

WHITE PAPER

on

**STATE FINANCES AND
DEVELOPMENT**

Finance Department
Government of Bihar

CURRENCY AND EQUIVALENT

Currency Unit = Indian Rupee/US\$

\$1 = Rs. 45.31

FISCAL YEAR

April 1 - March 31

ACRONYMS AND ABBREVIATIONS

APDRP	Accelerated Power Development Reform Program	NFHS	National Family Health Survey
ARM	Additional Revenue Measure	NTPC	National Thermal Power Corporation
BDO	Block Development Officer	O&M	Operations and Maintenance
BEP	Bihar Education Project	PC	Planning Commission
BSEB	Bihar State Electricity Board	PE	Public Enterprise
CHC	Community Health Center	PGC	Power Grid Corporation
CII	Confederation of Indian Industry	PHC	Primary Health Center
CSS	Centrally Sponsored Scheme	PMGSY	Pradhan Mantri Gram Sadak Yojana
DDC	District Development Committee	PPI	Pulse Polio Immunization
DDO	Disbursement and Drawing Officer	PRI	Panchayati Raj Institution
DPEP	District Primary Education Program	PSU	Public Sector Undertaking
EAP	External Assistance Project	PTR	Pupil Teacher Ratio
GDP	Gross State Domestic Product	PWD	Public Works Department
GoB	Government of Bihar	RBI	Reserve Bank of India
GoI	Government of India	RKS	Rogi Kalyan Samiti
GSDP	Gross State Domestic Product	SC/ST	Scheduled Caste/Scheduled Tribe
HSC	Health Sub-Center	SGSY	Swarnjayanti Gram Swarozgar Yojana
MDGS	Millennium Development Goals	T&D	Transmission and Distribution
MMR	Maternity Mortality Rate	UP	Uttar Pradesh
MoF	Ministry of Finance	UNICEF	United Nations Children's Fund
MoU	Memorandum of Understanding	VEC	Village Education Committee
MTEF	Medium-Term Expenditure Framework	WB	World Bank
MS	Mahila Samakhya	WDR	World Development Report
NGO	Non-Government Organization		
NSS	National Sample Survey		
NSSO	National Sample Survey Organisation		
NABARD	National Bank for Agricultural and Rural Development		

1. Introduction

After a gap of about 15 years , the people of Bihar have given their mandate to a new combination for the governance of the State. The new government assumed the charge in November 2005. Though the government is a continuous institution, this is a crucial juncture in the history of Bihar. It is time to take stock of the situation and take the people into confidence as to the true picture of governance in Bihar as of today and the factors leading to the present situation. This will help in identifying the causes of the problems and in finding solutions.

During the presentation of the budget for the full year for 2005-06 in December 2005, the new Government promised to present a White Paper. This White Paper fulfils the promise.

2. Scope of the White Paper

Though the governance encompasses a wide spectrum of the activities in the life of people, it is not only cumbersome to cover all the activities, it is also well-nigh impossible. Therefore, this Paper concentrates on key areas which probably matter most to the people.

To begin with, the Paper reviews the progress in development indicators and the growth performance of the State's economy. For the development indicators, the review is done in a comparative framework using the data for early and late nineties. For the growth performance of the economy, the reference period is wider, covering the two decades of eighties and nineties (Section 3).

Financial resources are the most critical for the development of the State. It is, therefore, extremely important to analyse the health of public finances in Bihar in detail, covering the trends in the recent past. This indeed is the principal focus of this Paper and the analysis is presented first for the current situation (Section 4) and then for the long term trends (Section 5).

The access to resources from the Central Government and their timely utilization for getting additional resources is an important part of the strategy for augmenting resources for the development. Therefore, the performance of the State Government in this area has also been analysed in the Paper (Section 6).

There are some key sectors in the field of physical and social infrastructure which affect the life of the people. Those sectors are also covered in this White Paper. These are – road, electricity, irrigation, health, education, and poverty alleviation and social welfare. This is not to say that other areas are not important; but these are the important ones which probably matter most to the people.

3. Development Outcomes and Growth

3.1. Development Outcomes

Bihar is generally worst off amongst all the major states in all development indicators. There is progress, but it is very slow. One can see the progress in an all India perspective in Table 1. The rate of progress in primary enrollment, the ratio of female to male literacy and access to sanitation is disappointing. The State will not be able to achieve the desired norms even by 2015 as per the current rate of progress. The situation in rural areas is even more acute. The indicators in respect of infant mortality and child mortality are comparatively better, as the rates are not only lower than those in Orissa and Uttar Pradesh, but have also shown substantial improvement during the 1990s. However, full immunization covers only a small fraction of children and has been declining during recent years. There are wide inter-district variations. Kishanganj district appears to be at the bottom, while Patna and Muzaffarpur rank at the top for most indicators.

Table 1 : Selected Development Indicators for Bihar and India¹

Indicators	1993		1999		Target by 2015 for Bihar
	India	Bihar	India	Bihar	
Poverty headcount (%)	36	45.9	28.6	39	28
Children Malnutrition (%)	53.4	62.6	47	54.4	32
Infant Mortality (per 1000 live births)	78.5	89.2	67.6	72.9	27
Child Mortality under 5 yrs (per 1000 live births)	109.3	127.5	94.9	105.1	41
Maternal Mortality (per 1,00,000 live births)			408	451	109
Immunisation (% of children under 12 months)	35.4	10.7	42	11	100

¹ Source: *Bihar: Towards a Development Strategy*, World Bank Report (Table 1.2,p 11)

Births attended by skilled health staff (%)	34.2	10.7	42	11	90
Net Primary enrolment (%)	71	54	77	52	100
Male Literacy (%)	64.1	52.5	76	60.3	
Female Literacy (%)	39.3	22.9	54.3	33.6	
Ratio of female to male literacy	0.61	0.44	0.71	0.56	1
Access to improved water resources (%)	68.2	63.6	77.9	75.4	80
Access to improved sanitation (%)	30.3	16.5	36	16.8	25
Household with electricity as source of lighting (%)			55.8	10.3	

3.2. Growth Scenario

Traditionally, economic growth of a State is measured in terms of its Gross State Domestic Product (GSDP) at constant prices. This growth performance was 4.9 percent during the 1980s, which was below the national rate of 5.6 percent, and then no growth during the first half of 1990s when the national average was 5.4 percent (Table 2). Over the period 1994-95 to 2000-01, the growth rate of the new state of Bihar averaged 3.8 percent which is less than two-thirds the national growth rate of 6.1 percent per annum. Comparison in terms of per capita income growth are more disappointing. This is mainly due to high population growth rate, which was 2.5 percent per annum between the 1991 and 2001 censuses. It was the highest in the country and the national average was just 1.9 percent. In fact, unlike the other States, Bihar's growth rate in the 1990s was higher than 2.1 percent experienced in the 1980s. This has aggravated the population pressure and depressed income growth.

Table 2 : Growth Performance : 1981-82 to 2001-02²

	Former Bihar (1981-82 to 1990-91)	Former Bihar (1991-92 to 1995-96)	New Bihar (1994-95 to 2001-02)
GDP	4.9	0	3.8
Agriculture	4.6	-2.0	0.8
Industry	5.2	0.5	10.5
Services	5.6	2.2	6.4
India			
GDP	5.6	5.4	6.1
Agriculture	3.6	2.3	3.0
Industry	7.1	6.3	6.4
Services	6.5	7.0	8.0

² Bihar: Towards a Development Strategy, World Bank Report (Table 2.1, p 23)

Agriculture now represents about 39 percent of GSDP, industrial sector only 12 percent and the tertiary about 49 percent of the GSDP. The unsatisfactory performance of agriculture, the State's most important sector, is responsible for the State's low aggregate growth rate. Agriculture provides employment for 75 percent of the workforce, industrial sector less than 10 percent. The services sector appear to be relatively more capital intensive and have not absorbed a share which is proportionate to their GSDP level in the workforce.

The most serious impediment to the state's growth has been the shortage of investment flows from public and private sources. In case of agriculture, there are severe constraints of lack of connectivity and market access, lack of rural power supplies, annual flooding, fragmentation of land holdings, ineffective land reforms, wide practice of tenancy, and lack of land records. There are large yield gaps across several crops, particularly in the case of rice and maize.

In case of industry, there has been inadequate infrastructure in terms of power, road connectivity, telecommunications, weak financial services and capital markets, lack of skilled manpower, and poor governance in terms of alarming law and order situation and lack of political support for private investment reflecting adverse investment climate.

4. Present Financial Situation

4.1. Financing Committed Non-developmental Expenditure

During 2004-05³, the requirement for the committed non-developmental expenditure of the State Government was Rs. 16,582 cr⁴. This included expenditure on salaries, pensions, interest payments, loan repayment and maintenance. The income of the State Government was Rs. 12,882 cr⁵. Out of this, the State Government's own income was Rs. 3,765 cr. and the rest Rs. 9,117 cr was from the State's share in central

³ The data is based on the Finance Accounts by Accountant General or derived from there.

⁴ This is basically the Non Plan expenditure. It does include some capital expenditure and some other expenditure like old age pension, scholarships and other schemes which may not exactly be in a nature of committed expenditure. But broadly it is committed expenditure. It includes loan repayment, and the paying of interest thereon too.

⁵ It does not include grant-in-aid from the Central Government which is meant for particular schemes or for financing State Plan. It should not be used for financing non-development expenditure.

taxes. There was a gap of Rs. 3,685 cr. Obviously, this gap had to be met by taking loan, either from the market or from the Central Government.

As mentioned above, the State Government was unable to meet even its non-development but committed needs from its income. Its own income of just Rs. 3,765 cr consisted primarily of Rs. 2,400 cr from Sales Tax, Rs 429 cr from Stamps and Registration Fees, Rs 272 cr from State Excise, Rs 213 cr from Motor Vehicle Taxes and Rs 418 cr from Non Tax sources like royalty, irrigation charges, interest, etc.

4.2. Financing Development Needs

For development purposes, the State Government spent Rs. 3,476 cr⁶. This was financed from Rs. 2,831 cr as grants-in-aid from the Central Government. The State Government financed the rest Rs. 645 cr from borrowings from the Central Government⁷. Thus the State Government had to take a loan of Rs. 4,329 cr for financing its expenditure. This expenditure also included expenditure on repaying old loans of Rs. 3,087 cr. Hence the net non-loan expenditure of the State required fresh loans for Rs. 1,242 cr, otherwise known as the Fiscal Deficit.

Ideally, like a normal household, the State Government should meet its committed expenditure including normal loan repayment from its own resources without taking loan. Moreover, it should also be able to partially finance developmental expenditure from its savings. It should take loan only to finance some of its productive asset generating expenditure so that it can repay these loans from the increased direct/indirect income as a result of such developmental works. It can also take cheaper loans to repay old costlier loans, thus saving on interest payments.

However, the State Government took a loan of Rs. 3,685 cr just to finance its committed expenditure. As this included Rs. 3,087 cr on account of loan repayment, the real gap was Rs. 598 cr. It required additional loan of Rs. 645 cr for financing its

⁶ This is basically total plan expenditure including state plan, centrally sponsored schemes and central sector schemes.

⁷ As funds from all sources-central transfers, state tax and non-tax collections, loans are pooled in one place as cash and then expenditure is financed for all purposes, it is difficult to say that the money from a particular source financed a particular class of expenditures. The idea is that first we should spend money from non-debt sources to the extent possible and then take loan for financing the rest. There are some funds which are meant to finance only particular class of schemes, they cannot finance other class of expenditure. Hence this is a broad approximation to the real picture.

developmental expenditure making the total loan requirement of Rs. 1,242 cr for non-loan expenditure needs.

It is also important to note that, even after taking substantial loan, the State Government's development expenditure⁸ was just Rs. 3,476 cr out of a total expenditure of Rs. 20,058 cr⁹. Though this is higher than in the previous years, it is just Rs. 423 per person and constitutes only 17.3 percent of the total expenditure. Out of this, capital expenditure, i.e. the expenditure on creating productive assets is only Rs. 1,205 cr which is barely 6 percent of the total expenditure and just Rs. 147 per person. This is for the whole year. Karnataka's plan outlay in 2001-02 was about Rs. 1,450 per person, Gujarat Rs. 1,250, Andhra Pradesh Rs. 1,100, Rajasthan Rs. 810, Orissa Rs. 610 and Uttar Pradesh Rs. 400 per person¹⁰.

4.3. Composition of Non-developmental Expenditure

The non-developmental expenditure has three important components, each of them a point of worry. The first worrying position is in respect of debt. State Government has a debt liability of Rs. 42,483 cr. This is serious. It means that every person has a public debt of Rs. 5,181. In 2004-05, the State Government paid Rs. 3,474 cr on account of interest only. The State Government's own income is just Rs. 3,765 cr which is almost equal to just the interest payments. Interest payment consumes almost 29.2 percent of its income¹¹ excluding central government grants.

Another worrying point is payment on account of pension to retired State Government employees. The State Government spent Rs. 2,325 cr on this account in 2004-05. This is another 18 percent of the State Government's income.

Salary payment is another major component of the State Government's committed expenditure. In 2004-05, the State Government spent about Rs. 4,805 cr, consuming 37.3 percent of the State Government's income.

⁸ Total Plan expenditure including state plan, centrally sponsored schemes and central sector schemes.

⁹ Total Plan and Non Plan expenditure including repayment of loan.

¹⁰ Source : Bihar : Towards a Development Strategy, World Bank Report (p44)

¹¹ Grants-in-aid from the Central Government has not been included in the State's income for this purpose as it is supposed to be spent on particular schemes. There are some grants for non plan purpose too, since the earmarked non plan expenditure has been included but those grants have not been taken as income of the State Government has not been taken into account, income is understated to that extent. But such non plan grants are limited.

Thus, the State Government spent a total of Rs. 10,604 cr on salaries, interest and pensions which is 82.3 percent of its income.

If we add debt repayment of Rs. 3,087 cr which should normally be financed from its income and which is another 24 percent of its income, the total committed expenditure of the State Government on account of just salaries, interest, pension and debt repayment was Rs. 13,691 cr which represents 106 percent of its income.

4.4. Conclusion about the Present Financial Situation

Thus, the State Government hardly spent anything on development from its own income. Whatever was spent on development was either from the grants-in-aid from the Central Government or from loan from the market.

The present financial situation of the State Government can, therefore, be characterized as high debt, low expenditure and low capital expenditure with increasing pension and interest payment burden.

5. Background of the Present Financial Situation

The situation has not come about in a year or so. Therefore, it is necessary to look into the past and analyse the trend.

5.1 Financing Non-Developmental Expenditure

The income-expenditure gap is shown in Table 3.

Table 3 : Income Expenditure Gap

(Rs. crore)				
Year	Income	Committed Expenditure (Non-Plan)	Gap	Gap as percentage income
1990-91	3245.03	4847	1601.97	49.37
1991-92	3578.35	6159.59	2581.24	72.13
1992-93	4650.53	7378.36	2727.83	58.66
1993-94	4799.69	7261.93	2462.24	51.30
1994-95	5325.77	7433.83	2108.06	39.58
1995-96	6379.41	8020.15	1640.74	25.72
1996-97	7372.96	8626.61	1253.65	17.00
1997-98	7712.54	9999.04	2286.5	29.65
1998-99	8279.09	10921.71	2642.62	31.92
1999-00	9225.33	17768.17	8542.84	92.60

2000-01	10108.00	14155	4047	40.04
2001-02	8795.23	17272.2	8476.97	96.38
2002-03	9586.68	13124.14	3537.46	36.90
2003-04	10620.41	18982.58	8362.17	78.74
2004-05	12897.15	16582.08	3684.93	28.57
2005-06	14837.23	19181.39	4344.16	29.28

The expenditure on account of debt repayment has been included in non-development expenditure. One can have a better understanding of the trends by observing the pattern of non-development expenditure, as presented in Table 4. It can be observed there that the trend of non-developmental expenditure is in tune with the trends of salary and loan repayment. While salaries show a gentle increase throughout, there is a sudden increase during 1999-2001. This is on account of the fifth pay revision and the arrears of salary. In the same period, there is increase in pensions too.

Table 4 : Pattern in Non-developmental Expenditure

(Rs. Crore)

Year	Income	Loan Repaid		Interest Payment		Pensions Payment		Salary Payment	
		Amount	As percentage of Income	Amount	As percentage of Income	Amount	As percentage of Income	Amount	As percentage of Income
1990-91	3245	792	24	683	21	196	6	2410	74
1991-92	3578	1961	55	827	23	248	7	2640	74
1992-93	4651	1876	40	1336	79	324	7	3024	65
1993-94	4800	1590	33	1091	23	358	7	3262	68
1994-95	5326	680	13	1595	30	467	9	3448	65
1995-96	6379	531	8	1668	26	556	9	3833	60
1996-97	7373	432	6	1942	26	702	10	4047	55
1997-98	7713	527	7	2062	27	777	10	4561	59
1998-99	8279	510	6	2412	29	1024	12	5321	64
1999-00	9225	3875	42	2867	31	1241	13	6686	72
2000-01	10108	807	8	3142	31	2011	20	7129	71
2001-02	8795	6447	73	2629	30	2273	26	5276	60
2002-03	9587	1533	16	3022	32	2049	21	5073	53
2003-04	10620	4398	41	3343	31	2269	21	6164	58
2004-05	12897	3087	24	3474	27	2325	18	4805	37
2005-06	14837	1224	8	3981	27	2557	17	6494	44

There is a sudden increase in the non-developmental expenditure in 2003-04. This is due to the securitisation of outstanding dues of Bihar State Electricity Board towards payment to the Central Public Sector Power Undertakings. The amount was Rs. 1,593 cr. The expenditure on account of pensions has increased from 6 percent of the income in

1990-91 to 21 percent in 2003-04 and has come down to 17 percent because of increase in the retirement age to 60 years. Interest payment has also increased from 21 percent in 1990-91 to 32 percent in 2002-03. This is highly unsustainable. The improvement in percentage in expenditure is basically due to increase in the income on account of State's share in the central taxes.

5.2 Trends in State's Revenue Collections

The State Government has been increasingly relying on the income from its share in central taxes. The trends in the State's own income can be seen in the Table 5. Initially in 1990-91, the State Government could contribute about 50 percent from its own sources. This trend was maintained up to 2000-01. However, after 2001, the share of State's own income has come down to just 29 percent. The figures indicate that the revenue receipts of the state have grown at a slower rate; whereas the fiscal liabilities grew at a faster rate.

Table 5 : Trends in State's Income

(Rs. crore)

Year	Income	Own income	Central Tax share	Own Income as Percentage of Total Income	Sales Tax	Registration	Excise	Motor Vehicle	Non Tax (Royalty)
1990-91	3245	1585	1632	48.8	718	87	102	48	569
1991-92	3578	1692	1865	47.3	754	109	120	83	559
1992-93	4651	2253	2374	48.4	842	156	123	123	939
1993-94	4800	2274	2515	47.4	965	158	127	103	838
1994-95	5326	2526	2788	47.4	1116	153	145	154	862
1995-96	6379	2886	3485	45.2	1310	206	182	158	919
1996-97	7373	3285	4078	44.6	1496	227	219	161	1034
1997-98	7713	3624	4074	47.0	1568	253	226	174	1225
1998-99	8279	3828	4441	46.2	1822	279	240	165	1146
1999-00	9225	4251	4963	46.1	2068	326	278	178	1166
2000-01	10108	3521	6576	34.8	2006	302	243	224	712
2001-02	8795	2606	6177	29.6	1600	304	239	142	287
2002-03	9587	3022	6549	31.5	1953	348	242	178	261
2003-04	10620	2985	7628	28.1	1989	418	240	210	309
2004-05	12897	3765	9117	29.2	2400	429	272	213	418
2005-06	14837	4290	10480	28.9	2700	600	335	310	306

Sales tax has remained the mainstay of State's income. The revenue from the sales tax has surpassed the pre-bifurcation level of Rs. 2,000 cr. It can be seen that the income from the state excise is meagre. As regards sales tax, it may be difficult to reach

the levels of neighbouring states considering the small size of the market in Bihar (Appendix I); but there is still significant scope of increasing to a higher level. Again, the scope for additional revenue earnings under state excise is also limited in Bihar, because of its narrow industrial base as indicated by the State's share in central sales tax (Appendix I). But with improved tax administration, some additional resources can be mobilized under this head too.

5.3 Debt Structure

It is true that in a growing economy development expenditure could be financed by raising debt; however, in case of Bihar, the debt has been used to finance the expenditure on salary or meeting the dues of BESB. It is increasing at an alarming rate. It has grown four-fold in the last fifteen years. It has risen from Rs. 10,000 cr in 1990-91 to about Rs. 40,000 cr in 2004-05. Debt as a percentage of GSDP has increased from about 40 percent in 1990-91 to more than 60 percent now. Interest payments as a percentage of revenue receipts has increased from 16.23 percent in 1990-91 to about 28 percent in 2000-01 and has come down to 22 percent in 2004-05. The situation has become highly unsustainable. The Central Government has characterized the State as a “debt stressed” State. The changing proportion of internal and Central Government loans in the total debt is shown in Table 6. Central Loans have come down due to the debt-swap scheme of the Central Government and the State Government's internal loans have increased. Of course, there has been interest savings as the old high cost central loans have been swapped by low cost internal loans.

Table 6 : Debt of the State Government

(Rs. crore)

Year	Debt	GSDP	Debt as Percentage of GSDP	Interest Payment as Percentage of Revenue Receipts	Central Loan	Internal Loan	GPF etc.
1990-91	10501	26429	39.73	16.23	5792	1655	3054
1991-92	12237	29519	41.45	17.63	6401	2026	3810
1992-93	13559	31914	42.49	22.57	6859	2326	4374
1993-94	14860	39009	38.09	17.40	7368	2691	4801
1994-95	16670	44040	37.85	25.29	7957	3106	5607
1995-96	18593	44235	42.03	22.60	8772	3509	6312
1996-97	20632	53749	38.39	23.10	9740	4016	6876
1997-98	23262	61381	37.90	21.76	11061	4676	7525

1998-99	26826	65747	40.80	25.95	13375	5395	8056
1999-00	30613	69632	43.96	26.90	15862	5582	9169
2000-01	25964	49383	52.58	28.11	11243	7097	7624
2001-02	29158	47116	61.89	26.72	11792	9682	7684
2002-03	32016	54083	59.20	27.55	11666	12472	7879
2003-04	34401	56412	60.98	28.41	10106	16298	7997
2004-05	39344	62792	62.66	22.11	9037	21905	8401
2005-06	43153	71028	60.75	20.65	8345	26406	8401

It is observed that the debt of the State has been mounting and almost entire loan amount was provided for interest and repayments, thus defeating the very purpose of borrowings, which has been the creation of capital assets that could generate income to pay off the debt.

The borrowings were of three types. The first was the internal and central loans. The second type of loan was taken from the public account which included small savings, provident and insurance funds, reserve funds and deposits and advances. The third category of loans was the one taken from contingency fund of the State. The borrowings in excess of fiscal deficit resulted in an increase in cash balance of the State Government. The CAG adversely commented on the very poor financial management of the State Government occurring over several years in nineties. The CAG also reported that the state government paid an interest rate of 12.5 percent to 14 percent on its market borrowings, but earned interest of 3.5 percent to 5 percent only on its cash balance investment in treasury bills maintained by the RBI. This shows that there have been excessive borrowings. Contrary to the principles of loan finance, the loans were also raised for meeting current revenue expenditure.

5.4 Trends in the Quality of Expenditure

The proportions of development (plan) and capital (asset creation) expenditures in the total expenditure can be seen in Table 7.

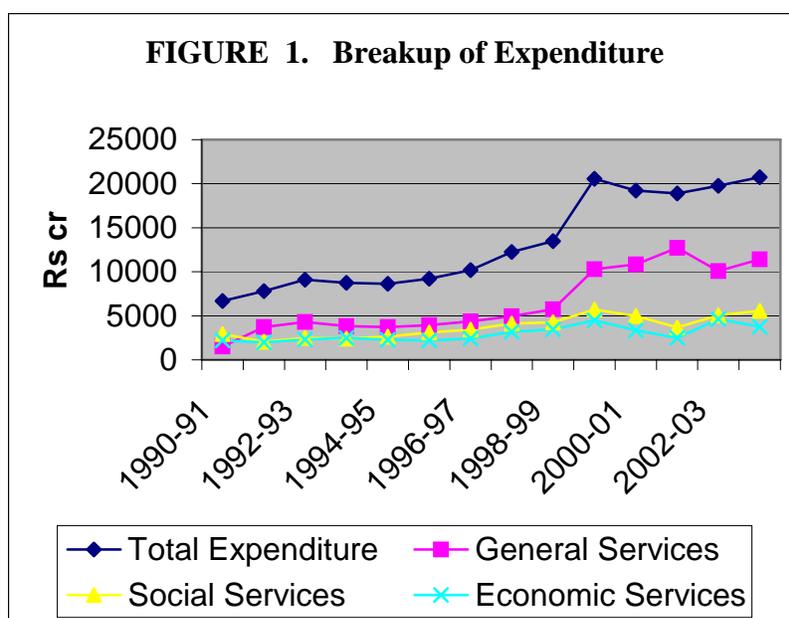
Plan expenditure, which is basically developmental expenditure, has been extremely low all throughout. It came down from Rs. 1,472 cr in 1990-91 to Rs. 1,211 cr in 1995-96 and then grew to about Rs. 2,774 cr in 1999-2000. It fell down to Rs. 1,600 cr in the post-bifurcation stage in 2001-02 and afterwards, in 2004-05, the highest level at Rs. 3,476 cr was achieved. But still it is very low at just Rs. 424 per capita. The position

of capital expenditure which results in permanent asset creation is abysmal. It was just Rs. 382 cr in 1995-96 and has been in the Rs. 500-1000 cr band all throughout. The year-wise expenditure on general, social and economic services is shown in Figure 1. The proportion of general services has increased reflecting the deterioration in the quality of expenditure.

Table 7 : Trends in the Quality of Expenditure

(Rs. crore)

Year	Total Expenditure	Non-Development Expenditure		Development Expenditure		Capital Expenditure	
		Amount	As percentage of Total Expenditure	Amount	As percentage of Total Expenditure	Amount	As percentage of Total Expenditure
1990-91	6319	4847	77	1472	23	136	2.2
1991-92	7584	6160	81	1425	19	183	2.4
1992-93	8986	7378	82	1608	18	329	3.7
1993-94	8653	7262	84	1392	16	179	2.1
1994-95	8645	7434	86	1211	14	270	3.1
1995-96	9231	8020	87	1211	13	317	3.4
1996-97	10197	8627	85	1570	15	334	3.3
1997-98	12259	9999	82	2260	18	533	4.3
1998-99	13477	10922	81	2555	19	685	5.1
1999-00	20542	17768	86	2774	14	1176	5.7
2000-01	16070	14155	88	1915	12	1076	6.7
2001-02	18882	17272	91	1610	9	742	3.9
2002-03	15506	13124	85	2381	15	970	6.3
2003-04	21348	18983	89	2365	11	1175	5.5
2004-05	20058	16582	83	3476	17	1205	6.0
2005-06	25648	19181	75	6466	25	3193	12.5



5.5 Trends in the Revenue and Fiscal Deficits

Revenue account indicates how the State Government is meeting its day-to-day expenditure from its revenue income and a Revenue Deficit indicates that the Government is living beyond its means. In fact, the State Government should be able to save something from its revenue income to make some capital expenditure, creating permanent assets which may generate future income. However, for a growing economy, the Government is recommended to take loan upto certain limits to undertake additional capital expenditure. But the Government should not take loan for meeting its day-to-day revenue expenditure.

Table 8 : Trends in Revenue and Fiscal Deficit

Year	Revenue Deficit (Rs. Cr)	Fiscal Deficit (Rs. Cr.)	RD / GSDP (Percentage)	Fiscal Deficit/ GSDP (Percentage)
1990-91	759	1663	2.87	6.29
1991-92	514	1143	1.74	3.87
1992-93	688	1316	2.16	4.12
1993-94	446	947	1.14	2.43
1994-95	1257	1656	2.86	3.76
1995-96	826	1311	1.87	2.96
1996-97	619	1347	1.15	2.51

1997-98	1052	2240	1.71	3.65
1998-99	2267	3660	3.45	5.57
1999-00	3702	5995	5.32	8.61
2000-01	2330	4075	4.72	8.25
2001-02	1320	2593	2.80	5.48
2002-03	1287	2988	2.38	5.52
2003-04	895	5176	1.59	9.18
2004-05	-1076	1242	-1.71	1.98
2005-06	306	5080	0.43	7.15

It can, however, be seen from Table 8 that the State Government has been taking loan for its day-to-day revenue expenditure which makes it highly unsustainable. There have been peaks in 1999-2000 and 2003-04 to meet the payment requirement of the fifth pay revision and the securitisation of electricity dues of the central energy PSUs. This has resulted in heavy interest burden. This coupled with the increasing salary burden and pension requirements has made the situation highly unsustainable. The year 2004-05 was a relief, thanks to the elections when borrowing requirements came down substantially and there was revenue surplus. But this was due to the fact that the State Government could not spend money. There was a strike too by the state government employees during December-January 2004-05.

5.6 Conclusion about the Financial Position over a period

The financial position of the State has been deteriorating throughout the entire period of 1990s. The committed non-developmental expenditure has always been more than the income by a wide margin leading to borrowings to meet the gap. This has been partly due to the fifth pay revision and partly due to increasing power sector subsidies. The bifurcation of the state has exacerbated financial difficulties. The main consequence has been a steady accumulation of debt, and a large debt service burden on public finances. Expenditure on general services, which include debt services and pension expenditure has grown. Non-interest expenditure has been curtailed and expenditure on economic services has declined sharply. The maintenance of public spending on social services in contrast to economic services in part reflects the difficulty of cutting salaries, which comprise 80% of social services as compared to only 16% of economic services. This has led to a drop in developmental and capital expenditure. The spending on non-wage operations and maintenance (O&M) has also been minimal further compromising the quality of expenditure.

6. Utilisation of Central Grants

Considering the limited sources for generating its own income, the State Government has to make a great effort for mobilizing and for making the best use of the resources from the Central Government and from other external sources. The State Government gets grants from Central Government for implementing various centrally sponsored schemes in a number of sectors. The performance of the State Government in a few sectors have been analysed here, from which one can get an idea of its overall performance.

6.1 Downward Revision of State Plans

For a variety of reasons, it has been observed that Bihar's overall utilization of central resources targeted towards developmental purposes is among the lowest in India. It is observed that it had become a normal phenomenon to revise the state plan size downwards every year. The State Government was unable to spend the money as per the approved plan outlay and used to revise the plan size as per the lower expenditure. The performance of the State Government was particularly unsatisfactory during the period from 1990-96. The plan size used to be revised to less than half the approved outlay. In the recent past too, the plan size was revised downwards, as the State Government could not submit the project proposals to the Central Government in time and get the projects approved under Rashtriya Sam Vikas Yojana (RSVY) and Accelerated Irrigation Benefit Program (AIBP) and NABARD's Rural Infrastructure Development Fund (RIDF). The year-wise downward revisions of the State Plan are shown in Table 9

Table 9 : Scaling Down the State Plans

(Rs. crore)					
Year	Approved Plan	Revised Plan	Year	Approved Plan	Revised Plan
6TH PLAN			8TH PLAN (Rs. 13000.00 crore on constant prices)		
1980-81	476.61	464.43	1992-93	2202.73	1100.00
1981-82	560.00	560.00	1993-94	2300.00	750.00
1982-83	670.00	610.00	1994-95	2400.00	900.00
1983-84	681.00	603.00	1995-96	2522.70	972.00
1984-85	751.00	751.00	1996-97	2143.91	1649.00
TOTAL	3138.61	2988.43	TOTAL	11569.34	5371.00

7 TH PLAN			9 TH PLAN (Rs. 16680.00 crore on constant prices)		
1985-86	851.00	974.76	1997-98	2268.42	1796.19
1986-87	1150.00	1277.24	1998-99	3768.74	1850.00
1987-88	1500.00	1400.00	1999-00	3630.00	2471.99
1988-89	1600.00	1200.00	2000-01	3155.00	1736.72
1989-90	1800.00	1300.00	2001-02	2644.00	1655.44
TOTAL	6901.00	6152.00	TOTAL	15466.16	9510.34
PLAN HOLIDAY			10 TH PLAN (Rs. 21000.00 crore on constant prices)		
1990-91	1805.00	1400.00	2002-03	2964.40	2314.00
			2003-04	3320.00	2642.00
1991-92	2251.00	1016.00	2004-05	4000.00	3059.22

It is observed that downward revision of state plan has become a practice since 1990s and the scale of downward revision has also increased over this period.

6.2 Rural Development Programmes

During 1997-2006, the State has been deprived of Rs. 2,200.75 cr under rural development programmes (Table 10). The reasons vary. The State Government is unable to utilize the fund in time and fails to submit the required utilization certificate for further release of funds. This results in withholding of share by the Central Government. Even the utilization of the limited funds has also been poor, creating problem for further release from the Central Government.

Table 10 : Utilisation of Funds under Rural Development Programmes

(Rs. crore)

Year	Central Allocation	Central Release	Loss of resources		Total Funds Available	Expenditure	
			Amount	As Percentage of Allocation		Amount	As percentage of Funds Available
1997-98	829.95	729.93	100.02	12.05	2312.35	1397.86	60.45
1998-99	1084.84	856.32	228.52	21.06	2301.06	1597.5	69.42
1999-00	1232.07	953.17	278.9	22.64	2552.15	1577.56	61.81
2000-01	676.63	447.97	228.66	33.79	1281.51	900.94	70.30
2001-02	787.41	612.21	175.2	22.25	1405.58	941.8	67.00

2002-03	764.15	522.32	241.83	31.65	1295.88	897.87	69.29
2003-04	890.55	627.85	262.7	29.50	1403.64	1047.08	74.60
2004-05	1372.64	1374.18	-1.54	-0.11	2178.9	1534.87	70.44
2005-06	2007.65	1321.19	686.46	34.19	2830.27	1382.31	48.84
Total	9645.89	7445.14	2200.75	22.82		11277.79	

The State Government lost considerable amount of money due to its inability to provide state's matching share or because of non-spending of central funds provided under various Rural Development and Poverty Alleviation programmes like SGSY, SGRY, EAS, IAY, etc. which led to shortfall in releases compared to the entitlements.

6.3 Rashtriya Sam Vikas Yojana

In case of Rashtriya Sam Vikash Yojana, the allocation, release and utilization of Central Government grants can be seen in Table 11. Out of the total fund of Rs. 4,000 cr earmarked for Bihar, the State Government could get only Rs. 1,019.59 cr released so far and the expenditure has been just 62 percent, leading to further loss of resources.

Table 11 : Shortfall in Release and Utilization in RSVY

Year	Allocation	Release		Expenditure	
		Amount	As Percentage of Allocation	Amount	As Percentage of Released Funds
2002-03	55.5	55.5	100.00	55	99.10
2003-04	500	446.12	89.22	141.3	31.67
2004-05	1000	248.01	24.80	301.37	121.52
2005-06	1000	269.96	27.00	140.02	51.87
Total	2555.5	1019.59	39.90	637.69	62.54

6.4 District Primary Education Project and Sarva Shiksha Abhiyan

In case of the District Primary Education Project (DPEO) and the Sarva Shiksha Abhiyan (SSA), the State Government has not been able to utilize the funds released in the first instalment and thus consistently failed to get the second instalment in all the previous years. The details are given in Table 12. The State has lost Rs. 505 cr in such an important sector.

Table 12 : Status of Funds received and utilization under DPEP and SSA**(Rs. crore)**

Year	Allocation for the year	Funds Released during the year	Loss of resources		Total Funds Available	Expenditure	
			Amount	As Percent-age of Allocation		Amount	As Percent-age of Funds Available
1997-98	18.67	32.58	-13.91		32.58	2.48	7.61
1998-99	64.13	24.31	39.82	40.23	54.42	25.8	47.41
1999-00	95.95	55	40.95	38.39	83.61	36.84	44.06
2000-01	88.33	35.05	53.28	39.70	81.82	35.07	42.86
2001-02	119.62	63	56.62	50.76	109.76	60.72	55.32
2002-03	132.49	64	68.49	43.52	113.04	57.66	51.01
2003-04	170.98	93.31	77.67	36.17	148.69	61.85	41.60
2004-05	177.57	86.83	90.74	45.80	173.68	81.32	46.82
2005-06	156.48	65.11	91.37	54.49	157.47	85.27	54.15
Total	1024.22	519.19	505.03	43.64		447.01	

As a result of the State Government's lackadaisical attitude, during the period 1997-2006, there has been a loss of resources to the extent of 44 percent. For instance, in 2003-04, as against an approved target for construction of 1828 school buildings and 16,964 additional class rooms, only 68 buildings and 1982 class rooms were in progress till September 30, 2003.

6.5 Pradhan Mantri Gram Sadak Yojana

Similarly, in the rural connectivity scheme of Prime Minister Gram Sadak Yojana (PMGSY), the State Government has not been able to obtain full allocation provided for Bihar (Table 13). In Phase-1 in March 2001, 295 roads for Rs. 147.72 cr were sanctioned and the amount for the same was released. So far, only 211 roads for Rs. 117.44 cr have been completed. Phase-2 was sanctioned in July 2002 for 611 roads for Rs. 279.10 cr. However, no money was released by the Central Government as there was some money of Phase I lying unutilized with the State Government. Later, Rs. 150 cr was released in December, 2003 and another Rs. 600 cr in May, 2005 for Phase-2. So far only 370 roads have been completed and an amount Rs. 200.51 cr. has been spent for this purpose. The State Government also decided in August, 2004 to get the work of Phase-3 and Phase-4 directly implemented by the Ministry of Rural Development, Government of India, through nominated Central Government Agencies, viz, NBCC, CPWD, NHPC and

IRCON. The total allocation for Phase-3 and Phase-4 is Rs. 964 cr. So far, the work of Rs. 41.466 cr has been carried out up to December 2005.

Table 13 : Status of Funds received and utilization under PMGSY

(Rs. crore)

Year	Central Allocation	Central Release	Loss of resources	Total Funds Available	Expenditure	Expenditure/Funds Available (%)	Loss of resources
2000-01	150	149.9	0.1	149.9	0	0.00	0.07
2001-02	150	0	150	149.9	0.47	0.31	100.00
2002-03	150	0	150	149.43	62.28	41.68	100.00
2003-04	234 ¹²	150	84	237.15	117.92	49.72	35.90
2004-05	234	0	234	119.23	98.94	82.98	100.00
2005-06	234	60	174	80.29	38.34	47.75	74.36
Total	1152	359.9	792.1		317.95		68.76

6.6 Integrated Child Development Services

The year-wise utilization of funds under Integrated Child Development Services (ICDS) is shown in Table 14. The performance of the State Government during the period 1993-94 to 2001-02 has been unsatisfactory. During the entire period from 1990-91 to 2004-05, out of a total allocation of Rs. 400.77 cr, an amount of only Rs. 196.50 cr (49 percent) could be utilized. Under the nutrition programme of National Programme for Adolescent Girl (NPAG), no expenditure has been made during 2003-04 and 2004-05 from Rs 21 cr. earmarked for the purpose.

Table 14: Utilisation under ICDS **In Rs lakh**

Year	Released	Utilisation	Unutilised
1990-91	1008.95	973	35.95
1991-92	1620	601.5	1018.5
1992-93	1218	792.8	425.2
1993-94	3028	1161.9	1866.1
1994-95	3028	555.05	2472.95
1995-96	3028	98.28	2929.72

¹² Rs 234 cr per year is on the basis of cess. However the work of Phase 3 and 4 is being carried out by central agencies and funds are being released directly to those agencies by the GOI.

1996-97	2088	1162	926
1997-98	2500	1067.83	1432.17
1998-99	3500	334.69	3165.31
1999-00	2200	599.47	1600.53
2000-01	1800	113	1687
2001-02	3219	1547.93	1671.07
2002-03	4132.5	3670.88	461.62
2003-04	4081.35	3401.87	679.48
2004-05	3625.95	3570	55.95

6.7 Special Central Assistance under Special Component Plan

The performance of getting the funds from the Central Government for special Central Assistance under Special Component Plan and their timely utilization has been highly unsatisfactory. The year-wise details of the funds received from the Central Government, the release by the State Government and the utilization is shown in Table 15¹³. Due to poor performance, no funds were released by the Central Government in 1994-95, 1996-97, 2000-01, 2002-03 and 2004-05.

Table 15 Utilistion under Special Component Plan In Rs lakh

Year	Opening balance	Central Govt release	Released by State Govt	Expenditure
1990-91	50.384	2246.01	1425.527	757.226
1991-92	870.867	2197.379	2147.132	682.358
1992-93	571.115	2096.54	2328.51	1329.309
1993-94	339.145	2327.11	0	0
1994-95	2666.255	0	744.22	37.268
1995-96	1922.035	0	1581.212	0
1996-97	690.823	2678.619	128.881	0
1997-98	3240.561	2808.2	4967.494	1873.01
1998-99	1081.267	3620.07	3999.992	619.99
1999-00	2880.412	3471.495	0	0
2000-01	6351.907	0	0	0
2001-02	6351.907	0	4286	992.93
2002-03		0	0	0
2003-04		933	500	64.13
2004-05		0	433	91.64

¹³ An amount of Rs. 1261.140 lakh has been transferred to the Government of Jharkhand in 2001-02.

6.8 Special Central Assistance for ST

The utilization of Special Central Assistance for STs has also been very poor. The State was deprived of the resources for the development of Scheduled Tribes because of the poor utilization of the assistance received from the Central Government. The year-wise performance of the State Government is shown in Table 16. The situation is equally bad in case of other programmes for the welfare of SC/ST/OBCs.

Table 16 Utilisation under Special Central Assistance for SC (In Rs Lakh)

Year	Opening Balance	Central Govt	Released by State Govt	Expenditure
1990-91	0			
1991-92	0	3758.17	3758.17	3756.128
1992-93		3175.25	3175.25	3175.25
1993-94	0	3497.39	0	0
1994-95	3497.39	1748.7	274.255	274.225
1995-96	4971.06	274.22	8.295	8.3
1996-97	5237.78	3364	11.375	494.01
1997-98	8590.4	0	8247.11	0
1998-99	343.29	0	343.29	4362.22
1999-00	0	4779.127	0	0
2000-01	4779.127	1711.06	0	202.25
2001-02	0	556.56	0	556.56
2002-03	0	556.56	944.33	652.02
2003-04	0	500.09	500	96.74
2004-05	0	250.45	500	146.34

6.9 Loss of Resources in Other Programmes

The estimates of unutilized central government resources during the three year period 1997-98 to 2000-01 can be seen in the Table 17 ¹⁴.

¹⁴ Source : Bihar : Towards a Development Strategy, World Bank Report (p 43, 45, Table 3.5)

Table 17 : Utilisation of Released Funds under the State Plan (1997-98 to 2000-01)**(Rs. crore)**

Assistance to the State Plan	Amount Allocation	Amount Released	Loss of Resources	
			Amount	As Percent- age of Allocation
Normal Central Assistant	5101.89	4820.89	281	5.51
Additional Central Assistant for externally aided programmes	815.67	459.49	356.18	43.67
Prime Minister Gram Yojana	875.19	404.23	470.96	53.81
Accelerated Irrigation Benefit Programme	710	361.06	348.94	49.15
SDS	125.87	75.96	49.91	39.65
Accelerated Power Development Programme	21.45	21.45	0	0.00
Roads and Bridges	71.5	8.56	62.94	88.03
Total	7721.57	6151.64	1569.93	20.33

6.10. Conclusion regarding Utilisation of Central Government Grants

Though in the absence of a reliable database, it is difficult to accurately quantify the loss of Central Government resources, it can be estimated that the State was deprived of about Rs 8000 cr since the early 1990s. The loss of resources is in the crucial areas of rural development, rural infrastructure, education , irrigation etc.

Though only a few programmes were taken up in the above analysis of the utilization of central grants, the problem is in all the programmes. This was a serious constraint on the availability of resources for development in Bihar. Unused resources from the Central Government allocation generally lapse, and in some cases, are transferred to States with greater implementation capacity. This loss of resources is actually on two counts— first, there is less release from the Central Government; and secondly, the State Government is unable to utilize even this lower releases. This becomes a vicious cycle. Even where there is no requirement for the state contribution, such as foodgrains for mid-day meals or the BADP, Bihar has had difficulties regarding drawing on the available funds because of implementation bottlenecks, There has so far

been no serious effort to identify the constraints and to find solutions so as to address them on a priority basis.

7. Physical and Social Infrastructure

The poor management of the state finances has many negative consequences for development, but the weak physical and social infrastructure is probably the most important of them. Be it the growth process of the State's economy or the human development, the weak infrastructure appears as a crucial bottleneck which can hardly be compensated by any private or individual effort. The present status of such infrastructure vis-à-vis roads, irrigation, electricity, education and health is discussed below, along with an analysis of poverty alleviation programmes.

7.1. Roads

There are 41 State Highways with a length of 2382 kms in the State. The riding surface of most of the sections are in distress causing roughness. Improvement of State Highways was supposed to be taken up under the Rashtriya Sam Vikas Yojana (RSVY). However, after much delay, a pre-feasibility report for upgradation of State Highways could be submitted by the State Government. The estimated cost of the project covering the entire State is Rs. 846.29 cr. The detailed project report is yet to be prepared.

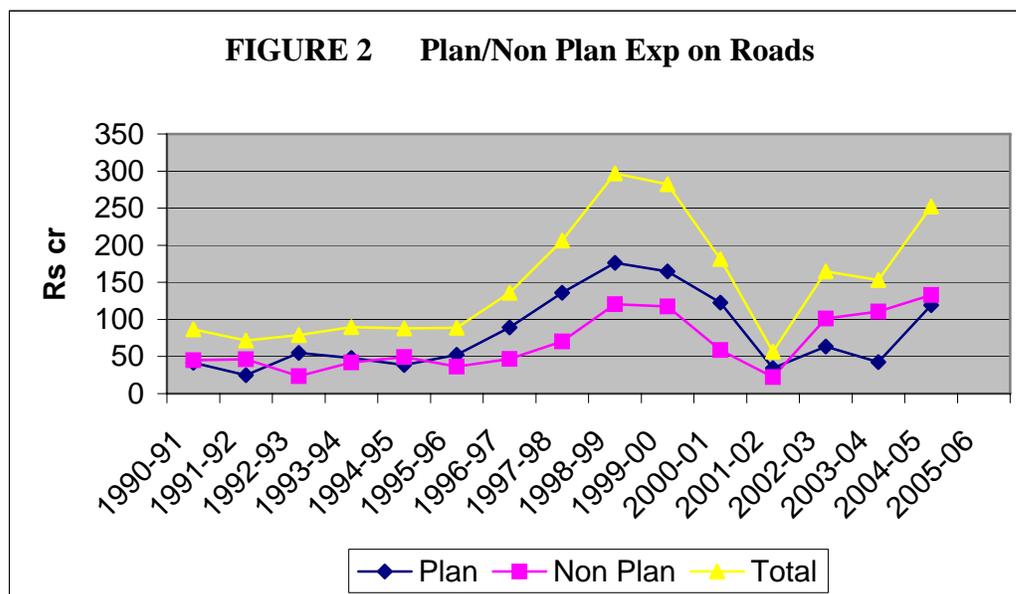
The improvement in the roads for more than 2400 kms in naxal-affected areas was envisaged under State plan seven years ago. However, the work is still incomplete.

There was a serious fraud in which bitumen, supposed to be utilized for road construction in Bihar, was sold in Haldia. This has affected the working of the Road Construction Department adversely.

Under OECF, work for widening and strengthening of 316 kms of road had to be done. However, only 250 km road could be completed.

Under RIDF-VII, 17 bridges were scheduled to be completed by March 2004, This work is still incomplete.

The trend of expenditure under Plan and Non Plan in the last 15 years can be seen in the Figure 2 below.



As can be seen, considering the length of the roads in Bihar, the level of non-plan expenditure is very low. There has been some increase during 1997-98 to 2000-01 with a peak in 1998-99. This was the period of the bitumen scam.

There has been an acute shortage of technical personnel at all levels in the Road Construction Department and Rural Engineering Organisation. There has not been any significant recruitment at entry levels and promotions have not materialized. The Quality Control Organisation in the Road Construction Department is non-functional for want of equipment, chemicals and personnel. Advance Planning Wing is also non-functional. There has been a total collapse of technical administration. This is a serious constraint not only for implementation of works but also for preparing project proposals for getting more funds from the Central Government or other sources.

7.2. Irrigation

As per the Bihar Irrigation Commission, the State has an irrigation capacity of 93.38 lakh hectares, out of which 53.53 lakh hectares have already been brought under irrigation facility through major and medium irrigation schemes and the rest 39.38 lakh hectare irrigation capacity is still to be created through appropriate schemes.

Table 18 : Releases to Bihar under AIBP

(Rs. crore)										
Estimate	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Total
Western Kosi Canal										
904.01	10	0	14.6	30.57	59	0	0	33	19.874	167.044
Upper Kiul										
159.16	2.5	0	5.1	7.63	1.2	2.66	0	2.084	0	21.174
Durgawati Reservoir										
370.04	1	0	1.15	11	18.7	0	13.74	18.06	0	63.69
Banasagar										
263.74	0	1.5	2	80	0	0	0	0	0	83.5
Orni reservoir										
58.76	0	2.03	5.5	0	2.37	0.76	0.741	0	0	11.401
Bilasi Reservoir										
23.83	0	1.62	0.8	0.5	0.47	0	0	0	0	3.39
Sone Canal Modernisation										
487.38	0	0	7	0	66.6	0	0	21.5	11.2	106.3
Batane Reservoir										
57	0	0	0	0	3.33	0	0	0	0	159.33
Total										
2323.92	13.5	5.15	36.15	129.7	151.7	3.42	14.48	74.644	31.074	456.499

As mentioned earlier, the Central Government launched the Accelerated Irrigation Benefits Programme during 1996-97 for completion of ongoing Irrigation/Multipurpose projects on which substantial progress had been made and which were beyond the resource capability of the State Government. The year-wise release under the scheme for specified projects is shown in Table 18¹⁵.

As is evident from the table, except during 1999-01 and then 2003-05, there has been very poor progress in getting the funds released from the Central Government. When some of the states like Bihar are found unable to spend the allocated amount, or are not eligible for funds because of lack of project proposals or poor expenditure, the savings are transferred to States that can spend the amount. Gujarat has been the main gainer under this practice for its Sardar Sarovar Project.

Under RSVY, the rehabilitation of East Gandak Canal system is yet to take off. The WAPCOS, a Central Government Agency was appointed as consultant by the Planning Commission. A new consultant is being appointed.

¹⁵ Central Financial Transfers to Bihar, A report by Shri N C Saxena (p 24, Table 9)

7.3. Electricity

Bihar has now only 584 MW of installed capacity, of which 540 MW is thermal and the rest 44 MW is hydel. But there is hardly any generation from the thermal power stations. Muzaffarpur is down and Barauni Thermal Power Station produces only 30 MW at peak hours as its generation cost is very high. Bihar has a demand of 900 MW at normal times and 1100 MW at peak hours. At present, the requirement of power is being met by purchasing power from the Central Sector— 959 MW from NTPC, 80 MW from Chukha Hydel (PTC) and 21 MW from Rangit Hydel (NHPC) at off peak hours. The per capita consumption of electricity in Bihar is just 60 kwh/yr as compared to the national average of 354.75 kwh/yr.

The Bihar State Electricity Board is in a dire financial situation. As of now, the Board purchases power worth Rs 118 cr (at a cheaper rate) every month, but collects only Rs 75 cr (at a higher rate) per month as revenue. It has substantial establishment costs of Rs. 51.71 cr per month. And there is a deficit of Rs 107 cr per month. The State Government is at present providing Rs 34.37 cr per month as resource gap. The State Government has also securities (basically assumed the responsibility of discharging) old energy purchase dues of NTPC towards BSEB worth Rs. 1593 cr in 2003-04 and Rs. 482 cr in 2005-06. Further, the State Government is also servicing the loans taken by BSEB from the Rural Electrification Corporation for rural electrification works. Unfortunately, BSEB has made little efforts to improve its revenue collection and reduce its establishment costs. Transmission and Distribution (T&D) losses are 38 percent, though Aggregate Technical and Commercial (ATC) losses which include revenue collection inefficiencies are more than 60 percent. In fact, each unit sold at current tariff results in loss of Rs. 1.8/kwh.

Table 19 : Utilisation of Funds for Rural Electrification Programme (2000-06)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	Total
(Rs. lakh)							
PMGY							
Funds	0	1843.42	3031.76	639.05	1812.95	0	7327.18
Utilisation	0	0	1928.08	742.35	2164.89	2645.92	7481.24
Villages Electrified	0	0	51	80	98	19	248
Minimum Need Program							
Funds	0	474	3885	7789			12148
Utilisation	0	0	661.63	2481.33	6048.31	2.73	9230

Villages Electrified	0	0	13	44	25	2	84
Tal-Diyara							
Funds	2206.2	0	0	0	0	0	2206.2
Utilisation	0	0	1325	131.73	0.39	18.84	1475.96
Villages Electrified	0	0	17	15	0	1	33
BADP							
Funds	280	268	0	0	0	0	548
Utilisation	0	0	396	78.37	0	17.74	492.11
Villages Electrified	0	41	33	51	0	3	128
Rural Electrification							
Funds	0	9771	0	1778.28	4750	0	16299.25
Utilisation	0	2874	2644.78	6030.47	4750	0	16299.25
Villages Electrified	0	957	1119	1224	750	255	4305
Total							
Funds	2486.2	12356.42	6916.76	10206.3	6562.95	0	36042.43
Utilisation	0	2874	6955.49	9464.25	12999.59	2685.23	34978.56
Villages Electrified	0	998	1233	1414	873	280	4798
Funds	2486.2	9482.42	9443.69	10185.74	3749.1	1063.87	1063.87

Under the Rural Electrification Programme, as on March, 2005, out of a total of 45098 villages in the State, 20,2006 villages have been electrified as per the old definition of village electrification. The pace of electrification is very unsatisfactory. The utilization of money received and the electrification of villages are shown in the Table 19 below. It also appears that the BSEB parks the funds and uses it or takes loan against it for meeting its day-to-day expenses. A sum of Rs. 10.64 crore is still lying unutilized.

Under the Accelerated Power Development Program (APDP), the central government released Rs 21.45 cr in 2001-02. However the utilization has been only Rs 6.63 cr so far. Similarly under the Accelerated Power Development Reforms Program (APDRP), the central government has released Rs 311.26 cr so far. There is counterpart funding by the Power Finance Corporation for Rs 377.76 cr. The expenditure has been only Rs 171.94 cr (55%) against GoI releases and Rs 81.48 cr (21.5%) against PFC loan so far. There are delays in release of funds by BSEB to Power Grid Corporation of India (PGCIL) as BSEB has a tendency to get loan against the funds released from GoI to meet its resource gap. PGCIL is executing projects worth Rs 866.76 cr under this programme.

It has been observed that the work has picked up by the involvement of central government agencies. It shows that local capacity for implementation has seriously deteriorated. The Board and the State Government have not taken any serious steps for strengthening the local capacity in implementation of work in the recent past.

7.4. Education

7.4.1. Primary and Secondary Education

There are about 1.40 cr students and 1.14 lakh teachers in primary education. There are 36798 primary, 15314 middle, 62 Government Secondary Schools and 2534 Rajkiyakrit Secondary Schools besides other minority and informal educational institutions.

Teacher absenteeism has been an endemic problem. According to one study, this is as high as 26 percent. According to a UNICEF study, if official work and holidays are taken together, a teacher spends about two months of the year in the classroom. A combination of factors, ranging from lack of monitoring teachers' performance to the involvement of teachers in a number of miscellaneous government duties, account for their poor attendance¹⁶.

This unsatisfactory functioning of schools is exacerbated by a rising shortage in the number of teachers. Only about 30,000 teachers have been appointed in primary schools over the last ten years. The pupil teacher ratio (PTR), which was more than 90:1 in primary schools as against the national norm of 40:1, has worsened to 122:1 during the 1990s. More than 60,000 additional teachers need to be recruited. This is without taking into account the children currently out of school.

There is an acute shortage of classrooms. Available classrooms are 1,43,027. The requirement is 3,79,089 as per the national norm of 40:1. Thus there is a shortage of 1,99,014 classrooms at the primary level.

The impact of poor quality schooling is evident from the results of the Grade VIII examinations introduced by the government to monitor the quality of elementary

¹⁶ Bihar : Towards a Development Strategy, World Bank Report (p 63-64)

education. In 2002, as many as 76 percent and 86 percent of the students received grade C or below in mathematics and Hindi respectively¹⁷ .

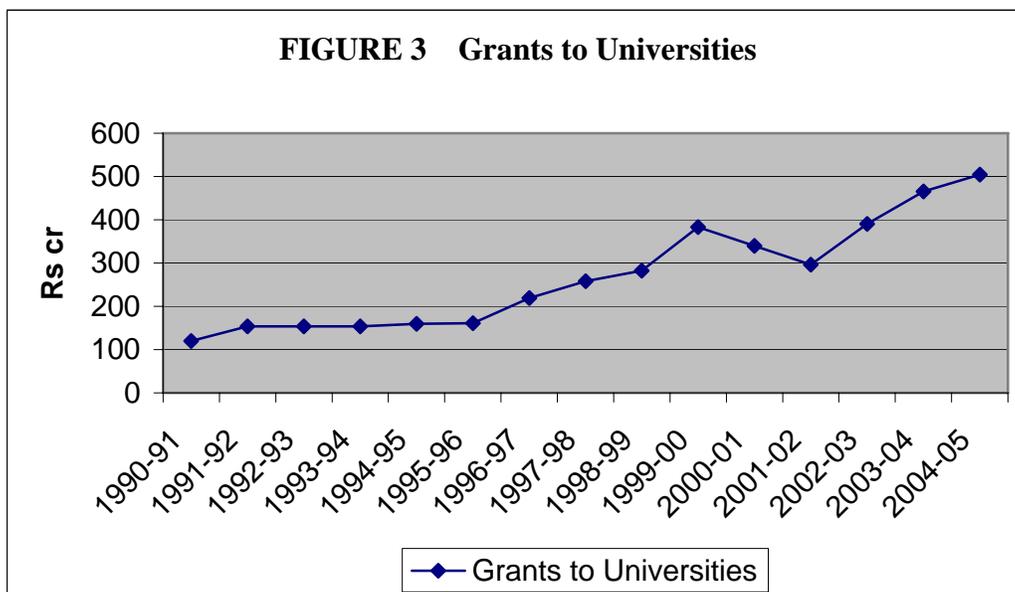
There was some improvement in the quality of primary education with the introduction of the Bihar Education Project (BEP), District Primary Education Project (DPEP), Sarva Shiksha Abhiyan and mid-day meal schemes. This has largely been due to the introduction of Village Education Committees (VLCs) and Mahila Samakhya. However, the State Government has not been able to ensure the utilization of Central Government releases, depriving the State of the precious resources in terms of further instalments. As shown in Table 12 above, the State Government has never been able to get the second installment in any year.

It appears that, as in the power sector, performance within the sector in primary education was substantially better even with a partial departure from departmental functioning in Bihar.

7.4.2. Higher Education

As regards higher education, there are 9 universities. State Government provides grants-in-aid to meet the salary expenditure of these universities. Because of the implementation of UGC package with effect from 1.1.1996, this burden on the State Government has increased. The grants given to these universities have increased from Rs. 120 cr in 1990-91 to Rs. 504.62 cr in 2004-05. Huge arrears on account of granting of UGC pay-scale are yet to be paid. The year-wise release of grants is shown in Figure 3. Despite this level of support, infrastructure is lacking and the quality of higher education is far from satisfactory. There are number of colleges where the number of teachers are disproportionately higher than the number of students. This is in stark contrast to the situation in primary and secondary education which is a high priority area for the State Government. Most of the universities teach traditional subjects. In any case, parents send their wards to the universities and professional colleges outside the State. There is a need for a thorough shake-up of higher education where there can be fewer number of universities providing quality education and developing into centers of excellence in a given area. This will also help in generation of internal resources which at present are rather insignificant.

¹⁷ Bihar : Towards a Development Strategy, World Bank Report (p 64)



7.5. Health

There is acute shortage of health infrastructure in Bihar as seen against the central government’s population norms. There is a shortfall of 7596 health sub-centres, 709 Primary Health Centres (PHC) and 539 Referral Hospitals (RH) against the present network of about 7024 health sub-centres, 1727 PHCs and 70 RHs. This is based on the norms fixed under the Minimum Needs Programme¹⁸.

There is growing evidence that existing health facilities are sub-standard as in the case of primary schools. The buildings are in a dilapidated or damaged condition. A mere 13 referral hospitals constructed between January 1991 and February 2000 were not operational due to non-availability of medical and paramedical staff and equipment. There is shortage of beds in Primary Health Centres and Referral Hospital against the requirement of 6 beds in PHCs and 30 beds in RHs. There is no provision of dietary articles for rural health care. Immunisation has suffered due to non-functional cold-chain equipment. As per the Tenth Plan document, the level of immunization in Bihar was only 20 percent against the all India level of 42 percent. It has also been observed that sub-standard medicines are dispensed to patients. Large amounts were spent as salary of

¹⁸ Report (Civil) of the CAG on Bihar Finance accounts for 2003-04 (p 31-41)

medical and paramedical personnel posted in many health care units who were not in a position to treat any patient for want of infrastructural facilities¹⁹.

As in the case of schools, there is a high rate of absenteeism at 58 percent as compared to the all-India figure for 43 percent²⁰. The situation has become worse due to acute shortage of doctors and paramedical staff. If one takes into account men-in-position, the situation is very disappointing. The shortage is about 90 percent in a case of doctors and 95 percent in case of paramedical staff against the norms under the National Health Policy²¹. It can be said that the system of State delivery of Health Care has collapsed.

7.6. Poverty Alleviation and Safety Net Programs

There are a number of schemes sponsored by the Central Government to provide rural employment, self-employment, housing, old age pension, scholarships to SC/ST/OBCs, distribution of essential commodities through fair price shops under the public distribution system which are directed towards poverty alleviation and providing safety nets to the poor. While huge sums are allocated and spent in these schemes, there are complaints of large scale corruption and leakages in their implementation affecting their effectiveness. Targeting the poor has also not been very effective. Mis-targeting has been observed in all such programmes. There have been large scale complaints in the formation of the list of BPL households. It has been observed that while participation of BPL households in Bihar did increase from 2.9 percent to 11.3 percent during 1993-94 to 1990-91, it was still much lower than the 38.3 percent for the whole of India. Despite price increases for APL, participation of APL households also increased from 3.4 percent to 6.1 percent during the same period. This happened despite the reduction in off-take under the APL category, indicating mismanagement of the PDS systems²².

Similarly in the rural employment programme, in the “1998 Living Conditions Household Surveys (LCHS)”, it is observed that only 1.4 percent of rural households in Bihar was reported as working under the Jawahar Rojgar Yojana or other public works,

¹⁹ Report (Civil) of the CAG on Bihar Finance accounts for 2003-04 (p 31-41)

²⁰ Bihar : Towards a Development Strategy, World Bank Report (p 63)

²¹ Report (Civil) of the CAG on Bihar Finance accounts for 2003-04 (p 39)

²² Bihar : Towards a Development Strategy, World Bank Report (p 79)

averaging 51 days. Further, mis-targeting is prevalent with the process of selection and allocation being captured by the local elite²³.

Thus Bihar is constrained in its efforts for poverty alleviation and ensuring safety nets in two ways : first, due to institutional constraints, it finds difficult to draw the money allocated towards the poverty alleviation goals; and second, the spending on poverty allocation programmes that does take place does not achieve its intended impact due to mis-targeting and possible mis-allocation of programmes across villages²⁴.

8. Reasons for Weak Utilisation Performance

It has been observed that there has been a uniform underperformance in all sectors as far as utilization of central allocation is concerned. This points to the presence of systemic problems. The main reasons for such failures have been analysed^{25, 26} and are summarized below.

8.1 Capacity Constraints

Extensive vacancies and an imbalance in the staffing mix in all crucial departments has created capacity constraints for the processing, implementation of projects and sending utilization certificates for the same. Out of a total of 533 blocks in the State, there is no full-time BDO in about 193 blocks. Shortage of engineers for the rural development schemes at the District, Block and Panchayat level is also acute. It fails to reach even one third of the staffing norm.

In the works department — Road Construction, Rural Engineering Organisation, and Building Construction departments — the technical hands are lacking at all levels. For example, in the REO, the shortage can be seen in the Table 20

Table 20 : Vacancy in REO and Road Construction Deptt

	REO			Road Construction		
	Sanctioned	Manned	Vacant	Sanctioned	Manned	Vacant
Engineering-in	1	0	1	3	0	3

²³ Bihar : Towards a Development Strategy, World Bank Report (p 80-81)

²⁴ Bihar : Towards a Development Strategy, World Bank Report (p 82)

²⁵ Bihar : Towards a Development Strategy, World Bank Report (p 44-46)

²⁶ Central Financial Transfers to Bihar, A report by Shri N C Saxena (p 53-64)

Chief						
Chief Engineer	3	0	3	12	0	12
Superintendent Engineer	19	2	17	72	8	64
Executive Engineer	134	99	35	378	297	81
Asstt. Engineer	453	441	12	1447	979	468
Junior Engineer	1206	1002	204	2705	2200	505
Total	1816	1544	272	4617	3484	1133

This acute level of capacity constraints has forced the situation where central agencies are implementing some projects under RSVY and PMGSY. This could only be a short-term way to overcome constraints. The performance of these central agencies is also not very satisfactory as they also face difficulty in starting in a new environment. Due to such capacity constraints, the State Government is unable to prepare project proposals and lose out on accessing funds from the Central Government and other external donor agencies.

8.2. Excessive Centralisation of Decision-making

The State suffers from excessive centralization at all levels. All new plan schemes have to be first screened by an empowered committee after the recommendation of the departmental Minister. The recommendation of the empowered committee are approved by the Planning Minister (generally Chief Minister). All new schemes and on-going plan schemes exceeding Rs 25 lakh are then placed before the Cabinet for approval. After approval of the Cabinet, there is further vetting by the Finance Department before a sanction order is issued²⁷.

The power to sanction estimates has also been very limited for the field level staff²⁸. All estimates above Rs one lakh could be vetted only by executive engineers and full payment can be made only after the executive engineer signs the measurement book. The financial power of the executive engineer was also limited to Rs. 5 lakh. Above this,

²⁷ There has been an amendment in the Rules of Executive Business and the Finance Department's delegation orders whereby all new schemes upto Rs. 2.5 cr can be sanctioned by the Departmental Minister. Only schemes above Rs 10 cr need to be considered by the Cabinet.

²⁸ There has been an amendment in the PWD Code in 2004 enhancing technical powers at all levels.

it is vetted by the Superintending Engineer. This seriously delays projects due to the shortage of senior engineers and prevents large volumes of rural development fund flowing into the blocks.

The power to transfer and posting has also been centralized. All transfers right upto the block level are done by the Secretariat. This delays decision-making and also affects discipline and control adversely. The Secretary of a department remains busy in routine administration leaving little time for policy level issues which is his primary responsibility.

8.3 Paralysis of Decision-making

The successive scams — fodder scam, bitumen scam, etc — have paralyzed decision-making. Fear of being accused of financial irregularities or being implicated in criminal cases, and an incentive structure which does not reward proactive problem solving but severely punishes impropriety has led to a breakdown of governance.

8.4 Budget Timeline

It has developed into a tradition that the State's budget is passed in two installments, first through a vote on account for 4 months in March and later in June/July for the full year. Hence, funds are allotted in installments to directorates and districts, and implementing agencies are kept waiting for the receipt of funds. Bihar also suffers from heavy rains and floods and this results into a very limited timeframe for the implementation of the projects.

8.5 Litigation against the Government

Litigation against the government has taken an enormous amount of time of government officials, often at the most senior levels affecting the normal functioning of the government. Litigation against the government ranges from retirement dues of the government servants, land acquisition cases to disputes with commercial contractors.

8.6 Lack of Adoption of New Technology

There has been a complete lack of adoption of new technology whether in office or in works departments for implementing projects. There is hardly any computerization,

readily accessible databases, and information connectivity. Similarly, the construction process remains antiquated which affects quality and delays the projects. It has reduced the efficiency of the government.

8.7 Lack of Good Contractors

Due to a variety of reasons, there has been a shortage of good contractors in the State. In a number of big projects under PMGSY or RSVY, there has been no response of the tenders. This could be due to a perception of bad law and order situation. In such a situation, reputed contractors/construction companies avoid participating in the tenders. This also hinders the development of quality local contractors at the state level as local capacity also increases with the participation of reputed contractors/construction companies by adoption of new management and technological practices.

8.8 Lack of Exposure

Over the last decade and a half, the State Government appears to have become insular. Training and exposure visits have been almost banned. It has developed into a situation where the government machinery is unaware of the best practices in their field and has become rusted. This has affected the capacity of the government adversely.

9. Conclusion

It clearly emerges from the above analysis that the financial health of the State Government is extremely weak. Even after acquiring substantial loans from the market or the Central Government, the State Government is able to meet mainly its non-development expenditure, leaving only meagre resources for the maintenance and developmental activities. In addition, yearly borrowings have now accumulated to such a high level that loan servicing accounts for a large part of the State's total expenditure.

The new government will certainly make best of efforts to reverse the above negative trend and it will do so not in the medium or long run, but within a short term period. Now that the problems have been fully analysed and the necessary rectifying steps have also been identified and the government's commitment to growth with social justice is unequivocal, this objective is indeed achievable. There is constraint of

resources as well as the administrative capacity which has been systematically undermined in the recent past. There is a need for capacity building so that more and more projects can be prepared to avail funds from the Central Government and other sources. It is equally important to improve the effectiveness of the service delivery systems by preventing leakages. People's participation in all these programmes through community-based organizations and Panchayati Raj Institutions is extremely necessary for this purpose.

The present government is fully aware that, under the present national development policies, the state's role is no longer of a provider that it has been since the independence. The state has now to redefine its role as an enabler too and that task can be accomplished only through expanding and strengthening of its infrastructure, both physical and social. Howsoever small might be the State's own resources, it cannot wait for undertaking massive development expenditure. This will necessitate some further loan; but if the resources are well-spent on judiciously chosen projects, growth is almost certain. In that case, the repayment will not be a problem. This demands certain courage in the arena of financial management and the present government feels confident to display that boldness.

Appendix I : Size of Markets in States of India

States	Size of Markets (2003-04)		Population (2001)		Percent age Share of Revenue from CST (2000 – 02)	States own tax revenue (2001-02)	
	Value (Rs. `000 crore)	Percentage	Number (crore)	Percentage		(Rs. `000 crore)	Percentage
Bihar	106.3	4.8	8.3	8.1	0.6	2.4	2.0
Jharkhand	36.4	1.7	2.7	2.6	1.9	2.0	1.7
West Bengal	178.0	8.1	8.0	7.8	2.6	6.5	5.5
Delhi	74.3	3.4	1.4	1.4		4.9	4.2
Uttar Pradesh	297.8	13.6	16.6	16.2	3.7	10.3	8.7
Uttaranchal	20.9	0.9	0.8	0.8	0.2	0.9	0.8
Madhya Pradesh	99.5	4.5	6.0	5.8	4.7	4.7	4.0
Chhattisgarh	28.3	1.3	2.0	1.9	1.6	1.9	1.6
Rajasthan	135.9	6.2	5.6	5.5	1.3	5.7	4.8
Punjab	68.8	3.1	2.4	2.3	4.2	4.8	4.1
Haryana	60.1	2.7	2.1	2.0	6.9	4.9	4.2
Maharashtra	224.7	10.3	9.7	9.4	15.1	21.2	17.8
Gujarat	128.5	5.9	5.1	5.0	8.6	9.2	7.8
Goa	5.9	0.3	0.1	0.1	0.2	0.6	0.5
Andhra Pradesh	149.9	6.9	7.6	7.4	5.7	12.6	10.7
Karnataka	126.9	5.8	5.3	5.2	5.9	9.8	8.3
Tamilnadu	159.5	7.3	6.2	6.0	10.3	12.2	10.3
India	2186.0	100.0	102.7	100.0	100.0	118.0	100.0

(Source : The Market District Profile 2004 – Indicus Analytics, New Skyline of India –Delhi)