



Citizen-Centered Approaches  
to State and Market



# Bihar: Transformation from Dysfunction through Redistribution

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## I. Introduction

In the 1950s, Bihar was the industrial heartland of India, and heralded as a paragon of state governance. Half a century later, the *Economist* magazine branded Bihar “an area of darkness...which has become a byword for the worst of India: of widespread and inescapable poverty; of corrupt politicians indistinguishable from the mafia dons they patronize; of a caste-ridden social order that has retained the worst cruelties; of terrorist attacks by groups of “Naxalite” Maoists; of chronic misrule that has allowed infrastructure to crumble, the education and health systems to collapse, and law and order to evaporate.”<sup>1</sup> In 2011, Bihar still suffers from a plethora of problems- from poor infrastructure, weak human capacity, inefficient local bureaucracies, difficult caste relations, debilitating power shortages and deeply entrenched poverty- but the state is very different. Through a nascent but carefully structured approach to state-building, a “*naya*” or new Bihar is emerging. The government has consolidated the rule of law, built critical infrastructure, begun to deliver services, grown revenues and expenditures, improved bureaucratic functionality on a platform of “*sushasan*” or good governance, and generated a previously unknown sense of Bihari citizenship. The economy has grown at over 11% for the past 6 years, despite the separation of resource-rich Jharkhand (in 2000), periodic floods and droughts, and the recent global financial crisis.<sup>2</sup> Previously, Bihar was both an object of fascination and ridicule for other Indians- now state governments around the country are seeking to understand what they can learn from the Bihari case, and how its reforms can best be replicated.

Partly as a result of an extremely well-managed and intelligent messaging effort, much of the change in Bihar is credited to the Chief Minister Nitish Kumar, who was elected in late 2005 on a platform of development and social justice, and has begun to deliver on these promises. The reality of the transition, however, is much more complex. Leadership has played an important role, but this has been a collective rather than charismatic form of leadership; dialogue with the multiplicity of stakeholders within a complex society has allowed for shared agreement on progress; a deep understanding of the political-economy of change has enabled prioritization of reforms to build momentum and hope; and the careful choreography of governance has allowed for improvisation in response to difficult problems. Speaking to Biharis today, the changes in their lives appear very tangible, but equally or perhaps more important is the intangible sense of hope and optimism that now pervades their everyday thinking. There is a real sense that the past is being left behind in Bihar and that a new, more prosperous and secure future is being built.<sup>3</sup>

Bihar seems to have reached something of an inflexion point in terms of governance, therefore, but the story is one of qualified, not absolute success. The state continues to face significant challenges as it works to consolidate the progress made to date and move towards ‘second-generation’ reforms. Ironically, the paradox of success for the government is that it is now being judged not by the standards of the past, but by the standards it has set in the present. Reforms require systematization, local governance must be consolidated and growth needs to become more equal. The economy continues to be held back by

<sup>1</sup> The *Economist* “Survey: An Area of Darkness” 21<sup>st</sup> February 2004. V.S.Naipaul once described Bihar as “the place where civilization ends”.

<sup>2</sup> See Government of Bihar, Finance Department. *Economic Survey, 2010-11* (February 2011), p.xxiii In 2009-10, the total GSDP at 2004-5 prices was Rs. 1,35,900.23 crore (a growth rate of 11.7% from the previous year). Ibid, p.1. There is some discussion as to whether these figures are entirely trustworthy. See for example Das Gupta, C. “Unraveling Bihar’s ‘Growth Miracle” *Economic and Political Weekly* (December 25<sup>th</sup>, 2010), p.52

<sup>3</sup> Discussions in Bihar, July 2011.

serious deficiencies- particularly in terms of energy, which is deterring investment, and the absence of meaningful land reform, which is hindering productivity. These are difficult issues that will not be solved easily or quickly. It is clear from recent history, however, that when the relevant rules, frameworks and systems for interaction are in place, the immense goodwill, ingenuity and hard-work of the Bihari people can lead to transformative change.

## **II. Background**

Bihar is the cradle of Indian civilization in many ways- it was the place where the Buddha found enlightenment, it was an important seat of power, culture and learning for thousands of years under the Mauryan Empire, and had one of the oldest centers of learning at Nalanda. The state experienced relative decline under Mughal rule, however, and never developed a functioning state under British rule- at least in the citizen-oriented sense we might understand it today.<sup>4</sup> The state has traditionally been dominated by upper-castes through ‘*Zamindari*’ land ownership and control, and as a result, access to power, resources, and education. The ‘*Zamindars*’ ruled over the land, collecting revenue, a portion of which was distributed to the state.<sup>5</sup> This indirect governance model was further enshrined during the colonial period, and is at the heart of governance dynamics in Bihar, even today. In the post-colonial period, the state was shunned further by Indian governments, exacerbating these deep and overlapping social and economic inequalities and creating a deep sense of deprivation among the people in relation to the Indian state as a whole. Partly as a result, Bihar witnessed the rise of an intense, caste-based politics and leftist movements from the 1930s, which manifested themselves in deep identity-based conflict in the 1970s, which continued until the mid-2000s.<sup>6</sup> During this period, caste-based armies or ‘*senas*’ took over the countryside as upper-caste landlords fought Maoist guerillas. Security and jobs evaporated, and hundreds of thousands of Biharis migrated on a seasonal basis to other western states such as the Punjab and Haryana, or on a more permanent basis to other parts of India.<sup>7</sup> Minimal space existed for constructive discussion of Bihar’s problems, and governance declined precipitously through leadership by a series of venal and corrupt administrations. In the 1990s, when India’s economic reforms unleashed rapid economic growth of over 6% across the rest of the country, Bihar’s economy grew at just over 2.5%.<sup>8</sup> GDP per capita, at around US\$275, was lower than a number of fragile state contexts in Africa.<sup>9</sup> As the Princeton Professor, Atul Kohli, pointed out at the time: “If Bihar were an independent country, such

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<sup>4</sup> Bihar, in Eastern India, is a vast tract of fertile land lying between West Bengal in the east, Uttar Pradesh in the west, Nepal in the north and Jharkhand in the south. The Bihar plain is divided into two unequal halves by the river Ganga which flows through the middle from west to east. In terms of land mass, the state is roughly the size of South Korea, but it has a population of over 103 million, with 59% of the population under the age of 25. (*Government of India Census, 2011*). This would make it the 12<sup>th</sup> largest country in the world if it were an independent entity.

<sup>5</sup> As pointed out by a number of scholars, there is a statistical link between poverty in modern India and the use of the Zamindari system in the past. See Banerjee, A. and Iyer, L. (2005) ‘History, Institutions, and Economic Performance: The Legacy of Colonial Land Tenure Systems in India’, *The American Economic Review* 95.4: 1190–213 in Matthew, S. and Moore, M. “State Incapacity by Design: Understanding the Bihar Story” *IDS Working Paper, Volume 2011, Working Paper 366*, p.6

<sup>6</sup> The political process in Bihar has been fiercely contested in Bihar since at least the 1930s in a way that is not seen in many other difficult Indian states such as Orissa, Madhya Pradesh and Rajasthan. UP may be the only state that is comparable in terms of the intensity of politics.

<sup>7</sup> This began in the 1970s during the “green revolution” that stimulated agricultural growth in the north west of India, drawing Bihari labor across northern India on a seasonal basis. Biharis are strong minded and strong willed people, and in part due to the problems they have been forced to overcome, have a reputation for bootstrapping, enterprise, and hard-work.

<sup>8</sup> Discussions in Bihar, July 2011.

<sup>9</sup> See IMF GDP figures for 1999: <http://www.imf.org/external/data.htm>

conditions of breakdown would by now have precipitated a military coup or external intervention, or some combination of the two”.<sup>10</sup>

### ***Identity Politics and Pathological Misgovernance***

At the national level in India, politics is essentially bi-polar, with the Congress and BJP building on support bases in multi-party states. This to some degree leads to a balance of forces in Delhi. Within the states, however, electoral outcomes are often influenced by relations of dominance and subordination within specific spaces- what Witsoe has called “territorial democracy”.<sup>11</sup> Parties have often developed on the basis of identity, particularly in northern India where voters have preferred traditional, strong leaders of their own ethnic and caste group. Lalu Pasad Yadav was one of these leaders, and his Janata Dal (later Rashtriya Janata Dal) party took power in Bihar in 1990 on a platform of empowerment and progress for the agriculturalist and backward castes, Muslims and Dalits against the traditionally dominant upper castes within society.<sup>12</sup> Lalu offered ‘*izzat*’ or self-respect to the downtrodden subalterns, and for the first time in Bihar’s history, began to address issues of social justice through bringing the backward castes into political power in the state. This was an important watershed in socio-cultural and political terms, but the deeply exclusionary policies against the upper-castes also divided rather than unified society.

Moreover, few of those traditionally excluded from power had the necessary qualifications or skills to run the state, despite Yadav’s efforts to draft them into the administration. Government posts- ranging from clerks to doctors were left open when a qualified political supporter of the government could not be found, to send a message to the upper-castes about the intentions and direction of the state.<sup>13</sup> Elected lower-caste leaders simply let established, upper-caste dominated institutions collapse, and partially replaced these with networks of informal power through which they could circumvent bureaucracy and impose their will.<sup>14</sup> Matthew and Moore have described this process as “state incapacity by design”, but this may be going too far. While Lalu’s policies were certainly inimical to state-building, state functionality prior to 1990 was minimal- it was a process of continued state erosion rather than state destruction per se.<sup>15</sup>

Lalu did not put forth a developmental agenda, preferring to rely on patronage politics which benefited his own electoral base (and particularly his own Yadav caste). Rampant corruption became the norm,

<sup>10</sup> Kohli, A. *Democracy and Discontent: India’s Growing Crisis of Governability*” (Cambridge: Cambridge University, 1991)

<sup>11</sup> See Witsoe, J. “Territorial Democracy: Caste, Dominance and Electoral Practice in Postcolonial India” *Political and Legal Anthropology Review*: Vol.32, No.1

<sup>12</sup> Caste relationships and hierarchies are hugely complicated in Bihar- there are over 100 castes that can be categorized and sub-categorized. There is also a significant Muslim minority that has become part of the caste system, and indeed, has developed its own pseudo-caste hierarchy.

<sup>13</sup> Bihar had significant human and administrative capacity at this time- the state has a reputation for providing large numbers of staff for the All India Services and Central Services.

<sup>14</sup> Witsoe, J. “Territorial Democracy: Caste, Dominance and Electoral Practice in Postcolonial India” *Political and Legal Anthropology Review*: Vol.32, No.1, p.72

<sup>15</sup> Matthew, S. and Moore, M. “State Incapacity by Design: Understanding the Bihar Story” *IDS Working Paper, Volume 2011, Working Paper 366*, p.7. Matthew and Moore indicate that four practices were central to the mismanagement of the Bihar administration in the 1990-2005 period: centralization and multiplicity of layers in decision making; poor recordkeeping and poor supervision resulting in an overload of litigation against the state, mostly from employees and suppliers; mismatch between the rain, flood and budget cycles; and vacancies in state government offices, particularly at the middle and senior levels. Many of these issues existed before 1990, however. With that said, Lalu was seen to be an effective manager of a large bureaucratic organization when he was Railways Minister in the Union government 2004-2009. When he took over, the Indian Railways was a loss-making organization. In the 4 years under his leadership, it made a cumulative total profit of Rs. 25,000 crores (US \$5.2 billion) without raising fares. What this indicates is that he had the capacity to manage complex organizations.

service delivery withered, crime and insecurity became widespread, and a deep sense of political bankruptcy set in during this period, which became known as the “Jungle Raj”.<sup>16</sup> In 1997, Lalu was implicated in an embezzlement scandal and was jailed, but he continued to influence policy through his (illiterate wife) who succeeded him as Chief Minister. The zero-sum approach to governance ensured that power and resources each came to be perceived as mutually exclusive for specific groups, and therefore control over them imperative. At the same time, Bihar was bifurcated in 2000 and the southern part of the territory, with about one fifth of the population (and almost all forestry and mineral resources), became the state of Jharkhand. The Gross State Domestic Product (GSDP) of the remaining rump state of Bihar went down by almost 30 percent as a result, while the financial liabilities decreased by only 8 percent. Revenues declined precipitously,<sup>17</sup> and Bihar also demonstrated significant expenditure constraints for both its own and transferred funds, as pointed out by the World Bank in 2005: ‘Bihar has the country’s lowest utilization rate for centrally funded programs, and it is estimated that the state forfeited one-fifth of central plan assistance during 1997–2000’.<sup>18</sup> Indeed, transfers of any development funds at all were severely undermined and delayed by lack of capacity and centralization of decision-making.

### *The Rise of Nitish Kumar*

Nitish Kumar, (known simply as Nitish within India) played a central role, along with Lalu, in the socialist Jayaprakash Narayan movement of the 1970s, but as Lalu moved towards populist and corrupt politics in the 1990s, Nitish sought to understand how to create a political constituency that would allow for a more sustainable and equitable Bihari society.<sup>19</sup> As a member of the vernacular elite (unlike Lalu-who drew support from lower-castes on the fringes of the market) he inevitably had a wider cognitive world- and trained as an engineer, he brought the input-process-output mindset to issues of policy, looking to generate a new paradigm for governance. Nitish worked in the Indian central government, but in 2004 returned to Bihar and contested the state-level elections through the Janata Dal (United- JD(U)) party against an alliance led by Lalu.<sup>20</sup> Initially, electoral deadlock resulted procedurally in a six-month period of President’s rule, through which the state governor administered Bihar on behalf of the federal government. This provided an initial space for change, as power was shifted away from the Chief Minister and his council, and towards a group of bureaucrats, various of whom were drafted in by New Delhi to push for governance reform. A series of actions broadened decision-making power, allowed for discussion over key policy decisions, improved the speed of implementation of rules, and streamlined procedures.<sup>21</sup>

In the second election of 2005, organized to break the political deadlock, Nitish worked to expand his electoral constituency and build his support base through bringing those disaffected by years of corrupt rule by Lalu, including the wealthy upper-class, and also backward castes, Muslims and Dalits, into a political coalition.<sup>22</sup> Despite connections with the BJP (Nitish was part of the federal BJP coalition until 2004) he pushed a platform centered on development and social justice for all, included Muslims in his

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<sup>16</sup> This was particularly the case after Lalu was convicted of corruption and jailed in 1997. He installed his illiterate wife Rabri Devi as Chief Minister, who is widely believed to have ruled by proxy. Political bankruptcy was almost complete- in the 2005 state assembly elections, 34% of candidates from the major parties had criminal cases pending against them.

<sup>17</sup> In a selective study by the Reserve Bank of India, in 1993–4 Bihar was ranked 9th out of 15 states in terms of revenue collection. By 2002–3, it was at the very bottom of the list. *State Finances: A Study of Budgets of 2004–05*, (New Delhi Reserve Bank of India 2005)p. 18–19.

<sup>18</sup> *Bihar: Towards a Development Strategy*, (New Delhi: World Bank, 2005).

<sup>19</sup> Nitish has been described by Ashwini Kumar, the well-known Bihari scholar as a “technocrat-turned-socialist”. Kumar, A. *Community Warriors: State, Peasants and Caste Armies in Bihar* (Anthem Press, 2008), p.35

<sup>20</sup> In 2004, the coalition of which he was a part at the federal level (led by the BJP), lost the parliamentary election.

<sup>21</sup> Discussions in Bihar, July 2011.

<sup>22</sup> Nitish’s initial voting bloc consisted of the upper backward-caste Kurmis.

electoral lists, and avoided BJP rallies.<sup>23</sup> Post-election, he leveraged his BJP connections to build a coalition between the JD(U) and BJP (known as the NDA- National Democratic Alliance) that generated the required seats to form a majority government. While the change he campaigned for was fundamentally based on considerations of caste, Nitish managed to sell his reforms as above the selective interests of any one group. He realized that development without social justice and the buy-in of all sections of Bihari society would prove unsustainable (both in itself and politically from his own perspective), and would quickly generate additional social and political fault lines.

### III. Transformation

Nitish is the first Chief Minister of Bihar to understand the “absence of the state within the state.”<sup>24</sup> He realized the fundamental need, therefore to begin to create functioning state structures that could deliver visible change for the Bihari people- to change governance from a concept to a tangible reality. Given existing conditions, however, this was extremely difficult and the barriers to change were significant- he had to address a series of critical priorities and entrenched caste interests within the existing bureaucracy, while at the same time facing extremely high expectations for change. As such, Bihar’s transformation would necessarily be a fundamentally political process of carefully sequenced and prioritized state transition and reform. Without the rule of law, very little else was possible, so the new government began with efforts to overcome this critical constraint. Subsequently, it has slowly maneuvered to remove the barriers to reform in other politically feasible domains- beginning with infrastructure, and moving to service delivery and governance- in ways that would benefit citizens and allow for support for change to grow and expand.

#### *Rule of Law*

By 2005, Bihar was a byword for insecurity and kidnapping in India. The new administration realized that changing law and order dynamics were key to ensuring progress across inter-related state functions, and began immediately to curtail the freedom of operation of the ‘*bahubalis*’ (political thugs).<sup>25</sup> Efforts were made to co-opt Maoist insurgents through addressing their concerns such as welfare for the poorest (see *Service Delivery* and *Citizenship* below). An immediate emphasis was placed on hiring new policemen from the ranks of ex-soldiers, who retire by law in their 40s in India, and thus represented a deep pool of well-qualified individuals.<sup>26</sup> Bihar suffered a shortage of 12,000 personnel within a police force of 32,000- in response, over 11,000 constables were drafted in, along with 2,000 sub-inspectors- all of whom were video-recorded during interviews to prevent corruption.<sup>27</sup> An emphasis was also placed on police training and professionalism, with the development of a new police academy, and the reach of the authorities was expanded through the development of 40 ‘model’ police stations across the state.<sup>28</sup> IAS and IPS officers who either supported, condoned or were unable to confront criminals were replaced by others who could carry out their jobs in a non-corrupt manner.<sup>29</sup> A special vigilance unit also worked to identify and prosecute high-level individuals within the rule of law system, if these individuals could be

<sup>23</sup> Mukherjee, R. “Coalition Building in a Divided Society: Bihar State, 2005-2009” *Innovations for Successful Societies* (Yale University). In general, the BJP had a reputation for less extreme Hindu nationalist views in Bihar, which had helped it win over Congress supporters in the 1990s and was useful as the coalition took shape.

<sup>24</sup> Discussions in Bihar, July 2011

<sup>25</sup> By 2005, many of these had shifted allegiances to support Kumar, as his political victory became more apparent. He ensured that *bahubalis* within the NDA were convicted to give a sense not that this was political persecution, but a genuine effort to instill the rule of law.

<sup>26</sup> This auxiliary force was monitored by police officers familiar with civil law and were split into units that were unafraid to enter even the most dangerous areas of the state.

<sup>27</sup> Not a single complaint of bribery was made.

<sup>28</sup> Government of Bihar, Finance Department. *Economic Survey, 2010-11* (February 2011), p.2

<sup>29</sup> Examples include Home Secretary Afzal Amanullah and Director-General of Police DG Gautam.

proven as corrupt. High-ranking rule of law officials from the union government of Bihari descent were targeted and encouraged to return back to Bihar to fill gaps and support this transition process- and many of them accepted.

Importantly, this was not only an effort to change security dynamics in themselves, but rather to approach the rule of law as a system. Existing laws were reviewed for relevance and fit- a little used clause of the Indian Arms Act was drawn upon, for example, to confiscate firearms and indicate this new approach.<sup>30</sup> The capacity of the judiciary was bolstered through the provision of key skills (such as stenographers) and equipment, and a revised incentive scheme (the Assured promotion Scheme- ACP) to encourage functionality. With close collaboration between the judiciary and the executive, high level prosecutions were forced through to indicate the political will to enforce the law, and those found guilty were convicted in fast-track courts to ensure timeliness and build sense of momentum.<sup>31</sup> The chief of police encouraged his men to press cases to conviction by protecting witnesses, escorting these witnesses to court, and testifying themselves. He also shared conviction statistics across districts to generate competition, and held regular media briefings to disseminate crime reduction numbers.<sup>32</sup>

As a result, the total number of convictions in the state rose by nearly 100% between 2006 and 2009, and over 50,000 people have been arrested since 2005.<sup>33</sup> Now, infamous bandits including Mphammed Shahabuddin of Siwan, Rajesh Ranjan of Purnea, Akhlaq Ahmed and Sunil Pandey of Bhojpur are all serving life sentences behind bars. Previous cases were also re-opened retroactively and fresh charge sheets were prepared against offenders who had escaped scrutiny, to indicate the scope of the new rule of law framework. These efforts led to a statistically significant reduction in violent crime- in 2001, there were 3691 murders, 1293 dacoity, 2175 robberies, 385 kidnappings for ransom, and 1296 road robberies in Bihar. By 2009, these figures were 2438 murders, 505 dacoity, 1253 robberies, 62 kidnappings for ransom, and 720 road robberies.<sup>34</sup> But it is the sense of security that these efforts have generated in the state that has been the foundation of the nascent turnaround. As Nitish pointed out at the time, he wanted to send a “clear signal the law would prevail”.<sup>35</sup> Roadblocks still slow traffic in rural and urban areas, but these are police checkpoints rather than criminal extortion sites. It is difficult to over-estimate the sense of relief that Biharis seem to feel now that they are able to move about the state and conduct business freely at any time of night and day.<sup>36</sup>

### ***Infrastructure***

The second element of the shift towards state functionality in Bihar has been a focus on infrastructure. Given the deep problems of connectivity in what is a largely rural state,<sup>37</sup> the administration realized that carefully planned road, bridge, hospital and school building could provide the basis for improved development outcomes through the removal of supply-side constraints in production, while at the same time stimulating additional demand. In partnership with the private sector, this in turn would generate employment, facilitate trade and communication, overcome the expenditure constraint that hinders many governments in similar contexts (see ***Revenue and Expenditure*** below) and provide a clear signal to the population that government was beginning to work. The key to this process- and the linkage to the rule of law issues outlined above- was to again co-opt critical stakeholders that may have resisted reform. The

<sup>30</sup> Mukherjee, R. “Clearing the Jungle Raj: Bihar State, India, 2005-2009” *Innovations for Successful Societies*, p.1

<sup>31</sup> Previously, procedural delays, political intimidation, intimidation of witnesses and lack of capacity prevented effective conviction of criminals.

<sup>32</sup> Mukherjee, R. “Clearing the Jungle Raj: Bihar State, India, 2005-2009” *Innovations for Successful Societies*, p.5

<sup>33</sup> Government of Bihar, Finance Department. *Economic Survey, 2010-11* (February 2011), p.2

<sup>34</sup> 2009 figures to September. Government of Bihar 2009.

<sup>35</sup> Polgreen, L. “Turnaround of India State Could Serve as Model” *New York Times*, April 10<sup>th</sup>, 2010

<sup>36</sup> Discussions in Bihar, July 2011

<sup>37</sup> Almost 90% of the population lives in rural areas.

government provided opportunities for those individuals who were otherwise involved in crime and other disruptive activities to work legitimately within the construction industry in support of state-funded infrastructure programs. Now: “criminals are earning as much through construction as they did through kidnapping and extortion- they can now earn money legitimately- why would they go back to crime?”<sup>38</sup>

At the same time, the government both developed or revived organizations with specific authority and capacity to deliver projects (such as the Bihar Bridge Construction Corporation) and streamlined the existing bureaucracy to facilitate expenditure. After the excessive centralization and micro-management of previous regimes, for example, the level at which projects needed cabinet level approval was raised from \$50,000 to \$4.4 million, immediately facilitating project roll-out. The cabinet has also worked closely with donors, working selectively with them on big-ticket construction projects and carefully using concessional loans to support infrastructure linkages. The state has built 23,606 km road (and repaired 1,925 km), and executed 1,671 schemes under the Mukhyamantri Bridge Construction plan during the last five years. Travel time from Ara to Pawna, for example, was reduced from over two hours to less than thirty minutes, and it is now possible to drive from Patna to anywhere in the state in 4-6 hours. In the past six years, the government has built over 18,457 new primary schools, and upgraded a further 14,657, and telecoms infrastructure has expanded, allowing for the total number of mobile connections to grow from 470,000 in early 2007 to well over 2 million in 2011.<sup>39</sup> Jayaprakash Narayan airport grew faster than any other airport in India in 2009-2010, growing over 60% in passenger numbers from 2008-9,<sup>40</sup> with low-cost carriers such as Kingfisher, Jet Konnect and IndiGo offering daily connections to major Indian cities to respond to demand by investors now interested in Bihar.

### ***Governance and Accountability***

In the mid-2000s, Bihar did not have an institutional memory of governance, as in many other Indian states- and accountability suffered. Transparency International ranked Bihar as the most corrupt state in India in 2005.<sup>41</sup> The process of creating responsive and transparent state organizations is only now in its infancy, but the administration has been open to internalizing learning from elsewhere.<sup>42</sup> An Administrative Reforms Commission presented a series of 300 recommendations in mid-2006, and the government moved to implement over a quarter of these in the following year. It has begun to put in place the incentives to support it through a bureaucracy based on “competence over patronage.”<sup>43</sup> Technocrats are handpicked and given three-year set tenures to provide time to perform, and the government has tripled the salaries of legislators and increased allowances to head off corruption.<sup>44</sup> The Chief Minister, his deputy S.K. Modi and the entire Cabinet have posted their assets on the web, and all Indian Administrative Service (IAS) officers of the Bihar cadre on deputation to the Union government are now stipulated to do the same or risk losing their salaries.<sup>45</sup> The Bihar Special Court Bill in Bihar (the only bill of its kind in India), cleared by the central government last year, allows an investigative agency to

<sup>38</sup> Discussions in Bihar, July 2011

<sup>39</sup> Even in the smallest villages, numerous telecoms companies now compete for business. “On the Move” *The Economist*, January 28<sup>th</sup>, 2010

<sup>40</sup> Airports Authority of India (AAI) figures.

<sup>41</sup> See:

[http://www.transparency.org/regional\\_pages/asia\\_pacific/newsroom/news\\_archive2/india\\_corruption\\_study\\_2005](http://www.transparency.org/regional_pages/asia_pacific/newsroom/news_archive2/india_corruption_study_2005)

<sup>42</sup> The Government of India’s *Bihar’s Exposure to Innovative Governance Practices: A Report of the Special Task Force on Bihar* (New Delhi, October 2007) provides a useful set of learnings on governance from around the world and provides a set of recommendations for reform, many of which Bihar has implemented subsequently.

<sup>43</sup> Overdorf, J. “How India’s Most Desperate State Transformed Itself to Become a Model for the Rest of the Country” *Newsweek*, February 22<sup>nd</sup>, 2010.

<sup>44</sup> “Bihar MLAs salaries, allowances hiked” *Deccan Herald*, March 31<sup>st</sup>, 2011

<sup>45</sup> More than 4.5 lakh government employees from Grade I to Grade III have also declared their assets- see “Bihar IAS Officers on deputation too have to declare assets” *Deccan Herald* April 14<sup>th</sup>, 2011.

confiscate property of a public servant if it finds evidence of the land being used for corrupt or illegal practices. If the officer is found innocent during trial, the land is returned with 5% interest. The state vigilance department has been bolstered and caught 400 government officials and their accomplices accepting bribes between 2005-2010.<sup>46</sup> The Anti-Corruption Act of 2009 also set up designated courts in districts to try corrupt officials along the lines of the fast-track courts set up to try other criminals (previously corruption trials were notoriously lengthy given the difficulty in proving certain types of corruption, which also provided room for witness intimidation).<sup>47</sup>

Treasury systems have been computerized and the administration is working to ensure the availability of information on government processes and regulations, reforming staffing structures, building out a medium term staffing plan with a clear roadmap for transparent, fair and rapid recruitment for the bureaucracy, and has put in place an improved performance management system.<sup>48</sup> E-tendering has cut the tender process from 60 days to 21, and a process for outsourcing and contracting (through which services are paid on delivery) has allowed the government to move away from monolithic command and control structures, be more flexible, scale-up quickly and improve outcomes. Efforts are being made to reduce the number of steps within given governance processes so that maximum accountability can be created with the minimum of blockages. This simplification is disintermediating certain individuals within the system but is a critical part of ensuring effectiveness.

The state government in Bihar now seems to understand a matrix of state performance in which functions and levels of governance intersect to ensure delivery and accountability. Bihar consists of 38 districts and 534 blocs, and systematic efforts have been made, with varying degrees of success, to delegate powers to officials at these levels. The second Panchayat elections since 2005 (judged free and fair) were recently held, without any complaints from citizens- so elected bodies are now in place across the state with administrative processes developing and a mandate from the people to operate. At these sub-state levels, the government is now experimenting with innovative and citizen-focused governance practices. The chief civil servant in Bihar holds monthly video conferences with program officers in every district. The government has set up e-portals and a citizen helpline, called *Jigyasa* through which citizens can identify which government officials are responsible for answering their concerns and how best to contact them.<sup>49</sup> It has also supported the roll-out of ‘*Jankari*’, a public-private call center where Right To Information (RTI) applications can be filed over the phone- avoiding over-burdened and often distant Public Information Offices (PIOs).<sup>50</sup> More recently, Bihar also became the first state in India to put in place video-conferencing facilities in all district headquarters, linked to the State Information Commission (SIC) to allow for direct redressal of complaints related to RTI. The government has also set up an SMS based monitoring system through which government programs are monitored and evaluated on a timely basis. Local government officials send simple daily progress reports (program codes, expenses, number of laborers etc) by SMS to a central server that decodes the messages, creates benchmarking reports and graphs of the data, and publishes this information publicly.<sup>51</sup> This has improved the ability of the

<sup>46</sup> Srivastava, A. “Bihar: Nitish’s Team Engine” *India Today* October 30<sup>th</sup>, 2010.

<sup>47</sup> As Kumar has stated: “I live for the day when I can seize a corrupt official’s bungalow and convert it into a school for poor children”. As quoted in Simha, V. “There is No Blood” *Tehelka Magazine*, October 30<sup>th</sup>, 2010.

<sup>48</sup> Through the Bihar Prashasnik Sudhar Mission (BSPM)

<sup>49</sup> See <http://cspgc.bih.nic.in/Default.htm> and <http://bpsm.bih.nic.in/>

<sup>50</sup> Jha, V. *Evidence-Based Research Mobilizing Action for Policy-Influencing in Two Provinces. Policy Changes Under the Right to Information Act in India*. Society of Participatory Research in Asia (PRIA), March 2010, p.25-6. This is now being copied in other more developed states in India, including Karnataka. 93,000 people in Bihar have now used Jankari “Nitish Launches Videocon for Hearing RTI Cases” *Times of India*, Friday July 29<sup>th</sup>, 2011. In 2009, Bihar won the National e-Governance award from the government of India for its work on RTI.

<sup>51</sup> See the “Best Practice” link on the Bihar Prashasnik Sudhar Mission website: <http://bpsm.bih.nic.in/> As a result of the infrastructural developments in Bihar, and increased investment over the past 6 years, the number of cell-phones has increased significantly- and 10 fold in 2009-2010 alone.

government to review problems and respond to lack of action by the block level officers.<sup>52</sup> These smaller initiatives do not in themselves add up to good governance, but what they have helped to do is create a “complaint culture” in Bihar. There are still a plethora of problems in terms of service delivery and governance, but citizens now seem to know what they can expect through government programs and how to complain if expectations are not met.<sup>53</sup> Governance is now a tangible concept, not just an idea.

### ***Revenues and Expenditures***

As a result in part of the efforts outlined above to reduce leakage and improve bureaucratic function, revenues in Bihar have increased significantly in recent years. Tax processes have been simplified, revenue monitoring systems have been computerized and customs regulations have been streamlined through use of single-window checkpoints. As a result, revenues have more than doubled in total in the past 5 years, with tax revenues tripling between 2001-2011 from Rs 2442 crore to Rs 7336 crore. A tax research unit has been set up within the commercial tax department to examine revenue trends and provide analysis of how to block leakages further. Fiscal stability, through the Bihar Fiscal Responsibility and Budget Management Act has also improved debt management, and instigated outcome, performance and gender budgeting.<sup>54</sup> The government has worked to pay back high coupon loans to NABARD and the National Cooperative Development Corporation (NCDC) in a single installment; consolidate and reschedule debt owed to the Union government; and special attention is being paid towards better utilization of grant funding for infrastructure projects, all of which have allowed funds to be freed up for developmental spending.

On the expenditure side, efforts to improve revenue collection and governance have generated a virtuous circle of funding flows from the Union government. In 2006 Bihar passed its budget on time for the first time in 15 years, allowing for expenditures before the beginning of the monsoon season. Indeed, the improved ability to plan and manage programs has led to increased fiscal transfers from Delhi- Bihar is now able to utilize grants under centrally sponsored programs by matching funds and ensuring timely spending for national government programs such as ‘Indira Awaas Yojana’ and ‘Sarva Shiksha’.<sup>55</sup> The state has also taken advantage of centrally-led and funded programs, such as the Integrated Action Plan (IAP) that decentralize spending directly to the district levels in support of small-scale infrastructure and alternative energy programs.<sup>56</sup> Through the IAP, block grants of Rs 250-300,000 are allocated and placed at the disposal of district level committees, increasing accountability and freedom of decision-making at the sub-state level. As a result, state expenditures have increased dramatically. In 2000, Bihar spent just 52% of the Rs 3.2 billion of planned expenditure. In 2008-9 this had risen to 93% of the Rs 13.5 billion.<sup>57</sup>

### ***Service Delivery***

Improved revenue collection has in turn allowed for more robust service delivery. Expansion of health and education services to the population has been a key focus of the NDA government because given the extremely low-based from which they were developing, these changes were feasible, demonstrable and thus politically beneficial. Spending has been reoriented towards social and economic services (expenditure doubled between 2006-2010- between 20-25% of the budget is now directed to education).<sup>58</sup>

<sup>52</sup> Bihar Prashasanik Sudhar Mission Society, *SMS Based Monitoring System- A Case Study*, p.4

<sup>53</sup> Discussions in Bihar, July 2011

<sup>54</sup> See Comptroller and Auditor General of India report for Bihar for 2008-9:

[http://www.cag.gov.in/html/cag\\_reports/Bihar/rep\\_2009/sf\\_cont.htm](http://www.cag.gov.in/html/cag_reports/Bihar/rep_2009/sf_cont.htm)

<sup>55</sup> See <http://rural.nic.in/iaugd2.htm> and [http://education.nic.in/ssa/ssa\\_1.asp](http://education.nic.in/ssa/ssa_1.asp)

<sup>56</sup> Discussions in Bihar, July 2011 and “Naxal Fight Takes Development Route” *Times of India*, July 10<sup>th</sup>, 2011

<sup>57</sup> Government of Bihar, Finance Department

<sup>58</sup> Government of Bihar, Finance Department. *Economic Survey, 2010-11* (February 2011), p.20

In 2005, no new teachers had been hired since 1993, but subsequently, nearly 300,000 teachers have been appointed<sup>59</sup> - with 50% of all teaching posts now reserved for women. Almost 95% students are now enrolled in government schools, while drop-out rates have declined by almost 20%. Targeted programs are in place to support enrollment, attendance and learning of children from scheduled castes, and the 'out of school' rate for girls dropped from 20% in 2005 to 3% in 2009.<sup>60</sup> Although literacy in Bihar is the lowest in India (63.8% relative to an average of 74% India-wide) a recent report by predicts full literacy within two decades.<sup>61</sup> In the past 6 years, two new universities (including an Indian Institute of Technology) and three new research institutes have been built, and the government is working to restore Nalanda University as a center of learning by generating links to international schools and bringing in experts from around the world- such as Meghna Desai and Amartya Sen- to prepare syllabi and develop courses.

In healthcare, the government has worked to ensure basic health services even in remote areas and is now working on a state-wide health insurance scheme. Key medical services (such as radiology) have been outsourced to the private sector, improving efficiency and delivery. Under the '*Nayee Peedhi Swasthya Guarantee Karyakram*' or New Generation Health Guarantee Programme, children up to 14 years of age and adolescent girls are provided a health card for their medical check-up and free treatment at government hospitals.<sup>62</sup> Primary care centers that used to see 30 patients a month now see 3,600, as better oversight of health workers has also reduced absenteeism.<sup>63</sup> Bihar is now the second state in India to roll-out the Right to Services Act, through which a variety of services are legally guaranteed to the population within a specific timeframe and clear processes for complaint or appeal are laid out for citizens.<sup>64</sup> These legal and practical changes have not been a panacea for Bihar's serious human development concerns. The quality of teaching and health services in Bihar are still significant problems- among numerous others- and indeed the impressive quantity of inputs that the government is channeling to these areas should not be confused with outcomes. However, the signs of progress are noticeable, and the changes are generating a sense of momentum. As the private sector partners and competes with the government to deliver services in villages across the state, signs for immunization programs are crowded out by posters for education and English language classes. Villagers who previously had no interaction with the state are now beginning to understand their rights to education and healthcare as Biharis, and the responsibilities they have as citizens in return.<sup>65</sup>

### *Citizenship*

Nitish has put citizenship at front and center of his state-building endeavor through a philosophy of 'extreme tolerance'. The development of programs to overcome the divisive and exclusionary policies of the past have created a sense of shared Bihari consciousness and identity. This remains nascent- an individual will still first identify himself by caste and then as an Indian- but discussions indicate that a

<sup>59</sup> 55 per cent of these were women, and a proportion are teachers for Sanskrit and Urdu. See "Bihar Governor Says State on Progress Path" *The Hindu*, January 26<sup>th</sup>, 2011 available at: <http://www.thehindubusinessline.com/industry-and-economy/economy/article1127796.ece>

<sup>60</sup> [http://articles.timesofindia.indiatimes.com/2009-06-16/patna/28154846\\_1\\_ssa-muslim-children-age-group](http://articles.timesofindia.indiatimes.com/2009-06-16/patna/28154846_1_ssa-muslim-children-age-group)

<sup>61</sup> Centre for Economic Policy and Public Finance (CEPPF), Asian Development Research Institute (ADRI), Pratichi (India) Trust. *Elementary Education in Bihar: Progress and Challenges* (July 2011)

<sup>62</sup> "Bihar Divas: Nitish to Launch Mega Health Scheme" *The Economic Times*, March 22<sup>nd</sup>, 2011

<sup>63</sup> Overdorf, J. 'How India's Most Desperate State Transformed Itself to Become A Model for the Rest of the Country'. *Newsweek*. February 22<sup>nd</sup>, 2010

<sup>64</sup> See Government of Bihar. *Bihar Right to Services Act (2011)*. There is criticism that many of the services the act addresses, such as delivery of electricity bills, largely benefit the middle-class, and it does not yet address the entitlements and services of the poor. See for example, Mishra, N. "A Dark Lining to The Shine" *Outlook India*, March 28<sup>th</sup>, 2011

<sup>65</sup> Discussions in Bihar, July 2011.

perceptible change is occurring.<sup>66</sup> Communication from Patna has been central to this- Nitish, in rhetorical terms, has carefully sought to move beyond caste politics by emphasizing “Bihari pride”, and for the first time has articulated a “sub-national agenda” that has provided the basis for a shared vision.<sup>67</sup> This process has also been explicit- in 2011, for example, the state celebrated “Bihar Day” in recognition of the founding of Bihar 99 years ago. The larger vision has provided the framework within which smaller efforts and ideas can be set, and towards which Biharis can now strive. As a close advisor to the Chief Minister has pointed out: “when the right framework is in place, millions of previously suppressed micro-decisions can be made in a positive way, which unleashes macro-change”.<sup>68</sup>

A series of legal and structural reforms have also provided the basis for a new sense of citizenship. When the new administration took power it abolished agricultural marketing committees in rural areas, immediately removing institutionalized structures that had become hotbeds of caste antagonism. The government has also created a gender vote-bank, which provides 50% of all seats in local decision-making bodies (village panchayats and urban municipal bodies) for women (who now occupy 54% of the 262,000 seats in those organizations). While many women do still serve as proxies for their husbands in these bodies, the change has generated alternate political dynamics which, combined with a number of other pro-female initiatives, is creating a space for thought and action that was previously unavailable. This is being initiated at a young age- a well-known bicycle distribution program for schoolgirls to help them get to school has brought down the number of dropouts to 700,000 in 2010 from 25, 000 in 2006.<sup>69</sup> It is not unusual today to see large groups of girls cycling to school together in rural areas. While cynically, a program of this sort might be branded a populist handout in a state where politics can be defined by a rent seeking electorate, at the same time it is a positive manifestation of the process which at the very least is slowly emancipating women and equalizing gender roles.<sup>70</sup>

The government is also making efforts to improve access and opportunity for those caste and religious groups within society that were previously excluded. A 20% reservation is now in place for the Extremely Backward Castes in government bodies. The government commissioned two processes to investigate actions to benefit “Mahadalits” or most excluded members within the poorest and lowest castes, and has developed a series of social programs based on these recommendations. The Dashrath Manjhi Skill Development program, for example, provides Mahadalit youth with special training linked to a nodal agency that works to place them in gainful employment.<sup>71</sup> Through the *Vikas Mitras* program, thousands of Mahadalit youths have also been hired to themselves make formerly-excluded castes aware of the various initiatives being run on their behalf.<sup>72</sup> Inter-religious tension has been a factor in Bihar, and one of the first actions the government took in 2005 was to build fences around graveyards (Hindus and Muslims had consistently clashed over encroachments on graveyards in the past). Nitish also set up judicial inquiries and paid compensation where due with regard to previous anti-Muslim violence, brought Muslim bureaucrats into prominent positions within the administration, and developed scholarship programs for Muslim children. In the past six years there has not been a single reported incident of inter-religious violence, which is a remarkable achievement.

The government also realized quickly that in a state as diverse as Bihar, it is imperative to listen to the multiplicity of views of the people to truly understand how to develop policy. In 2006 it instituted a

<sup>66</sup> Discussions in Bihar, July 2011.

<sup>67</sup> Discussions in Bihar, July 2011

<sup>68</sup> Discussions in Bihar, July 2011

<sup>69</sup> See Srivastava, A. “Bihar: Nitish’s Team Engine” *India Today* October 30<sup>th</sup>, 2010.

<sup>70</sup> In some southern Indian states, handouts can take a much more explicitly political form, with the distribution of refrigerators and color TVs, for example, which then flood the black market.

<sup>71</sup> A partnership has been developed with private security firms through this process to bring these young people in as security guards.

<sup>72</sup> As of April 2011, a total of 9,875 *Vikas Mitras* posts have been created and 9,530 have been appointed.

weekly *Janta Ke Darbar Mein Mukhya Mantri* program, through which citizens are given a public forum (in different locations on a rotating basis) to air grievances to government officials including Chief Minister Kumar.<sup>73</sup> Through another program, *Vikas Yatra*, Nitish also travels with a mobile secretariat to rural areas across the state, speaking to citizens and reviewing local development programs and projects with local government officials in light of citizens' complaints and recommendations.<sup>74</sup> A public grievance cell has been set-up through which citizens can provide complaints and comments directly to the government by phone and online.<sup>75</sup> While in practice, the actual number of citizens touched by these programs may be relatively small, the sense of hope and progress it is creating is hugely important (see **Messaging** below). The process itself has opened up the idea of interaction with the government- even at the highest levels- to the people, and begun to cement the idea that the state is the agent of the people as the principal, rather than the other way around.

### **Market-Building**

Bihar attracted only \$167 million of foreign direct investment between 1994 and 2004 (in contrast nearly \$6 billion was attracted by Andhra Pradesh in the same period), while exports totaled merely \$4 million in Bihar in the same period (as opposed to \$12 billion in Karnataka).<sup>76</sup> The economy was centered on subsistence farming, which itself was based on deeply feudal structures, and industry was anemic and beset by a number of structural issues including electricity shortages (see **Ways Forward** below). Business processes were complex, difficult to navigate and interaction with the government was necessarily corrupt. An understanding of the key issues and assets was the first step. The government mapped the agro-climatic conditions across the state and has put in place a series of organizations to ensure that the right crop varieties are developed in the relevant districts.<sup>77</sup> Through the Accelerated Seeds Extension Programme, the '*Bihar Rajya Beej Nigam (BRBN)*' supports seed processing, storage and marketing, and other agricultural extension programs. Seed multiplication farms are working to produce and provide seeds across the state, which has improved yields by as much as 15%; marketing regulations and rules have been reformed to ensure that farmers are properly incentivized to grow profitable crops, and the '*Krishi Vikash Shivar*' program is promoting the exchange of lessons, ideas and technologies between agricultural scientists and farmers across Bihar.<sup>78</sup> Marketing centers of excellence are being established in rural areas, crop insurance programs are being rolled out, and contract farming for fruits and vegetables is now being encouraged by local authorities to ensure predictability for producers. The grain production in Bihar has doubled in the past five years. At the same time, Bihar is seeking to move beyond direct agricultural production and shift up the value chain in agro-processing and agro-based industries.<sup>79</sup> This is allowing for reorientation towards value-added exports (bananas to the Middle-East for example) and a shift in rural employment patterns (and rise in incomes) for the non-urban population.

<sup>73</sup> See: <http://cm.bih.nic.in/pdf/Jkdmm.pdf> This program also has an online corollary, through which citizens can submit letters to the Chief Minister. Since April 2006, the government has received 1.68 lakh complaints from citizens. "Nitish Kumar gets 1.68 Lakh complaints!" *Times of India*, July 6<sup>th</sup>, 2011

<sup>74</sup> Discussions in Patna, July 2011. During these visits, Kumar has been known to give out the cell phone numbers of state secretaries to allow citizens to follow-up on petitions.

<sup>75</sup> See: <http://cspgc.bih.nic.in/Default.htm>

<sup>76</sup> Government of India. *Bihar's Exposure to Innovative Governance Practices: A Report of the Special Task Force on Bihar* (New Delhi, October 2007)

<sup>77</sup> Bihar has a high water table and hugely fertile soils well suited to crops including potatoes, onions, tomatoes, cauliflower, and brinjal; fruits such as mangos, guavas, litchis (of which Bihar produces nearly 75% of the total annual Indian output) and bananas; and flowers including roses, gladiolus, jasmine, marigolds and tuberoses, which have supported rural livelihoods.

<sup>78</sup> Government of Bihar, Finance Department. *Economic Survey, 2010-11* (February 2011), p.5

<sup>79</sup> In 2009-10, food products, beverages and tobacco contributed over 76% of the total net value added by all the factories in operation in Bihar and agro-based industries accounted for 88% of all industrial units. Government of Bihar, Finance Department. *Economic Survey, 2010-11* (February 2011), p.6-7

The administration has also worked to improve the business climate and attract investment in the non-agricultural sectors. Shortly after coming to power, the Chief Minister sat with the business community for a day long “VAT panchayat” and through discussion, worked to streamline complex tax structures to make them more business-friendly. Since 2005, the government has enacted more than 50 laws to improve the investment climate- from a single-window policy for investors, to the streamlining of business registration processes, to incentives have been put in place to facilitate funding of key projects. A new industrial incentive policy is currently under discussion, which will seek to stimulate industry through, among other things, tax breaks, a reorganized land bank, and marketing support, with a focus on areas where Bihar can move up the value chain based on its comparative advantages (such as food processing, tourism and textiles).<sup>80</sup> In the World Bank’s most recent “Doing Business in India” report, Patna was ranked after Delhi the 2<sup>nd</sup> easiest city in India in which to do business.<sup>81</sup> Approved projects since 2005 include 46 power plants, 32 steel and cement plants, and 29 technological/management institutes- the Bihar State Investment Promotion Board (SIPB) approved over 398 investment proposals in 2010.<sup>82</sup> Bihar has significant potential for tourism, and efforts to attract visitors to the state’s religious and cultural sites led to an increase of 377% in tourist footfalls between 2006 and 2008.<sup>83</sup>

Bihar worked to be the first state to implement the National Rural Employment Guarantee (NREGS) program in every district, with electronic identification systems and direct payments to beneficiary bank accounts to curb the corruption that has undermined the program in many other states. Implementation is still problematic, but Biharis now have the structures in place to be guaranteed 100 days of paid work a year. The consumption economy is noticeably increasing in the state as rickshaw drivers can earn more money because they can operate after sundown due to improved security; small businesses no longer have to pay bribes to local gangs; and X. A new entrepreneurial class is emerging which is taking advantage of the security dividend to start businesses in sales, technology, education and transport. There is a vibrancy to the urban economy in Patna that is illustrative of rapid growth and development.<sup>84</sup> Property prices have risen rapidly, as more and more Biharis are willing to invest in their home state. Previously, people were afraid to buy new cars, because such a clear demonstration of wealth would make them prime candidates for car-jacking and kidnapping. In the past six years, however, the registration of vehicles has increased by over 400%.

Caution is needed when analyzing these changes- it is largely public rather than private investment that has driven Bihar’s growth over the past six years. While this requires further thought as the government considers sustainable growth in the future (see **The Paradox of Success** below) it is not in itself as negative a trend as some commentators have suggested.<sup>85</sup> Jobs have been created, livelihoods have been generated and the economy has grown. Moving forwards, a key concern will be how the government can move from this public-led growth to a market-building, private-sector oriented approach. Policymakers from the top-down are aware of this issue and driving investment in Bihar both from within India and beyond is a central tenet of the Chief Minister’s second term.

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<sup>80</sup> Discussions in Bihar, July 2011. However, key constraints to industrialization in Bihar in the past have been landholding patterns and structurally difficult policies including freight equalization, which are larger problems that these incentive structures cannot touch.

<sup>81</sup> See: World Bank *Doing Business in India 2009*, available at: <http://www.doingbusiness.org/~media/FPKM/Doing%20Business/Documents/Subnational-Reports/DB09-Sub-India.pdf>

<sup>82</sup> See: <http://www.biharprabha.com/2011/06/bihar-state-investment-promotion-board-sipb-approved-projects/> and Government of Bihar, Finance Department. *Economic Survey, 2010-11* (February 2011), p.9

<sup>83</sup> Interview with Deputy Chief Minister Sushil Modi. *Outlook Business* February 6<sup>th</sup>, 2010

<sup>84</sup> Bihar, July 2011

<sup>85</sup> See for example: Nagar, R and Rahman, A. “Booming Bihar: Fact or Fiction?” *Economic and Political Weekly* (February 20<sup>th</sup>, 2010).

#### IV. Factors Enabling the Transition

The ongoing changes in Bihar must be considered within the unique historical narrative of the state. The analysis here focuses on a particular sequence of events and a specific set of causes and consequences. Indeed, it is important to recognize that Bihar's history, culture and developmental trajectory are idiosyncratic and are not representative of India as a whole. One might consider, however, what the example of Bihar- a state in which significant problems persist, but where progress is being made- can provide in terms of a framework for reform in other similar Indian or non-Indian contexts. A selection of key factors that it seems could be drawn from Bihar's experience include:

- i) ***Understanding the Importance of Leadership.*** Lalu destroyed his own credibility in Bihar- in 1990, he led a broad coalition- supported by Nitish- and won 53 of the (undivided) Bihar's 54 seats in the Lok Sabha in 1991. His politics, however, succumbed to caste-antagonisms, patronage and corruption. Initially, therefore, the recent history of Bihar is as much a story of the absence of good leadership as much as it is its positive presence.<sup>86</sup> At the same time, the non-corrupt, extremely hard-working and focused Nitish Kumar has subsequently set an example of what is possible in terms of state leadership.<sup>87</sup> Nitish's reputation for simple, honest living, and the fact that he is not beholden to family or patronage networks, has endeared him to voters, while his long periods of service in the national government gave him experience in the management of complex organizations.<sup>88</sup> It also changed his benchmarks in terms of what is possible, and allowed him to set larger visions connected to the relevant implementation mechanisms: "Nitish is a leader. He is sort of a subaltern Nehru".<sup>89</sup> Previously, there was respect for power in Bihar, not authority- Nitish has now managed to combine the two.<sup>90</sup> At the same time, it is critical to realize that transformation in Bihar has been an outcome of collective rather than individual leadership. The Chief Minister works with a highly capable team of technocrats (most of whom he persuaded to come back to the state to support his reforms) including: road construction secretary Pratay Amrit who managed to convert the *Bihar Rajya Pul Nirman Nigam* into a profit-making body; K.P. Ramaiah, who secretary of the state's Mahadalit Commission and key architect of social programs; N.K. Singh who has helped Nitish sell Bihar as a success story; and others including Rajya Sabha MP Ram Chandra Prasad Singh; Chanchal Kumar; and Anup Mukerji.<sup>91</sup> The Cabinet meets weekly (before 2005 it may have met monthly if at all), and decisions are linked to plans for implementation. Traditionally, Biharis have respected power, but the present government has managed to begin the process of combining power with authority, which has in turn allowed for rules to be the building blocks of progress.

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<sup>86</sup> It is a common refrain in Bihar that while Nitish has been a good leader "anyone would have been better than Lalu". Discussions in Bihar, July 2011

<sup>87</sup> As Abhay Mohan Jha recently pointed out: "Nitish represents a nearly extinct breed in the jungle of Indian politics... today, finding an honest, sincere neta, with the added gusto of political will, is as elusive as the sighting of the shy, increasingly rare tiger." Jha, A.M. "Naya Bihar: Nitish's Next Yatra" *Himal South Asian* (January 2011)

<sup>88</sup> Understanding the pathologies of leadership in Bihar is key to recognizing where Nitish came from. He did not suddenly emerge as the savior of Bihar. In 1995 he faced a humiliating defeat in the assembly elections as leader of the Samata Party; in 2000 he was chief minister for only 7 days as he could not get a majority to govern; and the assembly election of February 2005 did not give him a majority, forcing a period of President's rule.

<sup>89</sup> Shaibal Gupta, as in Simha, V. "There is No Blood" *Tehelka Magazine*, October 30<sup>th</sup>, 2010. Nitish has also shown his ability to improvise and move beyond carefully constructed developmental reforms. During the Darbhanga floods of 2007 and the Kosi floods of 2008 for example, he was seen to be closely involved with post-disaster mitigation, the set up relief camps and delivery of food supplies to the most vulnerable.

<sup>90</sup> Discussions in Bihar, July 2011

<sup>91</sup> Deputy chief minister Sushil Modi is also highly capable, and importantly, is from the BJP, which is critical to maintenance of the coalition.

- ii) ***Recognizing the Feasibility and Credibility of Change.*** The desirability of change, if not matched with political feasibility and the credibility of implementation, can prove disruptive, without being productive. Through a carefully sequenced and prioritized approach to state functions- beginning with rule of law, and moving on to infrastructure, governance, social service delivery and citizenship- the Nitish administration has worked to enable change where possible, and generate a self-reinforcing sense of progress that in turn has allowed for further reform. The government has understood the critical interdependencies between state functions- security allows for private sector development, increased revenues allow for social service spending and so on- all of which have been based on a developmental agenda. Equally, the issues that the government has not chosen to address are telling. Early in its first term, for example, the government formed a land reform commission that studied the potential for changes to land ownership and tenure, including the *bataidari* (share-cropping). Although the findings of the report were not made public, medium and large landowners, a key constituency if further governance change was to be made possible, indicated their discomfort with any far-reaching reforms.<sup>92</sup> While land ownership structures may indeed be in need of change to generate the equitable growth that can support stability and prosperity in Bihar in the long-term (see **The Paradox of Success** below), the political ramifications and short-term problems of such an approach are clearly understood.
- iii) ***Implementing a Phased Governance Approach.*** Discussions of governance in Bihar indicate not that the state is un-corrupt- in fact the general perception is that the government continues to suffer from difficult problems of graft- but that the present administration has managed to ‘benchmark’ the state for the first time and ‘set a minimum level of behavior’.<sup>93</sup> There are a number of phases through which accountability systems tend to pass as they move from dysfunction to optimalization, and what this indicates is that Bihar is now moving from a phase of dysfunctionality (during which there was deliberate abuse of public financial management systems and mismanagement was seen as policy) through the start-up phase (during which some modicum of order is imposed upon financial management systems) and into the control phase (with control established over public finance and adherence to external oversight mechanisms).<sup>94</sup> A phased approach of this sort is important in a place like Bihar because governance and trust in government are not the norm (nor are they black and white phenomena) and have to be generated slowly through explicit steps and change processes.
- iv) ***Generating Constituencies for Reform.*** Nitish Kumar has proven adept at building political support for change through moulding disparate groups into coherent stakeholders in reform. As explained above, his electoral victories have been based on what Shaibal Gupta, Director of the Asian Development Research Institute, one of Bihar’s leading think tanks, has called a “coalition of extremes.”<sup>95</sup> Bringing in citizens from both ends of the caste hierarchy and indicating that development is a positive sum rather than zero-sum set of processes, has allowed the government to push through wide-ranging reforms. This new social coalition of caste and community is of course politically useful for the JD(U)- as the demonstrated progress continues to draw support away from Lalu’s backward caste-Muslim-Dalit vote base and the BJP’s traditionally middle

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<sup>92</sup> Jha, A.M. “Naya Bihar: Nitish’s Next Yatra” *Himal South Asian* (January 2011)

<sup>93</sup> Discussions in Bihar, July 2011. As one commentator pointed out: “the government remains corrupt, but slightly less so than before- and now it is delivering”.

<sup>94</sup> The central idea is that controls are developed as a *process* through which rules and policies allow for effective ideas and decisions from people within the system, geared towards the achievement of *objectives*, with the aim to provide reasonable assurance to stakeholders.

<sup>95</sup> Mukherjee, R. “Coalition Building in a Divided Society: Bihar State, 2005-2009” *Innovations for Successful Societies* (Yale University).

class supporters- but means do not equal ends. Nitish is accused by detractors of further emphasizing caste divisions with his targeted programs towards marginalized groups. This is as much a political as a developmental approach, but ultimately the outcomes for Bihar as a whole have been net positive. Practically, the government has also generated constituencies for reform within society and bureaucracy by preceding reforms with inclusive discussions, to ensure that stakeholders feel their voice is being heard. Security has improved through carefully constructed dialogue between the executive and judicial branches of government; the Maoists were co-opted through discussions between the rebel leaders and the government over central demands for change; and dialogue with private sector actors generated the new VAT code, investment incentives policy and streamlining of registration processes, for example.

- v) ***Using Existing Structures and Tools.*** The structure of the state in Bihar has not been fundamentally changed in the past six years. Previously extant laws, rules and systems have been revived or reformed, however, to work on behalf of governance rather than against it. Across a wide range of domains- from policing, to service delivery, to local decision-making- the government has not sought to throw out structures that led to the problems of the past, but rather work within them to change outcomes. In governance and expenditure terms too, the reforms that have been made to administrative rules and processes have been relatively small, but the effects have been significant. Raising the approval limit for spending by government departments, for example, immediately empowered these bodies and has allowed the government to move away from the excessive centralization and paralysis of policy machinery that characterized the state in the past. Small efforts to revive basic procedures have also been important- from the re-institution of weekly cabinet meetings to regular assembly meetings- and have helped to restore a sense of purpose and progress to government. Where new structures have been brought in- such as the Right to Services Act for example- these have built on progress to date. Much of what this act does is enshrine in law what is in practice already happening- and indeed within deadlines that the government is currently meeting. The symbolism is important, however, and the act also allows the government to further benchmark change through under-promising and over-delivering to the population, building momentum for future reform.
- vi) ***Ensuring Critical Messaging.*** Change can be as much about signaling intent as it is about implementation, and the changes in Bihar are as much perception as they are reality. The transformation in the state over the past six years are impressive, but by no means as wide-ranging or as complete as media articles about the transition might lead the casual observer to believe. The image of Bihar has been ‘inflated’ in the press, as a result of a well-developed communications strategy by the administration from the very top. Nitish’s victory in the 2005 election was possible because he carefully explained to different constituencies how his agenda would prove mutually beneficial. He sought to quell any fear among religious minorities about his political alliance with the BJP through the NDA by denouncing the religious violence in Gujarat in 2002, for example, and refusing to let Najendra Modi visit Bihar.<sup>96</sup> In practical terms, at the beginning of his first term, Nitish embarked on a *Vishwaas Yatra* or “Trust Tour”, often camping in what were previously perceived to be some of the most dangerous areas of the state, including Bagaha in West Champaran district, the “nerve-center of the kidnapping industry”.<sup>97</sup> The symbolism of these kind of actions was not lost on a population who had not been used to any sort of humility or signal of intent to listen from their political leaders. Outside the state, the government has also supported organizations such as the Bihar Foundation to ‘bond and brand’ Bihar- both for non-Biharis and the significant expatriate Bihari community- through creating chapters in Indian cities and around the world, developing training courses and providing support

<sup>96</sup> Modi, the Chief Minister of Gujarat is associated with the anti-Muslim riots in the state in 2002.

<sup>97</sup> Jha, A.M. “Naya Bihar: Nitish’s Next Yatra” *Himal South Asian* (January 2011)

for non-resident Biharis to link up with the state. These communication efforts are important both internally where change can be implemented- particularly in a society where a significant minority of the population is illiterate- and externally from where change can be catalyzed and supported.

## V. The Paradox of Success

Given the reform agenda that the NDA government pursued during its first term- and the electoral base Nitish created in which every major group was provided a share in state-sponsored development- in retrospect it is little surprise that the coalition won such a convincing victory in the assembly elections of November 2010, which were the freest in Bihar's history, included the highest ever turnout of female voters and were devoid of any violence whatsoever.<sup>98</sup> As one of the Chief Minister's close advisors pointed out: "this has been a careful process of development centric politics with vote bank arithmetic".<sup>99</sup> Nitish campaigned on a "fear free state" based on "Bihari pride". In election rallies he would mention "*patipatni*" ("husband and wife"- referring to Lalu and Rabri Devi) to outbreaks of laughter among the crowds. The NDA won 206 of the 243 seats (63 more than in 2005), an overwhelming majority.<sup>100</sup> Nitish pointed out at the time: "The verdict marks a new story for Bihar, which will have effects outside the state too. People certainly don't want to go back to the age of darkness". N.K. Singh, a JD(U) representative in the Rajya Sabha, reiterated the point, indicating that the election result represented "a paradigm shift in the very psyche of Bihar...they voted for a performance and development-centric government".<sup>101</sup>

There is no doubt that Bihar is changing and that the debate is shifting- discussion now is not about kidnapping and extortion, but about budget allocations and investment in key sectors, which is a hugely encouraging sign. At the same time, however, the government is now coming up against various inter-related issues which stem from a number of the factors that have enabled success to this point. First, the progress made in Bihar over the past six years has been somewhat oversold.<sup>102</sup> This has been a conscious effort for reasons explained above, but at the same time it is creating high expectations- both internally and externally- that the government will have to work very hard to fulfill. The NDA government was initially spoken of in favorable terms with the governments that had come before it, but has now set higher standards for itself: "Nitish now has to contend not with comparisons with Lalu, but with comparisons to himself."<sup>103</sup> Indeed, the convincing nature of the JD(U) win in the 2010 elections, and the majority of seats that this produced shifts further responsibility onto this government in terms of ownership and implementation of change.

Second, because of the phased approach to change in Bihar, which addressed feasible issues first, many of the most difficult constraints to governance and growth remain. The conditions in the state are still extremely difficult- Bihar's per capita income is still the lowest in the country; just over 10 per cent of homes have electricity; over 55 per cent live below the poverty line; and thousands migrate every year to

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<sup>98</sup> The 2010 election results were to some degree predictable based on the May 2009 state elections for the Lok Sabha (lower house of the Indian parliament), in which the JD(U) won 20 of the 40 seats (up from 6 seats previously). Lalu failed to get even one Yadav candidate from his party elected, though the JD(U) elected seven Yadav lawmakers.

<sup>99</sup> Discussions in Delhi, July 2011

<sup>100</sup> JD (U) won 115 seats, the BJP 91.

<sup>101</sup> Gahilote, P. "The Arrow Has a Point" *Outlook* magazine, December 6<sup>th</sup>, 2010.

<sup>102</sup> See Das Gupta, C. 'Unraveling Bihar's 'Growth Miracle' *Economic and Political Weekly* (December 25<sup>th</sup>, 2010) for a comprehensive argument against the extent of Bihar's changes since 2005.

<sup>103</sup> Discussions in Bihar and Delhi July 2011

states in Western India and to the Gulf in search of employment.<sup>104</sup> Consolidating and expanding the progress made to date will prove difficult. From a governance perspective, conditions have certainly improved in Bihar, the issue now is ensuring that gains made in terms of accountability and transparency can be brought together within systems that are not reliant on specific individuals. Changes so far have been successful through a programmatic model targeting specific groups or issues, but there have not been more incisive efforts to fundamentally reform institutions from within. While this is essential at the central level, of course, it is particularly important at the local level, where government programs still under-perform, capacity and oversight are still very weak, caste-based socio-economic disparities are still very real, and the need in terms of services and delivery of development programming is massive. Panchayats remain politicized and unresponsive to political change that is developing at the central level in Patna.<sup>105</sup>

Economically, more equitable and sustainable growth will be imperative to maintain momentum. Much of Bihar's growth over the past six years has been driven by public funding in support of construction, services and communications, and not from agriculture in which 80 per cent of the state's people are engaged.<sup>106</sup> On a micro-level, consumption is driving economic growth. While this has been transformative, it now has to be replaced with a private sector-led model that can ensure more legitimate, consistent and sizeable investment in the state.<sup>107</sup> Bihar has enormous scope to move into agro-processing and value-added activities in banana, sugarcane, potato, brinjal, and dairy product processing, for example. These types of activities have low-energy intensity, yield quick results and could create gainful employment and more equitable growth in those areas that need these most. Income disparity between the richest urban district (Patna) and the poorest, rural district (Sheohar) has increased from just over a multiple of three in 1998, to a multiple of nearly nine today.<sup>108</sup> A recent study also indicated that within districts, the disparity between villages is also increasing, as more accessible villages tend to receive more public investment and development programming.<sup>109</sup> Efforts to bridge these gaps will be important to ensuring that support for further reform is forthcoming.

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<sup>104</sup> NK Chaudhary, a professor at Patna University Department of Economics for example, is less sanguine about the changes in Bihar, and points out that changes are happening from a very low base, with the key challenges still remaining.

<sup>105</sup> Since the election in November 2010, the government has worked to put in place a new "Programme for Good Governance" for the next five years in Bihar. Through better fiscal management and expenditure this plan is now costed and funded at Rs 20,000 for 2010-11 (up from Rs 3,196 crore in 2004-05). The plan focuses, inter alia, on many of the areas outlined above, including: law and order (computerize all police records); governance (increasing access of information, capacity building of state employees); healthcare (24 hour health centers, the development of private medical colleges); education (at least one degree college in every sub-division and the development of the state as a hub of technical education); infrastructure (facilitation of private investment in the power sector and develop industrial areas); revenue (simplification of commercial tax processes); and citizenship (further emphasis on female higher-education and Urdu language teaching and publications). While a programmatic strategy of this sort seems to focus on many of the key issues, it has to be matched with implementation of course. See "Bihar Governor Says State on Progress Path" *The Hindu*, January 26<sup>th</sup>, 2011.

<sup>106</sup> The government of the state is currently pushing hard for Bihar to be classed as a "special category state"- this will provide advantages such as exemptions from some excise income taxes within the federal system. This does not negate the need for a clear focus on private sector development, however.

<sup>107</sup> Half of businesses are still informal. See IFC *Investment Climate Advisory Survey 2009*.

<sup>108</sup> Tsujita, Y et al. "Development and Intra-State Disparities in Bihar" *Economic and Political Weekly* (December 11<sup>th</sup>, 2010), p.13

<sup>109</sup> Tsujita, Y et al. "Development and Intra-State Disparities in Bihar" *Economic and Political Weekly* (December 11<sup>th</sup>, 2010), p.15

In the short to medium term, discussions with the private sector indicate that reliable electricity is the critical constraint to improved output as it reduces productivity and deters investors.<sup>110</sup> After bifurcation, all of Bihar's coal mines went to Jharkhand, which considerably reduced power generation capabilities- but Bihar has not been able to add any new generation capacity in over 25 years. Consumption in the state is just 12 per cent of the national average (100 kWh), with 90% of electricity supply coming from coal, fuelling three thermal power stations which operate inefficiently and at only 30-50% of capacity- the deficit of power at peak times can be as much as 30%. The government is planning to significantly increase generation capacity through modernization and expansion of existing plants, support for independent power producers, and joint ventures with the private sector.<sup>111</sup> Efforts under discussion to unbundle the transmission and distribution systems of the inefficient Bihar State Electricity Board will be key going forwards.<sup>112</sup> In the short run, aggressive power purchase agreements to secure electricity from elsewhere through power trading and other financial agreements might prove beneficial.

Finally, land ownership- which is central to the history of Bihar's social relationships, economic performance and political dynamics- will in the long-run require attention if growth and development are to move from the current period of transition towards a future in which prosperity and stability are more permanent. Most states in India carried out land reform processes by the early 1950s, but for various reasons this did not happen in Bihar. As a result, small landholdings, fragmented ownership and outdated farming techniques persist in rural areas, significantly reducing potential productivity. More importantly, feudal relationships remain entrenched, with a third of the Bihari population living as sharecroppers, with no title to their land, and thus no access to credit or subsidies- and no incentive to improve productivity and outputs. Reforming these feudal laws to increase ownership and allow for agricultural development, combined with efforts to more clearly systematize land registration will be imperative in the long run. These changes are simply not politically feasible at present given the very deep social relationships and structures that they underpin, and the sensitivity of any change- demonstrated in the lack of implementation of the findings of the land reform commission. Whether Bihar as a state can come to terms with these difficult issues in the future will to a significant degree dictate whether it can continue its current trajectory from a weak to a redistributive state.

## VI. Conclusions

Bihar is demonstrative of the change in politics, governance and developmental that is possible in a relatively short timeframe.<sup>113</sup> Lalu and his brand of identity politics were once considered so much part of political life in Bihar that people would lament that: "Lalu will remain at the helm in Bihar so long as samosas are made of potatoes".<sup>114</sup> At the same time, the progress in Bihar should not be over-estimated- the key issue going forward will be whether nascent reforms can be consolidated and constraints to further growth and good governance can be brought within the government's reform agenda in a coherent fashion. The current government has carefully planned and managed change processes that have improved the lives Biharis and generated a hitherto unknown sense of citizenship and inclusion. While some of these changes are less tangible in some areas than in others, the message of change is ubiquitous, positive and well-received.

<sup>110</sup> Discussions in Bihar, July 2011. As one prominent industrialist in Bihar pointed out: "Not long ago you couldn't even see Bihar on Google Earth as it was completely dark".

<sup>111</sup> Discussions at "Powering Bihar: Attracting Investments for Development of the Power Sector in Bihar" Patna, July 27<sup>th</sup>, 2011

<sup>112</sup> Transmission and distribution losses average around 40% although the Board is not able to measure actual losses due to the absence of a metering system. IPPAI *Powering Bihar: Handbook*, p.10

<sup>113</sup> As Shaibal Gupta has pointed out: "Bihar has moved from a 'touch-me-not' to a 'try-me-now' society." Shaibal Gupta as quoted in Simha, V. and Pandey, V. "Try Me Now Society" *Tehelka Magazine*, Vol. 7, Issue 5, February 2010.

<sup>114</sup> Discussions in Bihar, July 2011

The positive movement in Bihar is important intrinsically but also from a broader perspective because it is a hugely populous state in a massive and pivotal country where coalition politics at the national level reduces central control of sub-national outcomes. At the same time, with 243 assembly seats, Bihar can have a critical influence on the direction in which India moves- domestically and internationally- in the medium- and long-term. With this in mind, the fact that the NDA government has chosen development centric politics over caste-based patronage is encouraging. Bihar turns 100 years old as a state in 2012- if the current shift from dysfunctionality to inclusive growth and governance can be maintained, the coming century will be far more prosperous and stable for Biharis than the last.

## Annex I. Lessons from Bihar for Nepal

Comparisons can be made between Bihar and Nepal (which share a long land border) in cultural, social, economic and political terms. In some ways, Bihar now reflects Nepal of the mid 1990s- it has pushed through first generation governance and economic reforms- the difference being that the current administration in Patna is now moving to consolidate these changes and create a virtuous circle of growth and development, while Nepal continues to struggle with difficult issues of state and market-building. Fifteen years ago, Nepalis would look to Bihar in the south and bemoan their luck- being located next door to one of the most corrupt, crime-prone and poverty stricken states in India, from which large numbers of migrants would flood into Nepal in search of livelihoods. Now it is the Biharis that look to the north, wonder when criminal gangs will be brought under control and who draw on Nepali laborers to support the construction boom in progress across the state. These changes pose two questions from a Nepali perspective- what lessons can be learned from the changes in Bihar that might be relevant for Nepal? And how can Nepal benefit from the positive changes happening in Bihar?

### I. What Lessons can be Learned from Bihar?

Too much examination of a given context can lead to a search for lessons that are illusory, or an extrapolation of ideas that are specific. Indeed, it is difficult to generalize from contexts which are inherently unique and should be considered within their own historical narrative- and the history of Bihar is as idiosyncratic as that of other developing countries facing difficult periods of change. However, the aspects of the transition outlined above can be brought together and analyzed from a pedagogical perspective as it relates to Nepal. Ideas might include the following:

- i) ***The Importance of Minimal Governance Changes.*** Nepal has a set of institutions and legislation that could generate transparent and accountable government- the Commission for Investigation of Abuse of Authority (CIAA), for example, is more powerful than the proposed Lokpal in India.<sup>115</sup> The issue arises in terms of implementation and enforcement of rules, and ensuring that bodies responsible for transparent and accountable use of resources are themselves adequately staffed, monitored and overseen. The story of Bihar under indicates to some degree not what good governance can do, but what it cannot do. That is to say- a miracle has not occurred in Bihar, but tangible changes have taken place through implementation of efforts to build accountability, and this has created a sense of hope that is in turn nurturing and bolstering further change. More broadly, the government has shown the malleability of a stratified society and has brought people together behind a common developmental agenda. It has proven that politics is not zero sum but positive sum, and does not have to be about caste or ethnicity or geography. If the political will could be mobilized behind small but catalytic changes in Nepal in a similar manner, the multiplier effect on development- given the assets that exist- could be significant.
- ii) ***Create the Conditions for Good Leadership to Emerge.*** At times, Nepalis understandably seem to wonder when and from where a new political leader might emerge to forge a way out of the current unstable political equilibrium in the country. Bihar as a state had been systematically mismanaged for many years, and again to some degree this is a question firstly not of good leadership, but about ensuring a movement away from very bad leadership. When asked how they emerged as a leadership team, Bihar's leaders and managers point to the development-focused politics and a governance milieu in which their expertise can be effectively deployed to tackle critical tasks. This leadership did not emerge in a vacuum- it has been assembled as a result of political changes. An additional point is that Nitish is a rare Chief Minister in India who served in the Union government before coming back to Bihar- this gave him experience in management of

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<sup>115</sup> See Shakya, S. "Nepalonomics!" *Himal SouthAsia*, May 2011.

a large and complex bureaucracy, the skills to manage varied constituencies, and a larger vision based on experience at a higher level. With the right conditions, there is no doubt that a number of Nepal's potential leaders in the diaspora would be willing to return and support positive reform.<sup>116</sup>

- iii) ***The Catalytic Effect of Spending Resources.*** A central developmental constraint in Nepal is the inability of the government to spend domestic or international resources. The government continues to commit to a variety of social programs (often politically rather than functionally motivated) that may not prove affordable or sustainable in the long-term. At the same time, a significant expenditure constraint exists in terms of capital expenditure- in the fiscal year 2010-11, the government spent only 39% of allocated capital expenditure funding.<sup>117</sup> The juxtaposition of unspent government funds and lack of infrastructure continues to fuel the sense that political discourse is increasingly divergent from the realities of implementation. The reverse is true in Bihar, because the government has explicitly prioritized efforts to draw funds from the Union government and to seal revenue leakages to fund catalytic infrastructure that benefits the population. Capacity has been built within the construction industry and security has improved, as public-private partnerships have been developed around roads and bridges. This has facilitated market-based activities, improved linkages among and between disparate citizens, and again, generated a feeling of hope that creates additional momentum for change. Understanding this process will be key to Nepal's future development.
- iv) ***Design a Programmatic Approach to Development.*** Development in Nepal remains a disparate and uncoordinated process in which separate projects are simultaneously pursued, implementation is often poor, and outcomes are sub-optimal. Corruption and cronyism across a wide breadth of sectors are facilitated by a culture of impunity that pervades governance and the market, undermining the trust of the people both in political actors themselves, but also in the market-based economy more broadly. The system continues because the legitimacy of political actors is derived not from delivery of services, or citizen-focused reforms, but rather from participation in these deeply entrenched patronage networks. Bihar has slowly begun to overcome similar issues- and move beyond identity politics in a way that is illustrative for Nepal- by developing specific programs to build functionality and deliver citizen-centered reforms. It has started the movement from: i) a patronage system (in which leaders dispense favors to individuals and families in return for political support); through ii) a clientelistic system (in which leaders devise policies to deliver benefits to specific groups in return for political support); to iii) programmatic politics (where policymakers deliver benefits to all citizens of the political entity).<sup>118</sup> These programs developed are not perfect in terms of implementation by any means, but they have begun a process whereby rules have been set and parameters for action defined, which has helped to mobilize government, the private sector and citizens. In Nepal, a programmatic approach in just one or two sectors- rural irrigation for example- could provide a means by which to improve coordination, increase expenditures and begin a similar transition.

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<sup>116</sup> This is not necessarily an argument for federalism in Nepal- see point v) above. Indeed, hundreds of thousands of economic migrants from Bihar are now bringing home miraculous growth stories from Southern and Western states of India. A natural corollary to these stories is that if Bangalore and Hyderabad can transform themselves then why not Patna? There are examples of good governance from which Biharis can draw inspiration- Nepal would benefit from doing the same.

<sup>117</sup> See Government of Nepal, Ministry of Finance Budget Speech, 2010-11 Annex: <http://www.mof.gov.np/publication/speech/2011/index.php#>

<sup>118</sup> See Kitschelt, H and Wilkinson, S. (eds). *Patrons, Clients and Policies: Patterns of Democratic Accountability and Political Competition* (Cambridge: Cambridge University Press, 2007).

- v) ***Understand Functions and Levels of Governance.*** In Nepal the debate over federalism indicates that the form and function of government sometimes seem to have become confused. Federal systems can be highly effective, as in Canada, for example, or highly ineffective, as in Nigeria- and the same can be said for unitary systems. The key is understanding the functions and levels of governance within a given system and what government responsibilities need to be carried out at which levels and with which mechanisms. In Bihar, the current government has understood firstly that devolution of power to legitimate local bodies can allow for more nuanced and effective development based on inputs from citizens, but it has also understood that decentralization requires a strong center. At the same time, it has begun to face the reality that effective and sustainable wealth creation comes from a balance between market-based growth and the reinvestment of some of the outcomes of this growth in equitable social programming at the local level. If the discussion on the future shape of Nepal could be shifted to revolve not around considerations of federal boundaries but rather about citizen-centered development outcomes, similar changes are entirely feasible.
- vi) ***The Balance of Cooperatives and the Market.*** Over the past five years or so, the Maoist emphasis on cooperatives as a central part of Nepal's future seems to have taken root, with the idea of these groups as a third and equal pillar of the economy (alongside the state and the private sector) now articulated in the most recent government budget. The initial plans for their development however, does not outline exactly how cooperatives will function in this way, how connections to larger-scale development plans will be made concrete, or how cooperative-led growth will be sustainable.<sup>119</sup> In Bihar- a dairy cooperative model might serve as an example of how Nepal's cooperatives could be leveraged and expanded as part of a larger growth strategy. The Bihar State Cooperative Milk Producers Federation (Sudha) has built revenues from \$73.5 million in 2001 to \$136 million today through bringing together 8,600 dairy outlets (with more than 450,000 members) covering 84 towns in the state to export milk to the neighboring states of West Bengal, UP and Jharkhand, and now Delhi.<sup>120</sup> Milk is collected from dairy cooperatives in villages twice daily and brought to milk sheds in district milk unions which have dairy plants to process the milk for urban consumers. Products are packaged and marketed under the Sudha brand, and the federation is now working to route the entire milk production in Bihar through the federation. Understanding how to build on local capacities within a broader framework of this sort might be instructive within the Nepali context.

## II. How Can Nepal Benefit from the Transformation in Bihar?

The other question that the ongoing transformation in Bihar begs, as it relates to Nepal, is whether there are ways that Nepal can better capitalize on the changes happening south of its border. In the short to medium term it seems that there are several issues that are worth consideration:

- i) ***Build on Rule of Law Gains.*** To some degree, rule of law improvements in Bihar have had a knock-on effect into Nepal in a negative way- various nefarious individuals have been forced across the open-border into Nepal and security in the Terai region has been affected as a result. There is also an opportunity for Nepal in this dynamic through working with their Bihari

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<sup>119</sup> Moreover, the government has begun transferring funds for the creation of cooperatives without knowing exactly what they will do or how best to regulate their activities. Discussions in Nepal, July 2011

<sup>120</sup> In terms of governance, one member of each family has voting rights to elect local members of the Primary Dairy Cooperative (each co-op has 13 members with a Chairman). The Chairmen of each PDC elect members for the District Cooperative Unions, of which there are currently six. DCUs operate in tandem with the PDCs. At the state level, the Federation is constituted by the Chairmen of the DCUs. There are 11 members on the board of the federation in which 3 are from the National Dairy Development Board. See: [http://compfed.co.in/index\\_2.html](http://compfed.co.in/index_2.html)

counterparts on collective, cross-border approaches to criminality. Efforts by the Nepali customs and law enforcement officials to raise standards, exchange information and build a network for knowledge-sharing would be useful. Security issues in Nepal more broadly seem to be improving to some degree at present (night buses are now running frequently in rural areas, for example) and if security can now be consolidated for the average citizen the effect will prove catalytic for cross-border economic growth (see point ii) below.

- ii) ***Create Economic Symbiosis.*** There are around 250 million Indians living within a few hundred miles of the Nepali border- over 100 million in Bihar alone. The purchasing power of these consumers is significant and is increasing rapidly as a result of economic growth. The roads on the Indian side of the border still need significant work, but have improved rapidly over the past six years- this is a fantastic opportunity for Nepal if the right connections can be made. Arguably, a decent road connection from Kathmandu to Patna (and indeed to Lucknow) could transform the Nepali economy. At the border, India is streamlining customs processes and creating single-window registration points- which are noticeably absent on the Nepali side of the border.<sup>121</sup> Efforts in this regard would facilitate trade, create jobs and improve revenue collection.
- iii) ***Understand Water Management Linkages.*** All 38 districts in Bihar have flooded as a result of the absence of water management processes in Nepal. Most of the rivers in northern Bihar have their headwaters or catch basins in Nepal but despite discussions between the Nepali and Indian governments to build dams and control flooding, no agreement has yet been reached. This is in part because of the massive maintenance obligation these dams would involve.<sup>122</sup> Water provides a key opportunity for cross-border- and indeed regional- growth, and the basis for broader cooperation between Nepal and its neighbors.<sup>123</sup> In the absence of larger agreements with India on dam-building, Nepal can begin to put in place the necessary economic and legal conditions for upstream water harnessing processes and hydropower-generation.<sup>124</sup> In the shorter-term, micro-hydro development through a coherent government-led program still presents the most feasible- and least politically divisive- means of harnessing Nepal's water resources.<sup>125</sup>
- iv) ***Generate Political Dialogue.*** Bihar and Nepal are closely connected geographically- with an open border- and this will over time lead to greater political linkages on an individual and collective basis. The effect that this might have on political issues and relationships within the Terai region in the long-term remains to be seen- but the Indian sphere of influence will only grow. The government of Nepal may consider laying the framework, where possible, for regular and consistent dialogue with its counterparts in Bihar (and again in UP) now to ensure that it has an understanding of these key issues and has the mechanisms in place ahead of time to deal with problems that may arise, and to facilitate collaboration where feasible. There is a lack of trust between India and Nepal, which impedes progress on a whole host of issues- political and economic. But India is not a homogenous creature- and individual states have their own

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<sup>121</sup> Travel through Nepal and India, July 2011

<sup>122</sup> Due to the build-up of waterborne sediment

<sup>123</sup> The EU was founded on a coal and steel agreement- water could play the same role for South Asia, a region in which regional initiatives are noticeable in their absence at present.

<sup>124</sup> International interest is increasing- the Chinese, for example, are currently undertaking a feasibility study for the hydro-power sector and investing in a number of projects. Brazilian, Norwegian and American companies are also coming into the sector. It is important that a level playing field for investment in the sector is put in place to prevent corruption and mismanagement. The government is now putting in place tax breaks for investment in hydro-power which may go some way towards encouraging interest in the sector.

<sup>125</sup> At the same time, expectations of the communities in the areas with micro-hydro potential are extremely high, and the balance between profitability, local participation and benefits will need to be clearly established and communicated with the population. See ISE Report, *Nepal: From Stalemate to State-building*, October 2009

incentives and interests. This will require efforts in Patna to build on areas of relative autonomy from Delhi, and it will mean that Nepali politicians will need to understand that productive meetings in Patna are more worthwhile than media-friendly trips to Delhi.<sup>126</sup> Creating ways to generate trust at a personal level with Bihar from the top down needs to be a central component of the relationship between Nepal and its neighbor moving forward.

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<sup>126</sup> The extent to which Patna has the ability to negotiate directly with Nepal without going through Delhi is an issue of course- but there may be areas where this is possible.

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