve seizure of computers with significant data bearing vital leads to the cases under investigation, it is important to create a unit for cyber forensics. Apart from analyzing seized storage devices, the Unit will sensitize investigating officers on what to seize during searches/raids, procedures for proper handling and storage of seized computers and its accessories as well as the nature of data that can possibly be retrieved from the seized computers. This will provide a platform for investigating officers to utilize the vast potential of Forensic Computer examination. There is a need for provision of appropriate hardware and software to enable comprehensive forensic examination of the entire domain. Within this objective, the seven major priorities are:

- Developing a state of art Electronic Forensic Lab at Patna
- Developing a Cyberspace security response system
- Establishing a Security threat and Vulnerability reduction program
- Improving security Awareness and Training
- Securing the Government's use of cyberspace
- Seeking International Cyberspace Security cooperation especially with respect to information sharing regarding vulnerabilities, warnings of new threats, and co-ordination of response efforts.
- Training on Cyber and Mobile Forensics

The financial requirements for these proposals are summarized in the table below:

Sl. No.	Head	Approximate Expenditure (Rs. crore)
1.	Bihar Police Academy and Research Centre	138.40
2.	37 Women Police Stations in 36 districts headquarters	45.90
3.	Jungle warfare unit and training Centre	100.13
4.	Creation of six new check posts along the Indo Nepal Borders	3.13
5.	Cyber Crime and Computer Forensic Cell	4.32
	Total	291.88

A total of Rs. 291.88 crore is requested as a grant from the Thirteenth Finance Commission, to help the State achieve its programme of Police Modernisation. ***The Thirteenth Finance Commission is requested to consider suitable grant to the State for Police Modernisation.***

Annexure for Chapter Seven

Table 7.1 (A) : Mahadalit and SC/ST Welfare: Proposed Fund Flow

Year	Flow of funds under (Rs. lakh)			
	MDP	RS	RSH	Total
2010-11	71,211.00	4,320.00	2,566.00	78,097.00
2011-12	73,480.00	4,320.00	2,566.00	80,366.00
2012-13	63,320.00	4,320.00	2,566.00	70,206.00
2013-14	49,425.00	4,320.00	2,566.00	56,311.00
2014-15	43,525.00	4,320.00	2,566.00	50,411.00
Total	3,00,961.00	21,600.00	12,830.00	3,35,391.00

Note: MDP = Mahadalit Development Programme
RS = Constitution, Repair and Upgradation of 36 Residential Schools to 10+2 School
RSH = Constitution Renovation and Modernisation of Residential Schools and Hostels.

Table 7.1 (B) : Proposed Fund Flow for BC and EBC Welfare

Sl. No.	Name of Scheme	Proposed fund flow (Rs. crore)					
		2010-11	2011-12	2012-13	2013-14	2014-15	Total
1	Construction of hostels for BC / EBC	56.85	56.85	56.85	56.85	56.85	284.24
2	Construction of new BC & EBC Residential School Building.	28.90	28.90	28.90	28.90	28.90	144.50
3	Up gradation of 12 OBC Residential School to 10+2 level	3.69	3.69	3.69	3.69	3.69	18.47
4	Establishment cost for new Schools & existing 12 Res. Schools to 10+2 level.	3.90	3.90	3.90	3.90	3.90	19.50
	Total	93.34	93.34	93.34	93.34	93.34	466.71

Table 7.1 (C) : Proposed Fund Flow for Women's Empowerment

	Total Exp for Five Years (in Rs. crore)					
	2007-08	2008-09	2009-10	2010-11	2011-12	Total
Economic Empowerment						
SHG Formation, Nurturing & Capacity Building	2.75	2.75	2.93	3.52	4.22	16.19
Community Investment Fund	2.50	2.00	2.13	2.56	3.08	1,228
Community assets for Capacity development	2.30	1.50	1.50	1.80	2.16	9.26
Training & action research in Service sector	0.50	0.70	0.83	1.00	1.20	4.25
Study & research	0.94	0.30	0.43	0.52	0.63	2.84
Monitoring & evaluation		0.82	0.82	0.99	1.19	3.84
Total	9.00	8.07	8.68	10.42	12.50	48.68
Social Empowerment						
Helpline	1.36	2.19	2.25	2.48	2.73	11.03
Short Stay home (25 Women)		3.68	3.03	3.64	4.37	14.74
Protection Home		0.21	0.21	0.26	0.31	1.00
Working Women Hostel		2.53	2.40	2.88	3.00	10.81
Crèche		0.50	0.50	0.60	0.72	2.32
Social Awareness	11.21	1.50	1.50	1.80	2.16	8.08
Social Rehabilitation Fund		1.00	0.80	1.00	1.00	3.80
Total	2.48	11.62	10.71	12.67	14.30	51.80
Cultural Empowerment						
Cultural Melas	0.80	1.30	1.30	1.00	1.00	5.40
Women Resource Centre	0.31	0.50	0.62	0.75	0.90	3.08
Innovative Scheme	1.00	1.00	0.50	0.60	0.72	3.82
Strengthen Women Development Corporation	0.60	2.50	4.36	4.80	5.28	17.54
Total	2.71	5.30	6.78	7.15	7.90	29.85
Grand Total	14.20	25.00	26.19	30.24	34.71	130.35

Table 7.2: Number of Educational Institutions (2004-05)

	Bihar	Jharkhand	Kerala	Punjab	All India
University	13	5	7	7	298
Deemed University	1	3	1	2	96
Institutions of National Importance	0	0	1	1	13
Research Institutes	11	1	1	0	136
Arts / Science / Commerce College	743	117	186	212	10377
Engineering College	7	5	66	27	1302
Media / Pharma / Nursing College	23	8	40	49	817
Teacher Training College	15	9	21	24	1082
Law/ IT/ Management/ MCA/ Agricultural Colleges	63	8	82	51	2431
Teacher Training Schools	70	27	184	26	1465
Polytechnic Institutes	13	10	56	19	1171
Technical / Industrial / Art / Craft Schools	58	36	549	181	5114
Board for Intermediate / Secondary Education	3	1	2	1	41
Junior Colleges	685	128	2309	1697	20272
High / Post-Basic Schools	2944	1068	3093	2283	101777
Middle / Senior Basic Schools	10963	4933	3049	2503	274731
Primary / Junior Basic Schools	39347	16572	6827	13	767520

Table 7.3 : Proposals for Technical Education (Rs. Lakh)

		2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
A	Upgradation of Existing Engineering Colleges						
	(i) Gaya Engg. College	777.9	622.3	622.3	622.3	311.2	155.6
	(ii) Darbhanga Engg. College	926.0	740.8	740.8	740.8	370.4	185.2
	(iii) Motihari Engg. College	777.9	622.3	622.3	622.3	311.2	155.6
	(iv) Nalanda Engg. College	1140.5	912.4	912.4	912.4	456.2	228.1
	(v) B P Mandal Engg. College, Madhepura	1140.5	912.4	912.4	912.4	456.2	228.1
	(vi) Institute of Technology, Sitamarhi	1140.5	912.4	912.4	912.4	456.2	228.1
B	Establishment of 11 New Engineering Colleges	12545.5	10036.4	10036.4	10036.4	5018.2	2509.1
C	Upgradation of Existing Polytechnic Institutes						
	(i) Muzaffarpur (women)	608.725	486.98	486.98	486.98	243.49	121.745
	(ii) Muzaffarpur	366.85	293.4	293.48	293.48	146.74	73.37
	(iii) Gopalganj	349.35	279.48	279.48	279.48	139.74	69.87
	(iv) Chhapra	349.35	279.48	279.48	279.48	139.74	69.87
	(v) Purnia	350.3	280.24	280.24	280.24	140.12	70.06
	(vi) Barauni	350.3	280.24	280.24	280.24	140.12	70.06
	(vii) Bhagalpur	350.3	280.24	280.24	280.24	140.12	70.06
	(viii) Patna	249.25	199.4	199.4	199.4	99.7	49.85
	(ix) Asthawan	646.225	516.98	516.98	516.98	258.49	129.245
D	Establishment of 27 New Polytechnic Institutes	19447.43	15557.9	15557.9	15557.9	7779.0	3889.49
	Total Non-Recurring Grant (A+B+C+D)	41516.9	33213.5	33213.5	33213.5	16606.8	8303.40
E	Recurring Expenditure for all Engineering Colleges	3068.1	3374.91	3712.401	4083.641	4492.005	4941.206
F	Recurring Expenditure for all Polytechnics	2676.8	2944.48	3238.928	3562.821	3919.103	4311.013
	Total Recurring Expenditure (E+F)	5744.9	6319.39	6951.329	7646.462	8411.108	9252.219
	Total Expenditure (Non-Recurring + Recurring)	47261.8	39532.9	40164.8	40860.0	25017.9	17555.6

Total for 6 years (2009-10 to 2014-15) = Rs. 2103.93 crore

Chapter Eight : Local Bodies

8.1 Panchayati Raj Institutions

The process of decentralisation of administration had started rather late in Bihar and the first election to the local bodies, after the Constitutional amendment was held in 2001. The second elections were held in 2006, under a new Bihar Panchayati Raj Act, 2006 which had much enlarged the scope of participation of disadvantaged sections of the population in local bodies through reservations. Under this Act, a provision has been made for 50 percent reservation for women, 20 percent for extremely backward castes, 16 percent for scheduled castes and 1 percent for scheduled tribes in the three-tier Panchayati Raj system. Reservation has also been made in single posts. All these reservations have meant that the social background of the present Panchayat representatives is very inclusive and, as a result, the whole PRI system is now charged with great expectations and readiness to share the overall developmental responsibilities. In addition, there is mandatory reservation for women in all the Standing Committees of the Panchayats as also 50 percent reservation for women in the District Planning Committees.

At the lowest tier of the PRI structure in Bihar, there are 8463 Panchayats and 1, 15,876 panchayat members. In the second tier, there are 531 Panchayat Samitis (one in each Block) and finally, the third tier consists of 38 Zila Parishads.

8.2 Functions of Panchayati Raj Institutions (PRI)

The Bihar Panchayati Raj Act, 2006 has specified 29 subjects of 20 Departments for which the Panchayats have been given the right of self-governance by activity mapping, as prescribed in the Eleventh Schedule of the Constitution. Further, acting on the advice of the Bihar Administrative Reforms Commission, the State Government has transferred the following 5 activities under the purview of PRIs — (i) Settlement of the Panchayat level estates, (ii) All registration work concerning births, deaths and marriages, (iii) Issuance of caste certificates, (iv) Repair and maintenance of hand pumps, and (v) All work relating to rural hygiene and availability of drinking water. The scope of social services and development programmes has been increasing in Bihar in recent past and PRIs have been entrusted to shoulder a part of those responsibilities through:

(i) Distribution of Job cards in NREGP

(ii) Selection of beneficiaries for all development programmes, including identification of households under BPL

(iii) Appointment of teachers and supervisors of Mid-Day Meal Scheme (MDMS) and constitution of Village Shish Samitis (VSS)

(iv) Distribution of food coupons under Public Distribution System (PDS)

(v) Selection of Accredited Social Health Activist (ASHA) under the National Rural Health Missioin (NRHM)

(vi) Selection of Anganwadi Sevika and Sahayika under the Integrated Child Development Services (ICDS) and

(vii) Distribution of subsidy on diesel to the farmers.

Keeping in mind the imperative of the decentralized administration and expectations of the people, the State Government will soon form high-powered committees to further devolve functions, functionaries and funds under the chairmanship of Principal Secretary, Department of Rural Development. There will also be another committee, under the chairmanship of Principal Finance Secretary, to facilitate creation of a Panchayat window to augment fiscal transfers to them. Finally, the Planning Secretary will ensure formation of District Planning Committees to make district planning vibrant and effective.

Besides development work, Panchayats have also established Gram Kachharis for disposal of minor legal disputes. Here, the objective is to introduce speedy, cheap and accessible delivery system for justice in rural areas. In the Gram Kachharis, there will be reservation for women and disadvantaged groups and law graduates will be appointed as Nyaya Mitras to assist the bench.

Having empowered the PRIs by enacting suitable legislation and transferring functions to be carried out by them with a view to ensuring an efficient local self government, the State Government is now engaged in the exercise of putting into place an appropriate administrative structure for the PRIs to serve their role effectively. The PRIs are expected to work as the ‘Panchayat Sarkar’. It is proposed to build a Panchayat Sarkar Bhawan in each of the 8,463 panchayats at a cost of Rs 46 lakhs where the offices of Mukhiya, Sarpanch, and officials of the Panchayat would be located. Each panchayat would have a Panchayat Sachiv, an accountant-cum-clerk and each Gram Kachahari a Nyaya Mitra. Members of the PRIs would be paid sitting allowance and travelling allowance for attending the meetings. As various government departments transfer the grass-root level functionaries under the control of PRIs, the cost of establishment will rise. As the PRIs have very little revenue raising capacity at present, they would require resources to cover the administrative and operational costs. ***The Thirteenth Finance Commission is, therefore, requested to recommend adequate grants for the PRIs to meet the cost of salary of PRI employees, Sitting and Travelling Allowances of the PRI members and related administrative costs. A proposal for specific grant for building Panchayat Sarkar Bhawans is included in chapter 7 on State Specific Needs.***

8.3 Finances of PRIs

The sources of funding for PRIs are the following:

i) Own Revenue: Zila Parishads derive their income basically from Sairats such as Bus stand, parking lot, pond, toll bridge, etc. The maximum revenue of a Zila Parishad under this head is about Rs 25 lakh. On the other hand, the Panchayat Samitis and Gram Panchayats do not have any revenue of their own at present.

ii) Twelfth Finance Commission Grants: The Twelfth Finance Commission had made provision for grants to the PRIs for carrying out O&M of works relating to water supply and sanitation. A sum of Rs 324.80 crore has been disbursed every year to the Zila Parishads, Panchayat Samitis and Gram Panchayats in the ratio 2:6:92. On an average, each Gram Panchayat gets Rs 3.5 lakhs annually, each Panchayat Samiti Rs 3.65 lakhs and each Zila Parishad Rs 17 lakhs. ***Considering the population that the PRIs are required to serve, the size of the grant needs to be doubled. Also, 50% of the grant should be untied in nature, the balance being meant to be used for assigned purposes.***

iii) Devolution and grants based on State Finance Commission recommendations: The Third State Finance Commission recommended that 3% of the State's net tax revenue should be assigned to Zila Parishads and Urban Local Bodies as grants to match resources raised by them. Besides, the Commission also recommended grants for payment of salaries to regular employees working against sanctioned posts on a tapering scale and one time grant for developing database for local bodies. The State Government has accepted these recommendations. Accordingly, a sum of Rs 6.66 crore was released to Zila Parishads as matching grant and Rs 17.22 crore by way of establishment grant during 2007-08.

iv) Funds allocated by Central/State Government: PRIs receive funds from the Central and State Governments for implementation of schemes such as BRGF, NREGA, etc. Total resources available to Zila Parishad, Panchayat Samiti and a village panchayat for execution of different schemes is of the order 10 crore, 10 crore and 25 lakh respectively.

8.4 Urban Local Bodies (ULB)

The Urban Local Bodies in the State have a three tier structure with 7 Municipal Corporations, 42 Nagar Parishads and 75 Nagar Panchayats, totaling to 124 ULBs.

The elections to 124 ULBs were held in May, 2007, under the Bihar Municipal Act, 2007 which provides for 50 percent reservation for women.

The State Government has initiated a number of steps for strengthening of ULBs and thereby engineer urban growth. These steps include transfer of all 18 functions listed under 12th schedule of the Constitution, improving the resource base and efficiency of tax collections, property tax reforms, outsourcing of services, provision of matching grants to compliment the resources generated locally, payment of reasonable compensation to ULB functionaries, including sitting fee and travelling allowance to the Ward Commissioners, etc. Steps have also been initiated to set up a dedicated municipal cadre and introduce e-governance in the municipal bodies,

A series of urban sector reforms, as a part of the Jawaharlal Nehru National Urban Renewal Mission (JNNURM), has been initiated which include reduction of stamp duty, repeal of Urban Land Ceiling Act, enactment of Public Disclosure Act, 2008, preparation of City Development Plans (for Patna and Bodh Gaya), Public-Private Partnership, etc.

ULBs of Bihar are facing a number of problems that need to be addressed urgently. The first of these pertains to inadequacy of manpower to operate and supervise the municipal services. Presently, the ULBs are grossly understaffed, especially at supervisory and managerial levels. Most of the Municipal Corporations and Nagar Parishads do not have the Municipal Commissioner/ Executive Officer and the Collector of the district has assigned some officer from the district office on part time basis to perform this role. The ULBs do not have personnel with finance and accounting background to manage their finances. To tackle this issue, the Urban Development Department has proposed creation of a dedicated cadre of City Managers. They would need to appoint finance people as well.

The second problem facing the ULBs is the fact that the employees at the operational levels do not have appropriate skills and lack motivation on account of inadequate compensation and irregular payment of salary. Due to their inability to realize their revenue potential fully, the ULBs are in a poor financial condition. As a result, salary payment is in arrears in all three tiers. Unless, regular payment of salary is ensured, we cannot hope to inspire the municipal employees to perform to the best of their ability.

The third problem the ULBs are beset with is lack of equipments and tools necessary to render municipal services. Even where such equipments and tools are available, they are of old technology. The ULBs are large untouched by the e-Governance applications that are being used in municipal bodies in the other parts of the country to good effect. A comprehensive technology up gradation is badly needed in the ULBs of the State.

The fourth and perhaps the most troubling problem is the financial incapacity of the ULBs. Collection of taxes, fees and duties is very low. Their own revenues are not sufficient to cover even the establishment costs. Low manpower, absence of effective supervision and low motivation have all contributed to this sad state of affairs, where none of the ULBs has exploited its revenue potential to a reasonable extent. The status of finances of the ULBs is given in the next section.

8.5 Finances of ULBs

The sources of funding of the ULBs are as follows:

i) Own revenue: Primary source of revenue of the ULBs is property tax. The Unit Area Method, which originated in the Patna Municipal Corporation, is used for assessment of property tax. However, the collection is poor due to shortage of staff and lack of computerization of holdings. Total revenue collection by all ULBs in 2006-07 was mere Rs 52.50 crore.

ii) Twelfth Finance Commission Grants: The TFC allocated annual grants of Rs 28.40 crore for ULBs in Bihar. 50% of this grant is to be used for meeting expenditure over collection, segregation and transportation of solid waste in the municipal areas. The remaining 50% of the grant is to be used for meeting expenditure over maintenance of accounts and preparation of computerized database together with other purposes. Considering the number of ULBs in the State and the urban population they are expected to serve, the grant of Rs 28.40 crore is too meager to be of any considerable help to them. The size of the grant needs to be increased by a multiple of 5.

iii) Devolution/ Grants based on State Finance Commission Recommendations: The Third State Finance Commission recommended that 3% of the State's net tax revenue should be assigned to Zila Parishads and Urban Local Bodies as grants to match resources raised by them. Besides, the Commission also recommended grants for payment of salaries to regular employees working against sanctioned posts on a tapering scale and one time grant for developing database for local bodies. The State Government has accepted these recommendations. Accordingly, a sum of Rs 52.19 crore was released to ULBs as matching grant and Rs 48.32 crore by way of establishment grant during 2007-08.

iv) Grants from Central/ State Government: The state plan allocation for the ULBs is Rs 4,508.71 crore during the 11th plan. The central share of JNUURM for the period 2005-06 to 2011-12 is Rs 1,333.79 crore. The State Government is implementing all four components of JNNURM and funds amounting to Rs. 1,333.79 crore have been allocated as central share under this scheme for the entire 7-year Mission period. While Patna and Bodh Gaya have been taken up under the UIG (Urban Infrastructure and Governance) competent of JNNURM, the remaining towns and cities are taken up under UIDSSMT (Urban Infrastructure Development Scheme for Small and Medium Towns) of the Mission. It may, however, be noted that considering the size of the State, the funding for UIDSSMT is very meager (Rs. 254.78 crore).

A recent survey shows that 41.2 percent of the urban households in Bihar are below the poverty line. The ULBs have, therefore, been requested to reserve 25 percent of their budget for pro-poor activities. Under the Basic Services for the Urban Poor (BSUP) within JNNURM, for Patna and Bodh Gaya, projects worth Rs. 367.72 crore have been sanctioned for providing housing and other amenities to the urban poor. Similarly, under the Integrated Housing and Slum Development Programme (IHSDP), a provision of Rs. 152.57 crore has been made. Assistance under the state plan is also being provided to the ULBs for slum development and other pro-poor activities.

The combined outstanding loan of ULBs is Rs. 326.77 crore, and there are pay arrears of Rs. 33.47 crore.

Although there has been some of flow funds to the ULBs in the recent past, particularly under JNNURM, it must be noted that the human and financial resources presently at the command of the ULBs is extremely inadequate. As already pointed out, the human resources of the ULBs suffer both from shortage of general staff and acute shortage of technical and managerial capability. In view of this, the State Government is planning to have a separate Municipal cadre for the ULBs and the proposal is in the final stage of sanction. Once the cadre is set up it will entail an additional expenditure of Rs. 4.5 crore per annum. This basic requirement ought to be supported by the Commission. An engineering cadre needs to be similarly set up for technically assisting the ULBs. Additional funds to the tune of 28 crore would be needed annually to meet the expenditure.

It may be noted that the 6th pay revision of Govt. employees (based on 5th CPC recommendations) has been implemented only by the Patna Municipal Corporation and few other ULBs. Others have not been able to do so due to non-availability of resources. Adoption of at least the 6th pay revision should be allowed to the ULBs of the State for which they need assistance to the tune of Rs. 177.23 crore per annum from the Finance Commission.

On the basis of the recommendations of the 3rd State Finance Commission, 100% salaries of the regular staff of the ULBs were met through grants in the year 2007-08. Every year after 2007-08 the assistance progressively gets reduced by 20%. Thereafter the ULBs are expected to take over the payments of salaries to their staff. The financial position of the ULBs is so weak that it would not be possible for them to take up the burden of annual liability to the tune of Rs. 598 crore in the near future. They ought to be assisted at least for a period of ten years from now. ***In view of this, the Thirteenth Finance Commission is requested to make provision of non-plan establishment grant for the ULBs.*** The requirement of funds for salaries and O&M is given in the table below:

	2010-11	2011-12	2012-13	2013-14	2014-15	Total
Salary	261.36	283.57	306.79	330.49	355.84	**1538.05**
O&M	161.64	224.03	302.33	400.45	521.29	**1609.74**
Total	**423.00**	**507.60**	**609.12**	**730.94**	**877.13**	**3,147.79**

For strengthening the urban services, the municipal and other urban bodies need substantial capital expenditure for waste disposal, drainage, transport arrangements, water treatments, street lights and the like. The Urban Development Department has prepared estimates of these expenditures.

The projected plan expenditure for all the 124 ULBs is Rs. 2,016.57 crore in 2009-10 which (assuming a 20 percent increase in each year) will rise to Rs. 5,018.37 crore in 2014-15 (see table below). ***The Thirteenth Finance Commission may recommend a suitable grant to enable the ULBs to make capital investments with a view to providing civic amenities to the urban population.***

	2010-11	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**Total**
Urban Dev & Road Sector	1820.20	2184.24	2621.10	3145.31	3774.37	**15061.79**
Water Supply & Drainage	600.00	720.00	864.00	1036.80	1244.00	**4964.80**
Total	**2420.20**	**2904.24**	**3485.10**	**4182.11**	**5018.37**	**20026.59**

8.6. Twelfth Finance Commission Recommendations

The Twelfth Finance Commission had recommended a sum of Rs. 25,000 crore for the period 2005-10 to augment the consolidated fund of the States to supplement the resources of the municipalities and the panchayats. The amount of Rs. 25,000 crore was to be divided between the Panchayats and the municipalities in the ratio of 80:20. The amounts of Rs. 20,000 crore for the PRIs and Rs. 5,000 crore for the municipalities thus worked out, were a substantial increase over the level of Rs 10,000 crore recommended by the Eleventh Finance Commission

However, studies commissioned by the Eleventh Finance Commission had estimated the requirement of funds for maintenance of civic services of rural local bodies at Rs. 1,42,128 crore for the five year period. Similarly, the National Institute of Public Finance and Policy (NIPFP) had reported that the requirement of funds for maintenance of civic services of municipal bodies would range from Rs. 6,907 crore to Rs. 32,598 crore (depending on the various norms suggested by the Zakaria Committee) over a period of five years. Thus the actual devolution fell far short of requirements.

The State Government requests the Commission to base its recommendations on realistic assessment of the needs of local bodies while deciding on the total amount of funds to be devolved to local bodies.

A total of Rs. 324.8 crore have been disbursed to the three tiers of the Panchayat institutions and Rs. 14.20 crore to the ULBs annually, according to the recommendations of the Twelfth Finance Commission (Table 8)

Table 8 : Distribution of Funds under Twelfth Finance Commission to PRIs and ULBs

PRIs	Amount (Rs. crore)	ULBs	Amount (Rs. crore)
Gram Panchayat	298.8	Municipal Corporation	9.3
Panchayat Samiti	19.5	Nagar Parishads	11.5
Zila Parishad	6.5	Nagar Panchayats	7.4
Total	324.8	Total	28.2

Inter Se Distribution

The Twelfth Finance Commission recommended the following criteria for distribution amongst States:

Sl. No.	Criteria recommended by TFC	Weight (%)
i.	Population	40
ii.	Geographical area	10
iii.	Distance from highest Per Capita Income	20
iv.	Index of Deprivation	10
v.	Revenue Effort	20
	of which (a) with respect to own revenue of States	10
	(b) with respect to GSDP	10

It must be noted that though the weight on revenue effort is in principle a proposition that is important for any tier of Government, the reality of Bihar's economy is such that the scope of revenue rising at the Panchayat level is very limited due to the constraints of local economic structure. The prospects for raising revenue are better for the urban bodies, but due to low urbanization in Bihar, this is also insignificant. ***Thus the State Government requests the Thirteenth Finance Commission to drop the revenue effort criterion in the inter se distribution for local bodies.***

8.7 State Finance Commissions

The State Government constituted the First and Second State Finance Commissions in 1994 and 1999 respectively. These Commissions made some interim recommendations but could not submit their final report.

The Third State Finance Commission was constituted in July 2004 and it submitted its report the same year incorporating all interim recommendations of the previous Commissions. Its major recommendations were as follows:

(a) An amount not exceeding 3 percent of the State's total tax revenue from its own taxes net of the collection costs shall be set apart in the annual budget for providing matching share to each urban local body and Zila Parishads among the rural local bodies.

(b) The State Government will distribute this amount among the local bodies as a matching contribution to the total resources raised by the said urban local bodies and the Zila Parishads in the immediately preceding financial year from its own sources and will be based on actual collection. For the purpose of this clause the resources raised by a Zila Parishad shall include the resources raised by the Panchayat Samitis and Gram Panchayats within its local jurisdiction.

(c) The matching contribution mentioned above shall be limited to an amount equal to the resources raised by the urban local bodies and Zila Parishads as referred to above. In case the resources raised by the local bodies exceed the amount of 3% above referred then every local body shall get a proportionate share only weighted by the resources raised by itself within the 3% limit.

(d) The Zila Parishad concerned shall make a further devolution from the matching contribution so received to the rural local bodies within its jurisdiction in the same manner as the resources raised are calculated for that particular financial year.

(e) The local bodies need to create some revenue generating assets in respect of their future needs. The commission suggests that the PRIs and the ULBs may seek financial help from the financial institutions without any Government guarantee to promote the revenue generating projects such as market complex, shops, high level bridges, slaughter house, tanneries, bus stops etc.

(l) The actual salary requirements of regular employees working against sanctioned posts should be borne by the State Govt. For this purpose the current annual salary liability of the local body in the financial year immediately preceding the year in which the report of the Commission is implemented should be taken as the base year and the base amount. Current liability shall not include arrears of salary, if any. There shall be 20% tapering each year.

(m) The Commission also recommended a one time grant to these bodies for developing their database.

After acceptance of the recommendations of the Third State Finance Commission, the Government released funds to the Zila Parishads and ULBs in 2007-08 as indicated below:

(Rs. crore)

	Matching Grant	**Establishment Grant**	**Total**
ULBs	52.195	48.316	**100.511**
Zila Parishads	6.664	17.221	**23.885**
	58.859	**65.537**	**124.396**

Thus, the State Government released a sum of Rs 124.396 to the PRIs and ULBs in 2007-08. In the coming years, the liability of the Government on matching grant is likely to increase as the lower tiers of PRIs start raising resources through taxation and collection of fees and user charges. The matching grant given last year to the ULBs would encourage them to improve their collection efficiency. Building of database and use of e-Governance tools will help them further in this Endeavour. Thus, the burden on the Government is likely to rise on this account.

Although, the Third State Finance Commission had recommended establishment grant on a tapering scale, the requirement of funds under this head is going to increase substantially if the demand of the local body employees to grant revised scales of the 5th CPC is acceded to. Presently, they are drawing salary in the older scales. This will place a heavy financial burden on the State Government.

The Fourth State Finance Commission has been constituted vide Notification No. - 4336 dated 25.6.2007. The fourth SFC will submit its Award in a year's time. In the meantime, the recommendations of third SFC, which have already been accepted by the State Government, are being implemented.

To conclude, the State Government, with the introduction of new legislation for the local bodies, has demonstrated its will to revamp the working of local bodies in the State. Elections have been conducted and elected representatives, including a large number of women, are in place. The PRIs and ULBs need financial support to fulfill their mandate of rendering various services to the local population. In view of this, the Government of Bihar requests the Thirteenth Finance Commission to consider the following:

i) ***Make recommendations based on realistic assessment of the needs of local bodies while deciding on the total amount of funds to be devolved to them. Considering the population that the PRIs/ ULBs are required to serve, the size of the grant needs to be doubled. Also, 50% of the grant should be untied in nature, the balance being meant to be used for assigned purposes.***

ii) ***Drop the revenue effort criterion in the formula for inter-se allocation of grants amongst local bodies.***

iii) Recommend establishment grants for the PRIs &ULBs to meet the cost of salary of employees, Sitting and Travelling Allowances of the PRI/ ULB members and related administrative costs.

Chapter Nine: Changing Role of Finance Commissions

The Finance Commission was envisaged as a constitutionally mandated 'neutral arbiter' in the process of financial devolution. The structure of Indian federalism, as laid out in the Constitution, entails that while State Governments have major developmental responsibilities, the revenue raising powers fall largely in the domain of the Central Government.

9.1 Finance Commission as Neutral Arbiter

The State Governments have always complained that overall concentration of resources in the hands of Central Government is a major barrier to their ability to discharge developmental roles assigned to them. The post-liberalisation period has seen a significant increase in inter-state disparity and there has been no intervention by the Centre to spread the fruits of development more equitably. The onus has fallen on the States, which have 'fallen behind', to find ways in which they can increase their development expenditure within their own fiscal space that is severely constrained. Their revenue mobilizing powers (under-developed States) are limited by the socio-economic structure, while their borrowing powers are curbed by the Central decisions like the FRBM Act, market borrowing limits etc. In such a scenario, the Finance Commission recommended devolutions from the Centre remain not only the sole inalienable claim and entitlement of State Governments, but also that Finance Commission is the only constitutionally mandated arbiter where the States can present their case for higher devolution.

However, the constitutional mandate of the Finance Commission as a neutral arbiter has been eroded over the years in favour of the Centre. The Terms of Reference of the Finance Commission has become an important tool for the Centre in this exercise. This has been repeatedly pointed out in the deliberations over Centre-State relationships since the period of Ninth Finance Commission, though the TOR has been a point of contention even in the case of earlier Commissions. However, since the Tenth Finance Commission central concerns have increasingly been introduced in the TOR. This has reduced the institutional space for devolution and it is reflected in the extent of relative devolutions in the last two decades.

9.2 Terms of Reference since Tenth Finance Commission

The Tenth Finance Commission was asked to look into the 'the resources of the Central Government and the demands thereon, in particular, on account of expenditure on civil administration, defence and border security, debt servicing and other committed expenditure or liabilities'. These meant that the center's committed expenditure and liabilities would implicitly assume overriding importance and the scope of institutional space for vertical devolution would thus become a residual matter. Further, the TOR stressed 'the need for ensuring reasonable returns on investment by the States in irrigation projects, power projects, state transport undertakings, departmental commercial undertakings, public sector enterprises, etc;' and 'the scope for better fiscal management consistent with efficiency and economy in expenditure'. Thus, questions of changes in the role of the State, which are beyond the remit of Finance Commission devolutions and are matters of political prioritization, were built into the TOR.

The TOR of the Eleventh Finance Commission retained these features and further added 'the requirements of States for up gradation of standards in non-developmental and social sectors and services particularly of States which are backward in general administration with a view to modernise and rationalise the administrative set up in the interest of speed, efficiency and sound fiscal management'. This was another step towards aligning the aims of the State Government towards Centre's political priorities constraining State Government's use of policy space for correction of 'backwardness in general administration' based on its own assessment of what the aim of any such corrective exercise should be.

The TOR of the Twelfth Finance Commission took this further by specifying 'the objective of not only balancing the receipts and expenditure on revenue account of all States and the Centre, but also generating surpluses for capital investment and reducing fiscal deficit'. Thus, the TOR pre-ordained a mechanical 'one size fits all' approach towards fiscal management while laying down the policy aims and targets for the States. The consequences of this approach for Bihar have already been discussed in the memorandum.

The State Government recognizes the need for accountability and sound fiscal management. But, as argued in earlier chapters of the memorandum, the principles and aims of fiscal management have to factor in the developmental priorities of the State. Apart from the unique historical and institutional conditions that need to be addressed by each State, the overall changes in macroeconomic environment have created new challenges for the States, which require scope for creative policy formulation. The institutional space for this should not be eroded. The devolution from the Centre is an entitlement enshrined in the constitution. It should not be interpreted as 'assistance' and made conditional on policy goals imposed by the Central Government.

9.3 Terms of Reference of the Thirteenth Finance Commission

The Terms of Reference of the Thirteenth Finance Commission has restated the 'objective of not only balancing the receipts and expenditure on revenue account of all the States and the Union, but also generating surpluses for capital investment'. It has also emphasized 'the need for ensuring the commercial viability of irrigation projects, power projects, departmental undertakings and public sector enterprise through various means, *including levy of user charges* and adoption of measures to promote efficiency'. This once again reflects the direction of overall concern of economic policy of the Centre.

Among other things, the Commission has been asked to 'review the state of the finances of the Union and the States, keeping in view, in particular, the operation of the States' Debt Consolidation and Relief Facility 2005-2010, introduced by the Central Government on the basis of the recommendations of the Twelfth Finance Commission and suggest measures for maintaining a stable and sustainable fiscal environment consistent with equitable growth'. This provides a scope to the Commission to address the questions and concerns of the States that have emerged out of the DCRF. However, the mandate to suggest measures 'for stable and sustainable fiscal environment consistent with equitable growth' once again opens up the possibility of the Finance Commission being bound by a specified Central policy goal along the same lines as delineated earlier.

The Commission has also been asked to take into account the impact of the proposed implementation of Goods and Services Tax with effect from 1st April, 2010, the need to improve the quality of public expenditure to obtain better output and outcomes, as well as the need to manage ecology, environment and climate change consistent with sustainable development. The State is committed to GST implementation, but as explained earlier, its impact on State's finances may not be very different from that of VAT. It is committed to improvement in the quality of public expenditure to ensure levels of service delivery necessary for meeting its development goals and is committed to preserving ecological balance in its pursuit of investment, growth and development. However, the quality of public expenditure and environmental issues are policy questions that need to be addressed in a proper context within the developmental priorities of the State. Central guidelines may be formulated, but the policy framework should remain within the domain of State Government. Finance Commission transfers should not be rigidly construed or tied to these frameworks.

The State Government is particularly concerned about the provision of the TOR which States: 'the demands on the resources of the Central Government, in particular, on account of the projected Gross Budgetary Support to the Central and State Plan, expenditure on civil administration, defence, internal and border security, debt-servicing and other committed expenditure and liabilities.' The consideration of Gross Budgetary Support to Central and State Plan, apart from other committed expenditures of the Central Government, **pre-ordains the exercise of vertical devolution to be a mere residual.** Further, a press release announced that extra budgetary liabilities of the Central Government on account of food, fertilizer and fuel subsidies had also been introduced as an item in the TOR. This additional item has not been formally communicated to the State Government, but it is clear that considerations of committed expenditure now cover all possible central priorities. *However, committed expenditures of the State Governments that indicate their developmental priorities find no mention in the TOR.* **The Finance Commission in its constitutional capacity must rise above these constraints to open up institutional space for vertical devolution.**

To conclude, the State Government requests the Thirteenth Finance Commission:

1. To take on board the concerns of the States regarding erosion of institutional space for vertical devolution through Terms of Reference of the Thirteenth Finance Commission and prevent devolution from being reduced to mere 'residual' for the States, after prioritization of committed budgetary expenditure and extra-budgetary liabilities of the Central Government.
2. To ensure that GST implementation, quality of public expenditure and concerns about ecology and environment, although important issues in their own right, do not become conditionalities tied to either grants-in-aid or be used to reduce the scope of vertical and horizontal devolution.

Annexure to Chapter 9

TERMS OF REFERENCE OF THE THIRTEENTH FINANCE COMMISSION

The Commission shall make recommendations as to the following matters, namely:-

(i) the distribution between the Union and the States of the net proceeds of taxes which are to be, or may be, divided between them under Chapter I Part XII of the Constitution and the allocation between the States of the respective shares of such proceeds;

(ii) the principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India and the sums to be paid to the States which are in need of assistance by way of grants-in-aid of their revenues under article 275 of the Constitution for purposes other than those specified in the provisos to clause (1) of that article; and

(iii) the measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats and Municipalities in the State on the basis of the recommendations made by the Finance Commission of the State.

2. The Commission shall review the state of the finances of the Union and the States, keeping in view, in particular, the operation of the States' Debt Consolidation and Relief Facility 2005-2010 introduced by the Central Government on the basis of the recommendations of the Twelfth Finance Commission, and suggest measures for maintaining a stable and sustainable fiscal environment consistent with equitable growth.

3. In making its recommendations, the Commission shall have regard, among other considerations, to -

 (i) the resources of the Central Government, for five years commencing on 1st April 2010, on the basis of levels of taxation and non-tax revenues likely to be reached at the end of 2008-09;

 (ii) the demands on the resources of the Central Government, in particular, on account of the projected Gross Budgetary Support to the Central and State Plan, expenditure on civil administration, defence, internal and border security, debt-servicing and other committed expenditure and liabilities;

 (iii) the resources of the State Governments, for the five years commencing on 1st April 2010, on the basis of levels of taxation and non-tax revenues likely to be reached at the end of 2008-09;

 (iv) the objective of not only balancing the receipts and expenditure on revenue account of all the States and the Union, but also generating surpluses for capital investment;

(v) the taxation efforts of the Central Government and each State Government and the potential for additional resource mobilisation to improve the tax-Gross Domestic Product ratio in the case of the Union and tax-Gross State Domestic Product ratio in the case of the States;

(vi) the impact of the proposed implementation of Goods and Services Tax with effect from 1st April, 2010, including its impact on the country's foreign trade;

(vii) the need to improve the quality of public expenditure to obtain better outputs and outcomes;

(viii) the need to manage ecology, environment and climate change consistent with sustainable development;

(ix) the expenditure on the non-salary component of maintenance and upkeep of capital assets and the non-wage related maintenance expenditure on plan schemes to be completed by 31st March, 2010 and the norms on the basis of which specific amounts are recommended for the maintenance of the capital assets and the manner of monitoring such expenditure;

(x) the need for ensuring the commercial viability of irrigation projects, power projects, departmental undertakings and public sector enterprises through various means, including levy of user charges and adoption of measures to promote efficiency.

4. In making its recommendations on various matters, the Commission shall take the base of population figures as of 1971, in all such cases where population is a factor for determination of devolution of taxes and duties and grants-in-aid.

5. The Commission may review the present arrangements as regards financing of Disaster Management with reference to the National Calamity Contingency Fund and the Calamity Relief Fund and the funds envisaged in the Disaster Management Act, 2005 (53 of 2005), and make appropriate recommendations thereon.

6. The Commission shall indicate the basis on which it has arrived at its findings and make available the estimates of receipts and expenditure of the Union and each of the States.

7. The Commission shall make its report available by the 31st day of October, 2009, covering the period of five years commencing on the 1st day of April, 2010.

New Delhi, 14th November, 2007 [Smt Pratibha Devisingh Patil]

President

Chapter Ten : Summary and Conclusions

The State of Bihar has declared for itself the goal of converging its per-capita development expenditure to the national average by 2015. This memorandum provides an overview of how the State Government proposes to march along this path and presents the actual levels of devolution that is required through the recommendations of the Thirteenth Finance Commission to achieve this goal.

Chapter 2 highlights the improvement in State Finances and builds up a case for increased devolution from the Centre to accelerate growth and development expenditure. Debt Consolidation and Relief Facility (DCRF) needs to be extended to cover loans from all Central Ministries and the State of Bihar needs to be compensated for the loss of Rs 1926 crore caused by unfortunate denial of the 'Debt Waiver' facility due to wrong benchmarking of the base year.

Chapter 3 gives an overview of fiscal reforms undertaken by the State. Instead of a "one size fits all" approach, a debt stress linked formula needs to be evolved for Fiscal Deficit, so that low debt States like Bihar can borrow more at least during the phase of accelerated growth. The Fiscal Deficit, by itself, is a sufficient benchmark for prudent fiscal management. By imposing the additional condition of Revenue Deficit, the system becomes 'over-determined' and the State loses its degree of freedom. Worse, the State is forced to artificially curb its non-plan development expenditure on critical areas like health, education and maintenance-repair of physical infrastructure.

Chapter 4 describes the methodology for computing the resource requirement for equalising per-capita Development Expenditure by 2015. Total devolution to Bihar from the Centre on the recommendations of Thirteenth Finance Commission for the period 2011-15 should be Rs 3,80,727 crore for any meaningful equalization of development expenditure. In accordance with the developmental role assigned to the States, the vertical devolution of central taxes needs to be increased to at least 50 percent and all cess, surcharges and spectrum fees need to be made part of the divisible pool. As far as inter-se distribution (horizontal devolution) of central taxes is concerned, injustice needs to be undone and the weight of income distance criteria needs to be increased to at least 70 percent. Further, geographical area should be dropped altogether and given the structural constraints of Bihar's economy, the incentive criteria should also be modified to focus exclusively on fiscal discipline, rather than on both tax effort and fiscal discipline. The suggested formula for Horizontal Devolution of Taxes is given in Table 4.4.

Chapter 5 describes the havoc played by recurrent floods in Bihar and the reforms that need to me made in the CRF scheme on this account. For proper assessment of loss due to floods, one should take into account not just expenditure on relief, but the total damage, including income and asset loss. The period of assistance under the CRF has been presently restricted to 30-45 days. This period should be determined by the nature and the magnitude of the calamity. A transparent policy (as suggested by the Twelfth Finance Commission) needs to be evolved regarding allocation of food-grains by the Central Government so that States are not at their mercy on this account. Lastly, the contribution of central government to the CRF needs to be increased to at least 100 percent considering that State Governments are already devoting their scarce resources to cover multiple dimensions of the damage caused by natural calamities. Further, bearing in mind the increased frequency of national calamities, the size of the fund needs to be considerably enhanced.
Chapter 6 describes the principles that should govern grants-in-aid to the revenues of the State. Grave injustice has been done to Bihar by the Eleventh and the Twelfth Finance Commissions by completely denying revenue deficit grants to this State. So much so that one member of the earlier Finance Commission was so pained by this decision that he had to record a dissenting note. This injustice needs to be undone. Further, the very purpose of equalization grants in defeated, unless they achieve at least 50 percent equalization of health and education expenditure, to ensure the distance by which Bihar is lagging behind its group average per-capita health and education expenditure is speedily narrowed. Lastly, the Thirteenth Finance Commission needs to step up the grants for maintenance of roads and bridges, government buildings and for irrigation and flood control schemes to ensure a basic maintenance and upkeep of physical infrastructure which is critical to attracting private investment and achieving faster economic growth in this State.

Chapter 7 describes the State specific needs under various sectors of development. While individual details and fund requirements are mentioned in the respective sections of this chapter, it would not be out of place to mention that these demands are essential to achieving growth with equity and justice. The state specific demands in the social welfare sector include a special package for the ‘mahadalits’, for extremely backward classes, for the women and for minorities. A very special package is needed for flood moderation and control, especially for a limited inter-linking of rivers which would cost just Rs 3580 crore. Any investment on this account will save many times more on account of flood damages and calamity relief year after year. In addition, special assistance is needed for upgrading of technical education and high school infrastructure in the State, for e-Governance, for police modernisation and for the panchayat sarkar programme to further democratic decentralisation within the State. Lastly, given the importance of agriculture in the economic development of this State, an agricultural road map is being implemented. The Thirteenth Finance Commission is requested to give special assistance to the agriculture road map so that, combined with State's internal resources, a dream can be converted into reality.

Chapter 8 outlines the requirements of local bodies in the State; both panchayati raj institutions and urban local bodies. The Thirteenth Finance Commission is requested to make recommendations based on realistic assessment of their needs. Considering the population that the PRIs/ ULBs are required to serve, the total size of the grant needs to be doubled. Further, at least 50 percent of the grant should be untied in nature, the balance to be used for the assigned purposes. The Thirteenth Finance Commission is specifically requested to recommend an establishment grant for the PRIs & ULBs to meet the cost of salaries, so that their own tax revenue is used exclusively for development and for providing essential services to their citizens.

Chapter 9 highlights the problems created by the unfair Terms of Reference being imposed on the Thirteenth Finance Commission and the constitutionally mandated role of the Finance Commission as a 'neutral arbiter' between the States and the Centre. The Finance Commission is requested to take on board the concerns of the States regarding erosion of institutional space for vertical devolution through the unfair Terms of Reference and to prevent devolution from being reduced to a mere 'residual' for the States after prioritization of committed budgetary expenditure and the extra-budgetary liabilities of the Central Government.

We conclude by reposing our trust on the Thirteenth Finance Commission, and sincerely hope for a break from the past and for sufficient devolution of financial resources to enable us to achieve the goal of equalising per-capita development expenditure to the national average by 2015.

PART C

Political Parties & Professional Organisations' Memorandum to the Thirteenth Finance Commission

CONTENTS

13वें वित्त आयोग को बिहार राज्य
का
संयुक्त ज्ञापन

प्रतिष्ठा में,
अध्यक्ष
13वां वित्त आयोग
नयी दिल्ली।

पटना
दिनांक : 09 दिसम्बर, 2008

महोदय,

13वें वित्त आयोग के विचारार्थ बिहार के सभी प्रमुख राजनीतिक दलों / संस्थाओं की ओर से 'बिहार राज्य का संयुक्त ज्ञापन' प्रस्तुत किया जा रहा है।

सधन्यवाद।

भवदीय

क्रम सं.	राजनीतिक दल / शोध एवं व्यावसायकि संस्थान	नाम	पद	हस्ताक्षर
1.	जनता दल (यूनाईटेड)	शिवानन्द तिवारी	राष्ट्रीय महासचिव, सांसद (रा.स.)	शिवानन्द
2.	जनता दल (युनाईटेड)	राजीव रंजन सिंह	प्रदेश अध्यक्ष	रा.रं.सिंह
3.	भारतीय जनता पार्टी	सुशील कुमार मोदी	नेता, भाजपा विधानमंडल	[illegible] मोदी
4.	राष्ट्रवादी कांग्रेस पार्टी	उपेन्द्र कुशवाहा	प्रदेश अध्यक्ष	[illegible]
5.	बहुजन समाज पार्टी	[illegible]	[illegible]	[illegible]
6.	राष्ट्रीय जनता दल	अब्दुल बारी सिद्दीकी	प्रदेश अध्यक्ष	[illegible]
7.	राष्ट्रीय जनता दल	जगदानन्द	सं० बि० स०	जगदानन्द
8.	भारतीय राष्ट्रीय कांग्रेस	अनिल कुमार शर्मा	अध्यक्ष	[illegible]
9.	भारतीय राष्ट्रीय कांग्रेस	डा० अशोक कुमार	नेता, कांग्रेस विधायक दल	[illegible]
10.	भारतीय जनता पार्टी	विनोद नारायण झा	प्रवक्ता, बिहार भाजपा	[illegible]

क्रम सं.	राजनीतिक दल / शोध एवं व्यावसायकि संस्थान	नाम	पद	हस्ताक्षर
11.	[illegible]	[illegible]	[illegible]	[illegible]
12.	चैम्बर ऑफ कामर्स बिहार चेम्बर ऑफ कामर्स	[illegible] पी० मंडीवाला ओ० पी० साह	परामर्शी अध्यक्ष	[illegible]
13.	भारतीय औद्योगिक परिसंघ	सत्यजीत कुमार	अध्यक्ष	सत्यजीत
14.	बिहार इण्डस्ट्रीज एसोसियेशन	के० पी० [illegible]	अध्यक्ष	[illegible]
15.	CPI	U.N. Mishra	State Secttt. member	UMishra
16.	Asian Development Research Institute (ADRI)	SHAIBAL GUPTA	Member-Secretary,	[illegible]
17.	लोक जनशक्ति पार्टी बिहार	पशुपति कुमार पारस	M.L.A	पशुपति कुमार
18.	एस० यू० आई० (एम०)	राम देव वर्मा	राज्य [illegible]	रामदेव
19.	सी० पी० आई० (एम०)	विजयकांत ठाकुर	सचिव, राज्य कमिटी, CPI(M)	विजयकांत
20.	सत्तारूढ़ विधानमंडल दल, (NDA) बिहार	नीतीश कुमार	नेता, सत्तारूढ़ विधानमंडल दल, NDA, बिहार	नीतीश कुमार
21.				
22.				
23.				
24.				
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26.				

CHAPTER I

FINANCE COMMISSION

The Need

Articles 280 and 281 of the Indian Constitution deal with the distribution of revenues between the Union and States and are directly concerned with the appointment, functioning and duties of the Finance Commission. The framers of the Constitution kept in view the need to make the whole nation into one economic space. While allocating the responsibilities to the Center and States, they recognized that the State level governance, which is closer to the people, would be able to respond better to their needs and aspirations than the one that was farther away. However, there was a mismatch between the resources available and the responsibilities assigned to each of the two levels at the Centre and State. The States have access to relatively less important taxes having a local base. Their own tax revenues fall short of their requirements for carrying out the functions assigned. The constitutional provision induces a gap in the fiscal needs and resources of the States resulting into vertical fiscal imbalance. The framers were alive of this mismatch and, therefore, built a mechanism for periodically reviewing the position and transferring resources from the Union to the States so as to enable them to discharge more adequately the responsibilities assigned to them under the Constitution. This is the main reason behind the approach of fiscal transfers to the States which is mainly guided by the principle of equalisation.

A Finance Commission is an institution through which this review and transfer take place. The Constitution also recognizes that, since the economic situation would always be a dynamic one, there would have to be a periodic review. Therefore, they prescribed that a Finance Commission should do this not later than once in five years. The Constitution has left it “open to the Commission to make recommendations it may think expedient in the course of discharge of these duties”. The Commission’s function to allocate shares of taxes among States would be of the nature of arbitration and, therefore, the Commission’s decisions will be final. However, the recommendation of the Commission in respect of grants-in-aid would be given the utmost weight by the President.

The first two Finance Commissions made recommendations covering both revenue and capital requirements of the States, but during this period, the Planning Commission had also began to allocate resources for plan purposes, which included capital requirements. The Third and Fourth

Finance Commissions drew attention to the overlap in the functions of the Finance Commission and the Planning Commission. However, in due course of time, it was accepted that the Finance Commission would attend to only the non-plan requirements of the States and towards certain specific capital grants, whereas the Planning Commission would make recommendations in respect of grants and loans for State Plans and discretionary transfers.

Twelfth Finance Commission

The Twelfth Finance Commission, based on some degree of the equalization principle, tried to benefit those States which have relatively lower ranks in the Human Development Index. The Commission also recommended a scheme of fiscal transfer that serve the objectives of equity and efficiency within a framework of fiscal consolidation. In the scheme of fiscal transfers, including tax devolution and grants, both the vertical and horizontal imbalances were sought to be lessened.

Tax Revenue Sharing : In consideration of a variety of factors including the historical trends, the Twelfth Finance Commission recommended an increase in the share of States in the divisible pool of taxes to 30.5 percent from the previous level of 29.5 percent. The Commission also raised the indicative limit of overall transfers out of the gross revenue receipts of the centre from 37.5 to 38 percent. However, it is apprehended that, due to stoppage in plan loans to States, overall transfers to the States may be less than the recommended ceiling. The Twelfth Finance Commission had retained nearly all the indicators used by the Eleventh Finance Commission for determining the horizontal transfers, though altered the weights to some extent.

However, despite generous transfers by the Twelfth Finance Commission, disparities in revenue capacity of States remain very large. The per capita revenue of Bihar assessed by the Commission together with State's share in central taxes and grants is only about 40 percent of that in Haryana and Kerala. Thus, it becomes clear that the fiscal transfer system has not been able to redress the issue of horizontal imbalances adequately. It also appears that the Twelfth Finance Commission's dispensation on tax devolution is less equalising than that of Eleventh Finance Commission and this is precisely on account of lowering of weights for equalising factors in the formula and enlargement of the efficiency indicators.

Debt Relief : The Twelfth Finance Commission introduced the scheme of debt relief and recommended for discontinuance of the scheme of Fiscal Reform Facility recommended by the

Eleventh Finance Commission. The Twelfth Finance Commission also recommended enactment of a fiscal responsibility legislation by the States as a pre-condition for availing of debt relief.

Though the debt relief plan proposed by the Twelfth Finance Commission is a welcome step, the conditionalities imposed violate the basic tenets of fiscal federalism. Highly indebted States like Bihar faced difficulties to qualify for debt relief owing to the strict conditionalities attached. There was no need to link it to passing of Fiscal Responsibility Bill. Again, doing away with the Central intermediation in States' borrowing and requiring them to go to market severely affected the development spending of the States having large outstanding debt. It is apprehended that fiscally weak States like Bihar were unable to raise resources from the market. Another shortcoming of the debt relief plan was that it is confined only to a small part of outstanding debt of States viz., loan liabilities to the Centre, which constitute about one sixth of the total. National Small Savings Fund (NSSF) loans accounting for 30 percent of the States' borrowings are left out. Since Centre's lendings have stopped, the States are required to depend heavily on borrowings from NSSF which is a relatively high cost source.

Calamity Relief Fund (CRF) : The Twelfth Finance Commission recommended that the Centre and States will continue to contribute to the CRF to the extent of 75 percent and 25 percent respectively. Bihar had, however, suggested reduction in State's contribution to the CRF to 10 percent.

Grants-in-aid : An important purpose of grants-in-aid is to help in equalising standards of basic social services. The Twelfth Finance Commission recommended 14.0 percent of total grants amounting to Rs. 20,000 crore for the maintenance of roads and bridges (Rs. 15,000 crore) and buildings (Rs. 5000 crore). Since grants are based on existing length of roads and plinth area of buildings, developed States are the major beneficiaries in terms of higher allocations. Maintenance grants based on such norms may not serve the redistributive purpose adequately. Further, if maintenance of assets is the justification for recommending specific maintenance grants, then it does not appear to be logical to leave out the irrigation sector. Another disquieting feature is that the awards under State specific needs are not in keeping with the needs of backward States.

Thirteenth Finance Commission

The Thirteenth Finance Commission has been constituted under the chairmanship of Dr. Vijay L. Kelkar, the former Union Finance Secretary. The Commission has to review the state of finances of the Union and the States and suggest a plan by which the governments, collectively and severally, may bring about a restructuring of the public finances restoring budgetary balance, achieving macro-economic stability and debt reduction along with equitable growth. The recommendations of the Commission relating to the transfers to States would cover the period 2010-15.

The recommendations of the Thirteenth Finance Commission assume a greater significance, particularly for Bihar. Already a backward State, Bihar suffered setbacks due to sustained apathetic attitude of the colonial rule, besides post-independence freight equalisation policy and adverse CD ratio. To add fuel to the fire, it has undergone bifurcation, whereby its resource base stands severely curtailed and the vital interests of the State were overlooked in the process. The vital and valuable capital assets, sources of revenue, technical institutions, training infrastructure and other assets have been lost without a compensatory package. The truncated State would require heavy investments, if it has to develop. The Thirteenth Finance Commission presents an opportunity to the State to seek additional financial resources for meeting its committed liabilities and also for generating surpluses for investments.

CHAPTER II

TERMS OF REFERENCE

The Terms of Reference for the Thirteenth Finance Commission are apparently similar to those of previous Commission. But some new matters have also been referred to the Commission (Appendix I). A close examination of the Terms of Reference for the present Commission reveals that these are heavily loaded in favour of the Central Government and some of the issues appear to be against the interest of the States. Thus, recommendations of the Commission will have far reaching impact on the fiscal health of the Union and State Governments as also on the future of Indian federalism. Ideally, the additional matters and considerations in the TOR should be based on the premise that the Centre and States are equal partners.

1. Gross Budgetary Support (GBS)

It is for the first time that a Finance Commission has been explicitly asked to take into account the GBS to the Central and State Plan as a committed expenditure of the Central Government. Further, the TOR has also been extended to factor in liabilities of oil, food and fertilizer bonds of the Central government, part of which constitute extra-budgetary transfers. The considerations for the Seventh and Eighth Finance Commissions included the practice in vogue in determination and distribution of central assistance for State plans. However, this was a general consideration and not part of the consideration relating to the demands on the resources of the Union Government. But the Eleventh and Twelfth Finance Commissions projected the plan expenditure of the Centre as a residual, keeping in view the targets for deficit reduction and projected non-plan expenditure to States. By including the GBS and extra-budgetary transfers in the needs of the Centre, there is a lurking danger that the Thirteenth Finance Commission transfers to States would become residual, given the deficit reduction targets under the Fiscal Responsibility and Budget Management (FBRM) Act.

Further, it may be noted that overall devolution may not increase commensurate to the responsibilities of the State and the growth in resources of the Center. The Twelfth Finance Commission recommended a 1 percentage point increase from 29.5 to 30.5 percent as share of States in the net proceeds of shareable Central taxes. This also came with a caveat that if States are allowed to levy sales tax (or VAT) without any prescribed limit on textiles, tobacco and sugar, commodities on which additional excise is part of the central divisible pool, then the share of

States would remain at 29.5 percent. The indicative amount of overall transfers to the States was fixed at 38 percent of central gross revenue by the Twelfth Finance Commission compared to 37.5 percent proposed by the Eleventh Finance Commission. This was accepted by the Centre. Thus, the overall vertical devolution has seen very minor improvement compared to the needs and responsibilities of the States.

The GBS of the Central Government consists of central sector plan and central assistance to State plans including the Centrally Sponsored Schemes (CSS). Over the years, the GBS to Central Plan has undergone a major change with an increase in the number CSS fundings which mainly fall under the State subjects. This is so despite a consensus to reduce the number of CSS by transferring them to States. Presently, the funding to CSS is around 50 percent of the GBS to the central plan. A large proportion of the CSS funds bypass the State budgets.

The nature of GBS has been further diluted with the introduction of discretionary grants under the special plan assistance and special central assistance. As a result, normal central assistance is now around 40 percent of the GBS for State Plan. The consideration of GBS, as assigned to the Thirteenth Finance Commission, will tantamount to perpetuating the increasing role of the CSS as also increasing the discretionary element of assistance to State plans.

Though there is no constitutional bar, all the Commissions, except the First, Second and Ninth, looked at only the non-plan component of revenue expenditure of States, as the plan components were taken care of by the Planning Commission. In case of recent Finance Commissions, including the Thirteenth, there is no stipulation in the TOR that they should take into account only the non-plan revenue expenditure of States. In fact, one consideration for the Thirteenth Finance Commission is the need for balancing the receipt and expenditure on revenue of all States and the Union.

2. Revenue Account

The State plan outlays are not bifurcated into revenue and capital components, and approved plan outlays have normally no relationship with the State resources and needs of the social sector. The plan grants by the Centre cover only a small proportion of the revenue component of the plan and there remains no surplus in the non-plan revenue accounts of States to meet the revenue component of the plan. The expenditure on maintenance of completed plan schemes and debt servicing put extra pressure on the non-plan revenue account of States. Thus, the States will find it very difficult to balance their revenue budget. It is, therefore, imperative on the part of the Thirteenth Finance Commission to address this issue and take into consideration the entire revenue account. Only such an approach will ensure that the Finance Commission's transfer is not a residual, as apprehended.

3. Quality of Expenditure

One of the considerations is the need to improve the quality of expenditure in order to obtain better outputs and outcomes. It is not clear as to how the Thirteenth Finance Commission will undertake this stupendous task. In its eagerness to find a uniform standard, the Commission may adopt an approach tantamounting to an exercise in straight-jacketing; this will make the recommendations very arbitrary. The poor States which suffer from limited administrative capacities are likely to be victimised by the approach.

4. Ecology, Environments and Climate Change

The consideration regarding the need to manage ecology, environment and climate change consistent with sustainable development may too result into the Commission recommending specific purpose grants. However, such issues could probably be better addressed at a different forum where the States are adequately represented.

5. Expenditure on the Non-salary Components of Maintenance etc.

The cut-off date for the non-salary components of maintenance and upkeep of capital assets and the non-wage related maintenance expenditure on plan schemes is mentioned as March 31, 2010. But the terminal point of the Eleventh Five Year Plan is March, 2012 and it is likely that most of the on-going schemes will continue till then. Therefore, March 31, 2012 should have been specified as the cut-off date. It is hoped that the Thirteenth Finance Commission will consider the requirements of schemes to be completed at the close of the Eleventh Plan.

6. Review of Debt Position

The present Commission has been asked to take into account the operation of the States' Debt Consolidation and Relief facility, recommended by the Twelfth Finance Commission. Thus, the scope for debt relief has become very limited. When the States are toiling hard to meet the deficit reduction targets, the Centre has almost pre-empted the Commission in not recommending relief to even acutely debt stressed States.

Also, it may be noted that Bihar has not got any benefit of the debt relief facility in spite of fulfilling the fiscal targets laid down by the FRBM Act. The Eleventh and Twelfth Finance Commissions had taken some measures to provide incentives to the States for fiscal consolidation. The debt-waiver scheme introduced by the Twelfth Finance Commission has strongly pushed the States towards enacting fiscal responsibility legislations (which makes it legally binding for the State governments to wipe out revenue deficit altogether, and reduce fiscal deficit to less than 3 percent of the State's GSDP within a fixed time-period) and subsequently cut down their deficits. To avail the benefits of the debt-waiver, the Government of Bihar had passed the Bihar Fiscal Responsibility and Budget Management (FRBM) Act in February, 2006 and undertaken fiscal measures to achieve the stipulated targets. However, the debt-waiver scheme has set the fiscal deficit recorded by the States in 2004-05 as the base level. All States are judged on the extent to which they can reduce the fiscal deficit compared to what it was in 2004-05. States are entitled to an amount of debt waiver directly proportional to the rate of improvement in the fiscal deficit compared to 2004-05 levels. Bihar, in spite of bringing down its fiscal deficit has got no debt waiver under this scheme from the central government. This is because of the exceptional situation in Bihar in 2004-05, which was a low expenditure year mainly because of strictures on spending due to President's rule and election. So the fiscal deficit in this year was very low at 1.9 percent of GSDP, compared to 6.8 percent in the previous year and 5.2 percent in the next year. Thus, in spite of fiscal consolidation in the last three years and achievement of FRBM targets as recommended by the Twelfth Finance Commission, Bihar has been denied the debt waiver till date.

7. Impact of Proposed Implementation of GST

The Finance Commission has been assigned the task of assessing the impact of implementation of Goods and Services Tax (GST) w.e.f. April 01, 2010, including its impact on the country's foreign trade. There is a separate platform for interaction between the Centre and the States on this issue and the Empowered Action Group has been working on this. The Finance Commission may not be an appropriate body for this purpose.

8. Macro-economic Stabilisation

'Macroeconomic stabilization' has been mentioned as a policy goal. This actually imposes policy directives that have been pursued in the post-reform period. This has come at the cost of increasing the development gap, particularly of the low income States in the post-reform period. For Bihar, this is detrimental, as the State has to play a decisive role in development.

Thus, the TOR of the Thirteenth Finance Commission raises several issues which requires attention. In accordance with the Commission's first function of arbitration, Thirteenth Finance Commission should weigh each of those issues, keeping in view the federal character of our country as well as the fiscal health of the Union and States, particularly the weaker States like Bihar. It would be appropriate for the Commission to follow the mandate given to it under Article 280 and adopt those which treat the Union and State governments as equal partners in the federal setup.

CHAPTER III

BIHAR'S BACKWARDNESS

The Thirteenth Finance Commission is visiting Bihar to appraise itself with the ground realities existing in the State. Keeping this in view, this chapter deals with the status of Bihar and its backwardness. The Constitution, as is well known, has been very particular to eliminate inequalities of all sorts, either amongst individuals or groups of people. It may not be out of context to quote Article 38(2) of the Constitution which enjoins on the State the responsibility of eliminating inequalities.

"The State shall in particular strive to minimise the inequalities of income, and endeavour to eliminate inequalities in status, facilities and opportunities not only amongst individuals but also amongst groups of people residing in different areas engaged in different locations". But despite this direction in the Constitution, the people of Bihar have suffered on account of inequalities prevalent amongst individuals and the groups of people.

Colonial Legacy

On the ladder of national development, Bihar remained at the lowest rung throughout; despite its being the most richly endowed State in terms of its natural resource base. In spite of its vast and valuable natural resources, the State remained only a raw material and labour supplier for the industries in distant lands, at the cost of its own peril of de-industrialisation. The 'Permanent Settlement', introduced in 1793 by colonial rulers, resulted into withdrawal of governance leaving the tenants almost at the mercy of landlords. The agriculture in the State too was oriented to produce only the raw materials needed for the industries elsewhere. This gave a severe blow to the development potential of the region making the governance infrastructure weak and the institutions of service delivery nearly defunct. The Memorandum for the Indian Statutory Commission (1930) on the working of the Reforms in Bihar and Orissa brought forth that the standard expenditure of Bihar and Orissa worked out on the basis of actual expenditure prior to 1912 was Rs. 8 lakh per million of population, as compared to Rs. 13 lakh in Bengal, both being much lower than the national average.

Less Area and Large Population

The present State of Bihar has an area of 94163 sq. kms. which is 2.8 percent of the total area of the country. In sharp contrast, as per the census of 2001, the total population was 83.0 million, accounting for 8.1 percent of the total population of India. Consequently, population density of Bihar at 880 persons per sq. km. is much higher than 324 persons per sq. km. for India. Moreover, the population growth in Bihar, which was 23.38 percent for the eighties, shot up to 28.43 percent during nineties, while for India as a whole, it declined from 23.86 percent to 21.34 percent.

Bifurcation of the State

Bihar's bifurcation on November 15, 2000 gave a severe blow to the economy of the truncated Bihar. Consequent upon bifurcation of the State, only 54 percent of the land area remained with Bihar, but had 75 percent of the population, resulting into a severe deterioration of the land-man ratio. Almost the entire mineral wealth and much of forests fell to the share of Jharkhand. The vivisection left the State only with debt and disaster on a continuing basis. About three-fourths of the assets with only one-fourth of liabilities remained with Jharkhand. With such a great loss inflicted upon the State as a result of bifurcation, a package was assured by the Centre. But even after about 8 years of partition, no fund in the name of package has been given to the State. However, the State has got to be reconstructed which includes restructuring of networks of roads, power, buildings, training institutions for administrative, police and other personnel, universities, colleges both technical and general, etc. All this will require resources. But Bihar, already being a poor State, suffers from resource crunch.

GSDP

As a result of bifurcation, apart from 96 percent of minerals and 78 percent of forest, the divided Bihar has lost social and economic infrastructure, major industries and technical and training institutions, all leading to curtailment of the potential of economic growth and revenues. Consequently, Bihar's economy has been sputtering. The medium term growth rate of the GSDP at current prices since 1999-00 to 2006-07 is estimated to be 4.94 percent. The sectoral growth rates indicate that it is the secondary sector which has grown at 7.15 percent followed by the tertiary sector (5.78 percent). The primary sector has grown at only 2.84 percent (Appendix II). During the same period, the national economy has grown by 6.5 percent. The slower pace of growth of Bihar economy is because of its disadvantaged secondary and tertiary sectors.

The primary sector accounts for about one-third of Bihar economy and the growth in its income shows considerable year-to-year variation (Appendix III). Consequently, the GSDP for the State has also shown large year-to-year variation. At constant prices, it varied from (-)4.8 percent in 2001-02 to 11.8 percent in 2002-03 to again (-)4.2 percent in 2003-04. The growth rate in 2005-06 was only 0.1 percent. Thus, the Bihar economy appears to suffer from two clear disadvantages — first, its growth rate is much lower than the national average and, second, there are large yearly variations in the growth rate.

Lowest Per Capita NSDP : A similar situation emerges when the State-wise per capita NSDP figures for different periods are analysed (Appendix IV). It may be observed that average per Capita NSDP for Bihar worked out to be the lowest (Rs. 223) among the major States during 1960-61 to 1962-63; on the upper side, it was Rs. 402 for Gujarat and Rs. 418 for Maharashtra, slightly less than twice that of Bihar. The average during 1970-71 to 1972-73 for Bihar, though jumped more than twice (Rs. 452), it still remained the lowest and the gap between the lowest (Rs. 452) and highest of Punjab (Rs. 1127) and Haryana (Rs. 1010) widened still further. This trend of widening of disparity actually continued during the eighties and nineties. In 2004-05, the Per Capita Income in Bihar (Rs. 5772) was only 25.1 percent of the national Per Capita Income (Rs. 22946) and far below the States of Haryana (Rs. 32,712), Maharashtra (Rs. 32,170), Punjab (Rs. 30,701) and Gujarat (Rs. 28,355) (Appendix V). Even after six decades of independence, Bihar continues to remain at the lowest ladder in terms of per capita income. This is a reflection on the backwardness of the State and is a sad commentary on India's commitment to reduction in regional disparity across the country.

Regional Disparity

It has already been noted that Per Capita Income is the lowest in Bihar, compared to all other Indian States. However, this disadvantage is unequally present in all the districts of the State. At 1999-00 prices, the Per Capita Gross District Domestic Product in the year 2004-05 was the highest in the three districts Patna (Rs. 31441), Munger (Rs. 10087) and Begusarai (Rs. 9312). At the other end, three districts with the lowest Per Capita GSDP are Araria (Rs. 4578), Sitamarhi (Rs. 4352) and Sheohar (Rs. 3636) (Appendix VI). An idea about the relative economic prosperity of the different districts can also be had from the extent of small savings in post offices and public provident fund. For the State as whole, the average per capita small savings was only Rs. 264 in 2005-06 and Rs. 191 in 2006-07. Taking the savings figures of 2006-07, it is observed that three districts with the highest per capita savings are Patna (Rs. 675), Saran (Rs. 339) and Nalanda (Rs. 328). The three districts at the bottom are Sitamarhi (Rs. 68), East Champaran (Rs. 51) and Araria (Rs. 51) (Appendix VII).

Low Per Capita Plan Outlay

The slow growth of GSDP and per capita income in the State is attributable to a large extent to the low level of per capita plan expenditure, inadequate central assistance and inadequate flow of institutional finance since the beginning of the Plan era. These have been totally inadequate considering the vast population of the State. For example, in the First Plan, the per capita plan outlay for the State was Rs. 17 as against Rs. 48 each for Maharashtra and Punjab and Rs. 36 for Andhra Pradesh and this trend continued unabated. (Appendix VIII).

During the Ninth Plan, the per Capita Plan outlay for Bihar was Rs. 701 as against Rs. 9,165 for Goa and around Rs. 4756 each for Gujarat and Maharashtra. Appendix IV also reveals that, with each plan, the gap between Bihar and other high/middle income States has widened. The relatively low growth rate of GSDP is largely attributed to such low per capita plan outlay throughout the plan periods. After introduction of reforms in 1990, the growth pattern increased regional inequality when Bihar and other poor States performed very poorly. The situation could have been better, had the States' savings in the form of bank deposits been utilized for financing private sector investments.

Per Capita Plan Expenditure and Central Assistance for Bihar and All India: First to Seventh Plan Periods

Plan Period	Per Capita Plan Expenditure (Rs.)		Per Capita Central Assistance (Rs.)	
	Bihar	India	Bihar	India
First Plan (1950-56)	25	33	14	23
Second Plan (1956-61)	40	52	19	25
Third Plan (1961-66)	69	93	44	53
Fourth Plan (1969-74)	85	172	57	65
Fifth Plan (1974-79)	190	327	105	130
Sixth Plan (1980-85)	404	693	301	195
Seventh Plan (1985-90)	798	1076	340	375
Eight Plan (1992-97)	624	2205	N.A.	N.A.
Ninth Plan (1997-2002)	1197	3421	N.A.	N.A.
Tenth Plan (2002-07)	2533	6544	N.A.	N.A.
Eleventh Plan (2007-12)	7305	14468	N.A.	N.A.

Source :
Draft Annual Plan 2000-01, Govt. of Bihar up to 7th Pan.
Draft Annual Plan 2007-08, Govt. of Uttar Pradesh Vol 1.

Low Level of Central Investment

A low and declining level of investment in central sector also contributed to the backwardness of Bihar. The share of Bihar in the gross investment fund of the central public sector undertakings has been declining rapidly; while in 1975-76, the share of Bihar in total central investment was 20.66, it declined to the level of 8.24 in 1990-91 (Appendix IX). Thereafter, no central investment was made in Bihar. As a result, the present Bihar is left with only Barauni Oil Refinery and a Thermal Power Station at Kahalgaon. Similarly, there are very few central government installations like cantonments, though Bihar happens to be a bordering State and, almost every year, the help of army is sought during floods in North Bihar.

Poverty and Unemployment

The problems of poverty and unemployment in the State continue to be serious. The incidence of both rural and urban poverty is far higher in Bihar than the average for India as a whole. During 1999-00, 42.60 percent of State population was below poverty line. Though it declined to 41.4 percent in 2004-05, it is much higher compared to the all India figure of 27.5 percent. In 1993-94, based on the usual status, unemployment rates in rural and urban areas were higher in erstwhile Bihar than for all India. The rural unemployment rate in Bihar was 8.3 percentage points more than all-India figure. In 1999-2000, however, the unemployment rate in rural Bihar was lower than in all-India; but the urban situation had further worsened, recording an unemployment rate which was about one and a half times the national figure. After the division of the State, the unemployment rate for the present Bihar must be higher.

Inadequate Infrastructure

The infrastructure of roads, irrigation and power needs a great deal of strengthening for the development of the State. As a result of bifurcation of the State, the infrastructure for the present Bihar has actually worsened. Assured irrigation through canals and tubewells is available to about 50 percent of the net sown area of the State. Per capita power consumption is only 140.8 kwh, against 354.75 for the country as a whole. It has been estimated that Bihar faced power and energy shortage of 8.1 and 16.9 percent respectively during 2006-07. Similarly, the road length in the State is highly inadequate (90 kms/lakh of population as against 257 kms for all-India in 1997). Around 58 percent of the villages in Bihar are yet to be connected by road networks. Of the total road length of 81,680 kms. in the State, around 78 percent is village roads, which are in a very bad shape. For every 100 sq.km, the State has only 77 kms of road length, compared to 169 kms. in Orissa, 118 kms. in Tamil Nadu and 97 kms in U.P. Such disparity becomes more pronounced when it is noted that surfaced road in total road length in the State is only 37.4 percent, compared to 56.5 percent for all-India. The length of rail lines in the State is only 30.22 kms per 1000 sq.kms. of the area, against 42.49 kms. in Punjab. Even during the plan periods, the infrastructure sector was characterized by a declining trend, where the share of expenditure on infrastructure in total plan fell from 46 percent in Fifth Plan to 33 percent in Ninth Plan.

Tardy Industrial Development

The industrial development is yet to take place in Bihar, depriving it of the benefits of investment, employment and income over a long period. With bifurcation, nearly all the major and medium industries as also a majority of small scale industries have gone to Jharkhand. For almost four decades, the erstwhile State suffered the most on account of freight equalization on coal, steel, etc. which took away the natural advantage of its huge mineral resources. Though this policy has been withdrawn by the Center some years back, yet there was no change in the investment climate because of the capital accumulation already made elsewhere. Nor there has been any effort on the part of the Center to compensate for the losses inflicted on the State due to the defective industrial policy.

Low CD Ratio

The CD ratio of commercial banks depends mostly on the level of economic activity and the credit absorption capacity of the State and indicates the banks' role in development. Since nationalization, the commercial banking sector in the State has expanded manifold without brining commensurate benefit to it. The nationalization of banks was expected to usher in an era in which commercial credit would be easily available to the backward regions and disadvantaged groups. But this never happened and, in 2006, the CD ratio was 30 percent, and is still less than half of the national average of 72 percent. In fact, commercial banks became conduit for flight of scarce capital from the State. As an illustration, in 2006-07, the calculations show that the export of capital from Bihar to other States on account of poor CD ratio was about of Rs. 3922 crore. This phenomenon is obviously repeated year after year. The State has also not been able to secure adequate benefit from non-banking organizations. In fact, most of them siphoned money from the State and deprived millions of customers of future principal investments. Even the benefits of all-India Financial Institutions comprising six all India Development Banks, two specialized Financial Institutions and three Investment Institutions in terms of providing term lending did not accrue to State. In 2001, the All India Finance Institutions sanctioned Rs. 1,03,437.90 crore and the share of truncated Bihar was only 0.14 percent.

Total Export of Capital from Bihar to Others States on Account of Poor Credit Deposit Ratio (in Rs. crore)

States	Incremental Deposit Generated between 2005-06 and 2006-07	Incremental Credit Disbursed between 2005-06 and 2006-07	Differental CD ratio	Deficit of Bihar vis-à-vis India	Total Loss of Capital*
India	505782	432071	85.43		
Bihar	10373	3094	29.83	5767.273	3921.746
Madhya Pradesh	9977	7422	31.01		
Maharashtra	165608	145173	87.66		
Rajasthan	10107	10352	102.42		
Uttar Pradesh	29544	18043	61.07		
West Bengal	24312	21975	90.39		

Note : * Leaving aside 32 percent of total credit which is absorbed as personal loans in Bihar(in 2006), remaining 68 percent is essentially capital investment in the economy. Assuming composition of credit did not change a year later in 2007, Col 5 = 68 Percent of Col. 4

Inadequate Irrigation

The truncated Bihar is left with abundant of water and the rich alluvial soil which are crucial inputs for its agricultural growth. The State also gets fairly high annual rainfall of around 1235 mm as against 1200 mm for the country as a whole. Not a single district of Bihar falls within the low rainfall category, though instability of rains is a serious problem. But, proportion of rainfall received during monsoon constitutes 75-80 percent of annual rainfall. Thus, irrigation becomes important. Though the State has adequate irrigation potential, there is inadequacy of irrigation infrastructure and only about 50 percent of the net sown area is under irrigation. While the southern part, particularly the south-west, has a canal irrigation network, though very old one, the northern plains heavily rely on ground water irrigation, which become defunct during the period of scanty rains. Of the total irrigation capacity of 60.74 lakh hectares, more than 50 percent (32.42 lakh hectares) is accounted for by minor irrigation. Thus, more than 50 percent of irrigation is dependent on monsoon.

The declining public investments in agriculture over the last decades have resulted in this state of affairs. From the table below, it is clear that the public investment in agriculture in Bihar has been quite meager during various plan periods.

Public Investment Per Acre of Net Sown Area of Current Prices

Plan period	Bihar	India	Rank of Bihar
Fifth Plan (1974-79)	196	311	18th
Sixth Plan (1980-85)	232	258	15th
Seventh Plan (1985-90)	227	197	15th
1990-91 and 1991-92	139	187	17th
Eighth Plan (1992-97)	79	188	23rd

Source : Bihar State Plan

Recurrent Floods and Calamities

The most important negative feature of the State is the extremely flood prone nature of the terrain. The floods each year cause immense damage to human lives, livestock, standing crops and infrastructures, including roads buildings, dams, water supply and other installations. The National Commission on Floods identified Bihar as the most flood prone State in India. The total flood prone area in the State is about 69 lakh hectares, which constitute 17 percent of the total flood affected area in the country. Almost entire North Bihar falls within the flood prone area. Similarly, of the total flood affected population in the country, 56.5 percent resides in Bihar. It may be worthwhile to mention that, in 2002-03, the total area affected by floods in the State was 19.69 lakh hectares; whereas, the population affected was 1.62 crore, and the total damage including crops, houses, infrastructure, etc. worked out to over Rs. 2,855.33 crore. The floods in 2007 again brought with it massive destruction when 22 out of 38 districts in Bihar were inundated. This covered 264 blocks out of 533 in the State. The total number of Panchayats and villages affected were around 4 thousand and 13 thousand respectively. This year, in 2008, the flood was unprecedented when Kosi river breached the embankment in Nepal and opened up a new stream to meet the river Ganga. It caused greatest devastations in 8 districts in the State and around 22 districts were affected badly. Innumerable lives, both human and cattle, along with houses and properties were washed away. Besides, threats of epidemics are looming large. Unfortunately, for mitigating the menace of these floods, the State cannot play any effective role, because most of the rivers originate from across the border and as such it becomes an international issue and comes under the Central Government’s jurisdiction.

Natural Disasters

Besides floods, the next major natural disaster in Bihar is drought which occurs more frequently in south Bihar, where average sowing falls below 50 percent of the normal area. Another important calamity that the State has to face is fire which destroys lives and properties almost on a regular basis. Again, cyclones, hailstorms and earthquake occur in different parts of the State entailing considerable expenditure on relief. The State also experiences extremes of heat and cold, causing damage to lives and crops. Successively during the last two to three years, the temperature drops leading to extreme cold wave have caused extensive damage to human lives, cattle and standing crops.

State of Public Finance

Mentioned above are some of the important factors pushing Bihar at the bottom of all the States in respect of all the development indicators in the country. This worst situation prevailed during the colonial rule and, even after independence, there has not been any perceptible change in the state of affairs. The State bears the testimony of neglect both during the pre- and post-independence period. The wave of liberalisation sweeping the country from the nineties onwards brought further setback to the State's economy. Again, after the bifurcation of the erstwhile State, the economic scenario of the present Bihar looked very grim. The revenue receipt suddenly dropped by a quarter (from Rs. 3085 crore in 1999-2000 to Rs. 2319 in 2001-02). Similarly, the non-tax revenue decreased from Rs. 1166 crore to Rs. 287 crore after bifurcation.

The fiscal reform was adopted by the State much earlier and, as a result, the revenue deficit was brought down to Rs. 1287 crore in 2002-03 and to Rs. 255 in 2003-04. The process continued and it had a surplus of more than Rs. 1000 crore for the first time in 2004-05. This surplus has been increasing continuously since then and is poised to reach about Rs. 3500 crore by 2007-08. On the expenditure side also, the state government's spending on social and economic services has substantially picked up, and expenditure on general services increased substantially only during 2007-08 (Rs. 10,291) due to larger government spending on district administration, police and public works. Thus, the State has already achieved the FRBMA target of eliminating revenue deficit far ahead of the target year of 2008-09. The State is now well poised to achieve the FRBMA target of containing the GFD within 3 percent of GSDP; in 2007-08 (BE), it was contained at 3.03%. (Appendix X). However, this was at the cost of development expenditure, which affects the State's development.

All these fiscal improvements were attained in spite of Bihar's weak resource base. The State's own per capita revenue in 2006-07(RE) was only Rs. 536 as against Punjab (Rs. 6019), Haryana (Rs. 5875), Karnataka (Rs. 5021) and Tamil Nadu (Rs. 4742). So much so, even the per capita own tax revenue of a poor State like Orissa is reportedly around four times that of Bihar. After adding up central transfers and devolutions, the per capita total revenue of Bihar remains the lowest in the country.

State-wise Revenue Generation Capacity and Development Expenditure 2006-07 (in Rs.)

	Per Capita Own Tax and Non Tax Revenue	**Per Capita Net Devolution of Transfers**	**Per Capita Revenue Receipts**	**Per Capita Development expenditure**	**Per Capita Capital Outlay**	**Per Capita Revenue Expenditure on Admn**
Non-Special Category States						
Andhra Pradesh	3825.19	1625.02	5613.08	5025.99	1269.68	340.49
Bihar	**535.62**	**1838.16**	**2505.89**	**2123.86**	**633.16**	**286.71**
Chhattisgarh	2953.76	2263.88	5217.20	4408.77	1115.10	314.66
Goa	13678.39	3170.57	16497.40	15097.66	4361.98	1076.95
Gujarat	4106.98	1321.56	5556.97	4615.43	1512.75	260.82
Haryana	5875.18	937.03	6908.55	5856.52	881.47	489.36
Jharkhand	1563.72	1756.70	3477.07	4045.73	942.62	579.22
Karnataka	5020.75	1749.83	6768.44	5216.35	1428.47	389.81
Kerala	3885.73	1851.11	5650.15	4222.35	480.50	429.95
Madhya Pradesh	1871.53	1744.58	3721.50	2884.84	774.24	259.29
Maharashtra	4384.65	1380.73	5789.11	4657.55	1010.14	494.81
Orissa	1947.61	2516.32	4518.99	2653.06	416.10	246.69
Punjab	6019.40	1540.27	7651.29	4946.87	1265.40	754.61
Rajasthan	2322.24	1673.05	4073.94	3230.29	847.66	236.19
Tamil Nadu	4742.04	1421.22	6199.87	4710.78	978.84	464.06
Uttar Pradesh	1620.34	1506.89	3265.06	2387.52	766.52	240.47
West Bengal	1602.01	1328.28	3152.37	2420.03	250.87	283.16

This weak financial position has serious limitations for both the amount and type of public expenditure. More than 40 percent of State's revenue expenditure (2006-07 RE) is pre-empted by committed expenditure such as interest payments, administrative services and pension leaving a small amount for development expenditure. The gap in development expenditure of the State in comparison with other States is more pronounced. A poor State like Orissa spends 25 percent more under development head as compared to Bihar. That the State is not financially viable is further corroborated by the fact that it has a debt-GSDP ratio of more than 70 percent is considered to be very high.

To meet the FRBMA targets during 2007-08, reforms were carried out earnestly and, as a result, today the State is in a much better position. The key concern of the State government is not only the overall deficit, but also the pressing need to improve the state of public services, especially in the social sectors and physical infrastructure. Even though the State government has increased allocation to these sectors, it alone cannot fill up the infrastructural gap.

CHAPTER IV

ISSUES FOR CONSIDERATION

Devolution of Taxes — Inadequate

The levels of socio-economic development of States depend on a variety of factors like population size, population growth, infrastructure, location and availability of financial resources. As is well known, poverty, illiteracy and backwardness coexist and reinforce each other and, in order to break this vicious circle, availability of financial resources is a pre-requisite. Therefore, to promote equity and reduce disparity among States, special assistance becomes the sine-qua-non. Under the present financial dispensation, most of the high yielding and elastic taxes are within the jurisdiction of the central government. The central government raises more revenues than it spends directly and transfers a part of resources to the State governments through various mechanisms, viz., Finance Commission recommendations, State plan grants, Centrally Sponsored Schemes, etc. Under the Finance Commission transfers, the share in central taxes covers barely half the amount and other half comes under the 'discretionary power' which makes the States suffer from dependency syndrome. The Finance Commission may look into this aspect so that discretion is reduced to a reasonable extent, bringing States out of this syndrome for attaining true fiscal federalism. One of the simple ways of reducing the current size of discretion based fund transfer would be to increase the size of shared taxes by including in it some additional tax heads. The Thirteenth Finance Commission may also consider enlarging the divisible pool to 50 percent of the net tax revenue of the central government which indeed matches the share of responsibilities between the Union and State governments. This may require some Constitutional amendments, yet they deserve to be taken up in the interest of removal of regional disparity. The State governments need larger funds for performing various tasks assigned to it and, in this context, some of the important issues concerning Bihar are enumerated below.

Declining Plan Expenditure

The plan expenditure is undertaken by the Planning Commission for the development of the States. Thus, the size of plan expenditure is one of the important indicators of growth efforts. But a closer look at the plan expenditure of the Centre and States reveals that the States' relative share in overall plan expenditure in comparison with the Centre has been coming down. States accounted for 94.51 percent share of total plan expenditure during the First Plan, but it dropped to only 45.59 percent in Second Plan. Thereafter, the share has fluctuated between 45-50 percent upto the Sixth Plan. From the Seventh Plan onwards, however, the share has further fallen to about 40 percent. For the on-going Eleventh Plan, the share of States in total plan expenditure is only 40.83 percent. Consequently, the share of the Centre which was only 5.49 percent in the First Plan increased to 60.59 percent in the Eighth Plan and remained almost the same up to Eleventh Plan. This has had an adverse impact on the State's economy. The details may be seen in the table that follows.

Percentage Share of Central & States in Plan Expenditure

(Rs. Crores, Current Prices)

Plan Period	Centre	% Share of Plan	States	% Share of Plan	Total
First Plan (1951-56)	706.00	5.49	12145.00	94.51	12851.00
Second Plan (1956-61)	2534.00	54.51	2115.00	45.49	4649.00
Third Plan (1961-66)	4212.00	49.91	4227.00	50.09	8439.00
Annual Plan (1966-69)	3401.00	52.17	3118.00	47.83	6519.00
Fourth Plan (1969-74)	7826.00	50.49	7675.00	49.51	15501.00
Fifth Plan (1974-79)	18755.00	48.38	20015.00	51.62	38770.00
Annual Plan (1979-80)	5695.00	47.51	6291.00	52.49	11986.00
Sixth Plan (1980-85)	57825.00	53.90	49458.00	46.10	107283.00
Seventh Plan (1985-90)	127519.60	59.31	87492.40	40.69	215012.00
Eighth Plan (1992-97)	288930.10	60.59	187937.50	39.41	476867.60
Ninth Plan (1997-2002) (Plan Outlay)	489361.00	56.96	369839.00	43.04	859200.00
Tenth Plan (2002-07)	893183.00	58.54	632456.00	41.46	1525639.00
Eleventh Plan (2007-12) at 2006-07 Prices	2156571.00	59.17	1488147.00	40.83	3644718.00

Source : Indian Planning Experience A Statistical Profile, Planning Commission, GOI, Jan. 2001, PP.30

Again, when we examine State-wise plan expenditure vis-à-vis the Gross State Domestic Product during eighties and nineties, it is found that the percentage of plan expenditure to GSDP has declined in nearly all the States.

Plan Expenditure as Percentage of Gross State Domestic Product

Sl. No.	State	Average		
		1980-81 to 1990-91	1991-92 to 1997-98	1997-2002
1.	Bihar	6.20	2.87	4.00
2.	Rajasthan	5.89	6.54	5.80
3.	Uttar Pradesh	6.33	4.56	4.20
4.	Orissa	7.41	7.10	7.40
5.	Madhya Prdesh	7.39	4.97	4.80
6.	Andhra Pradesh	5.70	4.28	5.30
7.	Tamil Nadu	6.19	4.60	3.50
8.	Kerala	5.22	4.99	4.60
9.	Karnataka	5.61	6.49	5.30
10.	West Bengal	3.56	2.70	3.50
11.	Gujarat	6.52	4.51	4.00
12.	Haryana	6.41	3.94	4.30
13.	Maharashtra	5.68	3.97	3.50
14.	Punjab	5.63	3.94	3.30
All 14 States		5.69	4.50	4.54

Source : 1. Economic Policy Reforms and the Indian Economy, Oxford.
2. 10th Five Year Plan Document, Planning Department, Government of India

As may be seen, Bihar recorded the largest drop, from 6.20 percent in eighties to 2.87 in the nineties, implying a fall by 3.33 percentage points. Some important tasks which remained unaccomplished even after decades of planning in the country, has now acquired great urgency. It is desirable that the share of the States be increased to accomplish those unfinished tasks. It was already noted in the preceding Chapter that the per capita development expenditure in 2006-07 has been the lowest in Bihar (Rs. 2124).

In recent past, Bihar has made considerable efforts to enhance its development expenditure. For the period 2002-03 to 2007-08, the growth rate of both aggregate as well as per capita development expenditure has been higher in Bihar than for all States together. However, in spite of this effort, the gap in development expenditure in Bihar is considerable, as shown in the following table.

Per Capita Development Expenditure – Bihar and All States Average

Year	Aggregate Development Expenditure (Rs. Crore)		Per Capita Development Expenditure (Rs.)		Gap in Per Capita Development Expenditure (Rs.)	Aggregate Gap in Development Expenditure (Rs. crore)
	All states average	Bihar	All states average	Bihar		
2002-03	213021.50	9290.10	2059.95	1090.94	969.02	8251.85
2003-04	272849.00	10127.00	2597.58	1167.67	1429.99	12401.31
2004-05	286475.00	9095.00	2686.04	1030.38	1655.66	14614.18
2005-06	330045.00	12988.00	3048.87	1446.71	1602.15	14383.51
2006-07	419050.00	19291.00	3826.26	2123.86	1702.40	15462.88
2007-08	467695.00	20168.00	4207.87	2184.10	2023.77	18687.47
CAGR (%)	16.55	19.26	14.90	17.37	—	—

Based on these data, the projections of annual per capita development expenditure has been worked out till the end of the 2014-15, terminal year of the Thirteenth Finance Commission recommendations, under the objective that the per capita development expenditure for Bihar reaches the all States average in that year.

Projections of Annual Per Capita Development Expenditure for Convergence

Year	All states average (Rs.)	Bihar (Rs.)	Estimates of Required Transfer from the Centre (Rs. Crore)
2005-06	2996.00	1446.00	—
2006-07	3760.00	2123.00	—
2007-08	4135.00	2184.00	—
2008-09	4815.21	2786.13	29438.06
2009-10	5607.31	3554.26	44051.00
2010-11	6529.71	4534.18	57280.09
2011-12	7603.85	5784.25	68782.16
2012-13	8854.68	7378.96	77840.88
2013-14	10311.28	9413.34	95631.96
2014-15	12007.48	12008.60	117281.75
Total	—	—	491305.90
Total 13th FC period 2010-15	—	—	417816.84

If Bihar has to equal the all-States average, the projected development expenditure will have to be ensured through adequate resource mobilisation from all possible central resources, including the Thirteenth Finance Commission recommendations. During the Thirteenth Finance Commission recommendation period of 2010-15, the estimated requirement is Rs. 4.18 lakh crore which is not possible through the normal gap filling or equalization grant approach alone. This strengthens the case for increase in vertical devolution of central taxes and duties to 50 percent.

Bihar is the most backward state in the country and remains at the lowest ladder in terms of all the development indicators almost from the beginning of the plan era. This is primarily on account of lowest plan outlays (Appendix VIII) and low level of investments (Appendix IX) in the state. No effort was made by the Centre to undo the injustice done to the state. As a result, the state continues to suffer on all counts even today. So much so, during the liberalisation period since the nineties, when the high income States were being benefited immensely, the backward States including Bihar remained disadvantaged. Not only this, the actual receipt as a result of recommendations of the Tenth and Eleventh Finance Commission to the State was less to the tune of Rs. 2630 crore and Rs. 8438 crore respectively (Appendix XII), thus depriving the State of a huge amount of Rs. 11,068 crore (1995 to 2005). As a result, the State's per capita income at constant prices (1999-2000) remained less than one-third of the all-India average; in the terminal year (2004-05) of the Eleventh Finance Commission. The per capita income for Bihar was only Rs. 6,610 as against Rs. 20,858 for all States. During the period 2001-02 to 2005-06, while Bihar registered an annual growth rate of only 2 percent in the per capita income at constant prices, the same for all States was 5.8 percent, almost three times that of Bihar.

Year	**Per Capita Income at Constant (1999-2000) Prices (Rs.)**	
	All India	**Bihar**
2001-02	16762	5972
2002-03	17075	6634
2003-04	18263	6158
2004-05	19297	6771
2005-06	20858	6610
CAGR	**5.8**	**2.3**

Source : For Bihar Directorate of Economics & Statistics of Bihar and For All India CSO

The then President of India prognosticated that India will attain a growth rate of 10 percent in the years to come and the per capita income will grow at an annual rate of 8 percent and, at this rate, the national per capita income will become Rs. 28405 in 2009-10 and Rs. 60570 in 2019-20 at 1993-94 prices. Since the State has so far been neglected in terms of making investments, it is pertinent that Bihar may be brought at par with all-State average. In order to make India a prosperous and equitable nation with reduced disparities, Bihar's State Domestic Product (SDP) needs to grow at a much higher rate than 10 percent, so as to attain the national average per capita income in 2019-20. With this end in view, heavy investments would be required in all the sectors upto 2019-20. A rough estimate was worked out and a demand of Rs. 38,550 crore per annum at 2001-02 prices was put forth before the Twelfth Finance Commission to attain an annual growth rate of 15 percent to enable the state to reach the national average per capita income up to 2019-20.

Projections of Per Capita Income with the Goal of Bihar Equaling National Average in 2019-20

Item	**Per Capita Income in 2000-01 (Rs.)**	**Decade of 2000-01 to 2009-10**			**Decade of 2010-11 to 2019-20**		
		Assumed/ Required Growth rate of Per Capita Income	**Estimated Investment Per Annum at 2001-02 Prices (Rs. Crore)**	**Per Capita Income in 2009-10 (Rs.)**	**Assumed/ Required Growth rate of Per Capita Income**	**Estimated Investment Per Annum at 2001-02 Prices (Rs. Crore)**	**Per Capita Income in 2019-20 (Rs.)**
India	12985	8.0 (assumed)		28045	8.0 (assumed)		60570
Bihar							
Scenario – I	3707	15.0 (required)	38,550	14970	15.0 (required)	38,550	60570
Scenario – II	3707	10.0 (required)	25,700	9615	20.0 (required)	51,400	60570

Note : 1. Per Capita Income figures are at constant (1993-94) prices
2. Per Capita Income figures for 2000-01 are triennium averages around the mentioned year.

With this investment, the State could have achieved the national average growth rate. However, the Twelfth Finance Commission did not take this demand into consideration. As a result, Bihar still continues to groan under acute poverty and underdevelopment and the per capita income of the State lags much behind the national average. Now, there are only 10 years left (2010-20), the amount of per annum investments may have to be suitably enhanced.

The Thirteenth Finance Commission may look into and recommend a suitable investment package for Bihar enabling it to reach the national average by 2020. Towards this, the per capita development expenditure may have to be increased suitably, so that the same gets converged with all States' average by 2014-15 as mentioned above in the Chapter.

Weak Economy

The empirical evidences show that the economy of Bihar has been under great strain since independence, though the situation in pre-independence period was no better. The lowest resource base of the State limits the scope of our development policy and, consequently, even after six decades of independence, Bihar continues to remain at the bottom. The per capita own revenue in the State in 2006-07 was almost negligible (Rs. 536) when compared to other States like Punjab (Rs. 6019) and Haryana. So much so, even Orissa, another backward State, reported Rs. 1948 as per capita own revenue which is almost four times that of Bihar. Even after including the central transfers and devolutions, Bihar remained at the lowest ladder (Rs. 2505) (Appendix XI). The Reserve Bank of India observed in its Report on Currency and Finance in 1998-99 that "the stress on State Finances hinges upon the inadequacy of receipts in meeting the expenditure requirements as has been evidenced by the structural imbalances manifested through the revenue deficits since the mid-eighties. The resource gap further worsened since mid-nineties when the revenue growth began to stagnate while expenditure growth accelerated. Constrained by the compulsions in meeting the large committed non-plan expenditure, the States often resorted to financing non-plan expenditure through cut backs in developmental expenditure." It has been evidenced that the revenue receipts of the States are growing at a slower rate than non-plan revenue expenditure, resulting in increasing deficit on revenue account. Much of the revenue expenditures are committed interest on past borrowings. This has been the trend not only in Bihar, but in other States as well. This clearly indicates the shrinking economic role of the State government when fiscal discipline is sought to be attained by the State without adequate fiscal support from the Centre. The Thirteenth Finance Commission may, therefore, consider the ratio in which the shareable pool is divided between the Centre and the States.

Centrally Sponsored Schemes (CSS)

The Gross Budgetary Support (GBS) of the Central Government consists of central sector plan and central assistance to State plans, including the Centrally Sponsored Schemes (CSS). Over the years, the GBS of the Central Government has undergone a major change, with an increase in the number of CSS fundings which mainly fall under the State subjects. This is so despite a consensus to reduce the number of CSS by transferring them to States. As is evident from the table below, in 2007-08, around 92 percent of the direct transfer to States is through three central ministries only, viz., Rural Development (57 percent), Human Resource Development (22 percent) and Health and Family Welfare (13 percent). Out of this, transfer for Sarva Shiksha Abhiyan (SSA) and NREGS together accounted for almost half of the total.

Ministry-wise Direct Transfer to Sates

	2006-07 (RE) (Rs. crore)	**2007-08 (BE) (Rs. crore)**	**2006-07 (RE) (as % of Total)**	**2007-08 (BE) (as % of Total)**
Ministry of agriculture and cooperation	1,712.65	2,372.82	3.79	4.78
Ministry of environment and forests	225.65	304.55	0.50	0.61
Ministry of health and family welfare	5,547.78	6,631	12.28	13.37
Ministry of human resource development	11,518.84	11,104.74	25.50	22.39
of which SSA	10,145.68	9,760.24	22.46	19.68
Ministry of women and child development	3	10	0.01	0.02
Ministry of Non-conventional Energy source/ renewable energy	155.85	188.1	0.35	0.38
Ministry of rural development	25,452.66	28,395.51	56.35	57.24
of which NREGS	11,233.9	11,939.35	24.87	24.07
Ministry of commerce and industry	550	600	1.22	1.21
Grand total	45,166.43	49,606.72	100	100

Source : Union Government Budget Document 2007-08

Though these transfers suffer from the problem of central government discretion, it has had positive discretion in favour of weak States. However, the question emerges whether these are justified only because they are progressive in nature, since they bypass the authority of States ignoring the accountability part. As a matter of fact, such transfers are impediments in achieving the horizontal equity. N.C. Saxena, a member of National Advisory Council, observed that 'the government of India has increased its control over the State sector in three ways firstly, through substantial funding of CSS, the budget for which is about 60 percent of Central Assistance; secondly, much of it goes straight to the district bypassing the States ……; and thirdly, more than half the Central Assistance given …… is not formula based but where the GOI Ministries have a great deal of control over state allocations and release'.

The States have been long pleading for transfer of most of the Centrally Sponsored Schemes (CSS) to them; but there has not been any reduction in the size of the Centrally Sponsored Schemes, rather their number is increasing. Presently, the funding under CSS is around 50 percent of the GBS to the central plan. As CSS funds bypass the State budgets, the Thirteenth Finance Commission should recommend that all the CSS be transferred to States.

Weak Infrastructure

The empirical evidences show that Indian economy changed markedly and growth rates did accelerate in the recent years. However, consequent upon liberalisation, there has been flight of capital and labour from poor infrastructure States to richer States. The States which have not benefited from reforms and suffered owing to investment resources flowing towards better-off States, must be assisted by removing the specific deficiencies that are holding them backward. The rate of investment is generally regarded as one of the most important factors bringing about growth in any economy which is, more often than not, related to infrastructure. Infrastructure, as we know, is a multidimentional feature. However, the quality of infrastructure is quite important for the overall growth of any economy since they induce investors and producers to undertake industrial activities. But they have been abysmally poor in Bihar and consequently, the investors have been shying of making investments in the State. The weak state of economy in Bihar is fed and perpetuated by its poverty of physical infrastructure, and extant situation is the outcome of wrong policies adopted by the union government from time to time. The backward States like Bihar and Jharkhand presented relatively a lower index of infrastructure which is discernible from the table below.

Relative Infrastructure Development Index

Sl. No.	State	1980-81	1991-92	1996-97	2001
1.	Bihar	83.5	81.7	77.8	60.96
2.	Jharkhand	—	—	—	52.31
3.	Rajasthan	74.4	82.6	83.9	68.32
4.	Uttar Pradesh	97.7	102.3	103.8	73.14
5.	Orissa	81.5	95.0	98.9	74.61
6.	Madhya Prdesh	62.1	71.5	74.1	77.31
7.	Andhra Pradesh	98.1	96.8	93.1	103.27
8.	Tamil Nadu	158.6	145.9	138.9	146.52
9.	Kerala	158.1	158.0	155.4	195.42
10.	Karnataka	94.8	96.5	94.3	112.69
11.	West Bengal	110.6	92.1	90.8	84.18
12.	Gujarat	123.0	122.9	121.8	133.55
13.	Haryana	145.0	143.0	137.2	131.54
14.	Maharashtra	120.1	109.6	111.3	162.83
15.	Punjab	207.3	193.4	185.6	212.29
All States		100.0	100.0	100.0	100.0

Source : Centre for Monitoring the Indian Economy

To make the matter worse, the amount of loan disbursed under Rural Infrastructure Development Fund (RIDF), which is an important source of fund for development of rural infrastructure in the Bihar, constituted only 0.19 percent, 0.31 percent and 0.33 percent of all-India disbursement in 2000-01, 2001-02 and 2002-03 respectively. Thus, even under RIDF schemes, the infrastructure of the State could not develop.

The quality infrastructure building is one of the major challenges in Bihar. Besides serious neglect of infrastructure development hitherto in the State, its flood prone areas pose a serious problem to the infrastructure development. Whatever infrastructures in the form of roads, power, irrigation, canals, etc. are built up in the flood prone areas, spread over 22 districts in north Bihar, get washed away or partially damaged because of floods. The infrastructure creation in Bihar, thus, involves much higher expenditure. Already a financially stressed State, Bihar must be granted increased allocation to cope up with the situation.

There is a need to assist the States which have not been benefited from reforms. The only way through which the poor States could promote economic activities in their respective areas is through improvement in the infrastructural facilities. The poorer States which need more of such infrastructural investment are left with less financial resources to undertake the task. The resources required for this has to come from the Central pool till such time when the infrastructure and service levels come up to a stage when the private investments start flowing in a substantial manner. The Tenth Finance Commission had included infrastructure as a factor in the scheme of devolution with a weightage of 5 percent, but it was too small a weightage for the poorer States like Bihar. Infrastructure is a key parameter for which the Thirteenth Finance Commission should provide equitably across the States. This can be done if an index of infrastructure is evolved and levels of devolution are linked to it. A more suitable indicator should be an investment climate index. Similarly, the per capita consumption of electricity should have been included as a separate factor in the scheme of devolution, so that poorer States like Bihar would have got justice by taking this variable with sufficiently high weightage.

Statutory Transfers

The Constitution recognises the need for an arrangement under which the resource transfer from the Centre to States takes place in a manner that is free from the Centre's discretion and as automatic as possible. In the initial decades, stresses and strains experienced in federal relations have been largely the result of the difficulties faced by the States in discharging the responsibilities assigned to them on account of shortage of resources. It is an admitted fact that the overall devolution has not increased in commensurate with the shift in responsibilities of the State and the growth in resources of the Centre. There is a regional consensus in Bihar and other backward States that the award of the Finance Commission should not only become more progressive, but the devolution from the Centre should also increase manifold, primarily because such transfers form the basis of financial and social life line for the States. It may be seen from Appendix XII that Bihar's actual receipts in the light of the Tenth and Eleventh Finance Commissions' recommendations were much less (to the tune of Rs. 2630 crore and 8438 crore respectively). The Thirteenth Finance Commission may look into it so that poor states like Bihar may not be disadvantaged in this regard.

Vertical and Horizontal Devolution

Many States have enacted fiscal responsibility legislation and others are following the suit. In spite of these, the fiscal transfers system in India requires further reforms relating both to vertical and horizontal transfers. Vertical transfers should be stabilised around an appropriate level and it should not frequently change in favour of one side or the other. In case of horizontal transfers, gap filling approach is subject to criticism because the way Finance Commission estimates the needs and resources of the State. In resolving horizontal imbalance, the equalization transfers are desirable since it is consistent with both equity and efficiency. Rather than continuing with the gap filling approach, the present Commission can fully equalise expenditures on at least the social services so that their quality could be improved.

Twelfth Finance Commission recommended for uniformity in allocation of proceeds of different taxes, but there remains a need to focus on poorer States by allocating them more resources to take care of glaring deficiencies. Despite generous transfers by the Twelfth Finance Commission, disparities in revenue capacity of States remain very large. Per capita revenue of Bihar assessed by the Twelfth Finance Commission together with State's share in central taxes and grants recommended is only about 40 percent of that of Haryana and Kerala. The situation does not appear to have changed much under Twelfth Finance Commission as compared to the Eleventh Finance Commission.

It also appears that the Twelfth Finance Commission's dispensation on tax devolution is less equalising than that of the Eleventh Finance Commission and this is because of lowering of the weights for equalising factors in the formula and enlargement of the efficiency indicators. There has been dilution of progressivity by reducing weight to income distance criteria. It is imperative that the income distance criterion which forms the basis for equity needs to be given due weightage. The Twelfth Finance Commission had reduced the overall weight for income distance from 62.5 percent (Eleventh Finance Commission recommendation) to 50 percent. This should be enhanced to at least 70 percent. Second, given the importance of Bihar's most important asset, its population, that forms the basis of its future development, the total weight of population and income distance together should not be decreased from 90 percent. The entire exercise of vertical and horizontal devolution should be designed to cater to the requirement of equalizing Per Capita Development Expenditure.

Grants-in-aid

Over and above the transfer of resources under devolution of taxes and duties, the Finance Commissions have been using the mechanism of grants-in-aid as prescribed under Article 275 of the Constitution. The Finance Commissions observed that "an important purpose of grants-in-aid is to help in equalising standards of basic social services … factors like the area of the State in relation to its population, economic backwardness, etc. would be reflected in the level of social services and the standard of development of a State and would be taken into account accordingly under this principle". However, an analysis of the Twelfth Finance Commissions recommendations reveals that in overall devolution of taxes, the share of Bihar worked out to 11.03 percent. But when the amount of total grants is added, the percentage figure of total transfer to Bihar comes down by almost one percent, which clearly indicates that after the grants are added, the total transfer to the state is less equalising, defeating the very purpose of grants. Accordingly, more equalising grants should be considered to compensate for relative deficiency in taxable capacity and cost disadvantages. The proportion of equalising block grants-in-aid in total transfers should increase. The Seventh Finance Commission recommended upgradation grants in respect of the administrative services only. The services falling in the developmental sector, viz. education, medical and public health and welfare of SC/ST and backward classes were not considered eligible for grants-in-aid. This approach was, however, based on the presumption that the requirements of those services would be taken care of by the Planning Commission. This was an unrealistic presumption, as plan outlay is confined to the expansion of facilities and generally not available for improving the standards of existing services. For backward States like Bihar, a major portion of their plan outlay is pre-empted by the core sectors like irrigation and power, and only a small proportion is available for education and health. The levels of existing services in these sectors can be improved only by stepping up the non-plan expenditure on them in the required direction. Less conditionalities should be imposed on grants-in-aid for education, health and maintenance of infrastructure.

As a matter of fact, for grants-in-aid, the Finance Commissions have been taking the difference of gap that remains after setting off the devolution amounts against the projected deficits of the States. Any balance that remains is met by grants-in-aid. This has been described as 'gap filling approach' by fiscal experts. However, this approach has fallen short of the objective of reducing inter-State disparities and removing fiscal disadvantages of the poorer States. According to the Tenth Finance Commission, Bihar did not qualify for any grants-in-aid, even though other poor States like Rajasthan and Orissa became the beneficiaries.

Thus, it may be seen that the purpose for which grants were to be used has not been adhered to. The Finance Commissions have relied mainly on devolution of taxes and duties for meeting the gaps between States' revenue and expenditures. In this process, the advanced States received much larger shares. As a result, the inter-State disparity widened over the period rather than narrowed. This has been a serious lapse on the part of the Finance Commissions.

The Twelfth Finance Commission recommended grants amounting to Rs. 20,000 crore or 14.0 percent of total grants for the maintenance of roads and bridges (Rs. 15,000 crore) and buildings (Rs. 5,000 crore). As these grants are based on the existing length of roads and plinth area of buildings, developed States are the major beneficiaries in terms of higher allocations. Grants for maintenance based on such norms may not serve adequately the redistributive purpose. Again, if lack of financial ability on the part of States for maintenance of capital assets is the justification for recommending maintenance grants, then there does not seem to be much justification for leaving out the irrigation sector, where inadequate maintenance is a major problem. The Twelfth Finance Commission did not give any reasons for leaving out this sector from the purview of specific maintenance grants.

It may be emphasised that grants-in-aid are more suitable for reducing inter-State disparities in financial resources. Inter-State equity would be promoted by making grants in accordance with the provision of basic minimum services to the people. This is possible by following the distance formula as already adopted for devolution of taxes. As a matter of fact, the ‘equalisation grant’ should be provided only to the poorer States and not to the richer ones.

The methodology followed by the Finance Commissions to assess States' revenues and expenditures has not been to the advantage of the poorer States. Usually, revenues are overestimated and expenditures underestimated to arrive at an artificial equilibrium. The non-fulfilment of Finance Commissions forecasts has been disadvantageous to the States like Bihar, which have been deficit State before devolution and not so much to the advanced States which were surplus. Another problem is that the Finance Commissions' estimates are based on State specific rates of growth of expenditure, rather than on norms of expenditure needed to maintain reasonable standards of services as per national yardsticks. In the absence of a normative approach, the backward States suffered as a result of resource crunch because their expenditure levels in the past were much below the national norms.

It has been noticed that the equalisation grants as recommended are not released in full. Taking the case of Bihar, the second instalment of Twelfth Finance Commission grants for health, education and maintenance of building (Total Rs. 490.96 cr) has not been released by the Central Government just because the expenditure during 2005-06 was less, as shown by the following table :

Equalisation Grants status							
							In Rs. Cr
Sector	**Total Grants to be released in 2007-08**	**Grant released in 2007-08**	**TFC projected expenditure in 2005-06**	**Actual expenditure in 2005-06**	**shortfall**	**% shortfall**	**Loss to Bihar (2007-08)**
Education	532.36	266.18	3820.62	3777.07	43.55	1.14%	266.18
Health	359.66	179.83	790.12	758.34	31.78	4.02%	179.83
Maintenance of Building	89.9	44.95	120.97	111.39	9.58	7.92%	44.95
Total	981.92	490.96	4731.71	4646.8	84.91	1.79%	490.96

The above figures indicate that the shortfall is 1.14 percent in education sector and 4.02 percent in health Sector. Full second instalment has been withheld by the Central Government. Either the second instalment should be released on the assurance of the State Government that the shortfall will be made good in the expenditure in the coming years or, at the most, the shortfall amount may be deducted from the second instalment. Withholding of full second instalment and denying the State Government an amount of Rs. 490.96 crore is unfair and is not in keeping with the spirit of Finance Commission recommendations.

Radicalism

The problem of left radicalism / extremism in a large number of States should receive the attention of the Thirteenth Finance Commission. Out of 650 districts in the country, 150 have been declared disturbed by militant activities. It is necessary to strengthen police, administrative and social infrastructure to effectively combat this problem. Plan funds will not address this issue. Therefore, non-plan funds are required.

Debt Relief

The Twelfth Finance Commission introduced the scheme of debt relief and recommended for discontinuance of the scheme of Fiscal Reform Facility which was introduced by the Eleventh Finance Commission. The Debt Consolidation and Relief Facility (DCRF) recommended by the Twelfth Finance Commission has had a mixed impact on Bihar finance. The benefit of debt relief is lower in some of the debt stressed States including Bihar. The highly indebted States including Bihar will be facing difficulties to qualify for debt relief due to the strict conditionalities which violate the basic tenets of fiscal federalism. Another drawback of the debt relief plan is that it is confined only to the loan liabilities to the centre, which constitute about one-sixth of the total. National Small Savings Fund (NSSF) loans accounting for 30 percent of the States' borrowings are left out. Now that the central lendings have stopped, the States will henceforth depend heavily on borrowings from NSSF which is relatively a high cost source. Thus, to this extent, States like Bihar have been disadvantaged.

The States like Bihar, where a large percentage of expenditure is committed to interest and salary, need to be relieved of their excess debt within a performance linked framework. It may be necessary to look afresh at the issue of sustainability of public debt in the States.

Also, it may be noted that Bihar has not received any benefit of the debt relief facility in spite of fulfilling the fiscal targets laid down by the FRBM Act. The debt-waiver scheme, introduced by the Twelfth Finance Commission, has strongly pushed the States towards enacting fiscal responsibility legislations (which makes it a legal binding for the State governments to wipe out revenue deficit and reduce fiscal deficit to less than 3 percent of the State's GSDP within a fixed time-period) and subsequently cut down their deficits. To avail the benefits of the debt-waiver, the Government of Bihar had passed the Bihar Fiscal Responsibility and Budget Management (FRBM) Act in February 2006 and undertaken fiscal measures to achieve the stipulated targets for revenue and fiscal deficits set by the Act. However, the debt-waiver scheme has set the fiscal deficit recorded by the States in 2004-05 as the base level. States are entitled to an amount of debt waiver directly proportional to the rate of improvement in the fiscal deficit compared to 2004-05 levels. Bihar did bring down its fiscal deficit, but has got no debt waiver under this scheme. In Bihar, 2004-05 was a low expenditure year owing to strictures on spending due to President’s rule and two assembly elections. Consequently, the fiscal deficit in 2004-05 was very low at 1.9 percent of GSDP as against 6.8 percent in the previous year and 5.2 percent in the next year. Even after the fiscal consolidation in the last three years and achievement of FRBM targets, Bihar could not avail of the debt waiver till date.

This condition has affected the interest of the State Government adversely. Bihar is being deprived of an amount of Rs. 1,926 crore on account of debt waiver. Using the fiscal deficit of 2004-05 as the eligibility criteria has hit the State adversely. In this regard, it is to be kept in mind that the fiscal deficit of the State was Rs. 2583 cr (5.48% of GSDP), Rs. 2988 cr (5.52% of GSDP) and Rs. 4363 cr. (7.73% of GSDP) in the years 2001-02, 2002-03 and 2003-04 respectively. Therefore, taking the benchmark year as 2004-05 rather than an average level of a certain period (say, 3 years) has put Bihar in a difficult situation. The Central Government has been requested to consider the average fiscal deficit of three years (2002-05) as the benchmark for this purpose.

Deficit Management

The aggregate Gross Fiscal Deficit in relation to Gross Domestic Product (GDP) is estimated to have declined from 8.4 percent in 2003-04 to 5.5 percent in 2007-08 and revenue deficit during the period declined from 5.9 percent to 1.3 percent. Improvement in the fiscal health was seen at both the Central and State levels. However, the situation in some of the states still remains grim. The revenue and fiscal deficits, particularly in some of the States, are still a matter of concern and many of the poorer States have lowered their deficits by compressing developmental expenditures. Thus, the attempt at micro-economic stabilization has been at the cost of economic growth, particularly in the low income States. Table below shows the position in the revenue account as well as the combined position of the revenue and capital accounts of some major States for the years 2002-03 to 2007-08. As noted earlier, the revenue deficit of Bihar was controlled effectively and, from 2004-05 onwards, there was a substantial surplus in the revenue account. In the combined revenue and capital accounts, the budget deficit could also be contained in 2007-08 due to this surplus in the revenue account.

Deficit/Surplus position of States

(Rs. crore)

State	Revenue Deficit (+)/ Surplus(-)			Conventional Deficit (+) / Surplus(-)		
	2005-06	2006-07	2007-08 (BE)	2005-06	2006-07	2007-08 (BE)
Bihar	**-82**	**-2498**	**-3483**	**910**	**1688**	**14**
Maharashtra	-1419	-3402	2386	3875	-10234	-371
Punjab	-1710	2191	1429	1890	913	-196
Rajasthan	-865	-96	-215	15713	-1868	-2728
UP	-3132	-4901	-6146	-477	-3703	-13408
MP	-----	-2821	-2007	-----	1017	0
West Bengal	-8598	4955	7168	227	727	133

As observed earlier, GFD of a State government is a fairly sensitive indicator of the its financial performance as it reflects the total resource gap in its economy. Table below presents the GFD of a few major States. Bihar had a high GFD exceeding Rs. 4,000 crore or about 6.5 percent of the GSDP in 2003-04. It now stands at marginally above 3 percent, almost within reach of the FRBMA target of 3 percent to be achieved by 2008-09. The position of other States except Maharashtra and West Bengal are more or less the same; UP had projected a fiscal surplus in the budget estimates of 2007-08.

Gross Fiscal Deficit

(Rs. crore)

State	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 (BE)
Bihar	**2988**	**4363**	**1242**	**3700**	**3021**	**3159**
Maharashtra	14290	17929	18620	17631	**4495**	**8408**
Punjab	4410	4880	4115	2654	**3789**	**3848**
Rajasthan	6114	7367	6146	5150	**3164**	**2953**
UP	9497	16648	12997	13167	**2815**	**-2125**
West Bengal	10569	12869	10652	9602	**8053**	**10158**

Unrealised Taxes of the Central Government

A substantial amount of the central taxes, shareable between itself and the State governments, is left unrealised because of the efficiency limitations of the taxation machinery of the central government. The recent data (March, 2008) shows that, under the head of Corporation Tax and Income Tax, the unrealised taxes amount to Rs. 80,109 crore. Under Union Excise Duties, Customs and Service Taxes, the amount of unrealised taxes (March, 2008) is Rs. 29,580 crore for all these taxes together. The amount of unrealised taxes in March, 2008 was, thus, Rs. 1.09 lakh crore. A rough estimate would indicate that out of this amount, about Rs. 65 thousand crore would have become distributable among the States. But, because of no fault on their part, the States are deprived of a sizeable amount of transfer under these circumstances. For Bihar, such lost resources would have been about Rs. 7000 crore, which is substantial by any standard. While deciding about the pattern and quantum of transfers to the States, the Thirteenth Finance Commission should take into consideration this dimension of Centre-State financial transfers.

Amount of Unrealised Central Taxes under Heads, Shareable with the States (March, 2008)

Heads	Amount (Rs. Crore)
1. Corporation Tax	39,444
2. Income Tax	40,746
3. Union Excise Duty	20,063
4. Customs Duty	7,303
5. Service Tax	2,213
Total	**1,09,769**

Transfers through Subsidies

It has been observed that a substantial part of central revenue resources is transferred to States through subsidies on different items. These are in the form of both implicit as well as explicit transfers. The explicit subsidies are mainly on food, fertilizer and petroleum products. The implicit transfers are primarily subsidised loans to States, major sources being the central government or the market. These two sources constituted over 90 percent of States' liabilities and central loans alone constituted over two-thirds of the total. Central loans to States were the most important item accounting for 68 percent of states' liabilities, which mainly consisted of plan assistance. Around

70 percent of the plan assistance to major States was given as loans at subsidised rates of interest and these constituted around 80 percent of central loans. The estimated implicit transfers constituted around half of the explicit transfers during eighties and then reduced to almost a quarter in the first half of nineties. There has been a substantial implicit transfer through subsidised lending by banks and financial institutions to the private sector for specific activities like agriculture, rural development, small scale industry, exports, etc.

It may be observed from the following table that the per capita implicit transfers which were Rs. 52 in 1985-86 remained around Rs. 40 during 1991-92 to 1993-94.

Per Capita Implicit Transfers From States' Borrowing (in 1981 Rs.)

Per-Capita Implicit Transfers From State's Borrowing							
Year	**Explicit Transfers**	**Implicit Transfers Due To**				**Total Transfers**	**Per Cent of Implicit Transfers to Explicit Transfers**
		Market Loans	**Central Loans**	**Other Loans**	**Total Loans**		
1980-81	88.74	5.45	26.85	9.83	42.13	130.86	47.48
1981-82	87.72	5.56	26.68	10.52	42.76	130.48	48.75
1982-83	90.32	6.42	27.29	11.79	44.64	134.96	49.42
1983-84	91.43	5.21	29.57	11.56	46.34	137.77	50.68
1984-85	96.07	4.70	28.91	10.98	44.59	140.66	46.41
1985-86	110.96	6.56	30.53	14.53	51.62	162.58	46.52
1986-87	115.01	5.32	30.27	13.12	48.71	163.72	42.32
1987-88	117.68	4.85	29.68	13.76	48.29	165.97	41.03
1988-89	117.58	5.37	29.30	13.8	48.47	166.05	41.22
1989-90	117.13	5.14	29.31	15.14	49.59	166.72	42.33
1990-91	128.71	5.99	28.59	11.92	47.50	176.21	37.19
1991-92	128.89	3.92	23.77	13.74	41.43	170.33	32.14
1992-93	141.75	7.22	33.39	1.06	41.58	183.32	29.33
1993-94	145.26	7.89	28.56	2.39	38.84	184.09	26.73
1994-95	141.14	2.19	13.62	-0.36	15.45	156.59	10.95

Source : Table 3, Invisible Transfers in Indian Federalism, M.Govinda Rao, Public Finance/Finance Publiques Vol.52(3-4), 1997 pp.429-448

Though the Central lendings have stopped, the implicit transfers to States over the years have inflicted great damage to the poorer States including Bihar and largely benefited the high income States, particularly Punjab, as is evidenced by the following table.

Inter-State Distribution of Per-Capita Implicit Transfers in 1981 Rupees

State	1980-81	1982-83	1984-85	1986-87	1988-89	1990-91	1992-93	1994-95
Gujarat	41.4	47.2	54.0	56.2	63.9	67.1	35.3	5.6
Haryana	55.8	60.7	66.5	66.8	71.6	66.8	57.1	19.4
Maharashtra	44.4	50.0	53.5	55.3	52.4	58.9	38.2	13.1
Punjab	46.1	60.0	53.2	97.6	117.30	140.56	191.41	46.33
High In St	45.07	51.78	54.99	62.35	66.04	72.94	59.33	16.08
Andhra Pradesh	42.87	42.33	41.97	39.04	42.41	32.61	29.37	14.04
Karnataka	40.00	41.17	39.88	44.23	41.68	36.41	32.46	13.26
Kerala	49.77	44.55	41.28	44.81	49.14	51.34	59.75	29.91
Tamil Nadu	35.07	39.26	42.67	39.85	42.15	40.86	36.88	15.63
West Bengal	45.03	42.85	44.18	44.03	39.04	35.98	36.82	15.52
M I S	42.00	41.87	42.36	42.12	42.22	37.87	36.47	16.42
Assam	64.81	52.88	52.68	62.24	65.95	76.99	73.75	13.04
Bihar	31.32	40.22	29.73	43.29	42.58	30.89	30.29	14.57
Madhya Pradesh	29.32	36.37	37.33	39.93	37.33	38.51	34.40	13.27
Orissa	52.71	46.24	55.29	52.18	40.11	49.60	51.46	23.79
Rajasthan	52.34	54.06	54.55	55.33	57.19	55.76	41.65	16.17
Uttar Pradesh	42.70	43.20	42.79	48.73	46.27	45.58	34.31	12.14
LIS	41.03	43.63	41.88	47.81	45.75	44.22	37.89	14.43
All Major States	42.13	44.64	44.59	48.71	48.47	47.50	41.58	15.45

Source : Table 4, Invisible Transfers in Indian Federalism, M.Govinda Rao, Public Finance/Finance Publiques Vol.52(3-4), 1997 pp.429-448

Another component of central loan was small savings loans. Besides, there were special loans, as granted to Punjab in 1980s, Jammu and Kashmir in 1990s to fight terrorism and to Madhya Pradesh for Bhopal gas catastrophe. The interest rates levied on both central loans to States and market borrowings are much below the market rates. Also from time to time, the central government rescheduled the loans to States, reduced interest rates on these loans, writing off the loan as in case of Punjab by the then Prime Minister Mr. I.K. Gujral and in some cases on the recommendation of the Finance Commissions. But Bihar has been deprived of this sort of favour throughout.

The magnitude of deprivation suffered by Bihar based on the per capita implicit transfers worked out to Rs. 424 crore in eighties alone vis-à-vis the accrual on an average to all the states in India. This worked out to much more when compared to Punjab (Rs. 2818 crore) during eighties.

Deprivation of Bihar on the head of per capita implicit transfers due to financial liabilities of state governments (in Rs.)

	Per Capita Implicit Transfers to			Deficit of Bihar (Rs. crore)	
	Bihar	All Major States	Punjab	Vs. All States#	Vs. Punjab##
1	2	3	4	5	6
1980-81	31.32	42.13	46.1	756	103
1981-82	35.43	42.76	50.9	512	108
1982-83	40.22	44.64	60	309	138
1983-84	44.37	46.34	65	14	144
1984-85	29.73	44.59	53.2	104	164
1985-86	43.79	51.62	72.2	547	199
1986-87	43.29	48.71	97.6	379	380
1987-88	47.74	48.29	106.24	38	409
1988-89	42.58	48.47	117.3	412	522
1989-90	48.02	49.59	141.02	110	650
1990-91	30.89	47.5	140.56	424	2818
Total				3605	5635

Note : # Col 5 = (Col. 3 – Col. 2)* Population of Bihar in 1981
Col. 6 = (Col.4 – Col.2)* Population of Bihar in 1981

Source : Calculated from previous Table

As regards the explicit subsidies on food, fertiliser and petroleum products, it accounts for around 38 percent of total government subsidies. The food and fertiliser subsidy taken together occupy the centre-stage in explicit subsidies provided for in the central budget, estimated at Rs. 36,997 crore in 2003-04 and Rs. 38,462 crore in 2004-05.

Explicit Subsidies in Central Budget (Rs. Crore)

Years	Food	Fertiliser	Debt Relief to Farmers	Total
1971-72	47	-	-	140
1981-82	700	381	-	1941
1990-91	2450	4389	1502	12158
1991-92	2850	5185	1425	12253
1992-93	2800	5796	1500	11995
1993-94	5537	4562	500	12682
1994-95	5100	5769	341	12932
1995-96	5377	6735	-	13372
1996-97	6066	7578	-	16364
1997-98	7900	9918	-	19505
1998-99	9100	11596	-	24786
1999-00	9434	13244	-	25692
2000-01	12060	13800	-	28271
2001-02	17499	12595	-	32722
2002-03	24176	11015	-	45189
2003-04	25200	11797	-	46869
2004-05	25800	12662	-	45780

Source : Table 2.1, Central Government Subsidies in India : A Report, 2004, GoI, Ministry of Finance.

In 2002-03 and 2003-04, the total subsidy on food was Rs. 24,176 crore and Rs. 25,200 crore respectively, of which accrual to Bihar was only Rs. 136 crore and Rs. 295 crore respectively as against Rs. 12,146 crore and Rs. 11,481 crore to Punjab alone. Similarly, the per capita subsidy on NPK fertiliser was only Rs. 48 for Bihar in 1999-2000 as against Rs. 243 for Punjab.

Likewise, a huge volume of central funds bypass Bihar, hidden in petroleum subsidies. Difference in per capita consumption of petroleum products in Bihar and other States/all-India average multiplied by subsidy on per unit of consumption (petroleum products), gives us the volume of funds of which Bihar is deprived annually in the name of petroleum subsidies. Thus, Bihar was deprived of Rs. 3192 crore and Rs. 8673 crore vis-à-vis all India average and Punjab respectively over merely a period of five years ending 2002-01. Its cumulative loss over last six decades would be an amount which would astound any sense of distributional justice in the country.

Deficit of Bihar in petroleum subsidy accrual in comparison to the Highest and All-India Average Accrual

	States/ Region	1996-97	1997-98	1998-99	1999-2000	2000-01	Period Total
Total Consumption (million Tonnes)*	All-India	72426.48	80367.39	85644.17	89352.01	100779.9	
Total Subsidy (Crore)**	All-India	6560	9360	8370	17714	23091	
Subsidy (Rs.)per kg	All-India	0.905746	1.164651	0.977299	1.982496	2.29123	
Per-capita Consumption in (kg.)*	Bihar	36.2	35.6	35	36.9	37.9	
	Punjab	176.3	184.8	185.4	189.8	195.7	
	All-India	79.2	86.2	90.1	92.2	102	
Deficit in per-capita subsidy accrual to Bihar vis-à-vis (in Rs.)	Punjab	126.895	173.766	146.9858	303.1236	361.5561	
	All-India	38.94708	58.93137	53.8492	109.632	146.8679	
Population (million)***	Bihar	73.13171	74.98502	76.8853	78.83374	80.83156	
Total Deficit of Bihar in Subsidy accrual vis-à-vis (in Rs. Million)	Punjab	9280.05	13029.85	11301.05	23896.37	29225.14	86732.46
	All-India	2848.267	4418.97	4140.212	8642.702	11871.56	31921.71

Source : * Calculated from Data of Indiastat.com, **Calculated from Data of Table 5.1, Central Govt. Subsidies in India : A Report, Ministry of Finance, 2004

Note : *** Population figures for the corresponding years projected from 1991 base population figures assuming geometric progression with an annual average growth rate of 2.534 percent for the decade.

Thus, a huge amount collected from the States as taxes is given as subsidy to states, which is entirely discretionary and not formula based. These subsidies pre-empt transfer of huge funds to Bihar which could be used for investment or development expenditure. It has been observed that during eighties and nineties, subsidies increased rapidly and continuously. If there is a regressive bias in these subsidies, as is really the case, then the poorer States are doubly hit, first by the denial of resources and, secondly, by the fact of unequal distribution. This tantamounts to pushing the backward states further down the development ladder. Therefore, it is urged upon the Thirteenth Finance Commission to look into the matter and evolve a suitable formula to transfer the subsidy amount to the States for their own need based utilization.

Calamity Relief Fund

The backward States lack resources for granting adequate funds for relief and rehabilitation to the calamity afflicted population. The Tenth Finance Commission could not provide the needed funds for overcoming this deficiency. However, the size of calamity relief fund has been enhanced by the 12th Finance Commission. It recommended that the Centre and the States will continue to contribute to the calamity relief fund to the extent of 75 percent and 25 percent respectively. It is suggested that the State's contribution to the calamity relief fund be reduced to nil by the Thirteenth Finance Commission. The National Calamity Contingency Fund and Calamity Relief Fund have to be enhanced suitably to meet the expenditure on reconstruction of capital assets and infrastructure and their regular maintenance in view of the large scale devastation, particularly due to floods. Again, most of the districts in south Bihar are vulnerable to drought quite frequently. The fire, heat wave and cold wave too take heavy toll of human and animal lives and properties resulting into heavy expenditure on relief and rehabilitation. Bihar falls in the high seismic zone and hence vulnerable to earthquake too.

Devastating Floods : A Regular Feature

The floods occur in Bihar almost every year and the resulting damages are often very high. This is a permanent feature and hence it is not a calamity, but a catastrophe. In 2007, 22 districts, all in north Bihar, out of 38 in the State were badly affected due to heavy rainfall all over. There were as many as 28 breaches at different points of embankments in the State. The expenditure on the flood relief was Rs. 1366 crore in 2007. There was five fold increase in food grains assistance too, besides cash payments of Rs. 200 per household and over 100 times rise in agricultural input subsidy. The CRF allocation for house damage compensation in 2007 was Rs. 300 crore, besides expenditure on launching of *Mukhya Mantri Awas Yojana* for construction of fully damaged Katcha houses and huts. This year's flood (2008) is virtually devastation when the river Kosi has opened a new course by breaching embankment in Nepal, completely devastating 8 districts in which about 50 lakh population was marooned and nearly all the houses and assets were destroyed. About 22 districts out of 38 in Bihar suffer from moderate to high floods every year through different rivers flowing in the State. The problem involves Nepal and, as such, can be solved only through international cooperation with Nepal. The State government cannot take any action of its own to mitigate the problems. The Thirteenth Finance Commission should make special provision for Bihar to meet its flood relief and rehabilitation expenses.

Compensation for Low Credit-Deposit (CD) Ratio States

One important indicator of structural disadvantage of the backward States is their low CD ratio in the banking sector. Bihar has been at the lowest ladder in terms of CD ratio for a long time and the accumulated financial loss due to this trend is huge. As regards the current situation, in 2006-07, the CD ratio of Bihar worked out to only 31.1 percent which was much lower than the national average of 75 percent and way behind CD ratios of Maharashtra (98%), Rajasthan (83%), West Bengal (63%) and Madhya Pradesh (63%). The low CD ratio indicates outflow of capital from the

State to other relatively better off States. The inadequate infrastructure and low capital stock are the main reasons for low CD ratio of a State. Credit management of the banks are primarily guided by the Central Government norms, which are generally detrimental to the interests of the poor States. The Finance Commission may consider compensating the poor States like Bihar with low CD ratios so that they may improve their infrastructure and develop their credit absorption capacity. For freeing the poorer States of their structural maladies, a bolder initiative by the Finance Commission is required.

Freight Equalisation versus Industrialisation in Bihar

The freight equalisation policy entirely robbed of the locational advantage of some backward States due to their rich mineral resources base. This completely marred the chances of industrialization of these backward States. The very fact that the intermediate industries could not grow in Bihar due to freight equalisation also means that the State was deprived of capital investment, which would not have been the case in absence of such a policy. A rough estimate of this loss can be worked out from the figures of capital base of steel industry in the State and its forward linkage. Assuming that the capital base of steel industry in the State in the pre-ninety period was almost one-fourth of the total capital base in the country which is Rs. 90,000 crore, and a forward linkage of 4.79 (as estimated by the Central Statistical Organisation), Bihar was deprived of a capital base worth Rs. 1,07,775 crore by the policy of freight equalisation. Undivided Bihar would have had an additional capital base of Rs. 1,07,775 crore in intermediate industries sector, had the freight equalization policy not been in operation. The Thirteenth Finance Commission should consider this aspect as well.

Package for the Residual State after Bifurcation

After division of the State, the economy of residual Bihar has deteriorated. The truncated State is left with only 54 percent of the area, but 75 percent of the population. This has led to an increase in population density in the State putting great strain on land and other resources. Now the State has no mineral resources worth the name. In undivided Bihar, the public and private heavy industries were set up and good educational and technical institutions were established in places like Sindri, Bokaro, Jamshedpur, Ranchi, etc. considering the availability of infrastructural facilities there. Whatever little capital was there in erstwhile Bihar was diverted to this region. Now, after bifurcation of the State, the residual Bihar stands exposed to even poorer educational/ institutional infrastructure. The Thirteenth Finance Commission should either consider a special package for the truncated State or develop a separate norm for the devolution for these States.

Local Bodies

In keeping with the spirit of the 73rd and the 74th Constitutional amendments and with a view to provide an impetus to the decentralisation process, the Twelfth Finance Commission recommended a sum of Rs. 25,000 crore for a five year period from 2005-10 as grants-in-aid to augment the consolidated fund of the States to supplement the resources of the municipalities and the Panchayats. This will be equivalent to 1.24 percent of the sharable tax revenues and 0.9 percent of gross revenue receipts of the Centre. The Commission recommended that the amount of Rs. 25,000 crore may be divided between the Panchayats and the municipalities in the ratio of 80:20, i.e., Rs. 20,000 crore for PRIs and Rs. 5,000 crore for the municipalities. This amount appears to be too meager to make a significant impact on the finances of the local bodies, though this is an increase over the previous Commission's grant. Considering the importance of local governance, more funds may be allocated for local bodies by the Thirteenth Finance Commission.

Education and Health

In terms of human development, as measured by the Planning Commission in its National Human Development Report, 2001, Bihar was at the lowest position among the major States in India. During the entire period after independence, Bihar remained highly disadvantaged in economic and human development.

Human Development Index for Major States in India

States	1981	1991	2001
Andhra Pradesh	0.298 (9)	0.377 (9)	0.416 (10)
Assam	0.272 (10)	0.348 (10)	0.386 (14)
Bihar	**0.237 (15)**	**0.308 (15)**	**0.367 (15)**
Gujarat	0.360 (4)	0.431 (6)	0.479 (6)
Haryana	0.360 (5)	0.443 (5)	0.509 (5)
Karnataka	0.346 (6)	0.412 (7)	0.478 (7)
Kerala	0.500 (1)	0.591 (1)	0.638 (1)
Madhya Pradesh	0.245 (14)	0.328 (13)	0.394 (12)
Maharashtra	0.363 (3)	0.452 (4)	0.523 (4)
Orissa	0.267 (11)	0.345 (12)	0.404 (11)
Punjab	0.411 (2)	0.475 (2)	0.537 (2)
Rajasthan	0.256 (12)	0.347 (11)	0.424 (9)
Tamil Nadu	0.343 (7)	0.466 (3)	0.531 (3)
Uttar Pradesh	0.255 (13)	0.314 (14)	0.388 (13)
West Bengal	0.305 (8)	0.404 (8)	0.472 (8)
All India	0.302	0.381	0.472

Source : National Human Development Report, 2001, Planning Commission, New Delhi.

Note : Figures in bracket denote the ranks of the states.

Bihar is a poor State with 42.6 percent of its population living below poverty line. Empirical evidences show that continuous efforts towards development of human capital and infrastructure hold the key to poverty reduction. Among various factors affecting the development, investments in education and health are more crucial. The weak state of economy in Bihar is fed and perpetuated by its poverty of both social and physical infrastructure. Education and health are the two most important components of social capital of any society. While the State's literacy level (47 %) is the lowest in the country, its educational infrastructure too is in shambles, reflected by a pupil-teacher ratio of 122:1 as against 40:1 for India as a whole. The net primary enrollment rate for Bihar in 1999-2000 was 52 percent, compared to 77 percent for the entire country. Not only a substantive population of school going age children is found to be out of school, a majority of those who enter the school system are found to drop out. In 2004-05, the total dropout rate at the primary level was 52 percent, whereas at the upper primary level and the secondary level, it was 75 percent and 83 percent respectively. The dropout rates are even higher for girls and SC/STs. There is also a large rural-urban divide in educational attainment: while around 59 percent of 20-24 year olds in urban areas had high school or higher secondary education, this was true for only 38 percent of those in rural areas.

As a nation too, we are committed to the goals of 'Education for All'. The elementary education has been made a fundamental right and it is mandatory for the State to provide free and compulsory education to all children between 6-14 years of age. To achieve 100 percent enrolment of children in the age-group of 6-14 by 2020, a tremendous expansion of schools and classrooms will be required. Therefore, the expenditure on education assumes prime importance. Given the magnitude of poverty, unemployment and deprivation, the present inadequate quantum of fund may not be able to help. The total estimated cost of Sarva Shiksha Abhiyan (excluding the cost of additional class rooms during 20010-15) would be around Rs. 20,000 crore. Yet another Rs. 500 crore would be required for accomplishing the task assigned by NLM. The mandate of NLM (National Literacy Mission) is to banish adult illiteracy and to impart CE (Continuing Education) to adults in 15-35 years age group. Further, the implementation of Mid-Day Meal Scheme for students of primary schools during the period (20010-15) would cost about Rs. 4500 crore.

Poor educational outcomes in the State are accompanied by equally poor health scenario in the State. Health outcomes in Bihar, with some exceptions, are below the national average. The birth rate in Bihar in 2005 was high at 30.4, as against the national averages of 23.8 and 18.1 for Punjab. The IMR in Bihar in 2005 was 61 per 1000 live births, which is much higher compared to

Kerala (14). MMR in Bihar was 371 per 100,000 live birth in 2003, compared to the national average of 301. Antenatal care reaches only around 10 percent of women in Bihar, compared to 32 percent for India. The percentage of deliveries attended to by skilled health staff was only 31 percent for Bihar, as against 48 percent for the country in 2006. The number of institutional delivery was also low (22%) compared to 41 percent for all-India. In terms of nutritional status of children, despite some progress, the proportion of underweight children is one of the highest in the country.

The health care infrastructure organized on the principles of referral system is virtually non-existent in the State. There is a serious shortfall of health sub-centres and primary health clinics, compared to the existing national norms. More importantly, existing centres and clinics are beset with the endemic problems relating to quality, poor maintenance of facilities, idle equipment, and chronic short supply of medicines and vaccines, particularly in the rural areas. As a result, there is significant reliance by the households on the private health providers for critical health services. Private doctors and quacks contribute nearly 74 percent of all medical consultations, with government doctors being consulted only in 15 percent of cases. More than half of women rely on provision of pre-natal care by the private providers, compared to just one-fifth by government providers.

In Bihar, the ratio of private spending on health care relative to public spending is the second highest in India and is a major source of indebtedness and perpetual impoverishment of the rural folks. Public spending on health has declined from 8 percent of total expenditure in mid-1980s to 4 percent in 2000. In 1995-96, Bihar recorded the lowest per capita public health spending (Rs. 15) among the major States, compared to Rs 84 for India. Out of this limited spending, the poorest 40 percent received only around 20 percent of total public health spending. Historically, the health care system in the country has had a distinct urban bias. Attainment of the goal of 'Health for All' by 2000 under National Health Policy is thus essential which may require an additional 2033 primary health centres, 16560 sub-centres, and 590 community health centres.

The grim situation of education and health in Bihar has been prevailing primarily on account of sharp decline in the real per capita expenditure in social and economic services in the low income States including Bihar. As may be observed from the table below, Bihar reported the lower per capita expenditure on social and economic services and that too registered a substantial decline during the periods.

Real Per Capita Expenditure : Social and Economic Services (in Rs.)

	1999-2000		2006-07		Increase in Per Capita Expenditure 1999-2000 to 2006-07	
	Social Services	Economic Services	Social Services	Economic Services	Social Services	Economic Services
Andhra Pradesh	638	475	767	819	129	344
Bihar	556	403	359	221	-197	-182
Goa	2,041	2,242	2,795	3,347	755	1,105
Gujarat	995	1,090	1,031	981	36	-109
Haryana	760	783	816	873	56	90
Karnataka	760	695	858	1,104	98	409
Kerala	795	529	914	591	119	62
Madhya Pradesh	765	570	550	751	-215	181
Maharashtra	808	623	978	983	170	360
Orissa	692	390	564	376	-127	-14
Punjab	757	606	779	952	22	346
Rajasthan	735	385	866	594	131	209
Tamil Nadu	863	495	1,030	611	166	116
Uttar Pradesh	356	318	411	360	55	42
West Bengal	675	303	569	338	-106	35

To attain the norm of health, education and nutrition, the Thirteenth Finance Commission may consider for providing adequate fund to the poor States, because it is certain that the huge expenditure on these schemes cannot be met by normal flow of funds. The cost on all these will entail a huge amount of about Rs. 30,000 crore.

Net State Domestic Product

Over the years, while growth has accelerated sharply in some developed States, it decelerated in some other not so privileged States. Consequently, the inter-State inequalities in growth rate have increased. The poverty reduction in those disadvantaged States requires rapid growth of GSDP. The ratio of per capita NSDP of Punjab, Haryana, Maharashtra and other richer States to NSDP in Bihar has continuously increased over the past four decades, and in 2004-05, it was more than five times as is evidenced by the Appendix IV.

Normally, the factors leading to growth are rate of investment, both public and private, availability of human resources and quality of infrastructure, both economic and social. The resources required for this has to come from the central pool, as States' own resources cannot bridge this gap. The Thirteenth Finance Commission may take note of this aspect while recommending the criteria governing central transfers so that the disadvantaged States like Bihar may catch up with the richer States.

Bihar's Backwardness vis-à-vis Finance Commissions

In India, there is vast regional diversity and iniquitous distribution of natural resources as well as difference in socio-economic conditions and, as a result, the ability to mobilise revenue by the States differs. The approach of fiscal transfers to the States by the Finance Commission is mainly guided by the principle of equalisation. A Finance Commission is a key pillar of federal structure and an institution through which review and transfer of resources to the States take place. Admittedly, the task of achieving greater equality does not depend on Finance Commission transfers alone, transfers by the Planning Commission and Ministries need to play a complementary role in reducing disparities. The objective of federal transfers is to match the means with the comprehensive fiscal needs of States. The National Development Council, which oversees the working of the planning process, at the time of its formation in 1952, was assigned the task of building up resources for national development "ensuring fullest development of the less advanced regions and sections of the community through sacrifices done equally by all citizens". For the Finance Commission transfers too, this avowed objective should remain the same.

At this stage, it is worthwhile to comprehend the historical trends in the transfers from centre to the States through the major channels. A glance through the table given below would reveal that the total transfers from the central government's gross revenue receipts remained between 36 to 40 percent during the period covered by the Seventh to Eleventh Finance Commissions and that total transfers through the Finance Commissions were much more than through the Planning Commission and other transfers.

Transfers from Centre to States as Percentage of Gross Revenue Receipts of the Centre : Finance Commission Period Averages

(Percentages)

Year	**Finance Commission Transfers**			**Other Transfers**			**Total Transfers (4+7)**
	Share in Central Taxes	**Grants**	**Total Transfers through Finance Commission (2+3)**	**Grants through Planning Commission**	**Non-plan Grants (Non-statutory)**	**Total Other Transfers (5+6)**	
VII FC	22.39	1.96	24.35	12.11	1.66	13.77	38.11
VIII FC	20.25	2.52	22.77	13.56	1.54	15.10	37.86
IX FC	21.37	3.42	24.79	14.48	1.06	15.54	40.33
X FC	21.40	2.34	23.75	10.57	0.63	11.19	35.79
XI FC (first two years)	20.93	5.20	26.13	10.39	0.82	11.21	37.20

Source : Union Government Finance Accounts and Revenue Receipts are from Central Government Receipts Budget (Various issues).

Notwithstanding the high profile objectives of both the Planning Commission and the Finance Commission, the state of Bihar remained backward. Now a question emerges as to what went wrong and where? It is unfortunate for the backward States like Bihar that both the super bodies, viz., the Planning Commission and the Finance Commission could not evolve any formula for transfer of resources to the weaker States so as to enable them to attain at least the national average in respect of various development indicators. As for Finance Commissions, they have not used uniform criteria in the distribution of the proceeds of Income Tax and Union Excise duties. Different Commissions used different criteria. In this connection, one member of the Seventh Finance Commission had observed that there would appear to be no legal or economic basis for allocating shareable income tax revenue and excise revenue according to different criteria. Therefore, what was required was the selection of criteria which convincingly tilted in favour of the backward States so as to accelerate the equalisation process.

Another disquieting feature is that the Finance Commissions made a very limited use of grants-in-aid. An important purpose of grants-in-aid is to help in equalising the standards of basic social services. However, the grants-in-aid have normally been restricted to fill up non-plan revenue gap of the States. In point of fact, Finance Commission is free to consider the differential needs of the States, and it is the backward States like Bihar which are in greater need of assistance. But it is found that grants-in-aid to States have been used only restrictively. As we know, the quantum of grants-in-aid was 12.15 percent of the total statutory transfers under the award of the First Finance Commission which was increased to 26 percent by the Sixth Finance Commission, but again brought down to 7.7 percent under the Seventh Commission. The Twelfth Finance Commission has again increased it to 18.87 percent, from 13.47 percent by the Eleventh Finance Commission. Now a question emerges whether, with this modest increase, the equitable approach would be achievable. Similarly, the Twelfth Finance Commission has assumed an annual rate of inflation at 5 percent in its forecasts. But it is feared that the increase in inflation rate will be more than assumed. Again, share in taxes which was 92.28 percent during the Seventh Finance Commission has been brought down to 81.13 percent by the Twelfth Finance Commission which is to the disadvantage of States. The details may be obtained in the table below :

Transfers Recommended by Finance Commission

(Rs. in crore)

Finance Commission	Period	Grants-in-aid		Share in Taxes		Total Amount
		Amount	% Share	Amount	%Share	
Seventh	1979-84	1609.92	7.72	19233.05	92.28	**20842.97**
Eighth	1984-89	3769.43	9.55	35682.58	90.45	**39452.01**
Ninth*	1989-95	11030.38	9.96	99667.64	90.04	**110698.02**
Tenth	1995-00	20300.30	8.96	206343.00	91.04	**226643.30**
Eleventh	2000-05	58587.39	13.47	376318.01	86.53	**434905.40**
Twelfth	2005-10	142639.60	18.87	613112.02	81.13	**755751.62**

* Ninth Finance Commission covered six years, and in addition also provided plan grants of Rs. 9000.83 crore (not included above).

It appears that the Finance Commissions failed to observe the distinction between the role of tax devolution and grants. None of the Finance Commissions defined a precise role of tax sharing which is meant to cover the vertical gap created by the insufficiency of tax powers from which all States suffer. Obviously, if the desired objectives of federal transfers are to be met, the Finance Commission may take into account the comprehensive fiscal needs of the States. In formulating the schemes of transfer, the Finance Commission should take these needs into account and the resources available for transfer should be used both for purpose of reducing vertical fiscal imbalance and for regional equalisation. The grants-in-aid should be assigned a positive role and their corpus increased significantly, so that the backward states could gain more assistance to finance their development efforts.

It is strongly felt that the minor adjustments in the recommendations of the earlier Finance Commissions may not improve the lot of backward States like Bihar. If the backward States have to be brought to the level of national average, a radical approach may have to be adopted by the present Finance Commission. Or else, another 5 years award period, like the previous ones, will be over without effecting any significant change in the status of the backward States.

CHAPTER V

CRITERIA AND WEIGHTS SUGGESTED

Despite the Finance Commissions adopting 'equalisation' principle and 'gap filling approach' for transfers through tax devolution and grants, disparities in revenue capacity of States still remain large. In the process, the richer States are becoming richer and poor becoming poorer. Therefore, in order to sustain the national integration, it is imperative that the regional inequalities are reduced to a reasonable extent within shortest possible time. The States get resources from the centre through two sources, viz., the Planning Commission and the Finance Commission. Besides a few annual plans, the Planning Commission has completed ten five year plans and has entered the ongoing Eleventh Plan. Similarly, all the twelve Finance Commissions have already reviewed the situation and recommended suitable transfers to the States. But, as mentioned above, the poor States' situation has worsened continuously. The Thirteenth Commission should, therefore, in right earnest take up the responsibility of improving the situation. In this context, the following suggestions may be considered.

1. Shareable Taxes and Overall Devolution

It may be noted that overall devolution has not increased in commensurate with the responsibilities of the States and the growth in resources of the Center. The Twelfth Finance Commission recommended only 1 percentage point increase from 29.5 to 30.5 percent as share of States in the net proceeds of shareable central taxes. This also came with a caveat that, if States are allowed to levy sales tax (or VAT) without any prescribed limit on textiles, tobacco and sugar, commodities on which additional excise is part of the central divisible pool, then the share of States would remain at 29.5 percent. The indicative amount of overall transfers to the States was fixed at 38 percent of central gross revenue by the Twelfth Finance Commission, compared to 37.5 percent proposed by the Eleventh Finance Commission. This was accepted by the Centre. Thus, the overall vertical devolution has seen very minor increments compared to the needs and responsibilities of the States.

The collection of taxes and duties is directly related to various factors, viz., better administration, improved law and order situation and a friendly and conducive atmosphere of investments and other related activities. All these are ensured by the State governments. It is, thus, quite fair that the States be given increased share out of tax revenues of the Centre. It is, therefore, suggested that the share of States in the net proceeds of shareable central taxes may be increased from the existing 30.5 percent to 50.0 percent. Similarly, the indicative limit of revenue transfers to the States should be raised to at least 40.0 percent of the centre's gross revenue receipts from the existing 38 percent, as recommended by the Twelfth Finance Commission.

2. Criteria and Weights

The Tenth Finance Commission recommended for uniformity in allocation of proceeds of different taxes to States. However, even within the scope of uniform formula, there was a need to focus on poorer States by allocating them more resources for taking care of glaring deficiencies in their development. Though a beginning was made by the Tenth Finance Commission by including infrastructure as a parameter in the scheme of devolution with a weightage of 5 percent, it was too small a weightage for the poorer States like Bihar to make a dent in the extant situation. The Eleventh Finance Commission, though recommended an increase to 7.5 percent, the situation of poorer States remained unchanged. Probably, taking into consideration the ineffectiveness of the infrastructure as a parameter, the Twelfth Finance Commission has done away with this and laid emphasis on area as a criteria by increasing the same to 10 percent from 7.5 percent as recommended by the previous Commission. Since the area as a parameter is not directly related to the backwardness and poverty, the weightage of area becomes irrelevant and should be done away with.

It also appears that the Twelfth Finance Commission's dispensation on tax devolution is less equalising than that of Eleventh Finance Commission. This is because of lowering of the weights for equalising factors in the formula, to allow higher weightage for the efficiency indicators. There has been a dilution of progressivity by reducing weight to income distance criteria from 62.5 percent to 50 percent. The Thirteenth Finance Commission may look into all the aspects and recommend at least 70 percent weightage to income distance criteria.

The Eleventh and Twelfth Finance Commissions determined the tax devolution based on the following criteria and relative weights.

Item		EFC (%)	TFC (%)
1.	Population	10.0	25.0
2.	Income Distance	62.5	50.0
3.	Area	7.5	10.0
4.	Index of Infrastructure	7.5	—
5.	Tax Effort	5.0	7.5
6.	Fiscal Discipline	7.5	7.5

It is suggested that the Thirteenth Finance Commission may adopt the following criteria and weights.

Criteria		Weight (%)
1.	Fiscal Discipline	10.0
2.	Population	20.0
3.	Income Distance	70.0

While recommending a formula for tax devolution, the Thirteenth Finance Commission must pay special attention to backward States like Bihar which has the high poverty ratio of around 42 percent. Bihar needs special consideration because of its (a) high scheduled castes population; (b) highest poverty ratio, (c) proneness to natural calamities like floods on a regula basis; (d) radicalism problems; and (e) fiscal situation.

The Twelfth Finance Commission changed the formula for tax devolution with reallocating 25 percent weight in favour of population as against only 10 percent as recommended by the Eleventh Finance Commission. It is suggested that the weightage to population may be retained at least at 20 percentage points so that the income distance and population taken together should account for at least 90 percent of the weightage. Besides, it is necessary to retain an incentive design in tax devolution formula and as such the fiscal discipline may be retained and increased from 7.5 percent to 10 percent.

The Thirteenth Finance Commission must evolve a formula and take into account all the indicators of backwardness like low income, more population, large areas, etc. before recommending the formula for transfer. Faster the development in these areas, faster would be the economic growth process leading to improved level of tax base and reduced level of central dependency. The Thirteenth Finance Commission should see to it that the equalisation grants should always be released in full and no part should be withheld for shortfall in expenditure against the projected one in a particular year. Instead, at least three years period be considered as a block for the purpose of computation of expenditure, debt waiving of States, etc.

Apart from the population and low income, the backwardness of a State is directly related to its low educational and health status. The Twelfth Finance Commission introduced equalisation principle and provided grants for education and health to relatively deficient States. The grants-in-aid at enhanced scale may have to be provided for reducing inter-State disparities in financial resources. Inter-State equalisation would be promoted if grants are made with reference to provision of basic minimum services to the people.

3. Adequate Resources to Local Bodies

In keeping with the spirit of the 73rd and 74th amendments, the Constitution emphasizes devolution of funds to local bodies in rural and urban areas. With a view to provide an impetus to the decentralisation process, the Eleventh Finance Commission recommended only a sum of Rs. 10,000 crore for the entire award period of 2000-05. This amount proved much less for the requirements of the local bodies. The middle tier or the States suffer from acute scarcity of financial resources. On account of inadequacy of financial resources, the decentralisation, in true sense of the term, has not taken the roots, particularly in Bihar. However, on the pattern of Eleventh Finance Commission, the Twelfth Finance Commission recommended a sum of Rs. 25,000 crore for a five year period from 2005-2010 as grants-in-aid to the States to supplement the resources of the municipalities and the Panchayats. This will be equivalent to 1.24 percent of the sharable tax revenues and 0.9 percent of gross revenue receipts of the Centre. The Twelfth Finance Commission recommended that the amount of Rs. 25,000 crore may be divided between the Panchayats and the municipalities in the ratio of 80:20, i.e., Rs. 20,000 crore for PRIs and Rs. 5,000 crore for the municipalities. But this too proved to be inadequate to meet the constitutional obligations. It may not be out of place to mention that the studies conducted at the instance of the Finance Commission estimated the requirements of local bodies to the tune of Rs. 1,42,128 crore for the tenure period of five years. Considering the fact that there are only a few central development schemes meant for the Nagar Panchayats as compared to the rural Panchayats, the requirements of Nagar Panchayats are undoubtedly higher and some special package for them should be considered.

In order to ensure better planning and its implementation, it is imperative to empower the PRIs through enhancing their knowledge, skills and capabilities so that the problems coming in the way, particularly of fiscal federalism may be taken care of. It becomes essential that suitable capacity building measures are adopted for facilitating smooth transfer of finance to the local bodies. The empowerment and capacity building of local bodies are the sine qua non for proper decentralization of powers and functions to the grass root level. But for this an adequate amount of money is required, which the Thirteenth Finance Commission may take into cognizance and recommend liberally.

4. Sharing of Advertisement Revenue

With a tremendous growth in the viewership of television, its advertisement revenue has increased manifold. On the contrary, the State governments lost a major source of their revenue due to shrinking viewership in cinema halls. The Thirteenth Finance Commission may consider this growing advertisement earning by the Centre which may be shared by the States through evolving some appropriate mechanism.

5. Debt Relief

Though the debt relief plan proposed by the Twelfth Finance Commission was a welcome step, the conditionalities imposed violated the basic tenets of fiscal federalism. The benefit of debt relief is found to be lower for some of the most debt stressed States like West Bengal, Uttar Pradesh and Bihar. The highly indebted States like Bihar will be facing difficulties to qualify for debt relief owing to the strict conditionalities attached. There was no need to link it to passing of Fiscal Responsibility Bill. Again, doing away with the Central intermediation in States' borrowing and requiring them to go to the market may severely affect the development spending of the States having large outstanding debt. It is apprehended that fiscally weak States like Bihar would be unable to raise resources from the market. Another shortcoming of the debt relief plan is that it is confined only to a small part of the outstanding debt of the States, viz., loan liabilities to the centre, which constitute only about one-sixth of the total.

Bihar, in spite of bringing down its fiscal deficit, has got no debt waiver under this scheme from the central government. This is because of the exceptional situation in Bihar in 2004-05 (the reference year for judging debt situation), which was a low expenditure year mainly because of strictures on spending due to President's rule and election. The fiscal deficit in this year was very low at 1.9 percent of GSDP compared to 6.8 percent in the previous year and 5.2 percent in the next year. Thus, in spite of fiscal consolidation in the last three years and achievement of FRBM targets, Bihar has been denied the debt waiver. Instead of taking a single year of 2004-05, the three years average should have been taken. The Commission may look into.

The Thirteenth Finance Commission may also consider the following additional debt relief measures :

(i) The pattern of Central Plan assistance may be changed with a higher proportion (more than 30 percent) of grants, as at present.

(ii) The levels of debt swap of Central loans against small savings and market borrowings may be enhanced.

(iii) The rate of interest charged on loans by the Centre and Central sector financial institutions may be reduced in tandem with the reduction of rate of interest in the financial sector as a whole.

Besides, setting up of a States Funding Corporation as recommended by RBI or a Loan Council as suggested by the World Bank to deal with the market borrowings by States may also be considered by the Thirteenth Finance Commission.

6. Need for HRD Fund

The 'Health for all by 2000 AD' and 'Education for All' appear to be a far cry with most of States struggling on both these fronts. This struggle shows no sign of coming to an end in foreseeable future, owing mainly to resource crunch, particularly in the poor States. For example, the statistics on selected human development indicators show that Bihar is much below the all-India level in respect of all the parameters, viz., life expectancy at birth (59.6 years), literacy rate (47.43%), birth rate (31.5), rural population (89.5%), population below poverty line (42.2%), per capita income (Rs. 3922 in 2001-02), etc. Therefore, a large quantum of help is needed to tone up the existing system. In recent years, there has been a major shift to the skill development and training needs of the manpower, keeping in view their employment potential. The States with higher availability of human skill and more rapid growth in these skills are more likely to experience faster growth. Thus, there is an urgent need to reorient the education system, particularly at the post-school stage. For reorienting and strengthening their education system, and for setting up a few centres of excellence, the State needs support from the Center. Similarly, revamping of the health networking in the state needs adequate resources.

Presently public expenditure (Centre and States) on education is only around 3.6 percent of GDP which may be enhanced to 6 percent. The total estimated cost of Sarva Shiksha Abhiyan during 2010-15 for Bihar would be around Rs. 20,000 and another Rs. 500 crore would be required for performing the task assigned by the NLM for banishing adult illiteracy. The Mid-Day Meal Scheme for primary schools during 2010-15 would cost another Rs. 4500 crore. To attain the norm of health, education and nutrition, the total cost would come to Rs. 30,000 crore during 2010-15.

In the specific case of Sarva Shiksha Abhiyan (SSA), the recent decision of the central government of changing financing pattern of the programme from 75:25 (Centre : State) to 65:35 (Centre : State) has resulted in a huge financial burden on the State's resources. This change in financing pattern would mean an additional commitment of Rs. 900 crore on part of the State government. This is nearly impossible for the State without adversely affecting development efforts in other sectors. In view of the above, it is requested that the old financing pattern of 75:25 (Centre : State) should be restored. A HRD Fund may also be considered for a period of five years (2010-15) to enable the disadvantaged States to strengthen their education and health systems.

7. Calamity Relief Fund

The backward States lack resources for granting adequate funds for relief and rehabilitation to the calamity afflicted population. The size of calamity relief fund was enhanced by the 12th Finance Commission. It recommended that the Centre and the States will contribute to the Calamity Relief Fund to the extent of 75 percent and 25 percent respectively. It is suggested that the States' contribution to the Calamity Relief Fund should be reduced to nil by the Thirteenth Finance Commission. Also, the National Calamity Contingency Fund and Calamity Relief Fund have to be enlarged suitably to help the States combat the situation and take up the reconstruction of capital assets and infrastructure. Bihar, particularly the south Bihar, is afflicted frequently by drought, damaging crops and affecting the rural economy. Also, the fire every year affects several hundred villages in the State, taking heavy toll of lives and properties. Besides, the heat wave, cold wave and hailstorms do take heavy toll of human and animal lives including the properties and crops. Again, the State falls into the high seismic zone and hence vulnerable to earthquakes. To meet these calamities, heavy expenditures are incurred. On relief and rehabilitation, the Thirteenth Finance Commission should take into consideration these facts too while determining the size of Calamity Relief Fund for the State.

8. Devastating Floods

The floods occur in Bihar almost every year and its intensity is often very high. This is a permanent feature and hence it may not be construed a calamity, but a catastrophe. In 2007, it inundated 22 districts out of 38 in the state. The total allotment for flood relief increased to Rs. 1365.2 crore in 2007. This year's (2008) flood has brought many times more devastation when the river Kosi has opened a new course by breaching through Nepal. There were 6 districts of the State in the grip of unprecedented devastating floods, whereas, in 10 other districts, the damages of lives and property were substantial. All the 22 districts of north Bihar suffered from floods from different rivers flowing in the region. The problem involves Nepal and, as such, can be solved only through international cooperation. The State government cannot take any action of its own to mitigate the problems. The Thirteenth Finance Commission should make special provision for Bihar to meet its flood relief and rehabilitation expenses. Such floods of recurring and devastating nature should not be covered under natural calamities, diluting the gravity of problem. A separate Flood Relief and Rehabilitation Fund (FRRF) should be constituted with 100 percent fund from the Centre to meet the contingencies.

9. Problem of Radicalism

The problem of extremism over a large number of States in India should receive adequate attention of the Thirteenth Finance Commission. Out of 650 districts in the country, 150 have been declared disturbed by militant activities. In Bihar, nearly all the districts are facing this problem and, if these are not nipped now, they may attain alarming proportions later. It is, therefore, necessary to strengthen police, administrative and social infrastructure to effectively combat this problem. Plan funds will not address this issue. Therefore, adequate amount of non-plan funds are required for the purpose.

10. Package for Bifurcation of the State

The State was bifurcated in 2000. Due to this bifurcation, all the mineral and forest resources including a number of big and medium industries with the ancillaries remained in Jharkhand. A package for the loss incurred by Bihar due to bifurcation has not been given, as premised by the Centre. The Thirteenth Finance Commission may consider this aspect too.

11. Compensation for Low CD Ratio

The CD ratio in Bihar is the lowest among the States (30 percent) and the State has been suffering on this account for decades, resulting in a huge accumulated financial loss. This is precisely because of government policy of freight equalisation and lack of basic infrastructure in Bihar, leading to flight of capital elsewhere. Therefore, it is imperative that Bihar should be compensated for discrimination resulting from adverse CD ratio.

12. Freight Equalisation versus Industrialisation in Bihar

The freight equalisation policy entirely negated the locational advantage of the State on account its rich mineral resources base. This completely scuttled the chances of industrialization of Bihar. The intermediate industries could not grow in Bihar due to this policy and the State remained deprived of capital investment, which would not have been the case in the absence of such a policy. A rough estimate of this loss can be worked out from the figures of capital base of steel industry in the State and its forward linkage. Assuming that the capital base of steel industry in the State in the pre-ninety period was about one-fourth of the total capital base in the country which is Rs. 90,000 crore and a forward linkage of 4.79 (as estimated by the Central Statistical Organisation), Bihar was deprived of a capital base worth Rs. 1,07,775 crore by the policy of freight equalisation. Undivided Bihar would have had an additional capital base equaling that amount in intermediate industries sector, had the freight equalization policy not been in operation. The Thirteenth Finance Commission should consider this aspect as well and recommend for adequate compensation for the State.

13. Grants-in-Aid

Grants-in-aid have an important role in the scheme of transfer of resources from the Centre to the States. Apart from meeting budgetary needs, an important objective of grants-in-aid is provision of basic administrative standards and social services in different States. The maintenance of law and order is also vital for industrial and economic growth. In the absence of any firm approach adopted by the Finance Commission on 'equalisation grant', disparities in per capita revenue expenditure on basic services and post-devolution non-plan revenue expenditure among the States remain large. The Eleventh Finance Commission gave post-devolution revenue deficit grants, but along with several low income States, Bihar was also denied this grant. In respect of Bihar, this has normally been as low as zero and the maximum has been 22.20 percent. These variations occurred because different Commissions used different yardsticks. Increasing disparities among the States have been recognised by most of the Finance Commissions constituted so far, but sadly enough, none tried to address the issue squarely. For achieving equitable growth of the States, the equalisation grants are essential for providing certain basic national minimum standards of administrative and social services to the people at large. The grants-in-aid element in the transfer scheme should as far as possible be a residuary item and the attempt should be to make bulk of the transfer through tax sharing. It would be contrary to the spirit of the Constitutional provisions to deliberately increase the role of grant-in-aid merely to acquire the right of making transfers conditional. Against this backdrop, the Thirteenth Finance Commission may consider that the grant-in-aid should be based on some yardsticks and given to poor States to (i) cover the States' resource gap; (ii) reduce disparities in the level of general social and economic services of the States; (iii) cover both revenue and capital expenditure as also developmental and non-developmental expenditure; and (iv) meet not only the current requirements but also future requirements of the expenditure including capital expenditure.

14. Special Problem Grants

The Commission has to give recommendations on sums to be paid to the States which need assistance by way of grants-in-aid under Article 275 of the Constitution. As per the memorandum submitted to the Twelfth Finance Commission, Bihar needed huge investments to the tune of Rs. 38.53 thousand crore each year till 2019-20 to attain a growth rate of 15 percent per annum to catch up with at least the all-India average growth of 8 percent by the year 2019-20. However, unfortunately the Twelfth Finance Commission did not take this fact into account. To achieve the same growth rate of 15 percent by 2019-20, the amount needed per annum would in all probability, be now around Rs. 80 thousand crore. This huge sum may have to come as special grant. The Thirteenth Finance Commission may consider this aspect and suggest special problem grant for the State, so that Bihar does not remain a disadvantaged State. For creation of capital infrastructure and upgradation of administrative and social services, the Commission may make recommendation for targeted grants-in-aid. The major areas for which targeted grants-in-aid may be required by the underdeveloped States may include the following :

<u>Rehabilitation of Sick Units</u> : As per the State Level Diagnostic Study of Small Scale Industries units, about 70 percent of the SSI units in Bihar are either sick or closed. However, up to 60 percent of the sick units can be rehabilitated and revived by giving them the required support. This will enable their capital assets to be put again to productive uses. Besides providing large employment opportunities, it will also contribute towards significant increase in the GSDP. The Thirteenth Finance Commission may look into this aspect and recommend a special subsidy grant of at least 50 percent of the total debt for rehabilitation of sick/ closed units.

E-Governance : In the present century, knowledge-based administration and governance is key for any State government. In this connection, electronic connectivity is extremely needed. The role of e-governance in enhancing efficiency and providing better services to the people is widely recognized. This would help to collect and disseminate on line data of all the departments as also the local offices operating all over the State. To operationalise this project, a grant of Rs. 300 crore from the Centre is needed.

Secondary Education : For strengthening and orienting the educational institutions towards skill development courses at the secondary level, an estimated amount of Rs. 1000 crore is required so that the children of the State are not denied the right to education.

Information Technology : There is an urgent need for the State to advance towards a learning society founded on acquisition, renewal and use of knowledge. In an endeavour to move with the changing world, Bihar needs to create a knowledge society. For this, the State government should give a thrust to Information Technology sector. An ‘operation knowledge’ campaign may have to be launched here for universalising Information Technology and IT based education. This may require construction of buildings and purchase of equipments for introduction of the new courses in Information Technology at various levels. This may require additional fund which may be considered by the Thirteenth Finance Commission.

Civic Amenities in Urban Areas : With the rapid growth in urban population, the demand for civic amenities like adequate supply of safe drinking water, provision of drainage and sewerage has increased manifold. This cannot be overlooked and it is estimated that provision of minimum level of civic amenities may require about Rs. 500 crore.

Health Services : Health care is one of the most important Human Development indicator. The State is much behind in extending an adequate health care to its people. Inadequate health infrastructure is a major factor leading to poor health care. Most of the sub-centres, and additional primary health centre do not have proper buildings. With a view to improving health services in the State, pucca buildings may have to be provided for housing primary health centres, additional primary health centres and sub-centres. The existing referral, sub-divisional and district hospitals also require upgradation in terms of buildings and equipments, etc. which may cost Rs. 5000 crore. For providing the state of art health care, a further sum of Rs. 400 crore is needed.

Infrastructure Development : Developed infrastructure, including power and road are the sine qua non for attaining the overall growth potential. Bihar is lagging much behind in terms of infrastructural development which hitherto hindered the progress of the State. Even the RIDF, managed and operated by NABARD, has been of very negligible help. It is, therefore, urged upon the Thirteenth Finance Commission to make special provision for adequate grants for infrastructural development in the State.

Appendix I

Terms of Reference for Thirteenth Finance Commission

The Commission shall make recommendations with regard to :

(i) The distribution between the Union and the States of the net proceeds of the taxes to be divided between them.

(ii) The principles which should govern the grants-in-aid to the States out of the Consolidated Fund of India and the sums to be paid to the States, which are in the need of assistance by way of grants-in-aid of their revenues.

(iii) The measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats and Municipalities in the State.

The Commission has to review the state of finances of the Union and the States keeping in view, in particular, the operation of State's Debt Consolidation and Relief Facility, 2005-10, introduced by the Central Government on the basis of Twelfth Finance Recommendations and suggests measures for maintaining a stable and sustainable fiscal environment consistent with equitable growth.

In making its recommendations, the Commission shall have regard, among other considerations, to :

(i) The resources of the Central Government, for five years commencing on 1st April 2010, on the basis of levels of taxation and non-tax revenues likely to be reached at the end of 2008-09;

(ii) The demands on the resources of the Central Government, in particular, on account of the projected Gross Budgetary Support to the Central and State Plan, expenditure on civil administration, defence, internal and border security, debt-servicing and other committed expenditure and liabilities;

(iii) The resources of the State Governments, for the five years commencing on 1st April 2010, on the basis of levels of taxation and non-tax revenues likely to be reached at the end of 2008-09;

(iv) The objective of not only balancing the receipts and expenditure on revenue account of all the States and the Union, but also generating surpluses for capital investment;

(v) The taxation efforts of the Central Government and each State Government and the potential for additional resource mobilisation to improve the tax-Gross Domestic Product ratio in the case of the Union and tax-Gross State Domestic Product ratio in the case of the States;

(vi) The impact of the proposed implementation of Goods and Services Tax with effect from 1st April, 2010, including its impact on the country's foreign trade;

(vii) The need to improve the quality of public expenditure to obtain better outputs and outcomes;

(viii) The need to manage ecology, environment and climate change consistent with sustainable development;

(ix) The expenditure on the non-salary component of maintenance and upkeep of capital assets and the non-wage related maintenance expenditure on plan schemes to be completed by 31st March, 2010 and the norms on the basis of which specific amounts are recommended for the maintenance of the capital assets and the manner of monitoring such expenditure;

(x) The need of ensuring the commercial viability of irrigation projects, power projects, departmental undertakings and public sector enterprises through various means, including levy of user charges and adoption of measures to promote efficiency.

The TOR has further been extended to factor in liabilities of oil, food and fertiliser bonds of the Central Government, part of which constitute extra budgetary transfers.

In making its recommendations on various matters, the Commission shall take the base of population figures as of 1971, in all such cases where population is a factor for determination of devolution of taxes and duties and grants-in-aid.

The Commission may review the present arrangements as regards financing of Disaster Management with reference to the National Calamity Contingency Fund and the Calamity Relief Fund and the funds envisaged in the Disaster Management Act, 2005 (53 of 2005), and make appropriate recommendations thereon.

Appendix II : Gross State Domestic Product (GSDP) at Factor Cost at Constant (1999-00) Prices of Bihar (Figures in Rs crore)

Sl. No.		Sector	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06 (Prov)	2006-07 (Quick)	Growth Rate
1		Agriculture & Animal Husbandry	15202.5	20861.4	16287.3	20665.7	16899.2	19417.2	17069.6	22821.0	2.61
2		Forestry & Logging	910.6	962.9	987.7	1023.2	1066.1	1116.8	1165.3	1215.4	4.11
3		Fishing	696.7	769.2	984.8	1069.3	1091.5	1095.3	1144.7	1243.3	7.89
4		Mining & Quarrying	94.4	133.4	242.5	68.0	55.6	43.9	54.7	68.5	-13.35
Sub Total (Primary)			16904.2	22727.0	18502.3	22826.1	19112.3	21673.2	19434.3	25348.2	2.84
5		Manufacturing	3614.0	3389.9	3144.4	3386.1	3317.2	3526.5	4404.5	4593.2	4.02
	5.1	Registered	1150.7	785.8	678.1	841.6	621.8	790.4	1487.0	1553.8	6.70
	5.2	Un-registered	2463.4	2604.1	2466.3	2544.5	2695.4	2736.1	2917.6	3039.4	2.91
6		Construction	1929.2	1952.6	2121.2	2522.2	2472.9	3037.1	3440.0	5082.9	13.54
7		Electricity, Water Supply & Gas	718.5	778.0	602.1	615.7	631.7	654.4	672.5	717.0	-0.56
Sub Total (Secondary)			6261.7	6120.5	5867.7	6524.0	6421.8	7218.1	8517.0	10393.2	7.15
8		Transport, Storage & Communication	3724.0	4054.0	4030.7	4319.4	4576.8	4938.0	5236.1	5646.2	5.96
	8.1	Railways	1563.8	1755.2	1789.1	1827.7	1940.6	2047.0	2204.6	2374.4	5.54
	8.2	Other Transport & Storage	1392.6	1503.8	1497.8	1575.4	1582.0	1672.9	1675.4	1755.9	3.02
	8.3	Communication	767.6	795.0	743.8	916.3	1054.2	1218.1	1356.1	1515.9	11.38
9		Trade, Hotel & Restaurant	7540.9	8700.9	9529.8	11357.2	11419.5	13880.5	13397.9	13496.3	9.17
Sub Total (Transport, Communication & Trade)			11264.8	12755.0	13560.5	15676.7	15996.2	18818.4	18634.0	19142.5	8.19
10		Banking & Insurance	1819.1	2014.3	2473.6	2366.7	2311.2	2494.1	2704.3	2932.1	5.90
11		Real Estate, Ownership of Dwelling & Business	2097.1	2209.8	2304.4	2399.7	2508.6	2637.6	2768.9	2920.5	4.75
Sub Total (Finance & Real Estate)			3916.2	4224.1	4778.0	4766.4	4819.7	5131.7	5473.2	5852.6	5.29
12		Public Administration	3793.6	4138.9	4471.5	3854.5	4372.3	4378.1	4348.5	5067.6	2.82
13		Other Services	8059.4	8295.1	8267.4	8328.6	8663.4	8689.1	9549.1	10718.4	3.50
Sub Total (Tertiary)			27034.1	29413.0	31077.3	32626.1	33851.6	37017.3	38004.8	40781.1	5.78
Total GSDP			**50199.9**	**58260.4**	**55447.4**	**61976.2**	**59385.7**	**65908.6**	**65956.2**	**76522.5**	**4.94**
Per Capita GSDP (Rs.)			**6304**	**7116**	**6571**	**7243**	**6816**	**7434**	**7315**	**8351**	**2.92**

Source : Bihar Economic Survey 2007-08

Appendix III : Yearly Percentage Growth Rates of GSDP at Constant (1999-00) Prices of Bihar

Sl. No.		Sector	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06 (Prov)	2006-07 (Quick)
1		Agriculture & Animal Husbandry	37.2	-21.9	26.9	-18.2	14.9	-12.1	33.7
2		Forestry & Logging	5.7	2.6	3.6	4.2	4.8	4.3	4.3
3		Fishing	10.4	28.0	8.6	2.1	0.4	4.5	8.6
4		Mining & Quarrying	41.3	81.8	-72.0	-18.1	-21.1	24.8	25.1
Sub Total (Primary)			34.4	-18.6	23.4	-16.3	13.4	-10.3	30.4
5		Manufacturing	-6.2	-7.2	7.7	-2.0	6.3	24.9	4.3
	5.1	Registered	-31.7	-13.7	24.1	-26.1	27.1	88.1	4.5
	5.2	Un-registered	5.7	-5.3	3.2	5.9	1.5	6.6	4.2
6		Construction	1.2	8.6	18.9	-2.0	22.8	13.3	47.8
7		Electricity, Water Supply & Gas	8.3	-22.6	2.3	2.6	3.6	2.8	6.6
Sub Total (Secondary)			-2.3	-4.1	11.2	-1.6	12.4	18.0	22.0
8		Transport, Storage & Communication	8.9	-0.6	7.2	6.0	7.9	6.0	7.8
	8.1	Railways	12.2	1.9	2.2	6.2	5.5	7.7	7.7
	8.2	Other Transport & Storage	8.0	-0.4	5.2	0.4	5.7	0.1	4.8
	8.3	Communication	3.6	-6.4	23.2	15.0	15.5	11.3	11.8
9		Trade, Hotel & Restaurant	15.4	9.5	19.2	0.5	21.6	-3.5	0.7
Sub Total (Transport, Communication & Trade)			13.2	6.3	15.6	2.0	17.6	-1.0	2.7
10		Banking & Insurance	10.7	22.8	-4.3	-2.3	7.9	8.4	8.4
11		Real Estate, Ownership of Dwelling & Business	5.4	4.3	4.1	4.5	5.1	5.0	5.5
Sub Total (Finance & Real Estate)			7.9	13.1	-0.2	1.1	6.5	6.7	6.9
12		Public Administration	9.1	8.0	-13.8	13.4	0.1	-0.7	16.5
13		Other Services	2.9	-0.3	0.7	4.0	0.3	9.9	12.2
Sub Total (Tertiary)			8.8	5.7	5.0	3.8	9.4	2.7	7.3
Total GSDP			**16.1**	**-4.8**	**11.8**	**-4.2**	**11.0**	**0.1**	**16.0**
Per Capita GSDP			**12.9**	**-7.7**	**10.2**	**-5.9**	**9.1**	**-1.6**	**14.2**

Source : Bihar Economic Survey, 2007-08

Appendix IV : State-wise Per-capita NSDP

States	Per-Capita NSDP@ - State-wise (Triennial Average for Selected Years) (Rupees)				
	Average of 1960-61, 1961-62 and 1962-63	Average of 1970-71 to 1972-73	Average of 1987-88 to 1989-90	Average of 1996-97 to 1998-99	Average of 2002-03 to 2004-05
High Income					
Gujarat	402	821	4602	17393	25884
Haryana	371	1010	5284	17804	29678
Maharashtra	418	849	5369	19248	29292
Punjab	401	1127	6996	18924	28568
Average HI	398	952	5563	18342	28356
Middle Income					
Andhra Pradesh	331	626	3455	12257	21204
Karnataka	312	705	3810	13085	21586
Kerala	292	659	3532	14448	24772
Tamil Nadu	357	674	4093	15424	23688
West Bengal	399	760	3750	11769	20513
Averge MI	338	685	3728	13397	22353
Low Income					
Bihar	223	452	2135	5465	5580
Madhya Pradesh	279	538	3299	9371	13097
Orissa	240	551	2945	7556	12137
Rajasthan	285	601	3092	11245	14864
Uttar Pradesh	252	540	2867	8298	10692
Average LI	256	536	2868	8387	11274

Source: 1. Table 10, Fifty Years of Fiscal Federalism in India, Amaresh Bagchi, @ at Current Prices
2. National Income Statistics, CMIE, July 2008

Appendix V : Per-Capita Net State Domestic Product at Current Prices (Rs) for Major Indian States

State	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Andhra Pradesh	17932 (9)	19087 (9)	21372 (8)	23153 (9)	23774 (9)	26240 (9)
Assam	11423 (14)	12247 (13)	12821 (14)	13633 (14)	16437 (14)	18177 (13)
Bihar	**5004 (18)**	**5606 (18)**	**5362 (18)**	**5772 (18)**	**7469 (18)**	**7885 (18)**
Chhattisgarh	12032 (13)	12369 (12)	14963 (12)	15073 (12)	18004 (11)	20068 (11)
Gujarat	19713 (7)	22624 (6)	26672 (4)	28355 (4)	29445 (5)	34132 (5)
Haryana	24883 (2)	26818 (2)	29504 (1)	32712 (1)	35241 (1)	39118 (1)
Himachal Pradesh	21570 (4)	22902 (4)	25059 (5)	27486 (5)	31944 (4)	34923 (4)
Jharkhand	10129 (15)	11139 (15)	11999 (16)	13013 (16)	17508 (12)	19084 (12)
Karnataka	18091 (8)	19576 (8)	21238 (9)	23945 (8)	24188 (8)	27274 (8)
Kerala	20287 (6)	22776 (5)	24492 (6)	27048 (6)	27769 (6)	30572 (6)
Madhya Pradesh	12209 (12)	11500 (14)	13722 (13)	14069 (13)	14401 (16)	15482 (16)
Maharashtra	24044 (3)	26858 (1)	28848 (2)	32170 (2)	33025 (3)	37177 (2)
Orissa	9879 (16)	10164 (16)	12645 (15)	13601 (15)	16234 (15)	17220 (15)
Punjab	25868 (1)	26395 (3)	28607 (3)	30701 (3)	33502 (2)	35712 (3)
Rajasthan	13621 (11)	12641 (11)	15738 (11)	16212 (11)	16744 (13)	17794 (14)
Tamil Nadu	20326 (5)	21740 (7)	23358 (7)	25965 (7)	27091 (7)	29862 (7)
Uttar Pradesh	9320 (17)	9963 (17)	10637 (17)	11477 (17)	11847 (17)	13149 (17)
West Bengal	17499 (10)	18494 (10)	20548 (10)	22497 (10)	22361 (10)	24996 (10)
India	**17800**	**18899**	**20936**	**22946**	**23131**	**25913**

Source : 1. Economic Survey 2006-07, Government of India.
2. A Handbook of Statistics related to Indian Economics, RBI

Note : Figures in brackets indicate the ranking of the districts

Appendix VI : Gross District Domestic Product (GDDP) and Per Capita GDDP for Different Districts of Bihar

Division / District	GDDP (1999-00 Prices) (in Rs. crore)		Per Capita GDDP (1999-00 Prices) (in Rs.)	
	2003-04	2004-05	2003-04	2004-05
Patna	13721.3	15923.9	27605 (1)	31441 (1)
Nalanda	1425.3	1408.7	5849 (14)	5727 (17)
Bhojpur	1395.2	1372.6	5968 (11)	5786 (16)
Buxar	793.2	795.0	5385 (19)	5303 (27)
Rohtash	1780.3	1864.2	6932 (5)	7138 (6)
Kaimur	806.5	755.8	5931 (12)	5452 (22)
Gaya	2259.0	2245.1	6175 (7)	6023 (13)
Jehanabad	531.6	521.5	5465 (18)	5267 (29)
Arwal	306.4	297.0	4962 (28)	4726 (34)
Nawada	942.4	911.3	4918 (30)	4657 (35)
Aurangabad	1166.9	1143.4	5499 (16)	5287 (28)
Bhagalpur	2001.9	2129.3	7899 (3)	8268 (4)
Banka	804.5	902.7	4805 (32)	5316 (25)
Munger	1140.6	1197.7	9711 (2)	10087 (2)
Sekhpura	284.6	273.5	5109 (21)	4806 (33)
Jamui	695.1	742.9	4693 (33)	4913 (32)
Lakhisarai	495.2	516.3	5994 (10)	6188 (11)
Khagaria	758.0	849.5	5628 (15)	6194 (10)
Begusarai	1870.7	2342.0	7573 (4)	9312 (3)
Muzaffarpur	2674.3	3030.5	6824 (6)	7611 (5)
Sitamarhi	1210.4	1262.8	4260 (37)	4352 (37)
Sheohar	225.6	204.7	4101 (38)	3636 (38)
Vaishali	1401.9	1737.7	4933 (29)	6018 (14)
East Champaran	2066.7	2287.2	4989 (26)	5423 (23)
West Champaran	1901.3	1997.0	5930 (13)	6113 (12)
Darbhanga	1782.7	1976.4	5126 (20)	5574 (19)
Madhubani	1648.4	2598.6	4414 (35)	6851 (7)
Samastipur	1756.8	2075.0	4967 (27)	5783 (15)
Saran	1716.1	1830.9	5057 (23)	5312 (26)
Siwan	1370.6	1440.3	4846 (31)	5019 (31)
Gopalganj	1122.7	1166.5	4992 (25)	5107 (30)
Saharsa	971.5	1063.6	6082 (8)	6521 (9)
Supaul	853.9	1032.2	4692 (34)	5572 (20)
Madhepura	804.1	885.7	5008 (24)	5417 (24)
Purnia	1485.5	1549.9	5490 (17)	5600 (18)
Arariya	996.6	1070.8	4353 (36)	4578 (36)
Katihar	1519.0	1744.1	6019 (9)	6779 (8)
Kishanganj	698.9	762.6	5104 (22)	5461 (21)
Total	**59385.7**	**65908.6**	**6816**	**7434**

Source : Directorate of Statistics and Evaluation, Government of Bihar
Note : Figures in brackets indicate the ranking of the districts

Appendix VII : District-wise Small Savings in Post Offices and Public Provident Fund (2005-06 and 2006-07)

Division / District	2005-06			2006-07		
	Target (Rs crore)	Achievement (Rs crore)	Per Capita Savings (Rs)	Target (Rs crore)	Achievement (Rs crore)	Per Capita Savings (Rs)
Patna	620	573.3 (92.5)	1062 (1)	460	373.0 (81.1)	675 (1)
Nalanda	110	110.7 (100.6)	408 (3)	80	91.1 (113.9)	328 (3)
Bhojpur	110	128.4 (116.7)	500 (2)	80	82.7 (103.4)	315 (4)
Buxer	75	63.2 (84.3)	394 (4)	55	47.9 (87.1)	292 (5)
Rohtas	110	99.4 (90.4)	354 (6)	80	81.5 (101.9)	284 (6)
Kaimur	45	42.7 (94.9)	289 (10)	35	34.9 (99.7)	211 (8)
Gaya	100	99.2 (99.2)	249 (13)	75	70.7 (94.3)	174 (13)
Jehanabad	20	21.2 (106.0)	200 (20)	20	15.7 (78.5)	145 (21)
Arwal	20	14.1 (70.5)	210 (10)	10	10.5 (105.0)	153 (20)
Nawada	50	45.4 (90.8)	219 (18)	35	35.8 (102.3)	169 (15)
Aurangabad	60	53.0 (88.3)	230 (16)	50	39.0 (78.0)	165 (16)
Bhagalpur	80	96.2 (120.2)	347 (7)	60	58.2 (97.0)	205 (10)
Banka	20	16.4 (82.0)	89 (34)	10	13.8 (138.0)	73 (35)
Munger	60	46.8 (78.0)	359 (5)	45	32.0 (71.1)	240 (7)
Shekhpura	20	14.1 (70.5)	235 (15)	15	9.6 (64.0)	156 (19)
Jamui	25	22.6 (90.4)	141 (27)	20	14.6 (73.0)	89 (29)
Lakhisarai	20	13.5 (67.5)	147 (26)	15	9.1 (60.7)	97 (27)
Khagaria	20	16.7 (83.5)	114 (29)	15	12.0 (80.0)	80 (32)
Begusarai	90	72.5 (80.5)	270 (12)	70	49.4 (70.6)	180 (12)
Muzaffarpur	120	127.7 (106.4)	298 (9)	90	72.5 (80.5)	165 (17)
Sitamarhi	25	26.9 (107.6)	88 (35)	20	21.3 (106.5)	68 (36)
Sheohar	10	6.5 (65.0)	110 (31)	5	5.4 (108.0)	89 (30)
Vaishali	100	75.2 (75.2)	242 (14)	75	64.9 (86.5)	204 (11)
West Champaran	70	55.4 (79.1)	159 (22)	50	45.6 (91.2)	128 (22)
East Champaran	50	39.3 (78.6)	87 (37)	35	23.4 (66.9)	51 (37)
Darbhanga	100	85.4 (85.4)	226 (17)	70	65.6 (93.7)	170 (14)
Madhubani	60	64.7 (107.8)	158 (23)	40	51.9 (129.7)	124 (23)
Samastipur	80	60.0 (75.0)	154 (25)	55	47.6 (86.5)	120 (24)
Saran	110	123.5 (112.3)	332 (8)	80	128.6 (160.7)	339 (2)
Siwan	110	87.5 (79.5)	282 (11)	80	65.5 (81.9)	207 (9)
Gopalganj	50	48.8 (97.6)	198 (21)	35	40.6 (116.0)	161 (18)
Saharsa	20	21.9 (109.5)	127 (28)	15	20.2 (134.7)	114 (26)
Supaul	10	17.4 (174.0)	88 (36)	10	16.0 (160.0)	79 (33)
Madhepura	10	16.4 (164.0)	94 (33)	10	15.3 (153.0)	86 (31)
Purnea	50	45.7 (91.4)	157 (24)	35	35.0 (100.0)	117 (25)
Araria	15	15.7 (104.7)	64 (38)	15	12.8 (85.3)	51 (38)
Katihar	40	30.4 (76.0)	111 (30)	35	27.2 (77.7)	97 (28)
Kishanganj	15	14.4 (96.0)	97 (32)	15	11.5 (76.7)	76 (34)
Total of State	**2700**	**2512.5 (93.0)**	**264**	**2000**	**1852.7 (92.6)**	**191**

Source : Department of Finance, Government of Bihar
Note : Figures in brackets indicate the ranking of the districts

Appendix VIII : Per-Capita Plan Outlay – State-wise (First to Ninth Plan) (in Rs.)

Per-Capita Plan Outlay - Statewise (First to Ninth Plan)(in Rs.)											
	1st Plan 1950-56	**2nd Plan 1956-61**	**3rd Plan 1961-66**	**4th Plan 1969-74**	**5th Plan 1974-79**	**6th Plan 1980-85**	**7th Plan 1985-90**	**8th Plan 1992-97**	**9th Plan 1997-02**	**10th Plan 2002-07**	**11th Plan 2007-12**
1	2	3	4	5	6	7	8	9	10	11	12
High Income States											
Goa	-	-	349	459	855	1687	2871	6064	9165	23881	53669
Gujarat	18	29	106	170	392	1034	1563	2611	4791	7906	19224
Haryana	-	-	-	224	527	1318	1911	3202	3364	4908	14256
Maharashtra	48	72	94	178	415	942	1480	2187	4756	6887	12088
Punjab	47	157	200	217	675	1117	1746	3074	3765	7681	11002
Middle Income States											
Andhra Pradesh	36	64	82	97	277	557	868	1482	3399	6155	18126
Karnataka	25	38	102	119	364	583	830	2587	4850	8261	17906
Kerala	22	45	96	121	242	588	741	1785	3120	7538	12371
Tamil Nadu	29	53	83	126	248	630	1077	1762	3360	6440	12963
West Bengal	28	48	68	73	253	616	672	1348	2301	3570	7345
Low Income States											
Bihar	17	44	70	94	207	442	642	1391	701	2534	6566
Madhya Pradesh	31	76	88	92	294	697	1178	1561	2451	4337	10336
Orissa	14	61	87	101	241	549	919	2957	2679	5176	8162
Rajasthan	16	66	112	117	241	559	746	2422	2657	4838	11288
Uttar Pradesh	20	36	65	109	249	505	832	1417	1459	3596	9665
Special Category States											
Arunachal Pradesh	139	293	199	383	1161	3169	5355	12235	20174	35661	66675
Assam	26	61	104	153	279	533	919	1924	1875	3121	8128
Himachal Pradesh	23	55	96	293	621	1258	2194	4523	10884	16941	21236
Jammu & Kashmir	39	99	202	343	685	1440	2045	4783	4412	14400	21575
Manipur	25	89	155	283	747	1604	2608	4905	5989	11724	31434
Meghalaya	-	-	-	376	770	1662	2794	5340	6212	13026	36681
Mizoram	-	-	-	-	1195	2421	4180	9896	15593	25843	57169
Nagaland	-	-	180	769	1360	2488	4065	6233	6372	11191	27676
Sikkim	-	-	-	-	1573	3567	5838	12061	16848	30648	80409
Tripura	32	88	132	222	395	1131	1850	3775	6423	14113	25540
Coeff of Variation (non-special category states)	**41**	**53**	**36**	**36**	**40**	**37**	**39**	**32**	**39**	**32**	**33**

Source : 1. Fifty Years of Fiscal Federalism in India, Amaresh Bagchi
2. Different Statistical Abstract documents, CSO

Appendix IX : Low Level of Central Investment in Bihar

Year	Gross Assets (Rs. Crores)		Percentage Share of Bihar
	India	Bihar	
1975-76	9,112.3	1,882.8	20.66
1980-81	21,182.3	3,941.4	18.61
1984-85	47,323.3	5,933.9	12.54
1989-90	96,880.7	8,440.3	8.71
1990-91	1,28,713.1	10,893.0	8.24

Source : Draft Annual Plan 2000-01, Government of Bihar

Appendix X : Receipts and Expenditure of the Bihar Government (Rs. Crore)

Sl. No.		2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 (BE)
1	**Total Revenue Receipts**	**10968**	**12456**	**15714**	**17838**	**23083**	**27441**
a	Tax Revenue	9310	10518	12465	13983	17325	20001
b	State Own Tax Receipts	2784	2919	3342	3561	4032	4969
c	State's Own Non-Tax Receipts	261	320	418	522	511	396
2	**Total Revenue Expenditure**	**12255**	**12711**	**14638**	**17756**	**20585**	**23958**
a	General Services, of which	6574	7175	7803	8523	8643	10291
b	Interest payments	3022	3343	3474	3649	3416	3909
c	Social Services	3916	4033	4795	6862	7917	8978
d	Economic Services	1763	1498	2036	2367	4021	4689
3	**Revenue Deficit**	**1287**	**255**	**-1076**	**-82**	**-2498**	**-3483**
4	**Capital Receipts**	**4213**	**7930**	**7641**	**3821**	**2365**	**5802**
a	Public Debt	4197	7920	7626	3770	2358	5776
b	Recovery of Loan and Advances	16	10	15	51	7	26
5	**Capital Expenditure**	**3250**	**9771**	**5420**	**4812**	**6551**	**9299**
a	Capital Outlay	970	1549	1205	2083	5211	6389
b	Repayment of Public Debt	1533	5653	3087	981	1025	2631
c	Loans and Advances Disbursed	747	2569	1128	1748	315	280
6	**Total Expenditure**	**15505**	**22482**	**20058**	**22568**	**27136**	**33257**
a	Plan Expenditure	3071	5202	3476	4899	9397	11966
b	Non Plan Expenditure	12434	17280	16581	17670	17740	21291
7	**Debt Outstanding**	**32016**	**34401**	**39344**	**42498**	**44226**	**47621**
8	**Gross Fiscal Deficit**	**2988**	**4363**	**1242**	**3700**	**3021**	**3159**
9	**Primary Deficit**	**-34**	**1020**	**-2232**	**51**	**-395**	**-750**
10	**GSDP**	**65117**	**66960**	**73791**	**79682**	**94251**	**104148**
a	**GSDP Growth**		2.83	10.20	7.98	18.28	10.50
	(As percentage of GSDP)						
1	**Total Revenue Receipts**	16.84	18.60	21.30	22.39	24.49	26.35
a	Tax Revenue	14.30	15.71	16.89	17.55	18.38	19.20
b	State Own Tax Receipts	4.28	4.36	4.53	4.47	4.28	4.77
c	State's Own Non-Tax Receipts	0.40	0.48	0.57	0.66	0.54	0.38
2	**Total Revenue Expenditure**	18.82	18.98	19.84	22.28	21.84	23.00
a	General Services, of which	10.10	10.72	10.58	10.70	9.17	9.88
b	Interest payments	4.64	4.99	4.71	4.58	3.62	3.75
c	Social Services	6.01	6.02	6.50	8.61	8.40	8.62
d	Economic Services	2.71	2.24	2.76	2.97	4.27	4.50
3	**Revenue Deficit**	1.98	0.38	-1.46	-0.10	-2.65	-3.34
4	**Capital Receipts**	6.47	11.84	10.35	4.80	2.51	5.57
a	Public Debt	6.45	11.83	10.33	4.73	2.50	5.55
b	Recovery of Loan and Advances	0.02	0.02	0.02	0.06	0.01	0.02
5	**Capital Expenditure**	4.99	14.59	7.34	6.04	6.95	8.93
a	Capital Outlay	1.49	2.31	1.63	2.61	5.53	6.13
b	Repayment of Public Debt	2.35	8.44	4.18	1.23	1.09	2.53
c	Loans and Advances Disbursed	1.15	3.84	1.53	2.19	0.33	0.27
6	**Total Expenditure**	23.81	33.57	27.18	28.32	28.79	31.93
a	Plan Expenditure	4.72	7.77	4.71	6.15	9.97	11.49
b	Non Plan Expenditure	19.09	25.81	22.47	22.18	18.82	20.44
7	**Debt Outstanding**	**49.17**	**51.38**	**53.32**	**53.33**	**46.92**	**45.72**
8	**Gross Fiscal Deficit**	4.59	6.52	1.68	4.64	3.21	3.03
9	**Primary Deficit**	-0.05	1.52	-3.02	0.06	-0.42	-0.72

Appendix XI : Per-capita Own Revenue and Net Devolutions and Transfers

	Per Capita Own Tax and Non- Tax Revenue (in Rs.)	Per Capita Net Devolution of Transfers (in Rs.)	Per Capita Total Revenue Receipts (in Rs.)
Andhdra Pradesh	3825.19	1625.02	5613.08
Bihar	**535.62**	**1838.16**	**2505.89**
Chhattisgarh	2953.76	2263.88	5217.20
Goa	13678.39	3170.57	16497.40
Gujarat	4106.98	1321.56	5556.97
Haryana	5875.18	937.03	6908.55
Jharkhand	1563.72	1756.70	3477.07
Karnataka	5020.75	1749.83	6768.44
Kerala	3885.73	1851.11	5650.15
Madhya Pradesh	1871.53	1744.58	3721.50
Maharashtra	4384.65	1380.73	5789.11
Orissa	1947.61	2516.32	4518.99
Punjab	6019.40	1540.27	7651.29
Rajasthan	2322.24	1673.05	4073.94
Tamil Nadu	4742.04	1421.22	6199.87
Uttar Pradesh	1620.34	1506.89	3265.06
West Bengal	1602.01	1328.28	3152.37
Arunachal Pradesh	2376.07	18512.82	20452.99
Assam	1786.34	3438.24	5521.73
Himachal Pradesh	3733.85	7083.27	10810.89
Jammu and Kashmir	2160.65	8516.76	10325.78
Manipur	1077.70	9203.44	11667.32
Meghalaya	1783.26	7885.16	9939.34
Mizoram	1916.23	18418.85	20879.58
Nagaland	952.16	11651.03	12865.85
Sikkim	20275.86	20620.69	41672.41
Tripura	1239.40	7930.43	9298.45
Uttarakhand	3232.77	4144.33	7425.94
All States	2855.53	1894.81	4852.36

Source : Calculate from State Finances : A Study of Budgets 2007-08, RBI,
* Revenue Figures relate to 2006-07 R.E, Population figures relate to 2006.

Appendix XII : Statement Showing Amount Recommended & Actually Received During Eighth, Ninth, Tenth &Eleventh Finance Commission

(Rs. in Crore)

Sl No.	Name of the Commission	Period	Recommended			Actual			Difference (9-6)
			Amount Transfer under Union Taxes & Duties	Grant	Total (4+5)	Actual Receipt under Union Taxes & Duties	Grant	Total (7+8)	
1	2	3	4	5	6	7	8	9	10
1	**Eighth Finance Commission**	**1984-85 to 1988-89**	**4005.82**	**214.65**	**4220.47**	**4780.12**	**214.65**	**4994.77**	**774.3**
2	**Ninth 1st**	**1989-90**	**1372.99**	**81.95 Non Plan**	**1454.94**	**1570.12**	**247.93**	**1818.05**	**363.09**
3	**Ninth 2nd Report**	**1990-95**	**9670.53**	**1374.27 Plan Deficit 131.25 Grants for Meeting Relief Exp.**	**11176.05**	**11166.57**	**1505.52**	**12672.1**	**1496.04**
4	**Tenth Finance Commission**	**1995-2000**	**23302.5**	**1353.11**	**24655.56**	**21218.98**	**806.33**	**22025.3**	**-2630.25**
5.	**Eleventh Finance Commission**	2000-2001	7282.13	277.02	7559.15	6575.63	76.38	6652.01	-907.14
		2001-2002	7304.16	227.21	7531.37	6176.62	193.95	6370.57	-1160.8
		2002-2003	8518	229.85	8747.85	6549.23	323.31	6872.54	-1875.31
		2003-2004	9935.24	231.18	10166.42	7627.87	157.72	7785.59	-2380.83
		2004-2005	11591.3	183.21	11774.51	9117.13	543.77	9660.9	-2113.61
		2000-2005	**44630.8**	**1148.47**	**45779.3**	**36046.48**	**1295.13**	**37341.6**	**-8437.69**
6	**Twelfth Finance Commission**	2005-2006	10076.95	1757.18	11834.13	10421	3333	13754	1919.87
		2006-2007	11536.39	2921.76	14458.15	13291.72	5369	17895	3436.85
		2007-2008	13236.8	3835.05	17071.85	16766.29 (RE)	7044	23810.3	6738.44
		2005-06 to 2007-08	**34850.1**	**8513.99**	**43364.13**	**40479.01**	**15746**	**55459.3**	**12095.16**
		2008-2009	15221.62	5515.02	20736.64	19094.31 (BE)			
		2009-2010	17542.9	7428.01	24970.91				
		2005-2010	**67614.7**	**21457.02**	**89071.68**				

Source : 1. Finance Department Govt. of Bihar 2. Different Finance Commission Reports