ADVOCACY PAPER

TWELFTH FINANCE COMMISSION

(2005-2010)

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

Centre for Economic Policy and Public Finance

Asian Development Research Institute

Publisher
Centre for Economic Policy and Public Finance
Asian Development Research Institute
BSIDC Colony, Off Boring-Patliputra Road
Patna – 800 013 (BIHAR)
Phone : 0612-2265649
Fax : 0612-2267102
E-mail : adri_patna@hotmail.com
Website : www.adriindia.org

Printer
The Offsetters (India) Private Limited
Chhajjubagh, Patna-800001

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PART A

Brief Recommendations by the Twelfth Finance Commission

Background

The Finance Commission awards play an extremely important role in the federal financial arrangements in the country to ensure a fair vertical and horizontal distribution of resources. The recommendations of the Commissions are even more important for the disadvantaged states like Bihar. For relevant inputs, the Commissions generally invite notes and memoranda from state governments as well as academic institutions and civil society organisations across the country. In response, the Asian Development Research Institute (ADRI) had presented memorandums to both Tenth and Eleventh Finance Commissions on its own behalf. For the Twelfth Finance Commission, however, ADRI had prepared a draft which could become a joint memorandum for all the political parties and professional organisations in Bihar. Fortunately, after a joint consultative meeting suggesting some modifications in the draft, it was signed by the representatives of all the parties and organisations and finally submitted to the Commission. This provided extra weightage to the demands of the state government, and this move was appreciated by the Finance Commission as well.

Apart from the summary of the Twelfth Finance Commission's report for Bihar, as presented below, this document also contains two memorandums presented to the Commission — one by the state government and other by the political parties and professional organisations, prepared by ADRI.

Recommendations

The FC12 altered weight to population criteria from 10 percent as adopted by the FC11 to 25 percent, which went in favour of Bihar. The population criterion, combined with income distance, had a total weight of 75 percent in determining the share of each state in the tax devolution. The cost disabilities due to area received a weight of 10 percent and fiscal performance 15 percent. Based on the above criteria and weights, inter se share of Bihar was fixed at 11.028 percent. However, in the service tax, the state's share was 11.173 percent. Thus the share of Bihar in Union tax revenue worked out to Rs. 67671.04 crore for the five year period (2005-10). Overall, the proposals implied that the volume of transfers through FC's dispensation went up substantially and raised the ratio of central transfers to GDP from 4.5 to 5 percent.

Taking into account a variety of factors, including the demands of state governments, some of the other notable departures made by the FC12 in the scheme of tax devolution and grants are :

- Enhancing the share of states in the divisible pool of taxes to 30.5 percent from the earlier level of 29.5 percent. The indicative limit of overall transfers out of Centre's gross revenue receipts was also raised to 38.0 percent, compared to 37.5 percent, as set by the FC11.
- 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.
- 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 and modifying formula for their allocation among states, to take account of deprivation in providing drinking water and sanitation.

Local Bodies

In order to augment the consolidated fund of states to supplement the resources of the municipalities and the Panchayats, the FC12 recommended a total sum of Rs. 25,000 crore for all the states for the five years period (2005-10), to be divided between the Panchayats and Municipalities in the ratio of 80:20. Based on criteria of population (40%), distance from highest per capita income (20%), revenue effort (20%), and geographical area and index of deprivation (10% each) the Commission recommended an amount of Rs. 1766 crore for local bodies in Bihar.

Calamity Relief Fund (CRF)

The size of CRF was enhanced by the FC12 to Rs. 21,333.33 crore from Rs. 11,007.59 crore recommended by the FC11. The FC12 recommended that the centre and states would continue to contribute to the CRF to the extent of 75 percent and 25 percent, respectively. Bihar had suggested reduction in state's contribution to the CRF to 10 percent. The FC12 recommended continuance of National Calamity Contingent Fund (NCCF) with a corpus fund of Rs. 500 crore and recommended replenishment of the outgo through collection of NCC duty and levy of special surcharge. The Centre will continue to allocate food grains to the needy states.

Grants-in-aid to States

(a) For education sector, eight states, including Bihar, were recommended for a total grant of Rs. 10171.65 crore over the award period, of which Bihar's share was Rs. 2683.76 crore.

(b) For the health sector, seven states were recommended for a total grant of Rs. 5887.08 crore for the award period, and Bihar's share was Rs. 1819.69 crore.

(c) Similarly, grants were recommended for Bihar for maintenance of roads and bridges (Rs. 309.36 crore), maintenance of public buildings (Rs. 359.61 crore), forests (Rs. 5.00 crore) and heritage conservation (Rs. 40.00 crore). For state specific needs like e-governance (Rs. 40.00 crore), technical education (Rs. 50.00 crore), urban water supply and drainage (Rs. 180.00 crore), administrative training institute (Rs. 50.00 crore) and a few others, a sum of Rs. 400 crore was recommended for Bihar. The total recommended FC12 transfers to Bihar for 2005-10 are summarised below :

Sl. No.	Items	Amount (Rs. crore)
1.	Share in Central Taxes and Duties	67671.04
2.	Grants-in-Aid	7975.79
	(i) Non-Plan Revenue Deficit	—
	(ii) Health Sector	1819.69
	(iii) Education	2683.76
	(iv) Maintenance of Roads & Bridges	309.36
	(v) Maintenance of Buildings	359.61
	(vi) Maintenance of Forests	5.00
	(vii) Heritage Conservation	40.00
	(viii) State-Specific Needs	400.00
	(ix) Local Bodies	1766.00
	(x) Calamity Relief Fund	592.37
3.	Total Transfers (Items 1 and 2)	75646.83

Statement of Recommended and actual transfers from Eighth, Ninth, Tenth, Eleventh and Twelfth 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							
2005-06	10084.45	1191.68	11276.13	10420.59	1199.18	11619.77	343.64
2006-07	11545.48	1546.01	13091.49	13291.72	1573.54	14865.26	1773.77
2007-08	13247.80	1630.77	14878.57	16766.29	1093.92	17860.21	2981.64
2008-09	15234.94	1723.94	16958.88	17692.51	1374.49	19067.00	2108.12
2009-10	17558.37	1827.09	19385.46	18202.58	1654.98	19857.56	472.10
2005-10	**67671.04**	**7919.49**	**75590.53**	**76373.69**	**6896.11**	**83269.80**	**7679.27**

PART B

Bihar Government Memorandum to the Twelfth Finance Commission

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CHAPTER – I

INTRODUCTION

The division of Bihar on the 15th of November 2000 has radically changed the socio-economic profile of the State as well as the structure of its finances. After division, the State has an area of 94,163 sq. km. and a population of 82.88 million, as per the 2001 Census. While 46 percent of the land area has been transferred to Jharkhand, 75 percent of the population has remained with Bihar leading to a severe deterioration of the land-man ratio. The density of population has increased sharply from 497 per sq. km., for the undivided State to 880 per sq. km., against the national average of 324 per sq. km.

1.2 The divided State of Bihar has lost most of its natural resources such as forests (78%) and minerals (96%), apart from social and economic infrastructure, major industries and technical and training institutions. This has curtailed the possibilities of growth of the economy and diminished the capacity of the State for raising revenues. The State's Gross Domestic Product (GSDP) got reduced from Rs. 69,764 crores in 1999-2000 to Rs. 50,987 crores in 2001-02. The State's own revenue receipts were Rs. 4,251 crores in 1999-2000 and Rs. 2,788 crores in 2001-2002. Non-plan revenue expenditure declined from Rs. 12,820.89 crores in 1999-2000 to Rs. 10,313.72 crores in 2001-2002. This asymmetry in the reduction in revenue receipts and non-plan revenue expenditure has imposed an unbearable burden on the finances of the State.

1.3 Bihar has been subject to an iniquitous economic regime for a long time. Even after five and a half decades of independence, Bihar continues to be the state with the lowest per capita income. The policies adopted so far have nullified, to a large extent, the comparative advantage the State had in terms of its rich natural and mineral resources.

1.4 The policies on freight equalization and royalty on coal facilitated industrialization in relatively prosperous parts of the country but denied Bihar the benefits of comparative advantage, as a repository of huge mineral resources. Industrialization in Bihar remained nominal, depriving the State of the benefits of investment, employment and income over a long period.

1.5 The food grain procurement policy is such that in the year 2001-02, Bihar’s share in the procurement by Food Corporation of India was only 2% resulting in an estimated loss of about Rs. 1500 crores to its farmers in one year. Food Corporation of India procured 85% of its stock from just four states.

1.6 Nationalisation of banks was expected to usher in an era in which commercial credit would be easily available to backward regions and disadvantaged groups. However, this did not happen and Bihar’s credit-deposit ratio fell from 40% in the year 1990-1991 to 25% in the year 2002-2003, i.e., less than half the national average of 58%.

1.7 A low level of investment in the Central sector, compared to other states, has also contributed to the backwardness of Bihar. Apart from the Barauni Oil Refinery and the thermal power station at Kahalgaon, there is no Central investment worth the name in the State. Further, the State has no educational institution like a Central University, I.I.T or I.I.M. Owing to an acute shortage of facilities for technical education, on a conservative estimate, students from Bihar are spending nearly 7000 to 8000 crores of rupees every year on their education outside the State. Bihar has the lowest per capita availability of seats in institutions for technical education per thousand of population.

1.8 Annual occurrence of floods has adversely affected the basic infrastructure of the state. Despite investment in this sector, the annual devastation caused by floods requires huge funds for maintenance of roads, buildings, electricity, drinking water supply and health centres.

1.9 Paucity of funds has impeded the development of adequate infrastructure in the State. The index of infrastructure in Bihar in 1999 was 81.33 against 187.57 for Punjab. Assured irrigation facility i.e., canal and tube-well irrigation, is available to only 28.45 lakh hectares which is about 50 percent of the net sown area of the State. Per capita power consumption in the State is only 140.8 KW against 354.75 in the country. Road length in the State is also highly inadequate Length of rail lines in the State is only 30.22 km. per 1000 km. of area against 42.49 km. in Punjab.

1.10 The growth of the Net State Domestic Product has averaged about 4.2 percent per annum in the period 1993-94 to 1998-99. The relatively low growth rate of NSDP is attributable partly to low per capita plan outlay, which stands at Rs. 319.02 against Rs. 1243.76 for Punjab. The situation could have been somewhat different if the State's savings, in the form of bank deposits had been utilized for financing private sector investment through bank loans. But this has not happened.

1.11 Bihar thus needs substantial and sustained assistance to get on par with other States of the Union. The need for equitable growth has not only been envisaged by the Constitution but the Twelfth Finance Commission has been specifically mandated to consider this. This is obviously in response to the concern felt by all regarding the growing inter-regional disparities in the past decade. A resolution of this problem is central to strengthening the unity of the country. The assistance can be in the form of higher devolution, grants-in-aid and debt relief and grants for upgradation of administrative, economic and social infrastructure and for solving special problems.

1.12 As a first step, the share of the states, in the net tax revenue of the Central government needs to be revised upwards. The change made by the Eleventh Finance Commission was so nominal that it hardly had any impact on the finances of the states. The present 29.5 percent share of the states of the net tax revenues of the Central Government is quite inadequate to meet the growing revenue requirements of the states and to implement essential obligations such as the mid-day meal for school children. Sarva Shiksha Abhiyan, primary health care and implementation of the recommendations of the Shetty Commission. The State Government therefore, feels that the share of the states in the net tax revenue of the Centre should be increased to at least 40 percent.

1.13 Equity should be at the core of principles governing inter-se distribution of taxes among the states. The present mechanism of horizontal devolution fails to equalize the per capita non-plan revenue expenditure of the states. For Bihar, per capita non-plan revenue expenditure is Rs. 1,368.04 against the all-states average of Rs. 3,770.14. If the non-plan revenue expenditure is to be equalized, distribution norms have to be revised substantially.

1.14 To address the problem, the Twelfth Finance Commission may consider evolving a normative approach, taking into account the differences between the states in the index of infrastructure and various social, economic and financial indicators. While the Constitution envisaged the Finance Commission as the principal channel for Central transfers to the states, nearly 40 percent of the Central transfers have taken place through other channels. Not only are these transfers largely arbitrary but historically they have been regressive and have failed to tackle the growing disparities in the country. Even under the dispensation of the Eleventh Finance Commission, per capita revenue capacity of the States after devolution and statutory grants remained sharply unequal.

1.15 The Twelfth Finance Commission may consider evolving a mechanism, which helps states with weak economic, social and administrative infrastructure, to achieve the national norms over a definite period. A devolution criterion, designed to address this goal, would help in bringing about reasonable parity in the capacity of the States to meet their non-plan revenue expenditure needs and also in bridging the gap in indices of social, economic and administrative infrastructure. However, this would not be enough. The Commission will also have to consider supplementing this with a well designed scheme of grants-in-aid for poor and backward states.

1.16 This memorandum is divided into eight chapters. Chapter II deals with devolution of central taxes between the centre and the states and also among the states. Chapter III discusses the fiscal reform facility and Chapter IV deals with the restructuring of state finances. Chapter V dwells on debt relief, Chapter VI with grants-in-aid and with grants for upgradation and special problems. Chapter VII deals with grants to local bodies and Chapter VIII with the financing of disaster management.

CHAPTER – II

DEVOLUTION OF CENTRAL TAXES

Article 280 (3) of the Constitution requires the Finance Commission to make recommendations as to the distribution of the net proceeds of taxes and duties between the Union and the States, and the allocation among States of their shares in such proceeds. The Constitution (Eightieth Amendment) Act, 2000 has altered the pattern of sharing taxes between the Centre and the States in a fundamental way. It has deleted article 272 and substituted a new article for article 270, which provides that all taxes and duties referred to in the Union list, except those referred to in articles 268 and 269, surcharge on taxes and duties referred to in article 271 and any cess levied for specific purposes under any law made by the Parliament shall be levied and collected by the Government of India, and shall be distributed between the Union and the States in the manner provided in clause (2). As per clause (2), such percentage, as may be prescribed, of the net proceeds of any such tax or duty in any financial year shall not form part of the Consolidated Fund of India, but shall be assigned to the States within which that tax or duty is leviable in that year, and shall be distributed among those States in such manner and from such time as may be prescribed in the manner provided in clause (3). Clause (3) prescribes that the percentage of net proceeds of these taxes and duties, which may be shared with the States, is to be prescribed by the President, after considering the recommendations of the Finance Commission.

2.2 The Eleventh Finance Commission had recommended devolution of 29.5 percent of the net proceeds of all central taxes and duties. It includes 1.5 percent share of additional excise duties levied in lieu of sales tax on sugar, textiles and tobacco. Those states, which levy taxes on these items, are not entitled to any share from this 1.5 percent. The distribution of both these shares among states is on the basis of similar principles.

2.3 The Eleventh Finance Commission has given several reasons for fixing the share at 29.5 percent of the net proceeds of Union taxes and duties. The first of these is that the Tenth Finance Commission had recommended a percentage of 29 of the gross tax receipts of the Centre to be devolved to States under its Alternative Scheme of Devolution. Secondly, actual devolution of revenues to the States in the past fluctuated between 26.30 percent and

31.59 percent. Thirdly, States had asked for devolution ranging between 33 to 50 percent of the gross proceeds of Central taxes. It is doubtful whether any of these grounds are sufficient to peg the share of States at only 29.5 percent of shareable taxes.

2.4 The State Government feels that the share of states needs to be increased substantially to meet their legitimate and essential expenditure requirements. In addition, certain recent developments have only exacerbated the already precarious financial situation of the states and a few are enumerated below.

(I) IMPLEMENTATION OF THE SHETTY COMMISSION RECOMMENDATIONS

Recommendations of the Shetty Commission relating to the improvement in the system of delivery of justice, include raising the strength of judicial officers, their pay scales and ancillary expenditure. The pay scales prescribed for various categories of judicial officers are indicated below :-

Sl. No.	Post (existing pay scale)	Proposed pay scales
1.	Civil judge (junior grade) (Rs. 6500-10500)	Rs. 9000-14550/- ACPI – Rs. 10750-14900 ACPII – Rs. 12850-17550
2.	Civil judge (senior grade) (Rs. 10000-15200)	Rs. 12850-17550/- ACPI Rs. 14200-18350 ACPII Rs. 16750-20500
3.	District and Sessions Judge/ Additional District and Sessions Judge (Rs. 12000-16500)	Rs. 16750-20500/-
4.	District and Sessions Judge (Selection grade) (Rs. 14300-18300)	Rs. 18750-22850/-
5.	District and Sessions Judge (Super time scale) (Rs. 18400-22400)	Rs. 22850-24850/-

In addition, the number of courts and judicial officers has also to be increased, based on population. The total cost of upgradation of pay scales of judges is estimated to be Rs. 635.07 crores over a period of five years (2005-10). The additional cost of the administrative staff is estimated to be Rs. 1,642.32 crores over the same period. The year-wise details of the additional cost on this account are indicated below :

(Rs. in crore)

Sl. No.	Year	Judges	Staff	Total
1.	2005-06	109.63	283.92	393.55
2	2006-07	117.51	305.17	422.68
3.	2007-08	126.57	327.40	453.97
4.	2008-09	135.40	350.69	486.09
5.	2009-10	145.96	375.14	521.10
	Total	**635.07**	**1642.32**	**2277.39**

(II) IMPLEMENTATION OF THE MID-DAY MEAL SCHEME

The State Governments are now required to make cooked food available to primary school students. The year-wise details of cost of providing cooked mid day meals to students of primary schools, is given below :-

Year	Cost (Rs. in crore)
2005-06	530.97
2006-07	541.04
2007-08	551.39
2008-09	562.03
2009-10	572.97
Total	**2758.40**

(III) IMPLEMENTATION OF THE SCHEME OF SARVA SHIKSHA ABHIYAN

The Constitution (Eighty-Sixth Amendment) Act, 2002 has made elementary education a fundamental right and as a result, it has become mandatory for the State to provide free and compulsory education to all children of the age of six to fourteen years of age. The Government of India has drawn up a time frame for extending education to all children. The State Government has planned to adhere to this time frame, and is expected to reach the target of complete enrolment by the end of the year 2004-05. The total number of children of the age group 6 to 14 is estimated to be 185.12 lakhs requiring 4.63 lakhs teachers and an equal number of classrooms. Presently, the number of teachers and classrooms available is only 3.11 lakhs and 1.82 lakhs respectively. There is a shortage of 1.52 lakh teachers and 2.81 lakh classrooms. The number of students is expected to increase every year by about 2.80 percent. The Central Government is bearing 75% of the estimated cost. There is no commitment for the future. The annual cost of Sarva Shiksha Abhiyan, excluding the cost of additional classrooms, will be as follows :-

(Rs. in crore)

Sl. No.	Year	Central Share	State Share	Total Cost
1.	2005-06	1328.31	442.77	1771.08
2	2006-07	1610.22	536.74	2146.96
3.	2007-08	0.0	2566.10	2566.10
4.	2008-09	0.0	3031.76	3031.75
5.	2009-10	0.0	3547.49	3547.49
	Total	**2938.53**	**10124.86**	**13063.39**

(IV) IMPROVEMENT OF PRIMARY HEALTH SYSTEM

Improvement in the health status of the population is an important thrust area of social development and is a priority concern of the State. The existing health infrastructure needs to be strengthened and augmented for fulfilling this responsibility. As per national norms, the State requires an additional 16,560 sub centers, 2,033 primary health centres and 589 community health centers, which is estimated to cost Rs. 4,071.83 crores.

2.5 The schemes mentioned in para 2.4. (I to IV) above involve an outlay of Rs. 19,232.48 crores. They constitute essential obligations of the State Government and are needed if Bihar has to approach national norms of health, education and nutrition. The estimated expenditure on these schemes cannot be met by normal flow of funds. They will have to be especially provided for. The Forecast of non-plan revenue expenditure of the State for the award period reflects this.

2.6 The forecast of revenue receipts and non-plan revenue expenditure shows a pre-devolution deficit of Rs. 1,01,888.16 crores in the award period of the Twelfth Finance Commission. The year-wise estimates are indicated below :

(Rs. in crore)

Year	Revenue Receipts	Non-Plan Revenue Expenditure	Revenue Deficit
2005-06	3,568.17	18,718.39	15,150.22
2006-07	3,866.45	20,655.19	16,788.73
2007-08	4,191.48	25,091.48	20,900.00
2008-09	4,545.72	27,705.29	23,159.57
2009-10	4,931.87	30,821.50	25,889.63
Total	**21,103.69**	**1,22,991.84**	**1,01,888.16**

2.7 It is quite obvious that it will be difficult to meet the estimated deficit at the existing level of sharing of taxes between the Centre and the States. As most states would be suffering similar constraints, the logical course of action would be to review the ratio in which the shareable pool is divided between the Centre and the States. We feel there is ample scope for doing so.

2.8 The Central government is enlarging its commitment to centrally sponsored schemes by reserving more and more funds for directed and earmarked schemes. The states have pleaded for long that most of the centrally sponsored schemes should be transferred to them along with the funds earmarked for them. An exercise was also undertaken by the Planning Commission to list the centrally sponsored schemes, which should be discontinued or transferred to the states. But, there has not been any reduction in the range and size of centrally sponsored schemes. On the contrary, the Central government discontinued some of the centrally sponsored schemes only to replace them by new centrally sponsored schemes in an expanded form. We urge the Commission to look closely into this and recommended that the scope of centrally sponsored schemes be limited to a few of national significance.

2.9 While many State governments have effected substantial reduction in the number of employees, the Central government has not been able to reduce its workforce similarly. The total number of employees in the Central government, in the year 1998-99 was 26,15,841 which has increased to 27,63,756 in the year 2001-02. If the Central government were to effectively downsize its workforce, additional resources would automatically become available for transfer to states.

2.10 In view of the above considerations, the share of states in the shareable pool needs to be raised to at least 40%.

DISTRIBUTION AMONG STATES

2.11 The Commission has also to recommended the principles of distribution of the share of Central taxes among the states, and then based on these principles the actual share that will accrue to the states. While doing this, the Commission has to ensure equity among states. Article 38 (2) of the Constitution states that "the State shall in particular strive to minimize the inequality of income and endeavor to eliminate inequalities in status, facilities and opportunity, not only amongst individuals but also amongst groups of people residing in different areas, engaged in different vocations". The terms of reference of the Twelfth Finance Commission also require the Commission to consider the need for restoring budgetary balance and for achieving macroeconomic stability and debt reduction along with equitable growth.

2.12 It is now well documented that the process of liberalization and economic reforms in India has been accompanied by an increase in regional disparity. While growth accelerated sharply in some developed states, it actually decelerated in some other's not so privileged. Differences in growth have a direct bearing on poverty reduction. This is confirmed by past experience. As long as GSDP growth was modest, there was no significant reduction in poverty in India. It was only after GSDP growth accelerated that a trend reduction in poverty was noticed. This implies that poverty reduction in the poorer states requires rapid growth of GSDP, capable of generating a broad expansion in employment and income levels. With liberalization, investments began to be attracted to destinations with better infrastructure, resulting in diversion of resources to developed parts of the country. Hence, states that have not benefited from economic reforms need to be assisted by addressing the specific deficiencies that are holding them back.

2.13 A variation in growth across the country, along with concentration of poverty in regions, which accounts for a substantial part of the population, is an invitation to avoidable discontent and distress. Balanced regional development has always been stated as an objective of India's plans and although, this objective has never been quantified, the objective clearly implies that regional differences in per capita income should narrow down and not widen as a result of development. But studies show that inter-state inequalities have increased. The ratio of per capita NSDP of Punjab, the richest State, as compared to Bihar, has continuously increased over the past three decades and reached a level as high as 4.90:1. This is illustrated by the table below :-

Per capita Net State Domestic Product at current prices in Rupees

Year	Punjab	Bihar	Ratio of Punjab to Bihar
1980-81	2629	1022	2.57
1990-91	8177	2966	2.76
2000-01	25048	5108	4.90

Source : Economic Survey, 2002-03, Table 1.8, Page-12

2.14 The rate of investment, public as well as private, availability of human resources and the quality of infrastructure, both economic and social, are generally considered to be the factors leading to growth. Poorer states like Bihar have generally lagged behind other states in attracting investment, which recently has flowed more towards developed states.

2.15 If this inequity is to be addressed and Bihar and other less developed poor States have to catch up with the rest of the country, in a reasonable time frame, then there has to be a marked increase in the expenditure on social and economic services in these States. The resources required for this has to come from the Central pool, till the infrastructure and service levels become such that private investments can start flowing in substantial quantities. Any amount of growth of the states' own resources cannot bridge this gap. This merely underscores the point that the paucity of resources in Bihar has not been on account of any lack of effort in augmenting the State's own revenues, but mainly on account of a very low base of per capita GSDP, low level of industrialization, predominantly agrarian economy, damage to infrastructure caused by floods etc. The system of plan assistance intended to address regional disparity, has also been regressive, with Bihar consistently getting less than many developed states. In this context, figures relating to per capita own total revenue of Bihar vis-à-vis the 14 non-special category States (excluding Chhattisgarh, Goa and Jharkhand) of the country would be relevant.

TABLE SHOWING PER CAPITA OWN AND TOTAL REVENUE OF BIHAR AND OTHER MAJOR STATES IN 2001-02

(In Rupees)

Sl. No.	Items	Per Capita Revenue	
		Own	Total
1.	Bihar	328.89	1198.86
2.	14 major states	1832.14	2669.45

Source : RBI Study of State Finances, 2002-2003

2.16 It would be clear from the above table that the system of Central transfers in place has failed to address the problem of equalising the capacity of different states to provide a similar level of services. It is also apparent that the absolute level of transfers per capita to even the poorest states is no more than that made to the 14 major states. Clearly, this calls for a marked improvement in the criteria governing central transfers.

2.17 The criterion and the weights recommended by the Tenth and Eleventh Finance Commissions are as follows :-

Sl. No.	Criteria	Weight given by TFC	Weight given by EFC
1.	Population	20.00	10.00
2.	Income (Distance Method)	60.00	62.50
3.	Area	5.00	7.50
4.	Index of Infrastructure	5.00	7.50
5.	Tax Effort	10.00	5.00
6.	Fiscal Discipline	—	7.50
	Total	**100.00 percent**	**100.00 percent**

The Tenth Finance Commission had given a weight of 20 percent to population. The Eleventh Finance Commission has reduced this weight to 10 percent. The State Government accepts this dispensation.

2.18 The Tenth Finance Commission had given a weight of 60 percent to the distance of income criteria. The Eleventh Finance Commission increased the weight of this criterion to 62.5 percent. The State Government recommends that the weight of this criterion should be increased to 65 percent as this is essential to a more equitable flow of resources to states.

2.19 For the first time, the Tenth Finance Commission had introduced a criterion of area, for distribution of inter-se share of states. The ground given for introduction of this criterion was that states with a larger area have to incur additional administrative and other costs to deliver a comparable standard of service to its citizens. But this difference in cost of providing services would increase only at a decreasing rate. They, therefore, recommended the adoption of area as a criterion for distribution of shares of states with certain restrictions. The Eleventh Finance Commission increased its weight to 7.5 percent. No specific reason has been assigned for this. The State Government feels that this is a redundant criterion when the index of infrastructure is also being used. The letter is more relevant criterion as it captures the ability of the State to not only deliver services but also attract investments and speed up the process of growth in a liberalized environment.

2.20 The Tenth Finance Commission has also introduced for the first time the criteria of index of infrastructure for distribution of States' shares and given it a weight of 5 percent. The Eleventh Finance Commission increased its weight to 7.5 percent. The ground given for this was that the availability of infrastructure plays a crucial role in attracting investment and States that are backward having a low index of infrastructure need to be assisted so that they are able to come up. The State Government supports this view and would recommend that its weight be increased to 15 percent.

2.21 The Tenth Finance Commission had also introduced the criterion of tax efforts of States for determining inter-se share of States and gave it a weight of 10 percent. The Eleventh Finance Commission has retained this criterion but reduced its weight to 5 percent. The State Government would like this criterion to be dropped altogether because the criterion of fiscal discipline, introduced by the Eleventh Finance Commission, with a weight of 7.5 percent, also captures the tax effort by the State government. While the criterion of tax effort relates only to performance of states vis-à-vis raising revenues, the index of fiscal discipline rewards States both for tax effort and expenditure control. The latter index is more comprehensive and permits flexibility to states to put their house in order by a combination of methods. It would be ludicrous if a State were to combine good tax effort with fiscal profligacy and get rewarded for the same. The State Government would, therefore, like the criterion of tax effort to be dropped and the weight of the fiscal discipline criterion to be increased to 10 percent.

2.22 To sum up, the State Government recommends as under :-

(i) the share of states in Central taxes be increased to 40 percent of the net tax revenues of the Central Government,

(ii) the total devolution of the Central taxes to states should be distributed among the states, on the basis of the following criteria for allocation of shares of states :-

Sl. No.	Criteria recommended	Weight
1.	Population	10.00 percent
2.	Distance of per capita income	65.00 percent
3.	Index of Infrastructure	15.00 percent
4.	Fiscal Discipline	10.00 percent
	Total	**100.00 percent**

CHAPTER – III

REVIEW OF FISCAL REFORMS FACILITY

Para 8 of the Presidential Notification requires the Commission to review the Fiscal Reforms Facility introduced by the Central government on the basis of the recommendations of the Eleventh Finance Commission and suggest measures for effective achievement of its objectives. On the recommendations of the Eleventh Finance Commission, the Central government established an incentive fund. It also issued guidelines for formulating a medium term fiscal reform programme (MTFRP) to be taken up the States. The States are required to sign a Memorandum of Understanding (M.O.U) with the Central government for taking up MTFRP as per the guidelines, under which the States are required to achieve a single monitorable target of reduction of five percentage points every year, in the ratio of revenue deficit to revenue receipts. The States which subscribe to the programme and achieve the targets envisaged therein are eligible to receive a grant from the incentive fund.

3.2 In pursuance of these guidelines the Government of Bihar, has drawn up its own medium term fiscal reforms programme, despite the difficulties arising out of the division of the State in November, 2000. Delay in division of liabilities, along with substantial loss in revenue, has further compounded the fiscal problems of the State. Bihar's medium term fiscal reform programme contains a set of measures aimed at increasing revenues and reducing non-development expenditure.

3.3 Various measures undertaken during this period have led to an increase in the tax revenues of the State. The increase in revenue has been achieved through widening of the tax base and revision of tax rates in respect of sales tax, stamp duty, excise duty, motor vehicles tax, electricity duty and entertainment tax. Revenue expenditure has been compressed through a ban on appointment of ad-hoc, daily, work-charge and muster-roll workers. Financial management has been improved by computerization of treasuries and some tax collecting departments. The budgetary process is being made more transparent.

3.4 The power sector reforms suggested by the Government of India aim at reducing the negative contribution of the State Electricity Boards (SEBs) to the State's revenues. In order to achieve this objective, the State government has (a) taken steps for setting up a State Electricity Regulatory Commission (SERC), (b) for unbundling of generation, transmission and distribution, into separate profit centres, (c) to reduce transmission and distribution losses and (d) for installing electronic metering up to consumer level.

3.5 Public sector reforms being implemented by the State government aim at identifying public sector enterprises (PSEs) with a view to determining the need for their continuance under government ownership and drawing up a time-bound road map for winding up of unviable PSEs. The State Government has drawn up a road map for reforms of public sector enterprises in the State as follows :-

(a) State Government would generally not extended any financial support to any public sector enterprise of the State, except the State Electricity Board.

(b) Eighteen public sector enterprises will be wound up.

(c) A one-time relief scheme for employees to be retrenched as a result of the winding up of these PSEs has also been drawn up.

(d) Restructuring of the remaining PSEs will be considered.

3.6 As a result of the steps taken for increase in the State's own revenue, the ratio of State's own tax revenue to GSDP is estimated to increase from the base level of 4.233 per cent in 1999-00 to 5.139 per cent in 2003-04. The non-tax revenue of the State has fallen drastically from Rs. 1167 crores in 1999-2000 to Rs. 286.70 crores in 2001-02, due to the loss of virtually the entire mineral and forest resources after the bifurcation of the State. Despite this, the State has been able to achieve a reduction in the ratio of revenue deficit to revenue receipts by over 21 percentage points during 2000-2003. This has been recognized widely.

RATIO OF REVENUE DEFICIT TO REVENUE RECEIPT

(Rs. in crores)

Sl. No.	Year	Revenue Receipts	Revenue Expenditure	Revenue Deficit	Percentage of Rev. Deficit to Rev. Receipts
1.	1999-00	10,659.52	14,362.43	(-) 3,702.91	(-) 34.74
2.	2000-01	11,177.32	13,507.20	(-) 2,329.88	(-) 20.84
3.	2001-02*	9,839.29	11,159.33	(-) 1,320.04	(-) 13.42

* denote AG figures

3.7 The importance of this can be judged in the light of the performance of the Central government in respect of deficit reduction. The Eleventh Finance Commission envisaged that the Central government would reduce its revenue deficit from the level of 3.81 percent of GDP in 1999-2000 to 1.00 percent of GDP in 2004-2005, i.e., a fall of 2.81 percent over five years, or 0.56 percent every year. On the other hand, the revenue deficit of the Central Government was 4.1 percent of GDP in 2000-2001, 4.4 percent in 2001-2002 and 4.2 percent in 2002-2003. It may also be noted that Central tax revenues have fallen short of the levels forecast by the Eleventh Finance Commission and also as compared to the budget estimates of the Central government itself. This has affected adversely the transfers to the States as compared to the estimates of the Eleventh Finance Commission. The table below amply illustrates this :-

RECOMMENDED AND ACTUAL AMOUNT RECEIVED UNDER DEVOLUTION OF TAXES

(Rs. In Crores)

Sl. No.	Year	As recomme-nded by EFC for combined Bihar	Share of Divided Bihar	Actual amount received	Difference between 3 & 4	%age difference
1.	2000-01	7892	7282.13	6548.61	-733.52	-10.07
2.	2001-02	9200	7304.16	6176.67	-1127.49	-15.44
3.	2002-03	10729	8518.07	6495.95	-2022.12	-23.74

3.8 The State Government favours the continuance of the fiscal reforms facility. However, the norms obviously need to be changed to accommodate the progress already made. A five percent reduction every year may not be feasible in the coming years, unless the State is prepared to renege on its constitutional and developmental obligations. Hence, targets for reduction in the monitorable index should take note of the existing level of deficit of a State, its performance in the preceding years and the possibility of future improvement.

3.9 It may also be emphasised that the index of performance should not be changed. Reforms require a degree of continuity and it is difficult for large organizations, like states, to adapt themselves to a different goal every five years.

3.10 The State government also feels strongly that the burden of fiscal reforms should be shared equally between the Centre and the States. A mechanism has to be evolved to ensure that the Central government is persuaded to adhere to the targets set for it.

CHAPTER – IV

RESTRUCTURING OF STATE FINANCES

Para 5 of the Notification requires the Commission to review the state of the 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.

4.2 The Eleventh Finance Commission had reviewed the state of the finances of both the Union and the States and had come to the conclusion that they were characterized by large fiscal deficits, as a result of which, large chunks of current revenues were eaten up by interest payments and debt servicing liabilities leaving little for future requirements. The more disquieting fact was that these fiscal deficits were used more for the purpose of financing current expenditure rather than capital expenditure. They, therefore, felt that the situation was not sustainable and called for a restructuring of government finances. The restructuring plan suggested by them covered both the Central and the State finances and a combined picture of both. The dimensions of the restructuring plan of State finances visualized by them are indicated below :

FISCAL ADJUSTMENT TARGETS OF STATES AS A PERCENTAGE OF GDP

Sl. No.	Items	1999-00	2004-05	2004-05 Over 1999-00	Annual Adjustments
1.	Tax Revenues (Own)	5.29	6.44	1.15	0.23
2.	Non-Tax Revenues (Own)	1.03	1.53	0.50	0.10
3.	Revenue Receipts	10.38	12.96	2.58	0.52
4.	Revenue Expenditure	13.33	12.96	-0.38	-0.08
5.	Capital Expenditure	2.06	2.85	0.80	0.16
6.	Revenue Deficits	2.96	0.00	-2.96	-0.59
7.	Fiscal Deficit	4.71	2.50	-2.21	-0.44

Source : Report of the 11th Finance Commission, Table 3.2, and Page-25

4.3 The contents of the restructuring plan suggested by the Eleventh Finance Commission included (i) widening the tax base and, in particular, bringing services fully under the tax net in properly designed scheme which requires, among other things, listing of services in the concurrent list, (ii) using profession tax as also taxation of farm incomes to augment tax revenues in the States, (iii) gearing up administration for better exploitation of the tax bases, without unduly increasing the tax rates, (iv) relying on user charges for enhancing non-tax revenues by index linking them to changes in input costs, (v) reviewing the policy towards fixation of royalty rates of minerals by index linking them to inflation for augmenting the revenues of the States, (vi) salaries and other allowances should bear a relationship with the revenue expenditure of the Centre and the States. The ratio may be worked out by an Expert Committee constituted for this purpose, (vii) building up infrastructure in every State, particularly in the special category States, for the generation of economic activities, (viii) cutting subsidies and making them explicit and transparent, (ix) transferring Centrally sponsored schemes to the States along with funds, (x) revising the present system of determining and providing assistance for State plans, (xi) resizing the governments at all levels by redeployment and downsizing, (xii) improving budgetary procedures and procedures for evaluation and monitoring of public expenditures, (xiii) introducing comprehensive structural reforms for public sector enterprises, (xiv) reviewing the assignment of tax powers between the Centre and the States for better exploitation and revenue yield, (xv) suggesting limits on borrowing that may be fixed by reference to norms regarding ratio of interest payment to revenue receipts; as also the size of debt relative to output (GDP / GSDP) and suggesting that limits to guarantees be fixed by relevant legislation for the Centre and for each State, and (xvi) restructuring finances of the special category States by changing the method of providing plan assistance and direct Central participation in building up infrastructure in these States.

4.4 The Central Government is yet to act on many of these recommendations. These include listing the tax on services in the concurrent list, enhancing the ceiling on profession taxes, appointment of an Expert Committee to fix a ratio of expenditure on salaries and allowances to revenue expenditure, transfer of Centrally sponsored schemes to States, revision of the present pattern of Central plan assistance, review of the assignment of taxing powers between the Centre and the States and prescribing a limit on borrowings and guarantees for both the Centre and the States.

4.5 On the contrary, the achievements of the State Government in respect of restructuring the State finances has been in accordance with the medium term fiscal reform programme targets for the state. The State has reduced its revenue deficit, which was 5.082 percent of GSDP in 1999-2000, to 3.587 percent in 2000-2001 and to 2.485 percent in 2001-2002. As a ratio of revenue receipts, revenue deficit decreased from 34.74% in 1999-2000 to 13.42% in 2001-02.

FISCAL ADJUSTMENT ACHIEVEMENTS AS A PERCENTAGE OF GSDP

Sl. No.	Items	1999-00 (Actual) Undivided Bihar	2000-01 (Actual)	2001-02 (AG figure)
1.	Tax Revenues (Own)	4.233	4.325	4.365
2.	Non-Tax Revenues (Own)	1.600	1.096	0.540
3.	Revenue Receipts	14.628	17.210	18.522
4.	Revenue Expenditure	19.710	20.797	19.415
5.	Capital Expenditure	3.147	2.687	2.378
6.	Revenue Deficits	5.082	3.587	2.485
7.	Fiscal Deficit	8.229	6.275	4.863

Note : The figure has been computed on the basis of the figure from 01.04.2000 to 14.11.2000 for combined Bihar and from 15.11.2000 to 31.03.2001 for divided Bihar

4.6 The Eleventh Finance Commission had recommended that the sustainable level of debts in a State have to be viewed from the point of view of interest payments to revenue receipts. The continuous increase in the stock of debt of the states, due to borrowings at high interest rates has increased the burden of the States. Restructuring of loans bearing high interest rates is a prerequisite for restructuring State finances.

4.7 According to the report of the Eleventh Finance Commission the secular decline in the fiscal balance of the economy set in during the eighties and got accentuated in the closing years of the nineties, on account of shortfall in tax receipts, increase in expenditure on salary and pensions, negligible returns from public investments and large subsidy payments. Notwithstanding the paucity of resources, the States are required to undertake increasing responsibilities, which include development of social and economic infrastructure. In the face of decelerating growth of Central transfers and States own revenues, the States have to resort to high level of borrowings to meet increased expenditures. Component-wise, a significantly proportion of the outstanding debt of the States relate to loans from the Centre. The interest rates on Central and other loans are very high, resulting in an increase in the interest payments of the State, leading to self-aggravating spiral of debt and deficit.

4.8 Though successive Finance Commissions have attempted to devise a just and equitable system of transfer of resources, disparities between different regions of the country have continued to widen. Developed regions are generally areas which were relatively well off to begin with. To use the same parameters of performance for economically developed and less developed areas of the country would not be a prudent fiscal exercise. Linking debt relief to the performance of states in the field of human development and investment climate would thus be self-defeating. In a situation where investible surpluses are virtually non-existent, the resources for human development are bound to be inadequate. In fact, greater debt relief should be given to States which have low indices of human development and infrastructure, in order to enhance their borrowing capacity.

4.9 Restructuring of public finances aimed at macroeconomic stabilization, while ensuring equitable growth, is the need of the hour. Fiscal policies will have to be redesigned to facilitate acceleration in growth in backward regions of the country. Investments in vital social sectors like education, health, women's empowerment and for bridging infrastructural gaps in areas like roads, power, water supply, need to be stepped up to provide the appropriate physical and social infrastructure necessary for growth. Hence, any attempt at restructuring State finances should aim at augmenting the resources required by States, especially the poorer ones.

4.10 While the States have made a sincere attempt to augment their own revenues and of curtailing unproductive expenditure, comparable effort by the Centre to increase its tax buoyancy or to curtail its expenditure has not been forthcoming. The implementation of the medium term fiscal reform programme was supposed to be a collaborative exercise, but has not been so. Further, the incentive for performance in the field of fiscal reforms is quite inadequate compared to the effort that a State has to make in bringing about reforms.

4.11 Further, it must be borne in mine that there is a limit to the ability of States to increase their tax/non-tax revenue and to reduce their revenue expenditure. A large part of revenue expenditure is of a committed nature such as salaries, pensions and interest payments. For the States to fulfill their expenditure obligations, it is absolutely essential that they benefit from enhanced devolution and a substantial reduction in their debt burden.

4.12 The Twelfth Finance Commission may like to assess the nature and the magnitude of the problems and the capacity of each State to discharge its constitutional responsibilities of social and economic development individually, and then draw a road map for it. Any system that the Commission evolves should not only offset the vertical and horizontal imbalances, but also ensure prudent fiscal management both by the Centre and the States.

CHAPTER – V

DEBT POSITION OF THE STATES

Para 9 of the Presidential Notification requires the Commission to make an assessment of the debt position of the states as on the 31st March, 2004 and suggest such corrective measures, as are deemed necessary, consistent with macro-economic stability and debt sustainability. The measures recommended should give weightage to the performance of the States in the field of human development and investment climate. It is, therefore, proposed to indicate the debt liability of the State on the specified date and some of the corrective measures which the State Government considers necessary to reduce the liability.

5.2 The total debt of the State as on 31.03.2004 is estimated at Rs. 40,309.51 crores. On 15th November, 2000 the date of bifurcation of the State, the debt of the State stood at Rs. 31,581.83 crores. In four years, the debt of State is expected to increase by Rs. 8,914 crores. This works out to an increase of about 28.22 percent over the 15th November 2000 figure. The composition of this debt over the period 15th November 2000 to March 2004 is indicated in the table below :-

State's Indebtedness

(Rs. in crore)

Sl. No.	Items	Year ending 31st of March				
		15.11. 00	**2001**	**2002**	**2003 (RE)**	**2004 (BE)**
1	Internal debt	6,533.64	7,096.82	9,682.04	12,485.71	17,434.24
		20.69%	24.95%	30.37%	35.89%	42.24%
1.1	Market loans	4,494.43	4,856.17	5,884.03	7,081.40	8,665.74
		14.23%	17.07%	18.45%	20.36%	20.99%
1.2	Small savings	1,778.02	2,168.82	3,698.52	5,277.00	7,041.23
		5.63%	7.62%	11.60%	15.17%	17.06%
1.3	Other loans	261.19	71.83	99.49	127.31	1,727.27
		0.83%	0.25%	0.31%	0.37%	4.18%
2	Loans and advances from the Central Government	15,862.01	11,243.29	11,791.72	11,381.51	11,705.45
		50.23%	39.53%	36.98%	32.72%	30.71%
3	State Provident Fund etc.	7,310.57*	7,624.55	7,684.16	7.877.16	7,617.52
		23.15%	26.81%	24.10%	22.64%	18.45%
4	Reserve Funds and Deposits etc.	1.875.61	2,479.66	2,725.45	3,042.62	3,552.30
		5.94%	8.72%	8.55%	8.75%	8.61%
	Total	31,581.83	28,444.32	31,883.37	34,787.00	40,309.51
		100.00%	100.00%	100.00%	100.00%	100.00%

5.3 The total debt burden of the State is equivalent to about 61 percent of the Gross State Domestic Product (GSDP) of the State. This casts a heavy burden of interest payments over the State. The interest burden of the State is estimated to rise to Rs. 3,416.83 crores in 2003-04. It was Rs. 2,626.34 crores in 2001-02 and Rs. 3,141.58 crores in 2000-01. The interest payments in 2003-04 accounts for 26.23 percent of revenue receipts of the state. Such a high burden of interest payments is unsustainable. The Eleventh Finance Commission had estimated that the sustainable burden of interest payment to revenue receipts should be around 18 percent and States which have a higher ratio than this should try to bring it down to the desired level.

5.4 Despite financial constraints, the State Government has invested substantially in human development. As a result, literacy in the State has increased from 37.49 percent in 1991 to 47.53 percent in 2001. Male literacy has increased from 51.37 percent in 1991 to 60.32 percent in 2001. Female literacy has increased from 21.99 percent in 1991 to 33.57 percent in 2001. The infant mortality in the State has gone down from 75 per thousand in 1991 to 67 per thousand in 2001 against 71 per thousand for the country in 2001. The Human Development Index of the State has improved from 0.237 in 1981 to 0.367 in 2001, an increase of 55% which is at par with the increase of 56% for the country as a whole. Though the improvement in Bihar has kept pace with the national average, much greater investment is required to accelerate the speed and bring about parity.

5.5 The terms of reference link debt relief with the performance of States in the field of human development and investment climate. The developmental efforts of the less developed states should be judged not in absolute terms but on the basis of improvements made in the relevant period. Absolute values are historical legacies and the State can only endeavour to improve a given situation by appropriate measures.

5.6 Notwithstanding some of the remedial measures taken for reducing the burden of debt, the problem of reduction of debt remains and requires more substantial effort for its reduction. Debt relief given in the past has proved grossly inadequate, as is evident from the increase in the size of debt. States having low per capita income and fiscally stressed states have not been dealt with differently. It is essential to formulate an appropriate and differential debt relief scheme for such states.

5.7 The Central Government has formulated a debt-swap scheme which has afforded some relief in the debt-servicing obligations of the State Government. The burden of debt, however, remains. It has been estimated that debt-servicing obligations of the State during the period 2005-10 will be Rs. 37,207 crores. Of this, Rs. 13,603 crores will be the requirement for repayment of loans and Rs. 23,604 crores will be required for interest payments. It is necessary, therefore, that a more liberal debt relief regime is ushered in. The State Government would like to urge the Twelfth Finance Commission to revive the special debt relief scheme brought in by the Tenth Finance Commission, but on more liberal terms.

5.8 The State Government would also like the Twelfth Finance Commission to consider the following additional debt relief measures (i) change in the pattern of Central plan assistance with a higher proportion of grants than the present 30 percent (ii) enhancement of the levels of debt-swap of Central loans against small savings and market borrowings, (iii) reduction in the rate of interest charged on loans by the Centre and loans from Central sector financial institutions.

CHAPTER – VI

GRANTS-IN-AID

Para 4 (ii) of the Presidential Notification requires the Commission to make recommendations on 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 proviso to clause (1) of that article.

6.2 Grants-in-aid play an important role in the scheme of transfer of resources from the Centre to the States. The Constitution makers realised that a scheme of devolution of Central taxes may not be adequate to cover the needs of a State and it may still require further assistance. Apart from meeting merely budgetary needs, equalization of the standards of basic administrative and social services in the different States is an important objective of grants-in-aid.

6.3 The First Finance Commission formulated the principles of grants-in-aid. Some of these principles related to the manner in which the budgetary needs of the States had to be assessed on a uniform basis, taking into account tax effort and the scope of economy in expenditure. In addition to merely budgetary needs, the Commission recognised that equalising the standards of basic social services in the different States was an important purpose to be served by grants-in-aid. It also thought that grants-in-aid could be given to a State to meet special burdens or obligations which, though falling within the domain of the states, are of national concern, if they impose an undue strain on its finances. Apart from budgetary needs, it also thought that grants could be given to further any beneficent service of primary importance in regard to which it was in the national interest to assist the less advanced states to go forward. The Five Finance Commissions which followed broadly endorsed these principles.

6.4 The Seventh Finance Commission felt that in view of the changed circumstances, there was a need to reformulate the principles of grants-in-aid. Accordingly, it formulated the following three principles :-

(a) Grants-in-aid may, in the first place, be given to States to enable them to cover fiscal gaps, if any are left after devolution of taxes and duties, so as to enable them to maintain the levels of existing services in the manner considered desirable and built in their revenue forecasts. In this connection consideration should be given to the tax effort made by individual States in relation to targets for the Plan, to economy in expenditure consistent with efficiency and to prudent management of public sector enterprises.

(b) Grants-in-aid may be made as correctives intended to narrow, as far as possible, disparities in the availability of various administrative and social services between the developed and the less developed States, the object being that every citizen, irrespective of the State boundaries within which he lives, is provided with certain basic national minimum standards of such services. While the long term objective may be to provide to each citizen these services at the level obtaining in most advanced States, due regard should be had to the feasibility of upgrading these standards in the shorter term.

(c) Grants-in-aid may also be given to individual States to enable them to meet special burdens on their finances because of their peculiar circumstances or matters of national concern.

6.5 The Eighth Finance Commission, while distributing grants-in-aid for upgradation of standards of administration, found that low levels of expenditure incurred by the less developed states, on a number of services have contributed to their post devolution surplus. The Ninth Finance Commission, while assessing the non-plan revenue expenditure of the less developed states in regard to social and economic services, also found wide disparity among states in respect of the levels of expenditure of those services. It sanctioned grants to these states, for it felt that while all the states have to improve on those services from existing levels, those that are relatively backward in this respect should move at a faster pace.

6.6 Yet over the years, Finance Commissions have concentrated more on the 'gap filling' approach than on 'equalization grants', due to which disparities in the per capita revenue expenditure on basic services and post devolution non-plan revenue among States have remained large. This has further accentuated inter-state disparities. Equalization transfers designed to provide governments with sufficient funds to deliver normative levels of services are essential to bridge this disparity. For this the revenue capacity and expenditure requirements of different states needs to be assessed on a normative basis. Though many Finance Commissions have tried to do this exercise, they have not been able to dispense with the practice of relying on projections based on the available actuals. In the process, the requirements of backward states have not been met. This has led to the sharpening of regional imbalances. Equalization transfers, aimed at providing certain basic national minimum standards of administrative and social services to all its citizens, irrespective of state boundaries, are thus essential for equitable growth.

6.7 It would be desirable that the Twelfth Finance Commission supplements the non-plan revenue transfers to a backward State like Bihar, with grants for equalisation of basic services to enable it to bring up the level of basic services to the average level of other developed states.

6.8 The Eleventh Finance Commission gave post devolution revenue deficit grants to 15 States, but Bihar, along with several low income States, was denied this grant. This omission had so struck Dr. Amresh Bagchi, a member of the Eleventh Finance Commission, that he was compelled to record a note to the Commission's Report which read as follows :-

"From the assessment of the revenues and expenditures of the States made by the Commission, it is noticed that in several States (mainly in the low-income group) the per capita NPRE (excluding interest and pensions) is far below the national average. For instance, in Bihar per capita NPRE for the year 2000-01 works out to less than 60 percent of the average of the general category States. Similar is the case with a few other low-income States. Even with the States share in Central taxes recommended by the Commission, the per capita revenue capacity of Bihar remains at 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 average. This is because, with tax devolution, the non-plan revenue account of the State goes into a surplus."

6.9 He therefore, suggested an alternative solution which is indicated below :

"The picture would have been different if the fiscal needs of the States could be determined on the basis of the average per capita expenditure (or a standard level of expenditure), allowing for appropriate cost differentials as well, multiplied by their population, and the gap between the requirements of revenue to meet the needs so determined and what the States could be expected to raise as revenue by making average effort, could be provided as grant. But as indicated above, our transfer scheme, despite our efforts to go by the normative principle, falls short of such equalization."

6.10 Following Dr. Bagchi's suggestions, an exercise has been done by the State to estimate its fiscal needs, which needs to be considered by the Commission. The details of these estimates are given below :-

Comparative table of non-plan revenue expenditure 2000-2001

Per capita average of NPRE of 14 States (excluding interest & pension payments in Rs.)	Per capita NPRE of Bihar (excluding interest & pension payments in Rs.)	Difference (Col. 1-3) (in Rs.)	Population of Bihar as per 1971 census (in Crore)	Yearly estimated requirement (Rs. in Crore) (Col. 3xCol 4)	Estimated requirement for (2005-2010) (Rs. in Crore) (Col. 5 x 5)
1	2	3	4	5	6
1,650.00	736.00	914.00	4.2126	3,850.32	19,251.6

6.11 The above table would reveal that the per capita non-plan revenue expenditure of the State, excluding interest & pension payments during the year 2000-2001 was Rs. 736 against the 14 State's average of Rs. 1,650. There is thus a difference or Rs. 914. When this amount is multiplied by the 1971 census population of the bifurcated State, the annual requirement comes to Rs. 3,850.39 crores. The total requirement for the award period (2005-2010) of the Twelfth Finance Commission will be Rs. 19,251.6 crore.

6.12 It is an undeniable fact that there is a wide disparity in the level of services in different states, contrary to what the Constitution envisages. It is also a sad fact that while most Commissions have recognized this issue, none have recommended adequate measures to rectify the situation. The consequence has been an unacceptable and potentially dangerous widening of disparities, as elucidated in Chapter II para 13. If equalizing grants are not used by the Commission as an effective and directed way of attacking the problem, the standard recipe of devolution with some grants thrown in, would remain inadequate for the purposes intended by the Constitution.

6.13 The entitlement of a disadvantaged State to such grants would no doubt be contingent on the State making due effort in mobilizing resources, at least upto what is described as "average tax effort". This is a very difficult issue, but both the Tenth and the Eleventh Finance Commission have concurred on a reasonable index of tax effort defined as "the ratio of per capita own tax revenue of a State to its per capita income and weighted it by the inverse of per capita income". The only difference was in the weights assigned. Whichever of these indices is used, Bihar ranks above the all States average in tax effort. The calculations are at Appendix – B & B1. As such, the entitlement of Bihar to such grants-in-aid, on the condition of the State making "average tax effort" is not in dispute. No adjustments are being sought for better than average tax effort, though this could be a legitimate claim. In the circumstances, it is our conviction that unless the Commission chooses to act on this issues quickly and effectively, the hope of equalizing the average level of services would remain a wish and not a reality. With the liberalized economic regime, where the level of such services is a major determinant of the flow of private capital, whether domestic or foreign, the continuance of such disparities is tantamount to condemning disadvantaged States to perpetual poverty. Much time has been lost and it is our hope that this Commission will face this issue squarely.

6.14 **UPGRADATION AND SPECIAL PROBLEM GRANTS**

As stipulated in para 4 (ii) of the Presidential Notification, the Commission has to give its recommendation, on the sums to be paid to the states which are in need of assistance by way of grant-in-aid under article 275 of the Constitution. This stipulation has to necessarily include the recommendation for targeted grants-in-aid for creation of capital infrastructure for the up-gradation of standards of administrative and social services. The State Government has formulated ten proposals costing Rs. 4,004.57 crores for consideration of the Commission. A brief summary of these proposals is given below :-

6.15 **E-Governance**

The role of e-governance in enhancing efficiency and in providing better services to the public is widely recognised. The Government of Bihar has formulated a project to collect and disseminate on line data of major revenue earning departments of the State viz. commercial taxes, registration, treasury and sub-treasuries and the directorate of provident fund with the data centre located in the finance department. The project covers not only internal computerization of the above offices but even their local offices operating at the district levels across the State. This would help in timely analysis of financial data, in updating the GPF accounts of the employees and in making policy decision to mobilise additional resources.

For this, Bihar Revenue Administration Intra Net (BRAIN) project estimated to cost Rs. 47.95 crores, has been prepared by the State Government.

6.16 **Fire Services**

The growing urbanisation has aggravated the problem of fire hazards due to congested markets, mushrooming high rise buildings and expanding urban slums. To meet this ever-growing challenge, the infrastructure of Bihar Fire Service needs to be strengthened and the State Government has prepared a development plan with an estimated cost of Rs. 10.65 crores. This includes construction of fire station buildings, replacement of old fire engine equipments, purchase of new equipments and setting up of a Fire Service Training School.

6.17 **Jail Administration**

In order to improve and upgrade the standard of jail administration and to meet the problem of over-crowding, the State Government has formulated a project which includes construction of three sub-jails and setting up of a Jail Training Institute in the State, for imparting proper training to the jail personnel, at an estimated cost of Rs. 20 crores.

6.18 **Health Services**

Health care is the primary need of the People. Delivery of primary health care to people is an integral part of the national health care system. Accordingly, priority has been accorded to extension, expansion and consolidation of rural health infrastructure from health sub-centres upto district hospitals.

The State has been lagging in some indicators of the health. Lack of adequate health, infrastructure is one the major reasons of in adequate health care system. Many sub-centres, additional primary health centres and primary health centres do not have pucca buildings. It is thus proposed to provide pucca buildings to all such health care units. Existing referral hospitals, sub-divisional and district hospitals also require upgradation both in terms of building and plants, machinery and equipments etc. The upgradation and improvement of health infrastructure is estimated to cost Rs. 2,863.45 crores.

6.19 **Upgradation of Technical Education**

The State Government has formulated a project for upgradation and expansion of existing technical institutions as major technical institutions have gone to Jharkhand. The project includes construction of additional buildings, purchase of equipments for capacity expansion and introduction of new course in information technology in Muzaffarpur Institute of Technology, Bhagalpur College of Engineering, Bhagalpur, Lok Nayak Jay Prakash Institute of Technology, Chhapra, and six government polytechnics.

6.20 **Secondary Education Department**

Education is a fundamental prerequisite for development. State Government has prepared a proposal for the strengthening of educational institutions at the secondary level, at an estimated cost of Rs. 518.60 crores.

6.21 **Establishment of Administrative Training Institute**

Governance has emerged as one of the major factors affecting development of a State. The critical role of the State in providing the environment and impetus for growth can never be minimized. Training enhances the efficiency of the personnel, manning the government and motivates them, creates information and technology flow and upgrades the human capital within. As a result of the bifurcation of the State, the Administrative Training Institute (ATI), Bihar Institute of Rural Development (BIRD), and the Panchayati Raj Training Institute have to be established afresh in Bihar. The estimated cost of establishing an ATI for the State is Rs. 110.10 crores.

6.22 **Improvement of Urban Water Supply and Drainage**

The rapid growth in urban population has increased the demand for civic amenities viz. adequate water supply and provision of proper sewerage and drainage. A project for argumentation of water supply and sewerage & drainage facility in major towns has been formulated, which is estimated to cost Rs. 180.00 crores.

6.23 **Construction of Residential Schools and Hostels for Scheduled Castes, Scheduled Tribes, OBCs and Girls**

For the welfare of SC/ST and other weaker sections of society, the State government has formulated a proposal for their educational upliftment by constructing residential schools and hostels for both boys and girls. The estimated cost of the project is Rs. 124.22 crores.

6.24 **Construction of Homes under Juvenile Justice Act, Remand Home, After care Home and Residential School for the Handicapped**

Proposals for construction of homes under J.J. Act, upgradation of remand home, after care home and residential schools for physically challenged, which is estimated to cost Rs. 21.20 crores.

CHAPTER – VII

GRANTS TO LOCAL BODIES

Para 4 (iii) of the Presidential Notification requires the Commission to make recommendations in respect of 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.

7.2 The State Government has set up a Finance Commission to make recommendations with regard to :-

(a) The principles which should govern :

(i) the distribution between the State and the Panchayats and the Municipalities at all levels the net proceeds of the taxes, duties and fees leviable by the Government which may be divided between them and allocation between the Panchayats and the Municipalities of their respective shares of such proceeds;

(ii) the determination of the taxes, duties and fees which may be assigned to or appropriated by the Panchayats and the Municipalities;

(iii) the grants-in-aid to Panchayats and Municipalities from the Consolidated Fund of the State

(b) the measures needed to improve the financial position of the Panchayats and Municipalities

(c) any other matter referred to the Finance Commission by the Governor in the interest of sound finance of the Panchayats and Municipalities.

7.3 The elections to the rural and urban bodies have been held in Bihar in 2001 and 2002 respectively. As such it will take some time before the local bodies are able to project their requirements and resources. This is a major handicap being faced by the State Finance Commission.

7.4 The Notification of the Eleventh Finance Commission had visualized that reports of some State Finance Commissions might not be available to the Commission. It had, therefore, provided that where the State Finance Commissions have not been constituted or had not submitted their report, the Commission will make its own assessment about the manner and extent of augmentation of the Consolidated Fund of the State to supplement the resources of the Panchayats and Municipalities. This Commission may also like to adopt the same procedure.

7.5 The Eleventh Finance Commission recommended only a small sum of Rs. 10,000 crores for the entire award period (2000-05). This amount fell far short of the requirements of the local bodies, considering that studies sponsored by the Commission had estimated the requirement of funds for maintenance of civic services of rural local bodies at Rs. 1,42,128 crores for the five-year period. Similarly, the National Institute of Public Finance and Policy had reported that the requirements of funds for maintenance of civic services of municipal bodies would range from Rs. 6,907 crores to Rs. 32,598 crores over a period of five years, depending on what norms suggested by the Zakaria Committee were adopted for enhancement of the level of civic services. The Commission appears to have overlooked these recommendations. The State government feels that this Commission should make a realistic assessment of the needs of local bodies.

INTER-SE DISTRIBUTION

7.6 The Tenth Finance Commission had suggested population as the sole criterion for distribution of Central grants to local bodies of the States. It was rural population (1971) for the panchayats and slum population (1971) for the municipalities. The Eleventh Finance Commission thought that "population should not be the sole basis for State-wise allocation as it has the effect of perpetuating the status quo. Further, it does not take into account the efforts made by the states to let these bodies raise their own resources, the extent of transfer of resources, power, authority and responsibility to the local bodies, or the initiative taken by the States in implementing the 73rd and 74th amendments and the income differentials between the states in rural/urban areas. Nor does it take into account the variation in the cost of providing services in low population density areas". They, therefore, thought that factors such as these need to be recognized and given due weight while devising the principles for inter-state allocation. The Commission recommended the following criteria for distribution amongst states :-

Sl. No.	Criteria recommended by EFC	Weight
(i)	Population	40 percent
(ii)	Index of Decentralization	20 percent
(iii)	Distance from the highest per capita income	20 percent
(iv)	Revenue effort	10 percent
(v)	Geographical area	10 percent

7.7 On the basis of the principles of distribution adopted by the Eleventh Finance Commission the share of Bihar came to Rs. 108.75 crores for panchayats and Rs. 13.41 crores for urban local bodies.

7.8 Using the Census 2001 figures or rural (7.42 crores) and urban (0.87 crores) population, the per capita allocation for divided Bihar works out to Rs. 73 in respect of panchayats and Rs. 77 in respect of municipalities. These sums of money are not only less than what the State had been allocated under the Tenth Finance Commission award (Rs. 100 per head of rural population) but also too small to make any impact on the availability of civic services. There is need therefore for enhancing these allocations. The State Government feels that the Twelfth Finance Commission should recommended an amount at least three times the amount recommended by the Eleventh Finance Commission.

7.9 The criteria adopted by the Eleventh Finance Commission for allocation of inter-se shares of States also needs to be reviewed as it is too complicated. The State Government would like to suggest the following criteria for distribution of Central grants :-

Sl. No.	Criteria recommended	Weight
1.	Population	80 percent
2.	Distance from the highest per capita income	10 percent
3.	Number of local bodies	10 percent

CHAPTER – VIII

CALAMITY RELIEF FUND

Para 10 of the Notification requires the Commission to review the present arrangements as regards financing of disaster management with reference to the National Calamity Contingency Fund and the Calamity Relief Fund and make appropriate recommendations thereon. Accordingly, it is proposed to indicate the experience of the working of the Calamity Relief Fund in the State and suggest some modifications in the same.

8.2 The most distressing feature of the State's economy is the annual visitation of floods causing immense damage to human lives, cattle, standing crops and to infrastructure, such as roads, buildings, dams, water supply and other installations. This is followed by droughts, fire, hailstorms, heat and cold waves, soil erosion and changes in the courses of the rivers. Details of the havoc created by these natural calamities are given below. The figures pertaining to damages of floods, fire and hailstorms is appended at Appendix-C.

8.3 The National Commission on Floods has identified Bihar as the most flood-prone state in the country. The total flood-prone area in the State is about 68.80 lakh hectares, which is 17.2% of the total flood affected area in the country. Out of the total flood affected population of the country, 56.5% of the population resides in Bihar. During the last several years, measures have been taken to protect 29.28 lakh hectares of geographical area from floods. The embankments raised as part of these measures are facing erosion due to the constant change in the course of rivers and need to be strengthened and their height needs to be raised.

8.4 The second major natural disaster in Bihar is drought. It occurs more frequently in South Bihar. According to the policy being followed in the State, when the average sowing falls below 50 percent of the normal, the district is declared as drought affected and when it falls below 75 percent, it is declared as famine affected.

8.5 Another important calamity that the State has to face every year is fire. The State has a large percentage of poor people who live in thatched houses that are clustered together. In case a dwelling catches fire, it spreads very rapidly to nearly all the houses of the area. Lack of fire-fighting equipment and education resulted in thousands of houses getting gutted. These lead to loss of life and properties necessitating immediate relief.

8.6 Cyclones and hailstorms also occur in different parts of the State entailing considerable expenditure on provision of blankets, clothes, utensils, food, fuel and house building grants. The State was badly affected by hailstorm in 1997-98. Out of the 17 affected districts, six districts – Rohtas, Kaimur, Bhojpur, Aurangabad, Jehanabad and Gaya – were very badly affected.

8.7 In 1998, the State witnessed a devastating earthquake. Private and public properties were extensively damaged. About 11.49 lakh private houses were damaged requiring nearly Rs. 109 crores for their repairs reconstruction. Similarly, Government properties were also damaged requiring around Rs. 100 crores for their repair and reconstruction.

8.8 The State also experiences extremes of heat and cold. In summer months, very high temperatures are recorded causing heat stroke and loss of life. During winter, temperature goes down considerable. This causes extensive damage to human lives and cattle. Arrangements, therefore, have to be made for fire wood and blankets etc. for the affected people so that they can protect themselves from extreme cold.

8.9 There are many rivers in the State, which have changed course, turning fertile land into heaps of sand, or sub merging fertile lands into water. Such changes have been observed mostly in the Kosi and Ganga basins rendering the affected people landless and homeless. It is necessary, therefore, to resettle such people and compensate them suitably.

8.10 Unfortunately, under the present arrangements, some of these calamities do not qualify for assistance. The State Government would like to recommend to the Commission that the list of natural calamities be enlarged beyond the present six so as to include heat and cold waves and damages caused by change in the river course. In fact, the states should have the freedom to use Calamity Relief Fund to finance Relief activities whenever warranted owing to natural calamities.

8.11 The Government of India has fixed norms for various operations of relief and rehabilitation. The requirements for restoration of infrastructural facilities are not provided for in the norms, except when it is to be incurred as part of providing immediate relief. The State Government, recommends to the Commission that adequate expenditure for full restoration of infrastructural facilities be incorporated in the calamity relief scheme.

8.12 The State Government had requested the Eleventh Finance Commission to fix the size of the calamity relief fund at the level of Rs. 1000 crores for the award period of the Commission taking into account the requirements and the unmet needs of the affected people. But the Commission fixed the size of the State's calamity relief fund at Rs. 683.28 crores after taking into account the average annual expenditure on relief schemes during the 12-year period (1987-99) at 1998-99 prices with adjustment for inflation thereafter. After the partition of the State, in the very first year of the Eleventh Finance Commission award period, this amount was divided between Bihar and Jharkhand as follows.

Rs. Crore

Year	Bihar	Jharkhand	Total
2000-01	66.96	56.69	123.65
2001-02	70.31	59.53	129.84
2002-03	73.82	62.51	136.33
2003-04	77.52	65.63	143.15
2004-05	81.40	68.91	150.31
Total	**370.01**	**313.27**	**683.28**

8.13 This division was done on the basis of the area of the two states. The amount remaining with Bihar at Rs. 370 crores is too small for its needs. The State Government would request the Commission to fix the size of the calamity relief fund on the basis of population affected as per norms of relief and provision for restoration of infrastructural facilities. The requirement of funds, as per norms comes to annual average of Rs. 600 crores, for the period 2000-01 to 2002-03. In addition funds would be needed for restoration of infrastructural facilities.

8.14 According to the present arrangements, 75% of the Calamity Relief Fund is contributed by the Centre and 25% is contributed by the State Government. The calamity of flood occurs in the State, particularly in North Bihar, mainly because of the heavy discharge of water by the Himalayan rivers. While the catchment of these rivers lies in Nepal, the damage is suffered by Bihar. As a permanent solution to the problem remains to be worked out by the Central government with the Nepalese government, the State government would suggest that the Central share of the calamity relief fund should be fixed at least 90 percent of the total. The State government would also urge that whatever be the size of the calamity relief fund, inflation should be fully provided for.

8.15 To sum up, the State Government would like to suggest the following for the consideration of the Commission.

1. *All types of natural calamities should be made eligible for relief and not merely the six categories as at present.*

2. *The size of the calamity relief fund should be fixed not merely on the basis of the average expenditure during the last several years but also on consideration of damages to infrastructural facilities.*

3. *Central share of the calamity relief fund should be 90% and not 75% as at present.*

Appendix-A

12TH FINANCE COMMISSION
<u>TERMS OF REFERENCE</u>
THE GAZETTE OF INDIA: EXTRAORDINARY
MINISTRY OF FINANCE AND COMPANY AFFAIRS
(Department of Economic Affairs)
NOTIFICATION
New Delhi, the 1st November 2002

S.O. 1161 (E) – The following order made by the Present is to be published for general information :-

ORDER

In pursuance of the provisions of article 280 of the Constitution of India, and of the Finance Commission (Miscellaneous Provisions) Act, 1951 (33 of 1951), the President is pleased to constitute a Finance Commission consisting of Dr. C. Rangarajan, Governor of Andhra Pradesh, as the Chairman and the following three other members, namely :-

1.	Shri Som Pal, Member, Planning Commission	Member (Part time)
2.	Shri T.R. Prasad, IAS, (retd.) former Cabinet Secretary, Government of India	Member
3.	Prof. D.K. Srivastava of the National Institute of Public Finance and Policy	Member
4.	Shri G.C. Srivastava, IAS	Secretary

2. Notification for the fourth member will be issued separately.

3. The Chairman and the other members of the Commission shall hold office from the date on which they respectively assume office up to the 31st day of July, 2004.

4. The Commission shall make recommendations as to the following matters :-

(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 provisions to clause (1) of the 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 recommendation made by the Finance Commission of the State.

5. The Commission shall review the state of the 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.

6. In making its recommendation, the Commission shall have regard, among other considerations to :-

(i) the resources, of the Central Government for five years commencing on 1st April 2005, on the basis of levels of taxation and non-tax revenues likely to be reached at the end of 2003-04;

(ii) the demands on the resources of the Central Government, in particular, on account of 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 2005, on the basis of levels of taxation and non-tax revenues likely to be reached at the end of 2003-04;

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

(v) taxation efforts of the Central Government and each State Government as against targets, if any, and the potential for additional resources mobilization in order to improve the tax-Gross Domestic Product (GDP) and tax-Gross State Domestic Product (GSDP) ratio, as the case may be;

(vi) 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 the 31st March 2005 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;

(vii) the need for ensuring the commercial viability of irrigation projects, power projects, departmental undertakings, public sector enterprises etc. in the States through various means including adjustment of user charges and relinquishing of non-priority enterprises through privatisation or disinvestment.

7. In making its recommendations on various matters, the Commission will 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.

8. The Commission shall review the Fiscal Reform Facility introduced by the Central Government on the basis of the recommendations of the Eleventh Finance Commission, and suggest measures for effective achievement of its objectives.

9. The Commission may, after making an assessment of the debt position of the States as on the 31st March 2004, suggest such corrective measures, as are deemed necessary, consistent with macro-economic stability and debt sustainability. Such measures recommended will give weightage to the performance of the States in the fields of human development and investment climate.

10. 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 make appropriate recommendations thereon.

11. The Commission shall indicate the basis on which it has arrived at its findings and make available the State-wise estimates of receipts and expenditure.

12. The Commission shall make its report available by the 31st July, 2004, covering a period of five years commencing on the 1st April, 2005.

Sd/-
(Dr. A.P.J. ABDUL KALAM)
President of India
[NO. 10(13)-B(S)/2002]
D. SWARUP, Addl. Secy. (Budget)

Appendix - B

STATEMENT SHOWING SHARE OF STATES ON THE BASIS OF PER CAPITA TAX EFFORTS (EFC)

Sl. No.	State	Population 2001 (Lakhs)	GSDP (In lakh Rs.) (2000-2001) Provisional	Per Capita Income (In Rs.)	Own Tax Revenue 2000-01 (In lakh Rs.) Actual	Per Capita Tax Revenue	Inverse of Per capita Income	Square root of Inverse Income	Tax effort = [Per Capita Own tax Rev/(Per capita Income)] X (Inverse of Per capita Income)^0.5	Ratio of Tax effort of the State wrt All States Average	Per Capita Tax Revenue on Average Tax Effort
				Col 4/3		Col 6/3			Col 7x8x9		Col 7/11
1	2	3	4	5	6	7	8	9	10	11	12
1	Andhra Pradesh	757.28	13913711.00	18373.27	1055190.00	1393.39	0.0000544269	0.0073774581	0.0005594927	0.98	1414.64
2	Bihar	828.79	4625905.00	5581.52	280924.00	338.96	0.0001791628	0.0133851702	0.0008128605	1.43	236.86
3	Gujarat	505.97	11044930.00	21829.22	904680.00	1788.01	0.0000458102	0.0067683203	0.0005543869	0.98	1831.99
4	Haryana	210.83	5466004.00	25926.12	431150.00	2045.01	0.0000385711	0.0062105667	0.0004898800	0.86	2371.22
5	Karnataka	527.34	10481489.00	19876.15	904270.00	1714.78	0.0000503116	0.0070930638	0.0006119402	1.08	1591.71
6	Kerala	318.39	6904193.00	21684.70	587030.00	1843.75	0.0000461155	0.0067908361	0.0005773918	1.02	1813.83
7	Madhya Pradesh	603.85	7316540.00	12116.49	563960.00	933.94	0.0000825322	0.0090847224	0.0007002518	1.23	757.58
8	Maharashtra	967.52	23887517.00	24689.43	1972430.00	2038.65	0.0000405032	0.0063642096	0.0005255028	0.93	2203.60
9	Orissa	367.07	3877913.00	10564.51	218400.00	594.98	0.0000946566	0.0097291616	0.0005479362	0.96	616.79
10	Punjab	242.89	6604862.00	27192.81	489520.00	2015.40	0.0000367744	0.0060641920	0.0004494482	0.79	2547.10
11	Rajasthan	564.73	7644019.00	13535.71	530000.00	938.50	0.0000738787	0.0085952705	0.0005959553	1.05	894.51
12	Tamil Nadu	621.11	14709342.00	23682.35	1228230.00	1977.48	0.0000422255	0.0064981187	0.0005425929	0.96	2070.15
13	Uttar Pradesh	1660.53	18094760.00	10896.98	1098000.00	661.23	0.0000917686	0.0095795906	0.0005812948	1.02	646.14
14	West Bengal	802.21	13996850.00	17447.86	591760.00	737.66	0.0000573136	0.0075705753	0.0003200694	0.56	1309.12
	14 States Total	8978.51	148568035.00	16547.07	10855544.00	1209.06	0.0000604337	0.0077739089	0.0005680227	1.00	1209.06

Source : RBI State Finances a study of Budget 2002-03

Appendix – B1

STATEMENT SHOWING SHARE OF STATES ON THE BASIS OF PER CAPITA TAX EFFORTS (TFC)

Sl. No.	State	Population 2001 (Lakhs)	GSDP (In lakh Rs.) (2000-2001) Provisional	Per Capita Income (In Rs.)	Own Tax Revenue 2000-01 (In lakh Rs.) Actual	Per Capita Tax Revenue	(Per Capita Income)^2	Tax effort = Per Capita Own tax Rev/(Per capita Income) ^2	Ratio of Tax effort of the State wrt All States Average	Per Capita Tax Revenue on Average Tax Effort
				Col 4/3		Col 6/3		Col 7/8		Col 7/10
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**
1	Andhra Pradesh	757.28	13913711.00	18373.27	1055190.00	1393.39	337577103.60	0.0000041276	0.93	1490.66
2	Bihar	828.79	4625905.00	5581.52	280924.00	338.96	31153325.63	0.0000108803	2.46	137.57
3	Gujarat	505.97	11044930.00	21829.22	904680.00	1788.01	476514807.55	0.0000037523	0.85	2104.17
4	Haryana	210.83	5466004.00	25926.12	431150.00	2045.01	672163727.87	0.0000030424	0.69	2968.11
5	Karnataka	527.34	10481489.00	19876.15	904270.00	1714.78	395061343.27	0.0000043405	0.98	1744.49
6	Kerala	318.39	6904193.00	21684.70	587030.00	1843.75	470226400.30	0.0000039210	0.89	2076.41
7	Madhya Pradesh	603.85	7316540.00	12116.49	563960.00	933.94	146809230.13	0.0000063616	1.44	648.27
8	Maharashtra	967.52	23887517.00	24689.43	1972430.00	2038.65	609567937.72	0.0000033444	0.76	2691.70
9	Orissa	367.07	3877913.00	10564.51	218400.00	594.98	111608774.51	0.0000053310	1.21	492.84
10	Punjab	242.89	6604862.00	27192.81	489520.00	2015.40	739449000.58	0.0000027255	0.62	3265.23
11	Rajasthan	564.73	7644019.00	13535.71	530000.00	938.50	183215324.96	0.0000051224	1.16	809.03
12	Tamil Nadu	621.11	14709342.00	23682.35	1228230.00	1977.48	560853517.85	0.0000035258	0.80	2476.59
13	Uttar Pradesh	1660.53	18094760.00	10896.98	1098000.00	661.23	118744144.25	0.0000055686	1.26	524.35
14	West Bengal	802.21	13996850.00	17447.86	591760.00	737.66	304427915.56	0.0000024231	0.55	1344.28
	14 States Total	8978.51	148568035.00	16547.07	10855544.00	1209.06	273805531.24	0.0000044158	1.00	1209.06

Note : Tax Effort is calculated as ratio of Per Capita Own Tax to Square of the per capita income of the State.

Source : RBI State Finances a study of Budget 2002-03

Appendix – C

STATEMENT SHOWING EXTENT OF DAMAGES BY FLOODS, FIRES, HAILSTORM ETC. IN THE STATE DURING THE LAST FEW YEARS

FLOODS

Sl. No.	Year	Area affected (lakh hectares)	Population affected (lakh)	Crop Area affected (lakh hectares)	Value of Crop loss (Rs. Lakh)	No of houses damaged (Lakh)	Value of houses damaged (Rs. Lakh)	Damage to infrastructure (Rs. Lakh)	Total Damage (Rs. Lakh)
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
1	1990-91	8.73	39.57	3.21	1816.88	0.11	160.12	182.27	2159.38
2	1991-92	9.80	48.23	4.05	2361.03	0.27	613.79	139.93	3115.02
3	1992-93	0.76	5.56	0.25	53.09	0.01	16.14	0.75	69.99
4	1993-94	15.64	53.52	11.35	13950.17	2.20	8814.00	3040.86	25807.23
5	1994-95	6.32	40.12	3.50	5616.33	0.35	494.97	151.66	6263.31
6	1995-96	9.26	66.29	4.24	19514.32	2.98	7510.44	2183.57	29211.31
7	1996-97	11.89	67.33	7.34	7169.29	1.16	1495.34	1035.70	9701.49
8	1997-98	14.71	69.65	6.55	5737.66	1.74	3056.67	2038.09	10834.16
9	1998-99	25.12	134.70	12.84	36696.68	2.00	5503.70	9278.04	51480.42
10	1999-00	8.45	65.66	3.04	24203.88	0.92	5384.95	10607.83	40197.58
11	2000-01	7.79	82.41	4.25	7553.43	2.28	14856.29	133482.00	155894.00
12	2001-02	11.95	90.91	6.50	26721.79	2.22	17358.44	74549.00	118631.45
13	2002-03	19.69	160.18	9.40	51149.61	4.19	52621.51	181778.00	285553.31

FIRE

Sl. No.	Year	No. of Distt. affected	Populat-ion affected	No. of houses burnt	Value of houses burnt (Rs. lakh)	Value of public property burnt (Rs. lakh)	No. of lives lost	
							Human	Cattle
1	2	3	4	5	6	7	8	9
1	1990-91	35	89193	23660	506.98	273.55	105	918
2	1991-92	23	135589	26499	567.09	262.54	71	397
3	1992-93	41	290765	97629	2689.97	947.52	234	1039
4	1993-94	24	57726	17721	498.95	190.34	63	210
5	1994-95	21	51457	13894	330.46	194.36	54	191
6	1995-96	32	142322	32183	982.34	461.61	63	444
7	1996-97	29	110101	34143	1045.65	462.63	72	480
8	1997-98	17	66717	20109	688.37	268.57	36	111
9	1998-99	10	20002	5426	237.98	264.71	31	65
10	1999-00	10	19682	6568	225.74	137.83	18	30
11	2000-01	35	67400	17152	928.05	2398.72	111	291
12	2001-02	6	4291	1789	189.64	113.11	27	12
13	2002-03	5	9655	1558	25.13	16.57	2	1

HAILSTORM

Sl. No.	Year	Area damaged crops in hectares	Value of damaged crops (Rs. lakh)	No. of damaged houses	Value of damaged houses (Rs. lakh)	No. of lives lost	
						Human	Cattle
1	2	3	4	5	6	7	8
1	1990-91	72379.77	2278.96	46620	243.03	1	20
2	1991-92	1740.77	54.81	4327	21.67	—	10
3	1992-93	—	—	—	—	—	—
4	1993-94	8006.70	252.10	2813	34.70	84	—
5	1994-95	23.50	0.74	—	—	3	—
6	1995-96	22014.12	693.13	14062	513.84	35	6
7	1996-97	—	—	37211	914.08	40	—
8	1997-98	116906.61	9976.20	46559	1140.70	50	73
9	1998-99	5728.43	63.08	6311	25.781	2	
10	1999-00	66275.55	8717.56	121929	7605.96	74	2054
11	2000-01	—		3		3	
12	2001-02	1912.73	188.82	1693	533.56	39	4
13	2002-03	23608.30	2949.48	1383		11	165

PART C

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

12वें वित्त आयोग को बिहार राज्य
का
संयुक्त ज्ञापन

प्रतिष्ठा में,

सचिव

12वां वित्त आयोग

नयी दिल्ली

पटना

दिनांक : 14 जुलाई, 2004

महोदय,

12वें वित्त आयोग के विचारार्थ बिहार के सभी प्रमुख राजनीतिक दलों / संस्थानों का 'बिहार राज्य का संयुक्त ज्ञापन' भेजा जा रहा है।

सधन्यवाद।

भवदीय

	राष्ट्रीय जनता दल	**जनता दल (यू)**	**बिहार इन्डस्ट्रीज एसोसिएशन**
नाम	जगदानन्द सिंह	विजेन्द्र प्रसाद यादव, विधायक	एस के. मेहरोत्रा
पद	मंत्री, जल संसाधन, वन एवं पर्यावरण, बिहार	अध्यक्ष, बिहार प्रदेश	अध्यक्ष, बिहार इन्डस्ट्रीज एसोसियेशन
हस्ताक्षर			

	भारतीय जनता पार्टी	**भारतीय राष्ट्रीय कांग्रेस**	**अनुग्रह नारायण सिंह समाज अध्ययन संस्थान, पटना**
नाम	नवीन किशोर प्रसाद सिन्हा	डा० रामजतन सिन्हा	डा० इन्द्रदेव शर्मा
पद	मुख्य सचेतक, भाजपा विधान मंडल दल	अध्यक्ष, बिहार प्रदेश कांग्रेस कमिटी	प्रोफेसर, अर्थशास्त्र
हस्ताक्षर			

	लोक जनशक्ति पार्टी	**भारतीय कम्युनिस्ट पार्टी**	**एशियन डेवलपमेंट रिसर्च इन्स्टीच्यूट (आद्री), पटना**
नाम	नरेन्द्र सिंह	राजेन्द्र राजन	शैवाल गुप्ता
पद	अध्यक्ष, बिहार प्रदेश	नेता, विधायक दल	सदस्य सचिव
हस्ताक्षर			

	मार्क्सवादी कम्युनिस्ट पार्टी	**बिहार चैम्बर ऑफ कॉमर्स**
नाम	रामदेव वर्मा	ओ. पी. साह
पद	नेता, सी.पी. आई. (एम) विधायक दल	अध्यक्ष, बिहार चैम्बर ऑफ कॉमर्स
हस्ताक्षर		

Signature of Members of Parliament

क्रम	नाम	पार्टी	हस्ताक्षर
1	[illegible]	RJD	[illegible]
2	सुशील कुमार मोदी	BJP	[illegible]
3	NITISH KUMAR	Janta Dal (U)	[illegible]
4	रामविलास पासवान	L.J.P लोक जनशक्ति	[illegible]
5	मंगनी लाल मंडल	राष्ट्रीय जनता दल	[illegible]
6	[illegible]	राष्ट्रीय जनता दल	[illegible]
7	[illegible]	राष्ट्रीय जनता दल	[illegible]
8	[illegible]	राष्ट्रीय जनता दल	[illegible]
9	प्रेम चंद गुप्ता	"	[illegible]
10	प्रो. राम देव भंडारी	"	[illegible]
11	विजय सिंह यादव	"	[illegible]
12	कांति सिंह	RJD.	कांति सिंह ([illegible])
13	अखिलेश प्रसाद सिंह	R.J.D.	[illegible]
14	[illegible]	राष्ट्रीय जनता दल	[illegible]
15	[illegible]	[illegible]	[illegible]
16	[illegible]	राष्ट्रीय जनता दल	[illegible]
17	[illegible]		[illegible]
18	[illegible]	भारतीय राष्ट्रीय कांग्रेस	[illegible]
19	[illegible]	[illegible]	[illegible]
20	[illegible]	[illegible]	[illegible]

क्रम	नाम	पार्टी	हस्ताक्षर
21	आर. के. धवन	रा. रा. कां.	[illegible]
22	[illegible]	राष्ट्रीय जनता दल	[illegible]
23	राजीव रंजन सिंह	जनता दल (राष्ट्रीय मोर्चा)	रा. रं. सिंह
24	अजीत कुमार सिंह	" (लोकतान्त्रिक)	अजीत कुमार सिंह
25	[illegible]	" (लोकतान्त्रिक)	[illegible]
26	आलोक कुमार मेहता	राष्ट्रीय जनता दल	आलोक कुमार मेहता
27	देवेन्द्र प्रसाद यादव	राष्ट्रीय जनता दल	देवेन्द्र प्र. यादव
28	वशिष्ठ नारायण सिंह	जनता दल (यू)	वशिष्ठ नारायण सिंह
29	[illegible]	[illegible]	[illegible]
30	[illegible]	राष्ट्रीय जनता दल	[illegible]
31	राजेश कुमार मांझी	राष्ट्रीय जनता दल	R. manjhi
32	[illegible] यादव	राजद	[illegible] यादव
33	सीता राम सिंह	राजद	सीता राम सिंह
34	[illegible] सिंह	"	[illegible]
35	वीरचन्द्र पासवान	राजद	वीरचन्द्र पासवान
36	[illegible]	राजद	[illegible]
37	नवल किशोर [illegible]	[illegible]	[illegible]
38	सुखदेव पासवान	B.S.P	[illegible]
39	[illegible]	R.J.D	[illegible]
40	Capt. Jai Narayan NISHAD	BJP	जय नारायण निषाद
41	[illegible]	B.J.P.	[illegible]
42	[illegible] कुमार	कांग्रेस (आई)	[illegible]
43	M.A.A. FATMI	R.J.D.	M.A.A. Fatmi
44	Ranjeet Ranjan	L.J.S	Ranjan
45	[illegible] प्रसाद यादव	R.J.D	[illegible]
46	निखिल कुमार चौधरी	B.J.P.	Nikhil
47	Nikhil Kumar	Cong (I)	[illegible]
48	[illegible]	लोक जनशक्ति पार्टी	[illegible]
49	[illegible]	जनता दल (यू)	[illegible]
50	GEORGE FERNANDES	J D(U)	[illegible]
51	रविन्द्र कुमार राणा	राष्ट्रीय जनता दल	रवीन्द्र

JOINT MEMORANDUM TO THE TWELFTH FINANCE COMMISSION

FINANCE COMMISSIONS

The framers of the Constitution kept in view the need to make the nation as a whole into one economic space. In India there is vast regional diversity and iniquitous distribution of natural resources and as a result, the ability to mobilise revenue by the states differs. Therefore, diversity is the main reason behind the approach of fiscal transfers to the states which is mainly guided by the principles of equalisation. While allocating the functions and 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 the needs and aspirations of the people 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. The framers were alive of this mismatch and built in 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. A Finance Commission is an institution through which this review and transfer take place. Articles 280 and 281 and the Finance Commission (Misc. Provisions) Act, 1951, as amended by the Finance Commission (Misc. Prov.) Amendment Act, 1955 are directly concerned with the appointment, functioning and duties of the Finance Commission. Article 280 indicates the time frame, composition and duties of a Commission, whereas Article 281 lays down the procedure for the implementation of its recommendation.

The framers of the Constitution also recognized 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. Thus Finance Commission, like Planning Commission, is not a permanent body. Brought into existence through a resolution of the Government of India March 15, 1950, the Planning Commission emerged as an important channel for grants and loans for development to the States. 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 begun to assume responsibility for allocation of resources for plan purposes, which included capital requirements also.

The Third and Fourth Finance Commissions drew attention to the overlap in the functions of the Finance Commission and the Planning Commission which led to considerable legal quibbling regarding Article 282 of the Constitution. 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 and the Planning Commission would make recommendations in respect of grants and loans for State Plans and discretionary transfers.

About the method of functioning of the Planning Commission, there has also been a view that while the transfers recommended by the Finance Commission are statutory in nature, the Central assistance distributed by the Planning Commission is discretionary, even though a major portion of it is regulated in accordance with the Gadgil Formula evolved in 1969. However, it is to the credit of the recent Finance Commissions that progressiveness of statutory transfers has been improving compared to that of the plan assistance. It is also noteworthy that over the decades, the Finance Commissions have earned the confidence of the States. The awards of the successive Commissions have been generally well received by States because each Commission improved over the previous one in regard to the quantum of transfer of resources from the Union to the States. (Appendix-I) However, after the award of the Eleventh Finance Commission, some of the developed states sounded discordant note alleging larger than justifiable resource transfer to Bihar and other underdeveloped states. The note was unworthy and there is a need for regional consensus in Bihar that the award of the Finance Commission should not only continue to be even more progressive, but the devolution from the Centre should also increase further. This is necessary because, for both poor and richer states alike, financial transfers from the centre account for a major part of the states' expenditures. It may also be seen from Appendix-II that Bihar's actual receipts in the light of Eleventh Finance Commission recommendations are estimated to be much less.

TWELFTH FINANCE COMMISSION

In pursuance of the provisions of Article 280 of the Constitution of India, the Twelfth Finance Commission has been constituted under the chairmanship of Dr. C. Rangarajan. 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 2005-10.

The recommendations of the Twelfth Finance Commission assume a greater significance for Bihar. Already a backward and poor state, it has undergone a process of 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 Twelfth Finance Commission presents a rare opportunity to the State to seek additional financial resources for meeting its committed liabilities and also for generating surpluses for investments. Against this backdrop, this memorandum has been prepared for consideration of the Twelfth Finance Commission.

GROWTH VISION : BIHAR AND INDIA

We are aware that Bihar is the most backward state of India and that India cannot attain a dynamic, strong and vibrant base leaving Bihar to fend for itself. In coming years, India has to become a more prosperous and more equitable nation for which a powerful set of catalytic forces may have to be developed which may accelerate the speed of development resulting in reducing the disparities among the States. Against this backdrop, the President of India has envisioned that for joining the global economy by 2020, India must grow at the rate of more than 10 percent every year. But empirical evidences show that the real economy of India sputters and slows. Considering the fact that India's growth is dependent on agriculture, which itself is dependent on monsoon, this growth rate may appear to be ambitions. Indeed, even after good monsoon and other feel good factors of the economy, it is estimated that in the year 2003-04, India was able to achieve a growth rate of 8 percent. For a growth rate in excess of 10 percent, one needs even stronger impetus.

We have seen that over the years India's prosperous states have prospered further, while poor states have become poorer. The growth rate of SDP of major states have witnessed wide fluctuations. It may be interesting to note that the growth accelerated sharply to 8 percent during the period 1991-99 for two states each viz. Maharashtra and Gujarat, but decelerated in Bihar, Uttar Pradesh and Orissa with Bihar performing very poorly. This divergence, cropped up mainly due to the wrong policies of the centre, is apprehended to grow further as the SDP of the laggard states is growing at a lower rate as compared to the prosperous ones. The above situation confirms that even after ten Finance Commissions and nine Five Year Plans, the slogan of equalisation of states remains a far cry. On the other hand, the gap between states is continuously widening, which may have to be bridged without any delay. In the new era of liberalisation, where competitiveness is the key factor, the capacity and willingness of the country to grow will be decided by the growth pattern of the states.

Assuming, as the President of India has prognosticated, that India attains a growth rate of 10 percent in coming years, the Per Capita Income will grow at an annual rate of 8 percent. Thus, the national Per Capita Income of Rs. 12985 will become Rs. 28405 in 2009-10 and Rs. 60570 in 2019-20, all at 1993-94 prices. If India has to become a prosperous and equitable nation with reduced disparities among the states, Bihar’s State Domestic Product (SDP) needs to grow at a rate much higher than 10 percent (and Bihar’s Per Capita Income growing at much higher than 8 percent) so as to make her reach the national average Per Capita Income in 2019-20. This is a huge task, since during 1993-94 to 1998-99, united Bihar’s SDP had grown at a bare 4.2 percent. After bifurcation of the state, this growth rate has become even less for the (truncated) Bihar. The Per Capita Income of Bihar in 2000-01 was Rs. 3707 (again at 1993-94 prices) and, to catch up with the national per capita income level of Rs. 60570 in 2019-20, Bihar’s SDP has to grow at a rate of 15 percent per annum till 2019-20 (Scenario-I in Table below). Assuming that it is not possible to enhance the growth rate that sharply in short term, one may plan for a growth rate of 10 percent during 2000-01 to 2009-10; in that case, the required growth rate during the next decade of 2010-11 to 2019-20 will be as high as 20 percent (Scenario-II in Table below). The projections made are presented in Table below.

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	Per Capita Income in 2009-10 (Rs.)	Assumed/ Required Growth rate of Per Capita Income	Per Capita Income in 2019-20 (Rs.)
India	12985	8.0 (assumed)	28045	8.0 (assumed)	60570
Bihar					
Scenario – I	3707	15.0 (required)	14970	15.0 (required)	60570
Scenario – II	3707	10.0 (required)	9615	20.0 (required)	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.

The quest for higher overall GDP growth is feasible only when the sector-wise growth targets of agriculture, industry and services are achieved and sustained by the states, which may be possible following a turnaround in investment cycle, especially in the laggard states.

If Bihar is to attain and sustain the growth rates as given in the above table so as to equal the national average in 2019-20, there have to be massive investments in all the sectors of rural infrastructure, education, IT, health, transport, power, water, etc. We are aware that the investment in any state is made by three investing agencies, viz. (a) investment by the concerned state, (b) direct central investment, and (c) investment in the private sector. Based on the estimates of the capital output ratio of 3.6:1 made for the Tenth Five Year Plan period by the state government, a rough estimate has been worked out of the investment to be made in Bihar so as to achieve the required growth rates mentioned in the above table. The details are presented below.

Estimated Magnitude of Investment to achieve the Required Growth Rates for Bihar

Item	2000-01 to 2009-10		2010-11 to 2019-20	
	Required Growth Rate of Per Capita Income	Estimated Investment Per Annum at 2001-02 Prices (Rs. Crore)	Required Growth Rate of Per Capita Income	Estimated Investment Per Annum at 2001-02 Prices (Rs. Crore)
Scenario I	15.0	38,550	15.0	38,550
Scenario II	10.0	25,700	20.0	51,400

It is well-nigh impossible for any state to make such a huge investment annually till 2019-20, and as such it may have to come from the Centre, at least till such time the infrastructure of the state is developed. Besides Bihar, other laggard states too may have to be brought at par with the national average in 2019-20, which may also require heavy investments.

Based on the present rates of growth and aggregated growth projections, an exercise has also been made to work out the sector-wise growth rates for the State and all-India and the same is presented in the table below. While assuming the all-India growth rate in agriculture, the extent of biological factors involved, which may not allow sustainability in this sector, has also been kept in view.

Projection of Sector-wise Gross Domestic Products and Growth Rates with the Goal of Bihar Equaling the National Growth

Item	Sector	CAGR % (2000-01)	Assumed Growth Rates (%) and GDP (Rs. Thousand Crore) during the decades	
			Growth Rates (2000-01 to 2009-10)	Growth Rates (2010-11 to 2019-20)
India	Agriculture & Allied	2.1	3.0	3.0
	Industry	6.4	9.0	9.0
	Services	8.6	10.0	10.0
Bihar Scenario-I	Agriculture & Allied	1.2	5.0	5.0
	Industry	6.8	18.0	15.0
	Services	6.5	20.0	18.0
Scenario-II	Agriculture & Allied	1.2	5.0	5.0
	Industry	6.8	12.0	18.0
	Services	6.5	15.0	25.0

A glance through the table highlights that if Bihar has to catch up with rest of the country, what a stupendous task lies ahead for the state. It reflects the gravity of the situation the state has been placed in. It also focuses on higher pace of growth in each sector and the amount of extra efforts the governments, both the Central and the State, have to put in to get Bihar out of stunted growth syndrome. Considering that the development and equalisation cannot brook delay any further, it is suggested that the Twelfth Finance Commission may study this aspect in detail and recommend suitable special category award for realising the goal set for the year 2020.

BIHAR'S BACKWARDNESS

The erstwhile state of Bihar was the most richly endowed State of India in terms of its total natural resource base. But after its recent bifurcation on November 15, 2000, almost the entire mineral wealth and much of forests have fallen to the share of Jharkhand. Erstwhile Bihar had already suffered before the continuous neglect by the Center and its bifurcation gave a severe blow to the economy of the present Bihar. The main reasons leading to the State's backwardness are enumerated below :

Less Area and Large Population : The present State of Bihar has an area of 94163 sq. km. which is 2.8 percent of the total area of the country. In sharp contrast, as per the census of 2001, the total population crossed 8 crore mark, which accounts for 8.1 percent of the total population of India. Thus Bihar's share of all-India population is much higher than the share of area. Consequently, population density of Bihar at 880 persons per sq. km. is much higher than the figure for the whole country which stood at 324 persons per sq. km. in 2001. Moreover, the population growth, which was 23.38 percent for the decade 1980's, shot up to 28.43 percent during nineties, while for India as a whole it declined from 23.86 percent to 21.34 percent. To make the matter worse, consequent upon bifurcation of the State, only 54 percent of the land area has remained with Bihar, but it had 75 percent of population, resulting into a severe deterioration of the land-man ratio.

Declining Growth of GSDP and Revenue Receipt : 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 leading to the curtailment of the potential of economic growth and revenues. The economy of Bihar is predominantly rural in as much as 89.5 percent population is rural and about 75-80 percent of the population is directly or indirectly dependent on agriculture. Therefore, share of agriculture in Bihar's State income is more which shows annual fluctuations in accordance with fluctuations in agriculture. The State's Gross Domestic Product (GSDP) which was Rs. 69,764 crore in 1999-2000 reduced to Rs. 50,987 crore in 2001-02 as a result of bifurcation of the State. The State's own revenue receipt was Rs. 4,251 crore in 1999-2000 which came down to Rs. 2,788 crore in 2001-2002, a decrease of 34.4 percent. However, due to a disproportionate sharing of the burden of non-plan revenue expenditure, the same registered declined from Rs. 12,821 crore in 1999-2000 to Rs. 10,314 crore in 2001-02, a decrease of 19.6

percent. The steeper reduction in revenue receipts compared to non-plan revenue expenditure imposed an unbearable burden on the economy of the new state.

Inadequate Irrigation, Recurrent Floods and Calamities : The truncated Bihar is left with abundant of water and the rich alluvial soil which are inherently major assets for rejuvenation of 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. However, since proportion of rainfall received during monsoon constitutes 75-80 percent of annual rainfall, 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. However, the most important negative feature of the State is the recurrent flood which is due to the flood prone nature of the terrain and of the rivers which flow through Bihar. The floods each year cause immense damage to human lives, cattle, standing crops and infrastructures including roads building, 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. Similarly, of the total flood affected population of the country, 56.5 percent of the population 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. 3000 crore. The State is victim of geography in so far as the floods are concerned and for mitigating the menace of floods, the State alone cannot play any effective role because most of the rivers originate from across the border and as such it comes under the Central Government’s jurisdiction.

Again, cyclones and hailstorms 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 considerably leading to extreme cold wave which causes extensive damage to human lives, cattle and standing crops.

Low Growth of Net State Domestic Product : In terms of the Per Capita Net State Domestic Product (Base 1960-61=100), the State remained at the lowest rung of the ladder right from 1961-62 (Appendix III). The growth of Net State Domestic Product averaged around 4.2 percent per annum during the period 1993-94 to 1998-99 (after bifurcation, much less). The relatively low growth rate of NSDP is attributed to low per capita plan outlay which stood at Rs. 319.02 as against Rs. 1243.76 for Punjab during the period. As is evidenced from the table below, after introduction of reforms in 1990, growth pattern increased regional inequality when Bihar and other poor states performed very poorly. Some states like Madhya Pradesh and Rajasthan, in spite of improvements vis-à-vis their past performance, fell further behind the national average.

Growth of Gross State Domestic Product and Per Capita Growth

Sl. No.	State	Rate of Growth of Gross State Domestic Product (percent per year)		Annual Rates of Growth of Per Capita GSDP (percent per year)	
		1980-81 to 1990-91	1991-92 to 1998-99	1980-81 to 1990-91	1991-92 to 1998-99
1.	Bihar	4.66	2.88	2.45	1.27
2.	Rajasthan	6.60	5.85	3.96	3.48
3.	Uttar Pradesh	4.95	3.58	2.60	1.28
4.	Orissa	4.29	3.56	2.38	2.08
5.	Madhya Pradesh	4.56	5.89	2.08	3.67
6.	Andhra Pradesh	5.56	5.20	3.34	3.67
7.	Tamil Nadu	5.38	6.02	3.87	4.78
8.	Kerala	3.57	5.61	2.19	4.35
9.	Karnataka	5.29	5.87	3.28	4.08
10.	West Bengal	4.71	6.97	2.39	5.14
11.	Gujarat	5.08	8.15	3.08	6.73
12.	Haryana	6.43	5.13	3.86	2.85
13.	Maharashtra	6.02	8.01	3.58	6.19
14.	Punjab	5.32	4.77	3.33	2.93
Combined GSDP of 14 states		5.24	5.90	3.03	4.02
GDP (national accounts)		5.47	6.50	—	—

Source : Cols. 3 & 4 Planning Commission; Cols. 5 & 6 Economic Policy Reforms and Indian Economy, Oxford.

The states with greater economic strength gained at the expense of poorer ones. In the absence of powerful institutions, the benefits of progress has gone in favour of richer ones. It appears that existence of regional disparity has been institutionalised during the reform period, and no step has been taken to arrest this trend. The situation could have been somewhat better, had the States' savings in the form of bank deposits been utilized for financing private sector investments.

Lowest Per Capita Income : Even after five and a half decades of independence, Bihar continues to be the state with lowest per capita income. In 1993-94, Bihar's per capita income worked out to Rs. 3034, while for the country as a whole it was Rs. 7690. In 2000-01, the State's figure was Rs. 3345 as against Rs. 10,254 for the all India. During the period 1994-2001, the State's per capita income change was only Rs. 311, while for all India it worked out to Rs. 2564. This is a reflection on the backwardness of the state and is a sad commentary on India's commitment to reduction in regional disparity.

Inadequate Infrastructure : The infrastructure of roads, irrigation and power needs a great deal of strengthening for the development of the state. The index of infrastructure for Bihar was 81.33 in 1999 as against 187.57 for Punjab. As a result of bifurcation of the State, the infrastructure index for the present Bihar has come further down. Assured irrigation through Canals and Tube wells is available to 28.45 lakh hectares which comes to about 50 percent of the net sown area of the state. Per capita power consumption is only 140.8 kw against 354.75 for the country as a whole. Similarly, the road length in the State is highly inadequate (90 kms/lakh of population as against 257 kms for all-India in 1997). The length of rail lines in the State is only 30.22 km per 1000 km of the area against 42.49 km 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.

Industrial Development Tardy: The industrial development is yet to take place depriving the state of the benefits of investment, employment and income over a long period. With bifurcation, almost all the major and medium industries as also a majority of small scale industries in erstwhile Bihar have gone to Jharkhand. For almost four decades, the state suffered the most on account of freight equalization and royalty on coal which took away the natural advantage of this region denying benefits of its huge mineral resources. Though, this policy has been withdrawn by the center only a couple of years back, the effect of this policy, operative for a long period of four decades, is still there; and 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 the losses inflicted on the State.

Low CD Ratio : Since nationalization, the commercial banking sector in the state has expanded manifold without brining commensurate benefit to the state. 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 the State's CD ratio declined from 40 percent in 1990-91 to 23.2 percent in the year 2002-03, which calculates to much less than half of the national average of 58 percent. In fact, commercial banks became conduit for flight of scarce capital from the state. The State has also not been able to secure adequate benefit from non-banking financial organizations. As in March, 2003, there were 31 registered NBFOs (Category A-2 & Category B-29) in the State, most of the NBFOs siphoning away money from the State. Earlier, unscrupulous NBFOs have deprived millions of customers of their hard earned savings. 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 too did not accrue to State. In 2001, the All India Finance Institutions sanctioned Rs. 103437.90 crore but the share of truncated Bihar remained only 0.14 percent.

Low Per Capita Outlay and Central Assistance : The slow growth of SDP 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. These have been totally inadequate considering the vast population of the state. For example, in the First Plan, the per capita plan expenditure for the state was Rs. 25 and per capita central assistance was Rs. 14 as against Rs. 33 and Rs. 23 respectively for all India. During the Seventh Plan too, the same trend continued and per capita plan expenditure for the state and all India worked out to Rs. 733 and Rs. 1076 respectively. Similarly, per capita central assistance during this period calculated to Rs. 340 and Rs. 375 for the state and all India, respectively (Appendix IV). The picture emerging out of per capita plan outlay for Seventh and Eighth Plans is even more revealing. During the Seventh plan, the per capita plan outlay for Bihar was only Rs. 653; whereas for Punjab and Haryana it was Rs. 1775 and Rs. 1779 respectively. Similarly, during Eighth Plan, the per capita outlay for Bihar worked out to only Rs. 1506 as against Rs. 3252 and Rs. 3497 for Punjab and Haryana respectively (Appendix-V). This was despite the fact that massive investments were made to build Chandigarh. In fact, both the States of Punjab and Haryana have the benefit of the proximity of the National Capital at Delhi, integrated economically with these two States. With the international airport and a dry port at New Delhi, the disadvantage of being landlocked for both the states also gets negated.

Low Level of 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 percentage of Bihar was 30.66, it declined merely to 8.24 percent in 1990-91. The investment in private projects in 1995-96 in the State was also the lowest (2.68). (Appendices VI & VII). As a result, the present Bihar is left with only Barauni Oil Refinery and a Thermal Power Station at Kahalgaon. The state has no central university, IIT or IIM. However, it is a matter of great pleasure, that Bihar Engineering College, Patna has recently been declared to be the National Institute of Technology, which would greatly improve the academic ambiance of technical education in the state. Due to acute shortage of technical institutions in the state, students of Bihar are spending about Rs. 5000 - 6000 crore each year on their education outside the state. Similarly, there are very few central government installations like cantonments (only one at Patna, Gaya cantonment is being shifted), etc., though Bihar happens to be a bordering State.

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 is a decline from 54.96 percentage point in 1993-94, in absolute term, the population living below poverty line was much higher (Appendix VIII). In 1993-94, based on the usual status unemployment rate in rural and urban areas was higher in erstwhile Bihar than for all India. The unemployment rate in Bihar was 8.3 percent more than all-India for rural areas and 28.9 percent in urban areas. In 1999-00, 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 53.2 percent more than all-India. After the division of the State the incidence of unemployment has increased. The poverty reduction in the state like Bihar requires rapid growth of GSDP, which is capable of generating a broad based expansion in employment and income levels. Hence the development strategy must ensure accelerating the respectable growth of GSDP of Bihar.

Declining Public Investment in Agriculture : The declining public investments in agriculture over the last decade resulted in erosion of productivity potential of the States.

Public Investment Per Acre of Net Sown Area at 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

Thus it is clear that, since mid-seventies, the public investment in agriculture sector too has been quite meagre, despite the fact that Bihar has had predominantly an agricultural economy. The recommendation of the constituted by the Planning Commission, Commission headed by Dr. S.R. Sen on improving agriculture in Eastern India, was not implemented. While developed agricultural state like Punjab is talking of diversification of agricultural production after reaching the plateau of land productivity, Bihar is, yet to reach the plateau of agricultural productivity in the traditional sphere. Its agriculture gets further disadvantaged by non-procurement of the product by FCI, whereas in Punjab and Haryana, there has been over-procurement. In the process Bihar farmers are annually disadvantaged by about Rs. 3500 crores.

ISSUES

1. Sharing of Taxes

(i) The marked difference among the states in terms of population size, population growth rates, the levels of socio-economic development, etc. led to poor performance by a majority of states. Such varying development outcomes are also caused by paucity of financial resources. As we are aware, poverty, illiteracy and poor development coexist and reinforce each other. In order to promote equity and reduce disparity among states, special assistance may have to be provided to poorly performing states. Under the present fiscal arrangement, 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. The Finance Commission transfers cover barely half the amount and other half comes under the 'discretionary power' which makes the states suffer from 'Mai Baap' 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. Corporation tax has long been suggested as one of these possible additional tax head since, as a tax category, it is nearly the same as income tax which forms part of the divisible pool. The Twelfth Finance Commission may consider enlarging the divisible pool to about 45 percent of the net tax revenue of the central government which indeed matches the share of responsibilities between the central and state governments. Admittedly, this would require some constitutional amendments, but they are indeed very easy amendments.

(ii) The empirical evidences show that Indian economy changed markedly and growth rates did accelerate. 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 other 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 multidimensional 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 backward states like Bihar 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
1.	Bihar	83.5	81.7	77.8
2.	Rajasthan	74.4	82.6	83.9
3.	Uttar Pradesh	97.7	102.3	103.8
4.	Orissa	81.5	95.0	98.9
5.	Madhya Pradesh	62.1	71.5	74.1
6.	Andhra Pradesh	98.1	96.8	93.1
7.	Tamil Nadu	158.6	145.9	138.9
8.	Kerala	158.1	158.0	155.4
9.	Karnataka	94.8	96.5	94.3
10.	West Bengal	110.6	92.1	90.8
11.	Gujarat	123.0	122.9	121.8
12.	Haryana	145.0	143.0	137.2
13.	Maharashtra	120.1	109.6	111.3
14.	Punjab	207.3	193.4	185.6
All 14 States		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 emerged as important source of fund for development of rural infrastructure in the state, 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.

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 betterment of 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 the infrastructure and service levels come up to a stage when the private investments start flowing in a substantial manner. The Twelfth Finance Commission may consider the implications of the liberalisation and reform while deciding awards both in respect of size of shared taxes as well as grants-in-aid.

(iii) The plan expenditure is undertaken by the Planning Commission for the development of the State. Thus the size of plan expenditure is one of the important indicators of growth. 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. While states accounted for 63.52 percent share of total plan expenditure during the First Plan, it fluctuated between 40.00 percent in Seventh Plan to 50.67 percent in Fifth Plan and came down to 38.71 percent in the Eighth Plan and became 43.07 percent the Ninth Plan. On the other hand, share of the Centre which was only 36.02 percent in the First Plan increased to 59.52 percent in the Eighth Plan. This has had an adverse impact on the States. The details may be seen in the table that follows.

Percentage Share of Central & States on Plan Expenditure

(Rs. Crores, Current Prices)

Plan Period	**Centre**	**% Share of Plan**	**States**	**% Share of Plan***	**Total**
First Plan (1951-56)	706.00	36.02	12,145.00	63.52	1,960.00
Second Plan (1956-61)	2,534.00	51.24	2,115.00	45.27	4,672.00
Third Plan (1961-66)	4,212.00	49.11	4,227.00	49.28	8,577.00
Annual Plan (1966-69)	3,401.00	51.34	3,118.00	47.06	6,625.00
Fourth Plan (1969-74)	7,826.00	49.60	7,675.00	48.64	15,779.00
Fifth Plan (1974-79)	18,755.00	47.57	20,015.00	50.67	3,9426.00
Annual Plan (1979-80)	5,695.00	46.77	6,291.00	51.67	12,176.00
Sixth Plan (1980-85)	57,825.00	52.91	49,458.00	45.25	1,09,292.00
Seventh Plan (1985-90)	1,27,519.60	58.30	87,492.40	40.00	2,18,729.70
Eighth Plan (1992-97)	2,88,930.10	59.52	1,87,937.50	38.71	4,85,457.31
Ninth Plan* (1997-2002) (Plan Outlay)	4,89,361.00	56.93	3,69,839.00	43.07	8,59,500.00

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, it is found that the percentage of plan expenditure to GSDP in slower-growing states declined.

Plan Expenditure as Percentage of Gross State Domestic Product

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

Source : Economic Policy Reforms and the Indian Economy, Oxford.

But Bihar recorded the largest drop. Bihar has had the lower percentage during 1980-81 to 1990-91 and in 1991-92 to 1997-98, it showed a substantial decline. 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 state needs to be increased to accomplish the unfinished tasks, some of which are given below :

(a) With a view to improving the system of delivery of justice and raising the strength of judicial officers, the Shetty Commission recommendations have to be implemented which may require a total estimated sum of Rs. 3000 crore over a five years' period of 2005-10.

(b) According to a study, for all states taken together, the per capita expenditure on social services including education declined in the post reform period with adverse implication on their human development. However, this decline was quite considerable in the poor states, and rich states showed a little upward trend.

Index of Per Capita Public Expenditure on Social Services (1981-82 Prices)

Year	Education				All Social Services			
	Poor States	Middle Income States	Rich States	All States	Poor States	Middle Income States	Rich States	All States
1990-91	100	100	100	100	100	100	100	100
1991-92	90	95	101	95	94	96	99	96
1992-93	92	94	100	95	93	93	98	95
1993-94	87	99	104	95	92	97	100	96
1994-95	91	99	104	97	93	97	101	97

Source : Background Paper for UNDP Report India : The Road to Human Development, UNDP, 1997

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 for poverty reduction. Among various factors affecting the development, investments in education and health are found to be crucial.

As a nation too, we are committed to the goals of 'Education for All'. The elementary education has been made the fundamental right and it is mandatory for the State to provide free and compulsory education to all children between 6-14 years of age. Achieving 100 percent enrolment of all children in the age-group of 6 to 14 by 2020 is an ambitious goal, but it has got to be achieved. A tremendous expansion of schools and classrooms will be required to support a quantitative and qualitative improvement in the State's school system. Therefore, the expenditure on education assumes prime importance. Given the magnitude of poverty and deprivation, 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 five years period from 2005-10 would be around Rs. 15000 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 age group.

(c) The implementation of mid-day meal scheme for students of primary schools during the same period (2005-10) would cost about Rs. 3500 crore.

(d) 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 also essential which may require an additional 2033 primary health centres, 16560 sub-centres, and 590 community health centres. To attain the norm of health, education and nutrition, the Twelfth Finance Commission may consider for providing fund for enabling the poor states achieve the goal so as to keep pace with the better-off states, because it is certain that the huge expenditure on these schemes cannot be met by normal flow of funds and they may have to be especially provided for. The cost on all these will entail a huge amount of about Rs. 20000 crore.

(iv) 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. Constraint 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 expenditure is committed interest on past borrowings. This has been the trend not only in Bihar, but in other states as well. The state government is alive to this acute problem and has already done an exercise on the projected revenue deficits during 2005-10 which comes to Rs. 1,01,888 crore. It will be difficult to meet the estimated deficit at the existing level of sharing of taxes between the Centre and the States. This trend 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 Twelfth Finance Commission may, therefore, consider the ratio in which the shareable pool is divided between the Centre and the States.

(v) The Central government retains large funds for the centrally sponsored schemes. The states, however, have been long pleading for transfer of most of the centrally sponsored schemes to states with the funds earmarked for them. This is because past evidences show that the Central schemes which require states' matching grants do not benefit the poor states that are not able to muster their part of the grants. Thus, in the case of schemes with 80:20 Central and State grants, if the States are not in a position to meet 20 percent of the total cost of the scheme, they become deprived of the benefit of that scheme. This tends to make the already deprived state more deprived. But there has not been any reduction in the size of the centrally sponsored schemes. The Twelfth Commission may look into this and recommend limiting the scope of centrally sponsored schemes to a few of national significance and the rest be transferred to the States.

(vi) Over the years, while growth accelerated sharply in some developed states, it decelerated in some 'other' not so privileged states. The poverty reduction in those disadvantage states requires rapid growth of GSDP. But on the contrary, the inter-state inequalities in growth rate have increased. The ratio of per capita NSDP of Punjab, the richest state, has continuously increased over the past three decades as compared to Bihar and in 1991-2001 it reached a level as high as five times that of Bihar as is evidenced by the table below :

The Per Capita Net State Domestic Product at Current Prices

(Rupees)

Year	Punjab	Bihar (undivided)	Ratio of Punjab to Bihar
1980-81	2629	1022	2.57
1990-91	8177	2966	2.76
2000-01	25048	5108	4.90

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 financial resources required for promoting higher investment and stronger human resources have to come from both from the public and private sector. But the participation of private sector is not likely unless some minimum infrastructural base has already been created through public sector investment. However, in case of poor states, their own resources are hardly adequate to undertake substantial investment in infrastructure and, therefore, resource support from the central government is critical for them. The Twelfth Finance Commission may take note of this aspect while recommending the criteria governing central transfers so that the laggard states like Bihar may catch up with the richer states.

(vii) For determining the backwardness of the states, the Finance Commission have generally relied on the per capita income of the states. A number of empirical studies have shown that as a measure of backwardness, a single variable of per capita income is too inadequate in the absence of other variables like literacy, life expectancy, energy consumption, consumer expenditure, population below poverty line, etc. in the consideration zone. As we are aware, the most sensitive index of a states' backwardness is the proportion of its population dependent on agriculture and the proportion of agricultural labourers among the labour force. Again, as welfare indicators, the nutritional level and housing may also be considered, because these two basic needs require the focused attention for the poorer states. The Commission may like to take into account these criteria, so that a more scientific and appropriate formula for measurement of backwardness may be possible. The criteria adopted by the UN for identifying the least developed nations as well as indicators taken into account for arriving at the UNDP Human Development Index may also be considered by the Commission.

(viii) A closer examination of the States' budgets during the past decades reveals that some of the new schemes which States implemented during a new Five Year Plan period took longer than five years to get commissioned. Ideally, these schemes should have been considered as non-plan in the following Five Year Plan period. However, this did not happen and states considered a larger plan size as a positive reflection on their economic performance. The misrepresentation of non-plan schemes underestimated the genuine requirements for non-plan. The Central Finance Commissions, which assess the genuine non-plan requirements of States and accordingly award necessary share of Central taxes and grants, ended up devolving a lower amount. As a result, the savings under non-plan, which States were banking upon, due to misrepresentation did not materialize for augmenting plan resources. Consequently, provision for maintenance of existing capacities suffered both on account of lower devolution by Central Finance Commission and a limited availability of plan resources. The Twelfth Finance Commission may like to look into these aspects so that the States do not suffer.

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

(x) The Central Statistical Organisation has estimated that the service sector would register 8.4 percent growth during 2003-04. This growing sector is further likely to contribute significantly to the Gross Domestic Product. It is suggested that the Service Tax may also be brought under the “divisible pool”.

Criteria with Weights Suggested

The approach of the first to eighth Finance Commissions, by and large, was to fill the gap between the States’ revenues and expenditures to some extent. The empirical evidences show that the systems of Central transfers by the Finance Commissions adopting various criteria and weights has so far failed to address the problem of equalizing the capacity of different States to provide a similar level of services. The criteria and weights recommended by the last two Finance Commissions have been as presented below :

Sl. No.	Criteria	Weights adopted (%)	
		10th FC	11th FC
1.	Population	20.00	10.00
2.	Income Distance Method	60.00	62.50
3.	Area	5.00	7.50
4.	Index of Infrastructure	5.00	7.50
5.	Tax Effort	10.00	5.00
6.	Fiscal Discipline	—	7.50
Total		**100.00**	**100.00**

The above table further establishes that various permutations and combinations of criteria and weights adopted by different Commissions did not help the poor states and that the absolute level of transfers per capita to even the poorest States remained less than that of 14 major States. The table below illustrates the point :

Per Capita Own and Total Revenue of Bihar and Other Major States in 2001-02

(Rupees)

Sl. No.	Item	Per Capita Revenue	
		Own	Total
1.	Bihar	328.89	1198.86
2.	14 Major States	1832.14	2669.45

This necessitates effecting a marked improvement in the criteria and weights governing central transfers.

As is apparent, Eleventh Finance Commission reduced the weight of population to 10 percent for governing Central transfers which put Bihar in a disadvantageous position. The population pressure in any State is a role of geography which could not have been ignored by the Eleventh Finance Commission. However, even if this dispensation continues, the income distance method, which was given 62.50 weightage by the Eleventh Commission, may be increased to 65 percent to ensure a more equitable flow of resources to states.

The criteria of area introduced by the Tenth Finance Commission have been increased from 5 percent to 7.50 percent by the Eleventh Finance Commission to help states with larger areas. It is felt that when the index of infrastructures is being used, the area criterion becomes irrelevant and as such may be dropped.

The Tenth Finance Commission introduced the criteria of index of infrastructure and gave it a weight of 5 percent for distribution of states' share. The Eleventh Commission increased its weight to 7.5 percent. Since infrastructure plays a crucial role in attracting investments and backward states with low index of infrastructure need to be assisted to enable them to come up, it is felt that the Twelfth Commission may consider its weight to be increased to 15 percent.

The Tenth Finance Commission introduced the criterion of tax efforts of the states in determining inter-se share of states and gave it a weightage of 10 percent. The Eleventh Commission reduced it to 5 percent. It may have been demonstrated that poorer states were indeed making inadequate tax effort, but any uniform criteria to judge the tax efforts of different states will always be a disadvantage to the poorer states. It is felt that the index of fiscal discipline is more comprehensive and permits flexibility to states to put their house in order by a combination of methods. Therefore, it is urged upon the Twelfth Finance Commission that the criterion of tax effort be dropped in favour of fiscal discipline and the latter be given a weightage of 10 percent.

The Eleventh Finance Commission recommended 29.5 percent share of the States of the net tax revenue of the Central Government, which per se is quite inadequate to meet the growing revenue requirements to meet the essential obligation by the States. In Pakistan, which is the neighbouring country with bigger financial burden, the share of the states is 36 percent. Under the circumstances, Twelfth Finance Commission may consider to increase the share of states in Central taxes to 45 percent of the net tax revenue of the Central government. It may also consider the following criteria for allocation of shares to states :

Sl. No.	Criteria	Weight (%)
1.	Population	10.00
2.	Distance of per capita income	65.00
3.	Index of Infrastructure	15.00
4.	Fiscal discipline	10.00
	Total	**100.00**

2. Fiscal Discipline Displayed by State

It may be observed form the table below that in 2001-02, the Centre's annual budget was worth Rs. 3.87 lakh crore vis-à-vis States budget of Rs. 4.01 lakh crore. Similarly, the development expenditure incurred by the Centre alone was to the tune of Rs. 1.57 lakh crore, while the same by the States accounted for Rs. 2.34 lakh crore. It is also discerned from the table that the revenue deficit was more for the Centre (Rs. 80,000 crore); whereas for all the states taken together it was much less (Rs. 48000 crore). Again, one notable feature is that the credit facility extended by RBI to the Centre was more than six times than extended to the States.

Budget and Development Expenditure of All States and Centre

Item	All States	Centre
1. Annual budget	Rs. 4.01 lakh crore	Rs. 3.87 lakh crore
2. Development expenditure	Rs. 2.34 lakh crore	Rs. 1.57 lakh crore
3. (2) as percentage of (1)	58.4 percent	40.6 percent
4. Revenue deficit	Rs. 48 thousand crore	Rs. 80 thousand crore
5. (4) as percentage (1)	11.9 percent	20.7 percent
6. Credit facility extended by RBI	Rs. 13 thousand crore	Rs. 80 thousand crore
7. (6) as percentage of (1)	3.2 percent	20.7 percent

Against the backdrop of much higher deficit shown by the Centre, it may be worth mentioning that the Eleventh Finance Commission had envisaged that the Central Government would bring down its deficit level of 3.81 percent of GDP in 1999-2000 and to 1.00 percent in 2004-05. But on the contrary, the Central Government recorded a deficit of 4.1 percent of GDP in 2000-01. Again in 2001-02 and 2002-03 the deficit registered by the Central Government was 4.4 percent and 4.2

percent of GDP respectively. Besides the heavy dose of deficit, the tax revenue of Central Government also fell short of its budget estimates. All this adversely affected the transfers to the states which remained below the estimates of the Eleventh Finance Commission and the same may be discerned from the table below :

Recommended by Eleventh Finance Commission and Actual Amount Received under Devolution of Taxes

(Rs. In Crores)

Sl. No.	Year	As recomme-nded by EFC for combined Bihar	Share of Divided Bihar	Actual amount received	Difference between 3 & 4	%age difference
1.	2000-01	7892	7282.13	6548.61	-733.52	-10.07
2.	2001-02	9200	7304.16	6176.67	-1127.49	-15.44
3.	2002-03	10729	8518.07	6495.95	-2022.12	-23.74

As against this, the backward state of Bihar, despite its bifurcation on November 15, 2000, has been able to increase its own revenue from 4.23 percent of its GDP in 1999-2000 to estimated 5.14 percent in 2003-04. Again, in spite of its entire mineral and forest resources falling under Jharkhand, the State has, as a result of adopting financial reforms, brought the revenue deficit down from 34.74 percent in 1999-2000 to 13.42 percent in 2001-02. The details are given below :

Ratio of Revenue Deficit to Revenue Receipt

(Rs. in crores)

Sl. No.	Year	Revenue Receipts	Revenue Expenditure	Revenue Deficit	Percentage of Rev. Deficit to Rev. Receipts
1.	1999-00	12,578.60	16,128.32	(-) 3,549.72	(-) 28.22
2.	2000-01	11,384.72	14,345.43	(-) 22,960.71	(-) 26.01
3.	2001-02	10,218.48	12,560.36	(-) 2,341.88	(-) 22.92
4.	2002-03	12,015.48	13,533.07	(-) 1,517.59	(-) 12.63

Source : State Finances – RBI

Thus it is evident that while the state has demonstrated fiscal prudence, the Centre is yet to fall in line. Therefore, it is strongly advocated that the Finance Commission may evolve a mechanism to ensure that the Centre must adhere to the targets as fixed by the Commission and the States do not suffer on account of any slackness on the part of the Centre. The Finance Commission may also consider that the States cannot go beyond a certain limit in increasing their revenues, both tax and non-tax and reducing their revenue expenditure.

3. Outstanding Debts of the State Governments

The increasing revenue gap led the state government to resort to loans from the Centre and market borrowing to meet their expenditure requirements resulting into higher interest burden. The indebtedness of all the states has increased considerably over the period (Appendix IX). It has been mainly on account of inadequacy of revenue resources to meet the requirement of funds for development activities. The state governments have to perforce borrow from various sources. Most of these borrowings are from the Center. It is now quite apparent that most state governments will be unable of come out of their debt trap in the foreseeable future and the huge interest burden will force them towards a revenue deficit. In so far as Bihar is concerned, the total debt of the state as on 31-03-2004 is estimated at Rs. 40,309.51 crores. At the time of bifurcation of the state on November 15, 2000, the debt of the state stood at Rs. 31,581.83 crore. Since then, the debt of the state increased by about 28.22 percent. The total debt burden of the state constitutes about 61 percent of its GSDP. This castes a heavy burden on the State, as the outstanding debt entails an annual interest burden of Rs. 3,417 crore in 2003-04 and is equivalent to 26.23 percent of the revenue receipts of the state. The State cannot sustain such a high burden of interest payments. Shri I K Gujral during his tenure as Prime-Minister, waived off Rs. 8000 crore loan amount outstanding against Punjab. Since most of these debts are Central loans, the Finance Commission may consider this issue seriously in terms of waiving off the repayment of central loans as also the interest rates. In case waiving of loan is not possible, the interest payment may be waived at least for 10 years so as to make the debt burden manageable by the State. The Twelfth Finance Commission may not only recommend continuation of the special debt relief scheme initiated by the Tenth Finance Commission, but do so on more liberal terms, consistent with the difficult debt positions of the states. The Twelfth 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 Twelfth Finance Commission.

4. Need for HRD Fund

The human capital formation is recognised as a total factor input in growth accounting exercises. However, the government spending in this area will not reap immediate returns and would necessarily involve spending in areas, which are classified as revenue expenditure and non-plan revenue expenditure. When educational and health facilities are extended, the instant cost recovery will be low, though in medium and long term, it enhances the productivity of human capital, so essential for the development of the state/ nation.

We all know that the ‘Health for all by 2000 AD’ and ‘Education for All’ appear to be a far cry with a number of states struggling for 100 percent literacy. But 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 far behind the all-India level in respect of all the parameters viz. population density (880/sq. km.), life expectancy at birth (59.6 years), literacy rate (47.43%), birth rate (31.5/1000), rural population (89.5%), population below poverty line (42.2%), per capita income (Rs. 3922 in 2001-02), etc. In terms of Human Development Index, the state of Bihar ranked the last (Appendix X). 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. We expect that States with superior availability of human skill, and more rapid growth in these skills, are more likely to have higher per capita GSDP and to experience faster growth. Thus there is an urgent need to reorient the education system, particularly at the post-school stage. The education system in the backward states is woefully inadequate. For reorienting and strengthening their education system, and for setting up a few centres of excellence like IIT, IIM, etc. the state needs support from the Center. For this, a HRD Fund may be considered for a period of five years to enable the laggard states to strengthen their education system.

5. Compensation of Low CD Ratio States

One important indicator of structural disadvantage of the backward states is current CD ratio of these states in the banking sector. In 2002-03, the CD ratio of the State worked out to 23.2 percent which was much less than the national average of 58 percent. 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. However, the fact remains that the deposits are generated by these states and flow out of backward states and are utilized by other better off states. Credit management of the banks are primarily guided by the Central Government norms, which are, more often detrimental to the interests of the poor states. The Finance Commission may consider compensating the poor states with low CD ratio 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.

6. Adequate Resource to Local Bodies

The 73rd amendment to the Constitution emphasises devolution of funds to the local bodies in rural and urban areas and implies a substantial revision of the federal arrangements. There is strong need of modifying the existing scheme of division of finances between the Centre and the states. The middle tier or states suffer from scarcity of the financial resource. It, therefore, becomes incumbent upon the Centre to provide additional grant to the states for meeting constitutional obligations. For Panchayats and municipalities in the country, the Eleventh Finance Commission recommended only a small sum of Rs. 10,000 crore for the entire award period of 2000-05. This amount proved much less to meet the requirements of local bodies. It may not be out of place to mention that studies conducted at the instance of the Commission estimated the requirements of local bodies to the tune of Rs. 1,42,128 crore for the tenure period of five years. Similarly, the National Institute of Public Finance and Policy estimated the fund requirement for maintenance of civic services ranging from Rs. 6,907 crore to Rs. 32,598 crore for the five years period depending upon the norms. But the Commission did not consider this requirement to the disadvantage of the local bodies, especially for the poor states like Bihar. It is suggested that the present Commission may study the whole gamut of issues related to the local bodies and arrive at a realistic estimate and recommend accordingly. For inter-state allocation, the Eleventh Finance Commission recommended the following criteria :

Sl. No.	Criteria recommended	Weight (%)
1.	Population	40
2.	Index of decentralisation	20
3.	Distance from highest per capita income	20
4.	Revenue effort	10
5.	Geographical area	10

Based on these criteria, the share of Bihar came to Rs. 108.75 crore for Panchayats and Rs. 13.41 crore for urban local bodies. Using the Census-2001 figures, the per capita allocation for divided Bihar works out to Rs. 73 in respect of Panchayats and Rs. 77 in respect of municipalities. This sum is too paltry to make any impact on the availability of civic services. Considering the fact that there are few Central schemes meant for the Nagar Panchayats as compared to rural Panchayats for their proper development, the requirements of Nagar Panchayats in the face of development of market economy as a result of liberalisation, cannot be ignored and that some special package for them may have to be considered. Therefore, the present Finance Commission may consider enhancement of these allocations keeping in view the fact that the Panchayati Raj Institutions in Bihar have been revived after a long gap of more than two decades. It is also urged that the criteria adopted by the earlier Commission may be reviewed and following suggested criteria may be considered :

Sl. No.	Criteria suggested	Weight (%)
1.	Population	40
2.	Distance from highest per capita income	20
3.	Proportion of Rural Population	20
4.	Number of local bodies	20

If adequate resources are not placed at the disposal of the local bodies, it cannot play an effective role in decentralisation and governance. The Finance Commission may take a realistic view in this regard.

7. 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 topography of the region, tribal population and availability of infrastructural facilities there. Whatever little capital was there in the rest of Bihar was diverted to this region. Now, after bifurcation of the state, the residual Bihar stands exposed to even poorer educational/ institutional infrastructure. The Finance Commission should either consider a special package for the truncated state or develop a separate norm for the devolution for these states. The Twelfth Finance Commission may also take into account this aspect.

8. 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, provision of basic administrative standards and social services in different states is an important objective of grants-in-aid. 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 among the states remained 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 Twelfth Finance Commission may consider that the grant-in-aid should be given to (i) cover the states' resource gap; (ii) to reduce disparities in the level of general social and economic services of the states; (iii) to 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.

It is also urged upon the Twelfth Commission that the grants received from the union government from DFID and external funding agencies be passed on to the states as grants and not as 70 percent loan and 30 percent grant as is in vogue at present.

9. 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 discussed in the sub-section (Growth : Bihar Vs India) of the memorandum, Bihar needs huge investments to the tune of around Rs. 39 thousand crore each year till 2019-20 to sustain a growth rate of 15 percent per annum to reach the all-India average growth of 8 percent by the year 2019-20. This huge sum may have to come as special grant. The Twelfth Finance Commission may consider this aspect and suggest special problem grant for the state so that Bihar does not remain a laggard state and contributes in increasing the country's growth rate. For creation of capital infrastructure for 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 :

Rehabilitation of Sick Units : 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, upto 60 percent of the sick units can be rehabilitated and revived by giving them the required support. This will enable their capital assets put again to productive uses. Besides providing large employment opportunities, it may also contribute towards significant increase in the GSDP. The Twelfth Finance Commission may look into this aspect and recommend a special subsidy grant of at least 25 percent of the total debt for rehabilitation of sick/ closed units. It becomes all the more necessary in view of the fact that even under liberalisation, no new investments are forthcoming to Bihar.

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 in 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. 100 crore from the Centre is needed.

Secondary Education : For strengthening and orienting the educational institutions for introduction of skill development courses at the secondary level, an estimated amount of Rs. 600 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, we may have to have a knowledge society. Our people must be educated and enabled to participate in the reform process. For this, the Government should give a thrust to Information Technology sector. An 'operation knowledge' campaign may have to be launched in the state for universalising Information Technology and IT based education. This may require construction of buildings and purchase of equipments and machinery for introduction of the new courses in Information Technology even at the diploma level. This may require additional fund which may be considered by the Twelfth Finance Commission.

Civic Amenities in Urban Areas : With the rapid growth in urban population, the demand for civic amenities including adequate safe drinking water supply, 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. 200 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 pucca and adequate 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, plants, machinery and equipments, etc. which may cost Rs. 3000 crore. For providing the state of art health care a further sum of Rs. 500 crore is needed.

Infrastructure Development : Developed infrastructure including power and road are the sine qua non for attaining the overall growth potential. The state of 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 a very negligible help. It is therefore, urged upon the Twelfth Finance Commission to make special provision for ‘grants-in-aid’ for infrastructural development in the state.

10. Calamity Relief Fund

According to the present arrangements, 75% of the Calamity Relief Fund is contributed by the Centre and 25% is contributed by the State Government. Eleventh Finance Commission while recommending the continuation of the existing scheme of the ratio of 75:25 to the fund, also recommended the discontinuance of the existing National Fund for Calamity Relief and suggested the creation of the National Calamity Contingency Fund in public account of Government of India with an initial core amount of Rs. 500 crore provided by the Centre. The calamity of flood is a recurring phenomenon in the State, particularly in North Bihar, mainly because of the heavy discharge of water by the Himalayan rivers. While the catchment of these rivers lies in Nepal, the damage is suffered by Bihar. The enormity of the problem may be gauzed from the fact the total flood prone area in the state is about 68.80 lakh hectare, which constitutes 17.2 percent of the total flood affected area in the country. As a permanent solution to the problem remains to be worked out by the Central government with the Nepalese government, it is suggested to make provision of a special fund to take care of floods in north Gangetic Plains, of which north Bihar is a part. These floods are 'perennial' in nature, unlike occasional floods elsewhere. Similarly, the calamities like drought, fire, cyclones, hailstorms and extreme heat and cold cause extensive damage to human lives, cattle and standing crops.

Under present dispensation, some of these calamities mentioned above do not qualify for assistance. Considering the severity of such calamities and enormity of losses inflicted by them, it is suggested that the Commission may like to take a view and enlarge the list of natural calamities beyond the present six so as to include the heat and cold waves.

The Central share of the calamity relief fund for the states should also be fixed at least at 90 percent of the total. The State government would also urge that whatever be the size of the calamity relief fund, inflation should be fully provided for.

The following points are for consideration of the Commission.

(i) All types of natural calamities should be made eligible for relief and not merely the six categories as at present.

(ii) The size of the calamity relief fund should be fixed not merely on the basis of the average expenditure during the last several years but also on consideration of damages to infrastructural facilities.

(iii) Central share of the calamity relief fund should be enhanced to 90 percent against 75 percent as at present.

Appendix - I

Transfer (State-wise and Commission-wise)
(a) Transfers Under Taxes and Duties

State	First Commission	Second Commission	Third Commission	Fourth Commission	Fifth Commission
Andhra Pradesh	16.1 (4.5)	70.0 (8.2)	84.1 (7.9)	100.0 (7.6)	347.8 (7.6)
Bihar	39.4 (10.9)	74.2 (8.7)	99.6 (9.3)	120.6 (9.1)	508.7 (11.0)
Gujarat	*	35.8 (4.2)	64.2 (6.0)	73.8 (5.6)	230.8 (5.0)
Haryana	**	**	**	20.8 (1.6)	75.3 (1.6)
Karnataka	3.5 (1.0)	43.5 (5.1)	54.2 (5.1)	68.1 (5.1)	229.3 (5.0)
Kerala	1.3 (0.4)	29.2 (3.4)	43.3 (4.1)	51.2 (3.9)	183.1 (4.0)
Madhya Pradesh	21.1 (5.8)	56.5 (6.6)	74.8 (7.0)	89.7 (6.8)	343.1 (7.5)
Maharashtra	62.9 (17.4)	109.9 (12.9)	199.5 (18.7)	157.2 (11.9)	486.8 (10.6)
Orissa	14.2 (3.9)	30.1 (3.5)	48.2 (4.5)	52.7 (4.0)	182.7 (4.0)
Punjab	13.6 (3.8)	40.7 (4.8)	59.0 (5.5)	38.8 (2.9)	113.2 (2.5)
Rajasthan	12.7 (3.5)	35.5 (4.2)	49.2 (4.6)	58.7 (4.4)	213.6 (4.6)
Tamil Nadu	38.2 (10.6)	72.9 (8.6)	79.8 (7.5)	104.6 (7.9)	348.8 (7.6)
Uttar Pradesh	63.1 (17.5)	141.7 (16.6)	148.0 (13.9)	196.7 (14.9)	772.5 (16.8)
West Bengal	40.2 (11.1)	79.5 (9.3)	93.7 (8.8)	188.3 (14.2)	376.3 (8.2)
Total (Major states)	**352.5#**	**819.5**	**1017.8**	**1251.2**	**4411.2**
Arunachal Pradesh	-	-	-	-	-
Assam	9.1 (2.5)	22.9 (2.7)	34.6 (3.2)	38.3 (2.9)	109.9 (2.4)
Goa	-	-	-	-	-
Himachal Pradesh	-	-	-	-	22.5 (0.5)
Jammu & Kashmir	-	9.6 (1.1)	13.8 (1.3)	20.0 (1.5)	41.7 (0.9)
Manipur	-	-	-	-	3.4 (0.1)
Meghalaya	-	-	-	-	7.6 (0.2)
Mizoram	-	-	-	-	-
Nagaland	-	-	0.7 (0.1)	13.9 (1.1)	3.7 (0.1)
Sikkim	-	-	-	-	-
Tripura	-	-	-	-	5.1 (0.1)
Total (Special states)	**9.1**	**32.5**	**49.1**	**72.2**	**193.9**
Grand Total	**361.6 (100.0)**	**852.0 (100.0)**	**1066.9 (100.0)**	**1323.4 (100.0)**	**4605.1 (100.0)**

(Contd.)

State	Sixth Commission	Seventh Commission	Eighth Commission	Ninth Commission 1989-90	Ninth Commission 1990-95	Tenth Commission
Andhra Pradesh	570.1 (8.0)	1503.0 (7.8)	2754.8 (7.7)	848.7 (7.2)	6575.5 (7.5)	16325.9 (7.9)
Bihar	738.4 (10.4)	2149.9 (11.2)	4005.8 (11.2)	1373.0 (11.6)	9670.5 (11.0)	23302.5 (11.3)
Gujarat	368.6 (5.2)	963.9 (5.0)	1417.2 (4.0)	422.1 (3.6)	3394.7 (3.9)	8015.0 (3.9)
Haryana	120.7 (1.7)	308.6 (1.6)	428.0 (1.2)	137.1 (1.2)	1131.1 (1.3)	2555.0 (1.2)
Karnataka	383.6 (5.4)	1005.0 (5.2)	1713.0 (4.8)	560.3 (4.8)	3962.0 (4.5)	10034.6 (4.9)
Kerala	271.0 (3.8)	766.2 (4.0)	1258.9 (3.5)	404.4 (3.4)	2919.1 (3.3)	7217.0 (3.5)
Madhya Pradesh	543.6 (7.7)	1533.9 (8.0)	2788.1 (7.8)	909.6 (7.7)	6534.5 (7.4)	15275.5 (7.4)
Maharashtra	771.5 (10.9)	1714.1 (8.9)	2617.3 (7.3)	860.5 (7.3)	6036.4 (6.9)	12859.8 (6.2)
Orissa	272.6 (3.8)	815.3 (4.2)	1561.6 (4.4)	509.6 (4.3)	4263.8 (4.9)	8773.4 (4.3)
Punjab	169.0 (2.4)	419.5 (2.2)	611.1 (1.7)	184.2 (1.6)	1515.2 (1.7)	3160.4 (1.5)
Rajasthan	333.4 (4.7)	883.5 (4.6)	1538.2 (4.3)	574.7 (4.9)	4613.8 (5.2)	10255.3 (5.0)
Tamil Nadu	538.5 (7.6)	1476.4 (7.7)	2443.1 (6.8)	839.4 (7.1)	6008.2 (6.8)	12622.5 (6.1)
Uttar Pradesh	1150.2 (16.2)	3202.7 (16.7)	5915.6 (16.6)	2046.7 (17.4)	13876.5 (15.8)	33526.7 (16.2)
West Bengal	588.1 (8.3)	1572.6 (8.2)	2820.6 (7.9)	851.9 (7.2)	6260.8 (7.1)	14104.9 (6.8)
Total (Major states)	**6759.3**	**18314.6**	**31873.3**	**10522.2**	**76762.1**	**178038.5**
Arunachal Pradesh	-	-	-	65.3 (0.6)	524.6 (0.6)	1366.0 (0.7)
Assam	185.1 (2.6)	496.9 (2.6)	1251.7 (3.5)	404.3 (3.4)	2969.6 (3.4)	7064.1 (3.4)
Goa	-	-	-	24.6 (0.2)	338.5 (0.4)	524.1 (0.3)
Himachal Pradesh	43.1 (0.6)	110.3 (0.6)	230.7 (0.6)	140.5 (1.2)	1269.4 (1.4)	3743.8 (1.8)
Jammu & Kashmir	58.8 (0.8)	159.1 (0.8)	738.2 (2.1)	236.4 (2.0)	2217.3 (2.5)	5904.7 (2.9)
Manipur	13.5 (0.2)	37.8 (0.2)	299.2 (0.8)	75.3 (0.6)	710.1 (0.8)	1689.6 (0.8)
Meghalaya	12.9 (0.2)	36.7 (0.2)	242.9 (0.7)	59.7 (0.5)	558.2 (0.6)	1534.6 (0.7)
Mizoram	-	-	-	72.5 (0.6)	637.5 (0.7)	1398.4 (0.7)
Nagaland	6.8 (0.1)	17.9 (0.1)	325.5 (0.9)	73.4 (0.6)	781.9 (0.9)	2197.4 (1.1)
Sikkim	-	0.5 (0.0)	63.5 (0.2)	14.0 (0.1)	156.3 (0.2)	562.1 (0.3)
Tripura	19.7 (0.3)	59.7 (0.3)	357.7 (1.0)	97.6 (0.8)	956.7 (1.1)	2325.8 (1.1)
Total (Special states)	**339.9**	**918.9**	**3809.4**	**1263.6**	**11120.1**	**28304.6**
Grand Total	**7099.2 (100.0)**	**19233.5 (100.0)**	**35682.7 (100.0)**	**11785.8 (100.0)**	**87882.2 (100.0)**	**206343.1 (100.0)**

- Included Bombay, ** Included in Punjab, # Includedes Rs 26.2 crores for Part 'B' States. Figure in Parenthesis are percentage to Grand Total.

(b) Total Grants

State	First Commission	Second Commission	Third Commission	Fourth Commission	Fifth Commission
Andhra Pradesh	-	20.0 (10.1)	38.0 (15.6)	40.5 (9.6)	65.0 (9.1)
Bihar	6.2 (12.4)	21.2 (10.8)	3.0 (1.2)	-	-
Gujarat	-	-	21.0 (8.6)	-	-
Haryana	-	-	-	-	-
Karnataka	2.0 (4.0)	30.0 (15.2)	27.0 (11.1)	62.5 (14.8)	18.8 (2.6)
Kerala	2.2 (4.4)	8.8 (4.5)	25.0 (10.2)	62.5 (14.8)	49.7 (7.0)
Madhya Pradesh	1.5 (3.0)	15.0 (7.6)	12.0 (4.9)	8.1 (1.9)	-
Maharashtra	0.4 (0.8)	-	-	-	-
Orissa	5.5 (11.0)	17.2 (8.7)	53.0 (21.7)	87.5 (20.7)	104.7 (14.7)
Punjab	7.1 (14.2)	11.2 (5.7)	-	-	-
Rajasthan	1.2 (2.4)	12.5 (6.3)	21.0 (8.6)	20.2 (4.8)	51.5 (7.2)
Tamil Nadu	-	-	12.0 (4.9)	20.5 (4.9)	22.8 (3.2)
Uttar Pradesh	-	-	-	29.5 (7.0)	-
West Bengal	11.5 (23.0)	23.8 (12.1)	-	-	72.6 (10.2)
Total (Major states)	*** 41.3**	**159.7**	**212.0**	**331.3**	**384.3**
Arunachal Pradesh	-	-	-	-	-
Assam	8.7 (17.4)	22.5 (11.4)	24.0 (9.8)	49.7 (11.8)	84.2 (11.8)
Goa	-	-	-	-	-
Himachal Pradesh	-	-	-	-	27.7 (3.9)
Jammu & Kashmir	-	15.0 (7.6)	8.0 (3.3)	19.7 (4.7)	73.7 (10.4)
Manipur	-	-	-	-	23.4 (3.3)
Meghalaya	-	-	-	-	11.2 (1.6)
Mizoram	-	-	-	-	-
Nagaland	-	-	-	21.2 (5.0)	77.9 (11.0)
Sikkim	-	-	-	-	-
Tripura	-	-	-	-	28.6 (4.0)
Total (Special states)	**8.7**	**37.5**	**32.0**	**90.6**	**326.7**
Grand Total	**50.0 (100.0)**	**197.2 (100.0)**	**244.0 (100.0)**	**421.9 (100.0)**	**711.0 (100.0)**

(Contd.)

State	Sixth Commission	Seventh Commission	Eighth Commission	Ninth Commission 1989-90	Ninth Commission 1990-95	Tenth Commission
Andhra Pradesh	205.9 (8.2)	18.7 (1.2)	141.7 (3.8)	52.8 (2.8)	663.7 (3.7)	1755.6 (8.6)
Bihar	106.3 (4.2)	63.0 (3.9)	214.6 (5.7)	82.0 (4.4)	1505.5 (8.3)	1353.1 (6.7)
Gujarat	-	-	71.8 (1.9)	14.4 (0.8)	318.7 (1.8)	860.6 (4.2)
Haryana	-	-	11.2 (0.3)	27.8 (1.5)	63.7 (0.4)	238.1 (1.2)
Karnataka	-	-	15.0 (0.4)	15.6 (0.8)	101.3 (0.6)	486.2 (2.4)
Kerala	208.9 (8.3)	4.2 (0.3)	29.3 (0.8)	6.6 (0.4)	528.8 (2.9)	504.8 (2.5)
Madhya Pradesh	-	63.6 (4.0)	169.6 (4.5)	44.8 (2.4)	1308.8 (7.2)	818.5 (4.0)
Maharashtra	-	-	18.1 (0.5)	56.5 (3.0)	165.0 (0.9)	849.3 (4.2)
Orissa	304.7 (12.1)	169.1 (10.5)	348.1 (9.2)	109.1 (5.8)	1259.2 (6.9)	923.2 (4.5)
Punjab	-	-	35.0 (0.9)	94.4 (5.0)	158.9 (0.9)	429.1 (2.1)
Rajasthan	230.5 (9.2)	19.2 (1.2)	138.0 (3.7)	76.6 (4.1)	1911.8 (10.5)	1145.6 (5.6)
Tamil Nadu	-	27.2 (1.7)	21.9 (0.6)	32.7 (1.7)	190.0 (1.0)	738.0 (3.6)
Uttar Pradesh	198.9 (7.9)	112.0 (7.0)	189.4 (5.0)	116.7 (6.2)	3572.6 (19.7)	2632.2 (13.0)
West Bengal	234.9 (9.4)	24.5 (1.5)	629.4 (16.7)	103.3 (5.5)	1148.6 (6.3)	875.6 (4.3)
Total (Major states)	**1490.1**	**501.6**	**2033.1**	**833.3**	**12896.6**	**13609.6**
Arunachal Pradesh	-	-	-	85.9 (4.6)	310.2 (1.7)	408.4 (2.0)
Assam	254.2 (10.1)	21.7 (1.3)	355.8 (9.4)	158.5 (8.4)	986.7 (5.4)	1263.9 (6.2)
Goa	-	-	-	22.4 (1.2)	170.3 (0.9)	98.2 (0.5)
Himachal Pradesh	161.0 (6.4)	214.8 (13.3)	243.7 (6.5)	114.0 (6.1)	590.6 (3.3)	1017.9 (5.0)
Jammu & Kashmir	173.5 (6.9)	217.8 (13.5)	381.5 (10.1)	238.6 (12.7)	1141.4 (6.3)	1417.4 (7.0)
Manipur	114.5 (4.6)	156.3 (9.7)	169.9 (4.5)	73.6 (3.9)	375.4 (2.1)	447.0 (2.2)
Meghalaya	74.6 (3.0)	97.5 (6.1)	139.0 (3.7)	52.1 (2.8)	263.7 (1.5)	354.3 (1.7)
Mizoram	-	-	-	98.0 (5.2)	383.5 (2.1)	403.6 (2.0)
Nagaland	128.8 (5.1)	222.7 (13.8)	201.9 (5.4)	97.8 (5.2)	462.4 (2.5)	595.7 (2.9)
Sikkim	-	36.4 (2.3)	40.9 (1.1)	17.3 (0.9)	95.9 (0.5)	136.8 (0.7)
Tripura	112.5 (4.5)	140.2 (8.7)	203.5 (5.4)	85.4 (4.6)	477.2 (2.6)	547.4 (2.7)
Total (Special states)	**1019.4**	**1107.4**	**1736.2**	**1043.6**	**5257.4**	**6690.5**
Grand Total	**2509.5 (100.0)**	**1609.0 (100.0)**	**3769.3 (100.0)**	**1876.9 (100.0)**	**18153.9 (100.0)**	**20300.4(100.0)**

- Included Rs 3.7 Crores for Part 'B' States.

(c) Total Transfers

State	First Commission	Second Commission	Third Commission	Fourth Commission	Fifth Commission
Andhra Pradesh	16.1 (3.9)	90.0 (8.6)	122.1 (9.3)	140.5 (8.1)	412.8 (7.8)
Bihar	45.6 (11.1)	95.4 (9.1)	102.6 (7.8)	120.6 (6.9)	508.7 (9.6)
Gujarat	-	35.8 (3.4)	85.2 (6.5)	73.8 (4.2)	230.8 (4.3)
Haryana	-	-	-	20.8 (1.2)	75.3 (1.4)
Karnataka	5.5 (1.3)	73.5 (7.0)	81.2 (6.2)	130.6 (7.5)	247.3 (4.7)
Kerala	3.3 (0.8)	38.0 (3.6)	68.5 (5.2)	113.7 (6.5)	232.8 (4.4)
Madhya Pradesh	22.6 (5.5)	71.5 (6.8)	86.8 (6.6)	97.8 (5.6)	343.1 (6.5)
Maharashtra	63.3 (15.4)	109.9 (10.5)	119.5 (9.1)	157.2 (9.0)	486.8 (9.2)
Orissa	19.6 (4.8)	47.3 (4.5)	101.2 (7.7)	140.2 (8.0)	287.4 (5.4)
Punjab	19.7 (4.8)	51.9 (4.9)	59.0 (4.5)	38.8 (2.2)	113.2 (2.1)
Rajasthan	20.7 (5.0)	48.0 (4.6)	70.2 (5.4)	78.9 (4.5)	265.1 (5.0)
Tamil Nadu	38.2 (9.3)	72.9 (6.9)	91.8 (7.0)	125.1 (7.2)	370.8 (7.0)
Uttar Pradesh	63.1 (15.3)	141.7 (13.5)	148.0 (11.3)	226.2 (13.0)	772.5 (14.5)
West Bengal	51.7 (12.6)	103.3 (9.8)	93.7 (7.1)	118.3 (6.8)	448.9 (8.4)
Total (Major states)	*** 393.8**	**979.2**	**1229.8**	**1582.5**	**4795.5**
Arunachal Pradesh	-	-	-	-	-
Assam	17.8 (4.3)	45.4 (4.3)	58.6 (4.5)	88.0 (5.0)	194.4 (3.7)
Goa	-	-	-	-	-
Himachal Pradesh	-	-	-	-	50.2 (0.9)
Jammu & Kashmir	-	24.6 (2.3)	21.8 (1.7)	39.7 (2.3)	115.4 (2.2)
Manipur	-	-	-	-	26.8 (0.5)
Meghalaya	-	-	-	-	18.8 (0.4)
Mizoram	-	-	-	-	-
Nagaland	-	-	0.7 (0.1)	35.1 (2.0)	81.6 (1.5)
Sikkim	-	-	-	-	-
Tripura	-	-	-	-	33.7 (0.6)
Total (Special states)	**17.8**	**70.0**	**81.1**	**162.8**	**520.6**
Grand Total	**411.6 (100.0)**	**1049.2 (100.0)**	**1310.9 (100.0)**	**1745.3 (100.0)**	**5316.1 (100.0)**

(Contd.)

State	Sixth Commission	Seventh Commission	Eighth Commission	Ninth Commission 1989-90	Ninth Commission 1990-95	Tenth Commission
Andhra Pradesh	776.0 (8.1)	1521.7 (7.3)	2896.5 (7.3)	901.5 (6.6)	7239.2 (6.8)	18081.5 (8.0)
Bihar	844.7 (8.8)	2212.9 (10.6)	4220.4 (10.7)	1454.9 (10.6)	11176.0 (10.5)	24655.6 (10.9)
Gujarat	368.6 (3.8)	963.9 (4.6)	1489.0 (3.8)	436.5 (3.2)	3713.4 (3.5)	8875.6 (3.9)
Haryana	120.7 (1.3)	308.6 (1.5)	439.2 (1.1)	164.9 (1.2)	1194.8 (1.1)	2793.1 (1.2)
Karnataka	383.6 (4.0)	1005.0 (4.8)	1728.0 (4.4)	575.9 (4.2)	4063.3 (3.8)	10520.8 (4.6)
Kerala	479.9 (5.0)	770.4 (3.7)	1288.2 (3.3)	411.0 (3.0)	3447.9 (3.3)	7721.8 (3.4)
Madhya Pradesh	543.6 (5.7)	1597.5 (7.7)	2957.7 (7.5)	954.4 (7.0)	7843.3 (7.4)	16094.0 (7.1)
Maharashtra	711.5 (7.4)	1714.1 (8.2)	2635.4 (6.7)	917.0 (6.7)	6201.4 (5.8)	13709.1 (6.0)
Orissa	577.3 (6.0)	984.4 (4.7)	1909.7 (4.8)	618.7 (4.5)	5523.0 (5.2)	9706.5 (4.3)
Punjab	169.0 (1.8)	419.5 (2.0)	646.1 (1.6)	278.6 (2.0)	1674.1 (1.6)	3589.5 (1.6)
Rajasthan	563.9 (5.9)	902.8 (4.3)	1676.2 (4.2)	651.3 (4.8)	6525.6 (6.2)	11400.9 (5.0)
Tamil Nadu	538.5 (5.6)	1503.6 (7.2)	2465.0 (6.2)	872.1 (6.4)	6198.2 (5.8)	13360.5 (5.9)
Uttar Pradesh	1349.1 (14.0)	3314.7 (15.9)	6105.0 (15.5)	2163.4 (15.8)	17449.1 (16.5)	36158.9 (16.0)
West Bengal	823.0 (8.6)	1597.1 (7.7)	3450.0 (8.7)	955.2 (7.0)	7409.4 (7.0)	14980.5 (6.6)
Total (Major states)	**8249.4**	**18816.2**	**33906.4**	**11355.4**	**89658.7**	**191648.3**
Arunachal Pradesh	-	-	-	151.2 (1.1)	834.8 (0.8)	1768.4 (0.8)
Assam	439.6 (4.6)	518.6 (2.5)	1607.5 (4.1)	562.8 (4.1)	3956.3 (3.7)	8328.1 (3.7)
Goa	-	-	-	47.0 (0.3)	508.8 (0.5)	622.0 (0.3)
Himachal Pradesh	204.1 (2.1)	325.1 (1.6)	774.4 (2.0)	454.5 (3.3)	1860.0 (1.8)	4761.7 (2.1)
Jammu & Kashmir	232.3 (2.4)	377.0 (1.8)	1119.7 (2.8)	475.0 (3.5)	3358.7 (3.2)	7322.1 (3.2)
Manipur	128.0 (1.3)	194.0 (0.9)	469.1 (1.2)	148.9 (1.1)	1085.5 (1.0)	2136.6 (0.9)
Meghalaya	87.5 (0.9)	134.2 (0.6)	381.9 (1.0)	111.8 (0.8)	821.9 (0.8)	1888.9 (0.8)
Mizoram	-	-	-	170.5 (1.2)	1021.0 (1.0)	1802.0 (0.8)
Nagaland	135.6 (1.4)	240.6 (1.2)	527.4 (1.3)	171.2 (1.3)	1244.3 (1.2)	2793.0 (1.2)
Sikkim	-	36.9 (0.2)	104.4 (0.3)	31.3 (0.2)	252.2 (0.2)	698.9 (0.3)
Tripura	132.2 (1.4)	199.9 (1.0)	561.2 (1.4)	183.0 (1.3)	1433.9 (1.4)	2873.2 (1.3)
Total (Special states)	**1359.3**	**2026.3**	**5545.6**	**2307.2**	**16377.4**	**34995.1**
Grand Total	**9608.7 (100.0)**	**20842.5 (100.0)**	**39452.0 (100.0)**	**13662.6 (100.0)**	**106036.1 (100.0)**	**226643.5 (100.0)**

Included Rs 29.9 Crores for Part 'B' States.

Source : Fiscal Federation in India — B.P.R. Vithal, M.L. Sastry, Oxford.

Appendix-II

Statement Showing Amount Recommended & Actually Received During Eight, Ninth, Tenth & Eleventh Finance Commission

(Rs. in Crore)

Name of the Commission / Period	Recommended			Actual			Difference (6-9)
	Amount Transfer Under Union Taxes & Duties	Grant	Total (3+4)	Actual Receipt Under Union Taxes & Duties	Grant	Total (6+7)	
1	2	3	4	5	6	7	8
Eight Finance Commission 1984-85 to 1988-89	4005.82	214.65	4220.47	4780.12	214.65	4994.77	-774.3
Ninth 1st Report 1989-90	1372.99	81.95 Non-Plan	1620.92	1570.12	247.93	1818.05	-197.13
Ninth 2nd Report 1990-95	9670.53	1374 Plan Deficit 131.25 Grants Meeting Relief Exp.	11176.05	11166.57	1505.52		
Tenth Finance Commission 1995-2000	23302.45	1353.11	24655.56	21218.98	806.33	22025.3	2630.25
Eleventh Finance Commission 2000-2005	43614.44	1152.03	44766.47				
Bihar Share 79.390% of 2000-2001	6265.69			3819.93 (1 Apr. to 14 Nov.)			
Total Transfer recommended 2001-2002	**7304.16**			**2755.68 (15 Nov. to 31 March)**			
For Combined Bihar 2002-2003	8518.00			6151.38 (Pectoral)			
Combined Bihar 14.597% 2003-2004	9935.24			6723.55 (RE)			
Bihar 11.589% 2004-2005	11591.35			7392.46 (BE)	628.42		

Appendix-III

Ranking of States by PCNSDP at Constant Prices
(Base : 1960-61 = 100)

1961-62			1971-72			1981-82			1991-92			1994-95		
PCNSDP	**States**	**Rank**	**PCNSDP**	**States**	**Rank**	**PCNSDP**	**States**	**Rank**	**PCNSDP**	**States**	**Rank**	**PCNSDP**	**States**	**Rank**
687.50	Delhi	1	651.50	Delhi	1	762.26	Delhi	1	1299.43	Delhi	1	1200.28	Delhi	1
420.41	Maharashtra	2	560.50	Punjab	2	661.82	Punjab	2	1001.22	Goa	2	1107.97	Goa	2
389.22	Gujarat	3	486.76	Goa	3	641.56	Goa	3	949.04	Punjab	3	997.75	Punjab	3
378.85	Punjab	4	480.00	Haryana	4	594.70	Gujarat	4	840.52	Haryana	4	985.86	Maharashtra	4
378.10	West Bengal	5	464.61	Gujarat	5	557.70	Haryana	5	759.83	Maharashtra	5	893.41	Gujarat	5
334.00	Tamilnadu	6	396.08	Maharashtra	6	531.82	Maharashtra	6	685.90	Gujarat	6	854.99	Haryana	6
332.98	Rajasthan	7	375.96	West Bengal	7	454.81	Sikkim	7	652.88	Andhra Pradesh	7	724.55	Tamil Nadu	7
324.24	Assam	8	356.36	Jamu & Kashmir	8	412.95	All States	8	643.39	Arunachal Pradesh	8	673.73	Andhra Pradesh	8
321.15	Haryana	9	352.17	Tamil Nadu	9	410.12	Andhra Pradesh	9	624.68	Tamil Nadu	9	657.44	Arunachal Pradesh	9
320.21	All States	10	348.89	Andhra Pradesh	10	401.08	Himachal Pradesh	10	608.09	Nagaland	10	630.91	Karnataka	10
320.00	Karnataka	11	347.34	Rajasthan	11	399.04	Nagaland	11	592.43	All States	11	603.76	All States	11
294.06	Andhra Pradesh	12	346.34	All States	12	397.92	West Bengal	12	585.90	Mizoram	12	578.39	West Bengal	12
289.90	Tripura	13	344.00	Himachal Pradesh	13	395.91	Arunachal Pradesh	13	581.88	Karnataka	13	572.33	Mizoram	13
261.54	Jammu & Kashmir	14	340.00	Karnataka	14	377.88	Tripura	14	564.89	Sikkim	14	547.40	Himachal Pradesh	14
257.55	Kerala	15	279.25	Kerala	15	376.92	Jamu & Kashmir	15	545.11	Himachal Pradesh	15	503.08	Nagaland	15
252.43	Uttar Pradesh	16	268.65	Uttar Pradesh	16	376.68	Manipur	16	541.72	West Bengal	16	476.98	Kerala	16
251.46	Madhya Pradesh	17	265.57	Tripura	17	375.00	Tamil Nadu	17	493.28	Kerala	17	461.35	Meghalaya	17
223.53	Orissa	18	263.05	Madhya Pradesh	18	358.23	Karnataka	18	483.73	Meghalaya	18	451.05	Assam	18
213.59	**Bihar**	**19**	262.26	Nagaland	19	349.88	Kerala	19	461.83	Assam	19	436.92	Sikkim	19
153.54	Manipur	20	258.49	Assam	20	317.31	Mizoram	20	458.88	Manipur	20	434.25	Madhya Pradesh	20
			227.36	Arunachal Pradesh	21	312.98	Assam	21	437.96	Rajasthan	21	405.94	Manipur	21
			217.97	Orissa	22	309.98	Rajasthan	22	402.51	Madhya Pradesh	22	399.15	Orissa	22
			215.57	Manipur	23	308.41	Meghalaya	23	396.52	Jamu & Kashmir	23	375.27	Rajasthan	23
			203.43	**Bihar**	**24**	287.17	Uttar Pradesh	24	377.12	Orissa	24	368.42	Uttar Pradesh	24
						278.52	Madhya Pradesh	25	363.71	Tripura	25	337.38	Jamu & Kashmir	25
						274.33	Orissa	26	362.86	Uttar Pradesh	26	323.38	Tripura	26
						224.57	**Bihar**	**27**	280.21	**Bihar**	**27**	299.53	**Bihar**	**27**

PCNSDP : Per Capita Net State Domestic Product

Appendix- IV

Per Capita Plan Expenditure and Central Assistance for Bihar and All India during First to Seventh Plan periods

Plan Period	Per Capita Plan Expenditure ®		Per Capita Central Assistance (Rs.)	
	Bihar	India	Bihar	India
First Plan	25	33	14	23
Second Plan	40	52	19	25
Third Plan	59	93	44	53
Fourth Plan	85	172	57	65
Fifth Plan (1974-79)	130	327	105	130
Sixth Plan	404	693	301	195
Seventh Plan	733	1076	340	375

Source : Draft Annual Plan 2000-01, Govt. of Bihar.

Appendix-V

Per Capita Plan Outlay in the Seventh and Eighth Five Year Plans in major states.

State	Seventh Plan	Eighth Plan
Uttar Pradesh	337	1513
Bihar	**653**	**1506**
West Bengal	673	1435
Andhra Pradesh	868	1584
Madhya Pradesh	1184	697
Tamil Nadu	1067	1834
Karnataka	986	2740
Rajasthan	763	2730
Gujarat	1596	2791
Orissa	334	3175
Kerala	772	1883
Assam	995	2091
Punjab	1775	3252
Haryana	1779	3497

Source : Draft Annual Plan 2000-01, Govt. of Bihar.

Appendix-VI

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	30.66
1980-81	21,182.3	3,941.4	16.72
1984-85	47,323.3	5,933.9	12.33
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-VII

Investment Activity in the States in 1995-96 (as percentage of GSDP)

Sl. No.	State	Government Projects	Private Projects	All Projects
1.	Bihar	17.02	2.68	19.70
2.	Rajasthan	19.86	9.27	29.14
3.	Uttar Pradesh	20.65	12.22	32.87
4.	Orissa	48.55	15.17	63.72
5.	Madhya Pradesh	36.56	6.51	43.07
6.	Andhra Pradesh	21.78	15.87	37.65
7.	Tamil Nadu	7.18	17.84	25.02
8.	Kerala	17.25	1.77	19.02
9.	Karnataka	18.13	23.93	42.06
10.	West Bengal	17.23	12.21	29.45
11.	Gujarat	27.40	57.68	85.08
12.	Haryana	17.25	4.81	22.06
13.	Maharashtra	10.95	17.80	28.76
14.	Punjab	12.28	6.42	18.70
All 14 States		19.06	16.45	35.51

Source : Centre for Monitoring the Indian Economy

Appendix-VIII

Percentage of Population in Poverty

Sl. No.	State	1983	1987-88	1993-94	1999-2000
1.	Bihar	52.22	52.13	54.96	42.60
2.	Rajasthan	34.46	35.15	27.41	15.28
3.	Uttar Pradesh	47.07	41.46	40.85	31.15
4.	Orissa	65.29	55.58	48.56	47.15
5.	Madhya Pradesh	49.78	43.07	42.52	37.43
6.	Andhra Pradesh	28.91	25.86	22.19	15.77
7.	Tamil Nadu	51.66	43.39	35.03	21.12
8.	Kerala	40.42	31.79	25.43	12.72
9.	Karnataka	38.24	37.53	33.16	20.04
10.	West Bengal	54.85	44.72	35.66	27.02
11.	Gujarat	32.79	31.54	24.21	14.07
12.	Haryana	21.37	16.64	25.05	8.74
13.	Maharashtra	43.44	40.41	36.86	25.02
14.	Punjab	16.18	13.20	11.77	6.16
All 14 states		43.80	39.92	36.25	26.43
All India		44.48	38.86	35.97	26.10

Source : Planning Commission

Appendix-IX

Overall Plan Resources and its Funding

(As a percentage of GDP)

	Overall Plan Resources	State's Own Non-Debt Contribution	Revenue Plan Transfers from Centre	Net Debt Receipts
V Plan	4.3	1.2 (27.9)	1.1 (25.6)	2.0 (46.5)
VI Plan	5.1	0.6 (11.8)	1.5 (29.4)	3.0 (58.8)
VII Plan	5.1	0.4 (7.8)	1.7 (33.3)	3.0 (58.9)
VIII Plan	4.2	0.0 (0.0)	1.6 (38.1)	2.6 (61.9)
IX Plan	3.7	(-)1.5 (-)40.5)	1.2 (32.4)	4.0 (108.1)

Note : Figures in parentheses indicate percentage share in overall plan resources
Source : Reserve Bank of India (RBI) documents on state finances

Appendix-X

Ranking of Indian States Based on HDI

States	Shiva Kumar		Tilak		Pal and Pant	
	HDI	Rank	HDI	Rank	HDI	Rank
Punjab	0.586	2	0.744	2	0.793	1
Kerala	0.651	1	0.775	1	0.769	2
Haryana	0.514	4	0.624	4	0.724	3
Maharashtra	0.532	3	0.655	3	0.711	4
Gujarat	0.465	8	0.566	5	0.678	5
Tamil Nadu	0.483	5	0.508	6	0.652	6
West Bengal	0.457	7	0.436	8	0.641	7
Karnataka	0.475	6	0.502	7	0.639	8
Assam	0.372	10	0.26	10	0.608	9
Andhra Pradesh	0.397	9	0.361	9	0.589	10
Rajasthan	0.347	12	0.246	11	0.565	11
Madhya Pradesh	0.344	13	0.196	13	0.543	12
Uttar Pradesh	0.292	15	0.110	15	0.530	13
Orissa	0.348	11	0.224	12	0.529	14
Bihar	0.306	14	0.147	14	0.503	15

Source : B.G. Jandhyala Tilak (1991) “Human Development Index for India” IASSA Quarterly 10(2) .

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