

# 01

## A New State: Emergence, Features and Challenges

The state of Jharkhand, India's twenty-eighth state was carved out of southern Bihar and came into existence on November 15, 2000. It is bound by Bihar on the north, West Bengal in the east, Orissa in the south and Chhattisgarh and UP in the west. It covers an area of 79,714 sq km, with 22 districts, 32,616 revenue villages and a population of 27 million according to the 2001 census. With 28 percent of the state's population comprising tribal communities (compared to the all-India average of 8 percent), Jharkhand was created as a "tribal state".

The historical evolution of the state has an important bearing on the understanding of its current conditions. The creation of this state was mobilized by the Jharkhand Mukti Morcha (JMM) movement that gathered momentum in the mid-1980s. However, the move for a separate state goes right back to the time of independence when, in 1947, the All India Jharkhand Party came into being. In short, the creation of the new state had antecedents of considerable political and social mobilization.<sup>9</sup> Following the bifurcation of the state, a BJP coalition came into power in Jharkhand with the state assembly being made up of legislators elected in the last all-Bihar elections that took place in 2000. The state had its first elections in February 2005 that were closely contested and resulted in a BJP coalition returning to power. The opposition comprised the JMM, Rashtriya Janata Dal

(RJD), Indian National Congress and the Communist Party of India (CPI).<sup>10</sup>

Jharkhand has a rich endowment of natural resources – forests, minerals and abundant land. With only 2.7 percent of the population of India,<sup>11</sup> the state possesses approximately 33 percent of its mineral reserves, and is particularly rich in coal and iron ore. The Dhanbad-Jharia coal belt, the minerals of Giridih and the steel towns of Jamshedpur and Bokaro are among its national assets.

There were several advantages that emerged from the separation of Jharkhand from Bihar. It took away a bulk of the parent state's industrial, educational, mineral and forest assets and one-third of the population. But Jharkhand remains, along with residual Bihar, among the most food-insecure states in the country. The Vision 2010 document of the government admits to a 52 percent deficit in food grain production, with 230 grams per capita daily availability against the all-India average of 523 grams. Undivided Bihar had the highest rate of child malnutrition in the country in 1992/93. This is still true of Jharkhand today as indicated by the recent 2005/06 National Family Health Survey (NFHS) round.

The monitoring and analysis of the economy is severely constrained due to the lack of data not only for the period

<sup>9</sup> On the history of the formation of Jharkhand as a political identity, see Prakash (2001) and Corbridge *et al* (2004).

<sup>10</sup> The ruling political coalition, however, remains fragile, as indicated by the recent political development, whereby a new coalition government came to power in September 2006.

<sup>11</sup> According to the 2001 census.

up to 2000 but also for the last five years. A quantitative review of the economy can thus be regarded only as broadly indicative. However, despite inadequate data, certain key features of the economy and development challenges emerge.

## Poverty and Social Indicators

Jharkhand has one of the highest levels of poverty in India, with a sharp contrast between rural and urban poverty.<sup>12</sup> The incidence of poverty at the state level is assessed at 44 percent in the state compared with 26 percent for India as a whole (Figure 1.1 and Table 1.1) There is, however, a sharp contrast between rural and urban poverty. The incidence of rural poverty, assessed at 49 percent in 1999/00, is the highest among all Indian

states, with the second highest being Orissa (48 percent), followed by Bihar (44 percent), Assam (40 percent), and MP (37 percent).<sup>13</sup> In contrast, the incidence of urban poverty is only 23 percent, which is similar to or better than many advanced states such as AP and Maharashtra (27 percent), Karnataka (25 percent), Tamil Nadu (23 percent), and much lower than in Orissa (44 percent) and Bihar (34 percent).<sup>14</sup>

An analysis of poverty trends based on NSS rounds throws up interesting results:

- **There is broad consistency in annual growth rate estimates between survey-expenditure and GSDP data.** The annual growth rate in per capita consumption expenditure, as estimated from the NSS data, is around 2 percent for the thick round

Table 1. 1: Trends in Poverty as per NSS Thick and Thin Rounds

Poverty Measures	Thick Rounds (50 <sup>th</sup> & 50 <sup>th</sup> )		Thin Rounds (53 <sup>rd</sup> & 58 <sup>th</sup> )	
	1993/94	1999/00	1997	2002
<b>Rural</b>				
Head-Count	61.7	49.2	59.4	47.1
Poverty Gap	16.1	10.1	15.7	10.5
Squared Poverty Gap	5.6	3.1	5.5	3.3
<b>Urban</b>				
Head-Count	27.7	23.1	10.3	14.5
Poverty Gap	5.4	5.3	2.4	1.7
Squared Poverty Gap	1.4	1.8	1.0	0.3
<b>All</b>				
Head-Count	55.6	44.0	50.6	40.6
Poverty Gap	13.9	9.0	13.3	8.7
Squared Poverty Gap	4.8	2.9	4.7	2.7

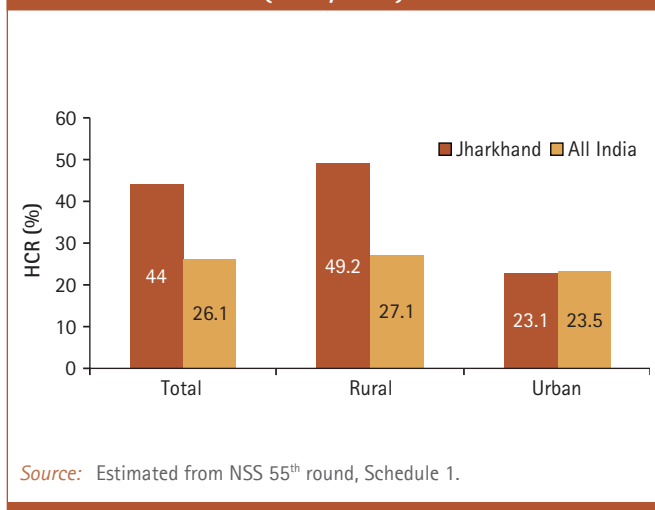
*Source:* Estimated from the unit-record data of successive NSS rounds using Jharkhand-specific poverty lines. Comparisons are valid only within each category of NSS rounds. These are "unadjusted" poverty numbers based on reported consumption in Schedule-1 of NSS (see, footnote 1 below).

<sup>12</sup> In most cases data was not available after 2002, limiting the team's ability to fully diagnose and assess the impact on poverty reduction.

<sup>13</sup> Note that these poverty estimates are "unadjusted" i.e. without making any Deaton-Dreze (2002) type of adjustment for any possible overestimation of per capita monthly consumption from the simultaneous recording of food consumption through 7-day/30-day memory recall in Schedule 1 of NSS. Hence, only the official poverty numbers are used here for state-level comparisons for both rural and urban poverty.

<sup>14</sup> In this respect Jharkhand does not stand alone. In fact, the sharpest rural-urban contrast is provided by Assam where the incidence of urban poverty is only 7 percent compared with the rural headcount of 40 percent. Strikingly, both the states have abundant natural resources.

**Figure 1.1: Poverty Headcount—Jharkhand & All-India (1999/2000)**



interval and 1.7 percent for the thin round (Table 1.2). This may be compared to 2.4 percent estimated from the GSDP data.

- **Jharkhand has made considerable progress in reducing poverty since the early nineties, as indicated by data from both the thick and thin rounds.** While comparisons are not possible across thick and thin round estimates, one can go by the rate of progress within each category of NSS rounds (Table 1.2). The rate of overall poverty reduction was quite

impressive—about 2 percentage points a year. This may be compared to 2.5 percentage points a year observed at the all-India level during the same period.

- **The comparative performance was highly uneven between rural and urban areas with faster progress recorded for rural areas.** In general, the pace of rural poverty reduction was faster in both thick and thin round intervals. The incidence of urban poverty dropped as per the thick round, but rose as per the thin round NSS data.
- **The Gini index of consumption inequality has dropped for both thick and thin round intervals for rural areas, while it rose for urban areas.** The latter has increased from 34 to 36 percent during 1994–2000, and rose at an even higher pace during 1997–2002 (Table 1.2).
- **While growth has been the most important explanatory factor underlying the drop in the measures of poverty, contemporaneous changes in inequality also played an important role in both the rural and urban areas.**<sup>15</sup> This is confirmed by decomposing the changes in poverty rates into growth and inequality components (Table 1.3). Thin

**Table 1. 2: Summary Statistics on Consumption Growth and Consumption Inequality (1993–2002)**

Year	Rural				Urban			
	Poverty Line	Mean	Mean/Poverty Line	Gini Index (%)	Poverty Line	Mean	Mean/Poverty Line	Gini Index (%)
<b>Thick Round</b>								
1993/94	212	215	101.4	23.7	239	421	176.7	34.2
1999/00	333	376	112.8	22.2	341	673	197.4	36.0
<b>Thin Round</b>								
1997	278	292	105.0	25.3	285	624	218.9	28.8
2002	348	391	112.9	21.8	356	819	230.0	32.5

*Note:* Poverty line (Rs./person/month) and mean (Rs./person/month) are in current prices. Thick and Thin rounds results are not comparable. However, comparisons are possible within each category of NSS rounds.  
*Source:* Estimated from the unit-record data of successive NSS rounds.

<sup>15</sup> This does not mean that the distribution can be necessarily improved without disrupting the present growth process. The decomposition results are meant to draw attention to initial inequality as a factor of poverty reduction.

**Table 1. 3: Decomposition of Changes in Poverty Measures into Growth and Inequality Components (change in percentage points)**

	Growth Component	Inequality Component	Residual	Total Change
<b>Rural</b>				
<b>Thick Rounds</b>				
H	-14.14	0.32	1.28	-12.54
P (1)	-5.61	-1.40	0.97	-6.04
P (2)	-2.41	-0.71	0.61	-2.51
<b>Thin Rounds</b>				
H	-6.92	-4.21	-1.12	-12.25
P (1)	-2.84	-2.50	0.17	-5.17
P (2)	-1.27	-1.14	0.20	-2.21
<b>Urban</b>				
<b>Thick Rounds</b>				
H	-7.43	1.87	1.01	-4.55
P (1)	-2.20	2.16	-0.03	-0.07
P (2)	-0.73	1.30	-0.21	0.36
<b>Thin Rounds</b>				
H	-1.57	6.73	-0.94	4.22
P (1)	-0.36	0.02	-0.32	-0.66
P (2)	-0.13	-0.56	-0.04	-0.73
<i>Note:</i> Poverty line (Rs./person/month) and mean (Rs./person/month) are in current prices. Thick and Thin rounds results are not comparable. However, comparisons are possible within each category of NSS rounds.				
<i>Source:</i> Estimated from the unit-record data of successive NSS 50 <sup>th</sup> and 55 <sup>th</sup> Thick rounds and 53 <sup>rd</sup> and 58 <sup>th</sup> Thin rounds.				

rounds data provide dramatic contrasts between rural and urban areas in this regard. In rural areas, poverty would have been reduced by only 7 percentage points during 1997–2002 instead of the 12 percentage points actually observed, but for the shifts in the distribution of consumption in favor of the rural poor. In comparison, poverty in urban areas would have dropped by 7 percentage points instead of 5, due to off-setting adverse shifts in the distribution of consumption hurting the urban poor.

- **The state's key social indicators such as literacy, enrolment, infant mortality and child nutrition, are well below the all-India average (Table 1.4).** Although positive changes have been registered in most of these indicators since 2000 there has been striking deterioration in respect of two key indicators

during 1998–2005. These relate to the areas of child malnutrition and infant mortality. The prevalence of child malnutrition (as measured by the proportion of underweight children) has increased from 54% to 59% between the last two NFHS rounds carried out in 1998/99 and 2005/06. Similarly, the infant mortality has risen from 54 deaths to 69 deaths per thousand live births. On account of both these indicators the state's current record appears worst or next to worst among all Indian states. Firstly, the proportion of children underweight in the state, which is assessed at 59%, can be compared to 60% in Madhya Pradesh, 58% for Bihar, 52% in Chhattisgarh, 44% in Orissa, 40% in Assam, and much higher than the all-India average of 46%. Secondly, the infant mortality rate in the state,

**Table 1. 4: Key MDG and Social Indicators 2000**

Indicators	Jharkhand	India
<b>Poverty and Child Malnutrition</b>		
Poverty Head-Count (official estimate)	44	26
Percentage Children Underweight	54	47
Percentage Children Stunted	49	46
<b>Education</b>		
Literacy Rate (6 & above)	54	65
Male	68	75
Female	39	51
Net School Attendance (6–14)	64	77
Boys	71	80
Girls	56	74
<b>Health</b>		
Infant Mortality Rate (2005/06)	69	57
Percentage Children Fully Immunized	9	42
Immunized against Measles	18	51
Immunized against DPT (3 doses)	22	55
Population Growth Rate (1991–2001)	2.3	1.7
Contraceptive Use (any modern method)	25	43
Sanitation Access	15	30
Maternal Vaccination (TT)	51	67
Births Attended by Skilled Attendants	18	42
Percent of Households with Access within 15 Minutes of Safe Water Supply	34	62
<i>Source:</i> NSS 55 <sup>th</sup> round, NFHS-II, NFHS-III, and Population census 2001.		

which stands at 69 deaths per thousand live births, may be compared with 70 in Madhya Pradesh, 62 for Bihar and 57 for the all-India average.

## Growth and Employment

Contrary to its image, Jharkhand is predominantly a mining and industrial state. Close to half of the GSDP of the state accrues from industry with mining, quarrying and registered manufacturing contributing nearly 78 percent of the state's industrial output. It is the country's most mineral-intensive state, with mining and quarrying accounting for 14.3 percent of the GSDP (as compared to 2.3 percent for the rest of India), and manufacturing for 27 percent (as compared to only 17 percent for all India in 2004).

Forestry, from which the state derives its name, contributes only about 1.3 percent of the GSDP. It is interesting to note that the shares of industry, agriculture and services have remained more or less constant over the last 10 years, with industry contributing nearly 50 percent and both services and agriculture contributing 28 percent and 22 percent respectively year after year (Figure 1.2).

Jharkhand's economy grew at an estimated rate of about 4.8 percent from 1993/94 to 2003/04, compared to 6.0 percent for all India (Table 1.5). Almost all sectors

Table 1. 5: Growth of Real GSDP (1993/94–2003/04) (%)

	JH	India
Agriculture and Allied	4.0	2.2
Industry	4.8	5.9
Industry- Mining	3.0	4.6
Services	5.3	8.2
GSDP	4.8	6.0

Source: Central Statistical Organization.

Table 1. 6: Comparison of Per Capita Growth Rates

	1993/94 – 2003/04	
	Nominal	Real
Jharkhand	6.58	2.44
Bihar	7.19	2.28
Orissa	8.38	2.52
Tamil Nadu	10.00	3.97
Andhra Pradesh	10.65	4.69
Karnataka	10.68	5.82
West Bengal	11.80	5.55
All India	9.90	3.97

Source: Central Statistical Organization.

show huge volatility in growth rates year on year. While the agricultural sector grew at a rate of 4 percent (higher than 2.2 percent for all India), the industrial and services sectors grew at lower than the all-India rates. The mining sector, which contributes nearly 15 percent of the GSDP (six times more than the all-India level), grew at only 5.3 percent, compared to an 8.2 percent growth at the all-India level.

The high level of industrialization has not translated into high levels of income for the state. While the per capita income of the state is higher than that of states like Uttar Pradesh or Bihar, it is about half that of the national average (Figure 1.3). The state's nominal per capita income of Rs.14,147 (\$314 approx.) in 2003/04 is below that of countries such as Bangladesh (\$400) and the average per capita income of Sub-Saharan Africa (\$510) as well as states like Orissa, while it is more than double that of Bihar. The gap between the growth of income between Jharkhand and the rest of India has been widening as the state's per capita income has

Figure 1. 2: Sectoral Shares in GSDP

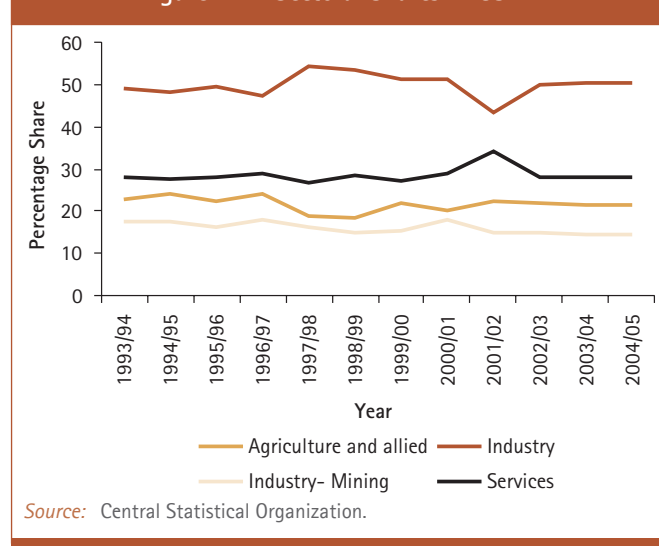
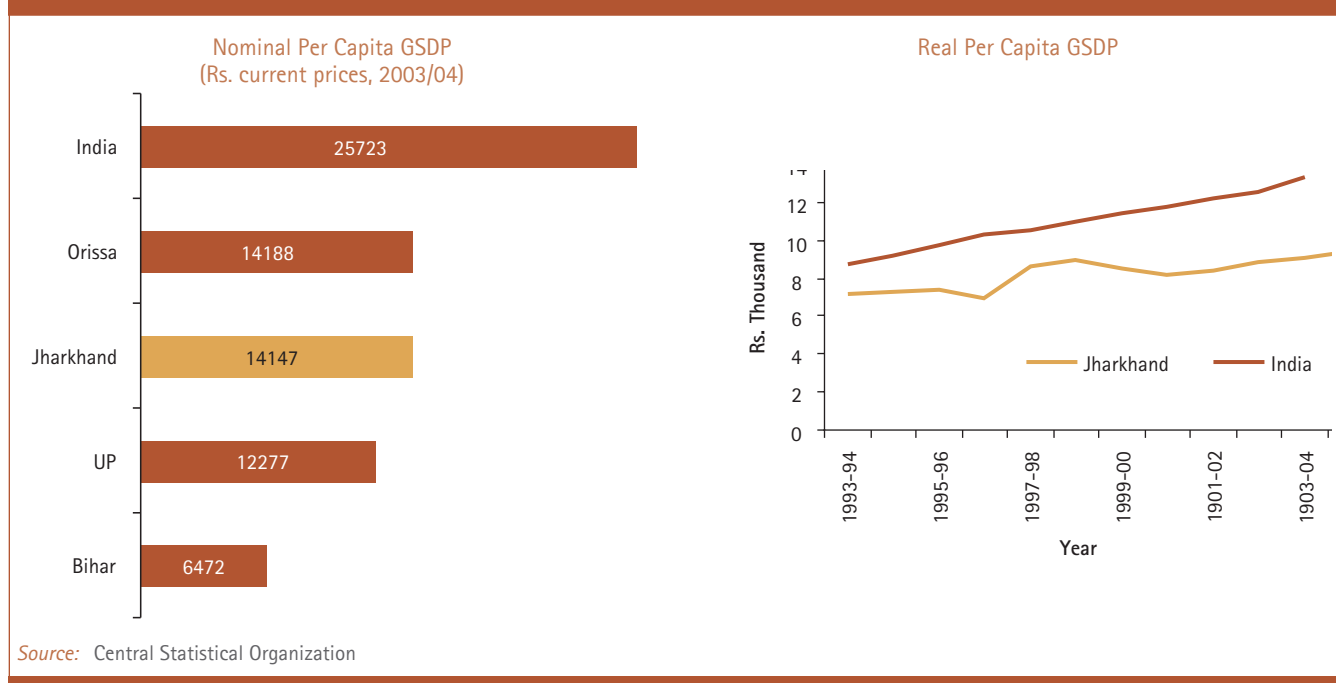


Figure 1. 3: Growth Gap between Jharkhand and Rest of India



grown only at 3.4 percent per annum compared to 4.8 percent for all India between 1993/94 and 2003/04.

**Jharkhand's per capita income has increased slower than that of other states between 1993/94 and 2003/04.** It ranks below Andhra Pradesh, Bihar, Karnataka, Orissa, Tamil Nadu, and West Bengal as well as the Indian average in nominal terms and among these states, it only scores above Bihar in real terms.

**Lower per capita GSDP can be attributed to low levels of productivity across different sectors.** Given that labor force participation rates are roughly similar (32.9 percent for the state against 33.6 percent for India), lower per capita GSDP in the state can be largely attributed to lower productivity. In 1999/2000, nearly 90 percent of the state's workforce was employed in sectors where productivity levels were lower than those for India (Figure 1.4 and Table 1.7). These sectors included agriculture, mining, utilities, construction, trade and hotels, and storage, transport and communication; they contributed close to 60 percent of GSDP. Manufacturing accounted for 30 percent of GSDP but employed less

than 10 percent of the workforce. Further, this diagnosis seems to hold true over time. At the all-India level, the largest increases in labor productivity have been in mining, manufacturing and financial services. Of these, Jharkhand has witnessed a negative growth rate in labor productivity in mining, while the growth of labor productivity in manufacturing has been less than half the all-India figure. Financial, insurance and business services clearly surpassed the all-India growth rate and also showed the highest level of productivity in 1999/00, but contributed only 8 percent of GSDP and negligible employment. Thus even though the state has a large share of industry in GSDP, this has not translated into a high per capita income.

**While the structure of output indicates a high level of industrialization, the structure of employment reveals the predominance of agriculture.** Nearly 60 percent of the employment in the state stems from agriculture (1999/00), with industry and services accounting for 20 percent each (Figure 1.5). These figures are not vastly different from employment trends across the country, as at an all-India level agriculture accounts for 57 percent,

Table 1. 7: Productivity Growth in Jharkhand by Sector (1993-2000)

	1993/94		1999/00		1993-00
	Share in GSDP	Share in Employment	Share in GSDP	Share in Employment	
Agriculture & Allied	22.7	64.7	21.7	59.4	3.6
Industry	49.1	15.7	51.1	19.7	-0.6
Mining	17.6	3.3	15.4	3.5	-0.5
Manufacturing	23.9	7.4	30	9.6	2.1
Others	7.6	5	5.7	6.6	5.7
Services	28.2	19.6	27.2	20.9	1.1
Overall	100	100	100	100	2.7

Source: Estimated from NSS 50<sup>th</sup> and 55<sup>th</sup> rounds, Schedule 10 and CSO data.

while industry and services account for about 18 percent and 26 percent respectively. While the agricultural sector employs 60 percent of the labor force, it contributes only about 20 percent to the GSDP of the state. This sector with its low productivity and large employment contributes greatly to the high rural poverty in the state.

## Prioritizing Development Challenges

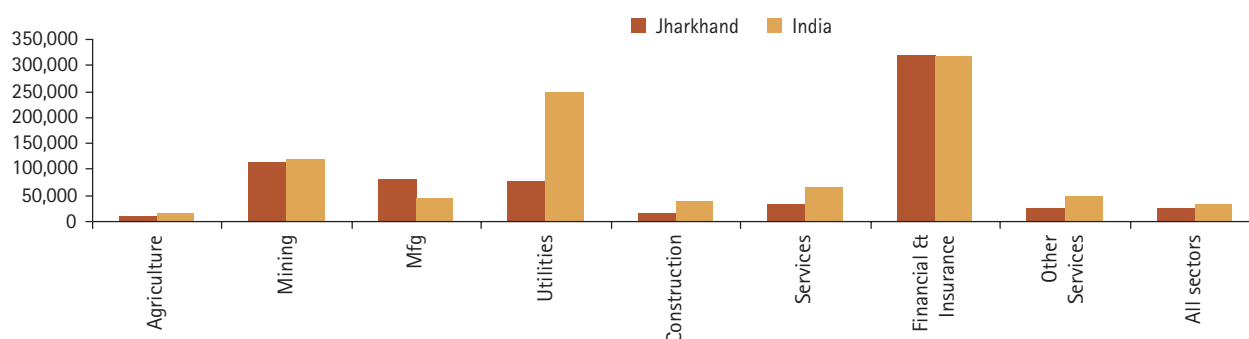
Jharkhand, like many other low-income states, is confronted with many development challenges, some being more important than others from the perspective of a medium-term strategy. As pointed out earlier, the

state has experienced a modest growth rate of 2.4 percent per year in GSDP over the last decade and about 2 percent per year in consumption expenditure over 1997-2002, as estimated from the NSS survey. With one of the highest levels of poverty incidence in India, the state needs to accelerate the overall growth rate and also make it pro-poor.

## Identifying Bottlenecks to Growth

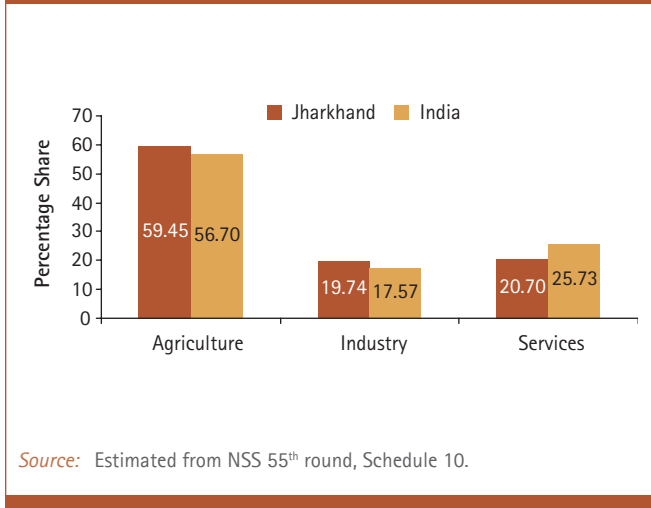
A growth diagnostic for Jharkhand reveals that **poor infrastructure and lack of institutional development are two major constraints to growth.** Infrastructural investments not only accelerate growth, but have strong linkage effects with other complementary inputs such as

Figure 1. 4: Productivity Levels: Jharkhand and India (1999/2000)



Source: Estimated from NSS 55<sup>th</sup> round, Schedule 10 and CSO.

Figure 1. 5: Employment by Sector: Jharkhand and India (1999/2000)



human capital, access to finance, and adoption of new technology. With improved connectivity, for instance, economic and social development literally moves into the connected areas. The impact of infrastructure is larger when used in combination and when designed to link major growth centers.<sup>16</sup> This is because infrastructural elements such as roads, power, telecommunication, water and sanitation, irrigation and storage capacity are often synergistic in nature. Improved institutional performance, on the other hand, reduces the "transaction costs", which, in turn, increases productivity of as well as rate of investment via favorable effects on investment climate.

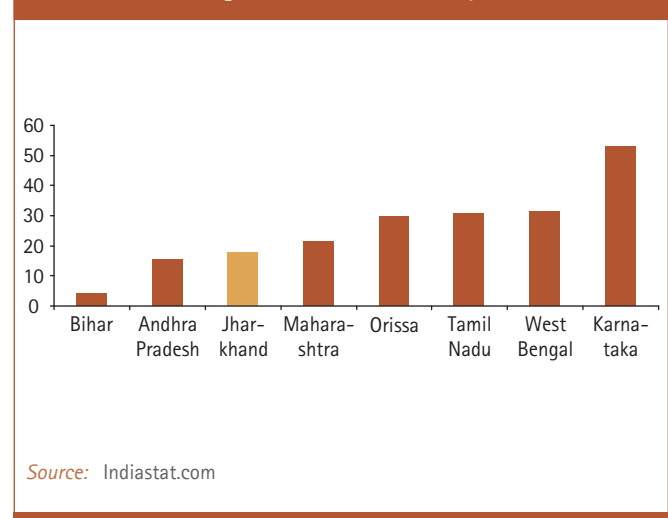
### Access to Infrastructure: Impediments and Improvements

Lack of access to infrastructure can be measured in terms of: (i) under-provisioning relative to the rest of India; and (ii) high unfulfilled demand in key areas such as transportation, telecommunication, power, water supply and irrigation. The extent of deprivation is higher in Jharkhand as compared to the rest of India and higher in rural areas than in urban areas.

<sup>16</sup> One obvious consideration would be to use infrastructural investments strategically to maximize the growth impact, for example, to prevent the often-noted phenomenon of "roads to nowhere" (Easterly 2006).

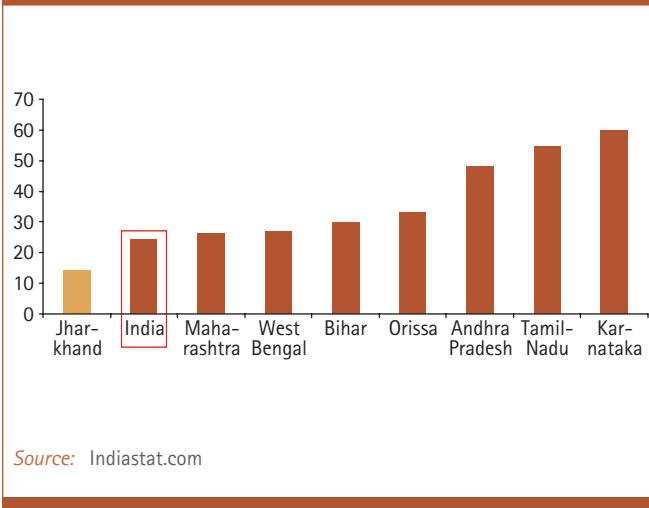
Jharkhand (along with Bihar) has one of the poorest road connectivity among all Indian states, resulting in high transportation costs. Gains from road investments can be quite high especially when all-weather, good quality roads connect communities with "growth centers". The centers reduce the cost of doing business, especially for the small and informal sectors and for those residing in rural areas. This can be measured both in terms of road density as well as surfaced to total road ratio (Figure 1.6 and 1.7). In terms of road density the state ranks third lowest in this sub-sample, better than Bihar and AP, but much worse than the other states such as Orissa and West Bengal. In terms of the proportion of surfaced roads in total road length, a more revealing indicator, the state ranks the lowest. The extent of the high shadow price on roads can be assessed from the relatively high returns on roads in the state. Households residing in villages with good approach road connectivity have, on average, 18 percent higher income than their counterparts without such access. The largest impact is noted in households, which reside in villages directly connected to wholesale markets by good road access (where the difference increases to over 40 percent).<sup>17</sup> Hence, significant gains can be achieved with improved road connectivity.

Figure 1. 6: Road Density



<sup>17</sup> Estimated from the Rural Jharkhand BaseLine Survey Data (see Chapter 3).

Figure 1. 7: Percentage of Surface Roads



**Improvements in road service delivery require better planning, core process improvements, investments and rural road management in the near future.** A medium to longer term objective could be to assign larger responsibilities, foster ownership, user charges and road transport improvements in general. The creation of a computerized MIS is absolutely essential for planning and taking stock of assets. Core process improvements, such as transparency in public procurement including better performance-based contracts for both investment and maintenance can enhance sector outcomes. Simultaneously the sector

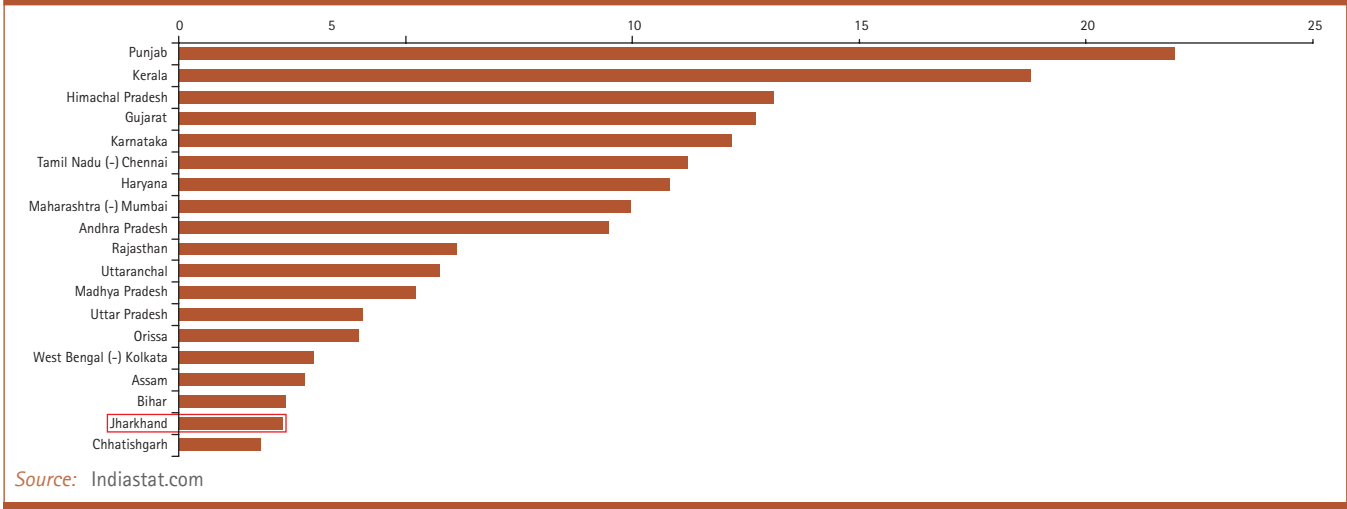
requires huge investments, roughly 2–3 times of recent annual outlays. Rural roads are being funded through the Pradhan Mantri Gram Sadak Yojana (PMGSY), and the best way forward would be to expand well-established policies and procedures under this scheme to cover all rural roads.

**Jharkhand has one of the lowest tele-densities in India. The state ranks third from the bottom with slightly improved ratios compared to Chhattisgarh and Bihar.** The lack of telecommunication places the rural poor in Jharkhand at a clear disadvantage compared to other states. This is especially true as a third of the population lives in difficult high terrain where it is not easy to build routine road networks (Figure 1.8).

**The power sector in Jharkhand has good business potential.** The state is well endowed with coal and has the potential for low-cost power generation, particularly if power plants can be set up in the vicinity of coal mines. The sector has a good consumer mix, with a high proportion of industrial load. In addition, the state is free from the legacy of large supply of power to agriculture and low tariffs that plague most states in India.

**Despite the good business potential, access to power in the state is very low, as judged from per capita**

Figure 1. 8: Overall State-wise Teledensity (2004/05)

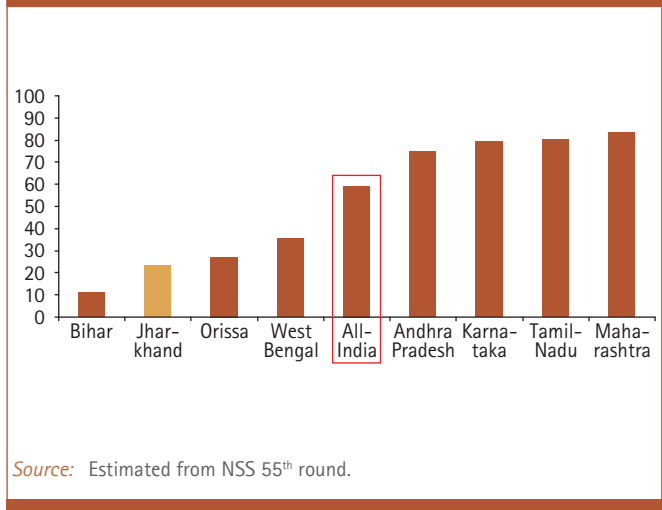


**availability, community connectivity, and household access.** The average power consumption is only 30 kwh per capita, the lowest in India, (Bihar touching 45 kwh per capita) as compared to 373 kwh per capita for all India. Only 40 percent of the communities in the state have power connectivity (second lowest after Bihar) as against 86 percent at the all-India level.<sup>18</sup> The gap between the state and the rest of India is even more striking at the household level. Only 23 percent of households have access to electricity compared with the all-India average of 59 percent (Figure 1.9), while in rural areas access is less than 10 percent.<sup>19</sup> High costs of production and high industrial tariffs coupled with poor collection efficiency, have a significant, though poorly understood, negative fiscal impact. Not only do subsidies finance and perpetuate inefficiency in the power sector, they also have an opportunity cost to the GoJ in terms of foregone investments in other sectors.

**High shadow prices on electricity can be judged by two indicators: (a) relatively high power tariffs; and (b) relatively high return from access to power.** In the case of Jharkhand (unlike some other states with a very high degree of non-technical system-loss) the level of transmission and distribution (T&D) losses is lower than the all-India average (26 percent vs. 33 percent). The state ranks eighth in terms of high power tariff rate in a 21-state sample.<sup>20</sup> The micro-estimate of the income effect of power access at the community level also shows that households with such access can earn 46 percent higher income than those without such access.<sup>21</sup> In short, rectifying the power access constraint can result in a significant increase in income. Some elements of improvements in the power sector have been discussed in Chapter 4.

**Although about 98 percent of the state's rural communities have access to basic water supply (80**

Figure 1. 9: Household Access to Power



**percent through hand pumps) compared to the all-India average of 80 percent, poor maintenance results in lower sustained water supply coverage.** Sanitation coverage is far lower, at about 7 percent compared with the Indian average of 21 percent; though actual usage may be lower still. Lack of local management and ownership, weak service support and a weak financing system are among the reasons for this sector's present state. The GoJ's strategy for this sector is to shift the role of the government from that of a provider to a facilitator of services through involvement of user groups for service delivery. District- and village-level water and sanitation committees have been created and the next step is to build their capacity for this task. Simultaneously, the sector requires significant investments in infrastructure for safe and reliable water supply. Creating awareness about the linkages of safe water supply, improved sanitation and hygiene with health would be necessary, though public investments needed in physical infrastructure for sanitation would be relatively low. Investment in the improvement of key business processes of the Drinking Water Supply (DWS) department, sector NGOs and other key players in areas such as MIS, data collection, financial management and procurement procedures are all relatively straightforward activities that nevertheless promise significant returns. Ensuring that all sector funding streams - be they

<sup>18</sup> Estimated from the NSS data.

<sup>19</sup> Second lowest rate of electrification nationwide after Bihar and lower than the average in Sub-Saharan Africa.

<sup>20</sup> Ministry of Power data.

<sup>21</sup> Estimated from the NSS 55<sup>th</sup> round data.

transfers from the Government of India (GoI), state funds or from other sources – are integrated into a single financial structure overseen by one body would help enforce a common policy and practices in the sector.

**Lack of irrigation facility is another key infrastructural bottleneck.** Easing the irrigation constraint -- up to the point of the permissible limit of 40 percent from the current low level of 15–20 percent – will have beneficial effects on agriculture, and via linkage effects, on rural non-farm growth. Due to slow growth in irrigation, the agricultural sector has not been able to perform to its potential both in terms of food production as well as crop diversification. However, the expansion of area under irrigation in the state faces a number of techno-economic challenges (Chapter 3).

### Institutional Performance

The state faces significant challenges in overcoming the weaknesses of implementation capacity. This is especially important in the context of the huge planned increase in capital expenditure (mostly on account of infrastructure building) from 2.8 percent of GSDP in 2003/04 to 7.7 percent of GSDP by 2006/07 as indicated by the budget estimates. These challenges are reflected in four sets of factors: (a) inadequate administrative capacity; (b) low beneficiary satisfaction; (c) high insecurity; and (d) problem of corruption.<sup>22</sup>

### Administrative Capacity

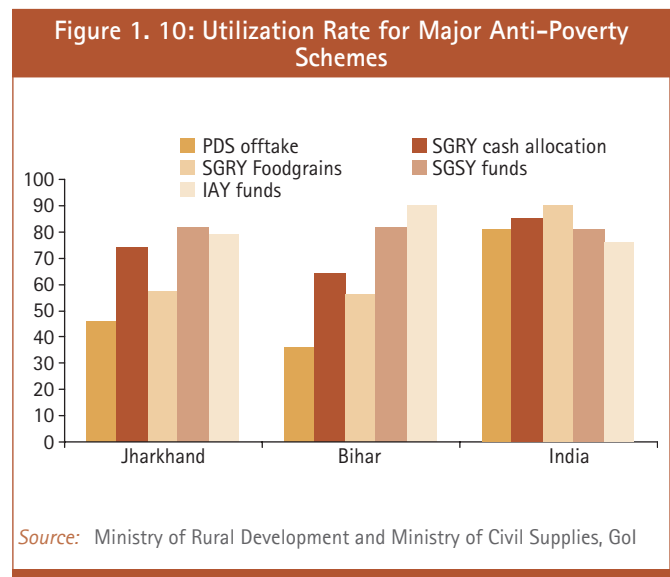
As part of the problems associated with the creation of a new state, Jharkhand suffers from serious administrative and management shortcomings adversely affecting implementation effectiveness.

<sup>22</sup> The terms "institutional performance" and "governance" are often used interchangeably in the literature. The study opted for the former usage for two considerations. First, governance is often equated with corruption, which is an outcome covered under institutional development. Second, a large part of institutional constraints arise from the *absence* of institutions (missing institutions) rather than from the malfunctioning institutions. This is particularly true in the context Jharkhand confronted with the challenge of building apparatus of the new state (state-building).

There is no catch-all summary measure of administrative capacity. The present study uses three proxy indicators: (i) extent of shortfall in program implementation; (ii) frequent premature transfers of top-level managers; and (iii) absence or weakness of key departments often with high level of under-staffing.

**The extent of shortfall in program implementation (realized vs. allocation) is still considerably higher than the all-India average.** Comparable state-level data for centrally-sponsored schemes is shown in Figure 1.10. Several Government of India (GoI) evaluations of anti-poverty programs indicate that Jharkhand is a low performing state with regard to implementation effectiveness, often falling below national averages, and significantly short of top performers like Tamil Nadu and Rajasthan.

**A high rate of premature transfers undermines institutional performance because managers are neither given the minimum lead time to institute reforms, nor are they likely to be held accountable for such a short tenure.** A very high rate of transfers persists within the Secretariat: there have been five Chief Secretaries and five Director-Generals of Police since November, 2000, pointing to a lack of continuity even at the highest levels. More importantly, this transfer culture has percolated to



field-level administration as well. The average tenure of a deputy commissioner since the creation of the state is merely one year and a Superintendent of Police only eleven months compared with the norm of three years established by Jharkhand's transfer policy.<sup>23</sup>

**Many important departments have not been established in Jharkhand, while many service delivery wings of the government have serious manpower shortages with numerous vacant technical positions in districts.** To give one example, the state does not have a department of economics and statistics (DES), vital to the monitoring of development outcomes. Both the finance and the planning departments currently have a severe shortage of technical manpower. The same applies to service delivery departments such as agricultural extension, education and health.<sup>24</sup> In the case of service delivery, public-private partnerships can ease the strains on administrative capacity. However, the partnership option is presently somewhat limited, given the relatively weak initial NGO presence in the state.<sup>25</sup>

**An important "missing institution" in Jharkhand for effective decentralized development is the absence of a popularly elected, administratively and fiscally empowered PRI institution both for scheduled and non-scheduled areas.** PRI elections have been put on hold by a court order because of legal challenges over the state's reservations policy, thus not only aggravating the pre-existing feeling of isolation of previously excluded groups but also affecting the institutional performance of development programs on the ground. As per the central

*Panchayat Extension to Scheduled Areas (PESA)* law and the *2001 Jharkhand Panchayati Raj Act*, in scheduled areas, the Gram Sabha is to be vested with strong powers, such as the right to approve programs and projects (including the overseeing authority over medium and micro irrigation, control over minor forest produce, and allocation of small-scale mining rights), select beneficiaries, and certify the correct use of funds by the GP in the form of a utilization certificate. This is a potentially powerful tool of accelerating development in the state, which has remained trapped in the legal imbroglio.<sup>26</sup>

**The challenge of administrative governance is also heightened by the presence of other factors of natural disadvantage.** Relatively low population density, geographic isolation of some areas, diverse ethnoscape and no common local language also make governance a more acute problem.

## Client Satisfaction

**Poor client satisfaction plagues most of the economic and social service sectors.** This may be seen from a range of indicators culled out from a recent beneficiary survey.<sup>27</sup> For economic services such as rural roads, only 57 percent of the respondents rated the quality of roads constructed as "good"; and 44 percent reported that water supply breaks down frequently.<sup>28</sup> Only a few respondents (4 percent) have reported the availability of constructed drainage systems, and of those who have such access, 44 percent remained dissatisfied because of water clogging and water overflows. The primary health sector appears to be very precarious with a high level of

<sup>23</sup> On this aspect, see Chapter 2.

<sup>24</sup> Chapter 2 and Chapter 5 provide greater details of these issues.

<sup>25</sup> This is already happening in some districts in case of SGSY and SGRY, or in case of social mobilization for agricultural programs. While this line of action needs to be advanced further, the scale of NGO operation is presently very limited and that too restricted to a few activities such as social mobilization, small-scale agricultural technology, and micro credit. Hence, some of the deficiencies in departmental capacities cannot readily be addressed by greater public-private partnership alone, and some critical manpower shortage problems in the public sector need to be addressed for improved institutional performance.

<sup>26</sup> Discussed in greater detail in Chapter 2.

<sup>27</sup> The results from the Rural Jharkhand User Satisfaction Survey (RJUSS) carried out in 2005 are used for the purpose of illustration.

<sup>28</sup> The Citizen Report Card Pilot Survey carried out in 2004 also notes the same trend. Reliability of public water sources comes across as a major issue; feedback from the majority of respondents using public water sources (72 percent) indicates that the water sources supplied by the government are not reliable. Drying up of sources (34 percent) and poor maintenance (27 percent) are quoted as the major reasons for the sources being not reliable; a relatively higher proportion (40 percent) quoted poor maintenance as a reason for high levels of unreliability (PAF 2004).

doctors' absenteeism: 47 percent of rural respondents reported doctors' absence in the PHC. Client satisfaction indicators tell the same story for rural health (Figure 1.11). The reasons for poor client satisfaction include: distance, absenteeism, attitude, inadequate provisioning for maintenance, and low local-level participation.

**The factors adversely affecting client satisfaction can be overcome through appropriate institutional reform.**

A striking example is primary education. The sector was once characterized by one of the highest incidences of teachers' absenteeism (43 percent) in the world.<sup>29</sup> The situation has fast improved since then. Both the User Satisfaction Survey and the Baseline Survey carried out in two independent rural samples indicate that primary education is now mostly satisfactory (Figure 1.11). Around 86 percent respondents send all their children to school. Distance is not a major deterrent since almost 77 percent respondents report sending children to schools

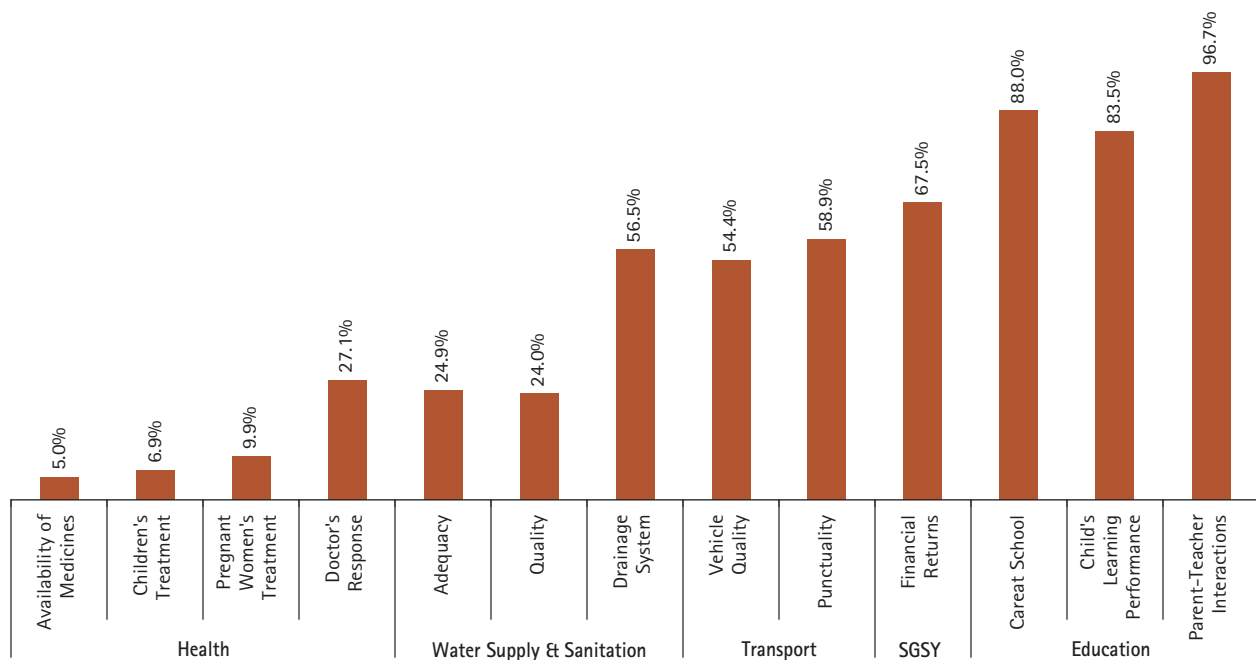
located within one km, while another 15 percent report schools to be located within one km and two km. About 57 percent visited their ward's school regularly, with over 95 percent reporting parent-teacher interactions when they visit. Mid-day meals were provided at schools regularly in 75 percent cases, with only 6 percent reporting that meals were never provided. However, there is further scope for institutional improvement. For instance, the Village Education Committees (VEC) does not seem to be functioning effectively, as around 60 percent parents were not even aware of the existence of such a body.

**Insecurity**

**Jharkhand faces unusually high micro-risks affecting private investment, and everyday security of livelihoods.**

Two indicators – incidence of extremist violence and frequency of bandhs – can illustrate the nature of the problem. The state is susceptible to a high level of left-

Figure 1. 11: Beneficiary Satisfaction with Key Services



Source: Estimated from the 2005 Rural Jharkhand User Satisfaction Survey (RJUSS).

<sup>29</sup> World Bank (2003); Chaudhury *et al* (2005).

wing extremist political violence, as distinguished from a high degree of street (or village) level crime rates that characterize states such as Bihar. In fact, although in terms of incidence of left-wing extremist violence it is second to AP, the incidence is rising alarmingly (Figure 1.12).

The impact of a very negative "bandh"-culture (strike) arising from the fragmented ethno-political situation in the state can hardly be over-emphasized. Jharkhand had the highest number of bandhs among all Indian states between 2000 and 2005. The estimated annual economic loss to the state due to "Bandhs" supported by different political parties is in the range of 3 to 6 percent of GSDP (equivalent to the entire fiscal deficit of the state).<sup>30</sup>

### Corruption

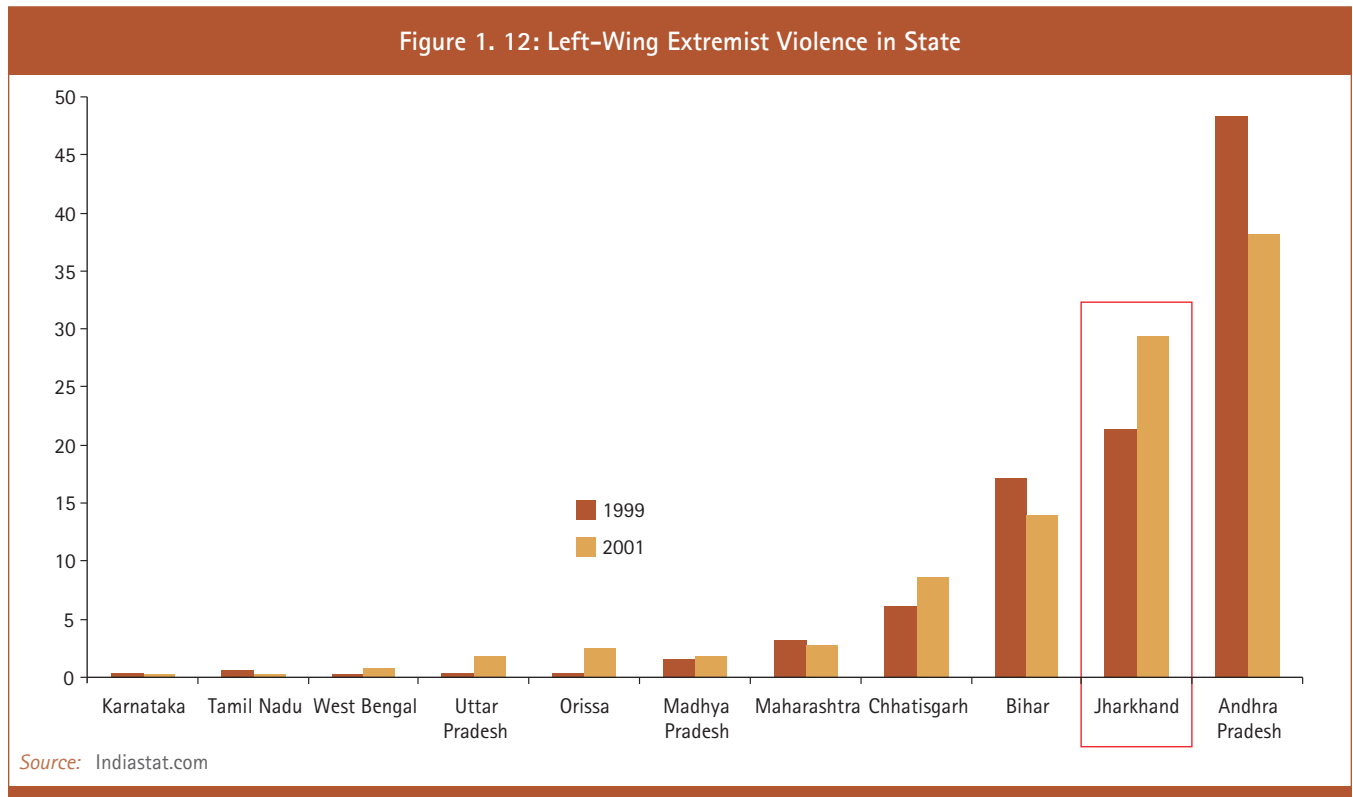
Corruption appears to be a relatively less important constraint to development in Jharkhand compared to Bihar and Orissa. On this measure the state compares

favorably with the rest of India. The 2006 ICA survey shows that only 26 percent of respondents consider corruption to be a major bottleneck to development in Jharkhand compared to 38 percent assessed for the rest of India, 62 percent in Orissa and 52 percent in Bihar.<sup>31</sup>

However, for some sectors, like social protection, the question of program leakage (however defined) has already become a potential policy concern. Average coverage continues to be low despite significant investments in these schemes (about 4 percent in 2003/04). Many schemes have much lower coverage compared to the rural poor and/or Below Poverty Line (BPL) population (Figure 1.13).

Even for programs where the coverage rate is high there is often larger exclusion of the poor compared to the rest of India. The Public Distribution System (PDS) illustrates the point: a much higher proportion of BPL families are not able to get ration cards compared to the rest of India. Non-

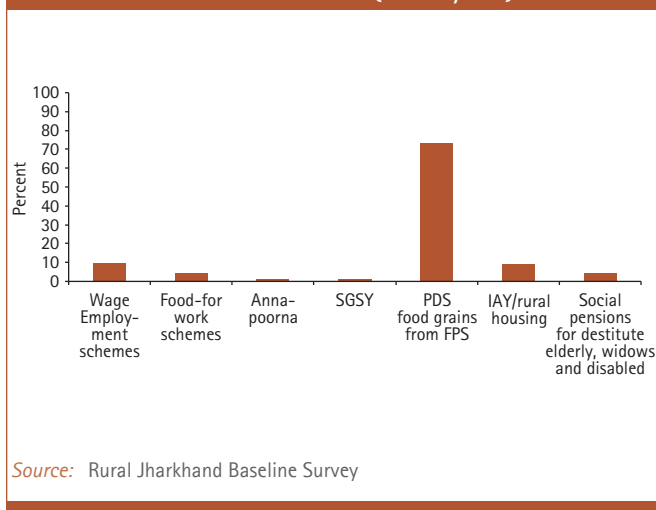
Figure 1. 12: Left-Wing Extremist Violence in State



<sup>30</sup> Bank staff estimates.

<sup>31</sup> See Chapter 4 for further details.

1. 13: Share of Households Benefiting from Social Protection Schemes (last 3 years)

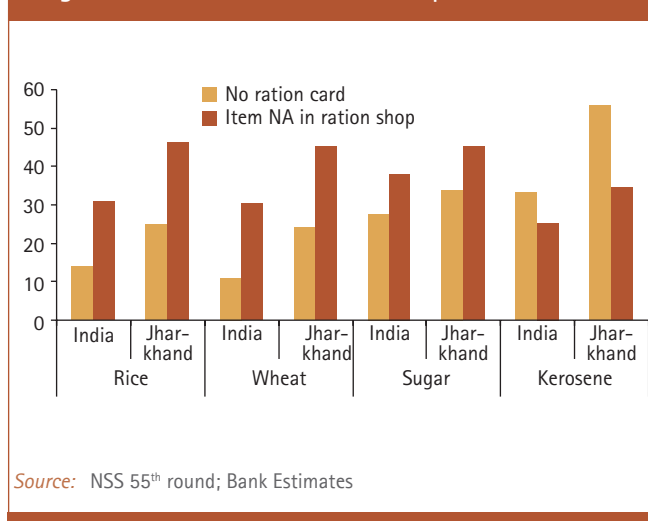


availability of the food items is another reason for the relative lack of participation in the program (Figure 1.14). About 75 percent of Fair Price Shop (FPS) owners in Jharkhand admitted to having paid bribes for lifting commodities from godowns, by far the highest of any state.<sup>32</sup>

**In some sectors the extent of leakage, although presently low, can increase in the future as the scale of operation expands towards greater population coverage.** For instance, at first glance, leakage in the power sector with transformation, transmission, and distribution (TTD) losses at 26 percent compared to 33 percent for all India looks favorable (Figure 1.15), and much lower than that observed for most other states. However, as discussed, the per capita power consumption is very low (nearly half the all-India coverage) and 90 percent of the rural population remains outside the coverage. This indicates that the above statistic reflects the currently limited coverage of power restricted to urban areas only. Once rural power connectivity begins to expand, the problem of leakage could surface in a major way if an appropriate system of power sector governance is not put in place (as in the case of other states cited above).

<sup>32</sup> West Bengal was second highest with 60 percent. On these and the broader issue of effectiveness of anti-poverty programs, see Chapter 5.

Figure 1. 14: Reason for Low Participation of the Poor



**There is widespread perception in civil society that corruption in Jharkhand, while considerably lower than Bihar, is a growing menace.** The 2005 TI-CMS perception survey ranks the state as being 14<sup>th</sup> among 20 states in terms of "efficiency and transparency of governance" (Table 1.8). Although the relative ranking is better than Bihar, Madhya Pradesh, Karnataka, Rajasthan, and Assam, its position is worse than Orissa and another newly created state, Chhattisgarh.

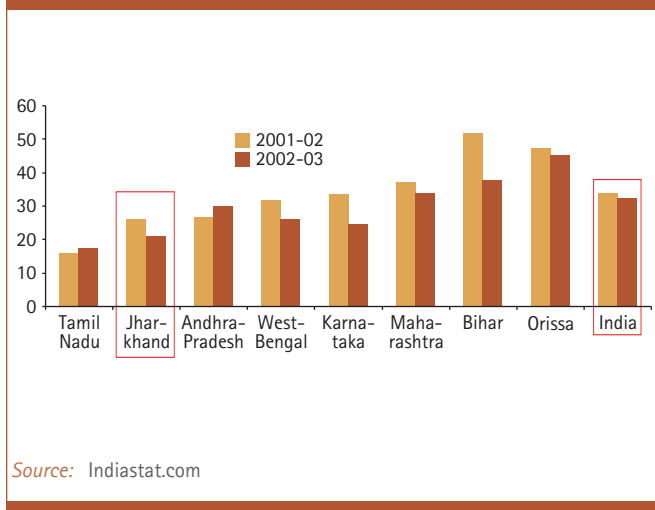
## Other Constraints to Growth

### Human Capital

**Access to human capital is an important source of long-term growth.** Two features are noteworthy. *First*, distribution of education among different segments of population for the state as a whole does not appear to be very different from the all-India pattern (Figure 1.16).

*Second*, plausible estimates indicate that returns to education are quite modest. At least for rural areas, the incremental income enhancing effects of attaining different grades of education up to the secondary level are quite modest. NSS data indicates that the income of those who have completed only primary education is merely 10 percent higher as compared to those who are illiterate, while the corresponding effect is statistically

Figure 1. 15: System Loss in the Power Sector



insignificant as per the rural Jharkhand baseline survey.<sup>33</sup> The big jump comes only with the attainment of post-secondary (10+) education. It is true that for the state as a whole the average earning for salaried workers (with regular wage employment) varies considerably with the level of education. In fact, for any given level of education an average Jharkhandi salaried worker earns relatively more than in the case of other states (Table 1.9). This higher skill premium may not be reflective of any serious shortage of educated workers, but rather an expression of intense competition for government jobs (i.e. many more aspirants than vacancies), especially under conditions of quota and reservation policy for the specific social groups.

### Financial intermediation

**Lack of demand for credit rather than inadequate access to financial infrastructure is probably the key factor underlying the low financial intermediation in the state.** As per the Reserve Bank of India data (2001), the state has a higher level of per capita commercial bank deposits (Rs. 4,866) compared to Bihar (Rs.2,354), Orissa (Rs.3,105), Chhattisgarh (Rs.2,823), though lower than West Bengal (Rs.5,874), Tamil Nadu (Rs.7,658) and Maharashtra (Rs.14,802). Poor financial intermediation

<sup>33</sup> See Chapter 3.

can be seen from the low coverage of banking facilities, high losses among rural banks (indicating poor lending practices), and particularly low access to credit in rural areas. Not only does the state have an insufficient number of bank branches per one million of population (Figure 1.17), the average per capita commercial bank loan is lower than that for other advanced states<sup>34</sup> and the credit-deposit ratio has been declining.<sup>35</sup> However, these indicators may be poor because of the low demand for loans in the state in the absence of irrigation and other infrastructural investments

This is not to say that the credit market is not a constraint; the latter may partly explain why Jharkhand

Table 1. 8: Efficiency and Transparency of Governance

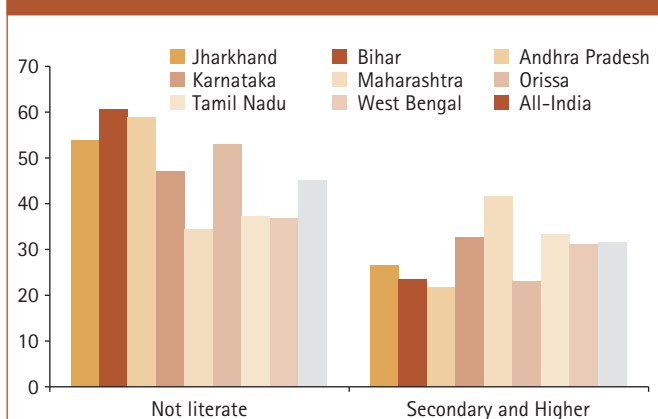
State	Composite Index	Rank
Kerala	240	1
Himachal Pradesh	301	2
Gujarat	417	3
Andhra Pradesh	421	4
Maharashtra	433	5
Chhattisgarh	445	6
Punjab	459	7
West Bengal	461	8
Orissa	475	9
Uttar Pradesh	491	10
Delhi	496	11
Tamil Nadu	509	12
Haryana	516	13
<b>Jharkhand</b>	<b>520</b>	<b>14</b>
Assam	542	15
Rajasthan	543	16
Karnataka	576	17
Madhya Pradesh	584	18
Jammu & Kashmir	655	19
Bihar	695	20

Note: High Score=more corrupt  
Source: TII-CMS Study 2005

<sup>34</sup> According to RBI data for 2001, average commercial bank loan per person is only Rs. 122 (in 2000/01 prices) compared to Rs. 50 in Bihar, Rs.124 in Chhattisgarh, Rs.140 in Orissa, and much lower than in West Bengal (270), 546 in Punjab, and 654 in Tamil Nadu.

<sup>35</sup> Jharkhand Banking Inquiry Committee Report, 2003.

Figure 1. 16: Education Status of Working Population



Source: Estimated from NSS 55<sup>th</sup> round

Table 1.9: Average Nominal Wage Earnings for Salaries Workers (15–59) by Level of Education

State	Primary	Secondary	Tertiary	Average
Jharkhand	125.3	162.0	253.3	184.3
Bihar	69.4	152.4	253.6	184.5
Orissa	109.8	140.5	189.1	151.4
West Bengal	91.2	137.9	251.1	169.2
Andhra Pradesh	70.5	112.4	200.2	136.7
Tamil Nadu	65.1	117.5	225.6	131.7
Karnataka	81.3	121.1	216.3	145.7
Maharashtra	105.3	141.1	240.5	158.6

Source: Estimated from NSS 55<sup>th</sup> round, Schedule 10.

has the smallest share of households with income from non-agricultural self-employment (Figure 1.18). However, for industrial activities in urban areas the loan/capital (leverage) ratio is 56 percent compared with 41 percent for all India. Similarly, the cost of the funds, interest/loan ratio, is about 11 percent compared with an estimated 14 percent for all India.<sup>36</sup> In short, lack of demand for loans may be the more deep-seated cause of slow development of non-agricultural enterprises rather than mere access to credit in the backdrop of underdeveloped infrastructure, un-irrigated agriculture, and adverse institutional performance.

<sup>36</sup> www.indiastat.com

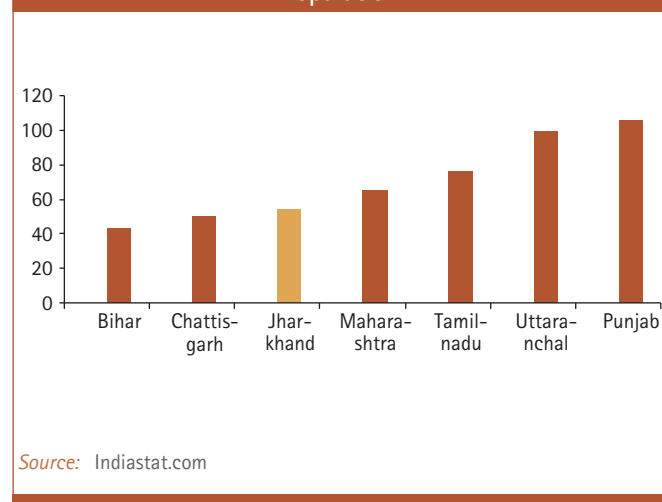
## How to Make Growth Pro-Poor: Need for Rural Focus

While there is a rationale for focusing on unlocking Jharkhand's rural development potential, it does not imply retreating from the urban sector.

- ▶ *First, the growth incidence curves estimated from the NSS data (Figure 1.19) suggest that rural growth has been pro-poor, while urban growth has been highly dis-equalizing.* Hence, the need for a rural focus becomes a compulsion in the context of a state like Jharkhand.
- ▶ *Second, high inter-region inequality can fuel social conflict and political instability.* This can be judged by the wide variation in the poverty rate by district. Thus, poverty head-count varies from 85 percent in Pakur, 80 percent in Deoghar, 77 percent in Dumka, 74 percent in Palamu to 54–55 percent in Lohardaga and East Singhbhum, 43 percent in Ranchi down to 20–21 percent in Dhanbad and Hazaribagh.<sup>37</sup> Seen from this angle the issue of rural neglect carries with it a certain political urgency, especially in the context of a fragile polity.

17

Figure 1. 17: Number of Bank Branches per 10 Lakh Population



Source: Indiastat.com

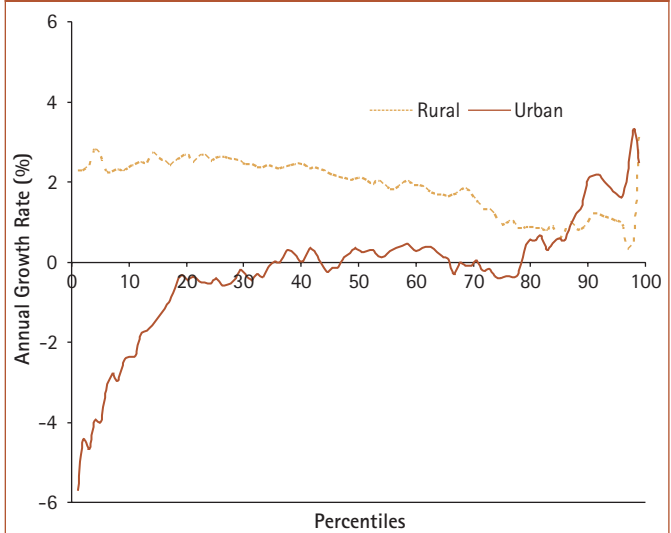
<sup>37</sup> Preliminary results based on NSS 55<sup>th</sup> round (Schedule 10).

The creation of Jharkhand as a separate state was seen by many as a political expression of the self-development aspiration of the tribal and other disadvantaged populace who were historically neglected. This suggests the need to focus on making growth pro-poor through specific interventions for the inclusion of vulnerable groups. Such a growth process is likely to be more sustainable over the medium to long term.

## Structure of the Report

To sum up, weak institutional capacity, poor infrastructural development and lack of rural opportunities are the predominant features that characterize Jharkhand's economy and explain its modest development outcomes. For any development strategy to be successful in the state, these sets of issues need to be tackled up front. Accordingly, the report is organized as follows. Chapter 1 presents macro trends and performance of the Jharkhand economy (Sections 1.1 and 1.2) and

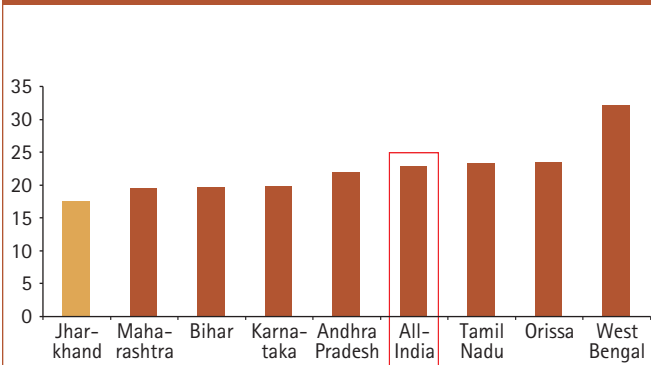
Figure 1. 19: Growth Incidence Curves – Jharkhand



Source: Estimated from NSS 55<sup>th</sup> round, Schedule 1.

discusses the key development challenges (Section 1.3). This diagnostic exercise leads to the identification of weak institutional capacity and lack of infrastructural and rural access as the three factors that are “binding constraints” to growth and explain the modest development outcomes in the state. Accordingly, Chapter 2 discusses the priority issues within the agenda of building institutional capacity, while Chapter 3 focuses on issues that merit consideration within the agenda of improving rural opportunities. Considered together they provide the micro-foundations for discussing alternative development paths pursued in Chapter 4. Social inclusiveness is an end in itself even if the growth rate is low, especially in Jharkhand with its sharp social and regional divide. The state can achieve higher social progress such as basic education and health MDGs even at relatively low levels of income, and can improve upon the coverage, targeting and efficiency of the social protection schemes for the most needy and vulnerable groups (Sections 5.1 through 5.3).

Figure 1. 18: Percent Households with Income from Non-Agricultural Enterprises



Source: Estimated from NSS 55<sup>th</sup> round, Schedule 1.