

# **FOURTEENTH FINANCE COMMISSION (2015-2020)**

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



**Centre for Economic Policy & Public Finance  
Asian Development Research Institute**



**ADVOCACY PAPER**

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**PART-A**

**BRIEF RECOMMENDATIONS  
BY  
THE FOURTEENTH FINANCE COMMISSION**

## **RECOMMENDATIONS BY THE FOURTEENTH FINANCE COMMISSION**

### **IMPLICATIONS FOR BIHAR**

In keeping with the constitutional mandate, the Finance Commission assesses and recommends the distribution of total gross revenue of the central government first between the union and states, called ‘vertical devolution’ and then makes ‘horizontal allocations’ of the divisible pool of taxes across the states. In determining horizontal devolution, the Finance Commission, guided by the principle of equalisation, has to assess the fiscal capacity of the states and their fiscal needs, including the costs of providing equal level of public goods and services. In this background, the present note describes the recommendations of the Fourteenth Finance Commission (FC14), with reference to Bihar.

#### **Tax Devolution**

##### Vertical Devolution

The FC14 viewed that the tax devolution should be the primary route of transfer of resources to the states, since it is formula-based and thus conducive to sound fiscal federalism. The Commission observed that the states need to be supplemented by grants-in-aid on an assured basis and in a fair manner to the extent that formula-based transfers do not meet the needs of specific states. The FC14 recommended that the share of divisible pool in the gross revenue of the central government should be 42 percent, increasing it from 32 percent, as recommended by the FC13. They observed that this would serve the twin objectives of increasing the flow of unconditional transfers to the states and yet leave appropriate fiscal space for central government to carry out specific purpose transfers to the states.

##### Horizontal Sharing

The FC14 was of the view that the recommended devolution formula attempts to mitigate the impact of differences in fiscal capacity and cost disability among states. The approach suggested for horizontal distribution is as under :

Population and Demographic Change : Bound by the Terms of Reference, the FC14 assigned a weight of 17.5 percent to 1971 population. However, it also assigned a weight of 10.0 percent to 2011 population to capture the effect of demographic changes since 1971.

Area : As adopted by the FC12, the FC14 put a weight of 15.0 percent to the area, with a floor limit of 2.0 percent for the smaller states.

Forest Cover : The FC14, as per its Terms of Reference, has recognised that the states have an additional responsibility towards management of environment, while creating conditions for sustained economic growth and development. Towards this, the Commission had identified area under forest as an indicator of the extent of environmental responsibility of the states, and it was assigned a weight of 7.5 percent.

Income Distance : The Commission, unlike FC13, reverted to the method of representing fiscal capacity in terms of distance of actual per capita income of a state from the state with the highest per capita income and assigned it a weight of 50.0 percent. The Commission calculated the income distance following the method adopted by FC12.

Based on the criteria and weights mentioned above, Bihar's inter-se share is 9.665 percent which is less than 10.917 percent recommended by the FC13 and 11.028 percent by the FC12. This indicates a steady decrease in the share of Bihar over the years. Again, in service tax, Bihar's share has been fixed at 9.787 percent by the FC14, as against 11.089 percent and 11.173 percent by the FC13 and FC12 respectively (**Appendix-I**).

### **Comparison of Criteria and Weights with earlier Commissions**

The criteria and weights assigned by FC14 along with three earlier FCs for the inter-se distribution of the divisible pool of taxes among the states are summarised as under :

### Criteria and Weights adopted by Different Finance Commissions

Criteria	FC11	FC12	FC13	FC14
1. Population	10.0	25.0	25.0	17.5
2. Demographic change	—	—	—	10.0
3. Income Distance	62.5	50.0	—	50.0
4. Area	7.5	10.0	10.0	15.0
5. Index of Infrastructure	7.5	—	—	—
6. Tax Effort	5.0	7.5	—	—
7. Fiscal Discipline	7.5	7.5	17.5	—
8. Fiscal Capacity Distance	—	—	47.5	—
9. Forest Cover	—	—	—	7.5
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Taking into account a variety of factors including the historical trends and demands from the states, the FC14 laid emphasis on income distance criterion and accorded a weightage of 50.0 percent which is equal to the weight given by FC12, but less than the weight given by FC11 (62.5 percent). It appears that the Commission has just followed the FC12 in according the weightage to income, rather than following the equalisation principle more strongly. The Government of Bihar had suggested a weight of 70.0 percent to the income distance. As regards population, despite repeated demands from many of the states including Bihar, FC14 took into account the 1971 population figures for deciding devolution of funds and accorded a weightage of 17.5 percent to it. Fortunately however, as mentioned in the ToR, the Commission also considered the demographic changes since 1971 and accorded a weight of 10.0 percent to the 2011 population. Area, which was used by the earlier Commissions, has also been retained by FC14, but with a higher weightage of 15.0 percent. Recognising the need to manage environment for sustainable economic development, from among various factors, the FC14 opted forest cover as an indicator of environmental responsibility and accorded 7.5 percent weightage to it for the devolution formula. This obviously puts Bihar into disadvantage, as the forest area in the state was extremely limited.

### Grants-in-Aid

#### Local Governments

- The FC14 recommended distribution of grants to the states for Local Bodies using two criteria — 2011 population (weightage of 90.0 percent) and area (weightage of 10.0 percent).

The total grant to each state is to be divided into two parts – a grant to duly constituted Gram Panchayats and a separate grant to duly constituted municipalities, based on rural and urban population of that state (2011).

- Bihar has been given a weight of 7.946 percent for population and 0.297 percent for area, making a total of 8.243 percent for the state.
- The Commission worked out the total size of the grant to be Rs. 2,87,436 crore for the five year period of 2015-20, implying an assistance of Rs. 488 per capita per annum at an aggregate level. Of this, the grant recommended to Gram Panchayats is Rs. 2,00,292.20 crore and that to the municipalities is Rs. 87,143.80 crore.
- The grants recommended for duly constituted Gram Panchayats and municipalities are in two parts – a basic grant and a performance grant. In case of Gram Panchayats, 90 percent of grant will be the basic grant and 10 percent for the performance grant. However, in case of municipalities, the division between basic and performance grant will be on 80:20 basis.
- Based on this, Bihar has been recommended a basic grant of Rs. 18,916.05 crore for rural local bodies and Rs. 2,140.99 crore for urban local bodies for the period 2015-20. Similarly, the performance grant for the period amounted to Rs. 2101.78 crore for the rural local bodies and Rs. 535.25 crore for urban local bodies. Thus, Bihar gets Rs. 23,694.07 crore as total grant to local bodies.

#### Disaster Management Fund

Based on past expenditure on disaster relief for the period 2006-07 to 2012-13, the Commission determined the corpus fund for disaster management for each state. Using the methodology of the FC13 to arrive at an aggregate corpus for all State Disaster Relief Funds (SDRF), the Commission recommended an amount Rs. 61,219 crore for the award period of five years and Bihar gets Rs. 2591 crore for this fund. The Commission also recommended that 10 percent of the SDRF would come from the respective state governments, the remaining 90 percent coming from the central government. Thus, Bihar will be getting Rs. 2,332 crore (90 percent) for its SDRF for the period 2015-20.

## Judicial System

The Commission has endorsed the proposal made by the states to strengthen the judicial system. Bihar is supposed to get a sum of Rs. 662.06 crore as grants-in-aid under this head.

### **Total Transfers to Bihar**

Based on the criteria and weights mentioned above, the total FC14 transfer to Bihar works out to Rs. 4,10,541.75 crore for the five year period 2015-20, the breakup of which is as follows:

<b>Sl. No.</b>	<b>Head</b>	<b>Amount (Rs. crore)</b>
1.	Total Share of Central Taxes	Rs. 383,853.62
2.	Local Bodies (Basic Grants)	Rs. 21,057.04
3.	Local Bodies (Performance Grants)	Rs. 2,637.03
4.	Disaster Relief Grant	Rs. 2,332.00
5.	Grant for Justice	Rs. 662.06
	<b>Total</b>	<b>Rs. 4,10,541.75</b>

Note : Details may be obtained from **Appendix Table-II**

The FC14 has assigned lesser weightage to income distance criteria compared to both the expectations of the poorer states, and the recommendation of FC12. It is also noteworthy that the FC14, instead of rewarding the states like Bihar for maintaining the fiscal discipline as was done by three previous FCs, has indeed penalised them by completely doing away with the criteria of fiscal discipline. In 2012-13, six states (Goa, Haryana, Himachal Pradesh, Kerala, Punjab and West Bengal) still registered revenue deficits of varying magnitudes. The states of Kerala and West Bengal have consistently incurred revenue deficits between 2004-05 and 2012-13. As regards fiscal deficits, a number of low-income states, such as Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Odisha, Rajasthan, Uttarakhand and Uttar Pradesh had fiscal deficits less than 3 percent of GSDP, as prescribed by the FRBM Act. These states suffer from large infrastructure deficits; yet they have been penalised for observing fiscal discipline by severely constraining spending on health, education and maintenance of infrastructure. On the other hand, 11 defaulting states have been recommended a total revenue deficit grant of Rs. 1,94,821 crore.



Again, in consideration of the need to balance the management of environment, consistent with sustainable economic development, the FC14 tried to address the problem by treating area under forest as an indicator of the intensity of the environmental problem in different states. This is as good as maintaining the untenable proposition that states with limited forest cover have only limited environmental responsibility. Bihar was a victim of this wrong proposition.

It appears that FC14, like earlier Commissions, failed to address the issue of equalisation in public services across states. The equity consideration should have been important for the Commission while making inter-governmental transfers. No attempt has been made to bridge the gaps in revenue raising capacities across the states and their cost incapacities. This would have been possible through allocation of significant weightage to equity based criterion of income distance.

The Commission also gave recommendations for grants-in-aid to states under Article 275 of the Constitution. The FC13 had suggested grants-in-aid to the states under 10 major heads — (i) Local Bodies, (ii) Disaster Relief, (iii) Post-devaluation non-plan revenue deficits, (iv) Performance incentive, (v) Elementary Education, (vi) Environment, (vii) Improving outcomes, (viii) Maintenance of Roads and Bridges, (ix) State-specific needs, and (x) Implementation of GST. On the contrary, the FC14 opted for grants-in-aid only under three major heads of (i) Local Bodies, (ii) Disaster Management Fund, and (iii) Judicial System. The FC14 has desisted from recommending state specific grants and suggested a separate institutional arrangement to be introduced for the purpose. The central government should start working on this for the betterment of disadvantaged states like Bihar.

In its Memorandum to the FC14, the Government of Bihar had identified some of the priority areas to remove the critical gap in the state's capacity for providing administrative services, promoting economic development and implementation of welfare programmes. By and large, these areas included Agriculture Road Map for the state, rural infrastructure, power, secondary education, social welfare, Administrative Training Institutes, Police Building, inter-linking of rivers and requested for specific grants. But all these have simply been ignored by the FC14. To make the situation worse, the BRGF has also been discontinued, which was quite helpful to the disadvantaged states like Bihar.

**Appendix-I : Inter se Shares of Major Indian States in the Net Proceeds of the Sharable**

States	14th Finance Commission		13th Finance Commission		12th Finance Commission	
	All Sharable Taxes excluding Service Tax	Share in Service Tax	All Sharable Taxes excluding Service Tax	Share in Service Tax	All Sharable Taxes excluding Service Tax	Share in Service Tax
Andhra Pradesh	4.31	4.40	6.94	7.05	7.36	7.45
Bihar	9.67	9.79	10.92	11.09	11.03	11.17
Chhattisgarh	3.08	3.17	2.47	2.51	2.65	2.69
Gujarat	3.08	3.17	3.04	3.09	3.57	3.62
Haryana	1.08	1.09	1.05	1.06	1.08	1.09
Jharkhand	3.14	3.20	2.80	2.85	3.36	3.41
Karnataka	4.71	4.82	4.33	4.40	4.46	4.52
Kerala	2.50	2.53	2.34	2.38	2.67	2.70
Madhya Pradesh	7.55	7.73	7.12	7.23	6.71	6.80
Maharashtra	5.52	5.67	5.20	5.28	5.00	5.06
Odisha	4.64	4.74	4.78	4.86	5.16	5.23
Punjab	1.58	1.59	1.39	1.41	1.30	1.32
Rajasthan	5.50	5.65	5.85	5.95	5.61	5.68
Tamil Nadu	4.06	4.10	4.97	5.05	5.31	5.37
Telangana	2.44	2.50	—	—	—	—
Uttar Pradesh	17.96	18.21	19.68	19.99	19.26	19.52
West Bengal	7.32	7.42	7.26	7.38	7.06	7.15
All States	100.00	100.00	100.00	100.00	100.00	100.00

**Appendix-II : Transfers Recommended by 14th Finance Commission (Rs. in Crore)**

Sl. No.	Particulars	2015-16	2016-17	2017-18	2018-19	2019-20	Total
<b>Total for all the States</b>							
A	Central Taxes	579,282.00	668,425.00	772,304.00	893,430.00	1,034,745.00	3,948,186.00
B	Service Taxes	256,116.00	303,721.00	360,174.00	427,119.00	506,508.00	1,853,638.00
	<b>(A-B)</b>	<b>323,166.00</b>	<b>364,704.00</b>	<b>412,130.00</b>	<b>466,311.00</b>	<b>528,237.00</b>	<b>2,094,548.00</b>
<b>Share of Bihar</b>							
	9.665% of Central Taxes Without Service Taxes	31,233.99	35,248.64	39,832.36	45,068.96	51,054.11	202,438.06
	9.787% of Service Taxes	25,066.07	29,725.17	35,250.23	41,802.14	49,571.94	181,415.55
	<b>Total Share of Central Taxes</b>	<b>56,300.07</b>	<b>64,973.82</b>	<b>75,082.59</b>	<b>86,871.09</b>	<b>100,626.04</b>	<b>383,853.62</b>
<b>Local Bodies Grant</b>							
<b>Basic Grant</b>							
(i)	Rural Local Bodies (RLB)	2,269.18	3,142.08	3,630.39	4,199.71	5,674.70	18,916.06
(ii)	Urban Local Bodies (ULB)	256.83	355.63	410.90	475.34	642.28	2,140.98
<b>Performance Grants</b>							
(i)	Rural Local Bodies (RLB)	–	412.5	466.41	529.67	693.55	2,101.78
(ii)	Urban Local Bodies (ULB)	–	104.96	118.78	134.89	176.62	535.25
<b>Others Grants</b>							
	Disaster Relief Grant to State	422.00	443.00	465.00	489.00	513.00	2,332.00
	Grant for Justice						662.06
<b>Total Finance Commissions Grants Including Taxes</b>		<b>59,248.08</b>	<b>69,431.64</b>	<b>80,174.07</b>	<b>92,699.70</b>	<b>1,08,326.19</b>	<b>4,10,541.75</b>

Source : Department of Finance, Government of Bihar



**PART-B**

**MEMORANDUM  
OF  
GOVERNMENT OF BIHAR  
TO  
THE FOURTEENTH FINANCE COMMISSION**

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## CHAPTER I

### INTRODUCTION

In the federal structure of the Indian Constitution, the central government collects more resources than it spends, just as the constituent state governments are able to mobilize less resources than they need. In this background, Article 280 of the Constitution mandates the formation of a Finance Commission which recommends the pattern of devolution of resources from the central to the state governments. An implicit consideration in these quinquennial Finance Commissions is that the distribution of resources between the central and state governments (vertical distribution) and that among the states (horizontal distribution) should be such that it promotes regional equality vis-à-vis economic development. It is also expected that the recommendations of the Finance Commission would be mindful of the overall objectives of national development strategy which, as per the Twelfth Plan document, are faster, sustainable and more inclusive growth; of these, it is the objective of inclusiveness that merits the maximum attention of the Finance Commission.

Regarding the regional development disparities in India, one should note that except for some initial years after independence, it has steadily widened over the years. In spite of some marginal reversal in that trend in recent years thanks, to the higher growth rate registered by some low-income states including Bihar, the present disparity levels are extremely high. Bihar, the most disadvantaged among all the states of India, enjoys a Per Capita Income (PCI) more than 50 percent of the national average and more than 20 percent of the PCI of Maharashtra, the richest among all major Indian states. At present, the share of Bihar in the national GDP is less than 3 percent, although its population accounts for 8.6 percent of country's total population. Very recently, the Raghuram Rajan Committee, constituted by the central government to prepare a 'Composite Development Index' for different states, has ranked the state as the second most backward one in India, next only to Odisha. The economic disadvantage of Bihar is understandably the result of both internal and external causes; but the state has recently been able to remove some of the internal constraints on growth process and register an annual growth rate of 10.3 percent for the period between 2005-06 and 2011-12. This has been achieved by a higher mobilization of internal resources by the state government at one end, and an emphasis on development-oriented expenditure on the other. However, to maintain this growth momentum in

the long run, the internal efforts of the state government need to be complemented by a conscious and progressive support of the central government. The Finance Commission recommendations are obviously one of the principal means through which the central government could help Bihar and other disadvantaged states to attain their development goals and, thereby, gradually reduce regional disparity in India.

### **1.1 Historical Perspective**

The discrimination that Bihar has suffered has a long history, starting from the colonial period and continuing even after independence. During the colonial period, the overall Indian economy had indeed stagnated, but a few enclaves that the British had cared to develop were port cities or defence centres. Unfortunately, being a land-locked state and without any major defence station, Bihar remained one of the poorest regions of colonial India. Even as early as 1930, a Memorandum of the Indian Statutory Commission on the "Working of the Reforms in Bihar and Orissa" presented by then Bihar Government noted that the standard expenditure in Bihar and Orissa (worked out on the basis of actual expenditure prior to 1912) was only Rs. 8 lakh per million of the population, compared to Rs. 13 lakh per million of the population in Bengal. It must be noted that the expenditure on administration in Bengal itself was the lowest in British India, both Bombay and Madras presidencies recording much higher levels of expenditure. Bihar was, thus, accorded the lowest priority by the colonial administration, leading to huge institutional deficiency for governance.

A second important factor that led to the backwardness of Bihar during the colonial period was the character of land settlement in the region, viz. the Permanent Settlement; in most other parts of India, the British had opted for Ryotwari Settlement, which implied a direct relation between the cultivator and the state. The Permanent Settlement areas were characterized by the institution of landlords, or Zamindars, who acted as the middlemen between the cultivators and the state. The Zamindars, whose sole interest was to extract the rent, were wholly oblivious of agricultural growth and any social development. The system was also devoid of any incentive structure for generation of agricultural surplus that could become the basis for primary accumulation to start with, and later an impetus for the diversification of the subsistence agricultural economy. Thus, Permanent Settlement ensured that Bihar, in spite of its fertile soil and mineral resources (now falling in Jharkhand), became a typical 'colonial hinterland', providing only raw materials and

labour supply for the rest of India. The lack of industrialization of Bihar (except for the steel plant of the Tata group in Jamshedpur) was a consequence of an explicit colonial policy towards maintaining this region as a feeder economy to the main centres of colonial capitalism. Unfortunately, attempts at land reforms after independence remained a partially fulfilled promise due to impediments raised by strong vested interests.

Even after independence, the development strategy of the central government had implied continued negligence of the economic interest of Bihar. Among others, one policy of the central government that had the most negative impact on the economic development of Bihar was the Freight Equalisation Policy, which ensured that the two basic inputs for industrialization (coal and steel) were available throughout the country at the same price, ignoring their freight costs. This policy forestalled any prospect of economic growth of Bihar through investments, either local or from outside the state. It actually accentuated the extant inequality in regional distribution of industrial growth, through a deliberate and serious distortion of the comparative cost advantage of Bihar, using freight equalized basic inputs for industrialization throughout the country. For obvious reasons, the policy facilitated the process of industrial agglomeration in those regions of the country which were already industrialized. At one end, the already industrially developed regions did not have to face the cost disabilities owing to their distance from the location of sources of key inputs and, on the other, regions like Bihar had to face the historical disadvantage of having poor industrial infrastructure.

For steel alone, the estimated direct financial loss to Bihar for the 40-year period (1951-90) was Rs. 4529 crore at 1982-83 prices. At current prices, it would be at least six times, about Rs. 27,000 crore. The second component of financial loss is due to most steel industries choosing to be located outside Bihar and consequently, industries with strong forward linkage also being set up outside Bihar. With reasonable assumptions, this loss of lost investment in Bihar is estimated to be Rs. 1,35,000 crore, again at current prices. Putting together, the total loss to Bihar due to freight equalisation in steel is estimated to be about Rs. 162 thousand crore. If one further adds the loss due to freight equalisation in coal, the aggregate loss would be even higher.

Although the policy was withdrawn in 1993, after the liberalization of the Indian economy, the industrial agglomeration bias continued thereafter in the absence of any policy which could

compensate for decades of discrimination against Bihar. Thus, even in the post-liberalisation era, the gap between Bihar and the rest of India vis-à-vis industrial growth further widened, as its capacity for raising internal resources remained limited due to the vicious circle of 'low growth low investment'. Admittedly, with the bifurcation of the state, those valuable mineral resources are all with Jharkhand, but the fiscal and institutional capacity of present Bihar would have been stronger, if united Bihar had experienced much faster industrial growth in the past.

Yet another discriminatory face of central government policies is the nature of public investment, both by plan allocation to Bihar and direct investment by the central government in Bihar. To take the plan allocation first, the actual allocations to Bihar were much less than the projected plan allocations on the basis of national average for all Plans, up to the Eleventh one (Table 1.1). The total loss to Bihar on this account is a staggering Rs. 577.24 thousand crore. As regards the discrimination against Bihar in terms of direct central investment, Table 1.2 present the share of Bihar in total direct central investment for the recent years ( 2004-05 to 2009-10), as an illustration. Surprisingly, this share was not only abysmally low (1.39 percent) in 2004-05, but over the years, it has decreased further to be even lower (0.65 percent) in 2009-10. For a state that accounts for more than 8 percent of country's population, this share is grossly unjust. It is, therefore, not surprising that the gap between the PCI in Bihar and India has continuously increased, save in the recent years when the gap has narrowed down, thanks to the high growth performance of Bihar economy as a result of state government's own efforts.

Finally, the last blow was given to the economy of Bihar when the erstwhile larger state was bifurcated in 2000. Demographically, the present Bihar has 75 percent of population of the erstwhile Bihar, but only 54 percent of the land area, resulting in a severe deterioration of the land-man ratio. At present (2011), the density of population in Bihar is 1102 persons/sq.km, nearly three times the national average of 382 persons/sq.km. In addition, nearly the entire mineral wealth and industrial units also went to Jharkhand, making the present Bihar an essentially agrarian economy. The level of urbanization in Bihar is only 11.3 percent, compared to the national average of 31.2 percent. Further, the distribution of public assets between Bihar and Jharkhand was done on as-is-where-is basis, implying a share of only 25 percent for Bihar; in contrast, the liabilities of the state were distributed on population basis, implying a share of 75 percent for present Bihar. As a result, the process of bifurcation meant a heavy loss for present

Bihar. To make the situation even worse, a relief package that was promised to the state by the central government never materialized.

## **1.2 State of Economy**

The medium term growth rate of Bihar economy (2005-06 to 2011-12) has been very satisfactory at 10.3 percent (Table 1.3). This covers the entire Twelfth Plan period, in addition to last two years of the previous Plan. This was indeed a turnaround for the state's economy, which had grown at barely 5.7 percent during the Tenth Plan period. As a consequence of this faster development, the gap between the Per Capita Income (PCI) of Bihar and that of India had narrowed down over the period. In 2005-06, the PCI in Bihar was only 29.8 percent of the national average; by 2011-12, this increased to 50.8 percent. Such a revival of the state's economy could be possible because of a substantial increase in the development expenditure by the state government at one hand, and its supplementary efforts for effective governance in several fields, on the other.

The sectoral composition of this buoyant growth process in Bihar has also been very encouraging. Among the three broad sector groups, it is the secondary sector that had registered the highest growth rate of 17.6 percent, followed by the tertiary sector (11.1 percent) and the primary sector (4.3 percent). Within the secondary sector, the registered manufacturing, after stagnation for years, had started growing since 2008-09 and, for the medium term, its growth rate was as high as 40.3 percent. Construction, another component of the secondary sector, had also grown at a very impressive rate of 21.4 percent. The development expenditure by the state government had played an important role for the growth of construction activities in Bihar. Two major contributors to the overall growth of the tertiary sector were communications (26.8 percent) and banking / insurance (16.5 percent). Finally, within the primary sector, it is also encouraging to note that the growth rate of agriculture (along with animal husbandry) has been 5.0 percent, much above the national average of around 3.2 percent. Such an encouraging growth of agricultural sector was possible because of a spurt in the last two years.

Besides increasing the income of the people, this strong growth process of Bihar economy had other expected positive impacts. For one, the availability of physical infrastructure in the state is now higher, particularly in terms of roads. The power sector in Bihar had grown at a moderate rate of 7.8 percent in recent past, but with the completion of ongoing projects in near future and

already restructured power administration, the power scenario too will improve in near future. As detailed later, yet another transformation of Bihar economy in recent years has been in the arena of state finances, both in terms of resource mobilization and prudent expenditure patterns. Finally, Bihar has also experienced notable achievements in various social sectors like education and health. However, these achievements are not adequate to offset the economic and social disadvantages of the state, a result of a long historical process of discrimination. Thus, with respect to most of the indicators of development, Bihar still lies at the bottom or near to it in comparison to the other states of India. Since Finance Commission recommendations are one of the principal instruments for removing or narrowing down regional disparities, we discuss below the relative position of Bihar among the major Indian states in terms of some chosen indicators of social and economic development.

### **1.3 Relative Status of Development in Bihar**

The growth rate of Bihar's economy in the medium term, as mentioned before, was very high at 10.3 percent, implying a growth rate of 8.7 percent for Per Capita Income (PCI). Since this growth rate was substantially higher than the national growth rate, it has reduced the gap between the PCIs of Bihar and India. But, unfortunately, in spite of this fast progress, the PCI in Bihar in 2011-12 was only Rs. 14,634 (at 2004-05 prices), the lowest among the 16 major states in country; the PCI for Maharashtra, the richest state, stood at Rs. 62,457, more than four times the PCI for Bihar.

An obvious consequence of the buoyant growth process in Bihar has been the reduction in poverty ratios. Between 2004-05 and 2011-12, the reduction in overall poverty ratio in Bihar was 20.7 percentage points, only Odisha outstripping this performance, with a drop of 24.6 percentage points. It is also encouraging to note here that both in Bihar and Odisha, the reduction in poverty ratios was mainly due to the reduction in rural poverty ratios, where the problem of absolute poverty is much deeper. But here again, in spite of this appreciable performance, the overall poverty ratio in Bihar in 2011-12 was as high as 33.7 percent, only Chhattisgarh (39.9 percent) and Jharkhand (37.0 percent) recording poverty ratios higher than Bihar.

As a comprehensive measure of overall development in different states, the Planning Commission has been computing the Human Development Index (HDI), at the beginning of each decade, starting from 1991. Between 2001 and 2011, the HDI for Bihar has increased by 0.080 (from



0.367 to 0.447), compared to an increase of .032 for India as a whole (from 0.472 to 0.504). This is again an appreciable progress for Bihar, but it still ranks 15th in terms of HDI, among the 16 major states in India, only Odisha ranking a step lower.

The gains in human development in Bihar are indeed very pervasive, covering three different dimensions of income, education and health. Having discussed the income against earlier, one may note here that in case of education, Bihar was able to register the highest decadal increase in literacy rate (16.8 percentage points) between 2001 and 2011, compared to the national average of 9.2 percentage points. But, unfortunately, again, the literacy rate in Bihar (63.8 percent) is still the lowest among the major Indian states, a clear 10.2 percentage point below the national average (74.0 percent). As regards the health of the population, the relative status of Bihar was relatively better even in the past and, in recent years, it had made further progress in terms of all indicators— Infant Mortality Rate (IMR), Maternal Mortality Rate (MMR) and Life Expectancy at Birth (LEB). In 2011, the IMR in Bihar was 44, sixth lowest in the country; during 2007-09, the MMR in Bihar was 261, fifth lowest in India; and during 2006-10, the LEB in Bihar was 65.8 years, fourth lowest in India. For all these indicators, the progress in the recent past was substantial, particularly the increase in LEB of the population.

In contrast to the achievements in the income, education and health, the progress in infrastructural facilities has been much slower in Bihar in recent years. For example, the Per Capita Consumption of Electricity in Bihar has increased from 85.9 kwh (2005-06) to only 122.1 kwh (2009-10), this being the lowest among all the major Indian states in both the years. Lack of power, it must be noted, is a major constraint not only for industrial development of the state, but for its agricultural base as well, since groundwater-based irrigation are presently more important.

In case of roads, another important component of physical infrastructure, the progress is even slower. Between 2006 and 2011, the road length per 100 sq. km. has increased only marginally from 127.6 kms to 138.7 kms; in view of high population growth in Bihar, it is not surprising that the road length per 1 lakh of population has indeed 'decreased' during the period. In sharp contrast, at the national level, the road length per 100 sq. km. has increased substantially from 91.7 kms. to 142.7 kms, between 2006 and 2011, with a corresponding increase in road length per 1 lakh of population. Apart from physical infrastructure, the steady growth of an economy also requires adequate social infrastructure like schools, hospitals and the like. Unfortunately, Bihar also suffers

severely in terms of social infrastructure. For example, in spite of having the least literacy rate, Bihar had only 55.8 primary schools per 1 lakh of population in 2005-06, which increased moderately to 67.1 schools in 2011-12. This endowment is much smaller than the national average, which was 85.5 primary schools (2005-06) and 92.0 primary schools (2011-12).

The banking infrastructure, though not a part of physical infrastructure, is an equally significant pre-requisite for sustained economic development. Admittedly, the development of the banking infrastructure is not a responsibility of the state government, but its low penetration poses serious challenges for the Bihar economy. Among all the major Indian states, the spread of banking is the least in Bihar and, over the years, the gap has indeed been widening. In 2011-12, there were only 43 bank branches per 10 lakh population in Bihar, compared to 79 branches for India as a whole. This infrastructural disadvantage is accentuated further when one notes that the Credit-Deposit (CD) ratio for banks in Bihar is only 37 percent (2011-12), the lowest in India. For the entire country, the CD ratio stands at a much higher level (78 percent). Thus, the banking sector in Bihar actually operates as a mechanism for transferring its limited investible surplus to other states.

The above discussion on the relative status of development in Bihar clearly leads to the conclusion that in spite of substantial economic and social progress in the recent past, the state still remains at the bottom in terms of most indicators of development. In the past, successive Finance Commissions have often been reluctant to recommend higher devolution of central resources to the state on the ground that the latter was not able to utilize its resources effectively to promote growth. But the recent growth performance of the Bihar economy completely negates that argument and the state government expects that the present Finance Commission would factor its growth performance in making its recommendations. Such an approach would not only help Bihar to continue its growth momentum, but would also help reduce the regional disparities in India, one of the core functioning of Finance Commissions.

#### **1.4 Chapter Plan**

After this introductory chapter, the Memorandum presents the Status of State Finances in Bihar, using the data for last 7 years (2005-06 to 2011-12). This relates to the 5 years of FC12 and first 2 years of FC13. For the analysis, the chosen dimensions of state finances are — Resource Mobilisation, Expenditure Management, FRBM Act and Deficit Management, Debt Position and Central Devolution (Chapter II).



The recommendations of the present Finance Commission would cover last 2 years of the Twelfth Five Year Plan (2012-17) and first 2 years of the next Five Year Plan. One can safely assume that the three major goals of Twelfth Plan — faster, sustainable and more inclusive growth — will be carried forward to the next Plan as well. Situated as of now in the lowest rung of development, these three goals are even more important for Bihar than for most other states, particularly the inclusiveness of the growth process. The state's own perspective on such an inclusive growth process is, thus, presented in the next Chapter, encompassing its 5 critical dimensions — Physical Infrastructure, Agriculture Road Map, Manav Vikas Mission, Skill Development, Panchayati Raj Institutions and Social Welfare (Chapter III).

The recent growth performance, status of state finances and the perspective on inclusive growth together form the basis of the expectations of the state government from the present Finance Commission (Chapter IV). Besides presenting the suggestions of the state government for vertical and horizontal distribution of resources, the chapter also proposes 'Equalisation of Per Capita Development Expenditure' as a basis for horizontal distribution and then presents an estimate for the resource gap in Bihar, if the above criterion is adopted. Under the Grants-in-Aid, the Finance Commission also allocates resources for some State-specific Needs. The chapter also presents a list of state-specific projects, for which the state government expects funds from the present Finance Commission.

A sizeable Calamity Relief Fund is essential for all states to meet the challenges of calamities, natural or otherwise, without straining its development expenditure. The Fund is even more essential for Bihar which is far more vulnerable to natural calamities, particularly floods. In Chapter V, the Memorandum presents an account of the recent calamities in Bihar, the financial burden caused by those calamities for the state government, and its suggestions for strengthening the Fund.

In the penultimate chapter, the Memorandum focusses on Grants to Local Bodies, yet another head under Grants-in-Aid by the recent Finance Commissions. Through a number of legislative and administrative steps of the state government, the local bodies in Bihar, both Panchayati Raj Institutions (PRI) and Urban Local Bodies (ULB), are now quite vibrant and are in need of substantial capacity building measures and resource support. The details of the PRIs and ULBs are presented in Chapter VI which would help the Finance Commission to judge the resource needs of this important institution.

**Table 1.1 : Plan Allocation to Bihar: First to Eleventh Plan**

(Rs. 000' crore)

Plan	Allocation to Bihar		Gap between Actual and Allocation based on National Average	
	Actual	On the basis of national average	At Current Prices	At 2011-12 Prices
First (1951-56)	0.10	0.42	0.32	16.82
Second (1956-61)	0.19	0.47	0.27	16.76
Third (1961-66)	0.34	0.79	0.46	22.71
Fourth (1969-74)	0.53	1.70	1.17	31.64
Fifth (1974-79)	0.37	2.73	2.36	36.38
Sixth (1980-85)	3.23	10.37	7.15	94.41
Seventh (1985-90)	5.10	18.78	13.68	116.34
Eighth (1992-97)	13.00	18.61	5.61	25.12
Ninth (1997-2002)	16.68	36.85	20.17	53.80
Tenth (2002-07)	21.00	46.97	25.97	47.21
Eleventh (2007-12)	60.63	141.20	80.57	116.04
Total	121.17	278.91	157.73	577.24

**Table 1.2 : Direct Investments by Central Government in Bihar and India (2004-05 to 2009-10)**

(Rs. 000' crore)

Year	Direct Investment by Central Government				Share of Bihar in India
	Bihar		India		
	Investment	Annual Growth	Investment	Annual Growth	
2004-05	3.33	–	240.58	–	1.39
2005-06	3.61	8.3	293.35	21.9	1.23
2006-07	3.70	5.4	356.56	21.7	1.04
2007-08	3.85	4.9	441.92	22.5	0.87
2008-09	3.74	2.9	529.23	21.8	0.71
2009-10	3.90	3.2	601.62	20.1	0.65

**Table 1.3 : GSDP of Bihar (2004-05 prices)**

(Rs crore)

Sector		2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12 (P)	Growth Rate
Agriculture/Animal Husbandry		19299	24578	22769	25435	22076	26368	29314	5.0
Forestry / Logging		2671	2612	2558	2511	2462	2414	2366	-2.0
Fishing		1183	1105	1188	1273	1259	1223	1458	3.2
Mining/Quarrying		70	58	57	126	92	91	89	7.7
<b>Sub-Total (Primary)</b>		<b>23224</b>	<b>28353</b>	<b>26572</b>	<b>29345</b>	<b>25888</b>	<b>30096</b>	<b>33227</b>	<b>4.3</b>
Manufacturing		4106	4369	5448	6535	6270	7698	8384	13.0
5.1	Registered	622	516	1155	2262	1931	3150	40.3	40.3
5.2	Un-registered	3484	3853	4293	4273	4339	4548	4.5	4.5
Construction		6374	7962	9446	10745	13511	18156	19955	21.4
Electricity / Water Supply / Gas		1189	1247	1341	1466	1657	1706	1851	8.0
<b>Sub-Total (Secondary)</b>		<b>11668</b>	<b>13578</b>	<b>16235</b>	<b>18745</b>	<b>21438</b>	<b>27560</b>	<b>30190</b>	<b>17.6</b>
Transport / Storage / Communication		5105	5776	6322	6957	8738	10512	11240	14.9
8.1	Railways	1609	1845	2016	2043	2201	2340	7.2	7.2
8.2	Other Transport	2065	2246	2408	2701	2857	3270	10.1	10.1
8.3	Storage	61	68	75	82	87	95	8.7	8.7
8.4	Communication	1371	1617	1824	2131	3594	4807	26.8	26.8
Trade / Hotel / Restaurant		14862	18030	20493	23233	25408	27944	32065	12.9
<b>Sub-Total (8 and 9)</b>		<b>19968</b>	<b>23806</b>	<b>26815</b>	<b>30191</b>	<b>34147</b>	<b>38456</b>	<b>43305</b>	<b>13.4</b>
Banking / Insurance		2941	3513	3915	4205	5266	6304	7495	16.5
Real Estate/ Ownership of Dwelling/Business Services		4403	4819	5270	5788	6343	6834	7486	9.2
<b>Sub-Total (10 and 11)</b>		<b>7343</b>	<b>8332</b>	<b>9185</b>	<b>9993</b>	<b>11608</b>	<b>13138</b>	<b>14981</b>	<b>12.4</b>
Public Administration		5107	5153	5284	6525	6872	7492	7691	8.3
Other Services		10598	10873	11183	12058	13294	13530	14754	5.9
<b>Sub-Total (Tertiary)</b>		<b>43016</b>	<b>48164</b>	<b>52467</b>	<b>58766</b>	<b>65921</b>	<b>72617</b>	<b>80732</b>	<b>11.1</b>
<b>Total GSDP</b>		<b>77908</b>	<b>90095</b>	<b>95274</b>	<b>106857</b>	<b>113247</b>	<b>130272</b>	<b>144149</b>	<b>10.3</b>
Per Capita GSDP		<b>8637</b>	<b>9832</b>	<b>10237</b>	<b>11311</b>	<b>11815</b>	<b>13404</b>	<b>14634</b>	<b>8.7</b>

**Table 1.4 : Per Capita NSDP (2004-05 Prices) (Rs) for Major Indian States**

(Rupees)

State	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	CAGR
Andhra Pradesh	27486 (8)	30114 (8)	33239 (8)	35272 (8)	36303 (8)	39434 (8)	42119 (7)	7.1
<b>Bihar</b>	7748 (16)	8896 (16)	9231 (16)	10239 (16)	10645 (16)	12100 (16)	13226 (16)	8.8
Chhattisgarh	18530 (11)	21580 (10)	22929 (10)	23926 (10)	24189 (11)	25788 (11)	26979 (11)	5.6
Gujarat	36102 (3)	38568 (4)	42498 (3)	43685 (3)	49168 (3)	53789 (3)	57508 (3)	8.2
Haryana	40627 (2)	44423 (2)	47046 (2)	49780 (2)	55044 (1)	58376 (2)	62078 (2)	7.3
Jharkhand	17406 (13)	17427 (13)	20996 (13)	19866 (13)	21534 (13)	24330 (12)	25634 (12)	6.8
Karnataka	29295 (7)	31967 (7)	35574 (7)	37687 (7)	37294 (7)	40699 (7)	41959 (8)	5.9
Kerala	34837 (4)	37284 (5)	40288 (5)	42433 (5)	45921 (5)	49391 (5)	53877 (5)	7.4
Madhya Pradesh	15927 (14)	17073 (14)	17572 (14)	19462 (14)	21029 (14)	22091 (14)	24395 (13)	7.3
Maharashtra	40671 (1)	45582 (1)	50138 (1)	51083 (1)	54246 (2)	59037 (1)	62457 (1)	7.0
Odisha	18194 (12)	20194 (12)	21640 (12)	22963 (12)	22846 (12)	23875 (13)	24134 (14)	4.5
Punjab	34096 (6)	37087 (6)	39567 (6)	41003 (6)	42831 (6)	44769 (6)	46364 (6)	5.0
Rajasthan	19445 (10)	21342 (11)	21922 (11)	23356 (11)	24304 (10)	27625 (10)	28851 (10)	6.7
Tamil Nadu	34126 (5)	39166 (3)	41314 (4)	43193 (4)	47394 (4)	53507 (4)	57131 (4)	8.6
Uttar Pradesh	13445 (15)	14241 (15)	14875 (15)	15713 (15)	16390 (15)	17388 (15)	18217 (15)	5.2
West Bengal	23808 (9)	25400 (9)	27094 (9)	27914 (9)	29799 (9)	31415 (9)	33117 (9)	5.5
<b>India (Per Capita NNP)</b>	<b>26015</b>	<b>28067</b>	<b>30332</b>	<b>31754</b>	<b>33901</b>	<b>36342</b>	<b>38037</b>	6.5
Percentage share of Bihar's PCI to Per capita income of India	29.8	34.2	35.5	39.4	40.9	46.5	50.8	

Source: Directorate of Economics & Statistics of respective State Governments  
Central Statistics Office (for All India)

**Table 1.5 : Poverty Ratio of Major Indian States**

State	2004-05			2009-10			2011-12		
	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total
Andhra Pradesh	32.3	23.4	29.9	22.8	17.7	21.1	11.0	5.8	9.2
<b>Bihar</b>	<b>55.7</b>	<b>43.7</b>	<b>54.4</b>	<b>55.3</b>	<b>39.4</b>	<b>53.5</b>	<b>34.1</b>	<b>31.2</b>	<b>33.7</b>
Chhattisgarh	55.1	28.4	49.4	56.1	23.8	48.7	44.6	24.8	39.9
Gujarat	39.1	20.1	31.8	26.7	17.9	23.0	21.5	10.1	16.6
Haryana	24.8	22.4	24.1	18.6	23.0	20.1	11.6	10.3	11.2
Jharkhand	51.6	23.8	45.3	41.6	31.1	39.1	40.8	24.8	37.0
Karnataka	37.5	25.9	33.4	26.1	19.6	23.6	24.5	15.3	20.9
Kerala	20.2	18.4	19.7	12.0	12.1	12.0	9.1	5.0	7.1
Madhya Pradesh	53.6	35.1	48.6	42.0	22.9	36.7	35.7	21.0	31.7
Maharashtra	47.9	25.6	38.1	29.5	18.3	24.5	24.2	9.1	17.4
Odisha	60.8	37.6	57.2	39.2	25.9	37.0	35.7	17.3	32.6
Punjab	22.1	18.7	20.9	14.6	18.1	15.9	7.7	9.2	8.3
Rajasthan	35.8	29.7	34.4	26.4	19.9	24.8	16.1	10.7	14.7
Tamil Nadu	37.5	19.7	28.9	21.2	12.8	17.1	15.8	6.5	11.3
Uttar Pradesh	42.7	34.1	40.9	39.4	31.7	37.7	30.4	26.1	29.4
West Bengal	38.2	24.4	34.3	28.8	22.0	26.7	22.5	14.7	20.0
<b>India</b>	<b>41.8</b>	<b>25.7</b>	<b>37.2</b>	<b>33.8</b>	<b>20.9</b>	<b>29.8</b>	<b>25.7</b>	<b>13.7</b>	<b>21.9</b>

Source: Planning Commission, Government of India

**Table 1.6 : Human Development in Major States of India**

State	1991		2001		2011	
	Value	Rank	Value	Rank	Value	Rank
Andhra Pradesh	0.377	9	0.416	10	0.485	9
<b>Bihar</b>	<b>0.308</b>	<b>14</b>	<b>0.367</b>	<b>14</b>	<b>0.447</b>	<b>15</b>
Chhattisgarh	NA	NA	NA	NA	0.449	14
Gujarat	0.431	6	0.479	6	0.514	6
Haryana	0.443	5	0.509	5	0.545	4
Jharkhand	NA	NA	NA	NA	0.464	12
Karnataka	0.412	7	0.478	7	0.508	8
Kerala	0.591	1	0.638	1	0.625	1
Madhya Pradesh	0.328	12	0.394	12	0.451	13
Maharashtra	0.452	4	0.523	4	0.549	3
Odisha	0.345	11	0.404	11	0.442	16
Punjab	0.475	2	0.537	2	0.569	2
Rajasthan	0.347	10	0.424	9	0.468	10
Tamil Nadu	0.466	3	0.531	3	0.544	5
Uttar Pradesh	0.314	13	0.388	13	0.468	11
West Bengal	0.404	8	0.472	8	0.509	7
<b>India</b>	<b>0.381</b>		<b>0.472</b>		<b>0.504</b>	

**Table 1.7 : Literacy Rates of Major Indian States**

State	2001			2011			Decadal Increase		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Andhra Pradesh	70.3	50.4	66.6	75.6	59.7	67.7	5.2	9.3	1.0
<b>Bihar</b>	<b>59.7</b>	<b>33.1</b>	<b>47.0</b>	<b>73.4</b>	<b>53.3</b>	<b>63.8</b>	<b>13.7</b>	<b>20.2</b>	<b>16.8</b>
Chhattisgarh	77.4	51.9	64.7	81.5	60.6	71.0	4.1	8.7	6.4
Gujarat	79.7	57.8	69.1	87.2	70.7	79.3	7.6	12.9	10.2
Haryana	78.49	55.73	67.9	85.4	66.8	76.6	6.9	11.0	8.7
Jharkhand	67.3	38.87	53.6	78.5	56.2	67.6	11.2	17.3	14.1
Karnataka	76.1	56.87	60.5	82.9	68.1	75.6	6.8	11.3	15.1
Kerala	94.24	87.72	90.9	96.0	92.0	93.9	1.8	4.3	3.1
Madhya Pradesh	76.06	50.29	63.7	80.5	60.0	70.6	4.5	9.7	6.9
Maharashtra	85.97	67.03	76.9	89.8	75.5	82.9	3.8	8.5	6.0
Odisha	75.35	50.51	63.1	82.4	64.4	73.5	7.1	13.9	10.4
Punjab	75.23	63.36	69.7	81.5	71.3	76.7	6.3	8.0	7.0
Rajasthan	75.7	43.85	60.4	80.5	52.7	67.1	4.8	8.8	6.7
Tamil Nadu	82.42	64.43	73.5	86.8	73.9	80.3	4.4	9.4	6.9
Uttar Pradesh	68.62	42.22	56.3	79.2	59.3	69.7	10.6	17.0	13.5
West Bengal	77.02	59.61	68.6	82.7	71.2	77.1	5.7	11.6	8.4
<b>India</b>	<b>75.26</b>	<b>53.67</b>	<b>64.8</b>	<b>82.1</b>	<b>65.5</b>	<b>74.0</b>	<b>6.9</b>	<b>11.8</b>	<b>9.2</b>

**Table 1.8 : Infant Mortality Rate (IMR), Maternal Mortality Rate (MMR), Life Expectancy at Birth (LEB)**

State	IMR		MMR		LEB	
	2006	2011	2004-06	2007-09	2002-06	2006-10
Andhra Pradesh	56	43	154	134	64.4	65.8
<b>Bihar</b>	<b>60</b>	<b>44</b>	<b>312</b>	<b>261</b>	<b>61.6</b>	<b>65.8</b>
Chhattisgarh	61	48	335	269	NA	NA
Gujarat	53	41	160	148	64.1	66.8
Haryana	57	44	186	153	66.2	67.0
Jharkhand	49	39	312	261	NA	NA
Karnataka	48	35	213	178	65.3	67.2
Kerala	15	12	95	81	74.0	74.2
Madhya Pradesh	74	59	335	269	58.0	62.4
Maharashtra	35	25	130	104	67.2	69.9
Odisha	73	57	303	258	59.6	63.0
Punjab	44	30	192	172	69.4	69.3
Rajasthan	67	52	388	318	62.0	66.5
Tamil Nadu	37	22	111	97	66.2	68.9
Uttar Pradesh	71	57	440	359	60.0	62.7
West Bengal	38	32	141	145	64.9	69.0
<b>India</b>	<b>57</b>	<b>44</b>	<b>254</b>	<b>212</b>	<b>63.5</b>	<b>66.1</b>

**Table 1.9 : Per capita Consumption of Electricity, Road Density and Number of Primary Schools for Major Indian States**

State	Per Capita Consumption of Electricity ( kwh)		Road Length (in kms)				Number of primary schools per lakh population	
	2005-06	2009-10	2006		2011		2005-06	2011-12
			Per 100 Sq.Kms of Area	Per one lakh of Population	Per 100 Sq.Kms of Area	Per one lakh of Population		
Andhra Pradesh	723.1	967.0	122.5	419.5	86.5	281.1	84.0	103.2
<b>Bihar</b>	<b>85.9</b>	<b>122.1</b>	<b>127.6</b>	<b>129.4</b>	<b>138.7</b>	<b>125.9</b>	<b>55.8</b>	<b>67.1</b>
Chhattisgarh	685.8	1546.9	54.7	320.3	69.5	367.9	156.9	148.6
Gujarat	1283.8	1615.2	73.9	261.7	79.7	258.7	59.0	67.0
Haryana	1090.4	1222.2	65.7	125.5	94.4	164.6	39.4	46.7
Jharkhand	548.7	880.4	22.6	60.6	30.0	72.5	117.9	127.2
Karnataka	720.4	903.2	111.7	376.9	146.9	460.9	77.9	92.2
Kerala	424.1	525.3	481.6	574.0	517.8	602.7	10.9	32.8
Madhya Pradesh	580.3	602.1	53.5	249.0	64.0	271.8	133.5	149.5
Maharashtra	934.4	1028.2	71.6	211.3	133.4	365.3	57.0	70.1
Odisha	633.9	874.3	138.2	547.7	166.2	617.1	114.2	128.8
Punjab	1436.8	1526.9	89.7	173.9	167.2	303.9	51.3	66.4
Rajasthan	572.2	736.2	44.5	244.8	70.5	351.7	114.4	131.1
Tamil Nadu	976.8	1131.6	137.9	267.3	147.9	266.6	46.5	62.1
Uttar Pradesh	311.8	348.4	492.8	144.7	162.0	195.5	54.5	78.0
West Bengal	380.6	550.2	224.3	232.6	337.1	327.6	58.8	83.8
<b>India</b>	<b>631.4</b>	<b>778.7</b>	<b>91.7</b>	<b>270.1</b>	<b>142.7</b>	<b>387.6</b>	<b>85.5</b>	<b>92.0</b>

**Table 1.10 : Number of Banks per lakh Population and CD ratios for Major Indian States**

State	No. of banks per 10 lakh population		Credit -Deposit Ratio	
	2005-06	2011-2012	2005-06	2011-12
Andhra Pradesh	68	94	82	110
<b>Bihar</b>	<b>39</b>	<b>43</b>	<b>30</b>	<b>37</b>
Chhattisgarh	46	NA	50	54
Gujarat	69	87	56	70
Haryana	76	114	57	102
Jharkhand	51	64	34	34
Karnataka	89	111	77	71
Kerala	109	143	62	76
Madhya Pradesh	53	63	60	57
Maharashtra	63	81	101	87
Odisha	59	76	65	47
Punjab	107	149	57	82
Rajasthan	56	69	78	90
Tamil Nadu	74	101	106	116
Uttar Pradesh	47	58	42	44
West Bengal	54	63	57	63
<b>India</b>	<b>63</b>	<b>79</b>	<b>73</b>	<b>78</b>

Source : Reserve Bank of India

## CHAPTER II

### STATUS OF STATE FINANCES

A prudent management of public finances has the potential to transform a disadvantaged state like Bihar by raising adequate resources and allocating them according to the development priorities and ensuring the quality of expenditure. Viewed in this perspective, Bihar has undergone a complete transformation in the recent past, resulting in major changes in both economic and social landscape. During this period, the state government has increased its revenue sustainability, enforced significant fiscal discipline in expenditure, and enhanced substantially the share of development expenditure. Consequently, the growth rate of the state's economy has been accelerated and, coupled with higher spending in social sectors, it has caused substantial reduction in poverty ratio and higher levels of human development. This chapter presents the trend in selected dimensions of public finance in Bihar during the period 2005-06 to 2011-12. These selected dimensions are— Resource Mobilisation, Expenditure Management, FRBM and Deficit Management, Debt Portion and Central Devolution.

A gradual weakening of fiscal health of the state government had started as early as in the eighties, starting with the problem of deficits in the revenue account. The obvious consequences of this fiscal weakness were large fiscal deficits, unsustainable levels of debt and lower government expenditure, particularly development expenditure. But, fortunately, a corrective process had started in 2005-06 when the state government had a surplus in the revenue account; thereafter, although the size of the surplus has varied, it has been a regular feature of state finances. That the overall position of state finances has been comfortable since then is apparent from Table 2.1.

To begin with, one may first note that the Revenue Receipts of the state government has increased from Rs. 17,837 crore in 2005-06 to Rs. 51,320 crore in 2011-12, implying an annual growth rate of 18.3 percent. Similarly, the Capital Receipts too had grown at 19.0 percent during that period. Since GSDP has grown at 19.8 percent during this period, the buoyancy of both revenue and capital receipts has been close to unity. The annual growth rate of expenditure in both revenue and capital accounts has been lower than the growth rate of receipts, leading to prudent deficit management. As mentioned before, the state government had surplus in the revenue account



throughout the period under consideration. As regards Gross Fiscal Deficit (GFD), the magnitude has certainly been growing, but only at 11.6 percent. That this level of deficit is indeed manageable is indicated by the annual growth rate of outstanding debt, which is very modest at 6.4 percent. When one compares the pattern of total expenditure, it is again noticed that, against an annual growth rate of 17.2 percent for revenue expenditure, the capital expenditure has recorded higher growth rate of 18.1 percent. Similarly, when one considers the distribution of total expenditure between plan and non-plan heads, the former has been growing annually at 26.7 percent, compared to a much lower growth rate for non-plan expenditure at 13.4 percent.

The comfortable position of the state finances is indicated further when the figures for receipts, expenditure, deficit and debt are expressed as percentages of GSDP (Table 2.2). For example, the state's own tax receipts as percentage of GSDP was 4.5 percent in 2004-05; but in 2011-12, the ratio stands at 5.1 percent. Capital Receipts, which are almost wholly liability creating public debt, was 4.8 percent of GSDP in 2004-05, but by 2011-12, it had become only 2.7 percent of GSDP. As regards GFD, it was high at 4.5 percent of GSDP in 2005-06; but brought down to 2006-07, the year in which FRBM Act came into force. Thereafter, except in 2009-10, GFD was kept below 3 percent of GSDP, as stipulated in the Act. Finally, it should be noted that the outstanding debt of the state government was as high as 51.5 percent in 2005-06, but through prudent financial management, the state government has brought it down to 20.4 percent in 2011-12, below the limit of 26 percent, suggested by the Finance Commission.

There is one aspect of the state finances, however, that has remained unchanged over the years. This relates to the state's dependence on central transfers, as more than 75 percent of its revenue receipts come from central transfers (Table 2.3). For all states, the average share of central transfers in total revenue receipts is about 42 percent only. It is only through a sustained growth of its economy and thereby higher own tax revenue that Bihar can lessen this dependency.

## **2.1 Resource Mobilisation**

The state government, as mentioned just before, is substantially dependent on the central government for revenue receipts. Its own revenue receipts, both tax and non-tax, accounts for barely one-fourth of its total revenue receipts. For higher mobilisation of resources, it is therefore imperative for the state government to enhance its own revenue, specially the tax revenue. As

mentioned before, the state's own tax revenue has grown at an annual rate of 24.1 percent, against the growth rate of GSDP at 19.8 percent at current prices, implying a tax buoyancy of 1.14. This further implies that Own Tax:GSDP ratio in Bihar has increased from 4.3 percent in 2005-06 to 5.1 percent in 2011-12. This was possible through continuous improvement in tax administration by the state government. In particular, the implementation of VAT in Bihar has led to a moderate expansion of the tax base and a higher collection of taxes as well.

Tax revenues in Bihar are collected under 7 major heads — (i) Taxes on Sales/Trade, etc., (ii) Stamp and Registration Fees, (iii) Taxes on Goods/Passengers, (iv) State Excise, (v) Taxes on Vehicles, (vi) Land Revenue, and (vii) Taxes and Duties on Electricity. Of these, the first 3 are major heads, generally accounting for about 80 percent of the total tax revenue. Although there are some year to year variations, broadly speaking taxes on sales/trade accounts for 50 percent of the tax revenue; next in importance is taxes on goods/passengers, accounting for 20 percent of tax revenue; and finally, stamp/registration fees account for 10 percent of tax revenue. Except in 2011-12, when there was a temporary change in the composition of tax revenue, this pattern has remained stable. Among the remaining tax heads, the receipts under state excise has been increasing much faster in recent years and its share in total taxes has increased from 9.0 percent in 2005-06 to 15.7 percent in 2011-12.

One of the problems faced by the tax administration in Bihar is wide fluctuations in tax receipts over the years, making it difficult for the state government to prepare reasonably satisfactory budget estimates, either for total or componentwise tax receipts. This is apparent from Table 2.5 which presents yearwise buoyancy ratios for major tax heads. For taxes on sales/trade, the ratio varies from -1.32 in 2005-06 to 3.08 in 2011-12. A negative buoyancy ratio is also recorded for stamp/registration fees (2006-07), taxes on goods/passengers (2011-12) and taxes on vehicles (2006-07). It is only the tax head of state excise that records a positive buoyancy ratio for all the years, ranging from 0.90 (2006-07) to 4.08 (2009-10).

The state's own non-tax receipts is a marginal amount, accounting for about barely 2 percent of the total revenue receipts. However, the most important component of non-tax revenue is non-ferrous mining and metallurgical industries and the buoyancy ratio for this non-tax source has been quite satisfactory, above 2 percent in 2005-06, 2007-08 and 2009-10. Overall, it can be safely concluded

that, within the limitations of a basically agrarian economy with a largely unorganised non-agricultural sector, the state government has been able to mobilise its internal resources to a large extent.

## **2.2 Expenditure Management**

The total expenditure of the state government in last 7 years has grown at 17.4 percent. However, during this period, the revenue expenditure has grown at an annual rate of 17.2 percent, compared to the growth rate of 18.1 percent for the capital expenditure, the latter generally having higher growth implications (Table 2.6). When one compares the growth rate of expenditure of developmental and non-developmental expenditure, it is observed that the former, i.e., developmental expenditure, has been growing at a rate of 20.8 percent and the non-development component at a rate of 12.8 percent. But this should not lead one to conclude that the present expenditure pattern has been less mindful of the development needs of the state. It should be noted here that, in 2005-06, these two components had nearly equal share in total expenditure; but in 2006-07, the distribution was substantially changed in favour of development expenditure (64.1 percent). Thereafter, this broad ratio of 65:35 for development and non-development expenditure has been maintained throughout, indicating the state government's commitment to promote economic growth through higher levels of development expenditure.

If one takes into consideration the composition of total expenditure by sectors, it further reveals the better expenditure management by the state government in recent years (Table 2.7). Economic services and capital outlay are the two sectors, expenditure on which has strong development implications. During the recent past, expenditure on economic services has grown at an annual rate of 24.5 percent, causing its share in total expenditure to rise from 10.5 percent in 2005-06 to 16.7 percent in 2011-12. One can also observe a similar trend for capital outlay which has grown at 22.4 percent in recent years. Unfortunately, because of past borrowings, the expenditure on discharge of public debt by the state government has grown at a high annual rate of 19.5 percent; but with gradual lessening of the debt burden, debt servicing is likely to demand less of funds in coming years, allowing the state government to spend even more on economic services and capital outlay.

That the management of expenditure by the state government has improved in recent years is further indicated when one considers the expenditure pattern on social services (Table 2.8). For one, taking into account all social services, the share of salary component in revenue expenditure has been gradually brought down to 33.6 percent (2011-12) from 49.0 percent (2005-06). Such reduction in salary component is observed for the major heads under social sector — education/sports/arts & culture, health/family welfare and water supply and sanitation/housing/urban development. It is also worth noting that programmes under water supply and sanitation/housing/urban development used to receive relatively less attention before; but in view of its obvious importance, expenditure on this head grown annually at 27.8 percent.

The rationalisation of expenditure pattern, as in social sector, is also observed in the economic sector (Table 2.9). For the total economic services, the share of salary in the revenue expenditure has been brought down to 19 percent (2011-12) from its earlier level of 34 percent (2005-06). Such reduction in salary component is observed not just for the all economic services, but for all its components — agriculture/allied services, irrigation/flood control, energy/power and transport. Finally, one may also note that, over the years, the share of revenue component in the total expenditure has decreased, making larger provisions for capital expenditure which generally has greater impact on growth process.

### **2.3 FRBM and Deficit Management**

The State Legislature had passed the Bihar Fiscal Responsibility and Budget Management (FRBM) Act in 2006 which had mandated it to eliminate revenue deficit by 2008-09, bring the Gross Fiscal Deficit (GFD) to a level of less than 3 percent of GSDP by 2008-09 and also adopt other measures to constantly improve its fiscal health. It had also directed the state government to lay down norms for prioritisation of capital expenditure and pursue expenditure policies that would provide impetus for economic growth, poverty reduction and improvement in human development.

As regards revenue deficit, Bihar was able to get rid of it in 2005-06 itself, a year before FRBM was passed. In that year, the revenue surplus was a modest Rs. 81 crore; but thereafter, it had increased substantially to reach Rs. 6316 crore in 2010-11. Even after a decrease in next year, it

stood at Rs. 4821 crore in 2011-12. If we consider the period of last 5 years, only half of the non-special category states were able to generate revenue surplus in all the years, Bihar being one of them. In the GFD front, the performance of the state government has again been extremely satisfactory. The GFD for Bihar in 2005-06 was Rs. 3700 crore, which was 4.49 percent of GSDP. But in 2006-07, GFD was brought down to 3.00 percent of GSDP and it has thereafter been within the 3 percent limit throughout, except once in 2009-10 when it was 3.24 percent of GSDP; however, the limit was raised to 4.0 percent in that year through an amendment of the FRBM Act. In 2011-12, the GFD of Bihar government was Rs. 5914 crore, just 2.39 percent of GSDP in that year.

The comfortable position of the state government in deficit management has been principally due to substantial revenue surplus that it generates every year. In 2010-11, capital outlay (Rs. 9196 crore) and net lending (Rs. 1091 crore) together had demanded Rs. 10287 crores, but a revenue surplus of Rs. 6316 crores had implied a GFD of only Rs. 3971 crore, only 1.94 percent of GSDP. Next year (2011-12), the total requirement for capital outlay and net lending was again Rs. 10736 crore, but because of a smaller revenue surplus of Rs. 4821 crore, the GFD had increased to Rs. 5914 crore, but it was still only 2.39 percent of GSDP, below the limit of 3 percent. From Table 2.11, showing the decomposition of GFD, one can notice that capital outlay accounted for most of GFD, as it rightly should, during the last 7 years. The fact that capital outlay now accounts for almost the entire GFD, after exhausting the revenue surplus, indicates that the much needed public investment is now being made in Bihar. Except for 2011-12, net lending has generally constituted a small part of GFD in Bihar.

The principal source of financing of GFD in Bihar has been internal market borrowings, the other source of central loans becoming gradually less significant over the years (Table 2.13). However, from the yearly figures indicating the source of financing of GFD, it is also observed that in some years (2006-07 and 2007-08) when the market borrowings were relatively less, net borrowings from the public account and net decrease in cash balance of the state government with the Reserve Bank of India (RBI) has supplemented the net market borrowing to finance the GFD of the state government.

## **2.4 Debt Position**

A continuous generation of a surplus in the revenue account by the state government had not only enabled it to contain its GFD, but has also led to a steady improvement in its debt position. At the beginning of 2005-06, the state government had a total debt of Rs. 33,733 crore which was 40.9 percent of its GSDP, an unsustainable level by any standard. But, during the last 7 years, the outstanding debt has increased annually at a modest rate of 7.6 percent, compared to an annual growth rate of GSDP (at current prices) at 19.8 percent. Consequently, in 2011-12, the total outstanding debt of the state government was Rs. 60,551 crore, only 24.0 percent of the state's GSDP. This is a very comfortable position and it allows the state government to borrow more, bearing in mind that the previous Finance Commission had set 26 percent of GSDP as the limit for outstanding debt. In this background, the state government feels that the FRBM limit for GFD to be less than 3 percent of GSDP should be relaxed for resource poor states like Bihar, provided it does not cross the limit of 26 percent of GSDP, as outstanding debt suggested by the previous Finance Commission.

As regards the composition of the outstanding liabilities of the Consolidated Fund of Bihar (Table 2.13), it is first observed that the internal debt is now more important than the loans and advances from the central government. At the beginning of 2005-06, the shares of these two principal sources were 74.7 percent (Internal Debt) and 25.3 percent (Loans and Advances from Central Government). At the beginning of 2011-12, however, these shares were 83.1 and 16.9 percent respectively. Within the major head of internal debt, the two almost equally important heads are — Market Loans and Special Securities Issued to NSSF (National Small Savings Fund). In 2011-12, the share of market loans was 39.6 percent and that of special securities issued to NSSF was a little lower at 36.9 percent. As regards the loans and advances from the central government, there are several components, but except for one (Loans for State Plan Schemes), others are indeed nominal. Thus, out of the total share of 16.9 percent loans/advances from the central government in 2011-12, no less than 16.7 percent were loans for State Plan Schemes.

## **2.5 Central Devolution**

The economic backwardness of Bihar not only causes low income and human development of its population, it also implies extremely limited fiscal capacity of the state government to raise tax and non-tax revenues. Thus, the state government is markedly dependent on the central



government to supplement its limited revenue receipts. As mentioned before (Section 2.3), more than three-fourths of the total revenue receipts of the state are accounted by central transfers. The quantum of such central transfers is prescribed by the Finance Commissions; but the actual transfers often fail to match the recommendations. These transfers have two components — share of Central Taxes and Grants-in-aid. Generally, the discretion of the Finance Commission in deciding the share of central taxes is rather limited, but in case of Grants-in-Aid, the Finance Commission often uses its discretion to deviate from its recommendations. It is, therefore, relevant to analyse how the recommendations of the previous Finance Commission have been honoured by the central government. In this background, Table 2.14 and Table 2.15 present the recommended and actual transfers by the central government during last 8 years — 5 years of the Twelfth and 3 years of the Thirteenth Finance Commission.

For the period 2005-06 to 2009-10, covered by the Twelfth Finance Commission, the actual transfers by the central government were fortunately more than the recommendations. This was primarily because the national economy was on high growth path during this period, resulting in higher collection of taxes by the central government, compared to the projections made by the Finance Commission. For the whole period, the actual transfer to Bihar under share of central taxes was Rs. 76,374 crore, against the recommendation of Rs. 67,671 crore. The actual transfer was thus 13.0 percent more than the recommended sum. This additional benefit of higher than recommended transfer was observed for all the five years of the period. As regards Grants-in-Aid, there was again a benefit, the total actual transfers during 2005-10 being Rs. 83270 crore, against the recommendation of Rs. 7919 crore, implying that the actual transfer was 10.2 percent more than the recommended amount. One should, however, note here that the quantum of benefit under Grants-in-Aid (where the central government utilises its discretion) was less than the same under share of central taxes.

Unfortunately, this advantageous trend in central transfers has been disturbed during the recent years, i.e., first three years of the Thirteenth Finance Commission. During 2010-11 to 2012-13, against a recommended transfer of Rs. 79,166 crore, the state government has received a sum of Rs. 84,941 crore, under central taxes a gain of Rs. 5753 crore. However, this gain is considerably offset by reduced transfers under Grants-in-Aid, amounting to Rs. 1787 crore. It is thus quite apparent that wherever the central government utilises its discretion, Bihar is seen to suffer financial losses.

**Table 2.1 : Receipts and Expenditure of the Bihar Government**

(Rs. crore)

Sl No.	Items	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Growth Rate
1	Total Revenue Receipts	17837	23083	28210	32981	35527	44532	51320	18.3
a	Tax Revenue	13982	17325	21852	23866	26293	33848	40547	18.4
b	State Own Tax Receipts	3561	4033	5086	6173	8090	9870	12612	24.1
c	State's Own Non-Tax Receipts	522	511	526	1153	1670	985	890	15.6
2	Total Revenue Expenditure	17756	20585	23563	28512	32584	38216	46499	17.2
a	General Services, of which	8523	8643	9252	10530	12202	15287	17729	13.8
b	Interest payments	3649	3416	3707	3753	3685	4319	4304	3.5
c	Social Services	6862	7917	9868	12252	13186	15090	18729	17.8
d	Economic Services	2367	4021	4438	5726	7088	7836	10038	24.5
3	Revenue Deficit	-81	-2498	-4647	-4469	-2943	-6316	-4821	
4	Capital Receipts	3821	2365	1638	5939	6147	6044	6651	19.0
a	Public Debt	3770	2358	1612	5928	6134	6032	6628	19.2
b	Loans/Advances Recovered	51	7	26	11	13	12	23	-6.9
5	Capital Expenditure	4813	6551	8008	8669	10212	12489	13680	18.1
a	Capital Outlay	2084	5211	6104	6436	7332	9196	8852	22.4
b	Repayment of Public Debt	981	1025	1632	1682	1983	2190	2922	19.5
c	Loans / Advances Disbursed	1748	315	272	551	897	1103	1906	15.2
6	Total Expenditure	22569	27136	31571	37181	42796	50705	60181	17.4
a	Plan Expenditure	4899	9397	10946	13814	16194	20911	23008	26.7
b	Non Plan Expenditure	17670	17739	20625	23367	26602	29794	37173	13.4
7	Debt Outstanding	42498	44226	44475	48865	52753	56848	60552	6.4
8	Gross Fiscal Deficit	3700	3021	1703	2507	5273	3971	5914	11.6
9	Primary Deficit	51	-395	-2004	-1246	1588	-348	1611	
10	GSDP	82490	100737	113680	142279	162923	204463	246995	19.8



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

Sl No.	Items	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
1	Total Revenue Receipts	21.6	22.9	24.8	23.2	21.8	21.8	20.8
a	Tax Revenue	16.9	17.2	19.2	16.8	16.1	16.6	16.4
b	State Own Tax Receipts	4.3	4.0	4.5	4.3	5.0	4.8	5.1
c	State's Own Non-Tax Receipts	0.6	0.5	0.5	0.8	1.0	0.5	0.4
2	Total Revenue Expenditure	21.5	20.4	20.7	20.0	20.0	18.7	18.8
a	General Services, of which	10.3	8.6	8.1	7.4	7.5	7.5	7.2
b	Interest payments	4.4	3.4	3.3	2.6	2.3	2.1	1.7
c	Social Services	8.3	7.9	8.7	8.6	8.1	7.4	7.6
d	Economic Services	2.9	4.0	3.9	4.0	4.4	3.8	4.1
3	Revenue Deficit	-0.1	-2.5	-4.1	-3.1	-1.8	-3.1	-2.0
4	Capital Receipts	4.6	2.3	1.4	4.2	3.8	3.0	2.7
a	Public Debt	4.6	2.3	1.4	4.2	3.8	3.0	2.7
b	Loans/Advances Recovered	0.1	0.0	0.0	0.0	0.0	0.0	0.0
5	Capital Expenditure	5.8	6.5	7.0	6.1	6.3	6.1	5.5
a	Capital Outlay	2.5	5.2	5.4	4.5	4.5	4.5	3.6
b	Repayment of Public Debt	1.2	1.0	1.4	1.2	1.2	1.1	1.2
c	Loans / Advances Disbursed	2.1	0.3	0.2	0.4	0.6	0.5	0.8
6	Total Expenditure	27.4	26.9	27.8	26.1	26.3	24.8	24.4
a	Plan Expenditure	5.9	9.3	9.6	9.7	9.9	10.2	9.3
b	Non Plan Expenditure	21.4	17.6	18.1	16.4	16.3	14.6	15.0
7	Debt Outstanding	51.5	43.9	39.1	34.3	32.4	27.8	24.5
8	Gross Fiscal Deficit	4.5	3.0	1.5	1.8	3.2	1.9	2.4
9	Primary Deficit	0.1	-0.4	-1.8	-0.9	1.0	-0.2	0.7

**Table 2.3 : Per capita Own Revenue and Net Devolutions and Transfers**

States	2009-10		2010-11		2011-12	
	Per Capita Total Revenue Receipts (Rs.)	Per Capita Net Devolution and Transfers (Rs)	Per Capita Total Revenue Receipts (Rs.)	Per Capita Net Devolution and Transfers (Rs)	Per Capita Total Revenue Receipts (Rs.)	Per Capita Net Devolution and Transfers (Rs)
Andhra Pradesh	9458	2719 (28.8)	10436	3465 (33.2)	11480	3785 (33.0)
<b>Bihar</b>	<b>3815</b>	<b>2937 (77.0)</b>	<b>4566</b>	<b>3435 (75.2)</b>	<b>5408</b>	<b>4230 (78.2)</b>
Chhattisgarh	7575	3455 (45.6)	8972	4016 (44.8)	10849	4855 (44.8)
Goa	29730	6571 (22.1)	37130	7536 (20.3)	41524	8712 (21.0)
Gujarat	7452	1861 (25.0)	8840	1931 (21.8)	10316	2312 (22.4)
Haryana	9408	2331 (24.8)	11084	2611 (23.6)	13209	3120 (23.6)
Jharkhand	6266	3415 (54.5)	6222	3281 (52.7)	7825	4453 (56.9)
Karnataka	7812	2373 (30.4)	9591	2734 (28.5)	11189	3223 (28.8)
Kerala	8021	2355 (29.4)	9668	2407 (24.9)	11857	3064 (25.8)
Madhya Pradesh	6187	2855 (46.2)	7369	3685 (50.0)	8752	4298 (49.1)
Maharashtra	8113	2378 (29.3)	9679	2199 (22.7)	11152	2639 (23.7)
Odisha	6773	3868 (57.1)	7860	4406 (56.0)	9589	5073 (52.9)
Punjab	9427	2013 (21.4)	11143	2285 (20.5)	11195	2487 (22.2)
Rajasthan	5637	2224 (39.5)	6833	2993 (43.8)	8178	3327 (40.7)
Tamil Nadu	7747	2097 (27.1)	10185	2623 (25.8)	11859	2784 (23.5)
Uttar Pradesh	5100	2398 (47.0)	5772	2915 (50.5)	6896	3578 (51.9)
West Bengal	4429	1956 (44.2)	5558	2715 (48.8)	6475	3363 (51.9)
<b>All States</b>	<b>6892</b>	<b>2887 (41.9)</b>	<b>8130</b>	<b>3407 (41.9)</b>	<b>9432</b>	<b>3977 (42.2)</b>

**Table 2.4 : Percentage Composition of the Tax Revenue**

Sources of Revenue	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Taxes on Sales, Trade etc.	49.0	52.0	49.8	48.9	47.5	46.2	59.4
Stamp / Registration Fees	14.0	11.0	12.9	11.6	12.3	11.1	11.8
Taxes on Goods / Passengers	17.0	19.0	18.4	20.7	19.9	20.3	6.6
State Excise	9.0	9.0	10.3	11.0	13.4	15.4	15.7
Taxes on Vehicles	8.0	4.0	5.4	4.8	4.3	4.6	4.5
Land Revenue	2.0	2.0	1.6	1.7	1.5	1.4	1.3
Taxes & Duties on Electricity	1.0	2.0	1.3	1.1	0.8	0.7	0.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Tax : GSDP Ratio	4.3	4.0	4.5	4.3	4.9	4.8	5.1
Buoyancy Ratio of State's Own Taxes	-	0.7	1.3	0.8	2.1	0.9	1.1

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

Sources of Revenue	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Major Sources of Tax Revenues							
Taxes on Sales, Trade etc.	-1.32	0.90	1.71	0.76	1.88	0.73	3.08
Stamp / Registration Fees	2.97	-0.45	3.42	0.38	2.71	0.40	1.67
Taxes on Goods /Passengers	4.96	1.27	1.56	1.45	1.80	0.96	-2.82
State Excise	2.81	0.90	2.96	1.16	4.08	1.60	1.44
Taxes on Vehicles	6.94	-1.81	3.97	0.36	1.10	1.25	1.20
Major Sources of Non-Tax Revenues							
Non-Ferrous Mining and Metallurgical Industries	4.13	1.22	3.11	1.48	2.11	1.05	0.44
Interest Receipts	31.05	-0.86	-0.23	3.12	1.10	-1.28	6.78

**Table 2.6 : Total Expenditure of Bihar Government by Expenditure Categories**

(Rs. crore)

Categories	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	CAGR
Revenue Expenditure	17756 (78.7)	20585 (75.9)	23563 (74.6)	28512 (76.7)	32584 (76.1)	38216 (75.4)	46499 (77.3)	17.2
Capital Expenditure	4813 (21.3)	6551 (24.1)	8008 (25.4)	8669 (23.3)	10212 (23.9)	12489 (24.6)	13680 (22.7)	18.1
Developmental Expenditure	11460 (50.8)	17383 (64.1)	20650 (65.4)	24938 (67.1)	28435 (66.4)	33038 (65.2)	39136 (65.0)	20.8
Non-Developmental Expenditure	11109 (49.2)	9753 (35.9)	10921 (34.6)	12243 (32.9)	14361 (33.6)	17667 (34.8)	21045 (35.0)	12.8
Total Expenditure	22569 (100.0)	27136 (100.0)	31571 (100.0)	37181 (100.0)	42796 (100.0)	50705 (100.0)	60181 (100.0)	17.4

Note: Percent share of total expenditure in parenthesis

**Table 2.7 : Percentage Distribution of Total Expenditure by Sectors**

(Rs. crore)

Sectors	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	CAGR
General Services	8523 (37.8)	8643 (31.9)	9252 (29.3)	10530 (28.3)	12202 (28.5)	15287 (30.1)	17729 (29.5)	13.8
Social Services	6862 (30.4)	7917 (29.2)	9868 (31.3)	12252 (33.0)	13186 (30.8)	15090 (29.8)	18729 (31.1)	17.8
Economic Services	2367 (10.5)	4021 (14.8)	4438 (14.1)	5726 (15.4)	7088 (16.6)	7836 (15.5)	10038 (16.7)	24.5
Grants in Aid	4 (0.0)	4 (0.0)	5 (0.0)	4 (0.0)	108 (0.3)	3 (0.0)	3 (0.0)	6.0
Capital Outlay	2084 (9.2)	5211 (19.2)	6104 (19.3)	6436 (17.3)	7332 (17.1)	9196 (18.1)	8852 (14.7)	22.4
Discharge of Public Debt	981 (4.3)	1025 (3.8)	1632 (5.2)	1682 (4.5)	1983 (4.6)	2190 (4.3)	2922 (4.9)	19.5
Loans and Advances by State	1748 (7.7)	315 (1.2)	272 (0.9)	551 (1.5)	897 (2.1)	1103 (2.2)	1906 (3.2)	15.2
Total Consolidated Fund	22569 (100.0)	27136 (100.0)	31571 (100.0)	37181 (100.0)	42796 (100.0)	50705 (100.0)	60181 (100.0)	17.4

Note: There is slight difference in total and break-up

**Table 2.8 : Expenditure Pattern on Social Services**

(Rs. crore)

Sectors	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	CAGR
<b>Education, Sports, Arts &amp; Culture</b>								
Total Expenditure	4423	5359	5553	6883	7750	8245	10213	14.2
Revenue Expenditure	4394	5253	5496	6706	7416	8101	10157	14.0
Capital Expenditure	29	106	57	177	334	144	56	16.8
Share of Revenue Expenditure (%)	99.3	98.0	99.0	97.4	95.7	98.3	99.5	
Share of Salary Component in Revenue Expenditure (%)	53.0	45.0	45.0	43.0	48.0	45.0	43.5	
<b>Health and Family Welfare</b>								
Total Expenditure	1015	1153	1387	1290	1517	1667	2125	11.5
Revenue Expenditure	877	985	1141	1193	1388	1502	1804	12.1
Capital Expenditure	138	168	246	97	129	165	321	6.8
Share of Revenue Expenditure (%)	86.4	85.4	82.3	92.5	91.5	90.1	84.9	
Share of Salary Component in Revenue Expenditure (%)	71.0	60.0	53.0	61.0	66.0	73.0	72.9	
<b>Water Supply and Sanitation, Housing and Urban Development</b>								
Total Expenditure	531	767	1052	1600	1903	2328	2045	27.8
Revenue Expenditure	407	514	713	1413	1438	1698	1713	30.3
Capital Expenditure	124	253	339	187	465	630	332	20.0
Share of Revenue Expenditure (%)	76.6	67.0	67.8	88.3	75.6	72.9	83.8	
Share of Salary Component on Revenue Expenditure (%)	20.0	18.0	16.0	10.0	11.0	10.0	11.6	
<b>Total (Social Services)</b>								
Total Expenditure	7190	8513	10667	12892	14309	16162	19536	17.8
Revenue Expenditure	6862	7917	9868	12252	13186	15090	18729	17.8
Capital Expenditure	328	596	799	640	1123	1072	807	16.3
Share of Revenue Expenditure (%)	95.4	93.0	92.5	95.0	92.2	93.4	95.9	
Share of Salary Component on Revenue Expenditure (%)	49.0	40.0	35.0	32.0	38.0	34.0	33.6	

Note : Capital Expenditure consists of capital outlay only.

**Table 2.9 : Expenditure Pattern on Economic Services**

(Rs. crore)

Sectors	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	CAGR
<b>Agriculture and Allied Activities</b>								
Total Expenditure	503	596	759	1284	1505	2035	2032	29.9
Revenue Expenditure	410	585	737	1273	1504	2018	1914	32.2
Capital Expenditure	93	11	22	11	1	17	117	-5.3
Share of Revenue Expenditure (%)	81.5	98.2	97.1	99.1	99.9	99.2	94.2	
Share of Salary Component in Revenue Expenditure (%)	31	39	31	21	26	20	24	
<b>Irrigation and Flood Control</b>								
Total Expenditure	1074	1067	1450	1845	2246	2678	3275	22.2
Revenue Expenditure	483	435	562	704	897	1311	1311	22.4
Capital Expenditure	591	632	888	1141	1349	1367	1964	22.0
Share of Revenue Expenditure (%)	45.0	40.8	38.8	38.2	39.9	49.0	40.0	
Share of Salary Component in Revenue Expenditure (%)	55	68	63	58	69	53	47	
<b>Energy and Power</b>								
Total Expenditure	303	1514	841	1123	1244	2223	2270	29.3
Revenue Expenditure	1	1081	726	723	868	1216	2168	131.1
Capital Expenditure	302	434	115	400	376	1007	102	-1.4
Share of Revenue Expenditure (%)	0.3	71.4	86.3	64.4	69.8	54.7	95.5	
Share of Salary Component on Revenue Expenditure (%)	NA	NA	NA	NA	NA	NA	NA	
<b>Transport</b>								
Total Expenditure	560	2076	2707	2957	3748	4706	4852	35.2
Revenue Expenditure	285	414	408	493	690	634	789	17.2
Capital Expenditure	275	1662	2299	2463	3058	4072	4064	43.7
Share of Revenue Expenditure (%)	50.9	19.9	15.1	16.7	18.4	13.5	16.3	
Share of Salary Component on Revenue Expenditure (%)	38	25	29	28	23	26	23	
<b>Total (Economic Services)</b>								
Total Expenditure	4051	8481	9520	11316	13023	15564	17475	23.5
Revenue Expenditure	2367	4021	4438	5726	7088	7836	10038	24.5
Capital Expenditure	1684	4460	5082	5590	5935	7728	7437	22.6
Share of Revenue Expenditure (%)	58.4	47.4	46.6	50.6	54.4	50.3	57.4	
Share of Salary Component on Revenue Expenditure (%)	34	23	22	22	25	20	19	

Note : Capital Expenditure consists of capital outlay only. It does not include loans and advances.

**Table 2.10 : Deficit/Surplus Position of States**

(Rs. crore)

State	Revenue Deficit (+) / Surplus (-)					
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Andhra Pradesh	(-) 64	2807	(-) 159	(-) 1004	(-) 1230	(-) 2460
<b>Bihar</b>	<b>(-) 81</b>	<b>(-) 2498</b>	<b>(-) 4647</b>	<b>(-) 4469</b>	<b>(-) 2943</b>	<b>(-) 6316</b>
Chhattisgarh	1381	2647	(-) 3039	(-) 1869	(-) 890	(-) 3360
Gujarat	(-) 399	1770	(-) 2150	66	6970	5080
Haryana	1213	1590	(-) 2224	2082	4260	2750
Jharkhand	(-) 1553	(-) 1090	1484	(-) 628	(-) 2610	140
Karnataka	2311	4152	(-) 3776	(-) 1631	(-) 1620	(-) 4170
Kerala	(-) 3129	(-) 2638	3785	3712	5020	3670
Madhya Pradesh	33	3332	(-) 5088	(-) 4063	(-) 5500	(-) 6840
Maharashtra	(-) 3842	810	(-) 4803	(-) 5577	8010	590
Odisha	481	2261	(-) 4244	(-) 3420	(-) 1140	(-) 3910
Punjab	(-) 1242	(-) 1749	3823	3856	5250	5290
Rajasthan	(-) 660	638	(-) 1653	827	4750	(-) 1050
Tamil Nadu	1951	2648	(-) 4545	(-) 1452	3530	2730
Uttar Pradesh	(-) 1268	4901	(-) 3449	(-) 1862	(-) 7050	(-) 3510
West Bengal	(-) 7391	(-) 8333	8147	14709	21580	17270
<b>All States</b>	<b>(-) 7013</b>	<b>24857</b>	<b>(-) 42943</b>	<b>(-) 12672</b>	<b>31020</b>	<b>(-) 3050</b>

Source: State Finances, RBI

**Table 2.11 : Decomposition of Gross Fiscal Deficit of Bihar**

(Rs. crore)

Items	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue Deficit	-81	-2498	-4647	-4469	-2943	-6316	-4821
Capital Outlay	2084	5211	6104	6436	7332	9196	8852
Net Lending	1697	308	246	540	884	1091	1883
<b>GFD</b>	<b>3700</b>	<b>3021</b>	<b>1703</b>	<b>2507</b>	<b>5273</b>	<b>3971</b>	<b>5914</b>
GSDP	82490	100737	113680	142279	162923	204463	246995
<b>GFD: GSDP ratio (%)</b>	<b>4.49</b>	<b>3.00</b>	<b>1.50</b>	<b>1.76</b>	<b>3.24</b>	<b>1.94</b>	<b>2.39</b>

**Table 2.12 : Financing of Gross Fiscal Deficit (GFD) in Bihar**

(Rs. crore)

Source	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Net Borrowing	2790 (75.4)	1333 (44.1)	(-) 20 (1.2)	4246 (169.4)	4151 (78.7)	3842 (96.8)	3705 (62.6)
Net Public Account	1209 (32.7)	1785 (59.1)	352 (20.7)	(-) 78 (3.2)	(-) 675 (12.8)	2238 (56.4)	2543 (43.0)
Net Decrease in Cash Balance	(-) 299 (8.0)	(-) 97 (3.2)	1372 (80.6)	(-) 1660 (66.2)	1796 (34.1)	(-) 2110 (53.1)	(-) 333 (5.6)
<b>Total</b>	<b>3700</b> <b>(100.0)</b>	<b>3021</b> <b>(100.0)</b>	<b>1703</b> <b>(100.0)</b>	<b>2507</b> <b>(100.0)</b>	<b>5273</b> <b>(100.0)</b>	<b>3971</b> <b>(100.0)</b>	<b>5914</b> <b>(100.0)</b>



**Table 2.13 : Composition of Outstanding Liabilities in the Consolidated Fund**

(Rs. crore)

Nature of Borrowings	Outstanding Balance as on 1/3/2006	Outstanding Balance as on 1/3/2007	Outstanding Balance as on 1/3/2008	Outstanding Balance as on 1/3/2009	Outstanding Balance as on 1/3/2010	Outstanding Balance as on 1/3/2011	Outstanding Balance as on 1/3/2012	CAGR
<b>A. Internal Debt</b>	25182 (74.7)	26829 (76.5)	26769 (76.4)	31293 (79.6)	35494 (81.7)	39020 (82.5)	42365 (83.1)	9.7
(a) Market Loans	10805 (32.0)	10393 (29.6)	9613 (27.4)	13370 (34.0)	15872 (36.5)	17580 (37.2)	20174 (39.6)	13.0
(b) Bonds	2102 (6.2)	1894 (5.4)	1686 (4.8)	1474 (3.8)	1266 (2.9)	1058 (2.2)	850 (1.7)	-13.8
(c) Loans from Financial Institutions	177 (0.5)	404 (1.2)	671 (1.9)	1121 (2.9)	1555 (3.6)	2049 (4.3)	2489 (4.9)	53.6
(d) Special Securities Issued to NSSF	12089 (35.8)	14130 (40.3)	14792 (42.2)	15321 (39.0)	16793 (38.7)	18327 (38.8)	18832 (36.9)	7.3
(e) Others	7 (0.0)	7 (0.0)	7 (0.0)	7 (0.0)	7 (0.0)	7 (0.0)	20 (0.0)	11.2
<b>B. Loans and Advances from Central Government</b>	8551 (25.3)	8237 (23.5)	8277 (23.6)	7998 (20.4)	7948 (18.3)	8264 (17.5)	8626 (16.9)	0.0
(a) Non plan loans	254 (0.8)	98 (0.3)	88 (0.3)	79 (0.2)	70 (0.2)	67 (0.1)	64 (0.1)	-16.7
(b) Loans for State Plan Schemes	7866 (23.3)	8065 (23.0)	8110 (23.1)	7843 (20.0)	7805 (18.0)	8126 (17.2)	8493 (16.7)	0.7
(c) Loans for Central Plan Schemes	9 (0.0)	9 (0.0)	8 (0.0)	7 (0.0)	7 (0.0)	6 (0.0)	6 (0.0)	-7.2
(d) Loans for Centrally Sponsored Plan Schemes	17 (0.1)	18 (0.1)	23 (0.1)	21 (0.1)	20 (0.0)	18 (0.0)	16 (0.0)	-1.4
(e) WMA from RBI	43 (0.1)	43 (0.1)	43 (0.1)	43 (0.1)	43 (0.1)	43 (0.1)	43 (0.1)	0.0
(f) Others	361 (1.1)	4 (0.0)	4 (0.0)	4 (0.0)	4 (0.0)	4 (0.0)	4 (0.0)	-38.3
<b>Total (A+B)</b>	33733 (100.0)	35065 (100.0)	35045 (100.0)	39291(10 0.0)	43442 (100.0)	47285 (100.0)	50991 (100.0)	7.6
Debt as percentage of GSDP	40.9	34.8	30.8	27.6	26.7	23.1	20.6	

Note: Figures in the parenthesis denote percent share to total borrowings

**Table 2.14 : Central Transfers to the Bihar Government (2005-06 to 2012-13)**

(Rs. crore)

	Recommended			Actual Transfers			Differences		
	Share of Central Tax	Grants-in aid	Total	Share of Central Tax	Grants-in aid	Total	Share of Central Tax	Grants-in aid	Total
<b>Twelfth Finance Commission (2005-2010)</b>									
2005-06	10084.45	1191.68	11276.13	10420.59	1199.18	11619.77	336.14	7.5	343.64
2006-07	11545.48	1546.01	13091.49	13291.72	1573.54	14865.26	1746.24	27.53	1773.77
2007-08	13247.8	1630.77	14878.57	16766.29	1093.92	17860.21	3518.49	-536.85	2981.64
2008-09	15234.94	1723.94	16958.88	17692.51	1374.49	19067.00	2457.57	-349.45	2108.12
2009-10	17558.37	1827.09	19385.46	18202.58	1654.98	19857.56	644.21	-172.11	472.1
<b>2005-10</b>	<b>67671.04</b>	<b>7919.49</b>	<b>75590.53</b>	<b>76373.69</b>	<b>6896.11</b>	<b>83269.80</b>	<b>8702.65</b>	<b>-1023.38</b>	<b>7679.27</b>
<b>Thirteenth Finance Commission (2010-2015)</b>									
2010-11	22260.00	1535.61	23795.61	23978.38	1484.74	25463.12	1718.38	-50.87	1667.51
2011-12	26109.00	2604.20	28713.20	27935.23	2549.45	30484.68	1826.23	-54.75	1771.48
2012-13	30797.00	3119.07	33916.07	33026.93	1437.58	34464.51	2229.93	-1681.49	548.44
<b>2010-13</b>	<b>79166.00</b>	<b>7258.88</b>	<b>86424.88</b>	<b>84940.54</b>	<b>5471.77</b>	<b>90412.31</b>	<b>5774.54</b>	<b>-1787.11</b>	<b>3987.43</b>
2013-14	36327.00	3514.09	39841.09						
2014-15	42849.00	3829.31	46678.31						
<b>2010-15</b>	<b>158342.00</b>	<b>14602.28</b>	<b>172944.28</b>						

**Table 2.15 : Central Transfers to Bihar Government (2005-06 to 2011-12)**

(Rs. crore)

Sl. No.	Items	2005-06		2006-07		2007-08		2008-09		2009-10	
		Recom mended	Actuals	Recom mended	Actuals	Recom mended	Actuals	Recom mended	Actuals	Recom mended	Actuals
1	Devolution of Taxes										
	State's Share in Shareable Pool	91376		104610		120029		138027		159076	
	Share of Bihar @ 11.028%	10077	10421	11536	13292	13237	16766	15222	17693	17543	18203
2	Grants										
(a)	Grants for PRIs	325	325	325	325	325	325	325	325	325	162
(b)	Grants for ULBs	28	28	28	28	28	28	28	14	28	43
3	Grants for Calamity Relief										
(a)	Central Share	112	112	115	115	118	118	122	122	126	126
(b)	State's Share	37		38		39		41		42	
	Total	149		153		158		162		167	
4	Grants in-aid for Education Sector	444	444	486	486	532	266	583	583	638	638
	State's own expenditure should be	3377		3697		4049		4433		4854	
	Total Expenditure Required	3821		4184		4581		5016		5493	
5	Grants in-aid for Health Sector	289	289	323	323	360	180	401	201	447	447
	State's own expenditure should be	501		558		623		694		774	
	Total Expenditure Required	790		881		982		1095		1221	
6	Grants in -aid for Maintenance of Roads & Bridges	0		77	77	77	77	77	77	77	77
	State's own expenditure should be	259		272		285		300		315	
	Total Expenditure Required	259		349		363		377		392	
7	Grants in -aid for Maintenance of Public Buildings			90	90	90	45	90	45	90	90
	State's own expenditure should be	121		127		133		140		147	
	Total Expenditure Required	121		217		223		230		237	
8	Grants in-aid for Maintenance of Forest	1	1	1	1	1	1	1	1	1	1
9	Grants in-aid for Heritage Conservation			10	9	10	10	10	7	10	1
10	State's Specific Needs Grants			100	119	100	43	100		100	70
	TOTAL GRANTS RECEIVABLE FROM GOI	11276	11620	13092	14865	14879	17860	16959	19067	19385	19858

**Table 2.15 : Central Transfers to Bihar Government (2005-06 to 2011-12) (Contd.)**

(Rs. crore)

Sl. No.	Items	2005-10		2010-11		2011-12	
		Recommen- ded	Actuals	Recommen- ded	Actuals	Recommen- ded	Actuals
1	Devolution of Taxes						
	State's Share in Shareable Pool	613118					
	Share of Bihar @ 11.028%	67615	76374	22266	23978	26116	27935
2	Grants						
(a)	Grants for PRIs	1624	1462	461	456	614	753
(b)	Grants for ULBs	142	142	68	34	210	113
3	Grants for Calamity Relief						
(a)	Central Share	592	592	251	251	263	263
(b)	State's Share	197		84	0	88	0
	Total	799		335	251	351	263
4	Grants in-aid for Education Sector	2684	2418	585	585	699	699
	State's own expenditure should be	20410					
	Total Expenditure Required	23094					
5	Grants in-aid for Health Sector	1820	1439				
	State's own expenditure should be	3150					
	Total Expenditure Required	4970					
6	Grants in -aid for Maintenance of Roads & Bridges	309	309	0	0	94	94
	State's own expenditure should be	1431					
	Total Expenditure Required	1740					
7	Grants in -aid for Maintenance of Public Buildings	360	270				
	State's own expenditure should be	668					
	Total Expenditure Required	1028					
8	Grants in-aid for Maintenance of Forest	5	4	5	5	5	5
9	Grants in-aid for Heritage Conservation	40	27				
10	State's Specific Needs Grants	400	233	0	0	461	362
	<b>TOTAL GRANTS RECEIVABLE FROM GOI</b>	<b>75591</b>	<b>83270</b>	<b>23796</b>	<b>25463</b>	<b>28713</b>	<b>30485</b>

## CHAPTER III

### STATE PERSPECTIVE FOR INCLUSIVE DEVELOPMENT

The recommendations of the present Finance Commission would cover last two years of the Twelfth Five Year Plan (2012-17) and first three years of the next Five Year Plan. One can safely assume that the three major goals of Twelfth Plan — faster, sustainable and more inclusive growth — will be carried forward to the next Plan as well. Situated as of now at the lowest rung of development, these three goals are even more important for Bihar than for most other states. The state is moving aggressively on the path of development with justice while maintaining philosophy of inclusive development. Specifically, the state government would like to underline following three basic components of its development strategy during these years — (i) Maintenance of Growth Momentum, (ii) Strengthening of Infrastructural Base, and (iii) Faster Social Development.

For maintaining the current growth momentum, it is extremely necessary that the state government steadily enhances its total expenditure and simultaneously allocates a higher proportion of it for development purposes. This will obviously require higher mobilization of resources, partly through state government's own efforts for enhancing internal resources and the rest through higher devolution of resources from the central government. In view of the limited fiscal capacity of Bihar, as of other poorer states, resource transfers from the central government should play a major role in the enhancement of development expenditure. Indeed, in its Memorandum to the previous Finance Commission, Government of Bihar had pleaded for a transfer pattern that enables it to equal its Per Capita development Expenditure (PCDE) with the national average. The all-state average of PCDE was Rs. 7609 in 2011-12, compared to only Rs. 4651 for Bihar. One may also note here that even if Bihar economy is able to maintain its present growth rate of 10.3 percent, it will take about two decades for the state to reach the Per Capita Income level of India.

Secondly, from the discussion on the relative status of development in Bihar in the previous section, it is apparent that there has been only a modest growth of its physical and social infrastructural base in the recent past. Unless this infrastructural deficiency is soon removed, it is certain to constrain the present growth momentum in Bihar, pushing it back to the days of low

growth or even stagnation. In the absence of market forces, a consequence of the limited presence of the industrial sector, the entire responsibility of infrastructural investment falls on the state governments in poorer states like Bihar. Here again, the limited internal resources of the state need to be adequately supplemented by the transfer from the central government for the required infrastructural investment.

The third important development goal of Bihar in the medium term is faster improvement in social sector. It is only through the development of social sector that a state can hope to make its development an inclusive one. Apart from strengthening the educational and health facilities in the state, faster social development also requires special programmes for marginalized sections of the population like women, backward castes, scheduled castes/tribes and minorities. In the recent past, the state government has initiated a number of targeted social development programmes which all have already started showing positive impacts. To widen the coverage of these programmes, the state government now needs additional resources and hopes that the present Finance Commission would provide much of it.

The state government plans to achieve these development goals through a number of interventions. Some of the major planned interventions are — Physical Infrastructure, Agriculture Road Map, Manav Vikas Mission, Skill Development Mission and strengthening of Panchayati Raj Institutions.

### **3.1 Physical Infrastructure**

#### Power Sector

Given Bihar's recent growth rates, the state has set ambitious targets for the medium term. For sustained economic and social growth, a healthy power sector is a prerequisite. However, currently, there are several issues of concern in the power sector in Bihar, as evident by the fact that the per capita power consumption of Bihar is only 117 units, which falls significantly short of the national figure of 813 units. Some of these problems are — complete dependence on central government because of low installed capacity, fast growth in number of consumers resulting in high energy requirement deficit (20 percent) and peak deficit (31 percent) and huge aggregate technical and commercial (AT&C) losses (44 percent).

The state government is committed to improving the situation of power. The necessary reforms have already begun with the significant step of unbundling of the erstwhile Bihar State Electricity Board into five different companies for greater efficiency — Bihar State Power (Holding) Company Ltd. (BSPHCL), Bihar State Power Generation Company Ltd., Bihar State Power Transmission Company Ltd., and North and South Bihar Power Distribution Company Ltds.

Generation : Under the new plan, the state aspires to add 500 MW annually to its generation capacity. In the short-term, renovation and modernization (R&M) of existing thermal plants provide the least costly option to raise generation, and this has already been undertaken for 2 units at the Barauni Thermal Power Station. Over the medium to long term, several new projects are under consideration, such as Muzaffarpur Thermal Power Station extension (Stage 1), new thermal power stations at Buxar, Lakhisarai, Pirpainti and Navinagar. Also, Bihar has a wide scope for generation of more hydel power; there are currently 13 minor hydel power projects and 17 new hydel power projects are being considered to add to generation capacity, including a potential major hydel project at Dagmara. Further, Bihar Renewable Energy Development Agency (BREDA) is looking at adding generation capacity using wind energy in Jamui and Vaishali.

Distribution : As already mentioned, the AT&C losses are quite high in Bihar at around 44 percent. The new distribution companies are tackling this issue by improving metering, billing and collection cycle, along with aiming to have 100 percent energy metering soon. The exercises in energy accounting and auditing at feeders and distribution transformers have already been initiated, and will be scaled up in the near future.

Transmission : The main challenge of the transmission network is to keep pace with the growth of generation and distribution of electricity. Over the last few years, there has been moderate growth in the number of sub-stations and transformer capacity; however, taking into account the expected high growth of power availability and retail sales during the medium-term, the transmission segment needs further strengthening through expansion and appropriate R&M schemes. In view of this, BSPHCL has entered into a joint venture with Power Grid Cooperation of India Ltd. (PGCIL) and plans to lay new transmission lines. The improvement and expansion work of transmission

system is being carried out in two phases under *Rashtriya Sam Vikas Yojana (RSVY)*, supported by PGCIL.

In view of increasing demand in the medium term, the power sector needs to tackle the problems in all three heads of generation, distribution, and transmission. The state government has already taken encouraging initiatives detailed above, and these will have to be supplemented with further steps to ensure that power does not remain a bottleneck to Bihar's growth.

### Roads

Compared to the power sector, the infrastructural deficiency in Bihar with respect to roads may be relatively less, but it is still substantial. In 2011, the availability of roads per 100 sq.kms. in Bihar was 138.7 kms, compared to 142.7 kms for the entire country. But in terms of road length per 1 lakh of population, the deficiency was very high — 125.9 kms in Bihar against 387.6 kms in India. This infrastructural deficit is more pronounced in rural areas, and the state government plans to construct 4618 kms of rural roads in near future. The total cost of this project is Rs. 4356.20 crore and it has been included as one of the state-specific needs in this Memorandum.

### **3.2 Agriculture Road Map**

With the launching of Agriculture Road Map in 2008, Bihar had embarked on an innovative approach for agriculture growth. This was first of its kind in India and a land mark initiative. Later, the Cabinet set up Expert Committees for preparation of a new road map for 2012-17. The six-point goal of the new Agriculture Road Map is — (i) Food security, (ii) Nutrition security, (iii) Increase in the income of farmers, (iv) Employment generation and control on migration of workers, (v) Inclusive human base of agricultural development and extensive participation of women and (vi) Conservation of natural resources and their sustainable use. The main strategy of this Road Map include :

- (a) To ensure the availability of high quality agricultural input materials at farmers' end in proper time and at a low cost.
- (b) To make the agricultural operation more cost effective and to ensure higher income for farmers with the use of modern farm equipments and agricultural management technique.



- (c) To ensure a sustainable agriculture through the use of optimum mix of soil, water, crop and other agricultural components, even in the face of climate change.
- (d) To develop both on-farm and off-farm agriculture-based enterprises by transforming the agricultural knowledge into skill.
- (e) To promote special programmes for *Tal, Diara* and other areas with specific geographical conditions.
- (f) To establish agriculture as a prestigious occupation, to attract the educated youth towards the sector and to reward them for their contribution.

### Agriculture

The distinguishing features for agriculture sector, particularly regarding production and productivity of various agricultural crops include — (a) Revival of Bihar Rajya Beej Nigam, (b) Chief Minister's Crash Seed Programme, (c) Seed Village Programme, (d) Seed distribution on subsidy, (e) Organic Farming, (f) Agriculture Mechanization, (g) SRI Campaign, (h) Promotion of Dhaincha, (i) Hybrid Rice, (j) Seed Replacement Rate, (k) Extension Services, (l) Vermi – compost and bio-fertilisers, (m) Dairy and fishery, and (n) General Observation.

For the purpose of this road map, a farmer is defined on the same lines as National Commission on Farmers, that is “Farmers will refer to both men and women and include landless agricultural labourers, sharecroppers, tenants, small, marginal and sub-marginal cultivators, farmers with larger holdings, fisheries, livestock and poultry rearers, pastoralists, small plantation farmers, as well as rural and tribal families engaged in a wide variety of farming related occupations such as apiculture, sericulture and vermiculture. The term will include tribal families sometimes engaged in shifting cultivation and in the collection and use of non-timber forest products. Farm and Home Science graduates earning their livelihoods from crop and animal husbandry, fisheries and agro-forestry will have their rightful place in the world of farmers and farming”.

### Horticulture

Availability of quality planting material is most critical for horticulture development. It would be important to make full use of the mother plants available in the universities and in the

departmental nurseries. The universities will also set up new progeny nurseries for less common fruits like Bael, Ber, Jamun, Aonla etc. Progeny nursery will also be set up in the departmental laboratories.

Tissue culture technique is extensively used for the multiplication of the horticulture plants, particularly banana and flowers. A tissue culture laboratory has been set up at Sabour under Bihar Agriculture University. This laboratory is operated under public private partnership. More tissue culture laboratories will be required in future. While the basic research and limited commercial application may be done through the universities, yet it is necessary to attract private investment in this area. Therefore, private sector will be incentivized to set up tissue culture laboratory.

A new programme for identification and multiplication of elite trees of Mango and Litchi will be started. The unique varieties like Digha Maldah, Zardalu and Sahi litchi will be preserved. Rejuvenation of old orchards is important for increasing its productivity. Some of the districts have taken this technique. Large scale adoption of the technique would depend on the availability of trained manpower and suitable machinery.

Various other sectors which are interlinked with agricultural development are also dealt by sub-committee formed in the line departments by Agriculture Cabinet. They are water management and irrigation, energy, land resource management, plantation and environmental protection, cooperatives, storage marketing and processing, agricultural research, agricultural credit and communication. In the road communication sector, unconnected habitations with a population of 250+ is planned to be connected with approach roads.

### **3.3 Manav Vikas Mission**

The Manav Vikas Mission (MVM) for 2013-17 is an innovative plan of the state government to improve the human development in the state. Without this special emphasis on human development, it is not possible to impart an inclusive orientation to the growth process. Under MVM, the state government has identified six components — (i) Demography, Health and Nutrition, (ii) Elementary Education and Literacy, (iii) Drinking Water Supply and Sanitation, (iv)

Information Technology, (v) Security for Weaker Sections and Ultra Poor and (vi) Art, Culture and Sports.

### Demography, Health and Nutrition

Under this component of the MVM, the state government has set 8 targets, each indicating the status of demographic, health and nutrition status of the population. These 8 targets, all to be achieved by 2017, are:

- (a) To reduce the Infant Mortality Rate (IMR) to less than 27, from the present level of 44.
- (b) To reduce the Maternal Morality Rate (MMR) to 120, from the present level of 261.
- (c) To reduce Total Fertility Rate (TFR) to 2.9, from the present level of 3.6.
- (d) To reduce the percentage of children (<3 years) suffering from malnutrition to 29 percent, from the present level of 58.4 percent (NFHS-3).
- (e) To reduce the prevalence of anemia among women (15-49 years) to 34 percent, from the present level of 68.3 percent.
- (f) To improve the Life Expectancy at Birth (LEB) to 68.7 years for women from the present level of 66.2 years, and 68.6 for men from the present level of 65.5 years.
- (g) To improve the sex ratio in the population to 930 females per 1000 males, from the present (2011) level of 916.
- (h) To reduce the prevalence of child marriage to 14 percent, from the present level of 20.2 percent.

The key strategies adopted by the state government to achieve the above goals include — identify and invest more for the most deprived sections of the population, invest in proven and cost-effective interventions, overcome implementation bottlenecks, partner with communities, and maximum utilisation of available resources.

## Elementary Education and Literacy

Education is a powerful instrument to develop an inclusive society, as it leads to the fullest development of human capability of every individual. With the passing of the Right to Free and Compulsory Education Act, 2009, elementary education is now an entitlement for every child and all states are now required to provide the basic learning facilities within a stipulated time. In this perspective, the MVM in Bihar has set a number of targets, all to be achieved by 2017. These targets and time frames have been set separately for — Elementary Education and Literacy, Secondary/ Higher Education, Teacher Education and Higher Education. These are very ambitious targets, requiring careful planning and substantial resources. As an illustration, the table below presents the targets for Elementary Education and Literacy.

Sl.	Indicators	Current Situation	Target (2017)
1	Learning Achievement in Language/ Maths	44 percent Class V students can read Class – II books and 31 percent Class V students can do division.	85 percent students upto Class- VIII achieve 90% proficiency for that Class in Language and Mathematics.
2	Attendance Percentage against enrolment	58 percent in Primary and 56 percent in Primary plus Upper Pr.	90 percent in Primary and Upper Primary (Sustainable)
3	Translation Rate of children – SC / ST / Girls / Minorities	78.42 percent from Primary to Upper Primary. 80.81 percent for girls.	92 percent for children in all categories.
4	Teacher Pupil Ratio in Elementary Education	58:1 based on enrolment.	40:1 based on enrolment 30:1 based on attendance.
5	Student- Class Room Ratio in Elementary Education	79:1 based on enrolment.	45:1 based on enrolment. 35:1 based on attendance.
6	Percentage of children/ women from Mahadalit/ EBC/ Minority covered by Tola Sewak/ Talim-I Markaj volunteer in feeder area	0	100 percent coverage of all children/ women for schooling/ literacy among Mahadalits, EBCs/ Minorities.

Based on the experience over the years, the state government would like to make the following suggestions to the present Finance Commission about the education sector:

- (a) The Finance Commission should ensure that transfers to states under Centrally Sponsored Schemes take into account the 'minimum financial norm per capita', required for quality education. The Commission should also take into account that under-14 age children in Bihar constitute 40 percent of population, compared to a much lower percentage for the entire country.
- (b) There is a need to accept the principle that entitlements created by central Acts, like the Right to Education, ought to be fully supported by the central government by providing adequate resources.
- (c) The Centrally Sponsored Schemes in education were started on the principle of 'equalisation'. However, the principle was gradually lost over the years, resulting in many developed states receiving larger finances, thanks to their higher absorptive capacity. There is a case for re-emphasising the 'equalisation' principle.
- (d) Bihar is a good example of a state at the bottom showing improved performance and innovation. For performance, it may be noted that the decadal increase in literacy rate (2001-11) is the highest in Bihar; for innovation, it may again be noted the concept of Manav Vikas Mission in Bihar is unique to Bihar. The Finance Commission should reward such good performance and innovation.

#### Drinking Water Supply and Sanitation

Under this component of MVM, the state government has set the following goals:

Drinking Water (Rural) : There are five specific targets for improving the supply of drinking water in the rural areas — (i) All the households should be provided at least 40 lpcd (litres per consumer per day) by 2015 and 70 lpcd by 2017 (ii) All the habitations affected by either arsenic (1590 habitations), or fluoride (4157 habitations) or iron (18,673 habitations) should be provided with quality drinking water, (iii) All the elementary schools should be provided with handpumps, (iv) All the Anganwadi Centres should be provided with handpumps and (v) At least 10 percent of

the rural households should be covered by piped water supply. All these goals are to be achieved by 2017.

Sanitation (Rural) : There are four specific targets for improving the sanitation in rural areas which are to be achieved by 2017 — (i) 60 percent of rural households will be provided with sanitation facility (ii) 40 percent of the total 8406 Gram Panchayats should be Nirmal Gram Panchayats, (iii) All the elementary schools should have sanitation facility (2 units) and (iv) All the Anganwadi Centres should have sanitary facility.

Drinking Water (Urban) : There are three specific targets for improving the supply of drinking water in urban areas, again all to be achieved by 2017 — (i) 88 percent of the households in urban areas should have water supply connections, (ii) All the households in Municipal Corporations and Councils should have 135 lpcd and (iii) 10 percent of the households in Nagar Parishads should have 70 lpcd.

Sanitation (Urban) : Finally, under this component, there are again two specific targets for improving the sanitation standard in urban areas — (i) 90 percent of the urban households should have private toilets by 2017, and (ii) 45 percent of the urban households should be covered by sewerage network service by 2017, which would reach 100 percent by 2022.

The financial requirements for all the above targeted projects have also been prepared by the concerned Department.

### Information Technology

The National Policy on Information Technology, 2012 aims to leverage Information and Communication Technology (ICT) to address the economic and development challenges. The policy is rooted in the conviction that ICT has the power to transform the lives of the people. Along the same line, the Government of Bihar is also planning to deliver various services to the people with utmost transparency, which could be done only through the use of ICT. The IT Vision of the state is that, by 2015, Bihar becomes one of the top five e-governed, IT-enabled, e-literate

state in the country. Under this vision, it is planned to make at least one woman digitally literate per household in coming years. The various components of this scheme are:

- (a) Centre for Social Studies for Digital Empowerment of Rural Women,
- (b) Development of Voice Guided Portal and Animated Videos,
- (c) Creation of Units for Accessibility of Internet,
- (d) Creation of Customer Assistance Centres,
- (e) Making Available one 'Akash' Tablet to each rural household, and
- (f) Server Management.

The total project has been divided into three phases, the details of which are presented below:

Phases	No. of Panchayats to be covered	No. of villages to be covered	No. of women to be trained (crore)	Total Estimated cost (Rs. crore)
Phase I (18 months)	1000	5000	0.37	1101.25
Phase II (24 months)	3500	15000	1.13	2712.50
Phase III (12 months)	3906	20000	1.50	3711.25
Total	8406	40000	3.00	7525.00

#### Security of Weaker Sections and Ultra Poor

The most vulnerable sections of the population include those belonging to Scheduled Caste (SC), Scheduled Tribe (ST), Backward Castes (BC), Extremely Backward Caste (EBC) and minorities. Within these groups, there are women and ultra poor who are even more vulnerable to poverty and social disabilities. It is extremely necessary for the state government to have special programmes that ensure their economic and social security and they become functional cogs in the development wagon wheel.

Towards this goal, the state government plans to mobilise vulnerable households into strong institutions having collective voice and better bargaining power. Such institutions include

Community-Based Organisations (CBO) like Self-Help Groups (SHG), Village Organisation (VO), Cluster Level Federations (CLF), etc. As members of CBOs, the most vulnerable households will have better access to institutional finance from banks and other formal sources which will help them in mitigating extreme poverty. The specific components of this strategy of the state government will be:

- (a) Inclusion of pre-existing SHGs and Federations
- (b) Promoting Self-Help Groups
- (c) Formation of Village Organisations (VO)
- (d) Formation of Cluster Level Federations (CLF)
- (e) Livelihood Based Produce Groups
- (f) Financial Assistance (Initial Capitalisation Fund, Health Risk Fund, Food Security Fund, Livelihood Fund, Skill Development Fund and Miscellaneous Fund)
- (g) Bank Finance,
- (h) Facilitating Access to Insurance Services,
- (i) Vulnerability Reduction,
- (j) Livelihood Promotion, and
- (h) Skill Enhancement and Job Promotion.

With the help of these programmes, the state government wants to ensure that, by 2019-20, all the households are mobilised, and about 11.0 lakh SHGs become operative with nearly of all of them having credit linkage. It is also planned to cover all the disabled persons by a social pension scheme.

#### Art, Culture and Sports

Under MVM, the basic objective of its component relating to Art, Culture and Sports are — (i) Physical and mental development, (ii) Enhancement of efficiency through healthy and recreational activities, (iii) Achievement through skills in sports, (iv) Employment and income generation



through performance in sports, and (v) Exchange youth views and culture through national level sports competitions/ programmes.

For the sub-component of sports, the state government has specific plans which include:

- (a) Construction of stadium/ play fields at Patna (international standard), divisional headquarters, 534 block headquarters and 8406 Gram Panchayat levels.
- (b) Establishment of sports hostel (along with stadium and coaching centres) at each of 38 districts.
- (c) Establishment of Sports Academy
- (d) Provision of financial help to sport persons, and
- (e) Organise district/ state/ national/ international competitions

The physical targets for this programme are presented below.

Year	International Stadium	Stadium at block level	Play field	Indoor Stadium	Stadium and coaching Centre	Sports Academy
2013-14	1	100	2000	2	9	1
2014-15	1	100	2206	4	15	–
2015-16	–	134	2200	3	14	–
2016-17	–	–	2000	–	–	–
Total	2	334	8406	9	38	1

### 3.4 Skill Development

As per 2011 census, out of the total population of 103.8 millions in Bihar, 40 millions are in the age-group 15-29 years, and the child population in the age-group 5-14 years is another 20 millions. All of them will become eligible for employment in the near future. However, the existing skill baseline which determines the livelihood prospects of this youthful population remains rather low. Keeping this in mind, the state government has taken an initiative for a comprehensive skill development programme in the state in a mission mode and has created 'Bihar

Skill Development Mission (BSDM)'. The Mission has set a target of training 10 million youth for their skill development in five years (2013-14 to 2017-18). This target has been distributed yearwise among several line departments. The role of the line departments and BSDM has been defined clearly to avoid any confusion and difficulty in achieving the targets. The role of the line departments is to identify the trades in demand, select the trainees, select quality trainers, monitor the training programmes and also arrange for the required budget. On the other hand, the role of BSDM is assessment of gap in demand of supply of different skills, formulation of training curriculum and design, training of trainers, identification of state resource centre, arrangement of equipments, coordination with industries, identification of certifying agency and other miscellaneous activities.

The planned target group of BSDM include (a) unemployed, unskilled, semi-skilled schools passouts and dropouts in the age-group 15+ years, (b) workers with informally acquired skill desiring certification, (c) employed/unemployed IIT-passouts desirous of multi-skill addition, (d) rescued and rehabilitated ex-child labour, (e) members of SHGs and those working in unorganised sectors, (f) jail inmates, and (g) those seeking self-employment.

The ambitious target of imparting skill training to 10 million youth of the state during 2013-18 has set the following yearly targets — 16, 18, 21, 22 and 23 lakhs for the five years. To help the trained manpower acquire desired employment, a well structured Labour Information and Management System (LMIS) is proposed to be maintained at the state level. It will have functional links with training institutions, industries, employment exchange and other stakeholders.

The line departments that have been identified to implement this skill development programme are — Labour Resource, Information Technology, Rural Development, Agriculture, Health, Science and Technology, Animal Husbandry Directorate, Fisheries Directorate, Dairy Directorate (including COMFED), Minority Welfare, Urban Development & Housing, Education, Social Welfare, SC/ST Welfare, Industry, Tourism, and Home (Jail). The yearwise physical targets for each of these departments are presented below:

### Target for Skill Development

(In lakhs)

Sl. No.	Departments	2013-14	2014-15	2015-16	2016-17	2017-18	Total
1	Labour Resource	3.25	3.66	4.27	4.47	4.67	20.31
2	Information Technology	1.00	1.13	1.31	1.38	1.44	6.25
3	Rural Development	2.00	2.25	2.63	2.75	2.88	12.50
4	Agriculture	3.00	3.38	3.94	4.13	4.31	18.75
5	Health	0.20	0.23	0.26	0.28	0.29	1.25
6	Science & Technology	0.50	0.56	0.66	0.69	0.72	3.13
7a	Animal Husbandry Directorate	0.50	0.56	0.66	0.69	0.72	3.13
7b	Fisheries Directorate	0.10	0.11	0.13	0.14	0.14	0.63
7c	Dairy Directorate including COMFED	0.25	0.28	0.33	0.34	0.36	1.56
8	Minority Welfare	0.25	0.28	0.33	0.34	0.36	1.56
9	Urban Development and Housing	0.50	0.56	0.66	0.69	0.72	3.13
10	Education	1.50	1.69	1.97	2.06	2.16	9.38
11	Social Welfare	1.40	1.58	1.84	1.93	2.01	8.75
12	SC/ST Welfare	0.60	0.68	0.79	0.83	0.86	3.75
13	Industries	0.80	0.90	1.05	1.10	1.15	5.00
14	Tourism	0.15	0.17	0.20	0.21	0.22	0.94
15	Home (jail)	0.12	0.12	0.12	0.12	0.12	0.12
	Total	16.00	18.00	21.00	22.00	23.00	100.00

### 3.5 Panchayati Raj Institutions

Despite the best efforts of the state government, a plethora of challenges remain that time and again confront the present implementation framework of the Panchayati Raj System (PRI) in the state. These challenges first include the operational difficulties. For example, in many cases, the activity mapping does not provide for financing of the activities or the assignment of the functionaries necessary to carry out these activities. Further, the activity mapping does not provide for coordinating mechanisms or authority in case of overlapping responsibilities within or among the functions.

Secondly, the elected PRI members face many challenges in executing their responsibilities, because of low level of education, limited awareness about rules, and inadequate resources. Further, only a very small staff at the GP level are required to manage a large number of

responsibilities. This difficulty is further compounded, as most of the GPs lack basic office infrastructure.

Thirdly, there are social constraints, particularly the deep rooted social inequality along gender and caste lines, that limit the extent of participation of all social groups in a GP. Although the legal framework provides many opportunities for villages to participate in local governance, in reality, it will take a long time for the hitherto suppressed social groups to gain confidence and occupy meaningful seats in local governance.

Other challenges to the proper functioning of PRI include lack of proper monitoring systems, lack of revenue resources at the GP and PS levels, and weak financial management system.

In the light of the aforesaid scenario, the state government wants to strengthen the PRIs with the following interventions.

- (a) Construction of Panchayat Sarkar Bhawan : With the help of grants from the FC13 and state government's own grants, 1435 Panchayat Sarkar Bhawans have already been built. During 2015-20, the state government proposes to build 5000 more such Bhawans which will greatly improve the functioning of GP/PS.
- (b) Capacity Building through Training : During the coming years, the state government wants to establish State Panchayat Training and Resource Centres, one at the state level, 38 at the district level, and 531 more at block level.
- (c) Human Resource Support : The PRIs, particularly at the PS and GP levels, have very limited human resources to manage a complex and large set of government schemes. This human resource deficiency is planned to be removed in coming years. The state government also plans to fill all the posts of engineers at the Panchayati Raj Engineering Organisation (PREO) — 54 Executive Engineers, 274 Assistant Engineers, and 1156 Junior Engineers.

- (d) Allowances to the functionaries of PRI : Presently, allowances are paid only to the Adhyaksha and Upadhyaksha (ZP), Pramukh and Up-Pramukh (PS) and Mukhiya and Sarpanch (GP). All other members are only expenses for their travels. It is now proposed that the existing allowances be raised to decent level and also pay the same to all elected representatives at ZP, PS and GP levels.

It should be noted that the five priority areas of the state government's intervention have been chosen very carefully. Of the five areas, the first two (Physical Infrastructure and Agriculture Road Map) are aimed at promoting the production activities. The next two (Manav Vikas Mission and Skill Development Mission), on the other hand, focus their attention on social development, paving the way for an inclusive development process. Finally, the strengthening of Panchayati Raj Institutions is expected to ensure proper implementation of development projects and, even more significantly, promote the all important phenomenon of people's participation in governance.

## CHAPTER IV

### EXPECTATIONS FROM FINANCE COMMISSION

The Constitutional mandate of Finance Commission is determination of Union and State resources and expenditure and distribution of divisible pool among the Union and States. Further, the mandate is to reduce regional inequality by an appropriate horizontal distribution of resources. Unfortunately, in the case of both vertical as well as horizontal distribution, the tendency of all the previous Finance Commissions has been gradualism and, consequently, the gap between the fiscal capacities of the central and state governments at one hand and that among the different states even now remain very wide. It has been observed by many scholars that the Finance Commission recommendations may be equalising, but it is only marginally so, forcing the poorer states to fend for themselves.

#### 4.1 Overall Considerations

State is of the opinion that resources available with or retained by the Central Government are far in excess of its requirement, and that is why the Central government has increasing tendency to proliferate the Centrally sponsored schemes in sectors primarily in the domain of states as per constitutional scheme of things. To complicate the issues further, the conditionality- driven devolution to states from the Central government has proliferated over the years while the states are obliged by the Constitution to discharge a larger share of developmental duties, it is the central government which is vested with a much higher capacity to raise taxes. Many of these projects do not necessarily match the priorities of the states themselves. However, they do entail a charge on the limited financial base of the state governments, even when the projects reflect the preferences of the central government. This results in a shrinkage of the fiscal space for the state governments and thus forcing them to adopt expenditure patterns that do not reflect their own priorities.

The Finance Commission should ensure first that only so much fund is retained with Central Government as is necessary for the sectors pertaining to its domain. Secondly, if projects relating to subjects on concurrent list are preferred by the central government their implementation should

also be entirely its responsibility without cramping the fiscal space of the state governments. Such an approach would be consistent with the constitutional provisions which guarantee fiscal autonomy both to the central and state governments in their respective domains.

Secondly, to address the problem of widening regional disparity, it is important for the Finance Commission to realise that most of the disadvantaged states are so, firstly because of low public investment and secondly due to the lack of flow of private capital to the states with generally huge infrastructural deficiency. All these late comers need enhanced public outlays to remove that deficiency, requiring resources much beyond their own, and the Finance Commission should appreciate this specific need of poor states.

Thirdly, the analysis of data on inter-state variations with respect to development suggests that the poorer states are far below the national average on human development parameters like poverty, rural-urban disparity, unemployment, education, health and financial inclusion. Any rational development strategy should foster both investment and devolution patterns which would enable those states to reach the national average within a stipulated time frame. In this context, the latest Economic Survey (2012-13) of the Government of India suggests: "This calls for a rethink on the criteria used for devolution of funds to states under Finance Commissions where criteria like income distance (12th Finance Commission) or fiscal capacity distance (13th Finance Commission) along with population are given high weightage and none of the human development indicators are used". Such an approach has also found favour with the central government, as evident from the Finance Minister's budget speech in Parliament on February 28, 2013. The present Finance Commission may examine the manner in which this policy framework is reflected in its recommendations.

Fourth, in addition to the recommendations for sharing of union tax revenues, the Finance Commission also makes recommendations for Grants-in-Aid to various states for several purposes. Under those categories of grants-in-aid, the FC13 had suggested a total transfer of Rs. 318.58 thousand crore to all the states, which was 18.03 percent of the total transfers. Compared

with tax devolutions, grants-in-aid should normally have a greater redistributive role and, therefore, the Finance Commission should make this discretionary allocations more in favour of the disadvantaged states. One should also note here that, out of a total grants-in-aid to all states (Rs. 3,18,581 crore) by the FC13, the share of Bihar was only Rs. 14,602.80 crore (4.6 percent), as against 10.917 percent in case of devolution of taxes. Considering that Bihar's share in population is 7.7 percent (1971) and it is an extremely disadvantaged state, the allocation to Bihar under grants-in-aid appears to be regressive and unfair.

Fifth, it is also desirable that a uniform Gross Fiscal Deficit (GFD) limit of 3 percent, as required under the FRBM Act, operates as a deterrent for the poor states. Given the wide inter-state variation in the levels of development, it would be more just and rational to have a differential approach vis-à-vis the application of the FRBM Act. Subject to the condition that the outstanding debt does not exceed the limit of 28 percent of GSDP, as recommended by 12<sup>th</sup> Finance Commission, a state might be allowed to borrow more from the market for development expenditure.

Finally, the present Finance Commission should also consider that certain states like Bihar have additional geographical disability, because they are land-locked regions and regularly flood-prone due to factors beyond control. Such regions are internationally eligible for special treatment and the Commission may adopt that well-reasoned practice.

#### **4.2 Equalisation of Per Capita Development Expenditure**

It may not be possible for the present Finance Commission to equalise the fiscal capacities of the states, or even substantially reduce the gap in fiscal capacities between the richer and poorer states in one step, in view of wide extant inter-state disparities. But to promote a process of development that reduces the inter-state disparities, leading to a reduction in the disparities of their fiscal capacities, the present Finance Commission should aim for equalisation of at least Per Capita Development Expenditure (PCDE) for all the states. It is this particular head of expenditure that largely determines the growth rate of a state's economy and its equalization across the states can



contribute substantially towards reducing the regional disparity. The Government of Bihar had placed this suggestion before the previous Finance Commission as well, but the Commission, even after appreciating the suggestion, had not factored it in while making its final recommendations.

One should remember here that a poor state like Bihar, with all its disadvantages, cannot break the vicious cycle of underdevelopment as neither the private capital is forthcoming here, nor is the state government, by itself, capable of undertaking public investment of a large magnitude. The only way Bihar can break this vicious cycle of poverty is through development of its physical infrastructure and human resources, which together would incentivise private investment in the long run. Thus, to neutralise the historical disadvantage, the state government needs to step up its development expenditure, at least to the level of national average.

To indicate the serious disadvantage that Bihar suffers from in terms of the level of development expenditure, Table 4.1 presents the PCDE of major Indian states in recent years. Throughout the period, the PCDE in Bihar has been the least among all the states and, except in 2011-12, the PCDE in Bihar has barely been half of the national average. In 2011-12, the state government had raised appreciably the PCDE to stand at Rs. 4651, but even after that appreciable effort, it was just 61.1 percent of the national average of Rs. 7609. In the same year, the highest PCDE was recorded by Haryana at Rs. 11,857 which was more than two-and-a-half times the PCDE in Bihar.

In this background, the state government expects that the present Finance Commission would suggest a devolution pattern that would enable it to equalise its PCDE with the all state average by 2019-20. The implied projections for such an equalisation exercise are presented in Table 4.2. In this exercise, the all-state average PCDE is projected assuming an annual growth rate of 14.8 percent, as has been the trend in recent past. The projected PCDE for all states in 2019-20 is Rs. 20,722. Assuming that Bihar is also able to achieve this expenditure level in 2019-20, the second column of the table projects the PCDE in Bihar for the period 2013-14 to 2019-20. Thereafter, multiplying the PCDE by population (col. 3), the last column of Table 4.2 presents the required

annual Development Expenditure for the period 2013-20, the last 5 years being the relevant period for the present Finance Commission.

Finally, Table 4.3 present the projected budget of the state government for the period 2015-16 to 2019-20, assuming a level of development expenditure as projected in Table 4.2 and a level of non-development expenditure, as projected from the recent trends. The resource gap for the state government is then estimated, after allowing for the internal resources, comprising state's own revenue and permitted borrowing. The enormous fiscal disadvantage of the state government is revealed through a comparison of the its total budget and the resource gap. For example, in 2015-16, for a required total budget of Rs. 135.2 thousand crore, the resource gap is as large as Rs. 86.7 thousand crore, approximately two-thirds of the total budget. Over the years, this fiscal disadvantage becomes deeper; in 2019-20, the resource gap (Rs. 224.7 thousand crore) is 70.0 percent of the total budget (Rs. 321.0 thousand crore). One of the expectations of the Bihar Government from the present Finance Commission is that the latter's recommendations would cover substantially the indicated resource gap.

### **4.3 Grants-in-Aid**

The FC13 had suggested grants-in-aid to various states under 10 major heads — (i) Local Bodies, (ii) Disaster Relief, (iii) Post-devolution Non-Plan Revenue Deficits, (iv) Performance Incentive, (v) Elementary Education, (vi) Environment, (vii) Improving Outcomes, (viii) Maintenance of Roads and Bridges, (ix) State-specific Needs and (x) Implementation of GST. For Bihar, the FC13 had recommended a total amount of Rs. 14,602.80 crore under grants-in-aid for the five-year period, 2010-11 to 2014-15. The distribution of this total amount among 10 different heads and the receipts by the state government under FC13 recommendations are presented in Table 4.4.

Secondly, from the recommendations of the FC13 under grants-in-aid, it also emerges that only three heads out of ten (Local Bodies, Post-devolution Non-Plan Revenue Deficits, and Implementation of GST) together account for 59.4 percent of the total grants. Even if one leaves out the grants recommended for Implementation of GST, which did not ultimately materialise, the

share of the other two heads in the total recommended grants will be more than 50 percent. This implies that for many important heads (like Disaster Relief, Elementary Education, Environment etc.), the allocated funds were only marginal, not expected to make any visible impact on the existing challenges.

For the period to be covered by FC14 the state government desires that the quantum of grants-in-aid to all states should be enhanced substantially, in which the share of Bihar should be at least 15 percent.

The state government has identified some of the priority areas to remove a critical gap in the state's capacity for providing satisfactory administrative services, promoting economic development and implementation of welfare programmes. They are broadly in three groups as follows:-

#### **A. Agriculture Road Map**

##### **(i) Agriculture :-**

For attaining a high growth rate in agriculture, it is necessary to ensure adequate and timely supply of all farm inputs and also provide the required post-production facilities. At present, there are several gaps in agricultural infrastructure in Bihar, but the state government has identified three of these gaps as its priority areas for the immediate intervention — supply of quality seeds, marketing yards, and a few other facilities like training centres, etc.

As regards supply of quality seeds, the state government presently has 244 Seed Multiplication Farms, with an average area of 8.5 hectares. However, since many of these farms had remained unused for long, their present condition is poor. Very recently, the state government, with its own resources, has improved these farms through providing barbed-wire fencing, tractors, farm implements, etc. But all these farms need to be strengthened further and the state also needs seed processing units, progeny nurseries and nurseries.

For marketing facilities again, 54 existing marketing yards in the state need to be strengthened. Other facilities for agricultural development include — e-Kisan Bhawans, Watershed Management Training Centres and establishment of an Agro-Museum. The total cost of these state-specific needs is Rs. 3656.98 crore, as detailed below:

Sl. No.	Project Proposal	No. of Units	Cost Per Unit (In Lakh Rs.)	Total Cost (In Lakh Rs.)
1	Strengthening of 244 Seed Multiplication Farms	244	103	25190.00
2	Construction of district-level Farmer Field School-cum-Training Centres	36	106	3816.00
3	Setting up of 7 Seed Processing Units (along with storage facilities) and storage facilities in another 12 districts	7+12	426	8093.00
4	Development of 233 Block level nurseries	233	30	7031.94
5	Progeny Nurseries at district level	17	109	1859.46
6	Integrated Horticulture Park for development of quality planting materials	1	2155	2154.75
7	Development and strengthening of Extension Training Centres	2	1396	2792.00
8	Establishment of e-Kishan Bhawans at blocks	210	114	23961.00
9	Establishment of Watershed Management Training Centres (district level)	11	600	6600.00
10	Strengthening of Marketing Yards	54	5244	283200.00
11	Setting up of Sonapur Agri-museum and Awareness Centre	1	1000	1000.00
	Total	828	442	365698.15

(ii) Animal-Husbandry

The agro-economic conditions in Bihar are conducive for rearing of milch animals and dairy development. Bihar's livestock wealth is about 5.8 percent of the total livestock wealth of the country. However, the per capita availability of milk in Bihar is 193 gms, compared to 263 gms. for the entire country (2012-13). Keeping in view the substantial potential for dairy development, the state-owned Cooperative Milk Producers' Federation (COMFED) has prepared a dairy development programme for coming years, the total cost of which is Rs. 704.17 crore, as detailed below :

Sl. No.	Implementing Agency	Place	Capacity	Estimated Cost (Rs. in crore)
1.	Vaishal Patliputra Milk Union, Patna	Hajipur	Powder Plant 30.0 MT/day	44.10
			Dairy Plant 4.0 lakh Lit/day	55.28
		Patna	Ice Cream Plants 20.0 KL/day	8.46
		Bihar Sharif	Ice Cream Plants 20.0 KL/day	8.46
			<b>Total</b>	<b>113.60</b>
2.	Mithila Milk Union, Samastipur	Samastipur	Dairy Plant 5.0 lakh Lit/day	60.01
		Samastipur	Powder Plant 30 MT/day	44.10
		Darbhanga	Dairy Plant 2.0 lakh Lit./day	25.00
			<b>Total</b>	<b>129.11</b>
3.	Vikramshila Milk Union, Bhagalpur	Bhagalpur	Dairy Plant 2.0 lakh Lit/day	25.00
		Munger	Cattle Feed Plant 300 MT/day	36.23
			<b>Total</b>	<b>61.23</b>
4.	Kosi Dairy Project, Purnea	Purnea	Dairy Plant 2.0 lakh Lit/day	25.00
		Saharsa	Dairy Plant 1.0 lakh Lit/day	17.01
			<b>Total</b>	<b>42.01</b>
5.	Dr. Rajendra Pd. Milk Union, Barauni	Khagaria	Cattle Feed Plant 300 MT/day	36.23
		Barauni	Dairy Plant 5.0 lakh Lit/day	60.01
			<b>Total</b>	<b>96.24</b>
6.	Shahabad Milk Union, Ara	Dehri-on-Son	Dairy Plant and Powder Plant 5.0 lakh Lit/ day and 30.0 MT/day	104.11
		Bihiya	Cattle Feed Plant 300 MT/day	36.23
			<b>Total</b>	<b>140.24</b>
7.	Tirhut Milk Union, Muzaffarpur	Sitamarhi	Dairy Plant 4.0 lakh Lit./day	55.59
		Sitamarhi	Powder Plant 30.0 MT/day	44.05
			<b>Total</b>	<b>99.64</b>
8.	Magadh Dairy Project, Gaya	Gaya	Dairy Plant 2.0 lakh Lit/day	25.00
<b>Total</b>				<b>704.17</b>

(iii) Water Resources

The Sone Canal System plays an important role in providing assured irrigation to some of the high agricultural productivity districts in south-west Bihar. However, at present, the surface water of the system is not being used optimally, as a large amount of water is misused at the upper end of

the canal. This can be prevented by lining of the Sone Canal System, which would entail a total cost of Rs. 6000.00 crore, as detailed below :-

No.	Project	Total cost (Rs. crore)
1	Lining of Sone Canal System	6000.00

(iv) Rural Infrastructure - Rural connectivity

To improve the rural roads infrastructure and provide all-weather road connectivity to all the villages with a population of 250 or above, the state government plans to build 4618 kms. of road with small bridges, wherever necessary. At a cost of Rs. 0.90 crore per kilometer and an overall cost of Rs. 200.00 crore for all small bridges, the total cost of the rural roads project is Rs. 4356.20 crore. The details of these rural connectivity projects are presented below :

No.	Projects	No.	Unit Cost (Rs. crore)	Total cost (Rs. crore)
1	Rural Roads	4618 kms.	0.90	4156.20
2	Construction of Small Bridges	—	—	200.00
<b>Total</b>				<b>4356.20</b>

(v) Power

For meeting the agricultural requirement in a time bound manner to achieve growth in agriculture and enhancement in agro-based rural economy there is a need to energize irrigation pump sets (Government and Private) and cater to the requirement of Agro-based Industries by providing adequate conventional and non-conventional energy. Presently, through the rural feeders (mixed feeders), 5.83% of total energy is provided to Irrigation Agriculture Services which is much below the national average. Detailed Power requirement for various agriculture and allied sectors has been worked out keeping in view the targets of Agriculture Road Map. The total connected load of Private TubeWells numbering 22.14 lacs will be 5860 MW, and the total connected load of Government TubeWells will be 832 MW by 2021-22. Taking diversity factor into consideration the demand of power for TubeWells (Government & Private) by 2021-22 works out to 4120 MW. Over and above, there will be requirement of power for Agro-based Industries, Food Processing

Industries, Animal Husbandry and Fisheries etc. and such requirement is estimated to be 160 MW. Total projected demand of power for Agriculture Sector works out to be 4280 MW by 2021-22. To meet these demands Rs. 6444.44 cr for setting up of distribution system and Rs. 1926 cr for upgradation of transmission system a total of Rs. 8370.44 cr would be required.

## **B. Manav Vikas Mission**

### **(i) Secondary Education**

Bihar has about 77 thousand government elementary schools, providing education upto Standard VIII. In contrast, there are only 3948 government high schools for providing secondary/ higher secondary education and another 980 private high schools, the latter receiving grants-in-aid from the state government, based on their student performance. Such inadequate number of high schools causes overall low enrolment ratio and high dropout rates. Besides distance is a serious obstacle for increasing the enrollment of girl students so essential for delaying the age of marriage and reducing the fertility rate required for population stabilization. To address this serious problem, the state government has decided to set up 4500 higher secondary schools, at least one in each Panchayat.

These 4500 higher secondary schools will be built over a period of 4 years, starting from 2016-17. The unit cost for each school (only physical infrastructure) is Rs. 1.15 crore at estimated 2016-17 prices; in subsequent years, there will be an annual increase of approximately 10 percent in unit costs. The total financial requirement for the project is Rs. 6102.48 crore, as detailed below :

Year	No. of Schools	Unit Cost (Rs. crore)	Total Cost (Rs. crore)
2016-17	1000	1.15	1150.00
2017-18	1000	1.26	1265.00
2018-19	1000	1.39	1391.50
2019-20	1500	1.50	2295.98
<b>Total</b>			<b>6102.48</b>

(ii) Labour Resources

Bihar has a massive workforce and it is very necessary for the state government to make employment opportunities accessible to all, particularly the weaker sections of the society. One of the requirements for this is to have Employment Exchanges where all the services required for the workforce are available at a single point — Employment Exchange, Administrative Office, Inspectorate of Factories, career counseling, employment market information and other services — to ensure better coordination among them.

The state government intends to establish 10 such Employment Exchanges in 10 selected districts. Each building is estimated to cost Rs. 5.26 crore. However, including the cost escalations, the total cost of 10 buildings will be Rs. 69.12 crore. In addition to this, for effective execution and monitoring of Rashtriya Swasthya Bima Yojana (RSBY), an office of Rajya Shram Kalyan Samiti is proposed to be constructed at the state level. Similarly, to achieve the ambitions targets under the Bihar Skill Development Mission (BSDM), a state level Kaushal Vikas Bhawan is proposed at a cost of Rs. 5.06 crore. Thus, the total cost for labour related projects is Rs. 76.28 crore, as detailed below:

No.	Project	No. of Units	Unit Cost (Rs. crore)	Total Cost (Rs. crore)
1	Employment Exchanges	10	5.26	69.12
2	Rajya Shram Kalyan Samiti Bhawan for RSBY (7000 sq.ft.)	1	2.10	2.10
3	Kaushal Vikas Bhawan for BSDM (17,000 sq.ft.)	1	5.06	5.06
			Total	76.28

Note : Total Cost for Employment Exchange = Rs. 52.60 crore (Cost at current prices) + Rs. 16.52 crore (escalation cost) = Rs. 69.12 crore

(iii) Social Welfare

The state government is committed to educational development of scheduled castes/ tribe communities on a priority basis. There are 80 residential schools, where about 30 thousand students belonging to SC/ST communities are presently studying. Out of these 80 residential schools, 30 were provided with basic infrastructure at a cost of Rs. 50 crore from the grants



received from the FC12. But many of the schools are now in a dilapidated condition and lack basic amenities. The state government now wants to upgrade the infrastructure of 400-bedded 40 residential schools (school-cum-hostel building and teacher/ non-teacher quarters) at a cost of Rs. 15.76 crore per unit, resulting in a total cost of Rs. 630.40 crore.

Additionally, there are now 148 hostels for SC students and another 13 for ST students. These hostels also require new buildings. The state government proposes to upgrade the infrastructure of 50 such hostels at a cost of Rs. 8.00 crore per unit, resulting in a total cost of Rs. 400.00 crore.

For girl students from extremely backward castes, at present, 12 residential girls school and 2 high schools are being run by the state government in 11 districts of Bihar. It is proposed to expand this facility in all the districts of Bihar. During 2015-16 to 2019-20, the state government is planning 7 more of such schools, at a cost of Rs. 9.95 crore per school, totalling a required amount of Rs. 69.65 crore.

The total cost of the above projects is Rs. 1100.05 crore, as presented below :

No.	Projects	Nos.	Unit Cost (Rs. crore)	Total Cost
1	Construction/ upgradation of 400-bedded residential school-cum-hostel (including teacher/ non-teacher quarters) for SC/ST students	40	15.76	630.40
2	Construction/ upgradation of 400-bedded hostels for SC students	50	8.00	400.00
3	Construction of 250-bedded schools for EBC students	7	9.95	69.65
<b>Total</b>				<b>1100.05</b>

### C. Governance Reforms

(i) Administrative Training Institutes : For good governance and citizen-centric administration, it is necessary to have a skilled workforce. Such skill is acquired through proper training and guidance. All required training programmes, however, cannot be conducted at state level; there is a need to decentralise the training programmes for logistic considerations. In this perspective, the

state government plans to establish one training institute in 7 out of 9 divisional headquarters. The unit cost for these training institutes will be Rs. 10.50 crore, resulting in a total cost of Rs. 94.50 crore for 9 training institutes, as detailed below.

No.	Project	Nos.	Unit cost (Rs. crore)	Total cost (Rs. crore)
1	Establishment of Administrative Training Institutes	9	10.50	94.50

(ii) Police Buildings : The FC13 had recommended grants for the construction of Bihar Police Academy, Model Police Stations in each district, and barracks/quarters for lower sub-ordinate police personnel. However, these grants were not adequate to meet all the requirements of police buildings in the state. For example, presently, only 14 percent of the lower sub-ordinate staff and 25 percent of the upper sub-ordinate staff are provided with residential quarters. Recently, the state government has also planned for the recruitment of a large number of lady police constables. The state government, thus, requires financial assistance for construction of the following buildings to strengthen the police force — (i) Training Centre for the Constables at Simultala (Jamui district), (ii) SC/ST Police Stations and Mahila Police Stations (combined campus) in 20 districts, (iii) Barracks for 300 Mahila Constables at Police Line / BMP campus at 43 places, and (iv) Barracks for 10 Mahila Constables at 500 Police Stations.

The proposal for the construction of these buildings have been prepared keeping in view the availability of land, space requirements, and plinth area rates (as approved by GOB and CPWD). The costs have been estimated taking into account the prices in 2012-13 and allowing for 8 percent annual increase in costs till 2019-20. The total cost for these projects is Rs. 796.88 crore, as detailed below:

No.	Projects	Nos.	Total cost (Rs. crore)
1	Training Centre for Constables (Simultala, Jamui)	1	170.00
2	SC/ST Police Station and Mahila Police Station (combined campus)	20	103.64
3	Barracks for 300 Mahila constables in Police Lines/ BMP	43	359.74
4	Barracks for 10 Mahila constables at Police Stations	500	163.50
<b>Total</b>			<b>796.88</b>

(iii) Upgradation of Jails : At present, there are 57 jails in the state — 7 central jails, 32 district jails, 16 sub-jails and 1 open jail. These jails are generally over-occupied and the state also lacks a high security jail for hardcore criminals and extremists. Additionally, since the state prisons are to be managed as correctional homes, Bihar also needs an Institute of Correctional Administration to provide jail officials with proper training. In this perspective, the state government plans to strengthen its jails infrastructure at an estimated cost of Rs. 345.10 crore, as detailed below:

No.	Project	Cost (Rs. crore)
1	Bihar Institute of Correctional Administration	43.50
2	High Security Prison	120.00
3	Installation of Cell Phone Jammers	30.00
4	Residential Building for Jail Staff	30.00
5	Correctional Home for Female Prisoners	20.00
6	Installation/Renovation of toilets, water supply and sanitation in jails	41.60
7	Renovation of old structures	25.00
8	Raising of perimeter wall	25.00
9	Vocational Training	10.00
	<b>Total</b>	<b>345.10</b>

(iv) Block Development Office : An adequate administrative structure at the block level is extremely important for execution of all the development programmes. But, unfortunately, many of the buildings of the Block Development Offices, built during the Second Plan, are now in a dilapidated condition. Out of 534 blocks in the state, 300 have been identified by the state government for reconstruction at an estimated cost of Rs. 16.17 crore per building, comprising main office, residential blocks and inspection bungalow. The total cost of this reconstruction project is Rs. 4851.00 crore, as detailed below :

Project	No.	Unit Cost (Rs. crore)	Total Cost (Rs. crore)
Reconstruction of Block Development Office	300	16.17	4851.00

At the end, it needs to be emphasised that the above list of state-specific needs has been prepared after a thorough and careful exercise to identify the critical gaps in the state's administrative and development infrastructure. The state government will not be able to remove these infrastructural

deficits with its current financial resources. Table 4.6 presents in a consolidated form the sectorwise financial requirements for the state-specific needs, totaling to Rs. 23,732.64 crore. The Finance Commission is, thus, requested to consider these needs most sympathetically and grant the required amount to the state government for completion of these projects.

(v) Panchayati Raj Institutions

The state government has decided to construct a Panchayat Sarkar Bhawan in each of its 8406 Gram Panchayats (GP). These Bhawans will improve the functioning of the GPs by being an integrated centre for planning, execution, monitoring and evaluation of all development programmes at the GP level.

The sanction for construction of 1435 of these Bhawans, during the period 2011-12 to 2014-15, has already been accorded by the state government at an estimated cost of Rs. 1213.37 crore. Of this amount, Rs. 1000.00 crore has been provided by the central government (as recommended by the FC13) and the remaining Rs. 213.37 crore by the state government from its State Plan Fund. During the period of 2015-16 to 2019-20, the state government proposes to construct 5000 more Bhawans at a cost of Rs. 1.00 crore per unit, implying a total cost of Rs. 5000.00 crore, as detailed below :

No.	Project	Nos.	Unit Cost (Rs. crore)	Total Cost (Rs. crore)
1	Construction of Panchayat Sarkar Bhawan	5000	1.00	5000.00

**4.4 Vertical Distribution**

Under the Constitution, the distribution of tax and non-tax heads between the central and state governments is such that the buoyancy of the central tax heads are generally higher and the central government has also wider opportunities for raising non-tax revenues from a number of sources, particularly the telecommunication sector in the recent years. In spite of this, the previous Finance Commissions have been very conservative in the allocation of resources to the state governments. As regards the share of states in the net proceeds of the shareable central taxes, the FC13 has

recommended it to be only 32 percent, after a very marginal increase of only 1.5 percentage points over the previous Finance Commission recommendation of 30.5 percent. For the other component of the resource transfers viz. share in gross revenue receipts of the central government, the Thirteenth Finance Commission had raised it, but again only very marginally to only 39.5 percent, from 38.0 percent, suggested by FC12.

To make this vertical distribution of resources more rational, the Government of Bihar strongly suggests that this distribution be in proportion to the development expenditures borne by the central and state governments. In case of shareable central taxes, the states should be allotted at least 50 percent of the net proceeds under this head. For the states' share in gross revenue receipts of the central government again, it should be raised to at least 60 percent. The state government would also like to underline that the difference between cess/surcharge (except when they are very temporary) and tax is only semantic and, therefore, strongly suggests that the former be regarded as part of the total revenues of the central government.

#### **4.5 Horizontal Distribution Criteria**

The previous Finance Commissions have played with a number of options to decide about the criteria for horizontal distribution of resources and the relative weights for the chosen criteria. For the seven different criterion that have been used by the three previous Finance Commissions, one can easily note that these criteria are of three types. In the first group, there are two criteria — Population and Area, both used to judge the relative size of the state. In the second group are included three criteria, each of which tries to capture the relative economic disadvantage of the states and, hence, their needs for additional resources; these three criteria are — Income Distance, Physical Infrastructure Index, and Fiscal Capacity Distance. The remaining two criteria are Tax Effort and Fiscal Discipline, which are expected to incentivise the states for prudent fiscal management in terms of resource mobilisation and limiting deficit/debt.

Population : In view of substantial differences among the states in terms of population, this is an obvious criterion for horizontal distribution of resources. But, unfortunately, all the previous Finance Commissions since the Fifth one have taken the 1971 census figures as the relevant base. This 1971 base was ostensibly accepted to ensure that states recording lower growth rate of population are not penalised for their demographic achievements. This argument is a flawed one when one remembers that if a state is able to improve its income position, it also stands to lose on the income-related criterion, be it per Capita Income or its Fiscal Capacity. It is, therefore, suggested that the present Finance Commission consider the latest 2011 census data for population. Indeed, the central government is already aware about the untenability of the 1971 population on the basis devolution purposes and has suggested to the present Finance Commission to take into account the demographic changes that have taken place since 1971. In the absence of such a change of base from 1971 to 2011 census, Bihar will lose substantially in horizontal distribution, since its population in 2011 was 8.6 percent of the country's population, much higher than 7.7 percent in 1971 (Table 4.6).

Area : It was the FC10 which had first introduced Area as one of the criteria for the devolution formula. This was done on the consideration that larger states have to incur additional administrative cost to deliver a comparable standard of services to its citizens. The FC10 had assigned a weight of 5 percent to the criterion, which was later increased to 7.5 percent (FC11) and further to 10.0 percent (FC12 and FC13). This argument is indeed one-sided, as it wholly ignores the enormous cost disadvantages that densely populated states like Bihar have to face.

For a number of development activities, availability of land is a primary need. It is needed not only for public utilities likes roads, educational institutions, health facilities or administrative infrastructures, but even for industrial development. Acquisition of land for these purposes are now becoming increasingly difficult and costlier, leading to the Land Acquisition Act that has recently been passed by Parliament. In this background, there is no rational for Area being

considered as a criterion for devolution. This simply acts as penalty for those states which are densely populated and have to face very challenging land-man ratio. Bihar happens to be one of those states, where the density of population is 1102 person / sq.km., compared to the national average of only 382 persons/sq.km. It is, therefore, suggested that Area as a criterion for devolution of resources should be dropped altogether.

Income Distance and Fiscal Capacity Distance : Among all the criteria that the Finance Commissions have considered for devolution formula, it is the Income Distance that is most relevant. It not only indicates the development deficits of different states, but simultaneously, it also signifies their fiscal disadvantages since lower income levels also imply a lower tax base for the poorer states. However, in spite of its enormous relevance, it was altogether ignored by the previous Finance Commission, being replaced by a new criterion Fiscal Capacity Distance which actually underestimates the economic disadvantage of the poorer states. If one makes a comparison between Income Distance and Fiscal Capacity Distance, it is obvious that the economic disadvantages of a state is not limited to its fiscal disadvantage alone. At one hand, a poor state is unable to raise more tax or non-tax revenue, enabling it to spend more for developmental activities and, on the other, it also implies a low private investment in the state, either local or external. Such low private investment is a consequence of both low income and the poor infrastructure that the poor states are generally endorsed with. To compensate for the lower private investment, the poor states need to undertake relatively higher public investment. Thus, the Fiscal Capacity Distance is not able to capture fully the real economic disadvantage of the poorer states.

It is, therefore, suggested that the present Finance Commission restore Income Distance as one of the criteria for resource devolution and accord a weightage of at least 70 percent to this criterion (Table 4.7).



A third criterion for judging the economic needs of state was Index of Infrastructure. Although this is an extremely important dimension of the economic disadvantages of poorer states, this was dropped by both FC12 and FC13, presumably because of the difficulties in preparing a satisfactory Index of Infrastructure. The present Finance Commission may follow the same practice.

Tax Effort and Fiscal Disciplines : As mentioned before, both these criteria are supposed to incentivise the state governments towards prudent fiscal management in terms of resource mobilisation and limiting deficit/debt. Of these two criteria, Tax Effort was considered by the FC11 and FC12, but the FC13 has discarded it. This is indeed desirable, since the poorer states cannot raise their Tax : GSDP ratio beyond a limit, even after improving their tax administration. It is because of the nature of their economies which provide a much smaller tax base (Table 4.8).

Fiscal Discipline, on the other hand, is a more rational index of how prudent is the management of public finance of a state. This is primarily because a poor state might find it difficult to raise more tax or non-tax revenues, but it can still control its level and pattern of expenditure to avoid unsustainable levels of deficit and debt. However, an over-emphasis on Fiscal Discipline also means that the poorer states are not able to raise their expenditure levels, be it developmental or non-developmental. The FC13 had used the improvement to the extent to which a state's own revenue is able to meet its revenue expenditures an index of Fiscal Discipline, taking two periods. We have used the same criterion to examine how Bihar has fared on this criterion to show that Bihar has indeed improved its Fiscal Discipline between the trienniums 2003-06 and 2007-10 (Table 4.9), along with 5 other states. But it was only a marginal improvement, since at the existing low level of GSDP, it is not possible for the own revenue of Bihar to grow at a rate faster than the growth of its total revenue expenditure. It is, therefore, suggested that the criterion of Fiscal Discipline be accorded a lower weight of 10 percent by the present Finance Commission.



In deciding the criteria for horizontal distribution of resources and their relative weights, it is extremely important to note how these decisions of the previous three Finance Commissions have affected the share of Bihar, the poorest state of India (Table 4.10). From a share of 11.589 percent, as recommended by the FC11, it had dropped to 11.028 percent (FC12) and still less at 10.917 percent (FC13). This has happened first because of inclusion of Area as a criterion of devolution (with a higher weight given by FC12 and FC13) and then because of Income Distance given less weight by FC12 and replaced by Fiscal Capacity Distance by FC13. This is indeed a strange devolution pattern, where the poorest state in India gets increasingly less share of the total divisible tax resources of the central government. When one compares the shares of the Low income, Middle income, High income and Special Category States, it is clearly observed that, between FC11 and FC13, the shares of High income and Special category states have increased. In contrast, the Middle income states have lost and the share of low income states has remained nearly unaltered. This trend in the devolution pattern is far from equalisation, and Bihar has been the worst sufferer of this exceedingly unfair horizontal devolutions.

In view of the arguments detailed above, the state government suggests that the present Finance Commission recommend the following criteria and weightage for the devolution formula:

Criteria	Finance Commissions			
	FC11	FC12	FC13	FC14 (Suggested )
Population	10.0	25.0	25.0	20.0
Income Distance	62.5	50.0	–	70.0
Area	7.5	10.0	10.0	–
Index of Infrastructure	7.5		–	–
Tax Effort	5.0	7.5	–	–
Fiscal Discipline	7.5	7.5	17.5	10.0
Fiscal Capacity Distance	–	–	47.5	–
Total	100.0	100.0	100.0	100.0

**Table 4.1 : Per Capita Development Expenditure of States**

States	Per Capita Development Expenditure (Rs.)							Growth Rate
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	
Gujarat	3968	4536	4776	6222	6833	8006	8729	14.8
Haryana	4150	5910	6540	7839	9481	9383	11857	17.2
Maharashtra	4222	4526	4916	6263	7271	7759	9027	14.3
Punjab	3418	4156	4514	4850	4993	5810	7995	12.6
Andhra Pradesh	3718	4519	6301	6883	6900	7867	9962	16.0
Bihar	1432	1865	2156	2552	2845	2780	4651	17.9
Chhattisgarh	2979	3720	4580	5413	6529	6741	10059	20.4
Jharkhand	3324	3960	4215	4526	4728	5516	6479	10.4
Karnataka	4058	5270	5833	6345	7565	8570	9612	14.6
Kerala	3296	3189	3941	4834	5313	6163	8452	17.2
Madhya Pradesh	2953	2796	3351	3789	4711	5580	8178	18.6
Odisha	1972	2427	3309	4356	4691	5640	6902	23.0
Rajasthan	2831	3137	3788	4280	4654	4973	6613	14.0
Tamil Nadu	3333	4295	4766	6183	6474	7740	9609	18.1
Uttar Pradesh	1814	2354	2816	3440	3679	3854	4854	16.2
West Bengal	2042	2236	2618	3954	3971	4210	5306	17.6
All States	3006	3515	4096	4920	5444	6050	7609	16.0
PDCE of Bihar as percentage of All State Average	47.6	53.6	52.6	51.9	52.3	46.0	61.1	-

**Table 4.2 : Projection of Per Capita Development Expenditure (PDCE) for Convergence with All India Average (All States) 2019-20**

Year	Per Capita Development Expenditure of All States Average (Rs.)	Per Capita Development Expenditure of Bihar (Rs.)	Population Estimate for Bihar (in Crore)	Total Development Expenditure for Bihar (projected) (Rs. Crore)
2013-14	9052	5774	10.8	62354
2014-15	10392	7144	11.0	73775
2015-16	11931	8840	11.3	97807
2016-17	13696	10938	11.5	124802
2017-18	15723	13534	11.8	159046
2018-19	18050	16747	12.0	198480
2019-20	20722	20722	12.3	252982
CAGR	14.8	23.7		26.9

Note : PCDE for Bihar in 2011-12 is assumed to be Rs. 3677, as projected from past trend. The actual PCDE in 2011-12 was unusually high at Rs. 4651.

**Table 4.3 : Estimate of Budgetary Requirements for Equalization of Per Capita Development Expenditure by 2019-20 (Rs Crore) (With All States Average)**

(Rs. crore)

Year	Development Expenditure	Non-Development Expenditure	Total Budget Size	State's Own Revenue	Permitted Borrowing	State's Own Resources	Resource Gap
2015-16	97807	37355	135162	29975	18408	48382	-86780
2016-17	124802	42170	166972	35507	20999	56505	-110466
2017-18	159046	48803	207849	42123	24917	67041	-140808
2018-19	198480	58861	257342	50040	31584	81624	-175718
2019-20	252982	68033	321015	59833	36418	96251	-224763
CAGR	26.7	16.6	24.1	18.8	19.4	19.0	

**Table 4.4 : Recommendations of the Thirteenth Finance Commission for Grants-in-Aid to Bihar**

(Rs. crore)

No.	Heads	Recommen- dation	Receipts			
			2010-11	2011-12	2012-13 (RE)	Total
1	Local Bodies	5682.1	489.58	899.31	1102.50	2491.39
2	Disaster Relief	1411.2	250.87	263.41	276.58	790.86
3	Post-devolution Non-plan Revenue Deficit	0.0	0.00	0.00	0.00	0.00
4	Performance Incentive	0.0	0.00	0.00	0.00	0.00
5	Elementary Education	4018.0	585.00	699.00	818.00	2102.00
6	Environment					
	(a) Protection of Forests	38.4	4.80	4.80	4.06	13.66
	(b) Renewable Energy	—	—	—	—	0.00
	(c) Water Management	304.0	0.00	76.00	0.00	76.00
	Total	342.4	4.80	80.80	4.06	89.66
7	Improving outcomes					
	(a) Reduction in IMR	—	—	—	13.70	13.70
	(b) Improvement in Supply of Justice	385.0	76.99	38.50	0.00	115.49
	(c) Incentive for Issuing UID	369.2	36.92	0.00	0.00	36.92
	(d) District Innovation Fund	38.0	0.00	19.00	0.00	19.00
	(e) Improvement of Statistics System	38.0	0.00	7.60	0.00	7.60
	(f) Employee/Pension Data Base	10.0	2.50	0.00	0.00	2.50
	Total	840.2	116.41	65.10	13.70	195.21
8	Maintenance of Roads/Bridges	464.0	0.00	94.00	105.00	199.00
9	State-specific Needs	1845.0	0.00	361.67	0.00	361.67
10	Implementation of GST	—	—	—	—	0.00
	Total	14602.8	1446.66	2463.29	2319.84	6229.79

Note : For all states, the FC13 had allocated Rs. 50,000 crore for implementation of GST, Rs. 5000 crore for Reduction in IMR and Rs. 5000 crore for Renewable Energy. However, the distribution of these sums among the states was not done by the Commission.

**Table 4.5 : Sectorwise Financial Requirement for State-Specific Needs**

<b>No.</b>	<b>Priority Sector.</b>	<b>Sector</b>	<b>Financial Requirement (Rs. crore)</b>
A	Agriculture Road Map	(i) Agriculture	3656.98
		(ii) Animal Husbandry	704.17
		(iii) Water Resources	6000.00
		(iv) Rural Connectivity	4356.20
		(v) Power	8370.44
		<b>Sub total</b>	<b>23087.79</b>
B	Manav Vikas Mission	(i) Secondary Education	6102.48
		(ii) Labour Resources	76.28
		(iii) Social Welfare	1100.05
		<b>Sub total</b>	<b>7278.81</b>
C	Governance Reforms	(i) Administrative Training Institutes	94.50
		(ii) Police Buildings	796.88
		(iii) Upgradation of Jails	345.10
		(iv) Block Development Office	4851.00
		(v) Panchayati Raj Institutions	5000.00
		<b>Sub Total</b>	<b>11087.48</b>
<b>Total</b>			<b>41454.08</b>

**Table 4.6 : Population of Major States****(lakh)**

<b>States</b>	<b>1971</b>	<b>2011</b>
Andhra Pradesh	435.0(7.9)	846.7 (7.0)
<b>Bihar</b>	<b>421.3 (7.7)</b>	<b>1038.0 (8.6)</b>
Chhattisgarh	116.4 (2.1)	255.4 (2.1)
Gujarat	267.0 (4.9)	603.8 (5.0)
Haryana	100.4 (1.8)	253.5 (2.1)
Jharkhand	142.3 (2.6)	329.7 (2.6)
Karnataka	293.0 (5.3)	611.3 (5.1)
Kerala	213.5 (3.9)	333.9 (2.8)
Madhya Pradesh	300.2 (5.5)	726.0 (6.0)
Maharashtra	504.1 (9.2)	1123.7 (9.3)
Odisha	219.4 (4.0)	419.5 (3.5)
Punjab	135.5 (2.5)	277.0 (2.3)
Rajasthan	257.7 (4.7)	686.2 (5.7)
Tamil Nadu	412.0 (7.5)	721.4 (6.0)
Uttar Pradesh	838 (15.3)	1995.8 (16.5)
West Bengal	443.1 (8.1)	913.5 (7.5)
<b>All States</b>	<b>5481.6 (100.0)</b>	<b>12101.9 (100.0)</b>

**Table 4.7 : Per Capita Net Domestic Product at Factor Cost at 2004-05 Prices for Major States**

State	Per Capita NSDP (Rs.)		Distance (percentage) from All State Average	
	Average (2005-08)	Average (2009-12)	Average (2005-08)	Average (2009-12)
Andhra Pradesh	30280	40046	107.6	111.4
<b>Bihar</b>	<b>8883</b>	<b>13637</b>	<b>31.6</b>	<b>37.9</b>
Chhattisgarh	21013	27160	74.7	75.6
Gujarat	39056	50610	138.8	140.8
Haryana	44036	59050	156.5	164.3
Jharkhand	18610	21761	66.1	60.5
Karnataka	32279	39831	114.7	110.8
Kerala	37470	49736	133.2	138.4
Madhya Pradesh	16857	21739	59.9	60.5
Maharashtra	45879	60094	163.0	167.2
Odisha	20009	25628	71.1	71.3
Punjab	36917	44722	131.2	124.4
Rajasthan	20903	25301	74.3	70.4
Tamil Nadu	38202	51694	135.8	143.8
Uttar Pradesh	14187	17275	50.4	48.1
West Bengal	25434	32276	90.4	89.8
<b>All States</b>	<b>28138</b>	<b>35947</b>	<b>100.0</b>	<b>100.0</b>

**Table 4.8 : Tax-GSDP Ratio for Major States**

States	Tax-GSDP Ratio		
	Average (2005-08)	Average (2008-11)	Difference
Andhra Pradesh	7.80	7.55	(-) 0.25
<b>Bihar</b>	<b>4.27</b>	<b>4.75</b>	<b>0.48</b>
Chhattisgarh	7.34	7.24	(-) 0.10
Gujarat	6.53	6.62	0.09
Haryana	8.13	6.22	(-) 1.91
Jharkhand	4.52	5.47	0.95
Karnataka	9.79	9.23	(-) 0.56
Kerala	7.60	7.77	0.17
Madhya Pradesh	7.34	7.63	0.29
Maharashtra	6.90	6.92	0.02
Odisha	5.67	5.55	(-) 0.12
Punjab	7.19	6.7	(-) 0.49
Rajasthan	6.84	6.37	(-) 0.47
Tamil Nadu	8.78	8.15	(-) 0.63
Uttar Pradesh	6.60	6.6	0.00
West Bengal	4.45	4.34	(-) 0.11
<b>All States</b>	<b>7.05</b>	<b>6.18</b>	<b>(-) 0.87</b>



**Table 4.9 : Fiscal Discipline Index for major Indian States (2003-06 and 2007-10)**

States	Own Revenue/ Revenue Expenditure (%)		Relative to All States (16) ratio		Index of Change (ratio)
	Average 2003-06	Average 2007-10	Average 2003-06	Average 2007-10	Fi
Andhra Pradesh	63.52	67.98	1.10	1.10	1.00
<b>Bihar</b>	<b>24.77</b>	<b>26.81</b>	<b>0.43</b>	<b>0.43</b>	<b>1.01</b>
Chhattisgarh	62.14	63.46	1.07	1.03	0.96
Gujarat	67.52	72.23	1.17	1.17	1.00
Haryana	86.67	75.12	1.50	1.22	0.81
Jharkhand	44.50	45.84	0.77	0.74	0.97
Karnataka	77.05	74.31	1.33	1.20	0.90
Kerala	56.72	61.61	0.98	1.00	1.02
Madhya Pradesh	54.36	60.83	0.94	0.99	1.05
Maharashtra	68.83	82.31	1.19	1.33	1.12
Odisha	42.61	51.20	0.74	0.83	1.13
Punjab	69.63	66.33	1.20	1.07	0.89
Rajasthan	53.47	55.17	0.92	0.89	0.97
Tamil Nadu	74.71	73.04	1.29	1.18	0.92
Uttar Pradesh	38.94	49.31	0.67	0.80	1.19
West Bengal	37.25	35.93	0.64	0.58	0.90
<b>All States</b>	<b>57.89</b>	<b>61.75</b>	<b>1.00</b>	<b>1.00</b>	<b>1.00</b>

**Table 4.10 : Tax Devolution**

	FC11	FC12	FC13
Bihar	14.597	11.028	10.917
Low Income States	53.762	53.788	53.618
Middle Income States	29.189	26.842	25.839
High Income States	9.75	11.199	10.943
SC States	7.299	8.171	9.6
NSC States	92.701	91.829	90.4
Total	100	100	100

Note : Under FC11, the share of present Bihar was 11.589 percent; the share of 14.597 percent was for united Bihar.

## CHAPTER V

### DISASTER MANAGEMENT & STATE DISASTER RESPONSE FUND

The occurrence of disasters, be it natural or otherwise, is a common phenomenon everywhere. But owing to Bihar's geographical position, such calamities or disasters are far more frequent here than in most other states. In this background, the issue of State Disaster Response Fund (SDRF) is extremely important for the state — its overall size, relative contribution to it by the central and state governments, and the administrative guidelines for utilisation of this fund. Indeed, the type of calamities that fall under the SDRF is also an important issue in this context. The SDRF was constituted in the state in 2010 in view of the recommendation of 13<sup>th</sup> FC and the advice received from the Central Government. Prior to SDRF, Calamity Relief Fund (CRF) was in operation.

#### 5.1 Recent Calamities in Bihar

Bihar is prone to a number of natural calamities which, besides the near-perennial floods and droughts, include earthquakes, hailstorm, cyclone, heatwave, coldwave, fire incidence and others.

Floods : This is the most recurrent natural calamity in Bihar and at least a part of the state gets flooded every year (Table 5.1). Approximately, 20 percent of the entire flood-prone area in India lies in Bihar. The Ganges and its tributaries such as Kamla Balan, Kosi, Bagmati, Gandak and Burhi Gandak form a network of rivers that renders the state quite vulnerable to floods. Out of 38 districts in the state, no less than 28 are flood prone. Further, people also succumb to death every year in boat-capsizing incidents. In the recent past, the most devastating flood had occurred in 2007, when 22 districts suffered extensively. In 2008, the Kosi disaster, termed as a national disaster caused due to breach of embankment near Kusaha (Nepal) devastated vast swathes in the six districts in north-eastern Bihar. The estimated total loss due to floods in 2007 was to the tune of Rs. 2242.24 crore. The Kusaha tragedy crippled the economy of the affected districts due to huge loss of property, crop, human and cattle lives. A vast portion of agricultural land became unarable due to deposit of a very thick layer of silt which the gushing waters had brought with them.

**Table 5.1 : Floods in Bihar and Estimated Losses**

Year	Area Affected (lakh hectares)	Population Affected (lakh)	Crop Area Affected (lakh hectares)	Estimated Loss (Rs. crore)			
				Lost Crop	Damaged Houses	Damaged Infrastructure	Total
2007-08	18.33	244.42	10.60	768.39	831.44	642.42	2242.24
2008-09	6.49	50.93	2.61	167.30	314.93	467.91	950.14
2009-10	11.05	22.03	0.48	21.83	5.28	5.30	32.41
2010-11	1.99	7.28	0.10	3.12	7.05	1.69	11.86
2011-12	38.20	71.43	3.44	102.96	69.07	1.54	173.56
2012-13	1.06	2.44	0.25	3.00	1.60	1.62	6.22

Most of the floods in Bihar are caused by the overflow of rivers that originate in the Himalayas in Nepal and, as such, any long term programme for minimising this risk is beyond the jurisdiction of the state government. Any effort for prevention of such floods requires an international cooperation between Nepal and India, about which the central government has for long been unresponsive. It is indeed an irony that, despite the lapses on the part of the central government, the cost of the calamities is borne by the people of Bihar in terms of suffering, and by the state government in terms of substantial expenditure for flood relief and reconstruction.

**Droughts:** The average annual rainfall in Bihar is 1054 mms. But the actual rainfall varies greatly, seriously affecting its rural economy and population. Indeed, in the last 5 years, the most parts of the state had to face drought or drought-like situations in as many as 4 years (2009, 2010, 2012 and 2013). The deficits in rainfall in these years have been — 17.6 percent (2009), 35.7 percent (2010), 19.6 percent (2012) and approximately 37 percent (2013). Unlike floods, which generally cover a relatively smaller number of districts, droughts are a wide phenomenon; in 2009 the state had to declare 26 districts as drought-affected, whereas in 2010 drought was declared in 38 districts and the current drought (2013) covers no less than 33 districts out of a total 38 in the state. The monsoon was very bad in 2012 and drought-like situation prevailed in most parts of the state.

A detailed exercise regarding the current drought (2013) shows that the state government has submitted a memorandum, seeking financial assistance under various heads to the tune of Rs. 12564 crore to meet this challenge (Table 5.2). The central government has already been requested to provide this assistance.

**Table 5.2 : Summary of Assistance sought for drought 2013 in Bihar**

No.	Sector	Assistance Needed (Rs. crore)
1	<u>Agriculture</u> Diesel subsidy/Seed subsidy/Agricultural inputs subsidy	1977.68
2	Water Resources	235.00
3	<u>Minor Water Resources</u> Repair/restoration of channels, pump house, motor pumps (including electrical items and diesel-generating sets)	61.64
4	<u>Animal Husbandry</u> Foods, water and medicines in cattle camps/Transportation of fodder	5723.10
5	<u>Food</u> Gratuitous Relief (GR)	2821.39
6	Supplementary Nutrition to Children	358.88
7	Provision of Health Services	7.60
8	<u>Employment Generation</u> Additional central share, besides MGNREGS	1042.18
9	Drinking water	109.77
10	Energy sector	226.80
	<b>Total</b>	<b>12564.00</b>

Note: The Assistance is also required for allotment of kerosene oil (53.9 thousand kilolitre) and through rescheduling of commercial bank loans at low interest rates.

Earthquakes: The earthquake is also a source of national calamities for Bihar as 7 of its districts are in Seismic Zone III and 6 in Zone V, the remaining districts being in Zone IV.

Cold Wave: This is again a near perennial phenomenon in Bihar. During the last three years, all the districts had to face this challenge. As a safeguard, the state government has to arrange for

bonfires in the entire state. An analysis of the firewoods arranged for such bonfires shows — 365.5 tonnes (2010-11), 674.8 tonnes (2011-12) and 953.7 tonnes (2012-13).

Fire: The whole of the state witnesses large scale fire, particularly during the months of April-June, causing damage to both life and property. During the current year (2013-14), 8634 houses were burnt by such fire, causing death of 24 persons and 85 cattle. The financial loss due to the damage of property was Rs. 7.18 crore (Rs. 6.64 crore for burnt houses and Rs. 0.55 crore for burnt public property).

The assessment of the damages of lives and properties is done under the supervision of District Magistrates, with the help of functionaries of various line Departments. The state government has formed Relief Monitoring Committees at Panchayat, block and district levels, whose members are chosen from the PRIs.

## **5.2 Allocations for Calamity Relief**

The expenditures for calamity relief are now being met from the State Disaster Response Fund (SDRF), which was created in October, 2010 as per the recommendation of 13<sup>th</sup> FC. However, the state government is yet to set up District Disaster Response Fund (DDRF) and District Disaster Mitigation Fund, as mandated in the Disaster Management Act, 2005.

The Division of Disaster Management, under the union Ministry of Home Affairs, has already prepared the norms/guidelines for distribution of relief under National Disaster Response Fund (NDRF) and the State Disaster Response Fund (SDRF). The allocations made to the districts out of CRF/SDRF as per these norms/guidelines had varied from Rs. 217.65 crore in 2009-10 to Rs. 964.21 crore in 2008-09 (Table 5.3). The recent figures indicate that the average yearly expenditure under SDRF in Bihar is Rs. 491.61 crore.

**Table 5.3 : Allocations under Calamity Relief Fund (CRF) and State Disaster Response Fund (SDRF) (2007-08 to 2011-12)**

(Rs. crore)

No.	Heads	2007-08	2008-09	2009-10	2010-11	2011-12
1	Relief/Rescue Instruments	0.00	0.38	0.00	0.01	5.40
2	Supply of Dry Food	350.79	216.60	45.11	29.09	181.98
3	Cash Dole Assistance	115.15	61.05	11.64	28.88	36.64
4	Clothes/Utensils Distribution	0.37	173.32	0.83	15.53	2.62
5	Supply of Drinking water	2.07	2.20	0.10	0.64	0.35
6	Repair of Roads/Bridges	56.39	70.00	70.60	0.49	17.00
7	Evacuation Operations	24.57	84.59	12.31	12.17	17.67
8	Repair of Public Buildings	225.34	157.22	17.56	81.02	12.90
9	Agricultural Inputs	143.53	70.35	1.13	27.65	10.22
10	Repair of Boats	0.64	0.60	1.00	0.00	7.00
11	Repair of Embankments/ Irrigation Systems	0.40	102.17	52.91	0.44	17.97
12	Human Medicines	1.46	6.74	0.46	0.73	0.50
13	Fodder	4.90	6.70	0.00	2.95	1.20
14	Ex-Gratia Payments	9.26	8.73	4.00	4.18	4.30
15	Veterinary Medicines	1.59	3.57	0.00	0.00	0.17
16	Training	0.00	0.00	0.00	0.00	0.00
	<b>Total</b>	<b>936.46</b>	<b>964.21</b>	<b>217.65</b>	<b>203.82</b>	<b>315.92</b>

At present, the coverage of the SDRF includes only some of the natural disasters, such as, floods, drought, earthquake, cyclone/cyclonic storm, fire, cold wave etc. But it does not include natural disasters like lightning (vajrapat), heat waves and non-natural calamities. However, it is the near recurrent floods in Bihar that accounts for the major part of the expenditure from the SDRF. As an illustration, Table 5.4 presents the distribution of total expenditure under SDRF for various calamities in 2011-12, when the share of expenditure for flood-related relief was as high as 96.1 percent.

**Table 5.4 : Details of Expenditure under SDRF (2011-12)**

(Rs. crore)

No.	Heads	Flood	Cyclone	Fire	Cold Wave	Lighting	Non-natural calamity	Total
1	Relief/Rescue Instruments	4.00	0.00	1.40	0.00	0.00	0.00	5.40
2	Supply of Dry Food	181.25	0.00	0.73	0.00	0.00	0.00	181.99
3	Cash Dole Assistance	34.87	0.00	1.77	0.00	0.00	0.00	36.64
4	Clothes/Utensils Distribution	0.39	0.00	2.23	0.00	0.00	0.00	2.62
5	Supply of Drinking water	0.35	0.00	0.00	0.00	0.00	0.00	0.35
6	Repair of Roads/Bridges	17.00	0.00	0.00	0.00	0.00	0.00	17.00
7	Evacuation Operations	17.68	0.00	0.00	0.00	0.00	0.00	17.68
8	Repair of Public Buildings	8.73	2.85	1.31	0.00	0.00	0.00	12.90
9	Agricultural Inputs	10.22	0.00	0.00	0.00	0.00	0.00	10.22
10	Repair of Boats	7.00	0.00	0.00	0.00	0.00	0.00	7.00
11	Repair of Embankments/Irrigation Systems	17.97	0.00	0.00	0.00	0.00	0.00	17.97
12	Human Medicines	0.22	0.00	0.28	0.00	0.00	0.00	0.50
13	Fodder	1.20	0.00	0.00	0.00	0.00	0.00	1.20
14	Ex-Gratia Payments	2.71	0.40	1.19	0.00	1.75	0.90	4.30
15	Veterinary Medicines	0.17	0.00	0.00	0.00	0.00	0.00	0.17
16	Training	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	<b>Total</b>	<b>303.75</b>	<b>3.26</b>	<b>8.91</b>	<b>0.00</b>	<b>1.75</b>	<b>0.90</b>	<b>315.92</b>

### 5.3 Recent Initiatives for Disaster Management

The state government has taken several initiatives in recent years to improve the management of disasters which are quite frequent. All these initiatives are expected to make the state administration more prepared for meeting any exigency and provide quick and adequate services to the people, affected by the disaster. The major initiatives include:

- (a) **Raising of State Disaster Response Force (SDRF)** : For effective and prompt response to a disaster, a battalion of SDRF has been raised on the pattern of NDRF. A land area of 25 acres has been acquired in Bihta (Patna district) for SDRF and the construction work is going on. Till date, 302 persons have already been appointed and the process for appointing 625 more is on.

- (b) State Disaster Management Plan: A draft of the State Disaster Management Plan, taking into consideration the provision of the Disaster Management Act, 2005, was prepared after wide consultations with different stakeholders. The comments on the draft by the State Disaster Management Authority have been received and the final text would be ready soon.
- (c) Standard Operating Procedures (SOP): The state government has put in place a robust SOP for flood and water crisis. It has also decided to prepare SOPs for drought management and earthquake response. The consultations have already been done for these two SOPs, particularly for the latter. The draft SOPs will be ready soon, which will be finalised after being approved by the State Disaster Management Authority.
- (d) Training Programmes : The training programmes of the Department of Disaster Management include both Training of Trainers (TOT), training of functionaries and community members. More than 13,000 community members have been trained for Search and Rescue (SAR) operations in flood situation. Training of Trainers has been completed for Incident Response System (IRS). The training of community members for SAR in earthquakes has been commenced and plan is to train 5 community members in all panchayats of the state; there are about 8500 panchayats. In order to reach quick medical help during disasters the department has started training of Quick Medical Response Teams and provided advance life support ambulances to the health department to respond to the medical emergencies during disasters and other situations. In addition, the Department has also trained a large number of divers and motor boat drivers in all districts.
- (e) Emergency Operation Centres (EOC): Construction of State and District Emergency Operation Centres (EOC) were planned in each of the 38 districts of Bihar, at the unit cost of Rs. 10.00 lakh. The construction of SEOC and DEOCs are complete in 27 districts and the work is in progress in the remaining 11 districts. The EOCs will be made operational with the state-of-the-art technology.

#### **5.4 Suggestions for Strengthening of Disaster Response**

Keeping in view the mandate of Disaster Management Act, 2005, the present size of SDRF and its operational modalities, and the scale/kind of natural calamities that Bihar often faces, the state government urges the FC14 to consider sympathetically the following suggestions:



- (a) The contribution of the central government to the SDRF should be 100 percent, instead of 75 percent, as is present. This is primarily because the state government is required to spend a larger part of its resources to cover those dimensions of the damage caused by rivers emanating from Nepal on which the state has no control. Secondly, bearing in mind the increased frequency of calamities, the size of the SDRF should also be increased adequately.
- (b) The central government should also provide separate funds for setting up District Disaster Response Fund (DDRF) and District Disaster Mitigation Fund (DDMF) which are mandated by the Disaster Management Act 2005 and was recommended by the FC13. The State Disaster Mitigation Fund, as mandated by the Disaster Management Act and recommended by FC 13, has been set up but central government should also allocate funds to it as the state resources are very precarious.
- (c) The ambit of natural calamities should be broadened to include heatwave and thunder lightening. Further, SDRF should also include non-natural calamities like rail/road/air accidents, boat capsizing (other than those during the floods) and other man-made disasters. Since the ambit of disasters under the Disaster Management Act has been expanded to cover all disasters-natural and man-made, it is high time relief be provided to the persons affected by all sorts of disasters from the SDRF and it be not limited to select natural calamities alone.
- (d) The operational guidelines for SDRF are such that the funds are mostly available for response and relief in cases of natural calamities. An effective disaster management, however, demands activities for prevention, mitigation and reconstruction as well. The existing guidelines should be so revised that the expenditures on prevention, mitigation and reconstruction are also allowed, which sometimes are in the nature of capital expenditure.
- (e) The amount recommended for capacity building by FC13 was only Rs. 5 crore annually. Even this amount was to be spent as per the guidelines set by the central government. It is suggested that the amount be increased to Rs. 10 crore annually and its spending should be linked with the requirement of the state. The central government may be advised not to cap its utilization under its own priorities because states know best what their priorities are.

## CHAPTER VI

### GRANTS TO LOCAL BODIES

Bihar was one of the states where Panchayati Raj Institutions (PRI) were introduced in the early years after independence. During the period 1952-78, seven elections were held for Gram Panchayats (GP). With the changes in the political scenario in the state, election for GPs were bypassed in the subsequent period, but thanks to the 73<sup>rd</sup> Amendment of the Constitution and the consequent Bihar Panchayati Raj Act, 1993, the formation of a three-tier system of PRIs became mandatory for the state government. However, elections could not be held till 2001 when, following a judicial intervention, the required elections were held after a gap of 23 years. Subsequently, the state government has carried out a major change in the structure of PRIs, through the instrumentality of Bihar Panchayati Raj Ordinance, 2006, which introduced the reservation of 50 percent of GP seats for women and backward communities (scheduled castes, backward castes, and extremely backward castes).

#### 6.1 Organisational Structure of PRIs

The PRIs in Bihar follow a three-tier structure — Zila Parishad (ZP) at the district level, Panchayat Samiti (PS) at the block level, and Gram Panchayat (GP) at the village level. Besides their elected members, the ZPs have one Adhyaksha and one Upadhyaksha, PSs have Pramukhs and Up-pramukhs, and GPs have Mukhiyas and Up-Mukhiyas. The human base of PRIs consists of both elected and employed functionaries (Table 6.1)

**Table 6.1 : Organisational Structure of PRIs**

Level	Nos.	No. of Members	Elected Functionaries	Employed Functionaries
Zila Parishad	38	1124	Adhayaksha Upadhyaksha Members	District Development Commissioner/ Project Director, DRDA/ District Panchayati Raj Officers
Panchayat Samiti	531	11,035	Pramukh Up-pramukh Members	Junior Engineer (JE) or Additional JE/ Block Panchayati Raj Officer/ Programme Officer (MNREGS)/ Block Development Officer/ Statistical Officer
Gram Panchayat	8406	1,15,191	Mukhiya Up-mukhiya Members	Panchayat Sachiv/Gram Rozgar Sevak (MNREGS)/Vikas Mitra/ Nyaya Mitra/ Asha (Under NRHM)/ Anganwadi Worker (ICDS)/ ANM

At each tier of the PRIs, there are various Standing Committees, headed by Adhyaksha/Upadhyaksha (ZP), Pramukh/Up-pramukh (PS), and Mukhiya (GP). At the GP level, there are 6 Standing Committees for — (i) Planning, Coordination and Finance, (ii) Production, (iii) Social Justice, (iv) Education, (v) Public Health, Family Welfare and Sanitation, and (vi) Public Works. At the PS and ZP levels, there are 7 Standing Committees— 6 of them as for the GPs (mentioned above) and an additional General Standing Committee.

## **6.2 Devolution of Functions to PRIs**

As prescribed in the Eleventh Schedule of the Constitution, the PRIs at all the three levels have been given the right of self-governance in respect of 29 subjects of 20 Departments, after duly completing the activity mapping.

Secondly, acting on the advice of the Bihar Administrative Service Commission, the state government has transferred the following 5 activities to the PRIs — (i) Settlement of Panchayat level estimates, (ii) Registration works concerning birth/ death/ marriage, (iii) Issuance of caste certificates, (iv) Repair and maintenance of handpumps, and (v) Works relating to rural hygiene and drinking water.

Thirdly, after enhancing the scope of social service and development programmes by the state government, the PRIs are further entrusted with the following responsibilities — (i) Distribution of job cards by under MNREGS, (ii) Identification of beneficiaries for all development programmes, including identification of BPL households, (iii) Appointment of teachers/supervisors for MDMS, and constitution of Vidyalaya Shiksha Samiti (VSS), (iv) Distribution of Food Coupons under PDS, (v) Selection of Anganwadi Sevikas and Sahayikas under ICDS, and (vi) Distribution of subsidized diesel to farmers.

Finally, under the Bihar Panchayati Raj Act, 2006, the state government has set up an institution at the GP level, called Gram Katchahary, aimed at bringing justice at people's doorsteps. The head of the Gram Katchahary is the Sarpanch, who is elected directly by the people. The elected Sarpanch is assisted by a Nyaya Mitra (law graduates hired on a contract basis) to discharge the judicial responsibilities of the GPs.

### 6.3 Finances of PRIs

The PRIs are mainly financed by the grants from the central government (Finance Commission grants), other transfers from the central government (specially, BRGF and MNREGS), recurring and non-recurring grants from the state government, and their own resources.

Finance Commission Grants : The FC11 grant of Rs. 108.74 crore to Bihar was withheld by the central government for not holding PRI elections. Under FC12, Bihar had received a grant of Rs. 162.40 crore per year for the period 2005-06 to 2009-10.

Under FC13 recommendations, the state government has received Rs. 455.69 crore (2010-11), Rs. 583.77 crore (2011-12) and Rs. 656.83 crore (2012-13). The state government allocates these funds among the GP, PS and ZS in the proportion of 70:20:10. Besides the above regular grants, the state government had also received "Performance Grants" under the FC13 awards first time in 2011-12 (Rs. 268.27 crore), and then again in 2012-13 (Rs. 528.37 crore). Thus the total transfers to Bihar for PRIs under FC13 recommendations were — Rs. 455.69 crore (2010-11), Rs. 852.15 crore (2011-12) and Rs. 1151.37 crore (2012-13) (Table 6.2).

**Table 6.2 : Grants for PRIs in Bihar by the FC13**

(Rs. crore)

Year	Basic Grant		Performance Grant		Total Grant	
	Recommended	Received	Recommended	Received	Recommended	Received
2010-11	461.22	455.69	0.00	0.00	461.22	455.69
2011-12	534.89	583.77	182.92	268.27	717.81	852.04
2012-13	625.22	656.83	429.05	528.37	1054.27	1185.20
2013-14	740.74	387.07	506.04	-	1246.78	387.07
2014-15	877.02	-	596.97	-	1473.99	-
Total	3239.09	-	1714.98	-	4954.07	2880.00

State Finance Commission Recommendations : The fourth State Finance Commission (SFC) was established in June, 2007 and its report was submitted in June, 2010. The SFC had recommended that the ratio of inter-se allocation for both priority areas (drinking water, brick soling works, drain

construction, sanitation work, library and street light) and other development works among GP, PS and ZP should be 70:20:10. Another important recommendation of the fourth SFC was that 3 percent of state government's net tax revenue should be assigned to ZPs and Urban Local Bodies (ULB) as grants to match resources raised by them. Further, the SFC had also recommended grants for payment of salaries to regular employees on a tapering scale and a one-time grant for developing database for local bodies.

During 2010-11, there were no transfers to the PRIs upon the recommendation of the SFC. In the next 2 years, the total transfer has been Rs. 667.24 crore (2011-12) and Rs. 675.38 crore (2012-13).

BRGF Fund : The Backward Region Grant Fund (BRGF) is designed to redress regional imbalances through providing financial resources in the selected districts of the country. All the 38 districts of Bihar are covered under this Fund. The implementation of special development programmes in the districts is the responsibility of the PRIs. Under this programme, the PRIs in Bihar have received the following grants — Rs. 601.38 crore (2010-11), Rs. 635.99 crore (2011-12) and Rs. 604.54 crore (2012-13).

Own Revenue : The ZPs derive some income of their own, basically from 'sairats' such as bus stands, parking lots, toll bridges, etc. The maximum revenue of a ZP under this head is Rs. 25.00 lakh. On the other hand, PSs and GPs do not have any revenue of their own, as the state government is yet to notify rates of taxes, fees, etc. to be imposed by PS/GP, as recommended by the second SFC.

The consolidated information on financial transfers to the PRIs in Bihar under all heads (FC13 Grant, SFC Grant, BRGF and others) during 2010-11 to 2012-13 is presented in Table 6.3.

**Table 6.3 : Financial Transfers to PRIs in Bihar under Different Heads (2010-11 to 2012-13)**

(Rs. crore)

Funds	2010-11	2011-12	2012-13
<b>Zila Parisad</b>			
13th Finance Commission Grants	4.61	76.48	105.43
State Finance Commission Grants	-	125.24	55.21
BRGF	60.82	64.10	60.45
Others	5.93	2.48	0.58
<b>Total</b>	<b>71.15</b>	<b>268.30</b>	<b>221.67</b>
<b>Panchayat Samiti</b>			
13th Finance Commission Grants	13.99	157.43	210.85
State Finance Commission Grants	-	86.97	104.33
BRGF	116.55	128.20	120.91
Others	0.39	5.67	4.62
<b>Total</b>	<b>130.93</b>	<b>378.27</b>	<b>440.71</b>
<b>Gram Panchayat</b>			
13th Finance Commission Grants	214.72	710.68	737.98
State Finance Commission Grants	-	455.03	515.84
BRGF	424.21	443.69	423.18
Others	21.71	348.06	340.50
<b>Total</b>	<b>660.64</b>	<b>1957.47</b>	<b>2017.50</b>
<b>All PRIs</b>			
13th Finance Commission Grants	233.32	944.59	1054.26
State Finance Commission Grants	0.00	667.24	675.38
BRGF	601.38	635.99	604.54
Others	28.02	356.21	345.70
<b>Total</b>	<b>862.72</b>	<b>2604.04</b>	<b>2679.88</b>

#### 6.4 Major Initiatives for Strengthening PRIs

In the recent past, the state government has taken several initiatives to strengthen the PRIs. These include:

- (a) Amendments to the Bihar Panchayati Raj Act, 2006 which enable the CAG to audit the accounts of three-tier PRIs. The amendments also make provision for the imposition of property tax by the PRIs and mandatory preparation of Annual Reports.
- (b) A series of capacity-building measures for the functionaries of PRIs through training, exposure visit to beacon Panchayats of Rajasthan, training of Master Resource Persons, appointment of personnel, and transfer of funds to PRIs through the Core Banking System. A part of this capacity-building activities has been funded by the UNDP.

- (c) Information Technology (IT) cells have been formed in all the ZPs and PSs by providing services of trained computer personnel. The accounts of the PRIs were modernized and automated, using PRI - A software to ensure accountability and transparency.
- (d) By March, 2015, the construction of 1935 Panchayat Sarkar Bhawans is scheduled to be completed, at a cost of Rs. 1212.00 crore. Each Bhawan will accommodate, on an average, a cluster of 5.8 GPs. As per the design, these Bhawans will have space for representatives/functionaries of PRIs, Gram Katchahary, stores, meeting hall, reception room, computer room, pantry and toilet.
- (e) A Panchayat Empowerment and Accountability Incentive Scheme (PEAIS) was initiated by the Union Ministry of Panchayati Raj, with the objective of evaluating the PRIs and to award the best performing PRIs. In this background, a State Panchayat Performance and Assessment Committee (SPPAC) has been formed at the state level, under the Chairmanship of Principal Secretary, Department of Panchayati Raj. For the evaluation year 2011-12, the SPPAC has identified 11 PRIs (6 GPs 4 PSs and 1 ZP) which are to be awarded by the Union Ministry of Panchayati Raj.

## **6.5 Urban Local Bodies**

The Urban Local Bodies (ULBs) came into existence as institutions for local self-governance in Bihar in 1920. However, the present structure of ULBs in Bihar is guided by the 74th Constitutional Amendment Act, and the new Bihar Municipal Act (BMA) was enacted in 2007. The elections under the new Act were held first in 2007. Presently, there are 141 statutory towns in Bihar — 11 having Municipal Corporations, 42 Nagar Parishads and 88 Nagar Panchayats. The ULBs are a body corporate, having a Board of Councillors, elected from each ward. The Mayor/Chairman is elected by the majority of Councillors and is the executive head of the ULB. He presides over the meetings of the ULBs and is responsible for overall governance, assisted by Standing Committees. The Chief Executive Officer is appointed by the state government for administrative work, general supervision, control over functionaries, organising Board meetings, preparing budget estimates, and implementation/monitoring of schemes.



The financial base of ULBs consists of central transfers, transfers from the state government (as per the recommendations of the State Finance Commission), and some resources generated by the ULBs themselves. Under the broad category of central transfers, the specific heads are :

- (i) Grants recommended by the Finance Commission
- (ii) Backward Region Grant Fund (BRGF)
- (iii) Border Area Development Programme (BADP)
- (iv) Jawaharlal Nehru National Urban Renewal Mission (JNNURM)

Within this head again, there are 4 components — (a) Funds for the development of infrastructure at Patna and Bodh Gaya, (b) Funds for infrastructure development in small/medium towns (UIDSSMT), (c) Funds for Basic Services to the urban poor (BSUP) in Patna and Bodh Gaya, and (d) Funds for infrastructure development in towns with more than 1 lakh population (IHSDP),

- (v) Swarna Jayanti Shahari Rozgar Yojana/National Urban Livelihood Mission.
- (vi) National Urban Information Centre.
- (vii) Integrated Low Cost Sanitation Construction Schemes (ILCS).

The recommendations by the FC13 for the ULBs in Bihar are as follows :

Year	Grants (Rs. crore)		
	Basic	Performance	Total
2010-11	80.31	0.00	80.31
2011-12	85.79	42.63	128.42
2012-13	96.53	9.84	106.37
2013-14	56.88	0.00	56.88
Total	319.51	52.47	371.98

The recommendation by the fourth State Finance Commission for the ULBs in Bihar is as follows — Rs. 251.30 crore (2011-12) and Rs. 264.27 crore (2012-13).



The ULBs in Bihar have been functioning for last 6 years and it has improved the status of urban development in the state during this period. But these bodies even now face a number of challenges and they need to be addressed in the coming years. Broadly speaking, these challenges include :

- a) Functional Challenges : In several cases, both financing for ULB activities and the assignment of functionaries necessary to carry out the activities remain incomplete. By and large, functionaries are employees of the state and the programmes of the line departments are required to respond to local priorities as articulated by the ULBs; but the coordination is weak, reducing chances of local priorities being respected by the line departments. Further, the devolution of functions as per the 74<sup>th</sup> Constitutional Amendment Act remains a challenge.
- b) Human Resource Constraints : The elected Councillors face difficulty while discharging their functions on account of limited awareness of their responsibilities and rules. Secondly, the administrative wing of ULBs has not had fresh recruitment since the 1990s, resulting in a large number of vacant posts. Further, in line with the changing role of the ULB, staffing requirements too have changed.
- c) Capacity Building Issues : There are limited opportunities for capacity building. This is linked to the fact that the staff have multiple responsibilities. The absence of trained and dedicated municipal cadres hampers the functioning of ULBs.
- d) Inadequate Financial Management Systems : The ULBs are characterised by poor mobilisation of their own resources. Most of them lack up-to-date data base on assets, leading to low revenue collections. This is aggravated by the non-revision of property tax rates for more than a decade. Such poor financial management systems, including budgeting, maintenance of accounts and internal audit, require attention.
- e) Poor Quality of Services to Citizens : Most of the towns are plagued by the absence of systematic solid waste management systems, poor quality of roads, absence of street lights, inadequate drainage and sewerage etc. The presence of slums with complete absence of basic services contributes to the overall poor environmental conditions in towns.

- f) Improving Monitoring & Performance Management Systems : Currently, the Department collects data mostly on the execution of schemes directly managed by it. The disbursement system for state transfers to ULBs requires improvement; there are multiple levels of approvals required for spending allocations and, hence, there is low predictability of funds on the part of the ULBs. This adversely affects implementation of plans. The work of the State Finance Commission is also currently challenged by the lack of systematic data.

While the state has initiated actions to address the core challenges described above, much needs to be done. In the light of the above observation, the Urban Development and Housing Department proposes to strengthen the ULBs through the following interventions:

- a) Capacity Building and Training : Funds are required for training the elected representatives of the ULBs and their executive functionaries. The fund requirement for capacity building for the year 2015-16 to 2019-20 is as below :

(Rs. crore)

Functionaries	2015-16	2016-17	2017-18	2018-19	2019-20
Elected Representatives	60	75	90	120	150
Executive	120	150	190	225	300
<b>Total</b>	<b>180</b>	<b>225</b>	<b>280</b>	<b>345</b>	<b>450</b>

- b) Human Resource Support : The human capacity of the ULBs to carry out all the delegated function is limited, and the ULBs need to set up various divisions to support each of their delegated functions. This support can be either through the partial funding of the manpower support or through the setting up of project management units for each function. The fund requirements for such support system have been projected as follows — Rs. 250.00 crore (2015-16), Rs. 300.00 crore (2016-17), Rs. 350.00 crore (2017-18), Rs. 400.00 crore (2018-19) and Rs. 450.00 crore (2019-20).
- c) Allowances to functionaries : Presently, only the Chairperson and the Vice-Chairperson are paid allowances from the state government, but not the Ward Councillors, who are equally involved in the process of self-governance. There is a provision in the Bihar Municipal Act

to give them allowances. It is proposed to give monthly allowances to all the elected functionaries of the ULBs. The funds requirement for allowance to functionaries is — Rs. 30.00 crore (2015-16), Rs. 50.00 crore (2016-17), Rs. 60.00 crore (2017-18), Rs. 75.00 crore (2018-19) and Rs. 90.00 crore (2019-20).

## **6.6 State Finance Commission**

The Fourth State Finance Commission was constituted by the state government in June, 2007 and it had submitted its report in June, 2010. The report had discussed — Status of Decentralised Governance; Assessment of Physical Services by Local Bodies; Assessment of Finances of PRIs/ULBs; Recording of Best Practices; and Monitoring and Evaluation System. The report had a number of recommendations, all aimed at improving the functioning of the local self-government in the state. The major recommendations of the Fourth State Finance Commission, many of which have been implemented, are as follows :

- (1) The accounting formats prescribed by the CAG should be adopted and accounting manuals be finalized in consultation with the Accountant General. The possibility of simplifying the formats may also be explored.
- (2) The expenditure on current salary of employees working against sanctioned posts of the Local Body employees should be borne by the government for another five years without any tapering. The arrear payment of retirement benefits to the employer of local bodies should be cleared by giving a one-time lumpsum grants-in-aid.
- (3) For PRIs, 6 activities have been identified as high priority areas (drinking water, brick-soling of village roads, drainage, libraries, sanitation and street-lighting). These activities can primarily be financed through the devolution amount of share in state taxes. The estimated cost of these programmes is Rs. 1,590 crore.
- (4) For ULBs, 5 activities have been identified as high priority areas (manual scavenging, roads, water supply, public health/sanitation, street lighting/parking places/public conveniences). These activities can be financed primarily by the devolution amount of share in state taxes. The estimated cost is Rs. 251 crore.

- (5) To support the identified priority and other programmes of the local bodies, a share of 7.5 percent in state's own tax revenue, net of collection costs, should be devolved on to the local bodies.
- (6) Among the PRIs, the total devolved share in state taxes should be further shared in the proportion of 70:20:10 to Gram Panchayats, Panchayat Samitis and Zila Parishads respectively.
- (7) The 10 percent share of the Zila Parishads should be distributed among the ZPs on the single criterion of population of the district. The 20 percent share of Panchayat Samitis should be distributed among the PSs on the criterion of 80 percent weight to population and 20 percent weight to the number of BPL families. The 70 percent share of the Gram Panchayats should be distributed equally among all the GPs.
- (8) The 30 percent share out of total devolution of state taxes to Urban Local Bodies should be further distributed among the various municipal bodies on the criterion of population (60 percent), geographical area (20 percent) and the number of BPL families (10 percent).
- (9) Every year, the share of local bodies should be released in two half yearly installments.
- (10) Out of the total devolution as share in state taxes to local bodies, 70 percent should be for PRIs and 30 percent for the ULBs.
- (11) The PRIs should be given annual grants from the consolidated fund of the state in the following manner — Zila Parishad (Rs. 15.00 lakh), Panchayat Samiti (Rs. 11.00 lakh) and Gram Panchayat (Rs. 2.00 lakh). This will cause a total expenditure of Rs. 901 crore over the five-year period.
- (12) The ULBs should be given annual grants-in-aid from the consolidated fund of the state in the following manner – Patna Municipal Corporation (Rs. 5.00 crore), each Municipal Corporation except Patna (Rs. 1.00 crore), each Municipal Council (Rs. 0.50 crore) and each Nagar Panchayat (Rs. 0.20 crore).
- (13) The share in state taxes followed by the grant-in aid to PSs and ZPs shall be first put to use in filling the gaps in the actual cost of execution of schemes identified as priority activities. The untied amounts, left after the fulfillment of the requirement of priority

activities, shall be spent on purposes consistent with the duties and functions stated in the Bihar Municipal Act. It will not be available for payment of salary or purchase of vehicles, without a previous sanction of the state government.

- (14) The PRIs, especially the ZPs, should strive to become financially self-reliant by raising their own resources. This will also enable them to approach the financial institutions for investment in development projects. The Municipal bodies should also adopt the same strategy.
- (15) The state government is yet to prescribe the maximum limits of taxes that can be levied by the PRIs with the result that these bodies do not levy any taxes at all. The state government should either notify these rates forthwith to enable the PRIs to raise resources or amend the law so that there will be no need to have government approval.

This Memorandum does not contain any estimate of the financial requirements of the Local Bodies in Bihar. But one may note here that the FC13 made a paradigm shift by awarding 2.5 percent of the divisible pool for Local Bodies and not just a lump sum amount. This percentage-based devolution should continue. Moreover, the criteria for devolution should be based on same lines as for devolution of taxes among the states. There should be Grants for provision of basic manpower and office buildings, especially in case of PRIs.

## CHAPTER VII

### CONCLUSION

Except for some initial years after independence, the regional development disparities in India have been steadily widened. Admittedly, the poorer states are so because of some limitations of their own, but the major reason behind their misfortune is some discriminatory policies of the central government, both before and after independence. Among the instruments that could be utilised as a corrective to those negative historical trends, the Finance Commission is probably the most potent one. Thus, an implicit consideration in the quinquennial Finance Commission is that both the vertical distribution of resources between the centre and states and the horizontal distribution among the states be such that they promote regional equality. The previous Finance Commissions have certainly not been oblivious of this dimension of their recommendations, and they have generally made the recommendations that are equalising. But, unfortunately, much against the hopes of disadvantaged states, the recommendations have been only marginally equalising, failing to address the problem of regional economic disparity.

In the specific context of Bihar, the state has indeed high expectations from the Fourteenth Finance Commission, not merely because it is one of the worst sufferers of some of the policies of the central government, but its recent economic performance has been extremely encouraging. During the recent years (2005-12), the growth rate of Bihar economy has been 10.3 percent, and this revival was possible because of a substantial development expenditure by the state government at one hand, and its supplementary efforts for effective governance in several fields, on the other. Besides increasing the income of the people, this strong growth process of Bihar economy had other positive impacts as well. In particular, there has been noticeable progress in the field of education and health, the physical infrastructure is improved in terms of roads and power, and there has also been substantial reduction in poverty ratios. But so huge are the development deficits in Bihar that the state still lies at the bottom or near the bottom of all states in terms of most development indicators, in spite of its recent appreciable growth performance. For one, the present Per Capita Income of Bihar at 2004-05 prices (Rs. 13.2 thousand) is just 50.8 percent of the national average (Rs. 38.0 thousand). The present development goal of Bihar is not

just to maintain its current economic growth rate at 10.3 percent, but enhance it further to reach the national average as soon as possible.

Besides the acute development needs of Bihar and its recent growth performance, the present Finance Commission should also factor the extremely satisfying management of the state finances by the state government in recent years in deciding the allocations for the state during the period 2015-20. The concept of performance grants has indeed informed the recommendations of FC13 and the present Finance Commission may follow the principle as well. During the last 7 years, the state government has not only been able to maintain throughout a decent surplus in the revenue account, it had also kept its Gross Fiscal Deficit (GFD) within the prescribed FRBM limit. This was possible mainly because of an increased resource mobilisation through higher realisation of state's own revenue. On the expenditure front, the state government now spends more than 60 percent of its total budget for development heads, compared to about 50 percent during the years, just preceding. As regards the outstanding debt of the state government, it presently stands at 20.6 percent of GSDP (2011-12), much below the norm of 28 percent, suggested by the FC12.

It is obviously necessary for the Finance Commission to assess the resource needs of different states, before it decides the horizontal division of the total allocations. This could be done by adopting various approaches, but this Memorandum suggests the principle of 'Equalisation of Per Capita Development Expenditure' as a basis for estimating those needs. For the first year of the period of present Finance Commission (2015-16), this resource gap is estimated at Rs. 86.78 thousand crore for Bihar, which is the difference between the estimated expenditure (Rs. 135.16 thousand crore) and state's estimated resources (Rs. 48.38 thousand crore). Over the years, this resource gap widens to reach the level of Rs. 224.76 thousand crore in 2019-20. The state government had suggested to the FC13 to adopt this indicator as a basis for horizontal distribution, and it reiterates the same suggestion before the present Finance Commission.

The Government of Bihar, along with many other state governments, feels that its present developmental responsibilities are far more than that of the central government. It is, therefore, strongly suggested that the present pattern of vertical distribution of resources should be changed substantially. The share of all states in the net proceeds of shareable central taxes should be 50 percent and the indicative ceiling of overall transfer to states on the revenue account should be



raised to 60 percent. As regards the horizontal distribution, the present Finance Commission should drop the criterion of area, use 2011 figures in place of the 1971 figures for population, and consider Income Distance as the real indicator of the economic disadvantage of the poorer states.

Among others, the Finance Commission also makes recommendations for State Disaster Response Fund (SDRF), State-specific Needs and Local Bodies. Each of these three grants is extremely important to strengthen the state finance, particularly for Bihar. In the context of SDRF, it needs to be stressed that floods are the most frequent calamity in most parts of India and Bihar is most vulnerable to this menace, as no less than 20 percent of the entire flood-prone area in the country lies in Bihar. In the recent years, the average annual expenditure of the state government has been close to Rs. 500 crore for all types of calamities. In addition, the state government also had to spend a large sum out of its general budget for reconstruction of physical assets damaged by the natural calamities. It is, therefore, strongly suggested that the grants for SDRF should be enhanced substantially. Secondly, the scope of expenditure under SDRF should be enlarged to include expenditure on prevention and reconstruction activities, since expenditure on relief operations only partly covers the actual additional expenditure, caused by natural calamities. Lastly, the state government desires that the contribution of the central government to SDRF should be 100 percent, in place of 75 percent at present, easing the stress on state government's limited resources.

The grants for State-specific Needs are again crucial, particularly for disadvantaged states like Bihar, where the infrastructural gaps are huge. Before the previous Finance Commission (FC13), the state government had placed a request for a total grant of Rs. 19,919 crore for various state-specific needs, but it had finally granted only a sum of Rs. 1845 crore, less than one-tenth of what was requested. To make the situation worse, after nearly 3 years of the 5-year period is over, the state government has received only Rs. 441 crore, barely 30 percent of the total recommended grant. The state government, therefore, urges that the present Finance Commission be more sensitive about the state-specific needs of Bihar and recommend a reasonable grant, enabling the state government to fulfill those needs. And more importantly, it should ensure that the grants finally recommended by the Finance Commission are indeed transferred to the state government.

In case of grants to Local Bodies, this Memorandum has not specified any sum for Bihar, but from the brief description of the present organizational structure of PRIs and ULBs in the state, it is



quite apparent that both these institutions are now well established here. This is primarily because the political process in Bihar is very vibrant, right upto the village level. However, if the PRIs/ULBs are not able to fully play their expected roles at present, it is partly because of the capacity deficiencies both for physical infrastructure and human resources, and then because of the lack of adequate development funds. The present Finance Commission, while recommending funds for local bodies, should be mindful of all those needs of the local bodies.

The Finance Commission recommendations are made separately for Special Category States and the remaining ones. Bihar falls in the latter category and, in the recent past, the state government has made several representations to the central government, requesting for a special status. Based on historical and current data, the representation has amply demonstrated that Bihar deserves a special status, based on the five criteria that the central government considers relevant — poor infrastructure, poor resource base and remoteness from larger markets, geographical isolation, inaccessible terrain, and financial viability. Unfortunately, the central government has not considered this request sympathetically, based on a very narrow interpretation of this chosen criteria. It is admittedly not in the jurisdiction of the Finance Commission to judge the issue of special category status to Bihar, but it can certainly appreciate the arguments that have been submitted by the state government in support of its request. One should realise that the idea of 'Special Category Status' for some states was introduced not only for the devolution of central funds to states, but to grant a few other facilities (notably, tax concessions) to promote development in those disadvantaged areas. For a state like Bihar, which is grappling with the development deficits for nearly two centuries, the Special Category Status could trigger economic resurgence, with private and public investment coming in a big way.

Finally, it is worth reiterating that the Finance Commission consider its responsibilities not merely as a fiscal exercise, but as a development strategy as well. It is not possible for the country to visualise an inclusive development pattern, without making concerted efforts to reduce regional disparity which, in turn, demands Finance Commission allocations that are more equalising than they have been in the past. After a remarkable growth performance and prudent management of state finances, Bihar looks forward to the present Finance Commission for substantial financial resources, on the ground of both need and performance.



**PART-C**

**JOINT MEMORANDUM**

**OF**

**POLITICAL PARTIES & PROFESSIONAL**

**ORGANISATIONS OF BIHAR**

**TO**

**THE FOURTEENTH FINANCE COMMISSION**

## **Brief Note**

A Finance Commission is constituted every five years in accordance with the constitutional mandate with a view to recommend the distribution of the divisible pool of the financial resources of the Government of India between the Union and the States as also horizontal allocations across states. In determining the horizontal devolution, the successive Finance Commissions broadly attempted to address the issues of fiscal needs, fiscal capacity, costs of providing similar level of public goods and services and rewarding efficiency in fiscal efforts and outcomes. The Thirteenth Finance Commission's overall approach has been to foster inclusive and 'green growth' promoting fiscal federalism.

Successive Five Year Plans also laid emphasis on achieving the goal of balanced regional development of the backward regions / states of the country through raising the growth rate, eradicating poverty, improving the social services, etc. Plans were prepared for faster development of the weaker states. The public investments were made by the government to set up public sector units, particularly in the backward states. Various other measures like higher investments in irrigation and rural infrastructure were also undertaken to accelerate the pace of growth in agriculture as well as financial and fiscal incentives with view to attract more private investments. A system of fiscal federalism was evolved and FCs constituted through which resources were transferred from the Centre to the states with the criteria for transfer of funds, biased in favour of the backward states. Thus both the Finance Commission and Planning Commission made transfer by giving greater weightage to the populous and poorer states for ensuing a higher rate of growth of the poorer states and reducing disparities through balanced regional development. Despite all these endeavours, the regional disparity in India is widening, with Bihar being the poorest among all.

The Fourteenth Finance Commission, like previous commissions, has been constituted under the Chairmanship of Dr. Y.V. Reddy, Former Governor of Reserve Bank of India. According to the TOR, the Commission has to make its report available to the Government of India by 31<sup>st</sup> October, 2014, which will cover a five year period from April 2015 to March 2020. The TOR are similar to those for the previous Commissions; however, some new issues have also been referred. A perusal

of TOR reveals that these are heavily loaded in favour of the Centre, which, inter alia, include consideration of subsidy level requirement, insulation of pricing of public utility services, making public sector enterprises competitive and market oriented, etc.

The Constitution envisages the Finance Commission to periodically review the position and recommend resource transfer from the union to the states confirming itself only to the non-plan requirements of the state. Keeping this constitutional provision in view, we had submitted Joint Memorandum to the Twelfth and Thirteenth Finance Commissions on behalf of the political parties and academic/professional institutions of Bihar, which provided extra weightage to our demands for the state. Moreover, this move has also been appreciated by both the Finance Commissions.

Like previous occasions, this time too we propose to submit a Joint Memorandum to the Fourteenth Finance Commission at the time of their visit to Bihar. The Memorandum, it is proposed, will contain broadly five chapters. The first chapter will mention the background detailing with overall regional inequalities prevailing in the country and the arrangements of fund transfers through the Finance Commissions and the Planning Commission over the years. Other sub-sections in the Chapter would deal with the provision of transfer of Taxes and Duties as well as grants-in-aid through the Finance Commission . In second chapter, the TOR along with Issues for the Fourteenth Finance Commission in the perspective of backwardness of states will be dealt with brief comments on the TOR. However, Chapter III would describes the present status of Bihar including its backwardness and disadvantages. While points for consideration of the Fourteenth Finance Commission are proposed to be presented in Chapter IV, Chapter V may deal with the suggested criteria / weights to the advantage of Bihar.

**14वें वित्त आयोग को बिहार राज्य  
का  
संयुक्त ज्ञापन**

प्रतिष्ठा में,  
अध्यक्ष  
14वां वित्त आयोग  
नयी दिल्ली।


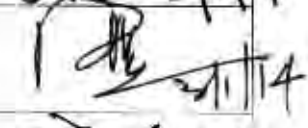
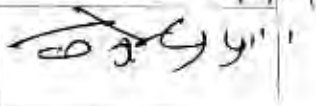
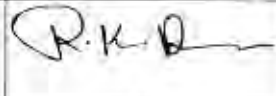
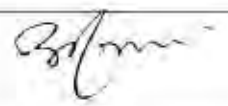
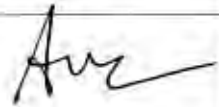
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दिनांक : 03 जनवरी, 2014

महोदय,

बिहार के सभी प्रमुख राजनीतिक दलों / संस्थाओं की ओर से 'बिहार राज्य का संयुक्त ज्ञापन' 14वें वित्त आयोग के विचारार्थ प्रस्तुत किया जा रहा है।

सधन्यवाद

भवदीय

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2	जनता दल (यू.)	विजय कुमार शर्मा	
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5	बहुजन समाज पार्टी	राज कुमार शर्मा प्रदेशाध्यक्ष	
6	भारत की कम्युनिस्ट पार्टी (म.) बिहार राज्यकमिटी	अरुण कुमार मिश्र संस्थापक अध्यक्ष	
7	राष्ट्रीय लोक समता पार्टी	श्री०(डॉ०) अमरानंद कुमार	



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8	मार्क्सवादी कम्युनिस्ट पार्टी		
9	Mulunda Das Director	V Mulunda Das	Mulunda
10	PHDCCI	Satyjit Kumar	Satyjit
11	Anglo Indian Chamber of Commerce	Kamal Salim	Bulu
12	Bihar Chamber of Commerce & Industries	P K ASRAWAZ	
13	Bihar Entrepreneurs Association (BEA)	Ashish Kumar	
14	RJD Bihar	Dr. Ashok Kumar Singh	
15	CENTRAL UNIVERSITY OF BIHAR	Prof. Debadas Banerjee Pro-Vice Chancellor	
16	RJD, BIHAR	ABDUL SAAT SIDDIQUI	
17	Bihar Ind. Assocn	ARUN AGARWAL President	
18	SUCG (C)	Manoj Kant Palhake	
19	P.G. Dept. of Economics Patna University	Bhagwan Prasad Singh	Bhag. S. 3.1.14
20	All India Congress Committee	Sardar Singh	 3.1.2014
21	JIT JYTI	सुरेश कुमार मीरा	 7 मीरा

क्रम सं.	राजनीतिक दल / शोध एवं व्यावसायिक संस्थान	नाम	हस्ताक्षर
22	जनता दल (यूनाइटेड)	वशिष्ठ नारायण सिंह	वशिष्ठ नारायण सिंह
23	आम आदमी पार्टी	डा. रमेश चौधरी	रमेश चौधरी
24	Nationalist Congress Party	Smriti Gupte Vice President	Smriti Gupte
25	ELL-Other	Charulata P. Saha Coordinator	Charulata P. Saha
26	ADRI	SABISAL GUPTA	SABISAL GUPTA
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## CHAPTER I

### BACKGROUND

Apart from geographical disadvantages, many states, including Bihar, are the victim of historical distortions too. Colonial rulers, in keeping with their own interest, developed only a few regions in India and left other regions extremely backward to fend for themselves. The British took interest in developing only those regions which served their own manufacturing and trading activities in Britain. In the pre-independence era, nearly all industrial and commercial activities were confined to major cities of India, viz., Bombay (Mumbai), Calcutta (Kolkata) and Madras (Chennai). Such uneven development during the British rule left many states of the country extremely backward. In the post-independence era too, nothing substantial has been done to help backward states to improve their lot. The freight equalisation policy in coal and iron was introduced in the early fifties, which served the need of already advanced states, making Bihar and other mineral rich states the worst victim of the policy. As a consequence of this policy, the investments went outside those states rendering them laggards. Thus, as a result of policy failures and continuous lackadaisical approach of the central government, the regional disparities in India are not only high, but still increasing. The pattern of economic reforms in the recent decades has further left in its trail on regional inequalities, causing socio-political tensions.

With the beginning of the plan era, an explicit objective of the government has been a more egalitarian society, coupled with balanced development of different regions. The major tasks before the government were not only to increase the rate of growth, but reduce inequality, both social and regional. A balanced regional development has always been a desired component of the Indian development strategy in order to ensure the unity and integrity of the country. Active state intervention, particularly through channeling public investment in poorer areas, was envisaged to reduce disparities. However, the situation did not improve over the decades and the Tenth Plan had to re-iterate that 'the economic and social development of the country must also take full cognisance of the growing regional imbalances in particularly all indicators'. It further continued that 'not only have the per capita incomes in various states of the Union started diverging rapidly during the past decade, the disparities in social attainments also appear to be persistent, as brought out by the National Human Development Report 2001'. Despite these positive statements by the

Planning Commission, the situation continued deteriorating further. In this background, the centre has an important role to play in promoting the balanced development in which all the states are provided an opportunity to develop evenly. The promotion of balanced development of the states warrants greater efforts for narrowing the gaps in human development, basic services and infrastructure so that no region remains deprived of the fruits of development and attains at least a minimum standard of living.

### **Funds Transfer**

Considering the fact that the financial resources of the states may be inadequate for undertaking welfare, maintenance and development activities, the framers of Indian constitution made arrangements for flow of funds from the centre to the states. The central transfers are generally effected through three main channels — (a) statutory transfers through the Finance Commission, (b) Transfers through the Planning Commission, and (c) discretionary transfers under Centrally Sponsored Schemes, relief for natural calamities, and relief and rehabilitation of displaced persons. Besides, there are invisible transfers through location of central investments, lendings by banking and financial institutions, and other mechanisms.

### **Planning Commission**

The adoption of a planned development strategy led to the establishment of the Planning Commission. The role of the Commission in allocative decisions and assistance to the states to finance their developmental activities is an important component of inter-governmental transfers. Though the Constitution does not make any distinction between the plan and non-plan funds in the budget and channels the transfers under Articles 270 (income tax), Article 272 (excise duty) and Article 275 (grants) entirely within the jurisdiction of the Finance Commissions, the functioning of the Planning Commission has restricted the Finance Commissions to confine themselves in transferring funds only to meet the non-plan requirements of the states.

### **Finance Commission**

In keeping with the constitutional mandate, a Finance Commission is constituted every five years to assess and recommend the distribution of 'divisible pool' of the central government revenue, first between union and states and then horizontal allocations across states. In determining horizontal devolution, successive Finance Commissions have broadly attempted to address the

issues of fiscal need, fiscal capacity, costs of providing equal level of public goods and services, and rewarding efficiency in public management, fiscal efforts and outcomes. The transfers routed through the Finance Commission pertain to the sharing of certain central taxes and grants-in-aid among the states.

Although the Constitution provides for central transfers, it neither indicates the share of the states in the divisible taxes, nor prescribes any principle for distribution of resources among the states. The precise manner of sharing taxes and the actual determination of grants is left to the Finance Commission, appointed by the President every quinquennium under Article 280. The task of Finance Commission consists of :

- Forecasting resources and expenditures of the central government to determine the volume of resources to be transferred to states during the ensuing five year period.
- Forecasting own current revenues of the states and non-plan current expenditures, and devising formula for distribution of total fund among the states.
- Filling the post-devolution projected gaps with grants between the non-plan current expenditures and current revenues.

In view of states' own tax revenue falling short of their expenditure requirements for carrying out their assigned functions, a fiscal readjustment mechanism was provided in the Constitution itself, after reviewing the position periodically and transferring resources from the centre to the states. A Finance Commission is an institution through which this periodic review and transfer takes place. The centre's approach of reviewing fiscal transfers to the states is guided by the principle of equalisation. However, despite recommendations of all previous Finance Commissions and providing equalisation grants, the regional imbalances continue to grow. It appears that nearly all the earlier Commissions had decided not to make drastic changes in either vertical or horizontal distributions. The Commissions had worked around tax devolution and grants in such a manner that the centre's outgo was not substantially enhanced and the overall equalisation was broadly similar to the past. By and large, the basic character of the main recommendations had remained unaltered.

## **Taxes and Duties**

The central government raises resources and transfers a part of it through Finance Commission recommendations, State Plan Grants, Centrally Sponsored Schemes, etc. The Finance Commission transfers cover barely half the amount of total transfers and the other half comes under the discretionary powers. Over and above, the discretionary fund to states depend upon whether the state government is politically aligned to the party in power at the centre. It was found that a state which was aligned to the centre received around 16 percent higher transfers than a non-aligned state. Thus, it becomes imperative to increase formula-based transfers and reduce discretion-based transfers.

The FC10 had recommended for uniformity in allocation of proceeds of different taxes. However, even within the scope of uniform formula, there was a need to focus on poorer states by allocating more resources to them for taking care of glaring deficiencies in development. Though a beginning was made by the FC10 by including infrastructure as a criterion in the scheme of devolution with a weightage of 5 percent, it was too small a weightage for the poorer states like Bihar. Infrastructure is a key parameter, and the FC14 should try to link resource transfers to states with their infrastructural endowment. This is possible if an index of infrastructure is evolved. A more suitable indicator could be an investment climate index. Similarly, the per capita consumptions of electricity may also be considered as a separate factor in the scheme of devolution. This variable with sufficiently higher weightage would help the poorer states like Bihar to get justice.

## **Grants-in-aid**

The Grants-in-Aid are an important component of the Finance Commission awards to help equalising the standard of basic social services. Accordingly, more equalising grants should be considered to compensate for relative deficiency in taxable capacity and cost disadvantages of poorer states. The size of grants has varied from 7.7 percent of total transfers under FC12 to 26.1 percent of total transfers under FC6. The share of grants-in-aid in total transfers should be increased. The presumption that the requirements for development of sectors like education, health, and welfare of marginalised people would be taken care by the Planning Commission is unfounded. As a matter of fact, the plan outlay is confined to the expansion of facilities and normally not available for raising the standards of existing services. The level of such services

may be improved only by stepping up the non-plan expenditure. It is also argued that the grants have so far been directed to particular sectors and that too with conditionalities, reducing expenditure options of the states.

The FC12 recommended a grant of Rs. 7919 crore to Bihar for an award period for five years. It appears that the Commission failed to take into account the existing level of educational infrastructure in the state and could not assess correctly the financial requirements for the same. Similarly, awards under the state-specific needs were also not in commensurate with the actual needs of the state. Again, even the approach of the FC13 on tax devolution and grants has not been different from the earlier Finance Commissions. The only difference is the consideration of per capita fiscal capacity distance in place of per capita income distance as a criterion for tax devolution. Another major concern is the abundance of conditionalities imposed by the FC13. It recommended as many as 12 different types of grants with a host of conditionalities. There are serious questions over design and implementation of these conditions, and some states maintain that many of the stipulated conditions cannot be met.

### **Thirteenth Finance Commission and Recommendations for Bihar**

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

- Share of states in the net proceed of the shareable central taxes was raised from 30.5 percent by FC12 to 32.0 percent by the FC13.
- The indicative limit of revenue transfers to states was raised from 38.0 percent by the FC12 to 39.5 percent by the FC13.
- Reallocation of weights in favour of population, area, fiscal capacity distance and fiscal discipline through changing formula for tax devolution.
- Introduction of equalisation principle to provide grants for education and health to relatively more deficient states in their revenue capacity, provided they maintain their normal expenditure on these heads at current level.
- Providing grants for maintenance of roads and bridges, heritage conservation, state specific needs, local bodies and calamity relief on a larger scale.
- Enlarging grants to local bodies substantially and modifying formula for their allocation among the states.

### Sharing of Tax Revenue

The FC13 has raised the share of states in net tax revenue receipts of the centre by one and a half percentage points and ceiling on total transfers again by one and a half percentage points. It also retained the population criteria with similar weightage of 25 percent adopted by FC12 and laid more emphasis on fiscal capacity distance with a weightage of 47.5 percent. Similarly, fiscal discipline has been retained with an increased weightage of 17.5 percent. Based on these criteria and weights, Bihar's inter-se share among the states is 10.917 percent and in service tax 11.089 percent. The average devolution to Bihar works out to 19.44 percent of GSDP which is 5.87 percent higher compared to FC12.

### Debt Consolidation and Relief Facility

First, the loans to states from National Small Savings Fund (NSSF) contracted till 2006-07 and outstanding amount at the end of 2009-10 were reset at a rate of interest of 9 percent, subject to conditions prescribed. Secondly, a window borrowing from central government was made available for fiscally weak states, unable to raise loans from the market. Finally, the benefit of interest relief on NSSF and write-off were made available to states, subject to the necessary amendments/enactments of FRBM.

### Local Bodies

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

For inter-se allocation of grants to states, the FC13 enhanced the weight of population criterion to 50 percent, as against 40 percent by the FC12. The distance from the highest per capita sectoral income criterion was given a weight of 20 percent for ULBs and 10 percent for PRIs. Area and index of devolution was given a weight of 10 percent and 15 percent respectively. Based on these criteria, the local bodies of Bihar were allotted a sum of Rs. 5,682 crore.



### Calamity Relief Fund (CRF)

The FC13 enhanced the total size of CRF to Rs. 26,373 crore from Rs. 21,333 crore as recommended by the FC12. Though FC13 recommended higher CRF for each state, it retained the shares of centre and states at 75 and 25 percent respectively as adopted by FC12. Bihar had suggested the state's contribution to be nil.

### Grants-in-aid

- (i) The FC13 recommended a total grant of Rs. 24,068 crore for elementary education for all states; for Bihar, it was Rs. 4,018 crore as against Rs. 2,684 crore by the FC12.
- (ii) The recommended environment-related total grants is Rs. 10,000 crore, with Rs. 5000 crore each for forests and water sector management. For Bihar, the recommended amounts are Rs. 38 crore (forest) and Rs. 304 crore (water management), making a total of Rs. 342 crore.
- (iii) A grant of Rs. 19,930 crore over the award period is recommended for maintenance of roads and bridges in all states and; for Bihar, the recommended amount is Rs. 464 crore as against Rs. 309 crore by FC12.
- (iv) For improvement in justice delivery, FC13 recommended a total of Rs. 5000 crore; for Bihar, the amount is Rs. 385 crore.
- (v) Total amount recommended as incentive for issuing UIDs is Rs. 2989 crore; for Bihar, it is Rs. 369 crore.
- (vi) The District Innovation Fund for increasing the efficiency of capital assets already created, a fund of Rs. 1 crore is made available to every district in the country and Bihar gets Rs. 38 crore.
- (vii) For improvement in statistical system at the state and district level, the FC13 recommended a sum of Rs. 616 crore, with Rs. 1 crore for each district and Bihar gets Rs. 38 crore.
- (viii) For setting up a pensioners' data base, FC13 recommend a total sum of Rs. 225 crore, of which Bihar gets Rs. 10 crore.



### State specific Needs

A total grant of Rs. 27,945 crore is recommended to all states for states specific needs, of which Bihar gets Rs. 1845 crore for the five year period. The details are as under :

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

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

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

Though the overall increase in the share of states in divisible pool of taxes is welcome, it is noted with concern that, contrary to the demands by the state government, it has retained caps on both fiscal and revenue deficit. While Bihar is totally committed to fiscal discipline, the specific parameters are for the state governments to choose in keeping with its development goals. To sustain fiscal health, all that a government needs to do is to contain its fiscal deficit within prescribed limits and completely eliminate its revenue deficit. Since fiscal deficit is a function of the revenue deficit, once we know the position of debt stock, all we need to specify in the FRBM Act is the upper limit of the fiscal deficit. By including the revenue deficit in the framework, the system becomes actually 'over-determined'. This can affect the growth of low income states like Bihar, as it may severely constrain spending on health, education and maintenance of infrastructure assets. It is hoped that the FC14 will be careful on this recommendation.

## CHAPTER II

### TOR OF FOURTEENTH FINANCE COMMISSION

India evolved a noble kind of federation which is unique in character. It combines the strength of a unitary as well as decentralised form of government. The essence of federalism lies in proper division of powers and functions among various levels of government and ensure adequate financial resources to each level of government to enable them to perform their exclusive functions. Articles 280 and 281 of the Constitution deal with the distribution of revenues between the union and the states and are concerned with the appointment, functions and duties of the Finance Commission. Thus, a Finance Commission is an institution through which this review and transfer take place. The most important aspect of the fiscal federalism is the division of revenues and functions among different levels of government. Though inter-governmental transfers take place to reduce fiscal imbalances and provide nearly equal average level of public services across the sub-national governments, even after 65 years of independence, there exists fiscal imbalances and regional disparities across the states. Varying approaches by different Finance Commissions have differential impact on the resource transfers to states. The tax sharing is based on the general criteria like population, geography, backwardness, poverty ratio, inverse per capita income, distance formula, revenue gap, etc. The high weightage given to population criterion has been gradually lowered after the FC7, and alternative criteria have been given more importance in sharing the resources.

The states' dependence on central transfers varies according to their capacity to generate own resources. It varies between 15-20 percent for high income states, between 25-35 percent for middle income states, and between 40-80 for low income states. However, for Special Category States, these central transfers are very high, varying between 65-95 percent of their revenue receipts. Based on demand from the states, the Finance Commission also increased the overall share of states from 29.5 percent by the FC11 to 32.0 percent by FC13. However, this does not appear to be adequate, and should be suitably enhanced keeping in view the eagerness of the backward states like Bihar to develop and reach atleast the level of all-India average indicators of development.

#### **Terms of Reference (TOR)**

The TOR for the FC14 are apparently similar to those for the previous Commissions; however, some new issues have also been referred (Appendix I). A perusal of the TOR reveals that these are heavily loaded in favour of the centre which, inter-alia, include consideration of subsidy level

requirement, insulation of pricing of public utility services, making public sector enterprises competitive and market oriented etc. In so far as the level of subsidies is concerned, it has never been equitable, nor the centre wanted this. As one is aware, a substantial part of central resources is transferred to states via subsidies. The explicit subsidies, mainly on food, fertiliser and petroleum accounted for a major proportion of total central government subsidies, including those hidden in the provision of social and economic services. However, the transfer to the poorer states through these subsidies is only a pittance compared to the developed ones.

Like its predecessors, the FC14 is also faced with a host of problems in making fiscal allocations between the centre and the states in a limited fiscal space, caused by existing economic environment including the high level of inflation. Further, the fractured nature of polity has resulted into emergence of coalition governments at the centre with regional parties having greater say in running these governments. In order to satisfy various coalition partners, various schemes have to be introduced by the centre. Thus, the political economy factors have impacted the size of the inter-government transfers.

Failure in addressing the issue of equalisation in public services across states in a systematic manner has led to growing regional disparities, which was aggravated further by disequalising regional policies, like subsidies and invisible transfers etc. The equity consideration should become more important for the Commission while making inter-governmental transfers, which must ensure that the gaps in revenue raising capacities across the states and their cost incapacities are bridged considerably. This is possible through allocation of significant weights to equity-based criteria in the distribution formula. Besides income distance, population and area are also important indicators in ensuring equity, which may be considered while working out the distribution formula.

The FC7 and all the subsequent Finance Commissions had taken the 1971 population figures as base for determination of devolution of taxes and grants-in-aid. The TOR of the FC14 in clause 7 state that "in making recommendations of various matters, the Commission shall generally take the base of population figures as of 1971 in all cases; but it has simultaneously been asked to "take into account the demographic changes that have taken place subsequently". The use of 40 year old population figure in all cases would tend to penalize the states with higher population growth, a consequence of their social disadvantage.

An important issue has emerged after the introduction of economic reforms in 1991. With this, the responsibility of the states has increased substantially in meeting the increasing need of the basic

services of the people. However, it is the central government that has become stronger in terms of higher revenue potential over the years, but the states got burdened with greater responsibilities in education, health, economic and social infrastructure, social security and other welfare sectors. This resulted in increasing vertical fiscal imbalances, due primarily to differential performance of the states in post-reform period. Consequently, the inequality across states increased sharply in providing public services.

Thus, the FC14 is mandated to suggest measures to raise tax ratios at both centre and states, improve performance of public sector enterprises, address challenges in ecology, environment and climate change. It has also been asked to suggest measures to amend the FRBM Act to remove its shortcomings. It is also burdened with the responsibility to address the rising trend of widening inequality in government spending across states and ensure fiscal autonomy, which got substantially eroded over the years. The FC14 has been assigned the duty to assess the impact of GST and devise a compensation mechanism for the states; the states may be taken in confidence in designing this mechanism.

As a result of climatic changes taking place, the nature and intensity of disasters are becoming serious threats to the lives and properties of the people at large. Bihar has started facing more hazards of both floods and droughts. The hailstorms are taking great toll on crops. The FC14 should review the situation empirically and make recommendations so that the states may face the disasters boldly without feeling any resource crunch.

Thus the TOR of the FC14 raise several issues, requiring more attention. In keeping with the Commission's primary function of arbitration, the FC14 should weigh each of these issues, keeping in view the federal character of our country, as also the fiscal health of the union and states, particularly the poorer states like Bihar. It would be appropriate for the Commission to follow the mandate given to it under Article 280 and adopt those which treat the centre and states as equal partners in the federal set-up.

## CHAPTER III

### BIHAR : A CHRONICALLY DISADVANTAGED STATE

The FC14, like previous one, is visiting Bihar to appraise itself of the ground realities in the state. Keeping this in view, the status of Bihar, including its backwardness and disadvantages, is discussed in this chapter. Bihar, right from a distant past, is disadvantaged and has remained the victim of inequality of all kinds. The Indian federal structure is unique in the sense that the centre collects more resources than it spends and, on the contrary, the constituent states mobilise less resources than they actually need. In this backdrop, Articles 280 and 281 of the Constitution deal with the distribution of revenues between the union and states through the Finance Commission. The framers of the Constitution kept in view the need to make the whole nation into one economic space through this periodical review mechanism and fiscal transfers to states, which is mainly guided by the principle of equalization. But this remained only in principle and equalisation is still a far cry and inclusive growth an illusion.

#### **Poor State**

During the colonial period, the whole of India, except some port cities, was backward. Even in the post-independence period, the regional disparities not only continued but widened over the years, and the reform period worsened it. Presently, the disparity level is very high and Bihar remains at the lowest rung. The historical neglect, which the state has been subjected to during the colonial period, continued even after independence. As a result of the biased treatment by the centre, the per capita development expenditure in Bihar has been very low, along with inadequate central assistance and a tardy flow of institutional finance. A low and declining level of investments in the central sector also contributed to the backwardness of the state. Over and above, the investment in private projects also remained the lowest in the state.

As a result of state governments endeavours, the public investment in the state has increased recently and the state's annual growth rate was 10.3 percent during 2005-06 to 2011-12. This positive turnaround is resonated in many sectors including physical infrastructure, education, health, public finance and overall governance. Despite this, Bihar even today continues to remain at the bottom in terms of the Human Development Index.

The Planning Commission has compared various states in India in its Working Paper series, 2012 entitled 'Refining State Level Comparisons in India', and concluded that, even within BIMARU states placed under the third tier category, Bihar remains a laggard state and ranks very low in terms of health (19), education (19) and infrastructure (20) indices.

**Table 3.1 : Three-Tier Ranking of States on the Basis of Health, Education and Infrastructure**

	Ranks across States	Health Index Ranks	Education Index Ranks	Infrastructure Index Ranks
First Tier	Kerala	1	1	3
	Goa	2	3	1
	Himachal	6	2	2
	Punjab	4	6	4
	Tamil Nadu	3	8	5
	Maharashtra	5	4	11
	Haryana	11	5	9
Second Tier	West Bengal	7	9	12
	Uttarakhand	13	7	7
	Karnataka	9	11	8
	Andhra Pradesh	8	12	10
	Gujarat	12	10	6
	Jammu / Kashmir	10	15	14
	Orissa	14	14	17
Third Tier	Rajasthan	15	16	15
	Assam	16	13	19
	Madhya Pradesh	20	18	13
	Chhats	17	17	18
	Uttar Pradesh	21	21	16
	Bihar	19	19	20
	Jharkhand	18	20	21

Again, in 2013, a Committee constituted under the chairmanship of Raghuram Rajan for 'Evolving a Composite Development Index of States' included ten components like education, health, female literacy, percent of SC/ST population, urbanisation, poverty rate, etc. for the purpose. Based on some exercise, the Committee grouped the states scoring 0.6 and above on development index as 'least developed states', those scoring between 0.4 and 0.6 as 'less developed states', while the remaining states scoring below 0.4 as 'relatively developed states'. Among the 10 least developed

states scoring above 0.6, Bihar with an index of 0.76 ranks almost at the bottom, just above Odisha with an index of 0.80.

**Table 3.2 : Underdevelopment / Need Index and Allocation Share**

State	[1]	[2]	[3]	[4]	[5]
	Under-development / need index	Fixed Share	Share based on need	Share based on performance	Total share
Andhra Pradesh	0.52	0.3	4.03	2.52	6.85
Arunachal Pradesh	0.73	0.3	0.65	0.02	0.97
Assam	0.71	0.3	2.60	0.14	3.05
Bihar	0.76	0.3	8.94	2.80	12.04
Chhattisgarh	0.75	0.3	2.91	0.49	3.70
Goa	0.05	0.3	0.00	0.00	0.30
Gujarat	0.49	0.3	2.56	0.83	3.69
Haryana	0.40	0.3	0.62	0.41	1.33
Himachal Pradesh	0.40	0.3	0.26	0.11	0.67
Jammu & Kashmir	0.50	0.3	1.13	0.40	1.83
Jharkhand	0.75	0.3	3.04	0.54	3.88
Karnataka	0.45	0.3	2.19	1.24	3.73
Kerala	0.09	0.3	0.04	0.03	0.38
Madhya Pradesh	0.76	0.3	7.86	1.40	9.56
Maharashtra	0.35	0.3	2.35	1.28	3.94
Manipur	0.57	0.3	0.20	0.00	0.50
Meghalaya	0.69	0.3	0.33	0.02	0.65
Mizoram	0.49	0.3	0.10	0.00	0.40
Nagaland	0.55	0.3	0.14	0.01	0.45
Odisha	0.80	0.3	4.85	1.38	6.53
Punjab	0.35	0.3	0.52	0.25	1.07
Rajasthan	0.63	0.3	5.29	2.83	8.42
Sikkim	0.43	0.3	0.03	0.02	0.35
Tamil Nadu	0.34	0.3	1.32	0.88	2.51
Tripura	0.47	0.3	0.14	0.08	0.52
Uttar Pradesh	0.64	0.3	12.24	3.87	16.41
Uttarakhand	0.38	0.3	0.30	0.19	0.79
West Bengal	0.55	0.3	4.09	1.10	5.50
		8.4	68.74	22.86	100.00

This is the result of a consistent biased treatment meted out to Bihar, first during the colonial rule, and then after independence. Nothing concrete was done to eliminate the inequalities among the



states. Thus, despite the direction given under Article 38(II) of the Constitution which enjoins on the state the responsibility of eliminating inequalities, the people of Bihar suffered on the most.

### **Reasons for Backwardness**

The factors rendering the state backward are briefly enumerated below, which go to establish the lackadaisical approach of the centre in eliminating the negative factors that the state has throughout faced.

- (1) History has been cruel to Bihar. During colonial rule, the state was neglected and, inspite of its vast and valuable natural resources, the state remained only a supplier of raw material and labour for the industries in distant lands at the cost of its own peril of de-industrialisation. The introduction of 'Permanent Settlement' in 1793 resulted into the withdrawal of governance, leaving the tenants at the mercy of the landlords. Agriculture was also oriented to produce only the raw materials for the industries elsewhere. As a result, Bihar remained one of the poorest regions in India with weak governance infrastructure and defunct institutions of service delivery. In 1930, the 'Memorandum for the Indian Statutory Commission on the Working of the Reforms in Bihar and Orissa' noted that the standard expenditure in Bihar and Orissa, worked out on the basis of actual expenditure prior to 1912, was only Rs. 8 lakh per million of population, compared to Rs. 13 lakh in Bengal, which itself was the lowest in British India. The lowest priority accorded by the British administration to Bihar resulted in huge deficiency in governance.
- (2) Even after independence, the Government of India neglected Bihar like colonial rulers and introduced the policy of Freight Equalisation, which worked against economic development of Bihar through investments, either local or from outside. This was on account of the fact that the two basic industrial inputs (coal and steel) could be available throughout the country at the same price. This facilitated flight of capital from regions with weak industrial infrastructure like Bihar to already industrially developed regions in the country. Though the policy was withdrawn in 1993, considerable damage was already inflicted upon the state by through its operation over four decades.

- (3) The bifurcation of Bihar in 2000 gave a severe blow to the economy of truncated Bihar. Consequent upon bifurcation, nearly all the mines, minerals and forests remained in Jharkhand. Bihar was left with 75 percent of the population against 54 percent of the land area, resulting into a severe deterioration in land-man ratio. As per 2011 census, the density of population in Bihar (1102 persons/sq.km) is almost thrice the national average (382 persons/sq.km.). In spite of 75 percent of population remaining in Bihar, only 25 percent of public assets was its share; on the contrary, about three-fourth of assets with one-fourth of liabilities remained with Jharkhand. The bifurcation left the present Bihar with debt and disaster on a continuing basis. The present Bihar has not been compensated by the centre for the losses incurred as a result of bifurcation.
- (4) Consequent upon bifurcation, apart from 96 percent of mines and minerals and 78 percent of forests, the present Bihar has lost social and economic infrastructure, major industries and a good number of technical and training institutions, all leading to reduced potential of its growth.
- (5) The state needs restructuring of networks of roads, power, buildings, training institutions, universities, colleges both technical and general, etc. As a result of bifurcation, the infrastructure base for the present Bihar worsened. Despite sincere efforts made by the state government, the state is much behind the national average in terms of average road length per lakh population (138.7 kms. against all-India figure of 142.7 kms) (2011). The road length per 100 sq.kms. is also less (119.72 kms.) than the all India average (127.76 kms.). The power and energy scenario is also grim with per capita power consumption being 122 kwh, as against the national average of 779 kwh (2009-10) (Appendix II).

There is no denying the fact that, after the vivisection of the state, an agrarian economy was thrust upon Bihar, which faces floods and droughts on a regular basis. Only around 50 percent of the cultivated area is under irrigation and a significant proportion of irrigation potential is yet to be realised. Around 90 percent of states' population is residing in villages, since the level of urbanisation is only 11.3 percent compared to the national average of 31.2 percent. In terms of

index of infrastructure, Bihar stands at the bottom of states during the year 1999-2000, as also in 2008-09 (Appendix III).

### Low Level of Central Investment

A low and declining level of investments in central sector also contributed to the backwardness of the state. As may be seen, the share of Bihar in direct central investment has been declining rapidly. While in 2004-05, the share of Bihar in direct central investment was 1.39 percent, it declined to 0.65 percent in 2009-10. It may also be noted that the decline in share was more sharp during the first three years of the Eleventh Plan.

**Table 3.3 : Central Public Sector Investment**

(Rs. crore)

Year	Direct Central Investment				Percentage Share of Bihar to All India
	Bihar		All India		
	Investment	Annual Growth	Investment	Annual Growth	
2004-05	3333.68	-	240580	-	1.39
2005-06	3609.8	8.28	293350	21.93	1.23
2006-07	3704.33	5.41	356556	21.74	1.04
2007-08	3846.78	4.89	441923	22.47	0.87
2008-09	3738.99	2.91	529231	21.79	0.71
2009-10	3902.73	3.20	601618	20.12	0.65

### State of Public Finance

There are various important factors pushing Bihar at the bottom of all states in terms of all the indices of development. The extremely poor situation that prevailed during the colonial rule continued even after independence, without any worthwhile attempt to improve it. As if this was not enough, the state suffered neglect at the hands of democratically elected government at the centre, after the independence. The economic reform policy of the nineties brought further set back to the weaker states like Bihar, benefiting a few developed ones. The bifurcation further crippled its economy resulting into sudden drop in the revenue receipt by a quarter, from Rs. 3085 crore in 1999-2000 to Rs. 2319 crore in 2001-02. The non-tax revenue too declined from Rs. 1166 crore to Rs. 287 crore during the period.

In deference to the FRBM Act, the state initiated the fiscal reform from an early date and successfully contained the Gross Fiscal Deficit (GFD) within 3 percent of GSDP. The GFD:GSDP ratio in 2005-06 was 4.49 percent, which became 3.00 percent in 2006-07. In 2011-12, the GFD rose to Rs. 5914 crore from Rs. 3971 crore in the previous year and was again below the limit (2.4 percent) (Appendix IV).

**Table 3.4 : Decomposition of Gross Fiscal Deficit of Bihar**

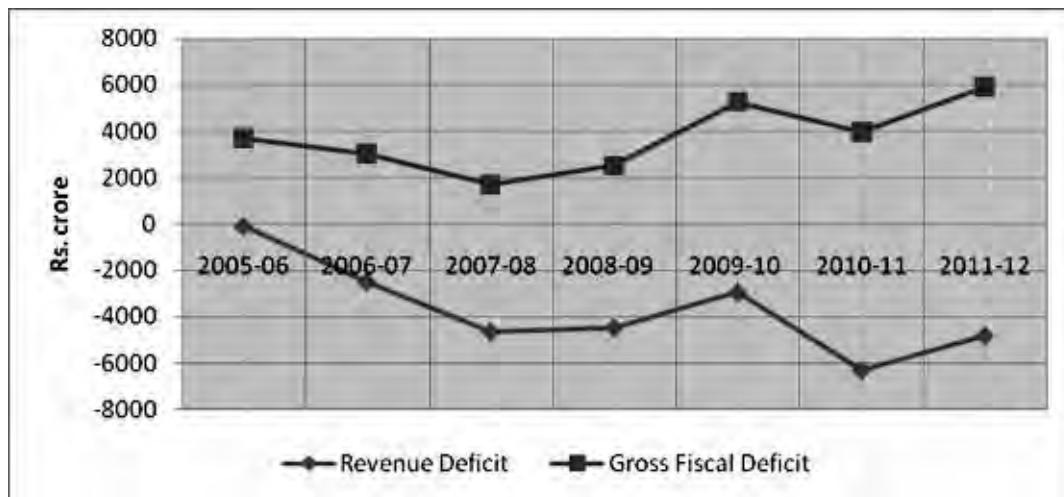
(Rs. crore)

Items	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue Deficit	-81	-2498	-4647	-4469	-2943	-6316	-4821
Capital Outlay	2084	5211	6104	6436	7332	9196	8852
Net Lending	1697	308	247	540	884	1091	1884
GFD	3700	3021	1703	2507	5272	3971	5914
GSDP	82490	100737	113680	142279	164547	198135	246487
GFD: GSDP ratio (%)	4.49	3.00	1.50	1.76	3.20	2.00	2.40

Source: Economic Survey of Bihar

There has been substantial surpluses in the revenue account of the state government for the last seven years. The revenue surplus was the highest during 2010-11 at Rs. 6316 crore; in 2011-12, it was reduced to Rs. 4821 crore, but was still high. This surplus is higher compared to most other major states.

**Revenue Deficit and Gross Fiscal Deficit of Bihar**



As regards plan and non-plan expenditure, there remained a significant gap. However, it started narrowing down since the beginning of the Eleventh Plan, when non-plan expenditure was 1.6 times the plan expenditure, compared to 4.5 times in 2005-06. In 2011-12, the non-plan expenditure was 1.4 times the plan expenditure. The total plan and non-plan expenditures in 2011-12 were Rs. 29,630 crore and Rs. 42340 crore, respectively. (Appendix V).

### **Growing Economy – High Poverty**

The economy of Bihar grew steadily during the Eleventh Plan period (2007-12) and achieved a growth rate of 10.3 percent during the period, as against 5.67 percent during the Tenth Plan. It may also be mentioned that nearly all the sectors registered a higher growth rate during the Eleventh Plan (2007-12), compared to those in the Tenth Plan (2002-07). As may be seen, the annual growth rate during the period 2005-06 to 2011-12 was more than 20 percent in the sectors like registered manufacturing (40.3 percent), construction (21.4 percent) and communication (26.8 percent) (Appendix VI). However, despite such high growth rate of the economy, Bihar continues to remain at the bottom in the ranking of states in respect of Per Capita Income. (Appendix VII).

According to the Planning Commission, in 2009-10, as much as 53.5 percent of Bihar's population lived below poverty line. This is much higher compared to 29.8 percent at all-India level. Around 90 percent of Bihar's population live in villages, where the poverty ratio is still higher at 55.3 percent. In terms of overall poverty ratio, even the backward states like Odisha and Jharkhand reported much less ratios of 37 and 39 percent respectively (Appendix VIII).

The state has to address all these challenges to sustain the growth pattern. But it may be noted that the growth rates are parri-passu dependent on the growth in agriculture and allied sector, which is dependent on the vagaries of monsoon. Therefore, in order to sustain the overall growth rate of the state, it is necessary to stabilise the rate of growth of Agriculture and Animal Husbandry, through making massive investments in infrastructure development like irrigation, flood prevention etc.

### **Poor HDI**

The severe economic disadvantage of Bihar is also reflected when the Human Development Index (HDI) of major states of India is analysed. A perusal of Table 3.5 reveals that the state ranks the

second lowest (15) in terms of HDI among the 16 major states (2011). During the decade 2001-11, Bihar's HDI increased from 0.367 to 0.447, yet its rank slipped down from 14 to 15 during the period.

**Table 3.5 : Human Development in Major States of India**

State	1991		2001		2011	
	Value	Rank	Value	Rank	Value	Rank
Andhra Pradesh	0.377	9	0.416	10	0.485	9
Bihar	0.308	14	0.367	14	0.447	15
Chhattisgarh	NA	NA	NA	NA	0.449	14
Gujarat	0.431	6	0.479	6	0.514	6
Haryana	0.443	5	0.509	5	0.545	4
Jharkhand	NA	NA	NA	NA	0.464	12
Karnataka	0.412	7	0.478	7	0.508	8
Kerala	0.591	1	0.638	1	0.625	1
Madhya Pradesh	0.328	12	0.394	12	0.451	13
Maharashtra	0.452	4	0.523	4	0.549	3
Odisha	0.345	11	0.404	11	0.442	16
Punjab	0.475	2	0.537	2	0.569	2
Rajasthan	0.347	10	0.424	9	0.468	10
Tamil Nadu	0.466	3	0.531	3	0.544	5
Uttar Pradesh	0.314	13	0.388	13	0.468	11
West Bengal	0.404	8	0.472	8	0.509	7
All India	0.381		0.472		0.504	

Source : National Human Development Report, 2001 and Inequality adjusted Human Development Index for India's States, 2011

### **Least Social Development Expenditure**

The HDI depends on the pattern of social development which, in turn, depends on social sector spending. Table 3.6 shows that the expenditure on social sector is growing annually by around 21 percent in Bihar, as also for all-states. However, it is a matter of great concern that despite an increase, the per capita expenditure (PCE) on social services in Bihar is barely half of the all-India level. While in 2007-08, the PCE in Bihar was Rs. 1123 against Rs. 2039 for all states, it was Rs. 2126 and Rs. 4105, respectively in 2011-12. It is also discerned that when the PCI for all states increased by more than 100 percent, for Bihar it increased by less than 90 percent.

**Table 3.6 : Trend of Social Services Expenditure**

Year	Total Expenditure on Social Services (Rs. crore)		Total Expenditure (Rs. crore)		Percentage share of Social Services in Total Expenditure		Per Capita Expenditure on Social Services (Rs.)	
	All States	Bihar	All States	Bihar	All States	Bihar	All States	Bihar
2007-08	232935	10670	699667	29669	33.29	35.97	2039	1123
2008-09	290831	12895	824613	34948	35.27	36.90	2502	1329
2009-10	338561	13301	948368	39916	35.70	33.32	2862	1344
2010-11	443326	20333	1163652	54257	38.10	37.48	3683	1993
2011-12	496729	22110	1304897	61381	38.07	36.02	4105	2126
CAGR	21.36	21.08	17.24	20.85	---	---	19.55	18.31

Source : State Finances, A Study of Budgets, RBI (different issues)

Admittedly, the budgetary constraint comes in the way of augmentation of further expenditure on social services in Bihar. Relatively lower spending on social sector is reflected also through health and education indicators. One of the sensitive indicators in health sector is Life Expectancy at Birth (LEB), which was less for Bihar (65.8 years) than all-India (66.1 years) during 2006-10. Similarly, in 2010-11, the Total Fertility Rate (TFR) in Bihar was much higher (3.7), compared to all-India (2.5). The Infant Mortality Rate (IMR) was higher in Bihar (48) than the combined all-India figure (47).

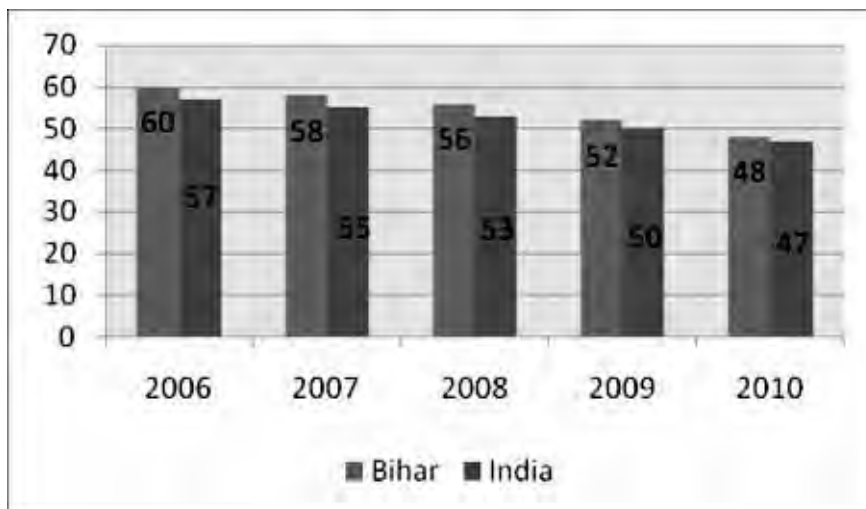
**Table 3.7 : Selected Health Indicators for Bihar and India**

Category		2006	2007	2008	2009	2010	
Total Fertility Rate							
Bihar	Rural	4.3	4.1	4.0	4.0	3.8	
	Urban	3	2.9	2.8	2.8	2.7	
	Combined	4.2	3.9	3.9	3.9	3.7	
India	Rural	3.1	3	2.9	2.9	2.8	
	Urban	2.0	2.0	2.0	2.0	1.9	
	Combined	2.8	2.7	2.6	2.6	2.5	
Infant Mortality Rate							
Bihar	Male	58	57	53	52	46	
	Female	63	58	58	52	50	
	Total	60	58	56	52	48	
India	Male	56	55	52	49	46	
	Female	59	56	55	52	49	
	Total	57	55	53	50	47	
Life Expectancy at Birth							
		2001-05			2006-10		
		Male	Female	Total	Male	Female	Total
Bihar		62.0	60.1	61	65.5	66.2	65.8
India		62.3	63.9	63.1	64.6	67.7	66.1

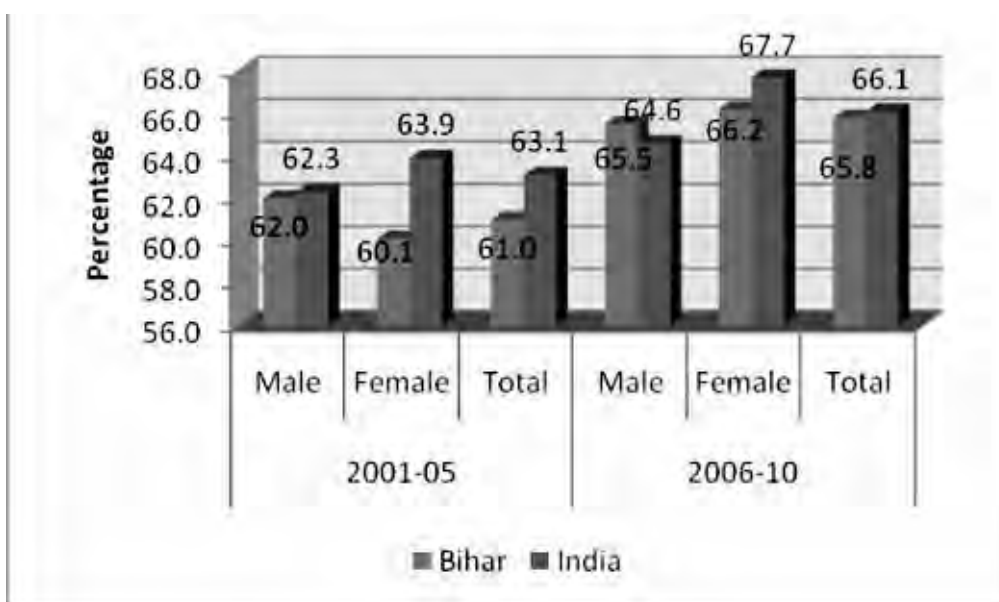
Source : Sample Registration System (SRS), Office of the Registrar General, India, Ministry of Home Affairs, GOI



### Infant Mortality Rate



### Life Expectancy at Birth



In education sector too, the scenario in the state is much disappointing; Bihar recorded a literacy rate of 64 percent in 2011 as against 74 percent at all-India. Among the states, the highest literacy rate of 94 percent was recorded in Kerala. Similarly, the gender disparity in literacy rate was more pronounced in Bihar (20.1 percentage points) compared to all-India (16.6 percentage points) (Appendix IX). The dropout rates in Bihar in 2010-11 were also alarmingly high, which was 39.3 percent at primary level, 55.1 percent at upper primary level, 62.2 percent at secondary and 71.6 percent at higher secondary levels.



**Table 3.8 : Dropout Rates at Primary, Upper Primary, Secondary and Higher Secondary Levels**

Year	Primary			Upper Primary		
	Girls	Boys	Total	Girls	Boys	Total
2006-07	45.7	46.4	46.1	60.1	62.8	61.8
2007-08	45.2	45.6	45.4	61.1	61.5	61.4
2008-09	44.6	45.1	45.0	NA	NA	60.3
2009-10	41.0	43.5	42.5	56.7	60.2	58.8
2010-11	35.3	42.13	39.27	51.31	57.87	55.14
Year	Secondary			Higher secondary		
	Girls	Boys	Total	Girls	Boys	Total
2006-07	79.2	75.4	76.8	82.3	82.7	81.9
2007-08	75.6	72.6	73.7	83.7	82	82.6
2008-09	NA	NA	72.1	80.7	79.9	80.2
2009-10	67	69.9	68.8	73.4	76.3	75.2
2010-11	58.9	64.4	62.2	69.4	72.9	71.6

Source : Department of Education, GOB

### Recurrent Floods

The recurrent floods are a negative feature rendering the state poor. The state is criss-crossed by a number of rivers and rivulets most of which originate from the Himalayas and, as such, Bihar, particularly north Bihar, is extremely flood-prone. On a regular basis, the floods cause immense damage to the lives and properties every year, including standing crops, roads, buildings, dams, embankments, water supply and other installations. The state has been identified as the most flood-prone by the National Flood Commission. A total of about 69 lakh hectares of land in Bihar is flood-prone, which works out to 17 percent of the total flood-affected area in the country.

Almost the entire north Bihar falls within the flood-prone area and around 57 percent of the total flood affected population in the country reside in Bihar. Out of 38 districts in Bihar, 22 districts on the northern side are affected by floods on a regular basis. In 2007, nearly all the districts of north Bihar were badly affected due to heavy rainfall all over. There were as many as 28 breaches at different points of embankments in the state. The total damages in 2007 flood was of the order of Rs. 2242 crore (Appendix X). The expenditure on relief was Rs. 1366 crore. There was five-fold increase in foodgrains assistance too, besides cash payment of Rs. 200 per households and over 100 times rise in agricultural input subsidy. The Calamity Relief Fund (CRF) allocation for house damage compensation in 2007 was Rs. 300 crore, besides expenditure on the Mukhya Mantri

Awas Yojana for the construction of fully damaged 'katcha' (mud) houses and huts. The 2008 flood was virtually a devastation, when the Kosi river opened a new course by breaching the embankment in Nepal, completely devastating 8 districts, in which about 50 lakh population was marooned and almost all the houses and properties destroyed. The estimated total damage was worth Rs. 950 crore.

Almost every year, even with scanty rains, Bihar suffers from moderate to high floods. The flood problem in Bihar involves Nepal and may be solved only through international cooperation with that country. Owing primarily to fund crunch as also its international nature, the state government is unable to take action on its own to solve the problem. The FC14 should make special provision for Bihar to meet its flood relief and rehabilitation expenses.

### **Other Disasters**

Bihar faced a severe drought in 2009 when the rainfall was much lower than the normal in many of its districts. Besides crop and other losses, the state government had to sanction a total of Rs. 461 crore for the drought relief. Though drought occurred in 2010 also, but its intensity was relatively less. In south Bihar, where the droughts occur more frequently, the average sowing falls below 50 percent compared to the normal situation. Again, cyclones, hailstorms and earthquakes occur in different parts of the state, entailing considerable expenses towards relief and rehabilitation. The state also experiences extremes of heat and cold, causing damage to lives and crops. During the last 5-6 years, the winter temperature had dropped sharply, leading to extreme cold waves which caused extensive damage to human lives, cattles and standing crops.

## CHAPTER IV

### POINTS FOR CONSIDERATION OF FINANCE COMMISSION

It is an established fact that, despite the provision of equalisation made in the Indian Constitution, Bihar remains a laggard state even after 65 years of independence. At the time of independence, the country got backwardness as a legacy with income unevenly distributed across regions. The major tasks before the policy makers were to increase the growth rate and reduce inequality. However, the states like Bihar are still grappling with a variety of factors, like high population growth, poor infrastructure and financial crunch. Generally, the level of development of a state is the consequence of a complex set of historical, geographical, social and cultural factors. Under the circumstances, it is strongly felt that the poorer states like Bihar, with their weak resource base, are unable to take up the necessary developmental works and, therefore, the mechanism to transfer of resources from the centre to the states is of vital importance for them. Such transfers are channeled through two important government agencies, viz., the Planning Commission and the Finance Commission.

#### **Plan Transfers**

The Planning Commission was brought into existence through a resolution of the central government on March 15, 1950 and emerged as an important channel for grants and loans for development of states. Unlike the Finance Commission, the Planning Commission is not a statutory body, yet it is permanent in nature. The first two Finance Commissions made recommendation covering both revenue and capital requirements of the states; but during this period, the Planning Commission had also begun to assume the responsibility for allocation of resources for plan purposes which included capital requirements also. The overlapping of the functions of the Planning Commission and Finance Commission led to considerable legal quibbling regarding Article 282 of the Constitution. However, in due course, it was accepted that the Finance Commission would attend to only non-plan requirements of the states and towards certain specific capital grants, whereas the Planning Commission would make recommendations in respect of grants and loans for state plans.

The successive plans were formulated for faster development with emphasis on achieving the goal of balanced regional development and reducing the inter-state disparities through raising the rate of growth, eradicating poverty, etc. Various other measures were also introduced for development of backward regions, which included higher investment in irrigation, infrastructure, etc., so as to increase the growth of agriculture sector. The public investment was made through the setting up of public sector units, particularly in backward areas and fiscal incentives were also provided in consideration of attracting more private investments. Along with plan transfers, Finance Commission transfers were also made, but the total resource transfers remained quite negligible in relation to the GDP.

**Table 4.1 : Transfers of Resources from Centre to States**

Finance Commission	Period	Finance Commission Transfers			Plan Transfers	Total	As % of GDP
		Taxes	Grants	Total	Grants		
Eighth	1984-89	53.50	6.70	60.20	39.90	100.00	4.80
Ninth	1989-95	53.00	8.50	61.50	38.50	100.00	4.90
Tenth	1995-00	62.10	6.60	68.70	31.40	100.00	4.10
Eleventh	2000-05	58.40	11.00	69.40	30.60	100.00	4.20
Twelfth	2005-10	56.50	11.60	68.10	32.00	100.00	5.20
Thirteenth	2010-15	54.50	11.60	66.10	33.80	100.00	5.30

Source: Thirteenth Finance Commission and Budget Documents

Despite the ambitious targets of growth, the overall central transfers have been very low in relation to GDP and ranged between 4.1 percent during the FC10 to 5.3 percent during the FC13. It is also discerned from the above table that, of the total central transfers, plan transfers, constituted 39.9 percent during FC8 and declined to 30.6 percent during the FC11 and increased only moderately during the subsequent Commission periods.

The size of plan expenditure is an important indicator of growth efforts. However, the relative share of states in overall plan expenditure in comparison to the centre has been coming down. As may be seen from the table below, the states accounted for 64.0 percent share of total plan expenditure during the First Plan, but it started dropping and remained around 40 percent during Seventh to Tenth Plan. Later, it showed a modest increase in Eleventh and Twelfth Plan periods, to reach a level of about 45 percent. Since the states have to play a crucial role in planning and

development activities, it is strongly felt that the lower share of states in plan expenditure has played havoc with the development activities, particularly in the poor states like Bihar. This not only affected the plan activities in the state adversely, but various important tasks relating to states' development also remained unaccomplished. No previous Finance Commission has taken cognisance of this grim reality. It is expected that the FC14 will take note of this fact and try to undo the injustice perpetrated on the states like Bihar.

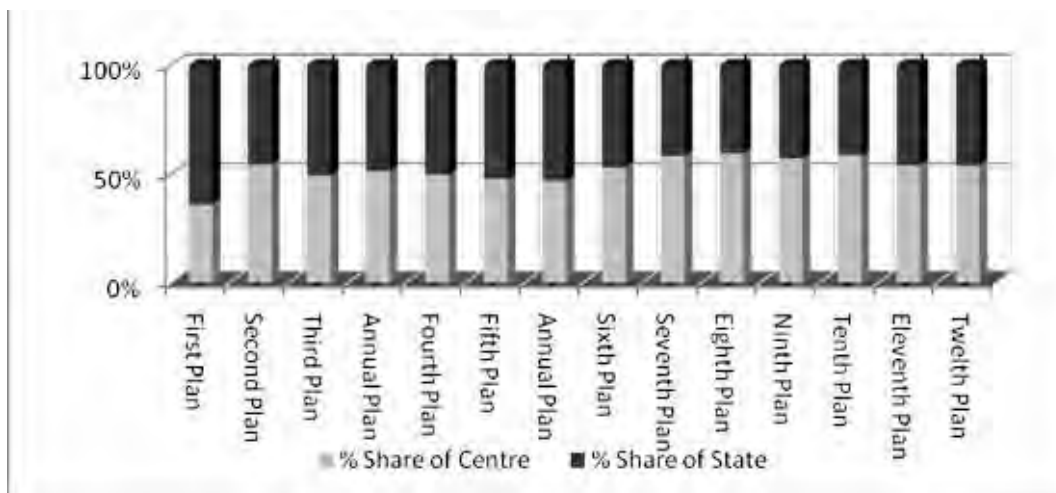
**Table 4.2 : Percentage Share of Central & States in Plan Expenditure**

(Rs. Crores, Current Prices)

Plan Period	Centre	States and Uts	Total
First Plan (1951-56)	706 (36.0)	1254 (64.0)	1960 (100.0)
Second Plan (1956-61)	2534 (54.2)	2138 (45.8)	4672 (100.0)
Third Plan (1961-66)	4212 (49.1)	4365 (50.9)	8577 (100.0)
Annual Plan (1966-69)	3401 (51.3)	3224 (48.7)	6625 (100.0)
Fourth Plan (1969-74)	7826 (49.6)	7953 (50.4)	15779 (100.0)
Fifth Plan (1974-79)	18755 (47.6)	20671 (52.4)	39426 (100.0)
Annual Plan (1979-80)	5695 (46.8)	6481 (53.2)	12176 (100.0)
Sixth Plan (1980-85)	57825 (52.9)	51467 (47.1)	109292 (100.0)
Seventh Plan (1985-90)	127520 (58.3)	91210 (41.7)	218730 (100.0)
Eighth Plan (1992-97)	288930 (59.5)	196527 (40.5)	485457 (100.0)
Ninth Plan (1997-2002)	489361 (57.0)	369839 (43.0)	859200 (100.0)
Tenth Plan (2002-07)	893183 (58.5)	632456 (41.5)	1525639 (100.0)
Eleventh Plan (2007-12)	2025130 (54.0)	1725848 (46.0)	3750978 (100.0)
Twelfth Plan (2012-17)	4333739 (53.8.)	3716385 (46.2)	8050124 (100.0)

Source: Planning Commission, GOI

**Percentage Share of Central & States in Plan Expenditure**



The Per Capita Development Expenditure (PCDE) is an important indicator to assess the extent of development efforts in different periods. Examining from this angle, it is revealed that Bihar has had the lowest (almost half of all-states average) PCDE throughout, though its growth rate during 2005-06 to 2011-12 has been higher in Bihar compared to all-states average. The state is making endeavour for the last seven years to enhance its development expenditure.

The PCDE recorded higher growth (17.9 percent) for Bihar compared to all-states average (16.6 percent). However, there still remained a substantial gap and, in 2011-12, Bihar's PCDE (Rs. 4651) was the least among the states, and much behind the same for all states (Rs. 6928). Bihar's PCDE in that year constituted only 67 percent of all states average. The highest PCDE was reported from Haryana (Rs. 11,857), closely followed by Chhattisgarh (Rs. 10,059), Andhra Pradesh (Rs. 9962), Karnataka (Rs. 9612) and Tamilnadu (9609) (Appendix XI).

**Table 4.3 : Development Expenditure – Bihar and All State Average**

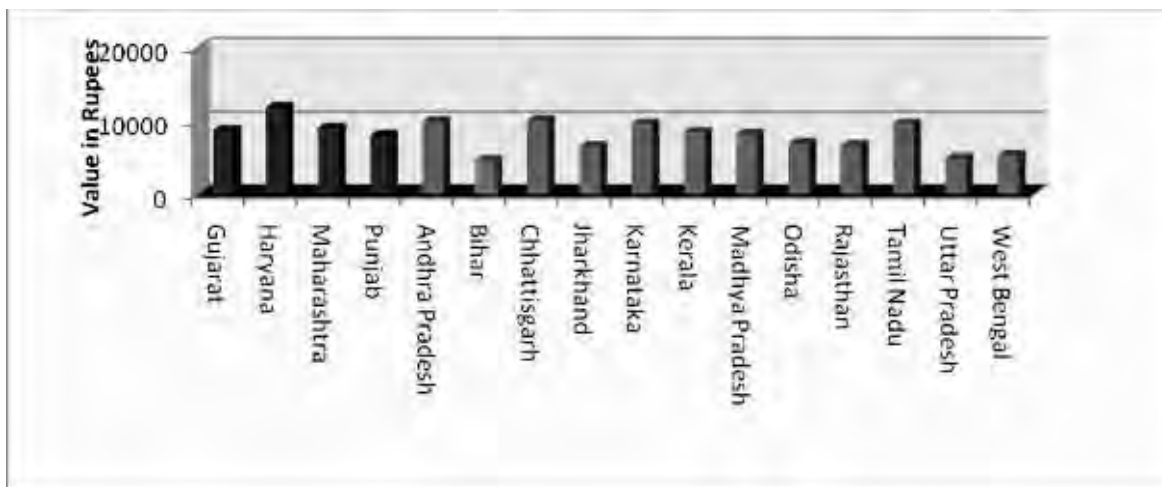
Year	Aggregate Development Expenditure (Rs. Crore)		Per Capita Development Expenditure (Rs.)		Gap in Per Capita Development Expenditure (Rs.)	Aggregate Gap in Per Capita Development Expenditure (Rs. Crore)
	All States	Bihar	All States average	Bihar		
2002-03	213022	9290	2060	1091	969	203731
2003-04	272849	10127	2598	1168	1430	262722
2004-05	286475	9095	2686	1030	1656	277380
2005-06	330044	12988	3006	1432	1574	317056
2006-07	392165	17304	3515	1865	1650	374861
2007-08	464462	20456	4096	2156	1940	444006
2008-09	567086	24754	4920	2552	2368	542332
2009-10	637730	28220	5444	2845	2599	609510
2010-11	720350	28220	6050	2780	3270	692130
2011-12 (RE)	920880	48280	7610	4651	2959	872600
CAGR (%)	16.9	19.8	14.8	17.1	12.5	16.8

Source : Economic Survey of Bihar, GOB & Study of State Finances, RBI

Based on data relating to the recent past, the projections of annual per capita development expenditure for India and has been worked out till the end of 2019-20, terminal year of the award period of the FC14, with the objective that the PCDE of Bihar converges with the all-states

average and Bihar no longer remains a laggard state. According to the exercise, the total development expenditure for Bihar works out to Rs. 2,52,982 crore in the terminal year 2019-20, enabling it to reach the level of all-India per capita average of Rs. 20,722 by that year.

#### Per Capita Development Expenditure of States



**Table 4.4 : Projection of Per Capita Development Expenditure (PDCE) for Convergence by 2019-20**

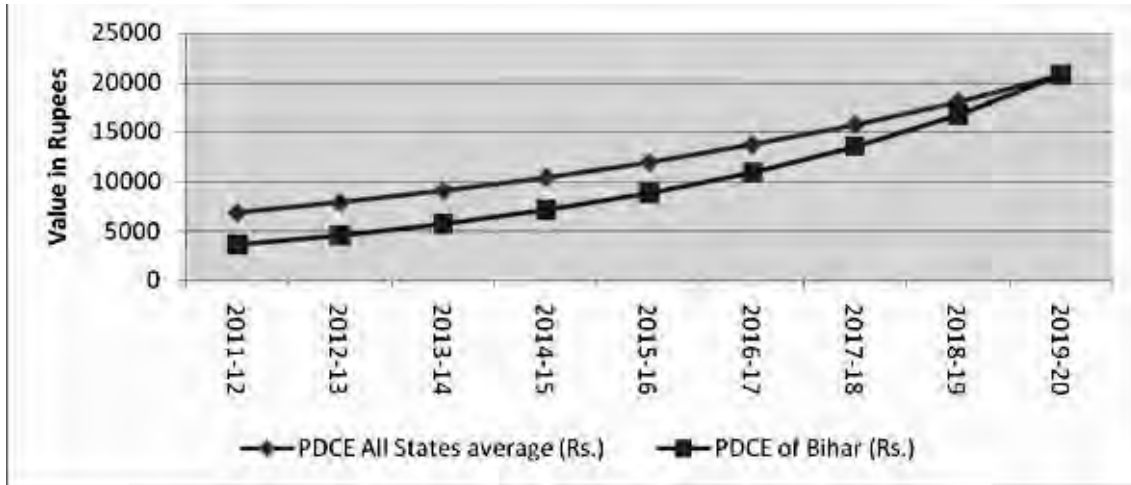
Year	Per Capita Development Expenditure All States average (Rs.)	Per Capita Development Expenditure of Bihar (Rs.)	Population Estimate for Bihar (Crore)	Annual Development Expenditure for Bihar (projected) (Rs. crore)
2013-14	9052	5774	10.8	62354
2014-15	10392	7144	11	73775
2015-16	11931	8840	11.3	97807
2016-17	13696	10938	11.5	124802
2017-18	15723	13534	11.8	159046
2018-19	18050	16747	12	198480
2019-20	20722	20722	12.3	252982
CAGR	14.8	23.7	2.1	26.9

However, in order that the PCDE of Bihar converges with all-states average by 2020, adequate resource transfer is needed from all possible central sources, including the FC14 transfers for the period 2015-20. The total estimated requirement for the whole period of FC14 works out to



around Rs. 10.0 lakh crore, which is not possible through normal gap filling approach or equalisation grant approach. This strengthens the demand for increase in vertical devolution of central taxes and duties to at least 50 percent.

**Projection of Per Capita Development Expenditure (PDCE) for Convergence by 2019-20**



There has been steady decline in the size of State Plans, and this has primarily been due to reduction in the budgetary support of the union and a shift in favour of central and centrally sponsored schemes. This scenario has worked adversely, particularly for the poor states like Bihar. For the First Plan, the per capita plan outlay for Bihar worked out to Rs. 17 as against Rs. 48 for Maharashtra and Punjab and Rs. 36 for Andhra Pradesh, and this trend continued even during the successive plans. During the Eleventh Plan, the per capita outlay worked out to Rs. 6566 for Bihar against Rs. 12,088 for Maharashtra and Rs. 11,002 for Punjab. Bihar remained far below the all-India average throughout the period in terms of per capita plan expenditure. A similar position was observed with regard to per capita central investment in Bihar, which further contributed to the backwardness of Bihar. A less number of public sector undertakings were set up in erstwhile Bihar but, after bifurcation, they all went to Jharkhand and the present Bihar is left only with Barauni Oil Refinery and Thermal Power Station at Kahalgaon. Consequently, the private investments also shied away and only a few large/medium scale industries could remain here. So much so, the public investment in agriculture too has been quite meagre since the Fifth Plan. The recommendations of the Commission headed by Dr. S.R Sen on improving agriculture in eastern



India set up by Planning Commission was also not implemented and Bihar, forcing to state to suffer from a low productivity syndrome.

### **Finance Commission Transfers**

There has been a view that the central assistance distributed by the Planning commission is discretionary in nature; whereas the transfers recommended by the Finance Commissions are statutory. It is to the credit of the recent Finance Commissions that the progressivity of statutory transfers has been more compared to plan assistance. It is worth mentioning that over the decades, the Finance Commissions have earned the confidence of the states and their awards have generally been well received by the states, because each Commission improved over the previous one with regard to the quantum of transfer of resources from the centre to the states.

### **Bihar's Backwardness vis-à-vis Finance Commissions**

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

A close analysis of the historical trends in transfers from the centre to states reveals that the total transfers from the central government's gross revenue receipts remained between 36 to 40 percent and that total transfers through the Finance Commissions were much more than through the Planning Commission and other transfers.

Notwithstanding the high profile objectives of both the Planning Commission and the Finance Commission, the state of Bihar remained backward. It is unfortunate for the backward states like Bihar that neither of the super bodies, viz., the Planning Commission and the Finance Commission, could evolve any formula for transfer of resources to the weaker states so as to enable them to attain at least the national average in respect of various development indicators. As for Finance Commissions, they have not used a uniform criteria in distribution of the proceeds of Income Tax and Union Excise duties. Different Commissions used different criteria. In this context, one member of the FC7 had observed that there would appear to be no legal or economic basis for allocating shareable income tax revenue and excise revenue according to different criteria. Therefore, what was required was the selection of criteria which convincingly tilted in favour of the backward states so as to accelerate the equalisation process.

Another disquieting feature is that the Finance Commissions made a very limited use of grants-in-aid. An important purpose of grants-in-aid is to help in equalising the standards of basic social services. However, the grants-in-aid have normally been restricted to fill up non-plan revenue gap of the states. In point of fact, Finance Commission is free to consider the differential needs of the states and it is the backward states like Bihar which are in greater need of assistance. But it is found that grants-in-aid to states have been used only restrictively. As one knows, the quantum of grants-in-aid was 12.15 percent of the total statutory transfers under the award of the FC1 which was increased to 26 percent by the FC6, but again brought down to 7.70 percent under the FC7. The FC12 has again increased it to 18.87 percent, from 13.47 percent by the FC11 but was again reduced to 15.15 percent by the FC13. Now a question emerges whether, with this modest increase, the equitable approach would be achievable. Similarly, the FC12 has assumed an annual rate of inflation at 5 percent in its forecasts. But the increase in inflation rate remained unbridled and became more than 10 percent in recent years. Again, share in taxes which was 92.28 percent during the FC7 has been brought down to 81.13 percent by the FC12 and the FC13 recommended a very modest increase to 84.85 percent, which is to the disadvantage of states. The details may be obtained in the table below:

**Table 4.5 : Transfers Recommended by Finance Commission to States**

(Rs. in crore)

Finance Commission	Period	Grants-in-aid		Share in Taxes		Total Amount
		Amount	% Share	Amount	% Share	
Seventh	1979-84	1609.92	7.72	19233.05	92.28	20842.97
Eighth	1984-89	3769.43	9.55	35682.58	90.45	39452.01
Ninth	1989-95	11030.38	9.96	99667.64	90.04	110698.02
Tenth	1995-00	20300.30	8.96	206343	91.04	226643.30
Eleventh	2000-05	58587.39	13.47	376318.01	86.53	434905.40
Twelfth	2005-10	142639.60	18.87	613112.02	81.13	755751.62
Thirteenth	2010-15	258581.00	15.15	1448096.00	84.85	1706677.00

Source : Various Finance Commissions (compiled)

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

It is strongly felt that the minor adjustments in the recommendations of the earlier Finance Commissions may not improve the lot of backward states like Bihar. If the backward states have to be brought to the level of national average, a radical approach may have to be adopted by the present Finance Commission. Or else, another period of five years will roll out without effecting any significant change in the status of the backward states. In the backdrop of the gravity of situation prevailing in the backward states, the Finance Commission may work out and clearly define a timeframe in which the poor states like Bihar may be brought at least to the level of national average.

### **Plan and Non-Plan — An Unsound Distinction**

So far, most of the recommendations made by the FC13, have been accepted by the central government. Yet, the design of transfer system, including approach and methodology, did not help the poorer states improving their economic condition. The Planning Commission's role in allocative decisions and providing assistance to states for taking up their developmental activities, curtails the role of the Finance Commission to some extent. Though the Constitution does not make any distinction between plan and non-plan transfers to the states, and channels of transfers under Articles 270 (income tax), 272 (excise duty) and 275 (grants) are entirely under the jurisdiction of the Finance Commission, the Terms of Reference allow the Finance Commissions to making recommendations for transfers to meet only the non-plan requirements of states. Conceptually, the plan and non-plan distinction has no constitutional sanction, and the artificial distinction created a craze for large size plans by the states and led to proliferation of expenditure.

The Planning Commission and Finance Commission treat the plan and non-plan needs of the states differently, which makes it difficult to take a holistic view on the fiscal requirements of the states. This takes away a sizeable portion of non-plan fund transferred by the Finance Commission, jeopardizing the actual fiscal needs of states, particularly a poor state like Bihar. The expenditure incurred on completed plan schemes are classified as non-plan. Similarly, the interest payable on plan loans becomes a non-plan component. Likewise, there are several items on which expenditure of developmental nature are booked is treated under non-plan head.

### **Gap-Filling Approach – A Myth**

Besides assessment of overall budgetary requirements of the states and centre and distributing shareable taxes and duties between them, the Finance Commission's important role is filling the gap between projected expenditures and revenues with grants, after the devolution of taxes. But for reasons best known to the Finance Commissions, they preferred increasing tax devolution, compared to gap filling grants. Therefore, the tax devolution has shown a significant increase in absolute terms as also in relation to grants over the years. Thus, the approach of gap-filling has never been effective. The FC14 should act sincerely in identifying the gaps/disparities among states and make honest endeavours towards filling in the budgetary gaps. Of course, some previous Commissions moderated the gaps by taking account of normative growth rates of

revenues and expenditures in projections. Some also attempted to enhance outlays on specified services in the states by making close ended specific purpose non-matching grants. But these attempts were selective in nature and, as such, could not be termed as 'gap fillings'.

### **1971 Population Figures — Very Old**

The FC14 is mandated to take into account the 1971 population figures in all cases where population becomes a factor for deciding devolution of funds, though the Commission is also asked to take into account the demographic changes taken place subsequently. The use of 40 year old population figures would tend to penalise the states, particularly the poorer ones with higher growth rate of population, which is the consequence of illiteracy and poverty. As mentioned in the TOR, the Finance Commission may consider the demographic changes taking place after 1971 and use the population figures of 2011 for horizontal transfer of funds for fair justice to the populous and poorer states.

### **Transfer to States — Not Need-based**

All the Finance Commissions, by and large, made tax devolution to states based on general economic indicators and not the fiscal need per se. This approach does not take into account the economic condition of states in transfer of resources, rather the transfer system appears to be influenced more by political economy consideration. Not a single Finance Commission assessed objectively the overall resource position of the centre and the proportion of resources needed to meet its commitments. As a matter of fact, the Commissions found it difficult to evolve any criteria to objectively assess the centres' requirements. There is a feeling among states that the centre collects more resources than its own needs and the Finance Commissions, in a bid to leave a fairly large share for the centre, enhance the share of states in the net proceeds of the shareable central taxes just by 1.0 or 1.5 percentage point. For example, the recommended share of 29.5 percent by the FC11 was increased to 30.5 percent by FC12 and again just to 32.0 percent by the FC13. This mechanism of meagre enhancement does not leave much for the states, particularly the poorer states. Therefore, this share may have to be suitably enhanced, preferably up to 50 percent by the present Commission.

The FC13 enhanced vertical share of tax devolution to 32 percent and the share of Bihar is recommended at 10.917 percent. It may be seen from the table below that Bihar's share of total tax devolution has progressively declined over the award period of successive Finance Commissions and the aggregate share of low income states in total horizontal distribution remained more or less stagnant at 54 percent. The aggregate share of middle income states declined sharply and of high income states increased from 9.75 percent to 11.20 percent during the award period of FC12 and declined marginally to 10.94 percent during FC13 award period. Aggregate share of special category states increased sharply from 7.30 percent during FC11 to 9.6 percent during FC13. This means that despite attaching high weightage to income distance, or fiscal capacity, or fiscal equity, the horizontal distribution formula failed to increase the aggregate share of devolution to the low income states and, in the context of Bihar, its share continued to decline during the successive Finance Commissions, putting enormous fiscal strain on state finance.

**Table 4.6 : Tax Devolution**

State	Finance Commissions		
	11th	12th	13th
Bihar	14.60	11.03	10.92
Low Income States	53.76	53.79	53.62
Middle Income States	29.19	26.84	25.84
High Income States	9.75	11.20	10.94
SC States	7.30	8.17	9.60
NSC States	92.70	91.83	90.40
Total	100.00	100.00	100.00

Source : Report of 11th, 12th and 13th FC

Note : Under FC11, the share of present Bihar was 11.589 percent; the share of 14.597 percent was for united Bihar.

### **Central and Centrally Sponsored Schemes — An Arbitrary Act**

The funds provided to states through the central and centrally sponsored schemes constitute about 20 percent of the total transfers. These schemes are, by and large, discretionary, not based on any recommendation or formula. The central government ministries initiate a number of national programmes themselves or at the behest of relevant departments at the state level. Though the Central Sector Schemes are assisted fully by the centre and states merely execute them, the Centrally Sponsored Schemes are cost-sharing programmes between the centre and the states. The central assistance to the states are given by way of grants or loans based on the contents of each



programme. Most such programmes are designed at the centre and are applied uniformly to all states, without considering the priority of the states and their institutional capacity. Such schemes need deployment of additional employees through new appointments for their proper implementation, which adds new burden on the already resource-starved states.

These schemes have provided the centre with a mechanism to interfere with the states' allocation. Over the period, such schemes have grown both in volume and number. Despite the NDC decision in 1970 restrict the assistance to one-sixth of the central assistance for state plans, the volume of transfers works out to around 40 percent. There are around 225 such schemes and, despite initiatives taken by the Planning Commission to restrict them, the things did not change. Along with an element of discretion in such transfers, the conditionalities imposed by the centre, including those on staff employment, tend to upset the priorities of the states. Besides, the states, particularly the poor states, more often than not, are not in a position to meet the matching grant for the Centrally Sponsored Schemes. Such schemes may serve the political objectives, but do not generally attain their economic goals. The Commission may look into this aspect and take the necessary steps so as to relieve the states of this arbitrary burden.

### **State Economy under Constant Strain**

We have seen in the preceding chapter that Bihar's economy has remained under great strain throughout, owing to the wrong policies adopted first by the colonial administration and later by the central government. Since the beginning of the plan era, the plan/development expenditure and central assistance to Bihar have been meagre and flow of institutional finance quite inadequate, curtailing the prospects of development. Consequently, even after 65 years of independence, Bihar continues to remain at the bottom. As may be seen from the table below, among the states, Bihar remained at the bottom in terms of per capita total revenue receipts, of which more than 75 percent came from net devolutions and transfers. As is observed, in 2009-10, the per capita total revenue receipts for Bihar was Rs. 3815, which was much less compared even to the states of Odisha (Rs. 6773) and Jharkhand (Rs. 6266), which are bracketed as poor with Bihar and their shares of devolutions/transfers remained around 55 percent, much below Bihar (77 percent). Almost a similar trend continued in 2010-11 and 2011-12. It is further observed that, in 2011-12, the per capita total revenue receipts for Bihar was Rs. 5408; whereas for 10 relatively richer states like

Andhra Pradesh, Karnataka, Kerala, Punjab, Haryana etc. it worked out to more than Rs. 10,000 each. The table also goes to establish that, in order to remove this anomalous situation, the FC14 may have to take initiatives in recommending more devolutions and transfers to Bihar.

**Table 4.7 : Per capita Own Revenue and Net Devolutions and Transfers**

States	2009-10		2010-11		2011-12	
	Per Capita Total Revenue Receipts (Rs.)	Per Capita Net Devolution and Transfers (Rs)	Per Capita Total Revenue Receipts (Rs.)	Per Capita Net Devolution and Transfers (Rs)	Per Capita Total Revenue Receipts (Rs.)	Per Capita Net Devolution and Transfers (Rs)
Andhra Pradesh	9458	2719 (28.8)	10436	3465 (33.2)	11480	3785 (33.0)
Bihar	3815	2937 (77.0)	4566	3435 (75.2)	5408	4230 (78.2)
Chhattisgarh	7575	3455 (45.6)	8972	4016 (44.8)	10849	4855 (44.8)
Goa	29730	6571 (22.1)	37130	7536 (20.3)	41524	8712 (21.0)
Gujarat	7452	1861 (25.0)	8840	1931 (21.8)	10316	2312 (22.4)
Haryana	9408	2331 (24.8)	11084	2611 (23.6)	13209	3120 (23.6)
Jharkhand	6266	3415 (54.5)	6222	3281 (52.7)	7825	4453 (56.9)
Karnataka	7812	2373 (30.4)	9591	2734 (28.5)	11189	3223 (28.8)
Kerala	8021	2355 (29.4)	9668	2407 (24.9)	11857	3064 (25.8)
Madhya Pradesh	6187	2855 (46.2)	7369	3685 (50.0)	8752	4298 (49.1)
Maharashtra	8113	2378 (29.3)	9679	2199 (22.7)	11152	2639 (23.7)
Odisha	6773	3868 (57.1)	7860	4406 (56.0)	9589	5073 (52.9)
Punjab	9427	2013 (21.4)	11143	2285 (20.5)	11195	2487 (22.2)
Rajasthan	5637	2224 (39.5)	6833	2993 (43.8)	8178	3327 (40.7)
Tamil Nadu	7747	2097 (27.1)	10185	2623 (25.8)	11859	2784 (23.5)
Uttar Pradesh	5100	2398 (47.0)	5772	2915 (50.5)	6896	3578 (51.9)
West Bengal	4429	1956 (44.2)	5558	2715 (48.8)	6475	3363 (51.9)
All States	6892	2887 (41.9)	8130	3407 (41.9)	9432	3977 (42.2)

Source : Economic Survey of Bihar

As regards state finances, it has been observed that the annual increase in revenue expenditure of the state has normally been more than the revenue receipts. During 2011-12, while the revenue receipts increased by nearly Rs. 6800 crore over the previous year, the revenue expenditure went



up by nearly Rs. 8300 crore, primarily due to increase in the development expenditure (more than Rs. 6100 crore), and the balance due to increase in non-development expenditure (exceeding Rs. 3400 crore). Much of the revenue expenditures are committed expenditures like salary, interest on past borrowings, etc. This testifies to the limited financial space of the state government, when fiscal discipline is sought to be attained by the state without adequate financial support from the centre. The FC14 may increase the ratio from which the shareable pool is divided between the centre and the states.

**Table 4.8 : Total Receipts and Expenditure of Bihar Government by Expenditure Categories**

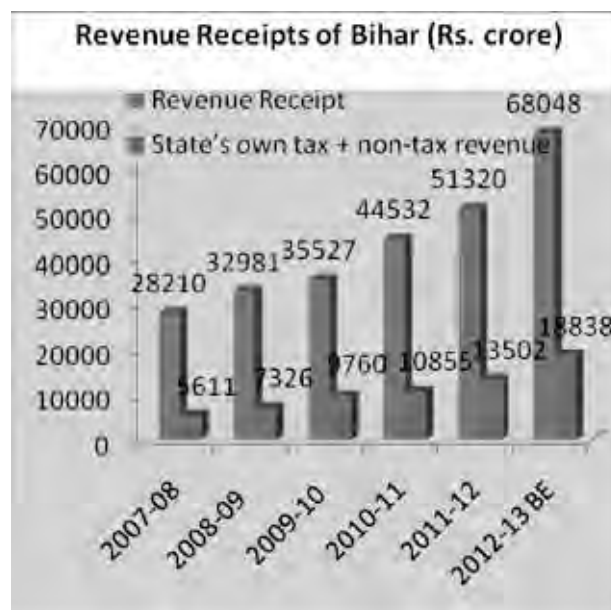
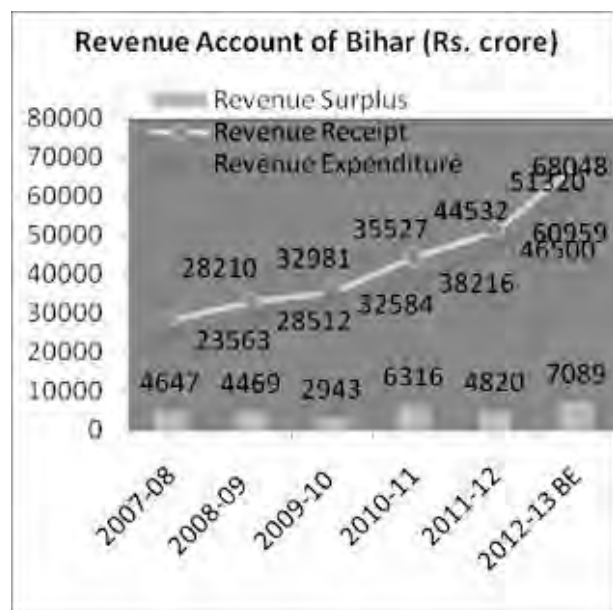
Categories	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	CAGR
Revenue Receipts	17838	23083	28210	32981	35527	44532	51320	18.3
Revenue Expenditure	17756 (78.7)	20585 (75.9)	23563 (74.6)	28512 (76.7)	32584 (76.1)	38216 (75.4)	46499 (77.3)	17.2
Capital Expenditure	4813 (21.3)	6551 (24.1)	8008 (25.4)	8669 (23.3)	10212 (23.9)	12489 (24.6)	13680 (22.7)	18.1
Developmental Expenditure	11460 (50.8)	17383 (64.1)	20650 (65.4)	24938 (67.1)	28435 (66.4)	33038 (65.2)	39136 (65.0)	20.8
Non-Developmental Expenditure	11109 (49.2)	9753 (35.9)	10921 (34.6)	12243 (32.9)	14361 (33.6)	17667 (34.8)	21045 (35.0)	12.8
Total Expenditure	22569 (100.0)	27136 (100.0)	31571 (100.0)	37181 (100.0)	42796 (100.0)	50705 (100.0)	60181 (100.0)	17.4

Source: Economic Survey of Bihar, GOB

The composition of Bihar Government's revenue indicates that the share of central transfers accounts for around 75 percent of total revenue. In view of the huge dependence of Bihar on transfer from the centre, the recommendation of the FC14 assume critical importance, and therefore, the Commission should take care of the special needs of Bihar.

**Table 4.9 : Revenue Account of Bihar**

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13 BE
Revenue Receipt	28210	32981	35527	44532	51320	68048
Revenue Expenditure	23563	28512	32584	38216	46500	60959
Revenue Surplus	4647	4469	2943	6316	4820	7089
State's own tax + non-tax revenue	5611	7326	9760	10855	13502	18838
State's own revenue as % of total revenue	19.89	22.21	27.47	24.38	26.25	27.64
State's share of Central tax as % of total revenue	59.44	53.65	51.24	53.84	54.49	48.73
Central Grants as % of its total revenue	20.67	24.14	21.29	21.78	19.26	23.64
State's own revenue as % of revenue expenditure	23.81	25.69	29.95	28.41	28.97	30.85



### Deficit Management

It is noted that the Gross Fiscal Deficit (GFD) in relation to the Gross State Domestic Product (GSDP) was 1.76 percent in Bihar in 2008-09, which increased to 3.20 percent in 2009-10 and again registered a decline to 2.00 percent in 2010-11 and increased marginally to 2.40 percent in 2011-12. In absolute terms, Bihar's GFD was only Rs. 3971 crore in 2010-11, which increased to Rs. 5914 crore in 2011-12. In 2012-13, however, it is projected to increase to Rs. 7569 crore and even then it will not exceed 3 percent limit as mandated by the Bihar FRBM Act, 2006.

It is a matter of concern that many of poorer states have lowered their deficits by compressing their development expenditures. Thus, the attempt at fiscal stabilisation has been at the cost of economic growth, particularly in the low income states like Bihar. Bihar effectively controlled the revenue deficit and there has been substantial surplus in the revenue account (Rs. 6316 crore in 2010-11 and Rs. 4820 crore in 2011-12). The surplus of Rs. 6316 crore in revenue account in 2010-11 was also highest among the states. Though it marginally declined in 2011-12, it is estimated to cross Rs. 7000 mark in 2012-13. As against this, West Bengal (Rs. 17274 crore), Kerala (Rs. 7409 crore), Punjab (Rs. 5584 crore) and Haryana (Rs. 2562 crore) reported very high fiscal deficit in 2011-12 (RE). The GFD of a state government is a sensitive indicator of its financial performance. While maintaining the limit of GFD at 3 percent of the GSDP, the borrowings are being resorted to for creating capital assets. In 2011-12, the net borrowing of the state government from market and a small borrowings from the central government together financed 63 percent of the GFD; the balance coming from public accounts and cash balance of the state government. The adherence to FRBM has greatly reduced the ability of the state to increase expenditure on social and economic infrastructure. Considering the over-stressed financial condition of the state, the FC14 may revisit the roadmap for fiscal consolidation.

**Table 4.10 : Deficit/Surplus position of States**

(Rs. crore)

State	Revenue Deficit (+)/ Surplus(-)		
	2010-11 (Actuals)	2011-12 (RE)	2012-13 (BE)
Bihar	-6316	-4820	-7089
Jharkhand	-836	-597	-4625
West Bengal	17274	17274	7058
Odisha	-3908	-3150	-2411
Uttar Pradesh	-3508	-7978	-5884
Madhya Pradesh	-6842	-7791	-6370
Rajasthan	-1055	-443	-928
Maharashtra	591	1919	-153
Gujarat	5076	-1921	-3615
Punjab	5289	5584	3123
Haryana	2746	2562	2456
Karnataka	-4172	-3144	-931
Andhra Pradesh	-2462	-780	-4445
Kerala	3674	7409	3464
Tamil Nadu	2728	-537	-2376
Himachal Pradesh	1235	700	1081
Chhatisgarh	-3364	-2141	-2959

Source : State Government Budgets

## **No Developed Infrastructure**

An adequate infrastructure is a sine-qua-non for the development of any region or state. This was evidenced during the period of liberalisation when the flight of capital and labour took the route from poor infrastructure states to richer states. Infrastructure is multidimensional and it induces the investors to undertake industrial activities. Unfortunately, the infrastructure in Bihar is not yet developed, which is the outcome of wrong policies of the centre. Bihar, with other poor states like Jharkhand, displays lower index of infrastructure.

The amount of loan disbursed from Rural Infrastructure Development Fund (RIDF) to Bihar has been very low, constituting only 0.19 percent, 0.31 percent and 0.33 percent of all-India disbursements in 2000-01, 2001-02 and 2002-03, respectively. As a result, Bihar stands at the bottom in respect of per capita consumption of electricity, the road length per lakh of population, the rate urbanisation, and other indicators of infrastructural development. (Appendix III).

Along with the infrastructure, its quality is also important for the overall growth of any state/region. But whatever little infrastructure Bihar has in the form of roads, power, irrigation, canals, bridges, etc., their quality is affected adversely as a result of recurrent floods in around 28 districts of the state. The infrastructure in these districts are washed away or heavily damaged during floods. Therefore, infrastructure creation in Bihar involves much higher expenditure. A financially stressed states like Bihar must be granted increased allocation for construction and maintenance of infrastructure. The FC14 may consider providing extra grant to Bihar for upgradation and maintenance of infrastructure.

## **Statutory Transfers**

The Constitution recognises the need for an arrangement under which the resource transfer from the centre to states takes place in a manner that is free from the centre's discretion. In the initial decades, stresses and strains experienced in federal relations have been largely the result of the difficulties faced by the states in discharging the responsibilities assigned to them on account of

shortage of resources. It is an admitted fact that the overall devolution has not increased in commensurate with the shift in responsibilities to the states and the growth in resources of the centre. There is overall consensus in Bihar and other backward states that the award of the Finance Commission should not only become more progressive, but the devolution from the centre should also increase manifold, primarily because such transfers form the basis of financial and social life line for the states.

### **Vertical and Horizontal Transfer of Taxes**

The vertical transfers constitute the share of states in the net tax revenues of the centre, which are based on the assessment of vertical gap between the centre and the states. The vertical gap is the difference between the norm-based assessment of expenditure share and revenue capabilities of the centre and the states. The horizontal sharing, on the other hand, is based on the principle of equity. We have seen that the FC12 recommended increase in the share of states in the net proceeds of shareable central taxes over the FC11 to 30.5 percent and the FC13 increased it further to 32.0 percent. Every Commission changes the share of vertical transfers, but only very marginally. It is suggested that it be increased and stabilised at 50 percent so as to make available more resources for states with a needful focus on poorer states, enabling them to take care of the glaring deficiencies. Similarly, indicative limit of revenue transfers to states may be raised from 39.5 percent by the FC13 to 60.0 percent.

As may be seen, in spite of marginal reduction in inter-state disparity in income between 2005-06 and 2011-12, there still exists wide disparity. The FC14 should take steps to substantially narrow down the disparity among the states. Considering the wide disparities among states, the per capita income distance criteria was considered effective in reducing the disparities and was, therefore, allotted higher weight of 50 percent by the FC8, FC9 and FC12. Though the FC10 and FC11 increased this to 60 and 62.5 percent respectively, the FC13 has done away with this and introduced Fiscal Capacity Distance with a weight of 47.5 percent. However, this change in criterion, did not benefit the poor states much. Therefore, the FC14 may retain the per capita

distance criteria with 70 percent weight. The population criterion be accorded 20 percent weight with fiscal discipline having weight of 10 percent.

**Table 4.11 : Relative Income Gap between Bihar and Other States**

State	Per capita NSDP (current prices, Rs) 2005-06	Per capita NSDP (current prices, Rs) 2011-12	Income Disparity in 2005-06 (Base: Bihar=1)	Income Disparity in 2011-12 (Base: Bihar=1)	Comparison of Disparity up (+)/down (-)
Andhra Pradesh	28539	68970	3.47	3.01	(-)0.46
Chhattisgarh	20117	46743	2.45	2.04	(-)0.40
Gujarat	37780	89668	4.59	3.92	(-)0.68
Haryana	42309	108345	5.14	4.73	(-)0.41
Jharkhand	18326	38258	2.23	1.67	(-)0.56
Karnataka	31239	68423	3.80	2.99	(-)0.81
Kerala	36276	80924	4.41	3.54	(-)0.88
Madhya Pradesh	16631	37994	2.02	1.66	(-)0.36
Maharashtra	41965	95339	5.10	4.17	(-)0.94
Odisha	18846	41896	2.29	1.83	(-)0.46
Punjab	36199	78633	4.40	3.44	(-)0.97
Rajasthan	20275	53735	2.47	2.35	(-)0.12
Tamil Nadu	35243	88697	4.29	3.87	(-)0.41
Uttar Pradesh	14221	29785	1.73	1.30	(-)0.43
West Bengal	24720	54125	3.01	2.36	(-)0.64
Bihar	8223	22890	1.00	1.00	0.00

Source : CSO, Government of India

### Grants-in-Aid

The Finance Commissions have been utilising the grants-in-aid in consonance with Article 275 of the Constitution. An important purpose of grants-in-aid is to help equalise the standards of basic social services. Considering the importance and its equalising nature, an analysis of the recommendation of the Finance Commissions reveals that Bihar's share in the overall devolution of taxes was much higher compared to its share in grants-in-aid. For example, in FC12 awarded a share of 11.03 percent to Bihar in total devolution of taxes to states, whereas it got a share of only about one percent of the total grants-in-aid to states. This defeats the very purpose of grants-in-aid. In order to compensate for the relative deficiency in taxable capacity and cost disadvantages, more equalising grants should be considered. The FC14 should see to it that the proportion of equalising



block grants-in-aid must also increase and not be left for plan outlay, since the plan outlay is confined only to the expansion of facilities and not normally for improving the standards of existing services. A major proportion of plan outlay is pre-empted by core sectors like power and irrigation, and only a small proportion remains available for education and health. The standard of existing services in these sectors may be improved only by stepping up the non-plan expenditure on them. It is also suggested that less conditionalities are imposed on grants-in-aid, particularly for education, health and infrastructure.

The methodology followed by the Finance Commission in assessing the state's revenues and expenditures has not been to the advantage of poorer states. Normally, the state's revenues are overestimated and expenditures underestimated to predict comfortable situation. Non-fulfillment of Finance Commission forecast has been disadvantageous, particularly for the states like Bihar which have been deficit states before devolution, and not so much for the advanced states which enjoyed surplus. Another disquieting aspect is that the Finance Commission's estimates are based on state-specific rates of growth of expenditure and not on any norm of expenditure needed to maintain reasonable standard of services as per national yardsticks. In the absence of any normative approach adopted by Finance Commissions, the backward states suffered on account of resource crunch, because of the fact that their expenditure levels in the past have been much below the national norm.

As has been observed, the grants for maintenance of roads and bridges and buildings are normally based on existing length of roads and plinth area of buildings. Under this system, developed states are the major beneficiaries with higher allocations. The FC13 recommended Rs. 2,58,621 crore as the total grants-in-aid for the award period, out of which only Rs. 19,930 crore (7.71 percent) was meant for maintenance of roads and bridges, and Bihar getting only Rs. 464 crore or around 2 percent of this. On the contrary, the developed states like Maharashtra (Rs. 2103 crore), Karnataka (Rs. 1625 crore), Rajasthan (Rs. 1509 crore) and Gujarat (Rs. 1261 crore) with larger network of roads and bridges received much higher allocations. Grants for maintenance of roads and bridges, based on such norms, may not serve adequately the redistributive purpose and this makes the poor states suffer on this account. Secondly, if the lack of financial ability on the part of states for maintenance of capital assets is the justification for recommending maintenance grants, then leaving out irrigation sector, where inadequate maintenance is a major problem, does not appear

justified. The FC14 may include irrigation sector also within the purview of specific maintenance grant (Appendix XII).

It is also noticed that the recommended equalisation grants are not normally released in full, because of some technical reason or the other. This adversely affects the interest of poor states like Bihar. Taking the case of Bihar, the amount recommended was not released in full during the last three years of the award period of FC12. Similarly, during the first three years of the award period of FC13, the recommend amount has not been released in full for the state. (Appendix XIII).

**Table 4.12 : Statement Showing Grants-in-Aid Amount Recommended & Actually Received During Eight, Ninth, Tenth, Eleventh, Twelfth and Thirteenth Finance Commission**

(Rs. crore)

Period	Recommended	Actual Transfers	Difference (Actual-Recommended)
	Grants-in-Aid	Grants-in-Aid	Grants-in-Aid
Eight Finance Commission			
1984-89	214.65	214.65	0
Ninth Finance Commission ( 1st Report)			
1989-90	81.95	247.93	165.98
Ninth Finance Commission ( 2nd Report)			
1990-95	1505.25	1505.52	0.27
Tenth Finance Commission			
1995-2000	1353.11	806.33	-546.78
Eleventh Finance Commission			
2000-2005	1148.47	1295.13	146.66
Twelfth Finance Commission			
2005-2010	7919.49	6896.11	-1023.38
Thirteenth Finance Commission			
2010-15	14602.90	5471.77	-1787.11

Source : Various Finance Commissions

If the shortfall is on account of less expenditure in the previous year or due to any conditionality, the same may be released by obtaining an assurance from the state government to the effect that the shortfall will be made good in the next year. Withholding of amount on any pretext is not in keeping with the spirit of the Finance Commissions recommendations.



## Extremism and Terrorism

A number of states in the country are facing the acute and imminent threats from the extremists and terrorists. As many as 150 districts out of a total of 650 in the country have been declared disturbed by the naxalite/militant activities and most of the districts of Bihar are in that list. Further, the terrorists are also becoming active in many of the states and Bihar has become one of their soft target. It is becoming increasingly necessary to strengthen the police at one hand, and strengthen social infrastructure on the other to effectively combat the problem. This also necessitates the installation of CCTV cameras at all the vulnerable places in the state. This cannot be met through the plan funds and, as such, additional non-plan grants are required.

## Unrealised Taxes of the Central Government

A huge amount of the central taxes, shareable between the centre and states, is left unrealised on account of efficiency constraints on the tax machinery of the central government. The available data for March, 2008 shows that, under the heads of Corporation Tax and Income Tax, the unrealised taxes amounted to Rs. 80,109 crore. Under Union Excise Duties, Customs and Service Taxes, the amount of unrealised taxes (March, 2008) is Rs. 29,580 crore. The total amount of unrealised taxes in March, 2008 was, thus, Rs. 1.09 lakh crore. A rough estimate would indicate that, out of this amount, about Rs. 65 thousand crore would have become distributable among the states. But, because of no fault on their part, the states are deprived of a sizeable amount of transfers. For Bihar, such lost resources would have been around Rs. 7000 crore, which is substantial by any standard. Similarly, a huge amount of Rs. 3.14 lakh crore remained unrealised during the year 2011-12, in which states' share would have again been substantial. While deciding about the pattern and quantum of transfers to the states, the FC14 should take into consideration this dimension of centre-state financial transfers.

**Table 13 : Amount of Unrealised Central Taxes under Heads, Shareable with the States**

Heads	Amount (Rs. Crore)	
	March 2008	March 2012
1. Corporation Tax	39,444	87,526
2. Income Tax	40,746	1,69,950
3. Union Excise Duty	20,063	31,993
4. Customs Duty	7,303	9,637
5. Service Tax	2,213	14,648
Total	1,09,769	3,13,754

### **Sharing of Non-Tax Revenues/ Advertisement Revenue**

With a tremendous growth in the viewership of television, its advertisement revenue has increased manifold. On the contrary, the state governments lost a major source of their revenue due to a shrinking viewership in cinema halls. Similarly, the central government collects revenues and cess under surcharge heads which also need to be shared with states. The FC14 may consider how this growing advertisement and cess/surcharge earnings by the centre may be shared by the states through evolving some appropriate mechanism.

### **Transfers through Subsidies**

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

As per a very conservative estimate, around 70 percent of the plan assistance to major states were given as loans at subsidised rates of interest. There has been a substantial implicit transfer as well through subsidised lending by banks and financial institutions to private sector for specific activities like agriculture, rural development, small scale industries, exports, etc. Though the central lendings have been stopped, the explicit transfers to states over the years have inflicted great damage to poorer states like Bihar and largely benefited the high income states. The fertiliser subsidies are higher in per capita terms in irrigated areas and LPG subsidies are higher in states with higher urban population. Thus, the poorer states with less area under irrigation and lower urbanisation are doubly hit, first by denial of resources and then by the fact of unequal distribution. In order to improve equity and economic growth, the FC14 may evolve a suitable formula to compensate for the losses suffered by poorer state due to various explicit and implicit subsidies.

## Calamity Relief Fund

The backward states lack resources for granting adequate funds for relief and rehabilitation to the population afflicted by various natural calamities. The CRF, as in operation today, is broadly based on the recommendation of the FC11. The size of CRF was enhanced by the FC12 which also recommended that the centre and the states will contribute to the CRF in the proportion of 75:25. The FC12 worked out the size of CRF for individual states, based on average relief expenditure incurred during 1993-94 to 2002-03 and then enhancing it by 5 percent per annum till 2009-10. The FC13 took average expenditure of 2001-08 and then raising it by 5 percent each year and recommended a fund of Rs. 889 crore for Bihar. However, this was lower than the size of CRF of even smaller states. The FC13 retained the same ratio of 75:25 for the centre and states for the CRF and recommended its merger into SDRFs of the respective states and the NCCF into the NDRF. The poorer states like Bihar are not in a position to bear the burden of 25 percent share. Therefore, it is suggested that the states' contribution to the CRF/SDRF be reduced to nil by the FC14. The NDRF have to be enhanced suitably to meet the expenditure on reconstruction of infrastructure and their regular maintenance in view of the large scale devastations, particularly due to floods.

## Devastating Floods : A Regular Feature

The floods occur in Bihar almost every year and the resulting damages are often very high. For example, in 2007, 22 districts in north Bihar, out of 38 in the state were badly affected due to heavy rainfall all over. There were as many as 28 breaches at different points of embankments in the state. The total loss due to floods in 2007 was to the tune of Rs. 2242 crore and, in 2008, it was Rs. 950 crore.

**Table 4.14 : Total Loss Due to Floods**

(Value in Rs. lakh)

Year	Crop Damaged	House Damaged	Public Property Damaged	Total Loss
2007	76837.82	83144.52	64241.52	224223.86
2008	16729.65	31493.44	46791.37	95014.46
2011	10295.70	6906.64	153.67	17356.01

Source: Department of Disaster Management, GOB

The total amount allotted by the state for flood relief was Rs. 933.57 crore in 2007. The expenditure on cash dole assistance was more than Rs. 110 crore and over Rs. 350 crore on supply of dry food alone. There was five-fold increase in food grains assistance, besides cash payments of Rs. 200 per household and over 100 times rise in agricultural input subsidy. The CRF allocation for house damage compensation in 2007 was Rs. 300 crore, besides expenditure on the launching of the *Mukhya Mantri Awas Yojana* for the construction of fully damaged 'katcha' houses and huts. The flood of 2008 was virtually a devastation when the river Kosi has opened a new course by breaching embankment in Nepal, completely devastating 8 districts in which about 50 lakh population was marooned and nearly all the houses and assets were destroyed. The amount allotted by the state government for relief and rehabilitation was Rs. 959 crore. In 2011-12, the state government allotted Rs. 304 crore for relief and rehabilitation. Thus, the size of calamity relief fund appears very small, compared to the needs of the state.

**Table 4.15 : Amount Allotted for Calamity Relief on Flood**

Items	Amount (Rs. In Lakh)				
	2007-08	2008-09	2009-10	2010-11	2011-12
Relief & Resscue instruments	0.00	37.50	0.00	1.50	400.00
Supply of Dry Food	35079.22	21660.10	4510.59	2331.74	18125.19
Cash Dole Assistance	11355.81	5900.00	913.93	1862.33	3486.74
Clothes & Utensils Distribution	0.00	17250.00	33.33	206.10	39.00
Supply of Drinking Water	207.03	219.51	10.00	64.42	35.46
Repair of Road & Bridges	5638.77	7000.00	7060.00	49.41	1700.00
Evacuation Operation	2457.25	8458.65	1230.81	974.57	1767.86
Repair of Public Buildings	22442.50	15500.00	1555.83	25.05	873.19
Agricultural Inputs	14353.03	7035.06	113.31	2766.00	1021.50
Repair of Boats	64.20	60.47	100.00	0.00	700.00
Repair of Embankments and Irrigation system	40.00	10216.78	5291.00	44.25	1797.00
Human Medicines	144.17	669.79	35.50	25.00	21.88
Fodder	489.70	669.73	0.00	295.01	119.82
Ex-Gratia	926.50	872.80	400.00	13.50	270.76
Vet Med.	158.70	357.00	0.00	0.00	17.00
Training	0.00	0.00	0.00	0.00	0.00
Total	93356.9	95907.39	21254.30	8658.88	30375.40

Source : Department of Disaster Management, GOB

About 22 districts out of 38 in Bihar suffer from moderate to high floods every year because of overflowing of different rivers and in the state has to bear a heavy financial burden almost every year. Most of the flood problem in the state originates in Nepal and, as such, can be solved only through international cooperation with it. The state government cannot take any action of its own to mitigate the problems. The FC14 should make special provision for Bihar to meet its flood relief and rehabilitation expenses. The creation of a separate fund for 'Flood Relief and Rehabilitation' is also a necessity. It is suggested that the persons living in flood-prone areas be insured against life and property and the FC14 make provision for payment towards their premium. Further, Bihar has 28 flood-prone districts, but the centre has notified only 15 of them as flood-prone.

### **Compensation for Low Credit-Deposit (CD) Ratio States**

One important indicator of structural disadvantage of the backward states is their low CD ratio in the banking sector. For Bihar, this is a consequence of the wrong policy of freight equalisation adopted by the centre. Bihar has been at the lowest ladder in terms of CD ratio for a long time and the accumulated financial loss due to this trend is huge. In 2011-12, the CD ratio of Bihar worked out to only 34.90 percent, which was much lower than the national average of 76 percent and way behind CD ratios of Tamilnadu (119.4 percent), Andhra Pradesh ((114.9 percent) Rajasthan (95.8 percent) and Punjab (93 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. The credit management of the banks are primarily guided by the central government norms, which are generally detrimental to the interests of the poor states. The FC14 may consider compensating the poor states like Bihar with low CD ratios, so that they may improve their infrastructure and develop their credit absorption capacity. For freeing the poorer states of their structural maladies, a bolder initiative by the FC14 is required.

### **Freight Equalisation versus Industrialisation in Bihar**

The freight equalisation policy entirely robbed of the locational advantage of some backward states, in spite of their rich mineral resource base. This completely marred the chances of industrialization of these backward states. The very fact that the intermediate industries could not grow in Bihar due to freight equalisation also means that the state was deprived of other capital investments, which would not have been the case in the absence of such a policy. A rough estimate of this loss can be worked out from the figures of capital base of steel industry in the state

and its forward linkage. Assuming that the capital base of steel industry in the state in the pre-90s period was about one-fourth of the total capital base in the country (Rs. 90,000 crore), and a forward linkage of 4.79 (as estimated by the Central Statistical Organisation), Bihar was deprived of a capital base of at least Rs. 1,07,775 crore by the policy of freight equalisation. Undivided Bihar would have had an additional capital base of equivalent amount, had the freight equalization policy not been in operation. Out of this, a sizeable amount would have come to the areas under present Bihar. The FC14 should consider this aspect as well and grant a fund for providing incentives to the entrepreneurs for setting up industries in the state.

### **Package for the Residual State after Bifurcation**

After division of the state, the economy of residual Bihar had suffered. The truncated state was 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 established in present Jharkhand, and good educational and technical institutions were mostly established in places like Sindri, Bokaro, Jamshedpur, Ranchi, etc. (now in Jharkhand), considering the availability of infrastructural facilities there. Whatever little capital was there in the erstwhile Bihar, had fallen Jharkhand. Now, after bifurcation of the state, the residual Bihar stands exposed to even poorer educational/ institutional infrastructure. The FC14 should either consider a special package for the truncated state or develop a separate norm for devolution to highly deprived states like Bihar.

### **Agriculture Road Map for Bihar**

Agriculture is the mainstay of Bihar's economy, more so after bifurcation. Several reports including that of the National Farmers Commission have emphasised the need for the development of agriculture in the state for securing food security of the state as well as the country. Agriculture is also the core strength area of Bihar. The total geographical area of the state is 93.60 lakh hectares, of which around 56 lakh hectares are under cultivation. The state is divided into 4 agro-climatic zones and endowed with very fertile soil, plenty of water (both surface and underground), and its sub-tropical climate is suitable for a wide range of crops. The farmers are also very hard working here.



The first Green Revolution introduced in the mid-sixties had by-passed Bihar and remained confined to the north-western part of the country. The success of Green Revolution has been in producing dwarf high yielding varieties of rice and wheat. The areas which were benefited by Green Revolution are now facing crisis of sustainability. Soil fertility status, water availability and prospects of quality production are gradually diminishing. This may pose a problem of food security in the country.

In view of the above experience, the Agriculture Road Map of Bihar was launched in 2008, with the state government taking up a major step forward for the holistic development of state's agriculture. Consequently, the plan outlay for agriculture was increased forty times from Rs. 20.43 crore in 2005-06 to Rs. 797.86 crore in 2011-12. The major goals of Agriculture Road Map are : (a) Increase in Farmers income, (b) Food Security, (c) Nutritional Security, (d) Create gainful employment to check migration, (e) Ensure equitable farm agriculture growth with focus on gender and human aspects, (f) Conservation and sustainable use of natural resources, and (g) One Bihar product in every Indian's plate

Later, the Agriculture Road Map of 2008 was revised and approved by the State Cabinet on 03.04.2012, with detailed programmes for 2012-17. The total financial requirement for the Agriculture Road Map for 2012-17 is Rs. 1.50 lakh crore, of which 86.30 percent would have to be from public sector alone. The Agriculture Road Map (2012-22), would entail huge expenditure for its implication, which the state government alone is not able to bear. Therefore, the FC14 should come forward for adequate funding through grants-in-aid for its award period 2015-20. This will help Bihar in implementing its Agriculture Road Map.

#### **Accelerated Irrigation Benefit Programme (AIBP)**

Under AIBP, 23,466 hectares of irrigation potential has been created in drought prone Jamui district, and there is a programme to create additional irrigation potential of 15,120 hectares through completion of 32 other schemes up to March, 2013. The DPRs in respect of 134 schemes for the districts of Jamui and Nawada, with an estimated cost of Rs. 221 crore, have been submitted to the Ministry of Water Resources, Government of India. An irrigation potential of 59,037 hectares would be created in the two districts through the implementation these schemes.

The AIBP is a Centrally Sponsored Scheme with 75 percent central share and 25 percent state share. However, in October, 2013, the Union Water Resources Ministry has modified the guidelines for implementation of AIBP, according to which the ongoing projects may continue to be provided central assistance at 75 percent; however, for new projects, the quantum of central assistance would be 50 percent and the balance 50 percent is to be borne by states. With this, the backward states like Bihar would suffer hugely, and would fail to implement various irrigation and flood control projects. With this modification, Bihar will be deprived of Rs. 147 crore for the proposed schemes in 2012-13 and Rs. 919 crore in the ongoing Twelfth Plan period.

The state government has proposed to include the East and West Gandak Canal and Uderasthan Barrage Project with an estimated cost of Rs. 1799 crore, Rs. 2169 crore and Rs. 531 crore respectively. These projects are aimed at creating additional irrigation facilities for 3.44 lakh hectares and restore this facility for 1.47 lakh hectare of land. Since the state cannot afford to provide 50 percent of the cost in respect of new projects, the FC14 should come forward to help Bihar in taking up the projects through transfer of grant for the purpose.

### **Third Tier – A Dynamic Component**

In order to provide a framework for local bodies as the third tier and participatory governance, Indian Constitution was amended twice (73<sup>rd</sup> and 74<sup>th</sup> amendments) in the year 1992. Accordingly, the states completed the process of enacting uniform legislations by April, 1994. The amendments prescribed uniform structure and regular elections of local bodies and also made provision for the institution of State Finance Commissions to facilitate the process of decentralisation of governance and fiscal federalism. As the grassroot institutions of democracy and self governance, PRIs were required to prepare and implement plans for economic development and social justice in various areas like welfare of weaker sections, poverty alleviation, economic development, rural housing, drinking water, minor irrigation, agriculture, land reforms and maintenance of government assets.

Bihar is one of the most highly ruralised states of India with around 89 percent of its population living in rural areas (2011 census). The PRIs are a major instrument for empowerment and development at the grassroot. According to 2011 census, the average population per Gram Panchayat (GP) in Bihar works out to 10.8 thousand, compared to 3.7 thousand for India as a whole. As per the requirement under Article 243G of the Constitution, by 2005, the state



government had devolved 79 functions of 20 departments to PRIs. Besides, 60 functions were transferred to Panchayat Samitis (PS) and 61 functions to Zila Parishads (ZP). The levels and quality of activities of PRIs could be improved through capacity building of these institutions. The PRIs are financed through grants from the central government, recurring and non-recurring grants released by the state government in accordance with the recommendations of the State Finance Commission (SFC), some development funds like BRGF and MPLADS, and its own sources of revenue. However, PSs at the block level and GPs at the grassroot level are yet to raise revenue from their own sources. The PRIs are unable to meet their establishment and other recurring charges from their own sources and have to be financed by the state government in the form of grants and loans. The Urban Local Bodies (ULBs), like Nagar Nigam, Nagar Parisad and Nagar Panchayats, were formed consequent upon the 74th Amendment Act passed in 1992. The ULBs have their own sources of fund through levying of tax on holdings, water tax, tax on vehicles, trades, professions, fees on registration of vehicles, rent of shops and buildings, etc. However, they are not adequate and, therefore, the state government releases grants and loans to ULBs for meeting their establishment and other expenses.

In Bihar, four State Finance Commissions have so far been constituted. The Fourth Bihar State Finance Commission submitted its report in June, 2010. The Commission broadly recommended that :

- Expenditure on current salary of employees working against sanctioned posts of the Local Body employees should be borne by the state government for another five years, without any tapering.
- Six activities were identified as high priority for PRIs. These activities can primarily be financed through devolution amount of share in state taxes. The estimated cost of these programmes is Rs. 1,590 crore.
- Five activities were identified as high priority for ULBs. These activities can be financed primarily by the devolution amount for share in state taxes. The estimated cost is Rs. 251 crore.
- To support the identified priority and other programmes of the local bodies, a share of 7.5 percent in state's own tax revenue, net of collection costs, should be devolved to the local bodies.

- Out of the total devolution as share in state taxes to local bodies, 70 percent should be for PRIs and 30 percent for the ULBs.
- Among the PRIs, the total devolved share in state taxes should be further shared in the proportion 70 percent to GPs, 20 percent to PSs, and 10 percent to ZPs.
- The 30 percent share in devolution of state taxes to ULBs should be further distributed among the various municipal bodies on the criterion of (i) 60 percent weight to population, (ii) 20 percent weight to geographical area and (iii) 20 percent weight to number of BPL families.
- The PRIs should be given grants from the consolidated fund of the state in the following manner :
  - (i) Rs. 15 lakhs per annum to each ZP
  - (ii) Rs. 1 lakh per annum to each PS
  - (iii) Rs. 2 lakhs per annum to each GP

The recommendations will cause a total expenditure of Rs. 901 crore over five years period.

- The ULBs should be given grants-in-aid from the consolidated fund of the state in the following manner :
 

(i) Patna Municipal Council	Rs. 5.00 crore per annum
(ii) Each Municipal Corporations, except Patna	Rs. 1.00 crore per annum
(iii) Each Municipal Council	Rs. 0.50 crore per annum
(iv) Each Nagar Panchayat	Rs. 0.20 crore per annum

The state government is making an all out effort to make the local bodies effective institutions for local governance, but the financial constraints come in the way. The small amount transferred through the Fourth Bihar State Finance Commission is not sufficient for the local bodies to function properly.

The FC12 recommended Rs. 25,000 crore for a five-year period of 2005-10 as grants-in-aid to augment the consolidated fund of states to supplement the resources of the PRIs and ULBs. This was equivalent to 1.24 percent of the shareable tax revenues and 0.9 percent of the gross receipts

of the centre. The Commission recommended that the amount of Rs. 25,000 crore be divided between PRIs and ULBs in the ratio of 80:20, i.e., Rs. 20,000 crore for PRIs and Rs. 5000 crore for ULBs. The amount was too small to make a significant impact on the finances of the local bodies. However, the FC13 recommended an aggregate grant of Rs. 87,519 crore to local bodies. This amounts to 2.28 percent of the relevant divisible pool as grant to local bodies and equivalent to 1.93 percent of the 2010-15 divisible pool.

It appears that the FC13 endeavoured to take a 'performance-based incentive approach to determine the volume of local body grants to be provided to each state'. It made allocation to the third tier an integral part of the divisible pool of tax revenues, which are generally buoyant. The FC14 should give a stronger incentive to the local bodies to carry forward the momentum of democratic decentralisation in real sense of the term. It is also hoped that the FC14 would put less conditionalities to enable the poorer states like Bihar to avail of the incentives.

### **Social Sector – Needs Boost**

In order to develop the human resources, adequate expenditure on social sector is a sine-qua-non. But Bihar is lagging much behind in terms of per capita expenditure on social services. In 2011-12, Bihar spent just half (Rs. 2126) the per capita on social services for all states (Rs. 4105). As measured by the Planning Commission in its National Human Development Report, 2011, Bihar was at the lowest position in terms of human development among the major states in India. During the entire period after independence, Bihar remained highly disadvantaged with the lowest rank among the major states in respect of economic and human development.

As per the estimates of the Tendulkar Committee, population living below poverty line in Bihar is as high as 53.5 percent. Empirical evidences show that continuous efforts towards development of human capital and infrastructure hold the key to poverty reduction. Among various factors affecting the development, investments in education and health are more crucial, the two most important components of social capital for human capital formation, skill development and gainful employment opportunities. As per NSSO 66th round survey, the per capita monthly expenditure on education and health in Bihar in 2009-10 has been the lowest among all the states, both in rural and urban areas.

**Table 4.16 : Per Capita Monthly Expenditure of Households on education and health (2009-10)**

(Rs.)

States	Education	Medical (institutional)	Medical (non-institutional)	Education	Medical (institutional)	Medical (non-institutional)	Combined Expenditure on Health and Education	
	Rural Areas			Urban Areas			Rural	Urban
Kerala	89.7	65.8	99.9	143.0	89.0	116.1	255.3	348.0
Punjab	93.1	47.6	83.5	179.5	41.7	85.6	224.1	306.7
Haryana	95.3	28.8	42.5	266.5	28.5	51.0	166.6	346.0
TamilNadu	55.6	22.7	46.4	129.0	33.6	68.4	124.6	231.0
Maharashtra	26.4	34.2	51.7	197.9	69.7	83.9	112.3	351.5
Andhra Pradesh	47.2	15.1	44.7	165.1	44.4	66.8	107.0	276.3
Rajasthan	42.9	26.9	33.5	153.7	22.7	53.1	103.4	229.5
Uttar Pradesh	30.0	17.1	48.7	183.4	18.8	56.8	95.9	259.0
Karnataka	27.4	20.1	26.8	162.4	25.6	49.1	74.3	237.0
West Bengal	29.2	9.8	34.8	132.9	39.1	86.8	73.8	258.8
Gujarat	26.1	14.4	21.9	126.6	31.5	43.5	62.3	201.7
Madhya Pradesh	19.0	7.6	32.3	148.5	28.3	53.2	58.9	230.1
Odisha	17.7	6.3	26.8	111.8	14.1	43.5	50.7	169.4
Assam	23.7	2.3	18.6	100.7	7.7	29.7	44.6	138.1
Bihar	16.6	3.8	22.4	80.9	15.8	39.1	42.7	135.7

Source: NSSO Report, 66<sup>th</sup> Round- Summary Results

While the state's literacy level (63.8 percent) is the lowest in the country, its educational infrastructure too is in shambles, reflected by a high pupil-teacher ratio of 122:1, as against 40:1 for India as a whole. The annual growth rate of enrolment in primary education for Bihar during 2006-07 to 2010-11 was 3 percent. Though the total enrolment at primary level in 2010-11 was 149.34 lakh, a majority of those who enter the school system are found to be dropout. In 2010-11, the total dropout rate at the primary level was around 40 percent, whereas at the upper primary level and the secondary level, it was 55 percent and 62 percent respectively. The dropout rates are even higher for girls and SC/STs. There is also a large rural-urban divide in the educational attainment.

As a nation, we are committed to the goals of 'Education for All'. The elementary education has been made a fundamental right and it is mandatory for the state to provide free and compulsory education to all children between 6-14 years of age. To achieve 100 percent enrolment of children in the age-group of 6-14 by 2020, a tremendous expansion of schools will be required. Therefore, the expenditure on education assumes prime importance. The total expenditure on education during 2011-12 in Bihar worked out to Rs. 10.09 thousand crore. Given the magnitude of poverty,

unemployment and deprivation, the present quantum of fund may not be at all adequate. The total estimated cost of Sarva Shiksha Abhiyan (excluding the cost of additional class rooms during 2010-15) would be around Rs. 20,000 crore. Yet another Rs. 500 crore would be required for accomplishing the task assigned by National Literacy Mission (NLM) to banish adult illiteracy and to impart Continuing Education (CE) to adults in the age group 15-35 years. The implementation of Mid-Day Meal Scheme (MDMS) for students of primary schools during the period (20010-15) would cost about Rs. 4500 crore and, during 2015-20, it is likely to be almost double. Besides, huge expenditure would be required for imparting quality education in order to drastically curtail the large scale migration of students from the state.

The poor educational outcomes in the state are accompanied by poor health scenario. The health outcomes in Bihar, with some exceptions, are below the national average. The Crude Birth Rate (CBR) in Bihar in 2010 was high at 28.1, against the national average of 22.1. The IMR in Bihar in 2010 was 48 per 1000 live births, which is slightly higher compared to the national average of 47. In terms of nutritional status of children, despite some progress, the proportion of underweight children in the state is one of the highest in the country.

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

In Bihar, the ratio of private spending on health care relative to public spending is the second highest in India and is a major source of indebtedness and perpetual impoverishment of the rural folks. Historically, the health care system in the country has had a distinct urban bias. Attainment of the goal of 'Health for All' by 2000 under National Health Policy is thus essential, which may require an additional 2033 Primary Health Centres, 16,560 Sub-centres, and 590 community health centres.

The grim situation of education and health in Bihar has been prevailing primarily on account of sharp decline in the real per capita expenditure on social and economic services. As may be observed from the table below, Bihar reported lower per capita expenditure on social and economic services compared to most other states, and registered a minimum increase during the period 2006-07 to 2010-11.

**Table 4.17 : Real Per Capita Expenditure: Social and Economic Services**

(in Rs.)

States	2006-07		2010-11		Increase in Per Capita Expenditure from 2006-07 to 2010-11	
	Social Services	Economic Services	Social Services	Economic Services	Social Services	Economic Services
Andhra Pradesh	1934 (7)	2478(3)	3889(6)	3514(3)	1955	1036
Bihar	917 (16)	914(15)	1557(16)	1499(15)	640	586
Chhattisgarh	1718(11)	1668(8)	3578(8)	2804(7)	1860	1136
Gujarat	2188(3)	2288(4)	4369(4)	3390(4)	2181	1102
Haryana	2274(2)	3591(1)	4786(1)	4181(1)	2512	589
Jharkhand	1863(8)	1620(9)	2917(11)	2356(11)	1054	735
Karnataka	2152(4)	3056(2)	4045(5)	4117(2)	1893	1061
Kerala	2023(6)	1061(13)	3771(7)	2134(12)	1748	1073
Madhya Pradesh	1254(14)	1399(10)	2600(14)	2366(10)	1346	967
Maharashtra	2342(1)	1982(6)	4407(3)	3156(5)	2065	1174
Odhisa	1385(12)	1004(14)	3029(10)	2466(9)	1645	1462
Punjab	1722(10)	2269(5)	2860(13)	2864(6)	1138	595
Rajasthan	1817(9)	1270(11)	2875(12)	1964(13)	1059	695
Tamil Nadu	2110(5)	1851(7)	4579(2)	2744(8)	2469	892
Uttar Pradesh	1177(15)	1129(12)	2223(15)	1513(14)	1046	384
West Bengal	1374(13)	708(16)	3045(9)	1066(16)	1671	357

Source : A study of State Finances, Reserve Bank of India

The FC13 recommended a grant of Rs. 24,068 crore to the states for elementary education, which was too small a sum for its development. To attain the norm of health, education and nutrition, the FC14 may consider providing much larger fund to the poor states, because it is certain that the huge expenditure on these schemes cannot be met by normal flow of funds. The cost on all these will entail a huge amount of around Rs. 60,000 crore and, for poor states like Bihar, some special provision will have to be made.



## CHAPTER V

### CRITERIA AND WEIGHTS SUGGESTED

Notwithstanding the adoption of 'equalisation principle' and 'gap-filling approach' for transfers through devolution of taxes and grants to states, wide disparities in revenue capacity still persists among the states. It is, therefore, imperative that the regional inequalities are reduced substantially in a shortest possible time. The central fiscal transfers to states mainly consist of the share of divisible central taxes recommended by the Finance Commission, fiscal assistance from the Planning commission and Central Plan Schemes and Centrally Sponsored Schemes by the central government ministries. The transfer by the Finance Commission is designed, in principle, to adjust fiscal imbalances between the centre and states (vertical distribution) and to reduce interstate fiscal disparities (horizontal distribution). Despite relatively higher transfers by the FC12 and FC13, it is important to notice that the per capita total revenue of Bihar is still the lowest among major states, primarily due to lack of own revenue. It was just Rs. 5408 in 2011-12 in Bihar, as against Rs. 13,315 in Haryana, and around Rs. 11,000 and above in as many as 9 states. The FC14 may take the responsibility of improving the situation of Bihar.

#### **Overall Devolution of Sharable Taxes**

The earlier Finance Commissions recommended tax devolution with main emphasis on population, but later Commissions assigned greater weightage to backwardness. However, the existing policies are not enough to offset the fiscal disadvantages of the poorer states. Their methodology has inherent bias against poorer states and are in the direction of widening regional disparities. In the real sense of term, gap-filling could be possible only through transferring larger share to the poorer states. However, the Finance Commissions have been recommending only marginal increases in the share of states in net proceeds of shareable central taxes. The FC12 recommended only 1 percentage point increase from 29.5 to 30.5 percent as share of states in the net proceeds of shareable central taxes. The FC13 recommended an increase of just 1.5 percent point and made it 32.0 percent. As regards indicative ceiling on overall transfers to states on revenue account, the FC11 had proposed to set it at 37.5 percent, which was increased to 38.0 percent by the FC12 and 39.5 percent by the FC13. Thus, the overall vertical devolution has seen very minor increments in comparison to the increasing needs and responsibilities of the states. The

collection of taxes and duties is primarily related to various factors, viz., improved law and order situation, better administration and conducive atmosphere of investments and related activities; and all these are ensured by the state governments. It is, thus, quite fair that the states be given an increased share out of tax revenues of the centre. Therefore, it is suggested that the share of states in the net proceeds of shareable central taxes may be increased from the existing 32 percent to 50 percent. Likewise, the indicative limit of overall revenue transfers to the states should be enhanced to at least 60 percent of the centre's gross revenue receipts from the existing 39.5 percent as recommended by the FC13. It is suggested that, for PRIs and ULBs, the Finance Commission may allocate 4 percent of the total central taxes.

### **Criteria and Weights**

The FC10 had recommended uniformity in allocation of proceeds of different taxes to states, and accorded 60 percent weightage to per capita income distance, 20 percent to population, 10 percent to tax effort and 5 percent each to infrastructure index and area. There is an urgent need to focus on weaker states in terms of various indicators, and allocating them more resources for taking care of glaring deficiencies in their development. The FC10 made a beginning in this direction by including infrastructure as a parameter and increasing per capita income distance in the scheme of devolution. However, the weightage of just 5 percent to infrastructure was too small to benefit the poor states like Bihar to significantly improve their situation. Though FC11 recommended increase in weightage for infrastructure index from 5 percent to 7.5 percent and per capita income distance from 60 percent to 62.5 percent, the situation of poor states remained unchanged. Probably, considering the ineffectiveness of the infrastructure index as a parameter, the FC12 did away with this and laid emphasis on area and population as criteria by assigning them weights of 10 and 25 percent respectively; however, the weights for per capita income distance was reduced from 62.5 percent to 50 percent. On the other hand, the FC13 defined a new criterion of fiscal capacity distance and assigned it a weight of 47.5 percent, in place of income distance. It also increased emphasis on tax effort and increased its weight to 17.5 percent, and retained population and area parameters with the same weightage as accorded by the FC12. Since the area as a parameter is not directly related to the backwardness and poverty, the weightage to area is not relevant and should not be included in the scheme of devolution.



As a matter of fact, the dispensation of both FC12 and FC13 on tax devolution was less equalising compared to FC11, because of lowering or doing away with the weights for equalising factors in the formula and giving higher weightage for the efficiency indicators like tax efforts and fiscal discipline. The concept of progressivity has been substantially diluted by FC13 by doing away completely with the income distance criteria. The FC14 may consider all these aspects and recommend atleast 70 percent weightage to per capita income distance criteria. The criteria and weights for tax devolution adopted by the FC10 to FC13 are given below.

**Table 5.1 : Finance Commission Criteria for sharing of Union Tax Revenues**

Criteria	(Percent)			
	10th	11th	12th	13th
Population (1971 census)	20.0	10.0	25.0	25.0
Distance per capita income	60.0	62.5	50.0	–
Inverse income	–	–	–	–
Poverty/ Backwardness	–	–	–	–
Area	5.0	7.5	10.0	10.0
Index of Infrastructure	5.0	7.5	–	–
Tax Effort	10.0	5.0	7.5	–
Fiscal Discipline	–	–	–	17.5
Fiscal Capacity Distance	–	–	–	47.5
Total	100.0	100.0	100.0	100.0

Source : Previous Finance Commission Reports ( compiled)

Since the adoption of these criteria and weights did not help the poor states much in bringing them to the level of national average in terms of certain important indicators, it is suggested that the FC14 may consider the following criteria and weights for sharing of central tax revenues.

**Table 5.2 : Criteria and Weights Suggested**

Sl. No.	Criteria	Weight %
1.	Population	20.00
2.	Income Distance	70.00
3.	Fiscal Discipline	10.00
	Total	100.00

It is suggested that the FC14, while recommending formula for tax devolution to states, must pay special attention to backward states like Bihar, which has the highest poverty ratio of 53.5 percent in 2009-10, as estimated by Tendulkar Committee. Bihar needs special attention because of its (a) high scheduled castes population; (b) highest poverty ratio; (c) proneness to natural calamities like floods on regular basis; (d) increasing naxal and terrorist activities; and (e) financial situation.

The FC13 changed the formula for tax devolution by doing away with per capita income distance criteria and laying more emphasis on fiscal discipline and tax-efforts. Keeping in view the plight of the poor states, it is suggested that the weightage to population may be retained at least at 20 percent and per capita income distance be accorded a weightage of 70 percent, so that both taken together should account for 90 percent of weights. Similarly, in order to maintain a design for incentives, the weights for fiscal discipline may be retained at 10 percent.

For the low income states, limited budget is definitely a constraint, since they have very limited capacity to execute development projects. According to the World Bank report of 2007, Bihar and Uttar Pradesh ranked the lowest in terms of development expenditure, approximately one-fourth of the per capita level of top ranking states like Karnataka, Gujarat and Punjab. The low ranking states like Uttar Pradesh and Bihar need fundamental reform to increase the revenue and attain sustained economic growth.

The FC14 must evolve a formula and take into account all the indicators of backwardness like low income, large population, etc., before recommending the formula for transfer. Faster the development in these areas, faster would be the economic growth process leading to improved level of tax base and reduced level of dependency on central government. The FC14 should see to it that the equalisation grants should always be released in full and no part should be withheld for shortfall in expenditure against the projected one in a particular year. Instead, at least a period of 3 years be considered as a block for the purpose of computation of expenditure, debt waver of states, etc.

Apart from population and low income, the backwardness of a state is directly related to its low educational and health status. The FC12 introduced equalisation principle and provided grants for

education and health to relatively deficient states. The FC13 also recommended liberal grants for health and education for the states. But these could not help the states at the bottom. The grants-in-aid at enhanced scale may have to be provided for reducing inter-state disparities in financial resources.

### **Debt Relief**

The outstanding debt liabilities of Bihar, excluding guarantees, during 2011-12 stood at Rs. 60.55 thousand crore, which worked out to 24 percent of the GSDP; it is estimated to rise to Rs. 66.95 thousand crore in 2012-13. This figure is the accumulated effect of past borrowings, growing at an annual rate of 8.5 percent since 2007-08. It is worth mentioning that the major part (more than 70 percent) of this outstanding debt is due to the internal loans raised by the state government and around 14 percent is due to loans from the centre. In 2011-12, the total repayment of principal by the state government amounted to Rs. 3959 crore, while the interest payment was higher at Rs. 4304 crore. The total annual debt service burden has increased from Rs. 6154 crore in 2007-08 to Rs. 8917 crore in 2012-13, growing at an annual rate of 7.7 percent.

Though the debt relief plan proposed by the FC12 was a welcome step, the conditionalities imposed violated the basic tenets of fiscal federalism. There was no need to link it to passing of Fiscal Responsibility Bill. Again, doing away with the central intermediation in states' borrowing and requiring them to go to the market may severely affect the development spending of the states, having large outstanding debt. It is apprehended that fiscally weak states like Bihar would be unable to raise resources from the market. Another shortcoming of the debt relief plan is that it is confined only to a small part of the outstanding debt of the states, viz. loan liabilities to the centre, which constitute only about one-sixth of the total.

Bihar, in spite of bringing down its fiscal deficit, has got no debt waiver under this scheme from the central government. The Bihar FRBM Act was passed in February 2006 and the state government was able to generate adequate revenue surpluses thereafter to bring down GFD to a level of less than 3 percent of GSDP by 2008-09 and maintain it later. The FRBM Act may be revised and fiscal deficit limit may be enhanced suitably. The FC14 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. The compulsion of loan from sources with higher interest rate should be done away with.
- (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.
- (iv) A moratorium of 3 years may be provided for interest payment to the centre.
- (v) A State 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.

### **Adequate Resources to PRIs – A Need**

The constitution emphasises devolution of funds to local bodies in both rural and urban areas. For a better transfer arrangement, the important characteristics are transparency, resource flow on predicted lines, and incentivising all the tiers, particularly the third tier, so that it achieves the relevant fiscal targets. Generally, the states suffer from acute scarcity of financial resources and, on account of this constraint, the decentralisation in true sense of the term could not take roots, particularly in poorer states like Bihar.

The states now need a normative design of transfer more than it did in the past. Of all the Finance Commissions, the FC12 and FC13 designed a normative transfer framework as part of their approach. The FC12 recommended a sum of Rs. 25,000 crore for a five-year period from 2005-10 as grants-in-aid to states to provide resources to the PRIs and ULBs. This was 1.24 percent of the shareable tax revenues and 0.9 percent of gross revenue receipts of the centre. The total fund under this head was to be divided between PRIs and ULBs in the ratio of 80:20. This amount was too inadequate to meet the constitutional obligations. However, the FC13 recommended an aggregate grant of Rs. 87,519 crore to local bodies, which was 2.5 percent of the divisible pool. Of the total Rs. 87,519 crore, the basic grant and special area grant together accounted for Rs. 57,693 crore. Bihar received only 6.59 percent of the total allocation to local bodies, whereas Maharashtra, a

developed state, received much higher share (10.07 percent). This was an injustice perpetrated on Bihar.

In order to ensure better planning and its implementation, it is imperative to empower the PRIs through enhancing their capabilities. It, thus, becomes essential that suitable capacity building measures are adopted for facilitating smooth transfer of finance to the local bodies. However, an adequate amount of fund is required for this, which the FC14 may take into cognizance and recommend liberally. It is, therefore, suggested that the FC14 may assess the whole gamut of issues relating to the local bodies and arrive at a realistic need and recommend accordingly. For inter-state allocation, the FC13 adopted the following criteria and the weight:

**Table 5.3 : Criteria and Weights allotted for Grants to Local Bodies by 13th FC**

Criteria	Weights allotted (%)	
	PRIs	ULBs
Population	50	50
Area	10	10
Distance from highest per capita sectoral income	10	20
Index of Devolution	15	15
SC/ST proportion of Population	10	—
FC local body grants utilisation index	100	100

Based on these criteria, the basic grant for Bihar worked out to be Rs. 3715.10 crore, of which the share of PRIs was Rs. 3239 crore (87.2 percent), and that of ULBs was Rs. 476.02 crore (12.8 percent). Besides these, the performance grant to the tune of Rs. 1967 crore was also recommended in the same proportion as for basic grants. Based on the census figures of 2011, the per capita allocation of basic grant to Bihar for the award period of 5 years worked out to be Rs. 359 for the PRIs and Rs. 467 for the ULBs. This sum is too paltry to make any significant impact on the availability of civic amenities. In view of the fact that there are fewer central schemes meant for ULBs compared to PRIs, some special package for the former may have to be considered. It is also suggested that the criteria and weights adopted by earlier Finance Commissions be thoroughly reviewed and the following criteria and weights be considered.

**Table 5.4 : Criteria and Weights Suggested**

Sl.	Criteria	Weight (%)
1	Population	20
2	Distance from highest per capita income	40
3	Poverty ratio	30
4	No. of Local Bodies	10
	Total	100

A liberal view may be taken by the FC14 for the poor states like Bihar, because such states need more funds for capacity building of PRIs. Besides, strengthening of infrastructure at all the three levels of the PRIs, including the IT-related infrastructure, is imperative for them to become capable of delivering at least the basic services to the people. It is suggested that a sum of Rs. 5000 crore for the award period of five years (2015-2020) would be needed for capacity building, training, strengthening of infrastructure, and other related needs for strengthening PRIs at all the three tiers.

Out of 8,406 GPs in Bihar, 5624 have their own building; however, nearly all of them need major repair. In any district of the state, 80-90 percent of GPs do not have an office. The FC13 had recommended fund for construction of Panchayat Sarkar Bhawans; however, a large number of GPs are yet to have a proper Panchayat Sarkar Bhawan (PSB). A total of 6000 Panchayat Sarkar Bhawans are to be constructed for which a sum of Rs. 6000 crore is required, at Rs. 1.0 crore per Bhawan. The FC14 may consider this while making recommendations on this aspect.

### **Special Problem Grants**

The Commission has to give recommendations as grants-in-aid under Article 275 of the Constitution. As per the memorandum submitted to the FC12, Bihar needed investments to the tune of Rs. 38.53 thousand crore each year till 2019-20 to attain an annual growth rate of 15 percent to catch up with the all-India level of development, by 2019-20. Unfortunately the FC12 did not take this fact into account. To achieve the same growth rate of 15 percent till 2019-20, the amount needed per annum would in all probability be now around Rs. 100 thousand crore. This huge sum may have to come as special grant. The FC14 may consider this aspect and suggest special problem grant for the state, so that Bihar no longer remains a disadvantaged state. For creation of capital infrastructure and upgradation of administrative and social services, the

Commission may make recommendation for targeted grants-in-aid. The major areas for which targeted grants-in-aid may be required by Bihar include the following :

Rehabilitation of Sick Units : As per the State Level Diagnostic Study of Small Scale Industries (SSI) units, about 70 percent of the SSI units in Bihar are either sick or closed. However, up to 60 percent of the sick units can be rehabilitated and revived by giving them the required support. This will enable their capital assets to be put again to productive uses. Besides providing large employment opportunities, it will also contribute towards significant increase in the GSDP. The FC14 may look into this aspect and recommend a special subsidy grant of at least 50 percent of the total debt needed for rehabilitation of sick/ closed units.

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

Information Technology : There is an urgent need for the state to advance towards a learning society founded on acquisition, renewal and use of knowledge. In an endeavour to move with the changing world, Bihar needs to create a knowledge society. For this, the state government should give a thrust to Information Technology sector. An 'operation knowledge' campaign may have to be launched here for universalising Information Technology and IT based education. This may require construction of buildings and purchase of equipments for introduction of the new courses in Information Technology at various levels. This may require additional fund which may be considered by the FC14.

Promoting Urbanisation and Improvement of Civic Amenities : It is well-established that the economic activities are normally created along urban centres. But, unfortunately, Bihar has been very slow to urbanise, and as per 2011 census, the urban population in Bihar constitutes only 11.3 percent. In order to boost up the rate of urbanisation, it is imperative that atleast 3-4 centres in the state may be identified to be developed as 'urbanisation hub', where the various economic activities would be created. The FC14 may recommend a suitable grant for the purpose. Even with slow growth in urban population, the demand for civic amenities like adequate supply of safe drinking water, provision of drainage and sewerage has increased manifold. This cannot be



overlooked and it is estimated that provision of minimum level of civic amenities may require about Rs. 500 crore.

Industrial Corridor and Patna Airport : There is a proposal with the GOI to build Amritsar-Delhi-Kolkata Industrial Corridor for which an Inter-Ministrial Group (IMG) of the central government has been constituted for preparing a Report. In the proposed Industrial corridor, some area of Bihar is also included. It is suggested that the FC14 may provide necessary fund for purchase of industrial plots within the corridor area for industrialisation.

Further, The Airport Authority of India has identified the Patna Airport as accident prone and many a times notices have been served for withdrawing the flights of medium sized aircrafts. The transfer of Patna Airport is pending for years, but the state government does not have the requisite fund for purchase of land at some other places. The FC14 may consider to provide funds for the purpose for better connectivity to the state.

Dedicated Sea Port for Bihar : Bihar is a land locked state and it does not have a dedicated sea port; as a result, the state's export is badly affected. Bihar needs a dedicated sea port for smooth export of its products. The FC14 may take initiative and ask the central government to initiate a talk either with the Odisha or the West Bengal Government for a dedicated sea port for Bihar and provide the fund for purchasing the land and development of the same as also for express-way to connect Bihar with the dedicated sea port.

Interlinking of Rivers : Considering the priorities of the state government with respect to the issue of drought in South Bihar, mitigation of the flood devastation in North Bihar, improvement in the drainage of water, providing canal irrigation for attaining a cropping intensity of 250 percent and optimization of the use of available water resources, action is being taken by the respective Departments to implement the schemes related to interlinking of the intra-state rivers, first by identifying the rivers to be interlinked and, then, preparing DPRs for them accordingly. These schemes have been formulated in such a way that they do not cross state or international boundaries. In future, however, these could be extended to or coordinated with inter-state or international schemes as per requirements of the state. The scheme is in advanced stage compared to other states. The centre is agreeable for this scheme. The FC14 may consider adequate fund for this scheme.

## CHAPTER VI

### CONCLUSION

The quinquennial Finance Commissions play a very crucial role in shaping the structure of financial federalism of the country through their recommendations. The state governments are particularly concerned about these recommendations, since both the vertical and the horizontal distribution patterns have substantial implications for the financial strength of all of them. Each Finance Commission, besides assessing the needs of the state, also makes a comparative assessment of performances of different states and, as such, it is also an evaluation of state governments of all the states. The poorer states are even more concerned about the Finance Commission, as they hope sufficiently equalising nature of their recommendations would help them overcome their fiscal limitations, most of which are consequences of the past policies. As the state suffering most from those historical factors, both during the pre- and post-independent period, Bihar looks forward to these recommendations with great expectations. Quite expectedly, the concerns of the state is so genuine that the support for them cuts across all political lines and the present joint memorandum only testifies to that political unity.

The story of deprivation for Bihar, either the erstwhile or the present one, is a long one, having several manifestations. But some of these dimensions are worth reiteration before the Finance Commission. For one, the colonial administration had neglected the state even more than other regions of India, in spite of its rich mineral resources and fertile soil. The institution of Permanent Settlement had implied that the state had remained an under-administered one, causing both its economic and social backwardness. Secondly, after the independence, the policy of Freight Equalisation for basic industrial inputs had played havoc with industrialisation of Bihar. The comparative advantage of Bihar was more than neutralised by this policy, promoting industrialisation of those states which were already relatively more industrialised. Admittedly, much of the foregone industrialisation would have happened in southern Bihar (now Jharkhand), but the remaining part of the state would also have been beneficiary in terms of enhanced state capacity and secondary benefits of industrialisation. A third component of this long process of deprivation is the vivisection of the state in 2000, which left the present Bihar even more deprived.

At the time of bifurcation, the present Bihar had 54 percent of the area, but 75 percent of the population; secondly, it got 25 percent of the assets, but 75 percent of the liabilities of the united Bihar. To this unfortunate historical saga, one must also add the geographical misfortune of the state — first, it is a land-locked state and second, a large part of its area is extremely flood-prone. The present Finance Commission should try to move from the narrow limits of economics and factor this historical deprivation and geographical disadvantage in deciding the allocations for Bihar. Without a compensatory resource transfer, it will not be possible for Bihar to move forward.

In the past, the Finance Commissions have often underlined the necessity of including both need and performance as criteria for devolution. Although apparently rational, this was not to the advantage of the poorer states including Bihar, as they were not able to record appreciable performance, mainly owing to their historical disadvantages. This disadvantage had many dimensions — poor resource base, smaller size of bureaucracy, poor social institutions and inadequate physical infrastructure. However, the present Finance Commission should note that the recent performance of Bihar has been better than most of the other states in terms of growth rate, social development, management of state finances, and the standard of governance in general. All those achievements of the state government are there, almost entirely because of state government's own financial and administrative efforts. Thus, on this ground again, Bihar expects that the recommendations of the present Finance Commission will favour the state, helping the state to maintain its growth momentum and social development, to gradually reach the national average within a reasonable period of time.

Although consideration of both need and performance is rational in the context of devolution of resources, the Finance Commission should be careful about the relative importance to be given to these two considerations. During the last three Commissions, there has been a tendency to assign more weight to performance than before and, as a result, the poorer states with much larger needs have suffered. Quite surprisingly, the total share of low income states has remained nearly unaltered during last three Commissions and that of middle income states has actually decreased. The gainers have been high income and special category states. In particular, the share of Bihar in

tax devolution has continually decreased — 11.59 percent (FC11), 11.03 percent (FC12) and 10.92 percent (FC13). This trend is extremely unfair for poor and middle income states in general, and Bihar in particular. The present Finance Commission should reverse this trend, to the advantage of not only Bihar, but low and middle income states as well. One should also mention here that unless the vertical distribution of resources between the centre and states is not substantially altered in favour of the latter, changes in horizontal distribution pattern alone cannot meet the resource requirements of the poorer states.

The Finance Commission recommendations are divided into two broad categories — sharing of taxes and grants-in-aid. The previous Finance Commissions have all paid more attention to tax transfers at the cost of grants-in-aid. But it is the recommendations under grants-in-aid that offer more opportunity to the Finance Commission for effecting equalising principle. Within each component of grants-in-aid, the Commission can factor the specific needs of the state and make allocation that help poorer state overcome their structural disabilities.

That the resource provision for the state-specific needs can play an important role in removing the structural disabilities of poorer states is indicated by the fact that it appears as a specific head under grants-in-aid. The memorandum of the state government has prepared a list of projects for Bihar that require special assistance from the present Finance Commission. This memorandum has also indicated some of these state-specific needs. It is sincerely hoped that the Finance Commission would carefully examine these needs and provide the required resources for the same.

Finally, it is worth noting that the national development strategy since independence has been such that the regional economic disparity in India, instead of being reduced, has actually been constantly widened. If this negative trend is allowed, it would some day emerge as a serious threat to the integrity of the country. The Finance Commissions can play a crucial role in this context by making recommendations that are not just marginally equalising, but sufficiently equalising to promote regional equality.

## Appendix I

### Terms of Reference Fourteenth Finance Commission

As mandated by the Article 280 of the Constitution, the Government has constituted the Fourteenth Finance Commission consisting of **Dr. Y.V. Reddy, former Governor Reserve Bank of India, as the Chairman.**

The Commission shall make recommendations regarding the sharing of Union taxes, principles governing Grants-in-aid to States and transfer of resources to local bodies.

Terms of Reference and the matters that shall be taken into consideration by the Fourteenth Finance Commission in making the recommendations are as under :

1. (i) the distribution between the Union and the States of the net proceeds of taxes which are to be, or may be, divided between them under Chapter I, Part XII of the Constitution and the allocation between the States of the respective shares of such proceeds;
  - (ii) the principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India and the sums to be paid to the States which are in need of assistance by way of grants-in-aid of their revenues under article 275 of the Constitution for purposes other than those specified in the provisos to clause (1) of that article; and
  - (iii) the measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats and Municipalities in the State on the basis of the recommendations made by the Finance Commission of the State.
2. The Commission shall review the state of the finances, deficit and debt levels of the Union and the States, keeping in view, in particular, the fiscal consolidation roadmap recommended by the Thirteenth Finance Commission, and suggest measures for maintaining a stable and sustainable fiscal environment consistent with equitable growth including suggestions to amend the Fiscal Responsibility Budget Management Acts currently in force and while doing so, the Commission may consider the effect of the receipts and expenditure in the form of grants for creation of capital assets on the deficits; and the Commission shall also consider and recommend incentives and disincentives for States for observing the obligations laid down in the Fiscal Responsibility Budget Management Acts.
3. In making its recommendations, the Commission shall have regard, among other considerations, to –
    - (i) the resources of the Central Government, for five years commencing on 1st April 2015, on the basis of levels of taxation and non-tax revenues likely to be reached during 2014-15;
    - (ii) the demands on the resources of the Central Government, in particular, on account of the expenditure on civil administration, defence, internal and border security, debt-servicing and other committed expenditure and liabilities;
    - (iii) the resources of the State Governments and the demands on such resources under different heads, including the impact of debt levels on resource availability in debt stressed states, for the five years commencing on 1st April 2015, on the basis of levels of taxation and non-tax revenues likely to be reached during 2014-15;
    - (iv) the objective of not only balancing the receipts and expenditure on revenue account of all the States and the Union, but also generating surpluses for capital investment;
    - (v) the taxation efforts of the Central Government and each State Government and the potential for additional resource mobilisation to improve the tax-Gross Domestic Product ratio in the case of the Union and tax-Gross State Domestic Product ratio in the case of the States;
    - (vi) the level of subsidies that are required, having regard to the need for sustainable and inclusive growth, and equitable sharing of subsidies between the Central Government and State Governments;

- (vii) the expenditure on the non-salary component of maintenance and upkeep of capital assets and the non-wage related maintenance expenditure on plan schemes to be completed by 31st March, 2015 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;
  - (viii) the need for insulating the pricing of public utility services like drinking water, irrigation, power and public transport from policy fluctuations through statutory provisions;
  - (ix) the need for making the public sector enterprises competitive and market oriented; listing and disinvestment; and relinquishing of non-priority enterprises;
  - (x) the need to balance management of ecology, environment and climate change consistent with sustainable economic development; and
  - (xi) the impact of the proposed Goods and Services Tax on the finances of Centre and States and the mechanism for compensation in case of any revenue loss.
4. In making its recommendations on various matters, the Commission shall generally take the base of population figures as of 1971 in all cases where population is a factor for determination of devolution of taxes and duties and grants-in-aid; however, the Commission may also take into account the demographic changes that have taken place subsequent to 1971.
  5. The Commission may review the present Public Expenditure Management systems in place including the budgeting and accounting standards and practices; the existing system of classification of receipts and expenditure; linking outlays to outputs and outcomes; best practices within the country and internationally, and make appropriate recommendations thereon.
  6. The Commission may review the present arrangements as regards financing of Disaster Management with reference to the funds constituted under the Disaster Management Act, 2005(53 of 2005), and make appropriate recommendations thereon.
  7. 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.
  8. The Commission shall make its report available by the 31<sup>st</sup> October, 2014, covering a period of five years commencing on the 1st April, 2015.

## Appendix II

### Per capita Consumption of Electricity, Road Density and Urbanisation of Major Indian States

State	Per Capita Consumption of Electricity		Road Length (in Kms)				Urbanisation	
	( kwh)						2001	2011
	2005-06	2009-10	2006		2011			
			Per 100 Sq.kms of Area	Per one lakh of Population	Per 100 Sq.kms of Area	Per one lakh of Population		
Andhra Pradesh	723.1	967.0	122.5	419.5	86.5	281.1	27.3	33.5
<b>Bihar</b>	<b>85.9</b>	<b>122.1</b>	<b>127.6</b>	<b>129.4</b>	<b>138.7</b>	<b>125.9</b>	<b>10.5</b>	<b>11.3</b>
Chhattisgarh	685.8	1546.9	54.7	320.3	69.5	367.9	20.1	23.2
Gujarat	1283.8	1615.2	73.9	261.7	79.7	258.7	37.4	42.6
Haryana	1090.4	1222.2	65.7	125.5	94.4	164.6	28.9	34.8
Jharkhand	548.7	880.4	22.6	60.6	30.0	72.5	22.2	24.1
Karnataka	720.4	903.2	111.7	376.9	146.9	460.9	34.0	38.6
Kerala	424.1	525.3	481.6	574.0	517.8	602.7	26.0	47.7
Madhya Pradesh	580.3	602.1	53.5	249.0	64.0	271.8	26.5	27.6
Maharashtra	934.4	1028.2	71.6	211.3	133.4	365.3	42.4	45.2
Odisha	633.9	874.3	138.2	547.7	166.2	617.1	15.0	16.7
Punjab	1436.8	1526.9	89.7	173.9	167.2	303.9	33.9	37.5
Rajasthan	572.2	736.2	44.5	244.8	70.5	351.7	23.4	24.9
Tamil Nadu	976.8	1131.6	137.9	267.3	147.9	266.6	44.0	48.5
Uttar Pradesh	311.8	348.4	492.8	144.7	162.0	195.5	20.8	22.3
West Bengal	380.6	550.2	224.3	232.6	337.1	327.6	28.0	31.9
<b>All India</b>	<b>631.4</b>	<b>778.7</b>	<b>91.7</b>	<b>270.1</b>	<b>142.7</b>	<b>387.6</b>	<b>27.8</b>	<b>31.2</b>

Source : Road Statistics of India and Data Book, Planning Commission, GOI



### Appendix III

#### Index of Infrastructure

States	1999-2000 ( FC)		2008-09 (Working Group of PC)	
	Index	Rank	Index	Rank
Andhra Pradesh	103.30	11	112.84	11
Arunachal Pradesh	69.71	19	NA	NA
Assam	77.72	16	62.02	20
<b>Bihar</b>	<b>81.33</b>	14	<b>78.79</b>	18
Chhattisgarh	NA	NA	70.14	19
Goa	200.57	1.0	215.11	1
Gujarat	124.31	6	124.72	7
Haryana	137.54	5	136.43	6
Himachal Pradesh	95.03	13	164.20	4
Jharkhand	NA	NA	52.09	21
J&K	NA	NA	81.40	16
Karnataka	104.88	10	124.35	8
Kerala	178.68	3	197.36	2
Madhya Pradesh	76.79	17	78.91	17
Maharashtra	112.80	7	115.56	10
Odisha	81.00	15	81.83	15
Punjab	187.57	2	175.81	3
Rajasthan	75.86	18	84.11	14
Sikkim	108.99	9	NA	NA
Tamil Nadu	149.10	4	152.24	5
Uttar Pradesh	101.23	12	86.99	13
Uttarakhand	NA	NA	118.38	9
West Bengal	111.23	8	97.01	12

Source : Eleventh Finance Commission Report

Note : FC = Finance Commission, PC = Planning Commission

**Appendix IV**  
**Gross Fiscal Deficit**

(Rs. crore)

State	Gross Fiscal Deficit						
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12 (RE)
Andhra Pradesh	8300	5643	8787	12406	14010	11800	17784
Bihar	3700	3021	1705	2507	5270	3970	5915
Chhattisgarh	425	-33	128	1027	1760	-410	3786
Gujarat	6270	5649	4771	10438	15150	15070	12772
Haryana	286	-1179	1264	6558	10090	7260	7699
Jharkhand	4918	5257	6217	3751	1780	4840	4052
Karnataka	3687	4688	5331	8732	10870	10690	12673
Kerala	4182	3822	6100	6346	7870	7730	12931
Madhya Pradesh	4572	2754	2784	4434	6200	5270	7943
Maharashtra	17630	11553	-2821	13999	26160	18860	19133
Odisha	276	-823	-1323	334	2270	660	2058
Punjab	2656	4384	4604	6690	6170	7140	9633
Rajasthan	5150	3970	3408	6973	10300	4130	7701
Tamil Nadu	2251	3956	3686	8548	11810	16650	16597
Uttar Pradesh	10078	9615	13794	20513	18690	17250	18429
West Bengal	9601	11431	11400	13558	24950	19530	21684
All States	90084	77508	75455	134589	188820	161460	207880

Source: Study of State Finances, RBI & Economic Survey of Bihar, GOB

**Appendix V (a)**

**Statewise Plan Expenditure**

(Rs. crore)

State	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	CAGR
Andhra Pradesh	14502	19611	28987	32701	30910	34030	43680	17.3
Bihar	4084	6239	11964	12336	15270	20670	29630	35.9
Chhattisgarh	3803	5545	7164	8840	10450	11580	18970	26.9
Gujarat	11113	13198	14651	20762	21660	25800	31340	18.9
Haryana	3707	4975	6612	7928	10530	10640	15250	24.9
Jharkhand	6017	7949	8803	9694	9790	12180	14600	13.8
Karnataka	11131	16540	16263	19889	24380	29490	34930	19.5
Kerala	4293	3537	4562	5478	6830	7520	9570	16.7
Madhya Pradesh	7950	10572	13763	14802	18380	22520	27320	21.7
Maharashtra	12980	17135	19998	25692	31880	33260	40610	20.5
Odisha	3094	4205	7046	8934	8900	11750	14820	28.3
Punjab	2274	3341	3083	4031	3400	4500	7320	16.2
Rajasthan	7768	8765	10987	12190	12570	14170	22800	16.7
Tamil Nadu	9505	13332	15705	20519	21830	26780	36700	22.9
Uttar Pradesh	15195	23573	25831	35769	35300	41240	51960	20.1
West Bengal	6765	8046	10438	12442	14160	14620	21390	19.3

Source: Study of State Finances, RBI

**Appendix V (b)**

**Statewise Non-Plan Expenditure**

(Rs. crore)

State	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	CAGR
Andhra Pradesh	33803	37037	45888	48103	54160	66600	78180	14.8
Bihar	18485	20898	19609	24846	27530	30030	42340	13.5
Chhattisgarh	5922	6446	7865	8874	11110	11990	14640	16.6
Gujarat	23122	26001	28030	31135	38670	45810	48770	14.1
Haryana	11123	14663	15467	18440	22030	23800	27990	15.7
Jharkhand	7400	7777	9557	10947	12920	14320	16640	15.2
Karnataka	23842	27545	31768	34150	38580	42450	49400	12.3
Kerala	16822	19622	24130	27075	29010	33240	44250	15.9
Madhya Pradesh	21025	19645	21502	25228	31650	37530	56010	17.9
Maharashtra	55696	58706	60243	73376	85550	96900	112230	13.1
Odisha	12653	15141	15798	17739	21640	24300	29960	14.7
Punjab	18179	22956	23436	24754	27900	32560	35410	10.8
Rajasthan	19453	23091	26770	30778	36180	39530	45730	15.1
Tamil Nadu	29239	37815	40043	47204	50900	64100	73060	15.5
Uttar Pradesh	44644	51410	61473	68629	85810	93350	112160	16.6
West Bengal	33822	33157	36206	48491	53980	58350	66600	13.6

Source: Study of State Finances, RBI

## Appendix VI

### GSDP of Bihar (2004-05 prices)

(Rs crore)

Sector	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12 (P)	Growth Rate
Agriculture/Animal Husbandry	19299	24578	22769	25435	22076	26368	29314	5.0
Forestry / Logging	2671	2612	2558	2511	2462	2414	2366	-2.0
Fishing	1183	1105	1188	1273	1259	1223	1458	3.2
Mining/Quarrying	70	58	57	126	92	91	89	7.7
<b>Sub-Total (Primary)</b>	<b>23224</b>	<b>28353</b>	<b>26572</b>	<b>29345</b>	<b>25888</b>	<b>30096</b>	<b>33227</b>	<b>4.3</b>
Manufacturing	4106	4369	5448	6535	6270	7698	8384	13.0
5.1 Registered	622	516	1155	2262	1931	3150	40.3	40.3
5.2 Un-registered	3484	3853	4293	4273	4339	4548	4.5	4.5
Construction	6374	7962	9446	10745	13511	18156	19955	21.4
Electricity / Water Supply / Gas	1189	1247	1341	1466	1657	1706	1851	8.0
<b>Sub-Total (Secondary)</b>	<b>11668</b>	<b>13578</b>	<b>16235</b>	<b>18745</b>	<b>21438</b>	<b>27560</b>	<b>30190</b>	<b>17.6</b>
Transport / Storage / Communication	5105	5776	6322	6957	8738	10512	11240	14.9
8.1 Railways	1609	1845	2016	2043	2201	2340	7.2	7.2
8.2 Other Transport	2065	2246	2408	2701	2857	3270	10.1	10.1
8.3 Storage	61	68	75	82	87	95	8.7	8.7
8.4 Communication	1371	1617	1824	2131	3594	4807	26.8	26.8
Trade / Hotel / Restaurant	14862	18030	20493	23233	25408	27944	32065	12.9
<b>Sub-Total (8 and 9)</b>	<b>19968</b>	<b>23806</b>	<b>26815</b>	<b>30191</b>	<b>34147</b>	<b>38456</b>	<b>43305</b>	<b>13.4</b>
Banking / Insurance	2941	3513	3915	4205	5266	6304	7495	16.5
Real Estate/ Ownership of Dwelling/Business Services	4403	4819	5270	5788	6343	6834	7486	9.2
<b>Sub-Total (10 and 11)</b>	<b>7343</b>	<b>8332</b>	<b>9185</b>	<b>9993</b>	<b>11608</b>	<b>13138</b>	<b>14981</b>	<b>12.4</b>
Public Administration	5107	5153	5284	6525	6872	7492	7691	8.3
Other Services	10598	10873	11183	12058	13294	13530	14754	5.9
<b>Sub-Total (Tertiary)</b>	<b>43016</b>	<b>48164</b>	<b>52467</b>	<b>58766</b>	<b>65921</b>	<b>72617</b>	<b>80732</b>	<b>11.1</b>
<b>Total GSDP</b>	<b>77908</b>	<b>90095</b>	<b>95274</b>	<b>106857</b>	<b>113247</b>	<b>130272</b>	<b>144149</b>	<b>10.3</b>
<b>Per Capita GSDP</b>	<b>8637</b>	<b>9832</b>	<b>10237</b>	<b>11311</b>	<b>11815</b>	<b>13404</b>	<b>14634</b>	<b>8.7</b>

## Appendix VII

### Statewise Per Capita NSDP

States	Per-Capita NSDP@ - Statewise Triennial Average for Selected Years) (Rupees)		
	Average of 2002-03 to 2004-05	Average of 2005-06 to 2007-08	Average of 2008-09 to 2010-11
<b>High Income</b>			
Haryana	29678	49499	80945
Maharashtra	29292	49470	73317
Punjab	28568	42487	62552
Gujarat	25884	43730	64577
Kerala	24772	40798	61581
Tamil Nadu	23688	41712	63560
<b>Average HI</b>	26980	44616	67756
<b>Middle Income</b>			
Karnataka	21586	36546	53740
Andhra Pradesh	21204	33800	54024
West Bengal	20513	28037	41953
Chattisgarh	15222	24767	36883
Rajasthan	14864	23737	36232
<b>Average MI</b>	18678	29378	44566
<b>Low Income</b>			
Madhya Pradesh	13097	18865	28656
Odisha	12137	22939	35396
Uttar Pradesh	10692	16006	23390
Jharkhand	7752	20968	27321
Bihar	5580	10080	17497
<b>Average LI</b>	9852	17772	26452

Source : State Finances : A Study of Budgets , Reserve Bank of India

## Appendix VIII

### Poverty Ratio of Major Indian States

State	2004-05			2009-10			2011-12		
	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total
Andhra Pradesh	32.3	23.4	29.9	22.8	17.7	21.1	11.0	5.8	9.2
<b>Bihar</b>	<b>55.7</b>	<b>43.7</b>	<b>54.4</b>	<b>55.3</b>	<b>39.4</b>	<b>53.5</b>	<b>34.1</b>	<b>31.2</b>	<b>33.7</b>
Chhattisgarh	55.1	28.4	49.4	56.1	23.8	48.7	44.6	24.8	39.9
Gujarat	39.1	20.1	31.8	26.7	17.9	23.0	21.5	10.1	16.6
Haryana	24.8	22.4	24.1	18.6	23.0	20.1	11.6	10.3	11.2
Jharkhand	51.6	23.8	45.3	41.6	31.1	39.1	40.8	24.8	37.0
Karnataka	37.5	25.9	33.4	26.1	19.6	23.6	24.5	15.3	20.9
Kerala	20.2	18.4	19.7	12.0	12.1	12.0	9.1	5.0	7.1
Madhya Pradesh	53.6	35.1	48.6	42.0	22.9	36.7	35.7	21.0	31.7
Maharashtra	47.9	25.6	38.1	29.5	18.3	24.5	24.2	9.1	17.4
Odisha	60.8	37.6	57.2	39.2	25.9	37.0	35.7	17.3	32.6
Punjab	22.1	18.7	20.9	14.6	18.1	15.9	7.7	9.2	8.3
Rajasthan	35.8	29.7	34.4	26.4	19.9	24.8	16.1	10.7	14.7
Tamil Nadu	37.5	19.7	28.9	21.2	12.8	17.1	15.8	6.5	11.3
Uttar Pradesh	42.7	34.1	40.9	39.4	31.7	37.7	30.4	26.1	29.4
West Bengal	38.2	24.4	34.3	28.8	22.0	26.7	22.5	14.7	20.0
<b>All India</b>	<b>41.8</b>	<b>25.7</b>	<b>37.2</b>	<b>33.8</b>	<b>20.9</b>	<b>29.8</b>	<b>25.7</b>	<b>13.7</b>	<b>21.9</b>

Source : Planning Commission, Government of India

**Appendix IX**

**Literacy Rates of Major Indian States**

State	2001			2011			Decadal Increase		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Andhra Pradesh	70.3	50.4	66.6	75.6	59.7	67.7	5.2	9.3	1.0
<b>Bihar</b>	<b>59.7</b>	<b>33.1</b>	<b>47.0</b>	<b>73.4</b>	<b>53.3</b>	<b>63.8</b>	<b>13.7</b>	<b>20.2</b>	<b>16.8</b>
Chhattisgarh	77.4	51.9	64.7	81.5	60.6	71.0	4.1	8.7	6.4
Gujarat	79.7	57.8	69.1	87.2	70.7	79.3	7.6	12.9	10.2
Haryana	78.49	55.73	67.9	85.4	66.8	76.6	6.9	11.0	8.7
Jharkhand	67.3	38.87	53.6	78.5	56.2	67.6	11.2	17.3	14.1
Karnataka	76.1	56.87	60.5	82.9	68.1	75.6	6.8	11.3	15.1
Kerala	94.24	87.72	90.9	96.0	92.0	93.9	1.8	4.3	3.1
Madhya Pradesh	76.06	50.29	63.7	80.5	60.0	70.6	4.5	9.7	6.9
Maharashtra	85.97	67.03	76.9	89.8	75.5	82.9	3.8	8.5	6.0
Odisha	75.35	50.51	63.1	82.4	64.4	73.5	7.1	13.9	10.4
Punjab	75.23	63.36	69.7	81.5	71.3	76.7	6.3	8.0	7.0
Rajasthan	75.7	43.85	60.4	80.5	52.7	67.1	4.8	8.8	6.7
Tamil Nadu	82.42	64.43	73.5	86.8	73.9	80.3	4.4	9.4	6.9
Uttar Pradesh	68.62	42.22	56.3	79.2	59.3	69.7	10.6	17.0	13.5
West Bengal	77.02	59.61	68.6	82.7	71.2	77.1	5.7	11.6	8.4
<b>All India</b>	<b>75.26</b>	<b>53.67</b>	<b>64.8</b>	<b>82.1</b>	<b>65.5</b>	<b>74.0</b>	<b>6.9</b>	<b>11.8</b>	<b>9.2</b>

Source : Provisional Census 2011



## Appendix X

### Statement Showing extent of Damages by Flood in Bihar in the last 14 Years

Year	Area affected (lakh hectares)	Population affected (lakh)	Crop Area affected (lakh hectares)	Value of Crop lost (Rs. Lakh)	No. of houses damaged (lakh)	Value of houses damaged (Rs. Lakh)	Damage to infrastructure (Rs. Lakh)	Total Damages (Rs. Lakh)
2000-01	8.05	90.18	4.43	8303.70	343091.00	20933.82	3780.66	33018.18
2001-02	11.95	90.91	6.50	26721.79	222074.00	17358.44	18353.78	62434.01
2002-03	19.69	160.18	9.40	51149.61	419014.00	52621.51	40892.19	144663.31
2003-04	18.20	81.61	7.92	9444.71	84424.00	3756.77	1191.88	14393.36
2004-05	27.00	212.99	13.99	52205.64	929773.00	75809.51	103049.64	231064.79
2005-06	4.60	21.04	1.35	1164.50	5538.00	382.79	305.00	1852.29
2006-07	178.28	11.67	1.48	1431.92	28115.00	2597.78	8527.47	12557.17
2007-08	18.83	244.42	10.60	76837.82	784328.00	83144.52	64241.52	224223.86
2008-09	6.39	50.93	2.61	16729.65	256447.00	31493.44	46791.37	95014.46
2009-10	11.05	22.03	0.48	2182.57	7674.00	528.15	530.10	3240.82
2010-11	1.99	7.18	0.10	311.92	15170.00	704.87	169.20	1185.99
2011-12	38.20	71.43	3.44	10295.70	85182.00	6906.64	153.67	17356.01
2012-13	1.06	2.44	0.25	299.83	2261.00	159.52	162.20	621.55
2013-14	20.00	69.00	6.00	10572.00	156986.00	2506.00	1661.00	14739.00

## Appendix XI

### Per Capita Development Expenditure of States

States	Per Capita Development Expenditure (Rs.)							Growth Rate
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	
Goa	13936	15924	18009	21892	26411	29869	39994	18.7
Gujarat	3968	4536	4776	6222	6833	8006	8729	14.8
Haryana	4150	5910	6540	7839	9481	9383	11857	17.2
Maharashtra	4222	4526	4916	6263	7271	7759	9027	14.3
Punjab	3418	4156	4514	4850	4993	5810	7995	12.6
Andhra Pradesh	3718	4519	6301	6883	6900	7867	9962	16.0
Bihar	1432	1865	2156	2552	2845	2780	4651	17.9
Chhattisgarh	2979	3720	4580	5413	6529	6741	10059	20.4
Jharkhand	3324	3960	4215	4526	4728	5516	6479	10.4
Karnataka	4058	5270	5833	6345	7565	8570	9612	14.6
Kerala	3296	3189	3941	4834	5313	6163	8452	17.2
Madhya Pradesh	2953	2796	3351	3789	4711	5580	8178	18.6
Odisha	1972	2427	3309	4356	4691	5640	6902	23.0
Rajasthan	2831	3137	3788	4280	4654	4973	6613	14.0
Tamil Nadu	3333	4295	4766	6183	6474	7740	9609	18.1
Uttar Pradesh	1814	2354	2816	3440	3679	3854	4854	16.2
West Bengal	2042	2236	2618	3954	3971	4210	5306	17.6
All States	2587	3089	3715	4436	4809	5336	6928	16.6

State Finances : A Study of Budgets , Reserve Bank of India

Note : All States Average is calculated excluding the high income states (Punjab, Haryana, Gujarat, Maharashtra and Goa)

**Appendix XII (a)**

**Grants-in-Aid to States Recommended by Finance Commissions**

(Rs. crore)

Sl. No.	States / UTs	12th Finance Commission (2005-10)						Total (2005-10)	% share on All States
		2005-06	2006-07	2007-08	2008-09	2009-10			
1	Arunachal Pradesh	327.27	348.17	378.94	360.47	343.37	1758.22	1.23	
2	Assam	911.44	822.70	865.84	913.28	965.45	4478.71	3.14	
3	Himachal Pradesh	2274.64	2337.15	2353.26	2226.35	2055.74	11247.14	7.89	
4	Jammu & Kashmir	2593.20	2681.22	2788.72	2749.24	2626.19	13438.57	9.42	
5	Manipur	829.56	899.87	947.94	977.46	993.93	4648.76	3.26	
6	Meghalaya	402.74	425.68	460.16	422.96	379.62	2091.16	1.47	
7	Mizoram	553.13	606.45	655.25	684.24	695.32	3194.39	2.24	
8	Nagaland	1010.72	1109.07	1195.94	1239.75	1284.26	5839.74	4.09	
9	Sikkim	84.36	103.94	110.13	79.64	58.13	436.20	0.31	
10	Tripura	1067.55	1131.62	1190.52	1199.82	1201.40	5790.91	4.06	
11	Uttarakhand	1240.13	1359.73	1411.94	1290.51	1129.81	6432.12	4.51	
	<b>Sub Total: SCS</b>	<b>11294.74</b>	<b>11825.60</b>	<b>12358.64</b>	<b>12143.72</b>	<b>11733.22</b>	<b>59355.92</b>	<b>41.61</b>	
12	Andhra Pradesh	663.26	1116.83	1130.37	1144.59	1159.53	5214.58	3.66	
13	Bihar	1199.18	1555.10	1641.77	1737.26	1842.48	7975.79	5.59	
14	Chhattisgarh	241.41	432.71	435.23	437.90	440.69	1987.94	1.39	
15	Goa	8.18	31.68	31.76	31.84	31.93	135.39	0.09	
16	Gujarat	457.50	797.68	807.36	817.53	828.21	3708.28	2.60	
17	Haryana	189.48	306.53	311.43	316.57	321.97	1445.98	1.01	
18	Jharkhand	381.77	628.49	649.94	673.43	699.19	3032.82	2.13	
19	Karnataka	339.20	921.79	926.32	931.06	936.03	4054.40	2.84	
20	Kerala	766.30	616.84	620.21	623.73	627.43	3254.51	2.28	
21	Madhya Pradesh	723.38	1076.91	1094.31	1113.16	1133.61	5141.37	3.60	
22	Maharashtra	735.98	1185.16	1193.93	1203.15	1212.84	5531.06	3.88	
23	Orissa	995.31	1043.51	1059.92	1077.69	1096.87	5273.30	3.70	
24	Punjab	1765.75	1306.73	1043.03	395.87	402.21	4913.59	3.44	
25	Rajasthan	626.73	978.92	995.28	1012.47	1030.51	4643.91	3.26	
26	Tamil Nadu	451.21	908.29	916.51	925.15	934.23	4135.39	2.90	
27	Uttar Pradesh	2019.45	3101.49	3232.02	3375.57	3533.47	15262.00	10.70	
28	West Bengal	3015.58	1574.76	981.04	994.03	1007.96	7573.37	5.31	
	<b>Sub Total: NSCS</b>	<b>14579.67</b>	<b>17583.42</b>	<b>17070.43</b>	<b>16811.00</b>	<b>17239.16</b>	<b>83283.68</b>	<b>58.39</b>	
	<b>Grand Total - All States</b>	<b>25874.41</b>	<b>29409.02</b>	<b>29429.07</b>	<b>28954.72</b>	<b>28972.38</b>	<b>142639.60</b>	<b>100.00</b>	

Source : 12<sup>th</sup> Finance Commission Report, GOI

**Appendix XII (b)**  
**Grants-in-Aid to States Recommended by Finance Commissions**

(Rs. crore)

Sl. No.	States / UT.s	13th Finance Commission (2010-15)						Total (2010-15)	% share on All States
		2010-11	2011-12	2012-2013	2013-2014	2014-2015			
1	Arunachal Pradesh	713.17	792.12	1046.64	958.27	842.68	<b>4352.88</b>	<b>1.68</b>	
2	Assam	667.55	1036.82	1053.97	1161.16	1297.80	<b>5217.30</b>	<b>2.02</b>	
3	Himachal Pradesh	2465.19	2524.28	2423.74	1899.03	1057.65	<b>10369.91</b>	<b>4.01</b>	
4	Jammu & Kashmir	5329.31	4272.17	4059.25	3646.51	2954.39	<b>20261.64</b>	<b>7.83</b>	
5	Manipur	1252.51	1289.58	1601.61	1508.57	1378.85	<b>7031.11</b>	<b>2.72</b>	
6	Meghalaya	484.04	521.89	1070.10	979.12	873.89	<b>3929.03</b>	<b>1.52</b>	
7	Mizoram	782.33	851.91	1116.72	1104.64	1055.09	<b>4910.70</b>	<b>1.90</b>	
8	Nagaland	1669.13	1761.56	1956.61	1923.66	1886.42	<b>9197.36</b>	<b>3.56</b>	
9	Sikkim	132.83	238.05	255.89	207.32	229.61	<b>1063.68</b>	<b>0.41</b>	
10	Tripura	1132.60	1185.27	1320.02	1142.58	940.08	<b>5720.57</b>	<b>2.21</b>	
11	Uttarakhand	672.01	890.81	980.65	729.79	794.72	<b>4068.00</b>	<b>1.57</b>	
	<b>Sub Total: SCS</b>	<b>15300.67</b>	<b>15364.46</b>	<b>16885.20</b>	<b>15260.65</b>	<b>13311.18</b>	<b>76122.18</b>	<b>29.43</b>	
12	Andhra Pradesh	1368.87	2359.35	2915.56	3243.40	3645.19	<b>13532.38</b>	<b>5.23</b>	
13	Bihar	1535.60	2604.19	3119.06	3495.69	3848.31	<b>14602.87</b>	<b>5.65</b>	
14	Chhattisgarh	569.70	1129.73	1363.47	1484.93	1627.70	<b>6175.52</b>	<b>2.39</b>	
15	Goa	32.13	100.64	117.07	123.89	142.32	<b>516.07</b>	<b>0.20</b>	
16	Gujarat	903.42	1812.25	2113.26	2310.32	2543.32	<b>9682.58</b>	<b>3.74</b>	
17	Haryana	370.34	828.47	937.87	1015.04	1119.12	<b>4270.84</b>	<b>1.65</b>	
18	Jharkhand	723.50	1361.98	1577.52	1716.75	1858.61	<b>7238.34</b>	<b>2.80</b>	
19	Karnataka	951.28	2044.72	2545.39	2848.54	3211.43	<b>11601.37</b>	<b>4.49</b>	
20	Kerala	436.68	1225.69	1435.49	1557.92	1715.91	<b>6371.70</b>	<b>2.46</b>	
21	Madhya Pradesh	1373.47	2317.05	2858.91	3205.15	3569.79	<b>13324.35</b>	<b>5.15</b>	
22	Maharashtra	1504.03	2868.58	3543.41	3949.91	4437.12	<b>16303.05</b>	<b>6.30</b>	
23	Orissa	902.08	1823.21	2120.40	2298.59	2514.70	<b>9658.99</b>	<b>3.73</b>	
24	Punjab	437.63	1099.79	1232.82	1325.24	1444.81	<b>5540.27</b>	<b>2.14</b>	
25	Rajasthan	1325.82	2321.94	2772.93	3091.26	3426.74	<b>12938.70</b>	<b>5.00</b>	
26	Tamil Nadu	950.26	2072.77	2497.14	2763.37	3083.32	<b>11366.85</b>	<b>4.40</b>	
27	Uttar Pradesh	2476.96	4722.57	5777.90	6512.13	7253.46	<b>26743.00</b>	<b>10.34</b>	
28	West Bengal	1226.56	2251.74	2733.12	3052.62	3374.95	<b>12639.00</b>	<b>4.89</b>	
	<b>Sub Total: NSCS</b>	<b>17088.33</b>	<b>32944.67</b>	<b>39661.32</b>	<b>43994.75</b>	<b>48816.80</b>	<b>182505.88</b>	<b>70.57</b>	
	<b>Grand Total - All States</b>	<b>32389.01</b>	<b>48309.14</b>	<b>56546.53</b>	<b>59255.41</b>	<b>62127.99</b>	<b>258628.06</b>	<b>100.00</b>	

Source : 13<sup>th</sup> Finance Commission Report, GOI

### Appendix XIII

#### Statement Showing Amount Recommended & Actually Received During Eight, Ninth, Tenth, Eleventh, Twelfth and Thirteenth Finance Commission

(Rs. crore)

Period	Recommended		Actual Transfers		Difference ( Actual-Recommended)	
	Devolution of Central Taxes	Grants-in- Aid	Share of Central Tax	Grants- in-Aid	Share of Central Tax	Grants-in- Aid
<b>Eighth Finance Commission</b>						
1984-89	4005.82	214.65	4780.12	214.65	774.3	0
Ninth Finance Commission ( 1st Report)						
1989-90	1372.99	81.95	1570.12	247.93	197.13	165.98
Ninth Finance Commission ( 2nd Report)						
1990-95	9670.53	1505.25	11166.57	1505.52	1496.04	0.27
Tenth Finance Commission						
1995-2000	23302.5	1353.11	21218.98	806.33	-2083.52	-546.78
Eleventh Finance Commission						
2000-2001	7282.13	277.02	6575.63	76.38	-706.5	-200.64
2001-2002	7304.16	227.21	6176.62	193.95	-1127.54	-33.26
2002-2003	8518	229.85	6549.23	323.31	-1968.77	93.46
2003-2004	9935.24	231.18	7627.87	157.72	-2307.37	-73.46
2004-2005	11591.3	183.21	9117.13	543.77	-2474.17	360.56
<b>2000-2005</b>	<b>44630.8</b>	<b>1148.47</b>	<b>36046.48</b>	<b>1295.13</b>	<b>-8584.32</b>	<b>146.66</b>
Twelfth Finance Commission						
2005-2006	10084.45	1191.68	10420.59	1199.18	336.14	7.50
2006-2007	11545.48	1546.01	13291.72	1573.54	1746.24	27.53
2007-2008	13247.8	1630.77	16766.29	1093.92	3518.49	-536.85
2008-2009	15234.94	1723.94	17692.51	1374.49	2457.57	-349.45
2009-2010	17558.37	1827.09	18202.58	1654.98	644.21	-172.11
<b>2005-2010</b>	<b>67671.04</b>	<b>7919.49</b>	<b>76373.69</b>	<b>6896.11</b>	<b>8702.65</b>	<b>-1023.38</b>
Thirteenth Finance Commission						
2010-11	22260.00	1535.61	23978.38	1484.74	1718.38	-50.87
2011-12	26109.00	2604.20	27935.23	2549.45	1826.23	-54.75
2012-13	30797.00	3119.07	33026.93	1437.58	2229.93	-1681.49
2013-14	36327.00	3495.70	37980.98		1653.98	
2014-15	42849.00	3848.32				
<b>2010-15</b>	<b>158342.00</b>	<b>14602.90</b>				





The Centre for Economic Policy and Public Finance (CEPPF) was established in 2008. The objective of the CEPPF is to provide research support to the state government for evolving a framework of improved management of public finance. Such research includes studies on resource mobilisation, quality of state government spending, management of deficits and debt, framework of centre-state financial relations, and policies for economic and social development. Besides undertaking such studies, the CEPPF also prepares the Annual Economic Survey and maintains a Data Bank on the state's economy. To collect academic wisdom relating to developmental challenges, the Centre also organises seminars and workshops on various issues.