

STRENGTHENING PUBLIC FINANCES

A high quality of public finance management — covering revenue mobilization, expenditure allocation and management, and debt management — is central to the government’s development effort. Concern over the deterioration in public finances, at both the national and state levels, has increased during the past decade as spending deficits have worsened, debt has increased, and the financial resources available for public investment to support growth have dwindled. Fiscal stress and weak linkages between expenditure and social outcomes are factors that undermine education and health service quality in Bihar. Linking public resources to improvement in social outcomes, and increasing targeted spending on road improvement, schools, public health clinics, rural electrification etc., are necessary for achieving Bihar’s development objectives. An important part of the development strategy is to improve efficiency in current resource use, mobilize state resources more effectively, and explore ways to attract greater financial resources into Bihar, through public and private channels, including central government schemes, foreign agencies, and investors. This is a major challenge not only for Bihar, but also for the other states as well as the central government. The problem of state finances in the light of recent fiscal trends in Bihar, and the potential ways to strengthen resource management are discussed here.

Fiscal Performance

Fiscal challenges facing Indian states

Fiscal stress is a problem that many states face. As stated in the RBI’s 2004-05 report on State Finances,¹ the gross fiscal deficit of states has risen in the second half of the 1990s and continues to remain very high (5.1% of GDP in 2003-04 RE estimates). More than half the gross fiscal deficit is caused by the rising revenue deficit, as states have

had to borrow additional resources to cover the gap in revenue expenditure. Rising revenue expenditures have been due largely to the rise in interest payments and wage and pension obligations of the states. State pension expenditures have on average increased annually by 24% between 1993-2003, far outpacing the growth of state revenues. Interest payment expenditures have increased from 13% of revenue receipts in 1990-91 to nearly 25% in 2003-04(RE), as the cumulative cost of rising debt cuts deeper into available revenues. In most states this has been aggravated by declining revenue mobilization, including poor returns on investments in public enterprises, resulting in higher subsidies and mounting losses.

Deterioration in state finances is a national problem. A major concern is that the high rate of public borrowing (by the center and the states) will slow down economic growth. A second concern is that the erosion of public investment in economic and social services will impede efforts to reduce poverty. The central government has the onerous task of reducing fiscal pressure, which the recent Fiscal Responsibility and Budget Management Act, 2003 (FRA) aims to address. Equally, major reforms are needed at the state level. In fact, several initiatives are underway to help states address the fiscal crisis. In an effort to support state-level fiscal reform, the center has formulated performance-based programs

TABLE 3.1 DEFICIT INDICATORS OF STATE GOVERNMENTS

	Average 1990-91 to 1991-92	2003-04 RE
Gross fiscal deficit/GDP	3.1	5.0
Revenue deficit/GDP	0.9	2.6
State debt/GDP	19.4	28.8

Source: RBI State Finances 2002/03, Annual Report, Aug. 2004.

with financial incentives. The State's Fiscal Reform Facility (SFRF) provided additional revenues to the states that reduced their ratio of revenue deficit to revenue receipts: the Accelerated Power Development and Reform Program supports power sector reform to prevent large financial losses; and the Debt Swap Facility supports restructuring high-cost state debts with lower-cost instruments to reduce the debt burden. The SFRF was established under the Eleventh Finance Commission's award and its operation ceases in 2004/05. The Debt Swap Facility also ends in 2004/05. These reform facilities have been replaced by the Debt Relief Facility (DRF) recommended by the Twelfth Finance Commission. The DRF seeks to restructure state debt by reissuing outstanding GoI loans at a lower interest rate of 7.5% and provide debt write-offs linked to the reduction in states' revenue deficit. Access to the facility is contingent on states enacting Fiscal Responsibility Legislations and a Medium Term Fiscal Program of their own that seeks to eliminate the revenue deficit by 2008/09. Such initiatives have helped prioritize national fiscal reform. However while the center can and should support reform efforts, the major burden of fiscal adjustment still falls on individual state governments who must

develop a fiscal reform strategy with a detailed implementation plan.

Bihar's fiscal challenges

The new state of Bihar inherited major fiscal problems which persist. These include large fiscal deficits, a heavy and growing debt burden, imbalances in expenditure allocation, and institutional shortcomings in expenditure management and budget implementation. These were compounded by the separation of Jharkhand from Bihar, creating a division of staff, assets and liabilities, and adjustments to the state's changed resource base.² Though the government has responded to the fiscal crisis with measures such as new taxes to improve revenue performance and steps to reduce losses from defunct public enterprises, the fiscal challenges facing Bihar remain daunting.

The new state of Bihar has a long history of fiscal and revenue deficits which doubled since 1999, excepting 2001-02 when there was a sharp decline. Table 3.2 and Figure 3.1 show Bihar's recent fiscal performance, but the data must be interpreted with caution for the post-bifurcation period in particular.³ Three trends are alarming. First, since the 1980s the

TABLE 3.2 FISCAL SUMMARY (1985-86 TO 2003-04 - % GSDP)

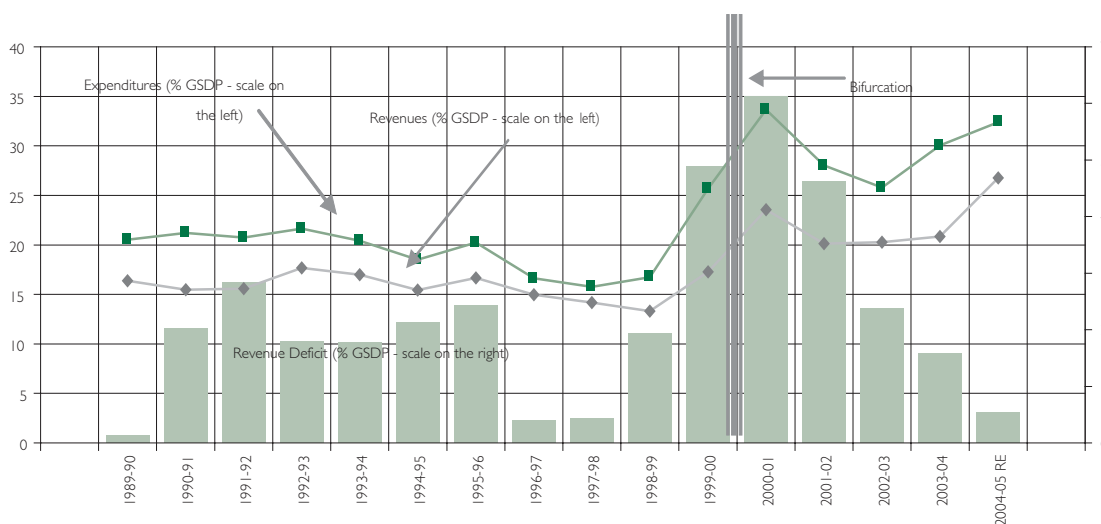
	1985-1990	1990-1995	1995-2000	2000/01	2001/02	2002/03 (RE)	2003/04 (BE)
Total Revenue	15.62	16.29	15.75	18.94	19.3	20.54	21.80
Own revenue	7.27	6.54	6.28	6.22	5.1	5.51	6.45
Tax	3.91	4.34	4.34	4.88	4.6	4.93	5.71
Non-tax	3.36	2.20	1.95	1.34	0.9	0.57	0.75
From center	8.35	9.75	9.46	12.72	14.2	15.03	15.35
Shared taxes	5.76	6.61	6.82	10.94	12.1	11.91	12.37
Grants	2.59	3.13	2.64	1.78	2.1	3.12	2.98
Total Expenditure	19.40	20.27	19.79	27.07	24.4	29.26	28.92
Revenue	15.21	18.44	17.89	23.87	21.9	24.90	24.24
Capital	4.19	1.83	1.90	3.20	2.5	4.36	4.68
Capital outlays	2.70	1.20	1.25	1.89	1.5	2.94	2.92
Revenue deficit	0.41	-2.16	-2.14	-4.93	-2.6	-4.36	-2.44
Fiscal deficit	-3.78	-3.98	-4.05	-8.13	-5.1	-8.72	-7.12
Interest payments	2.05	3.43	3.56	4.43	5.2	5.71	5.72
Primary deficit	-1.74	-0.55	-0.48	-3.70	0.1	-3.01	-0.41
Total deficit	31.26	35.57	37.96	43.04	19.3 5.1	60.4	n/a

Note: Capital expenditures include capital outlays and net lending for PSUs..

The debt figure for 2001/02 is RE and for 2002/03 is BE.

Source: RBI for 1985-1998; GoB for 1998/99 - 2003/04.

FIGURE 3.1 FISCAL PERFORMANCE



revenue balance has been consistently negative. Second, both the fiscal and revenue deficits have grown over time to roughly twice their level in the 1990s, increasing Bihar’s dependence on borrowed funds. Third, there has been a discreet jump in the fiscal deficit since bifurcation, indicating that structural changes have hurt Bihar’s fiscal health. Relative to GSDP, post-bifurcation expenditures surged from about 20% to 28%, while revenues rose by half this share, from 16% to 20% of GSDP. Bihar’s deficit is unsustainable at this level, particularly if growth remains below 5% per annum.

The main consequence has been a steady accumulation of debt, and a large debt service burden on public finances. Between 1985 and the year of bifurcation (1999-2000), debt rose from approximately 30% to 42% of GSDP, and has since jumped to 61%. The debt inherited from the pre-bifurcation period was divided largely on the basis of share in that debt, and the new state of Bihar ended up being burdened with roughly 75% of the debt while accounting for only 60% of total production, and with a much lower per capita income than Jharkhand. Interest on debt increased from 11% of revenue expenditure in the late 1980s to 26% in 2003-04 (before declining to 21% in 2004/05(RE)), going up as a share of GSDP to nearly 6%, and accounting for nearly 40% of the total increase in public expenditure.

Bihar has also accumulated significant contingent liabilities, namely outstanding government guarantees to public enterprises, and pension and provident funds liabilities to civil servants. Outstanding

guarantees are not as large as compared with many other states, totaling about Rs.353 crore on March 31, 2003 or less than 1% of GSDP. The largely moribund public enterprises sector also no longer generates contingent liabilities. On the other hand, pension liabilities are significant and growing rapidly, while large arrears continue to accumulate coupled with extensive litigation. The database for pension fund and provident fund liabilities is inadequate for forecasting future obligations, compounding the difficulty of planning future expenditure.

Non-interest expenditure has been curtailed: while core social services have been proportionately maintained, and economic services have declined sharply. Since the mid-1980s expenditure on social services has remained at a little over 30% of total spending (Table 3.3). By contrast, the share of general services, which include debt service and pension expenditure, has grown steadily from about 25% to 43% of total spending, and economic services have been cut by over half to 16%. Irrigation and rural development spending has virtually halved, from 23% to 10% of total spending. Expenditure on agriculture has fallen even further by nearly two-thirds to under 3% of spending, and other economic services (power, transport, etc.) have fallen by about 50%. The maintenance of public spending on social services in contrast to economic services in part reflects the difficulty of cutting salaries, which comprise 80% of social services as compared to only 16% of economic services. Funding from central ministries and external agencies also acts as a hedge, protecting against cuts⁴ in the social services sector.

Discretionary expenditure has also been curtailed, compromising the quality of government spending. Increasing public salary and pension costs have also prevented other important expenditure. Together with interest payments, outlays on these “non-discretionary” areas amount to nearly 80% of total revenue expenditure and severely limit discretionary expenditure. Pension is the fastest growing expenditure category increasing from about 4% of total expenditure in the late 1980s to 13% of total expenditure at present. Salaries have declined from approximately 50% of total spending in the late nineties to between 30-35% in the recent period.

Subsidies to the power sector have increased, but subsidies to other sectors appear to be relatively low. The power sector is heavily dependent on public subsidies, and this has increased since bifurcation: in 2002-03 approximately Rs.800 crore (about 1.4% of GSDP) was allocated to cover losses.⁵ In contrast, other subsidies appear to be limited. For instance, food subsidies through the public distribution system (PDS) are limited as the off-take of grain from the Food Corporation of India (FCI) is meager. Net lending to public enterprises (PEs) other than the state electricity board is also negligible. Bihar’s public enterprises (PEs) are financially unsound. Of the state’s 54 PEs, 45 are loss making, a number are not functional, and many have stopped paying wages although workers have yet to be formally removed from the payroll. Some, like the State Road Transport Corporation, continue to operate with quasi-legal status, though without formal salary payments or book keeping. Bihar’s fiscal crisis has reduced subsidies to these PEs to the minimum, while litigation for back wage payments, clearly unaffordable, is stuck in the courts.

One consequence of fiscal stress has been a precipitous drop in capital outlays. The share of plan expenditure has plunged: from 50% of total spending in the mid-1980s to less than 20% in recent years. Capital spending (excluding net lending) fell from nearly 20% of total public spending in the mid-1980s to below 5% in the mid-1990s before increasing irregularly between 5-10% of spending in recent years (Figure 3.2).

Inadequate spending on non-wage operations and maintenance (O&M) is likely to have compromised the quality of public spending. Data on operations and non-wage operations and maintenance spending is not available, but evidence

TABLE 3.3 COMPOSITION OF PUBLIC SPENDING (% SHARE OF TOTAL EXPENDITURE)

	1985-86 to 1987-88 (average share)	2002-03 (actual) to 2003-04 (RE) (average share)
General services	23.3	43.0
Social services	32.3	34.3
Education	16.8	24.2
Health	8.0	4.0
Welfare programs	4.8	3.7
Others	2.7	2.4
Economic services	37.0	15.6
Agriculture	6.8	2.2
Rural	9.9	5.8
Irrigation	13.4	4.7
Power	0.7	0.1
Transportation	3.6	1.8
Others	2.7	1.0
Grant-in-Aid	0.3	0.0
Net loans by state	7.1	7.1
By economic classification^{a/}	1990-91	2002-03
Interest payments	15.4	25.0
Salaries	49.3	37.0
Pensions	3.8	16.7
Other	31.4	21.3

Note: a/ Economic Classification for 1990/91 and 2002/03 due to data availability constraints. General services include interest payments.

Source: GoB, World Bank Staff estimates.

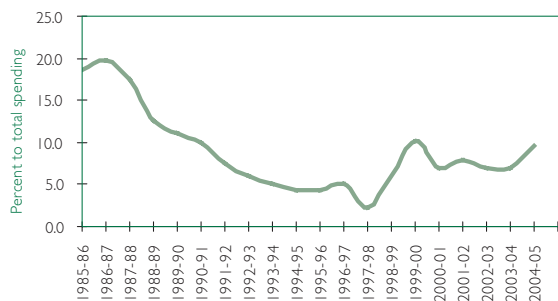
points to their sharp decline, for example inadequate building repair, availability of chalk in schools, medicines for health clinics, etc. whereby not only does the value of public assets rapidly erode, but the quality of public services is also seriously affected.

Bihar’s revenue mobilization is very low, not dissimilar to other states over the 1990s but its performance over the 1990s matches other states. Bihar’s own revenues averaged 7% of GSDP in the late 1980s, but have registered a downward trend over the 1990s to an average of about 6%. This is low when compared with most other states, but not surprising given Bihar’s income levels and the predominance of the agricultural sector. Behind this trend has been the rise in tax revenues relative to GSDP, and the decrease in non-tax revenues due to the declining contribution of mining royalties (Figure 3.3). Tax revenues proportionately to

GSDP have grown faster than GSDP itself, and their growth performance has matched the other states, albeit from a very low base. Post-bifurcation, Bihar's predominant agricultural and rural orientation suggests that the potential for revenue mobilization, especially in the short term, is quite limited.

The large transfers of funds by the Finance Commission from the center to Bihar have helped offset the state's weak revenue performance. The state has been a major beneficiary of the Eleventh Finance Commission's efforts to strengthen equity considerations across states while allocating shared revenues. Bihar's revenue sharing coefficient was raised to 0.146 by the Commission, and devolved revenues rose from about 7% to over 12% of GSDP. This has allowed Bihar to maintain and expand spending, but has also made the state very dependent on the center for finances. Bihar now relies on the center for about 75% of its total revenues, compared to 60% in the 1990s. The Twelfth Finance Commission has provided continued central government support to Bihar. Bihar is entitled to Rs.7,976 crore of special purpose conditional grants for its health and education sectors and maintenance of roads and public buildings among others over the period 2005-10. The eligibility condition for the following year is that the state spend its prescribed normative expenditure on these sectors in the previous year as well as the additional grants assigned by the Twelfth Finance Commission. However, the state's utilization of central assistance has been very poor. The state

FIGURE 3.2 BIHAR: INVESTMENT EXPENDITURE SHARE



will also benefit from central tax devolution of Rs. 67,000 crore over the same period. The gains from tax devolution are a little lower because Bihar's share in central taxes has declined from 14.6% to 11% reflecting the bifurcation of the state. The Twelfth Finance Commission has also announced a debt relief scheme which is discussed later in the Bihar context.

In response to the fiscal crisis, the government has taken measures to strengthen revenue performance and reduce low-priority expenditure. In the FY 2002-03 several additional revenue measures (ARMs) were implemented: increases in diesel and petrol levies; a move from a quantitative to an ad valorem basis for electricity duty; and a multi-point levy with rebates for durable consumer goods (for which leakages have been high). The initiative to increase computerization and focus extra resources on large tax payers may also help improve tax yields. In 2002-03 tax revenues increased by 19%,

FIGURE 3.3 BIHAR: OWN REVENUE MOBILIZATION 1985-86 TO 2004-05



TABLE 3.4 POST-BIFURCATION REVENUE PERFORMANCE 2002-03

In Rs. crore	2001-02	2002-03	2002-03 share (%)	Growth
Total own revenues	2606	3022	27.5	19.1
Taxes	2334	2761	25.0	19.0
Sales tax	1413	1647	15.0	15.1
Stamp duty	304	348	3.2	31.4
Excise	239	242	2.2	4.6
Other taxes	378	524	4.6	32.8
Non taxes	469	261	2.4	-31.1
Transfers from center	7234	7946	72.4	17.0
Shared taxes	6177	6549	59.7	8.6
Grants	1057	1397	12.7	66.2
Total revenues	9839	10968	100	17.6

recovering lost ground from the first year following bifurcation (Table 3.4). The growth rate was not kept up in 2003/04, and own tax revenue declined 3% over 2002/03. But a strong recovery appears to have been made in 2004/05(RE) with own tax revenue growing by 30%. After falling initially, non-tax revenue picked up in 2003/04 growing by 18% and has maintained that level in 2004/05(RE).

The government has also initiated major steps to close loss-making PEs. One positive result of recent court rulings regarding government responsibilities towards PEs has been a new push to close moribund PEs. The state has decided to close 18 loss-making PEs, including arrangements to provide former workers with a one-time financial compensation package.⁶ Liquidation proceedings for seven PEs have been filed and approved for the other 11. This is a significant step towards cleaning up the sector, albeit late, though much more remains to be done. There is now considerable evidence from other states, and certainly internationally, for the need to ensure efficient PE liquidation, privatization or restructuring. Retirement schemes, retraining, and assistance with job search activities are also required to minimize the social costs of reducing public employment (see Box 3.1 on Andhra Pradesh's experience).

Central Government Support for Bihar's Development

Central government support is critical to Bihar's finances, accounting for close to three-quarters of its revenues since bifurcation. The bulk of this support comes through devolved tax revenues from the center. Significant support also comes through plan resources and central assistance through the

ministries. Bihar has one of the lowest utilization rates of central assistance programs which is the focus of this section. Bihar's urgent need for social and economic development makes the effective use of all public funds a fiscal priority.

Central transfers and assistance to Bihar

There are three sources of transfers from the center to the states: (a) via the devolution of shared taxes as determined under the Finance Commission (FC); (b) through plan resources determined in consultation with the Planning Commission (PC); and (c) via Centrally Sponsored Schemes (CSS) under the Government of India (GoI) ministries. Shared taxes constitute the largest source of transfers and are provided to state budgets without any conditions. The other two sources contain different conditions across programs and schemes. The FC also gives discretionary grants to select states to help finance non-plan revenue deficits. Bihar did not qualify for transfer funds to PRI bodies during 1995-2000, until after the elections in 2001 when PRIs were reconstituted.

Central assistance consists of "normal CA", distributed according to the Gadgil formula weighted towards poorer states, and additional CA, which is distributed according to each scheme and at the discretion of the Planning Commission. Thus on per capita terms, Bihar receives higher normal CA than other major states (about 55% above Andhra Pradesh and Karnataka), but less than the special category states. Over time, the share of additional CA in the total has grown under area-based schemes (e.g. the Border Development Program), targeted multi-sectoral programs (e.g. the Prime Minister's Program for Basic Needs), and reform-

BOX 3.1 PUBLIC ENTERPRISE REFORM IN ANDHRA PRADESH

Andhra Pradesh began to reform the state PE sector in 1999 after the state government concluded that public resources should not be used for activities where the private sector can perform more competitively and no compelling social or environmental reasons warrant a public presence. A quasi-independent privatization secretariat and implementation committee were established under the direction of the state, and a cabinet committee set up to vet PEs selected for liquidation, restructuring or privatization. The procedures for evaluating PE assets, preparing tendering documents for competitive bids, and evaluating and awarding bids were created.

In parallel, the state also established procedures for providing retirement payments to PE employees who would lose their jobs, as well as selective job training and placement assistance to help laid-off workers find new employment.

Between 1999 and March 2003, Andhra Pradesh successfully liquidated, privatized or restructured 31 PEs, ranging from sugar factories and fertilizer factories to agro-industry and handicraft corporations. Already Rs.175 crore in gross proceeds has been realized from the sale of assets. Over the next two years an additional 53 corporations, cooperatives, and enterprises with minority government ownership are scheduled for processing.

Several factors have contributed to these achievements, including political support from the top, creation of the Implementation Secretariat with a commitment to the program, and technical assistance to build institutional capacity and provide advice. Part of its success comes from putting in place the VRS and social safety net program to compensate employees for the loss of jobs and assist them in finding alternative employment. As of January 2003, over 18,000 employees had taken VRS during Phase I and Phase II.

based programs (e.g. the Accelerated Irrigation Benefit Program). Bihar is a major beneficiary of some of these programs.

Centrally Sponsored Schemes (CSS) are financed by the central government ministries, accounting for nearly 60% of central assistance. Most central ministries, excepting the Ministry of Rural Development, do not have a transparent formula for fixing state allocations. The state's share in their budget depends on the nature of the scheme, past expenditure, and the interest taken by the state. The funds are not part of state plans; rather the central ministries in consultation with the states formulate the schemes, and states are usually required to contribute a 25% share. The fiscal crisis facing the states has increased the importance of central assistance and CSS support. Often Centrally Sponsored Schemes are the only functional social sector schemes at the field level. States have very limited discretion to introduce changes in their design.

Some states also receive significant support from external assistance projects (EAPs), raise market borrowings, and access credit from central government institutions, such as National Bank for Agriculture and Rural Development (NABARD), Life Insurance Corporation (LIC), and Rural Electrification Corporation (REC). State capacity in

each of these varies widely. Bihar's use of EAPs has been very small relative to its size: over three years (1999-00 to 2001-02) it has accounted for only 0.8% of the total — equal to one-fifth the share of Orissa, and one-tenth that of Uttar Pradesh. Bihar's actual utilization of loans from central government institutions has also been negligible.

Bihar's overall utilization of central resources targeted for "development purposes" is among the lowest in India. This is best measured through plan outlays, which constitute CSS, CA, borrowed resources and states' own resources (but excluding EAP). Cross-state comparison shows Bihar and Uttar Pradesh ranked the lowest, spending approximately one-fourth the per capita level of the top states — Karnataka, Gujarat and Punjab (Figure 3.4). 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 about half that of Andhra Pradesh, and two-thirds the level of Karnataka (Figure 3.5).

Bihar's utilization performance in centrally funded programs

Bihar's low plan expenditure is due to poor utilization of central assistance and CSS resources. Although there are examples where funds have been fully released and utilized, the track record of

many schemes and programs shows considerable under-utilization. During 2001-2003 allocations under the Accelerated Irrigation Benefits Program (AIBP) totaled Rs.250 crore, of which Rs.18 crore was actually released. The Pradhan Mantri Gram Sadak Yojana (PMGSY) or the Prime Minister's rural road scheme for rural road connectivity, which is fully centrally funded, proposed more than Rs.7000 crore for Bihar, and released funds for the first year of the scheme (2000-01). But failure to use these funds has resulted in no further releases being made subsequently. Under the National Old Age Pension Scheme (NOAPS), for distributing old age welfare pensions, census figures suggest there should have been 1.1 million beneficiaries in Bihar with annual payments of about Rs.10 crore. However in 2002-03 only 5% of this amount was spent. Under the Border Area Development Program (BADP) formula for resource allocation, Bihar should qualify for about 15% of the total pool, but is actually using only 1.4%.

The government is well aware of these problems. In 2002, the state's finance department prepared estimates of unutilized central government resources during the three-year period 1997-98 to 2000-01, showing Rs.1570 crore unspent or one-fifth the total of Rs.7700 crore in approved assistance (Table 3.5). Similar collated information on utilization of central funds under CSS is not available, but the example of the Ministry of Rural Development schemes is revealing. The state's estimates of fund utilization vis-à-vis allocations shows that 35% of central allocation or Rs.2065 crore was not released over these three years. This includes funds for important rural poverty schemes which have seriously compromised their capacity and effectiveness (Chapter 5).

This is a serious constraint on the potential resources for development available to Bihar. Unused resources from the central government allocation lapse and in some cases are transferred to states with greater implementation capacity. Even where there is no requirement of state contribution, such as food grains for mid-day meals or the BADP, Bihar has had similar difficulties drawing on the available funds. Identifying constraints and finding solutions to address them is therefore a clear fiscal and developmental priority.

Reasons for Bihar's weak expenditure performance

Poor implementation is due to systemic problems. Several issues have emerged from discussions and interviews with state and GoI officials that provide perspectives from both ends of the disbursement chain. The main reasons for administrative shortcomings in program implementation are given below and arise due to scheme design, and administrative regulations, structures and behavior that characterize Bihar.

- ◆ **Technology.** A simple but important factor is the relative lack of computerization, readily accessed databases, and information connectivity between government offices within the secretariat and between the districts and Patna. Though computerization is gradually being put in place, for example in tax administration, in general it has not kept pace with the growing reporting requirements to help secure smooth disbursements.
- ◆ **Budget timeline and scheme schedules.** Several problems with timing impede smooth program implementation, starting with the overall budget process. First, Bihar's budget is passed

FIGURE 3.4 PER CAPITA PLAN OUTLAY 2001-02 (IN RS. CRORE)

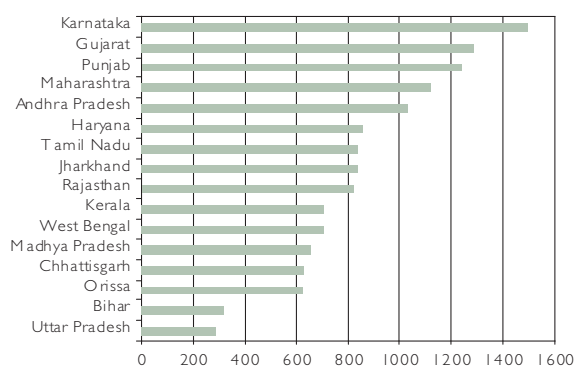
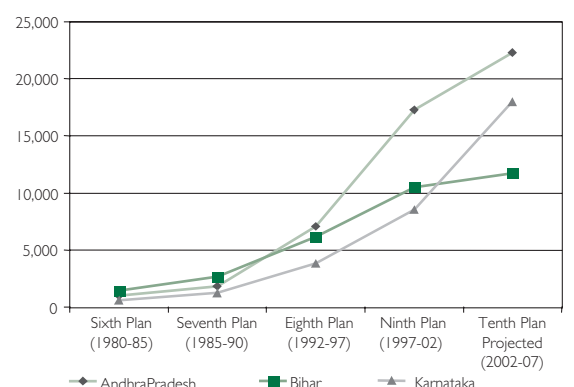


FIGURE 3.5 CENTRAL ASSISTANCE THROUGH THE PLANS (IN RS. CRORE)



in two installments: to begin with for four months and later for the full year. Hence funds are allotted in installments to districts and directorates, and implementing agencies are kept waiting for the receipt of funds. Second, the individual project cycle is another problem. The release of the second installment of project funds requires the demonstration of utilization of funds released earlier. In the case of some projects that are affected by the annual monsoon, construction cannot start until late in the FY, when it is too late to fully utilize funds. Though a carry over of funds is allowed, they are often substantially cut because they exceed the 15% limit on opening balances.

- ◆ **Procedural delays.** Serious procedural delays result from the “Rules of Executive Business” in Bihar, for which there is no parallel in GoI or other states. The rule requires all new schemes and ongoing plan schemes exceeding Rs. 25 lakh to be brought prior to the cabinet before sanctioning the finances. Plan schemes exceeding this amount must first be approved by an empowered committee headed by the Development Commissioner, then approved by the Planning Minister and Chief Minister through the CS. Further delays result if the Chief Minister also asks for it to be placed before the cabinet.
- ◆ **Excessive centralization of decision-making.** Bihar suffers from excessive centralization. Lack of delegation creates major delays and bottlenecks in project implementation. Inadequate secretariat power delegated at the field level is a systemic problem. One example is the delegation of financial power to assistant and junior engineers in rural development schemes whereby estimates above Rs. one lakh can be vetted only by executive engineers and full payment made only after the executive

engineer signs the measurement book. This seriously delays projects due to the shortage of senior engineers and prevents large volumes of rural development funds from flowing into the blocks. Some delegation of power can also help in emergency situations. For example, the empowering of district collectors to purchase relief resources without clearance from the secretariat has resulted in timely provision of emergency aid.

- ◆ **Paralysis of decision-making.** The paralysis in decision-making in Bihar is a stumbling block to project and policy implementation, especially in dealing with financial matters. Fear of being accused of financial irregularities or being implicated in criminal cases, and an incentive structure which does not reward proactive problem-solving but severely punishes impropriety leads to a breakdown of governance.
- ◆ **Antiquated procedural systems.** In some areas Bihar continues to follow outdated procedural rules that impede implementation of procurement procedures, and the schedule of rates used in the Public Works Department (Chapter 4).
- ◆ **Capacity constraints.** Extensive vacancies, and an imbalance in the staffing mix in several departments creates capacity constraints for the processing and implementation of projects. Approximately one-third of Bihar’s 533 blocks lacks block development officers, who play a crucial role in implementation. Shortages of engineers and District Development Committees (DDCs) at the zila parishad level is also acute, particularly for rural development schemes, for which the engineering staff fail to reach even one-third of the staffing norm. A

TABLE 3.5: UTILIZATION OF RELEASES UNDER THE STATE PLAN (1997-98 TO 2000-01) IN (RS. CRORE)

Assistance to the state plan	Amount approved	Amount released	Amount not availed
Normal central	5101.89	4820.89	281.00
ACA for EAP	815.67	459.49	356.18
PMGY	875.19	404.23	470.96
AIBP	710.00	361.06	348.94
SDS	125.87	75.96	49.91
APDP	21.45	21.45	21.45
Roads and bridges	71.50	8.56	62.94
Total	7721.66	6151.60	1570.06

shortage of senior staff also results from delays in promotions in several departments, apparently arising from court cases (Chapter 4).

- ◆ **Government litigation and court proceedings.** Litigation against the government takes up an enormous amount of time of government officials, often at the most senior levels. Litigation against the government ranges from pension payment and land acquisition cases to disputes with commercial contractors. The large number of pending cases prevents the normal functioning of the government in Bihar, and reflects the complexity of the judiciary-executive relations in the state.
- ◆ **Scarce budgetary resources.** In some instances the state appears unable to raise institutional matching loans, and lacks adequate internal financing to meet counterpart financing requirements. Unlike many other states which borrow from GoI corporations, Bihar has to rely to a greater extent on scarce budget resources. However, this does not appear to be the binding constraint in most programs.

These issues go beyond implementation problems affecting central assistance and schemes to deeper questions of basic administration, governance, institutions and capacity building. The relative importance of these constraints vary across schemes, departments and ministries. The next section will discuss some preliminary ideas on measures that may help mitigate the fiscal constraints in Bihar, including ways to improve utilization rates of central assistance.

Towards a Fiscal Reform Strategy

The new state of Bihar inherited fiscal difficulties, such as persistent deficits, weak revenue mobilization, and a heavy debt burden. It lost several significant public assets (e.g. minerals and mines with their associated royalties, large industry establishments with associated tax revenues, and most of the state's electricity-generating capacity). Against this backdrop, some initial important steps have been taken to address these weaknesses. Several additional revenue measures have been implemented to help shore up revenues. A Memorandum of Understanding (MoU) on fiscal reform, which aims to reduce the revenue deficit, was entered into with the GoI covering the period 2000-01 to 2004-05. There are plans to improve

electricity metering in the principal power circles in and around Patna to stem power revenue losses. A "Pension Fund" unit has been set up to review and record actions on approved and pending pension cases, help computerize pension data, and to follow up on complaints. There has also been some initial thinking on conducting a "zero-based budgetary review" to examine priority programs and projects with a view towards better public scheme prioritization and selectivity.

These measures show recognition of the serious fiscal problems confronting Bihar and the government's determination to tackle them. However, the government appears to lack a clear framework for reform: strategic expenditure priorities for development, and a program for strengthening the efficiency of expenditure. Fiscal stress and weak linkages between expenditures and social outcomes are factors undermining the quality of education and health services. Just as expenditures need to be realigned to support a strategic vision of social service delivery, a fiscal strategy is needed to address Bihar's fiscal and budgetary problems. The ideas here are preliminary and are intended to promote discussion and dialogue. A fiscal reform strategy should address: (i) development of a multi-year framework for fiscal reform; (ii) improvement of budget management practices; and (iii) upgradation of project implementation and the use of central resources.

A medium-term fiscal reform strategy

Bihar's serious resource and structural constraints require medium-term fiscal adjustment and reform. Bihar's gross fiscal deficit at 7-8% of GSDP is not sustainable under present circumstances. The current fiscal reforms appear to be ad hoc and have been taken at times of fiscal stress, without the government clearly in control. The medium-term program should link the annual budget preparation and execution to a medium-term program.

An approach that is being adopted in several countries as well as other states in India is the use of a Medium-Term Expenditure Framework (MTEF) which reflects the built-in expenditure pressures and revenue generation ability of the state. It assesses the impact of expenditure and revenue reforms that can be used as planning tools for preparing annual budgets with a three- to five-year planning horizon (see Box 3.2). A major objective of fiscal reform is to stabilize public finances, con-

BOX 3.2 MEDIUM-TERM EXPENDITURE FRAMEWORK

The Medium-Term Expenditure Framework (MTEF) is a tool for estimating revenue flows and expenditure requirements, incorporating additional revenue mobilization measures, and planning a course for corrective restructuring of expenditure towards priority areas. About half a dozen states in India have prepared MTEFs over the past few years, including Andhra Pradesh, Karnataka, and Orissa. Their fiscal frameworks incorporate several common features and objectives. In a five-year horizon that consolidates the power sector accounts with the budget, the MTEF accounts for the impact of current and planned measures: civil service restructuring to reduce wage and pensions pressures; power sector restructuring; additional tax and non-tax revenue reforms; expanded primary education and health services; and increased public investment. To promote greater transparency and public discussion, both states publish their MTEFs along with the annual budget.

serve resources for core public services, and reallocate them for development priorities. The Government of India's Medium-Term Fiscal Reform Facility (closed at the end of 2004-05) and the new Debt Relief and Write-off Facility encourages the reduction of state revenue deficits and improves fiscal management. Bihar had prepared a MoU with GoI to access the Fiscal Reform Facility. It will now be required to reformulate its fiscal strategy to meet the recommendations of the Twelfth Finance Commission to eliminate the revenue deficit by 2008-09; reduce the fiscal deficit relative to GSDP to 3% by 2009-10; and bring down salary expenditure relative to revenue expenditure (net of interest and pensions) to 35%. Formalizing a MTEF consistent with these objectives (see Box 3.3) would provide an important planning tool to underpin annual budget preparation.

An MTEF strategy for Bihar is likely to focus in the near term on fiscal gains from restructuring expenditure. Since the scope for increasing revenues is limited, the current and planned ARMs and tax administration initiatives, such as focusing resources on large tax payer compliance, are important.

An active debt management strategy is one way to focus attention on reducing Bihar's enormous debt burden. Meeting the benchmarks suggested by the Twelfth Finance Commission would make Bihar eligible for debt relief and restructuring. For Bihar the potential gains include Rs.1,926 crore of GoI loans written off and savings of Rs. 1,268 crore in interest expenditure over the period 2005-2010. From the liquidity perspective the state can gain another Rs.620 crore from restructured and deferred debt repayment over this period. The finance department should develop and maintain a debt database and forecasting capacity to identify ways to reduce debt service costs, monitor debt instruments and liabilities, including

contingent liabilities, and manage the payment stream. The Debt Swap Scheme which operated between 2002 and 2005, enabled states to pre-pay high-cost debt and substitute it with lower rate coupon-bearing small savings and open-market loans. In 2002-03, Bihar used this facility to swap close to Rs. 600 crore out of nearly Rs. 800 crore in total market borrowings. It should also explore ways to maximize swap arrangements for block loans in order to completely clear high-cost debt in Bihar's balance sheet, and explore other avenues, available through GoI such as the Twelfth Finance Commission's recommendations for debt relief and write-off. As pensions constitute Bihar's fastest growing non-interest recurrent expense, the monitoring of current and projected pension payments should also be part of the effort.

By restructuring the expenditure mix, there is potential for major improvement in the quality of public service delivery and outcomes. The common problems with expenditure allocation include:

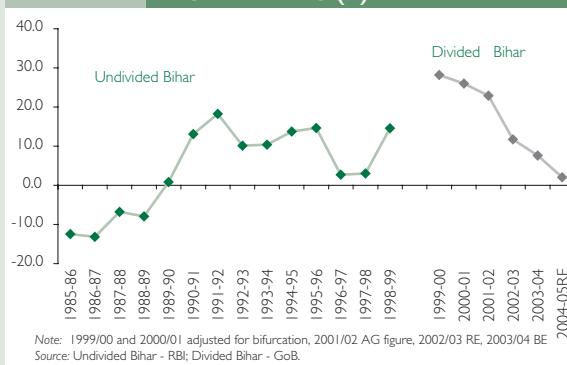
- ◆ Imbalance between salary expenditures and non-salary operations and maintenance spending. Countless examples exist: schools without chalk and blackboards, PHC clinics and refrigeration units without basic medicines, electricity generators, or diagnostic equipment, etc.
- ◆ Inadequate recurrent O&M expenditures to maintain public assets. For example, roads left without minor maintenance eventually need to be rebuilt at a higher cost; new schools are built alongside poorly maintained existing structures; and cement toilets are built and later abandoned due to lack of maintenance, etc.

Following the recommendations of the Eleventh Finance Commission, the Government of India set up a five-year facility to help states improve their fiscal performance. The facility uses conditional transfers to motivate reform. Two conditions are necessary to access the annual grants: (a) agreement with the Ministry of Finance through an MoU containing a Medium-Term Fiscal Reform Program; and as part of this (b) reduction of the “revenue deficit to revenue receipt ratio” by 5 percentage points a year, using 1999-00 as the base. Gol also created additional support through the facility for open market borrowing to cover financial costs of adjustment, for example the voluntary retirement and severance payments for downsizing public sector enterprises.

Fiscal reform programs for 28 states have been approved and facility funds released. Sizeable open market borrowing has also been approved for several states. Bihar's MoU with Gol provided about Rs. 411 crore of additional grants against which Bihar received Rs.127 crore until 2002/03.

The base year ratio for bifurcated Bihar is 34% (as per Bihar's MoU), somewhat higher than the pre-bifurcation level. It is estimated that the ratio declined from 34% in 1999-00 to 7.6% in 2003-04 (see Box Figure 3.6.) Under the facility rules, the 23% decline by 2003-04 should qualify Bihar for the facility grants for the first four years. They would confirm Bihar as having made significant fiscal improvement, although much of the improvement is due to higher transfers from the center, but also due to higher revenue mobilization.

FIGURE 3.6 REVENUE DEFICIT TO REVENUE RECEIPT RATIO (%)



- ◆ Large vacancies exist where manpower is badly needed, while in others there is excess staffing. Redeployment is limited by the need to match skills and grades, but could yield big efficiency gains.
- ◆ Budget and staffing coordination across related programs and departments. Fragmentation of responsibilities can destroy well-designed programs if departments do not collaborate. Family planning services is one such example, where delinking of primary health care and family planning extension services appears to have undermined service delivery.

Realizing these benefits is an enormous task, requiring a sound strategic foundation and analytical inputs. In Orissa's medium-term program, for example, a major staff reallocation exercise is under way after a careful review of the organization and its functioning, a civil service census, modeling of restructuring options, and development of a labor pool for staff reassignment. There is a great deal of international experience, and growing experience in several Indian states, some of which have a similar administrative design as Bihar, which may be able to provide guidance.

Public expenditure and budget management

Although this report has not reviewed budget management practices, related discussions have pointed to weaknesses in the administration of public resources — budget preparation, budget execution, expenditure supervision, accounting and audit functions. Actual budgets often differ dramatically from planned budgets in India, with costly consequences. Poor budgeting and cash flow constraints can lead to: (i) reliance on high-cost, short-term borrowing; (ii) unplanned expenditure cuts that damage high-priority social and economic programs; (iii) major delays in public investments which undermine project returns and capital efficiency; and (iv) misallocation of resources with no corrective action. The underlying issues require institutional and procedural reforms in keeping with the central budget and accounting regulations. Several Indian states have initiated public expenditure reform programs. A number of suggestions to improve budget management practices are listed here:

- ◆ **Expenditure reviews.** Better budget management systems and expenditure analysis help to improve expenditure planning and pro-

visioning, for example in pension management. Quality reviews require good information and data systems. Bihar has made some progress in improving data (e.g. on sales tax), but much progress is needed in other areas, such as payroll, pensions and debt management.

- ◆ **Zero-based budget review.** This exercise, in its simplest form, examines all expenditure functions and programs to systematically “prioritize” them so that low-priority activities can be phased out. Such analysis supports the preparation of a budget that is built bottom-upwards and prioritized, rather than created incrementally. Some initial zero-based review effort has begun in Bihar, though its outcomes are unclear, and data deficiencies suggest that more in-depth review is needed. Particularly fruitful would be a zero-based review of investment projects. In 2002-03, with technical assistance, the Orissa government reviewed 149 large infrastructure projects that exceeded Rs. 4 crore each. As a result, the government cancelled 83 projects deemed unproductive or obsolete.
- ◆ **Departmental function reviews.** An analysis of government programs shows that there are specific departments where greater efficiency can be attained. Departmental in-depth reviews can examine the organizational design, staffing responsibilities, and output so that appropriate measures may be taken to improve organizational efficiency and reduce costs. Human resource strategies can help identify manpower constraints and options for redeployment. In Andhra Pradesh, the state strategy for human resource development and departmental restructuring has included functional reviews to guide departmental reforms.
- ◆ **Procurement and financial management.** Bihar’s procurement regulations are in urgent need of revision. Reform of procurement practices and strengthening of financial management can improve transparency and accountability in government finances, as well as cost efficiency. Such procedures have been launched in several states, and new laws written to: (i) update practices; (ii) make information publicly available and not overly cumbersome; and (iii) prevent ad hoc and discretionary practices that enable abuse. In 2000,

Karnataka passed a Transparency in Public Procurement Act and created a central procurement cell in the Ministry of Finance to implement this reform program. In several states computerization and public access to information, and payment and accounting functions are important factors that help strengthen financial management.

- ◆ **Performance orientation.** Some governments are trying to radically shift the orientation of government departments and functionaries away from resource inputs (funding, supplies, staff) to outputs and, more importantly, to outcomes. Rather than lay stress on the number of schools built or staffed, the focus is shifted to the quality of service delivery as measured through literacy, enrollments, attendance, and test results. But achieving this shift is a Herculean task. Over the last three years, the Government of Andhra Pradesh has, through seminars and training programs, introduced departmental level performance indicators for regular monitoring and evaluation. But the initiative is too early to assess.

This is only a cursory list of public expenditure management reforms and analytical tools aimed at improving state financial management. The agenda is large and to be effective it should be designed to suit the priority needs of the government. Reforms should not be undertaken in fits and starts but considered carefully and adapted to local circumstances.

Improving project implementation and resource use

Bihar’s poor track record of utilization of central assistance/CSS programs, and the factors contributing to this situation have been discussed above. The difficulty with project implementation in Bihar has come to a point where GoI has pushed for central implementation of select Bihar projects. The Development Reforms Facility (RSVY) earmarked a sizeable Special Plan for Bihar to finance development schemes. It was agreed, in consultation with GoB, to use central agencies to implement the schemes, including supervision, monitoring, and ensuring observance of due-diligence in regard to technical and administrative requirements by GoB and the implementing agency. This may be seen as a short-term way to overcome constraints, and is

not a solution. Bihar must develop the means to effectively manage resources and implement its own development agenda.

The recommendations that follow are based on the analysis under the section, 'Central Government's Support for Bihar's Development', and in some areas form the backdrop to the discussion in the next chapter on administrative reform.

- ◆ **Staffing, training and redeployment to address technical and capacity constraints.** Where capacity constraints are binding, the state could identify needed skills, redeploy staff if possible, and utilize available technical assistance. The Planning Commission's Project Preparation Facility to help state governments obtain funds from external funding agencies may be one such option. Bihar could consider getting a few reports prepared and approach the Finance Ministry for onward transmission to the donor agencies. Bihar should also seek capacity building opportunities (local or external grants should not be difficult to obtain). Computerization is an obvious area requiring urgent attention that can receive assistance.
- ◆ **Greater decentralization of decision-making.** Bihar's highly centralized bureaucratic system creates serious bottlenecks at senior levels in the administration. This needs to be carefully tackled with top-level commitment.
- ◆ **Review and reform of antiquated administrative practices.** Both the PWD Schedule of Rates and procurement procedures were identified as needing urgent review and revision. Many other procedural regulations or practices may also require close scrutiny and reform. Often this is difficult to do internally, while external reviewers can more readily identify problems and propose options. A systemic

review of administrative practices and the project implementation cycle could potentially yield major benefits.

- ◆ **Explore design changes in central assistance and CSS programs.** Rigidities in program design can slow or sometimes terminally affect programs. Yet some states have been able to take full advantage of the available discretion in GoI program guidelines to adapt them to local conditions. In some instances, states even modify GoI guidelines to suit their needs (Andhra Pradesh's Janmabhoomi program with central rural development funds, without clearance from GoI is a case in point).⁷ Bihar should explore ways in which programs can be better adapted to local conditions, officers should be provided with incentives and motivated to think creatively about design issues, and a case should be made to GoI on grounds of local impact and outcomes.
- ◆ **Examine ways to press for faster central ministry releases, and creative ways to ensure full utilization of funds.** There is a need to consider having the Bihar Resident Commissioner follow up important cases of central releases with the central ministries and send a fortnightly report to concerned GoB departments and the Chief Secretary. The state must press for full allocation from GoI, and at the same time speed up identification and disbursement in the field. The GoB should organize itself internally to review and follow up on disbursement bottlenecks, and recognize or reward efforts to fully utilize resources. Ministries, district magistrates, BDOs, and project managers should be given a mission to improve project implementation and resource utilization. ■

Notes

¹ *State Finances, A study of budgets of 2004-05*, RBI, Delhi, Jan. 2005.

² Agreement over the division of staff and establishments has largely been completed, but disputes over state liabilities remain. These contribute to difficulties in compilation and analysis of fiscal data.

³ Bihar's fiscal accounts suffer from unresolved reconciliation of assets and liabilities with Jharkhand, and from significant revisions in budget estimates, revised estimates, preliminary and actual data. Some outcomes are difficult to interpret, particularly in recent years, and final numbers may be revised.

⁴ In 2001/02 however, fiscal accounts show that expenditure fell by 3% of GSDP and social sectors bore the brunt of cuts, including salaries. However, this data is difficult to fully reconcile and may reflect anomalies in post-bifurcation accounting.

⁵ A large proportion of power in Bihar is purchased from outside, with high T&D losses and theft but, unlike many other states, with limited losses through supply of subsidized power to agriculture.

⁶ The 18 PEs to be liquidated include the Agro-Industries Development Corp., Panchayati Raj Finance Corp., and the Small Industries Development Corp. It is unclear what sector share this represents. The government reports setting aside Rs. 50 bn for this purpose, in accordance with the order of the state High Court.

⁷ Andhra Pradesh's partnership in the national political coalition may have been a factor in this ability.

Chapter 4

GOVERNANCE AND PUBLIC ADMINISTRATION IN BIHAR

The most important change in recent thinking about economic development and growth has been the emphasis on institutions, administration, and the quality of governance.¹ Thus, India's Tenth Plan document and the Eighth Inter-State Council meeting in August 2003 emphasized good governance and the government's critical role in development. Recognition of the central role of institutions is also evident in the reforms undertaken by the states, aimed at improved response to the public with effective delivery of high-quality services.

Most state governments are characterized by poorly defined service norms, political interference, and a largely non-meritocratic bureaucracy. Especially so in Bihar, this is compounded by a highly centralized administration with the kind of incentive structure that thwarts decision-making and can cause major delays. This impairs the state's ability to manage public resources and implement projects and programs.

Some programs in Bihar have been effectively implemented, demonstrating the possibility of success with resultant improvement in social and economic outcomes. Such successes include: the pulse polio immunization project, COMFED dairy cooperative, participatory irrigation management in Paliganj, and the recent additional revenue measures. This chapter identifies the main difficulties in governance and administration, together with the required coordination in authority, incentives, leadership, and resources to improve administrative effectiveness.

Decision-making, Centralization and Procedural Logjams

Centralization

Bihar's centralized government, resistant to delegation of authority is characterized by personalized politics, that obstructs institutionalized decision-making. There is reduced risk-taking with bureau-

cratic preference for collective scheme approval to avoid accusations in the use of public funds.

The committee system is also poorly developed and is a major hindrance to the decision-making process. For example, the Development Commissioner alone handles over 100 committees on diverse subjects. The Cabinet Sub-Committee on Economic Affairs, set up to expedite important decisions, is swamped by routine matters. Limited computer use results in delays and inefficient manual procedures. This weakens the capacity to deal rapidly with natural calamities, law and order, or projects.

Other instances of centralization holding up speedy decision-making include:

- ◆ Centralized purchases, excessive use of rate contracts, and routing all notices for tenders and procurement through the Department of Information and Public Relations;
- ◆ Lack of downward delegation for minor repairs, expenditure, and tender approval, and the committees of secretaries to approve even minor tenders and purchases;
- ◆ Cabinet approval for most cases relating to temporary or permanent settlement or lease of land;
- ◆ Centralized decisions on most appointments, transfers, and additional charge for even local vacancies;
- ◆ Approval by the finance department or high-powered committee under the Chief Secretary for most expenditure and personnel matters.

Procedural logjams

The severe erosion of development outcomes is due to the system of budget sanctions and releases,

the approval procedure for schemes, expenditure, continuance and creation of posts etc, as well as poor monitoring.

Comparison with other states

States like Andhra Pradesh and Karnataka and the newer states like Chhattisgarh and Delhi have simplified their financial and administrative procedures, allowing departmental autonomy for spending, personnel and approvals, and delegation of powers, with time limits for decisions. In Uttar Pradesh, the departments can incur expenditure on continuing schemes once the Governor has approved the budget. In a number of southern states, departmental file movement has been computerized and empowered committees dispose off inter-departmental matters speedily. Major exercises to revise manuals and secretariat procedures are under way in other states, including financial power to account for inflation and prescription of time limits for action.²

Reform considerations

Administrative and procedural reforms are complex, but can be quickly executed and yield demonstrable benefits, especially if politically non-sensitive. The action areas here include:

- ◆ Amending the Rules of Executive Business to raise the cost limit for schemes requiring clearance by the Empowered Committee and Cabinet. As in the central government, this can be strengthened by an intermediate tier, consisting of a committee under the Secretary with representation of the finance department for original and revised approval as well as for continuing schemes ;
- ◆ Delegating more powers to field officers and elected or autonomous bodies. This will revise financial powers and simplify the procedures for purchase, tender, deployment of staff, and approval of schemes, taking cognizance of the recommendations of the Maheshwari Committee³
- ◆ Institutionalizing the system of internal financial advisers and granting more departmental autonomy in the use of sanctioned budgets, similar to the center and Andhra Pradesh.⁴ This could be introduced gradually starting with the major departments.

These suggestions aim to enable senior officials focus on policy analysis and supervision and

remove decision-making bottlenecks. They intend to communicate the objectives to employees for their support and encourage public discussion to carry out reform.

Civil Service Reform

Sector studies and discussions with senior officials show that recruitment, vacancies and staff performance problems greatly affected policy formulation, project implementation, fund utilization, and service delivery. Two principal problems are the fragmentation of personnel management between the finance and personnel departments, and absence of reform in service cadre rules, which have generated avoidable costs and litigation. A fuller discussion of these issues is included in Annexure 3.

Civil service reform has been well presented in the Fitment Committee Report (1999) and the Fitment Appellate Committee Report (2000). The Fitment Committee, which resembled a Pay Review Commission, showed the impractical and unaffordable aspects of adopting central scales for all state posts. This is especially true as most departments did not have recruitment and promotion rules for the majority of posts. Besides, since there was no rationalization of functions, departments were often created or divided illogically. The Committee also reported a lack of concern about: (a) the unaffordability of providing central scales and allowances; or (b) the need to constitute bipartite committees for wage negotiation. Additionally, there are insights into how past practices have distorted inter-cadre alignments. Some of these issues are addressed below.

Size and composition of civil service

The GoB is not overstaffed as compared with other states (Table 4.1). In fact the obverse is true, as shown by vacancies in critical areas, such as engineering and teaching. The problem with the state's civil service has more to do with affordability, composition, skill mix, spatial distribution, and overstaffing in groups C and D, which form about 94% of the total employee strength.

Reforms in other states

Extensive civil service reforms being implemented in other states, that are relevant for Bihar, can be summarized as follows:

- ◆ Publication of a strategy paper, that has political ownership, on good governance and civil

TABLE 4.1 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 estimates.

Source: State governments.

service reform with sequenced annual implementation plans (in Andhra Pradesh, Karnataka, Orissa and Kerala).

- ◆ A comprehensive computerized personnel database linked to computerization of the treasury and payroll (in Uttar Pradesh, Punjab and Andhra Pradesh).
- ◆ Responsibility for civil service reform under the Chief Secretary (in Andhra Pradesh, Karnataka, Orissa and Maharashtra).
- ◆ Zero-based audits of key departments (preceded by quick functional reviews) based on inventory of schemes, identification of those redundant, unproductive staff, and linked activities. Redundant staff is offered redeployment, voluntary retirement, or in some instances, termination with benefits (in Orissa, Karnataka and Maharashtra)⁵.
- ◆ Increasing recourse to contract mode of appointment and lateral entry with adequate safeguards (in Andhra Pradesh and Karnataka).
- ◆ Consolidating civil service cadre rules for systematic revision with due regard to causes for service litigation and effective performance⁶.
- ◆ Devising computerized procedures for secretariat information and to monitor file movement such as Smartgov (in Andhra Pradesh) and simpler systems (in Karnataka, Delhi and Maharashtra).

Reform considerations

Against this backdrop, two important steps could help initiate the reform process: (a) setting up an

expert committee with a limited tenure and clear terms of reference to provide a vision and strategy for administrative reform and manpower planning in consultation with employees and civil society. The experience of Maharashtra and recent efforts in Orissa can serve as a guideline; (b) developing a comprehensive personnel database, clearly necessary, as exemplified by the irrigation department. This should be integrated with information required for pension management and monitoring. Clearly, the capacity of the personnel department, in collaboration with the finance department, will need to be strengthened. Recent recommendations of the secretaries' committees to amend civil service rules, and rules on departmental inquiries and secretariat procedures, should be implemented incorporating the suggestions of the Fitment Committee. Finally, the expert committee should formulate measures to rationalize cadre rules, promotion criteria and seniority lists. This could draw on examples from other states and prescribe criteria for the creation and upgradation of posts. The criteria spelt out by the Fitment Committee may help guide this process. These reforms could reduce the burden of litigation (discussed below) and smooth promotion, thereby ensuring greater equity across cadres.

Machinery of Government: Rationalization of Functions and Staff

Changes in the skills mix of staff need to be accompanied by measures to reduce administrative fragmentation and to streamline the machinery of government. In many states, the problem of a large and unwieldy council of ministers is compounded by relatively weak mechanisms for policy coordination. Fragmentation extends beyond administrative

structures, civil service cadres, and the non-alignment of budget heads with departments. Institutional reforms are therefore needed to reduce such fragmentation and align the structure of the civil service more closely with updated functions.

Bihar has 48 departments, which is large as compared with other states (Andhra Pradesh has 36 and Karnataka 29). This reflects the pressures of coalition politics. These departments are fairly segmented without much coordination between them, especially in important policy areas such as poverty reduction, agricultural production and family planning. This dichotomy percolates to the districts and is complicated by the responsibility of elected local bodies for disparate functions. However, the district magistrates retain a critical role in coordination and leadership despite erosion of their authority over elected local bodies and other constraints.

Two major components of the reform process in Andhra Pradesh and Karnataka are: a) simplifying, redefining and rationalizing the government's role to focus on the most critical public goods and services; and b) enhancing accountability, responsiveness and transparency with which the government and its agencies perform this role. States like Uttar Pradesh, Karnataka, Andhra Pradesh and new states like Chhattisgarh and Delhi have initiated serious exercises to merge, abolish or consolidate departments and streamline the reporting relationships for heads of departments. Rationalizing government structure and rightsizing has been achieved to a significant extent in Chhattisgarh, which has reduced the secretariat to 18 departments (compared to 50 in undivided Madhya Pradesh), while limiting salary expenditure to 40% of own source of revenue. Withdrawal of government from unwarranted areas is related both with devolution to local bodies and outsourcing to the private sector, NGOs and user groups as in Karnataka, Kerala and Andhra Pradesh. Orissa's zero-based functional audit and Maharashtra's exercise of quick and effective functional reviews demonstrate ways in which reviews can be undertaken with limited resources.

Reform considerations

Organizational reviews have provided an analysis of restructuring options at departmental and agency levels and creating rationalization opportunities. The Fifth Central Pay Commission (1996) and the Karnataka Administrative Reform Commission (2001) reports provide excellent

models for prior option reviews and recasting of functions and ministries. The Fitment Committee recommended organizational reviews in Bihar and updating of the Rules of Business. However, barring the limited exercises that were undertaken in three departments, most have not had reviews.

Given the imperatives of a coalition government, it is ambitious to immediately expect a major exercise that rationalizes the machinery of the government. A greater number of feasible near-term exercises need to:

- ◆ Undertake zero-based audit of functions and staff across departments, and amend the rules to enable the transfer of staff including engineering personnel between departments keeping the Fitment Committee observations in mind. The newly set up Administrative Training Institute can support this effort.
- ◆ Appoint a high-level state commissioner attached to the Department of Personnel to oversee this work with responsibility to examine the experience in Andhra Pradesh, Karnataka and other states; rationalize the functioning of departments; eliminate administrative overlap and duplication; and wind up units whose services are no longer necessary;
- ◆ Link this to deregulation and privatization as also ongoing efforts to transfer responsibility for infrastructure and social services to user groups; and
- ◆ Clarify the functions of panchayati raj institutions (PRIs) at different levels and their links with district administration and user groups, such as JFM, VSS, health committees, watershed associations, PIM groups and self-help groups, strengthen the financial and organizational capacity of PRIs and enhance citizens' supervision of PRIs.

Problems of Meritocracy: Recruitment, Promotion, and Redeployment

The existing civil service rules envisage a merit-based system of recruitment, placement, promotion, sanctions and rewards. However, official committee reports and interviews show that the system operates in an ad hoc, non-transparent and

non-meritocratic manner. Problems related to the work environment (including those faced by women employees), infrastructure, and accommodation, local tensions and delayed salaries together affect staff morale. There also appears to be a breakdown of hierarchy and the loss of control by district magistrates, heads of departments and departmental secretaries over subordinate personnel. The district magistrates appear to be frustrated by centralization, absence of support and understanding from their superiors, and inaction on reports of malfeasance and inefficiency at subordinate levels.

Problems of recruitment, promotion and redeployment

Difficulties in recruitment and promotion lead to problems of vacancies in frontline positions, which in turn affect execution of schemes and the provision of services. Sanctioned posts of around 40,000 teachers have recently been filled, but after being long overdue. Many vacancies continue in critical field posts like the DDC of zilla parishads, block development officers, chief engineers down to junior engineers and critical support staff in district magistrates' offices.

The problems in recruitment stem from delays in approval for continuation of posts, loopholes in departmental rules, court directions, delays in sending requisitions to the PSC and SSC, the inefficiency and recent controversy surrounding the Bihar Public Service Commission and the uncertainty over filling positions following the state's bifurcation. Existing rules prevent the transfer of engineering and other staff across departments to deal with critical shortages. There are also problems of unequal distribution of employees across districts, partly due to their unwillingness to be posted to backward areas. Unlike the Government of India, there is no cap on compassionate appointment of legal heirs of deceased employees and there is no criterion for penurious circumstances.

Performance assessment, rewards and sanctions

The performance assessment of employees is recorded in confidential rolls. As in the center and other states, promotion is based on seniority with little incentive to excel and secure outstanding grades. Training opportunities are limited even for senior officials. Consistent with the trend in most states, there is little effort to weed out deadwood by

enforcing compulsory retirement in the 50-55 year age bracket.

Experience of other states

The importance of merit-based staff recruitment, promotion and deployment has been recognized by most states. The initiatives undertaken include:

- ◆ Rightsizing exercises in Andhra Pradesh, Orissa, Karnataka, Punjab, Goa, Chhattisgarh and Maharashtra with a range of measures to abolish vacant posts, freeze posts and recruitment, phasing out work-charged staff and compassionate appointments, redeployment of surplus staff, premature retirement, and attractive schemes for voluntary retirement;
- ◆ Departmental recruitment committees, on the model of the center and Andhra Pradesh, with an annual plan for filling posts while considering attrition, temporary and permanent posts related to plan and non-plan schemes, essentiality, modes of recruitment, reservation and the shortage of staff in backward districts;
- ◆ Transfer policies based on stable tenure, transparency and consultation with employees (as in Andhra Pradesh and Karnataka);
- ◆ Merit-based recruitment for core and non-core posts requiring different modes of recruitment and the collector's control over field staff (as in Andhra Pradesh);
- ◆ Increasing attention to performance assessment at the secretariat and field levels through improved confidential rolls, clear links to promotion, training, continuance in service and career planning and the use of tangible performance indicators (as in Andhra Pradesh);
- ◆ Efforts to streamline and reduce delays in departmental inquiries; and
- ◆ Training workshops, video-conferences and other modes to improve two-way communication.

Reform considerations

Bihar's Fitment Committee recommended several steps for formulating or revising recruitment rules applicable to all services, and the criteria for approving the creation of posts or awarding pay scales. The state could perhaps follow up these

recommendations, assisted by an expert panel as in Andhra Pradesh. The priority considerations for reform include:

- ◆ Urgent approval of critical vacancies and strengthening capacity and infrastructure in BPS and SSC for filling posts. However, it would be financially imprudent to fill all vacant positions reported by the departments without verification;
- ◆ Scale up departmental rightsizing exercises after evaluating the effort of the departments of irrigation and public health engineering;
- ◆ Consider setting up recruitment screening committees on the model of the center and Andhra Pradesh;
- ◆ Introduce greater transparency, delegation of powers, and constitute district cadres in the transfer policy; and
- ◆ Improve communication between field officers and departments.

Making Government Accountable and Responsive to Citizens

Responsive administration and access to information

The thrust of the message of the Tenth Five Year Plan and the recent Action Plan for Good Governance approved by the Eighth Inter-State Council is that administrative reform is meaningful only to the extent that it enables responsive, transparent and accountable administration and service delivery. Good governance is on the political and administrative agenda of many states. The features of citizen-centered administration that provides information to the public about the kind and quality of government services should include:

- ◆ Formulation and credible implementation of citizens' charters;
- ◆ Speedy and effective redressal of public grievances;
- ◆ Simplification of rules and regulations;
- ◆ Decentralization and partnerships with NGOs/private sector;
- ◆ Easy and widespread access to information on government schemes and procedures and computerized access of land records (such as BHOOMI in Karnataka);

- ◆ Facilitation of transactions with public agencies through computerized counter services or virtual sites (such as E-Seva in Andhra Pradesh, JAGRITI in Punjab, FRIENDS in Kerala);
- ◆ Opportunities for consultation and participation in budgeting, service delivery and resource allocation (such as Janagraha in Bangalore or Bhagidari in Delhi); and
- ◆ Documentation and dissemination of best practice across states.

The elements of responsive administration and transparency are yet to be fully articulated in Bihar despite positive moves in this direction. The failure of the complaint mechanism and lack of information on reasons for the recurring breakdown in public services - like water supply, power and sanitation in public utilities — contribute to the numerous High Court petitions. There is presently no nodal point for functional reviews and restructuring departments. The division for administrative reform in the Department of Personnel and Administrative Reform is moribund.

E-governance

Good practices in e-governance have been known in many states. These include E-Seva in Andhra Pradesh, Janmitra in Rajasthan: FRIENDS in Kerala and CHOICE in Chhattisgarh for all transactions with public authorities; SETU in Maharashtra (computerized counter services in public offices); city and district-level projects like VOICE in Andhra Pradesh; computerized registration process in Andhra Pradesh and Maharashtra; computerization of land records in Karnataka; wired villages and panchayat links in Kerala, Maharashtra and Madhya Pradesh; computerization of treasury in the southern states; state portals, file monitoring, issue of licenses and permits and various networked systems in Andhra Pradesh, Tamil Nadu, Karnataka and Maharashtra. Chhattisgarh is an example of a new state developing and implementing a road map for e-governance in a short time. Specific applications and IT kiosks may not be a burden on public resources given the readiness of the private sector to come in on a BOT basis or the willingness of NGOs to run IT-based services as in Maharashtra and Pondicherry. E-kiosks for farmers could be piloted quickly on the model of the NGO effort in Pondicherry or the Gyandoot in Madhya Pradesh.

Vigilance and corruption

A series of high-profile scandals have given Bihar an unfortunate reputation of being highly corrupt, reiterated by some central ministries and also external observers. Citizens' surveys show demands for bribes at various service outlets, such as allotment of houses, release of subsidy in poverty reduction schemes, and grant of permits and licenses. One result is the demoralization of "clean" officers when action is not taken against corrupt ones. It also diverts scarce resources away from development needs, and has an adverse impact on the investment climate.

The problem in Bihar is in part related to poorly enforced sanctions and failure to prosecute corrupt individuals. The procedures of departmental inquiries suffer from all the delays and ineffectiveness that are common to most states.⁷ The Lok Ayukta (ombudsman) is generally seen as not being very effective because of a lack of prosecuting staff and an absence of accountability to the public.

Reform approaches

Many states are strengthening their vigilance and anti-corruption effort, with states like Andhra Pradesh, Karnataka and Orissa coming out with a long-term strategy. The Lok Ayukta in Karnataka has been spearheading the move for abolishing corruption. Visible progress is being made in some states. The main problem in Bihar appears to be the lack of accountability for grievance redressal and the failure to fix responsibility for time-bound action based on public requests and complaints. The government could achieve quick results in areas with strong public interface which are prone to corruption and thereby demonstrate its commitment and ability in improving service delivery. The reform priorities could include:

- ◆ Developing rural and urban model offices to demonstrate improved counter services, computerized issue of certificates and permits needed by the public and business, and the benefits from process re-engineering and motivated employees.
- ◆ Strengthening the administrative reforms division to coordinate good governance effort and functional reviews, supported by ATI for capacity building;

- ◆ Widely accessible notification of citizens' charters (based on user and employee consultation) by selected departments, listing citizens' entitlements to various public services with known quality and time limits, and ensuring their implementation in consultation with citizens' groups;
- ◆ Generating citizens' demand for responsive administration through widespread consultations;
- ◆ Identifying and implementing some e-governance applications with demonstrable benefits;
- ◆ Reducing corruption through simplified regulation, process re-engineering, and transparent procurement practices.

Judicial Administration and Governance

A well-functioning judicial system operates with checks and balances between the main branches of government—legislative, judicial and executive. This is vital to each of the key themes of this report that is, a healthy investment climate and environment for growth requires the judicial system to protect property rights and impartially resolve legal disputes; and good governance and administration require that government execute its responsibilities in accordance with the law. A key element of poverty reduction is the equal protection of the poor under the law. The judicial system must be impartial and provide a balanced interpretation of the law while recognizing the constraints and responsibilities of the other branches of government. Some of the issues in judicial administration, with a focus on judiciary-executive relations are examined here.

India performs well in preserving the rule of law. However, the Bihar government has become increasingly challenged in the maintenance of law and order, with financial and administrative difficulties creating extensive litigation against it. This brings the government and the judiciary into conflict over issues of enforcement of rights, policy implementation, and compliance with court orders. The constitutional mechanisms of checks and balances among the three organs of the state seem to be strained and the techniques being utilized for redressing grievances seem distant from what the founders of the Constitution had originally intended.

Growing demands for judicial relief against the government

Since 2000, the vast majority of cases in Bihar's High Court relate to civil writ petitions that involve executive inaction, resulting in violation of a legal right. The writs cover four broad areas: service-related matters of government employees (non-payment of salaries, irregularities in obtaining land revenue; etc.)⁸; irregularities in obtaining land revenue; non-payment of admitted contractual dues; and breach of statutory rights by public utilities.

Public interest litigation

In addition to writs, many public interest litigations (PILs) are being filed in the High Court. In India, the courts are gradually assuming the power under writs and PILs to direct the state on policy matters. In a series of Supreme Court decisions, it has been held that writs can be issued under PILs, to compel government action on matters where the government normally has discretion. However, there are few PILs where the court has actually exercised such discretion. In most cases, the courts order the executive to fulfill an obligation that it is legally bound to perform.

Most PILs in Bihar have shown an urban middle-class bias, such as the infamous Arun Mukherjee PIL. Originally filed to ask for removal of encroachments and street widening, it has subsequently been used for such varied matters as removal of waterlogging, city beautification, and location of bus stands. There have been other PILs though bearing on general social welfare, for instance, to compel the holding of PRI elections, and to protect fresh-water dolphins. Although the majority of PILs are dismissed by the court as frivolous, the executive feels that those admitted are often on administrative and policy issues. They feel the PILs distort public resource allocation and focus on targeted special interests rather than the general population. In addition, there are complaints that a lot of time of senior government officials is being diverted from their primary duties to court appearances that are, on occasion, abusive to them.

The judiciary sees the issues differently citing: repeated instances of government failure to comply with court orders; grave issues at times involved in writs and PILs; court documents not filed for long periods; or government lawyers unable to answer court questions. Indeed, the pat-

tern of cases against the government that come before the court strengthens the perception of a breakdown of governance. The cases include: government programs not being implemented, basic services not provided, corruption, escalating diversion of funds, violence and a general feeling of government apathy. Often, the government simply refuses to comply, resulting in a large number of contempt petitions.

Contempt proceedings against the government

Many writ petitions and PILs have financial implications for the government which, under Bihar's fiscal stress, cannot be financed. The government frequently ignores court orders as a result, leading to contempt of court proceedings. There are currently over 5,500 contempt applications pending against the government in the High Court, 1000 of them from the previous year alone. The government in fact has no financial incentive to comply with court orders since contempt proceedings take two years to be heard (relating to different fiscal years and different postings). The court views this as outrageous, and it has led to an apparently adversarial relationship between the judiciary and the government. It is reported that in the majority of court cases, the government could comply with court orders as the matters are capable of being implemented by the government and yet compliance is achieved only after contempt proceedings.

Many other writs raise issues of administrative inaction or irregularities. Administrative actions sometimes violate the rule of law. A frequent example is writ and contempt applications involving the government's non-payment of retirement benefits. Over 1500 contempt applications are pending relating to non-implementation of orders involving post-retirement benefits. The court has often directed senior government officials to appear before it, as government lawyers are unable to explain to the court the underlying rationale of the government.

The payment of public salaries has also been raised with the Supreme Court of India. Recently, the Supreme Court asked the Bihar Government to deposit Rs.50 crore with the Patna High Court for disbursement of part of the unpaid salaries to thousands of state public sector undertaking (PSU) employees. In many cases, these employees have not been paid for years.

Strain on court resources

Like other states, Bihar suffers from a huge backlog of court cases. The Patna High Court is estimated to have about 90,000 pending cases. Owing to the expansion of the court's writ jurisdiction and the increase in PILs, a significant proportion of court resources are being devoted to them. Out of the 24 judges in the High Court, eight are exclusively devoted to hearing writs and four to hearing PILs. This seriously affects the prompt disposal of other cases and adds to the arrears. On an average, there is a waiting period of about 20 years before a case comes up for hearing.

The quality of legal representation on behalf of the government is also poor. Previously governmental departments had legal cells to advise on litigation, but these have now been abolished. The offices of the Law Secretary, the Advocate General, government pleaders and other standing counsel are not equipped to deal with the growing number of cases against the government. The coordination between them and the concerned litigant departments is weak and results in long delays and inadequacies in filing documents on behalf of the government.

About 80% of the judiciary belongs to the forward castes although they represent about 18% of the total population. It is reported that interests represented by the forward castes are reflected in judicial pronouncements, undermining the implementation of much socio-economic legislation, to the detriment of the weaker sections, such as the Land Ceiling Act and the Bihar Homestead Tenancy Act. Representatives of the weaker sections are slowly beginning to join the legal and related professions and issues concerning their protection and welfare are now being taken seriously.

Reform considerations and approaches

Government litigation is closely linked with administrative reform on two counts. One is the question of procedural reform relating to management of litigation, effective monitoring of cases, proper legal defense, appointment of good pleaders and the provision of support and advice to the heads of departments and secretaries. The other is the need to address systemic causes for recurring petitions to the court for executive inaction, insensitivity to citizens' grievances, civil service complaints or payment of admitted dues by the joint engagement of the High Court and government as exemplified in pension payments. Bihar could draw lessons from

recent studies in Andhra Pradesh, reforms introduced in Karnataka and Andhra Pradesh as well as the lead role being played by the law department.

The large number of contempt petitions in the High Court questions the effectiveness of writ proceedings. Simply issuing of writs is not the answer without delving deeper into the ability of the government to comply with court orders because of administrative or financial constraints. Attempts to engage with the administration have been made on a few occasions in the Patna High Court. The latest is a joint attempt to set up a pension cell within the state departments for dealing with retirement benefit cases coming to the High Court. Such engagement, pending evaluation, would appear to be a much more constructive approach to dispute resolution.

The issues noted here on judicial-executive relations are complex and do not lend themselves to simple and quick solutions. They also can have profound consequences for society, with the potential for major improvements in the way government conducts itself and how the law is administered. A great deal of discussion and open debate will be needed in moving this agenda forward. Some preliminary suggestions include:

- ◆ **Setting up of a system to facilitate proper management of cases against the government.** As brought out in the Report, one of the primary reasons for the poor quality of legal representation on behalf of the government is the lack of infrastructure and resources to manage and advise, inter-alia, on actions and proceedings and coordination between departments. A system in which the government is advised and updated on issues, that are rationally segregated, will help improve the quality of legal representation of the government. It will shorten the ever-widening gap between the government and the judiciary. There is also an urgent need to monitor government cases in the courts, improve the system of appointment of government lawyers and establish a mechanism to ensure proper decision-making for efficiently managing the process of government litigation. In response to a recent directive from the High Court, the government has issued instructions directing all departments to ensure that court documents are filed on time and that court orders are complied with.

- ◆ **A review of court management and administration with the objective of setting up a system for the efficient and prompt disposal of cases.** Owing to the ever increasing litigation and limited resources, leading to virtual denial of justice, such a system is imperative. The judiciary needs to be equipped to better administer the pending cases on a priority basis. Such priority could depend upon factors such as cost, public interest, the number of years a matter has been pending, etc. The court management procedure also needs improvement.

Encouraging alternate dispute resolution

Mediation and alternate dispute resolution may be a more practical and speedy resolution to the majority of pending cases, rather than relying on current court procedures to clear up the massive and growing backlog. This would require panels of trained mediators and conciliators. In addition, the amendments to the Code of Civil Procedure, 1908 for the purpose of speedy and timely adjudication of disputes should not remain merely on paper.

Summary

The quality of governance and the civil service are fundamental to development. They cut across issues of performance in service delivery, poverty reduction, and economic growth. This chapter has focused on public administration and measures to improve its performance.

Bihar's problems with regard to administration include: fragmentation, excessive support staff, inadequate skilled staff, difficulty with redeployment, and antiquated and cumbersome rules, which curb governance. These problems are not unique to India, and certainly not Bihar. However, they are accentuated in Bihar by the extreme centralization of the administration, a weak system of incentives and sanctions, procedural logjams, and by corruption. The difficulty and fear of risk taking, due in part to fear of vigilance inquiries and court direction, has paralyzed decision-making with consequent erosion in development outcomes and performance of basic public services, including core social development affecting all levels of government. Related to this has been the enormous and growing burden of government litigation and contempt orders, due in large measure to Bihar's problems of administration. These are

also key factors behind weak project implementation and forfeiture of centrally sanctioned resources.

There is a large agenda for administrative reform. This chapter has dealt with centralization and decision-making, civil service reform, rationalization of staff and functions, the problems of meritocracy, government accountability, and judicial administration. But this large agenda needs to be prioritized and sequenced in a pragmatic way, bearing in mind the difficulty of institutional reform and Bihar's capacity constraints. Moreover, for the agenda to succeed, its ownership by the political leadership and bureaucracy is imperative. Reforms in Bihar should be simple and practical to take the agenda forward, yield demonstrable benefits, enable quick execution, and be politically non-threatening. The following priorities are recommended for initiating this agenda:

- ◆ **Procedural reforms and amendment of antiquated rules:** (i) Delegate more authority by amending the financial limits under the Rules of Executive Business. This would raise the cost limits for clearing schemes without Cabinet approval, and for departmental expenditure sanction with minimum external reference; (ii) minimize disruption of funding flows for budgeted schemes through budget procedure reform. This will enable utilization of Gol releases through contingency funds, or immediate access to funds kept in civil deposit; (iii) amend rules on cadre rationalization and secretariat procedures including the authorization of transfers across departments to hasten decision-making and enhance administrative capacity by implementing the recent recommendations of the committees of secretaries.
- ◆ **Enable secretaries and field officers to focus on policy and program implementation:** (i) Grant greater departmental autonomy over sanctioned budgets, scheme approvals, publication of tenders and notices, continuation of posts, time-bound promotions, and contingent expenditures; (ii) fill secretariat and technical head vacancies (plan and non-plan), establish transparent rules for vigilance inquiries, and reduce time spent on establishment matters; (iii) delegate more authority to district magistrates, field officers and elected or autonomous bodies, for purchase, tender

approval, staff deployment in key vacancies, and routine maintenance ; (iv) establish a system for effective management of legal cases against the government, including service litigation; and (v) develop measures to improve two-way communication between field staff and the secretariat.

◆ **Making the administration more efficient and responsive:** (i) provide more opportuni-

ties for exchange of experience and experimentation to field officers through workshops in the Administrative Training Institute with dissemination of success stories; (ii) improve tracking and public grievance redressal mechanisms; and (iii) create counter services to enhance public satisfaction.



Notes

¹ The World Bank's 2002 *World Development Report* focuses on institutions, markets and economic development.

² See Report of the Karnataka Administrative Reforms Commission, 2001, and the Report of the Andhra Pradesh Cabinet Subcommittee on Administrative Reforms.

³ Report on Administrative Reforms in India, prepared by Professor S R Maheshwari, former Professor of Political Science & Public Administration, Indian Institute of Public Administration, New Delhi and submitted to the Department of Administrative Reform & Public Grievances, Ministry of Personnel, Gol, 2002.

⁴ See Andhra Pradesh Report on *State Financial Accountability Assessment, 2003* and the Easwaran Committee Report for Gol, 1996.

⁵ See Orissa White Paper on *Public Expenditure Management and Administrative Reform, 2002*, for a lucid exposition of rightsizing strategy.

⁶ See the excellent exercise by the One Man Committee in Andhra Pradesh, 1980, and the recent *Review Report of Service Litigation* by the Andhra Pradesh Center for Good Governance, 2002, as well as the Report of the Maharashtra Committee on Good Governance, 2001.

⁷ See the Report of CGG Andhra Pradesh referred to earlier and the Report of the Institute of Applied Manpower Research, Delhi, 2003.

⁸ There is also some indication of the High Court selectively admitting matters which involve financial claims against the government that should actually be tried as civil disputes.