Introduction

Citizens in low income democracies depend, to a large extent, on the state for the provision of basic services, viz. education, health and infrastructure, either due to absence of a market for these services or poverty. Thus the role of the state – exemplified by its elected representatives and public officials – take centre stage in the governance and delivery of public services.

There are several pathways through which governance and the quality of public services can impact a country’s economic growth. The overarching objective of public provision of free or subsidized services in low income countries is to deliver social protection to the poor and vulnerable and to alleviate poverty. The quality of governance, thus, has direct implications for economic growth.
To elaborate, poverty typically manifests itself in low food intake, low nourishment and low productivity of the poor. In the absence of a social security program in most developing countries, public provision of low-cost food can help the poor escape the vicious circle of undernourishment, underemployment and poverty (Dasgupta and Ray 1986). Thus, the effective delivery of public programs is likely to have a direct impact on growth via poverty reduction. Sometimes, often the aim of public service provision is to reduce inequitable distribution of resources and correct historical inequities, such as caste based discrimination and gender inequities. Targeted delivery of public services, thus, have the potential to reduce economic inequalities which have been rising in rapidly growing economies, such as China and India, over the last few decades (Deaton and Dreze 2002, Datt et al. 2016). In particular, inequalities have grown as market forces were unleashed following economic liberalization in these countries. Research suggests that high levels of inequality may have adverse implications for labor productivity (Cohn et al. 2011). This in turn may have adverse consequences for sustaining economic growth (Berg, Ostry, and Zettelmeyer 2012; Berg and Ostry 2011). Public services, therefore, play a critical role in stemming the rising inequalities in emerging economies. The other and apparent path through which public services impact growth is via improvements in human capital. It is undisputed that human capital has a causal impact on economic growth. “Growth of human capital is both a condition and a consequence of economic growth. Human capital activities involve not merely the transmission and embodiment in people of available knowledge, but also the production of new knowledge which is the source of innovation and of technical change which propels all factors of production. This latter function of human capital generates worldwide economic growth regardless of its initial geographic locus
(Mincer 1984).” While developing countries have made considerable progress in closing the gap with developed countries in terms of school participation, recent research has highlighted the poor cognitive skills of students in public schools. Not surprisingly, therefore, new research on educational attainment suggests that improving public school quality is imperative for developing countries to improve their long run economic performance (Hanushek 2014).

The other critical ingredient of human capital is health. Bloom et al. (2004) augment an aggregate production function with health to find that an additional year in a population's life expectancy contributes to a 4 percent increase in aggregate output of a country. Thus, while growth models have typically interpreted human capital in terms of education alone, research suggests that a populations health can contribute to economic growth collectively and independent of the effect of education.

Finally, often governance deficit arises due to high levels of corruption in the delivery of public services in low income economies. Corruption in the delivery of public programs, in form of leakages, theft and graft, can have significant implications for growth. Establishing a causal relationship between corruption and growth in a macroeconomic framework is challenging due to the endogenous nature of corruption. Nevertheless, Mauro (1995) shows that even after correcting for possible endogeneity bias in cross-country data, a one-standard deviation improvement in the corruption index (lower corruption) is associated with an increase in a country’s investment rate by about 3 percent of GDP. The negative relationship between corruption and economic growth holds up in contexts where bureaucratic red tape is high, suggesting that even in countries with high levels of regulations, corruption does not have a beneficial effect by “greasing the wheels of the bureaucracy.” More robust and credible micro evidence also
suggests that there can be significant efficiency costs of graft. Olken and Pande (2012) outline two pathways through which corruption impacts growth.

First, public theft raises the fiscal burden on the government by inflating costs of government programs (price effect).

Second, the behaviour of public officials to hide the graft and leakages (distortionary action effect) can reduce public program efficiency. Besides affecting static efficiency corruption has negative dynamic implications - on investment and growth.

Transparency International’s and other perception based measures of corruption show a strong negative correlation between per capita income and corruption – richer countries typically tend to be less corrupt. As Bardhan (1997) points out “when public resources meant for productivity enhancing infrastructure are diverted for private consumption, growth is affected adversely”. This can lower incentives for investments by domestic and foreign firms (e.g. if infrastructure or human capital is poor as a result of the poor delivery of public services) and also lower entrepreneurship in the economy.

**Governance and public service delivery in India**

In India, the government has been omnipresent in the lives of its citizens, envisaged by the architects of the nation following its independence from British colonialism in 1947. With the aim of alleviating endemic poverty, free or heavily subsidised provision of basic and essential services has been the hallmark of public policy. However, there is broad consensus that the state has failed to effectively deliver public services to its citizens, particularly the poor. This is reflected starkly in the dismal performance of the country on
almost all dimensions of human development (Dreze and Sen 2013). Given the high levels of poverty and absence of a social security program, subsidised public provision of food grains through a public distribution system (PDS) has accounted for the largest share of public subsidies.\(^1\) However, leakages from the PDS are large and grains are often siphoned off to the open market (Khera 2011, Dreze and Khera 2015). The ineffectiveness of the PDS in providing food security to the most vulnerable is exemplified by research which shows that long term exposure to a sudden increase in the price of rice supplied by the public distribution system in the state of Andhra Pradesh had no effect on weight-for-age of children (Tarozzi 2005)! Per capita consumption of the poorest households, therefore, continue to be amongst the lowest in the world and by some estimates, nutritional intakes (particularly calories) have been declining for all income groups since the 1980s (Deaton and Dreze 2009).

The second largest social protection program which provides the right to employment (National Rural Employment Guarantee Act, NREGA) has similarly been beset with concerns about poor targeting and misappropriation (Niehaus and Sukhtankar 2013; Afridi and Iversen 2014). Not surprisingly, almost 270 million people (nearly 22 percent of the population) lived below the poverty line in 2011 (World Bank, in PPP terms). Decades of social protection programs notwithstanding, not only does India have the largest number of poor in the world, income inequality has actually risen in the country over the last few decades (Deaton and Dreze 2002; Datt, Murgai and Ravallion 2016). Expenditure on the public provision of education by the state

\(^1\) India’s food subsidy has two-fold objective—provide income support for farmers and social protection through food subsidies for the poor. Both are maintained through a complex web of procurement, storage and distribution throughout the nation (Ramaswami 2012).
accounted for approximately 3% of the GDP in 2015-16 (Economic Survey of India 2015-16). Participation or enrolment in educational institutions has been steadily expanding in India since independence but acceptable levels of educational attainment by students have remained elusive.

Educational interventions in India have been directed mostly towards increasing investments in public education by building schools, improving existing school infrastructure and training teachers. For instance, although primary school enrolment has increased from 79 percent in 2001 to 90 percent in 2007 due to public interventions such as the Sarv Shiksha Abhiyan\(^2\), the quality of public education remains poor as reflected by high drop-out rates and low levels of learning. The drop-out rate for children progressing from grade 1 to 5 was as high as 25 percent in 2005-06 in India (Ministry of Human Resource Development Report 2005-06). Findings from a nation-wide survey of rural primary schools show that about half of students enrolled in grade 5 cannot read texts meant for second-graders (ASER 2014, Pratham 2009). Poor learning outcomes are accompanied by high teacher absenteeism, high pupil to teacher ratios and poor school infrastructure. Not surprisingly, private schools have mushroomed, reflected in a decline in enrolment in government schools in rural areas by almost 10 percentage points in 2014 (ASER 2014).

**Challenges of Public Service Delivery**

These low levels of human capital and inadequate access to basic infrastructure highlight the failure of governance in India in delivering public services. This failure becomes more ominous when viewed in the context of the rising share of young and working age groups in the population. India’s working age population is now 63.4 percent (Census 2011).

\(^2\) World Development Indicators for 2011 (http://data.worldbank.org/indicator/SE.PRM.NENR)
2011) of its total population and expected to rise to 69 percent in 2040 (United Nations Population Division 2014). The demographic dividend is an opportunity to give impetus to the economic growth of India and an advantage over other developing economies such as China whose population has begun to age (United Nations Population Division 2014).  

This optimism, of course, assumes that the additions to the working age population will have the necessary skills to be productive. But Aiyer and Mody (2011) find that a third of the surge in the proportion of young is expected to come from the poorest and least educated states of India, viz. Uttar Pradesh and Bihar.

The existing low levels of human capital, thus, present a challenge to the country’s capacity to take advantage of the changing age structure of its population. Research has highlighted some key factors for the poor governance and inadequate public service provision in low income countries, in general, and in India, in particular.

Corruption has often been cited as the primary cause of governance deficit. It is fairly well established that corruption is costly, both in terms of efficiency and equity in the provision of public services in developing countries (Olken and Pande 2012). Transparency International’s Corruption Perception Index indicates that the public sector in India has been consistently perceived to be more corrupt than other developing countries with comparable growth rates such as Brazil, China and South Africa, in the last decade.

Politicians and service providers (e.g. bureaucrats) often indulge in theft of public funds due to lack of accountability mechanisms and monitoring. While the absence of monitoring mechanisms makes graft and bribery difficult to identity, the legal system is too slow and

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3 Aiyar and Mody (2011) predict a large and significant impact of the rise in the working age ratio on India’s economic growth, adding up to 2 percentage points per annum to the country’s per capita GDP growth over the next two decades.
cumbersome while the electoral system can be either manipulated or is not sufficiently competitive to ensure that the corrupt are punished.

In the Indian context, ethnic polarization due to caste affiliations has been considered one of the main impediments to holding politicians electorally accountable for poor performance. To elaborate, ethnic polarization can lower investments in local public goods due to divergence of preferences of ethnic groups (Alesina, Baqir and Easterly 1999) and also lead to clientelistic behavior by politicians to garner votes (Bardhan and Mookherjee 2000). In a cross-country study in Africa, Easterly and Levine (1997) show that ethnic diversity is negatively correlated with public provision of roads, electricity and education. Banerjee and Somanathan (2007) find that higher ethnic fragmentation in terms of caste and religious divisions in India negatively affects access to public goods.

Decentralization and affirmative action policies that reserve political seats for historically disadvantaged groups (e.g. scheduled castes, scheduled tribes and women) may have improved access of these groups to public services (Pande 2003; Banerjee and Somanathan 2007) but have not led to significant improvements in average public service delivery.

While the literature on governance has primarily focussed on politicians, there is emerging evidence on the poor management practices of unelected public officials – bureaucrats, education and health service providers – in developing countries. Research suggests that civil servants often pursue their narrow self-interests which are not aligned with social interests (Buchanan 1978), viz. rent-seeking. Further, public officials in India receive a fixed salary and are not paid for performance, leading to low effort. This suggests that the preferences of the elected representatives and the service providers
may not be aligned with those of the poor and vulnerable due to lack of incentives (Muralidharan and Sundararaman 2011; Duflo, Hanna and Ryan 2012). In addition, the public officials enjoy limited autonomy and their postings, transfers and promotions are often linked to whether they satisfy the interests of their political masters (Mani and Iyer 2012; Rasul and Rogger 2016). Bribes, for delivering due services, are rampant and exacerbated due to red tape, citizens’ poor knowledge of own entitlements and procedural norms. Public officials (both elected and civil servants), however, may not be entirely to blame for the lack of good governance in India. The users of public services or the electorate are often not well-informed or unable to correctly evaluate the returns to investment in human capital and therefore, the value of public services.

This, in turn, increases their vulnerability to being manipulated by politicians and bureaucrats in poor democracies, e.g. through negatively correlated with public provision of roads, electricity and education. Banerjee and Somanathan (2007) find that higher ethnic fragmentation in terms of caste and religious divisions in India negatively affects access to public goods. Decentralization and affirmative action policies that reserve political seats for historically disadvantaged groups (e.g. scheduled castes, scheduled tribes and women) may have improved access of these groups to public services (Pande 2003; Banerjee and Somanathan 2007) but have not led to significant improvements in average public service delivery. While the literature on governance has primarily focussed on politicians, there is emerging evidence on the poor management practices of unelected public officials – bureaucrats, education and health service providers – in developing countries. Research suggests that civil servants often pursue their narrow self-interests which are not aligned with social interests (Buchanan 1978), viz. rent-seeking. Further, public officials in
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Thus, while decentralization in India has been subject to concerns of capture by local elites, there have been new initiatives, particularly by civil society, to mobilize, educate and have a better informed citizenry. Recent research has highlighted the role of bottom-up mechanisms for improving the accountability of local officials through community monitoring (Bjorkman and Svensson 2009), demand for transparency and information on the utilization of public funds by local governments, viz. through the Right to Information Act initiative in India.

What is the current scenario? Is there a way forward?
The central question is what social, political and economic institutions need to be built to improve governance and the delivery of public services in India? The rationale behind any measure to reduce governance deficit would be asymmetric information, exemplified by the standard principal-agent problem - if the principal, i.e. the stakeholders (i.e. citizens) are unable to assess the quality of services being provided by the agent (i.e. the public officials) then outcomes may be poor because the agent’s interests are not aligned with those of the stakeholder’s.

Thus the first order question of interest is what incentive mechanisms can be designed to align the preferences of public officials with those of citizens who use public services, particularly the poor? Research suggests that agents are motivated both by financial and nonfinancial incentives (e.g. location, autonomy, ethnic affiliations). If the salaries of frontline deliverers of public services are based on their own performance can public services improve significantly?

Perhaps the key lies in effectively devising measures of output of public officials rather than inputs. For instance, linking public school teachers’ salaries to students’ learning outcomes could improve educational attainment but there have been concerns about teachers ‘teaching to the test’ which improves short-term learning outcomes but has no impact on long term performance of students (Glewwe, Ilias and Kremer 2010).

Of relevance here is the question whether non-monetary incentives of public officials can be leveraged to improve efficiency. Theoretical work suggests that agents involved in pro-social tasks might value non-monetary incentives if they are motivated by externalities generated by these tasks (Benabou and Tirole 2006; Besley and Ghatak 2005). More simply, for instance, can rewarding a public official with a transfer to a
preferred location, following good performance, be equally or more effective than a financial incentive? In contrast to civil servants, politicians are interested in retaining power and getting re-elected. Re-election incentives can be affected by electoral rules, e.g. term limits (Ferraz and Finan 2011), and also by the perceptions of the electorate.

In the above context then, what measures should be adopted to increase the transparency in governance and implementation of public programs that would allow the citizens to correctly evaluate the performance of the public officials and potentially improve accountability? This links closely with measures to improve both political and civil servants’ accountability – since a better informed electorate can induce a politician to improve public service delivery, independently and by ensuring that the civil servant performs. To that extent, how can communities be mobilized from the grass roots to effectively put pressure on their elected representatives to deliver. Would such pressure be sufficient in the face of weak legal institutions?

Finally, the capacity of the state to implement public program effectively, monitor public officials and stem leakages from public funds is limited in many ways in low income countries. What measures can be adopted to increase the capacity of the state? Public services and programs typically wind their way to the final beneficiary through a complex web of government rules and regulations that are managed by myriad intermediaries at various stages of service provision. One possible path for improving state capacity is to create a direct interface between the central or state government by reducing or eliminating the many intermediaries involved in public service delivery. However, this can be envisaged more easily when we think in the context of social protection programs which involve subsidies, e.g. the PDS. Most services, viz. public education and health, cannot be simply eliminated by making direct cash transfers into the accounts of potential
beneficiaries and then allowing the markets to provide those services, when economic inequalities are high and access to markets is limited. In such instances capacity building through training of frontline service providers, providing incentives for better performance and accountability may be critical for improved governance and delivery of public services.

Poor public service delivery could also be due to lack of information about the quality of public service, returns to using public services and entitlements of citizens. Hence, there are multiple dimensions on which citizens’ demand for services can be enhanced.

First, the poor often have little idea about the returns to better health and education, so they may not value these services adequately. Second, voters may not be able to evaluate the quality of services they are receiving because of lack of information and an inability to assess it due to low levels of adult schooling. Information provision may be more effective in improving governance outcomes if forums are created whereby the users of public services can convey their concerns and expectations to the public officials.

The key prediction is that effective service provision requires both topdown connections to the ruling party at the administrative level and bottom-up democratic mobilization at the community level.

Monitoring and state capacity Can state capacity be enhanced to make governance more effective? State capacity is often limited and unable to monitor the delivery of services. This can especially be a challenge when governance is decentralized. Even in instances where institutions have been created to improve monitoring there is poor credibility of the monitoring mechanisms, legal sanctions in the event of public being found guilty of malfeasance are non-binding, the judicial process for
punishing the guilty is slow, unresponsive (Afridi and Iversen 2014) and often prohibitively costly for citizens.

Administrative reforms aimed at evaluating performance and punishing theft are virtually non-existent and have been resisted by public officials’ time and again. Furthermore, limited state capacity can have significant implications for economic growth. Patnaik (2014) finds that weak institutional environments in poor countries lead to low tax compliance, especially for firms where owners have high-powered incentives and managerial control. Using evidence for publicly-traded manufacturing firms in India, the paper shows that when there is continued involvement of the founding family, firms pay about 3.5% less excise tax than other firms. In addition, the elasticity of response of family firms in terms of excise tax payments is 0.2% less when the tax rate increases compared to non-family firms. This suggests that public resource constraints prevent perfect enforcement of tax liabilities. The family firms tend to be smaller and less productive, indicating that the lower effective tax rates may help them continue to enter the market and produce, instead of being driven out by competition. This diverts resources away from larger, more productive firms and reduces aggregate output and productivity.

**How can informal monitoring and enforcement can increase the efficacy of public service delivery of the Targeted Public Distribution System of India?**

They find that Scheduled Castes (SC) have a higher take-up of government subsidized food when facing SC delivery agents. They suggest that this effect works through increased informal monitoring and enforcement when the delivery agent is corrupt. The paper estimates that the gain in welfare of SC households from lowering monitoring and enforcement costs – equivalent to moving from a non-
SC shopkeeper to a SC shopkeeper – are significant, equalling approximately one-fifth of the average subsidy amount. In contrast, expanding the program can perversely lower welfare for SCs and non-SCs due to increased incentives for black-marketing.

**Conclusion**

The identity and preferences of elected representatives can impact governance and the delivery of public services. Administrative reforms through constitutional amendments to better reflect the preferences and needs of the electorate, such as decentralization of political power and affirmative action policies have produced mixed results. There is consensus in the literature that decentralization has not reduced elite capture or clientelistic distribution of public resources.

There is some evidence, however, that suggests that decentralized governance may be better for long term growth through greater conservation of local resources. Affirmative action policies may have been successful in ensuring that the preferences of marginalized communities are reflected in public policies. Early research indicates that enhancing state capacity to monitor the delivery of public services by leveraging technology has been effective in reducing corruption and leakages from public programs. This potentially improves the fiscal health of the planner’s budget, making more resources available for public services.

Evidence suggests that public officials’ incentives can be aligned with those of the electorate through monetary (e.g. pay for performance) and non-monetary rewards for good performance of frontline public service providers, such as teachers and health care personnel but with some qualifications.
1. The design of the incentive mechanism can potentially lead to perverse outcomes, viz. teaching to the test in the case of evaluation of teacher performance on the basis of students’ scores on standardized tests. Moreover, there is virtually no research on what incentives can improve the efficiency and reduce rent-seeking by career bureaucrats. As far as the impact of incentives of politicians are concerned, research is limited.

2. Inducing competition between public service providers could be one possibility to improve service delivery. In addition, more democratically mobilized communities might be able to put greater pressure on their elected representatives and ensure better delivery of services. However, both top-down political influence and bottom up pressure may be essential to improve public services.

3. Strengthen capacity of local governments: Local public officials and elected representatives are often confronted with multiple tasks related to myriad public programs that they have to implement in their communities. The manpower and skills required can be daunting, particularly during the early stages of a program’s implementation. The capacity building through regular training of public officials could help in ensuring effective and transparent implementation of public programs, particularly in reserved constituencies, e.g. women political leaders.

4. 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 incentivized to perform by linking their effort to measurable outputs. In addition, non-monetary incentives, e.g. transfers to preferred locations, can be dangled as a potentially cheap and
effective reward for good performance. The challenge, of course, lies in devising objective and measurable performance indicators.

5. 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.

6. Leverage technology to improve accountability: Technological improvements can be used to monitor and improve accountability in service delivery. Recent advances in using biometric identification, 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.

Further research, however, is required on measures to raise the effort of frontline providers of public services – teachers, public health officials and administrators – whose services cannot be mechanized, 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.
References


