



## Helping India's Bihar State Boost Public Services Through Better Management



### SYNOPSIS

India's Bihar state is home to some of India's poorest people but a new reform effort by the Bihar government, backed by World Bank funding and technical support, has helped it improve public finance management and direct the proceeds to getting more children into schools, to immunizing its people, and to fighting corruption.

## Challenge

Bihar is one of India's largest and poorest states, with 8.5 percent of India's population and only 1.6 percent of its gross domestic product (GDP). Until 2007, economic growth in Bihar was much slower than the rest of the country and almost 80 percent of the state's receipts came from the central government. Nearly half of all households are landless or near landless, with agricultural laborers constituting 48 percent of the labor force, about double the national level of 27 percent. Female employment is among the lowest in India with workforce participation rates at 14 percent in rural areas and 7 percent in urban areas, while female literacy rates are about only 34 percent. The infant mortality rate is about 72 out of 1000 live births and 54 percent of children in Bihar are underweight. Bihar's public services and infrastructure are among the worst in India. Nearly 60 percent of homes in the state were not connected to roads, only 21 percent of households had access to piped water, and electricity is not available to the vast majority of households.

Bihar's road network was also in deplorable condition, reflecting poor maintenance, the effects of periodic flooding, and under-investment. In education, Bihar suffered from the worst indicators of any state with two million children between 6–13 years of age out of school; high levels of

teacher absenteeism; and a literacy rate of 48 percent. The health sector was plagued by a lack of infrastructure, absenteeism, and shortages of qualified personnel. Only five percent of the rural population actually used the public health system, the rest paying out-of-pocket for care from the private sector. Common challenges faced by all three sectors included: (1) Low levels of capacity to deliver services, (2) poor monitoring of performance, (3) lack of robust accountability arrangements, and (4) the need to strengthen decentralization.

Against this backdrop, there are visible signs of a turnaround where the current government in Bihar has been implementing wide-ranging reforms.

Since 2005, the government has initiated a comprehensive, home-grown reform program. These reforms range from single sector initiatives, to those that span several sectors. Cross-cutting measures embrace law and order, investment climate, fiscal policy, financial management, administrative reforms, and greater accountability. Single-sector reforms have targeted areas such as health, education, roads, rural development, agriculture, urban development, and power. IBRD has worked to develop a project that would allow the government to undertake important reforms to unleash its growth potential.

## Results

**State revenues and expenditure increased, public services improved.** The state's tax revenues have increased by an impressive 19 percent annually from 2005/06, and the size of the budget increased by 158 percent between 2004/05 and 2008/09. In addition, development spending under the state's annual plan has more than trebled. Public financial management reform—combined with greater delegation of financial powers—has resulted in a big jump in development expenditures. The reforms have enabled the government to spend money on public services in a way that was inconceivable in the past, correcting in some measure the systematic under-funding of Bihar's public services, particularly health, education, and roads. Total expenditure increased from Rs. 215 billion in 2005/06 to Rs. 350 billion in 2008/09. The share of non-wage expenditure (such as capital outlays, Operations & Maintenance, transfers and subsidy) in total expenditure increased from 50 percent in 2006/07 to 57 percent in 2008/09 (preliminary estimates). New development expenditure almost trebled from Rs. 49 billion in 2005/06 to Rs. 141 billion in 2008/09.

There has been a clear impact from this increase in public expenditure and the complementary focus on development priorities. In the roads sector, out of a total of 3000 kilometers of National Highways taken up for renovation from 2006, 1900 kilometers of the national highway network has been renovated by December 2009. A big effort also has been made to upgrade major district roads. Some 3,432 kilometers have been refurbished between 2006/07 and 2008/09. As noted earlier, outsourcing of rural roads design preparation has greatly increased the ability of the Rural Works Department to tap funds under the national rural roads building program 'Pradhan Mantri Gram Sadak Yojana.'

In health, the number of out-patients visiting a government hospital rose, on average, to 4,380 in October, 2008, from 39 per month in January, 2006. There has been a striking improvement in the percentage of the population now fully immunized to 53 percent in 2008 from approximately 18.6 percent in 2005. The number of babies delivered in health-care facilities has also shot up from 112,371 for FY 2006/07 to 780,000 in 2008/09 (through December, 2008). Medicines are also being provided free to patients.



In education, enrollment at the primary and upper primary levels rose by eight percent between 2006/07 and 2007/08, while the number of out-of-school children fell steeply by 77 percent between 2006/07 and 2008/09. The pupil-teacher ratio improved to 53:1 from 63:1 as a result of hiring the first round of 100,000 teachers and will fall further to the national norm of 40:1 when teachers hired in the second round are actually placed in schools. The government in 2008 extended its midday meal scheme to cover children in grades six through eight, thereby increasing its reach to nearly 11 million children. The midday meal program has been shown to have positive outcomes on both enrollment and nutritional status. A recent survey showed that 80 percent of schools sampled across Bihar were serving a cooked meal.

A key objective of the government is to strengthen its anti-corruption enforcement. The government has sought to promote greater transparency through the Right to Information law; stepped up targeted vigilance activities against corrupt officers without reinforcing risk-averse behavior; and bolstered service delivery innovatively through outsourcing and use of Information Technology. A Special Vigilance Unit has been created to pursue cases against high-level civil servants. Two of the state's major governance initiatives in Right To Information and service delivery have won national awards.

The persistence of reform over almost five years appears to be yielding results in terms of aggregate and multi-sector economic outcomes. In aggregate terms, Gross State Domestic Product (GSDP) accelerated significantly to 10.7 percent between 2004/05 and 2008/09 from an annual

average rate of 4.5 percent between 1999/00 and 2003/04, the pre-reform period. Indeed, taking the number of tourist arrivals as an indication of improved conditions in Bihar, these increased dramatically to 10.5 million in 2009 from 6.9 million in 2005. The number of motor vehicles in Bihar also rose by 239 percent in 2007 alone, reflecting more consumer spending, better infrastructure, and heightened economic activity, while the number of mobile phones rocketed to 12 million in 2008 from only one million in 2004. While the roots of economic growth are complex, it is not unreasonable to suppose that the faster growth experienced by Bihar after 2004 is linked to improvements in the rule of law, more efficient and larger public expenditures, and better infrastructure.

## Approach

The IBRD Development Policy Loan supports Bihar's efforts to improve fiscal policy, public financial management, and governance. It aims to boost economic growth through reforms in agriculture, investment climate, and basic infrastructure, with an emphasis on roads. It also supports improving public service delivery in education and social protection. The funding from the operation helped create fiscal space for development by financing the government's budgeted expenditures including retiring expensive public debt. The rationale for a long term partnership between the Bank and Bihar has several important dimensions: (i) There is strong consensus among informed observers that a window of opportunity is now open for change in Bihar; (ii) Evidence on the ground suggests important changes have already occurred and Bank support will assist the government of Bihar in taking its planned reforms to the next level of improving outcomes and expenditure efficiency; and (iii) Given the large number of poor in the state, reducing poverty and accelerating growth in Bihar are likely to have national implications, in particular in helping India reach the Millennium Development Goals.

## Summary Timeline

The first Bihar Development Policy Loan/Credit closed on December 31, 2009, but is potentially the first of four

Development Policy Loan operations between 2007 and 2011 amounting to US\$900 million. A request for the next operation is in the pipeline, and is likely to be delivered in the 2011 fiscal year.

## IBRD Contribution

IBRD provided US\$150 million to the Development Policy Loan, while the International Development Association provided a US\$75 million credit.

## Engagement of World Bank Group

Elements from within the World Bank Group have been associated with the Bihar program through complementary non-lending technical assistance. For example, the International Finance Corp. (IFC) has carried out a business process mapping and simplification study of three key license areas: land allotment; factory licensing; and 'single window approval' of industrial licenses. IFC is also lending capacity and technical support for tracking and monitoring of investment proposals. The government of Bihar has identified agriculture-based industries as a priority area and IFC has assisted by carrying out sector competitiveness and value chain studies for sugarcane and maize, and drawing up a plan to help attract investments in the food and agro-processing sector. IFC is also engaged in studies to improve the administration of value-added tax. The World Bank Institute is engaged in a program to strengthen official capacity for improved implementation of industrial policy, with a focus on building competitiveness and accountability in Bihar.

## Partners

The Bihar and more specifically the Development Policy Loan engagement is supported by a US\$ 5 million multi-year Non Lending Technical Assistance funded by the DFID Trust Fund. The Public Private Infrastructure Advisory Facility also supported the Government in preparing an overarching framework for Public Private Partnerships.



## Good Practices Developed/ Replicated

The activation of the Development Policy Loan was preceded by various analytical and advisory work, ('Bihar: Towards a Development Strategy and 'Public Expenditure Management in Bihar: Selected Issues') and an NLTA funded by DFID-TF that supported the modernization of the Public Financial Management architecture of the state. This provided the framework for a dialogue on development strategy and fiduciary assurance for active donor engage-

ment. In the process, a previously sheltered government was drawn into a development dialogue not only with official agencies but also unofficially with Bank staff, and other partners such as research organizations and think tanks that provided reform ideas and confidence to the government to engage in bold reform.

Technical assistance that addressed the capacity weaknesses in the Bihar government as well as monitoring and evaluations systems and public financial management provided a basis for expanding financial support for the state.

## Next Steps

Next steps include stepping up the development partnership through the DPLs and expanding the lending engagement in line with the lagging regional focus of the India CAS. A US\$5 million Capacity Building Assistance project funded out of a DFID Trust Fund is under implementation. A Panchayati Raj Institutions Decentralization project is under preparation for delivery next Fiscal Year and a request for assistance for rebuilding the Kosi flood affected areas has been received.