EVALUATION OF

STATE FINANCES IN BIHAR

SUBMITTED TO

FOURTEENTH FINANCE COMMISSION

GOVERNMENT OF INDIA, NEW DELHI

NOVEMBER 2007

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CHAPTER I

INTRODUCTION

Among all the social, economic or political factors that together indicate the capacity of the state to perform its expected functions, developmental or otherwise, the status of its public finance commands utmost importance. This status statement includes not only the state's current financial resource base, but its stability or vulnerability as well, reflected through the trends of the recent past. After all, any agenda of the state is almost certain to demand certain financial resources, whose availability depends on its financial health. Together with the size of the resource base, the status of public finance of a state also includes the allocation of its available resources among the different sectors or programmes and, finally, the efficacy and efficiency of the expenditures undertaken vis-à-vis their states purposes. In this perspective, periodic analysis of state finances is a common exercise, undertaken by various governments, including the Government of Bihar.

The present study on the state finances in Bihar, however, had a different origin. One of the important aspects of the federal state of India and the parallel arrangement of its financial federalism is the institution of Finance Commission. This Commission is constituted every five years with the objective of redefining the parametres of distribution of financial resources between the central and state governments (vertical distribution) at one hand, and among the states (horizontal distribution) on the other. This exercise is necessary as, under the constitutional provisions, the central government collects more taxes than it needs, just as the state governments are able to collect less taxes than they require. Since the fiscal realities and the development performances across the states are likely to change over the years, necessitating changes in the pattern of resources distribution, Finance Commission exercise is repeated every five years. To make this exercise more reasoned and credible, it is obviously necessary for the Finance Commission to obtain a proper understanding of the current financial status of different states. In this perspective, the present study was undertaken at the request of the Fourteenth Finance Commission, relating to the state of Bihar.

1.1 Objectives of the Study

Although the broad objectives of the different Finance Commission are the same, each one is generally given some additional specific objectives, depending on the recent fiscal scenario and the present challenges on the development front. In view of the present conditions of the

Indian economy, the pattern of regional growth, and the status of public finance for the central and different state governments, the Fourteenth Finance Commission has been asked to make its recommendations after having regard to 11 considerations, some of which are common to previous Commission, but others are new like functioning of the public sector enterprises, or expected impact of the Goods and Service Tax. In keeping with the Terms of Reference of the Commission, it has also specified the 12 aspects of the state finances that need to be addressed in all the evaluations studies, including the present one for Bihar. These dimensions are :

(i) Estimation of revenue capacities of state and measures to improve the Tax-GSDP ratio during last five years. Suggestions for enhancing the revenue productivity of the tax system in the State.

(ii) Analysis of the state's own non-tax revenues and suggestions to enhance revenues from user charges and profits from departmental enterprises and dividends from non-departmental commercial enterprises.

(iii) Expenditure pattern and trends separately for Non-Plan and Plan, Revenue and Capital, and major components of expenditure thereunder. Measures to enhance allocative and technical efficiency in expenditures during the last 5 years. Suggestions for improving efficiency in public spending.

(iv) Analysis of Deficits – Fiscal and Revenue along with Balance of Current Revenues for Plan financing.

(v) The level of Debt: GSDP ratio and the use of debt (i.e. whether it has been used for capital expenditure or otherwise). Composition of the state's debt in terms of market borrowing, central government debt (including those from bilateral/multilateral lending agencies routed through the Central government), liabilities in public account (small savings, provident funds etc) and borrowings from agencies such as NABARD, LIC etc.

(vi) Implementation of FRBM Act and commitment towards targets. Analysis of MTFP of various departments and aggregate.

(vii) Analysis of the state's transfers to urban and rural local bodies in the state. Major decentralisation initiatives. Reforms undertaken under JNNURM condionalities.

(viii) Impact of State Public Enterprises finances on the States' financial health and measures taken to improve their performance and/or alternatives of closure, disinvestment etc.

(ix) Public Expenditure and Financial Management (PEFM) Reforms implemented in the State.

(x) Impact of Power Sector Reforms on states' fiscal health. In case reforms have not been implemented, the likely outcome on the states' fiscal health.

(xi) Analysis of contingent liabilities of the state.

(xii) Subsidies given by the states (other than central subsidies), its targeting and evaluation.

1.2 Organisation of the Study

The findings of this evaluation study is presented in 8 chapters, broadly matching the 12 dimensions of the state finances mentioned above, based on the 10 year long time series data (2002-03 to 2011-12). Leaving this Introductory Chapter, the contents of the remaining 7 chapters are briefly described below.

Chapter II (Revenue Capacity) analyses the medium term trends in own tax receipts, central grants, measures to improve Tax: GSDP ratio, and non-tax revenues (specially from user charges and profits from public sector undertakings). In other words, this Chapter addresses the first two of the 12 aspects of the state finances mentioned above.

Chapter III (Expenditure Patterns) covers the third of the 12 aspects mentioned above and the analysis is done in terms of revenue and capital expenditure, plan and non-plan expenditure, quality of expenditure, impact of public expenditure. However, besides the third aspect, the Chapter also includes observation on implementation of the Public Expenditure and Financial Management (PEFM) Reforms (ninth of the 12 listed aspects) as well as analysis of the subsidies provided by the state government (the last of the 12 aspects).

Chapter IV presents an analysis of the Gross Fiscal Deficits of the state government (fourth of the 12 listed aspects), as well as progress on the implementation of the Financial Regulation and Budget Management (FRBM) Act (sixth of the 12 listed aspects).

Chapter V is the devoted to the analysis of the present debt position of the state government (fifth of the 12 listed aspects) and how it has improved during the last decade. The contingent liabilities (eleventh of the 12 listed aspects) is also analysed in this chapter.

Chapter VI then focusses on the state government's transfer to local bodies, which is gradually becoming more substantive, thanks to various initiatives, both by the central and state government. This Chapter corresponds to the seventh of the 12 listed aspects listed above.

Chapter VII incorporates an exhaustive analysis of the functioning of the public sector enterprises of the state government, corresponding to the seventh of the 12 aspects listed above. The power sector is the largest among all the public sector undertakings and power sectors (tenth of the 12 listed aspects) are also discussed in this chapter.

Finally, Chapter VIII collects the main conclusions of the previous chapters for a ready references for the readers.

CHAPTER II

REVENUE CAPACITY

The revenue receipts of the state government come from tax and non-tax sources and central transfers. Tax revenue consists of the state's own tax revenues and its share in the divisible pool of taxes and duties of the central government. The own revenues of the state government are collected mainly by two departments, viz, Commercial Taxes Department and Department of Registration and Excise. The Commercial Taxes Department collects revenue under seven state acts — (i) Bihar Value Added Tax Act (VAT), 2005; (ii) Bihar Tax on Entry of Goods into Local Area (for Consumption, Use or Sale therein) Act, 1993 (ET); (iii) Central Sales Tax (CST) Act, 1956; (iv) Bihar Electricity Duty (ED) Act, 1948; (v) Bihar Entertainment Tax (ENT) Act, 1948; (vi) Hotel Luxury Tax (HLT) Act, 1988 and (vii) Bihar Advertisement Tax (Advt.) Act, 1981. The Department of Registration and the Department of Excise and Prohibition were merged in April, 2007 to constitute the unified Department of Registration, Excise and Prohibition (Registration) Department and is responsible for the collection of excise duty as well as the stamp duty and regstration fees. In terms of revenue collection, these two departments collect almost the entire revenue of the state government.

The share of central taxes consists of the shares of income tax, union excise duty, customs duty, service tax and wealth tax which are collected by the central government, but the proceeds of which are shared with the state governments under recommendations of the Finance Commissions. The grants from central government are for both plan and non-plan purposes. Within the plan grants, there are separate grants for the state government's own plan schemes, Central Plan Schemes and also for Centrally Sponsored Schemes. The non-plan grants include the statutory grants as well as relief on natural calamities and other public purpose grants. The non-tax revenues of the state government are collected under general, social and economic services. These include interest receipts from loans and advances to various government companies, public sector and quasi-commercial undertakings and other bodies, dividends and profit from them, interest earned on the investment of cash balances of the state government, and receipts from various services classified under general, social and economic services. Economic services contribute more significantly to the non-tax revenues than other services.

From Table 2.1 showing the revenue receipts of the state government for the 10 year period from 2002-03 to 2011-12 and their composition, it can be seen that during all these years, between 70-80 percent of the total receipts of the state government came from the central government by way of state's share of divisible pool of central taxes and central grants. This share has come from 80.3 percent in 2006-07 to 73.7 percent in 2011-12. During 2011-12, central transfers constituted 74 percent of total State revenue — 55 percent from the state's share of central taxes and 19 percent from central grants. The state's own resources contributed only 26 percent of total revenue – 24 percent from tax revenues and 2 percent from non-tax revenues.

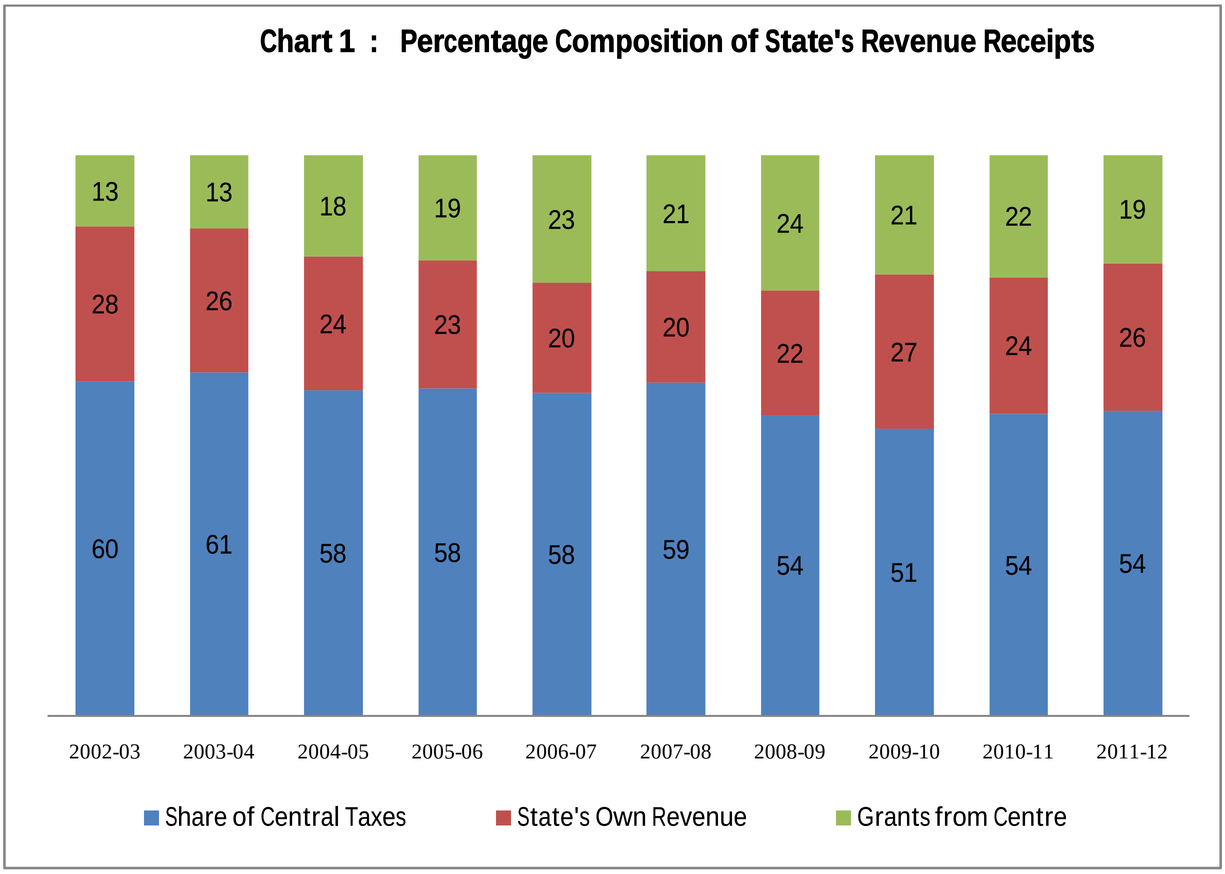
Table 2.1 : Revenue Receipts of the Bihar Government

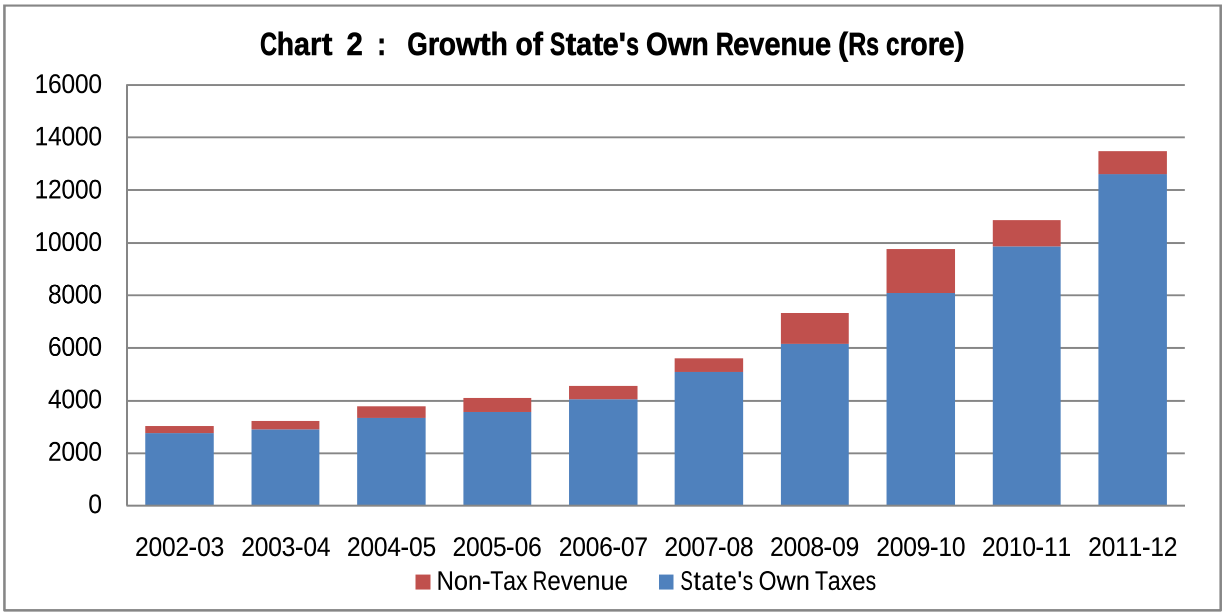
(Rs. crore)

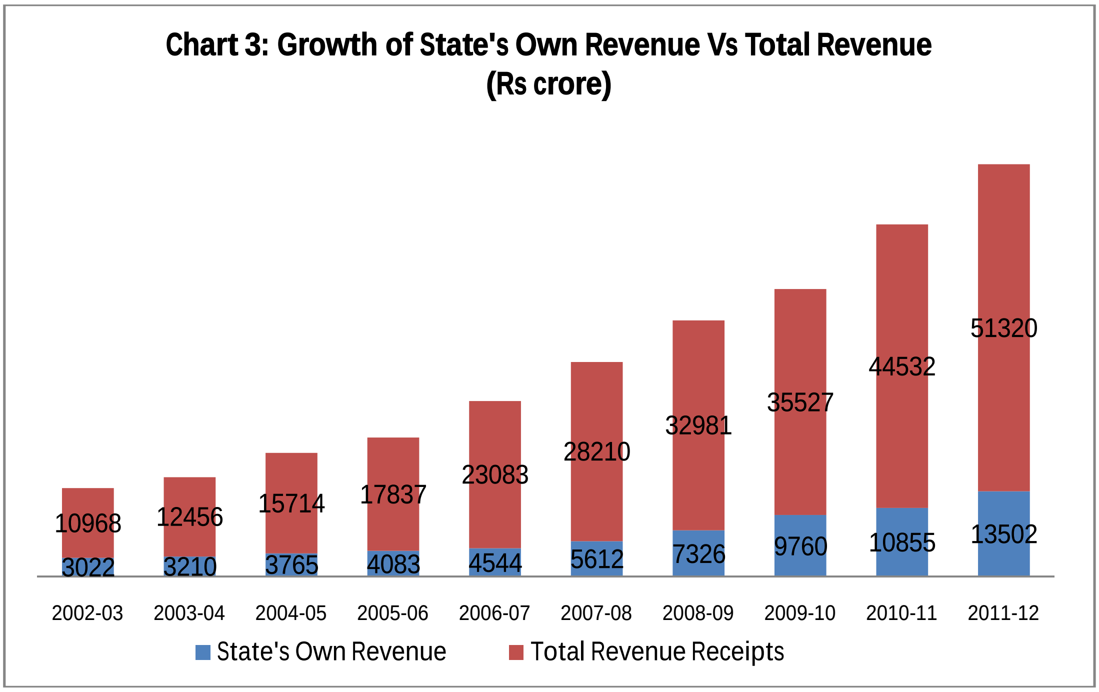
Year	State's Own Revenue			Central Transfers			Total Revenue
	Tax	Non-Tax	Total	Share of Central Taxes	Grants	Total	
2002-03	2761 (25.2)	261 (2.4)	3022 (27.6)	6549 (59.7)	1397 (12.7)	7946 (72.4)	10968 (100.0)
2003-04	2890 (23.2)	320 (2.6)	3210 (25.8)	7628 (61.2)	1618 (13.0)	9246 (74.2)	12456 (100.0)
2004-05	3347 (21.3)	418 (2.7)	3765 (24.0)	9117 (58.0)	2832 (18.0)	11949 (76.0)	15714 (100.0)
2005-06	3561 (20.0)	522 (2.9)	4083 (22.9)	10421 (58.4)	3333 (18.7)	13754 (77.1)	17837 (100.0)
2006-07	4033 (17.5)	511 (2.2)	4544 (19.7)	13292 (57.6)	5247 (22.7)	18539 (80.3)	23083 (100.0)
2007-08	5086 (18.0)	526 (1.9)	5612 (19.9)	16766 (59.4)	5832 (20.7)	22598 (80.1)	28210 (100.0)
2008-09	6173 (18.7)	1153 (3.5)	7326 (22.2)	17693 (53.6)	7962 (24.1)	25655 (77.8)	32981 (100.0)
2009-10	8090 (22.8)	1670 (4.7)	9760 (27.5)	18203 (51.2)	7564 (21.3)	25767 (72.5)	35527 (100.0)
2010-11	9870 (22.2)	986 (2.2)	10856 (24.4)	23978 (53.8)	9699 (21.8)	33677 (75.6)	44533 (100.0)
2011-12	12612 (24.6)	890 (1.7)	13502 (26.3)	27935 (54.4)	9883 (19.3)	37818 (73.7)	51320 (100.0)
CAGR	18.9	18.7	19.0	17.3	25.7	19.2	19.2

The state government's own tax revenues have grown from Rs. 2,721 crore in 2002-03 to Rs. 12,612 crore in 2011-12 at an annual rate of 18.9 percent, while the non-tax revenues have grown from Rs. 261 crore to Rs. 890 crore during the same period at an annual rate of 18.7

percent. The total revenue of the state government, including grants and its share of taxes from the central government, increased from Rs. 10,968 crore in 2002-03 to Rs 51,320 crore in 2011-12 at an impressive annual growth rate of 19.2 percent – almost the same rate as the growth in state's own revenues. The state government's share of central taxes has increased at an annual rate of 17.3 percent during this period, while the grants from the central government increased at a rate of 25.7 percent. The share of central taxes has always constituted the most important element in the state's total revenue, but it has come down from 60 percent in 2002-03 to 55 percent in 2011-12. Among the own revenues of the state government, non-tax revenues, except in two years 2008-09 and 2009-10 (due to debt relief received by the state under 12th Finance Commission recommendations), constituted between 7 and 11 percent of the total, the bulk of state's own revenues coming from tax sources (93 percent in 2011-12). But the share of state's own revenue in the total tax revenue practically remained constant over the period.







2.1 Own Tax Receipts

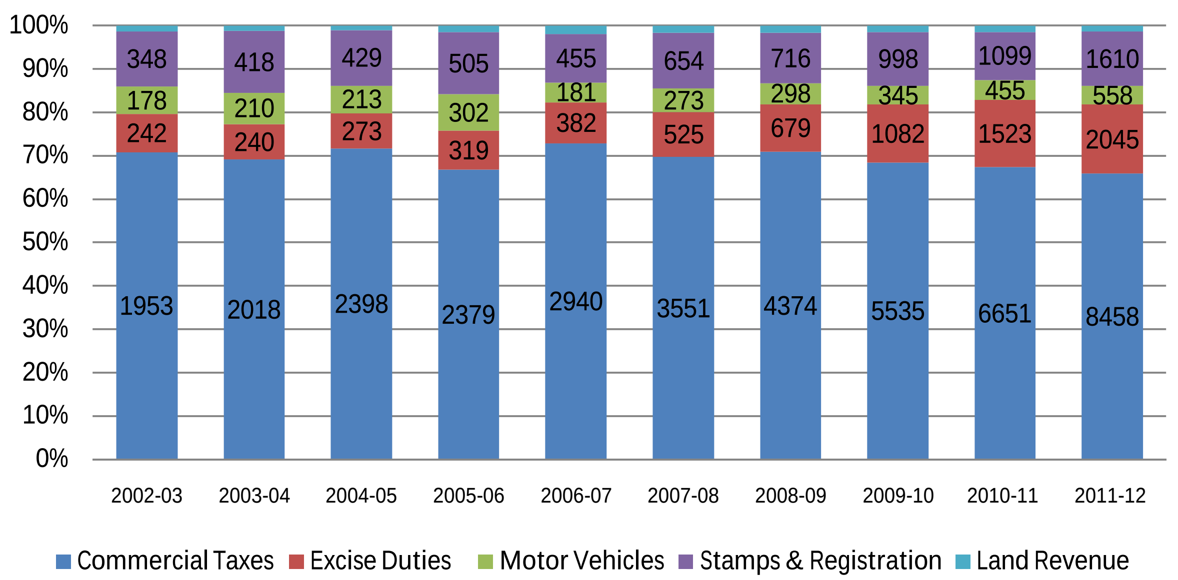
Among the direct taxes of the state government are included Stamp and Registration Fees, Taxes on Vehicles, Taxes and Duties on Electricity, Land Revenue and Taxes on Agricultural Income, the last one being rather insignificant. Among the indirect taxes which are far more important than the direct taxes, there are Taxes on Sales (VAT), State Excise, Taxes on Goods and Passengers and Other Taxes and Duties on commodities and services. The details of the own tax receipts of the state from 2002-03 to 2011-12 are shown in Table 2.2, along with the tax: GSDP ratios during these years for Bihar.

Table 2.2 : Composition of Revenue Receipts of Bihar Government

(Rs. crore)

Year	Tax Revenue						Tax : GSDP Ratio
	Commercial Taxes	Excise Duties	Stamps & Registration	Motor Vehicles	Land Revenue	Total	
2002-03	1938 (70.7)	242 (8.8)	348 (12.7)	178 (6.5)	36 (1.3)	2761 (100.0)	4.25
2003-04	1977 (68.7)	240 (8.3)	418 (14.5)	210 (7.3)	34 (1.2)	2890 (100.0)	4.36
2004-05	2393 (71.6)	273 (8.2)	429 (12.8)	213 (6.4)	33 (1.0)	3348 (100.0)	4.30
2005-06	2390 (66.9)	319 (8.9)	505 (14.1)	302 (8.5)	55 (1.5)	3561 (100.0)	4.32
2006-07	2950 (73.0)	382 (9.4)	455 (11.3)	181 (4.5)	75 (1.9)	4033 (100.0)	4.00
2007-08	3633 (70.3)	525 (10.2)	654 (12.7)	273 (5.3)	82 (1.6)	5086 (100.0)	4.47
2008-09	4470 (71.3)	679 (10.8)	716 (11.4)	298 (4.8)	102 (1.6)	6173 (100.0)	4.34
2009-10	5532 (68.5)	1082 (13.4)	998 (12.3)	345 (4.3)	124 (1.5)	8090 (100.0)	4.92
2010-11	6685 (67.5)	1523 (15.4)	1099 (11.1)	455 (4.6)	139 (1.4)	9870 (100.0)	4.98
2011-12	8457 (66.8)	1981 (15.7)	1480 (11.7)	569 (4.5)	168 (1.3)	12612 (100.0)	5.12
CAGR	18.5	28.5	16.7	12.0	21.6	18.9	

Chart 4: Composition of State's Own Taxes (%)



An analysis of the tax receipts of the state government reveals that its major sources are VAT (Sales Tax), Taxes on Goods and Passengers, State Excise Duty, Stamp Duty and Registration Fees and Taxes on Motor Vehicles. These five taxes together has constituted more than 97 percent of the state's total tax receipts in all these years. The commercial taxes comprise the bulk amounting to more than two thirds of the total receipts from the state's own taxes (Table 2.3). Among the commercial taxes, VAT (Sales Tax before 2005) alone comprised 59 percent of the total own tax receipts in 2011-12. This was followed by State Excise Duty (16 percent), Stamp and Registration Fees (12 percent) and Motor Vehicles Tax (5 percent) during 2011-12. These taxes are highly buoyant (Table 2.4) and their yields increase steadily with the increase in the GSDP. There has not been any significant structural change in the composition of tax revenues of the state government over the past few years, except the gradual reduction in the share of VAT (Sales Tax) and corresponding increases in the share of Excise Duties.

Table 2.3 : Year-wise Percentage Share of Commercial Taxes in Total Revenue

(Rs. crore)

Year	Total Revenue of State	State's Own Tax Revenues	Revenue from Commercial Taxes	Percentage Share of Comm. Taxes in total revenue	Percentage Share of Comm. Taxes in State's Own Taxes
2002-03	10968	2761	1938	17.7	70.7
2003-04	12236	2890	1977	16.2	68.7
2004-05	15714	3347	2393	15.2	71.6
2005-06	17837	3561	2398	13.4	66.9
2006-07	23083	4033	2950	12.8	73.0
2007-08	28210	5086	3633	12.9	70.3
2008-09	32981	6172	4468	13.5	71.3
2009-10	35527	8090	5533	15.6	68.5
2010-11	44532	9870	6686	15.0	67.5
2011-12	51320	12612	8457	16.5	67.1

Chart 5: Growth of Commercial Taxes in Bihar (Rs crore)

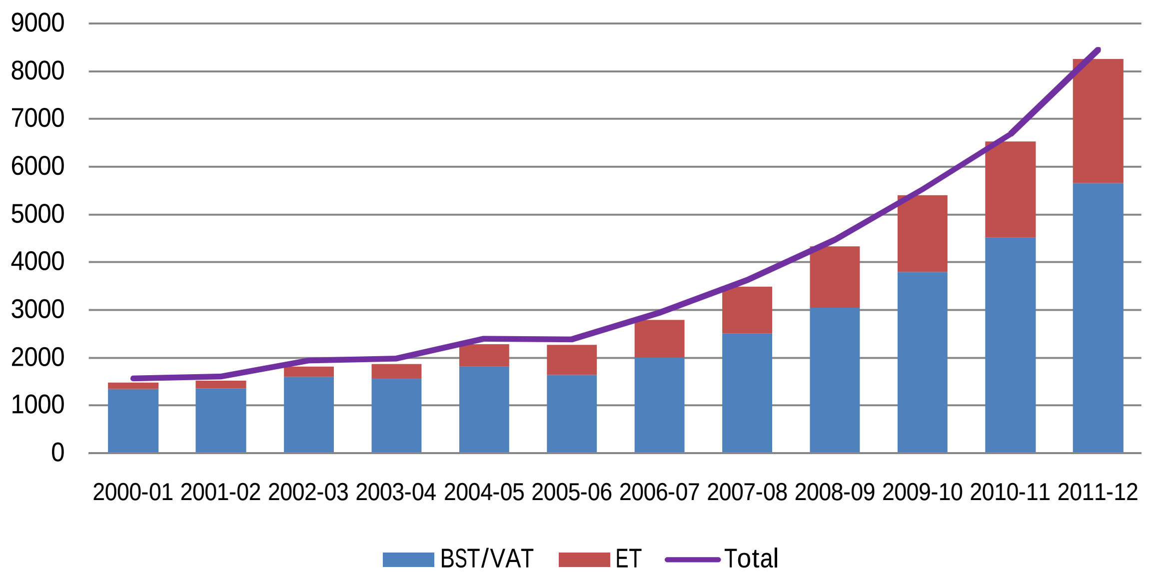


Chart 6 : Major Tax Revenues of Bihar (Rs crore)

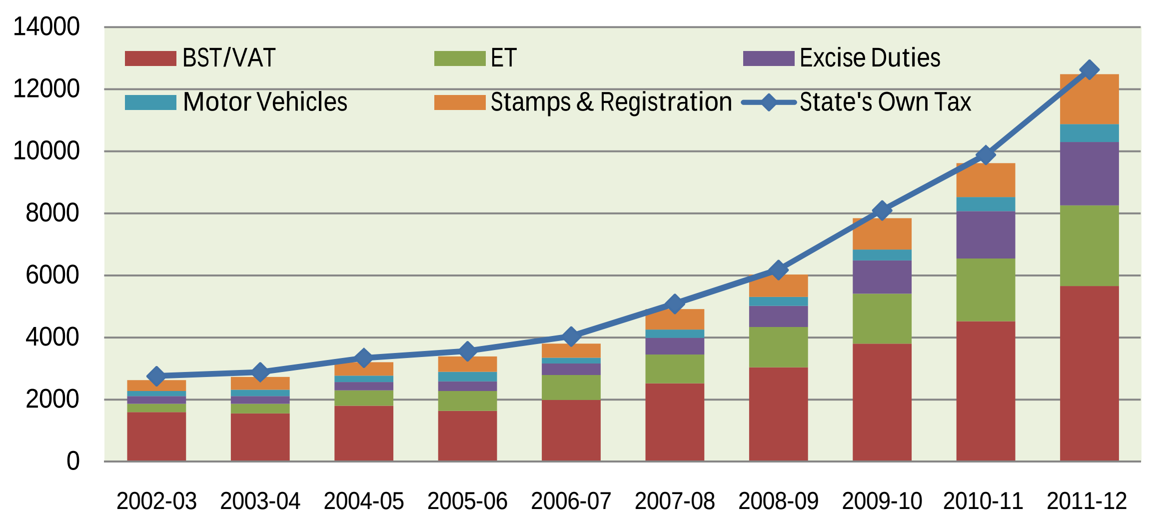


Table 2.4 : Buoyancy of Important Taxes Revenues of the State

(Percentage)

Year	Taxes on sales / trade, etc	Stamp duty and registration fee	Tax on Goods and Passengers	State excise	Taxes on Vehicles	Land Revenue
2002-03	1.3	1.1	5.6	0.1	2.0	0.5
2003-04	-0.3	10.7	8.8	-0.4	9.5	-3.5
2004-05	0.9	0.2	3.1	0.8	0.1	-0.1
2005-06	-1.4	2.9	4.9	2.8	7.0	10.7
2006-07	0.9	-0.4	1.3	0.9	-1.8	1.6
2007-08	1.7	3.4	1.5	2.9	3.9	0.8
2008-09	0.8	0.4	1.4	1.2	0.4	1.0
2009-10	1.9	2.7	1.8	4.1	1.1	1.5
2010-11	0.7	0.4	1.0	1.6	1.3	0.5
2011-12	3.1	1.7	-2.8	1.4	1.2	1.0

The Taxes on Sales, apart from being the highest contributor to the state government's total own revenues, has also maintained a consistently high growth rate since 2006-07, i.e. after switching over to the VAT regime (Table 2.5). Apparently, some of the deficiencies and leakages that had plagued the Sales Tax era got effectively addressed by introduction of VAT. During the period from 2002-03 to 2011-12, the maximum annual growth has been registered by State Excise (28.5 percent), followed by the Taxes on Goods and Passengers (21.4 percent), and VAT (17.2 percent). But the growth of all these taxes accelerated towards the second half of this 10 year period. Taxes on goods and passengers comprises collections from tolls on roads, tax collections from passenger tax and goods tax, wherever they are levied, tax on entry of goods into local areas for consumption, use or sale of goods therein and inter-state transit duties. In Bihar, the entire collection under this head is from the entry of goods into local areas for consumption. This tax is collected under the Bihar Tax on Entry of Goods into Local Area for Consumption, Use or Sale Therein Act, 1993, administered by the Department of Commercial Taxes.

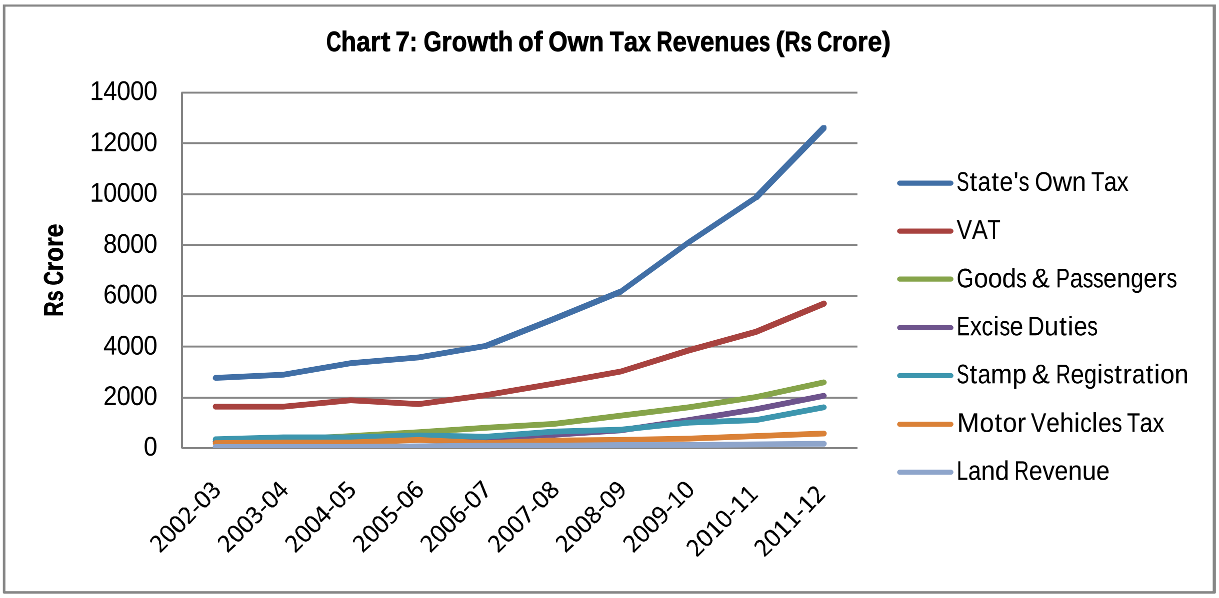


Table 2.5 : Yearly Growth Rates of Tax Revenue

Year	State's Own Tax	VAT	Stamp duty and registration fee	Tax on Goods and Passengers	State excise	Taxes on Vehicles	Land Revenue
2002-03	19.1	16.6	14.4	71.5	1.3	25.8	6.1
2003-04	4.7	-0.6	19.9	16.3	-0.8	17.7	-6.5
2004-05	15.8	15.5	2.8	54.6	13.5	1.6	-1.2
2005-06	6.4	-8.3	17.7	29.7	16.9	42.1	64.8
2006-07	13.3	20.1	-9.9	27.7	19.9	-40.0	35.7
2007-08	26.1	21.8	43.8	19.8	37.6	50.6	10.0
2008-09	21.4	19.0	9.5	36.4	29.3	9.0	23.9
2009-10	31.1	27.3	39.3	26.1	59.3	15.9	21.8
2010-11	22.0	18.7	10.1	24.4	40.8	32.0	12.1
2011-12*	27.8	64.1	34.7	-58.7	30.0	25.0	20.5
CAGR	**18.9**	**17.2**	**16.7**	**21.4**	**28.5**	**12.0**	**21.5**

Note : * As explained in Annexure 2D, the government had introduced several measure for increasing collections from Sale Tax, but these measures do not explain the abnormally high growth of this tax proceeds during this year. Similarly, there is no explanation in the finance accounts regarding the abnormal decline in proceeds from the Taxes on Goods and Passengers.

The commodity-wise collection of Commercial Taxes is depicted in Annexure 2.1, from which it can be seen that petro-products have been the single biggest contributor to Commercial Tax and contributes around 30 percent of the total collection. It has also recorded a high growth of around 26 percent in 2011-12, compared to 21 percent in the previous year. Its contribution is more than 4 times that of the second major contributor, viz., cement (Rs 556 crore). Other important contributors are — coal, crude oil, FMCG, foreign liquor (IMFL), country Liquor, iron and steel, drugs and medicine, automobiles, telephones and works contracts, electrical goods, automobiles and two/three wheelers. These have registered substantial growth in 2011-12, though there has been no structural shift in the pattern of distribution during the last few years. Major increases during 2011-12 have been recorded by petro-products (Rs 520 crore), works contracts (Rs 124 crore) and four wheelers (Rs 119 crore). From Annexure 2.1, it also can be seen that only the first 30 commodities account for 93 percent of the total collections from Commercial Taxes in the state, and only five of these, viz. petro products, cement, four wheelers & chassis of automobile, IMFL and works contract, account for more than half the total collection.

As regards the excise duty, more than 97 percent of total state excise duty collections are contributed by country liquor and IMFL, as seen from the commodity-wise collection from excise duty (Table 2.6).

Table 2.6 : Collections of State Excise Duty

(Rs. crore)

Sources of Revenue	2007-08	2008-09	2009-10	2010-11	2011-12
Country Liquor	233 (43.5)	407 (54.3)	467 (42.5)	610 (39.6)	624 (31.5)
Indian Made Foreign Liquor (IMFL)	241 (45.0)	267 (35.6)	479 (43.6)	627 (40.7)	1294 (65.3)
Commercial Denatured spirit	3 (0.6)	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)
Medicinal and Toilet Preparation	0 (0.0)	1 (0.1)	1 (0.1)	1 (0.1)	1 (0.1)
Molasses	4 (0.7)	2 (0.3)	1 (0.1)	2 (0.1)	0 (0.0)
Compounding	6 (1.1)	2 (0.3)	2 (0.2)	3 (0.2)	6 (0.3)
Bihar State Beverages Corporation	37 (6.9)	71 (9.5)	125 (11.4)	300 (19.5)	0 (0.0)
Others	11 (2.1)	NA	24 (2.2)	0 (0.0)	56 (2.8)
Total	536 (100.0)	749 (100.0)	1099 (100.0)	1542 (100.0)	1981 (100.0)

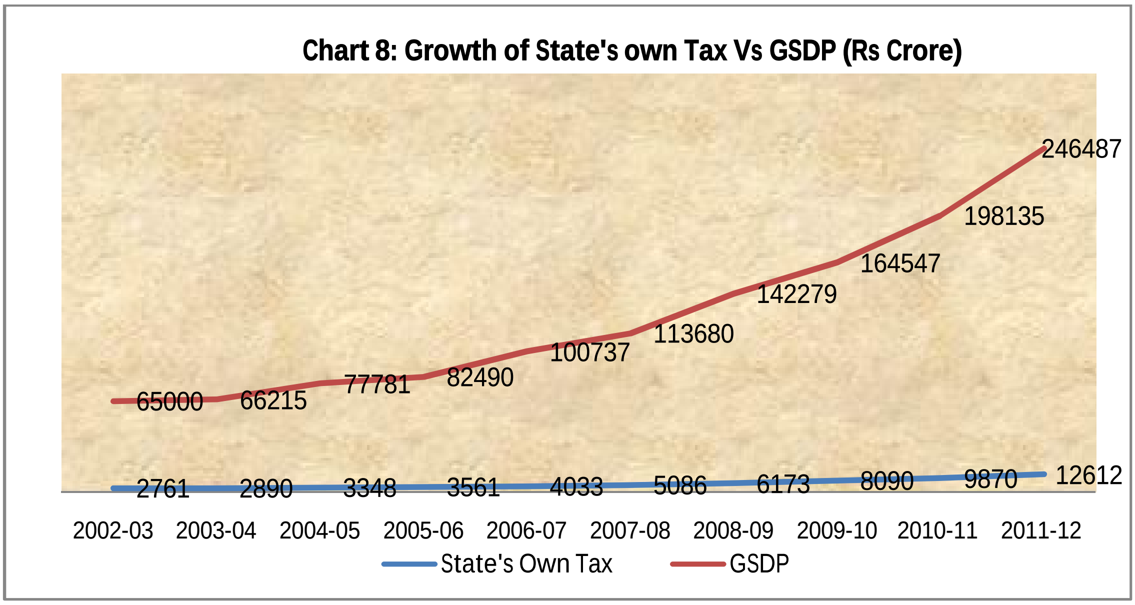
Table 2.7 shows the revenue from stamp and registration duties during the period from 2007-08 till 2011-12. The trend analysis of this data reveals that there has been a steady increase in

the collection of stamp duty from Rs. 522 crore in 2007-08 to Rs. 1225 crore in 2011-12, at an annual growth rate of 24 percent, major contribution coming from the Printed Non-judicial stamps. The yield from Registration Fee, mainly coming from registration of various instruments has also increased steeply from Rs. 174 crore in 2007-08 to Rs. 385 crore in 2011-12, growing at an annual rate of 22 percent.

Table 2.7 : Revenue from Stamp Duty and Registration Fees

(Rs crore)

Source of Revenue	2007-08	2008-09	2009-10	2010-11	2011-12
Printed Non-judicial stamps	177 (25.4)	333 (43.2)	457 (44.2)	334 (26.8)	1030 (64.0)
Non-judicial stamp duty deposited through Bank challan	309 (44.4)	200 (26.0)	309 (29.9)	571 (45.8)	123 (7.6)
Non-Judicial adhesive stamps	11 (1.6)	22 (2.9)	-	15 (1.2)	34 (2.1)
Non-judicial special adhesive stamp – through Franking machines	1 (0.1)	1 (0.1)	13 (1.3)	2 (0.2)	1 (0.1)
Revenue Stamps	2 (0.3)	2 (0.3)	4 (0.4)	2 (0.2)	4 (0.2)
Judicial Stamps	22 (3.2)	24 (3.1)	24 (2.3)	32 (2.6)	32 (2.0)
Sub-Total	522 (75.0)	582 (75.6)	807 (78.1)	957 (76.8)	1225 (76.1)
Fees on registration of instruments	150 (21.6)	170 (22.1)	195 (18.9)	265 (21.3)	356 (22.1)
Landlord’s Registration fee	13 (1.9)	12 (1.6)	15 (1.5)	18 (1.4)	21 (1.3)
Landlord’s Process fee	7 (1.0)	3 (0.4)	13 (1.3)	3 (0.2)	3 (0.2)
Fee from searches of records & Non-Encumbrances	2 (0.3)	2 (0.3)	2 (0.2)	2 (0.2)	2 (0.1)
Fee from certified copies	2 (0.3)	1 (0.1)	2 (0.2)	2 (0.2)	2 (0.1)
Sub-Total	174 (25.0)	188 (24.4)	226 (21.9)	289 (23.2)	385 (23.9)
Total	696 (100.0)	770 (100.0)	1033 (100.0)	1246 (100.0)	1610 (100.0)



It should be noted here that while the annual growth rate for GSDP (at current price) was 16 per cent during the period 2002-12, the same for state's own tax revenues during the period was 19.0 percent. As a result, the tax: GSDP ratio went up marginally from 4.2 percent to 5.1 percent during these 10 years. But Bihar's Own Tax: GSDP ratio is still the least in comparison to other major states of India (Table 2.8), and there was only marginal improvement of the ratio during the last 10 years from 4.2 percent to 5.1 percent.

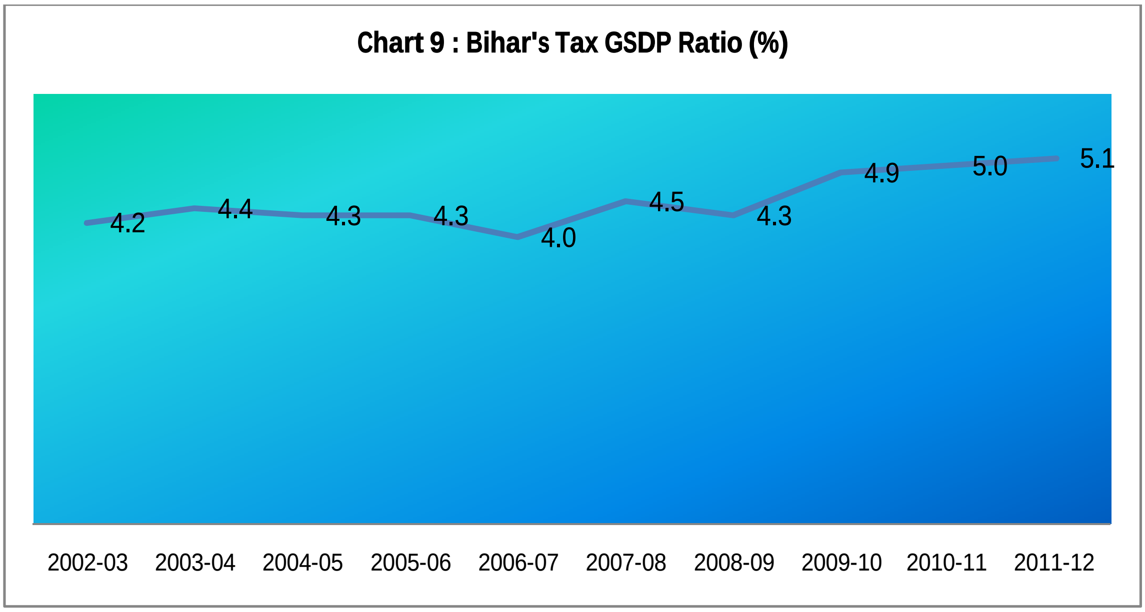


Table 2.8 : Own Tax: GSDP Ratio for all General Category states

State	Own tax revenue / GSDP ratio			Average	Own tax revenue / GSDP ratio			Average
	2002-03	2003-04	2004-05		2009-10	2010-11	2011-12	
Andhra Pradesh	7.55	7.27	7.23	7.35	7.17	7.66	8.13	7.66
Bihar	4.25	5.08	4.30	4.54	4.94	4.89	5.12	4.98
Chattisgarh	7.17	6.67	6.74	6.86	7.17	7.66	7.68	7.50
Gujarat	6.75	6.65	6.37	6.59	6.25	7.08	7.23	6.86
Haryana	7.65	7.66	7.77	7.69	5.91	6.36	6.63	6.30
Jharkhand	4.62	5.37	4.02	4.67	5.53	5.17	5.33	5.34
Karnataka	8.64	9.60	9.64	9.29	9.06	9.63	10.03	9.58
Kerala	8.40	8.37	7.52	8.10	7.59	7.84	8.16	7.86
Madhya Pradesh	7.11	6.60	6.88	6.86	7.58	8.23	8.71	8.17
Maharashtra	7.61	7.39	7.37	7.46	6.81	7.02	7.02	6.95
Orissa	5.78	5.41	5.37	5.52	5.48	5.74	6.23	5.82
Punjab	6.95	6.82	7.17	6.98	6.07	7.48	7.27	6.94
Rajastan	7.06	6.49	6.59	6.71	6.23	6.41	6.09	6.25
Tamil Nadu	9.07	9.09	8.84	9.00	7.62	8.44	9.31	8.46
Uttar Pradesh	6.18	5.99	6.02	6.06	6.48	6.83	7.69	7.00
West Bengal	4.19	4.63	4.76	4.53	4.24	4.52	4.58	4.45

Budget Estimates and Actual Realization of Taxes : Comparing the budget estimates of revenues for 2011-12 with the actual collections during the year, it is noted that through there were variations in respect of individual taxes, yet the total collection was very close to the budget estimates. (Table 2.9).

Table 2.9 : Variation between the Estimated and Actual Realisation of Tax Revenues

(crore)

	Budget Estimate			Actuals		
	2009-10	2010-11	2011-12	2009-10	2010-11	2011-12
VAT	3948	5627.7	6508	3839.3 (97.2)	4557.2 (81)	7476.4 (114.9)
Stamp duty and registration fee	750	1215	1600	997.9 (133.1)	1098.7 (90.4)	1480.1 (92.5)
Tax on Goods and Passengers	1270	1623.8	1940	1613.2 (127)	2006.3 (123.6)	828.3 (42.7)
State excise	850	1400	1790	1081.7 (127.3)	1523.4 (108.8)	1981 (110.7)
Taxes on Vehicles	355	550	537	345.1 (97.2)	455.4 (82.8)	569.1 (106)
Land Revenue	76.2	112.2	125.2	124 (162.6)	139 (123.9)	167.5 (133.8)
State Own Tax	7336.2	10643.9	12582.9	8089.7 (110.3)	9869.8 (92.7)	12612.1 (100.2)

Cost of Collection of Taxes : The cost of collection of major taxes is shown in Table 2.10. It can be seen that the cost for collection of all major taxes, except taxes on vehicles, as a percentage of total taxes collected was brought down significantly in 2011-12, as a result of modernization of the infrastructure and introduction of technology. The cost of collection in respect of taxes on vehicles and stamp and registration fees was also disproportionately higher than the other taxes. The streamlining of the collection machinery, further rationalisation of taxation structure and more user-friendly automation will further bring down the cost of collection.

Table 2.10 : Cost of Collection of Taxes

(Rs. crore)

Year	Taxes on sales / trade, etc		State excise		Stamp duty and registration fee		Taxes on Vehicles	
	Collection	Cost	Collection	Cost	Collection	Cost	Collection	Cost
2007-08	2535	43 (1.70)	525	22 (4.19)	654	34 (5.20)	273	6 (2.20)
2008-09	3016	47 (1.56)	679	24 (3.53)	716	38 (5.31)	298	7 (2.35)
2009-10	3839	48 (1.25)	1082	44 (4.07)	998	46 (4.61)	345	10 (2.90)
2010-11	4557	56 (1.23)	1523	38 (2.50)	1099	47 (4.28)	455	17 (3.74)
2011-12	7476	65 (0.87)	1981	41 (2.07)	1480	43 (2.91)	569	22 (3.87)

Note : The figures in bracket indicate cost as a percentage of collection.

2.2 Central Grants

Table 2.11 shows the trend of revenues from grants and contributions from the central government for the period 2002-12. In 2011-12, more than half the total grants (51 percent) were for the State Plan Schemes, followed by 22 percent for Centrally Sponsored Schemes. The Non-Plan Grants accounted for 26 percent of the total grants in 2011-12. The total grants have increased at an annual rate of 21.70 percent during the period 2002-12, from Rs 1687 crore to Rs 9883 crore; however, in 2011-12, there was only a nominal increase by less than Rs 200 crore in the total grants over that in the previous year, while the grants for the Centrally Sponsored Schemes had remained practically unchanged during 2011-12. The Non-plan grants increased significantly during 2011-12 by more than Rs 600 crore. The share of central grants for plan purposes had varied between 64 percent and 91 percent during the period. It goes to the credit of the state government that it was able to generate substantial Balance from Current

Revenues (BCR) for plan expenditure from 2006-07 onwards. The BCR stood at nearly Rs 10,000 crore in 2011-12.

Table 2.11 : Grants and Contributions from the Central Government

(Rs. crore)

Year	Central Grants/ Contributions						Balance from Current Account (BCR)
	Plan				Non-Plan	Total	
	State Plan	Central Plan	Centrally Sponsored Plan	Total			
2002-03	670 (39.7)	437 (25.9)	290 (17.2)	1397 (82.8)	290 (17.2)	1687 (100.0)	-1040
2003-04	1169 (72.2)	46 (2.8)	251 (15.5)	1466 (90.6)	152 (9.4)	1618 (100.0)	-638
2004-05	1643 (58.0)	10 (0.4)	495 (17.5)	2148 (75.8)	684 (24.2)	2832 (100.0)	924
2005-06	1556 (46.7)	90 (2.7)	486 (14.6)	2132 (64.0)	1201 (36.0)	3333 (100.0)	686
2006-07	2445 (46.6)	144 (2.7)	974 (18.6)	3563 (67.9)	1683 (32.1)	5246 (100.0)	2999
2007-08	2914 (50.0)	53 (0.9)	1360 (23.3)	4327 (74.2)	1505 (25.8)	5832 (100.0)	5124
2008-09	3600 (45.2)	135 (1.7)	1677 (21.1)	5412 (68.0)	2550 (32.0)	7962 (100.0)	6337
2009-10	3721 (49.2)	138 (1.8)	1449 (19.2)	5308 (70.2)	2256 (29.8)	7564 (100.0)	6074
2010-11	5457 (56.3)	176 (1.8)	2141 (22.1)	7774 (80.2)	1925 (19.8)	9699 (100.0)	9442
2011-12	5065 (51.2)	96 (1.0)	2159 (21.8)	7320 (74.1)	2563 (25.9)	9883 (100.0)	9987

2.3 Measures to Improve the Tax-GDP Ratio

It has been observed earlier that Bihar's Tax: GSDP ratio is among the lowest in the country. We have also noticed earlier that the tax collections of the state government had increased substantially during the last few years, leading to marginal improvement in the Tax: GSDP ratio. This improvement, even though marginal, was brought about by a series of reform measures initiated by the state government, both by removing some of the existing weaknesses in the tax administration as well as upward revision of old tax rates. The measures initiated by the state government during the last few years are summarized below:

(a) Tax rates were substantially revised upwards in respect of Motor Vehicles Tax in 2012-13 by making amendments to the Bihar Motor Vehicle Taxation Act, 1994. The rates of excise in respect of certain categories of liquor were also revised. The details of these additional resource mobilization initiatives are given in Annexure 2.2. The effect of these changes can be known only after the next year's accounts are finalized.

(b) The Bihar Value Added Tax Act, 2005, was amended during 2011-12, increasing the rate from 4 to 5 percent for certain commodities (those covered by Schedule III of the Act) and from 12.5 to 13.5 percent for unscheduled goods, besides introducing measures for increasing the efficiency of collection by enabling e-payment of the tax and prescribing a time limit for filing e-returns. The Bihar Motor Vehicles Taxation Act, 1994 was also amended, revising rates of tax to be paid by a dealer or manufacturer of certain class of vehicles (Annexure 2.3).

(c) The Bihar Value Added Tax Act, 2005, was amended during 2010-11 revising some of the rates upwards for certain commodities. Bihar Taxation on Luxuries in Hotels Act, 1988 was also amended, mainly revising the rates. Bihar Motor Vehicles Taxation Act, 1994 was further amended revising the rates of certain taxes (Annexure 2.4**)**.

(d) Certain amendments were made in Bihar Motor Vehicles Taxation Act, 1994 during 2009-10, prescribing certain rebates and revising certain tax rates. (Annexure 2.5).

However, there is still scope for further improvement in the Tax : GSDP ratio of Bihar. In this context, the state government should seriously considers the following suggestions :

(a) The state government must continue with the reform measures as detailed above, for increasing the administrative efficiency of taxation departments as well as introducing other tax reforms. Using the GSDP as the proxy for the potential for tax base of the state, we compare the Tax: GSDP Ratios in respect of the major taxes in Bihar and other states in Table 2.12. It appears that Bihar still has some untapped potential in respect of Sales Tax (VAT) and Motor Vehicles, as its Tax: GSDP ratios in respect these two heads lie way behind those of the other states, except only West Bengal.

(b) Since the tax rates have already been increased in the recent past, there does not seem to be much scope for further increase in tax rates by the state government; hence the only way to realise tax potential is to strengthen the administrative mechanisms to realize the arrears, minimize evasion and to widen the tax base under different heads.

Table 2.12 : Tax: GSDP Ratio of Different Taxes (2011-12)

	Sales Tax/GSDP	State Excise/ GSDP	Taxes on Vehicles/ GSDP	Stamp and Registration Fees/GSDP	Total
Andhra Pradesh	5.33	1.47	0.46	0.67	7.92
Bihar	3.03	0.80	0.23	0.60	5.12
Gujarat	5.10	0.01	0.37	0.76	6.24
Haryana	4.35	0.92	0.24	0.91	6.42
Madhya Pradesh	4.04	1.39	0.44	1.06	6.93
Maharashtra	4.05	0.69	0.33	1.15	6.23
Punjab	4.31	1.06	0.33	1.19	6.89
Rajasthan	3.78	0.79	0.46	0.64	5.67
Tamil Nadu	5.68	1.56	0.49	1.03	8.75
Uttar Pradesh	4.84	1.19	0.35	1.12	
West Bengal	2.92	0.39	0.19	0.50	3.99

(c) Arrears of Tax : As on March, 2012, the state government has arrears of revenue amounting to Rs 1216 crore under only 4 tax heads, out of which Rs 380 crore were outstanding for more than 5 years. Distribution of the arrears between these taxes is shown in Table 2.13. The information about arrears is not available in respect of other taxes.

Table 2.13 : Details of Tax Arrears 2011-12

(Rs crore)

	Sales Tax	Entry Tax	Electricity Duty	Entertainment Tax	Total
Total Arrears	1186.98	16.51	2.50	10.43	1216.42
Outstanding for more than 5 years	372.60	2.77	1.76	2.83	379.96

Some of these amounts have been certified for recovery and some have been stayed by Courts/ Appellate authorities and some are locked at various stages of litigation. The litigation procedure can be fast-tracked by creating / strengthening appropriate institutions/ mechanisms.

(d) Tax Evasion : In respect of VAT, as reported in Audit Report of the Comptroller & Auditor General of India for the year 2011-12, the total number of registered dealers in Bihar as on 31st March 2012 was 1,92,645, out of which only 53,340 (27.68 percent) were taxpayers. Of these again, as many as 75,200 dealers were not even filing any returns. The

Commercial Taxes Department has detected only 227 cases of tax evasion till 2011-12 and, out of these, only in 38 cases, it has concluded the assessments and investigations and raised demands for only Rs 6.63 crore.

The above picture presents only the tip of a vast iceberg as far as tax evasion is concerned. Clearly the administrative machinery of the state government is not geared adequately to handle so many of tax evaders and bring them into the tax net within a short time. This would require a radical revamp of whole tax administration and plugging the loopholes in tax evasion and tax collection. Towards this, enabling e-filing and e-payment of taxes were steps in the right direction and extensive application of technology could be a cost-effective solution, despite problems related to IT infrastructure and skill, availability of continuous power etc.

(e) Cross-checking of Transactions/ Cross-Linking of Different Taxation Departments : Once technology is applied extensively to create databases about taxpayers in respect of major taxes like VAT, Motor Vehicles Tax, Stamp Duty and Registration Fee etc, it will be easy to detect evasion by cross-checking of transactions between various Departments so as to get and verify tax-related data. Necessary institutional / administrative machinery may be set up for facilitating seamless transfer of / access to such data across various Departments.

(f) Internal Controls within Tax Departments : Internal controls are essential for ensuring optimum efficiency and productivity of tax departments. Bihar's tax departments are weak in internal controls which comprise effective supervision, vigilance, monitoring, standardization of procedures through written codes/ manuals, survey, inspection and regular internal audit conducted in an independent manner. Most of these elements are missing with most tax departments. Unless these weaknesses are addressed in an integrated manner, tax collection and recovery will continue to be sub-optimal.

(g) The collection of penalty and interest on overdue tax payments and violations of tax provisions are also lax in the state, both in terms of statutory provisions and their enforcement. This aspect also needs strengthening.

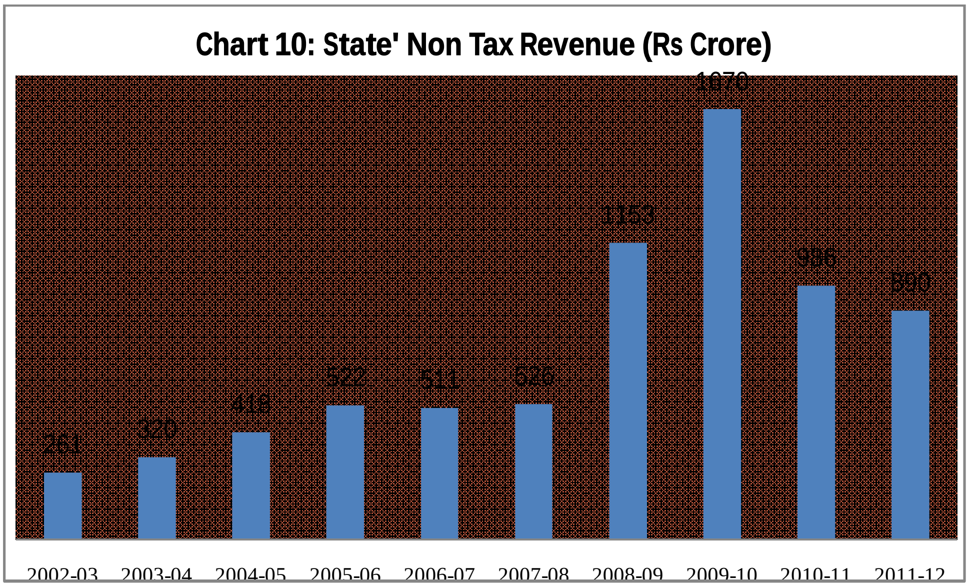
2.4 Non Tax Revenues (NTR)

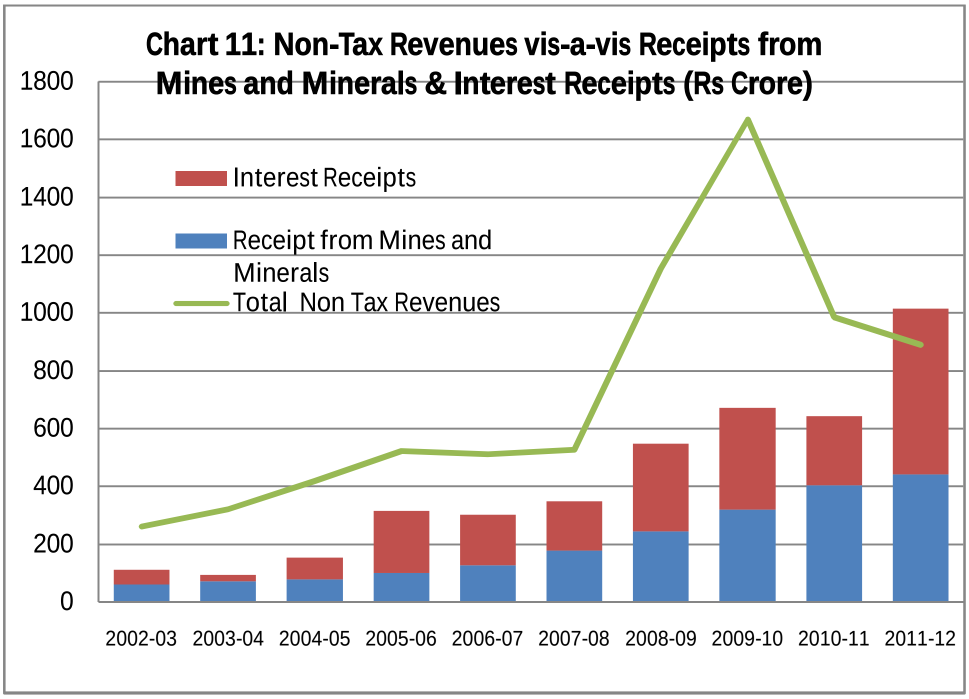
In the earlier section, we have observed that non-tax revenues contribute less than 10 percent of the state's own revenues. Table 2.14 shows the major non-tax revenues of the state government for the period 2002-12 and its composition. The most important component of the state government’s non-tax revenue is the 'royalty from mines and minerals', followed by the 'interest receipts'. In 2007-08, these two together accounted for two thirds of the total non-tax revenues of the state government, but due to receipts of substantial debt relief from the central government which was accounted for under the head 'Miscellaneous General Services', the combined share of these two sources of non-tax revenue came down to 40 percent in 2009-10; but it again rose to 65 percent after the withdrawal of the debt relief from the next year. The non-tax revenue had increased substantially during 2008-09 and 2009-10; these increases were due to debt relief of Rs. 385 crore and Rs. 770 crore received in those two years under recommendations of the Twelfth Finance Commission. After the withdrawal of this debt relief on the expiry of the period covered by that Commission, there was an abrupt decrease in non-tax receipt by Rs 684 crore in 2010-11. In 2011-12, the non-tax revenue was further reduced by recovery of Rs 385 crore excess debt relief paid during 2009-10. However, in the budget of 2012-13, Rs 2146 crore was estimated as receipts pertaining to 'Contributions and Recoveries from Pension etc.', which are expected as transfer from the Government of Jharkhand on account of reimbursement of pension dues. The amount was also included in the budget estimates for 2011-12, but could not be realized during the year.

Table 2.14 : Receipt of Non-Tax Revenues

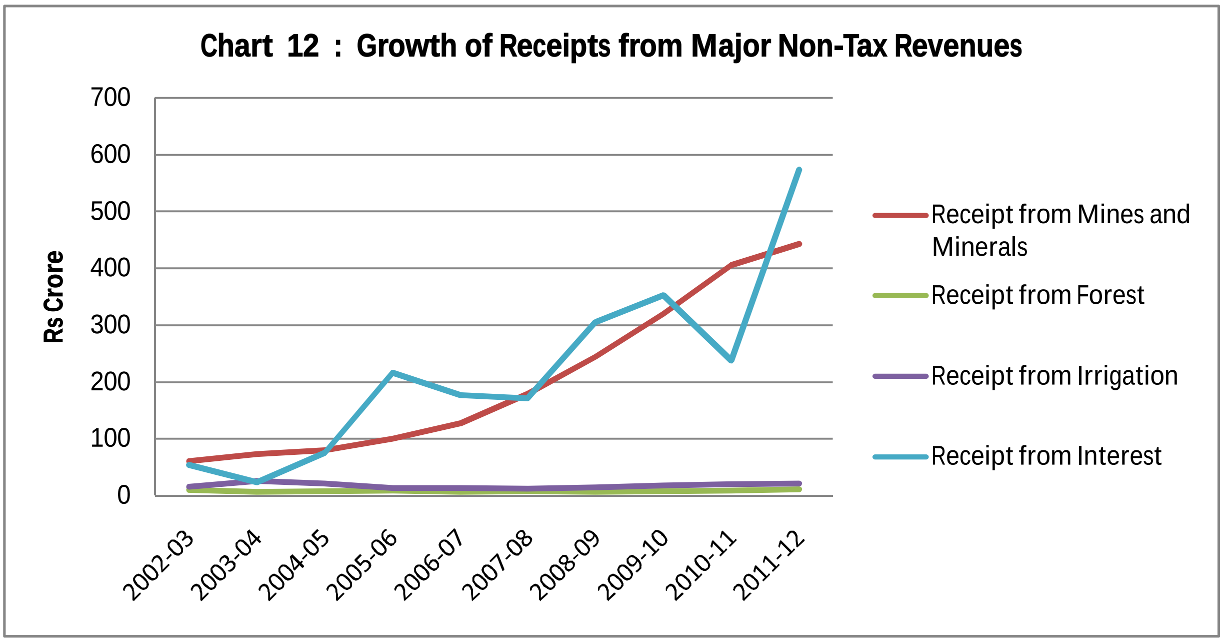
(Rs. crore)

Year	Non- tax Revenue Heads						Non- Tax : GSDP Ratio
	Mines and Minerals	Forest	Irrigation	Interest	Others	Total	
2002-03	61 (23.4)	10 (3.8)	15 (5.7)	53 (20.3)	122 (46.7)	261 (100.0)	0.40
2003-04	73 (22.8)	6 (1.9)	26 (8.1)	23 (7.2)	192 (60.0)	320 (100.0)	0.48
2004-05	80 (19.1)	7 (1.7)	21 (5.0)	75 (17.9)	235 (56.2)	418 (100.0)	0.54
2005-06	101 (19.3)	9 (1.7)	13 (2.5)	216 (41.4)	183 (35.1)	522 (100.0)	0.63
2006-07	128 (25.0)	6 (1.2)	13 (2.5)	176 (34.4)	188 (36.8)	511 (100.0)	0.51
2007-08	179 (34.0)	7 (1.3)	12 (2.3)	171 (32.5)	157 (29.8)	526 (100.0)	0.46
2008-09	245 (21.2)	6 (0.5)	14 (1.2)	305 (26.5)	583 (50.6)	1153 (100.0)	0.81
2009-10	320 (19.2)	7 (0.4)	18 (1.1)	353 (21.1)	972 (58.2)	1670 (100.0)	1.01
2010-11	406 (41.2)	8 (0.8)	20 (2.0)	238 (24.1)	314 (31.8)	986 (100.0)	0.50
2011-12	443 (49.8)	11 (1.2)	21 (2.4)	574 (64.5)	-159 (-17.9)	890 (100.0)	0.36
CAGR	27.3	1.1	0.3	32.6	18.8	18.7	





The most important source of non-tax revenues for the state government has always been royalty from mines and minerals, classified as receipts from 'Non-Ferrous Mining and Metallurgical Industries'. The mining of minerals in Bihar is governed by the Bihar Minor Mineral Concession Rules, 1972 and Mineral Concession Rules 1960, framed by the state government under the Mines and Minerals (Regulation and Development) Act, 1957. The minor minerals available in the state are brick earth, stones, limestone, sand etc. The receipts against this element of non-tax revenues have always been more than budget estimates and it has grown steadily at an annual rate of 27.3 percent during the period 2002-12. In comparison, the growth of interest receipts, the second most important element of its non-tax revenues, has shown wide fluctuations during the period. These fluctuations basically arise from the nature of its interest receipts.



The share of interest receipts in the total non-tax of the state had consistently declined from 34 to 24 percent during the 4 years from 2007-08 to 2010-11, but in 2011-12, there was substantially higher collections under the head by Rs 236 crore compared to the previous year. This was due to contra-adjustment of Rs 268 crore on account of interest on loans given to the Bihar State Electricity Board, against its outstanding dues payable by the Water Resources Department. In absolute terms, interest receipts had registered a negative growth in 2010-11 due to less interest received from investment of surplus cash balances in the Cash Balance Investment Account of the state government (Table 2.15); interest receipts of the state mostly come from interest received on the investment of its cash balances. Since the cash balances again vary widely during a year, the receipts are liable to wide fluctuations. The non-tax revenues of the state government seem to have reached its plateau, growing at an annual rate of 18.7 percent during 2002-03 to 2011-12, and there is obviously no pattern in the growth of non-tax revenue sources of the state government due to their diverse and often unpredictable nature (Table 2.16).

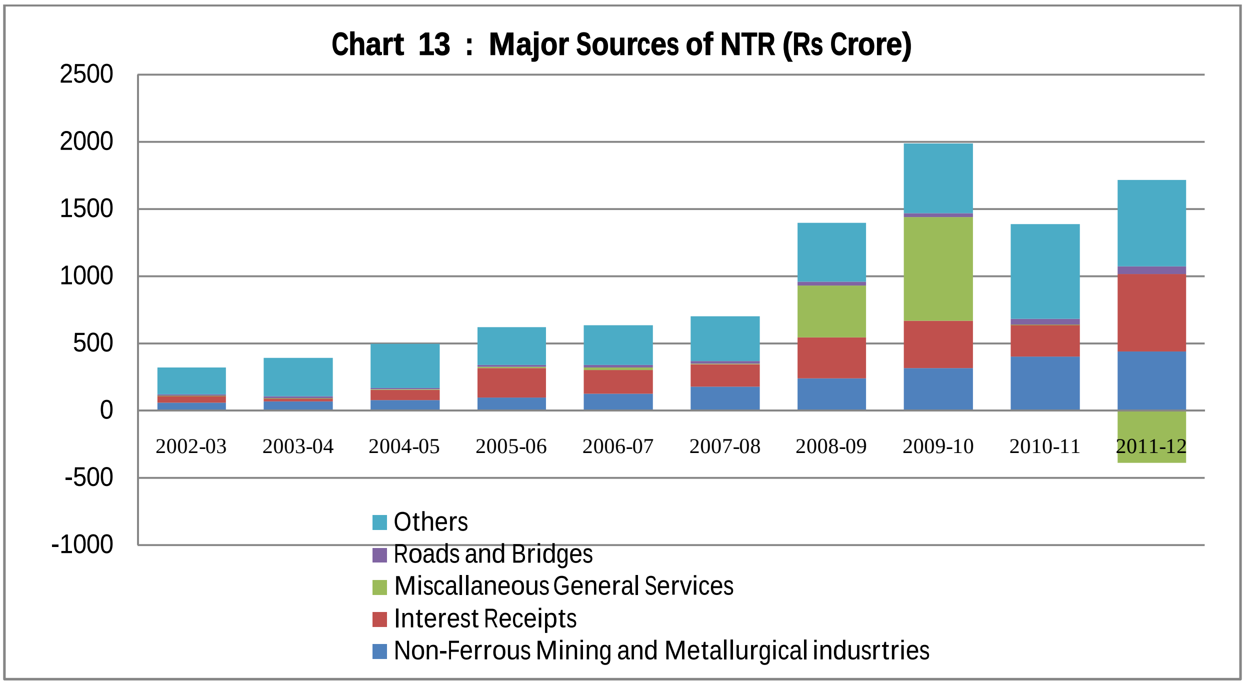


Table 2.15 : Interest Receipts of Bihar

(Rs. crore)

Year	Interest Receipts from Cash Balance Account	Other Interest Receipts	Total Interest Receipts
2002-03	45	8	53
2003-04	22	1	23
2004-05	73	2	75
2005-06	169	47	216
2006-07	152	24	176
2007-08	165	6	171
2008-09	250	55	305
2009-10	327	26	353
2010-11	222	16	238
2011-12	237	337	574
CAGR	27.3	48.3	32.6

Table 2.16 : Year-to-Year Growth Rates of Non-tax Revenues

Head	2007-08	2008-09	2009-10	2010-11	2011-12
Mines and Minerals	39.84	36.87	30.61	26.88	9.11
Forest	16.67	-14.29	16.67	14.29	37.50
Irrigation	-7.69	16.67	28.57	11.11	5.00
Interest	-2.84	78.36	15.74	-32.58	141.18
Others	-16.49	271.34	66.72	-67.70	-150.64
Total	2.94	119.20	44.84	-40.96	-9.74

Table 2.17 shows the variation between budget estimates and actual realisation of non-tax revenues during 2011-12. In respect of non-tax revenues, there was huge shortfall by about Rs 2100 crore against the budget estimates, and this shortfall was almost entirely due to the non-tax revenues against 'Other Non-Tax Revenues' under the General Services, due to non-realisation of dues from the Jharkhand Government as discussed earlier. While the overall realization of tax revenues was nearly as per the target as seen in the previous section, there was a huge shortfall of 70 percent in respect of collections against non-tax revenues.

Table 2.17 : Variation between Estimated and Actual Realisation of Non-Tax Revenues (2011-12)

(Rs. crore)

Revenue Sources	Budget Estimate	Actual Receipts	Variance	% Variation Excess (+), shortfall (-)
Non-Ferrous Mining and Metallurgical Industries	280	443	163	58
Interest Receipts	371	574	203	55
Receipts from Miscellaneous General Services	0	-384	-384	----
Others	2334	256	-2078	-89
Total	**2986**	**890**	-2096	-70

Arrears of Non-Tax Revenue

As observed by the Comptroller & Auditor General of India in the Audit Report (Revenue Sector) of the state government for 2012-13, there were arrears of Rs 232.48 crore in respect of water charges pertaining to the Minor Irrigation Department. No information about arrears of non-tax revenue was available in respect of the other departments.

2.5 Non-Tax Revenue from User Charges

There is a uniform system of levying and collection of user charges in respect of services provided by the state government; but there is neither any concept of recovering a certain part of the actual cost, nor a system for maintenance of such services. There is also no system of linking the user charges with returns on investments made by the state government on creating the assets required for providing these services. The system of collection of user charges as well as their rates necessarily vary from one department to another. The department-wise details were available in respect of only 4 departments which are presented below:

(a) Building Construction Department

The Department of Building Construction has prescribed lump-sum user charges that are not always linked to the total O & M Cost. Their user charges and the existing collection system is presented in Table 2.18.

Table 2.18 : User Charges of Building Construction Department

Sl. No.	Sector	User charges	Collection system
1	**Non Residential Building**		
	SK Memorial Hall, Patna		Collection by Sri Krishna Samark Samiti, Patna
	(i) For Public Purpose	For six hours	
	Hall	85,652/-	
	Campus	30,590/-	
	Meeting Hall	12,236/-	
	(ii) For Government Purpose	For six hours	
	Hall	55,062/-	
	Campus	12,236/-	
	Meeting Hall	9,177/-	
2	**Non Residential Building**		
	M Type	Rs. 0.75/- Per SFT	Rent Division, Building Construction Department Patna.
	A/3, B/3 – Type	RS. 0.60/- Per SFT	
	Others	Rs. 0.30/- Per SFT	
3	**Other**		
	Gandhi Maidan, Patna		District Magistrate, Patna
	(i) For Commercial	Rs. 20/- Per SFT per month & Rs. 0.05/- Over SFT	
	(ii) For Non Commercial	Rs. 2/- Per SFT per month & Rs. 0.25/- Per SFT	
	(iii) For Religious Purpose	Rs. 10000/- Per day for whole Maidan & Rs. 5000/- Per day for part / for cleaning Rs. 2500/- for whole & Rs. 1250/- for part	
	(iv) For Political Rally and Meetings	Rs. 20,000/- Per day for whole & Rs. 10,000/- for part of the field/ for cleaning Rs. 5000/- for whole and Rs. 2500/- for part.	

(b) Water Resource Department

Crop-wise rate has been promulgated in the whole state (Table 2.19); but these rates are not linked with their O & M cost. As regards collection system, Sudhakar (measurement) for the land to which water is supplied, is recorded in a register by the Patrol of the Department of Irrigation which includes the measurement of irrigated land, name of owner and the period of water supplied. The patrol sends his weekly report to the Junior Engineer, who forwards the same to the Canal Officer along with his own report.

Table 2.19 : Existing User Charges for Irrigation

Crops	Year when rates last revised	Existing Rates per ha. (Rs.)
1. Rice & other Kharif crops	Nov, 2001	217.36
2. Wheat & others Rabi crops	Nov, 2001	185.25
3. Jute	Nov, 1995	98.80
4. Sugarcane	Nov, 2001	370.50

A Khatiyan for the irrigated area is prepared by the Zilledar / Junior Engineer in charge with the help of Amin. The signature of owner farmer is taken on it. The Khatiyan is updated every year, after necessary examination of sale and transfer of land among owners. The responsibility of informing the Canal Officer regarding the transfer is on seller / transferee.

The demand is prepared on the basis of Khatiyan. The patrol gives a certificate that all irrigated area recorded in Sudhakar, has been included in Khasra/Khatiyan. The Amin also records the Khasra details about the crop which has been cultivated, field in which it has been cultivated and the status of crop. If any owner farmer raises any objection regarding any land, claiming that no irrigation has been done on that land, the Amin records the same with reason on the Khasra and reports the same to the Canal Officer. Such Khasra prepared by the Amin forms the actual basis for the assessment of irrigation charges.

The Amin, after preparing Khasra, sends it to the Canal Officer, through Zilledar / Junior Engineer in-charge. For cheking the Sudhakar work and entries of the Khasra register, the Canal Officer, Junior Engineer/Zilledar check 10 percent, 20 percent and 30 percent of the entries respectively. After checking, the Zilldar/Junior Enginer prepares owner farmer-wise demand slip by comparing the Khasra with the last year's Khasra and Khatiyan, and 'Birgi' is prepared by compiling owner farmer-wise demand in which total area of an owner farmer is recorded. The Canal Officer sends the Khatiyan to the Divisional Officer. The Divisional Canal Officer, on being satisfied, puts his signature on Khatiyan and forwards the same to the Deputy Collector (Revenue) for revenue collection. Normally the last date for sending the Khatiyan is as follows — Kharif (November 30), Rabi (April 30) and Hot Weather Crops (June 15).

The Collector sends the demand statement to the Revenue inspectors through Circle Officer. Irrigation Revenue inspector, after recording these demands in the specific register kept for tax collection from farmers, hands it over to the Tax Collector who hands over the demand statement to the concerned farmer and gets his signature on the register. The last date and place of payment is mentioned on the demand statement (Purcha). The last date of payment is 15 days after handing over the demand statement.

(c) Minor Water Resource Department

The projects not handed over to the water user's association are maintained by the Department. The water rent is collected from the user farmer through the operator concerned and the water rate is fixed by the department. The present rates are as follows:

Nature of Crop	Electric (Rs/ha)	Diesel (Rs/ha)
Khariff	355.00	725.00
Rabbi	271.00	552.00
Garma	271.00	552.00

(d) Health Department

The user charges are very nominal, a registration fee of only Rs. 2.00 is charged in the district as well as in other health institutions located at block/ Panchayat level and a fee of Rs. 5.00 is charged in the Medical College Hospitals. In addition, charge for various test and investigations are also collected at nominal rates for X-ray, Ultra Sound, ECG, common blood test and pathological investigation etc. which are far below the market rates.

2.6 User / Beneficiary Associations

Some departments have also formed User Associations which are sometimes given the responsibility of maintaining the assets and providing the required services. They are also authorized to collect the user charges and use either the whole or a substantial part of these charges for the purpose of operation and maintenance of the respective services / maintenance of created assets. However, the effectiveness of the user association in collection of arrears and charges is not as per expectation. The practices in respect of a few departments are described below:

(a) Water Resource Department : 53 Water User Associations have been formed so far. These User Associations are engaged in collecting arrears and user charges against targets fixed by the department, but the achievements have so far been sub-optimal (ranging from 0 to 60 percent). Under the existing norms, 70 percent of the revenue collected is to be kept by the User Association for operation and maintenance and rest 30 percent is deposited into the state government account.

(b) Minor Water Resource Department : User associations (Beneficiary Committees) have been formed under some schemes run by the Department. A few Minor Irrigation & Tube-Well schemes have been handed over to the Beneficiary Committees for operation and maintenance. Beneficiary committees are required to operate and maintain the scheme and collect water rent as fixed by the state government. Under the existing norms, 90 percent of the revenue collected is to be kept by the Committee for operation and maintenance of the schemes and the rest 10 percent is to be deposited into the state government account.

(c) Health Department : Rogi Kalyan Samitis have been set up as user associations in all the hospitals and primary health centers of the state. They are registered bodies under the Societies Registration Act, 1860, and have their own development funds in which are deposited grants from the state government as well as health service charges recovered from patients. The money is spent on maintenance and up-keep of the hospital. The new approach appears to have rejuvenated the state's healthcare system, with the result that the average number of patient visiting government hospitals every month for treatment has increased considerably, from 3077 in 2007 to 9317 in 2011.

(d) Education Department : Bihar was the first state to promulgate a Vidyalaya Shiksha Samiti (VSS) Act and gave a formal status to this user association. These associations have 15-members, out of which 9 are elected from amongst parents of children studying in the school. Over the last decade, the VSS have established themselves as an effective institution for ensuring public participation in schools and their overall development. All development funds are VSS funds, which include construction grants received from the state government as well as fees charged to pupils.

2.7 Suggestions to Enhance Non-Tax Revenues[1]

(i) To levy user charges for services provided by the government or public sector enterprises is an accepted practice in public finances which is essential not only to step up the huge capital expenditure needed for creating viable infrastructure but also to maintain it. Tariff restructuring or subsidy design has always been a problem for their targeted impact on the poor, while questions regarding efficiency and accountability have never been addressed in the scenario that prevails in most states.

(ii) To improve revenue from user charges, the existing bottlenecks for its collection need to removed first. It must also be understood clearly that just as the user is obliged to pay the charges mandatorily for the services provided, the government entities, in their role as service providers, must also own up their responsibilities and obligations in a formal manner, without which the user charges cannot be made realistic and related to the cost of providing those services. In other words, both the service provider as well as their users must accept their respective rights and responsibilities in an accountability framework that will include penalties for violations of these by either party. Only when such formal commercial considerations guide the provision and availing of services, the system can be made cost effective and efficient.

(iii) Commercial decisions like fixing the tariff for electricity or water charges, should be delinked from political considerations, subject to some broad policy guidelines framed by the government, guided by the considerations of equity, efficiency and cost recovery. If political considerations are allowed to be factored in the determination of tariff or user charges, the inevitable result will be progressive deterioration in the quality of services

[1] The following resources have been consulted:

1) The lessons of user fee experience in Africa, Lucy Gilson Center for Health Policy, Department of Community Health, University of Witwatersrand, South Africa,and Health Economics and Financing Programme, School of Hygiene and Tropical Medicine, United Kingdom
2) Best Practice Guidelines For User Charging For Government Services, PUMA Policy Brief No. 3, Public Management Service, March 1998
3) User Charges in Local Government Finance, Richard M.Bird, http://www1.worldbank.org/publicsector/decentralization/June2003Seminar/Bird2.pdf
4) Benchmarking And Best Practice Program User-Pays Revenue, Report prepared for Australian and New Zealand Environment and Conservation, Council (ANZECC)
5) Review of current practices in determining user charges and incorporation of economic principles of pricing for Urban Water Supply, Ministry of Urban Development, Government of India

till the such services becomes economically unsustainable. Needless to say, given the level of capital expenditure needed to arrange for such services, government alone cannot be expected to create and maintain the necessary assets, and private sector needs to be given sufficient incentives to be made a partner in the process under suitable regulatory mechanisms.

(iv) It is imperative, in the first place, to set the standards for cost-based pricing of the services, which enable the government to determine the cost of subsidy or cross-subsidies in providing these services. But this would be possible without simultaneously setting the standards for those services, in terms of their quality and efficiency and an effective mechanism for speedy redressal of user grievances. Unfortunately, none of these exist in the present scenario.

(v) The present system of fixing rates for user charges does not seem to be based either upon the expected return on investment or on the actual cost of services. Neither is there any evidence of collection of cost accounting data by the concerned departments to fix the user charges based on actual cost of various services, like electricity, water, education, healthcare or even hiring out government premises for private purposes. Collection of such data and creation of an asset register are the first steps towards rationalization of user tariff in respect of services. Next step would be to specify the standards of services to be provided and to draw up service level agreements between the provider department and the user, clearly prescribing the rights and obligations and penalties / damages for each, supported by creating an enforcement authority and a grievance-redressal authority. By imparting greater transparency into the system, misuse of the services also will certainly be reduced.

(vi) Rationally fixing the user charges has to strike a balance between cost recovery, equity, user-affordability and efficiency of services. The charges so fixed should not subsidise the inefficiency of the service providing departments, as at present. The fixed rate should reflect the economic cost and efficiency and not administrative lethargy and avoidable overheads. In case of inefficiency, the service provider must compensate the users. The rate so fixed also must be simple, transparent, flexible and acceptable to the users and should be high enough to discourage wasteful usage and optimizing their use.

(vii) Services should always be provided in response to their demands and their scope and quality cannot be improved except by recovering their full cost, which also ensures their allocative efficiency. While attempting to recover the full cost through user charges, cross-subsidization of services, keeping the principle of equity in mind, can be factored by prescribing differential rates for different types of users. User fee should also be annually revised in line with inflation; otherwise it undermines the amount of revenue generated.

(viii) For providing quality healthcare, the possibility of tying up with medical insurance providers and recovering the cost of premium which would necessarily be large from the fees collected from in-patients as well as out-patients may be explored. In-patient fees and treatment charges should be graded according to the paying capacity of the patients, to be determined by devising a suitable mechanism, as well as to the cost of treatment. Further, in the sector of education, subsidized education should be provided only up to the secondary stage. In the case of post-secondary education, failure to charge 'full-cost recovery' results in a reverse subsidy to the rich.

(ix) Pricing should be based on competitive market prices. It should aim at full cost recovery, unless there is a clear rationale for less than full cost recovery. Consideration should be given to adopting flexible budgetary arrangements for User / Beneficiary Associations, to enable them to respond to increased service volume by permitting proportional increases in expenditure. Revising user charges for one service can have a significant impact on the demand for substitute services, if they are not subjected to a similar charge. Consideration therefore needs to be given to also revising charges for substitute services.

(x) Differentiated prices for peak and off-peak periods may also be adopted in order to spread demand for services. For certain services, smart card scheme might be appropriate, whereby all consumers would access these services using the card, while low-income users may be given a certain initial credit on their cards to ensure that only the deserving get the subsidy.

(xi) In developed countries¸ independent regulatory body for water is fairly common, leading to a transparent and efficient tariff determination. The government may set up state-level water regulatory authority with the overall responsibility of setting guidelines for fixing water charges, apart from monitoring and advising the state government on equity and efficiency. Using a Block Tariff system by grading the tariff when a consumer moves to a higher consumption slab is the most appropriate tariff structure.

(xii) For fixing the tariff, recovery of cost of service and ability and willingness to pay – both these considerations should be kept in mind to serve the ends of revenue sufficiency as well as social equity. In the short run, water tariffs should focus to recover Operation and Maintenance cost (O&M) cost. Capital costs should be recovered through subsidies from government. However, these subsidies should be reduced gradually. A two-part tariff structure (consisting of a fixed charge and variable charge) should be adopted. While fixed charges would ensure sufficiency of revenue, the variable charges would pay for consumption.

(xiii) Practices for charging water tariff differs from place to place. In Ahmadabad, water charge is linked to property tax and 30 percent of the property tax is taken as water charges. This improved the efficiency of water charges collection. Also, all houses including slums are taxed in Ahmadabad. With very low level of metering, this non-volumetric flat rate charges could be an appropriate cost-effective solution in other towns. In Delhi, block-pricing is adopted. For the first block (upto 6kl), cost is nil; upto 20kl its Rs2/kl which is less than the cost of servicing. Though above 20 kl, the charge can go upto Rs.10/kl, only very few consumers fall in the higher blocks and major consumption occurs in the lower blocks. Also, though non-domestic consumers are charged higher tariffs, they constitute only 17 percent of the total water consumption. Hence, the Delhi Jal Board (DJB) has been suffering huge losses. Metering is also not adequate. In Chennai, many private entrepreneurs are involved in water sector projects through servicing contracts, entered with the Water Board, leading to 45-65 percent cost savings. Bangalore has very high level of metering and charges volumetric tariffs. Also, it has full cost recovery on a no-profit, no-loss basis.

(xiv) Water tariff may be directly linked with power tariff, so that for every increase in power tariffs a proportionate hike may be provided in water charges. Connection costs should be charged towards recovery of part of capital costs.

(xv) In the Increasing Block Tariff system, the first block should be set such that it meets the life line supply which, for a 5 member family, is estimated to be about 6000 litres of water per month. Thus the first slab can be between 5-10KL per household per month, to be charged at nominal rates. Two or three more block rates may be prescribed at progressively higher rates. Non-domestic users should be charged at uniform volumetric fixed rate per KL of water consumed. Different rates may be charged by consumers falling in different consumption slab. Care must be taken so that the cost of inefficiencies and unaccounted water are not passed on to the consumers.

2.8. Profits from Public Sector Undertakings

The public sector in Bihar comprises 62 government companies and 4 statutory corporations as of March 2012. Of these, however, only 22 are working and the rest 40 are non-working. The summarized results of the working of the public sector undertakings (PSUs) in Bihar during the 5 years (2007-08 to 2011-12) are shown in Table 2.20.

Table 2.20 : Summarised Financial Results of Public Sector (2007-08 to 2011-12)

(Rs crore)

Performance Indicators	2007-08	2008-09	2009-10	2010-11	2011-12
Turnover of all PSUs	1588	1997	2509	4031	7811
Annual Profit (+)/ Loss (-)	(-) (1253)	(-) (653)	(-) (1175)	(-) (1293)	(-) (2619)
Accumulated profit (+)/ Loss (-)	(-) (3918)	(-) (4571)	(-) (5746)	(-) (7039)	(-) (9658)
Dividend paid during year	0.03	1.79	2.06	2.53	1.40
Guarantees issued by Government	72	104	Nil	Nil	Nil
Grant/Subsidy received during the year	743	736	874	479	253
Profit (+)/ Loss (-) of Departmental Undertakings	(+)1	0	(+) 2	(+) 2	(+) 3

The performance of the public sector is discussed in details in Chapter 8 of this report. However, from Table 2.20, we note that the government received insignificant amount of profits/ dividends from its departmental commercial and non-commercial enterprises during the last 5 years. Details of the profits / dividends received are shown in Table 2.21. Among the non-commercial enterprises, Co-operative Societies paid some dividend, howsoever insignificant, every year. Among the commercial enterprises, Bihar State Finance Corporation is the only one earning some profits, though insignificant.

Table 2.21 : Profits from Departmental Enterprises, Dividends from Non-Commercial Enterprises

(Rs. Lakh)

Profits/ Dividend from	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Bihar State Finance Corporation	3.14		1.11	0.06		53.50
Cooperative Societies	52.88	3.16	2.13	205.18	0.35	86.75
Bihar State food Corporation			1.00			
Bihar State Cooperative Bank	0.02		174.70			
Others	1.99	0.03	35.00	0.77	252.22	
Total	**56.04**	**3.19**	**178.94**	**206.01**	**252.57**	**140.25**

Annexure 2.1

Commodity-wise Collection of Commercial Taxes

		(Rs. In Crore)			Percent of Total		
Sl. No.	**Name of commodity**	**2010-11**	**2011-12**	**No. of Dealers (2011-12)**	**2010-11**	**2011-12**	**No. of Dealers (2011-12)**
1	Petro products	2007.99	2528.20	430	30	30	0.3
2	Cement	477.10	556.24	2708	7	7	1.8
3	Four wheelers & chassis of automobile	303.87	422.83	83	5	5	0.1
4	IMFL	340.19	415.54	63	5	5	0.0
5	Unregistered dealer works contractor	391.94	413.07	54962	6	5	35.6
6	Works contract	200.24	324.39	2159	3	4	1.4
7	Fmcg	236.65	323.72	2933	4	4	1.9
8	Drugs and medicines	208.25	295.10	4278	3	3	2.8
9	Crude oil	212.91	248.61	50	3	3	0.0
10	Unregistered dealer others	188.39	234.51	39998	3	3	25.9
11	Two and three wheelers	173.22	217.60	371	3	3	0.2
12	Electrical goods	166.22	204.63	1339	3	2	0.9
13	Coal	141.14	194.86	160	2	2	0.1
14	Fertiliser & insecticides	90.33	143.94	938	1	2	0.6
15	Iron & steel	126.15	143.70	1002	2	2	0.6
16	Country liquor	125.27	143.20	91	2	2	0.1
17	Telephone	111.50	105.49	796	2	1	0.5
18	Consumer durables	76.53	94.07	397	1	1	0.3
19	Foodgrains	78.14	90.33	2909	1	1	1.9
20	Fast food and cooked food	63.27	89.74	471	1	1	0.3
21	Tobacco	78.03	87.86	375	1	1	0.2
22	Tyres & tubes	64.48	83.79	377	1	1	0.2
23	Biscuits	58.11	82.07	363	1	1	0.2
24	Tractors	54.90	78.73	628	1	1	0.4
25	Ghee & vanaspati	47.21	74.26	179	1	1	0.1
26	Battery	49.70	57.37	409	1	1	0.3
27	Electronic goods	34.87	50.38	1008	1	1	0.7
28	Paints	33.84	46.37	342	1	1	0.2
29	Autoparts	28.79	46.32	1515	0	1	1.0
30	Computer	24.97	43.86	648	0	1	0.4
31	Lubricants	35.47	42.25	262	1	1	0.2
32	Hosiery and ready made	34.59	41.29	2840	1	0	1.8
33	Beverages	32.43	41.21	212	0	0	0.1
34	Edible oil	21.94	35.31	497	0	0	0.3
35	Pan masala	23.77	29.23	146	0	0	0.1
36	Others @ 12.5	17.56	26.87	534	0	0	0.3
37	Sanitary fittings & tiles	20.08	23.97	425	0	0	0.3
38	Plastic goods	16.35	21.74	704	0	0	0.5
39	Professional tax	0.02	21.55	5745	0	0	3.7
40	Furnitures	15.13	20.88	657	0	0	0.4
41	Asbestos	16.27	20.36	46	0	0	0.0
42	Kirana	14.38	19.48	2587	0	0	1.7
43	Paper	17.52	19.46	628	0	0	0.4
44	Engine & motors	14.50	19.14	548	0	0	0.4

45	Bicycle	14.48	17.91	701	0	0	0.5
46	Footwear	13.13	17.74	695	0	0	0.5
47	Bricks	10.87	17.02	3783	0	0	2.5
48	Entertainment tax	11.32	16.53	388	0	0	0.3
49	Hardware	10.25	14.77	1848	0	0	1.2
50	Jewellery	4.65	9.58	1703	0	0	1.1
51	Stone chips and ballast	3.95	9.30	522	0	0	0.3
52	Marble and granites	6.30	9.06	357	0	0	0.2
53	Watch & clock	6.85	8.93	127	0	0	0.1
54	Others(tax free)	6.02	8.77	98	0	0	0.1
55	Tea & coffee	5.33	7.10	206	0	0	0.1
56	Others @ 4	5.41	6.87	302	0	0	0.2
57	Luxury and hotel	5.42	6.75	349	0	0	0.2
58	Glasses	4.60	6.55	144	0	0	0.1
59	Moulded luggage	4.36	6.16	127	0	0	0.1
60	Tools	4.79	6.07	29	0	0	0.0
61	Stationery	4.11	5.73	578	0	0	0.4
62	Plywood	3.61	5.25	344	0	0	0.2
63	Ethanol	16.68	5.08	2	0	0	0.0
64	Lpg	2.47	4.88	391	0	0	0.3
65	Diesel oil	3.62	4.38	63	0	0	0.0
66	Timber	3.62	4.32	906	0	0	0.6
67	Plyboard	1.94	3.46	146	0	0	0.1
68	Utensils	2.26	2.67	472	0	0	0.3
69	Kerosene	2.59	1.98	261	0	0	0.2
70	Staple yarn	1.22	1.69	64	0	0	0.0
71	Processed vegetable & food.	0.99	1.65	49	0	0	0.0
72	Bhujia	0.82	1.61	96	0	0	0.1
73	Electricity duty	1.74	1.41	42	0	0	0.0
74	Crockery, cutlery, glassware & ceramic-ware	1.30	1.40	113	0	0	0.1
75	Sand	0.54	1.10	10	0	0	0.0
76	Others @ 5	0.26	1.03	96	0	0	0.1
77	Sport goods	1.11	0.75	116	0	0	0.1
78	Fire work	0.54	0.70	58	0	0	0.0
79	Gun & rifles	0.51	0.58	119	0	0	0.1
80	Hide & skin	0.67	0.52	39	0	0	0.0
81	Dry fruits	0.33	0.43	59	0	0	0.0
82	Matches	0.56	0.40	24	0	0	0.0
83	Not tagged	0.00	0.37	419	0	0	0.3
84	Advertisement tax	0.39	0.32	28	0	0	0.0
85	Not tagged with any commodity	0.29	0.30	59	0	0	0.0
86	Spectacles	0.32	0.29	86	0	0	0.1
87	Professional tax	0.00	0.21	162	0	0	0.1
88	Shewing machine	0.18	0.20	44	0	0	0.0
89	Others @ 13.5	0.01	0.20	32	0	0	0.0
90	Hawai chappals	0.06	0.18	16	0	0	0.0
91	Petrol	0.12	0.16	98	0	0	0.1
92	Not tagged	0.01	0.01	13	0	0	0.0
93	Transporter	0.00	0.01	4	0	0	0.0
Total		**6644.77**	**8445.89**	**154201**	100	100	100.0

Source : Department of Commercial Tax, GOB

Annexure 2.2

Measures taken in 2012-13 in respect of vehicle registration and amendments to Bihar Motor Vehicle Taxation Act, 1994

Rate chart of one-time tax for Personal Vehicles [See Sub-section (1) of section-7]

Clause	Sl. No.	Stages of Registration	Class of Motor Vehicles	
			Motor Cycle	Motorcars, Jeep and Omnibuses up to seating capacity of 12 used for personal use
A		Up to one year of age at the time of registration or first registration	One time tax at the rate of 7% cost of vehicles excluding VAT	One time tax at the rate of 7% cost of vehicles excluding VAT
B		If the Motor vehicle is already registered and its age from the first registration is	Percentage of one-time tax levied under Clause-A Column(4)	Percentage of one-time tax levied under Clause-A Column(5)
	1	More than one year but not more than two years	95%	95%
	2	More than two years but not more than three years	90%	90%
	3	More than three years but not more than four years	85%	85%
	4	More than four years but not more than five years	80%	80%
	5	More than five years but not more than six years	75%	75%
	6	More than six years but not more than seven years	70%	70%
	7	More than seven years but not more than eight years	65%	65%
	8	More than eight years but not more than nine years	60%	60%
	9	More than nine years but not more than ten years	55%	55%
	10	More than ten years but not more than eleven years	50%	50%
	11	More than eleven years but not more than twelve years	45%	45%
	12	More than twelve years but not more than thirteen years	40%	40%
	13	More than thirteen years but not more than forteen years	35%	35%
	14	More than forteen years but not more than fifteen years	30%	30%
	15	More than fifteen years	25%	25%

Amendment of the serial no.-3a(ii) of part-c of the schedule-1 of the Bihar Motor Vehicle Taxation Act, 1994

Serial no.-3a(ii) of part-c of the schedule-1 of the Bihar Motor Vehicle Taxation Act 1994 shall be substituted by the following, namely-

(a) Onetime tax @ 5% of the vehicle cost excluding VAT shall be levied at the time of registration for a period of 15 years for taxi/maxi cab/motor cab.

(b) Taxi seating capacity upto 4, (excluding driver) registered previously shall have to pay Rs. 3200/- per annum.

(c) Taxi/Motor cab/Maxi cab having seating capacity more than 4 (excluding driver) shall have to pay Rs. 3200/- per annum and in addition thereof Rs. 500/- per seat per annum for more than 4 seats. "Provided that one time tax as applicable for maxi/motor cabs/ maxi cabs shall be levied on the basis of age from the vehicles already registered for more than one year as per schedule-1 part-A of Bihar Motor vehicle Taxation Act, 1994 (as Amended)."

1. *Amendment of the part-C of schedule-1 serial no.-3(C) of the Bihar Motor Vehicle Taxation Act, 1994*—In the said Act Part-C of schedule-1 serial no.-3(C) shall be substituted by the following, namely.— "3(C) : Three Wheeler –

(a) Three Wheeler with seating capacity not more than 4 persons (excluding the driver). A one-time tax of Rs. 9000/- shall be levied for 15 Years for new registered vehicle.

Or three wheelers –

(i) A one-time tax of Rs. 6,000/- on all three wheelers up to one year of age at the time of registration for a period of ten years from the date of first registration in the State :

(ii) A one-time tax of Rs. 6,000/- for a period of five years on three wheelers which are more than ten years old.

(b) Three wheelers with seating capacity up to 7 persons (excluding the driver) – A one-time tax of Rs. 13500/- shall be levied for 15 Years from new registered vehicles. **Or**

(i) A one-time tax of Rs. 9,000/- on all three wheelers up to one year of age at the time of registration for a period of ten years from the date of first registration in the State.

(ii) A one-time tax of Rs. 9,000/- for a period of five years on three wheelers which are more than ten years old.

2. Amendment of serial no.-4 of the schedule-1 part-C of the Bihar Motor Vehicle Taxation Act, 1994.—Serial no. 4 of schedule-1 part-C of the Bihar Motor Vehicle Act 1994 shall be substituted by the following; namely—

Transport vehicles other than goods carriages, motor cabs and maxi cabs excluding of the driver and conductor.	Annual Rate of Tax
(a) Seating capacity not less than 13 persons and not more than 26 persons.	Rs. 500/- per seat, per annum.
(b) Seating capacity not less than 27 persons and not more than 32 persons.	Rs. 550/- per seat, per annum.
(c) Seating capacity 33 persons or more.	Rs. 650/- per seat, per annum.
(d) Volvo, Mercedez and equivalent bus.	Rs. 1000/- per seat, per annum

Provided that the tax calculation for all passenger vehicles shall be done according to the minimum seating capacity prescribed for the general buses on the basis of their wheel base."

Annexure 2.3

Measures taken by Department of Registration and Excise

Liquor Shop settlement by lottery system	Rate of Excise
Rs. 500 per Carton	Rs. 60 per LPL and single point VAT
Rs. 501 to Rs. 800 per Carton	Rs. 80 per LPL and single point VAT
More than Rs. 801	Rs. 100 per LPL and single point VAT
Normal / Strong Bear (5 % to 8% ML Alcohol)	Rs. 15 per Bulk Liter and single point VAT
Strong Bear (more than 8% ML Alcohol)	Rs. 20 per Bulk Liter and single point VAT

Source: Bihar Gazette Notification January 23, 2013

- Rate of Foreign liquor / Spicy liquor is revised to Rs. 90 rupees per LPL from Rs. 70 rupees per LPL due to rise in price index by notification of Bihar Gazette dated February 14, 2013.

- No. 10/NITI (Shulk Punrichan)-88/2012-**1538 dated 7 Dec 2012**—In exercise of the powers conferred by Section-90 of the Bihar Excise Act ,1915 (Bihar Act - II ,1915), the Board of Revenue, Bihar is pleased to make the following amendment in Rules published under notification 23-137-2, dated 29th April, 1919 and as amended from time to time:

(1) The existing rule 106 (d) as amended vide Board's notification no. 3694 dated 04.05.1994 is amended as follows:-

"The necessary permit for supply of India Made Foreign Liquor and Beer may be issued to the retail licensees from the wholesale license premises if movement fee @Rs.12 (Rupees twelve) per L.P.L. for India Made Foreign Liquor and Rs.12/- (Rupees twelve) per B.L. has been levied and realized by the issuing district."

(2) In terms of existing rule 106(b) as amended vide notification no.3/C5- 296/08(part file)-575 dated 04.03.11 ,India made Foreign Liquor may be imported in any place of Bihar, provided that import pass fee at the rate of Rs. 10 (Rupees ten) per L.P.L. has been levied and realized in the State of Bihar.

(3) The existing Rule 106(c) as amended vide notification no.3/C5-296/08 (Part file)-575 dated 04.03.11 is amended and substituted as follows :-

"106 (C) – India Made Beer may be imported in any place of Bihar, provided that import pass fee at the rate of Rs.4 (Rupees four) per bottle (650 ML) has been levied and realized in the State of Bihar.'

(4) The existing rule 106 (C C) as amended vide notification no.3/C5-296/08 (Part file) -575 dated 04.03.11 is amended and substituted as follows :-

'106 (C C) - India Made Beer can be exported from the State of Bihar to any other State of the Country only after realizing export pass fee at the rate of Rs. 2 (Rupees two) per bottle (650 ML) . "Provided that the Brewery in the state shall not export more than 50% of the Beer produced by in a month".

(5) The existing rule 106(G) as inserted rule vide notification no. 3/C-5-296/08(part file)-575 dated 04.03.11 ,is amended and substituted as follows :-

'106(G)- Extra Neutral Alcohol (E.N.A.) may be imported in any place of Bihar, provided that import pass fee at the rate of Rs. 10 (Rupees ten) per L.P.L. has been levied and realized in the State of Bihar.

(6) The existing rule 106(1) (B) as amended vide notification no.3/C5-296/08 (Part file)-575 dated 04.03.11 is amended and substituted as follows :-

'106(1)(B)- For distributer license the license fee of Rs. 3 per L.P.L. on salable stock of India Made Foreign Liquor and Rs. 3 per B.L. on Beer shall be payable every year in advance .

(7) Under Board's rule 35 published vide notification no. 2/23-5/90-1 dated 25.4.1990, a license fee of Rs. 100000.00 (Rupees one lakh) shall be realized for grant of compounding or blending or for both license.

(8) Under Board's rule-106 (1) (a) (i) published vide notification no. 23-5/94-1-3816 dated 30-5-1994 a license fee of Rs. 200000.00 (Rupees two lakhs) shall be realized for grant of license for bonded warehouse (excise form 19b). This will be additional to the distributer license fee.

(9) The rule 42(B), inserted vide notification no. 1046 dated 4th November, 2006 is amended and inserted as follows :-

'42B – A fee for the first approval and registration of Each label and subsequently annual renewal fee of each registered label approved under rule 42 A shall be payable in advance by the licensee (manufacturer/ supplier) as per the table below :-

	Registration Fee	**Renewal fee**
Foreign Liquor, which is imported in bottles	Rs. 100000.00 (One Lakh)	100000.00 (One Lakh)
Imported foreign liquor/beer which is bottled in India	Rs. 100000.00 (One Lakh)	100000.00 (One Lakh)
India Made Foreign Liquor/Beer, which is manufactured in State or outside the State.		
Estimated Quantity of Sale in Each Year (in Cases)	**Registration Fee**	**Renewal fee**
Upto ten thousand cases	Rs. 100000.00 (One Lakh)	Rs. 50000.00 (Fifty Thousand)
More than ten thousand cases and upto twenty thousand cases	Rs. 200000.00 (Two Lakh)	Rs. 100000.00 (One Lakh)
More than twenty thousand cases and upto forty thousand cases	Rs. 300000.00 (Three Lakhs)	Rs. 150000.00 (One Lakh Fifty Thousands)
More than forty thousand cases and upto seventy thousand cases	Rs. 400000.00 (Four Lakhs)	Rs. 200000.00 (Two Lakhs)
More that seventy thousand cases And upto one lakh cases	Rs. 500000.00 (Five Lakhs)	Rs. 250000.00 (Two Lakhs Fifty Thousands)
More than one lakh cases	Rs. 600000.00 (Six Lakhs)	Rs. 300000.00 (Three Lakhs)
For all kinds of India Made Foreign liquor / Beer supplied from Military Canteen	Rs. 30000.00 (Thirty Thousands)	Rs. 30000.00 (Thirty Thousands)
Label used for spiced country liquor	Rs. 30000.00 (Thirty Thousands)	Rs. 15000.00 (Fifteen Thousands)

(2) The licensee has to clearly mention in the application for registration or annual renewal of his label, the total quantity (in cases) of consumption estimated in that year for the brand applied .In case of consumption, during the year, is higher than the stipulated, the licensee shall have to pay the difference amount due for the higher slab of registration/renewal fee. Any change or modification in the registered or renewal label, either in size/ colour/ script/design shall be deemed to be a new one and has to be registered again.

(10) Rule 107 of the Excise rules notified vide notification no. 23-974-2005 dated 08.08.2005 is amended and substituted as follows:-

'107 (1)- Annual License fee for all sale of India Made foreign liquor and beer under hotel, restaurant bar, Club and canteen in the state shall be payable in one lump sum in advance as per following scales :-

	Registration Fee
For five star hotels	Rs. 2000000.00 (Twenty lakhs)
For four star hotels	Rs. 1800000.00 (eighteen lakhs)
For three star hotels	Rs. 1800000.00 (eighteen lakhs)
Hotel situated in Patna and Muzaffarpur Municipal Corporation etc. area (within a radius of 10 kilometer)	Rs. 1600000.00 (Sixteen lakhs)
Except serial nos. (i), (ii), (iii) and (iv) for other area of Nagar Parishad (within a radius of 08 kilometer)	Rs. 1200000.00 (Twelve lakhs)
For Nagar Panchayat (within A radius of 03 Kilomete)	Rs. 1000000.00 (Ten lakhs)
For other areas	Rs. 800000.00 (eight lakhs)
For club license	Rs. 600000.00(six lakhs)
For canteen license	Rs. 300000.00 (three lakhs)

Note — (i) For Canteen License the fees shall be liable only whom it is held by a contractor under the canteen tenant systems.

(ii) The above license fees payable in full even if the license is granted in mid of the financial year.

(11) Under condition no. 3 of excise form no. 27 A published vide notification no. 1994 dated 29.05.09 a license fee of Rs. 1500000.00 (Rupees Fifteen lakhs) lump-sum in advance shall be realized for the grant of license for manufacturer of spiced country liquor.

Annexure 2.4

Measures initiated in 2011-12 under Bihar Value Added Tax Act, 2005

1. Amendment in section 41 of the Bihar Value Added Tax Act, 2005 (Act 27 of 2005). — The words "four per cent" in sub-section (1) of section 41 of the Bihar Value Added Tax Act, 2005 (Act 27 of 2005) shall be substituted by the words "five per cent".

   Insertion of a new section 98A in the Bihar Value Added Tax Act, 2005 (Act 27 of 2005).— After section 98 of the Bihar Value Added Tax Act, 2005 (Act 27 of 2005), the following new section 98A shall be inserted, namely— "98A. Extension of time limit and prescription of forms in certain cases.—

   I. Notwithstanding anything to the contrary contained in the Act or the Rules made there under, the Commissioner may, for reasons to be recorded in writing and by notification and subject to such conditions and restrictions as may be specified in the notification, extend the date or, as the case may be, the extended date, specified in the Act in respect of—

      (a) Making any electronic payment of tax under the Act, or

      (b) Furnishing any return or statement or report required to be filed electronically and such extension shall be for a period not exceeding three months from the date, or, as the case may be, the extended date, specified in respect of such electronic payment or electronic return or electronic statement or electronic report, as the case may be.

   II. Notwithstanding anything to the contrary contained in the Act or the Rules made there under, the Commissioner may, by notification, specify the form and manner in which any application, return or statement or report required by or under the Act may be furnished electronically."

2. Substitution of the Schedule-III of the Bihar Motor Vehicles Taxation Act, 1994 (Act 8, 1994) - Schedule-III of the Act shall be substituted by the following:

Rates of tax to be paid by dealer or manufacturer

Description of Vehicles in possession under a manufacturer or dealer	Annual tax for per vehicle under a manufacturer or dealer (Amount Rs.)
1. Motor Cycles	150
2. Chassis of heavy motor vehicles	250
3. Other vehicles	200

Annexure 2.5

Measures initiated during 2010-11 for increasing the Tax GSDP Ratio

1. Amendment in Section-14 of the Bihar Value Added Tax Act, 2005 (Act 27 of 2005).—

(1) Clause (b) of sub-Section (1) of Section-14 of the Bihar Value Added Tax Act, 2005 (hereinafter referred to as Act 27 of 2005) shall be substituted by the following namely:-

"(b) the goods specified in the Schedule III, at the rate of five percent;"

(*2*) After Clause (b) of sub-section (1) of Section-14 of Act 27 of 2005, a new clause (bb) shall be inserted in the following way, namely:-

"(bb) the goods specified in the Schedule IIIA, at the rate of four percent;"

2. Amendment in Section 14 of the Bihar Value Added Tax Act, 2005 (Act 27 of 2005).— Clause (d) of sub-Section (*1*) of Section-14 of the Bihar Value Added Tax Act, 2005 shall be substituted by the following way, namely:-

"(d) any other goods, not specified in the Schedules I, II, III, IIIA and IV, at the rate of thirteen and a- half percent."

3. Substitution of Section-3 of Bihar Taxation on Luxuries in Hotels Act, 1988 (Bihar Act 5 of 1988).—

Section-3 of Bihar Act 5 of 1988 shall be substituted by the following, namely:– "Levy of tax. –

(*1*) The tax on luxuries shall be levied and paid by the proprietor at the rate specified in sub-section (*2*) on the charges for lodging or the charges for commercial hall in respect of such hotel, room or a suite of rooms of a hotel, a boarding house, a lodging house, a banquet hall, a conference hall, or a commercial hall as carry a charge of rupees five hundred or more per day.

(*2*) *The tax under sub-Section (1) shall be charged*— (*a*) at the rate of five percent of the charges for lodging of such rooms or suite of rooms in a hotel, boarding house, lodging house provided with luxuries, as carry a charge of five hundred rupees or more per day but less than rupees one thousand per day;

(*b*) at the rate of ten percent of the charges for lodging of such rooms of suite of rooms of a hotel, boarding house, a lodging house provided with luxuries, as carry a charge of one thousand rupees or more per day; and

(*c*) at the rate of ten percent of the charges for commercial hall provided with luxuries as carry a charge of five hundred rupees or more per day."

4. ***Substitution of the sub serial no. (a), (b), (c), (d) and (e) of serial no.-2 of Part-C of Schedule-I of the Bihar Motor Vehicles Taxation Act, 1994.—***The Sub serial (a), (b), (c), (d) and (e) of the serial no.-2 of Part-C of Schedule I shall be substituted by the following respectively:-

(a) Upto 1000 kgs registered laden weight capacity	(i) One-time tax of Rs. 7700/- at the time of registration in the State for a period of ten years from the date of first registration shall be levied for goods vehicles upto 1000 kg weight capacity. Provided that one time tax payable by such vehicles already registered shall be calculated after deducting the tax amount already paid before ten years; Provided further that no one time tax shall be payable if the vehicle has already paid more than Rs 7700/- as taxes. (ii) For goods vehicles more than ten years old a onetime tax of Rs 7700/- for a period of every five years thereafter, shall be levied; Provided that one-time tax payable by such vehicles shall be calculated after deducting the tax amount already paid after the ten years period or fifteen years period as applicable. Provided further that no one-time tax shall be payable if the vehicle has already paid more than Rs 7700/- as taxes.
(b) Exceeding 1000 kgs but not exceeding 3000 kgs of registered laden weight capacity	(i) One-time tax of Rs.5500/- per ton or part thereof at the time of registration for a period of ten years from the date of first registration shall be levied on goods vehicles registered upto 1001 to 3000 kg weight capacity. Provided that one time tax payable by such vehicles already registered shall be calculated after deducting the tax amount already paid before ten years; Provided further that no one time tax shall be payable if the vehicle has already paid more than Rs 5500/- per ton or part thereof as taxes. (ii) For vehicles more than ten years old a one-time tax of Rs 5500/- per ton or part thereof for a period of every five years thereafter shall be levied; Provided that one-time tax payable by such vehicles shall be calculated after deducting the tax amount already paid after the ten years period or fifteen years period as applicable; Provided further that no one- time tax shall be payable if the vehicle has already paid more than Rs 5500/- per ton or part thereof as taxes.
(c) Exceeding 3,000 kgs but not exceeding 16,000 kgs of registered laden weight capacity.	Rs 700/- per ton or part thereof
(d) Exceeding 16,000 kgs but not exceeding 24,000 kgs of registered laden weight capacity.	Rs 600/- per ton or part thereof
(e) Exceeding 24,000 kgs of registered laden weight capacity.	Rs 500/- per ton or part thereof

Annexure 2.6

Measures initiated during 2009-10 for increasing the Tax GSDP Ratio

1. *Amendment of Section 5 of Bihar Motor Vehicles Taxation Act, 1994 (Bihar Act 8 of 1994).*

(*I*) *After Section 5(3) a new sub-section (4) shall be inserted in the following way namely-*

"A rebate of fifty percent of total tax payable, including Additional Tax, shall be allowed on all motor vehicles which fall under the definition of 'Battery Operated Vehicle' as defined in the Central Motor Vehicles Rules, 1989."

(*II*) *After Section 5(4) a new sub-section (5) shall be inserted in the following way namely-*

"A rebate of fifty percent of total tax payable, including Additional Tax, shall be allowed on such stage carriages not more than one year old from the date of first registration at the time of applying for the rebate, with seating capacity not less than 13 persons and plying on routes within the limits of Municipal Corporation as notified by the Government of Bihar. Provided that this rebate shall not be available for such vehicles more than ten years old from the date of first registration."

(III) *After Section 5(5) a new sub-section (6) shall be inserted in the following way namely-*

"A "Green Tax" at the rate of ten percent of tax payable, including Additional Tax, shall be payable by every owner of a registered transport vehicle more than 12 years old except on three wheelers, tractors and trailers."

2. *Amendment of Section 7 of Bihar Motor Vehicles Taxation Act, 1994 (Bihar Act 8 of 1994).*—After Section 7(7) a new sub-section (8) shall be inserted in the following way namely-

"(*a*) One-time tax for the life time of the vehicle shall be levied on tractors used or kept for use for other than agricultural purpose at the rate of one percent of the cost of the vehicle excluding Value Added Tax. Provided one-time tax payable by tractors already registered shall be calculated after deducting the tax amount already paid. (*b*) A one-time tax of Rs. 4,000.00 shall be payable by all trailers up to 3,000 kgs registered laden weight and Rs. 6,000.00 shall be payable by all trailers more than 3,000 kgs registered laden weight used or kept for use along with tractors for other than agricultural purpose: Provided one-time tax payable by trailers already registered shall be calculated after deducting the tax amount already paid."

CHAPTER III

EXPENDITURE PATTERNS

The expenditure of the state governments is classified under the three major categories — General Services, Social Services and Economic Services. Apart from revenue expenditure and capital outlay on these services, the other areas of spending are repayment of loans and advances on the capital account and grants to local bodies and autonomous institutions under the state government. The state government also gives loans for various purposes to its public sector undertakings, urban local bodies and Panchayati Raj Institutions and to its own employees as well for various purposes. It is to be noted that while the repayments of principal amounts of loans are made from the capital account, interest payment is made from the revenue account of expenditure, under the General Services.

3.1 Revenue and Capital Expenditure

Table 3.1 presents the expenditure of the state government under different heads for the period from 2002-03 to 2011-12, its percentage composition and the annual growth rate of different expenditure items.

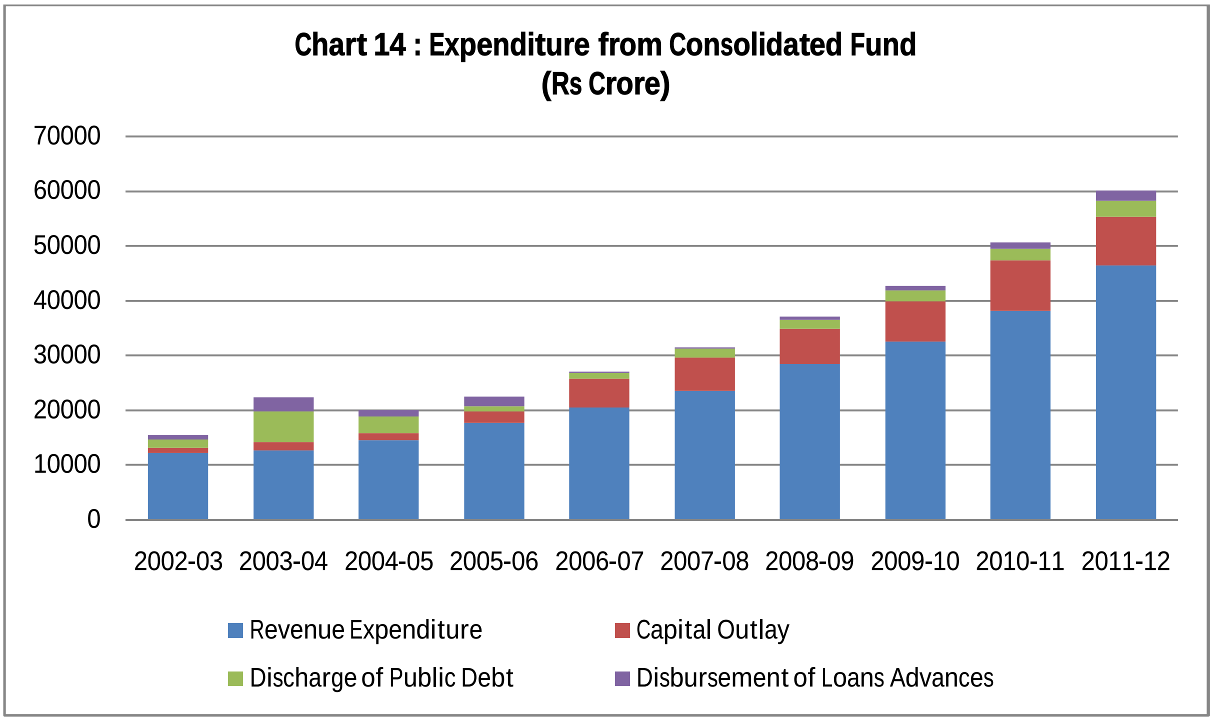


Table 3.1 : Expenditure of State Government

(Rs. crore)

Expenditure Heads	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Expenditure	12255 (79.0)	12711 (56.5)	14638 (73.0)	17756 (78.7)	20585 (75.9)
General Services	6574 (42.4)	7175 (31.9)	7803 (38.9)	8523 (37.8)	8643 (31.9)
Social Services	3916 (25.3)	4033 (17.9)	4795 (23.9)	6862 (30.4)	7917 (29.2)
Economic Services	1763 (11.4)	1498 (6.7)	2036 (10.2)	2367 (10.5)	4021 (14.8)
Grants and Contributions	2 (0.0)	2 (0.0)	4 (0.0)	4 (0.0)	4 (0.0)
Capital Expenditure	3250 (21.0)	9771 (43.5)	5420 (27.0)	4813 (21.3)	6551 (24.1)
Capital Outlay	970 (6.3)	1549 (6.9)	1205 (6.0)	2084 (9.2)	5211 (19.2)
General Services	81 (0.5)	22 (0.1)	68 (0.3)	72 (0.3)	155 (0.6)
Social Services	142 (0.9)	163 (0.7)	137 (0.7)	328 (1.5)	596 (2.2)
Economic Services	747 (4.8)	1363 (6.1)	1000 (5.0)	1684 (7.5)	4460 (16.4)
Discharge of Public Debt	1533 (9.9)	5653 (25.1)	3087 (15.4)	981 (4.4)	1025 (3.8)
Internal Debt	152 (1.0)	3273 (14. 6)	365 (1.8)	493 (2.2)	708 (2.6)
Loans and Advances from Centre	1381 (8.9)	2380 (10.6)	2723 (13.6)	488 (2.2)	317 (1.2)
Disbursement of Loans Advances	747 (4.8)	2569 (11.4)	1128 (5.6)	1748 (7.8)	315 (1.2)
Total	15505 (100.0)	22482 (100.0)	20058 (100.0)	22569 (100.0)	27136 (100.0)

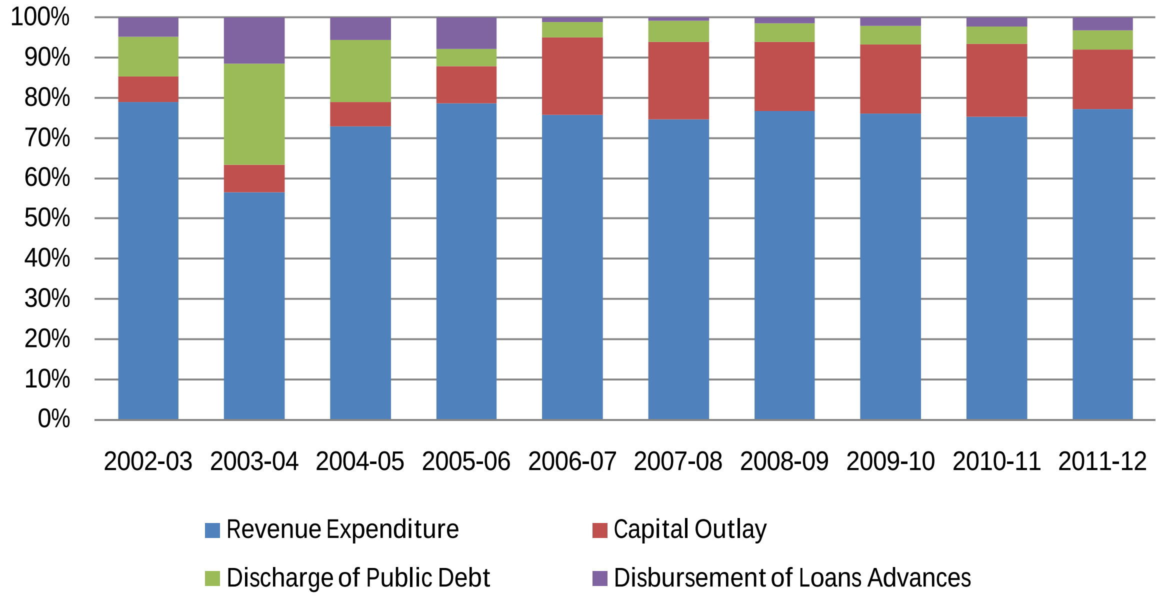
Expenditure Heads	2007-08	2008-09	2009-10	2010-11	2011-12	CAGR
Revenue Expenditure	23563 (74.6)	28512 (76.7)	32584 (76.1)	38216 (75.4)	46500 (77.3)	16.5
General Services	9252 (29.3)	10530 (28.3)	12202 (28.5)	15287 (30.2)	17730 (29.5)	11.0
Social Services	9868 (31.3)	12252 (33)	13186 (30.8)	15089 (29.8)	18729 (31.1)	20.2
Economic Services	4438 (14.1)	5726 (15.4)	7088 (16.6)	7836 (15.5)	10038 (16.7)	24.5
Grants and Contributions	4 (0.0)	5 (0.0)	107 (0.3)	4 (0.0)	3 (0.0)	16.8
Capital Expenditure	8008 (25.4)	8670 (23.3)	10212 (23.9)	12489 (24.6)	13681 (22.7)	12.7
Capital Outlay	6104 (19.3)	6436 (17.3)	7332 (17.1)	9196 (18.1)	8852 (14.7)	31.3
General Services	223 (0.7)	207 (0.6)	274 (0.6)	396 (0.8)	608 (1.0)	34.5
Social Services	799 (2.5)	640 (1.7)	1123 (2.6)	1072 (2.1)	807 (1.3)	28.7
Economic Services	5082 (16.1)	5590 (15)	5935 (13.9)	7728 (15.2)	7437 (12.4)	31.7
Discharge of Public Debt	1632 (5.2)	1682 (4.5)	1983 (4.6)	2190 (4.3)	2922 (4.9)	-0.6
Internal Debt	1203 (3.8)	1254 (3.4)	1169 (2.7)	1725 (3.4)	2457 (4.1)	19.7
Loans and Advances from Centre	429 (1.4)	429 (1.2)	814 (1.9)	466 (0.9)	465 (0.8)	-15.3
Disbursement of Loans Advances	273 (0.9)	551 (1.5)	897 (2.1)	1103 (2.2)	1906 (3.2)	-1.3
Total	31571 (100.0)	3718 (100.0)	42796 (100.0)	50705 (100.0)	60181 (100.0)	15.2

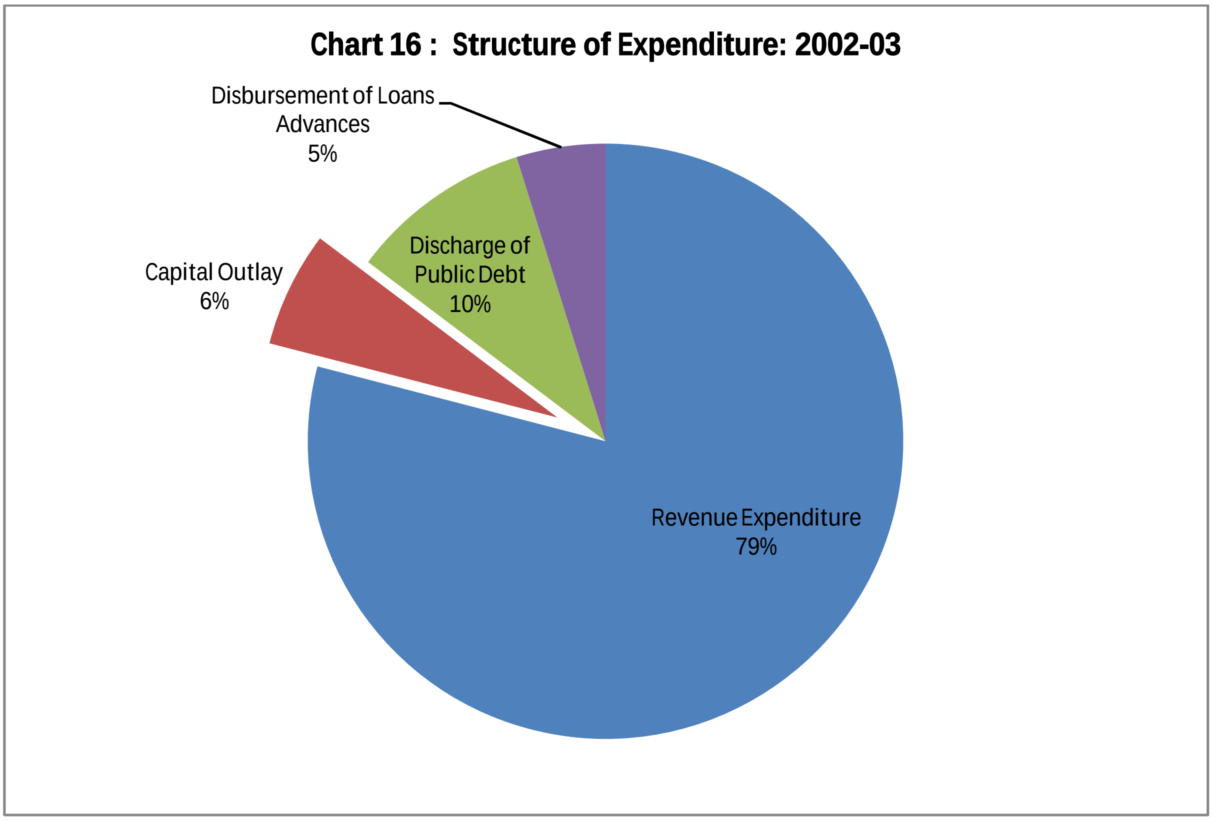
Note : Figures in brackets indicate percentage share.

In 2002-03, the share of capital outlay in total expenditure was only 6 percent. A significant structural changes had taken place between 2005-06 and 2007-08 in the expenditure patterns of the state; in 2007-08, the share of capital outlay in total expenditure had increased from 9 percent to 19 percent, and has remained nearly at that level thereafter, except in 2011-12 when it decreased to 15 percent. For the future growth of the state economy, this was a most remarkable development.

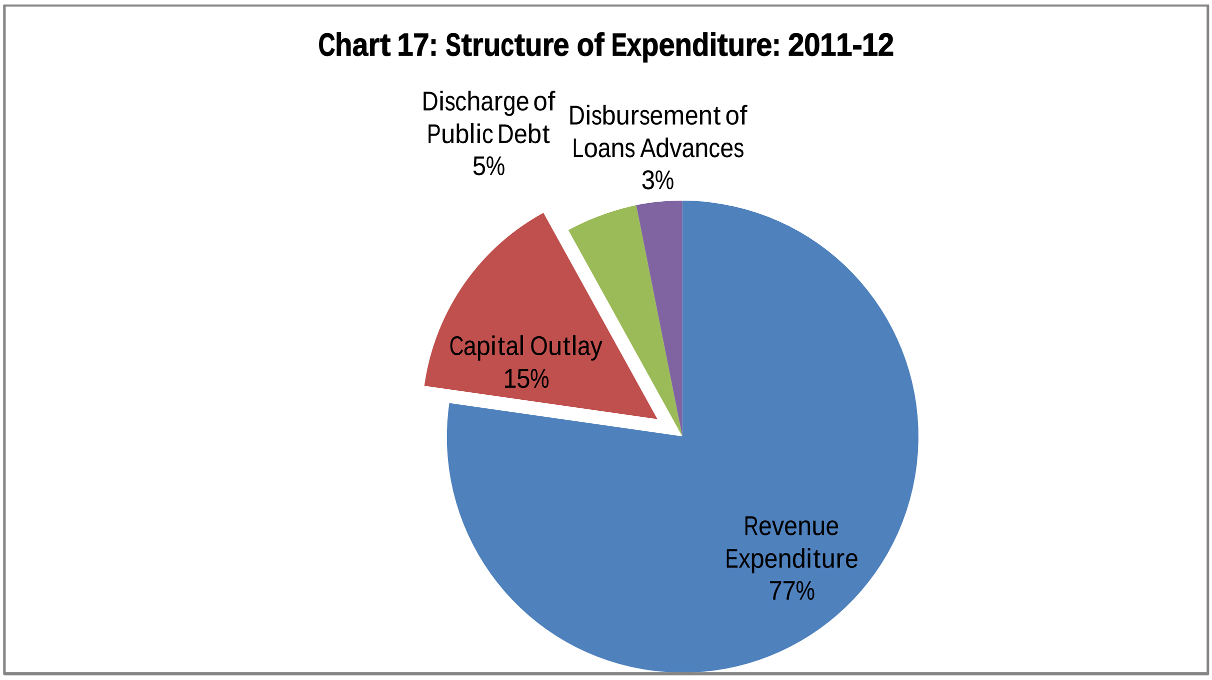
The proportion of revenue expenditure (RE) on administration, i.e., on general services which are of non-developmental nature, had also undergone a discernible shift. In 2002-03, it used to consume 42 percent of total expenditure of the state government; this share was brought down to less than 30 percent in 2007-08; in 2011-12, it consumed 29 percent of the total expenditure. The revenue expenditure on social services increased from 25 percent to 31 percent of the total expenditure during the same period. The share of economic services increased from 11 percent to 17 percent during the same period. Discharge of public debt accounted for 15 percent of the total expenditure in 2004-05, which came down to only 4 percent in the next year, thanks to the recommendations of the 12th Finance Commission. Loans and advances disbursed by the state government made up for the rest 3 percent of total expenditure in 2011-12, down from 5 percent a decade ago. The steady increase in capital outlay over the entire period from 2002-03 to 2010-11, save the 3 percent decline in 2011-12, translates into an increase of nearly Rs 7900 crore over the period, at an annual growth rate of 31 percent. The increase in capital outlay has catapulted the disadvantaged economy of the state to one of the fastest growing among all major states in India.

Chart 15: Structure of Expenditure in Bihar (percent share)



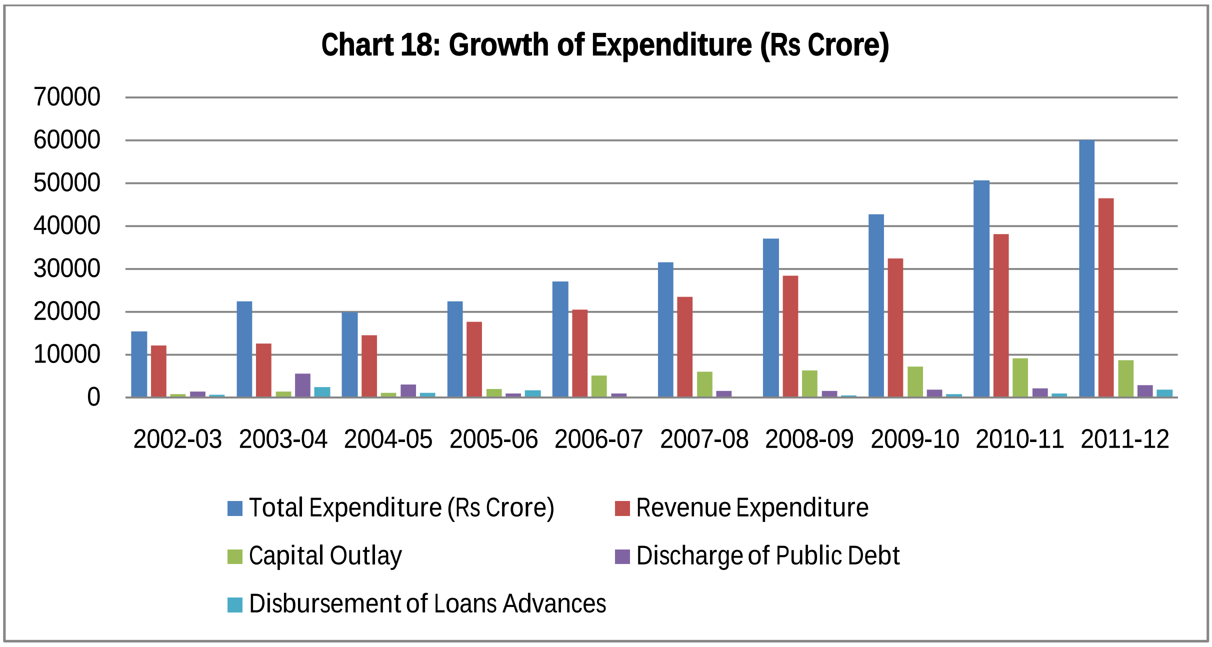


From Charts 16 and 17, it is noted that the significant structural change that has taken place in the state's expenditure patterns between 2002-03 and 2011-12. While the share of revenue expenditure in total expenditure had not changed much, capital outlay had increased from 6 percent of total expenditure to 15 percent of total expenditure, accompanied by decline in the share of repayment of public debt from 10 percent to 5 percent.



Among the revenue expenditure, social and economic services, essential for the socio-economic development of the state, now account for the bulk of the expenditure. The revenue and capital accounts claimed 77 percent and 23 percent of total expenditure in 2011-12, and this share has not changed much over the period. About 78 percent of the revenue expenditure was of developmental nature and only 22 percent non-developmental in 2011-12, and their relative proportions have not changed markedly over the last ten years.

As observed earlier, the state government has been able to manage its debt problem quite well by consistently generating substantial surpluses in its revenue account during the last few years. Enforcing considerable discipline in its financial administration, it could get substantial debt relief from the central government during the period covered by the Twelfth Finance Commission (2005-10). The servicing of debt now takes around 5 percent of the total expenditure. The state government is now much better placed to launch ambitious programmes aimed at creation of quality infrastructure that alone can further accelerate the pace of economic growth of the state. It was observed in the previous chapter that the annual compound growth rate of capital outlay has been as high as 31 percent during 2002-12; the revenue expenditure on social and economic services has grown at fairly high rates of 20 and 24 percent respectively during the period, while the discharge of public debt has grown at an annual average rate of (-)0.6 percent only. While the discharge of internal debt has grown at a very high rate of 19.7 percent, the repayment of public debt came down due to the negative growth in repayment of central loans, again due to path-breaking recommendations of the 12th Finance Commission. On the whole, the total expenditure of the state government has been growing annually at 15.2 percent during the period.



3.2 Plan and Non-Plan Expenditure

Table 3.2 shows the trends of plan and non-plan expenditure in Bihar from 2002-03 to 2011-12. From this, it is observed that the share of non-plan expenditure has been reduced steadily from 70 percent of total expenditure in 2002-03 to 57 percent in 2011-12, with consequent increases in the share of plan expenditure. The expenditure on state plans has constituted the bulk of plan expenditure during the period, ranging from 86 to 90 percent of total expenditure. From Table 3.2, we see that plan revenue expenditure was distributed more or less evenly between the revenue and capital accounts, with revenue account claiming 54 percent and capital account claiming 46 percent of total plan expenditure; these shares have remained nearly the same over the years.

Out of the non-plan expenditure, since the revenue account is primarily meant for maintenance of the assets, it accounts for almost the entire non-plan expenditure; its share increased from 83 to 92 percent of total non-plan expenditure during the ten year period 2002-12. The share of the non-pan expenditure on capital account had, consequently, declined from 17 to 8 percent over the same period.

Table 3.2 : Distribution of Total expenditure by Plan and Non-Plan Heads

(Rs. crore)

Year	Plan Expenditure			Non-Plan Expenditure				Total Expenditure
	Revenue Account	Capital Account	Total	Revenue Account			Capital Account	
				Interest payments	Other Heads	Total		
2002-03	1357 (8.8)	1024 (6.6)	2381 (15.4)	3019 (19.5)	7875 (50.8)	10894 (70.3)	2231 (14.4)	15506 (100.0)
2003-04	1083 (4.8)	1695 (7.5)	2778 (12.4)	3349 (14.9)	8274 (36.8)	11623 (51.7)	8077 (35.9)	22478 (100.0)
2004-05	1996 (10.0)	1480 (7.4)	3476 (17.3)	3474 (17.3)	9169 (45.7)	12643 (63.0)	3939 (19.6)	20058 (100.0)
2005-06	2736 (12.1)	2163 (9.6)	4899 (21.7)	3649 (16.2)	11371 (50.4)	15020 (66.6)	2650 (11.7)	22569 (100.0)
2006-07	4065 (15.0)	5332 (19.6)	9397 (34.6)	3416 (12.6)	13104 (48.3)	16520 (60.9)	1220 (4.5)	27137 (100.0)
2007-08	4804 (15.2)	6142 (19.5)	10946 (34.7)	3707 (11.7)	15052 (47.7)	18759 (59.4)	1867 (5.9)	31572 (100.0)
2008-09	7280 (19.6)	6533 (17.6)	13813 (37.2)	3753 (10.1)	17479 (47.0)	21232 (57.1)	2136 (5.7)	37181 (100.0)
2009-10	8439 (19.7)	7755 (18.1)	16194 (37.8)	3685 (8.6)	20460 (47.8)	24145 (56.4)	2456 (5.7)	42795 (100.0)
2010-11	10900 (21.5)	10011 (19.7)	20911 (41.2)	4319 (8.5)	22997 (45.4)	27316 (53.9)	2478 (4.9)	50705 (100.0)
2011-12	12487 (20.7)	10521 (17.5)	23008 (38.2)	4304 (7.2)	29709 (49.4)	34013 (56.5)	3161 (5.3)	60182 (100.0)

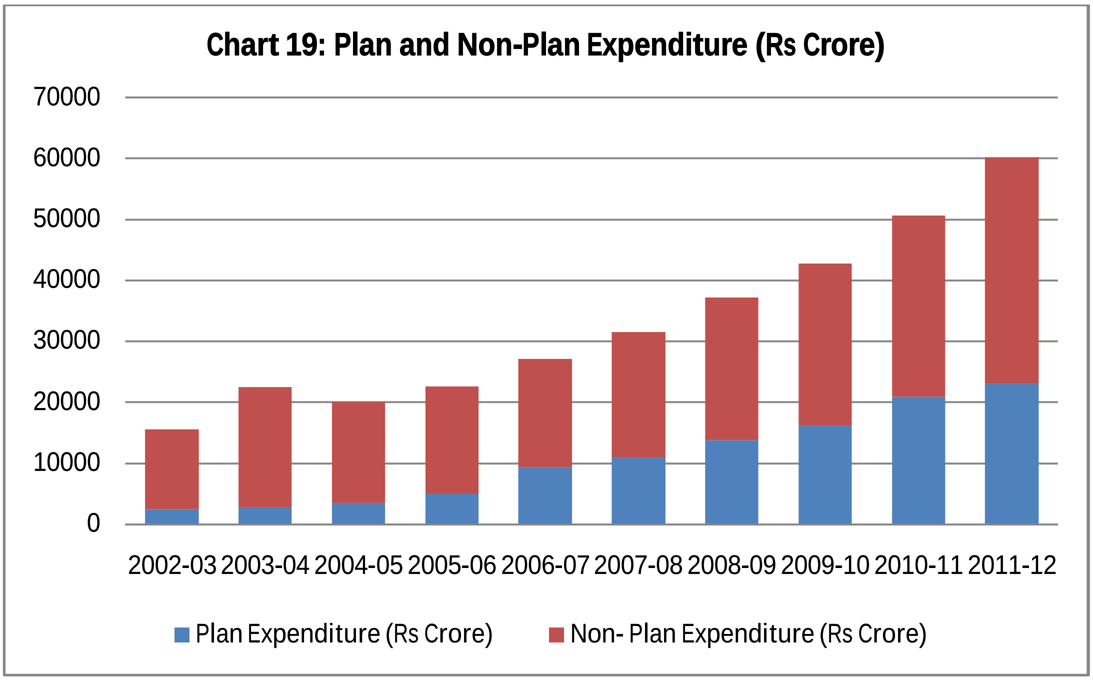


Chart 19: Plan and Non-Plan Expenditure (Rs Crore)
70000
60000
50000
40000
30000
20000
10000
0
2002-03 2003-04 2004-05 2005-06 2006-07 2007-08 2008-09 2009-10 2010-11 2011-12
Plan Expenditure (Rs Crore)
Non- Plan Expenditure (Rs Crore)

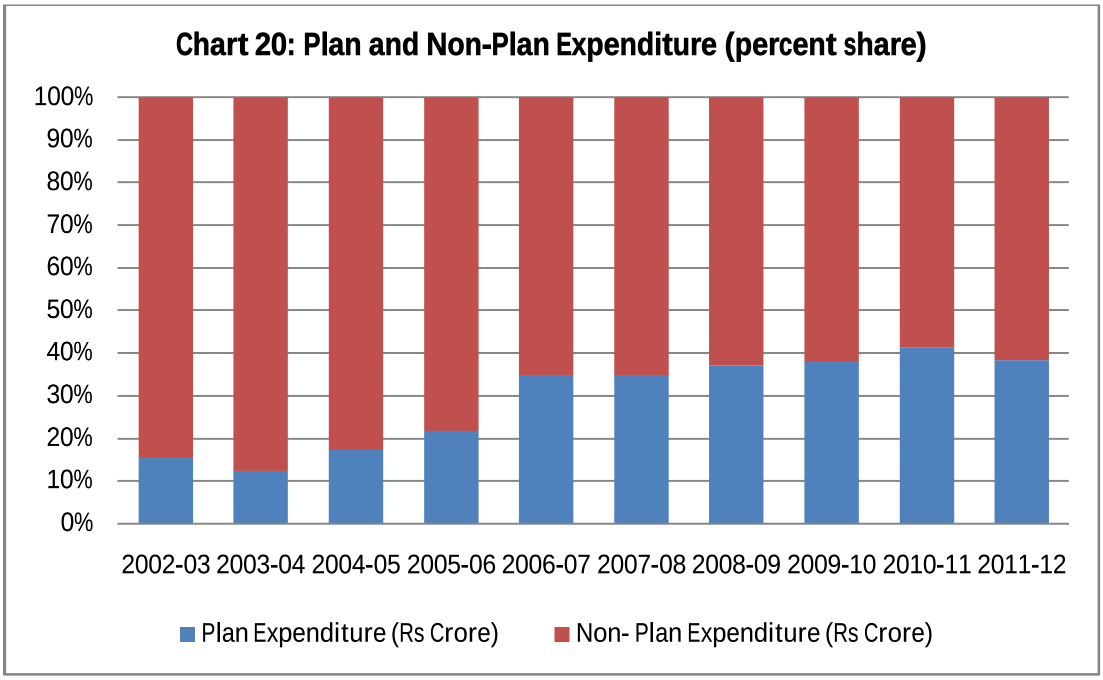


Chart 20: Plan and Non-Plan Expenditure (percent share)
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
2002-03 2003-04 2004-05 2005-06 2006-07 2007-08 2008-09 2009-10 2010-11 2011-12
Plan Expenditure (Rs Crore)
Non- Plan Expenditure (Rs Crore)

Table 3.3 : Distribution of Plan Expenditure by Type of Plan

(Rs. crore)

Year	Types of Plan			Total Plan Expenditure (Rs Crore)
	State Plan	Centrally Sponsored Schemes	Central Plan	
2002-03	2103 (88.3)	8 (0.3)	271 (11.4)	2381 (100.0)
2003-04	2487 (89.5)	0 (0.0)	291 (10.5)	2778 (100.0)
2004-05	3124 (89.9)	2 (0.0)	350 (10.1)	3476 (100.0)
2005-06	4380 (89.4)	6 (0.1)	513 (10.5)	4899 (100.0)
2006-07	8459 (90.0)	19 (0.2)	919 (9.8)	9397 (100.0)
2007-08	9700 (88.6)	23 (0.2)	1223 (11.2)	10946 (100.0)
2008-09	12336 (89.3)	103 (0.7)	1376 (10.0)	13815 (100.0)
2009-10	13998 (86.4)	140 (0.9)	2056 (12.7)	16194 (100.0)
2010-11	18427 (88.1)	126 (0.6)	2358 (11.3)	20911 (100.0)
2011-12	20322 (88.3)	108 (0.5)	2578 (11.2)	23008 (100.0)

3.3 Major Components of Revenue and Capital Expenditure

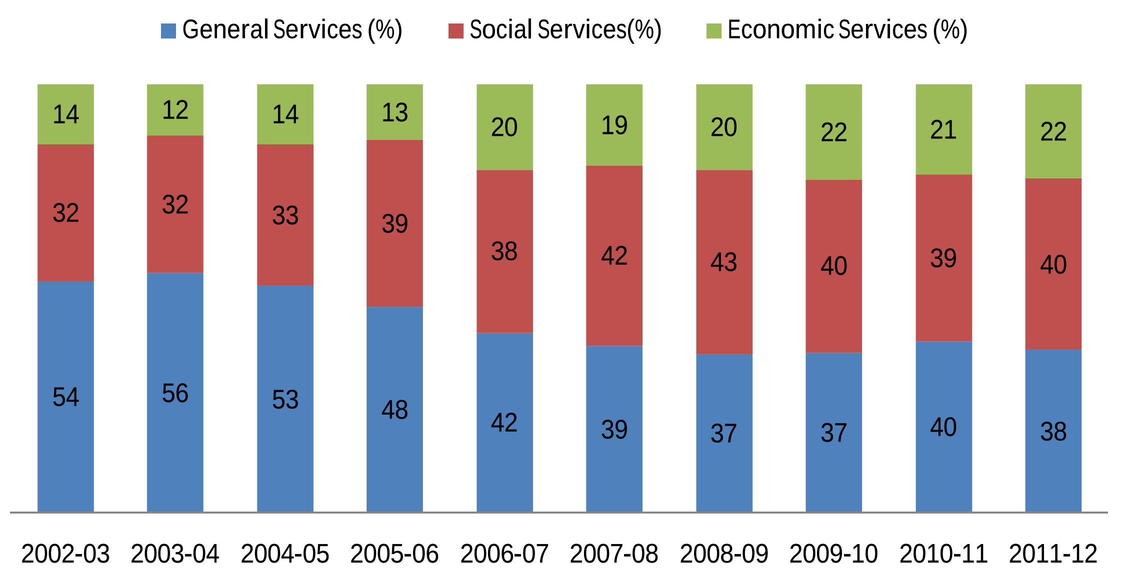
Table 3.4 depicts the details of revenue and capital expenditure of the state government. The revenue expenditure is incurred to maintain the present level of activities and thus does not make any addition to the existing infrastructure. The share of general services in revenue expenditure came down significantly from 54 percent to 38 percent during the period 2001-12, with consequent increases in the expenditure on both social and economic services; the share of each grew by 8 percentage points during this period. The developmental revenue expenditure constituted almost two thirds of the total revenue expenditure in 2011-12.

As pointed out earlier also, there has been a major structural change in capital expenditure over the period; the share of capital outlay has increased more than two folds during the period, from 30 percent in 2002-03 to 74 percent in 2011-12. The repayment of public debt used to constitute 47 percent of the total capital expenditure earlier; this share had come down to only 21 percent in 2011-12. Of the two components of public debt, there was again a significant structural change – share of internal debt in total repayment had increased from 10 percent in 2002-03 to 84 percent in 2011-12, with a corresponding reduction in the share of central loans in total repayment, thanks to the recommendations of the 12th Finance Commission. The total debt repayment also grew from Rs 1533 crore to Rs 2922 crore during the period, at a modest annual rate of 7 percent as seen earlier. The disbursement of loans and advances by the state government was made entirely for economic services throughout the period. The capital outlay was mostly concentrated in economic services that accounted for as much as 84 percent of total capital outlay; this share had remained nearly the same throughout the period.

Table 3.4 : Patterns of Revenue and Capital Expenditure

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue Expenditure (Rs Crore)	**12255**	**12711**	**14638**	**17756**	**20585**	**23563**	**28512**	**32584**	**38216**	**46500**
General Services (%)	54	56	53	48	42	39	37	37	40	38
Social Services (%)	32	32	33	39	38	42	43	40	39	40
Economic Services (%)	14	12	14	13	20	19	20	22	21	22
Grants and Contribution (%)	0	0	0	0	0	0	0	0	0	0
Capital Expenditure (Rs Crore)	**3250**	**9771**	**5420**	**4813**	**6551**	**8008**	**8670**	**10212**	**12489**	**13681**
Capital Outlay (%)	30	16	22	43	80	76	74	72	74	65
Repayment of Public Debt (%)	47	58	57	20	16	20	19	19	18	21
Loan and Advance Disbursed (%)	23	26	21	36	5	3	6	9	9	14
Capital Outlay (Rs Crore)	**970**	**1549**	**1205**	**2084**	**5211**	**6104**	**6436**	**7332**	**9196**	**8852**
General Services (%)	8	1	6	3	3	4	3	4	4	7
Social Services (%)	15	11	11	16	11	13	10	15	12	9
Economic Services (%)	77	88	83	81	86	83	87	81	84	84
Repayment of Public Debt (Rs Crore)	**1533**	**5653**	**3087**	**981**	**1025**	**1632**	**1682**	**1983**	**2190**	**2922**
Repayment of Internal Debt (%)	10	58	12	50	69	74	75	59	79	84
Repayment of Loans and Advances from Centre (%)	90	42	88	50	31	26	26	41	21	16
Loan and Advance Disbursed (Rs Crore)	**747**	**2569**	**1128**	**1748**	**315**	**273**	**551**	**897**	**1103**	**1906**
Social Services (%)	3	1	1	0	0	0	0	0	0	0
Economic Services (%)	97	99	99	100	100	100	100	100	100	100

Chart 21 : Composition of Revenue Expenditure (%)



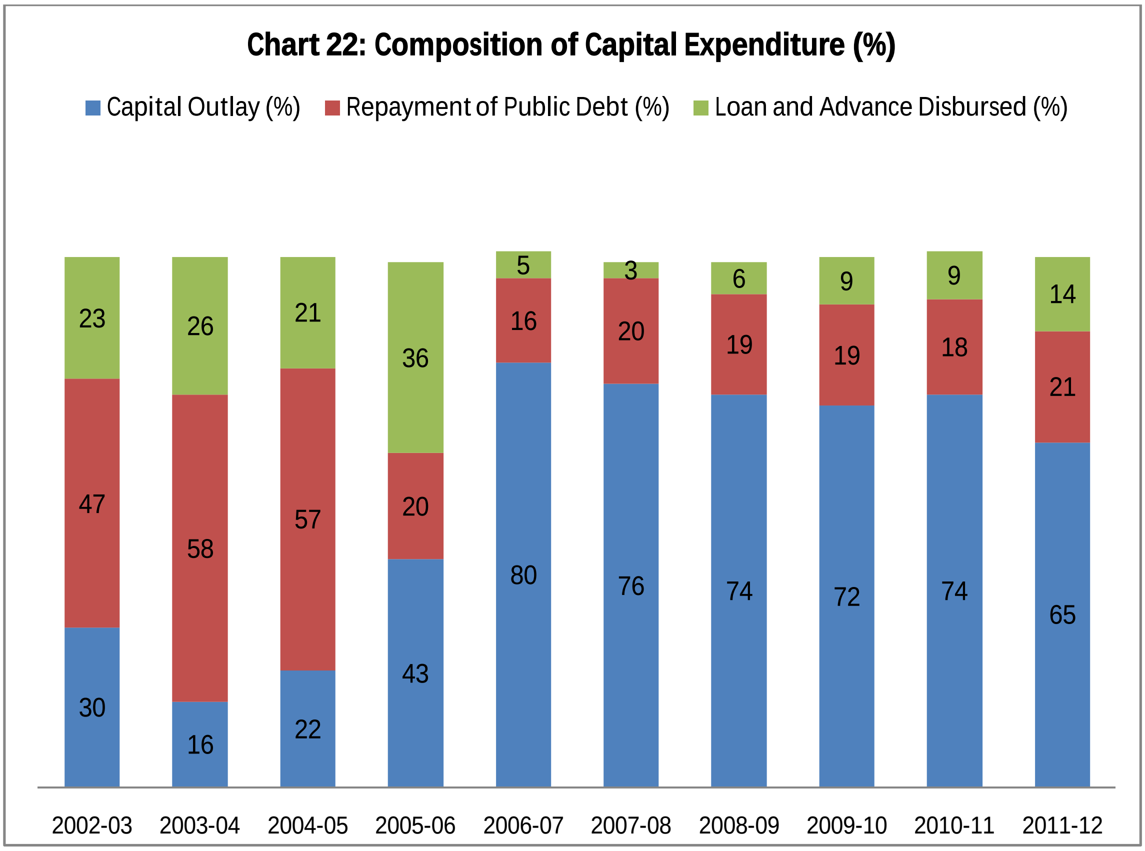


Chart 22: Composition of Capital Expenditure (%)
Capital Outlay (%)
Repayment of Public Debt (%)
Loan and Advance Disbursed (%)
23
26
21
36
5
3
6
9
9
14
47
58
57
20
16
20
19
19
18
21
30
16
22
43
80
76
74
72
74
65
2002-03
2003-04
2004-05
2005-06
2006-07
2007-08
2008-09
2009-10
2010-11
2011-12

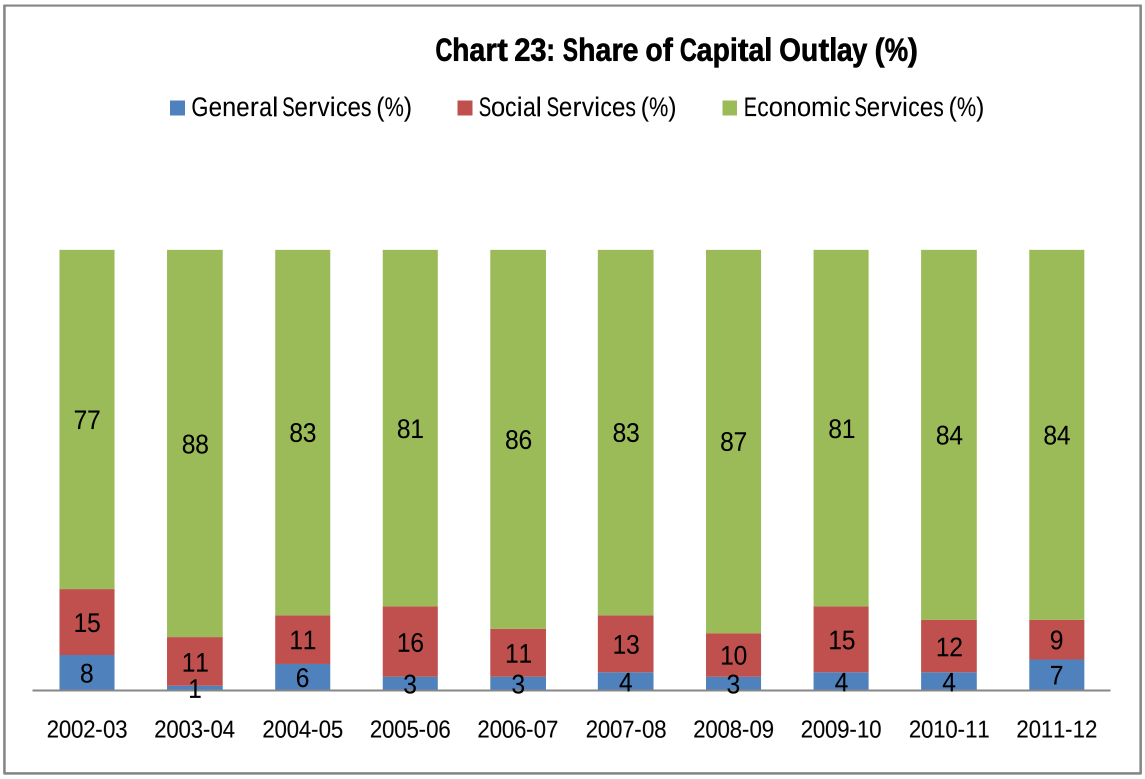


Chart 23: Share of Capital Outlay (%)
General Services (%)
Social Services (%)
Economic Services (%)
77
88
83
81
86
83
87
81
84
84
15
11
11
16
11
13
10
15
12
9
8
1
6
3
3
4
3
4
4
7
2002-03
2003-04
2004-05
2005-06
2006-07
2007-08
2008-09
2009-10
2010-11
2011-12

3.4 Analysis of Revenue Expenditure

Within general services, there are certain expenditure items which cannot be much controlled. These are mostly items of charged expenditure (like pension and interest payments) which accounted for 68 percent of the total expenditure on general services in 2011-12, little less than their share of 77 percent in 2002-03. Table 3.5 shows the trends of revenue expenditure on various components of general, social and economic services. Even though the share of general services in the total expenditure has been going down, in absolute terms, it has grown steadily from Rs. 6574 crore in 2002-03 to Rs 17,730 crore in 2011-12, at an annual rate of 12 percent. Compared to this, the expenditure on social services increased from Rs 3916 crore to Rs 18,729 crore during this period, at an annual rate of 19 percent, and that in economic services increased from Rs 1763 crore to Rs 10,038 crore, at an annual rate of 21 percent. Among the social services, as with every other state, education claims the bulk of expenditure, though its share had reduced from 69 to 54 percent of total revenue expenditure during the period 2002-12, along with the share of health which declined marginally from 14 percent to 10 percent. The shares of social security and welfare (3 to 12 percent), welfare of SC/ST/OBC (2 to 6 percent) and housing (0 to 4 percent) has increased correspondingly.

Table 3.5 : Analysis of Revenue Expenditure

Expenditure Heads	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
General Services (Rs crore)	**6574**	**7175**	**7803**	**8523**	**8643**	**9252**	**10390**	**12202**	**15287**	**17730**
Share of Interest payments (%)	46	47	45	43	40	40	36	30	28	24
Share of Pensions/Misc Gen. services (%)	31	32	30	29	29	30	33	35	40	44
Social Services (Rs crore)	**3916**	**4033**	**4795**	**6862**	**7917**	**9868**	**12429**	**13186**	**15089**	**18729**
Share of Education/ Sports/ Arts/ Culture (%)	69	70	66	64	66	56	54	56	54	54
Share of Health and Family Welfare (%)	14	13	13	13	12	12	10	11	10	10
Economic Services (Rs crore)	**1763**	**1498**	**2036**	**2367**	**4021**	**4438**	**5726**	**7088**	**7836**	**10038**
Share of Agriculture/ Allied Activities(%)	14	17	19	17	15	17	22	21	26	19
Share of Rural Development (%)	45	42	39	45	33	37	37	38	25	29
Share of Irrigation/ Flood Control (%)	20	21	23	20	11	13	12	13	17	13
Share of Energy (%)	2	0	0	0	27	16	13	12	16	22
Share of Transport (%)	11	14	11	12	10	9	9	10	8	8
Expenditure ratios										
Own Revenue / Revenue Expenditure (%)	25	25	26	23	22	24	26	30	28	29
Gross Central Transfers/ Aggregate Disbursements (%)	59	45	68	61	68	73	69	62	68	64
Total Expenditure/GSDP (%)	24	34	26	27	26	28	26	26	25	24

Among the economic services, agriculture and allied activities, rural development, irrigation and flood control, energy and transport have been the major areas of revenue expenditure; together they constituted 91 percent of total expenditure on economic services in 2011-12, almost the same as in 2002-03 (93 percent), although there were variations within these components. The share of rural development, agriculture, irrigation and flood control and transport had been reduced while that of energy had increased significantly.

Table 3.5 also shows some expenditure ratios, from which we can see that the state's own revenue meets little more than a quarter of its total revenue expenditure, and this proportion has not changed much over the period. The gross transfers from the centre (share of taxes, grants and loans) constitutes about two thirds of the total aggregate disbursement of the state government, and this share also has not changed much since 2004-05. The total expenditure of the state, revenue and capital combined, accounts for about a quarter of the State's GSDP and even this share has also remained nearly the same over the years.

Committed Expenditure on Salary and Pension

The salary and pension constitute the two most important items of expenditure for all governments. The trends in expenditure on salaries, both under plan and non-plan heads, as well as expenditure on pension are presented in Table 3.6. The salary of the state government employees accounted for 26 percent of the total revenue expenditure in 2011-12, and this share had not changed much during the last 5 years except in 2009-10 when it rose to 30 percent on account of payment of Pay Commission arrears. The salary expenses constituted 5 percent of GSDP in 2011-12 and this proportion was almost constant during the last 5 years from 2007-08 to 2011-12. This was again because the GSDP expanded phenomenally during the period, along with increases in the levels of salary after the state government had revised its own pay scales, following recommendations of the Sixth Pay Commission for the central government employees. Similarly, pension payments constituted 17 percent of revenue expenditure in 2011-12 or 3 percent of GSDP. During the period from 2007-08 to 2011-12, there had been major increases in expenditure on these accounts by almost Rs. 5700 crore for salary and Rs. 5000 crore for pension payments, following the pay revision effective from January, 2007, with arrears being disbursed in parts during 2008-09, 2009-10 and 2010-11. But salary expenses are still within the norm of 35 percent of revenue expenditure, as recommended by the Twelfth Finance Commission. Overall, the increases in pension and salary expenditure have been phenomenal. The pension payments increased annually at a rate of 29 percent from Rs. 2789 crore in 2007-08 to Rs. 7808 crore in 2011-12, while the salary expenditure increased at an annual rate of 17 percent during this period. The pension and salary payments together constitute 8 percent of GSDP of the state and as much as 43 percent of the state government's total revenue expenditure.

Table 3.6 : Expenditure on Salaries and Pensions

(Rs. crore)

Heads	2007-08	2008-09	2009-10	2010-11	2011-12
Expenditure on Salaries	**6470**	**7601**	**9659**	**10550**	**12194**
Non-Plan Head	5915	6964	9001	9953	11495
Plan Head	555	637	657	596	699
Salary as percentage of GSDP	5.69	5.34	5.90	5.23	4.83
Salary as percentage of RR	22.93	23.05	27.19	23.69	23.76
Salary as percentage of RE	27.46	26.66	29.64	27.61	26.22
Expenditure on Pensions	**2789**	**3479**	**4319**	**6144**	**7808**
Rate of Growth	12.00	24.74	24.13	42.26	27.09
Pension as percentage of GSDP	2.45	2.45	2.64	3.04	3.09
Pension as percentage of RR	9.89	10.55	12.16	13.80	15.22
Pension as percentage of RE	11.84	12.20	13.25	16.08	16.79
Total expenditure on Salary & Pension	**9258**	**11080**	**13977**	**16693**	**20002**
Total as percentage of GSDP	8.14	7.79	8.53	8.27	7.92
Total as percentage of RR	32.82	33.60	39.34	37.49	38.98
Total as percentage of RE	39.29	38.86	42.90	43.68	43.02

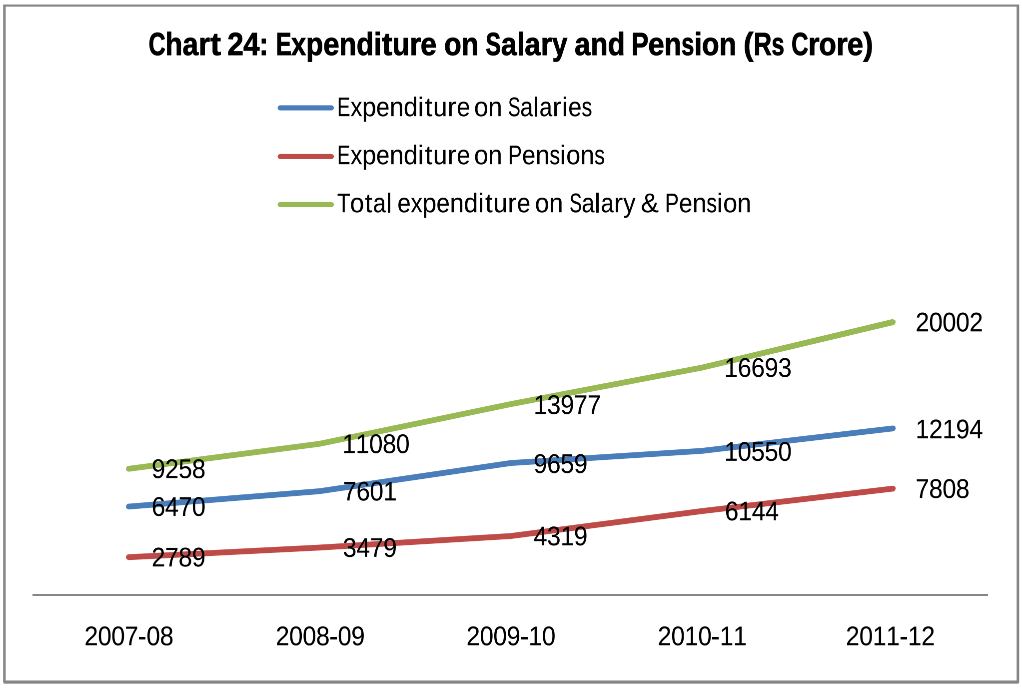


Chart 24: Expenditure on Salary and Pension (Rs Crore)

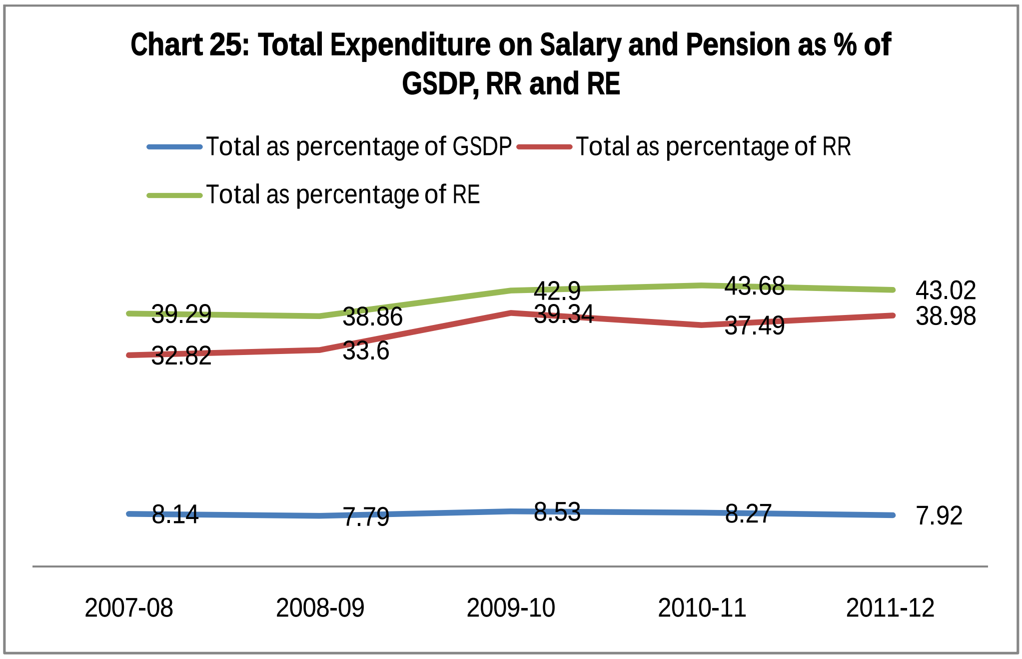


Chart 25: Total Expenditure on Salary and Pension as % of GSDP, RR and RE

Finally in Table 3.7, some expenditure ratios have been compared among the general category states, from which it is seen that Bihar compares well with the other states in respect of most of the ratios. Only in respect of a few ratios involving its own revenue, viz., Non-Developmental Expenditure / Own Revenue, Interest Payments/ Own Revenue, Own Revenue / Revenue Expenditure and Gross Central Transfers/ Aggregate Disbursements, the state compares unfavourably with the other general category states.

Table 3.7 : Inter-State Comparison of Expenditure Ratios (2010-11)

Ratios	Andhra Pradesh	Bihar	Chattisgarh	Gujarat	Haryana	Jharkhand	Karnataka	Kerala
Non-Plan Expenditure/ Total Expenditure (%)	69	**62**	53	62	73	61	61	83
Developmental Expenditure/ Total Expenditure (%)	62	**63**	69	65	61	61	69	48
Non-Developmental Expenditure / Revenue Receipts (%)	47	**43**	32	47	56	46	38	68
Non-Developmental Expenditure / Own Revenue (%)	68	**175**	57	60	71	102	53	89
Expenditure on Pensions as % of Total Expenditure	10	**12**	8	8	8	9	6	16
Revenue Expenditure on Education as % of Total Expenditure	12	**16**	17	15	16	17	15	17
Revenue Expenditure on Health and family Welfare as % of Total Expenditure	4	**3**	3	3	3	3	3	5
Revenue Expenditure on Education and Health as % of Total Expenditure	17	**19**	20	19	19	20	18	22
Salary Expenditure (Revenue A/c)/ Total Revenue Expenditure (%)	30	**28**	33	10	35	31	22	32
Capital Outlay /Total Expenditure (%)	11	**18**	13	14	11	12	19	8
Capital Outlay/ Capital Receipts (%)	59	**152**	217	57	40	108	192	46
Interest Payments/Revenue Expenditure (%)	12	**11**	6	17	12	12	10	16
Interest Payments / Revenue Receipts (%)	12	**10**	5	18	13	12	10	18
Interest Payments/ Own Revenue (%)	17	**40**	9	23	17	26	13	24
Revenue Expenditure / Total Expenditure (%)	78	**75**	82	80	76	81	75	85
Own Revenue / Revenue Expenditure (%)	71	**28**	66	72	71	47	77	68
Gross Central Transfers/ Aggregate Disbursements (%)	27	**68**	43	16	15	47	25	19
Total Expenditure/GSDP (%)	18	**26**	20	14	14	19	18	15

Table 3.7 : Inter-State Comparison of Expenditure Ratios (2010-11) (Contd.)

Ratios	MP	Maharashtra	Orissa	Punjab	Rajasthan	Tamil Nadu	UP	West Bengal
Non-Plan Expenditure/ Total Expenditure(%)	64	75	68	88	74	71	70	81
Developmental Expenditure/ Total Expenditure(%)	60	65	64	42	62	54	55	51
Non-Developmental Expenditure / Revenue Receipts (%)	46	43	39	79	45	60	56	77
Non-Developmental Expenditure / Own Revenue (%)	88	54	81	99	76	80	118	155
Expenditure on Pensions as % of Total Expenditure	6	7	11	24	10	13	9	11
Revenue Expenditure on Education as % of Total Expenditure	14	21	18	11	19	15	15	19
Revenue Expenditure on Health and family Welfare as % of Total Expenditure	3	3	3	3	5	4	4	4
Revenue Expenditure on Education and Health as % of Total Expenditure	17	24	21	14	24	6	19	24
Salary Expenditure (Revenue A/c)/ Total Revenue Expenditure (%)	28	39	31	29	32	26	37	39
Capital Outlay /Total Expenditure (%)	15	14	12	6	10	14	15	3
Capital Outlay/ Capital Receipts (%)	112	84	186	30	63	81	93	9
Interest Payments/Revenue Expenditure (%)	11	15	10	17	16	11	13	21
Interest Payments / Revenue Receipts (%)	10	15	9	20	16	11	13	29
Interest Payments/ Own Revenue (%)	19	19	19	25	27	15	27	59
Revenue Expenditure / Total Expenditure (%)	75	82	81	87	84	80	79	87
Own Revenue / Revenue Expenditure (%)	60	78	54	67	60	72	49	36
Gross Central Transfers/ Aggregate Disbursements (%)	43	18	49	15	36	21	43	32
Total Expenditure/GSDP (%)	23	12	19	17	16	16	23	16

3.5 Quality of Expenditure

Besides analysing the levels of expenditure under different heads, it is desirable to analyse the quality of expenditure incurred by the state government which can be judged by the proportion of expenditure devoted to creation of social and physical infrastructure, quantum of developmental expenditure on social and economic services as opposed to non-developmental expenditure on general services, and the proportion of plan expenditure as opposed to non-plan expenditure. In this perspective, the important parameters of quality in expenditure are: (1) ratio of capital outlay to total expenditure; (2) the ratio of capital outlay to GSDP; (3) the proportion of revenue expenditure being spent on social and economic services and the proportion of non-salary expenditure incurred in these services and (4) ratio of plan expenditure to total expenditure. The higher these ratios, the better would be the quality of expenditure. Table 3.8 shows these ratios during the 5 year period from 2007-08 to 2011-12.

Table 3.8 : Quality Parameters of Expenditure

Expenditure Heads	2007-08	2008-09	2009-10	2010-11	2011-12
Capital Outlay (Rs. crore)	6104	6436	7332	9196	8852
Revenue Expenditure (Rs. crore)	23563	28512	32584	38216	46500
Of which Social and Economic Services with	14306	17978	20274	22926	28767
(i) Salary Component (Rs. crore)	4378	5194	6920	7027	8171
Percentage of salary component (%)	30.6	28.9	34.1	30.7	28.4
(ii) Non salary component (Rs. crore)	9928	12784	13354	15899	20596
Percentage of non-salary component (%)	69.4	71.1	65.9	69.3	71.6
Capital Outlay/ Total Expenditure (%)	19.3	17.3	17.1	18.1	14.7
Revenue Expenditure / Total Expenditure (%)	74.6	76.7	76.1	75.4	77.3
Revenue Expenditure /GSDP (%)	20.7	20.0	19.9	18.9	18.4
Capital Outlay /GSDP (%)	5.4	4.5	4.5	4.6	3.5
Plan Expenditure / Total Expenditure (%)	34.7	37.2	37.8	41.2	38.2

Going by all the parameters, it is clear that the quality of expenditure in Bihar had improved, albeit marginally, over the past five years (2007-12). The non-salary component of developmental revenue expenditure had increased marginally from 69 to 71 percent during this period, while the share of plan expenditure in total expenditure had increased from 35 to 38 percent. The ratio of plan to non-plan expenditure had, however, increased more sharply from 53 percent to 62 percent.

3.6 Sectoral Expenditure Pattern

Expenditure on Social Services : Providing better access to basic education, health services, safe drinking water, sanitation, housing etc. has now become more important to establish linkages between economic growth and social welfare. The expenditure on social services is, therefore, essential for judging the overall improvement in the quality of life. Table 3.9 examines the quality of expenditure incurred by the state government in expanding and strengthening of social services during the period from 2007-08 to 2011-12.

Table 3.9 : Expenditure on Social Services

	2007-08	2008-09	2009-10	2010-11	2011-12
Education, Sports, Arts & Culture					
Total Expenditure (Rs. crore)	5553	6882	7750	8244	10214
Revenue Expenditure (Rs. crore)	5496	6706	7416	8101	10157
(a) Salary component (%)	45.0	43.0	48.0	45.0	43.5
(b) Non-salary component (%)	55.0	57.0	52.0	55.0	56.5
Capital Outlay (Rs. crore)	57	177	334	144	56
Capital Outlay (%)	1.0	2.6	4.3	1.7	0.6
Health and Family Welfare					
Total Expenditure (Rs. crore)	1387	1291	1517	1667	2125
Revenue Expenditure (Rs. crore)	1141	1193	1388	1502	1804
(a) Salary component (%)	53.0	61.0	66.0	73.0	72.9
(b) Non-salary component (%)	47.0	39.0	34.0	27.0	27.1
Capital Outlay (Rs. crore)	246	97	129	165	321
Capital Outlay (%)	17.7	7.5	8.5	9.9	15.1
Water Supply, Sanitation, Housing and Urban Development					
Total Expenditure (Rs. crore)	1053	1600	1903	2327	2045
Revenue Expenditure (Rs. crore)	713	1413	1438	1698	1713
(a) Salary component (%)	16.0	10.0	11.0	10.0	11.6
(b) Non-salary component (%)	84.0	90.0	89.0	90.0	88.4
Capital Outlay (Rs. crore)	339	187	465	630	332
Capital Outlay (%)	32.2	11.7	24.4	27.1	16.2
Total (Social Services)					
Total Expenditure (Rs. crore)	10667	12892	14309	16161	19536
Revenue Expenditure (Rs. crore)	9868	12252	13186	15089	18729
(a) Salary component (%)	35.0	32.0	38.0	34.0	33.6
(b) Non-salary component (%)	65.0	68.0	62.0	66.0	66.4
Capital Outlay (Rs. crore)	799	640	1123	1072	807
Capital Outlay (%)	7.5	5.0	7.8	6.6	4.1

The state government's concern for development of the social sector is amply reflected in the steady increases in allocation for this sector from Rs. 10,667 crore in 2007-08 to Rs. 19,536 crore in 2011-12. However, the capital outlay on social sector did not change significantly during this period; in fact, it got reduced during 2011-12, dropping its share in total capital outlay to 4.1 percent from 6.6 percent the year before. This reduction was due to reduction in capital outlay in education, and more significantly, in water supply and sanitation. The capital outlay on education in 2011-12 was only Rs 56 crore. The levels of capital outlay and the shares of non-salary components of the revenue expenditure (the amount spent actually on the maintenance of assets already created) did not change very substantially between 2007-08 and 2011-12, though there were variations in between.

The salary component accounted for 43.5 percent of sectoral revenue expenditure in respect of education, 72.9 percent in respect of health and only 11.6 percent in respect of water-supply and sanitation. Overall, however, the salary component accounted for one-third of the total revenue expenditure in 2011-12, a ratio that did not vary much during this 5-year period. capital outlay on social services accounted for only 9 percent of total capital outlay while general services accounted for 7 percent of capital outlay in 2011-12. The remaining 84 percent was spent on economic services.

Expenditure on Economic Services : Table 3.10 shows the analysis of expenditure on economic services, the purpose of which is to create additional productive capacity in the economy. Agriculture and allied activities, irrigation and flood control, energy and power, industry and minerals and transport account for more than 73 percent of the total expenditure on economic services, revenue and capital combined, in 2011-12.

About 42 percent of the total expenditure on economic services was made on capital account during 2011-12; irrigation and flood control and transport together accounted for more than 81 percent of the total capital outlay on economic services. The non-salary component of the revenue expenditure in economic services, as in the case of social services, also remained high throughout the period; it was 81 percent during 2011-12.

Table 3.10 : Expenditure on Economic Services

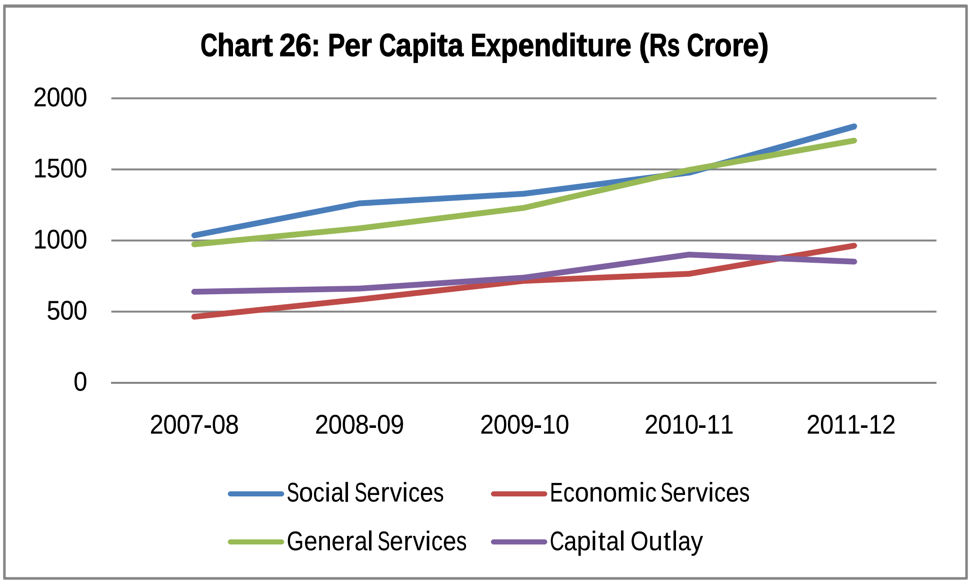
	2007-08	2008-09	2009-10	2010-11	2011-12
Agriculture and Allied Activities					
Total Expenditure (Rs. crore)	759	1284	1505	2035	2032
Revenue Expenditure (Rs. crore)	737	1273	1504	2018	1914
(a) Salary component (%)	31.0	21.0	26.0	20.0	23.8
(b) Non-salary component (%)	69.0	80.0	74.0	80.0	76.2
Capital Outlay (Rs. crore)	22	11	1	17	117
Capital Outlay (%)	2.9	0.9	0.1	0.8	5.8
Irrigation and Flood Control					
Total Expenditure (Rs. crore)	1450	1845	2246	2678	3275
Revenue Expenditure (Rs. crore)	562	704	897	1311	1311
(a) Salary component (%)	63.0	58.0	69.0	53.0	47.2
(b) Non-salary component (%)	37.0	42.0	31.0	47.0	52.8
Capital Outlay (Rs. crore)	888	1141	1349	1367	1964
Capital Outlay (%)	61.2	61.8	60.0	51.0	60.0
Energy and Power					
Total Expenditure (Rs. crore)	841	1123	1244	2223	2270
Revenue Expenditure (Rs. crore)	726	723	868	1216	2168
(a) Salary component (%)	0.0	0.0	0.0	0.0	0.0
(b) Non-salary component (%)	100.0	100.0	100.0	100.0	100.0
Capital Outlay (Rs. crore)	115	400	376	1007	102
Capital Outlay (%)	13.7	35.6	30.2	45.3	4.5
Transport					
Total Expenditure (Rs. crore)	2707	2957	3748	4706	4852
Revenue Expenditure (Rs. crore)	408	493	690	634	789
(a) Salary component (%)	29.0	28.0	23.0	26.0	23.3
(b) Non-salary component (%)	71.0	72.0	77.0	74.0	76.7
Capital Outlay (Rs. crore)	2299	2463	3058	4072	4064
Capital Outlay (%)	84.9	83.3	81.6	86.5	83.7
Industry and Minerals					
Total Expenditure (Rs. crore)	398	503	534	335	429
Revenue Expenditure (Rs. crore)	233	226	265	326	363
(a) Salary component (%)	14.0	13.0	17.0	34.0	11.2
(b) Non-salary component (%)	86.0	87.0	83.0	66.0	88.8
Capital Outlay (Rs. crore)	165	277	269	9	66
Capital Outlay (%)	41.4	55.0	50.3	2.6	15.4
Total (Economic Services)					
Total Expenditure (Rs. crore)	9520	11316	13023	15564	17475
Revenue Expenditure (Rs. crore)	4438	5726	7088	7836	10038
(a) Salary component (%)	22.0	22.0	25.0	20.0	18.7
(b) Non-salary component (%)	78.0	79.0	75.0	80.0	81.3
Capital Outlay (Rs. crore)	5082	5590	5935	7728	7437
Capital Outlay (%)	53.4	49.4	45.6	49.7	42.6

The capital outlay on economic services had increased steadily from Rs 5082 crore to Rs 7437 crore during the period and was more than 84 percent of the total capital outlay of Rs 8852 crore of the state government in 2011-12. Most of the capital outlay on economic services were made on transport, i.e, roads and bridges (Rs 4064 crore), followed by various irrigation and flood control projects (Rs 1964 crore) in 2011-12.

Per Capita Expenditure on Different Sectors : Tables 3.11 shows the per capita expenditure on the three services and also the per capita capital outlay on the state government, computed on the basis of estimated population of Bihar for the years 2007-08 through 2011-12. The growth in per capita expenditure in respect of economic services was higher than in the other sectors; and the growth in per capita capital outlay was the slowest during the period. The per capita expenditure in general services still remains very high compared to economic services. The figures for per capita expenditure on the various sectors, however, conceal the immense intra-state disparity in state government expenditure because of structural and historical factors.

Table 3.11 : Per Capita Expenditure on General, Social and Economic Services and on Capital Outlay

	2007-08	2008-09	2009-10	2010-11	2011-12	CAGR 2007-12
Estimated Population (Rs. Crore)	9.5	9.7	9.9	10.2	10.4	
Total Expenditure (Rs. crore)						
Social Services	9868	12252	13186	15089	18729	17
Education, Sports etc.	5496	6706	7416	8101	10157	17
Medical and Public Health	1141	1193	1388	1502	1804	12
Water Supply and Sanitation	713	1413	1438	1698	1713	24
Economic Services	4438	5726	7088	7836	10038	23
General Services	9252	10530	12202	15287	17730	18
Capital Outlay	6104	6436	7332	9196	8852	10
Per Capita Expenditure (Rs.)						
Social Services	1039	1263	1332	1479	1801	15
Education, Sports etc.	579	691	749	794	977	14
Medical and Public Health	120	123	140	147	173	10
Water Supply and Sanitation	75	146	145	166	165	22
Economic Services	467	590	716	768	965	20
General Services	974	1086	1233	1499	1705	15
Capital Outlay	643	664	741	902	851	7



3.7. Subsidies

Table 3.12 shows the details of subsidies given by the state government during the four years from 2008-09 to 2011-12. During this period, the amount of subsidies given by the state government increased nearly three folds from Rs 862 crore to Rs 2672 crore. During 2011-12, Rs 2133 crore was provided to the Bihar State Electricity Board (BSEB) for bridging its resource gap, Rs 208 crore for promotion of agricultural mechanisation, Rs 165 crore for VAT subsidy under Industrial Policy and Rs 120 crore for subsidy to food processing industries.

The BSEB has always been the major recipient of subsidy in the state for bridging its non-plan resource gap, despite its dismal performance as discussed earlier. During these four years, BSEB had received 79 to 89 percent of the total subsidies given by the state government. About 80 percent of the total subsidies given by the state government are under non-plan heads (mainly on account of BSEB), only 20 percent of subsidies are given under plan schemes. There does not appear to be any system of any need-based targeting and evaluation of the subsidies given by the state government.

Table 3.12 : Subsidies Given by State Government

(Rs crore)

Name of the Department Receiving subsidy	**2008-09**	**2009-10**	**2010-11**	**2011-12**
Animal Husbandry & Fisheries Resources	4	10	22	38
Food & Consumer Protection	59	23	0	
Energy (BSEB)	720	840	1080	2133
Science & Technology				
Industry		71	107	
Agriculture			70	285
Public Health Engineering	78		71	216
Total	**862**	**944**	**1350**	**2672**
Subsidy given to Energy Department (BSEB) (%)	**84**	**89**	**80**	**79**

3.8 Allocative and Technical Efficiency of Expenditure

The allocative efficiency is determined by the government's ability to establish priorities within the budget, to distribute resources on the basis of these priorities and to shift resources, if necessary, from one area of expenditure to another. It also means that no area of public expenditure, according to the priority allocated, should be left resource-starved, which may lead either to resources remaining unutilised or diversion of resources from one area to another. The technical efficiency refers to the effective and optimal utilization of the budgetary allocations and reflects on the productivity in public expenditure. To allocate efficiently, government must be strategic and evaluative; it must both look ahead and define what it wants to accomplish and look back to examine the results. The allocative efficiency will depend on the effectiveness of the budgetary process itself, while technical efficiency will reflect upon the capacity of the government departments to spend the allocated amounts optimally.

In the previous section, while discussing the quality of expenditure, it was seen that the state government's expenditure priorities have not changed much during the 5 year period from 2007-08 to 2011-12. In fact, there was not much scope for changing those priorities. But for a poor state like Bihar, where resources are always scarce, it must be ensured that the resources are allocated on a realistic basis, depending on the need as well as the capacity of a department to spend the allocate funds productively.

Budgeting has always been a very loose exercise in Bihar. It is based rather on a system of incremental increases/ decreases in allocations under the various heads of expenditure, rather than on a realistic evaluation of the programmes / expenditure during the past years and assessment of their impact on social and economic welfare of the people; but such evaluation is unknown in Bihar. The looseness of the budgetary exercise is apparent from the savings under the various heads of expenditure during the past 3 years (2009-12), as shown in Table 3.13 which includes only those heads of accounts where the savings/ excesses has been more than Rs 500 crore in any year.

Table 3.13 : Variation between Budget Estimates and Actual Receipts and Expenditure

	2009-10			2010-11			2011-12		
	BE	Actual	Variation	BE	Actual	Variation	BE	Actual	Variation
District Administration	960	380	580	574	278	296	358	274	83
Pensions and other Retirement Benefits	3782	4319	-536	5873	6144	-270	7584	7808	-224
General education	8644	7349	1295	9397	8012	1385	11001	10053	948
Urban Development	1583	1046	537	1742	505	1237	1226	572	654
Crop Husbandry	581	924	-343	845	1394	-549	1251	1307	-56
Other Rural Dev. Programmes	1516	1428	87	1659	1548	111	3322	2488	834
Power	720	863	-142	1080	1213	-133	1080	2158	-1078
Revenue Expenditure	**35715**	**32584**	**3131**	**40678**	**38216**	**2462**	**49934**	**46500**	**3434**
Capital Outlay	**9417**	**7332**	**2085**	**10434**	**9196**	**1238**	**11448**	**8852**	**2596**
Consolidated Fund	**47446**	**35463**	**11983**	**53759**	**41509**	**12250**	**65326**	**60180**	**5146**
Capital Outlay									
Other Rural Dev. Programmes	1486	853	634	1450	1204	246	1345	1089	256
Major and Medium Irrigation	1380	514	866	1448	607	841	1081	677	403
Command area Development	1108	0	1108	832	0	832	1016	0	1016
Flood Control Projects	0	763	-763	0	703	-703	0	1137	-1137
Power Projects	702	376	326	514	1007	-494	942	102	840
Total capital Outlay	**9417**	**7332**	**2085**	**10434**	**9196**	**1238**	**11448**	**8852**	**2596**

As regards resources, Bihar was not able to spend whatever limited funds it had. During the three years (2009-10, 2010-11 and 2011-12), it could not spend Rs 11,983 crore, Rs 12,250 crore and Rs 5146 crore respectively from the resources that were approved by the Legislature. It may be pertinent to mention that when departments are unable to utilise the resources placed at their disposal, it does not only mean their inefficiency and the lack of institutional capacity, it also means placing tax or debt burden on the people heavier than was actually required. The departments which were consistently conspicuous by their lack of capacity to spend the funds allocated included Education, Urban Development, Rural Development, Panchayati Raj, Major and Medium Irrigation, Disaster Management, Command Area Development etc. The departments that ovrshoot their budget included Power, Flood Control, Crop Husbandry, Pension etc. However, it was also seen that in 2011-12, the variation between the budget estimates and actuals had come down significantly compared to the previous year. If this was indicating the beginning of a new trend, it was indeed a welcome sign.

3.9 Suggestion for Improving Efficiency in Public Spending

1) Annual budgeting is often influenced by the short-term political considerations which result in the unnecessary spending and distortion of an optimal policy-mix, and avoidable changes in the structure of expenditure. A medium-term framework is better for total government spending, covering three to five years and supported with medium-term objectives for one or more fiscal variables. The state government has a Medium Term Fiscal Plan (MTFP) since 2006, but it needs to dovetail the MTFP targets with the annual budgetary outlays in a more objective and transparent manner.

2) Just as the fiscal targets should be as per the MFTP, each individual spending decision should be subjected to a transparent decision process such as a Medium Term Expenditure Framework (MTEF). The terms of a MTEF should be set by the highest authority in the state government through a transparent and participative process. Such an MTEF will indicate targets for expenditure related to the outcome of such expenditure.

3) The trend of increasing capital outlay must be continued; but a portion of the increased public spending should be allocated for improving the systems for the control of spending and monitoring its outcomes. The spending plans and objectives should be made transparent to public scrutiny along with reporting of actual outcomes.

4) Increases in public spending should be targeted at publicly articulated and growth-oriented policy objectives. These should be subjected to a transparent process of technical assessment, like a cost-benefit analysis, or comparison with best performing states. The spending plans should also be assessed for their macroeconomic consequences.

5) The experiences of many developing nations indicate that corruption, in general, lowers expenditure as a percentage of GDP on social sectors (education, health etc.) and enhances spending on capital intensive projects, energy and public services. The same may be true to some extent in Bihar also. It is desirable to institute stronger monitoring and control systems in respect of capital intensive projects to reduce corruption.

6) Experiences many countries have highlighted that government spending inefficiency declines when complemented by increases in private economic activities. Hence, increasing the share of private activities in the economy helps reduce the inefficiency of public spending. To encourage private economic activities, the government must formulate appropriate policies and create the necessary infrastructure that would attract private capital or encourage private consumption in the state.

7) The budgeting process which is rather weak in the state must be strengthened and evaluation of budget performance for each programme must be undertaken. For promoting spending efficiency through budgetary management and control, the state government needs to improve disclosure standards and transparency of budgetary documentation; side by side, corporate standards of accountability and transparency in state-owned enterprises must also be improved.

8) The Public Sector has been a drag on the finances of most states. Bihar Government has initiated only some half-hearted action (explained in Chapter 8) to wind up some of these enterprises, but no concrete results has so far been achieved. Despite its political fallout, a hard decision in this regard cannot indefinitely be put off.

9) The reforms in pension system is essential, if the state government is to control the ever rising expenditure and its future liabilities on this account. A scheme similar to NPS at the central government may be considered; also the state government has to outsource the non-essential activities to the private sector that will create jobs in that sector without creating overheads like pension for the state government.

10) For improving spending efficiency in health services, recovery of the user charges is essential, for which suggestions have already been given in the last chapter. The state government may also consider buying an appropriate insurance cover for the people.

11) For better transparency and efficiency, an integrated financial management system (like SAP system) linking accounting, budgeting, procurement, disbursement, and other financial operations may be introduced at the Secretariat and the District Treasury levels. This type of system would train public managers in modern information technology and make public transactions more transparent and less vulnerable to corruption.

3.10 Impact of Public Expenditure

Bihar is one of India's poorest states, with 8.5 percent of India's population and only 1.6 percent of its gross domestic product (GDP). Until recently, the economic growth in Bihar was much slower than in rest of the country. It is a state that was not been able to exploit its resources optimally and, as mentioned earlier, about 75 percent of the state government's revenue receipts still come from the central government. Till the end of the last century, the state's economy was almost stagnating with a growth rate of around 2 percent, and much of this stagnation could be attributed to the poor governance in the state. Its public services and infrastructure were almost non-existent and leakages were very substantial. The state was almost dysfunctional; however, it has witnessed a remarkable resurgence in the recent years and is presently one of the fastest growing states in the country. Table 3.14 shows this transition in terms of the socio-economic parameters of development of the state.

Between 2001 and 2011, its income has grown annually by 14.4 percent, compared to about only 2 percent in the preceding decade. Meanwhile, the state was divided in 2000, with most of its resource rich areas going to the newly created Jharkhand state; yet the per capita income in the present Bihar had increased by 12.5 percent during 2001-11. During this period, the structure of economy also changed, the share of primary sector falling from 40 percent of total income to 22 percent, but the manufacturing sector could not come up because lack of infrastructure, especially power. It still remains one of the most highly ruralised states of India, with about 89 percent of population living in rural areas. But in the course of this decade, Bihar had made significant progress in terms of literacy, expansion of roads, school and health care infrastructure and improving the gross enrolment ratio, infant mortality rate and bringing down the level of poverty from 42.6 to 33.7 percent. However, the financial resources as well as physical infrastructure still remains poor, the credit-deposit ratio among the lowest in the country and industrial scenario marked by small scale sector with singular absence of any large and medium scale industries.

As seen from Table 3.15, presenting the socio-economic parameters of Bihar and 11 other major Indian states, Bihar still needs further progress to reach other states, but that does not in any way negate the impressive results that have been achieved so far. And these achievements have come mainly because of a series of significant and sustained reforms by the state government, especially in relation to the financial management of public resources. The results of some of these reforms have been discussed in earlier sections; here, the analysis is focused on the impact the implementation of state government’s development schemes and execution of policies as a whole.

The challenges faced by the state mainly included: (a) low capacity of the to deliver services, (b) poor monitoring of performance, (c) lack of accountability arrangements, and (d) the absence of decentralization. The turnaround in the economy of Bihar came as a result of wide-ranging reforms, initiated since 2004-05, which spanned several sectors, including stabilization of law and order, improvement of the investment climate, financial management, administrative reforms, and enforcing greater accountability and transparency of the system. The reforms have also been initiated in individual sectors like health, education, roads, rural development, agriculture, urban development, and power as well. These are described in the subsequent sections.

Table 3.14 : Socio-Economic Parameters of Bihar

Parameters	2001	2011
A. State Income		
NSDP (Rs Crore) (At current prices)	52519	201264
Per Capita Income (Rs) (At current prices)	6,396	20,708
Share of Primary Sector (%)	40	22
Share of Secondary Sector (%)	10	15
Share of Tertiary Sector (%)	50	63
Annual Compound Growth Rate (CAGR) of NSDP (2001-2011)	2.0 (1990-2000)	14.4(2001-11)
% of people below poverty line	42.6 (1999-00)	33.7(2011-12)
B. Demography		
Geographical Area (Sq km)	94,163	94,163
Population (crore)	8.3	10.4
% of Rural Population	89.5	88.7
% of SC/ST Population	17	NA
Literacy Rate (%)	47	64
Females per 1000 Males	919	916
% of Working Population	34	47
% of working population engaged in the primary sector	77	38
Net Irrigated Area to Net Cultivated Area (%)	60.5	61.1(2007-08)
Infant Mortality rate	67	44
Life Expectancy at Birth	61 (1998-02)	62 (2002-06)
Decadal Growth rate of Population	28.6	25.1
C. Infrastructure		
i. Education		
No of Primary and Middle Schools	50294 (2002)	68160
No of Secondary and Higher Secondary Schools	3387(2002)	4503
Gross Enrollment Ratio (%)	60	103
Per Capita Revenue Expenditure on Education (Rs)	394	779
% of Expenditure on Education to Total Budget (%)	23.7	16.3

ii. Public Health		
No of Govt Hospitals	117	161
No of Hospital Beds	3030(2004)	18516
No of Primary Health Centres and Sub-Centres	9535	10229
Per Capita Expenditure on Health (Rs)	82	148
iii. Roads		
Total Road Length (km)	73,834 (2004)	1,30,642
Length of Surfaced Roads (Km)	28,491 (2004)	57,198
Surfaced Road per 100 sq. km	30.3	61
Total Road per 100 sq Km	78.4	139
Total Road per 1000 population	0.9	1.3
iv. Electricity		
Per capita power Consumption (kwh)	35(2002-03)	122(2009-10)
Generation of electricity (million kwh)		731.8
Installed Capacity (MW)	1988.4 (Bihar & Jharkhand)	600
Percentage of Villages electrified	61.3	82.4
v. Financial Inclusion / Banks		
No. of Bank Offices	3,620	4,388
Credit Deposit Ratio (%)	20.7	29.5 (as per sanction), 31.6 (as per utilization)
D. Industry / Annual Survey of Industries		
No of Registered Small Scale Units	1296	1574
No. of Registered Factories	1535	2805
Value of Output (Rs Crore)	7255	36051
Net Value Added (Rs Crore)	729.3	4415
Profits (Rs Crore)	-90	3205
Gross Fixed Capita Formation (Rs Crore)	396.3	1130
No. of persons employed in factories	62905	106213

Table 3.15 : Comparison of Socio-Economic parameters of Bihar with those of other major Indian States, 2011

	Andhra Pradesh	Bihar	Assam	Jhar-khand	Kerala	Madhya Pradesh
Parameters						
A. State Income						
NSDP (Rs Crore) (At current prices)	531139	201264	92970	93211	246213	231133
Per Capita Income (Rs) (At current prices)	62912	20708	30569	29786	71434	32222
Share of Primary Sector (%)	24	22	29	16	14	26
Share of Secondary Sector (%)	25	15	22	38	21	28
Share of Tertiary Sector (%)	52	62	50	46	65	47
Annual Compound Growth Rate (CAGR) of NSDP	15	14	11	13	15	13
% of people below poverty line	9	34	32	37	7	32
B. Demography						
Geographical Area	275045	94163	78438	79714	38863	308245
Population (crore)	8.5	10.4	3.1	3.3	3.3	7.3
% of Rural Population	67	89	86	76	52	72
Literacy Rate (%)	68	64	73	68	94	71
Females per 1000 Males	992	916	954	947	1084	930
% of Working Population	62	47	49	52	43	55
% of working population engaged in the primary sector	55	38	45	52		53
Net Irrigated Area to Net Cultivated Area (%)	43	61	3	9	19	44
Infant Mortality rate	43	44	55	39	12	59
Life Expectancy at Birth	64	62	59	58	74.6	58
Decadal Growth rate of Population	11.1	25.1	16.9	22.3	4.9	20.3
C. Infrastructure						
i. Education						
No of Primary and Middle Schools	82255	68160	45335	41594	9849	140459
No of Secondary and Higher Secondary Schools	23919	4503	6563	2473	3825	12121
Gross Enrollment Ratio (%)	92	103	84	121	96	123
Per Capita Revenue Expenditure on Education (Rs)	1474	779	2068	1152	2075	1135
% of Expenditure on Education to Total Budget (%)	13	16	22	16	17	14
ii. Public Health						
No of Govt Hospitals	475	161	153	500	446	457
No of Hospital Beds	38050	18516	7622	5414	31960	28533
No of Primary Health Centres and Sub-Centres	14146	10229	5542	4288	5384	10025
Per Capita Expenditure on Health (Rs)	488	148	478	248	625	295
iii. Roads						
Total Road Length (km)	238001	130642	241789	23903	201220	197293
Length of Surfaced Roads (Km)	155579	57198	37816	16379	110359	119921
Surfaced Road per 100 sq. km	57	61	24	21	284	39
Total Road per 100 sq Km	87	139	308	30	518	64
Total Road per 1000 population	3	1	8	1	6	3
iv. Electricity						
Per capita power Consumption (kwh)	967	122	205	880	525	602
Percentage of Villages electrified	100	82	92	81	100	93
v. Banks						
No. of Bank Offices	7789	4388	1563	2032	4731	4538
Credit Deposit Ratio by Sanction (%)	110	30	37	34	73	56
Credit Deposit Ratio by Utilisation (%)	115	32	39	36	74	60
D. Industry						
No. of Registered Factories	26286	2805	2795	2504	6917	4212
Value of Output (Rs Crore)	343560	36051	42367	97207	82051	115898
Net Value Added (Rs Crore)	57779	4415	6674	19518	8734	17451
Profits (Rs Crore)	32632	3205	3993	11791	3138	8674
Gross Fixed Capita Formation (Rs Crore)	23309	1130	1698	15486	2186	6559
No. of persons employed in factories	1300892	106213	166657	188090	381340	310944

Table 3.15 : Comparison of Socio-Economic parameters of Bihar with those of other major Indian States, 2011 (Contd.)

	Maha-rashtra	Punjab	Rajasthan	Tamil Nadu	Uttar Pradesh	West Bengal
Parameters						
A. State Income						
NSDP (Rs Crore) (At current prices)	935222	202474	286008	491049	525388	432739
Per Capita Income (Rs) (At current prices)	83471	69737	39967	72993	26355	48536
Share of Primary Sector (%)	11	33	29	13	29	24
Share of Secondary Sector (%)	28	25	27	24	21	16
Share of Tertiary Sector (%)	61	42	45	64	50	60
Annual Compound Growth Rate (CAGR) of NSDP	16	12	15	14	13	13
% of people below poverty line	17	8	15	11	29	20
B. Demography						
Geographical Area	307713	50362	342239	130058	240928	88752
Population (crore)	11.2	2.8	6.9	7.2	20.0	9.1
% of Rural Population	55	63	75	52	78	68
Literacy Rate (%)	83	77	67	80	70	77
Females per 1000 Males	925	893	926	995	908	947
% of Working Population	55	42	48	58	44	47
% of working population engaged in the primary sector	64	44	49	52	53	51
Net Irrigated Area to Net Cultivated Area (%)	18	98	38	57	80	59
Infant Mortality rate	25	30	52	22	57	32
Life Expectancy at Birth	67	69	62	66.2	60	65
Decadal Growth rate of Population	16.0	13.7	21.4	15.6	20.1	13.9
C. Infrastructure						
i. Education						
No of Primary and Middle Schools	76749	17742	84606	38028	200657	52531
No of Secondary and Higher Secondary Schools	21474	5657	22561	6772	17644	8795
Gross Enrollment Ratio (%)	100	103	99	112	110	90
Per Capita Revenue Expenditure on Education (Rs)	2406	1459	1476	1870	1048	1574
% of Expenditure on Education to Total Budget (%)	21	12	19	15	16	20
ii. Public Health						
No of Govt Hospitals	1366	213	826	581	861	654
No of Hospital Beds	67954	10,423	25990	47198	56384	71191
No of Primary Health Centres and Sub-Centres	12389	3396	13004	9910	24213	11265
Per Capita Expenditure on Health (Rs)	416	439	371	611	324	385
iii. Roads						
Total Road Length (km)	410521	84193	241318	192339	390256	299209
Length of Surfaced Roads (Km)	339794	76612	194979	158473	297674	115534
Surfaced Road per 100 sq. km	110	152	57	122	124	130
Total Road per 100 sq Km	133	167	71	148	162	337
Total Road per 1000 population	4	3	4	3	2	3
iv. Electricity						
Per capita power Consumption (kwh)	1028	1527	736	1132	348	550
Percentage of Villages electrified	94	100	87	100	82	94
v. Banks						
No. of Bank Offices	9001	4031	4585	6959	11229	5765
Credit Deposit Ratio by Sanction (%)	83	78	90	115	44	64
Credit Deposit Ratio by Utilisation (%)	75	93	96	119	48	65
D. Industry						
No. of Registered Factories	27892	12770	8172	36848	13756	8232
Value of Output (Rs Crore)	785363	148663	150048	472122	292216	206111
Net Value Added (Rs Crore)	149696	20350	17229	71993	44381	20860
Profits (Rs Crore)	91869	10066	7403	31844	25290	6336
Gross Fixed Capita Formation (Rs Crore)	36368	8142	9493	23054	12170	9165
No. of persons employed in factories	1698122	613926	431800	1943319	808666	635626

3.11 Public Expenditure and Financial Management Reforms

The first set of Public Expenditure and Financial Management (PEFM) reforms encompassed enactment of several path-breaking legislations, most important of which was, of course, the Bihar FRBM Act, 2006. This Act played a very significant role in bringing back financial discipline and fiscal consolidation, generated sustained and significant revenue surpluses, contained borrowing and fiscal deficit within sustainable levels and led to overall improvement in the fiscal situation. Most importantly, it saved the state government from the brink of an impending and vicious debt trap. These measures have been discussed in the earlier chapters. As regards expenditure management, the focus was shifted to non-wage development expenditure and improvement of public services, particularly health, education, and roads. In addition, reforms in the power sector were also initiated, the results of which would follow in the course of time. A number of innovative and successful schemes were launched with careful targeting towards economically weaker sections and women and girl children, in health and education, especially in the rural areas. The road infrastructure was remarkably improved within a relatively short time by focusing investment in this area.

One major initiative concerned the state government’s commitment towards reducing corruption in public life. It has sought to promote greater transparency in governance through the Right to Information Act, 2005 and followed it up with an innovative IT-based programme called 'Jaankari' (discussed later). It had also stepped up vigilance activities targeted against corrupt officers, followed by confiscation of their property. A Special Vigilance Unit was created to pursue cases against high-level civil servants. Apart from the Right to Information Act, 2005, the other relevant legislations enacted by the state government in this respect included Bihar Special Courts Act, 2009, empowering it to impose penalty and to confiscate the properties of corrupt civil servants. The Right to Public Service Act, 2011 and Bihar Lokayukta Act, 2011 are two of the state’s major governance initiatives towards improving the development administration in the state.

The practice of an 'Outcome Budget' was initiated in the state during the financial year 2006-07. Since then the 'Outcome Budget' has been placed before the legislature regularly, which reflects the efforts of the state government to convert 'outlays' into 'outcomes' by planning expenditure, fixing appropriate target and quantifying deliverables of each schemes. During the financial year 2013-14, out of the 44 Departments, 41 Departments have been covered under the 'Outcome Budget'. The list of such Departments is shown in Annexure 3.1 (Table 1). There is no established or documented procedure or manual that has been issued in the context of implementation and evaluation of the outcome budget; however, the achievements of outcome budgets are being monitored by the Planning and Development Department and departmental heads themselves.

The improvements in governance were also brought through extensive use of IT and innovative programmes, aided by e-Governance like Jaankari, M-technology for Good Governance, Janta Ke Darbar Mein Mukhyamantri, System for Computerised Registration (SCORE), E-Shakti, Comprehensive Treasury Management Information System (CTMIS), Value Added Tax Management Information System (VAT-MIS). These innovations and reforms covered the input as well as output sides of public finances. The salient features and achievements of these reforms initiated by the state government are shown in Annexure 3.1 (Table 2).

Annexure 3.1

Table 1 : List of Departments Covered by Outcome Budget

1. Education Department.
2. Art Culture and Youth Department.
3. Health Department.
4. Road Construction Department.
5. Rural Works Department.
6. Rural Development Department.
7. Planning and Development Department.
8. Urban Development and Housing Department.
9. Energy Department.
10. Water Resource Department.
11. Minor Water Resource Department.
12. Public Health Engineering Department.
13. Industries Department.
14. Agriculture Department.
15. Animal Husbandry & Fisheries Resource Department.
16. Environment & Forest Department.
17. SC & ST Welfare Department.
18. BC & OBC Welfare Department.
19. Social Welfare Department.
20. Minority Welfare Department.
21. Sugar Cane Industries Department.
22. Home Department.
23. Co-operative Department.
24. Labour Resource Department.
25. Tourism Department.
26. Law Department.
27. General Administration Department.
28. Registration, Excise & Prohibition Department.
29. Finance Department.
30. Panchayati Raj Department.
31. Disaster Management Department.
32. Information Technology Department.
33. Cabinet Secretariat Department.
34. Building Construction Department.
35. Commercial Tax Department
36. Food & Consumer Protection Department
37. Information & Public Relation Department
38. Mines & Geology Department.
39. Revenue & Land Reforms Department.
40. Science & Technology Department.
41. Transport Department.

Note : 3 departments, viz. Vigilance Department, Election Department and Parliamentary Affairs Department do not deal with any kind of schemes and hence these departments are excluded from the provision of 'Outcome Budget'.

Table 2 : Major PEFM Reforms through e-Governance Undertaken by the State Government

Programme Name and Brief Description	Features	Achievements
Jaankari: A first of its kind helpline that paves the way in making the Right to Information Act accessible to all citizens.	Based on a simple call centre model, it has created a citizen-friendly system to foster accountability and transparency in governance.	• Serves all citizens across 38 districts in the State of Bihar • Received 58,331 up to calls upto June 30, 2010 • Witnessed a fourfold increase in number of calls since inception in 2007 • Awarded the e-Governance award 2008-09 (Outstanding Citizen-centric Programmes Category) by the Government of India, and the Manthan Award South Asia 2009.
M-technology for Good Governance: A system of reporting and monitoring of public service delivery on the ground with the low-cost, low-tech, and widely available mobile technology. Using a simple SMS facility, officers at the cutting edge are able to report on development at it happens, generating credibility and motivating performance in the long term.	• Mobile-based daily reporting by officials • Each official sends one SMS, reporting on a single scheme • 10 schemes are monitored at block level • SMS is sent from block to state central server • Automated daily reports (bar charts) are generated at the state level • Final reports display district-wise progress of schemes • IT officers are stationed at districts to support functioning of the system	• Aggregates daily performance data from 534 blocks on 10 important development schemes • Displays scheme progress on public domain at (http://210.212.17.159/smsbihar • Records a daily average of 4000 SMSs • Has triggered a paradigm shift towards daily accountability, that can enhance performance of government functionaries.
Janta ke Darbar mein Mukhyamantri: Citizens are encouraged to meet the Chief Minister and register their grievances. They are guided by trained personnel. Women and handicapped are given precedence over others.	• Cases are received and seen by the Chief Minister, Digitised by the Public Grievance Department and forwarded to the concerned department; • Addressed by the concerned department within 30 days; Followed-up with rigorous review meetings led by the Chief Secretary to ensure timely disposal.	• An average of 1500 cases are registered weekly • 1,84,342 grievances have been received during 2006-2010 • All departments of the Bihar Government are accessible to the public on a rotating basis • Has increased citizens confidence in the Government • Has enabled the Government to understand the 'pulse of the people'.
System for Computerised Registration (SCORE): SCORE has deployed a self-sustainable operational model, under which hardware is rented only as needed, keeping costs in line with operations at all times. Today a person can approach the registration department with better understanding, and confidence in the efficiency and reliability of the process.	• Hardware On Hire Basis (HOHB) model • Software developed by NIC • Database stores Minimum Value Rate (MVR) for land • Property details including location, nature of use and quality of construction are electronically registered • Land owner details including biometric thumbprint scan and digital photo are stored in database	• Recipient of Prime Minister's Award for Excellence in Public Administration 2007-08 • Enabled a radical change from manual to automated processes reducing the processing time from several days to about 40 minutes • Registered more than 7 lakh land deeds in Patna in a single year • Implementation by 38 societies at district level and 1 at headquarters, formed under the

	• Direct depositing of registration fee into banks	Societies Registration Act to enable this process • 38 district registrar and 77 sub registrar offices are computerized.
E-Shakti: A single swipe of an E-Shakti smart card can ensure employment for rural workers under the National Rural Employment Guarantee Act (NREGA). The e-tool will digitize NREGA operations for compiling muster rolls and directly releasing wages, while also reducing opportunities for exploitation.	• Microchip enabled smart card stores worker identification and demographics in digital format • Biometric fingerprint & GPS verified attendance of workers that will enable real time data migration to central server • Payment software to calculate entitlement, generate invoice and credit wage to worker bank account • Data centre for facilitation of card transactions • Self sustainable through Build, Own, Operate, Transfer (BOOT) model where assets are owned by an external vendor and payments are made according to vendor outreach.	• Piloted in Patna district • Biometric registration and distribution of E-shakti card is underway • Over 15,000 queries responded at toll free call centre.
Comprehensive Treasury Management Information System (CTMIS): In response to the serious irregularities that occurred in the past, a new system has been implemented to promote effective budgetary control. Through the digital linking of all treasuries and the Accountant General (AG), the e-programme enables real time and comprehensive monitoring of expenditure.	• CTMIS is an integrated system that links all the treasuries and the Accountant General, the Reserve Bank and the State Finance Department. It improves the entire cycle of finance-related functions performed by treasuries by networking them effectively. • Firstly, the automated system allows for rapid and reasonable formulation of budgets. Secondly, through the consolidation of local budgets at a central level, allocation is made easy. Lastly, encashing and recording of bill payments is speeded up. • Today, the successful functioning of CTMIS is only after a gradual rollout that involved a number of steps. First, 1200 computers were purchased for functionaries. Training was conducted for seven to eight months to develop data • entry operators in 38 districts. SecLAN and BSWAN, government dedicated telephone networks, were leveraged to • provide a single avenue through which the entire network of government actors	• All 59 treasuries/sub treasuries in the State are digitally linked to the Accountant General • Reduced three month budgetary planning process to two weeks • Enables effective re-appropriation of funds by identifying surpluses and deficits • 17 facilitation centres have been established to facilitate DDOs to make online bill entries • Dashboard available to senior officials that provides information on provisions, allocations and expenditure.

	involved would be able to communicate. The future of CTMIS will be an enhanced system including databases for pensioners and employees. • Additionally, 41 new facilitation centres are being established to assist all DDOs in online bill entry.	
Value Added Tax Management Information System (VAT-MIS): The digital Value Added Tax System offers a user-friendly and convenient method of paying taxes and filing returns and this has convinced dealers in Bihar to pay online. More than 50% of tax collection is now online and this has corresponded with an over 20 percent growth rate in VAT-related revenue collection.	• E-registration – online registration of new dealers • E-payment – online payment of taxes by dealers at using net banking with SBI • E-return – online filing of returns • E-communication – enables email communication between the field offices and headquarters as a closed group • 1 server connected to all 49 circles through BSWAN • Trained data entry operators	• More than 60% taxes are now paid online illustrating the ability to gain dealers' confidence within a short span of one year • 25.89% VAT growth in 2009-2010 over 2008-09, as compared to a growth rate of 23% over past 3 years • Analysis of data allows for the identification and punishment of nonpaying dealers • Computer awareness amongst officers and dealers has increased
Transport E-reforms A set of reforms are underway that will allow civil servants and citizens to improve transport-related public service delivery by way of increased transparency. This integrated system of digital registration and GPS tracking of vehicles, is consumer, government and business friendly.	• Computerisation of District Transport Offices (DTOs) for networking of data into central server • VAHAN - digitised registration of vehicles stored on smart card • SARATHI - digitised drivers licenses stored on smart card	• 36 out of the 38 District Transport Offices (DTOs) have been computerised to date • 87,856 smart card-based driving licenses have been issued since 28 May 2008 till date, in Patna • 84,117 vehicles have been registered on smart card, since 28 May 2008 to date, in Patna • Legacy data digitisation is underway • 6 checkposts on national highways are being setup with hardware to access all centralised vehicle data • Computerisation of Patna Regional Transport Authority (RTA) is underway, remaining 8 RTAs are planned to be computerized.
E-reforms by the Urban Development & Housing Department: The Urban Development & Housing Department (UD & HD) has leveraged Information Technology to improve internal efficiency and foster accountability and transparency leading to better service delivery.	• CGRC online application allows for retrieval of complaint data to review status, monitor and take action • MUDRA – a computerised property tax collection system for ULBs • GIS provides a database of key utilities and facilitates urban management • Accounting reforms to aid financial planning and control.	• Improved the quality, accessibility, and effectiveness of Government services for citizens and businesses across 140 Urban Local Bodies in Bihar.

CHAPTER IV

GROSS FISCAL DEFICITS

The deficits represent the excess of expenditure over receipts. The net resource gap of the state government is reflected by the Gross Fiscal Deficit (GFD) which is to be bridged by borrowing of one sort or another. The GFD is calculated as the difference between the total revenue receipts including grants from the centre and non-debt capital receipts, and the total expenditure of the government, including loans disbursed by it, net of recovery. The GFD less the interest payments is defined as the Primary Deficit which reflects the resource gap created without the interest charges on the past borrowings; in other words, this reflects the deficit created by the current policies of the state government without considering any liability inherited from the past.

4.1 Gross Fiscal Deficit

The GFD is a fairly good indicator of the state's overall financial performance, just as the GSDP is a fairly good proxy for the state's economic development. The GFD arises from three sources (1) deficit in the revenue account, (2) capital outlay which is to be financed generally by borrowing, since a state government would ordinarily not have enough resources for creating capital infrastructure necessary for development and (3) lending by the state government (net of recoveries), which again is to be financed by borrowing. Ideally, the revenue account of a state government should show a surplus that can be used for making up the shortfall in the capital account, and reducing capital account borrowing to that extent. The GFD is financed by three components: (1) net borrowing by the state government (internal debt) and central loans, net of repayments, (2) net public account receipts and (3) running down of the cash balance of the state (difference between its opening and closing cash balances).

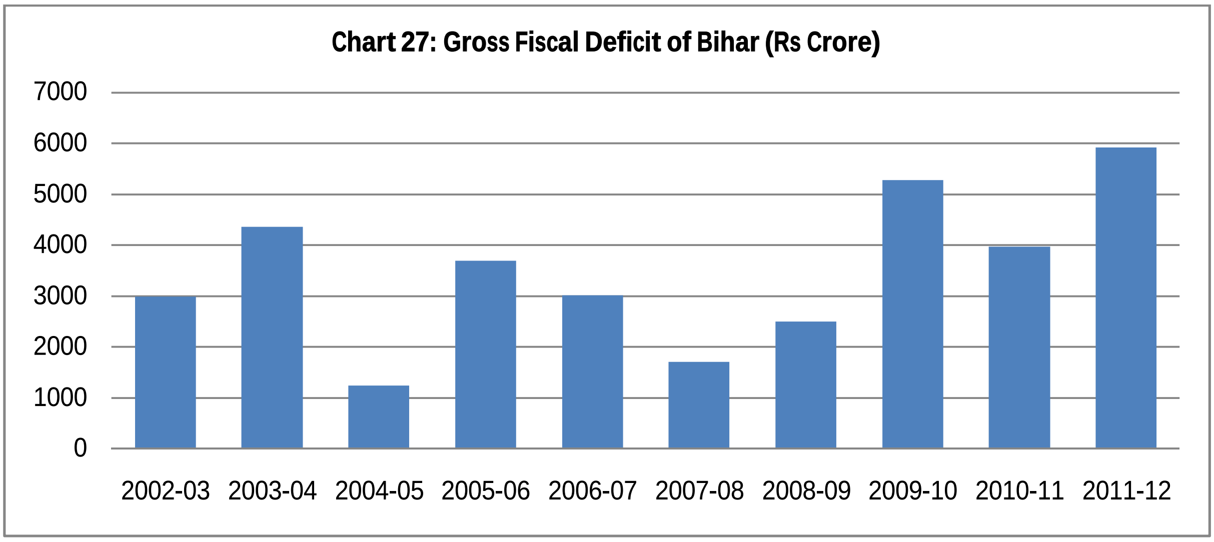
Table 4.1 shows the GFD and its financing in Bihar during the 10 years from 2002-03 to 2011-12. Until the beginning of the last decade, Bihar was among the most highly indebted states in India; its fresh borrowing was entirely being used for discharging its soaring debt servicing obligation and interest payments. Bihar's turnaround came in 2004-05 when, for the first time, it had generated a surplus of Rs 1076 crore in its revenue account. The surplus was almost wiped out in the next year, but then picked up again and reached nearly Rs 4500 crore by 2008-09, before the economic downturn had forced it down to neraly Rs 3000 crore in 2009-

10. It recovered to peak at an unprecedented Rs 6316 crore in 2010-11 and, though it got reduced to Rs 4821 crore in the next year as a result of the gradual slowing down of the national economy as a whole, it was still sufficient to maintain a high level of capital outlay that had increased more than nine times during the ten years, from Rs 970 crore in 2002-03 to Rs 8852 crore in 2011-12. In 2009-10, when the revenue deficit had dropped by Rs 1500 crore compared to the previous year, the GFD of the state government had soared to more than Rs 5200 crore, as the capital outlay was not sacrificed; in fact, it was increased by about Rs 900 crore. In the next year, it was increased to an all time high of Rs 9196 crore. In 2011-12, when the revenue surplus dropped again, capital outlay was also reduced to Rs 8852 crore.

Table 4.1 : Gross Fiscal Deficit and Its Financing in Bihar

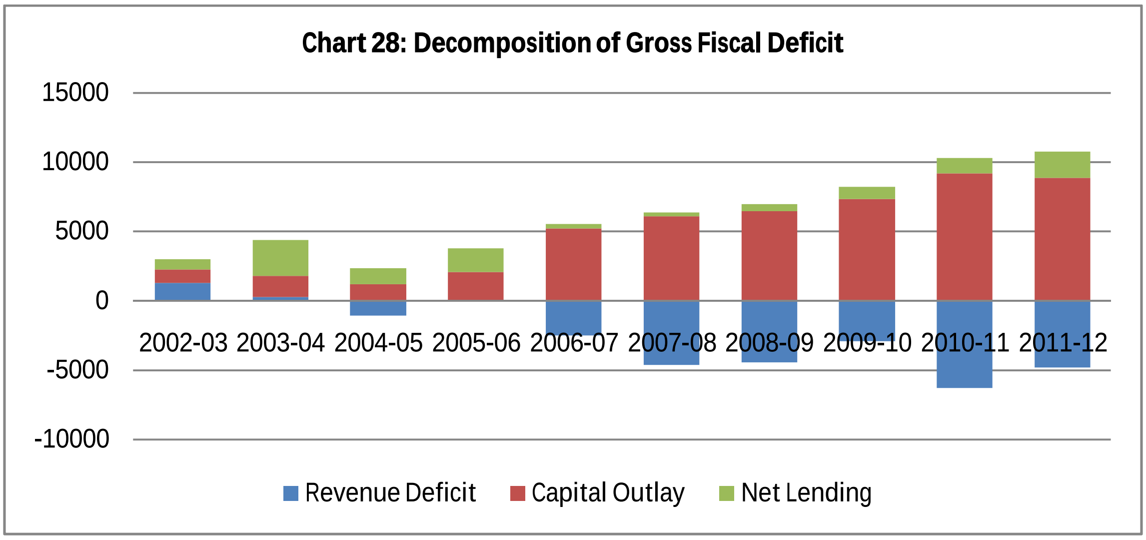
(Rs crore)

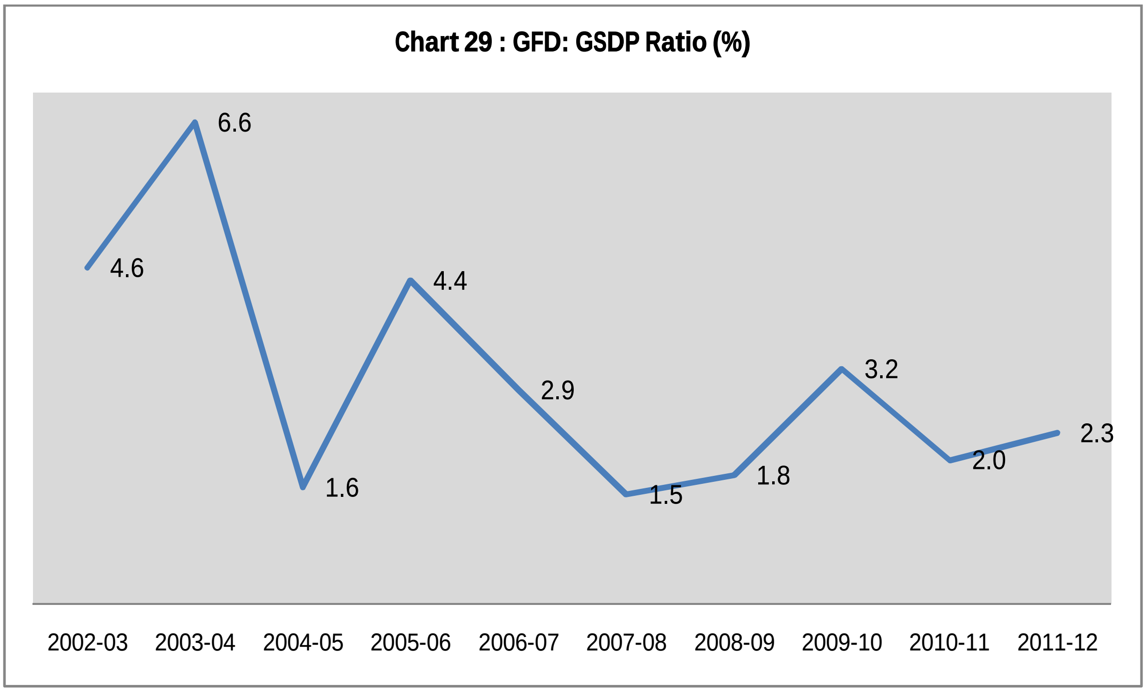
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue Deficit	1287	256	-1076	-82	-2498	-4647	-4469	-2943	-6316	-4821
Capital Outlay	970	1549	1205	2084	5211	6104	6436	7332	9196	8852
Net Lending	732	2558	1113	1697	308	247	540	884	1091	1884
Gross Fiscal Deficit	2988	4363	1241	3699	3021	1703	2507	5273	3970	5915
Financed By										
Net Public Debt	2663	2267	4539	2790	1333	-20	4246	4151	3842	3706
Net Borrowing from Public Account	-133	2278	-3974	1209	1785	352	-81	-675	2238	2469
Net Drawal from Cash Balance	457	-182	676	-299	-97	1372	-1660	1796	-2110	-259
Percentage Composition of Gross Fiscal Deficit (%)										
Revenue Deficit	43	6	-87	-2	-83	-273	-178	-56	-159	-82
Capital Outlay	32	36	97	56	172	358	257	139	232	150
Net Lending	24	59	90	46	10	14	22	17	27	32
Gross Fiscal Deficit	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Financed By										
Net Public Debt	89	52	366	75	44	-1	169	79	97	63
Net Borrowing from Public Account	-4	52	-320	33	59	21	-3	-13	56	42
Net Drawal from Cash Balance	15	-4	54	-8	-3	81	-66	34	-53	-4
GSDP	**64965**	**66174**	**77781**	**83549**	**103317**	**113680**	**142279**	**163800**	**201856**	**252694**
Interest payments	3022	3343	3474	3649	3416	204	258	324	439	4304
Primary Deficit	**-34**	**1020**	**-2232**	**50**	**-395**	**1499**	**2249**	**4949**	**3531**	**1611**
GFD: GSDP Ratio (%)	**4.6**	**6.6**	**1.6**	**4.4**	**2.9**	**1.5**	**1.8**	**3.2**	**2.0**	**2.3**



The State Legislature has passed the Bihar Fiscal Responsibility and Budget Management (FRBM) Act in February 2006, committing itself to take appropriate steps (a) to eliminate the revenue deficit by 2008-09 and build up adequate revenue surpluses thereafter; and (b) to bring down fiscal deficit to a level of three percent of GSDP by 2008-09 and maintain it thereafter;

The revenue deficit was eliminated in 2004-05 itself even before the Act was passed and sufficient amount of revenue surpluses had been generated ever since. The GFD: GSDP ratio had shot up to an unsustainable 6.6 percent in 2003-04 from 4.6 percent the year before; but it was finally brought down to a modest 1.5 percent by 2007-08. It had increased to 3.2 percent in 2009-10 when revenue surplus had plummetted by Rs 1500 crore, but then was brought down to 2 percent in the next year and 2.3 percent in 2011-12. As seen from Table 4.1 and Chart 28, the GFD was mainly on account of the increasing levels of capital outlay throughout the period, helped by the significant revenue surpluses, net lending constituting a small part of the GFD. It is also seen that Bihar had a continuous surplus in its primary account since 2007-08, indicating that its indebtedness was well under control.





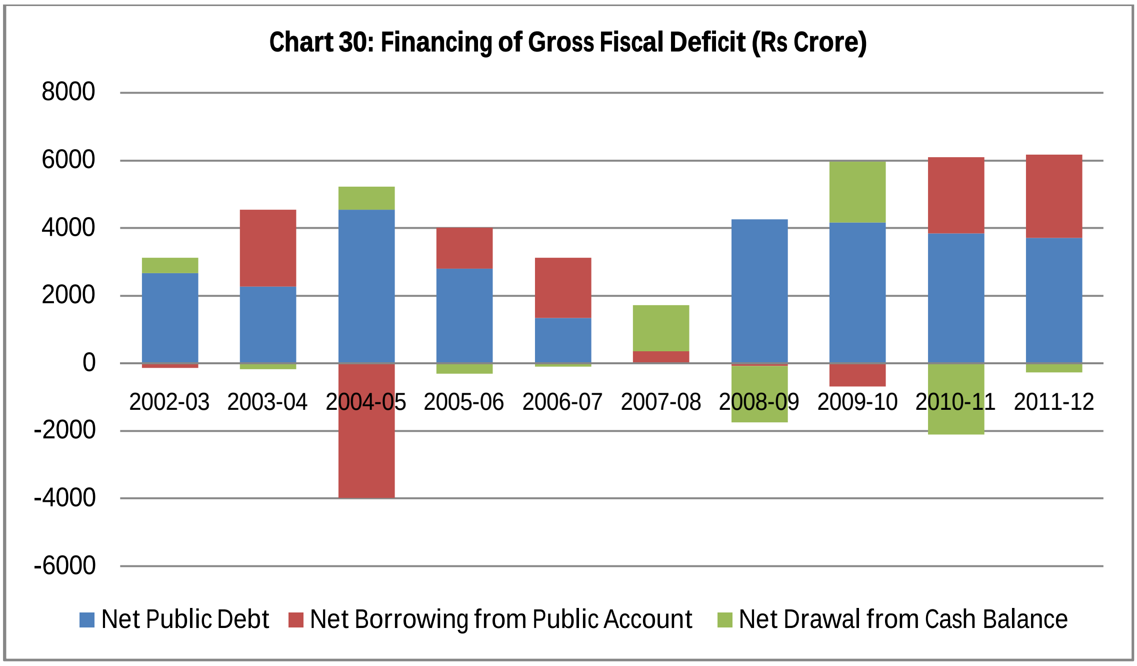


Table 4.1 and Chart 30 also show how the GFD was financed during all these years. Though it was financed mostly by net borrowing in the Consolidated Fund of the state government, in some years, the net borrowing from Public Account also contributed significantly to finance the GFD. The net borrowing in the Consolidated Fund mainly consisted of internal market borrowings of the state government as well as the central loans, and the latter now constitutes a small proportion of the total public debt of the state government. The internal market borrowing of the state government now largely finances its GFD, though a part is also contributed by the loans and advances from the centre. The net public debt financed 63 percent of GFD in 2011-12, and net borrowing from public account exceeded the rest of the GFD by 4

percent which resulted in an increase in cash balance which, in fact, was surplus. This reflected adversely on the effectiveness of cash management by the state government, as it did not make much sense to borrow while sitting with idle cash. Thus, even though Public Account receipts from small savings, provident funds, reserve funds, civil deposits, suspense and remittance balances etc. are available to the state government for financing of its GFD in Bihar as well as in some other states, there is a tenancy to resort to additional borrowing, in spite of availability of surplus cash. This can be avoided or minimized if the cash balances are utilised optimally. In 2008-09, the cash balance went up by as much as 66 percent of the GFD and by 53 percent again in 2010-11; in most other years during this 10 year period 2002-12, there were also surplus, albeit of smaller magnitude. From Table 4.1, it is seen that the state government could have reduced its borrowings by substantial amounts (about Rs 1600 crore in 2008-09 and Rs 2000 crore in 2010-11) if it could only utilize the surplus cash available with it. This reflects on poor cash management by the state government.

4.2 Balance of Current Revenue (BCR)

The BCR is calculated as state government's Own Revenue Receipts plus share of Central Taxes and Non-Plan Grants, minus Non-Plan Revenue Expenditure. A positive BCR shows that the state government has surplus funds from its revenues for meeting its plan expenditure.

Bihar had a negative BCR in 2002-03 and 2003-04, but it started generating positive BCRs from 2004-05 onwards. Now it has substantially positive BCR as shown in Table 4.2. In 2011-12, the BCR of Rs 7425 crore amounted to 32 percent of the state government's total plan expenditure and 60 percent of its plan expenditure on revenue account.

Table 4.2 : BCR for Plan Financing

(Rs crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Total Plan Expenditure (PE)	**2381**	**2778**	**3476**	**4899**	**9397**	**10946**	**13815**	**16194**	**20911**	**23008**
Plan Revenue Expenditure (PRE)	1357	1083	1981	2743	4041	4816	7322	8421	10874	12424
BCR for Plan Financing	**-1039**	**-638**	**924**	**685**	**2999**	**5124**	**6337**	**6074**	**9442**	**7425**
BCR as % of PE	-----	-----	27	14	32	47	46	38	45	32
BCR as % of PRE	-----	-----	47	25	74	106	87	72	87	60

Finally, Table 4.3 presents an inter-state comparison of deficit scenarios of the general category states in India in 2010-11. From this, it is seen that Bihar's revenue surplus is among the highest among these states in that year, and its fiscal deficit was among the lowest. Its capital outlay also ranked among the highest. In terms of the ratio of GFD to GSDP, it fared quite well in comparison with the rest of the general category states.

Table 4.3 : Inter-State Comparison of Deficit Scenario, 2010-11

	Andhra Pradesh	**Bihar**	**Chattisgarh**	**Gujarat**	**Haryana**	**Jharkhand**	**Karnataka**	**Kerala**
Revenue Deficit	-2462	**-6317**	-3364	5076	2746	-836	-4173	3674
Capital Outlay	11123	**9196**	2952	9684	4031	2664	13355	3364
Net Lending	3142	**1091**	5	405	489	284	1577	718
Gross Fiscal Deficit	**11803**	**3971**	**-408**	**15165**	**7266**	**2112**	**10759**	**7755**
Primary Deficit	2128	**-349**	-1606	5538	3842	-116	5118	2065
Deficit Ratios								
Gross Fiscal Deficit/ GSDP(%)	2.1	**2.0**	-0.3	2.9	2.7	1.8	2.6	2.9
Revenue Deficit/ Gross Fiscal Deficit(%)	-21	**-159**	825	33	38	-40	-39	47
Capital Outlay / Gross Fiscal Deficit (%)	94	**232**	-724	64	55	126	124	43
Primary Deficit / Fiscal Deficit(%)	18	**-9**	394	37	53	-5	48	27

	MP	**Maharashtra**	**Orissa**	**Punjab**	**Rajasthan**	**Tamil Nadu**	**UP**	**West Bengal**
Revenue Deficit	-6843	591	-3908	5289	-1055	2728	-3508	17273
Capital Outlay	8800	17963	4284	2384	5251	12436	20273	2226
Net Lending	3681	319	281	-529	-57	1482	483	35
Gross Fiscal Deficit	**5638**	**18874**	**657**	**7144**	**4139**	**16646**	**17248**	**19534**
Primary Deficit	589	3226	-2405	1629	-3230	8706	3032	5717
Deficit Ratios								
Gross Fiscal Deficit/ GSDP(%)	2.2	1.8	0.3	3.1	1.2	2.9	2.9	4.1
Revenue Deficit/ Gross Fiscal Deficit(%)	-121	3	-595	74	-25	16	-20	88
Capital Outlay / Gross Fiscal Deficit (%)	156	95	652	33	127	75	118	11
Primary Deficit / Fiscal Deficit(%)	10	17	-366	23	-78	52	18	29

4.3 Implementation of FRBM Act

The State Legislature has passed the Bihar Fiscal Responsibility and Budget Management (FRBM) Act in 2005-06, committing itself to take appropriate steps:

(1) to eliminate the revenue deficit by 2008-09 and build up adequate revenue surpluses thereafter;

(2) to bring down fiscal deficit to a level of three percent of GSDP by 2008-09 and maintain it at that level thereafter;

(3) to pursue policies to raise non-tax revenue with due regard to cost and equity; and

(4) to lay down norms for prioritization of capital expenditure and pursue expenditure policies that would provide impetus for economic growth, poverty reduction and improvement in human welfare.

The revenue deficit was eliminated even before the FRBM Act was enacted and, save for a temporary slump in 2009-10, the state government had indeed generated adequate revenue surpluses every year, which had reached a peak of Rs 6316 crore in 2010-11. It has also kept its commitment as regards containing the fiscal deficit within 3 percent of GSDP, as shown in Table 4.4, except in 2009-10 when the economic downturn affecting the entire country also caused higher than permitted fiscal deficit of Bihar. Accordingly, in 2009-10, the FRBM Act was amended raising the limit for GDF: GSDP ratio to 4 percent for a year. Since then the ratio has been well within the prescribed 3 percent limit.

However, as regards the other promises regarding non-tax revenues and prioritization of capital expenditure norms, much remains to be done as yet. Though the non-tax revenue of the state government had registered an impressive annual growth rate of 14.6 percent during the period 2002-12, such increases were more due to the conditional debt relief obtained, as recommended by the 12^{th} Finance Commission, which were taken as Miscellaneous Receipts under the Non-tax Revenues in the state government accounts; there was no cost recovery effort exercised by the state government. The measures taken by the state government to enhance non-tax receipts have been discussed in Chapter 2 earlier, where it was seen that there was hardly any linkage between the growth of non-tax revenue and policies with regard to increasing the yield of non-tax receipts with regard to cost and equity.

The capital outlay of the state government has, of course, increased substantially over the period, as observed earlier; however, the state government is yet to prescribe the norms for capital expenditure and adopt a set of rules for the purpose of implementing the FRBM provisions in this regard.

Table 4.4 : Deficit Indicators as Percentage of GSDP

(Rs. crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue Deficit	1287	255	-1076	-81	-2498	-4647	-4469	-2943	-6316	-4821
Primary Deficit	-34	1020	-2232	51	-395	-2004	-1246	1588	-349	1611
Gross Fiscal Deficit	2988	4363	1242	3700	3021	1704	2507	5273	3970	5915
GSDP	64965	66174	77781	83549	103317	113680	142279	163800	201856	252694
Non-Tax Revenue	261	320	418	522	511	526	1153	1670	986	890
Capital Outlay	970	1549	1205	2084	5211	6104	6436	7332	9196	8852
As percentage of GSDP										
Revenue Deficit	2.0	0.4	-1.4	-0.1	-2.4	-4.1	-3.1	-1.8	-3.1	-1.9
Primary Deficit	-0.1	1.5	-2.9	0.1	-0.4	-1.8	-0.9	1.0	-0.2	0.6
Gross Fiscal Deficit	4.6	6.6	1.6	4.4	2.9	1.5	1.8	3.2	2.0	2.3
Outstanding Liability	55.0	57.0	55.0	56.0	48.0	45.0	39.0	36.0	31.0	27.0

Amendment to FRBM 2010-11 : To attain fiscal sustainability, the central government and all state governments have adopted a rule-based fiscal framework through the enactment of Fiscal Responsibility and Budget Management (FRBM) Acts. These Acts provide some fiscal targets to ensure that government finances are managed with a view to achieve equitable and stable growth. The 13th Finance Commission had recommended a roadmap for fiscal correction and consolidation in the medium term. Based on these recommendations, all states, with the exception of Goa, had already amended their respective FRBM Acts. Bihar Government had also amended the FRBM Act again in 2010-11 (02-08-2010) fixing the targets as follows — outstanding liability as percentage of GSDP to be 48.2 percent in 2010-11 and 41.6 percent by 2014-15. These targets are easily achievable as seen from Table 5.9. In fact, as noted earlier, the state government has been able to bring its debt problem well under control. The debt relief measures extended under the 13th Finance Commission recommendations to the state in 2011-

12 included debt write off of CSS/CPS (Rs. 24.65 crore), NSSF interest relief (Rs 98.60 crore) and NSSF interest relief during 2011-12 as projected by the 13th Finance Commission (Rs 106.32 crore). Table 4.5 shows the annual plan financing as per Scheme of Financing (SoF) approved by the Planning Commission. As seen from Table 4.6, the state government had not utilized its full borrowing space available in 2011-12 for financing its annual plan, and it is likely to repeat the situation in 2012-13 as well.

Table 4.5 : Annual Plan as per Scheme of Financing approved by Planning Commission

(Rs. crore)

Plan Funds	2011-12	2012-13
Own Funds	10186	12910
Central Assistance as per SoF	7472	7174
Borrowing Ceilings	6342	7916
Annual Plan Size	**24000**	**28000**

Table 4.6 : Annual Plan 2012-13 and Borrowing Ceiling

(Rs. crore)

State's gross borrowing ceiling (2011-12)	8665
Net Borrowing Ceiling for 2011-12	6342
Permission granted (Net)	7004
Amount raised in 2011-12	7004
State's gross borrowing ceiling (2012-13)	10566
Net Borrowing Ceiling for 2012-13	7916
Amount raised till November 2012	6749

4.4 Analysis of Medium Term Fiscal Plan (MTFP)

A Medium Term Fiscal Plan (MTFP) is being prepared by the Department of Finance every year since 2006. However, the state government does not prepare Department-wise targets and achievements in respect of MTFP; it only does so for the state as whole. The targets of fiscal indicators of Bihar for its MTFP during the 3 years 2009-10 to 2011-12 are shown in Table 4.7. Thereafter, Table 4.8 shows the actual results achieved and targets for the various fiscal parameters of MTFP during 2010-11 to 2015-16.

Table 4.7 : Target of Fiscal Indicators of Bihar for MTFP (2009-12)

MTFP Targets	2009-10	2010-11	2011-12
Revenue Surplus / GSDP (%)	4.73	3.90	2.97
GFD/GSDP (%)	2.86	2.73	2.93
Tax Revenue / GSDP (%)	23.97	20.35	18.71
Public Debt / GSDP (%)	29.79	28.26	25.64
MTFP Achievements			
Revenue Surplus / GSDP (%)	1.80	3.13	1.91
GFD/GSDP (%)	3.22	1.97	2.34
Tax Revenue / GSDP (%)	16.05	16.77	16.05
Public Debt / GSDP (%)	26.52	23.43	20.18

Table 4.8 : Projection of Fiscal Indicators for MTFP

(Rs. crore)

	GSDP	Revenue Surplus	Fiscal Deficit	Public debt Outstanding Public Debt	Total Tax Revenue	As percentage of GSDP			
						Revenue surplus	Gross Fiscal Deficit	Tax Revenue	Public debt
2010-11	201856	6316	3970	47285	33848	3.13	2.00	16.8	23.4
2011-12	252694	4821	5915	50990	40547	1.91	2.30	16.1	20.2
2012-13 (BE)	263876	7089	7569	57257	48822	2.70	2.90	18.5	21.7
2013-14 (Projected)	314155	6809	8770	65838	58944	2.20	2.80	18.8	21.0
2014-15 (Projected)	350283	7149	10509	72921	70732	2.00	3.00	20.2	20.8
2015-16 (Projected)	390565	7507	11717	81347	84879	1.90	3.00	21.7	20.8

It can be seen from Table 4.7 that while in respect of revenue surplus, public debt and GFD, the targets have been achieved in all the three years, there was shortfall in respect of tax revenue. Tax revenue comes from two sources — state's own tax revenue and state's share of central taxes. The total transfers to the state government for the period 2010-15 as recommended by the 13th Finance Commission is Rs.1,72,944 crore, against Rs.75,647 crore as worked out by 12th Finance Commission for 2005-10, which shows an increase of 129 % in aggregate (details at Table 1 of Annexure 4.1). The total funds transfer to the state government has been sharpely increasing over the years; it these increased by 52 percent from Rs. 32,752 crore in 2009-10 to Rs. 49,630 crore in 2011-12. The details of plan and non-plan transfer of funds to the state government are shown at Table 2 of Annexure 4.1. It was mainly in respect of state’s own revenue that it has not been able to improve its performance appreciably. As observed in Chapter 2 earlier, exploitation of the state’s tax potential remains as yet sub-optimal. An efficient harnessing of its tax potential should remain a top-priority area for the state government.

It is to be mentioned that, during the period 2009-10 to 2011-12, direct transfers to implementing agencies under the Central and Centrally Sponsored Schemes outside the budget of the state government amounted to Rs 28,914 crore, compared to central grants of Rs 30,273 crore routed through the state budget. Such off-budget transfers create problems not only with assessments of the state’s own financial requirements, it also distorts the federal fiscal relationships as enshrined in Constitution. The state government also receives funding from external agencies for executing various development projects within the State, a list of which is appended at Annexure 4.1 (Table 3).

Annexure 4.1

Table 1 : 12th and 13th Finance Commission Transfers (Rs. in crore)

Sl. No.	Items	12th FC (2005-10)	13th FC (2010-15)	Increase(+)/ Decrease(-) over 12th FC	%Increase (+)/ Decrease(-) over 12th FC
1	Share in Central Taxes and Duties	67671	158341	90670	134
2	Non-Plan Revenue Deficit				
3	Performance Incentive				
4	Calamity Relief Fund/ State Disaster Relief Fund (SDRF) i/c Capacity building	592	1411	819	138
5	Local Body	1766	5682	3916	222
6	Education Sector				
6 (a)	Equilisation Grant	2684			
6 (b)	Elementary Education		4018		
7	Health Sector	1820			
8	Maintenance of Roads & Bridges	309	464	155	50
9	Maintenance of Buildings	360			
10	Maintenance of Forests	5	38	33	668
11	Water sector management		304		
12	Heritage Conservation	40			
13	State Specific Needs	400	1845	1445	361
14	Governance		840		
	Grand Total	**75647**	**172944**	**97297**	**129**

Note : (1) As against the recommended amount by 12th FC, total Central Transfer (including devolution of Central Taxes) of Rs. 84763.52 crore was made to the state.

(2) The total transfers under 13FC do not include grants of GST Compensation, Reduction in IMR and Renewable energy grant as these are based on future performance and hence their state-wise allocations are not possible at this stage.

(3) Totals may not tally due to rounding off.

Table 2 : Transfer of Funds to the State by the Centre 2011-12 and 2012-13 (till 19. 12.2012)

(Rs. Crore)

Sl. No.	Schemes	2011-12			2012-13		
		Allocation		Released	Allocation		Released
A.	**Plan Assistance**	**Loan**	**Grant**		**Loan**	**Grant**	
1.	Normal Central Assistance		1130.7	1036.47		1219.43	914.57
2.	ACA for AIBP		700	223.77		1000	37.26
3.	ACA for (EAP + Plan Loan in EAP)	2375.9	174.63	1037.79	1783.05	0	600.71
4.	ACA for other projects/ One time ACA		48	48		51	
5.	ACA for NSAP		747.38	971.48		1027.2	686.37
6.	SCA for BADP		55.77	55.77		60.84	47.79
7	ACA for JNNURM		479.58	25.82		573.68	106.54
8.	ACA for BRGF		1680	1479.43		1770	122.76
9.	ACA for NEGP		12.1	11.4		10.31	
	Total (A)	**2376**	**5028.16**	**4889.93**	**1783.1**	**5712.5**	**2516**
B.	**T F C Devolutions (Non - Plan Assistance)**						
1.	Share in Central Taxes		28805.5	27935.23		33026.9	**21231.45**
2.	Local Bodies Grant		888.63	899.31		1209.22	472.75
3.	State Disaster Response Fund		263.41	268.41		276.58	138.29
4.	Capacity Building		5			5	
5.	NCCF/NDRF		0				
6.	Maintenance of Roads & Bridges		94	94		105	105
7.	G.I.A for Environment (Forests and Water Sector Management)		80.8	80.8		85.6	1.66
8.	State Specific needs		461.25	361.67		461.25	
9.	Elementary Education		699	699		818	818
10.	Improving Outcomes of which						
(a)	Improvement in supply of Justice		76.99	**65.1**		76.99	
(b)	Incentive for issuing of UIDs		73.84			73.84	
(c)	District Innovation Fund		19			19	
(d)	Improvement of Statistical System at State & district level		7.6			7.6	
(e)	Employee and Pension Data base		0				
	Total (B)	**0**	**31475**	**30403.5**	**0**	**36165**	**22767.15**
C	**Other Transfers**						
	Loan against Small Savings	2200		1112.54	1500	1500	91.95
	Total (C)	**2200**	**0**	**1112.54**	**1500**	1500	91.95
D.	**Total transfers to State (Plan + Non-Plan+ Others)**	**4576**	**36503.2**	**36406**	**3283.1**	**43378**	**25375.51**

Table 3 : List of EAPs of the State

External Agency	On-going Projects
ADB	- Bihar State Highways Project - Bihar State Highway II Project
IBRD	- Bihar Flood Management Implementation Support Project II
IDA	- Bihar Rural Livelihoods Project (BRLP) - Bihar - Kosi Flood Recovery Project - Preparation of Bihar Panchayat Strengthening Project
IFAD (UN)	- Women's Empowerment and Livelihoods Programme in the Mid-Gangetic Plains
UNDP (UN)	- Support to the National Efforts for Mainstreaming of HIV - Support for Operationalization of the National Rural Employment Guarantee
GOUK	- Sarva Shiksha Abhiyan-II (U.E.E.P) - Bihar Governance and Administrative Reforms Programme(BGARP) - Sector Wide Approach to Strengthening Health in (SWASTH) Bihar - Support Programme for Urban Reforms in Bihar Grant 2009

Fiscal Responsibility and Budget Management Act (FRBM)

To attain fiscal sustainability, the central government and all state governments have adopted a rule-based fiscalframework through the enactment of Fiscal Responsibility and Budget Management (FRBM) Acts. The Acts provide targets to ensure that government finances are managed with a view to achieve equitable and stable growth.

The Thirteenth Finance Commission had recommended a roadmap for fiscal correction and consolidation in the medium term. Based on these recommendations, all states, with the exception of Goa, have amended their FRBM Acts. The table below provides the targets in each state's FRBM Acts. Bihar Debt as per cent of GSDP to be 48.2 per cent (2010-11) and 41.6 per cent (2014-15).

State Liabilities

Andhra Pradesh Total outstanding liabilities as per cent of GSDP not to exceed 30.3 per cent (2010-11) and 27.6 per cent (2014-15).

Arunachal Pradesh Maintain the outstanding debt as a per cent to GSDP at not more than 61.3 per cent (2010-11) and 50.1 per cent (2014-15).

Assam Attain the total outstanding state debt as a per cent of GSDP at 28.2 per cent (2010-11) and 28.5 per cent (2014-15) and maintain the same level thereafter.

Chhattisgarh Maintain outstanding debt as per cent of GSDP at 22.0 per cent (2010-11) and 23.9 per cent (2014-15). Shall not assume additional total liabilities in excess of 5 per cent of GDP for any financial year beginning 2010-11.

Goa Total outstanding liabilities not more than 30 per cent of the GSDP by March 2009. Ratio of IP/RR not to exceed 20 per cent by March 2009.

Gujarat Cap public debt so as not to exceed 27.1 per cent of the GSDP, for each of the financial years from 2011-12 to 2014-15.

Haryana Outstanding debt as percentage of GSDP shall be 22.4 per cent (2010-11) and 22.9 per cent (2014-15).

Himachal Pradesh Reduce outstanding debt as a per cent of GSDP to 49.7 per cent (2010-11) and 40.1 per cent (2014-l5).

Jammu and Kashmir Reduce outstanding debt as a per cent of GSDP to 56.1 per cent (2010-11) and 49.3 per cent (2014-15).

Jharkhand Target for outstanding debt as per cent of GSDP shall be 29.0 per cent (2010-11) and 26.9 per cent (2014-15).

Karnataka Debt as per cent of GSDP shall be 26.2 per cent (2010-11) and 25.2 per cent (2014-15).

Kerala Debt to be reduced to 29.8 per cent of GSDP within a period of four years (2011-2015). Annual target ceilings in terms of GSDP are set at 32.3 per cent (2011-12) and 29.8 per cent (2014-15).

Madhya Pradesh Total outstanding debt to estimated GSDP ratio not to exceed 37.6 per cent (2011-12) and 35.3 per cent (2014-15).

Maharashtra Maintain the outstanding debt to GSDP ratio up to 26.3 per cent (2010-11) and 25.3 per cent (2014-15).

Manipur Reduce outstanding debt as a per cent to GSDP to a maximum of 54.3 per cent by 2014-15. Annual ceilings on debt to GSDP ratio are 65.8 per cent (2010-11) and 54.3 per cent (2014-15).

Meghalaya Outstanding debt as a per cent to GSDP to be progressively reduced from 32.7 per cent during 2011-12 to 31.7 per cent during 2014-15.

Mizoram Reduce total outstanding debt to GSDP ratio to 87.3 per cent (2010-11) and 74.8 per cent (2014-15).

Nagaland Reduce the debt as a per cent to GSDP to 56.8 per cent (2010-11) and 52.3 per cent (2014-15).

Odisha The notified annual ceilings on debt-GSDP ratio are 31.0 per cent (2010-11) and 29.5 per cent (2014-15).

Punjab Reduce debt as per cent of GSDP to 42.5 per cent (2010-11) and 38.7 per cent (2014-15) and maintain thereafter.

Rajasthan Restrict its total outstanding debt as a per cent of GSDP to 39.3 per cent (2011-12) and 36.5 per cents (2014-15).

Sikkim Reduce debt stock to 55.9 per cent of GSDP within a period of five years (2010-11 to 2014-15). Annual targets are 68.4 per cent (2010-11) and 55.9 per cent (2014-15).

Tamil Nadu Annual target ceilings for total outstanding debt as a per cent to GSDP not to exceed 24.5 per cent (2011-12) and 25.2 per cent (2014-15).

Tripura Total debt stock as a per cent to estimated GSDP to not exceed 45.2 per cent (2010-11) and 43.8 per cent (2014-15).

Uttar Pradesh The total debt stock as percentage of GSDP to be maintained at 46.9 per cent (2011-12) and 41.9 per cent (2014-15).

Uttarakhand Total estimated debt liability as a per cent of GSDP not to exceed 41.0 per cent (2011-12) and 37.2 per cent (2014-15).

West Bengal Debt stock to be reduced to 34.3 per cent of the GSDP within a period of five years between 2010-11 and 2014-15. Annual targets with respect to GSDP are 39.1 per cent (2011-12) and 34.3 per cent (2014-15).

CHAPTER V

DEBT POSITION

The total outstanding liability is composed of the liability of the state government on account of public debt which is routed through the Consolidate Fund of the state government and other liabilities which pertain to some elements of the its liabilities to its Public Account outside the Consolidated Fund; these are liabilities are on account of Small Savings, Provident Fund and Other Accounts, Deposits and Advances, and Reserve Funds.

5.1 Outstanding Debt

Table 5.1 shows the outstanding debt liabilities of the state government (excluding guarantees) from 2002-03 to 2011-12. The total outstanding liabilities of the state government, as can be seen from the table, had accumulated to Rs. 67,980 crore at the end of 2011-12, growing steadily at an annual rate of 7.5 percent during this period. Public Debt constituted 75 percent of the total outstanding liability at the end of 2011-12, as against 68 percent in 2001-02. Loans from Public Account thus constitute a significant part of the total liability of the state government, though it is not a debt in the strict sense of the term. The other liabilities are composed of the state government's liabilities to the Provident Fund, Small Savings and other Accounts, Deposits and Advances and Reserve Funds, details about which will be discussed later. While most of these liabilities are interest bearing, some of these liabilities under the Reserve Funds and Deposits and Advances are also non-interest bearing; here the state government only holds the public money in trust with an obligation to repay.

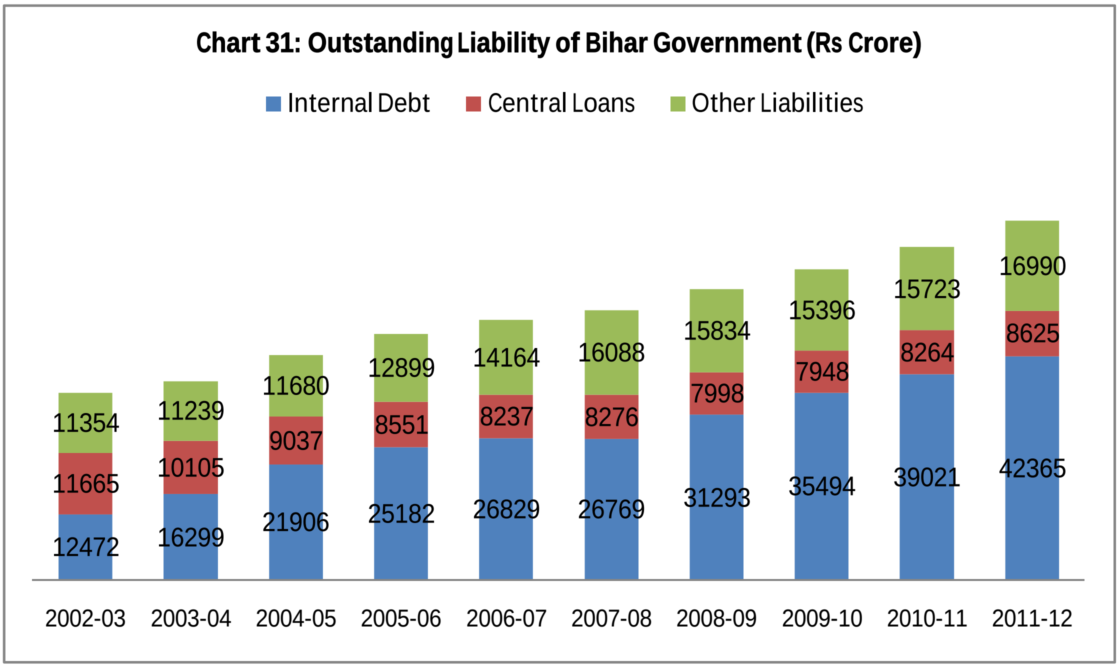
The Public Debt is composed of Internal Debt of the state government and Loans and Advances from the centre. After the recommendations of the 12^{th} Finance Commission, the share of central loans in total public debt had sharply declined for all the states; in Bihar, it constituted only 17 percent of the total public debt of the state government at the end of 2011-12, compared to 48 percent in 2002-03. The Internal debt had grown at an annual rate of 14.6 percent during the period, compared to (-)3.3 percent for central loans, and its growth had been higher since 2007-08. The Internal debt is raised by the state government by floating Bonds, by issuing special securities to the National Small Savings Fund (NSSF) of the central government and from the financial institutions like LIC/GIC, NABARD, NCDC and others. The details of outstanding liabilities of the state government on account of public debt will be discussed later. In contrast, the balances of the Public Account, being part of the Cash Balance of the state government, is automatically available to the state government and here borrowing depends on availability rather than need, and is beyond the control of the state government, thereby leading to surplus and avoidable borrowings as discussed in the last section. This is an aberration in our public financial system, not present anywhere outside the subcontinent. It is to be noted that the interest on interest-bearing public account funds are paid out of the Consolidated Fund of the state government, that is by using taxpayers' money, while the funds themselves are outside the Consolidated Fund and hence lack the usual financial and legislative controls applicable in respect of the latter. The state government also has no role to play in respect of accumulation of money in most of these funds which come from private sources – like the provident fund contributions. The administration of these funds also leaves scope for substantial discretion by state government with the possibility of their likely misuse.

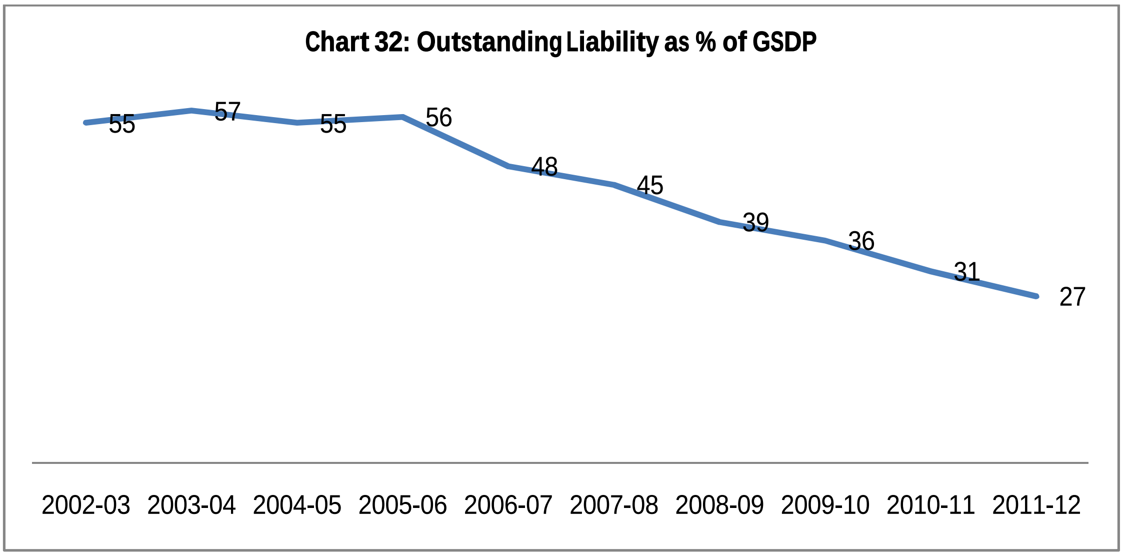
The outstanding liability as a percentage of GSDP had decreased significantly from 55 percent in 2002-03 to only 27 percent in 2011-12, due mainly to the much higher growth of GSDP at an annual rate of more than 16.3 percent, compared to an annual growth rate of 7.5 percent for outstanding liability during the period. The major factors that contributed to the lower growth of outstanding liability of the state government included the State's enactment of the FRBM Act in 2005-06 and its complete elimination of deficit in the revenue account, enabling it to get the full benefits of debt waiver recommended by the 12th Finance Commission during the period 2005-10. From Table 5.1, it is also seen that Bihar's ratio of outstanding liability to GSDP (2010-11) compares well with the corresponding ratios of most major Indian states.

Table 5.1 : Outstanding Liabilities of Bihar Government

(Rs crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	**CAGR**
Public Debt	**24137**	**26404**	**30943**	**33732**	**35065**	**35045**	**39291**	**43442**	**47285**	**50990**	**8.7**
Internal Debt	12472	16299	21906	25182	26829	26769	31293	35494	39021	42365	**14.6**
Central Loans	11665	10105	9037	8551	8237	8276	7998	7948	8264	8625	**-3.3**
Other Liabilities	**11354**	**11239**	**11680**	**12899**	**14164**	**16088**	**15834**	**15396**	**15723**	**16990**	**4.6**
Total Outstanding Liabilities	**35491**	**37643**	**42623**	**46631**	**49229**	**51133**	**55125**	**58838**	**63008**	**67980**	**7.5**
GSDP	64965	66174	77781	83549	103317	113680	142279	163800	201856	252694	**16.3**
Outstanding Liability as % of GSDP	55	57	55	56	48	45	39	36	31	27	
Outstanding Liability as Percentage of GSDP for Major States (2010-11)											
Andhra Pradesh	Gujarat	Haryana	Jhar-khand	Karna-taka	Madhya Pradesh	Mahara-shtra	Punjab	Raja-sthan	Tamil Nadu	Uttar Pradesh	West Bengal
24	27	18	25	23	29	21	33	29	20	37	41





5.2 Use of Debt Funds

The public debt can be a powerful instrument of economic growth, if it is utilised for the creation of productive assets. The ratio of capital outlay to capital receipts reflects the extent to which the debt funds is productively used by the state government. Also, the state government has a debt service obligation to discharge every year that comprises the installments of the principal amounts of past loans as well as the interest due on these. Since interest is to be paid out of revenue account (under General Services), it is expected that the revenue account would generate the necessary resources to pay off the interest. Since Bihar had revenue surplus every year since 2004-05, this assumption was true in Bihar's case.

Table 5.2 shows the use of debt funds by the state government. It can be seen from this table that, except in 2003-04 and 2007-08, substantial volumes of debt resources were available to the state government for capital investment purposes after discharging its debt service (excluding interest payments) and disbursing of loans and advances, mostly for plan purposes, within the state. The ratio of Capital Outlay to Capital Receipts, which had been less than 15 percent till 2004-05, also started improving since 2005-06. It reached a peak of 82 percent in the next year and, except for a temporary slump in 2008-09 when every financial indicator had suffered from the impact of the overall economic downturn, it had remained reasonably high, indicating that the debt funds were actually being used for capital outlay purposes.

Table 5.2 : Use of Public Debt by Bihar Government

(Rs crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Public Debt										
Receipts	4197	7920	7626	3770	2358	1612	5928	6134	6032	6628
Repayments	1533	5653	3087	981	1025	1632	1682	1983	2190	2922
Availability of Debt Funds	**2664**	**2267**	**4539**	**2789**	**1333**	**-20**	**4246**	**4151**	**3842**	**3706**
Less										
Net Loans / Advances Disbursed	732	2558	1113	1697	308	247	540	884	1091	1884
Net Debt Funds Available	**1932**	**-291**	**3426**	**1092**	**1025**	**-267**	**3706**	**3267**	**2751**	**1822**
Capital Outlay	**970**	**1549**	**1205**	**2084**	**5211**	**6104**	**6436**	**7332**	**9196**	**8852**
Net Debt Available / Total Debt Received (%)	46	-4	45	29	43	-17	63	53	46	27
Capital Outlay/ Capital Receipts (%)	**12**	**13**	**10**	**29**	**82**	**81**	**41**	**53**	**67**	**47**
Capital Outlay/ Net Debt Available (%)	50	-532	35	191	508	-2286	174	224	334	486
Net Interest Paid	**2969**	**3320**	**3399**	**3433**	**3240**	**3536**	**3448**	**3472**	**4241**	**3966**

With the state government's financial health being restored after the reliefs given by the 12th Finance Commission and its increasing revenue surpluses, it was able to generate substantial sums on its own for making capital investments. Thus, from Chart 34, we see that its capital outlay was substantially higher than the net debt available since 2006-07. However, the total debt servicing charges including interest still fell short of its total debt receipts in most of the years; in 2011-12, it was falling short of the debt receipts by more than Rs 2100 crore.

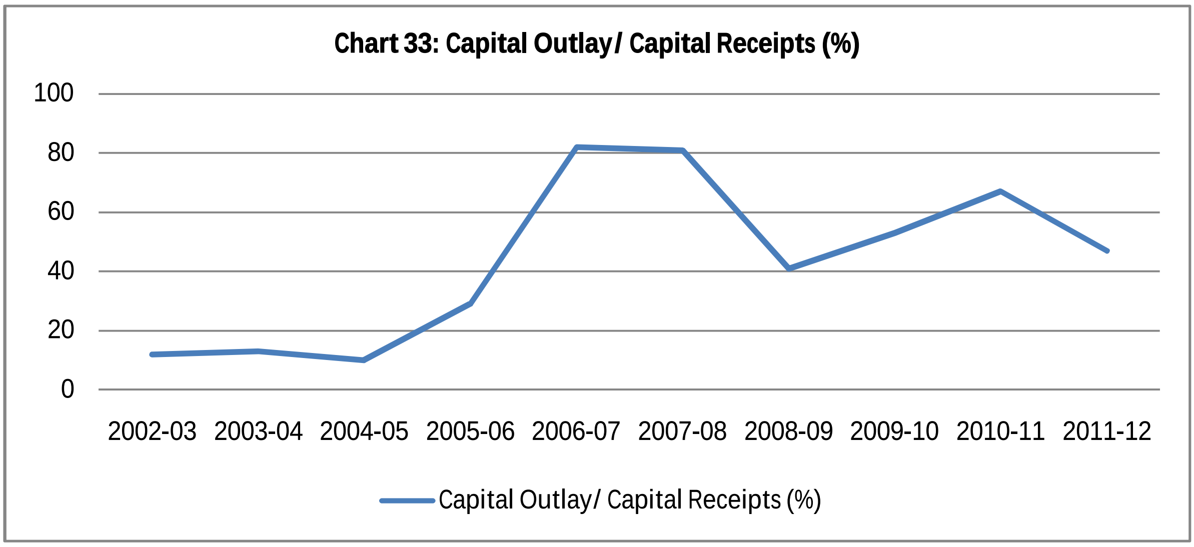


Chart 33: Capital Outlay/ Capital Receipts (%)
100
80
60
40
20
0
2002-03
2003-04
2004-05
2005-06
2006-07
2007-08
2008-09
2009-10
2010-11
2011-12
Capital Outlay/ Capital Receipts (%)

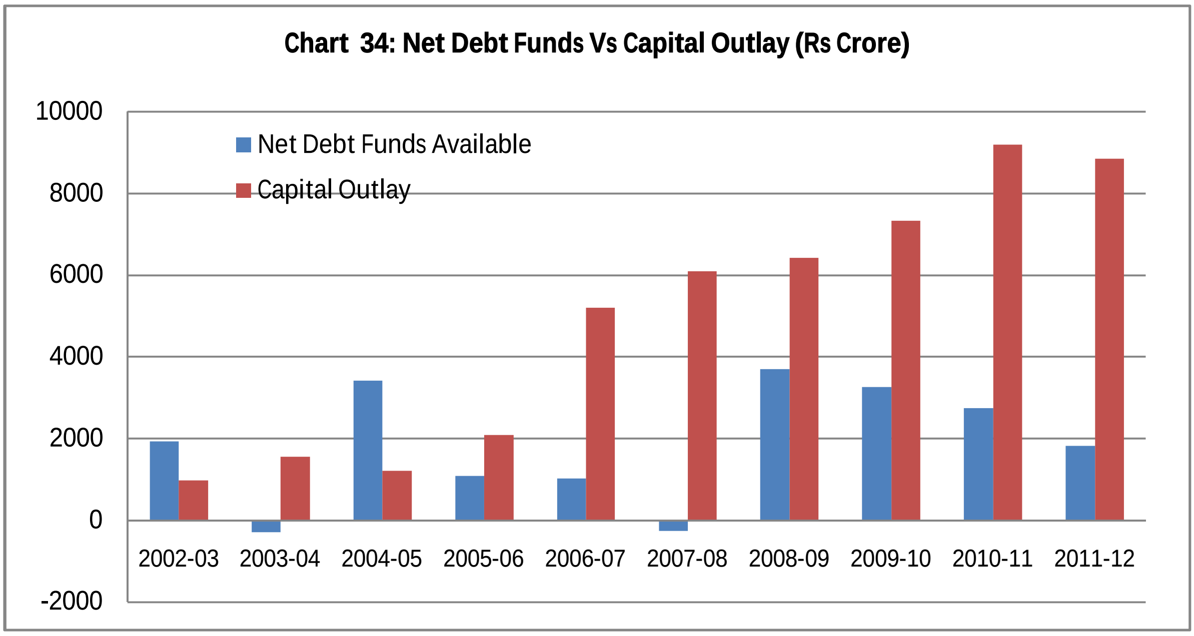


Chart 34: Net Debt Funds Vs Capital Outlay (Rs Crore)
10000
8000
6000
4000
2000
0
-2000
Net Debt Funds Available
Capital Outlay
2002-03
2003-04
2004-05
2005-06
2006-07
2007-08
2008-09
2009-10
2010-11
2011-12

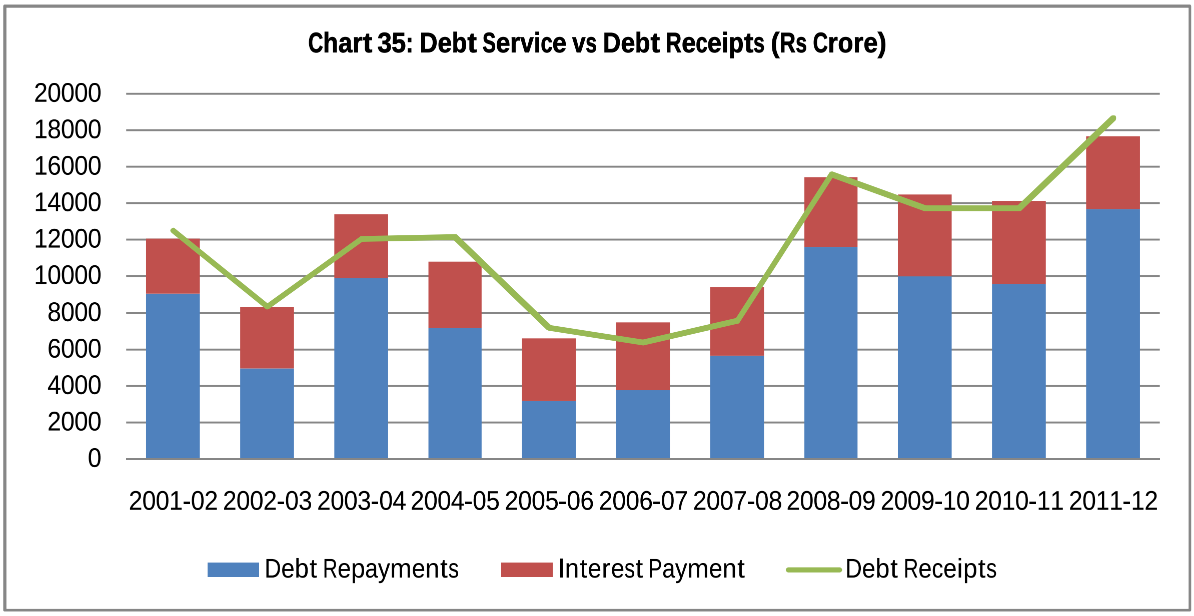


Chart 35: Debt Service vs Debt Receipts (Rs Crore)
20000
18000
16000
14000
12000
10000
8000
6000
4000
2000
0
2001-02
2002-03
2003-04
2004-05
2005-06
2006-07
2007-08
2008-09
2009-10
2010-11
2011-12
Debt Repayments
Interest Payment
Debt Receipts

5.3 Composition of Outstanding Public Debt

Table 5.3 also shows the composition of Bihar's outstanding public debt during the period 2002-12. The major part, more than 83 percent, of this outstanding debt at the end of 2011-12 was due to the internal loans raised by the state government and only 17 percent was due to loans from the central government. These figures were in sharp contrast to the corresponding ratios of 52 percent and 48 percent respectively in 2002-03. Thus, the composition of outstanding debt has undergone a structural change over the years, with the share of central loans coming down sharply. As pointed out earlier, this had happened mostly because of the recommendations of the 12th Finance Commission. About a decade or two later, the central government loans will probably no longer be a part of the loan portfolio of the state governments.

Table 5.3 : Percentage Composition of Outstanding Public Debt of Bihar Government Loans)

Nature of Borrowings	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Internal Debt, of which	**52**	**62**	**71**	**75**	**77**	**76**	**80**	**82**	**83**	**83**
Market Loans	29	34	34	32	30	27	34	37	37	40
Bonds	0	0	5	6	5	5	4	3	2	2
Loans from Financial Institutions	0	0	1	1	1	2	3	4	4	5
Special Securities Issued to NSSF	22	27	31	36	40	42	39	39	39	37
Loans and Advances from Central Government, of which	**48**	**38**	**29**	**25**	**23**	**24**	**20**	**18**	**17**	**17**
Non-Plan loans	12	4	1	1	0	0	0	0	0	0
Loans for State Plan Schemes	34	33	27	23	23	23	20	18	17	17
Others	2	2	1	1	0	0	0	0	0	0
Total Debt	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Table 5.4 shows the break-up of outstanding public debt of the state government and Table 5.5 shows their interest profile as on 31st March 2012. It can be seen that market loans and NSSF together constituted 92 percent of the total internal debt liability of the state government, followed by 6 percent for NABARD. As much as 98 percent of the outstanding central loans were for State Plan Schemes only.

Table 5.4 : Details of Outstanding Public Debt as on 31st March 2012

	Outstanding Amount (Rs. crore)	Share in Total (%)
Internal Debt		
Market Loans	20174	47.6
Loans from LIC	22	0.1
Loans from GIC	-1	0.0
Loans from NABARD	2445	5.8
Compensation & Other Bonds	850	2.0
SBI and Other Banks	0	0.0
Loans from NCDC	44	0.1
WMA from RBI	-9	0.0
Special Securities issued to NSSF	18832	44.5
Others	8	0.0
Total Internal Debt	**42365**	**100.0**
Loans and Advances from Centre		
Non-Plan Loans	62	0.7
Loans for State Plans	8493	98.5
Loans for Central Plans	6	0.1
Loans for Centrally Sponsored Plan Schemes	16	0.2
WMA for Plan Schemes	43	0.5
Others	4	0.0
Total Loans and Advances from Centre	**8624**	**100.0**

Table 5.5 : Interest Profile of Outstanding Public Debt as on 31st March 2012 (Rs Crore)

Rate of Interest (%)	Amount Outstanding			
	Internal Debt	Central Loans	Total	Share in Total (%)
Below 6.0	1436	2884	4320	8.5
6.0 to 6.99	5771	0	5771	11.3
7.0 to 7.99	4097	4659	8756	17.2
8.0 to 8.99	11627	0	11627	22.8
9.0 to 9.99	14842	1043	15885	31.2
10.0 to 10.99	4297	2	4299	8.4
11.0 to 11.99	109	2	111	0.2
12.0 to 12.99	183	16	199	0.4
13.0 to 13.99	1	16	17	0.0
Others	3	3	6	0.0
Total	**42366**	**8625**	**50991**	**100**

From Table 5.5, it is also seen that about 91 percent of the state government's outstanding loans were carrying less than 10 percent rate of interest, with 37 percent carrying interest rate less than 8 percent. About 33 percent of the outstanding central loans carried interest rates less than 6 percent, and 54 percent carried interest between 7 and 8 percent. Among the outstanding internal debt, the securities issued to NSSF carried interest rates between 9 and 11 percent while market loans carried interest between 8 and 9 percent.

5.4 Liabilities in Public Account

Table 5.6 shows the outstanding liability on Public Account and their respective contribution to total outstanding liability for the period 2002-12. The outstanding liability on Public Account has been growing rather slowly, at an annual rate of 4.6 percent during the period. Small Savings, Provident Fund and Other Accounts together constituted 56 percent of the total liability on Public Account at the end of 2011-12, compared to 69 percent at the end of 2002-03. Nearly 35 percent of the liability was constituted by Deposits and Advances in 2011-12, the rest being on account of Reserve Funds.

Table 5.6 : Composition of Outstanding Liability on Public Account

(Rs. crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Total Outstanding Liabilities	**11354**	**11239**	**11680**	**12899**	**14164**	**16088**	**15834**	**15396**	**15723**	**16990**
Small savings, Provident Fund and Other Accounts	7880	7998	8401	8766	9161	9430	9574	9311	9564	9562
Deposits and Advances	3014	2781	2742	3156	4026	5726	5035	4901	4952	5885
Reserve Funds	460	460	537	977	977	932	1225	1184	1207	1543
Percentage Composition										
Small savings, Provident Fund and Other Accounts	69	71	72	68	65	59	60	60	61	56
Deposits and Advances	27	25	23	24	28	36	32	32	31	35
Reserve Funds	4	4	5	8	7	6	8	8	8	9

Table 5.7 shows the details of outstanding liability on account of Public Account as on 31st March, 2012, from which it can be seen that liabilities on account of the State Provident Fund Accounts constitute more than 60 percent of the total outstanding liability, followed by 26 percent for Civil Deposits. The deposits of Local Funds constituted 8 percent of the total

liability. The interest-bearing Reserve Funds constituted only 9 percent of the total outstanding liabilities on Public Account, which were entirely on account of the State Disaster Response Fund (SDRF).

Table 5.7 : Composition of Outstanding Liability on Public Account, 31st March 2012

	Amount Outstanding (Rs. crore)	Share in Total
I. Provident Funds & Other Accounts		
State Provident Funds	10289	60.6
Insurance and Pension funds	-728	-4.3
Total Provident Funds & Other Accounts	**9561**	56.3
II. Reserve Funds		
Reserve Funds bearing Interests	1516	8.9
General and other Reserve Funds	26	0.2
Total Reserve Funds	**1543**	9.1
III. Deposits and Advances		
Deposits not bearing interest		
Civil Deposits	4329	25.5
Deposits of Local Funds	1388	8.2
other deposits	2	0.0
Total Deposits not bearing interest	**5718**	33.7
Advances		
Civil Advances	167	1.0
Total Deposits and Advances	**5885**	**34.6**
Total Public Account	**16989**	**100.0**

5.5 Sustainability of Debt

The debt sustainability is defined as the ability of the state government to maintain a reasonably low Debt-GSDP ratio over a period of time and reflects its ability to service its debt. The high debt ratios are costly and eventually become unsustainable. The fiscal sustainability is also linked to the concept of solvency and liquidity; while solvency refers to the government's ability to service its debt obligations without explicitly defaulting on them, liquidity refers to government's ability to roll-over its maturing liabilities with its liquid assets and available financing. The vulnerability to such problems is related to structure of debt, in terms of short- and long-term debts as well as internal and external debts.

The sustainability of debt thus refers to the sufficiency of current assets to meet current or committed obligations and the capacity to balance the cost of additional borrowings with returns from such borrowings. The borrowings are necessary to bridge the resource gap or fiscal deficit; debt sustainability implies that that increase in fiscal deficit should be accompanied by an enhanced ability to service the additional debt burden. While judging the sustainability of debt, one should be concerned with the inter-temporal budget constraint of the government and the change in public debt ratio over time. The long run debt sustainability condition implies the sufficiency of incremental non-debt receipts of the state government to cover its incremental primary expenditure, i.e. Required Primary Surplus = Growth adjusted real interest rate on public debt into Net public debt.

A necessary condition for stability is that the rate of growth of GSDP should exceed the interest rate i.e. the cost of borrowed funds; Debt-GSDP ratio is then likely to be stable provided there is a sustained primary surplus (at least not a deficit in the primary account). This is known as the 'Solvency Condition'. The stock of public debt could increase so long as it does not increase faster than the real interest rate. Given the rate spread (GSDP growth rate – interest rate) and quantum spread (debt stock multiplied by the rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, Debt-GSDP ratio would be stable and debt would be sustainable. On the other hand, if it is negative, the Debt-GSDP ratio would continue to rise and in case it is positive, Debt-GSDP ratio would eventually fall. From Table 5.8, we see that the solvency condition is satisfied in Bihar's case, as the growth rate of its GSDP outstripped the growth rate of its outstanding liability, as a result of which the Debt : GSDP ratio has been declining and this trend is likely to continue.

Table 5.8 : Sustainability of Debt

Nature of Borrowings	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Weighted Interest Rate on Loans (%)	9.0	9.6	9.3	8.7	7.6	8.0	7.8	7.4	8.0	7.5
GSDP Growth Rate (%)	12.7	1.9	17.5	7.4	23.7	10.0	25.2	15.1	23.2	25.2
Interest Rate Spread (%)	3.6	-7.7	8.2	-1.3	16.1	2.1	17.4	7.7	15.2	17.7
Outstanding Debt (Rs crore)	35071	34629	39842	43890	46073	47107	49400	53803	58107	63028
Quantum Spread (Rs. crore)	1279	-2678	3271	-570	7402	977	8586	4150	8849	11150
Primary Balance (Rs crore)	34	-1020	2232	-50	395	2004	1246	-1447	509	-1375
Quantum Spread + Primary Balance (Rs. crore)	1313	-3698	5504	-621	7797	2981	9832	2702	9357	9775

5.6 Contingent Liabilities

Table 5.9 shows the details of outstanding guarantees of the state government at the end of the financial year 2011-12 which constitute its contingent liabilities. The total amount of outstanding guarantees stood at Rs 1092 crore, approximately 4 percent of total revenue receipts in 2011-12, and interest on outstanding guarantees amounted to Rs 103 crore. Of the total amount of outstanding guarantees, Rs 500 crore (46 percent) were due alone to the Bihar State Food and Civil Supplies Corporation and Rs 195 crore (18 percent) due to the BSEB, followed by Rs. 158 crore (14 percent) to Credit Co-operative Societies and Rs. 128 crore (12 percent) to the Bihar State Financial Corporation. These four entities together account for almost 90 percent of the total outstanding guarantees of the state government.

Table 5.9 : Outstanding Guarantees of Bihar Government at the end of 2011-12

(Rs crore)

Guarantees given to	Outstanding Guarantees	Outstanding Interest
Bihar State Electricity Board	195	0
Credit Co-Operatives	158	3
Housing Co-Operative	12	
Bihar State Food and Civil Supplies Corporation	500	59
Bihar State Financial Corporations	128	30
Bihar State Housing Board	17	4
Bihar State Water Board	5	3
Regional Development Authority	10	1
Bihar Drugs and Chemicals Ltd	1	3
Bihar State Agriculture Development Council	1	0
Bihar State Leather Industries Development Corporation	1	0
Bihar state Minorities Financial Corporation, Patna	47	1
Bihar State Backward Class Finance and Development Corporation	19	0
Grand Total	**1092**	**103**

Table 5.10 shows the guarantees given by the state government during the last 5 years. It will be seen that the maximum amount of guarantees given had jumped in 2011-12 to Rs 2049 crore. Table 5.11 shows the major amount of guarantees given during the year. The state

government is yet to establish any Guarantee Redemption Fund, as suggested by the Twelfth Finance Commission to discharge any future liabilities, should they arise.

Table 5.10 : Guarantees Given by State Government : 2007-12

(Rs crore)

	2007-08	2008-09	2009-10	2010-11	2011-12
Maximum amount guaranteed	1538	1548	1548	1550	2049
Outstanding Amount of guarantees given	516	704	899	588	1092

Table 5.11 : Major Guarantees given in 2011-12

(Rs Crore)

Guarantees given to	**Outstanding Guarantees**
Bihar State Electricity Board	592
Credit Co-Operatives	526
Bihar State Food and Civil Supplies Corporation	500
Bihar State Financial Corporations	184
Bihar State Housing Board	90
Bihar state Minorities Financial Corporation, Patna	30
Bihar State Agriculture Development Council	23
Bihar State Backward Class Finance and Development Corporation	25
Housing Co-Operative	20
Grand Total	**1990**
Maximum Guarantees given during the year	**2049**

CHAPTER VI

STATE'S TRANSFER TO LOCAL BODIES

6.1. Overall Transfer Pattern

Table 6.1 shows the scheme-wise allocation of fund to rural and urban local bodies in Bihar between 2010-11 and 2012-13. The local bodies mainly receive grants under (1) 13th Finance Commission recommendations (2) State Finance Commission recommendations and (3) Backward Region Grant Fund (BRGF). Besides these, grants are also given from the allowances to MLAs and MPs, and also for special purposes like construction etc. During these three years, share of grants given to the local bodies under 13th Finance Commission recommendations had increased from 25 to 38 percent of total grants, while shares of State Finance Commission grants reduced marginally from 28 to 25 percent. The share of BRGF grants which was 72 percent of the total grants in 2010-11 declined sharply to 24 percent, through the absolute amount every year (about Rs. 675 crore) remained nearly unchanged.

Table 6.1 : Scheme-wise Allocation of Fund to Rural and Urban Local Bodies

(Rs. crore)

	2010-11 Actual	2011-12 Estimated	2011-12 Revised	2012-13 Estimated
Zila Parisad				
Grants to Zila Parisad for Dak Banglow	0	1	1	0
Grants against 13th Finance Commission	5	72	76	105
Grant for Salary of employees of Zila Parisad	6	0	0	0
Grants against State Finance Commission	0	125	125	55
BRGF	61	60	64	60
Allowance to Elected Representatives of Zila Parisad	0	0	1	1
Total	**71**	**259**	**268**	**222**
Panchayat Samiti				
Grants against 13th Finance Commission	14	144	157	211
Grants against State Finance Commission	0	87	87	104
BRGF	117	121	128	121
Allowance to Elected Representatives of Panchayat Samiti	0	0	6	5
Total	131	352	378	441
Gram Panchayat				
Grants against 13th Finance Commission	215	502	711	738
Grants against State Finance Commission	0	455	455	516
Contract Payment to Nyaymitra/ Secretary	21	46	46	46
BRGF	424	423	444	423
Allowance to Elceted Representatives of Gram Panchayat	1	0	26	22
Allowance to Elected Representatives of Gram Kachahari	1	0	26	22
Construction of Panchayat Bhavan	0	250	250	250
Total	**661**	**1677**	**1957**	**2017**
Urban Bodies				
BRGF	62	63	67	63
Total	**62**	**63**	**67**	**63**
Grand Total	**924**	**2349**	**2671**	**2742**

In the light of the recommendations of 13th Finance Commission for 2011-12, the total amount of Rs. 582.06 crore actually sanctioned for Panchayat Raj Institutions was mainly being utilized towards construction of Anganwadi Centres. During 2011-12, under Backward Region Grant Fund (BRGF) programme, 24,280 schemes were executed, spending an amount of Rs. 408.58 crore.

The details of district-wise allocation of fund for PRIs and Urban Local Bodies between 2010-11 and 2012-13 (BE) are shown in Annexure 6.1, Tables 1 to 3. Table 4 at Annexure 6.1 shows release of 12th Finance Commission grants to the Panchayats under Non-Plan heads. Table 6.2 shows the number of rural local bodies in Bihar and other details.

Table 6.2 : Panchayati Raj Department (Rural Local Bodies)

Sl. No.	Bodies / Functionaries	No.
1	Zila Parisad	38
2	Panchayat Samitis	531
3	Gram Panchayat	8442
4	Gram Kachahari	8442
5	Gram Panchayat Member	115876
6	Gram Panchayat Mukhiya	8442
7	Panchayat Samiti Member	11566
8	Zila Parisad Member	1162
9	Gram Kachahari Panch	115876
10	Gram Kachahari Sarpanch	8442
11	Gram Panchayat Secretary	8463
12	Gram Kachahri Nyay Mitra	8442
13	Gram Kachahari Secretary	8442
14	Zila Panchayat Raj Officer	38
15	Block Panchayat Raj Officer	516

6.2 Major Initiatives for Strengthening PRIs

(i) Amendments to Bihar Panchayati Raj Act, 2006 : In the light of the recommendations of the 13th Finance Commission, the Bihar Panchayati Raj Act, 2006 was amended to enable audit of the three-tier Panchayati Raj system by the Comptroller and Auditor General of India. Amendments have also been mader in Articles 2, 18, 31, 44, 55, 59, 70, 82, 86, 97, 152 and 168 of Bihar Panchayat Raj Act, 2006, making provision for imposition of property tax by the PRIs, provision of presenting Annual Report in the two houses of

Vidhan Mandal of the State and provision indicating criteria for eligibility and disqualification of the Chairperson and members of the State Finance Commission.

(ii) Capacity Building for Local Self Governance : Among others, the state government has taken the following steps to strengthen the three-tier PRIs in Bihar. In particular, these include :

(a) With support from UNDP, Annual Action Plan and Training Module were prepared for capacity building of the elected representatives and personnel under the Capacity Building component of BRGF. Training workshops were organised by the Department. Training Modules for training of elected representatives and functionaries of Panchayati Raj Institutions include Panchayati Raj Act, 2006, Development Schemes, Transparency and Accountability, Financial Management and Accounts, E-Panchayat etc. as major subjects.

(b) Under the UNDP-CDLG project, exposure visit to some selected beacon panchayats of Rajasthan were organised during in July, 2012 for capacity building of the elected representatives of PRIs.

(c) Training programmes have started with the inauguration of the Training Module in three volumes by the Hon'ble Chief Minister in September, 2012 in presence of the elected representatives of PRIs of the districts. As per the schedule, a total of 148 Master Resource Persons have already been trained at Bihar Institute of Public Administration and Rural Development (BIPARD) by October, 2012, who would further impart training to 2124 District Resource Persons from different districts. These District Resource Persons would then provide training to all the elected representatives and functionaries of PRIs of the state.

(d) A number of appointments have been made in the recent years to strengthen the PRIs, details of which are presented in Annexure 6.2.

(e) A process has been initiated for direct transfer of funds to the Panchayats through Core Banking System.

(iii) E-Governance : IT Cells have been formed in all the districts and Panchayat Samitis by providing services of trained computer personnel. The state and district level workshops were conducted for all the Chief Executive Officers, Zilla Parishad, District Planning Officers, and District Information Officers of the NIC on preparation of District Plans with the help of Plan Plus software. The accounts of the PRIs were modernized and automated using PRIASoft software to ensure accountability and transparency.

(iv) Panchayat Sarkar Bhawan : By March 2015, construction of 1435 Panchayat Sarkar Bhawans is scheduled to be completed with an amount of Rs. 1212 crore. The establishment of these Bhawans in all Gram Panchayats has been accorded high priority by the state government. Each Bhawan will accommodate, on an average, a cluster of 5.8 Gram Panchayats. As per the design, Panchyat Sarkar Bhawan will be two-storied in which space will be made for the elected representatives and functionaries of PRIs, Gram Kachahari Nyayalaya Hall, records room, store, hall for meeting of Panchayat/ Standing Committee, reception Room for the public, Service Centre for providing computerised services, pantry and toilet. In addition, these Bhawans will also be utilized for disaster management during the times of flood and other disasters.

The cost of the construction of a Panchayat Sarkar Bhawan is about Rs. 82 lakh per unit with a total built up area of 5920 sq.ft. By the provisions of such Bhawans, Gram Panchayats would be enabled to function as effective governance centres embodying the spirit of local self-governance.

(v) Strengthening of PRI with support from World Bank : The state government gave consent for a project for strengthening of PRIs with the support from the World Bank for an amount of about Rs. 600 crore. Under this, construction of multipurpose Panchayat Bhawan and training for good governance (along with controls) have been proposed in 6 districts (Saharsha, Supaul, Madhepura, Patna, Nalanda and Bhojpur).

(vi) Devolution of Power and Activity Mapping : The necessary approval has been given for regular monthly allowance, daily allowance and travel allowance to motivate the elected representatives of PRIs President and Vice-President of Zilla Parishad, Pramukh / Up-Pramukh of Panchayat Samiti, Mukhia, Up-Mukhia of Gram Panchayat) and Sarpanch/ Up-Sarpanch of Gram Kachahari, along with an approval for special honorarium to the male and female members of scheduled caste/ scheduled tribe/most backward class, and females members below the poverty line. In this context, an amount of Rs. 92.00 crore has been made available for the year 2012-13. During the financial year 2011-12, Rs.38.77 crore was allotted towards contractual payment for Gram Kachahari Nyaya Mitra and Gram Kachahari Sachiv.

(vii) Panchayat Empowerment and Accountability Incentive Scheme (PEAIS)

(a) A Panchayat Empowerment and Accountability Incentive Scheme (PEAIS) has been initiated by the Ministry of Panchayati Raj, Government of India with the objective of evaluating the PRIs and to award the best performing PRIs with a view to motivate other PRIs to perform better. Under PEAIS, on the basis of the evaluation year 2011-12, 6 Gram Panchayats, 4 Panchayat Samitis, 1 Zilla Parishad i.e, 11 PRIs in all from the state are to be awarded by the Ministry of Panchayati Raj, Government of India for which steps are being taken by the Department.

(b) At the state level, State Panchayat Performance Assessment Committee (SPPAC) has been formed under the chairmanship of Principal Secretary, Panchayati Raj Department.

(viii) Important Rules

The following nine rules have been enacted by the state government:

(a) Bihar Panchayati Raj Finance Commission (Appointment, Eligibility and Service Conditions) Rules

(b) Bihar Panchayati Raj Miscellaneous Rules

(c) Bihar Gram Sabha (Coordination of meeting and Procedure for conduct) Rules

(d) Bihar Panchayati Raj Institutions (Conduct) Rules

(e) Bihar Panchayati Raj (Supervision and Control) Rules

(f) Bihar Panchayati Raj Standing Committee (Conduct) Rules

(g) Bihar Panchayati Raj Tax and Fees (Imposition, Assessment and Collection) Rules

(h) Bihar Panchayati Raj (Procedure of making Bye-Law and Regulations) Rules

(i) Bihar Gram Panchayat (Appointment of Secretary, Rights and Duties) Rules, 2011 (in the light of Bihar Panchayat Raj Act, 2006)

(ix) Gram Sabha Campaign : The major objectives of the Gram Sabha Campaign are to make the elected representatives aware on their rights and duties, strengthening of Gram Sabha, to ensure public participation and giving wider publicity for awareness generation. It has been proposed to undertake "Gram Sabha Campaign" through "Kala Jatha" in about 6000 Gram Panchayats of the state for strengthening of Gram Sabha in collaboration with Bihar Education Project, for which Rs.1.86 crore would be made available.

6.3 Urban Local Bodies

Besides strengthening the PRIs in rural areas, the state government has also undertaken a number of desired steps to enable the Urban Local Bodies (ULB) to function effectively and deliver the services to the urban population. The important steps taken by the state government are listed below.

(i) Under the Implementation of decentralization initiatives as envisaged in 74^{th} Constitutional Amendment Act, all but one of the functions (Fire Services) listed in the 12^{th} Schedule to the Act have been transferred, as shown in Table 6.3.

Table 6.3 : Functions listed in 12^{th} Schedule of 74^{th} CAA and Transferred to ULBs

Sl. No.	Functions listed in 12^{th} Schedule
1	Urban Planning including town planning
2	Regulation of land-use and construction of buildings
3	Planning for economic and social development
4	Roads and bridges
5	Water supply- domestic, industrial and commercial
6	Public health, sanitation, conservancy and SWM
7	Urban forestry, protection of environment and ecology
8	Safeguarding the interests of weaker sections society including the handicapped and mentally retarded
9	Slum improvement and upgradation
10	Urban poverty alleviation
11	Provision of urban amenities and facilities- parks, gardens and playgrounds
12	Promotion of cultural, educational, and aesthetic aspects
13	Burials and burial grounds, cremations, cremation grounds and electric crematoriums
14	Cattle pounds, prevention of cruelty to animals
15	Vital statistics including registration of births and deaths
16	Public amenities including street lighting, parking lots, bus stops and public conveniences
17	Regulation of slaughter houses and tanneries

(ii) Urban Land (Ceiling and Regulation) Act has been repealed in August 2006.

(iii) The Apartment Ownership Act, which had several shortcomings, restricting investment in the sector, has been amended in August 2006.

(iv) Reform of Rent Control / Municipal Law has been finalized and is to be placed before the Assembly soon.

(v) The stamp duty has been rationalised by bringing it down from the existing 18 percent to 10 percent in May 2006, with a target to reach 5 percent later.

(vi) Building bye-laws have been amended in April 2006 to incorporate structural safety norms, rainwater harvesting and provision for disabled persons, etc. Bye-laws have also been revised in May 2006 to streamline the approval process for construction of buildings. In order to attract investment in multiplexes and malls, building bye-laws, cinema rules have been amended in August 2006.

(vii) The state government has computerized registration of land and property, and property title certification.

(viii) In several ULBs, Public Private Participation (PPP) projects have been experimented, starting with garbage disposal, street lighting, construction of bus stands, etc.

(ix) It is proposed to introduce system of e-Governance using IT application for various urban services and reform of property tax.

(x) The Master Plans and GIS Mapping of major towns have been taken up.

(xi) The training of women councilors is going on through the RCUES, Lucknow. About 25 percent women councilors in the state have already been trained.

(xii) An emphasis is being placed on creating and augmenting basic infrastructure facilities in water supply, sewerage, storm water drainage, solid waste management, roads and bridges

6.4 Reforms Undertaken under JNNURM Conditionalities

Under the JNNURM, Rs 442.41 crore was originally sanctioned for the period 2005-12 and an additional allocation was made later for Rs 150 crore, taking the total allocations under the scheme to Rs 592.41 crore for executing 8 projects. The total estimated costs for the projects were Rs 711.81 crore. As of 31.03.2013, Additional Central Assistance (ACA) of Rs 123.11 crore, out of total committed ACA of Rs 394.76 crore have been released.

In August 2010, City Managers were appointed through a transparent, centralized and unified selection process by the Urban Development and Housing Department at a consolidated salary of Rs 20,000 per month. They are responsible for assisting Municipal Commissioners/ Executive Officers in the discharge of accounts, planning, central programmes and scheme-related works, coordination for effective administration, capacity building, preparation of Citizens' Charter and public relations. They will also play an advisory role in respect of finances, accounts and other decision making processes.

Annexure 6.3 shows the status of reforms in respect of JNNURM in Patna and Bodhgaya. It can be seen that, in both these cities, substantial progress has been made in achievement of targets in respect of most items.

Annexure 6.1

Districtwise Allocation of Fund to the Panchayati Raj Department (2010-11 to 2012-13) (Rs. lakh)

Table 1 : Zilla Parishad and Panchayat Samities

District	Zilla Parisad			Panchayat Samiti		
	2010-11	2011-12 RE	2012-13 BE	2010-11	2011-12 RE	2012-13 BE
Patna	169	764	794	319	1534	1572
Nalanda	213	498	599	401	1003	1193
Bhojpur	175	472	560	359	957	1136
Buxar	172	345	396	248	696	811
Rohtas	224	527	635	416	1037	1227
Kaimur	196	367	423	388	741	859
Gaya	267	692	836	510	1400	1674
Jehanabad	105	232	275	204	428	499
Arwal	76	170	198	148	316	370
Nawadah	210	447	536	392	858	1002
Aurangabad	231	497	608	419	937	1106
Saran	157	784	831	275	1540	1591
Siwan	60	602	762	56	1104	1329
Gopalganj	195	524	644	343	989	1171
West Champaran	267	654	788	508	1341	1605
East Champaran	256	821	1004	473	1701	2056
Muzaffarpur	268	740	889	532	1564	1890
Sitamarhi	252	614	752	462	1241	1489
Sheohar	147	215	247	280	396	445
Vaishali	247	609	745	445	1237	1487
Darbhanga	255	670	810	490	1354	1625
Madhubani	295	780	946	575	1660	2012
Samastipur	233	742	901	439	1496	1759
Begusarai	185	536	640	358	1079	1281
Munger	137	251	293	280	473	565
Sheikhpura	103	186	207	204	351	391
Lakhisarai	141	232	261	283	450	510
Jamui	188	365	421	375	743	866
Khagaria	182	350	415	347	684	798
Bhagalpur	199	478	570	384	966	1148
Banka	167	416	482	331	834	974
Saharsha	177	379	447	348	749	878
Supaul	198	420	484	401	893	1057
Madhepura	172	393	459	335	810	952
Purnea	147	910	706	256	1460	1567
Kishanganj	140	331	381	278	697	820
Araria	122	594	588	238	1232	2301
Katihar	187	531	634	357	1075	1277
Total	7115	26830	22167	13093	37827	44071

Table 2 : Gram Panchayats

District	Gram Panchayat			Total		
	2010-11	2011-12 RE	2012-13 BE	2010-11	2011-12 RE	2012-13 BE
Patna	1723	7219	6637	2211	9517	9003
Nalanda	1985	4915	5046	2598	6416	6839
Bhojpur	1767	4603	4715	2301	6032	6410
Buxar	1489	3930	4003	1908	4971	5209
Rohtas	2046	5734	5869	2685	7298	7732
Kaimur	1657	4390	4274	2241	5498	5556
Gaya	2568	7307	7472	3345	9400	9982
Jehanabad	932	2901	2837	1241	3561	3611
Arwal	674	2270	2281	897	2756	2849
Nawadah	1818	4894	4845	2420	6199	6383
Aurangabad	1855	5044	5169	2505	6479	6883
Saran	1599	7597	7284	2032	9920	9706
Siwan	829	6321	6430	946	8027	8521
Gopalganj	1756	5589	5648	2294	7102	7463
West Champaran	2548	7134	7197	3322	9129	9590
East Champaran	2578	8448	8764	3307	10969	11824
Muzaffarpur	2612	7986	8336	3412	10290	11115
Sitamarhi	2222	6276	6386	2936	8131	8627
Sheohar	1106	2600	2404	1533	3212	3096
Vaishali	2203	6576	6629	2896	8422	8860
Darbhanga	2486	7143	7245	3231	9167	9680
Madhubani	2939	8217	8643	3809	10658	11602
Samastipur	2433	8110	8288	3105	10349	10948
Begusarai	1884	5816	6060	2427	7431	7981
Munger	1450	2938	3103	1868	3662	3961
Sheikhpura	821	2342	2342	1128	2879	2941
Lakhisarai	1146	2854	2843	1570	3536	3613
Jamui	1612	4136	4265	2176	5243	5552
Khagaria	1461	3855	3799	1990	4889	5013
Bhagalpur	1916	5373	5682	2499	6816	7400
Banka	1522	4806	4854	2020	6055	6310
Saharsha	1555	3521	3422	2081	4648	4747
Supaul	1750	3869	3981	2349	5182	5522
Madhepura	1523	3638	3741	2030	4840	5152
Purnea	1372	6219	6015	1775	8589	8288
Kishanganj	1272	3760	3735	1690	4788	4935
Araria	1247	6025	5435	1607	7852	8324
Katihar	1706	5534	5768	2251	7140	7680
Total	66064	195747	201750	86272	260404	267988

Table 3 : Urban Local Bodies

District	Urban Bodies			Grand Total		
	2010-11	2011-12 RE	2012-13 BE	2010-11	2011-12 RE	2012-13 BE
Patna	276	710	482	2487	10227	9485
Nalanda	318	274	274	2916	6689	7113
Bhojpur	255	251	251	2556	6283	6661
Buxar	164	140	140	2072	5110	5349
Rohtas	311	280	280	2997	7578	8012
Kaimur	61	53	53	2302	5550	5608
Gaya	360	321	321	3705	9721	10303
Jehanabad	129	113	113	1371	3674	3724
Arwal	0	0	0	897	2756	2849
Nawadah	149	129	129	2570	6329	6512
Aurangabad	177	153	153	2682	6632	7036
Saran	112	323	216	2143	10243	9922
Siwan	–	83	83	946	8109	8604
Gopalganj	98	106	106	2392	7208	7569
West Champaran	259	229	229	3581	9358	9819
East Champaran	137	187	187	3444	11157	12012
Muzaffarpur	240	222	222	3652	10512	11337
Sitamarhi	126	110	110	3061	8241	8736
Sheohar	58	48	48	1591	3260	3143
Vaishali	148	131	131	3044	8553	8991
Darbhanga	191	208	208	3422	9374	9888
Madhubani	92	78	78	3902	10736	11680
Samastipur	71	78	78	3177	10427	11026
Begusarai	76	82	82	2503	7513	8063
Munger	475	398	398	2343	4059	4359
Sheikhpura	179	184	184	1307	3063	3125
Lakhisarai	232	194	194	1802	3730	3808
Jamui	140	120	120	2316	5364	5672
Khagaria	103	88	88	2093	4976	5100
Bhagalpur	399	348	348	2898	7164	7748
Banka	55	59	59	2075	6114	6369
Saharsha	144	128	128	2225	4777	4875
Supaul	99	85	85	2448	5267	5607
Madhepura	72	69	69	2102	4910	5222
Purnea	102	226	171	1876	8815	8459
Kishanganj	142	150	150	1832	4938	5085
Araria	65	174	111	1672	8025	8435
Katihar	159	173	173	2410	7313	7853
Total	6177	6704	6251	92449	267108	274239

Table 4 : Release of Twelfth Finance Commission Grants to the Panchayats (Under Non-Plan)

Instalment of the TFC Grants	Released by the Central Govt.		Released by the State Govt.		U.C. sent by the State Govt. to central Govt.	Remarks
	Amount (Rs. In Lacs)	Releasing Date	Amount (Rs. In Lacs)	Released to Panchayats on		
1st for the year 2005-06	16240.00	30.09.05	16240.00	23.11.05	05.02.2007	Amount will be utilized on water supply, sanitation, maintenance of accounts and data base, maintenance of civic services.
2nd for the year 2005-06	16240.00	06.07.06	16240.00	13.03.06 & 25.03.06		
1st for the year 2006-07	16240.00	05.10.06	16240.00	31.05.06	22.01.2008	
2nd for the year 2006-07	16240.00	03.09.07	16240.00	21.02.07		
1st for the year 2007-08	16240.00	22.11.07	16240.00	13.09.07	30.09.2009	
2nd for the year 2007-08	16240.00	27.02.08	16240.00	16.01.08		
1st for the year 2008-09	16240.00	04.02.09	16240.00	25.07.08	18.01.2010	
2nd for the year 2008-09	16240.00	04.02.09	16240.00	05.01.09		
1st for the year 2009-10	16240.00	26.10.09	16240.00	19.08.09	02.08.2011	
2nd for the year 2009-10	16240.00	03.02.10	16240.00	03.02.10		
1st for the year 2010-11	23063.00	03.08.2010	23063.00	17.08.10	02.02.11	Amount will be utilized on construction of Aanganbari Kendra.
2nd for the year 2010-11	22506.00	31.03.2011	23067.00	31.03.11	05.08.11	Amount will be utilized on construction of Aanganbari Kendra & proper manpower and infrastructure.
	The Local Bodies Grants have been released on 31.03.2011 in anticipation of receipt of grant from the GOI. Only an amount of Rs. 2,62,00,470.00 could be drawn. Again the remaining difference amount Rs. 2,22,43,99,530.00, as per the amount of second installment received from the GOI, has been released vide letter no. 01 dated 31.05.2011.					
1st for the year 2011-12	28882.00	14.11.2011	28882.00	30.12.2011	06.01.2012	Amount will be utilized on construction of Aanganbari Kendra & proper manpower and infrastructure.

<table>
<tr><td>2nd for the year 2011-12</td><td>29495.00</td><td>01.03.2012</td><td>29495.00</td><td>05.03.2012</td><td>27.03.2012</td><td>Amount will be utilized on construction of Aanganbari Kendra & proper manpower and infrastructure.</td></tr>
<tr><td>1st for the year 2009-10</td><td>16240.00</td><td>26.10.09</td><td>16240.00</td><td>19.08.09</td><td>02.08.2011</td><td>Reports have been sought from districts.</td></tr>
<tr><td>1st for the year 2010-11 (Basic Grant)</td><td>23063.00</td><td>03.08.2010</td><td>23063.00</td><td>17.08.10</td><td>02.02.11</td><td>Amount will be utilized on construction of Aanganbari Kendra.</td></tr>
<tr><td rowspan="2">2nd for the year 2010-11 (Basic Grant)</td><td>22506.00</td><td>31.03.2011</td><td>23067.00</td><td>31.03.11</td><td>05.08.11</td><td>Amount will be utilized on construction of Aanganbari Kendra & proper manpower and infrastructure.</td></tr>
<tr><td colspan="6">The Local Bodies Grants have been released on 31.03.2011 in anticipation of receipt of grant from the GOI. Only an amount of Rs. 2,62,00,470.00 could be drawn. Again the remaining difference amount Rs. 2,22,43,99,530.00, as per the amount of second installment received from the GOI, has been released vide letter no. 01 dated 31.05.2011.</td></tr>
<tr><td>1st for the year 2011-12 (Basic Grant)</td><td>28882.00</td><td>14.11.2011</td><td>28882.00</td><td>30.12.2011</td><td>06.01.2012</td><td rowspan="4">Amount will be utilized on construction of Aanganbari Kendra & proper manpower and infrastructure.</td></tr>
<tr><td>2nd for the year 2011-12 (Basic Grant)</td><td>29495.00</td><td>01.03.2012</td><td>29495.00</td><td>05.03.2012</td><td>27.03.2012</td></tr>
<tr><td>1st for the year 2011-12 (Performance Grant)</td><td>16869.38</td><td>31.03.2012</td><td>16869.38</td><td>04.05.2012</td><td>15.05.2012</td></tr>
<tr><td>2nd for the year 2011-12 (Performance Grant)</td><td>9958.07</td><td>24.08.2012</td><td>9958.07</td><td>29.08.2012</td><td>06.09.2012</td></tr>
</table>

Annexure 6.2

Initiatives for Recruitment/ Appointment

(i) Category wise Details of the new employments made

- Appointment of three persons to the post of Upper Division Clerk on the basis of compassionate ground.
- Selection of 4 persons for project management under Bihar Panchayat Strengthening Project.

(ii) Category wise Details of the total employments under process

- Appointment of Gram Kachahari Sachiv against 8442 posts is proposed.
- Process initiated for the employment of Panchayat Sachivs against the vacant posts of Panchayat Sachiv (about 3004 posts) under the New Appointment Rules, 2011.
- In the light of Bihar Panchayat Service Rules, 2010, for direct recruitment of Block Panchayati Raj Officers, process initiated, after category wise roaster clearance for the total 142 vacant positions through Staff Selection Commission/ General Administration Department.
- In the light of Bihar Panchayat Service Rules, 2010, process initiated towards appointment through promotion against the 47 vacant posts from the State level seniority list of Graduate Panchayat Sachivs.
- Proposal for the appointment of Clerk-cum-Accountant on contract basis in every Gram Panchayat of the State is being prepared for approval at the higher level.

Annexure 6.3

STATUS OF URBAN REFORM IN JNNURM MISSION CITIES

PATNA

	Sl. No.	Reforms Committed	Present Status
ULB LEVEL REFORMS	1	E-Governance Setup	• property Tax Module Operational • Centralised Grievance Redressal Cell established • One Window Nagar Sewa Portal under teasting • Birth & Death registration offline • State Data Centre work under progress
	2	Shift to Accrual based Double Entry Accounting	• Through SPUR M/s SREI has completed the opening balance sheet for 2007-08. The data entry for 2010-11 is currently in progress and assets register and valuation of assets has been completed.
	3	Property Tax (85% coverage)	• Patna coverage – 90%
		Property Tax (90% Collection efficiency)	• Patna collection – 90%
	4	100% Cost Recovery (Water Supply) 2% of Holding Tax	• 2% of Holding Tax is towards water supply • Guidelines for recovery of user charges for water supply issued
		100% Cost Recovery (Solid Waste)	• Separate guidelines for user charges for solid waste issued
	5	Internal Earmarking of Funds for Services to Urban Poor	• Achieved
	6	Provision of Basic Services for Urban Poor	• Basic Infrastructure like drinking water, road, drain and street light being implemented under the DFID-SPUR programme
STATE LEVEL REFORMS	7	74^{th} CAA (Transfer 12 Sch.Functions)	• 16 of the 18 function transferred to ULBs – fire and forestry not transferred
		74^{th} CAA(Constitution of DPC)	• District Planning Committee constituted
		74^{th} CAA (Constitution of MPC)	• Metropolitan Planning Committee rules – 2008 framed • Metropolitan Planning Committee not constituted
	8	Integration of City Planning and Delivery Functions	•
		Transfer of City Planning Function	• The Bihar Urban Planning and Development Act 2012 envisages greater role of ULBs in planning function
		Transfer of Water Supply & Sanitation	• Presently the construction of the water supply systems is being done by the PHED &BUIDCO. It has been decided that the maintenance of these water supply systems will be done by the PHED- the ULBs will pay annual maintenance charge to the PHED in lie of their services.
		Transfer of Public Transport	• Not Achieved
	9	Reform in Rent Control	• Act has been drafted in line with the Model Act will come up in next assembly session.

	10	Stamp Duty rationalization to 5%	• Stamp duty was reduced from 18% to 10% in 2006; thereafter to 6% in 2007-08
	11	Repeal of ULCRA	• Achieved
	12	Enactment of Community Participation Law	• Ward Committee Rules approved
	13	Enactment of Public Disclosure Law	• Enacted (Disclosure Bill 2008(
	14	Urban Sanitation Policy	Draft Policy prepared under Peer Review
OPTIONAL REFORMS	15	Introduction of Property Title Certification System in ULBs	To be Implemented by Registration Dept.
	16	Revision of Building Bye Laws-Streamlining the Approval Process	• The approval of the Building Designs has been outsourced to a panel of private architect to streamline and make the process transparent.
	17	Revision of Building Bye Laws-To make rain water harvesting mandatory	• It has been included in the draft building bye law, 5% discount on the property tax assessment.
	18	Earmarking 25% developed land in all housing projects for EWS/LIG	• Provisions have been made in the Bihar Urban planning and Development Act 2012.
	19	Simplification of Legal and Procedural framework for conversion of agricultural land for non-agricultural purposed	• Rules have been notified Sub Divisional Officer has been authorized for conversion.
	20	Introduction of computerized process of Registration of land and Property	• . Achieved
	21	Byelaws on Reuse of Recycled Water	• Under examination
	22	Administrative Reforms	• Cadre Rules for Executive Officer framed in 2008; EO's recruited by BPSC • 118 City Managers appointed in August 2010 • Municipal Establishment Audit Commission constituted to recommend right sizing of ULBs & prepare Cadre Rules • Directorate of Municipal Administration created
	23	Structural Reforms	
	24	Encouraging Public Private Participation	• Public Private Participation projects have been experimented starting with garbage disposal construction of Bus stand etc.

BODH GAYA

	Sl. No.	Reforms Committed	Present Status
ULB LEVEL REFORMS	1	E-Governance Setup	• E-governance Introduction of a system e-governance using IT application. GIS and MIS for BODHGAYA NAGAR PANCHAYAT has been initiated
	2	Shift to Accrual based Double Entry Accounting	Double Entry Accounting System is in Progress through SPUR M/s P. Punnit & Co. has c. The date entry for completed the opening balance sheet for 2010-11 is currently in progress and assets register and valuation of assets has been completed.
	3	Property Tax (85% coverage)	87.74%
	4	100% Cost Recovery (Water Supply) 2% of Holding Tax	Achieved
		100% Cost Recovery (Solid Water)	Achieved

	5	Internal Earmarking of Funds for Services to Urban Poor	Achieved
	6	Provision of Basic Services for Urban Poor	Achieved
STATE LEVEL REFORMS	7	74th CAA (Transfer of 12 Sch.Functions)	Achieved
		74th CAA(Constitution of DPC)	Achieved
		74th CAA (Constitution of MPC)	NA
	8	Transfer of City Planning Function	Partially Achieved
		Transfer of Water Supply & Sanitation	Partially Achieved
		Transfer of Water Supply & Sanitation	It will be implemented after completion of the project.
		Transfer of Public Transport	Not Achieved
	9	Reform in Rent Control	Rules framed ,under cabinet approval
	10	Stamp Duty rationalization to 5% (18 to 8%)	Stamp duty has been brought down to 6% from 8% with effect from 9th May 2006. Published in Bihar Gazette.
	11	Repeal of ULCRA	Achieved
	12	Enactment of Community Participation Law	Under Cabinet Approval
	13	Enactment of Public Disclosure Law	Achieved
	14	Urban Sanitation Policy	Draft Policy Prepared under peer Review
OPTIONAL REFORMS	15	Introduction of Property Title Certification System in ULBs	To Be Implemented by Registration Dept.
	16	Revision of Building Bye Laws-Streamlining the Approval Process	Under Process
	17	Revision of Building Bye Laws-To make rain water harvesting mandatory	Under Process
	18	Earmarking 25% developed land in all housing projects for EWS/LIG	Achieved
	19	Simplification of Legal and Procedural framework for conversion of agricultural land for non-agricultural purposed	Housing Policy framed, Under cabinet Approval
	20	Introduction of computerized process of Registration of land and Property	To be Implemented by Registration Dept.
	21	Byelaws on Reuse of Recycled Water	Rules framed, under cabinet Approval
	22	Administrative Reforms	City Mangers under have been Appointed.
	23	Structural Reforms	Partially Achieved Executive Officer Cadres Rules – 2008 has been framed and BPSC has been requested for appointment of Executive Officers
	24.	Encouraging Public Private Participation	DPR to be prepared for redevelopment of Kedarnath Market in Gaya on PPP basis. Public Private Participation Project have been experimented starting with garbage disposal. construction of bus stand etc.

CHAPTER VII

STATE PUBLIC ENTERPRISES

The public sector in Bihar comprises 62 government companies and 4 statutory corporations as of March 2012. Of the 62 government companies, however, only 22 are working and the rest 40 are non-working. The total investment in public sector as of March 2012 is as shown in Table 7.1.

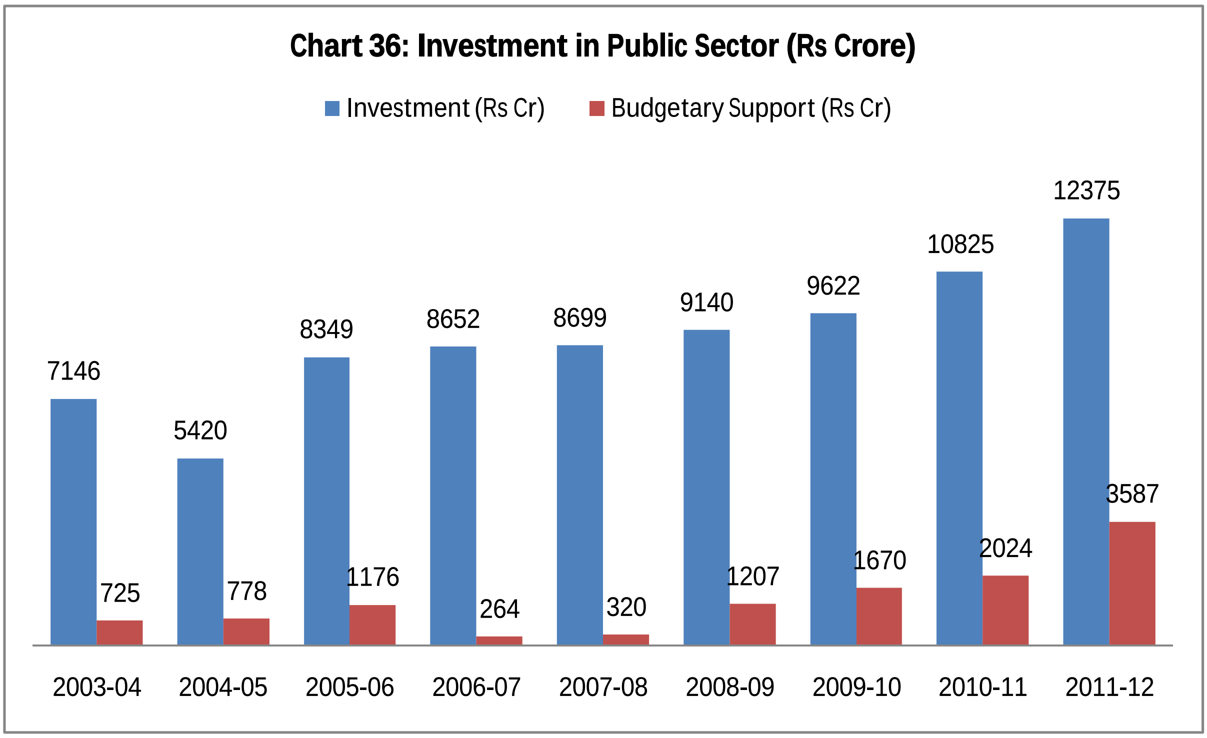
Table 7.1 : State Government Investment in Public Sector

Year	Number of Working PSUs	Number of Non-Working PSUs	Number of Statutory Corporations	Number of Public Sector Companies/ Corporations	Total Equity (Rs crore)	Total Loans (Rs crore)	Total Investment (Rs crore)
2008	16	34	4	54	531	8,149	8,680
2009	19	40	4	63	526	8,615	9,141
2010	21	40	4	65	585	9,037	9,602
2011	21	40	4	65	625	10,240	10,825
2012	22	40	4	66	634	11,741	12,375

The sector-wise break-up of the public sector as at the end of March 2012 is presented in Table 7.2. Majority of the companies belong to the industry and agriculture sectors.

Table 7.2 : Sector-wise Government Companies and Corporations, 2011-12

Sector	Number of Statutory Corporations	Number of Working Companies	Number of Non-Working Companies
Agriculture		3	12
Power	1	1	
Infrastructure		6	1
Manufacturing		3	12
Services	2	3	1
Financing	1	4	4
Others		2	10
Total	**4**	**22**	**40**

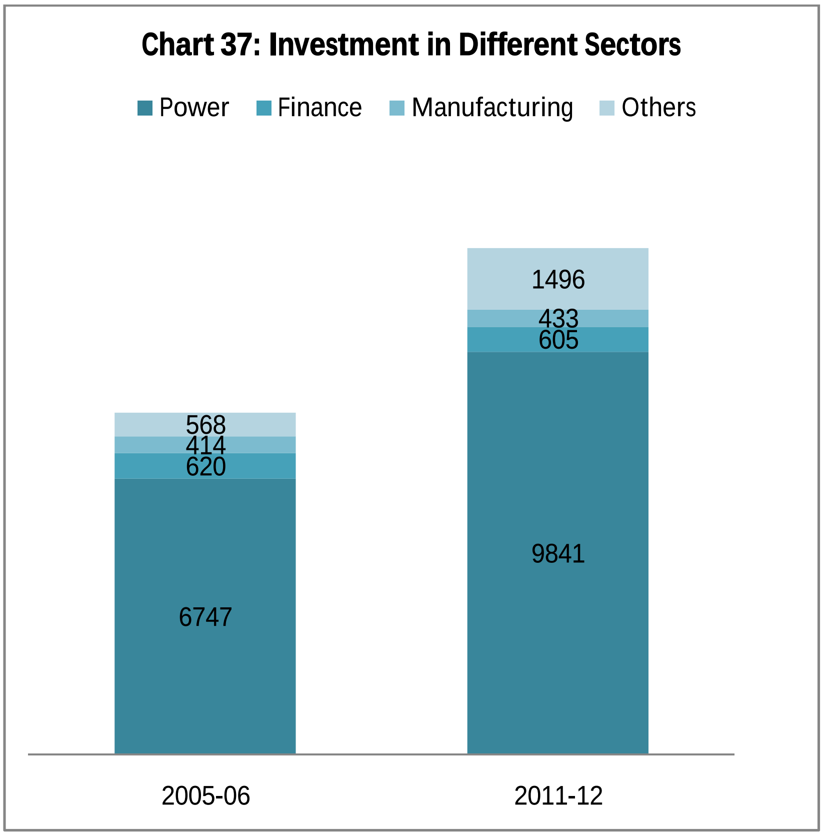


7.1 Government Companies

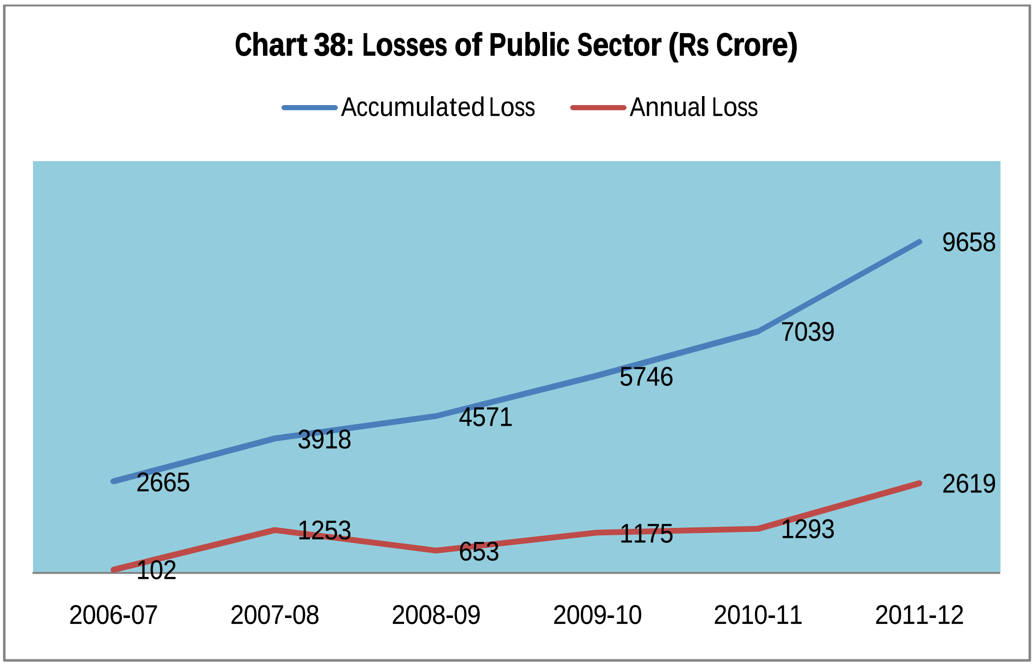
The 22 working companies in the public sector generated a total turnover of Rs 7811 crore in 2011-12, equivalent to 3 percent of the state's GSDP. They incurred a total loss of Rs 2619 crore in that year. Nevertheless, employing more than 17,527 employees among themselves, they play an important role in the state economy. Besides the 66 PSUs, there are also 7 Departmental Undertakings, which also undertake commercial operations.

As on March, 2011, 94 percent of the state government's total investment was on 22 working PSUs and only 6 percent in the remaining non-working PSUs. Of the total investment again, only 5 percent was in equity and the rest was tied up in long term loans. The growth in investment and the budgetary support given by the state government in the forms of equity capital, loans, grants, subsidy, guarantees, waiver of loans etc. are shown in the Chart 36.

Among the public sector units in Bihar, the investment is mainly concentrated in the power sector, which accounts for about 80 percent of the total state government investment in PSUS at the end of 2011-12, and this share has remained practically constant since 2005-06. The investment in this sector had increased by about one-third, from Rs 6747 crore in 2005-06 to Rs 9841 crore in 2011-12. There was hardly any investment in other sectors, like finance and manufacturing, during the period.



The overall losses of the public sector (working companies) had shoot up to Rs 2619 crore in 2011-12, increasing from Rs 1293 crore in 2010-11. The annual as well as the accumulated losses of the public sector is depicted in Chart 38.



The summarised financial results of the public sector units for the years 2007-08 to 2011-12 are shown in Table 7.3. It can be seen that the rate of return is negligible and the accumulated losses of the all the companies have eroded their total equity base several times over. Their combined turnover has increased appreciably only during the last two years; but the Debt: Turnover ratio still remains very high, indicating high interest burden that eats into their profitability. The only silver lining is that it has been declining consistently over the years due to increases in turnover. They never paid any dividend to the state government since their inception and, except for the BSEB, most of them did not receive any grants or subsidies from the state government. The ratio of their turnover to the GSDP (about 3 percent) shows that the contribution of PSUs to the state economy is not too insignificant. The total number of workers employed by these PSUs was 17,527 as on March, 2012, compared to 19,159 a year before; out of these, as many as 2495 employees were on the payroll of the non-working PSUs of the state government (2496 in 2010-11). The 4 statutory corporations alone accounted for a total of 12,316 employees in March, 2012 as against 13,745 employees in March, 2011.

Table 7.3 : Summarised Financial Results of Public Sector (2007-08 to 2011-12)

Performance Indicators	2007-08	2008-09	2009-10	2010-11	2011-12
Investment by Government in Share Capital (Rs crore)	531	526	585	625	634
PSUs Total Debt (Govt. Lending) (Rs crore)	8153	8615	9037	10240	11741
Turnover of all PSUs (Rs crore)	1588	1997	2509	4031	7811
Profit (Loss) (Rs crore)	(1253)	(653)	(1175)	(1293)	(2619)
Accumulated profit (Loss) (Rs crore)	(3918)	(4571)	(5746)	(7039)	(9658)
Return on capital employed (%)	Nil	7.44	-5.50	-1.32	Nil
Dividend paid during year	0.03	1.79	2.06	2.53	1.40
Debt: Turnover Ratio	5.13	4.33	3.60	2.54	1.50
Interest Payments (Rs crore)	924	919	992	1244	1574
Guarantees issued by Government (Rs crore)	72	104	Nil	Nil	Nil
Grant/Subsidy received during the year	743	736	874	479	253
GSDP (Rs crore)	**113680**	**142279**	**163800**	**201856**	**252694**
Turnover: GSDP (%)	1.40	1.40	1.53	2.00	3.01

Only 14 out of the 26 working PSUs (including the 4 statutory corporations) had earned an aggregate profit of Rs 150 crore in 2011-12, but the total dividend paid to the state government was an insignificant amount of Rs 1.40 crore. There were 10 working PSUs which incurred a total loss of Rs 2744 crore and two had not finalized their accounts for the year. The major profit making companies included Bihar Rajya Pul Nirman Nigam (Rs 38 crore) and Bihar State Road Development Corporation (Rs 75 crore). Among the major loss making companies, BSEB alone incurred a loss of Rs. 2662 crore. The Comptroller and Auditor General of India had attributed these losses to controllable factors like deficiencies in financial management, planning and implementation of plans, as well as to deficiencies in operation and monitoring. The accumulated losses of all the PSUs (including non-working ones) stood at Rs 9658 crore as at the end of 2011-12, against the state government's total investments of Rs 11,741 crore and they generated a negative return of 15.79 percent on their capital. The picture was depressing on the whole, though it has somewhat improved in recent years.

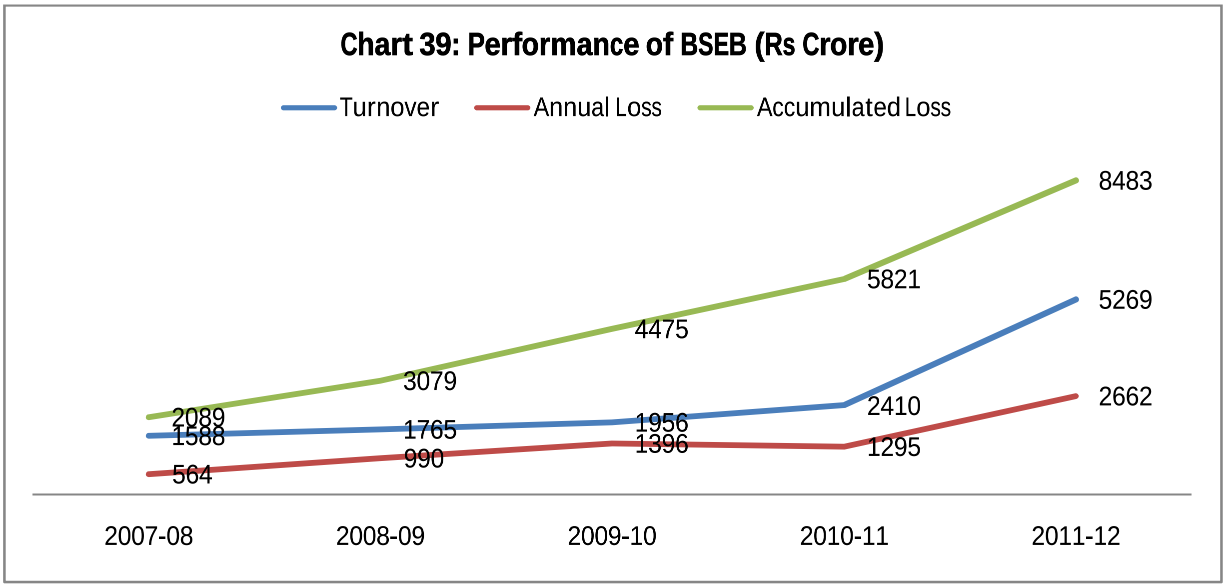
7.2 Statutory Corporations

The four statutory corporations of the state government are — Bihar State Electricity Board (BSEB), Bihar State Road Transport Corporation (BSRTC), Bihar State Financial Corporation (BSFC) and Bihar State Warehousing Corporation (BSWC). All the four corporations are functional. The most important among these in terms of operations is the BSEB, which is engaged in the generation and distribution of thermal power in the state. The total number of employees with BSEB was 10,278 as of March 2012, which alone accounted for 59 percent of the total employment in all working PSUs in the state. Table 7.4 presents the financial results of BSEB during the 5 years from 2007-08 to 2011-12. It is seen that accumulated loss of BSEB had increased steeply from Rs 2089 crore in 2006-07 to Rs. 8483 crore at the end of 2011-12, growing at an annual rate of 42.2 percent. Its net loss had increased to Rs 2662 crore in 2011-12 compared to Rs 1295 crore in the previous year. The total state government loan due from the BSEB stood at more than Rs 9400 crore as of March 2012, or 80 percent of total outstanding loans of the state government from all working PSUs amounting to Rs 11,741 crore. The turnover of BSEB has, however, recorded impressive growth in 2010-11 and 2011-12.

Table 7.4 : Summarised Financial Results of BSEB

(Rs. crore)

Indicators	2007-08	2008-09	2009-10	2010-11	2011-12
Turnover	1588	1765	1956	2410	5269
Grant / Subsidy received	720	720	840	1080	2120
Loss	564	990	1396	1295	2662
Capital Employed	3196	3375	3522	5049	6216
Return on Capital Employed	Nil	Nil	Nil	Nil	Nil
Outstanding Government Loan	4817	4841	4953	8013	9426
Interest Paid on Loan	828	888	983	1175	1481
Accumulated Loss	2089	3079	4475	5821	8483
Dividend paid	Nil	Nil	Nil	Nil	Nil
Subsidy receivable from Govt.	4316	4316	4316	NA	NA



The problems which seriously afflict the power generation by the BSEB are the lower plant availability due to frequent breakdowns/ interruptions in various equipment and auxiliaries, high T&D losses of more than 40 percent, abnormally long shutdowns of generating units for capital maintenance, low productivity of generating units due to design deficiency, poor quality of coal, overdue renovation / modernisation of the systems and substations/lines, poor maintenance of units etc. However, to improve the power situation and to streamline the power generation, transmission and distribution, BSEB has been reconstituted into 5 separate companies: one each for generation and transmission and two for distribution, besides one Holding Company. The power sector reforms in the state will be discussed later.

The performance of BSEB leaves much to be desired, but the picture is not much better in respect of other statutory corporations, as can be seen from the Tables 7.5 to 7.7. However, the total volumes of their operations pale into insignificance compared to that of the BSEB. The accumulated loss of BSRTC, which employed 1516 employees as on 31st March 2012 (8.6 percent of total PSU employment in Bihar), had mounted to Rs 1549 crore in 2011-12, completely eroding its net worth many times over. Its returns on capital employed had been consistently negative, with no hope of recovery in near future. For BSFC, the return on capital employed had come down from 19 percent in 2006-07 to 8 percent in 2011-12, along with continuous reduction in its turnover. The position of BSWHC is no better.

Table 7.5 : Summarised Financial Results of BSRTC (Rs. crore)

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Turnover	54	52	40	20	20	31
Loss	60	52	74	63	21	99
Capital Employed	-712	-764	-822	NA	428	428
Return on Capital Employed	---	---	---	---	---	---
Equity Capital	101	101	101	101	101	101
Outstanding Government Loan	81	81	100	297	298	548
Interest Paid on Loan	19	19	19	19	29	0
Accumulated Loss	1240	1292	1366	1429	1450	1549
Dividend paid	Nil	Nil	Nil	Nil	Nil	Nil

Table 7.6 : Summarised Financial Results of BSFC (Rs. crore)

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Turnover	47	29	31	20	18	12
Loss	11	0	-1	0	0	2
Capital Employed	381	439	391	376	428	403
Return on Capital Employed	19%	11%	5%	2%	1%	8%
Equity Capital	78	78	78	78	78	78
Outstanding Government Loan	311	311	285	264	228	228
Interest Paid on Loan	47	20	19	6	6	32
Accumulated Loss	385	385	384	384	384	386
Dividend paid	0.03	0.00	0.01	0.00	0.00	0.54

Table 7.7 : Summarised Financial Results of BSWHC (Rs. crore)

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Turnover	4	8	8	10	54	54
Loss	2	1	5	7	1	1
Capital Employed	16	20	30	32	21	21
Return on Capital Employed	13%	6%	19%	20%	4%	4%
Equity Capital	6	6	6	6	5	5
Outstanding Government Loan	4	4	4	2	-	-
Accumulated Loss	-2	-4	1	8	3	3
Dividend paid	Nil	Nil	Nil	Nil	Nil	Nil

7.3 Latest Status regarding Annual Accounts

Table 7.8 gives the paid up capital, investments and loans made by the state government on the Public Sector Corporations and Government Companies as per their latest accounts along with their working results in the year for which their latest accounts were available till March 2012. The years in which they have prepared their last accounts are also shown in the table. It can be seen that, except (BSEB) whose accounts are up-to-date till 2011-12 and 5 working companies which had prepared accounts till 2010-11, no other company has prepared up-to-date accounts and most of them have been defaulting for periods ranging between 1 to 22 years. This is an indication of the absence of any accountability structure, management and control for the PSUs. Since the accounts are not up-to-date, return on the investments cannot be calculated. The Board meetings of most of these companies are also not held regularly.

Only 12 PSUs (all working companies) out of total 66 companies of the state had prepared their accounts which were not older than 5 years and 6 more companies had arrears in the preparation of accounts for more than 5-10 years. There were 26 companies (including 1 working company) which had not prepared their accounts for more than 20 years and as many as 11 companies have not drawn up their accounts ever since their inception. As per provisions of the Companies Act, all companies are statutorily required to finalise their accounts within 6 months of the closure of the financial year. The audited accounts are also required to be laid before the legislature within 9 months of the closure of the financial year. A failure to observe these statutory provisions relating to timely finalisation of accounts would normally attract penal provisions under the Companies Act. Barring a handful of these companies, most depict a poor state of affairs, with poor turnover, continuous losses, negative net worth, huge outstanding dues and poor or negative returns on their capital employed.

In view of poor turnover and continuous losses, the state government has to either improve the performance of these companies or consider their closure/disinvestment. The state government had already decided to wind up a few companies, but nothing concrete has been achieved so far in this regard.

Table 7.8 : Summarised Results of Public Sector as per Their Latest Accounts (as on 31st March 2012)

(Rs Crore)

	Name of PSU	Year up to which accounts finalised	Paid up capital as per latest a/c	Total Outstanding Loans (Govt.+ Others)	Total Man-power	Net Profit/ Loss (-)	Accumu-lated Profit/ Loss (-)	% Return on Capital Employed
A. Working Companies								
Agriculture								
1	Bihar Rajya Beej Nigam Limited.	1998-99	3.71	27.93	93	-5.57	-53.45	---
2	Bihar Rajya Matsya Vikas Nigam Limited.	1992-93	1.75	2.63	35	-0.22	-1.92	---
3	SCADA Agro Business Company Ltd..	2010-11	0.05	0	NA	0	-1.81	0.36
Finance								
4	Bihar State Credit & Investment Corporation Ltd.	2004-05	15.00	53.48	51	-3.99	-149.67	3.45
5	Bihar State Backward Classes Development & Finance Corpn.	1997-98	13.36	16.58	17	-0.29	0.53	10.10
6	Bihar State Minorities Finance Corporation Ltd.	2007-08	31.79	47.26	26	-0.36	-5.04	-5.45
7	Bihar State Film Development & Finance Corporation Ltd	1991-92	1.00	0.15	08	0.02	-0.12	2.27
Infrastructure								
8	Bihar Police Building Construction Corporation Ltd	2002-03	0.10	0.43	397	0.92	-5.56	---
9	Bihar Rajya Pul Nirman Nigam Ltd.	2010-11	3.50	0	396	37.89	110.44	21.03
10	Bihar State Health Project Development Corporation.	1st a/c not finalised	0.06	0	19	NA	NA	---
11	Bihar State Road Development Corporation Ltd.	2010-11	20.00	0	103	75.45	94.56	66.65
12	Bihar Urban Infrastructure Development Corporation Ltd.	2010-11	5.00	0	47	0.31	0.27	6.09

13	Bihar State Educational Infrastructure Development Corporation Ltd.	2010-11	0.05	0	49	10.42	10.42	---
Manufacturing								
14	Bihar State Electronic Development Corporation Ltd.	2009-10	0.15	6.00	71	7.31	1.76	31.44
15	Bihar State Mineral Development Corporation Ltd	2000-01	9.97	0	NA	9.29	7.04	44.92
16	Bihar State Beverages Corporation Ltd.	2009-10	5.00	0	228	5.46	5.55	49.10
Power								
17	Bihar State Hydro Electric Power Corporation Ltd.	1999-2000	99.04	316.24	129	-5.59	-44.79	0.66
Services								
18	Bihar State Tourism Development Corporation Ltd.	2003-04	5.00	0	226	0.10	3.38	1.25
19	Bihar State Food & Civil Supplies Corporation Ltd	1989-90	5.27	520.58	649	-5.66	-34.86	---
20	Bihar Medical Services & Infrastructure Corporation Ltd.	2010-11	0.08	0	9	0	0	---
Misc.								
20	Bihar State Forest Development Corporation Ltd.	2000-01	2.29	0	NA	0.28	0.32	23.93
21	Bihar State Text Book Publishing Corporation Limited	1997-98	0.48	0	163	-4.36	-5.97	---
	Total for Working Companies		**221.87**	**551.42**	**2716**	**117.33**	**-63.27**	---
Statutory Corporations								
1	Bihar State Electricity Board	2011-12	0	9425.59	10278	-2662.38	-8482.71	---
2	Bihar State Road Transport Corporation	2002-03	101.27	547.79	1516	-55.74	-1549.11	---
3	Bihar State Financial Corporation	2010-11	77.84	228.47	307	1.73	-382.20	8.25
4	Bihar State Warehousing Corpn.	2008-09	6.42	1.18	215	0.52	3.43	4.35
	Total for Statutory Corporations		**185.53**	**10201.85**	**12316**	**-2715.87**	**-9579.65**	---
	Grand Total (A)		**407.40**	**11193.13**	**15032**	**-2594.46**	**-9648.57**	---

B. Non-working Government Companies								
Agriculture & Allied								
1.	Bihar State Water Development Corporation Limited (BSWDCL)	1978-99	10.00	49.68	NA	2.17	11.20	9.06
2.	Bihar State Dairy Corporation Limited (BSDCL)	1994-95	6.72	1.75	-	0	-10.58	--
3.	Bihar Hill Area Lift Irrigation Corporation Limited (BHALICL)	1982-83	10.82	8.55	NA	-0.26	-0.86	--
4.	Bihar State Agro Industries Development Corporation Limited (BSAIDCL)	1989-90	7.57	12.60	283	-5.70	-28.96	--
5.	Bihar State Fruit & Vegetables Development Corporation Limited (BSFVDCL)	1994-95	2.10	1.12	09	-0.92	-7.82	--
6.	Bihar Insecticide Limited (BIL)	1986-87	0.57	1.54	69	-1.03	-1.03	--
7.	SCADA Agro Business Khagaul Limited (SABLK)		NA	NA	NA			
8.	SCADA Agro Business Limited, Dehri (SABLD)		NA	NA	NA			
9.	SCADA Agro Business Limited, Arrah (SABLA)		NA	NA	NA			
10.	SCADA Agro Business Limited, Aurangabad (SABLA)		NA	NA	NA			
11.	SCADA Agro Business Limited, Mohania (SABLM)		NA	NA	NA			
12.	SCADA Agro Forestry Company Limited, Khagaul (SAFCLK)		NA	NA	NA			
Finance								
13.	Bihar Panchayati Raj Finance Corporation Limited (BPRFCL)	1984-85	1.06	-	NA	-0.01	-0.03	3.92
14.	Bihar State Handloom and Handicrafts Corporation Limited (BSHHCL)	1983-84	10.00	1.16	NA	-0.10	-0.44	0.14
15.	Bihar State Small Industries Corporation Limited (BSSICL)	1990-91	7.18	12.23	49	-1.42	-16.56	--
16.	Bihar State Industrial Development Corporation Limited (BSIDCL)	1987-88	14.04	66.56	823	-3.51	-26.42	6.23

Infrastructure								
17.	Bihar State Construction Corporation Limited (BSCCL)	1986-87	11.00	-	1086	0.84	-0.04	35.29
Manufacturing								
18.	Bihar Solvent & Chemicals Limited (BS&CL)	1986-87	1.08	0.89	NA	-0.32	-0.21	--
19.	Magadh Mineral Limited (MML)	--	0.36	0.47	05	--	--	--
20.	Kumardhubi Metal Casting & Engineering Limited (KMC&EL)	1994-95	2.17	6.63	NA	-2.39	-8.16	--
21.	Beltron Video System Limited (BVSL)	1987-88	5.05	4.51	NA	-0.15	-0.22	--
22.	Beltron Mining System Limited (BMSL)	1989-90	2.48	-	NA	-0..10	-0.49	--
23.	Beltron Informatics Limited (BIL)	--	0.00	-	NA	--	--	--
24.	Bihar State Sugar Corporation Limited (BSSCL)	1984-85	20.00	322.95	NA	-9.20	-72.31	--
25.	Bihar State Cement Corporation Limited (BSCCL)	--	0.00	0.03	NA	--	--	--
26.	Bihar State Pharmaceuticals & Chemicals Development Corporation Limited (BSP&CDCL)	1985-86	15.76	4.28	52	-0.17	-0.74	--
27.	Bihar Maize Product Limited (BMPL)	1983-84	0.00	0.02	NA	-0.03	-0.06	--
28.	Bihar Drugs & Chemicals Limited (BD&CL)	1985-86	4.00	1.28	NA	-0.03	-0.16	--
29.	Bihar State Textiles Corporation Limited (BSTCL)	1987-88	10.78	2.27	51	-0.09	-0.32	--
Services								
30.	Bihar State Export Corporation Limited (BSECL)	1991-92	2.00	1.22	23	-0.10	-0.01	---
Miscellaneous								
31.	Bihar Paper Mills Limited (BPML)	1985-86	7.77	10.72	NA	-0.06	-0.31	--
32.	Bihar State Glazed Tiles & Ceramics Limited (BSGT&CL)	1985-86	1.15	3.66	32	-0.08	-0.51	--
33.	Vishwamitra Paper Indstries Limited (VPIL)	1984-85	1.14	0.81	NA	-0.01	-0.01	--
34.	Jhanjhanpur Paper Industries	1985-86	1.07	0.46	13	-0.01	-0.02	--

35.	Bihar State Tannin Extract Limited (BSTEL)	1988-89	1.57	2.14	NA	-0.32	-0.67	--
36.	Bihar State Finished Leathers Corporation Limited (BSFLCL)	1983-84	1.47	9.18	NA	-1.49	-2.13	--
37.	Synthetic Resins (Eastern) Limited (SREL)	1983-84	0.31	1.05	-	-0.02	-0.01	--
38.	Bhavani Active Carbon Limited (BACL)	1985-86	0.09	-	NA	-0.01	-0.01	--
39.	Bihar State Leather Industries Development Corporation Limited (BSLIDCL)	1982-83	17.40	14.13	NA	-0.37	-2.92	--
40.	Bihar Scooters Limited (BSL)	--	1.63	6.09	NA	--	--	--
	Total (B)		**177.98**	**547.98**	**2495**	**-24.89**	**-164.13**	
	Grand Total (A+B)		**585.38**	**11741.11**	**17527**	**-2619.35**	**-9819.49**	

As regards 40 non-working companies, the state government has invested a total amount of Rs 732 crore till March 2012 in them, 7 of which are currently under the process of liquidation. Of this amount, Rs. 184 crore is paid up capital and the remaining Rs. 548 crore is outstanding loan to the state government (Rs 511 crore) and other lenders (Rs 37 crore). The financial performance of these companies cannot be analysed meaningfully as these are in various stages of liquidation, and secondly, some of these companies have not prepared their accounts for many years, 5 of them not doing so ever since their inception. Even though none had undertaken any commercial operations during 2011-12, one non-working PSU (Bihar State Fruits and Vegetables Development Corporation Limited) had paid Rs 12 lakh on account of salary and establishment expenditure during the year. The accumulated losses of 33 non-working PSUs exceed Rs 171 crore, based on the availability of such figures in their latest accounts. Of the 7 companies under liquidation, official liquidator has been appointed in case of 3 companies; instructions for closure have been issued for the remaining 4, but liquidation process is yet to start. The state government did not initiate any action in respect of disinvestment or privatization or restructuring of its PSUs during the year.

7.4 Power Sector Reforms

Bihar has witnessed sharp increase in economic growth during Eleventh Plan period, mainly on account of the growth in the secondary and tertiary sectors. This has led to a sharp rise in the per capita income; however, the same is yet to reflect in power sector growth. The per capita energy consumption in Bihar still stands at 117 kwh in comparison to the national average of 813 units. In the last 5 years, the demand for electricity in the state has grown at an annual rate of about 8 percent. However, the power supply position has been very inadequate, leading to a very high peak demand deficit. As per the report of the Central Electricity Authority (CEA), the peak deficit was around 31.0 percent and energy requirement deficit 20.2 percent for 2012-13. The deficits over the last few years are represented in the Charts below:

Chart 40 : Energy Requirement Deficit

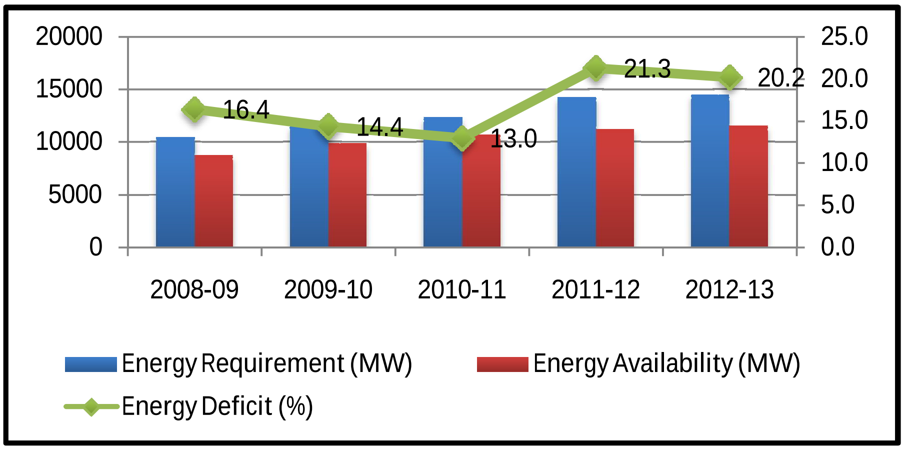
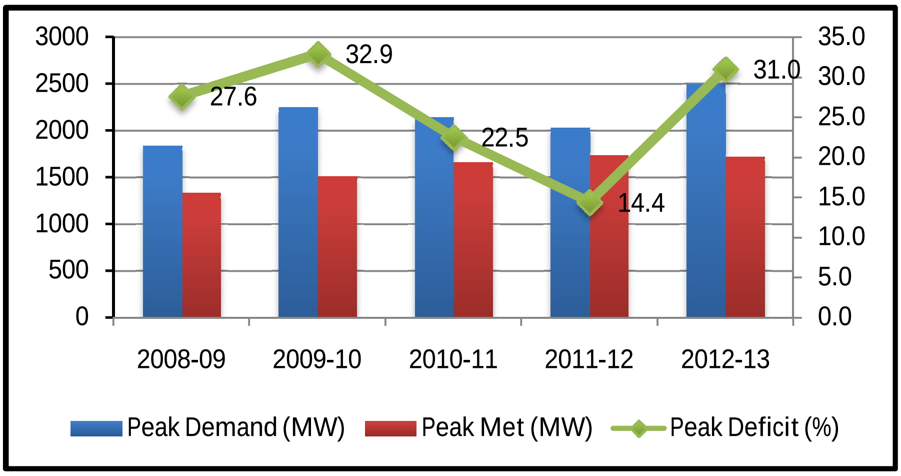


Chart 41 : Peak Demand Deficit

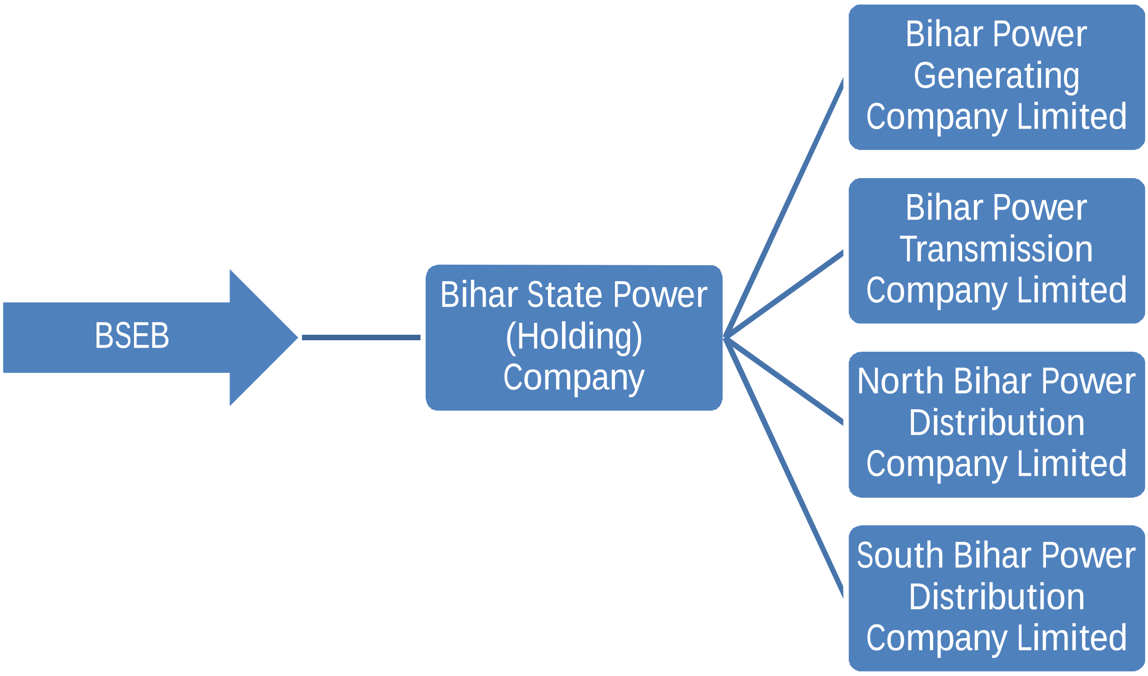


There are three key organisations in the energy sector in Bihar – Bihar State Electricity Board (BSEB), Bihar State Hydroelectric Power Corporation Limited (BSHPC) and Bihar Renewable Energy Development Agency (BREDA).

Bihar State Electricity Board (BSEB)

The BSEB was originally constituted on 1st April 1958 under Section 5 of the Electricity (Supply) Act, 1948 and was mandated for management of electricity generation, transmission, distribution and related activities in Bihar. Under the new Bihar State Electricity Reforms Transfer Scheme 2012, the BSEB has been unbundled into 5 companies with effect from 1st November, 2012 — Bihar State Power (Holding) Company Limited (holding company), Bihar State Power Transmission Company, Bihar State Power Generation Company, North Bihar Power Distribution Company and South Bihar Power Distribution Company.

Chart 42 : Unbundling of BSEB



The roles and responsibilities of the newly formed companies are described below.

Bihar State Power (Holding) Company Limited (BSHPC) : This is the holding company of the 4 other companies. It is vested with the assets, interest in property, rights and liabilities of erstwhile BSEB. The Company will primarily be an investment company. It will coordinate the activities of 4 other companies, handle disputes and provide all necessary support to them.

Bihar State Power Generating Company (BSPGC) Limited : It is responsible for coordinating and advising other companies and concerns, including subsidiaries, engaged in the generation of electricity, and on all matters concerning the construction, operation and maintenance of generating stations and associated facilities. It is also responsible for procuring fuel and its transportation to various sites and settling of pending disputes.

Bihar State Power Transmission Company (BSPTC) Limited : It is responsible for transmission of electricity and they are vested with the transmission assets, interest in property, rights and liabilities of the erstwhile BSEB. They will undertake planning and coordination activities with regard to intra-state transmission and develop an efficient and economical system of intra-state transmission lines for smooth transmission of electricity from a generating station to load centers.

The North and South Bihar Power Distribution Companies Limited : They will undertake the activities of distribution to all consumers, trading of electricity, implementation of rural electrification schemes and introduce open access in distribution as per the Electricity Act 2003 and the directions of the regulator. They will also tender, finalise and execute Power Purchase Agreements and other agreements for sale or purchase of electricity.

The financial allocation for BSEB in 2012-13 across the various heads is given in the Table 10.1. The allocation heads also include the Restructured Accelerated Power Development and Reforms Project (R-APDRP). Since the unbundling of BSEB came into effect on November 2012, the discussion in the following sections will be on the broad heads as listed in the table below.

Table 7.9 : Approved Outlay for the BSEB (2012-13)

Heads	Outlay (Rs. crore)
Generation	559.73
Transmission	92.01
Distribution	287.15
R-APDRP/APDRP	64.07
Total	**1002.96**

Generation : Two companies are engaged in the generation of electricity in Bihar — the Bihar State Electricity Board (BSEB) for thermal power and the Bihar State Hydroelectric Power Corporation Limited (BSHPC) for hydel power. Both the companies are under the administrative control of the Energy Department of the Government of Bihar. The BSEB was until recently responsible for generation, transmission and distribution of energy. It has one thermal generation station - Barauni Thermal Power Station (BTPS) with a capaicity of 440

MW. BSHPC has 11 canal based hydro generation stations with the installed capacity of 54.3 MW as on 31 March 2012.

The power problem in Bihar is two-folds. First, Bihar is completely dependent on the central government for its power supply. Even though there are two major power-generating units in the state, neither is currently operational. The state has an annual allocation of about 1772 MW of power, of which it receives 900-1000 MW on an average. This further deteriorates the power supply condition in Bihar. Table 7.10 gives the power allocation to the state from various central power stations. Secondly, Bihar is almost completely dependent on thermal power. Of the 494.3 MW of installed capacity, 440 MW is thermal and remaining 54.3 MW is hydel. Since getting coal linkages for thermal power projects is not easy, stranded capacity for the generating units is a recurrent phenomenon. The use of imported coal is obviously not a solution. Therefore, coal-based plants should not be viewed as the only dependable option for energy security in the future.

Table 7.10 : Power Allocation from Central Power Stations

Name of Power Stations	Total Generation (MW)	Bihar's share	
		MW	Percentage
NTPC			
Farakka STPS	1600	466.40	29.15
Talcher STPS	1000	397.90	39.79
Kahalgaon STPS-I	840	338.27	40.27
Kahalgaon STPS-II	1500	100.00	6.67
PHC			
Tala HPS	1020	260.10	25.50
Chukha HPS	270	80.00	29.62
NHPC			
Rangit HPS	60	21.00	35.00
Teesta HPS	510	108.43	21.26
Total	**6800**	**1772.00**	26.05

The separation of Jharkhand from erstwhile Bihar left the BSEB with following three power generation plants:

(a) Barauni Thermal Power Station (BTPS) : The BTPS is the only power station under the state sector. It was constructed in three stages and has 7 units, of which only units 6 and 7 are available for operation (Table 7.11). However, currently even units 6 and 7 have been shut down for renovation and modernization (R&M) work. It is expected that these units will be available for operation by the December 2013 and May 2013 respectively. The BHEL (Bharat Heavy Electricals Limited) is responsible for undertaking the R&M work at a cost of Rs 581.2 crore. In addition to the ongoing R&M work, to augment the power generating capacity of the BTPS, Genco has proposed to install (2x250 MW) plants alongside the existing units. The estimated capital cost for the proposed units is Rs 3666 crore. Under a proposed debt-equity ratio of 70:30, the Power Finance Corporation (PFC) of the state government and banks would finance the debt part and Genco and/or the state government would hold the equity part. It is expected that one of the two units will be operational by September, 2015. The planned capital expenditure for BTPS is presented in Table 7.12.

Table 7.11 : Current Status of Units at BTPS (As on 30.08.2012)

Stage	Unit	Capacity/De-rated capacity	Date of Commissioning	Present Status
I	1	15 MW	26/01/1966	Retired on 16/02/1983
	2	15 MW	16/01/1963	Retired on 26/11/1985
	3	15 MW	20/10/1963	Retired on 05/10/1985
II	4	50 MW	09/11/1969	Retired on 12/03/2012
	5	50 MW	01/12/1971	Retired on 12/02/2012
III	6	110/105 MW	01/12/1984	Under R&M
	7	110/105 MW	31/03/2005	Under R&M

Source : Bihar State Power Generating Company

Table 7.12 : Planned Capital Expenditure for BTPS

(Rs. crore)

	Total Project Cost	Funds Released	2012-13	2013-14	2014-15	2015-16
R&M of BTPS (Unit 6 and 7)	581	432	0	149	0	0
Extension of BTPS (Unit 8 and 9)	3666	346	750	792	800	830
Strengthening of Infrastructure at BTPS	254	0	0	88	55	57
Ganga River Water Scheme for BTPS	173	54	0	60	38	21
Total Investment	**4674**	**832**	**750**	**1070**	**893**	**907**

Source: Bihar State Power Transmission Company

The strengthening of infrastructure facilities at BTPS includes access roads, and availability of water and treatable water. To meet the water requirement at the BTPS, the Water Resources Department of the state government and Central Water Commission have granted clearance for 60 cusec and 45 cusecs of water respectively. The state government has also been able to get an interim coal linkage for the two additional units under construction at BTPS until the Urma Paharitola coal block, jointly allocated to the Jharkhand State Electricity Board (JSEB) and Bihar State Mineral Development Corporation for exploration and mining, begins production around 2018.

(b) Muzaffarpur Thermal Power Station (MTPS) : The Kanti Bijlee Utpadan Nigam Ltd. (KBUNL), a wholly owned subsidiary of NTPC, had taken over MTPS (2 x 110MW). The present equity holding is — NTPC 64.57 percent and erstwhile BSEB (now BSPHC) 35.43 percent. The power generated from the station will be supplied to Bihar. Currently, R&M work is being carried out by BHEL on both the units.

(c) Koshi Hydel Power Station (KHPS) : The KHPS consists of 4 units of 4.8MW each as shown in Table 7.13. It was commissioned during 1970-78 and was handed over to Bihar State Hydel Power Corporation (BSHPC) in 2003.

Table 7.13 : Present Status of Units at KHPS

<table>
<tr><th>Unit</th><th>Capacity</th><th>Date of Commissioning</th><th>Present status</th></tr>
<tr><td>1</td><td>4.8 MW</td><td>April, 1970</td><td rowspan="4">KHPS has been handed over to BSHPC on 16/11/2003</td></tr>
<tr><td>2</td><td>4.8 MW</td><td>March, 1971</td></tr>
<tr><td>3</td><td>4.8 MW</td><td>October, 1973</td></tr>
<tr><td>4</td><td>4.8 MW</td><td>October, 1978</td></tr>
<tr><td>Total</td><td>19.2 MW</td><td></td><td></td></tr>
</table>

Source : Bihar State Power Generating Company

From its current level of 2000 MW, the energy needs of the state is expected to increase drastically to 6000 MW in the near future. In order to cope with this growing energy needs, the state government has planned various other projects for enhancing the capacity for power generation. A list of the upcoming projects in Bihar under the private sector, or public sector, or through a joint venture, is annexed at Table 1, Annexure 7.1.

<u>Transmission</u> : The transmission network serves as important link between the generation and distribution of electricity supply. The challenge of the transmission network is to keep pace with the growth of the other two segments. According to the 18^{th} Electric Power Survey (EPS), Bihar should achieve a per capita electricity consumption level of 770 kwh, electrify additional

17,000 villages and increase power generation capacity to 14,000 MW by 2016-17. Given this anticipated demand, the transmission system needs to be strengthened adequately and timely for maintaining grid stability and supply quality.

The transmission of power in Bihar takes place at 400 KV, 220 KV and 132 KV voltage levels. The transmission network of the BSPTC consists of 85 sub-stations and approximately 6,400 circuit kilometres (CKM) long transmission lines. The transmission system is capable of transmitting 5418.5 MVA of power. The details of existing transmission infrastructure as on March, 2012 are presented in Table 7.14.

Table 7.14 : Existing Infrastructure for Transmission

Voltage	No of sub-stations	Line Length (CKM)	Transformer Capacity (MVA)
400 kV	-	75	-
220 kV	9	1147	2450
132 kV	76	5178	4588
Total	85	6400	

Over the last few years, there has been moderate growth both in the number of sub-stations and transformer capacity. However, taking into account the tremendous growth that is expected during the ensuing years in terms of power availability and retail sales, the transmission segment needs further strengthening through expansion and appropriate R&M schemes. Thus, keeping pace with the increasing power requirements would be a major challenge for the new Transmission Company.

The improvement and expansion work of the transmission system is being carried out in two phases under Rashtriya Sam Vikas Yojana (RSVY), supported by the Power Grid Corporation of India Limited (PGCIL). In Phase 1 of the programme, construction of 17 grid sub-stations, 1 power station and 876 kms. transmission line have been completed using a sum of Rs 486.40 crore. Under Part 1 of Phase 2, schemes worth Rs 1005.72 crore are in progress. The construction of 7 new grid sub-centres, expansion of 18 old grid sub-centres and construction of 1015 CKM of transmission line has been completed. Under Part 2 of Phase 2, construction of 6 new grid sub-centres, expansion of 11 old grid sub-centres and construction of 687 CKM of transmission line has been completed. The remaining work of Phase 2 is currently on-going. Additionally, the BSPTC has planned capital expenditure for installation of new transmission lines and sub-stations, as well as augmentation and R&M works to strengthen the existing transmission network. A capital investment of Rs. 6845 crore has been planned for this purpose. Out of this investment, a sum of Rs. 3957 crore is planned to be invested during 2013-14 to 2015-16, as detailed in Table 7.15.

Table 7.15 : Planned Capital Investment for Transmission Function

Sl. No.	Planned Scheme	Planned Capital Investment
1.	Twelfth Plan 18th Electric Power Survey (BRGF)	3450
2.	Immediate removal of transmission constraints	310
3.	ADB funded scheme	197
	Grand Total	**3957**

Source : Bihar State Power Transmission Company

The above total expenditure includes the Bihar Power Sector Improvement Project, which is being funded by the Asian Development Bank (ADB). The transmission component of the project includes construction of new transmission sub-station capacity, renovation and modernization of existing sub-station capacity, and the addition of new or upgraded transmission lines (Table 2, Annexure 7.1).

Distribution : Bihar has seen a growth in number of consumers as a result of growth of population as well as their improved economic conditions. During the last six years, the number of consumers has grown annually at about 14 percent. However, the corresponding annual growth in energy sales is only about 6.8 percent. This is due to old infrastructure and pilferage. The transmission and distribution (T&D) losses of the BSEB for 2011-12 were 44.05 percent (Table 7.16). The Board has calculated T&D loss taking revised norms for unmetered categories of consumers fixed by Bihar Electricity Regulatory Commission (BERC) with effect from 2010-11. Had the Board continued with old norms of consumption for unmetered categories of consumer, the T&D loss for 2010-11 would be a little lower at 35.26 percent only. This value is not only higher than the target (29 percent) fixed by the BERC, but also the highest loss level in the whole country. In addition to the old and ageing infrastructure, the technical and commercial losses in the network are a major concern. The new distribution companies need to tackle this issue by improving the metering, billing and collection cycle along with implementation of 100 percent metering initiative. Energy accounting and auditing at feeders and distribution transformers (DTs) are essential for reducing these losses.

Table 7.16 : Approval and Actual T&D Losses (2006-07 to 2011-12)

Year	T&D losses as per Annual Accounts	T&D losses approved by BERC
2006-07	42.61	41.40
2007-08	39.06	38.00
2008-09	37.98	38.00
2009-10	38.32	35.00
2010-11	43.59	32.00
2011-12	44.05	29.00

The distribution companies are taking the following actions for controlling the loss and improving the reliability of network:

(a) Restructured Accelerated Power Development and Reforms Programme (RAPDRP) : It is a centrally sponsored scheme, launched by the Ministry of Power. The nodal agency for this scheme is PFC India Ltd. Part A of the programme includes projects for establishing baseline data and IT applications for energy accounting/auditing as well as IT-based consumer service centres. In all, 71 towns have been selected under Part-A of R-APDRP. It also envisages installation of SCADA/DMS (Supervisory Control and Data Acquisition/Distribution Management System) project in Patna. The aim is to provide real time monitoring and control, minimizing loss, balancing load and improving voltage/VAR profiles. Within Part B of this scheme, funds have been allocated to implement network-strengthening works for reducing aggregate technical and commercial losses (AT&C) in the network. The Detailed Project Report (DPR) of all 64 towns selected under Part B of the programme have been approved by the Steering Committee of the Ministry of Power. This programme seeks to reduce the AT&C losses of the towns to 15 percent. The details of expenditure under R-APDRP are presented in Table 7.17.

Table 7.17 : Capital Expenditure of R-APDRP (Rs crore)

Project Component under R-APDRP	Outlay
R-APDRP – Part B	1155.21
R-APDRP – Part A	253.68
RAPDRP - SCADA	36.00
Total	1444.89

Source: North Bihar Power Distribution Company and South Bihar Power Distribution Company

(b) Backward Region Grant Fund (BRGF) scheme : Under this scheme, R&M of old power sub-stations, distribution sub-stations and associated lines in rural areas have been planned. These projects will help in efficient load management and improved operational efficiency. The scheme also includes work for segregation of rural loads by providing dedicated Agriculture Feeder for improving load management and ensuring reliable supply for irrigation. It aims to regulate the free supply of electricity to agricultural pump-sets and thereby limiting excess groundwater mining.

(c) R&M of old Power Sub-Stations : This project is aimed at improving technical performance and reduce technical losses of the sub-station.

(d) Distribution System in Smaller Towns : This project is to implement IT applications and strengthen distribution networks of 49 small towns that are not covered under R-APDRP to reduce AT&C losses. The capital expenditure planned in these areas is similar to the activities in the R-APDRP works (Table 7.18).

Table 7.18 : Financial outlay of capital expenditure planned for distribution under BRGF

(Rs. crore)

	2012-13	2013-14	2014-15	2015-16	2016-17
Planned Capital Expenditure	88	1075	1100	1100	100

(e) Consumer Metering of 12 lakh Consumers : Under this programme, about 12 lakh consumer meters are to be installed by 2012-13. This is part of the100 percent metering initiative of the erstwhile BSEB.

(f) Reconductoring of 72,000 kms of LT and HT lines : In this project, old and dilapidated infrastructure will be replaced to reduce technical losses.

(g) Externally Aided Project : The distribution components included in the ADB funded Bihar Power System Improvement Project have been designed to fit into the R-APDRP distribution investment programme, and cover 7 towns within four distribution circles in the state (Table 7.19).

Table 7.19 : Package-wise Summary of Works with ADB Funds

Package	Town	Proposed Outlay (Rs. crore)
Package A	Biharsharif	38.16
Package B	Motihari and Bettiah	34.48
Package C	Samastipur and Begusarai	56.29
Package D	Ara and Buxar	49.01
	Total	177.94
Additional Outlay		250.00
	Grand Total	427.94

On the revenue front, the erstwhile BSEB was able to increase its revenue annually at 18.6 percent over the period 2006-07 to 2011-12. Even though revenue has grown, BSEB has suffered increasing losses over the years. This loss is mainly due to insufficient recovery of cost. This is because the hike in tariffs over the years has been insufficient to cover the increased cost of purchased power. The per unit power procurement costs have risen to about 3 times during the period 2005-06 and 2011-12, whereas the average billing rate has increased to less than 2 times. Besides power purchase costs, the increased expenditure of BSEB is also due to higher expenditure on interest and finance charges, and employee costs. During 2005-06 to 2011-12, the interests and finance charges and employee costs increased by 79.6 percent and 63 percent respectively (Table 7.20).

Table 7.20 : Operational and Financial Status of BSEB

Item	2008-09	2009-10	2010-11	2011-12
Generation and Purchase (Mkwh)	8585	9837	10883	11965
Sale (Mkwh)	5325	6067	6139	6695
Losses (Percentage)	37.98	38.32	43.59	44.05
Average Revenue (Rs/kwh)	3.12	3.03	3.87	4.64
Sale of Power (Rs crore)	1676	1862	2410	3150
Total Income (Including subsidy) (Rs crore)	2485	2796	3618	5422
Total Cost (excluding disallowed interest on State Govt. loan by BERC) (Rs. crore)*	2750	3391	4029	6172
Cost Coverage (Tariff Cost) (Percentage)	61	55	60	51

Note : The interest on state government provided during 2008-09, 2009-10, 2010-11 and 2011-12 are Rs. 740.03 crore, Rs. 817.21 crore, Rs. 920.87 crore and Rs. 1066.57 crore respectively. These have not been included by BERC in the Annual Revenue Requirement of BSEB.

Another aspect of the distribution or power is to connect rural areas of the state to the grid. The Rural Electrification work is being carried out in all 38 districts of the state under Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY). In 24 districts, work is being carried out by the Power Grid Corporation of India Limited, in 6 by National Hydroelectric Power Corporation (NHPC), and in the remaining 8 districts by BSEB. As of September 2012, there were 18,635 villages and 22.54 lakh BPL families that have been connected to the grid. Under this scheme, construction of 171 33/11 KV power sub-stations has also been approved. Of these, 93 have already been constructed. The agency-wise break-up of the BPL households and villages connected to the grid, number of power sub-stations constructed and charged under RGGVY is given in the Table 7.21.

Table 7.21 : Achievement for Construction of Power Sub-Stations, Electrification of Villages and Electrification of BPL Households under RGGVY

Activities	PGCIL	NHPC	BSEB	Total
Construction of Power Sub-station's	86	40	45	171
Covered under 10th Plan	75	15	--	90
Covered under 11th Plan	11	25	45	81
Completed till date				
Number of Power Sub- Station Charged	72	17	13	102
Electrification of Villages				
No. of Villages Electrification till March, 2012	14387	3062	342	17791
No. of Villages electrified up to , Sept. 2012 (2012-13)	418	191	235	844
Total no. of villages electrified	**14805**	**3253**	**577**	**18635**
Electrification of BPL Households				
No. of households ('000) electrified till March, 2012('000)	943054	971784	227076	2141914
No. of households ('000)to be electrified during 2012-13 (Target)	116581	128472	375488	620541
No. of households ('000) electrified during, 2012-13 (up to September,2012)	2886	2922	105972	111780
Achievement Percentage (2012-13) up to, Sept. 2012	**2.47**	**2.27**	**28.22**	**18.01**
No. of households ('000) electrified till September, 2012	**945940**	**974706**	**333048**	**2253694**

Bihar State Hydroelectric Power Corporation Limited (BSHPC)

The BSHPC was established to harness the hydroelectric potential in the state. During the Tenth Plan, BSHPC started exploring possibilities for major hydel projects, besides its earlier mandate for minor hydel projects. There are 13 minor hydel projects that are currently operational in the state, with an installed capacity of 54.3 MW. The details of these projects are given in Table 3 at Annexure 7.1.

As mentioned before, presently BSHPC is also engaged in exploring the possibilities of minor hydel power projects in the state. There are 17 such schemes where the exploration work is in progress and 6 major hydel projects proposed in the state (Lists at Tables 4 and 5 respectively at Annexure 10.1). The state government has also requested the central government to make an allocation of 1500 MW of power from Bhutan to Bihar. There is also immediate need to attract private sector players to fully exploit the hydropower potential in the state. Since the power sector reforms are still at their initial stages, it is too early to assess their impacts on the fiscal health of the state government.

Reforms Targets in Power Sector

The Bihar Electricity Regulatory Commission was formed in April 2002 under Section 17 (1) of the national Electricity Regulatory Commission Act, 1998 for rationalization of electricity tariff and for advising in all matters related to generation, transmission and distribution of electricity within the state. It had fixed tariff for hydel based electricity as well as for bio-gas and biomass based power in 2009-10. It had also asked the BSEB to procure power from private entrepreneurs and issued directives for continuous monitoring for reducing T&D losses within the state. The targets for power generation by thermal power stations are set by the Central Electricity Authority after taking into account the plant capacity, average plant load factor as well as past performance of the stations.

A Memorandum of Understanding (MoU) was signed (September 2001) between the Union Ministry of Power and the state government as a joint commitment for implementation of reforms programme in power sector with identified milestones. The progress achieved so far in respect of important milestones is stated in Table 7.22.

Table 7.22 : Milestones in Power Sector Reforms in the State, 2012-13

Sl. No.	Milestones	Achievement till 2012-13
1.	Setting up of the State Electricity Regulatory Commission (SERC)	The State Electricity Regulatory Commission (SERC) was constituted in April, 2002. The commission had notified last tariff order for the year 2012-13.
2.	Rural Electrification Programme	Out of 22484 numbers of villages, 17791 (79 per cent) villages have been electrified (March 2012) through Central agencies - NHPC and PGCIL (March 2012).
3.	Reorganisation of the Board	Govt. of Bihar had appointed Power Finance Corporation as consultant for reorganization of the Board. 5 New Companies were formed and they commend their businesses w.e.f. 01 November, 2012.
4.	Securitization of outstanding dues of Central Power Sector Undertakings	Securitization of outstanding dues of Central Power Sector undertakings to the tune of Rs.2075.61 crore has been made by the Govt. of Bihar.
5.	100 per cent metering of all 11 KV distribution feeders and 100 per cent metering of all consumers.	The installation of meters in 11 KV distribution feeders (84 per cent) and consumers (71 per cent) in all the 16 circles was completed (September 2012).
6.	Energy audit	Energy audit could not be implemented as metering of all the electric connections has not been completed. 5164 meters have been installed against the target of 7563. Power Finance Corporation, a Central PSU had appointed a private agency for conducting third party energy audit under restructured Accelerated Power Development Reform Programme (RAPDRP).
7.	Reduction in transmission and distribution (T&D) losses up to 15.5 per cent.	The T&D losses of the Board for the year 2010-11 was 43.59 per cent which increased to 44.05 per cent during 2011-12.
8.	Three per cent return on fixed assets	The Board has not achieved three per cent return on fixed assets till 2011-12.
9.	Distribution Information Management System	Distribution and information management system is operational through Supervisory Control and Accelerated Data Acquisition (SCADA) System in Patna; under progress in the rest of Bihar.
10.	Minimum agriculture tariff of 50 Paise per unit	The State Electricity Regulatory Commission (SERC) has approved tariff rates for Irrigation and Agriculture Services (IAS) for the year 2012-13 as follows: IAS-I (Unmetered) Rural Feeder- Rs 120/HP/Month Urban Feeder – Rs 145/HP/Month IAS-I (Metered) Rural Feeder- Rs 1.00 /unit Urban Feeder – Rs 1.50/unit Subject to a minimum of Rural Feeder- Rs 85/HP/Month Urban Feeder – Rs 130/HP/Month IAS-II State Tubewells & LI (Unmetered) Rural Feeder- Rs 900/HP/Month Urban Feeder – Rs 1000/HP/Month IAS-II (Metered) Rural Feeder- Rs 6.00 /unit Urban Feeder – Rs 7.00/unit

Annexure 7.1

Table 1 : Upcoming Projects in Bihar

	Capacity (MW)	Agency	Remarks
A) Under BSHPC			
(i) Extension of Barauni TPS, District-Begusarai	2x250 MW	BSPHC	Work in progress, being executed by BHEL
B) Under Joint Venture of BSEB & NTPS			
(i) Extension of KTPS, Kanti, Muzaffarpur	2x195 MW	KBUNL	Work in progress, being executed by BHEL
(ii) Nabinager Power Genarating CO, at Nabinagar District- Aurangabad	3x660 MW	NPGCPL	Physical possession of land in progress. Government of Bihar has accorded clearance for 125 cusecs of water.
C) Under Private/ Public Sector through Tariff Based Bidding			
(i) Buxar Thermal Power Station, Chausa (Buxar)	2x660 MW	Pvt- BPICPL	Central Water Commission has accorded clearance for 55 cusec water. Application for coal allocation has been submitted to Ministry of Coal. Land acquisition under process.
(ii) Lakhisarai Thermal Power Station, Kajra, (Lakhisarai)	2x660 MW	Pvt- BPICPL	Central Water Commission has accorded clearance for 55 cusec water. Application for coal allocation has been submitted to Ministry of Coal. Land acquisition under process.
(iii) Pirainti Thermal Power Station, Pirpainti, (Bhagalpur)	2x660 MW	Pvt- BPICPL	Central Water Commission has accorded clearance for 55 cusec water. Application for coal allocation has been submitted to Ministry of Coal. Land acquisition under process.
D) Under Private Sector			
(i) M/s JAS Infrastructure, Nagpur, at Banka, (Bhagalpur)	4x660 MW	Pvt- JAS	Land acquisition under process
(ii) M/s Nalanda Power Company, Kolkatta, at Pirpainti (Bhagalpur)	2000 MW	Pvt- Nalanda	Land acquisition under process
(iii) M/s Ganga Power and Natural Resources, Kolkata at Pirpainti (Bhagalpur)	2x660 MW	Pvt- Adhunik	Land acquisition under process
(iv) M/s India Power Corporation, Kolkata at East Champaran.	2x660 MW	Pvt- India Power	Land acquisition under process
(v) M/s Triton Energy, Gurgaon, Haryana, at Barun (Aurangabad)	2x660 MW	Pvt- Tritor	Land acquisition under process
(vi) M/s Essar Power, Ranchi at Pirpainti (Bhagalpur)	3x660 MW	Pvt- Essar Power	Land acquisition under process
(vii) M/s Usha Martin, New Delhi at Pirpainti (Bhagalpur)	1200-1320 MW	Pvt- Usha Martin	Land acquisition under process
(viii) M/s Sarvottam Infrastructure Finance, Kolkata at Kahalgaon.	540 MW	Pvt- Sarvottam	Land acquisition under process
(ix) M/s Arrison power, Kolkatta at Banka.	2x660 MW	Pvt- Arrison	Land acquisition under process
(x) M/s Global Powmin, Kolkata at Nawada.	4x660 MW	Pvt- Global	
(xi) M/s Mirach Power, Hyderabad at Lakhisarai.	2x660 MW	Pvt- Mirach	Land identified.
(xii) M/s AES India, Gurgaon at Jagdishpur (Bhagalpur)	2x660 MW	Pvt- AES	Land acquisition to be started shortly.
F) Nuclear Power Project.			
(i) NPCIL has been requested for installation of Nuclear Power Plant at Rajauli.	4x700 MW	NPCIL	Sufficient water is not available. So, additional TPS to be taken.

Table 2 : Bihar Power Sector Improvement Project – Current Status

Sl. No.	Project	Cost (Rs crore)
1	Construction of 2x50 MVA, 132/33 KV Grid Subs-station at Dhanha (West Champaran) on turnkey basis	**49.15**
2	Construction of 2x50 MVA, 132/33 KV Grid Sub-Station at Gangwara (Darbhanga) on turnkey basis	
3	Construction of 132 KV bay one each at Bettiah, Sasaram, Mohnia, Dinara, Lakhisarai and Seikhpura G.S.S.	
4	Construction of 4 no. 33 KV bay at remote end 33/11 KV Power substations for down linking	
5	Construction of 2x150 MVA 220/132 KV Grid Sub-Station atPusauli (Kaimur)	**47.98**
6	2 nos. 220 KV bay extensions at 220/132 KV Dehri Grid substation	
	132 KV line (202 KM)	**48.61**
7	LILO of 132 kV Pandaul Line at Gangwara - 10 KMs (approx.)	2.41
8	Pusauli (New) - Sasaram DCCS line -50 KMs (approx.)	12.03
9	Pusauli (New) - Bhabhua DCCS line -15 KMs (approx.)	3.61
10	Pusauli (New) - Dinara DCCS line -45 KMs (approx.)	10.83
11	Lakhisarai - Shekhpura DCCS line-32 KMs (approx.)	7.70
12	Bettiah - Dhanha DCCS line-50 KMs (approx.)	12.03
	33 KV line (40 KM)	**9.63**
13	New Line from132 kV Sub Station Dhanha (New) - 20 KMs(approx.)	4.81
14	New Line from132 kV Sub Station Gangwara (New) - 20 KMs(approx.)	4.81
15	LILO of both ckts of Sasaram (PGCIL)- Ara (PGCIL) 220 KVD/C line at New Sub Station at Pusauli (New)- 6 KM	**41.53**
16	Pusauli (New)-Dehri (BSEB) 220 KV D/C line - 8 KM	
	Grand Total	**196.89**

Table 3 : Operational Minor Hydel Projects in Bihar

Sl. No.	Name of Project	District	Installed Capacity(MW)
1	Eastern Gandak Canal H.E. Project, Valmikinagar	West Champaran	15
2	Sone Western Link Canal H.E. Project, Dehri	Rohtas	6.6
3	Sone Eastern Link Canal H.E. Project, Barun	Aurangabad	3.3
4	Kosi Hydel Power Station	Supaul	19.2
5	Agnoor Small Hydel Project	Arwal	1
6	Dhelabagh Small Hydel Project	Rohtas	1
7	Nasriganj Small Hydel Project	Rohtas	1
8	Triveni Link Canal HEP	West Champaran	1
9	Jainagra Small Hydel Project	Rohtas	1
10	Sebari Small Hydel Project	Rohtas	1
11	Sirkhinda Small Hydel Project	Rohtas	0.7
12	Arwal Small Hydel Project	Arwal	0.5
13	Belsar Small Hydel Project	Arwal	1
		Total	54.3

Table 4 : Status of Proposed Small Hydel Projects

Sl. No.	Name of Project	Capacity (in MW)	Current Status
1.	Tejpura Small Hydel Project	1.5	Work in Progress
2	Amethi Small Hydel project	0.5	Work in Progress
3.	Natwar Small Hydel Project	0.25	Work in Progress
4.	Rampur Small Hydel Project	0.25	Work in Progress
5.	Rajapur Small Hydel Project	0.7	Work in Progress
6.	Paharma Small Hydel Project	1	Work in Progress
7.	Bathnaha Phase-I Small Hydel Project	8	Work in Progress
8.	Nirmali Small Hydel Project	7	Work in Progress
9.	Dhoba Small Hydel Project	2	Work in Progress
10.	Katanya Small Hydel Project	2	Work in Progress
11.	Mathauli Small Hydel Project	0.8	Work in Progress
12.	Barwal Small Hydel Project	1.6	Work in Progress
13.	Dehri Escape Channel	3.3	Work in Progress
14.	Dehra Small Hydel Project	1	Work in Progress
15.	Sipaha Small Hydel Project	1	Work in Progress
16.	Valmikinagar Escape Channel	6	Proposed works for 2012-13
17.	New Small SHP	12	Proposed works for 2012-13

Table 5 : Proposed Major Hydel Projects in Bihar

Sl. No.	Name of the Scheme	Capacity (MW)	District
1	Dagmara Hydroelectric Power Project	130	In the process of approval by CEA/CWC New Delhi
2	Indrapuri Reservoir Project	450	Survey work by SOI has been started
3	SinafdarPumped Storage Scheme (PSS)	345	PFR is ready
4	Hathiahdah-Durgawati Pumped Storage Scheme	1600	PFR is ready
5	Panchgotia Pumped Storage Scheme	225	PFR is ready
6	Telharkund Pumped Storage Scheme	400	PFR is ready

CHAPTER VIII

CONCLUSION

Prudent management of public finance has the potential to transform a poor state like Bihar by raising adequate resources and allocating them according to the priorities of the state government, while ensuring the quality of expenditure, ultimately raising the productive capacity of the economy and efficient delivery of public services. The ultimate objective of any governance is to promote economic growth that translates into continuous human development of the population. Viewed in this perspective, Bihar has experienced substantial growth and development, thanks to a better management of its public finance in the last decade. During the period of Eleventh Plan, the state's economy had grown at 10.4 percent, compared to 3.9 percent during the period of Tenth Plan; for the combined period of last two Plans, the growth has been 7.1 percent. There has also been corresponding improvements in human development indictors — literacy, health and poverty ratio. As mentioned before, a steady improvement in the financial status of the state government has contributed much to this desirable changes. There still remain, however, some aspects of the public finance that demand improvement through appropriate reforms.

To begin with, one must mention that the revenue capacity of the state government has steadily improved during the last decade, specially since 2006-07. For the entire decade, state government's total revenue had grown at 19.2 percent, its two components, state's own revenue and central transfers, growing at 19.0 and 19.2 percent respectively. This obviously implies that, notwithstanding a satisfactory growth rate of 19.0 percent for the state's own revenue, its dependence on central transfers remains at the same level. Since GSDP had grown at 16.3 percent at current prices during this period, there is also a modest improvement in Tax : GSDP ratio, from 4.25 percent in 2002-03 to 5.12 percent in 2011-12. Among the different components of state's own revenue, it was the excise duties that had grown very fast at an annual rate of 28.5 percent. Unfortunately, the revenue receipts under non-tax heads were rather limited in Bihar, mainly because of low user charges for many of the services.

On the expenditure front, the state government had shown prudence by allowing it grow annually at 15.2 percent during the last decade, a little below the annual rate of growth of revenue receipts. Additionally, the composition of the total expenditure has been substantially altered to promote development oriented expenditure. For example, the share of plan expenditure was a mere 15.4 percent in 2002-03, which stands at 38.2 percent in 2011-12. Similarly, the share of capital outlay in total capital expenditure was only 30 percent in 2002-03, but in 2011-12, it was increased to a much higher level of 65 percent. However, the actual expenditure figures of the state government have generally been less than the budgeted figures, indicating certain limitations either of the budget exercise or of the spending capacity or both. As regards Public Expenditure and Financial Management (PEFM) Reforms, the state government has taken several steps, including vigilance activities to reduce corruption, and preparation of an Outcome Budget.

As an obvious consequence of increasing revenue capacity, the state has witnessed a complete turn around in the deficit scenario since 2004-05, without compromising on the development oriented expenditure levels. After experiencing revenue account deficit year after year till 2003-04, a reversal of the trend was initiated in 2004-05 and a revenue account surplus has been a regular feature of the state finances since then. Because of increasing capital outlay, the state government still shows Gross Fiscal Deficit (GFD), but here again, its magnitude has remained manageable, below the prescribed limit of 3.0 percent of GSDP since 2006-07, except for the lone exception of the year 2009-10. In that year, due to global crisis, the limit was raised to 4.0 percent and the GFD in Bihar was 3.2 percent, again below the statutory limit.

Along with remarkable achievements in the deficit management, the state government has also improved its financial health by improving its position in the debt front. The total outstanding liabilities of the state government was Rs. 35.49 thousand crore in 2002-03; after growing at an annual rate of 7.5 percent, it had reached the figure of Rs. 67.98 crore at the end of 2011-12. Since the GSDP at current prices had grown at a much higher rate, the outstanding liability as a percentage of GSDP has decreased from 55 percent in 2002-03 to a very comfortable level of 27 percent in 2011-12. As regards the use of borrowed funds, it used to be consumed for meeting the deficit in the revenue account till 2005-06, but thereafter, all borrowed funds have been channelised towards capital outlay, strengthening the growth process of the state's economy. The composition of the outstanding debt of the state government has also undergone substantial change during the last decade. The non-plan loans from the central government has fully disappeared as a source of loan and even the share of loans for state plan schemes are now much reduced, from 34 percent in 2002-03 to only 17 percent in 2011-12. These sources have been gradually replaced by market loans (whose share is 40 percent in 2011-12) and special seventies issued to NSSF (a share of 37 percent in 2011-12). Apart from external liabilities, the state government has also some liabilities in Public Account which are also liabilities, but of a different nature. Such liabilities in public account had grown annually at 5.0 percent, from Rs. 11.35 thousand crore in 2002-03 to Rs. 16.99 thousand crore in 2011-12. Yet another component of the state government's liabilities is its contingent liabilities, arising out of outstanding guarantees to the different public sector units or corporation. At the end of 2011-12, such liabilities of the state government stood at Rs. 1092 crores (as guarantees) and Rs. 103 crore (as interest).

The transfer of resources to the local bodies (Panchayati Raj Institutions and Urban Local Bodies) is an important aspect of state finance. With gradual strengthening of local bodies, the total amount of such transfers is also gradually increasing. An amount of Rs. 2349 crore was transferred to various local bodies in Bihar in 2011-12, compared to only Rs. 924 crore the year before. During the last decade, the state government has taken a number of steps to enhance the capacity of the PRIs like amendment of Bihar Panchayati Raj (2006), extensive training programmes for panchayat functionaries, devolution of power and activity mapping, and Panchayat Empowerment and Accountability Incentive Scheme (PEAIS). In case of ULBs, the initiatives of the state government include amendment of Apartment Ownership Act, Master Plan and GIS mapping for major towns; training of councilors, computerized registration of land/property and a few others.

Although the state government has displayed considerable understanding and ability to manage its finances, one area where its performance leaves much to be desired is the working of the public sector enterprises. There are 66 public sector companies/corporations and their total annual loss in 2011-12 was as high as Rs. 2619 crore, compared to Rs. 102 crore in 2006-07. These units are a clear source of pressure on the overall financial health of the state government. Among these units, the Bihar State Electricity Board (BSEB) is the largest, employing 10.3 thousand employees, out of a total employment of 17.5 thousand by all the public sector enterprises. Its net annual loss was Rs. 2662 crore in 2011-12, compared to Rs. 564 crore is in 2007-08. Both because of the critical role of power in state's economic development and wellbeing of its people, and the stress it creates on the state finances, the state government has recently introduced a major reform for BSEB, including unbundling of the Borad to create 5 separate companies — one each for generation and transmission, two for distribution, and another one for overall coordination. These reforms will hopefully improve the power situation in Bihar and also the financial performance of the 5 companies.

Towards strengthening its own finances, the state government is expected to mobilize more resources both through higher tax and non-tax revenues. It also needs to introduce some necessary reforms to improve the financial performance of all its public sector enterprises, which together exert considerable pressure on the state finances. But management of state finances has indeed improved in the last decade, particularly in the latter half. These improvements are, however, not adequate for Bihar to have a financial base that could meet all the development needs of the state. The Per Capita Development Expenditure (PCDE) in Bihar was only Rs. 4651 in 2011-12, compared to the all-state average of Rs. 7609 and Rs. 11,857 for Haryana, where it is the highest. The state's dependence on the central government is also very high, nearly three-fourths of its revenue receipts is obtained through central transfers. These scenario needs to be changed through combined efforts of both the central and state government.