

India's 'Poorly-Performing' States

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Acronyms

AP	Andhra Pradesh
DFID	Department for International Development, UK
FDI	Foreign Direct Investment
GoI	Government of India
GOUP	Government of Uttar Pradesh
MP	Madhya Pradesh
MP	Uttar Pradesh
OED	Operations Evaluation Department (World Bank)
WFP	World Food Programme

Executive Summary

India's strong tradition of inter-state comparison and competition, with its rich state level statistical data, provide an unparalleled opportunity to compare the opportunities and difficulties states present to development assistance. The allocation of aid is extremely uneven across the states; like private investment and even public expenditure, greater quantities of aid per capita tend to flow to the persistently richer states, with some exceptions. Given the poverty reduction objective of most aid, this is potentially a perverse outcome. When performance over time is examined statistically, the persistently poor states are not uniformly the poor performers, although there is perhaps a greater tendency towards across the board and over time poor performance among Indian states than there is among developing countries as a whole. This was especially the case in the 1990s for three states, Bihar, Orissa and Uttar Pradesh. However, there is a widespread stereotyping or labelling process at work which equates poor with poor performing, which is not correct overall, and contributes to the perpetuation of persistent poverty and inter-state inequalities.

There has been a reluctance to work in the 'difficult aid environments' of persistently poor states, with some exceptions in terms of states and agencies. In general aid agencies have been willing to work in states where performance over time on key indicators may be poor, but where political stability and security is good, where financial and public accountability is stronger, where state leadership presents a dynamic picture, and where progress is more palpable. The argument is that returns to aid are greater in these states, though this remains to be demonstrated. Arguably, aid, which is financially marginal in India as a whole, should seek as a primary goal, to contribute to combating growing inter-state inequalities and to lifting the level of development in the persistently poor states. The Government of India has clearly recognised the problem of persistently poor states, as well as the role of aid in working with poor states. In developing a special plan for Bihar, it has also recognised the need to remedy state failure once it has happened. What it has not yet recognised is the critical nature of preventing state collapse well before it happens. This is a role the remaining aid agencies in India could assist the government to play.

The World Bank, India's largest donor, has more or less followed the general aid allocation pattern: over the period 1980-1999 very little aid per capita went to Bihar or West Bengal; Rajasthan, Assam, Madhya Pradesh and UP gained four to five times as much, while far more substantial amounts (by a factor of up to 17 times) went to AP, Gujarat, Haryana, Karnataka, Maharashtra, and Tamil Nadu. Orissa is the only persistently poor state to receive a moderate amount of aid per capita. In the last three years the Bank has further bucked the trend by developing a substantial programme in UP.

What matters to aid agencies allocating aid to Indian states? The analysis suggests that security matters; political instability combined with insecurity has deterred aid to UP and Bihar in particular; state leadership can play a very significant positive or negative role: AP's charismatic and modernising leaders have wooed and provided attractions for both aid and private investment, while Bihar's 'peasant' leadership have repelled. Finally, states where the efficacy of the bureaucracy is perceived to be high are also favoured, because the fiduciary risk is lower and because better results are more achievable.

Donors' strategies towards Indian states become more coherent in the 1990s, with growing support to particular sectors and states, and moving towards providing budget support to states perceived as having enough *commitment* to reforms. This factor apparently over-rode others in

the aid allocation process: thus AP was consistently allocated the most aid per capita, even though the authority of the state did not extend throughout the state; by contrast insecurity combined with lack of reform orientation to deter aid to Bihar almost entirely. Effectiveness in economic management also outweighed effectiveness with respect to poverty reduction – greatest in West Bengal and Kerala, where relatively little aid has been given. However, the states which have performed worst on poverty reduction are also in general those where commitment to reform has been perceived to be least.

The same states are generally characterised by continued upper caste dominance of politics. Only one such state has performed well on poverty reduction (Rajasthan), while the states which have reduced poverty are generally those which have included lower caste representation or accommodated lower caste interests in the political system.

While significant aid has been focused on the social sectors since 1990, aid has played an insignificant role vis a vis the substantial centrally supported poverty reduction programmes and social protection, with the exception of contributions to famine relief and disaster mitigation. Arguably these schemes, together with centrally supported social sector expenditure, have tied India together, and contributed to the political underpinnings of revenue-starved state governments. Not only have they helped to legitimise state governments, but they have also acted to reduce inequalities and integrate society. In the long term, the quality of implementation of such development activities has a strong bearing on the extent to which states remain legitimate and are able to exercise authority. There is considerably greater scope for donor involvement, in partnership with the Government of India, in states which perform poorly on poverty reduction or human development, in addition to those where effectiveness has improved because of political change.

While juridical sovereignty issues have exercised little influence over the pattern of aid allocation to the Indian states as a whole, the state of Jammu and Kashmir has been little aided, despite obvious needs and obvious in-conflict assistance capabilities of some of India's donors. Tensions and military hostility between India and Pakistan over the disputed Kashmir Valley, however, led to a number of donors reviewing, even suspending, their aid programmes to India, and the recent decision of the Government of India to reduce the number of aid donors to India, may have partly resulted from the way in which aid was used in this dispute.

As in the other country case studies, the persistently poor Indian states had worse 'starting conditions' and greater economic and natural 'structural constraints' than other states. Arguably, the processes and resources to deal with the constraints, and to raise their level of achievement towards the better performing states, have never been put in place. This, combined with the policy, governance and political factors discussed above, underlies the likely failure of these some of the states to contribute positively towards the Millennium Development Goals.

The consistent relative neglect of persistently poor states in India by donors contributes to the negative labelling which underlies their poor performance over time. Donors could choose, more than they do, to counter this labelling. This would undoubtedly require not only a more accurate analysis of actual performance to counter the now strong images of states as good or poor performers, but also new approaches to aid strategies in the persistently poor states. These can benefit not only from the rich international debate which has begun on these issues, but also from the lessons of India's own rich history of differential state performance. Understanding better what went into the improved performance of India's better off states will help identify promising trajectories for the persistently poor states.

1. India – background

There is a strong performance discourse in India in which state governments have more than a wary eye looking over their shoulders at other states' performances, and reflecting often defensively on their own in that context. It is an active aspect of the political framework. GoI in many ways acts like a donor in relation to the states: financial gap filling is the basic philosophy underlying state-centre financial relationships; the centre makes much use of control instruments (e.g. clawing back of powers through the concurrent list and constitutional provisions; centrally sponsored schemes which provide growing proportions of the growing central financial resources in a situation where state financial resources have dwindled), creating difficulties for states through conditionalities, and developing a discourse about moving to performance-based financial allocations. Constitutionally, it has incomparable powers, however. It can permit or prevent the formation of new states, for example. In this sense it acts in the way that the UN might act internationally, in recognising a new state.

Aid is relatively insignificant in terms of volumes at all-India level, but in the states may be much more significant due to state financial deficits, and absence of capacity. Aid has also been associated with innovations in policy and programmes, especially at the sectoral level and since the early 1990s. The example of power sector reforms is a strong one: the 10th Five Year Plan has adopted a scheme to encourage all states to do what Orissa and Haryana have pioneered with donor support. Some of the most significant changes in public policy have been pioneered by NGOs supported by donors. The emergence of women's self help groups as the lynchpin of India's rural development strategy in the late 1990s is an example.

Although India accounts for nearly half the world's absolutely poor people, and perhaps one third to one half of these are chronically poor (Chronic Poverty Research Centre, 2004, forthcoming) aid agencies vary in the aid which they give to India, and there is also considerable variety in approach within India, with little co-ordination between donors.

There is a history of India controlling aid and agencies, even its major donor, the World Bank, based on a lack of aid dependence, and a sense of nationalism which rejects external influence. Recently India has declared that a number of the smaller bi-lateral aid agencies should close their operations and has opened its own aid programme. India thus offers an opportunity to explore aid relationships and performance in a non-aid-dependent and federal country.

Indian states stretch from Egypt to Mali in terms of per capital income, poverty and human development levels (Nagaraj et al, 2000). Gaps between the states have been growing over time. The Government of India (GoI) has been unable to bring about greater inter-state equity over time through centre-state financial transfers despite a commitment to do so: development expenditure per capita remains highly unequal between poor and rich states.

Growing inter-state inequality provides a backdrop for the decline of consensual politics represented by the Congress Party, the rise of regional parties, and the religiously based BJP. Both of these generally represent the increased sway of the agrarian elite and the increased significance of local power politics. As a result, there has been some accommodation with fissiparous tendencies in some of the states. This has not been extended to the Kashmir valley where political movements and external forces continue to challenge India's juridical sovereignty. Nor was accommodation extended to Punjab's separatist movement, or to the separatist movements along the northeastern border. Other than this it has been possible to accommodate

the lesser challenges to *state* level sovereignty, as opposed to Indian sovereignty, through formation of new states.

This section explores whether the evolving Indian state performance discourse can shed any light on the ways in which aid has responded to varied state performance, and on the potential role of aid as a contributing determinant of varying state performance.

2. Aid to persistently poor and to poorly performing states

2.1 The conventional, static picture

The analysis here is of India's 15 or 16 big states. Kashmir, the northeastern and other small states are excluded for the moment, but will feature in the later qualitative analysis. In fact the smaller states have been flourishing as demonstrated by a study in India Today (2003), and the fragmentation of big states is very much back on the political agenda.

There has been a near universal culture of inter-state comparison in Indian political and economic life for decades. State politicians and administrators mind what others and GoI think about them. A state's image in Delhi matters at the level of negotiating financial transfers and budgets. It matters also in terms of attracting aid and private investment. Competition has been especially acute among southern states, which along with western states have attracted more aid and FDI than northern states, and done better developmentally.

The static picture gives a consistent group of states 'at the bottom' of many league tables of indicators. These 5-6 states (Assam, Bihar, Madhya Pradesh, Orissa and Uttar Pradesh) account for almost $\frac{3}{4}$ of India's poor and deprived. A key aspect in this picture is the concentration of socially excluded populations in these states – scheduled caste and tribe. The widespread stereotype view is that these states have been at the bottom of the state leagues for a long time. As at the international level, 'the problem' is generally located in the states – it has to do with the nature of politics, governance, or the economic structures of those states.

2.2 State trajectories: a dynamic picture

A recent analysis of inter-state disparities in income over the period suggested that 'income distribution over the period 1980-98 has polarised into two convergence clubs (or income groups) – one at 50% of national average income (Bihar, Orissa, Rajasthan, Uttar Pradesh and Madhya Pradesh), another at 125% of the national average (Punjab, Haryana, Gujarat, Maharashtra). These 'twin peaks' formed stable groupings over the period, in fact over a longer period 1965-98 (Bandyopadhyay, 2001: 11, 14). In other words the relative positions of poor and rich Indian states have remained unchanged, with states in the middle tending to move to one of the two convergence clubs. It would be interesting to update and repeat this exercise for other indicators.

Table 2-4 offer a dynamic analysis which suggests that 'the problem' may be at least partly one of perception. If we look at *change* in economic growth rates, infant mortality rates and poverty reduction, using the method outlined in Macrae, Morrissey, Shepherd et al (2004),¹ a somewhat different picture emerges to the stereotype presented above.

¹ See also Background Paper 1 in this series.

Table 1: State rankings on the Human Development Index, the Gender and Development Index, the Gender Empowerment Measure, and the Human Poverty Index, Poverty Headcount Ratio (HCR) and per capita State Domestic Product (SDP) during the 1990s.

Rank	Human Development Index	Gender and Development Index	Gender Empowerment Measure	Human Poverty Index	Poverty Headcount Ratio (93/4)
1	Kerala	Kerala	Kerala	Kerala	Punjab
2	Punjab	Maharashtra	Maharashtra	Tamil Nadu	Haryana
3	Maharashtra	Gujarat	Himachal	Punjab	Rajasthan
4	Haryana	Himachal	Gujarat	Maharashtra	Gujarat
5	Gujarat	Punjab	Karnataka	Haryana	Andhra
6	West Bengal	Karnataka	Haryana	Gujarat	Karnataka
7	Himachal	Tamil Nadu	West Bengal	Karnataka	Kerala
8	Karnataka	West Bengal	Tamil Nadu	West Bengal	Madhya Pradesh
9	Tamil Nadu	Andhra	Rajasthan	Andhra Pradesh	Tamil Nadu
10	Andhra	Haryana	Madhya Pradesh	Orissa	Uttar Pradesh
11	Assam	Assam	Punjab	Madhya Pradesh	Maharashtra
12	Orissa	Orissa	Andhra	Rajasthan	West Bengal
13	Rajasthan	Madhya Pradesh	Uttar Pradesh	Assam	Assam
14	Bihar	Rajasthan	Bihar	Uttar Pradesh	Orissa
15	Madhya Pradesh	Bihar	Orissa	Bihar	Bihar
16	Uttar Pradesh	Uttar Pradesh	Assam		

Source: Mehta and Shah, 2002

The majority of the data for this analysis were taken from Volume III of the 10th 5-Year Plan, Chapter 3 (Development Trends). Exceptions include the data on Net State Domestic Product, and data on infant mortality rates in 1991, which were taken from the India National Human Development Report 2001. All data are taken from consistent series over time, and can be regarded as being of high quality.

Growth

Table 2 shows the ranking of Indian states by their rate of economic growth. There is fairly close correlation between the rankings in each decade. Maharashtra and Tamil Nadu stand out as ranking high in both decades, while Assam, Bihar, Orissa and Uttar Pradesh stand out as ranking low in both decades. However, there are some differences: states which ranked much higher in the 1990s than in the 1980s include Gujarat, Kerala, and Madhya Pradesh. States which ranked much lower include Rajasthan and Haryana.

Although there is a lot of variation in growth rates across states, no state was a poor performer by international standards, in either decade (according to the absolute, relative or conditional criteria). There were, however, certain good performers by international standards: Rajasthan,

Tamil Nadu, Maharashtra, Haryana, Karnataka and Andhra Pradesh in the 1980s, and Gujarat in the 1990s (all according to both relative and absolute criteria).

In both decades, rates of growth in state GDP per capita rates were higher, the higher the initial level of GDP per capita (Statistical Appendix, Chart A1). This indicates a widening of gaps between states in GDP per capita over time, as has also been found by others (e.g. Bandyopadhyay 2001).

Infant mortality

Table 2 shows the ranking of states by the reduction in infant mortality. There is relatively little correlation between the rankings in each decade. States which ranked much higher in the 1990s than in the 1980s include Madhya Pradesh, Orissa and Kerala. States which ranked much lower include Haryana, Andhra Pradesh and Tamil Nadu.

During the 1980s, performance in infant mortality was poor by international standards (according to the absolute, relative and conditional criteria) in Orissa. During the 1990s, it was poor by international standards (according to the absolute, relative and conditional criteria) in Haryana and Andhra Pradesh. Good performers by international standards (again according to the absolute, relative and conditional criteria) were Madhya Pradesh, Orissa and Kerala in the 1990s.

During the 1990s, reductions in infant mortality were greater, the higher the initial level of infant mortality (Chart A2), indicating a narrowing of gaps in infant mortality rates between states (at the same time that gaps in per capita GDP were increasing). However, this process of convergence was not witnessed during the 1980s.

Poverty

Table 4 shows the ranking of states by the reduction in poverty. Like infant mortality, there is relatively little correlation between the rankings in each decade. States which ranked much higher in the 1990s than in the 1980s include Rajasthan, Gujarat and Tamil Nadu. States which ranked much lower include Assam and Madhya Pradesh. However, Bihar, Orissa and Uttar Pradesh stand out as ranking low in both decades, while Kerala stand out as ranking high in both decades.

We cannot calculate whether any states were good or bad performers by international standards, as we have no international 'benchmarks' for poverty reduction (data are lacking).

In the 1980s, there is no significant correlation between reductions in poverty and the initial level of poverty (Chart A3). However, in the 1990s, there is a clear tendency for reductions in poverty to be lower, the higher the initial level of poverty. This indicates a strong widening of (proportional) gaps between states in the proportion of the poverty living below the poverty line, matching the result for GDP per capita.

Table 2: Economic growth across major Indian states, 1981/2-1997/8

Rank	State	Level, 1981/2	Annual change (%), 1981/2-1991/2	State	Level, 1991/2	Annual change (%), 1991/2-1997/8
1	<u>Rajasthan</u>	1282	4.0	<u>Gujarat</u>	2738	4.5
2	<u>Tamil Nadu</u>	1570	3.8	<u>Maharastra (c)</u>	3615	4.1
3	<u>Maharastra</u>	2485	3.7	<u>Tamil Nadu (c)</u>	2303	3.9
4	<u>Haryana</u>	2455	3.6	<u>Kerala (c)</u>	1876	3.5
5	<u>Karnataka</u>	1584	3.4	West Bengal	2257	3.5
6	<u>Andhra Pradesh</u>	1525	3.2	Karnataka	2215	3.2
7	Punjab	2846	3.1	Andhra Pradesh	2099	2.4
8	Gujarat	2038	3.0	Madhya Pradesh	1636	2.0
9	Himachal Pradesh	1738	2.7	Rajasthan	1916	1.9
10	West Bengal	1749	2.5	Haryana	3521	1.7
11	Assam	1262	2.2	Punjab	3873	1.6
12	Uttar Pradesh	1318	2.2	Himachal Pradesh	2268	1.5
13	Kerala	1502	2.2	Orissa	1480	1.5
14	Bihar	945	1.7	Assam	1579	0.7
15	Madhya Pradesh	1387	1.7	Uttar Pradesh	1648	0.6
16	Orissa	1278	1.5	Bihar	1120	0.1
	<i>Mean (India)</i>	-	2.8	<i>Mean (India)</i>	-	2.1
	<i>St. dev. (India)</i>	-	0.8	<i>St. dev. (India)</i>	-	1.3
	<i>Mean (all LDCs)</i>	-	0.5	<i>Mean (all LDCs)</i>	-	1.3
	<i>St. dev. (all LDCs)</i>	-	2.7	<i>St. dev. (all LDCs)</i>	-	2.9

Notes: Underlined states are those which performed well by international standards, according to both relative and conditional criteria. (c) indicates good performance according to the conditional criteria only. Means and standard deviations are unweighted.

Data source: National Human Development Report 2001, Statistical Annex p.149 Table 2.1.

Correlation between performance indicators

Chart A4-6 in the Statistical Appendix show the correlation across states between performance in each development indicator. Growth is not significantly correlated with reductions in infant mortality in either the 1980s or the 1990s (Chart A4). Economic growth is not significantly correlated with poverty reduction in the 1980s, but it is in the 1990s (Chart A5). Reductions in poverty are not correlated with reductions in infant mortality in either decade (Chart A6).

Analysis

While initial differences among states have generally persisted over time (confirming the ‘twin peaks’ analysis referred to above), this analysis produces no easy list of poorly performing states when change is examined. Assam performed badly on growth and poverty reduction in the 1990s, and on growth in the 1980s. Otherwise states performing poorly on one indicator in the 1990s do not perform poorly on the others; the same is true of the 1980s, although lack of data for Jammu and Kashmir on infant mortality might draw it into the poor performer category on more than one indicator. Data from this state in the 1990s may also not be as reliable as elsewhere, given the protracted conflict in the state during this period.

Table 3: Reductions in infant mortality across major Indian states, 1981-2001

Rank		Initial value, 1981	Annual change, 1981-91		Initial value, 1991	Annual change, 1991-2001
1	<u>Haryana</u>	94	-4.2	<u>Madhya Pradesh</u>	133	-3.6
2	<u>Andhra Pradesh</u>	91	-3.6	<u>Orissa</u>	125	-2.7
3	<u>West Bengal</u>	95	-3.3	<u>Kerala</u>	42	-2.6
4	<u>Tamil Nadu</u>	86	-3.2	<u>Maharashtra</u>	74	-2.5
5	Uttar Pradesh	130	-3.1	Punjab	74	-2.0
6	Rajasthan	114	-2.7	Himachal Pradesh	82	-1.8
7	Bihar	94	-1.9	Karnataka	74	-1.6
8	Maharashtra	92	-1.8	Assam	92	-1.4
9	Madhya Pradesh	150	-1.7	Gujarat	78	-1.4
10	Himachal Pradesh	92	-1.0	Uttar Pradesh	99	-1.4
11	Kerala	52	-1.0	West Bengal	62	-0.9
12	Karnataka	81	-0.7	Bihar	75	-0.8
13	Gujarat	84	-0.6	Rajasthan	87	-0.4
14	Punjab	77	-0.3	Tamil Nadu	54	-0.1
15	Orissa	115	1.0	Andhra Pradesh	55	1.1
16				Haryana	52	1.7
	<i>Mean (India)</i>	-	-1.9	<i>Mean (India)</i>	-	-1.3
	<i>St. dev. (India)</i>	-	1.5	<i>St. dev. (India)</i>	-	1.4
	<i>Mean (all LDCs)</i>	-	-1.7	<i>Mean (all LDCs)</i>	-	-1.2
	<i>St. dev. (all LDCs)</i>	-	1.4	<i>St. dev. (all LDCs)</i>	-	1.1

Notes: Underlined states are those which performed well by international standards, according to relative or conditional criteria. States in bold are those which performed poorly by international standards, according to relative or conditional criteria. Averages and standard deviations are unweighted.

Data source: Planning Commission, 10th plan, p.53.

Comparing with the static analysis, introducing change into the picture produces a much more varied result: few states perform well or poorly in both decades. Some poor performers in the 1980s improve in the 1990s; some good performers stagnate or perform poorly. Bihar, Orissa and UP were consistently poor performers across the three indicators in the 1990s (with the exception of Orissa on infant mortality) and across both decades on growth; they were joined by Assam (except on infant mortality). However, surprises include:

- The poor performance of AP and Haryana on infant mortality during the 1990s;
- MP's poor performance poverty reduction in the 1990s, despite being widely seen as an improving performer;
- West Bengal, often seen as a poor performer,² in fact performed relatively well on economic growth in the 1990s.

² In fact West Bengal has been a good performer objectively over much of the 1980-2000 period. It is considered a difficult aid environment because of its left wing government, which has nevertheless executed many market oriented reforms, and ensured a high level of law and order as well as stability.

Table 4 : Reductions in poverty across major Indian states, 1977/8-1999/2000

Rank		1977/8	Annual change (%), 1977/8-1987/8		1987/8	Annual change (%), 1987/8-1999/2000
1	Himachal Pradesh	32.5	-7.4	Kerala	31.8	-7.6
2	Haryana	29.6	-5.7	Rajasthan	35.2	-6.9
3	Kerala	52.2	-5.0	Gujarat	31.5	-6.7
4	Assam	57.2	-4.6	Punjab	13.2	-6.4
5	Andhra Pradesh	39.3	-4.2	Tamil Nadu	43.4	-6.0
6	Punjab	19.3	-3.8	Himachal Pradesh	15.5	-5.9
7	Madhya Pradesh	61.8	-3.6	Haryana	16.6	-5.4
8	Maharashtra	55.9	-3.2	Karnataka	37.5	-5.2
9	West Bengal	60.5	-3.0	West Bengal	44.7	-4.2
10	Gujarat	41.2	-2.7	Andhra Pradesh	25.9	-4.1
11	Karnataka	48.8	-2.6	Maharashtra	40.4	-4.0
12	Tamil Nadu	54.8	-2.3	Uttar Pradesh	41.5	-2.4
13	Orissa	70.1	-2.3	Bihar	52.1	-1.7
14	Uttar Pradesh	49.1	-1.7	Orissa	55.6	-1.4
15	Bihar	61.6	-1.7	Madhya Pradesh	43.1	-1.2
16	Rajasthan	37.4	-0.6	Assam	36.2	0.0

Data source: Planning Commission, 10th plan, p.40. The annual % change is the proportional rate of change in the poverty headcount.

Some small states have recently been shown to have performed significantly better in the 1990s than bigger states – ‘physical and social infrastructure is less burdened, the investment environment is less taxing, and economic bureaucracy is more agile’ (India Today, May 19, 2003: 24). This is significant, as the coalition government at the centre has permitted a new agenda of state formation with the development of Uttaranchal (out of UP), Chattisgarh (out of MP) and Jarkhand (out of Bihar) – all former regions of persistently high poverty incidence states. Exceptions probably³ include the northeastern states, where high literacy rates and low income poverty have been balanced by poor physical infrastructure and connectivity, and conflict has prevented the development of a tourist industry which would be the region’s natural advantage as a basis for economic growth.

Overall there has been a widening of the gap between states on growth and poverty reduction, following some narrowing in the 1980s. Poverty would appear to respond to growth, infant mortality less so.

2.3 Aid to Indian states

From a relatively high level of aid dependence in the 1950s and 1960s, aid to India in 1980 constituted 6% of government development outlays and 17% of gross capital formation (Lipton and Toye, 1990: 22). By 2000 aid constituted less than 0.5% of GDP and 1.3% of government resources. However, at the state level, where public expenditure is generally heavily constrained

³ Data is unavailable, as is general in conflict affected regions/countries. This also applies to Jammu and Kashmir.

by persistent fiscal deficits (even in better performing states), and which accounts for about two thirds of total public expenditure, aid can be significant in unlocking financial bottlenecks as well as supporting change and reform.

Early post-independence aid to India was largely to relax macro-economic constraints, especially to support wage-goods during bad harvest years. As remittances and export earnings grew, aid shifted to easing sectoral bottlenecks and policy reform at the sector level, led by the World Bank. (Macro-level policy dialogue had been tried in the late 1960s and been rejected by GoI.)

Up to 1990 aid was largely for infrastructure, with a growing emphasis on human resource development, with urban slum upgrading, rural primary health care, family planning and nutritional assistance identified as successes (Cassen, 1986; Lipton and Toye, 1990). The general form was the project, with only modest use of technical co-operation because of India's vast pool of skilled personnel. Many were 'pilot' projects: designed to enable government or donors to learn about what works.

In the 1990s some aid moved closer to the policy level, though with the exception of the World Bank, major donors shied away from debating policy issues with GoI, preferring dialogue with the states. Even the Bank's advice was sometimes shunned at this level. By contrast, some of the financially smaller donors (eg Unicef, CARE) have been influential with particular departments of GoI on the basis of long involvement in particular programmes (DFID/Shepherd et al, 2003 forthcoming).

The major observation on the aid flows reported in the Statistical Appendix (Table A1) is that aid to the Government of India declined and flows to the states increased dramatically over the 1990s. The share of total aid going to GoI fell from 57% to 36% (from 1990-2 to 2000-2). Although all transactions with the state governments pass through GoI (the Department of Economic Affairs), this is testimony to the fact that donors perceive that they can get greater monitorable results at state level, and that in many ways Indian states can be treated like countries. Little work carried out at state level is explicitly done in partnership with GoI; the content of most state-level aid is worked out between the state government and the donor.

For this paper, we compared aid flows to the major Indian states in two periods: 1990-92, and 2000-2002. There was persistence in the allocation of aid across Indian states over these two periods. In particular, those states which received more aid per capita during 1990-92 also received more aid per capita during 2000-2002 (Chart A7). However, in neither 1990-92 nor 2000-2002 was there any significant correlation between the amount of aid per capita received by each state and its poverty headcount (Chart A8).⁴

Aid is definitely not allocated to the states with greatest poverty incidence. Is it allocated to states with better governance, who might be able to make use of it better? This is a question which deserves far greater attention than we have been able to give it here. There is a wealth of potential information about governance in Indian states (see, for example, Debroy and Bhandari, 2002), and we have only been able to scratch the surface for this paper. We have looked at the share of education and health in state spending, which is perhaps an indicator of state government commitment to poverty reduction and social progress, rather than the quality of governance (Table A2). We found a significant *negative* relationship between aid and the share of education in state government spending, and a significant positive relationship between aid and the share of health in state government spending. This may in fact reflect significantly greater volumes of aid

⁴ The correlation coefficients are -0.06 and -0.19 respectively.

to the health sector. There is scope for much greater comparative analysis along these lines. For example, were states with greater security privileged? Or states with better macro-economic management (lower revenue account deficits)? Or greater commitment to reform?

During the 1990s commitment to reform has become an important criterion for the allocation of aid. A clear group of reforming states was discernable by 1996, Bajpai and Sachs (1999) identified AP, Gujarat, Karnataka, Maharashtra and Tamil Nadu as 'reform oriented', Haryana, Orissa, and West Bengal were seen as 'intermediate reformers' and Assam, MP, Punjab, Rajasthan and Kerala, were 'lagging reformers' along with Bihar and UP which were way behind. By and large aid flows to states in the late 1990s reflected this categorisation, with significant exceptions and variations within these categories (Table A1).⁵ The criteria were progress made on: investment incentives, power sector reform, industrial policy reform, infrastructure reform, and tax reform. The reformers were also claimed to be the fastest growing, attracted the greatest share of investment (foreign and domestic) including in software exports, and did best in primary education and health during the 1990s, while the 'laggards' have had low SDP growth. FDI went consistently to the states with high human development levels. This suggests that a key to increasing economic growth through investment would be to achieve once and for all raises in human development levels, which could be accomplished by GoI expenditures, possibly supported by external aid.

However, scrutiny of the data used indicated that the reformers in fact had variable performance on outcome measures (Ibid: 18-26, and Table 2 above), with AP not growing very fast, and West Bengal, Kerala, MP and Rajasthan ('reform laggards') not doing so badly. On FDI West Bengal and MP did well; interestingly the picture was more consistent on change in per capita development expenditure and health indicators.

The *persistently poor states*, with the exception of Orissa, received significantly less aid per capita than the persistently richer states (Chart A8). The pattern of inter-state distribution of aid has been relatively stable since the early 1990s. This has reinforced the tendency of public expenditure and private investment to favour richer states. Orissa has been an exception probably because of its political stability and relatively low level of insecurity compared to Bihar, with which it shares positions at the bottom of most state league tables. But considerable humanitarian aid also flowed to Orissa after the maxi-cyclone in 1999. Orissa has led the way in power sector reforms which has endeared it, though the objective results of these reforms have been disappointing. By comparison, high levels of aid per capita went to southern and western states plus (surprisingly) income-rich Haryana and Punjab. Among non-poor regions, Kerala with its history of progressive social policy, excellent human development indicators, and dependence on remittances from the Middle East was aided little; Jammu and Kashmir, with cross-border conflict active during the 1990s, has received little aid as has the northeastern region. For agencies nominally committed to reducing poverty in India, this is a surprising picture.

What goes into aid agencies' perceptions of good and bad performance? From this statistical picture, we can infer that security matters; insecure states (Jammu and Kashmir, Bihar) received little aid. Political instability (a history of imposition of President's rule) combined with insecurity has deterred aid to UP and Bihar in particular. State leadership can play a very significant positive and negative role: AP's charismatic and modernising leaders have wooed and

⁵ Andhra Pradesh received 23% of all aid to the states during the period 1990/1-2002/3; Gujarat 8%. Karnataka 8%, Maharashtra 11%, Tamil Nadu 8%; among the intermediate reformers: Haryana received 2%, Orissa 5% and West Bengal 7%; and among the 'laggards' Assam 1%, Madhya Pradesh 4%, Rajasthan 3% and Kerala 2%; Bihar received less than 1% and UP 12%.

provided attractions for both aid and private investment, while Bihar's 'peasant' leadership have repelled. This has been an extremely significant factor in the Indian context. States where the efficacy of the bureaucracy is perceived to be high are also favoured, because the fiduciary risk is lower and because better results are more achievable.

2.4 The World Bank

India's major donor the World Bank (IDA) follows this overall pattern in absolute terms, with the addition of a substantial programme in Maharashtra. Its programme in UP has also been substantial and MP featured in the 1980s, Orissa in the 1990s. It gave up aiding Bihar during the 1990s, but has recently increased its aid to UP substantially.

Table 5 shows estimates of the amount of World Bank loans going to each state, first in the 1980s and then in the 1990s (again in per capita terms). Chart 9 shows that the allocation of these flows across states is positively correlated with that of aid. Chart 10 shows that there is no significant statistical correlation between the amount of World Bank loans a state receives and the level of poverty (as measured by the headcount). There is, however, a surprising significant *negative* relationship between World Bank loans and the share of education in state government spending.

Table 5: World Bank Projects in Indian States, 1980s and 1990s, \$ per capita

	1980s	1990s	average
Andhra Pradesh	14.4	31.4	22.9
Assam	0.0	9.6	4.8
Bihar	1.5	1.4	1.5
Gujarat	30.8	19.9	25.4
Haryana	14.2	19.3	16.8
Himachal Pradesh	0.0	0.0	0
Karnataka	19.5	4.0	11.8
Kerala	6.7	1.3	4.0
Madhya Pradesh	12.6	0.9	6.8
Maharashtra	10.2	25.1	17.7
Orissa	4.0	22.6	13.3
Punjab	9.8	0.0	4.9
Rajasthan	2.3	6.4	4.4
Tamil Nadu	13.3	15.6	14.5
Uttar Pradesh	5.6	6.5	6.1
West Bengal	2.3	0.5	1.4

Source: Source: calculated from World Bank project database
<http://web.worldbank.org/external/projects/main?pagePK=217672&piPK=95916&theSitePK=40941&menuPK=223661&category=regcountries®ioncode=4&countrycode=IN>

During the 1980s the Bank was heavily involved projects in the agricultural sector (fertiliser, credit, irrigation in particular), somewhat in infrastructure and a little in the social sectors. Although evaluations showed results to be generally 'satisfactory' many projects faced implementation problems – delays and cost overruns. The poverty emphasis was dormant in the 1980s, with doubts about the extent to which agricultural support (much of which was for irrigation) in particular would benefit most of the poor except indirectly, and this emphasis revived only in the late 1980s. A recent OED review argued that many projects supported an

expanded state role in the economy (eg in electricity, credit, and manufacturing) and had limited policy content despite Bank policy to limit the state's role and use projects to address policy issues. Policy engagement in what was seen as a poor policy environment was not emphasised to avoid jeopardising a strong lending relationship. Transfer of resources was the overriding objective. Only half of Bank operations in India during 1985-9 were rated satisfactory by OED (Zanini, 2001: 11-12).

An independent review carried out in 1990 concluded that Bank projects contributed strongly to 'institutional learning and development' eg co-ordination between public sector organisations to improve the quality of outputs, though there was little concern with local people's organisations. There were a number of 'island' (separately managed) projects, outside the government mainstream, with the expected post-project sustainability difficulties, though some were successful in themselves. There was a preference for 'high technology', foreign consultants and foreign procurement, often the subject of debate with GoI, and the cause of delays. Credit projects suffered incentive problems, as both intermediaries and borrowers often had access to alternative sources of funds, and could thus ignore built in incentives and disincentives to performance, a symptom of the fact that funds *per se* are usually not the constraint in India (Lipton and Toyé, 1990: Chapter 5).

In the 1990s, with reform minded governments in place, there was a transformation in the Bank's approach. It supported adjustment, economic reforms across several sectors (investment and trade regimes, finance, taxation, public enterprises) and to develop health and education lending. The change led to a big drop in Bank commitments in 1994, but commitments picked up in the second half of the 1990s with a programme focused on promoting growth and human development as vehicles for reducing poverty. It tried but failed to tie loans to fiscal reform triggers; GoI made clear that it did not see a role for the Bank in setting the pace of reform. Opportunities to work on aspects of economic poverty reduction and reform of social safety nets were missed, though at the end of the 1990s a more poverty-focused strategy was finally developed.

World Bank aid to the persistently poor states increased during the 1990s, bucking the general aid trend. The key change introduced from 1997, however, was to expand support in reforming states. Aid to reforming states expanded, with substantial programmes in AP, Karnataka. But there was also a substantial new programme in UP, with close engagement in Orissa and Rajasthan. Aid volumes in practice were constrained by the sanctions imposed by major Bank shareholders in the wake of the May 1998 nuclear testing (Zanini, 2001: 12-13).

The World Bank's new programme in UP (World Bank, 2002) would seem to be an exception to the focus on supporting reforming states. However, 'GOUP is currently moving forward with an integrated reform package that seeks to combine fiscal and public sector management reforms across government with specific sector interventions.' (Ibid: 70) This programme indicates a strong desire at least in some quarters of the Bank to be optimistic about the potential for reform in a state which contains around 8% of the world's absolutely poor, but also to refuse to accept the implication that Bank programmes should be concentrated in reforming states.

2.5 Summary

Aid has by and large avoided the persistently poor states, although India's major donors may have improved both the quantity and the coherence of their aid to these states during the 1990s by comparison with the 1980s. Its contribution to the persistently lower levels of poverty and enhanced human development of the southern and western states needs to be assessed; arguably

this contribution has been marginal and these states would have continued to progress anyway. Rajasthan, which is emerging from income poverty more dramatically than others, has been *relatively* little aided, and has poor human development indicators. The exception is Orissa, which has received a large amount of aid per capita, but this includes humanitarian in addition to development aid. The World Bank's UP programme and donors' willingness to engage with Orissa suggest that the tide may be turning. The reasons for not privileging the core of persistently poor states include security, political instability, image especially conveyed by political leaders, the perceived efficacy of the bureaucracy, and the perceived degree of reform orientation of the state government, especially on economic reforms. More objective measures of performance have hardly entered the analysis. Some of these persistently poor states have done reasonably well on some indicators some of the time. Heavily aided states have done badly on some indicators some of the time.

3. Aid, state authority and effectiveness

During the 1980s much aid simply supported an inefficient and largely inequitable public sector. As elsewhere it contributed to the creation of growing fiscal deficits and economic distortions. It was hardly engaged in a progressive or coherent policy agenda or well focused at the state level. In the 1990s this changed: several donors focused on particular states, and began to support programmes in sectors and/or policy reforms. By 2000 this had moved towards providing budget support to states whose commitment to reforms justified open ended support. Aid became explicitly focused on the quality of state governments, with serious attempts to enhance the flow of public expenditure in health and education through reducing subsidies in the power and other sectors as well as other improvements in the budgeting and expenditure operations of state governments. Aid has provided critical backup for the governments in AP, Orissa, and MP. Conversely the sustained absence of aid from Bihar and Assam may have further reduced the legitimacy of those state governments.

Is state performance in India based on the degree of authority and effectiveness which state governments can achieve? And in what way does this influence aid? Has aid plausibly contributed (or intended to contribute) to greater state authority, legitimacy and effectiveness? Does aid respond to particular political configurations or other signals at the state level?

The power of state governments to maintain territorial integrity and the monopoly over the means of violence have to be seen within the Indian federal context, where GoI is the ultimate arbiter. GoI has left these issues to states to a considerable degree however, intervening when it suits the central government, but not at other times. Recently Jharkhand (former South Bihar), which along with Central Bihar had become increasingly ungovernable, was allowed to form a separate state after years of regional struggle. The state of Bihar had lost both territorial integrity and the monopoly of violence across two thirds of its territory. This was done at the same time that Chattisgarh and Uttaranchal were allowed to separate from MP and UP respectively, in both cases without any history of violence or state collapse. All three were no doubt permitted with a view to political gain for the main party in power at the centre, which was not in power in any of the three states in question. However, the territorial integrity of a state is ultimately dependent on GoI's position. AP, considered by GoI and donors to be a strong performer, is another state which has had weak control over several (usually remote) areas under Naxalite influence, although there is no search for separation in this case. This has apparently not deterred donors. Other states also have regional separatist political movements which have not resulted in new states.

Weak state authority can be linked to unresolved political competition, an absence of accommodation between elite/middle and lower castes (or tribal groups) as well as the tensions between centre and state which can arise when different parties are in power. Neo-patrimonial political parties which are not institutionalised, well grounded in the electorate, but rather designed to feather the nests of political representatives may foster the degradation of standards and ultimately criminalisation of politics, which undermines state authority. 700 MPs, MLAs, or equivalent have criminal records in India (Social Watch, 2003).

Effectiveness is heavily constrained by state governments' resource positions. High fiscal deficits and indebtedness to Government of India have required a strong emphasis on prudent economic management. The World Bank and other donors have supported structural adjustment programmes in a number of states, focusing on reducing fiscal burdens and improving the efficiency or privatising state electricity boards, the biggest drain on the state budget. However, success has been limited as yet in the key World Bank states of AP, Karnataka and UP, as also in the DFID supported state of Orissa (Foster et al, 2003). The key to attracting donor support so far has been *willingness* to reform.⁶

It can be argued that the states' financial positions are unsustainable: their levels of public and private debt are simply too great to permit many state governments to play a constructive role in development. More radical measures yet may be required to turn this situation around; there is plenty of scope for donors to work with GoI on these issues, and with the states. The 10th Plan (Volume 3) has drawn up a skeletal agenda for this work which urgently needs fleshing out.

Effectiveness in poverty reduction has been convincingly linked to the class-caste basis of state politics. While it is not easy to see patterns of political party influence on poverty reduction trends (Nath, 2003), the *structure* of state politics has been shown to be influential (Harris, 2000). In particular the extent to which the lower castes participate have done better in reducing poverty. This has either been states where lower castes have been represented (eg West Bengal, Tamil Nadu, Kerala), or states with middle caste dominance and a politics of accommodating lower caste interests (AP, Karnataka, Maharashtra, Punjab, Haryana). Persistent poverty in this analysis is attributed to continued upper caste dominance (as in Orissa or MP), or situations where upper caste dominance has been challenged but where law and order or political stability has broken down in the process (Bihar and UP). When Harris's analysis is repeated looking at the rate of change in poverty reduction as the dependent variable rather than the static picture, as in the original, the association still holds true on the whole: states reducing poverty by an average of 4% or more in the 1990s were of the first two types. With one exception (MP) the same was true for states reducing poverty by 3% or more in the 1980s (when the overall rate of poverty reduction was lower).⁷

Table 6 illustrates how performance on poverty reduction did not entirely match with perceived degree of reform orientation, although the 'reformer' and 'intermediate reformer' states accounted for most of the high and medium poverty reducers. With some exceptions, poverty reduction and commitment to reform was associated with political structure – of the states with continued upper caste dominance only Rajasthan was among the good performers on poverty reduction.

⁶ Further work could examine the links between a wider range of governance indicators, development performance and aid.

⁷ However, various states – eg Rajasthan, Gujarat - which performed well on poverty reduction in the 1990s were omitted from Harris's analysis, and Rajasthan in particular may prove an exception.

Table 6: Perceived reform orientation (as at 1996), poverty reduction trends in the 1990s, and political structure

Reform orientation	'Reformers'	'Intermediate Reformers'	'Lagging reformers'	'Non-reformers'
<i>Poverty Reduction performance</i> <i>High</i>	Gujarat (M?) Karnataka (M) Tamil Nadu (L)	Haryana (M)	Punjab (M) Kerala (L) Rajasthan (U?)	
<i>Medium</i>	Maharashtra (M) Andhra Pradesh (M)	West Bengal (L)		UP (M; PI)
<i>Low</i>		Orissa (U)	Assam (?U) MP (U)	Bihar (M; PI)

Note: U = upper caste dominated politics; M = middle caste dominated with accommodation of lower castes; L = lower caste participation; PI = political instability. ? indicates that the state did not feature in Harris's (2000) analysis.

Sources: Table 4 above; Bajpai and Sachs, 1999

Aid has historically played a relatively small role in direct poverty reduction policies and programmes, though some agencies have assisted with including women in the process (eg Unicef's long term assistance for the Development of Women and Children in Rural Areas scheme). Today, despite agencies' professed poverty reduction goals, there remains still relatively little engagement with the major centrally sponsored poverty alleviation programmes, whether focused on livelihood promotion *or* social protection. Arguably small improvements in the design or implementation, or increases in the resourcing of these schemes can go a long way to reducing poverty given their scale and the reach of government in India.

Aid played a much greater role in supporting the 'green revolution' in the 1960s and 1970s, which has had two major integrative effects over a long period of time: steadily increased agricultural wages and reduced food prices, which combined to reduce the severity of poverty across much of the country. This effect has even operated in Bihar (Sharma and Karan, 2003), which has benefited from growth in neighbouring states to which Biharis have migrated; nevertheless, food insecurity remains very significant there (M.S. Swaminathan Foundation and WFP, 2001).

Effectiveness is also increasingly seen by donors in terms of performance on devolution of power to local government – the *panchayats*. The 73rd and 74th constitutional amendments introduced in 1993 paved the way for a strengthening of local democracy, and stronger devolution of powers and resources has been encouraged by GoI tying funding to devolution of responsibilities, powers and resources by state governments. West Bengal has been a prominent example of a state whose development achievements have been widely attributed to its devolution of power. Among the persistently poor states, MP is particularly noted for its commitment, and this has been a factor attracting donor support to the state. Bihar by contrast has not responded until recently to the constitutional amendments; UP's response has been sluggish. Most studies have concluded that there is a long way to go in operationalising devolution of powers in most states. A comparison of decentralisation in MP and AP is of interest here: MP has attempted to devolve powers to local governments down to the village level; AP has focused on decentralising and making administration more accessible. The overall result in MP is local elite capture or resources, while

in AP the poor seem to have gained better access to services (Johnson, 2003) the emphasis on devolution for effectiveness is misplaced, but that it plays more of a role in enhancing the legitimacy of government.

4. Aid, state legitimacy and societal integration

Is state performance based on the degree of perceived legitimacy states achieve, and to what extent is this based on the contribution of state governments to societal integration? Has aid contributed to legitimacy and integration? The perceived legitimacy of a state government for ordinary people is strongly linked to the representation and inclusion of the middle and lower castes. Performance on delivering basic services, the centrally sponsored poverty reduction schemes, and social protection measures is also important. These challenge the substantial political and economic inequalities and heavy discrimination and exclusion which pervade India's social and economic structure. It is also increasingly measured by the extent to which it permits citizen participation through local government or effective decentralised administration. All of these are in principle, and mostly in practice, subject to measurable indicators, and could be tracked in further work.

India is riven with vertical (caste and class based) socio-economic differences as well as horizontal inequalities between ethnic groups, among regions, and between states. Public policy has consistently recognised these – through the rights and affirmative action prescribed in the constitution; through the commitment of the state to provide basic securities – personal and food; through the basically egalitarian public resource allocation mechanism between states,⁸ additional resources for backward districts and many underprivileged social groups, and a wide range of specific measures to provide socio-economic mobility for the under-privileged. This is India's 'political contract'⁹ on which it has delivered, if with limitations. As a result, the legitimacy of India is not in question for most Indians. The implementation of most of these measures, however, is largely left to state and local governments; and there are considerable problems in implementing most of the progressive policies developed in India even in the better governed states. There are also substantial failures virtually across India to provide adequately for public health, education; however, these seem to have lain outside the 'political contract', though this may be slowly changing, under the influence of donors among others.

Poverty reduction has been viewed as primarily a matter of raising incomes, mainly through targeted rural development, and in particular credit. India has led the way in developing labour intensive public works schemes to provide both relief in emergencies but also an employment guarantee. Maharashtra's Employment Guarantee Scheme has probably been a key to that state's continued unity to date, despite having the highest level of internal inequality of any major Indian state. Otherwise it has performed relatively poorly on a number of indicators.

India was barely an integrated polity at independence in 1947, with numerous princely states to be integrated. With an unpromising start it has achieved a high degree of social and political coherence. Some unresolved problems were inherited from the independence settlement – principally the dispute with Pakistan over Kashmir. States have been reorganised to give space for linguistic or religious groups, and recently regional identity. The flexibility the state has

⁸ Which nevertheless has not prevented a skewing of financial disbursement in practice in favour of the better off and better governed states.

⁹ 'Political contract' refers to the understanding between state and citizens about core state commitments. In India famine prevention is an example of a basic commitment which all governments try to uphold.

demonstrated in this regard can be contrasted with its inflexibility till very recently on Kashmir. This experience illustrates the utility of wider political units (in this case a federal union) for the solution of crises of political identity and legitimacy. The formation of new states is a particularly useful instrument for achieving societal integration: and as mentioned above, small states have tended to perform rather well developmentally. The recent formation of three new states out of three of the poorest states may well reinforce this trend. Again, aid has had little engagement with these critical issues at the policy level, although considerable aid has been provided to smaller states such as Himachal Pradesh, Punjab and Haryana.

We have seen that devolution of powers, resources and responsibilities to local government has so far had a variable or questionable impact on effectiveness, but it may have a much greater impact on the legitimacy of the state, as a wider range of people becomes involved in the exercise of power. This would certainly be a widespread view among civil society organisations, and represents a powerful discourse among intellectuals and the media. In Bihar, lower caste representatives have recently been elected to the reconstituted *panchayats* (Gupta, 2003).

While income poverty alleviation has been an abiding focus of public policy, investment in human development and social protection has lagged behind especially in northern India. The southern states, led by Kerala's internationally remarkable development achievements, have invested more strongly in education and health, and to a lesser degree social protection, with enormous benefits both for economic growth, and poverty reduction. This has been particularly the case in Tamil Nadu and Andhra Pradesh where populist regimes have been relatively successful in reducing poverty and, in the case of Tamil Nadu, in providing social assistance through wide coverage of the Old Age Pension, as well as other schemes.

A major sectoral focus of aid to India since 1990 has been health and education,¹⁰ which makes sense as it complements the focus of GoI on income poverty reduction. However, further work may demonstrate that this social sector aid has also focused strongly on the less poor states, where the needs have nevertheless also been very substantial. It may thus not substantially have helped the poorer states overcome some of their weak 'starting conditions'. What remains is for aid to help transfer the lessons of success into long term programmes in the less poor states, although it will no doubt be more difficult to achieve some of the same end results in the 21st century.

Social protection has been utterly neglected, with donors generally arguing against the 'subsidies' going into 'unproductive' social welfare schemes on the grounds that they were unaffordable and did not reach the most needy people anyway. The major exception is the humanitarian aid which has helped states respond to calamities. There is considerable scope for transferring the lessons of successful social protection schemes from states which have reduced poverty over time, partly as a result of such schemes, to those which still have a long way to go, and where social protection can contribute to societal integration.

5. Juridical sovereignty

Kashmir remains the only area of India where juridical sovereignty is contested, by the international community, as well as by Pakistan. Does this make India, or the state of Jammu and Kashmir difficult to aid? It seems to hardly feature in most discussions about aid to India, except as a risk to established programmes elsewhere in the country. No major donor has attempted to use aid to pressure India to settle the dispute. However, when the dispute between India and

¹⁰ The social sector received 30% of aid to India in 2001-2 (OECD/DAC, 2004)

Pakistan moves to a war footing, there are risks of donor withdrawal from India, and the nuclear competition between the two countries led to sanctions and some reduced commitment of aid, and even partial withdrawal of some smaller donors (eg SIDA) over the subsequent two years. This probably influenced the GoI's subsequent request to a number of the smaller donors to close their programmes, though the given reason for this was to reduce the transactions costs for government.

There is little (or no)¹¹ development aid to Jammu and Kashmir despite pressing needs, which is probably at least partly a result of the conflict.

The roots of the violent conflict of the 1990s lie to a degree in the neglect of the state by GoI as its politics deteriorated in the 1980s (Schofield, 2003). Arguably there could have been a preventive role for external intervention at that time, but it would have to have been led by GoI. The donors at the time did not have the analytical means to design appropriate aid to an increasingly troubled state. They do now.

6. Structural factors and starting conditions

The persistence of patterns of inter-state inequality over time indicate that in general starting conditions have played a strong role in determining outcomes. Efforts to transform key social and economic conditions in the persistently poor states remain critical, but grossly under resourced. Arguably, in case state governments are unable to achieve these changes alone, external assistance – from GoI, or a combination of international agencies and GoI – with a creative approach to the institutional arrangements for implementation is required to achieve a degree of convergence. GoI's standard centrally sponsored schemes have not been designed to achieve this, although they could possibly be modified to support convergence. Recent efforts to concentrate and improve implementation of these schemes in particularly backward areas like Koraput, Bolangir and Kalahandi in Orissa are one example. The development of a central plan for Bihar recognises the failed or failing nature of the state of Bihar and may focus on innovative delivery mechanisms for central support.

Most of India's persistently poor states are landlocked: the exception (again) is Orissa. They are economically vulnerable - overwhelmingly natural resource based economies with few major products, and subject to historical terms of trade decline with little possibility of compensating these from growth in other sectors. UP, with a substantial manufacturing sector, may be an exception. However, they are not significantly more vulnerable to natural disasters than other states: the scandalous response of Orissa to the 1999 cyclone illustrates their failure to cope, which distinguishes them from other states. Interestingly this highly public failure has led to a quantum leap in investment and organisation for disaster preparedness and mitigation in the state. This illustrates how core famine prevention is to the Indian 'political contract'. There are substantial regions where risks are very high (eg the risks of drought where agriculture is unirrigated) which deters investment.

Given the significance of structural constraints, the persistence of patterns of unequal development between states, and the possibilities that persistent poverty constrains the possibilities for achieving improvements in governance as well as policy reforms, the resulting

¹¹ There are conflicting sources of information: Volume 3 of the 10th Plan records aid to Jammu and Kashmir at a relatively low level; figures obtained directly from the Planning Commission record none at all.

strains in society increase the likelihood of persistently poor states disintegrating. The recent formation of three new states out of UP, MP and Bihar, are a symptom of these strains. GoI has recognised (belatedly) in the 10th Five Year Plan the need to take preventive action to stop this process. Thinking is still at a very early stage on how this can be done. As a result, India's remaining donors now have a significant opportunity to help prevent further societal disintegration in the persistently poor states.

7. Implications for aid policy

India's persistently poor states are widely seen in government, by the media, by the private sector, and by donors as 'poor performers' and/or 'non-reformers'. A careful analysis suggests that persistent poverty and poor performance cannot be easily equated, although there is a closer association than there is for developing countries. Some persistently poor states have performed relatively well on key objective indicators; some less poor states have performed badly over time on some indicators. The combined consequences of the performance label for private investment (and therefore growth), human development, and probably the quality of governance and eventually the legitimacy of state authorities, have been substantially negative in India.

Labels are of course based on realities to a degree. But where a label means that public investment is reduced, aid is reduced, and that over several decades, the label does tend to produce a self-fulfilling prophecy. This syndrome illustrates powerfully the dangers of a performance-based approach to public investment and international aid. Both public expenditure and aid flows are characterised by considerable inertia: once a pattern is set it is hard to change, since bureaucratic decision-making is involved.

The evidence from India suggests that the 'poor performers' label is extremely damaging: public and private investment flows as well as aid are likely to follow the stereotypes. Increased inter-state inequality has not been countered by aid. In this sense it is part of the problem, not the solution.

State governments, and especially chief ministers, help to create images of their states; but Government of India and donors contribute to and amplify these images. Much greater care could be taken when labelling to represent reality as it is, including the positive signs in otherwise dismal records; over time this would help to avoid what will remain otherwise a self-fulfilling prophecy. Even today there is scope for preventive action to enable better performance in future. Donors used to operating in difficult aid environments elsewhere in the world could apply the lessons of doing so to working in Indian states, with considerable potential benefit for a large proportion of the world's absolutely poor.

The dangers of neglect are a further slide. Bihar illustrates how far the slide can go and how difficult it can be to reverse; UP has been recognised as moving towards 'anarchy, chaos and destruction' (the Home Minister of India in the Lok Sabha in March 1997, quoted in Harris, 2001: 15) and while the social structures of Orissa or Assam are less likely to generate the absence of accommodation, there are risks of further degeneration with disintegration and violent conflict for these states. Wide ranging preventive action is therefore a priority.

The question is what can international aid do which it is not already doing? Here the conceptual framework (Macrae et al, Chapter 4) is suggestive. While assistance for improved governance has expanded in recent years, this has not yet focused substantially on governance in persistently poor regions of otherwise progressing states, nor has it focused much on governance in several

persistently poor states, or in their persistently poor regions. Getting the benefits of state interventions to persistently poor regions and states is worthy of much greater effort. This could be summarised in terms of giving much greater emphasis to reducing spatial as well as socio-economic inequality. Sector reform programmes or efforts to support institutions of justice or the police, for example, could show particular concern for service provision, and for effective demand for services in these locations. Special programmes could be developed together preferably with GoI's active participation where necessary.

Decentralisation is an issue over which international aid has blown hot and cold over the last fifty years. Currently the wind has blown in favour of it, and a number of donors are supporting devolution in India. Making government work better at local level – critical for legitimacy – may be just as well promoted by professionalizing and increasing the presence and efficiency of administration and development management at that level, however. Governance reform programmes rarely have this as a central plank, being more concerned with the efficiency of the system as a whole.

Similarly, governance and economic reform programmes could show particular concern for those social groups which are otherwise excluded or adversely incorporated. Typically in India this refers to the Scheduled Caste and Scheduled Tribe populations, but at least among the SC groups there are those which have done reasonably well: a disaggregated social analysis of progress within states is badly needed as a foundation for policy dialogue.

Social protection has been a weak area for aid to India. The experience of southern states suggests that, along with investments in human capital, this is a vital mechanism for societal integration. It may also be much more cost effective to provide social assistance than credit or asset distribution (Saxena and Farrington, 2003).

8. Implications for the conceptual framework

Are performance league tables misleading? States perform variably over time; few perform consistently badly on several indicators. However, further work clustering performance variables may produce consistent performance 'sets', which can then be used to guide GoI or external support for groups of states. The India case study would suggest *not* throwing out the comparative analysis of performance: in any case Indian states will continue to compare their performance as part of the process of inter-state competition. It important to build in performance over time, being careful about clustering objective and subjective indicators, and being careful to avoid creating or supporting negative stereotypes. This can be done by disaggregating indicators and (perhaps) by producing clusters of states with similar trajectories as well as levels of development.

A second finding is that weak empirical sovereignty by itself enough to create the difficult aid environment which this study seeks to analyse – even in Bihar or UP there is no international challenge to state legitimacy: the challenge is purely internal. One result of internal challenge is to make it difficult to aid these states. However, little effort went into finding solutions to this problem in the 1980s and 1990s. It is high time that aid agencies spent considerable effort doing so now, together with GoI.

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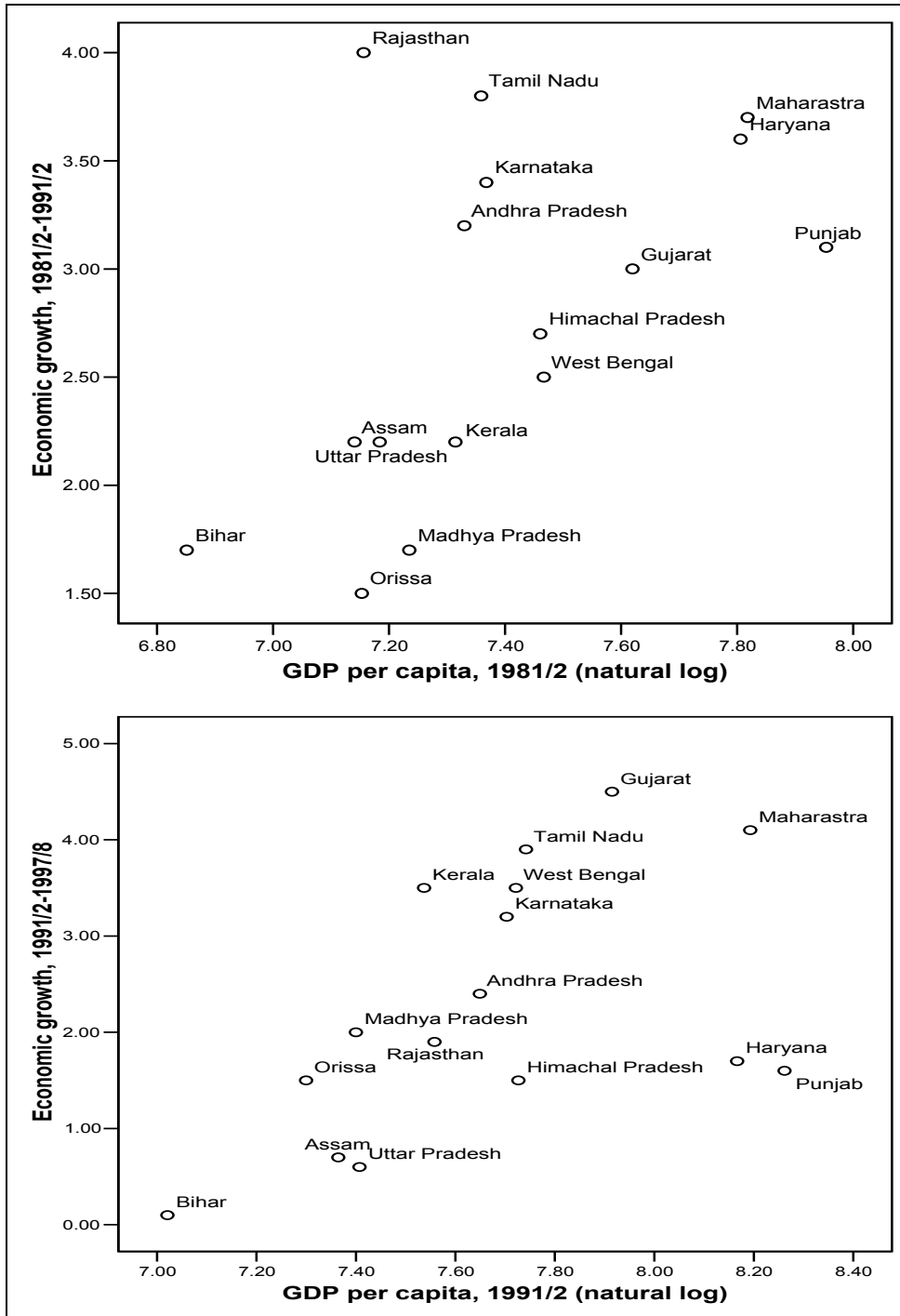
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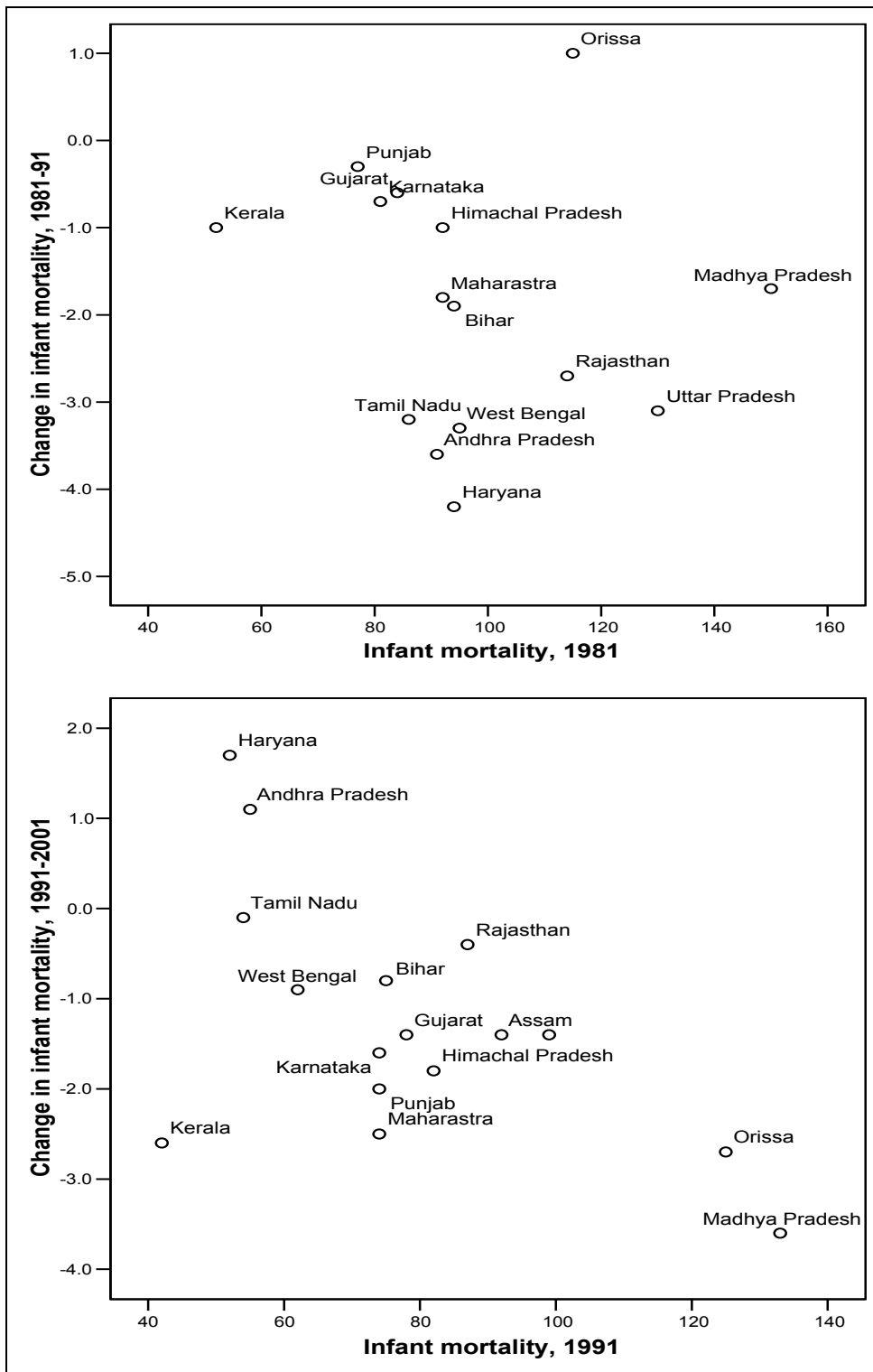
Appendix 1: Statistics

Chart A1



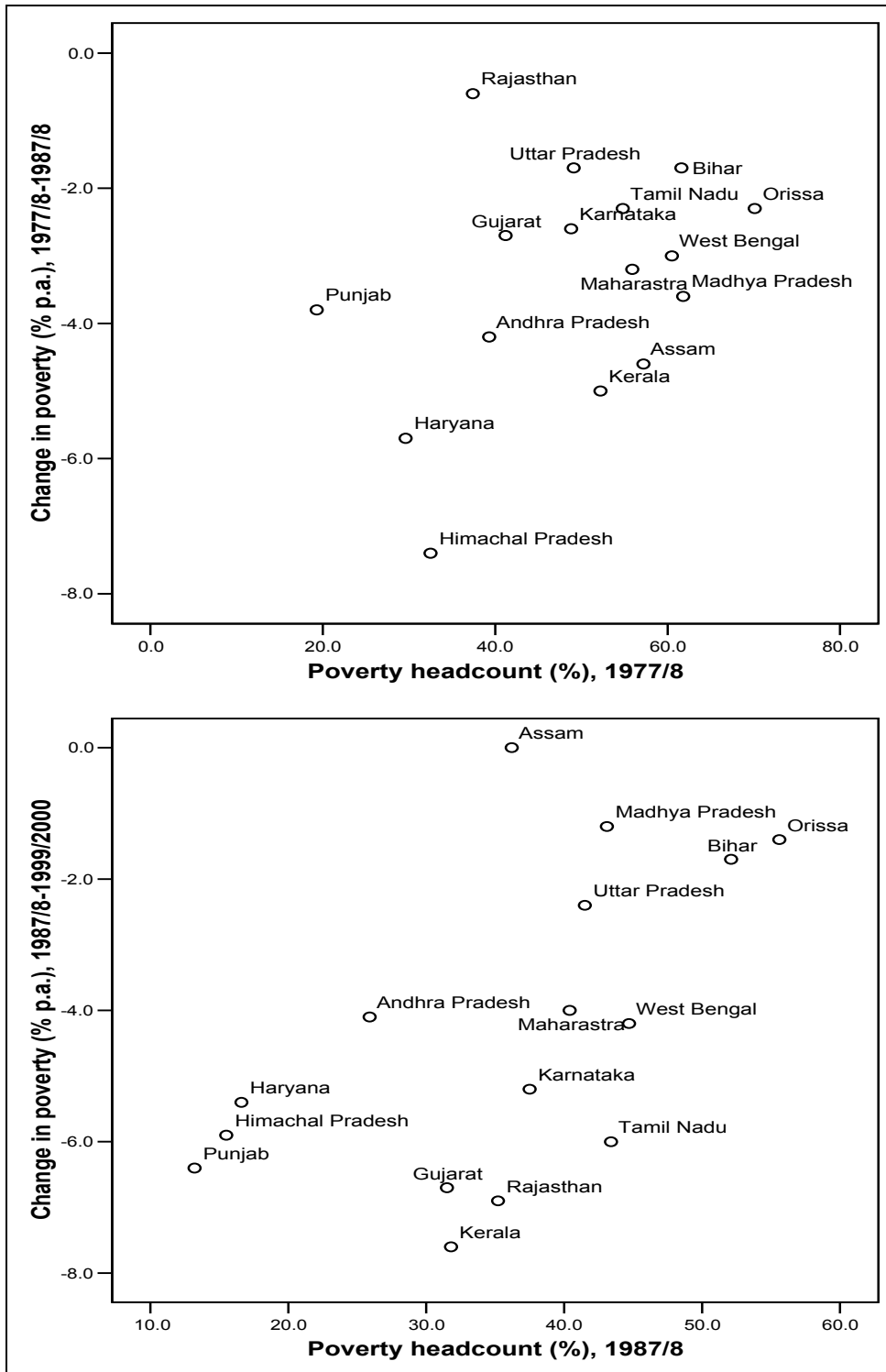
Notes: A positive correlation indicates divergence in levels of GDP per capita across states; a negative correlation implies convergence.

Chart A2



Notes: A positive correlation indicates divergence in levels of infant mortality across states; a negative correlation implies convergence.

Chart A3



Notes: A positive correlation indicates divergence in levels of poverty across states; a negative correlation implies convergence.

Chart A4

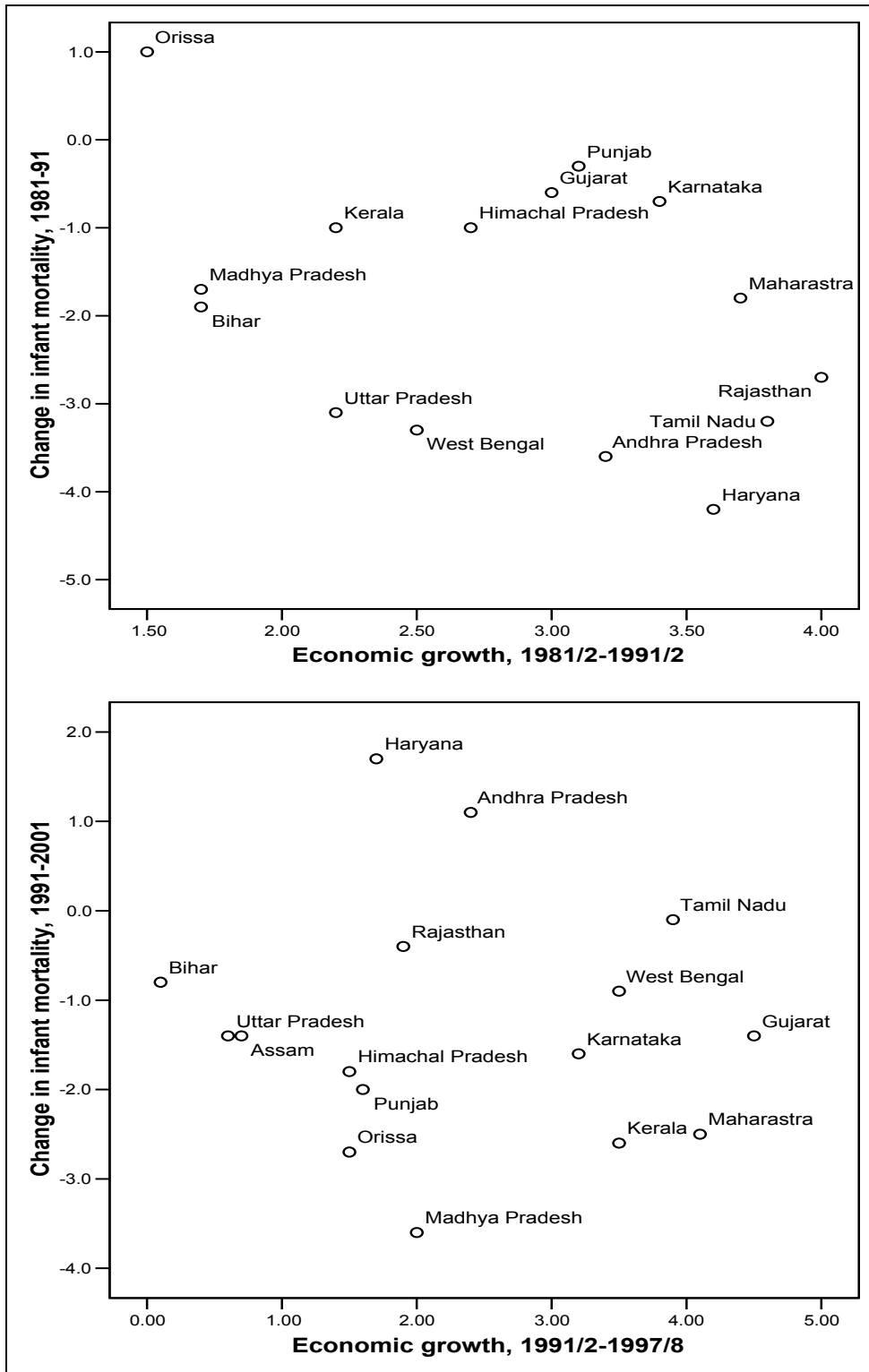


Chart A5

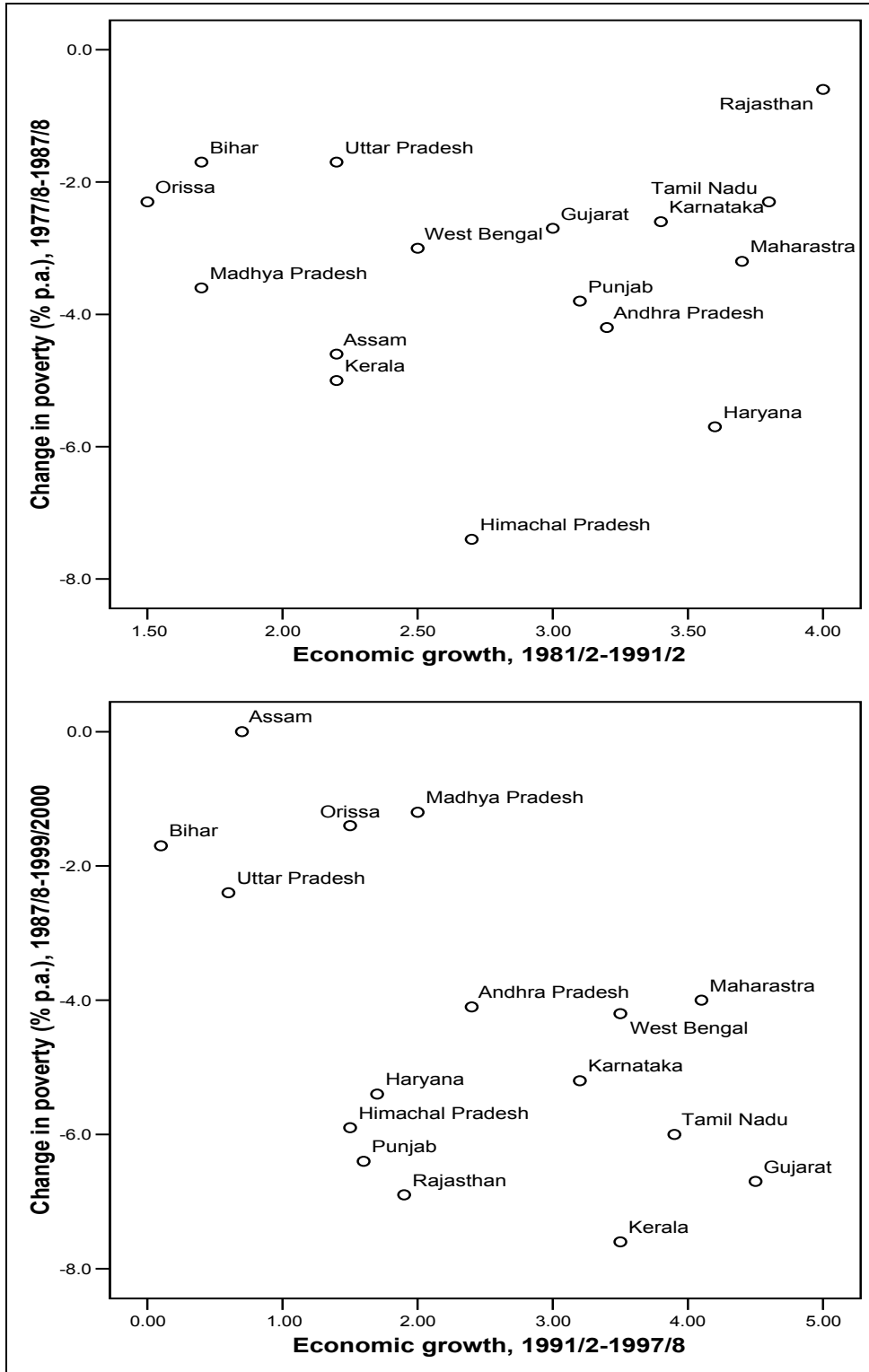


Chart A6

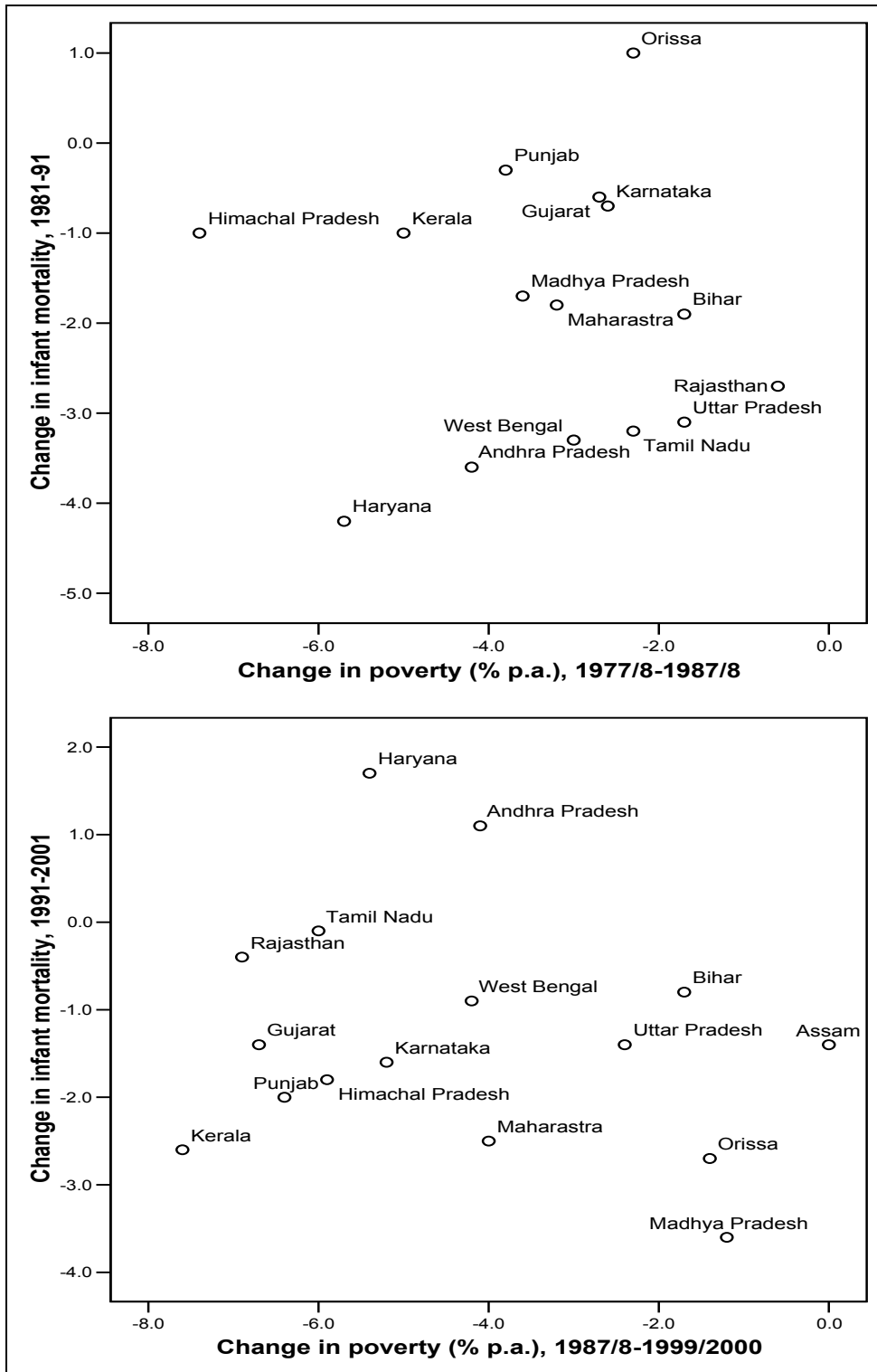


Chart A7

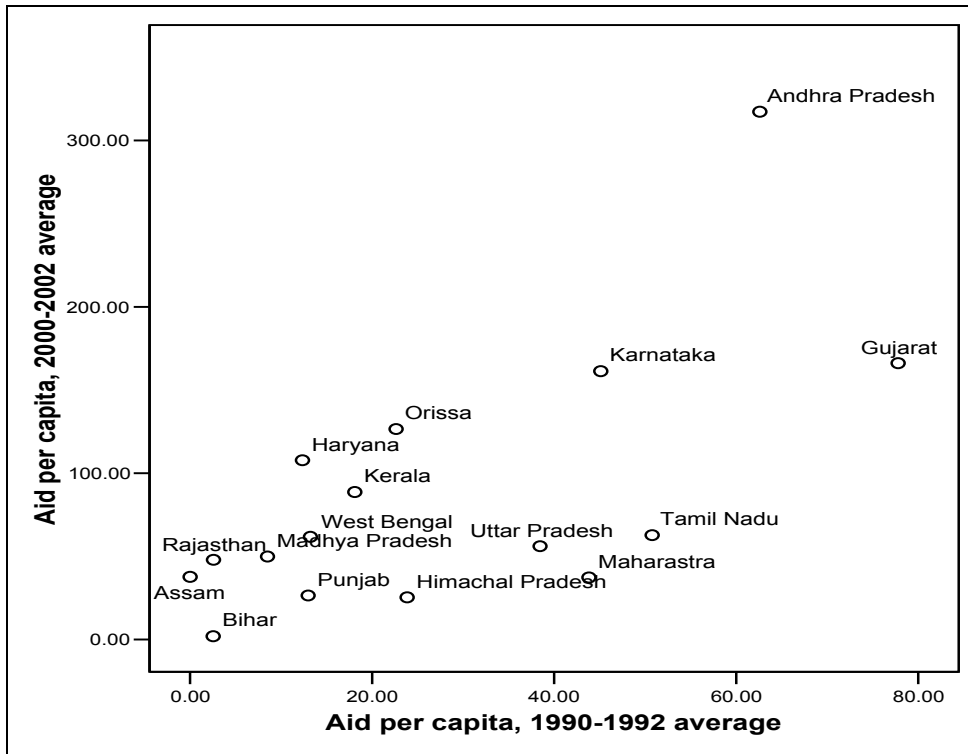


Chart A8

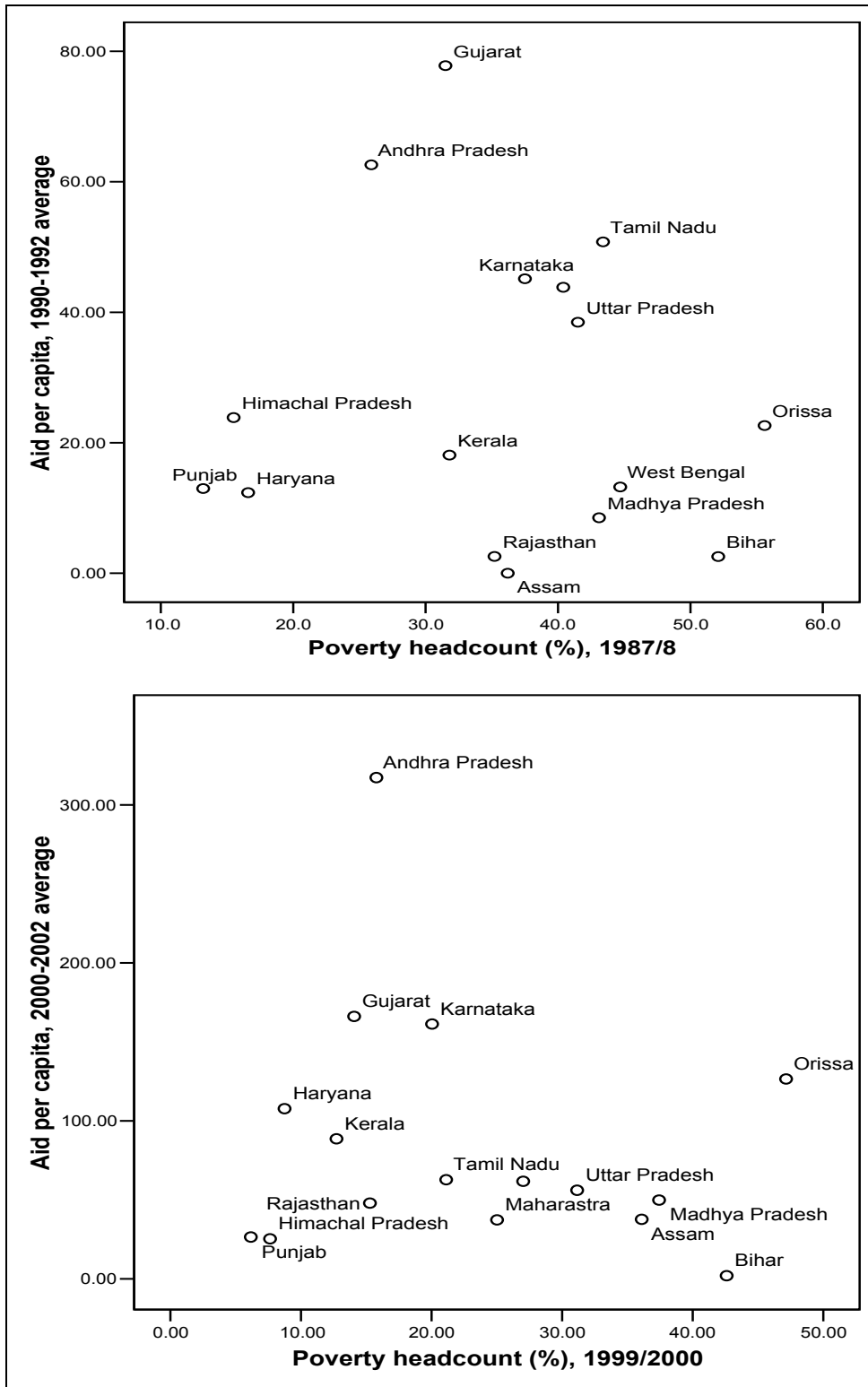
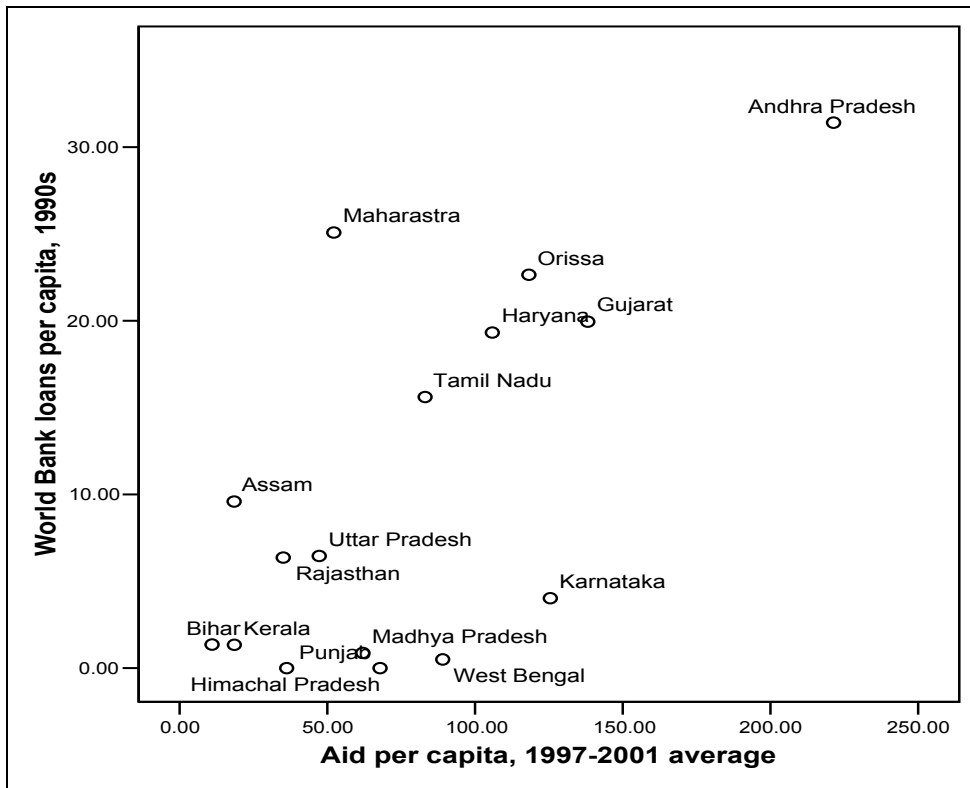
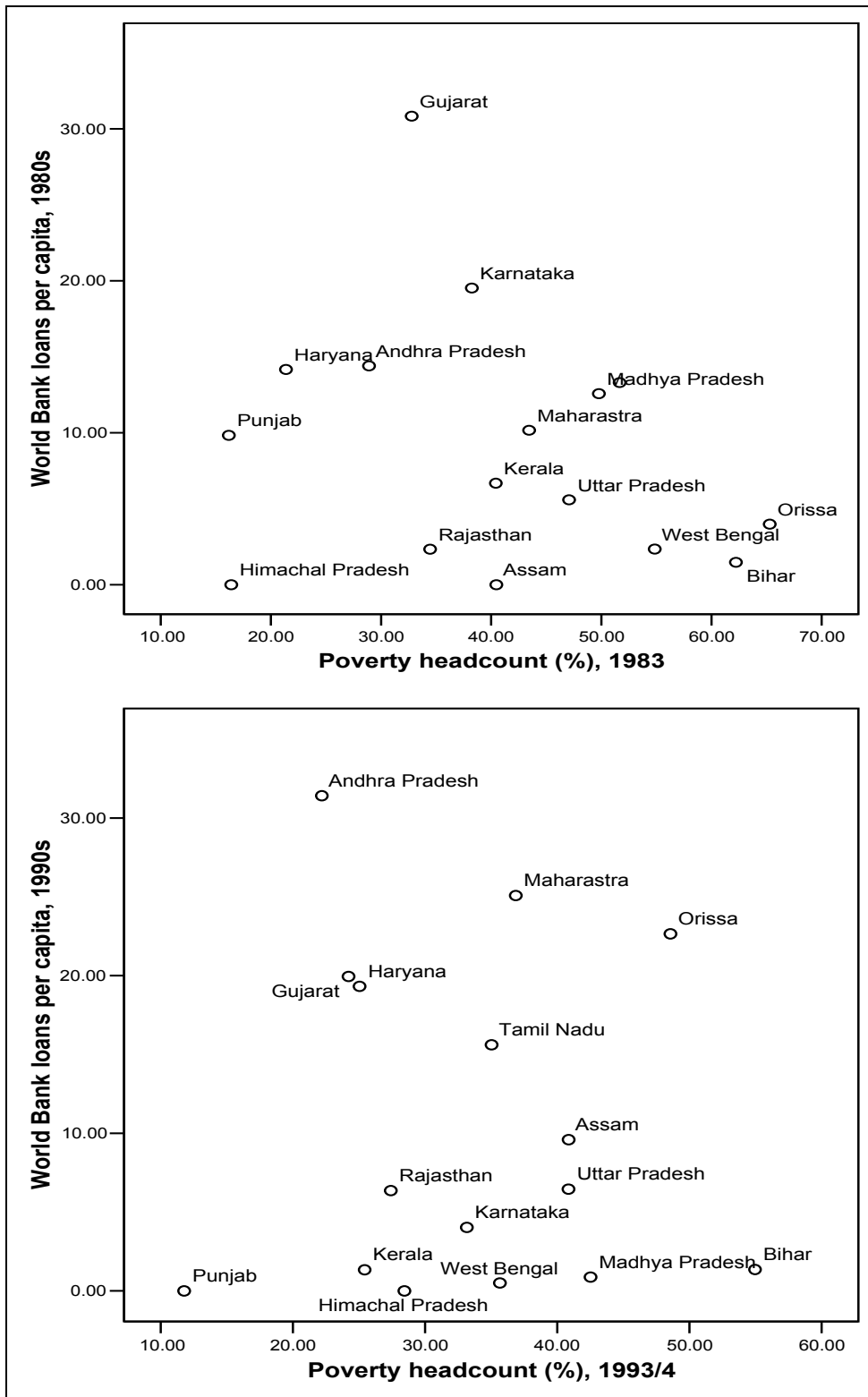


Chart A9



Source: calculated from World Bank project database (<http://worldbank.org>)

Chart A10



Source: as for Chart 9

Table A2: State Spending on Education and Health, 1998/9

	Education (% of total)	Health (% of total)
Andhra Pradesh	13.0	8.5
Assam	26.3	4.7
Bihar	21.2	4.8
Gujarat	16.4	5.4
Haryana	14.5	3.8
Himachal Pradesh	16.8	6.4
Karnataka	17.9	6.0
Kerala	18.7	5.5
Madhya Pradesh	16.4	5.8
Maharashtra	17.7	4.8
Orissa	17.2	5.6
Punjab	15.8	4.7
Rajasthan	19.5	6.4
Tamil Nadu	19.8	8.3
Uttar Pradesh	18.3	4.1
West Bengal	17.8	6.5

Source: Planning Commission, 10th 5-year Plan, p.47