

Bihar: **What is holding back growth in Bihar?**

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World Bank.

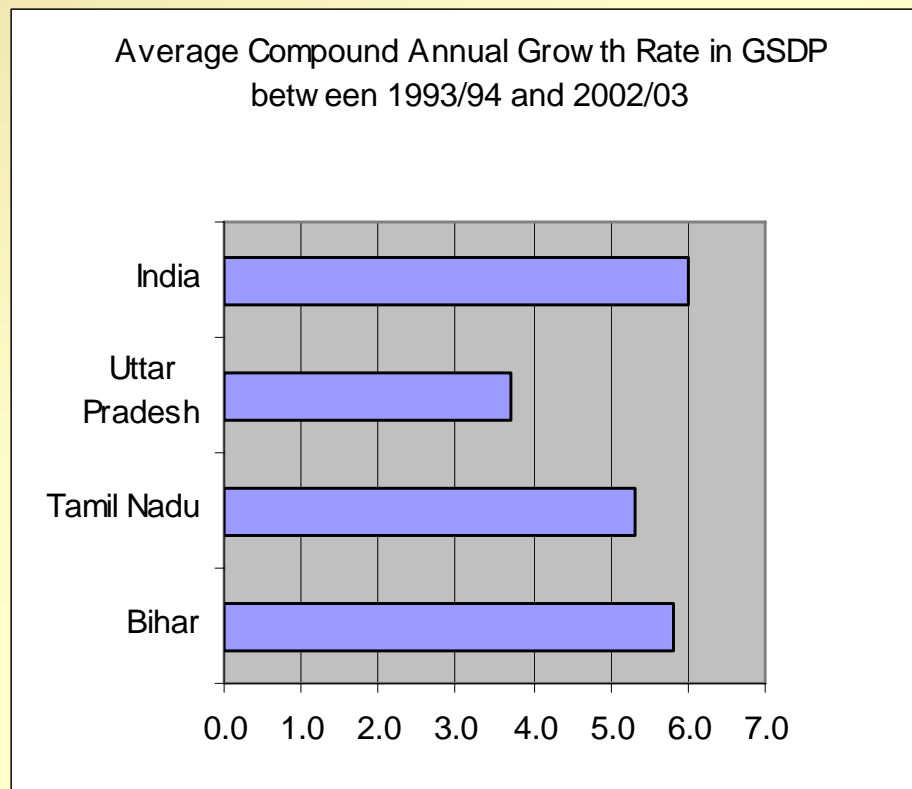


Structure of Presentation

- ❖ How does Bihar compare with other states?
- ❖ What is constraining growth in Bihar?
- ❖ An agenda for discussion.



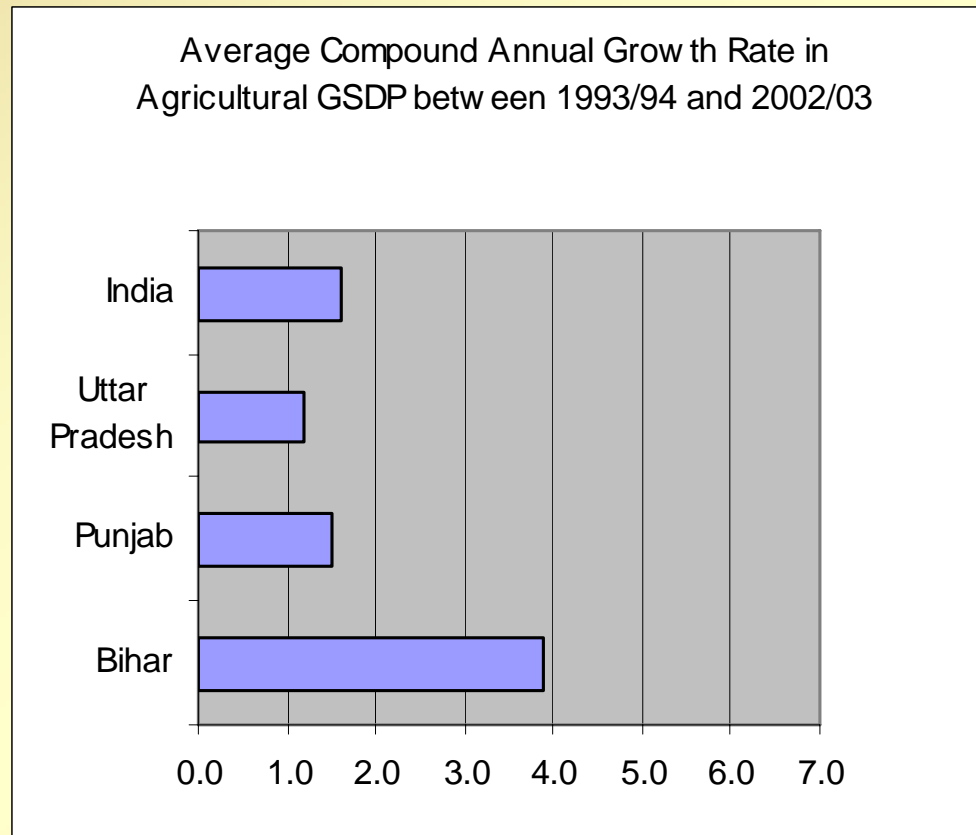
New Bihar has done well on growth



Source: Central Statistical Organization.



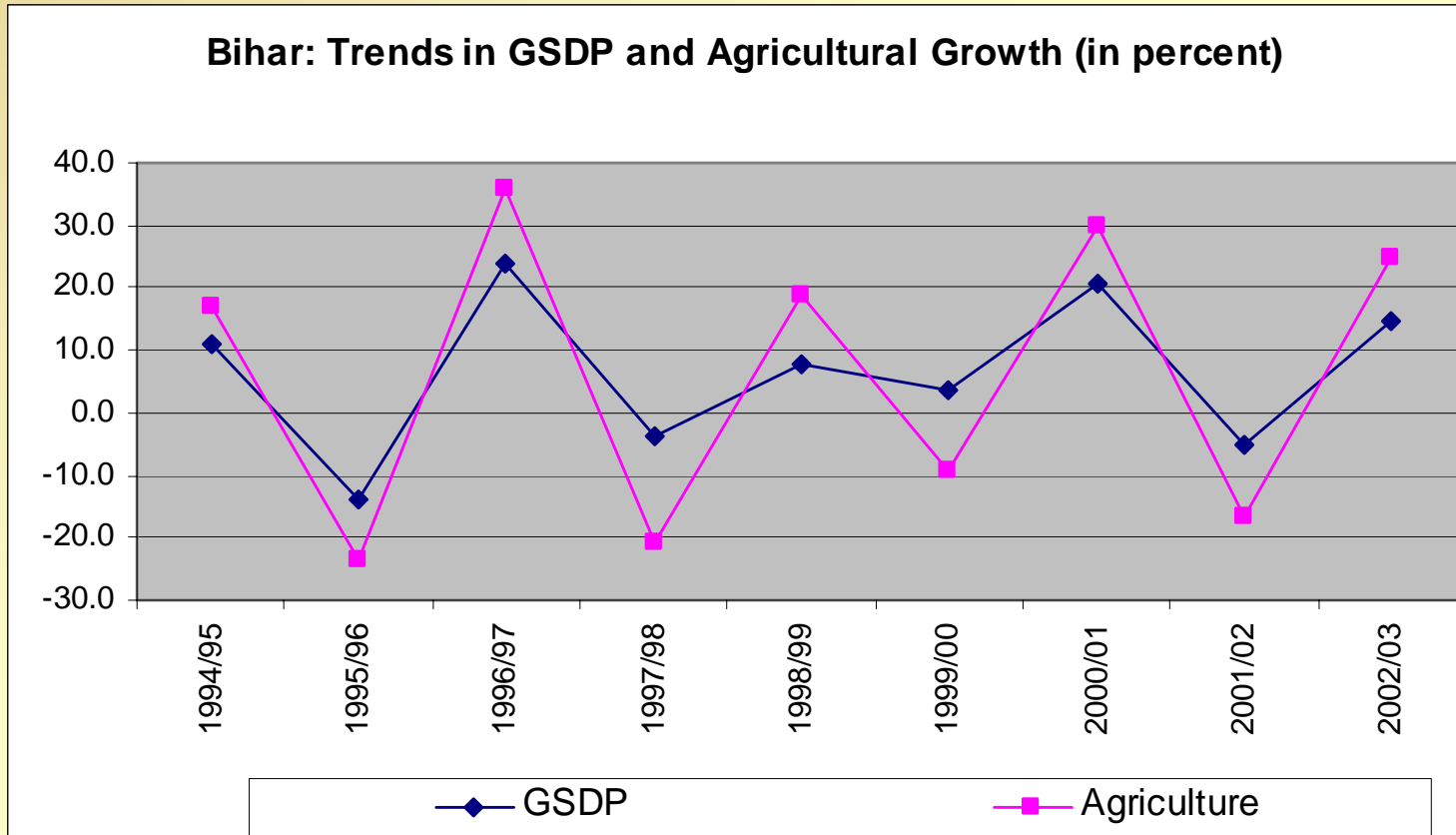
..... helped by a rapidly growing agriculture sector



Source: Central Statistical Organization.



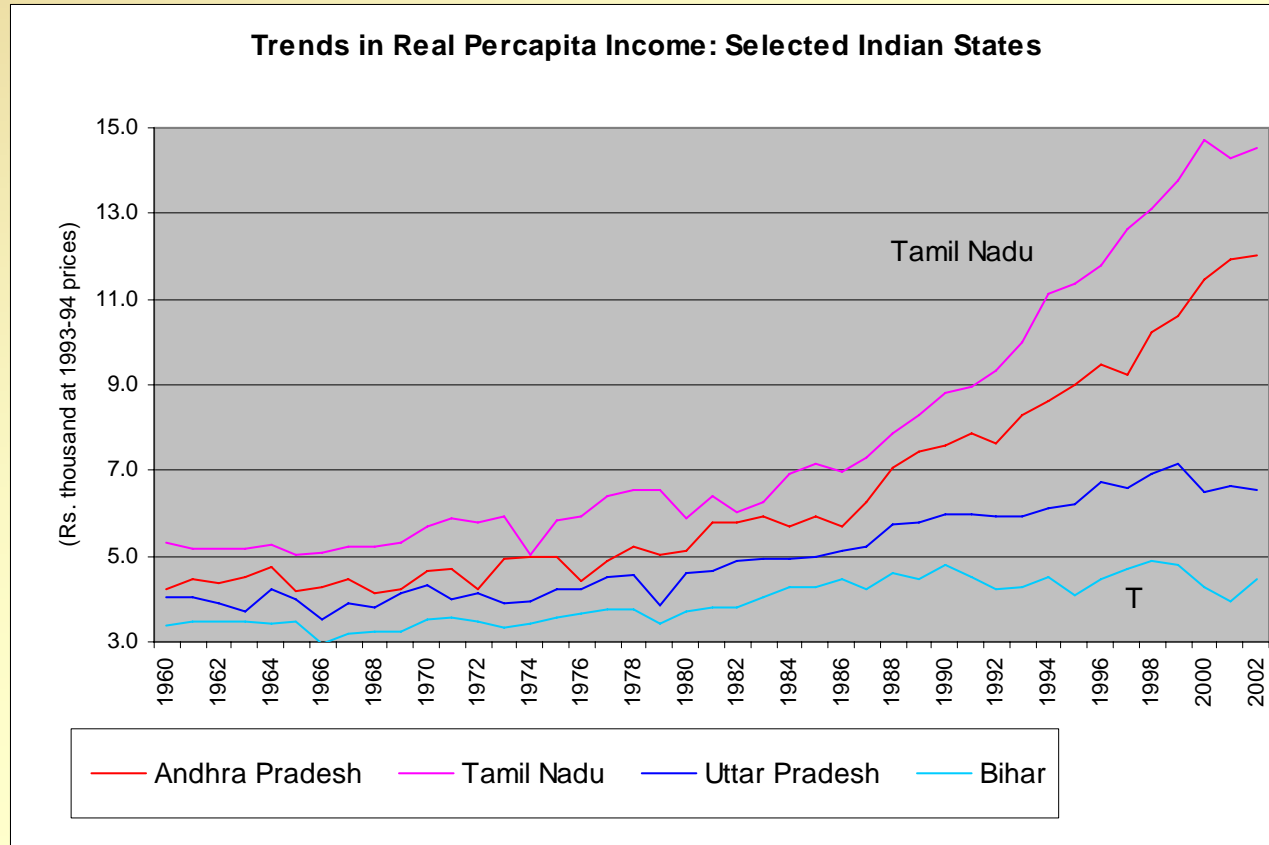
... but growth is highly volatile.



Source: Central Statistical Organization.



..... and, if we take a long term perspective, other states have grown faster.



Source: Central Statistical Organization.



... and Bihar's growth is not pro-poor

- ❖ In India, overall economic growth in the non-agricultural sector has been pro-poor insofar as increases in the growth rate have reduced poverty levels. However, this correlation varies, and in Bihar it has been weak.
- ❖ A likely reason is that economic growth reduces poverty to a lesser extent in a state with poorer initial conditions of rural development and human resources and with a higher scale of unequal land distribution.
- ❖ If all states had Bihar's annual rate of poverty reduction (0.3%), the national headcount index in 1995 would be 43% instead of the actual figure of 30%.



What is constraining growth in Bihar?

- ❖ Weak Institutions
- ❖ Poor Investment climate
- ❖ Weak human capital



Weak institutions

- ❖ Weak Civil Service
- ❖ Inefficient utilization of resources, e.g., poor financial intermediation and public sector intermediation.
- ❖ Weak property rights/rule of law



Weak institutions—how is the civil service?

Comparative state-level public employment statistics

State	Population	Core Civil service	Ratio	Total Govt. employees less SOEs*	Ratio	Total Public Sector	Ratio
Andhra Pradesh	75,110,584	553,972	0.74	965,892	1.29	1,328,550	1.77
Karnataka	51,152,000	240,969	0.47	530,984	1.04	693,246	1.36
Orissa**	35,391,000	480,000	1.36	581,400	1.64	660,928	1.87
Gujarat **	47,267,000	206,000	0.44	502,000	1.06	800,000	1.69
Punjab	23,510,000	NA		373,702	1.60	NA	NA
Uttar Pradesh**	162,000,000	880,000	0.54	1,530,000	0.94	1,778,500	1.10
Bihar	82,880,000	451,344	0.54	NA	NA	533,544	NA

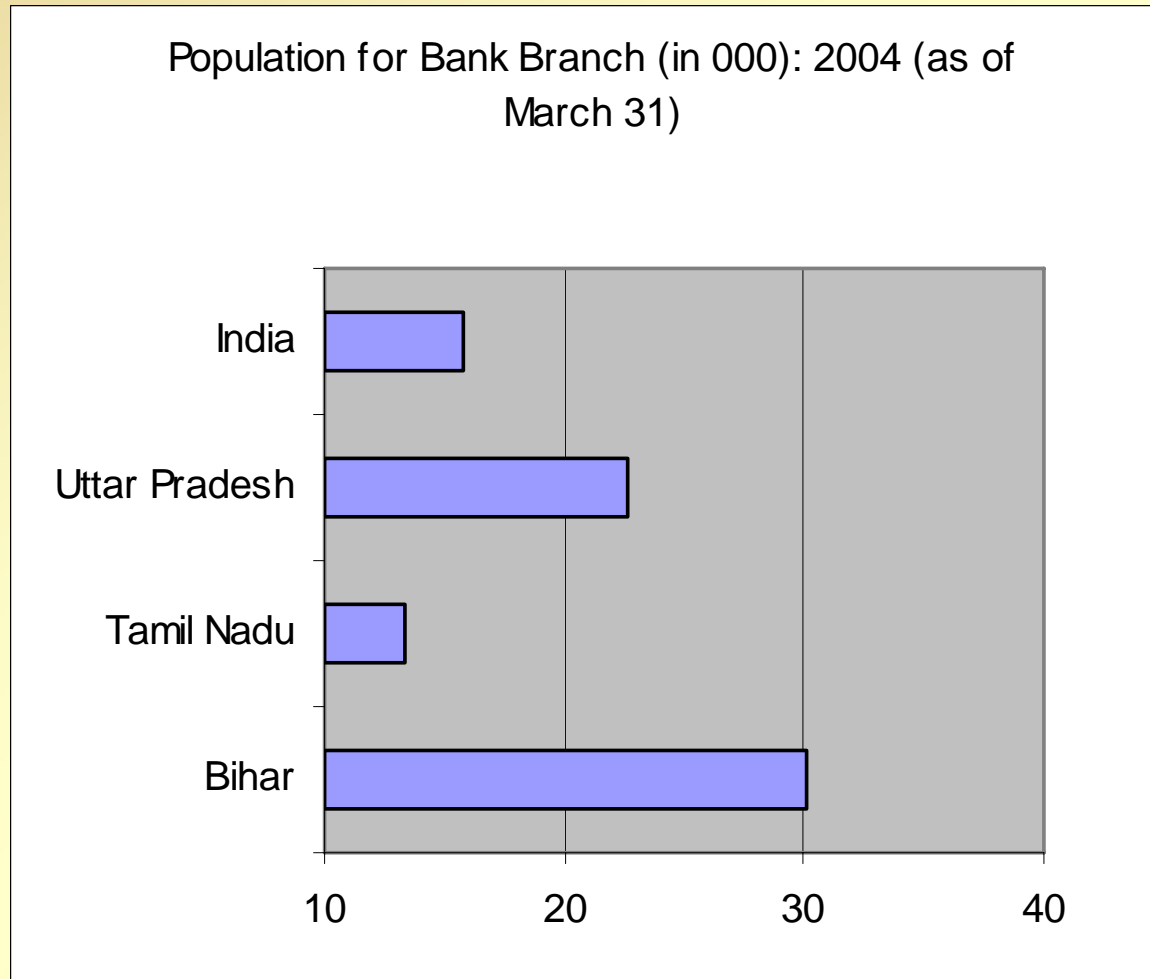
Notes: * The figures for total government employees less SOEs include work charged and daily wage laborers, grant-in-aid institutions, sub-national governments, and other employees whose salaries are covered by the state. It does not include employees of state-owned enterprises, cooperatives or municipal corporations.

** Figures are based upon World Bank estimates from available data. Gujarat data is from 1998-99. Bihar data is for 2003-04 estimate.

Source: State governments.



Weak institutions—how is financial intermediation?

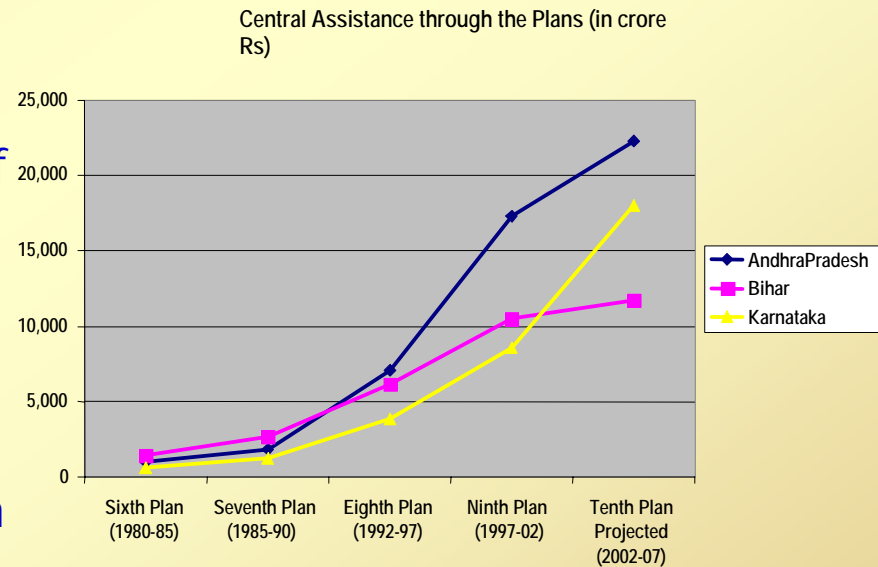




... *Weak institutions—how is public sector intermediation?*

Poor utilization of plan transfers from central government

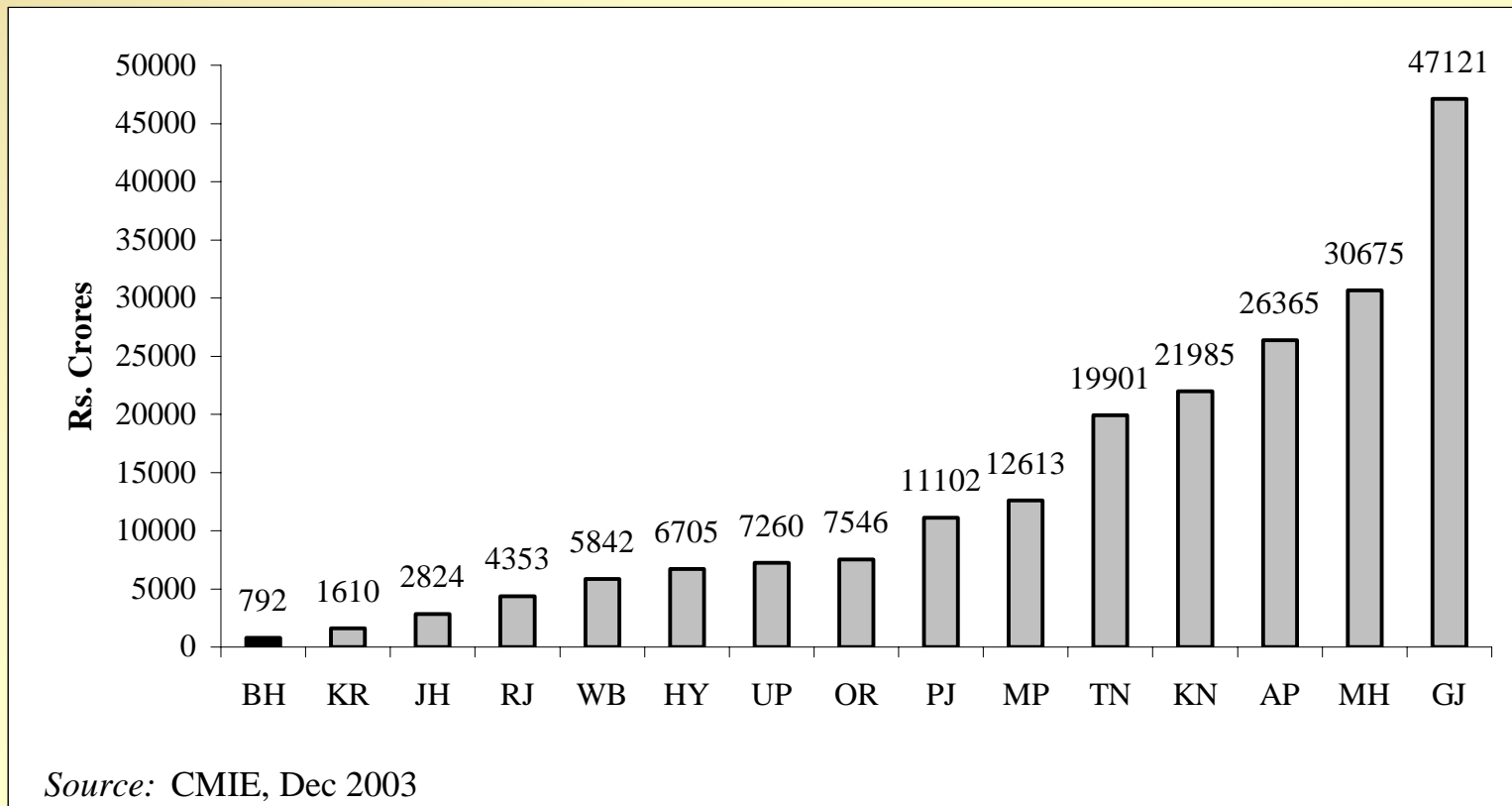
- ❖ Bihar's overall utilization of central resources targeted for "development purposes" is among the lowest in India.
- ❖ Cross-state comparison shows Bihar and Uttar Pradesh ranked the lowest, spending around one-fourth the per capita level of the top states—Karnataka, Gujarat and Punjab.
- ❖ Moreover, the gap has been widening, particularly since the Eighth Five Year Plan. Bihar's actual plan assistance has grown much more slowly, and is now around half that of Andhra Pradesh, and two-thirds the level of Karnataka.





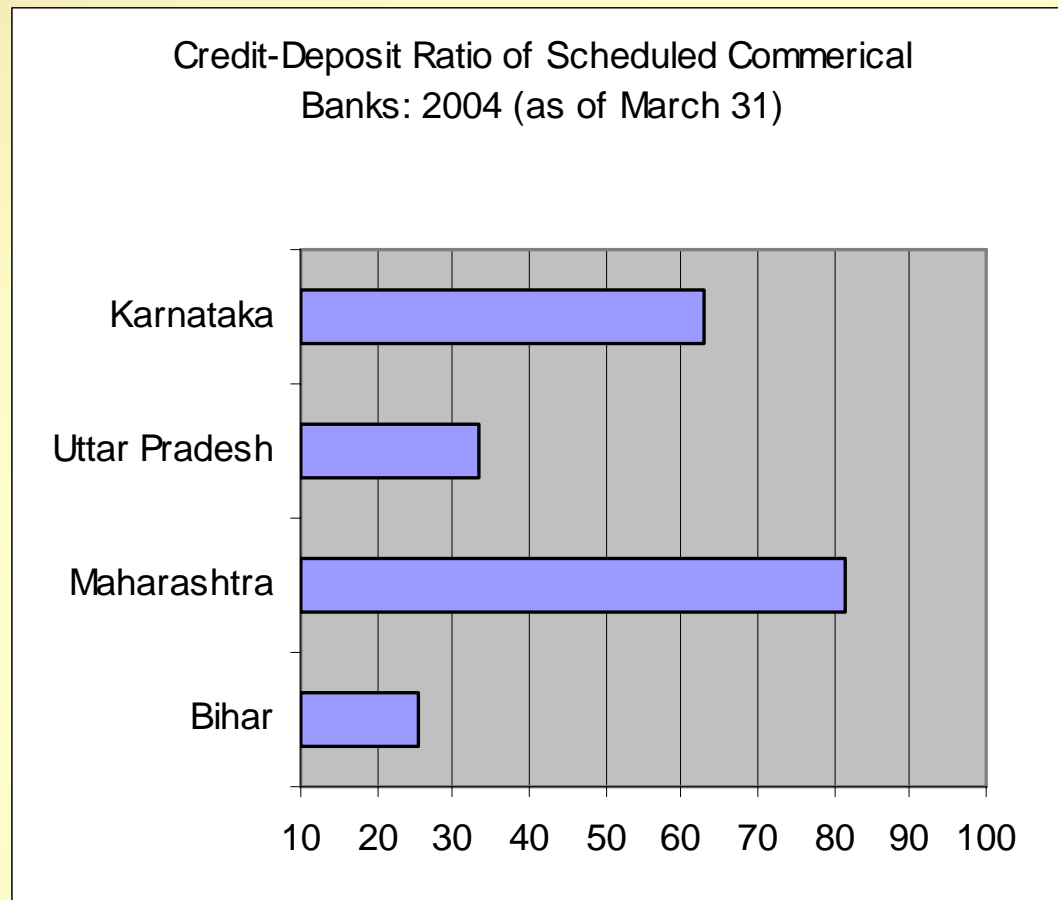
How is the Investment climate?

State-level private projects under implementation



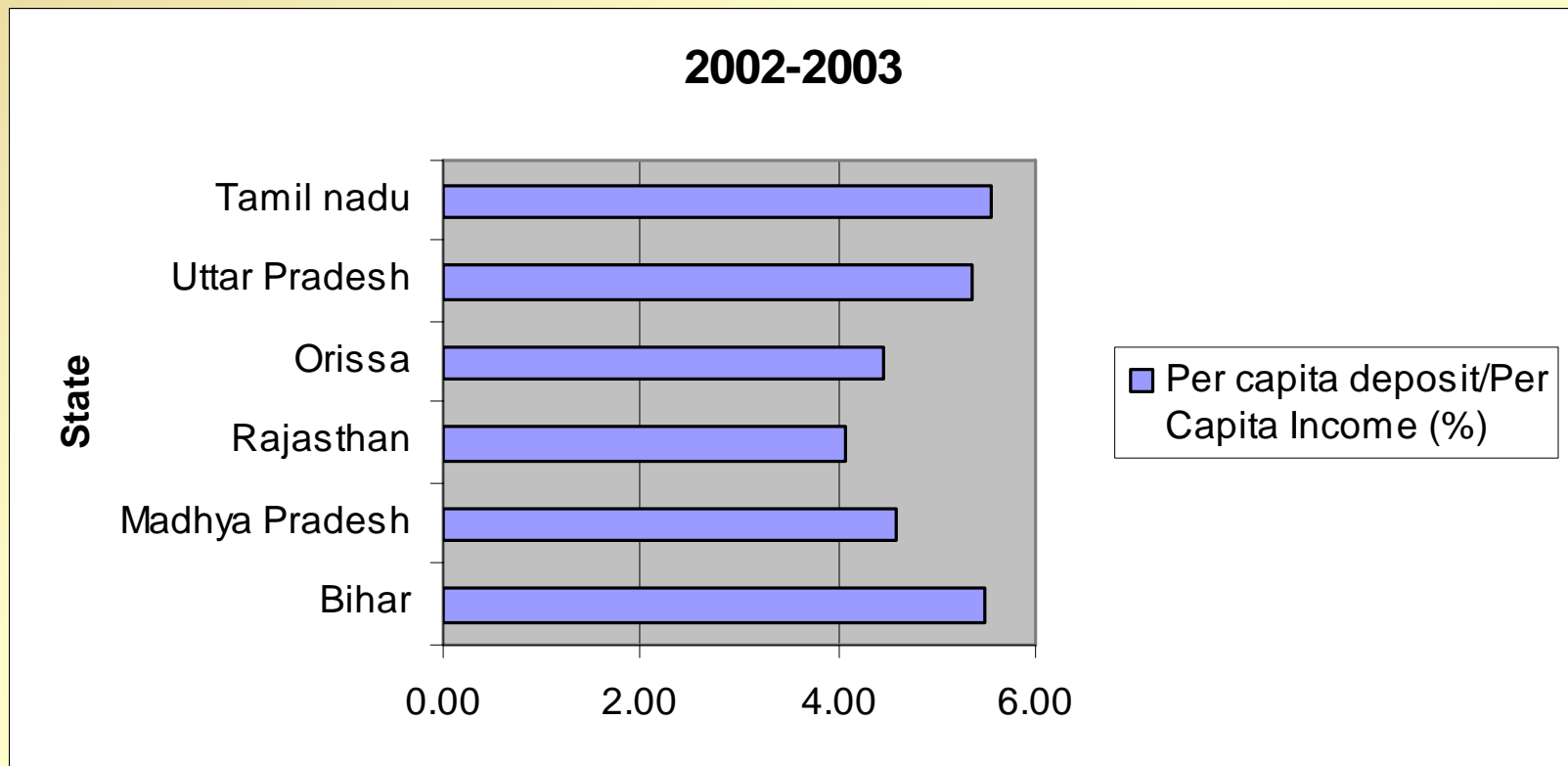


... low credit-deposit ratio





... Bihar has high savings





Weak property rights/rule of

law—an example of tenancy law and how it contributes to lack of security

- ❖ Tamil Nadu—leasing is permitted
- ❖ West Bengal—no restriction on leasing
- ❖ Bihar—leasing out is prohibited....



Investment Regulatory quality

is poor

- ❖ Regulatory burden. The regulatory burden appears higher in the poor climate states. For example, SMEs receive factory inspections twice as frequently in the poor climate states (9.5 visits per year on average) as in the best climate ones (5.2 visits).
- ❖ Power infrastructure. In the poor climate states, 73% of SMEs have captive (self-owned) power generators, whereas in the best climate states the figure is 31%, reflecting more severe power supply problems in the poor climate states. For SMEs the cost of own power generation is twice that of power from the public grid.
- ❖ Industrial relations and regulations. Problems with having more workers than firms want is widespread, and reflects heavy regulation of labor markets. In poor IC states (UP) all surveyed firms indicated overstaffing due to labor regulations and political pressure not to lay off workers. In good IC states over-manning was less severe, and in some instances related to hoarding labor in anticipation of growth in future output demand.
- ❖ In terms of the physical and institutional environment, Bihar ranks the lowest among all of India's states and union territories, even below Orissa and Jharkhand. For most other IC indicators such as penetration of infrastructure, financial systems, and workforce quality, Bihar is ranked at or close to the bottom.



Weak human capital

Selected Social Indicators

	Bihar	Kerala	Maharashtra	Bangladesh
Life expectancy at birth, total (years)	59.4	73.1	63.7	63.4
Fertility rate, total (births per woman)	4.5	1.8	2.1	2.9
Fully Vaccinated children (% , ages 12-23 months)	9.0	82.6	74.6	..
Infant Mortality rate (per 1,000 live births)	75	42.0	54.0	46.0
Households with safe drinking water (%)	58.8	18.9	67.4	75.0
Households with Access to Toilet Facility (%)	58.1	73.1	37.1	48.0
Literacy rate	47.5	90.9	73.5	41.1
School enrollment, age 6-11 years (%)	34.3	91.2	77.4	94.1
School enrolment , age 11-14 years	51.1	93.1	72.1	47.5
Number of primary schools per thousand population	4	2.2	4.9	..
Number of upper primary schools per thousand population	1.9	1.5	1.4	..

Source: National Human Development Report 2001 and World Development Indicators.



An agenda for Bihar

Market convergence VS Public intervention

- ❖ Bihar has done well despite its major shortcomings. Poor investment climate , weak public sector institutions, and a weak infrastructure has not prevented Bihar from growing. Bihari workers have found jobs outside Bihar and benefited from growth in the rest of India.
- ❖ But, these shortcomings may become binding in the future.
- ❖ Major investments are needed to overcome the infrastructure constraint and finance human development. But who finances them?
- ❖ State has to play a leading role, but a poor fiscal situation will limit its ability to do so.
- ❖ Fiscal reforms necessary to mobilize revenue and strengthen quality of investment to support infrastructure and human development.
- ❖ Public-private partnerships in infrastructure provision may be of help