



***DO TARGET PROGRAMS SUFFER FROM
MISGOVERNANCE?: EVIDENCE FROM
TPDS IN ORISSA, INDIA***

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POLICY QUESTION

Is misgovernance present in Target Programs?

In particular is red tape and corruption a component of Target Programs?.



TPDS

- The Targeted Public Distribution System (TPDS) is an important instrument of policy aimed at reducing poverty through the mechanism of delivering minimum requirements of food grains at highly subsidized prices to the population below the poverty line.
- Previous assessments of the efficiency and effectiveness of the TPDS have concluded that a large proportion of food grains, do not reach the intended beneficiaries. A significant amount of grains gets leaked from the system.



TPDS: HOW AND WHY IS THERE LEAKAGE

- FPS salesperson uses three broad mechanisms:
 - issuance of excess rations cards
 - shadow ownership of cards
 - over-reporting on valid ration cards
- Leakage by beneficiaries due to 3 other factors:
 - people get multiple cards using different names and addresses
 - families splitting into multiple artificial units
 - APLs passing off as BPLs.
- Root causes are:
 - incentives for people to get BPL and AAY cards
 - low remuneration for FPS salesman
 - beneficiaries' lack of funds
 - widespread illiteracy
 - lack of voice
 - incentives to issue extra card



WHAT IS CORRUPTION AND WHAT HAS BEEN SAID ABOUT IT

It is widely recognized that corruption is defined as the abuse of public power for private benefit, and is a key constraint to efficient allocation of economically valuable resources, effective provision of public goods and services, and people's confidence in the state and the legal system.



WHAT IS CORRUPTION AND WHAT HAS BEEN SAID ABOUT IT

- Some of the work on corruption has focus on determining the **causes** of why corruption occurs or the characteristics present in corrupt countries.
- **Consequences:** There is consensus that corruption affects development. A reason is that high levels of corruption have been shown to bias public spending in undesirable directions and reduce the quality of provision public goods, such as infrastructure, education, and health.
- Corruption has both a demand and supply driven causes. As such, many works have focus on what **type of policies**, reforms or actions must be taken in order fight it.
- Others look at reasons why corruption persists, who is more like to be corrupt or how corruption can be justified.



WHAT IS RED TAPE

I will want to use red tape, interpreted as completely pointless bureaucratic procedures that one has to endure in dealing with bureaucracies.



A THEORY OF MISGOVERNANCE

- Banerjee's (1997), model of misgovernance serves as an applicable framework to understand how can behaviors like corruption and red tape can surge in a target programs such as the TPDS, and how they interact.
- The main applicable and useful characteristic of the framework within the context of this document is to understand how bureaucrats allocate a scarce private good (grain in the context of the paper) among the poorer section of the society.



A THEORY OF MISGOVERNANCE

This paper tries to explain why government bureaucracies are often associated with red tape, corruption and lack of incentives. Thus, the paper identifies two specific ingredients that together can provide an explanation: 1) the fact that government always act when markets fail and 2) the presence of agency problems within government.



A THEORY OF MISGOVERNANCE

CONCLUSIONS

1. The general conclusion we want to test is that theory of *misgovernance* predicts that, if red tape is ever used, it is used against the H-type (the poorer among the poor in the case of the TPDS), while corruption will be used by bureaucrats against L-types (richer among the poor in the TPDS).
2. The first implication of these results is that even though red tape is always wasteful, it may be used by the bureaucrat. This is because red tape relaxes the low type's incentive constraint and thereby allows the bureaucrat to charge the low type a higher price



A THEORY OF MISGOVERNANCE

CONCLUSIONS

3. The second implication of the model is that there would be no red tape if people could pay enough for the slots.
4. Red tape will be high where the average person's ability to pay is low.



DATA

- The baseline survey of the study the Center for Innovative Financial Design at the Institute for Financial Management and Research with assistance of the Boston Consulting Group team are conducting to assess the impact of a the project between the Government of Orissa, (Food Supplies and Consumer Welfare Department), and the United Nations World Food Programme (India Country Office), for strengthening of Targeted Public Distribution System (TPDS) in Rayagada district in Orissa, India.



METHODOLOGY

- Before understanding the dynamics of *misgovernance*, it is important to identify if households are indeed holding the ration card they must be holding according to their income level.

$$ratio_card = \alpha + \beta_1 \ln_income_{hvt} + \beta_2 X_{hvt} + \gamma_v + \eta_{hvt}$$

- where *ratio_card* is a dummy that takes a value of 1 if the household has a BPL card (APL card).
- *Ln_Income* is the natural log of the level of total annual income in 2007 reported by household by quintiles.
- β_1 is the coefficient of interest.
- *X* is a vector of controls.
- γ_v are village fixed effects.



METHODOLOGY

- In order to see if there is evidence of *misgovernance* in the TPDS the basic regression run, was a OLS fixed effect model for the probability that household h in village v face corruption at time t:

$$corruption_episode = \alpha + \beta_1 \ln_income_{h,t} + \beta_2 X_{h,t} + \gamma_v + \eta_{h,t}$$

where *corruption_episode* is a dummy that takes a value 1 if the household had to pay a higher price in the Ration Shop than the legal price.

- *ln_income* is the natural log of the level of total annual income in 2007 reported by household.
- β_1 is the coefficient of interest.
- X is a vector of controls.
- γ_v are village fixed effects.



METHODOLOGY

- A similar regression was run for the probability that household h in village v face red tape at time t :

$$red_tape = \alpha + \beta_1 \ln_income_{h,t} + \beta_2 X_{h,t} + \gamma_v + \eta_{h,t}$$

where *red_tape* is the number of visits to the FPS reported by the household.

- *ln_income* is the natural log of the level of total annual income in 2007 reported by household.
- β_1 is the coefficient of interest.
- X is a vector of controls.
- γ_v are village fixed effects.



RESULTS

Table II A
OLS Regressions of BPL Possession
(Village fixed-effect with clustered standard errors)

Dependent Variable: BPL

1st Quintile Annual Income 2007	-0.014 (0.037)
2nd Quintile Annual Income 2007	0.049 (0.039)
4th Quintile Annual Income 2007	-0.002 (0.033)
5th Quintile Annual Income 2007	-0.129*** (0.041)
Number of Observations	1917

Constant not reported.

Clusterd Standard errors in parentheses.

* Significant at 10 percent; ** significant at 5 percent; *** significant at 1 percent

Table II B
OLS Regressions of APL Possession
(Village fixed-effect with clustered standard errors)

Dependent Variable: APL

1st Quintile Annual Income 2007	-0.009 (0.017)
2nd Quintile Annual Income 2007	-0.020 (0.019)
4th Quintile Annual Income 2007	0.015 (0.019)
5th Quintile Annual Income 2007	0.130*** (0.041)
Number of Observations	1917

Constant not reported.

Clusterd Standard errors in parentheses.

* Significant at 10 percent; ** significant at 5 percent; *** significant at 1 percent



RESULTS

Table III
OLS Regressions of Corruption_episode
(Village fixed-effect with clustered standard errors)

Dependent Variable: Corruption-episode

	(1)	(2)	(3)	(4)	(5)	(6)
Log Total Annual Income 2007	0.046** (0.018)	0.040* (0.021)	0.039* (0.021)	0.039* (0.021)	0.045** (0.020)	0.079*** (0.025)
No. of members in household		0.004 (0.005)	0.005 (0.005)	0.005 (0.005)	0.004 (0.005)	-0.005 (0.006)
Oriya [§]			-0.005 (0.058)	-0.005 (0.058)	-0.008 (0.058)	0.035 (0.058)
Muslim ^{§§}				0.082 (0.150)	0.072 (0.150)	0.074 (0.157)
Christian ^{§§}				0.028 (0.070)	0.030 (0.069)	0.075 (0.071)
Illiterate ^{§§§}					0.037* (0.022)	0.001 (0.026)
Ration Shop in Village						0.030 (0.051)
Number of Observations	1842	1840	1838	1838	1838	1502

Constant not reported.

Clusterd Standard errors in parentheses.

§ Languages speak by household dummy

§§ Household religion dummy

§§§ Level of education completed by household head dummy

* Significant at 10 percent; ** significant at 5 percent; *** significant at 1 percent



RESULTS

Table IV
OLS Regressions of Red Tape
(Village fixed-effect with clustered standard errors)

Dependent Variable: # Trips to FPS

	(1)	(2)	(3)	(4)	(5)	(6)
Log Total Annual Income 2007	-0.067** (0.028)	-0.091*** (0.032)	0.092*** (0.032)	-0.092*** (0.032)	-0.086*** (0.033)	-0.083** (0.034)
No. of members in household		0.019** (0.009)	0.019** (0.009)	0.019** (0.009)	0.018** (0.009)	0.019** (0.009)
Oriya [§]			-0.070 (0.075)	-0.070 (0.075)	-0.074 (0.075)	-0.078 (0.076)
Muslim ^{§§}				0.018 (0.224)	0.009 (0.223)	0.004 (0.210)
Christian ^{§§}				0.140 (0.100)	0.143 (0.102)	0.148 (0.117)
Illiterate ^{§§§}					0.043 (0.044)	0.042 (0.044)
Ration Shop in Village						-0.128* (0.066)
Number of Observations	1505	1504	1502	1502	1502	1500

Constant not reported.

Clusterd Standard errors in parentheses.

§ Languages speak by household dummy

§§ Household religion dummy

§§§ Level of education completed by household head dummy

* Significant at 10 percent; ** significant at 5 percent; *** significant at 1 percent



OTHER RESULTS

- To test if *misgovernance* (presence of corruption and red tape) in the TPDS may have an effect on households malnutrition risk the basic regression run was a fixed effect OLS model for the probability that household h in village v has a risk of malnutrition at time t :

$$\text{malnutrition_risk} = \alpha + \beta_1 \ln_income_{h,v,t} + \beta_2 X_{h,v,t} + \gamma_v + \eta_{h,v,t}$$

where *malnutrition_risk* is a dummy variable for three cases: *got two square meals a day, hunger episode and diarrhea episode*.

- *ln_income* is the natural log of the level of total annual income in 2007 reported by household.
- β_1 is the coefficient of interest.
- X is a vector of controls.
- γ_v are village fixed effects.



OTHER RESULTS

Table V
OLS Regressions of Effect of *Misgovernance*
(Village fixed-effect with clustered standard errors)

<i>Dependent Variable:</i>	<i>Got two square meals a day</i>	<i>Hunger episode</i>	<i>Diarrhea episode</i>
	(1)	(2)	(3)
Log Total Annual Income 2007	-0.146*** (0.020)	-0.082*** (0.013)	-0.049*** (0.016)
No. of members in household	0.014** (0.006)	0.013*** (0.005)	0.027*** (0.005)
Oriya [§]	-0.059 (0.044)	-0.023 (0.027)	-0.084*** (0.026)
Muslim ^{§§}	0.185 (0.293)	0.019 (0.013)	-0.106** (0.061)
Christian ^{§§}	0.002 (0.102)	0.012 (0.020)	-0.050 (0.043)
Illiterate ^{§§§}	0.041 (0.027)	-0.012 (0.017)	-0.030 (0.025)
Ration Shop in Village	-0.111* (0.063)	-0.015 (0.040)	-0.042 (0.037)
Number of Observations	1499	1499	1501

Constant not reported.

Clusterd Standard errors in parentheses.

§ Languages speak by household dummy

§§ Household religion dummy

§§§ Level of education completed by household head dummy

* Significant at 10 percent; ** significant at 5 percent; *** significant at 1 percent



CONCLUSIONS AND RECOMMENDATIONS

- The results show that indeed the framework of *misgovernance* is applicable in the TPDS in the sense that a FPS salesperson (bureaucrat) uses red tape against the poorer among the poor (H-type) and corruption against the richer among the poor (L-type).
- A consensus exists that red tape is used as a screening technique and allows excluding those people who must be out of the system. However, the results show, there is no clear sign that APL households are claiming themselves to be BPL households. Additionally, there is evidence that red tape occurs during the application for the BPL card.



CONCLUSIONS AND RECOMMENDATIONS

- “One of the women at Sunder Nagri described how she had tried and failed to secure a BPL card so she could get hold of the subsidized grain, kerosene, and sugar to which she and her family were entitled. [...] “They would not even give me the correct application form unless I bribed them,” said the lady, who was an immigrant to New Delhi from Bihar. “Then when I bribed them, they gave me a form in English, which I do not understand. So I had to pay somebody sitting outside the office to write out my application.”” (Luce, E. 2007. In Spite of the Gods: The Strange Rise of Modern India)
- It seems reasonable to conclude that at this point of the distribution chain, beneficiaries are well identified and the FPS salesperson should not incur in these behaviors. It is recommended then, that ***audits take place, not only to control the outcome of grain delivery but the process.***



CONCLUSIONS AND RECOMMENDATIONS

- Despite the fact that the results of the effect of red tape on malnutrition risk are not explicit to avoid endogeneity problems and are only raised by the link between income level and red tape, they provided a motive to look for more details on the effect that *misgovernance* can have on beneficiaries. It is recommended that ***new surveys on the program should endeavor to get a clear sense of the link between misgovernance and nutrition.***

