

**MEMORANDUM BEFORE THE 15th FINANCE COMMISSION BY
BIHAR CHAMBER OF COMMERCE & INDUSTRIES , PATNA**

The Bihar Chamber of Commerce & Industries is extremely grateful to the Chairman and Members of the 15th Finance Commission for having given us the opportunity to place Chamber's point of view before the Commission. Though we are the signatory of the joint representation with all political parties of Bihar, but we are submitting these suggestions for the kind consideration of the Commission exclusively to ensure proper growth of trade and industry in Bihar.

Bihar has an area of 94163 square kilometers which is 2.8% of the total area of the country and the present density of population is 1106 persons/Sq. Km which is much higher than the national coverage which is 382 persons/Sq.Km.

The State Domestic Products and per capita income is very low as compared to national average. With reference to different development index such as per capita Electricity, Education, Health, Road, Rail etc. State of Bihar is very low compared to developed states. The slow growth of SDP and per capita income is attributable to a large extent to low level per capita State Plan and inadequate Central assistance as well as inadequate flow of institutional finance. The people of Bihar require special support from Finance Commission to reach the level of national average in a time bound manner.

We, therefore, request the 15th Finance Commission to consider Bihar as a Economically and Industrially Backward State and frame Special Norms for the State so that it may be equated with the States having Special Status such as Himachal Pradesh and North Eastern States & Andhra Pradesh .

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Since the planning Commission has been dismantled and Niti Ayog has come into existence it is expected that the 15th Finance Commission when deciding on devolution of funds should keep this factor in mind and explore devolution of funds to meet State specific sector, specific requirements and not on a formula as has been practiced till date.

Adequate Devolution of Taxes

There exists considerable disparity in per capita Income across the States of India. To promote equity and to reduce disparity among States, there is an imperative need to provide special assistance. Under the present financial dispensation, the GST subsumed altogether 17 Central and State taxes. Some of the taxes that would continue as before under the new GST regime are Stamp duty, Property tax, Registration fee, Motor Vehicle Tax, Electricity duty and VAT on a few Commodities like Alcohol & Petroleum. It is, therefore, urged that the Finance Commission should look into the aspect of vast regional diversity and iniquitous distribution of natural resources, while allocating the resources of the Nation in the form of various taxes. Prior to the constitution of the 15th Finance Commission there was a body called Planning Commission, which used to allocate funds to the State Government for Plan Expenditure which normally included Capital requirements. Since, the Planning Commission has been abolished; therefore, onus of funding for Capital requirement is also to be borne by the 15th Finance Commission.

Thus, the Finance Commission should ensure that only so much fund is retained with the Central Government as is necessary for the sector pertaining to its domain such as defence, internal security, infrastructure, railways commitments towards administration of union Territories and other committed expenditure and

liabilities and the balance to be devolved among the States. Further, to reduce the regional disparity among states an appropriate horizontal distribution of resources be made, so that the State of Bihar could catch up with the developed States of India.

It has been observed that even the recommended amounts of the 14th Finance Commission have not been released to the State of Bihar and over the past few years Bihar has received substantially less amount as its share in Central Taxes.

It is requested that the Centre allocate funds based on the pattern of 11th Finance Commission recommendations. Under the 11th Finance Commission recommendations, Bihar was allocated around 12.589% of funds which was gradually reduced to 11.028%, 10.917% & 9.787% by the 12th, 13th & 14th Finance Commission respectively. During 12th & 13th Finance Commission when calculating share of the State from Central taxes 25% weightage was given based on the population of the State whereas the 14th Finance Commission reduced this weightage to 17.5%.

Grants-in-aid under Article 275 of the Constitution of India:-

The 15th Finance Commission must consider requirement of the State Government for infrastructure development. For this purpose, under article 275 of the Constitution of India, grants-in-aid for specific purposes must be awarded to the State to cope up with the infrastructure deficit.

The State of Bihar has lost as a consequence of its bifurcation almost all the mines and minerals and a major portion of forests. The bifurcation also resulted in 75% of the population remaining in Bihar with only 25% of public assets. This bifurcation has led the state of Bihar to absolute loss of base for economic growth.

It is, therefore, imperative upon the finance commission to issue grants-in-aid to Bihar enabling it to catch-up with the advanced states in terms of infrastructure and thereby attract investment in the state. In case of grants-in-aid the centre has adopted step motherly attitude wherein even the recommended grant-in-aid has not been given.

Making recommendations under 15th Finance Commission considering the population data of 2011 Census

As per para 8 of the notification order constituting 15th Finance Commission, Terms of reference and the Commission shall consider the population data of 2011 census.

CD Ratio & Compensation Thereof

Historically the state of Bihar was neglected under the colonial rule and unfortunately the freight Equalisation of minerals investment went to states which were already developed and flight of capital took place. Since nationalisation of Banks, the Commercial Banking Sector in the States has expanded manifold without bringing commensurate benefit to the State. The nationalisation of banks was expected to usher in an era in which commercial credit would be easily available to the backward regions. But the State has not been able to secure adequate benefit of investment in the State. This naturally, is a serious hindrance to industrial growth in the State. A low CD ratio, based on credit sanctions will amount to migration of deposits from this State to another developed States. Therefore, the Finance Commission should consider compensating Bihar enabling the State to improve the infrastructure.

Special Grants to the State

Due to freight Equalisation the capital base of the state was eroded and bifurcation of the state rendered Bihar bereft of all industries and minerals making the state of Bihar an agricultural state.

When the state was bifurcated the centre had agreed to provide special package for Bihar offsetting the losses incurred due to the bifurcation.

It is, therefore, suggested that the 15th Finance Commission provide special grant for the state of Bihar for overall development of infrastructure, civic amenities and industrial development particularly for New Airport, laying of Gas pipeline within State, Metro Rail System and for purchasing land to enable the State to create its own Land Bank for industrial purpose. Bihar has always swayed between severe drought and heavy flooding. Most of the arable land of this State is situated North of the River Ganges which also produces an array of basic food items—rice, wheat, corn; sugarcane etc. Bihar being a laggard State and the cause of flood primarily flow from the rivers originating in Nepal which can only be checked by the intervention of the Central Government, the amount given in aid in such situation suffers and the figures of such aid is indeed an eye- opener – Bihar- 2,591 Cr; Maharashtra-8,095 Cr; MP- 4,848 Cr. This is a clear case of discrimination and as the saying goes gives Bihar the Nelsons Eye.

If one looks at the devolutions from the Central Divisible Pool, the share of Bihar has over the last Five Years i.e. 14th Commission till now has reduced drastically from a high of 14.6% it is now down to 9.6%. This inspite of the fact that Bihar has consistently practiced and operated within the FRBMA rules. The grants-in-aid given to Bihar negates the efficiency of the Government of Bihar in controlling its expenses and meeting the guidelines of the FRBMA. It is therefore essential in light of the dissolution of the Planning Commission to strengthen co-operative federalism a system needs to be evolved by the 15th Finance Commission to ensure:-

- (i) Identify sectors in the States that will be eligible for grants from the union;

For any successful industrialization in a State the most important factor is communication – Rail, Road and Air.

(A) **Indian Railways has failed this State miserably.**

- (i) They have failed to provide wagons, full-fledged and well-equipped wagon sidings for both incoming and outgoing goods traffic.
- (ii) The main line running from Jhajha to Mughalsarai (Deen Dayal Upadhyay) should be doubled immediately enabling faster movement of goods traffic in this Sector.

(B) **Roads**

The State of Bihar after bifurcation has two important sections – North & South with the river Ganges dividing the two parts. Prior to 2016 there were only three bridges spanning the river – one in Patna, second in Mokamah and the third in Bhagalpur. Of all the three bridges – the one in Patna started deteriorating long ago; the attention of the Central Government got drawn when it collapsed. The second bridge at Mokamah was closed for almost two years and even now it is not in full operation. The third in Bhagalpur has been closed to traffic for the past three weeks for repairs. It is therefore urged upon the 15th Finance Commission to allot special grants-in-aid so that all three bridges become operational.

(C) **Airport**

- (i) There is only one airport in Patna since the British Raj and today the facilities provided in the air terminal has almost collapsed. The airport should be upgraded immediately and special grants-in-aid should be given to make the airports in Muzaffarpur, Darbhanga, Katihar etc. operational.
- (ii) Indicate criteria for inter-state distribution;

- (iii) Help design schemes with appropriate flexibility being given to States regarding implementation;
- (iv) Identify and provide area specific grants.
- (v) Indicate criteria for inter-state distribution;
- (vi) Help design schemes with appropriate flexibility being given to States regarding implementation;
- (vii) Identify and provide area specific grants.

Terms of Reference

Now, we want to draw the attention of the 15th Finance Commission towards to its Terms of Reference with specific reference to the base of census moving to 2011. “There has been lots of hue & cry over this issues which has been raised in this connection by different sets of persons and groups having their own self interest. We don't want to criticize such groups, this is the beauty of our democracy that everybody has a legitimate right to raise any grievance before the authority to set it right ”.

Probably, the Commission after considering such grievances from some sections of people decided to form an Advisory Council to advise on the matters related to its Terms of Reference. Our humble request in this connection is that the decision of GST Council regarding payment of compensation for possible loss of revenue for 5 years should not be considered adversely by the 15th Finance Commission because it will lead to a disaster for State's revenue. [Refer to para 6(V) of the TOR]

Though the census of 2011 has been considered for devolution of benefits, one should note that weights have been given on population control also. While the

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figures of population growth in Bihar are above the gross national figures yet one should note that the percentage drop in growth rate of population in Bihar is the same as the National average. The fall in the all India population growth is 3.8% and that of Bihar is also matching at 3.8%.

To sum up, the Bihar Chamber of Commerce & Industries Patna would like to suggest that the 15th Finance Commission must consider the case of Bihar in such perspective that there should be a revival package for the State Finance Institution like BSFC, BICICO etc. for promoting small, medium and micro enterprises in the State thereby enabling the State to come in the category of developed State at the end of the award period of this Commission i.e. by 2025.

Date : 3rd October 2018