

List of Letters/memorandum regarding Special category status of Bihar

- i. DO Letter No 943 (CAMP New Delhi) dated 09/12/2005 of CM's Secretariat, from Chief Minister, Bihar to Prime Minister, Government of India.
- ii. DO Letter No 4610260 dated 03/06/2006 of CM's Secretariat, from Chief Minister, Bihar to Prime Minister, Government of India.
- iii. DO Letter No 4610189 dated 14/07/2009 of CM's Secretariat, from Chief Minister, Bihar to Prime Minister, Government of India.
- iv. DO Letter No 4620099 dated 12/05/2010 of CM's Secretariat, from Chief Minister, Bihar to Prime Minister, Government of India.
- v. DO Letter No 4610222 dated 18/12/2011 of CM's Secretariat, from Chief Minister, Bihar to Union Finance Minister, Government of India.
- vi. DO Letter No 4610031 dated 03/03/2012 of CM's Secretariat, from Chief Minister, Bihar to Dy. Chairman, Planning Commission, Government of India.
- vii. DO Letter No 4610032 dated 03/03/2012 of CM's Secretariat, from Chief Minister, Bihar to Union Finance Minister, Government of India.



D.O.No. 4610032/CMS

Dated:03-03-2012

Hon'ble Shri Pranab Babu,

I am enclosing herewith a detailed note on issues relating to Bihar pending with the Central Government for long. All the issues deserve priority consideration. We look forward to your leadership in redressing Bihar's endemic backwardness and rewarding the significant strides and efforts made by State Government to improve growth performance. Issues that deserve immediate attention while finalizing the Budget for the year 2012-13, are the ones related to the grant of Rs 20,000 crores under the Special Plan(BRGF) and also enhanced allotment in the Agriculture sector to meet the projected public sector investments as per our Agriculture road-map during the 12th Plan period.

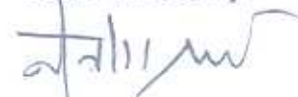
We would be grateful for an early and favourable consideration of these pending issues.

With regards,

Enclosed:As above

Shri Pranab Mukherjee,
Union Finance Minister,
Government of India,
New Delhi.

Yours sincerely,


(Nitish Kumar)



Dated:03-03-2012

Dear Shri Ahluwalia Sahib,

I am enclosing a comprehensive updated note on important issues related to Bihar for your sympathetic consideration. I would like to draw your special attention towards grant of Rs 20,000 crores under the special plan (BRGF) and also enhanced allotment for the projected public sector investments for the Agriculture Road-map during the 12th Plan period.

We look forward to your support and favourable consideration of these pending issues.

With regards,

Enclosed : As above

Yours sincerely,

(Nitish Kumar)

Shri Montek Singh Ahluwalia,
Deputy Chairman,
Planning Commission,
Government of India,
New Delhi.

Need for Special Assistance to Bihar

- (i) The poorer States like Bihar are in need of more central transfer for their development spending. The failure of the federal transfer system to compensate them for their fiscal disadvantage is major constraint in the development of these states. In case of States with Special Category Status, the special dispensation provided for them gives the significant relief for their fiscal disadvantage. In the absence of any such special dispensation, it is the poorer General Category States who have been the worst victims of inadequate federal transfer system. Bihar is one of the poorest General Category States and as such, it has the strongest claim to be awarded as special assistance to compensate its fiscal disadvantage. In case of Bihar, the cardinal principle of Fiscal Federalism has not been followed.
- (ii) Bihar's per capita development expenditure of Rs 3467 (2010-11) is the lowest among all general category states, and amounts to only half of the national average per capita development spending of Rs 6034 and 1/3rd of Haryana, the highest spending state. In 2010-11, Bihar has the lowest per capita income (at 2004-05 constant prices) of Rs 14865 with the lowest per capita spending on education (Rs 798), health (Rs 148), social service overall (Rs 1487) and also economic services (Rs 772). Bihar would need an additional central transfer of Rs 25,295 crores per annum to bring it at par with the national average of per capita development spending.
- (iii) Against the backdrop of reorganization of Bihar, the State was given a grant of Rs 8753 Crore under BRGF during 11th plan period, amounting to about Rs 1750 Crore per annum or roughly Rs 180 per capita per year. In other words, there is a gap of at least Rs 23545 crores per annum, in central transfers to Bihar, compared to that which would be warranted by the principle of equalization in the federal transfer system. Bihar also suffers in terms of its share of central subsidies and investment by Central Government enterprises. In proportion with its population share, Bihar should receive about 8.2% of both. Instead, Bihar received only 2.67% of central subsidies and 1.9% of central enterprise investments.
- (iv) The case for a special assistance for Bihar is further reinforced by the fact that the transfer gap exists despite a strong effort at fiscal consolidation by the State government. The Bihar Government enacted Fiscal Responsibility and Budget Management Act.

2006 committing the State to eliminate its revenue deficit by 2008-09 and to bring down the fiscal deficit to not more than 3% by 2008-09. Bihar has eliminated its revenue deficit a year ahead of the target and has generated a significant revenue surplus. It has also brought down its fiscal deficit to less than 3% by 2006-07, two year ahead of time. The average fiscal deficit is still under 3%. It is this effort of strong fiscal consolidation that has enabled the government to keep aside an increasing share of revenue resources for development spending and capital expenditure.

- (v) The adverse development impact of huge transfer gap has to be seen against the background of some special geographical disadvantages that Bihar has to cope with. With the formation of Jharkhand, Bihar lost its entire resource base for mining and mineral based industries in the southern part of the state. This was not only a major geographical platform for employment and income but also an important revenue base for the government. On the other side, in the Northern Bihar, the state frequently suffers from devastating floods from the rivers originating from Nepal. While the former is a permanent loss of a strong base for employment, income and government revenue, the latter poses a permanent threat that the State Government alone cannot cope with its meagre resources.
- (vi) As a whole, Bihar suffers a huge deficit in its development spending on social and economic services and most needed social and physical infrastructure. The development distance between Bihar and other states is so large that it will not be possible for Bihar to attain even the average standard of living on its own for decades. Therefore, this forms a strong case for special dispensation to compensate Bihar for the large shortfall in central transfers.

Major pending Issues:-

1. Declaration of Bihar as "Special Category State":

Since 2006, when the Legislative Assembly of the State of Bihar passed a resolution asking for special status to be given to the state of Bihar, we have been requesting for the same, on par with Himachal Pradesh, Uttaranchal and the North-Eastern States. This will help attract private investment and reduce the burden on the state which is currently the predominant engine for development.

Declaration of Bihar as a Special Category State has two separate components. The first relates to altering the formula of cost sharing in centrally sponsored schemes (CSS) such that the state share is limited to 10%, which will enable higher resource availability and create greater head room for borrowing.

Second, relates to fiscal policy for equalizing differences in manufacturing and industrial sector and incentivizing private investment in the State. In this context, an enabling provision in the Direct Tax Code for waiver of Income and Corporate Taxes will be appropriate. Similarly, in the proposed GST a provision of refund of Excise collected to new units set up in Bihar or accelerated depreciation benefit would be reasonable. Action on the Fiscal Component entirely rests with the Ministry of Finance and can be announced as a part of the Finance Minister's Budget proposal.

In reply to a question regarding special category status to Bihar in the Rajya Sabha, the Minister of State for Planning had replied on 4/8/2011 that in view of Chief Minister's request to the Prime Minister an Inter ministerial Group was being constituted to look into the matter. Subsequently an Inter Ministerial Group comprising of Member Secretary Planning Commission and Expenditure Secretary was constituted and the Group was requested to submit their report in three months i.e., 31st December 2011. Unfortunately the Group has yet to give its recommendations and there is no indication when the report is expected. It is requested that the Group may be advised to submit its findings at an early date so that these could be taken into account both in the the Budget to be presented by the Finance Minister and as well as in the final version of XIIth Five Year Plan.

2. Release of Rs. 3192 crore under BRGF Special Plan for completing ongoing projects

Total cost of the project under Special Plan taken up in Xth and XIth Plan for Bihar (BRGF) is Rs. 9156.02 Crores out of which fund released by Government of India is Rs 7296 Crores. Thus we still require Rs 1,860 crores within two financial years for completing the ongoing projects under this plan. In addition to this, Rs 640 crore is required to fund the revised cost of State Highway works already under progress. Rs 692 crore is required for the revised cost of the Rail-cum-Road Bridge on the river Ganga at Patna, which includes the cost of Rs. 392 Crores to link National Highway 19 on the north and NH 98 on the south. Thus we require a total of Rs 3192 crores under the special plan of BRGF to complete all the taken up projects in 2011-12 and 2012-13.

3. Special annual BRGF assistance of Rs 20,000 crores during Twelfth Plan

The state government has been able to significantly increase the GSDP growth rate between 2006-07 and 2010-11. The special plan assistance has proved very useful in covering infrastructure gaps in power, road communications and irrigation. The per capita income (at 2004-05 constant prices) of the State increased from Rs 8,773 in 2004-05 to Rs 14865 in 2010-11. However, it is still much lower than the national average of Rs 35,917. It is therefore imperative that investment be substantially stepped up both in public and private sectors.

So long as private investment flows are inadequate, the State Government needs to focus on enhancing public investment. Bihar's GDP (at 2004-05 prices) in 2011-12 (advanced) has been

estimated at Rs 1,3,438 crore and its per capita income is only 39% of national average. Bihar needs to augment its GSDP by Rs. 2,47,935 crore at 2004-05 prices to reach the national average. Taking a conservative estimate of ICOR at 3:1, we need an investment of Rs. 7,43,805 crore at 2004-05 prices. Assuming that 70% of investment would flow through private sector, the public sector investment required for achieving the national level will be Rs. 2,23,141 crore which when spread for a period of 5 years works out to annual investment of Rs. 44,628 crore at 2004-05 prices or around Rs 71,800 crore at current prices. Given Bihar's historically large development deficit, this needs to be shared between the central and state government. It will be therefore, essential to provide at least Rs 4,000 crore per year totalling Rs 20,000 crores under the BRGF special plan during the Twelfth Plan also.

4. Increasing the borrowing limit

As shown above, in the next few years the state needs to increase its developmental expenditure substantially to bridge the gap with the national average. A strict adherence to the fiscal deficit limit of 3% for the financially disciplined states like Bihar limits its market borrowings at the time it needs the resources most. Thus States with low income, but revenue surplus, should be allowed a higher level of fiscal deficit up to 5% by allowing changes in the FRBM Act. The healthy rise in revenue receipts and low Debt GSDP ratio will ensure that the level of debt does not become unsustainable.

The Fiscal pressures on the Central Government have resulted in their seeking a new path of Fiscal Consolidation. Similar pressures exist on State Governments particularly endemically poor and backward States like Bihar and a new path of Fiscal Consolidation for Bihar would be consistent with prudential debt management

5. Jharkhand pension dues

As per Bihar Reorganization Act, 2000, Bihar has to receive from Jharkhand, Rs. 5030.71 crores as on 31.03.2010 in pension liabilities and Rs 285.78 crores in Bond liabilities from the State of Jharkhand, without including the interest accrued. The matter is to be decided by the Union Home Ministry, but till now the decision is pending.

6. Issues related to banks

Bihar's CD ratio at 33% is way behind the national average. While the deposit of the banks has crossed Rs 1,27,806 crores in the state, their credit profile has not kept pace. Now that the state is on a growth trajectory, a direction must be given to the banks to increase their lending.

The Governor Reserve Bank of India has recently recognized that the increased pace of non agricultural economic activity in the State has not resulted in corresponding increase in the Credit Deposit Ratio. The Reserve Bank Governor may be requested to play a more pro active supervisory role by encouraging Banks to implement a Road Map for higher Credit Deposit ratio.

The state has already drafted a road map for opening 1727 bank branches in villages having 5000 plus population. We eagerly await the measures to fulfil the said objective. Around 700-800 bank branches are manned by single official and hence must be strengthened for credit and banking services expansion. There is also a need of opening more post offices in Bihar to bring it at par with the national average.

8. Centrally Sponsored Schemes

There is a need to restructure Centrally Sponsored Schemes. As different states face different problems the policy of 'One Size fits all' needs to be re-examined. In this context we welcome the move to restructure Centrally Sponsored Scheme. There is a need to give more flexi fund with states to meet the contextual issues

9. Agriculture Road Map

Eastern India is considered the destination for second green revolution in the country. The Government of India has launched an initiative for bringing green revolution in Eastern India. However, the allocation under this initiative has been extremely low. Government of India has allocated only Rs. 60 crore in 2010-11 and Rs. 55.33 crore in 2011-12.

A road map for holistic agriculture development with an objective to bring Rainbow Revolution has been prepared after extensive discussion with experts, farmers and public representatives. The total financial requirement for road map is Rs 1,52,511 crore for five years (2012-2017) which includes public sector investment of Rs. 1,28,765 crore and Rs. 23,741 crore private investments. Therefore to meet the projected public sector investment, there is a need for a higher central allocation in Agricultural Sector.

D.O. No. 4610222/CMS

Dated : 18-12-2011

Respected Pranab Basu,

It is with a sense of anguish that I write to you in relation to news item published in Hindustan Times newspaper on 8th December, 2011 (copy enclosed), about the decision of the Cabinet Committee on Economic Affairs approving Rs 8750 crore bailout package for West Bengal. The news item mentions that "while pushing hard for this package, Finance Minister modeled it exactly in the shape of the BRGF given to the Nitish Kumar government in Bihar by UPA-1 to stave off Opposition criticism. Kumar got Rs 8753 crore under the BRGF."

This is both contrary to facts and undercuts the basic principles of fiscal federalism. On facts, it may be mentioned that special package has not been given to Bihar. Consequent to the bifurcation of the State of Bihar, the Bihar Reorganisation Act, 2000 provided for the creation of a special unit under the direct charge of Deputy Chairman Planning Commission to deal with the deleterious economic and financial consequences arising from the division of the State. In light of this provision, the Planning Commission had recommended grant under Rashtriya Sam Vikas Yojana (now named Backward Region Grant Fund) for construction of certain identified infrastructure projects like roads, transmission and distribution of electricity, to be implemented by the Central Government Agencies. In fact, the grant was released mostly to the Central Agencies directly by the central government.

During the Xth Plan, from 2002-03 to 2006-07, Rs 1000 crore per year was to be released. The central agencies did not start the work in time leading to cost and time overrun. So, on our pleadings the Union Government continued the said scheme in the XIth Plan period and the project cost escalation was taken care of. During this period Rs 7301.69 crore was released against the requirement of Rs 9156.02 crore. Even now projects timelines are not being met by the central agencies, thus compelling us to request the Planning Commission to revise the estimates of the approved roads projects. The central agencies need to complete the pending projects in time. It is in this context that we request the Central Government to continue the above scheme in the XIIth Plan period and release Rs 4000 crore per year during the period.

In addition, we would also like to bring to your notice the following:

- a) It is the prerogative of the central government to give special dispensation to any state. We have nothing to say if a special package is given to West Bengal. But the way the central government has sought to justify its move by linking it with the case of Bihar is totally out of context and misplaced. Facts should not be distorted to justify any action

taken by the Central Government. The dispensation given to Bihar had arisen out of the provisions of the Bihar Reorganization Act and not because of some special package. Bihar's relief was entirely a consequence of bifurcation of the State, which had robbed the state of vital mineral resources and a robust revenue stream.

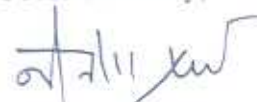
- b) Now that the central government chose to provide central assistance as a special plan to West Bengal for development of backward regions, our case for giving special treatment to Bihar because of its economic and industrial backwardness stands all the more justified. Even though Bihar has shown improved financial performance and expenditure management, given our development deficit, low energy intensity, low tax base and high population density, according Special Category Status to Bihar can improve our development matrix and entice private investment.
- c) Repeated attempts by the State government to Central Government and the Prime Minister for according a Special Category status to Bihar have not been accepted so far. In the index of economic backwardness and industrial progress, Bihar remains significantly below the national average. Bihar's per-capita income is $1/7^{\text{th}}$ of the per-capita income of National capital of Delhi and $1/3^{\text{rd}}$ of the national average. Similarly, the per capita Gross Fixed Capital Formation through Central Investment in Bihar is $1/10^{\text{th}}$ of the national average. Even then, our request for a special relief package following major devastation by floods, failed to get a positive response.

All viable fiscal models are based on the basic premise of political neutrality so far as devolution of funds are concerned. If Bihar's genuine demand of special category status is considered favorably, it would positively contribute in bringing Bihar in the national mainstream and aid in nation building.

I hope that you would consider our case favorably.

With regards,

Yours Sincerely,



(Nitish Kumar)

Shri Pranab Mukherjee
Union Finance Minister,
Government of India,
New Delhi-110001.

First Published: 00:02 IST(7/12/2011)

Last Updated: 01:09 IST(7/12/2011)

Mamata Banerjee gets Rs 8,750 cr bailout after FDI hit

In an effort to address Trinamool Congress chief and West Bengal chief minister Mamata Banerjee's key concern — the financial health of her state — the cabinet committee on economic affairs (CCEA) will discuss a Rs 8,750-crore bailout package on Wednesday. Banerjee, however, wants Rs 19,000 crore.

The sop, in the form of the backward regions grant fund (BRGF), comes three days after Banerjee, the chief of the second-largest ally in the UPA-2, spiked the FDI in retail policy.

It also comes at a time when UPA managers are depending on the Trinamool's support for passing key bills during Parliament's winter session and for defeating the Opposition onslaught on other issues.

The Centre recently increased the borrowing limit for the state by another Rs 2,000 crore.

The CCEA note says, "The chief minister of West Bengal wrote to the PM in July 2011 seeking support to tide over the state's financial difficulties that have become a serious impediment in the development of the Jangalmahal and other backward regions of the state."

While pushing hard for this package, finance minister Pranab Mukherjee modeled it exactly in the shape of the BRGF given to the Nitish Kumar government in Bihar by UPA-I to stave off Opposition criticism. Kumar got Rs 8,753 crore under the BRGF.

The plan panel will set up an empowered committee, comprising the plan panel, finance ministry and other nodal ministries to finalise the list of projects under this grant.

The package is set to address the identified need of the backward regions of the state through assistance linked to the implementation of projects by the state.

<http://www.hindustantimes.com/StoryPage/Print/778799.aspx>

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D.O. No. 462009/C.M.S.

Dated-10.05.2010

12.05.10

Hon'ble Prime Minister,

This is in continuation of my earlier letter dated 03.06.2006 in which I had sent the unanimous resolution by the State Legislative Assembly on 04.04.2006 to give special category status to Bihar. Again on 31 March 2010, A fresh resolution was placed in the State Legislative Council by Hon'ble Member, Prof. Arun Kumar on 31st March 2010, in which he argued that keeping in view injustices made in the past and persistent neglect of legitimate demands the state continues to be in the category of low income group states. The Council expressed its concern on this issue and mentioned that the development of Bihar was precondition of the country attaining a development country states. The Council therefore demanded a special category status for Bihar so that the state could graduate to the category of high income group states.

I am forwarding this resolution in the context of the long pending demand for special category status for Bihar for active consideration by the Central Govt.

With regards.

Yours Sincerely,


(Nitish Kumar)

To,

Dr. Manmohan Singh,
Hon'ble Prime Minister of India,
New Delhi.



Letter no 4610189/CMS

Dated 14-7-2009

Respected Prime Minister,

I write to you in continuation of my earlier letters particularly of 23rd May in which while congratulating you on your assumption of office for the second term as the Prime Minister I had also outlined some key areas where Bihar's development initiatives need your support and guidance. Since then the Joint Address of the President while outlining the Government's Medium Term Vision also mentioned about commitments to redress regional inequalities and concerns of the more backward States. In your reply to the Motion of Thanks to the President you also mentioned about the need to address these special concerns. From this point of view the Union Budget presented on the 6th of July is disappointing to us since the mitigation of regional backwardness nor responding to any of our developmental challenges finds any mention.

Even at the risk of repetition let me summarise some of the issues which are central to our development strategy and do not find any mention in the budget:

1. Kosi Floods Reconstruction and Rehabilitation Package

Budget paid attention to the concerns of Tamil Nadu for rehabilitation of refugees from Sri Lanka (Rs. 500 crore), West Bengal for Aila (Rs. 1000 crore) or even rich New Delhi for the Commonwealth Games (Rs. 16,300 crores) and Chandigarh. If Aila could mean Rs. 1000 crore for West Bengal, one fails to understand what prevents the government from considering Bihar's claim of a package of Rs 14800 crores for rehabilitation following devastation caused by Kosi floods in Bihar, which was declared a national calamity by your goodself.

2. Handlooms

Bhagalpur is very widely known for its silk. While Handloom clusters have been announced for West Bengal, Tamil Nadu and one power loom cluster for Rajasthan, not even a single Mega Cluster has been given to Bihar, even though Bihar has a large cluster of minority handloom weavers in and around Bhagalpur.

3. Agriculture

Bihar had launched an Agriculture Road Map last year. It was expected Government of India would support the efforts of the state. There is no mention of special support to agriculture. An inclusive growth is not possible without agricultural growth which is planned to grow at 4 percent. But the attention paid to its credit needs, to be supplemented by investment needs, has been only paid a scant attention. A special package for agriculture sector will have a marginal impact on Bihar. The Ratio is very low and only 2 percent share of Rs 3.25,000 agriculture credit program will reach Bihar through the priority sector lending route.

4. Energy

The issue of supplying electricity to villages through three phase connection instead of the present single phase under Rajiv Gandhi Vidyutikaran Yojna (R) has been raised by us at all forums, including the recently held meeting of ministers in Delhi. The budget finds no mention of any amendment to the scheme.

5. Food Security Scheme

Further, the much touted Food Security Scheme will leave at least half of the poor population untouched, unless the core issue of the manner in which poverty measured is sorted out. Even by conservative estimates, the poor households in Bihar present stands at 1.50 crores which is more than double of what the Government of India has estimated at 65 lakh households.

6. FRBM Act

Given the global meltdown the Central Government have relaxed for themselves the permissible Fiscal Deficit under the FRBM Act to 6.8% for 2009-10. The governments have however been given limited flexibility raising their limit from 4% to 6.8%. The States are facing the consequence of economic slowdown as much as the Central Government and it would be equitable to permit the States a flexibility of 1.5% instead of 0.5% over the prescribed target under the FRBM.

7. Devolution of Central Taxes

The budget has granted various tax reliefs like abolition of Fringe Benefit Tax and the Commodities Transaction Tax. If this is the revenue foregone from the entire pool of taxes, since the bulk concessions have been on taxes and revenue sources in the shareable pool, the share of states in central tax revenue sources will see a commensurate if not larger decrease. As a result, Bihar faces a possibility of reduction of around Rs. 4616 crore on the 2008-09 (RE) amount of Rs 19742 crore share of central taxes. It is absolutely unacceptable that the tax concessions in the Union Budget for 2009-10 have been designed to compromise with the rightful entitlement of states in resource shares. This has been done without any consultation with state governments. The tax proposals of the Union Budget 2009-10, while on one hand will adversely affect the overall balance of current revenues and the size of State Plan this year, on the other hand it fails the test both on economic principles and democratic processes.

8. Special Category Status for Bihar:

I have written to you earlier that given our development deficit, low tax base, high population density, poor infrastructure, low energy intensity according a Special Category Status for Bihar is the only way to quickly improve our development matrix and entice private investment. A detailed economic rationale supporting this was sent along with my letter of 23rd May.

I hope that the aforesaid anomalies would receive your personal consideration. I would seek an early opportunity to call on you personally for explaining it further and seek your assistance in the expeditious implementation of the proposals.

With warm regards,

Yours sincerely

Dr Manmohan Singh
Hon'ble Prime Minister,
Government of India,
New Delhi.

(Nitish Kumar)



3.6.2006

D.O.No. 46/0260 /C.M.S.

Respected Prime Minister,

State Legislative Assembly in its session on 4.4.2006 has passed unanimous resolution to give special status to Bihar. I am enclosing a copy of this resolution. You may kindly recall that as soon as I took over as Chief Minister I had called on you and submitted a memorandum vide D.O. letter no. 943 dated 09-12-2005 making a request to accord special status to Bihar.

In the light of the Legislative Assembly's resolution, I wish to once again request you to consider my earlier request. In that Memorandum, I had in detail discussed economy of Bihar, its backwardness and adverse impact of bifurcation of the State. I had also pointed out that giving special status to Bihar would help the State to achieve desirable SDP growth rate. Bihar's backwardness is pulling down the national figure and jointly the State and the Center should address the issue and come up with immediate solutions. Granting Special Status to the State will be an appropriate step in this direction.

The criteria adopted by Govt. of India for declaring a State as special Category State are weak financial position and dependence of state on market loan for day-to-day activities, boundary with neighboring countries, backwardness in providing basic and essential services and presence of hilly and inaccessible regions.

The weak financial position of the State has been deliberated upon in the white paper that has been recently released. The White Paper noted the income expenditure gap which after bifurcation in 2001-02 shot to 96.38 percent, then gradually come down to 29.28 percent in 2005-06. Analysing the pattern of non-developmental expenditure, the white paper highlighted to the pressure which pay revision and securitisation of outstanding dues of Bihar State Electricity Board has caused on non development expenditure. The non-development expenditure which stood at 88 percent in 2000-01 and 75 percent in 2005-06 left little scope for development expenditure which stood at 12 percent and 25 percent in corresponding years.



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If development expenditure is further looked into, the capital expenditure is only 6.7 percent and 12.5 percent of total expenditure. It would be difficult for the State to bring up its low social and economic indicators, to desirable levels.

12th Finance Commission has authorised the state governments who have sound fiscal parameters to go in for market borrowing on their own. However, for state of Bihar, with the fiscal deficit at 7.15 percent and debt of the state government at 60.75 percent of the GSDP it can hardly go in for market borrowing as means of development finance. Therefore, the State Government have to depend more and more on central assistance for State plan. The white paper has distressingly noted that the central assistance of the State plan has constantly been scaled down over the years.

Regarding other criteria of declaring special status, Bihar State shares 700 Kms. long borders with Bangladesh and Nepal. The State is worst off in all developmental indicators which is enumerated below.

- High poverty 43% as compared to national average of 27%
- Weak infrastructure roads, electricity, irrigation (10.2% households electrified as compared to national average of 55.8%). No generation of power within the State.
- Poor quality of services in education and health due to lack of resources. High level of malnutrition in children, maternal mortality rates. Low literacy levels (47.5% as compared to national average of 65%).
- Per capita income Rs. 4088 as compared to national average of Rs. 13332. Himachal Pradesh Rs. 13083, Nagaland Rs. 12504, Meghalaya Rs. 11167, Arunachal Pradesh 10384, Assam Rs. 7086.

After bifurcation of the State, most of the hilly regions have gone to Jharkhand State. Absence of hilly regions does not weaken Bihar's case for granting Special Assistance. Many river systems from



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Nepal enter North Bihar, and its plain topography is a major cause of floods. Annually Bihar faces huge loss of life and properties due to floods in North Bihar. Extremist problem in Central Bihar is another cause for great worry. These factors compound the problems in the way of development of the State.

Presently there are 11 states comprising of 7 North-Eastern States and Sikkim, Himachal Pradesh, Uttaranchal, Jammu & Kashmir as Special Category States. These states get more central assistance for their State Plan because 30% of the central assistance is distributed among these 11 states. Also more grants from central government flows to special category states as per Gadgil formula. In earmarked State Plan schemes, 90% of the assistance is in the form of grant. If Bihar is also given Special Status then more Plan funds will be available to the State in the form of grant. This is a genuine need of the State, in view of its poor financial position.

As you are aware, there is a limit to government financing of projects. It is our wish to leverage the government funds in such a manner that it brings in its wake more private investment. For historical reasons, Bihar is not an attractive destination for private investors. The incentives for private investment, like Income Tax, exemption, excise duty concessions etc. allowed to State like Uttaranchal, would help of more private investment. These exemptions along with financial benefits available to Special Status States are necessary to ensure a robust growth rate. Bihar Assembly has also resolved that an all Party delegation should call on you and submit a memorandum. For this I seek your convenience.

With kind regards,

Yours Sincerely,


(Nitish Kumar)

Dr. Manmohan Singh,
Hon'ble Prime Minister,
New Delhi.

NITISH KUMAR
CHIEF MINISTER, BIHAR

CAMP : NEW DELHI

D.O. No. 943 / Dated: 9 Dec. 2005

Respected Prime Minister,


After taking over as Chief Minister, I have acquainted myself with some of the pressing problems that the State faces. I am highlighting some of the important issues in the form of a memorandum, which warrants your kind attention.

From time to time various governments have announced special economic packages for backward States, including Bihar. The case for greater emphasis on industrial growth and enhanced investment in Bihar forms a part of the Common Minimum Programme also. It is in this background, that I am presenting before you, some of the problems which have been pending for a long time. I am sure, that with your active support and kind intervention, we will be able to build a new Bihar, which we have promised to the people.

I request you to kindly consider these demands favourably. This would go a long way to turnaround Bihar and improve the lives of its teeming millions. As Hon'ble President His Excellency A.P.J. Abdul Kalam said "India can only succeed, if Bihar prospers".

With regards,

Yours sincerely,


(Nitish Kumar)

To:

Dr. Manmohan Singh,
Hon'ble Prime Minister of India,
New Delhi.

MEMORANDUM
SUBMITTED
TO HON'BLE PRIMEMINISTER
FOR ACCORDING
BIHAR
SPECIAL CATEGORY STATUS
AND
FOR GRANTING
DEVELOPMENT AND
ECONOMIC PACKAGES
BY
SHRI NITISH KUMAR
CHIEF MINISTER
BIHAR

Introduction: It is not the case of Bihar that it became impoverished after the bifurcation of Bihar. Years of colonial exploitation under British had left an impoverished State, where worst famines perished millions. Among other historical reasons, was its first partition in 1912. During that period, major developments in the field of trade, commerce, communications and education took place in Bengal and Bihar also got a share of these developments as a hinterland. Another historical reason for inhabiting State's development was the foisting of permanent settlement on land, or zamindari as it came to be called later, which hindered agricultural land due to the exploitative nature of the system. The peasantry had no incentive to develop the land or to exploit it to the fullest extent. Except the Triveni and Sone canal systems in Champaran and Bhojpur districts respectively, there was very little infrastructure facilities in the form of irrigation as a result of which famines were frequent. The cottage industries of the State were destroyed due to competition of foreign goods. There were patches of modern industries in the form of Jute and Sugar Mills in North Bihar and Cement and Steel industries in South Bihar. Excepting the Steel industries, all the other industries were closed due to lack of modernization, or industrial unrest.

The present situation is not dissimilar to earlier divisions in 1914 (Bengal) and 1936 (Orissa), when the impoverishment of the State increased. Its per capita income was always low. But when Jharkhand was taken away, the situation became all the more worse, as the following table would show:

Table I : Per Capita Income (Rs.)

Year	Undivided Bihar	Bihar part
1995-96	4229	3034
1996-97	4636	3663
1997-98	4903	3433
1998-99	5145	3598
1999-00		3631

Poverty: Poverty in Bihar goes behind the cold figures cited above. Its toll on millions of people is very real. The number of persons, as a percentage of population, who suffer extreme hunger – per capita income less than \$1 a day – is 39%. This had affected the quality of life, as the table below would show:

Table-II: Development and Demographic Indicators

Sl. No.	Indicators	Bihar	India
1	Total Population (Million)	83.0	1028.8
2	Population Rural Areas (%)	89.6	72.2
3	Birth rate	31	25
4	Child Population (0-4 years) (Million)	11.0	110.4
5	Sex Ratio (all)	921	932
6	Sex Ratio (0-4 years)	957	934
7	Literacy Rate (Total) (%)	47.5	65.38
8	Literacy Rate (Females) (%)	33.5	54.16
9	Life Expectancy all	65.2	65.4
10	Life Expectancy at birth: Male	60.4	60.4
11	Life Expectancy at birth: Female	58.4	61.8
12	Infant Mortality Rate	60	60
13	Under Weight Children (<3 Years) (%)	54.4	47.0
14	Gross Enrollment Ratio (6-14 years,%)	47	65
15	Complete Immunisation(all) (before 24 months) (%)	12.8	56.6
16	Maternal Mortality Ratio (MMR)	251	77

One of the reasons for the poverty of the State is its predominantly rural character. Nine out of ten persons in Bihar live in villages. With industrial centres like Jamshedpur, Bokaro, Ranchi and Dhanbad in undivided Bihar, the situation was marginally better.

The work participation ratio of the State is quite low and the dependency ratio is high. As per 1991 Census, the percentage of main workers to total population was 29.7 while the percentage of marginal workers was 2.5. The

two together was only 32.2 percent against 37.5 for country as a whole. The dependency ratio (percentage of non-workers to workers) in the State is 2.11. There is unemployment and under-employment among workers.

Gross State Domestic Product (GSDP): The table below showing the gross National Product is revealing. The State is at the mercy of weather gods. A bad crop year means sharp decline from previous year's GSDP.

Table- III : Gross State Domestic Product

Year	State Domestic Product	Percentage Variation over previous year	Annual Average Growth Rate at constant (1993-94) prices
1	2	3	4
1993-94	2281198	-	-
1994-95	2530210	10.92	10.92
1995-96	2178068	(-)13.92	(-)2.29
1996-97	2695960	23.78	5.73
1997-98	2592076	(-)3.85	3.25
1998-99	2788792	7.59	4.10
1999-2000	2891397	3.68	4.03
2000-01	3423373	18.40	5.97
2001-02	3127800	(-)8.63	4.02
2002-03(P)	3687880	17.91	5.48
2003-04(Q)	3440738	(-)6.70	4.20
2004-05(A)	3933210	14.31	5.08

(Source: Directorate of Statistics)

Impact of Bifurcation Two major and most vital sectors, namely, power and industry, suffered most. These two sectors are discussed in detail below:

Industries According to the Annual Survey of Institutions, Bihar's lag behind the All India level in the realm of industrial development. The dramatic downturn in the industrial sector after the bifurcation is shocking and revealing.

In the following data on capital employed, input, output and Gross Value Added (GVA) for all industries- present day Bihar, undivided Bihar and all India as per Annual survey of Industries are given, below:

Table - IV: Capital Employed, Input, Output & GVA etc all Industry Bihar and All India as per Annual Survey of Industries

Description	All Industries		
	1998-99 (undivided)	2002-03	2003-04
Number of Factories	1603	1403	1474
Fixed Capital	600091	317048	303435
Working capital	223697	116937	137763
Invested capital	921811	521825	517334
Outstanding loan	223003	369313	387566
Interest paid	79375	36852	9593
Value of product and by-product	1052012	686517	845521
Total Output	1080936	807680	878609
Gross Value Added	77401	105921	75297
Net Fixed Capital Formation	220934	143711	(-) 20727
Gross Fixed Capital Formation	250563	164110	(-) 1216
Gross Capital Formation	236297	213030	2233
Income	223501	47980	45610
Profit	133834	9680	13464

(Values in Rs. Lakh, others in numbers)

Deterioration of the industrial sector after the bifurcation is palpable. A study of the table above would reveal that only 1.36 percent of factories are there in Bihar as compared to India. Bihar employs only 0.44 percent of fixed capital and 0.95 percent of working capital as compound to Indian figures, while the total output is 0.76 percent. Capital investment is low due to lower percentage of central sector investment (prior to creation of Jharkhand, percentage of central sector investment in Bihar was much higher) and very low level of private sector investment, as evident low level of Gross Capital formation in

Bihar (0.59Percentage). Nominal participation of the industrial sector in Bihar's economic development is borne out by the fact of low GVA.

Power After the division of the State all, but two, power plants went to the Jharkhand. Added to this is very high transmission loss. Per capita consumption of power is less than 1/5th of the country average. The situation prior to bifurcation was much better as can be seen below.

Table - XII : Per Capita Consumption of Power
(KWH)

Year	Indi	Biha
	a	r
1998-99	-	124.92
2000-01	366.1	-
2001-02	361.0	-
2002-03	373.0	71.66
2003-04		69.65
2004-05		74.49

How adversely the bifurcation has affected the power sector can be seen from the following statement:

Statement regarding Power Development of Bihar

(1) Electricity Generation Capacity (Mega Watt)

	<u>Year</u>		
(i) <u>Steam</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>
(a) Barauni	320.000	320.000	320.000
(b) Muzaffarpur	<u>220.000</u>	<u>220.000</u>	<u>220.000</u>
Total	540.000	540.000	540.000

(ii) Hydro-Electricity

(a) Koshi	19.200	19.200	0.000
Total(i + ii)	559.200	559.200	540.000

(2) Electricity Generation (Million Units)

(i) Steam

(a) Barauni	226.67	275.84	153.491
(b) Muzaffarpur	268.42	76.54	0.00
Total	535.09	352.38	153.491

(ii) Hydro-Electricity

(a) Koshi	8.43	4.265	0.00
(b) Total(i + ii)	543.52	356.645	153.491

(iii) Electrified Villages -	17717	19131	20006
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(iv) Percentage of

Electrified Villages	39.29	42.42	44.36
to total no. of Villages			

(v) Energised Irrigation

Pumps (no.)	1036	1314	728
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(vi) Revenue Receipts	78541.76	76080.87	85504.60
(Rs. in lakh)			

(vii) Per Capita electricity	71.66	69.65	74.49
consumption (KW/H)			

Impact of Partition on the Finances While 46 percent of the land area has been transferred to Jharkhand, 75 percent of population has remained with Bihar, leading to a mismatch between land and man. This is reflected in the high density of population, which is next only to West Bengal. The land area transferred to Jharkhand was very rich in forest, minerals, power, industrial complexes and human development institutions. The truncated State of Bihar is now bereft of its forests, minerals, industrial complexes, general and technical education and training institutions. This has had its impact on the income generating and revenue raising activities of the State. As explained in detail

earlier, as a result of partition, the State's Gross Domestic Product (GSDP) fell from an average of Rs. 67,892 crores for the period 1997-1998 to 1999-2000 to average of Rs. 40,612 crores i.e., a fall of about 40 percent. This has led to a fall of about 33 percent in the State own revenue receipts from Rs. 4251 crores in 1999-2000 to Rs. 2788 crores in 2001-2002. The fall in tax receipts was slightly less at 25 percent, i.e., from Rs. 3085 crores to Rs. 2319 crores. The fall in non-tax receipts was very much higher at 60 percent, i.e., from 1166 crores to 469 crores. The fall in non-plan revenue expenditure, on the other hand, was only 24.14 percent i.e., from Rs. 12820.89 crores in 1999-2000 to Rs. 10313.72 crores in 2001-2002.

The State has a public debt of Rs. 40496 crores as on 31.03.2000. This works out to about 61 percent of the gross state domestic product. It involves an interest burden of Rs.3417 crores per annum. This works out to about 26 percent of the revenue receipts and 24 percent of revenue expenditure of the State in 2003-04. The debt burden involves a debt servicing liability of Rs. 37208 crores in the 12th Finance Commission award period (2005-10). Of this, Rs. 13604 crores would be needed for repayment of past loans and Rs. 23604 crores for payment of interest.

There is a precedent for according special treatment for divided States. **The Second Finance Commission (1957) had recommended Grant-in-Aid to Andhra Pradesh and other Southern States.** In view of this I would request you to announce a financial package for Bihar to make it a viable State. A request for Rs. 40020 crores had been made by the previous Government. This matter should be reopened and discussed.

While we do not grudge the special packages announced for Himachal Pradesh and N.E. States, we would like to point out that Bihar's situation is worse than these States, as it is evident from the following table:

**Per Capita GSDP (Rs)
at constant prices(2001-02)**

	State	Per Capita GSDP
1		

RS

	Himachal Pradesh	13083
	Nagaland	12504
	Meghalaya	11167
	Arunachal Pradesh	10384
	Assam	7086
	Bihar	4309

(Note : Data for other States not available)

It has to be borne in mind that unlike North East States, bifurcation of Bihar was a political decision, rather than based on any strong sub-nationalism. And this political decision has rendered Bihar an unviable State.

That it can not qualify for special economic and development package on the basis of its terrain is an erroneous argument. Admittedly, Bihar is not a hilly state. But tabletop topography of Bihar is its very bane. Rivers originating from Nepal, when they reach contour-less North Bihar, cause devastating floods. 24 districts of North Bihar are subjected to this annual agony. Assets created in one year are destroyed in the next rainy season. In South Bihar, the situation is different. Except for Sone Canal System, the rest of the areas are rain-fed. This leads to peculiar situation of one part of the State being subjected to floods and the other, drought.

Clearly, if the situation is not addressed immediately, it is apprehended that entire socio-economic fabric of the State could be torn asunder. Therefore, it is necessary to reconstitute the policy related to economic and industrial growth of the State. **It is our request that on the line of provision and facilities provided to the North East State, Uttaranchal and Himachal Pradesh, Bihar should also be provided the same economic and development package.** Apart from this, the following administrative support and policy should also be provided.

The industrial policy for North East States announced in 1997 should also be implemented for Bihar as well as the following facilities should be given to Bihar after **declaring it as industrially backward state on the line of North East State.** This would involve:

- **Growth Centres:** The Central Assistance should be enhanced from Rs. 10.00 crores to 15.00 crores for the establishment of growth Centres.

- **Integrated Industrial Development Centre (I.I.D.C.):** Under this project there should be a change in financial assistance package in which the ratio of Govt. of India and SIDBI may be at 4:5 instead of 2:3.

- **Tax Free Area:** There is a need to make the growth centres/I.I.D./Industrial Estate etc. tax free for at least 10 years. These area should also be exempted from income tax, Excise Duty, etc. for 10 years.

- **Subsidy on Capital Investment:** As per the Govt. circular No. 6(1) 98 D.A.V. dated 01.06.98, the subsidy @ 15% is payable for establishing industrial units in N.E. States. This should be made applicable to Bihar.

- **Subsidy on Interest accrued on working capital :** The circular No. 6(2)/98 D.A.V.-2 dated 19.09.1999 of Govt. of India the subsidy on interest accrued on working capital for the Industries has been exempted for 10 years for N.E.States.

- **Excise Duty:** As per the circular no.32/99 dated 08.07.99, no. 33/99 dated 08.07.99 and 48/99 dated 08.07.1999, the excise duty is exempted for the industries of Assam and other N.E.States.

The then Prime Minister during the visit of Uttarachal from 29th to 31st March 2002 made an announcement regarding a comprehensive package to attract investment in the industrial sector. **The same special category state status may be given to Bihar.** The following package of incentives for the states of Uttaranchal and Himachal Pradesh should also be made available to Bihar:

New Industrial Units and existing Industrial units on their substantial expansion as defined, set up in growth Centres, Industrial Infrastructure Development Centres (I.I.D.C.s) Industrial Estate, Export Processing zones, Theme Parks (Food processing parks, software technology Parks etc.) and other areas in

these States, as notified from time to time by the Central Government, are entitled to:

- 100% (hundred percent) outright excise duty exemption for a period of 10 years from the date of commencement of commercial production.
- 100% Income tax exemption for initial period of five years and thereafter 30% for companies and 25% for other than companies for a further period of five years for the entire state of Uttaranchal and Himachal Pradesh from the date of commencement of commercial production.
- All new Industries in the notified location would be eligible for capital investment subsidy @ 15% of their investment in plant and machinery, subject to a ceiling of Rs. 30.00 lakhs. The existing units will also be entitled to this subsidy on their substantial expansion as defined.
- Thrust sector industries are entitled to similar concession as mentioned in para I and II above in the entire state of Uttaranchal and Himachal Pradesh without any area restrictions.

Other Incentives, given in the announcement, granted to these two States, should also be made available to Bihar. These include:

- Deendayal Hathkargha Protsahan Yojana and other incentives to Ministry of Textiles. The funding pattern between Govt. of India and both and state would be changed from 50:50 to 90:10 under this scheme.
- Ministry of food Processing Industries would include Uttaranchal in different area category. The State of Himachal Pradesh is already included in the difficult category.
- Pradhan Mantri Rozgar Yojana (P.M.R.Y.): Ministry of Agro Rural Industries would provide for states of Himachal Pradesh and Uttaranchal relaxation, under PMRY with respect to Age (i.e. 18-40 years from 18-35 years) and subsidy @ 15% of project cost subject to ceiling of Rs. 15000/- per entrepreneur.

In the end, I request you to kindly consider these demands favourably. This would go a long way to turnaround Bihar and improve the lives of its teeming millions. As our Hon'ble President His Excellency A.P.J. Abul Kalam said: **"India can only succeed, if Bihar prospers."**

Nitish Kumar
Chief Minister, Bihar