

# Governance and public service delivery in India



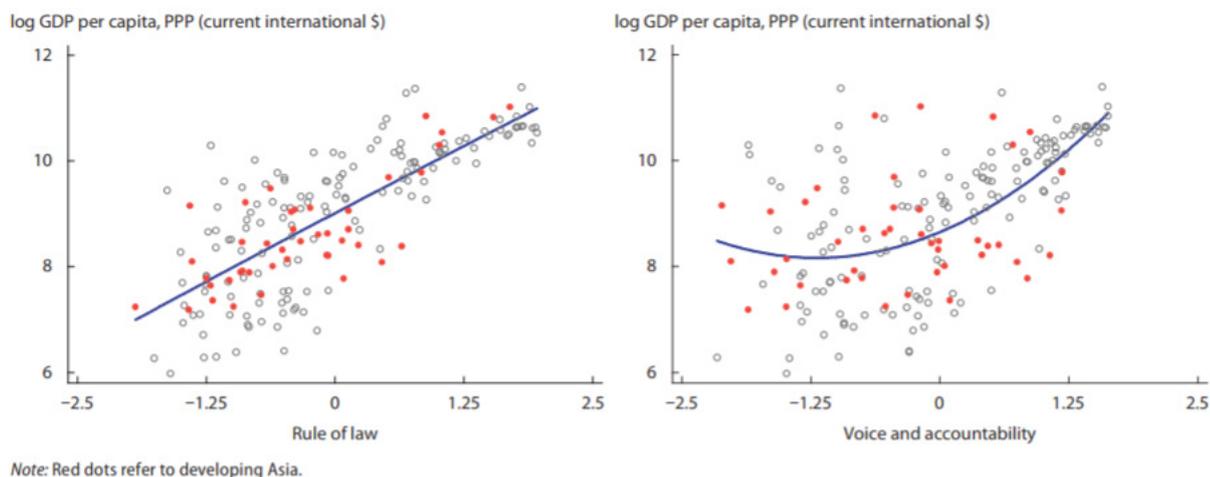
## In brief

- Empirically, better governance, by and large, correlates with better economic performance and higher incomes.
- This policy note summarises evidence on issues related to governance and public service delivery in India.
- Based on IGC and other influential studies, the authors focus on the impact of affirmative action policies, incentive payments, stakeholder mobilisation, and technology on service delivery.
- The authors also draw policy recommendations from these findings and highlight research gaps.

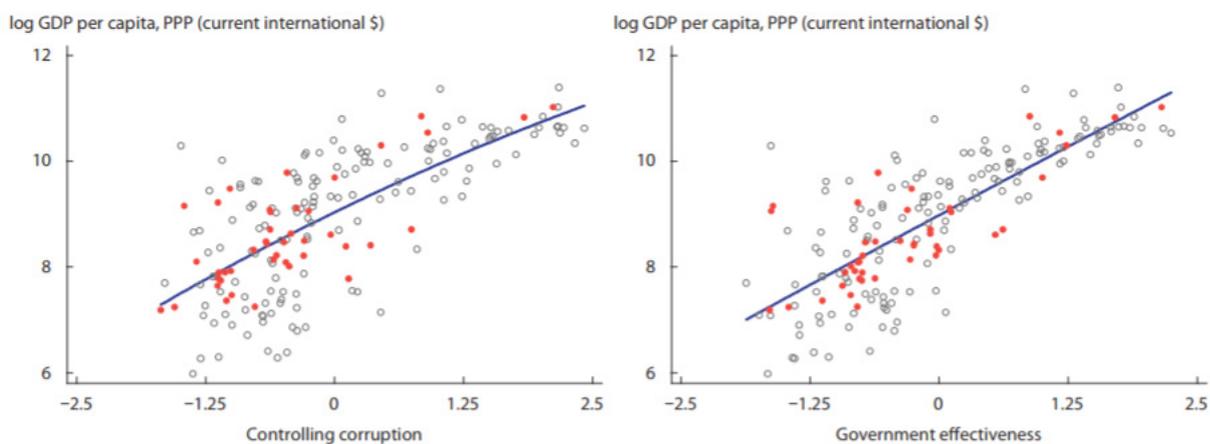
## Economic growth and governance

Increasingly, good governance is believed to be an important ingredient for economic development and has been recognised as a means to faster economic growth and improvements in human development indicators (Gisselquist 2002). While the magnitude of the effect is debatable, primarily due to complexities related to measuring governance and two-way causation between governance and growth –there are several mechanisms through which governance can impact economic growth. Empirically, better governance, by and large, correlates with better economic performance and higher incomes. The fitted lines in Figures 1 and 2 clearly show that better governance, measured on multiple dimensions, correlates positively with higher GDP per capita. While one may argue about the direction of the causality – there is certainly a close and positive association between governance and growth.

**Figure 1: GDP vs Rule of law and accountability**



**Figure 2: GDP vs Corruption and government effectiveness**



Source: Figures 1 and 2 – Asian Development Bank -2013

## Governance and economic growth in Asia: Magnitude of impact

Han, Khan, and Zhuang (2014) use a global dataset from 1998 to 2010 to empirically estimate the relationship between GDP growth and governance quality. Using the World Bank's worldwide governance indicators to measure governance performance, they examine whether a country with governance "surplus" in a given base year (1998) grew faster on average in a subsequent period (1998- 2011) than a country with governance "deficit." Governance is defined by several dimensions including government effectiveness, political stability, control of corruption, regulatory quality, voice and accountability, and rule of law. The study finds that:

A) All governance indicators have a positive and significant relationship with growth performance in the sample of countries.

**B) Developing Asian countries with a surplus in government effectiveness, regulatory quality, and corruption control are observed to grow faster than those with a deficit in these indicators—up to 2 percentage points annually, while Middle East and North African countries with a surplus in political stability, government effectiveness, and corruption control are observed to grow faster than those with a deficit in these indicators by as much as 2.5 percentage points annually.**

C) Good governance is associated with both a higher level of per capita GDP as well as higher rates of GDP growth over time.

The rest of the document summarises evidence on issues related to governance and public service delivery in India. Based on IGC studies and some other influential studies, it synthesises evidence on the impact of affirmative action policies, incentive payments, stakeholder mobilisation, and technology on service delivery.

## Affirmative action and development outcomes

Reserving political posts for disadvantaged groups is believed to be a way of improving targeting of publicly provided goods to those groups. While some studies suggest that political reservations improved access to public services for some marginalised groups and reflect their preferences better (Chattopadhyay and Duflo 2004, Pande 2003, Banerjee and Somanathan 2007), some recent studies have shown mixed results.

An IGC study by Bardhan, Mookherjee, and Torrado (2010) examines the impact of political reservations for women and scheduled castes and tribe (SC/ST) candidates in local governments in West Bengal between 1998-2004 on targeting to landless, low caste, and female-headed households. They find that reserving chief executive (pradhan) positions in local government for women was associated with a significant worsening of within-village targeting to SC/ST households, and find no improvement

on any other dimension of targeting. In contrast, reserving pradhan posts for SC/ST members was associated with a significant increase in benefits received by the village as a whole and improvement in intra-village targeting.

Afridi, Iversen, and Sharan (2016), in another IGC study, highlight concerns regarding the lack of capacity of leaders elected on reserved seats. They exploit randomly assigned political quotas for women to identify the impact of women's political leadership on corruption and on the governance of one of India's largest poverty alleviation programmes to date, the National Rural Employment Guarantee Act (NREGA). Using survey data, Afridi et al. find more program inefficiencies and leakages in village councils reserved for women heads: political and administrative inexperience make such councils more vulnerable to bureaucratic capture early in their tenure.

Bhalotra et al. (2013) use quasi-random variation in legislator identity generated by close elections between Muslim and non-Muslim candidates to find that increasing the political representation of Muslims improves health and education outcomes in the district from which the legislator is elected. They find no evidence of religious favouritism: Muslim children do not benefit more from Muslim political representation than children from other religious groups.

In another paper, Bhalotra et al. (2012) investigate the impact of Muslim political representation on religious conflict in India during 1980-2007. Their preliminary results suggest that raising the share of Muslim politicians in state assemblies results in a sizeable decline in the incidence of Hindu-Muslim riots, consistent with evidence that Muslims are more often the victims of such incidents and consistent with parochial politics.

## **Incentive payments and state capacity**

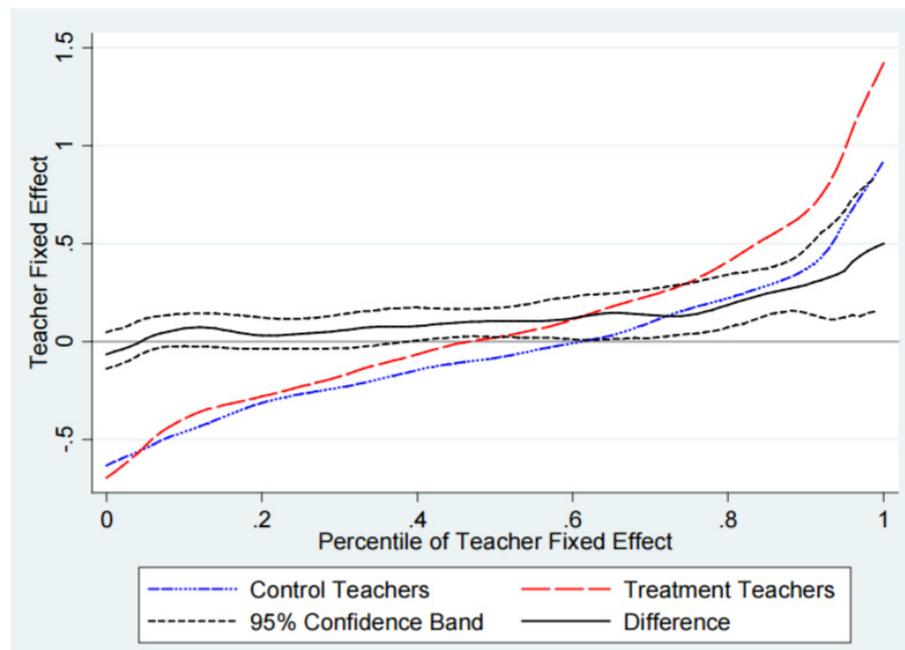
Effective governance and public service delivery largely depend on performance of public sector workers. Evidence shows that incentivising public sector workers for better performance improves the quality of service delivery.

In their IGC-sponsored study, Berg et al. (2016) analyse the effect of incentive pay when agents have pro-social objectives, but also preferences over dealing with one social group relative to another. In a randomised field experiment undertaken across 151 villages in South India, local agents were hired to spread information about a public health insurance programme. In the absence of incentive pay, social distance impedes the flow of information. Incentive pay increases overall agent effort and appears to cancel out the negative effects of social distance. This study suggests that performance pay to public officials can have a positive impact on the delivery of public services.

Another IGC study from Pakistan by Khan, Khwaja, and Olken (2014) found that offering incentive payments to tax collectors in Pakistan helped increase tax revenues – a major challenge for the government. In areas where tax collectors were offered large incentives, revenue growth was 13 percentage points greater than in areas without incentives. They also found that incentive schemes that directly reward revenue collection have a larger impact on revenue collected. Importantly, the intervention was cost-effective, with revenue gains significantly exceeding the cost of the incentives.

In an influential study, Muralidharan and Sundararaman (2011) examined a large-scale programme in Andhra Pradesh, India, where public school teachers’ pay was partly determined by student test scores. After two years, they found that the relatively small incentives – equal to 3% of teachers’ annual salaries on average – substantially improved student learning in math and language. They find that at the end of two years of the programme, students in incentive schools performed better than those in control schools by 0.27 and 0.17 standard deviations in math and language tests respectively.

**Figure 3: Test scores vs Teacher performance pay**



Source: Muralidharan and Sundararaman (2011)

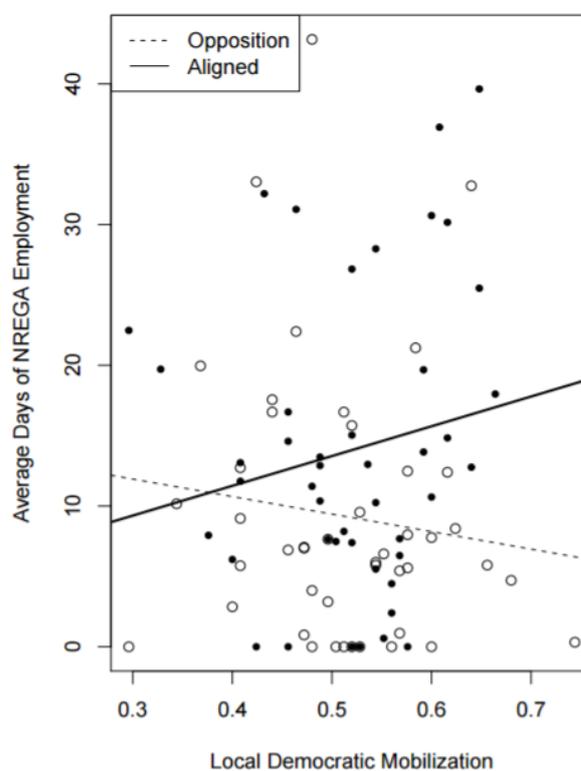
## Information provision, mobilisation of stakeholders, and development outcomes

Improving stakeholders' awareness of entitlements and providing information on the quality of services can potentially be a cost-effective method of improving service delivery. Improved awareness can lead to extensive civic engagement in the activities of the local governments, resulting in better management and delivery of public programmes. It can also result in local mobilisation that places greater pressure on local leaders and higher-level politicians to deliver services.

In an IGC study, Afridi, Barooah, and Somanathan (2017) highlight how bridging information gaps on learning outcomes can affect educational attainment in rural India, where the learning levels of children in public schools are low and falling. In a randomised control trial, they offered report cards on student performance in standardised, curriculum-based tests. They find significant improvement in test scores of private school students – normalised test scores improved by 0.31 standard deviations when both parents and schools were provided information on relative school quality, but there was no effect of the intervention when information on school quality alone was provided to both sides of the market.

In an IGC-sponsored study, Dasgupta (2016) shows that democratically mobilised communities might be able to put more pressure on their elected representatives and ensure better delivery of services. Drawing on fieldwork in rural India, this paper develops a formal theory of how “democratically mobilised” villages, characterised by extensive civic engagement in the activities of the village council, place greater pressure on local leaders and the higher-level politicians to which they are connected to deliver services. The findings from the study demonstrate that effective service provision requires both top-down connections to the ruling party at the administrative level and bottom-up democratic mobilisation at the community level.

Figure 4: Democratic mobilisation and service delivery



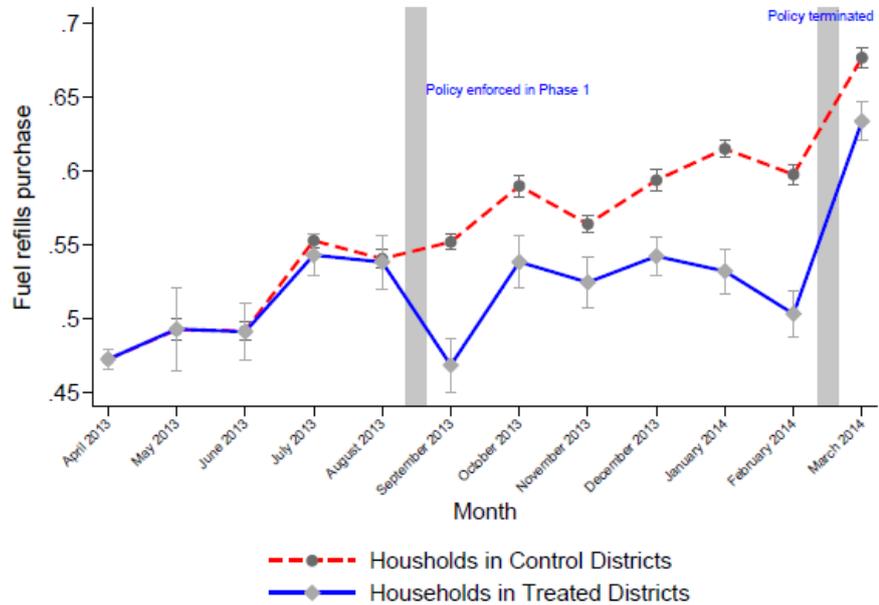
Source: Dasgupta (2016)

## Technology and service delivery

Use of technology and modern banking systems can be another way to improve public service delivery. In an IGC study, Barnwal (2016) studies the impact of directly transferring cooking fuel subsidies to the bank accounts of verified beneficiaries. He uses unique data from administrative records for 23 million fuel purchase transactions and distributor-level fuel sales, and conducts a survey that allows him to infer black market prices. The study finds that:

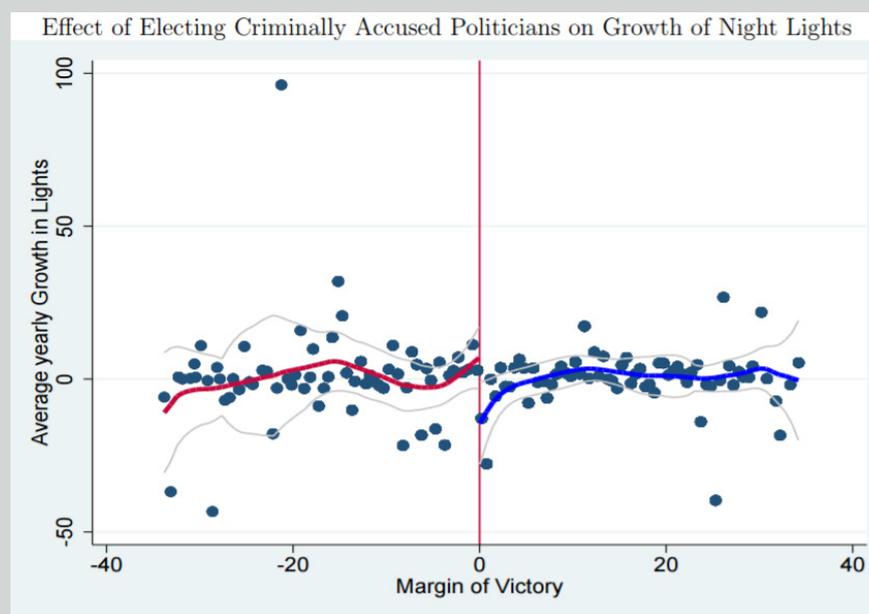
- A) Directly transferring subsidies to households reduces fuel purchases in the domestic fuel sector by 11-14% (Figure 5), suggesting a reduction in subsidy diversion to non-beneficiaries through “ghost users” (black market);
- B) After the policy is terminated, fuel purchases in the domestic sector revert to levels that existed before the policy was introduced;
- C) A positive supply shock induced by the policy termination reduces black market prices by 13- 19%.

Figure 5: Direct subsidy transfer and reduction in leakage



In another study, Muralidharan et al (2016) evaluate the impact of biometrically authenticated payments infrastructure (“Smartcards”) on beneficiaries of employment (NREGS) and pension (SSP) programs in the Indian state of Andhra Pradesh, using a large-scale experiment that randomised the rollout of Smartcards. They find that, while incompletely implemented, the new system delivered a faster, more predictable, and less corrupt NREGS payments process without adversely affecting program access.

## Do criminally accused politicians affect economic outcomes?



Prakash et al. (2016), in an IGC project, find lower (by 24 percentage points) economic activity arising from the election of a criminally accused politician. These effects are driven by multiple, serious financial criminal charges and are concentrated in less developed and more corrupt Indian states. Similar findings emerge when they look at the provision of rural roads through India's public road construction program.

### Key findings:

- A) Large, negative impact of electing a criminally accused politician on a measure of economic activity at the constituency level, and the type of accusation matters.
- B) The economic cost of electing a criminally accused politician is large.

## Policy lessons

1. **Reward performance of service providers:** Teachers and public health officials are paid fixed salaries, so are bureaucrats at the top of the government hierarchy, irrespective of their effectiveness. Research suggests that service providers can be incentivised to perform better by linking their performance to measurable outputs. In addition, non-monetary incentives, e.g. job transfers to preferred locations, can be used as potentially cheap and effective rewards for good performance.
2. **Provide information to stakeholders:** Improving stakeholders' awareness of entitlements and providing information on the quality of services can potentially be a cost-effective method of improving service delivery. While most research on information provision has been bundled with induced

community dialogue and mobilisation, IGC research suggests that simply providing information (and allowing it to flow organically) can either allow the service provider to assess the preferences of citizens or enable the consumer to decipher the quality of services. Both mechanisms can improve related outcomes.

3. **Leverage technology to improve accountability:** Technological improvements can be used to monitor and improve accountability in service delivery. Recent advances in using biometric identification and electronic transfers of benefits to stakeholder's accounts may have led to significant reduction in program leakages and provided a direct interface between the state and the potential beneficiary.
4. **Strengthen capacity of local governments:** Local public officials and elected representatives are often confronted with multiple tasks related to a myriad of public programmes they have to implement in their communities. The manpower and skills required can be daunting, particularly during the early stages of a programme's implementation. IGC research on elected local governments suggests that capacity building through regular training of public officials could help ensure effective and transparent implementation of public programs, particularly in reserved constituencies, e.g. women political leaders.

## Further research

Further research is required on measures to raise the effort of frontline providers of public services – teachers, public health officials, and administrators – whose services cannot be mechanised, and especially when technological innovations have limited impact on improving accountability in the provision of services which enhance human capital. While evidence on the effectiveness of some of these policy measures is more robust than others, most require scaling up and longer-run evaluation in order to provide vigorous support for overhauling the existing public service delivery mechanisms in India.

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