

EXECUTIVE SUMMARY

This report aims to initiate a dialogue with policy makers in Bihar on the state's complex and challenging development issues. For effective contribution to the dialogue, the assessment has to candidly recognize Bihar's constraints, but clearly support Bihar's own development goals and objectives. The ideas and recommendations in the report are preliminary in nature, hence the title, *Bihar: Towards a Development Strategy*.

The challenge of development in Bihar is enormous due to persistent poverty, complex social stratification, unsatisfactory infrastructure, and weak governance; problems that are well known, but not well understood. The people of Bihar — civil society, businessmen, government officials, farmers, and politicians — also struggle against an image problem that is deeply damaging to Bihar's growth prospects. An effort is needed to change this perception, and to search for real solutions and strategies to meet Bihar's development challenge.

The main message of this report is one of hope. There are many success stories that are not well known outside the state which demonstrate Bihar's strong potential, and could in fact provide lessons for other regions. A boost to economic growth, improved social indicators, and poverty reduction will require a multi-dimensional development strategy that builds on Bihar's successes and draws on the underlying resilience and strength of Bihar's people.

Bihar's Development Challenges

Bihar's development challenges must be considered in the light of India's overall development agenda. Located in the most densely populated part of the "Hindi heartland", Bihar is India's third most populated state with a total population of 83 million, and accounts for one-seventh of India's population below the poverty line. The state's per-

formance lags seriously behind national trends, and is a significant contributing factor to the growing income gap across states. If Bihar does not enter the mainstream of national economic growth and prosperity, its performance disparities will continue to widen significantly.

Poverty in Bihar

Nearly 40% of Bihar's population lies below the poverty line, the highest in India. Its poverty gap, which measures the depth of poverty, is also far above the national average. Modest progress was made during the 1990s (1993-94 to 1999-00), reducing poverty by nearly 7 percentage points, but the rate of poverty reduction was well below the national average. This has been accompanied by much slower progress than the rest of India in meeting the Millennium Development Goals (MDGs). By current trends Bihar is projected to fall well behind on most of the MDG targets for 2015, undermining national performance. Although progress has been better in some areas, such as infant mortality and household access to improved water supply, it is from a low base, and a substantial performance gap in relation to the rest of India persists. In other areas performance has been far worse: net primary enrollment actually fell over the 1990s, and access to improved sanitation has barely changed.

The profile of poverty in Bihar is complex, but is key to understanding how people fall into poverty and how they are likely to be differentially impacted by public policy interventions. Rural poverty incidence (41.1%) is substantially higher than the urban level (24.7%); with a low urbanization rate, poverty is predominantly rural. Rural poverty is associated with limited access to land and livestock, poor education and health care, as also well-paid occupations and social status. The rural poor tend to depend on agricultural wages or casual non-farm

jobs for income, a large percentage being landless or near-landless, owning lower quality livestock, and likely to be poorly educated (80% of the bottom quintile household heads have no education). Social or caste characteristics are also strongly associated with a lack of opportunities: scheduled tribes are thrice as likely to be poor as compared with upper castes, and significantly so in relation to Muslims and backward castes.

The challenge of improving growth performance

Bihar's growth performance, which was slightly below the national trend in the 1980s, became far lower subsequently. The state experienced zero growth in the first half of the 1990s, and since 1994-95, when data for divided Bihar became available, annual growth has averaged 3.8%, or about 1% per annum in per capita terms. As a result, income growth and consumption levels in Bihar have lagged seriously, thereby widening the gap between Bihar and the rest of India. Underlying this result has been Bihar's exceptionally weak performance in agriculture and modest performance in services. A somewhat better performance has been experienced in the industrial sector, but this is from a very small industrial base.

Agriculture is the bedrock of Bihar's economy, employing 80% of the workforce and generating nearly 40% of gross domestic product (GDP). Improving the performance of agriculture and related rural non-farm activity is therefore important for maintaining livelihoods and reducing poverty levels. However, agriculture has performed particularly poorly, declining in the early 1990s by 2% per annum and growing by less than 1% per annum since 1994-95 (hence falling in per capita terms). Agricultural output has also been highly volatile due to shocks from both drought and periodic monsoon flooding. Crop productivity trends have been below the Indian average for most cereal crops, and far below their potential yield, given Bihar's fertile land and water resources. The causes for the large yield gap (which is the difference between current and optimal production) are numerous: low investment rates, lack of water management with annual flooding of the Gangetic plain districts, and weak transport and marketing infrastructure. Severe fragmentation of land holdings also impedes productivity, and subsistence farming continues to

predominate. Poor agricultural growth has clearly been a major factor hindering poverty reduction, and has serious implications for the consumption security of poor households.

The declining level of investment in Bihar has led to low growth performance. Private investment in the state has been exceptionally low as compared with other states, and Bihar's share of private projects being implemented in the 1990s was the lowest among the major states. Public investment levels have also seen a downward trend, partly due to the state's fiscal constraints.

Fiscal difficulties significantly challenge the public sector and the government's contribution to growth. Bihar is the beneficiary of large tax transfers from the center (among the highest per capita transfers in India), but the state still faces serious fiscal constraints, more severe than those confronting many other states. Fiscal deficits have been high, pushing up the debt level to among the highest in India. Bihar's own state revenues barely cover interest payments on the debt. The state's bifurcation in November 2000 has exacerbated the fiscal outlook, as the new state of Jharkhand received most of the revenue-yielding industrial and mineral resources while Bihar retained most of the liabilities. A consequence of fiscal stress has been a deterioration in the mix of public spending: the share of capital spending has dropped sharply from around half of total spending in the mid-1980s to one-fifth in the post-bifurcation period. Although the share of social services in total spending has been maintained, the share of economic services has been cut by over half, which has also negatively impacted growth. Bihar's fiscal crisis is also evident in deteriorating road quality, dilapidated schools, health clinics with no medicines, and very low levels of rural electrification.

Program resources allocated to Bihar from the center are also not being fully or efficiently utilized even though Bihar is more dependent on these transfers to finance public investment and development programs than most other states. Given Bihar's significant development needs, the efficient use of such funds is vital. Bihar has the country's lowest utilization rate for centrally funded programs, and it is estimated that the state forfeited one-fifth of central plan assistance during 1997-2000.

The challenge of strengthening social service delivery

Lack of education, poor health, and inadequate access to safe drinking water and sanitation are closely associated with, and perpetuated by high levels of poverty. Differences among social groups in Bihar are acute and have been persistently so over the decades. Education enrollment and literacy rates are far below the national average, and reveal large differences in education outcomes across gender, social and economic groupings. In the case of some health outcomes, for example access to safe drinking water, Bihar does slightly better than the national average. However, child mortality rates exceed that of most other states, child nutrition is among the worst in India, and only 10% of children were fully immunized in 2000.

The main reason for poor social sector outcomes is deficiencies in service delivery, particularly in services that affect the poor and where the government plays a dominant role. For example, a chronic problem in public educational services is teacher absenteeism. Administrative deficiencies compound the problems: there is a lack of monitoring, frequent use of teachers in other work capacities, inadequate resources, and slow recruitment of teachers. As a result, in recent years, the pupil-teacher ratio has risen to more than 90:1 in primary schools.

A similar situation exists in the health sector. There is a serious shortfall of health sub-centers and primary health clinics compared to existing national norms. More importantly, existing centers and clinics are beset by endemic problems relating to quality standards: poor maintenance of facilities, idle equipment (mainly due to lack of power), and chronic short supply of medicines and vaccines, particularly in the rural areas. Unlike the case of education, where there is little private presence in service delivery, there is significant reliance by households on private health providers for critical health services. In Bihar, the ratio of private spending on health care, relative to public spending is the second highest in India. More than half of the women rely on the provision of pre-natal care by private providers, compared to just one-fifth on government providers.

Public subsidies often fail to reach the poor. Both education and health subsidies are skewed in favor of the upper economic groups, and in particular towards males, especially in the case of secondary education. There are four main reasons for this in

Bihar. First, public spending does not favor the poor or the services they need, even if the government devotes an adequate share of its budget to health and education (which it does not). Second, not all the money spent reaches the front line provider due to leakages and corruption. Third, service providers must be present to ensure that services reach the poor, but Bihar's absenteeism rates are among the highest in India. Fourth, there is a lack of demand for public services in the state due to poor quality of these services, the high cost and time required to access them, and the influence of local cultural factors (e.g. undervaluation of girls' education).

Bihar has many poverty alleviation programs to improve the livelihoods of the poor and socially disadvantaged, virtually all of them supported through the central government. Their performance appears to be quite weak in general, mainly due to mis-targeting of funds and institutional difficulties in using government funds effectively. The problem of mis-targeting appears to be serious. Evidence relating to the beneficiaries of the public distribution system (PDS) — Bihar's most important social safety net program — reveals that under-coverage (qualified poor households which do not receive the food subsidies) totaled 89% in 1999-00, and leakages (non-qualifying families that receive benefits) equaled 46% in the same year. The Integrated Rural Development Program (now known as the Swarnjayanti Gram Swarozgar Yojana or SGSY), and other programs also show ineffective targeting.

The challenge of strengthening public administration and governance

Bihar's difficulties with service delivery and utilization of central program assistance show serious constraints in public administration. As elsewhere in India, the public service norms in Bihar are poorly defined, political interference exists, and the bureaucratic system is largely non-meritocratic. However, there are some additional unique factors that contribute to the governance problems facing Bihar. One of these is Bihar's highly centralized government, which impedes decision-making and project implementation. For example, high-level authorization and committee approval is required for even relatively minor decisions on purchases, tenders, land leases, and other personnel matters. This has led to serious bottlenecks that, among other things, slow the disbursement of funds and the project cycle of government programs. Civil

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service recruitment is another serious problem, with large imbalances across functional needs and levels. Important vacancies, such as positions for teachers and engineers, exist alongside serious overstaffing in the lower ranks. The lack of reform in service rules and regulations has also generated avoidable costs. Bihar's current system for recruitment, promotion and sanctions tends to be ad hoc, non-transparent and non-meritocratic. The departmental structure is fragmented, and important areas of policy convergence — poverty reduction, family planning, and agricultural development — suffer from conflicts over departmental turf. Finally, a series of high-level corruption scandals have given the state a reputation, whether justified or not, of being corrupt, and highlight a lack of accountability to citizens' grievances and redressal.

Bihar's financial and administrative difficulties have led to an enormous amount of litigation being brought against the government, mainly through writ petitions for service-related matters of employees (non-payment of salaries, land revenue irregularities, etc.) and public interest litigations (PILs). The objective of PILs is to press for government action where government normally has discretion; in some instances these have been frivolous, while in others they have accelerated important government initiatives, such as local elections in 2001. The government's inability to afford actions mandated by PILs has led to stalling tactics or their being ignored. This in turn has led to contempt of court action against the government, of which over 5,500 applications are pending, most of them dealing with non-payment of pensions. Such litigation is costly and inefficient, straining a court system that already suffers an estimated backlog of cases stretching 20 years.

Finally, the perception of serious law and order problems in Bihar poses a further governance challenge. Although official statistics suggest that Bihar's crime rates are similar to many other states, the general perception of widespread lawlessness and organized crime is quite different. Thus Bihar has the reputation of being a high-risk state, where extortion and crime is directed towards businesses and professionals. This seriously discourages businesses from locating in Bihar.

Towards a Development Strategy

Placing economic and social development objectives as central to government policy is vital for

transforming Bihar's human and economic landscape. It requires moving away from a narrow focus on political gains or special interests to making development outcomes the measure of good governance. In other words, it means shifting political and civic discourse to focus on building roads, controlling floods, and educating children. This shift in focus, which may already be under way, could prove a catalytic force in bringing about development.

A development strategy for Bihar will require a multi-dimensional approach across sectors and institutions. Improving educational and health outcomes requires working with different communities and organizations - private, public, and non-government- to leverage scarce resources. It will require developing a vision and strategy for reforming the administrative system to remove antiquated rules, strengthen capacity, and eliminate the paralysis in decision-making. And it will also require improved fiscal performance to manage the mounting debt and carefully shepherd the state's scarce resources in the right direction. This report argues for a basic development strategy that rests on two key pillars: (a) enhancing Bihar's growth performance by establishing a healthy investment climate to encourage entrepreneurship, investment, and the spread of improved technologies, particularly in the rural sector; and (b) supporting human resource development through improved quality and access to social services, particularly for the poor and socially disadvantaged communities.

Pillar I: Improving economic growth through strengthening the investment climate

The first development pillar involves strengthening Bihar's investment climate to enhance the use of Bihar's current agricultural and human resource base, attract new productive resources and create jobs. Generating productive income-earning opportunities in agriculture remains pivotal to reducing chronic poverty while the rural economy continues to dominate economic opportunity over the medium term. The primary reason for Bihar's weak investment level and growth rate is its poor investment climate. Several contributing factors are identified, including inferior infrastructure (roads, power, water, telecommunications), weak financial markets and low access to credit, shortage of skilled labor, poor law and order, and a general lack of political support for private investment. Of these,

the two most important priorities for the government's growth strategy are strengthening Bihar's weak infrastructure and improving law and order.

The key infrastructure services that require public sector delivery are water management and roads, particularly for boosting investment and output of agriculture, agro-industry, and related services (transport, storage, marketing, etc.). The public sector has an important role in basic capital investment and maintenance of large- and medium- scale water management systems for irrigation, as well as sanitation and urban water supply. Private and community management of small-scale irrigation and feeder systems has proved effective where communities have been able to organize and appropriate the benefits with low bureaucratic or political interference. Reliable and affordable power supply is also an important part of the investment climate; a reform agenda in the power sector should aim to reduce public subsidies to the ailing Bihar State Electricity Board (BSEB), and explore alternative partnerships and decentralized models of power supply, particularly for rural areas. Strengthening of rural infrastructure is also needed to reduce the sharp swings in agricultural output, and should aim to target this key sector's constraints of water control and flooding, rural power supply, and market access. Complementing this is the well-targeted public support for extension services and for agricultural research and development (R&D), appropriate to Bihar's topology and crop profile.

The second priority for strengthening the investment climate is improving basic law and order, and in doing so, reversing the perception of endemic problems in this area. The perception of Bihar's deteriorating law and order problems is clearly a risk factor which current and potential investors are very concerned about. Detailing a strategy for improving law and order goes well beyond the scope of this report. However, it is clear from investor surveys and interviews that high-level government attention to the problem is needed, even if the official view is that statistics point to problems no worse than those of many other states.

Bihar has some encouraging models of entrepreneurial success that provide lessons for what is needed to help businesses thrive. The profitable Bihar State Cooperative Milk Producers' Federation Ltd (COMFED) has been extraordinarily successful and has improved the lives of many

thousands of families. Another example is Bihar's litchi export industry, which accounts for about 70% of India's total production. Both COMFED and the litchi industry build on areas of Bihar's strength in farm-based agro-industry, but have different organizational characteristics. COMFED's success points to the critical importance of professional management that is free from political interference. Its horizontal production base and vertically integrated structure were conducive to broad membership and participation, and its business design focused on sustaining the financial interest of its members. By contrast, litchi cultivation has evolved with no direct government or organizational support. Increased international demand and entrepreneurial traders with a business plan have managed to develop a production chain, utilizing pre-harvest sales arrangements and contract farming packages including seed, fertilizer and credit. There is scope for extending both models geographically and into other products, provided there is adequate infrastructure, and freedom from harassment (law and order). Direct state investment or subsidies are not an issue.

Pillar II: Strengthening social service delivery

A critical complement to the first development pillar is investment in human resources to meet social development goals and to support medium-term economic growth. This is particularly important for the rural poor for whom access to basic health and education services is essential to empower them and enable their participation in productive income-earning opportunities, as also movement into off-farm activities. A robust social service delivery system requires attention to three core relationships: (i) between policy makers and service recipients (in rural areas these are primarily poor people) to make policies responsive to people's needs; (ii) between policy makers and service providers to ensure quality standards; and (iii) between end clients and service providers to strengthen accountability mechanisms. Together, these help to ensure that social services are actually provided, well targeted, and responsive to community needs. There is a need in Bihar for developing a coherent policy framework based on a strategic plan that reflects the needs of beneficiaries, the responsibilities of service providers and the state, and addresses key delivery constraints. It must also have the support of the political and bureaucratic establishment.

Implementation of a sound strategic framework requires several complementary inputs. Most importantly, this calls for administrative arrangements to demarcate lines of responsibility between various levels of government, departments, and service providers, and includes a clear accountability framework and system of incentives that rewards competence. Bihar has a sizeable agenda for administrative reform, as discussed below. Financing arrangements that allocate resources to priority uses, are financially sustainable, and avoid wastage and duplication, are clearly another element of this strategy. Finally, improving service delivery will benefit from strengthening local governments, along with their capacity to plan, govern, and monitor local schools and health clinics, all of which will improve the linkages between beneficiaries and service providers. The gradual devolution of resources and responsibilities to the local government and pupil-teacher ratios (PTRs) holds the potential to fulfill this role provided it is done gradually, with adequate attention to developing local management capacity.

An important vehicle for strengthening service delivery is increasing community involvement in program design and implementation. The experience of the District Primary Education Programme (DPEP) in Bihar provides an example. Although DPEP has had mixed success in Bihar, the organization of village education committees (VECs) has helped to make teachers accountable, and provides evidence of the importance of community involvement in improving outcomes. It also points to the need for an integrated service delivery vision that brings policy makers together with service providers and the poor, helping to empower beneficiaries through community voice and action.

The state of health care in Bihar raises additional concerns. The skewed benefit incidence of health subsidies demonstrates the need to better target health sector spending. For example, the emphasis should lie on improving immunization delivery, which benefits the poor, rather than concentrating on hospital services, the benefits of which are skewed heavily towards the better-off. There are also opportunities to explore innovative delivery mechanisms relying on private-public partnerships involving private providers. The experience of Janani, an NGO operating through a large network of rural medical providers in a two-tiered franchise structure, has been remarkably successful. While adhering to com-

mercial principles, subsidized family planning services have been extended to rural and urban families, including to the poorest of the poor.

Janani's experience, and that of other NGOs in Bihar, demonstrates that innovative partnerships for the delivery of social services can be highly effective and can complement or substitute public services, particularly where these are weak. The highly successful effort in Muzaffarpur district involving the district administration, local communities, NGOs and thousands of volunteers to implement the National Literacy Mission's adult literacy program is a case in point. The Muzaffarpur effort has been recognized as an example to be emulated in the country. It demonstrates the potential for highly successful development outcomes in Bihar where communities, the government, and the incentive structure work in tandem. Building on Bihar's extensive network of women's self-help groups is another avenue for such collaboration, which could lead to leveraging public resources to secure more effective service delivery while empowering local communities.

Supporting the development pillars

To support the above mentioned two development pillars, there is also a clear need for better management of public resources to reduce waste and improve resource mobilization, and administrative and governance reforms.

Fiscal reform strategy. There are three main elements of a fiscal reform strategy:

(a) Developing a medium-term expenditure framework (MTEF) around which feasible and sequenced fiscal measures can be envisioned to address the issue of expenditure restructuring. This is a simple framework to organize the main components of fiscal reform — for example, meeting fiscal targets through rationalizing low-priority expenditures, liquidating public enterprises, restructuring high-cost debt, and balancing new investment with recurrent operations and maintenance requirements. Annual budgeting should be monitored against the goals of the fiscal framework:

(b) Strengthening public expenditure management in the areas of budget preparation, accounting and audit, procurement, and cash management. This should complement expenditure reviews to priori-

tize programs and identify areas of waste. In each of these areas there is a large and growing body of experience across Indian states for Bihar to draw on; and

(c) Addressing constraints in the use of central assistance and project implementation to improve utilization rates. Beyond this, Bihar should take the initiative for changes in the design of central government programs to meet local needs. Examples include flexible arrangements for funds released to accommodate Bihar's seasonal cycle and monitoring arrangements to quickly identify expenditure bottlenecks.

The administrative reform agenda. Tackling Bihar's large administrative reform agenda is fundamental not only to the efficient use of public resources, but also to the improvement of many dimensions of government performance. The most important is the quality and effectiveness of core public service delivery, both infrastructure services which underpin the first development pillar and social services that underpin the second pillar. Six areas are discussed in the report, including: strengthening decision-making procedures, restructuring civil service staffing, establishing meritocratic civil service practices, rationalizing government functions and staffing, and making government more accountable to citizens. The recommendations stress from the outset that ownership by the political leadership and bureaucracy is vital to success. A starting point is the reform of Bihar's antiquated procedural rules that impede the downward delegation of decision-making authority and disrupt the flow of funds. Secretaries and senior field officials must focus on policy and program implementation, which requires: (i) steps to grant greater departmental autonomy over budgets, recruitment, scheme approvals, etc; (ii) filling secretarial and technical head vacancies; (iii) transparent rules for vigilance inquiries; and (iv) better two-way communication between field and secretariat staff.

Related to improving government administration is the need to strengthen the management of the gov-

ernment's load of legal cases, which has become an extraordinary burden on senior officials' time. It is recommended that a well-defined system for managing the government caseload be instituted, a review of court management and administration be set up, aimed at prompt disposal of cases, and consideration be given to alternative dispute resolution mechanisms.

The Road Ahead

Bihar faces many daunting challenges, but despite a difficult environment there are instances of successful development efforts. These demonstrate that projects can succeed, entrepreneurship can thrive, and that strong leadership and a vision for change could yield dramatic results. Such examples can also provide lessons for other states in India and abroad. One need look no further than the COMFED dairy cooperative, Muzaffarpur's National Literacy Campaign, or the Paliganj Participatory Irrigation Management experience as examples of excellence. The challenge facing Bihar today is to build on these successes, draw lessons from them, and use them to underpin the state's future development.

While this report has attempted to analyze some of Bihar's main development constraints and formulate some basic policy recommendations, the coverage is by no means complete. The issues raised here require further discussion and debate within and outside government. As part of a broad effort to strengthen the development dialogue and impart prime importance to the development process, initiatives should be taken to combine external expertise with local knowledge, and invite public debate. The five areas where further analytical and strategic efforts need to be focused have been identified: (i) improving Bihar's investment climate; (ii) public administration and procedural reform; (iii) strengthening the design and delivery of core social services; (iv) budget management and fiscal reform; and (v) improving public law and order.