

The Political Economy of Decentralization in Pakistan

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April 15, 2003

* We are deeply grateful to Nobuo Yoshida for useful inputs, data analysis and background research. We also wish to thank Nicholas Manning and Hanid Mukhtar for providing information on recent developments in Pakistan's devolution process.

With the notable exceptions of the work of Bardhan and Mookherjee (1999), there are no rigorous analyses of the political conditions under which the decisions of sub-national governments would lead to outcomes different than those of national governments. A recent and growing literature on political economy, though not specifically focused on decentralization, highlights a wide range of political factors that should influence the success of decentralization, including the influence of special interests thoroughly analyzed by Bardhan and Mookherjee, clientelism and the credibility of political competitors, corruption, electoral rules and the institutions of intra-governmental decision-making and political horizons. We examine each of these systematically and their implications for the effects of decentralization in Pakistan. Our conclusion, perhaps not surprisingly, is that although on some, frequently studied dimensions, decentralization may improve outcomes, other sources of policy distortion may be stronger under decentralization.

It is too early to assess the success of Pakistan's devolution, which was initiated only in 2001-2. The length of time since the introduction of decentralization is one factor that needs to be taken into account in assessing success. This is particularly so since in the policy realm, most discussions of the determinants of success focus on "capacity". However, while the experience of local authorities in administering programs and responding to local needs is an important implementation concern, numerous other conditions are likely more important, including the institutions of decentralization and the relative incentives of local and central government decision makers. These vary widely across countries that have undertaken decentralization and are at the center of the discussion here.

There is little practical reason to ask whether decentralization can improve outcomes if central government decision-making is free of distortion. The next section of this paper marshals evidence showing that distortion, at least in social service provision, is significant and pervasive. These distortions have one critical characteristic: the strong incentives of central and provincial officials in the 1990s to provide targeted transfers to specific voters rather than broad public goods that benefit all voters. Empirical evidence, based on household surveys conducted at the beginning of devolution, offers further evidence of this characteristic.

Whether decentralization mitigates or enhances the incentives of politicians to undertake targeted spending depends on the specific institutions of decentralization. The complex and elaborate arrangements that constitute devolution in Pakistan, along with the significant constraints somewhat paradoxically placed on local government decision makers are then reviewed, critical as they are to understanding the likely incentives of local government decision makers relative to elected decision makers at the national and provincial levels in the 1990s.

The conditions under which these distortions could be relieved by decentralization are then discussed in the analytical heart of the paper. Here we ask whether, even if local actors were given complete discretion over policy making, we would expect decentralization in Pakistan to improve outcomes. The analysis suggests that although special interest influence – driven, for example, by voter ignorance – is likely to be less pronounced in Pakistan, other sources of distortion may be greater in local governments. The credibility of political actors, intra-governmental coincidence of interests, electoral incentives to provide public goods or to refrain from rent-seeking, might all be less in local elections.

Policy breakdowns in Pakistan: Poverty, education and health

Poverty in Pakistan was as high at the end of the 1990s as at the beginning of the decade. Currently, nearly one third of the population can be classified as poor - a proportion that rises in rural areas. Stagnant and uneven development is mirrored in Pakistan's education and health indicators lag most other developing countries with similar levels of per capita income. Recent studies on child nutrition measured by several anthropometric outcomes bring out another facet of low and stagnating social development. A representative survey for rural Pakistan (PRHS, 2001) shows that by the time a child reaches age 5, he/she has a 62 percent probability of being stunted and 45 percent likelihood of being underweight.¹ While there are significant regional variations, the overall incidence of malnutrition is quite close to what was measured in 1991, in a sample survey of 4 districts in rural Pakistan.² Finally, as Table 1 demonstrates, Pakistan's record in the 1990s suffers in comparison with countries in the South Asia region

Table 1: Regional comparison of infant mortality rate

Country	1992	1995	1997
Bangladesh	85.1	74.1	66
Bhutan	75	67.8	63
India	79	74	71
Maldives	45	37.2	32
Nepal	96	79	79
Pakistan	104	95.6	90
Sri Lanka	17.6	16.5	15.9

Source: World Bank South Asia data (2003)

Various educational indicators stagnated as well in Pakistan during most of the last decade. For example, primary gross enrollment rates have changed little since 1995 (Table 2), with large social gaps (gender, urban-rural, and rich-poor gaps) persisting. For example, primary gross enrollment rates among the top 3 deciles, by per capita consumption, are around 90%, whereas that among the bottom 3 deciles is around 50%. Similarly, in the province of Sindh only 25 percent of girls living rural areas are enrolled in primary school, compared to 62 percent in its urban areas.

Table 2: Primary Gross Enrollment Rates (%)

	1991	1995-96	1996-97	1998-99
Pakistan – Urban	81	88	87	91
Pakistan – Rural	59	64	63	61
Pakistan – Male	78	81	78	78
Pakistan – Female	53	60	61	60
Pakistan -- Aggregate	65	71	70	69

Source: Pakistan Integrated Household Survey (PIHS) for relevant years

The stagnation in human development, particularly in education, during the 1990s occurred in spite of the Social Action Program (SAP) that was launched in 1992/93. The SAP aimed at improving social indicators by increasing public social spending (especially non-salary

¹ PRHS (2001) refers to Pakistan Rural Household Survey- a nationally representative, multi-topic, rural survey covering 16 districts with a sample size of about 2800 households distributed among approximately 160 villages. In four of these districts, a previously existing panel data was updated after a period of ten years. The survey also included a detailed community survey for each of the rural communities sampled, and facility surveys that collected information on the quality and functioning of all primary school and primary health facilities in the sample communities.

² The 1991 survey was part of a panel survey conducted by International Food Policy Research Institute. Since PRHS (2001) updated this panel, the households and communities sampled from the 4 districts in 1991 were also included in the larger PRHS 2001 sample.

operational expenditures)³, and improving the physical availability and quality of facilities in target areas like elementary education, basic health care, family planning and sanitation. As apparent from the outcomes described above, the impact of SAP has been disappointing - especially so in education, which has been one of its major areas of focus. In fact it appears that SAP has succeeded more in terms of accelerating construction of facilities than in increasing the supply of educational materials, medicines and the on-the-ground delivery of services.

Table 3: Selected School Quality Indicators

School Infrastructure	% of Schools in Sample
Adequate Building	33
Furniture	51
Textbooks	23
Drinking Water	52
Toilets	48
Electricity	32
Separate girls toilet (co-ed facilities)	16

Source: PRHS (2001)

resources to quality improvements.

Results from the Pakistan Rural Household Survey facilities survey (2001) provide a stark example of the disjunction between quality and quantity in education (Tables 3 and 4). No classes were held in 34 out of the 200 schools surveyed – cases of so-called “ghost schools”.⁴ In the schools that were open, close to 20 percent of the teachers were absent, 48 percent and 52 percent lacked basic amenities like drinking water and toilets respectively, and 77 percent lacked an adequate supply of textbooks.

The stagnation in human development is better understood in the context of significant evidence that indicates that the failure of public services in Pakistan is rooted not simply in a lack of resources, but in a record of poor implementation of public programs. This is manifested starkly in poor quality of services provided in facilities already in operation. Some empirical analyses of decentralization (e.g., Faguet 2001) point to the improved distribution of public investment as a good indicator of policy progress under decentralization. The picture of education in Pakistan drawn here, however, and the analysis of the political economy of decision making below, points to another, perhaps more important policy failure: the incentives of government decision makers to under-allocate

Table 4: Teacher Absenteeism

	<i>Schools with no classes being held (%)</i>	<i>Teacher attendance in schools with classes being held (%):</i>		
		Total teachers	Male teachers	Female teachers
Punjab	3.5	75.3	77.6	72.6
Sindh	28.6	77.5	87.3	11.1
NWFP	22.7	90.8	94.3	80.6
Balochistan	25.0	85.0	90.6	36.4
Pakistan	16.5	81.2	86.2	68.5

Source: PRHS (2001)

³ The SAP agreements have required the government to raise the proportion of GDP spent on basic social services, from 1.6 per cent in 1993-94, to 2.2 per cent by 2001-02. While this target was achieved by 1998-99, the Government's contribution to SAP reached a low of 1.46 percent, compared to the targeted 1.8 percent. Sustainability of SAP was thus contingent on donor support.

⁴ These findings from the PRHS, although based on a different sample, are quite similar to findings by Gazdar (2000). The latter found that 14 percent of the 125 schools visited (i.e., 17 schools) had either a building but no school, or were reported to be “generally closed”.

Not surprisingly, such conditions appear to correlate strongly with school enrollments and student attendance. Among girls of primary school age in communities with schools with adequate amenities, the net enrollment rate is 42 percent, in comparison to 32 percent in communities where the local primary school for girls lacks basic amenities like drinking water, toilets and an adequate building. While the survey showed student attendance rates to be generally low (less than 65 percent of enrolled students were observed to be present in the classroom), there was a negative correlation between student-teacher ratio and student attendance rates; student attendance rates were also lower on the average in facilities lacking basic amenities and quality inputs like textbooks.

Similar to the story in education, anecdotal evidence from various sources suggest that quality characteristics are also likely to be a critical element in explaining health status across the population. However, since quality of health facilities is harder to measure directly than in the case of schools, empirical evidence for this is limited and indirect. A particular variable from the PRHS (2001) – the number of outpatient (OPD) visits for a one-year period (separated by month) for each facility – appears to be a reasonable indicator for variation in the quality of health facilities. By this measure, the health facilities in the sample were found to differ considerably in terms of usage across communities, with some facilities catering to vastly higher OPD populations than others all through the year.⁵

The poor outcomes in the social sectors are partly an outcome of Pakistan's insufficient spending on education and health. The share of public spending in education and health amounted to only x and x percent of the country's GDP in 1998-99, resulting in a per-capita spending on \$8 and \$2 respectively. However, as evidence above indicates poor social indicators result not only from low spending, but also from inefficiencies in the use of the limited resources thus provided. A recent study for the province of Punjab finds that actual allocations to education are even less than these budget targets indicate; the amount allocated to non-salary inputs critical for quality is low and are still often not utilized, indicating large inefficiencies on the ground. Similar problems abound in Punjab's health sector also, where insufficient allocations for non-salary inputs and inefficiencies in using what is allocated result in government health facilities routinely running out of medicine and other supplies. Such evidence provides ample reason to consider the political sources of policy distortion that underlie these outcomes, and are one explanation for the comprehensive push for decentralization.

The politics of spending by elected national and provincial governments of the 1990s

In the traditional view of Pakistani politics, feudal landlords, by virtue of their strong control over rural voters and the significant overrepresentation of rural voters in the national and provincial legislatures, exercised disproportionate influence in national level policy making. Their influence over decision making and the generally "clientelist" nature of decision making meant that targeted spending and government actions were far preferred by politicians to the provision of broad public goods. Certainly, the deepest and most pervasive poverty in Pakistan is rural, and it is worst in areas that have been traditionally considered as "feudal", such as rural Sindh. A strong association between landlessness and poverty supports this link. Among the 70

⁵ The vast difference in the number of OPD visits across 38 Basic Health Units (BHUs) is quite striking: while the top 3 facilities regularly show more than 1,500 visits per month, the bottom 3 facilities consistently report 0 visits each month during the year preceding the survey. One explanation could be that this difference actually captures variation *within* facilities as opposed to variation across facilities. But this is shown to be not the case: for each month, less than 10 percent of BHUs change their relative ranking by more than 4 places, and the standard deviation of each facility's ranking is less than 2. Both for the median and the top 3 facilities, visits follow a seasonal trend with declines during November - March and increases during the summer and monsoon months of April - October.

percent of the population that do not own any land in Pakistan, the poverty rate is 35 percent, while it is only 13 percent among the 6 percent who owned at least 4 hectares of land. Rural elites have always had exceptional influence in Pakistan. In some cases, in particular in the poorest parts of rural Pakistan, elected politicians were large semi-feudal landowners, who would have had the weakest incentives to advocate for better government on behalf of their constituents.⁶

There is also substantial evidence that Pakistani legislators were concerned with supplying targeted resources to constituents. Wilder (1999) quotes former members of the National Assembly from Punjab as saying: “People now think that the job of an MNA and MPA is to fix their gutters, get their children enrolled in school, arrange for job transfers...[These tasks] consume your whole day...” (p. 196); “Look, we get elected because we are *ba asr log* [effective people] in our area. People vote for me because they perceive me as someone who can help them...Somebody’s son is a matric fail and I get him a job as a teacher or a government servant... If somebody has merit they very rarely come to me...but it’s the real wrongdoers who come to me”(p. 204).

Notably, in contrast to the near exclusive dedication to resolving individual problems that Pakistani legislators exhibited before suspension of the legislature, members of the United States Congress, well-known for their incessant efforts to secure re-election, have been found to spend on average fewer than six hours per week directly and personally intervening on behalf of constituents in order to obtain favors for them or help them solve bureaucratic difficulties.⁷

This poses a problem for health and education. Good quality schooling and healthcare cannot be effectively targeted to a politician’s supporters and therefore fail as mechanisms for generating political support. Unlike investments in infrastructure, such as road construction and the provision of potable water, higher teacher and doctor attendance, and better teaching materials and medical equipment benefit everyone in the village, supporters and non-supporters alike.⁸ Other improvements in quality, such as improved monitoring of teachers or highway maintenance, are difficult for voters to perceive and therefore, again, undermining political incentives to undertake these activities.

To the extent that politicians do focus on educational and health provision, they do so in a manner that is more consistent with the patronage model: schools and hospitals are built for the jobs and profit opportunities that construction provides; teacher and doctor postings are based relatively less on merit and relatively more on the political calculation of how best to provide jobs to supporters or their relatives. Thus even when education facilities are provided, the pattern is more consistent with a patronage model: schools are built for the jobs and profit opportunities that construction provides; teacher postings are based less on merit and more on how best to provide jobs to supporters. There are, in contrast, few incentives to increase access or to promote accountability of service providers for the quality of education.

Evidence from national and provincial elections further supports the argument that electoral competition in Pakistan drove national and provincial politicians to channel government resources to voters in the form of quantity (the construction of schools), but not quality (the

⁶ Husain (1999), p. 19, argues more strongly for the pervasive and negative influence of semi-feudal landlords on the Pakistani state.

⁷ This is the time they spend while in Washington, as opposed to their districts, to make the appropriate comparison with the citations from Pakistan (Johannes 1983)

⁸ Potable water has some of the characteristics of a private good, in that it can be targeted to specific groups. Although a road per se is a public good, the construction of it can be contracted out to specific private parties in exchange for political support.

provision of textbooks, the attendance of teachers, etc.). As part of PRHS (2001), detailed information about teacher absenteeism and facilities was collected for around 200 primary schools, and community surveys with a variety of information about elections, political institutions, infrastructure, and demographics were conducted for all villages in the sample. To capture the quality of schools, we use separate dummy variables indicating whether teacher absenteeism is observed in any school in a village, whether all schools in a village have a blackboard and chalks, and whether textbooks are available for students in all schools in a village or electricity is available in all schools in a village.⁹ Dummy variables measuring whether any school (for boys/girls) was built since 1990 in a village are used to capture the quantity of schools. We show that whether a school was built since 1990 is sensitive to variables capturing the extent and nature of political competition, but that quality variables are not.

We have three measures of how electorally important a village is – that is, the incentives of politicians to improve schools in a village. First, we construct a dummy variable measuring whether all villagers vote for the same candidate or not. This variable can be interpreted in one of two ways: either a single candidate wields extraordinary influence over village voters (e.g., as a feudal landlord), or the village voters are well-organized and cohesive, voting for the candidate from whom they expect the best performance. The results below suggest that the second interpretation is more plausible, indicating that the landlord-centered model of Pakistani political economy is incomplete. Second, we include a dummy variable indicating whether politicians promised to improve the quality of schools and/or build new schools in a village – the question does not distinguish which. The frequency of village meetings – measured by a dummy variable indicating if there is at least one meeting every quarter – is another indicator of the cohesiveness of village voters

To capture landlord influence on a village, we use a measure of land concentration (based, however, on respondents' assessments rather than direct observation of ownership patterns). We also use a number of controls. To account for the fact that villages that already have schools are unlikely to demand them as strongly as villages that do not, we control for the number of primary schools for boys (or girls) built before 1990, as well as the number of non-government schools available to boys (or girls) in a village. Village wealth may also affect construction and quality of schools in a village. We therefore add the logarithm of average village monthly expenditure (based on the expenditures reported by 15 randomly selected households in the village) and availability of electricity. Finally, because the sheer number of households in a village is likely to influence in numerous ways the political attractiveness of a village (increasing the total number of votes, but likely reducing village cohesion and organization), we follow the suggestion of Bardhan and Mookherjee (2002) and control for the number of households in a village.

It is important to note that the results presented here should be considered preliminary and indicative, in view of numerous caveats that apply to these regressions (see footnote).¹⁰

⁹ The corresponding dummy variable is set equal to 1 if teacher absenteeism is observed in any school in a village, if all schools in a village have a blackboard and chalks, if textbooks are available for students in all schools in a village, and if all schools in a village have electricity.

¹⁰ One caveat stems from the concern about possible endogeneity of explanatory variables, especially the political variables. Quality and size of public educational service may themselves change the political environment, which in turn may change the intensity of political competition and the nature of politician promises. Second, our measures of political competition are highly imperfect. We would like to have, for example, actual measures of vote shares of competing candidates in past elections, but have been unable to match this information to our villages. The sample size, although impressive in some respects (there are several thousand households represented in the analysis), is clearly small for the purposes to which we

Despite these caveats, the results below are quite plausible, particularly given the inclusion of powerful controls such as the stock of schools, land concentration and household wealth and income. In particular, the inclusion of these variables is likely to substantially mitigate endogeneity that might otherwise be especially problematic.

The Decision to Build Schools

We first estimate maximum likelihood probit models for the decision to construct a primary school for boys or girls since 1990. Table 5 reports the change in the probability for an infinitesimal change in each independent, continuous variable and, by default, the discrete change in the probability for dummy variables. For schools for boys, whether villagers generally vote for the same candidate or party, whether politicians promise to improve school quality or to build a school, and whether villagers meet frequently all have a significantly positive effect on school construction. If homogeneous voting behavior in a village were an indicator of low electoral competitiveness, rather than of the potential pivotal role that the voters play in electoral contests, we would expect no effect on the receipt by a village of government services, contrary to the observed effect, which is similar to the effect of politician promises and the frequency of meetings. On the other hand, inequality of landownership does not have any significant impact on school building decision, suggesting that “feudal” influences are not entirely the story in Pakistani politics.

Table 5. Building decisions since 1990 (Probit Estimation)		
	(1)	(2)
	School for boys build since 1990	School for girls build since 1990
At least one village meeting every quarter ^A	0.233 (2.01)*	0.044 (1.08)
Promise by politician to build school or improve school quality ^A	0.147 (1.43)	-0.034 (0.83)
All villagers vote for same candidate ^A	0.301 (2.96)**	-0.010 (0.25)
Electricity in village ^A	-0.098 (0.87)	-0.105 (2.34)*
Number of households in village	0.0005 (2.11)*	-0.0001 (0.53)
Fraction of land owned by large landowners	-0.001 (0.62)	0.000 (0.75)
Log of average village consumption expenditure per household	0.507 (2.71)**	-0.119 (1.66)+
Non-public schools for boys ^A	-0.154 (1.05)	
No. of primary schools for boys in village	-0.220 (3.49)**	
No. of primary schools for girls in village		-0.091 (3.25)**
Observations	113	118

Notes: Absolute value of z-statistics is in parentheses; + significant at 10%; * significant at 5%; ** significant at 1%;
^A signifies dummy variables; dummy for non-public school for girls dropped due to collinearity in regression (2)

apply the data. Finally, the decision to build schools may be linked to decisions regarding school quality, giving rise to selection bias; we assume that these are independent in the estimations conducted.

Only wealth and the size of a village explain the construction of girls' schools, however. This underlines the significant demand-side problems that exist in education in Pakistan, a theme to which we return below. Girls' schools seem to be a "luxury" good, on which villages do not expend political capital.

Quality of school facilities

Table 6 reports the results from the maximum likelihood probit models for determinants of the quality of primary school facilities. The three political determinants of quality are jointly insignificant in all cases. For example, although column 1 suggests that political promises related to school quantity and quality reduce teacher absenteeism, teacher absenteeism is likely to be higher in villages where all voters are more likely to vote for the same candidate. Taken together, the coefficients suggest little political incentive to improve quality on any dimension. Inequality of landownership is not a significant determinant of quality, except in the case of school textbooks, where greater concentration of landholdings suppresses textbook availability.

	(1)	(2)	(3)	(4)
	Teacher absenteeism	Facility blackboard	Facility textbooks	Facility electricity
At least one village meeting every quarter ^A	-0.092 (0.82)	-0.023 (0.70)	0.065 (0.60)	0.104 (0.88)
Promise by politician to build school or improve school quality ^A	-0.206 (1.78)+	0.030 (0.90)	-0.113 (1.06)	0.142 (1.24)
All villagers vote for same candidate ^A	0.183 (1.77)+	-0.006 (0.22)	-0.013 (0.14)	0.107 (1.00)
Electricity in village ^A	0.363 (3.23)**	0.079 (1.91)+	0.164 (1.64)	0.366 (3.29)**
Number of households in village	0.0003 (1.25)	-0.00005 (0.72)	0.0002 (0.76)	-0.00005 (0.17)
Fraction of land owned by large landowners	0.003 (1.24)	0.001 (1.14)	-0.004 (1.68)+	-0.002 (0.93)
Log of average village consumption expenditure	0.346 (1.83)+	-0.026 (0.50)	0.328 (1.87)+	0.500 (2.58)**
Non-public schools ^A	0.060 (0.35)		0.071 (0.43)	0.300 (1.52)
No. of primary schools in village	-0.057 (1.36)	-0.012 (1.43)	-0.023 (0.59)	0.040 (1.05)
Observations	108	100	112	112

Notes: Absolute value of z-statistics is in parentheses; + significant at 10%; * significant at 5%; ** significant at 1%;
^A signifies dummy variables; dummy for non-public school dropped due to collinearity in regression (2)

The effects of village wealth are difficult to interpret. Wealthy villages are more likely to tolerate teacher absenteeism, but are also more likely to have schools supplied with textbooks and electricity. The first might be explained by the fact that wealthier families are more likely to send their children to private schools and care less about conditions in public schools, but the explanation is inconsistent with the findings in the latter columns. Another possible interpretation is that wealthier villages are more sensitive to teacher absenteeism and respondents to the community survey were more likely to notice it. These results remain puzzling.¹¹

In sum, the regressions support three contentions that we explore further below: first, central and provincial government decision makers were conscious of elections in the 1990s; second, electoral competition largely meant an increase in the quantity of targeted goods and services, but not an improvement in public goods (or quality); third, landlord influence is not directly important in the provision of public services, but the results do not exclude the likely possibility that the concentration of landholdings influences the extent to which villages have frequent meetings or whether villages vote homogeneously or not. These findings mean that the distortions in public policy emanating from the national and provincial governments did not emerge because elections were irrelevant, but because the incentives of elected officials were distorted by the particular dynamics of political competition. The question that we explore in the remainder of the paper is whether devolution reduces the distortions triggered by competition, first by describing the precise institutional details of devolution in Pakistan, and then systematically assessing the various sources of distortion in political decision making and their presence in the new local governments.

The electoral, administrative and fiscal details of devolution in Pakistan

Prior to decentralization, the structure of government in Pakistan was similar to that throughout South Asia and little changed from the legacy of British colonial rule. It divided the country into four administrative tiers: the center, the province, the division and the district. The districts and divisions were distinct legal entities, while the provinces had constitutional status. During most of the 1990s, both central and provincial government were elected and parliamentary. However, the center controlled funding and administration.

Administratively, the federal government, through the Public Service Commission, recruited the elite District Management Group (DMG) on the basis of a competitive examination; personnel from the DMG filled 40 to 60 percent of the posts of Deputy Commissioner in the districts. The remainders were filled by the provincial governments. The Deputy Commissioner controlled all executive, judicial and developmental functions in a district, while each sector of local administration (e.g., education) was managed by the parent provincial line department.

The government of President Musharraf introduced an ambitious plan to devolve administrative and fiscal powers to a series of new local governments: districts or *zilas* (called city districts in the four provincial capitals), tehsils (called towns in the four city districts) and union councils. The National Reconstruction Bureau (NRB) implemented the plan over the period 2001-02, holding several waves of local elections. There are now elected governments in Pakistan's 96 districts (92 Districts and 4 City districts); 307 tehsils and 30 city towns; and 6022 union councils for a population of 141 million.¹² The elections for each of these bodies were

¹¹ We estimated maximum likelihood tobit models for quality indicators of primary schools as well, using village average variables of teacher absenteeism, and the fractions of schools with blackboards, textbooks available for students and electricity available in a village. The results are quite similar to the results of the probit estimations described above.

¹² The system applies to all provinces, but not to the Cantonment (military) areas of towns and cities which

held sequentially during the period December 2000 to September 2001. With some exceptions, they were perceived as fair and impartial. The participation rate overall was 52.5 percent, ranging from a low of 33 percent in Balochistan to 59 percent in Punjab.

There is no constitutional guarantee for the new structure. Although local government is a provincial subject under the 1973 Constitution, empowering provinces to create both administrative units through decree and local governments through ordinances, such bodies have no constitutional status or protection from the parent province at any time. It remains constitutionally permissible for local governments to be disbanded by the parent province at any time.

The new plan reserves a third of the seats in the districts councils and other tiers of local governments for women, addressing a long-standing demand of human rights and women's rights groups. In a major departure from past practice, the plan would, at least in theory, make the district administration answerable to the elected chief executive of the district rather than provincial or central government authorities. Although there have been prior attempts at decentralization in Pakistan, these never involved, even in principle, such delegation to locally elected officials.

A key feature of decentralization is the substantial reliance on indirect election. Only union officials are directly elected by citizens. Unions are meant to be approximately equal in size across a district, with each union corresponding to a group of villages. Each union council is composed of 19 directly elected members elected at large in the union on a non-party basis. The precise electoral rules (how many votes each voter gets, for example) are not in the local government ordinance (article 151) and unclear; it appears, however, that each voter in the union receives only one vote, and the top 19 vote-getters win. Twelve seats are reserved for Muslims, of which four are reserved for women; six are reserved for peasants and workers, of which two are reserved for women, and one seat is reserved for minority communities. In addition, each union has a nazim (head of administration) and naib nazim (deputy nazim), both of whom are members of the union council, but are elected on a joint ticket at large by the whole union.

Each level of local government has councils, nazims and naib nazims. Decision-making authority and control over the bulk of local government resources largely resides with the district government, however. District councils are composed of the union council nazims. Seats for women on the district council must equal 33 percent of the total number of union councils in the district; women are elected in electoral districts defined by the district tehsils. Peasants (in the countryside) and workers (in the city) comprise another five percent of seats, as must minorities. These groups are elected at large, in the whole district. However, although 33 percent of the seats were reserved for women, only 17 percent of new Union Councilors' seats went to them.

District nazims are the single most important official in local government, but they are indirectly elected by an electoral college comprised of all union councilors in a district. Similarly, though they are much less powerful, the electoral college for tehsil nazims and naib nazims is comprised of all the union councilors in the tehsil. Most of positions for District and Tehsil Nazims and Naib Nazims seem to have been won by people with prior political backgrounds.

The discussion of administrative and fiscal decentralization below demonstrates that devolution is incomplete in Pakistan – centrally appointed administrative officers prepare the first draft of district budgets, and funds for local government come almost entirely from upper level

remain under the control of non-elected boards headed by military commanders. Nor are the Federally Administrated Tribal Areas (FATA) currently included in devolution system, although discussions on bringing these into the devolution structure in the near future are taking place.

governments with strings attached. A key characteristic of local government is nevertheless the allocation of decision-making authority among local government officials in the formation of local budgets. The existing ordinances governing Pakistani devolution suggest that the district councils may have little influence over budget preparation or implementation and that the district nazims will exercise significant influence over district government.

First, the district nazim has proposal power – the council must consider the budget proposed by the district nazim rather than a budget that is elaborates itself. Second, council failure to approve any budget leads to zero spending fourteen days after the expiration of the financial year (*SBNP Local Government Ordinance 2001*, Article 112 (5)). Failure to pass the nazim’s budget therefore leaves the council in the position of shutting down government. Third, there is no explicit amendment authority given to the Council. Instead, Article 112 speaks only of Council votes to approve the budget submitted by the nazim, even noting in (1) “Provided that the charged expenditure may be discussed but shall not be voted upon by the Councils.” Finally, the Local Government Ordinance requires that the naib nazim be the chairperson of the council – but since the naib nazim is elected on the nazim’s ticket, this gives the executive substantial authority over the affairs of the legislative body, without corresponding influence (e.g., as in a parliamentary system) of the legislative body on the political future of the nazim.

The final important characteristic of devolution in Pakistan is that it is still incomplete. With respect to fiscal authority, for example, the provincial governments designed the budgets of the new local governments. Administratively, pending rationalization of the employees of the former provincial government who would presumably pass to the new district governments, the new local governments have been barred from hiring staff.

More generally, nearly all resources for local government flow from the provincial government. The formula for provincial allocations, and the conditions on those allocations, are decided by the Provincial Finance Commission (PFC) and, ultimately, by the provincial governor. The members of the PFC are provincial officers or others nominated by the provincial government; there is no automatic representation of locally elected officials on the PFC. Though provincial governments themselves are, currently, all directly appointed by the central government in Islamabad, there are significant and inexplicable differences in the PFC recommendations among Sindh, NWFP and Balochistan, illustrating the discretionary powers of the PFC. Detailed information on transfers are available only for Sindh and are described here.¹³

Provinces get more than 80 percent of their revenues from federal transfers, either federal tax assignments or straight transfers of royalties on oil and gas or excise duties on gas and development surcharges on gas. Sindh’s federal tax assignment constitutes 69% of its federal transfers and income from straight transfers constitutes the remainder. Although in theory district governments, like other levels of government, have both current and development (or capital) accounts, the latter is unfunded. Transfers to fund current expenditures of local governments are quite complicated, but many of the details are not relevant for this discussion. It is sufficient to note three points. First, there is some need-based component to the grants; according to the PFC Award of Sindh (2002), 40 percent of the one significant category of transfers to districts should be based on an index of backwardness.¹⁴ At the same time, it is not clear how this index is

¹³ “The Interim Provincial Financial Commission Awards 2002 in Sindh (2002)” . The first PFC Award would be an interim Award to be reviewed and reconfirmed by the end of the first quarter of financial year 02-03. However, it is not clear whether the PFC Award has been confirmed or not.

¹⁴ The total revenue for current expenditures of the Sindh Provincial Government can be divided into “Divisible pool” (75 percent of total revenue), “Non-Divisible pool” (14 percent) and “Grant from 2.5 percent GST” (11 percent). According to the Interim PFC Award of Sindh (2002), 40 percent of the

constructed and updated to reflect changing situations, and to what extent it does measure the relative needs of the districts.

Second, districts rely overwhelmingly on provincial funds. The vast majority of transfers to districts are called “divisible pool transfers”. District governments collect limited user charges for their own account. Table 7 shows that own funds of district governments in Sindh account for only 1.3 % of the total revenue.

Table 7. The share of own funds in the revenues of District Governments

<i>Revenue of Districts</i>	<i>Rs. million</i>	<i>Share (%)</i>
User Charges	345.6	1.3
Divisible Pool Transfers	25692.4	98.7
Total	26038	

Source: The PFC Award (2002)

Table 8. The discretionary power of District Governments

<i>Current Expenditure of Districts</i>	<i>Rs. million</i>	<i>Account</i>	<i>Share (%)</i>
Expenditures on salary	20853	Account I	80.5
Utilities	2500	Account IV	9.7
Other non-salary expenditures	2548	Account IV	9.8
Total	25901		

Source: The PFC Award (2002)

for other purposes – district governments have little power to hire and fire. Non-salary expenditures come out of Account IV, which as Table 8 shows are a fraction of Account I.¹⁵

Unfortunately, there are substantial limitations on district government discretion regarding the use of transfers. Transfers are made into several “accounts.” The bulk of transfers go to Account I, which mainly consists of expenditures on salaries that, in turn, cannot be used

The administrative structure under devolution leaves substantial authority in the hands of centrally appointed civil servants. Devolution created the post of District Coordinating Officer (DCO), replacing the former Deputy Commissioner. The DCO lacks many of the legal powers of the Deputy Commissioner, but still has significant executive and managerial responsibilities. Not the least of these is the authority to prepare the first draft of the district budget and control over district personnel. The key change under devolution is that the DCO reports to the district nazim. The nazim’s authority over the DCO is limited, however. He can request the transfer of the DCO and initiate the DCO’s performance evaluation, but the transfer goes through only if the provincial government concurs and the nazim’s performance evaluation is valid only if countersigned by the chief secretary and chief minister of the provincial government. Similarly, the ten to twelve executive district officers, responsible for sectors such as education, who formerly reported to the parent line departments in the provincial government, now report to both the DCO and the nazim. Once again, though, the nazim can only request that the provincial government transfer these officials and provincial governments retain sole authority to appoint them. Moreover, district nazims are prohibited from hiring any “advisors, special assistants or

Divisible Pool should be transferred to the Districts based on the *index of backwardness* attached in the PFC Award of Sindh (2002); it also appears implicitly that 75 percent of the Grant for 2.5% GST are meant to be transferred to districts.

¹⁵ The figures in Tables 5 and 6 are accurate in giving a sense of where the bulk of funds for Sindh districts come from and the flexibility of spending; but difficulties with the documentation of Sindh accounts mean that it is not possible to reconcile the totals of Tables 5 and 6.

political secretaries other than support staff allocated to his office from amongst the officials available in the district.” (*SBNP Local Government Ordinance 2001*, Article 18 (2)).

The strict control exercised by the central over local governments in Pakistan brings to the fore a difficult issue that has been little addressed in the literature. What are the incentives of central governments to permit decentralization in the first place? Central governments ultimately make the decision to decentralize; they rarely do so without taking into account the implications of decentralization for their own political futures. In particular, central governments do not decentralize if they expect newly empowered local government authorities to oppose them. Given a choice between decentralizing in a way that strengthens them politically and in a way that does not, they are liable to choose the first even if it entails a sacrifice with respect to public service provision. In the Pakistani case, the institutional arrangements of decentralization reflect a fundamental mistrust or concern on the part of the central government that local governments would not make decisions appropriately.¹⁶

The political economy of policy distortion and their implications for decentralization in Pakistan

Dramatic change in public sector outcomes in Pakistan clearly awaits a loosening of the tight limits on the autonomy of locally elected decision makers. That change can either be positive or negative depending on whether local political competition moderates or exacerbates the sources of policy distortion. The pure public economics of decentralization suggests that under many circumstances, the former should be the case. Decentralization substantially mitigates two obstacles to efficient public sector performance: divergent public good preferences among large groups of citizens, and difficulties confronting large groups of citizens seeking to hold public officials accountable for their performance.

However, as Bardhan and Mookherjee (1999) argue, the mere proximity of citizens to their leaders and the simple reduction in the number of citizens in a governance unit may be neither necessary nor sufficient to enable them to hold locally elected officials accountable. Instead, political distortions that afflict central government decision-making might even be exacerbated at local levels. Their arguments reflect considerable concern with the potential “capture” of government decision making by special interests, often invoked as a real danger of decentralization. This section explores the arguments surrounding the vulnerability of local governments to capture, but also a number of other potential sources of distortion in policy making, ranging from the lack of credibility of political competitors to inter- and intra-governmental conflicts of interest.

Feudalism and traditional arguments about the political economy of Pakistan

Analyses of the political economy of Pakistani policy making have traditionally been grounded in the role of a landed – even feudal – elite. The “rural gentry” is said to have captured 70 percent of the seats in local elections in December 2000.¹⁷ To the extent that landlord influence on policy making is significant, one would expect decentralization to worsen, or at best leave unchanged, policy outcomes in rural jurisdictions where decentralization would perhaps

¹⁶ Grindle (2000) argues that, at least in some Latin American countries, decentralization was driven by key decision makers who were intrinsically reform-oriented, interested in enhancing democracy and improving public sector performance. She is not clear, however, about the electoral costs and benefits of reform for either these decision makers or the other government decision makers who might have opposed reform.

¹⁷ Country Report for Pakistan, 2001-02 (The Economic Intelligence Unit)

strengthen their authority; on the other hand, it might improve outcomes in urban areas previously ignored by rural-dominated national political institutions.

The mere fact that “rural gentry” have emerged as a political force in newly created local governments is not, however, *prima facie* evidence that decentralization will fail, nor is the evidence of landlord influence on policy making in the 1990s overwhelming. First, landlords are not a monolithic class and compete vigorously among themselves for political office. Many landlords, including the most feudal, lost their parliamentary seats in the 1990s. Second, anthropological evidence shows that rural inhabitants were less reliant on landowners in the 1990s than earlier, reducing the leverage of landowners over the voters in their areas. For example, landlords were less likely to offer support in the event of family illness, since the offspring of traditionally powerful landlord families now spend more time in the city (Beall, et al. 1993). Third, the regression analysis described above demonstrates that one channel through which one might expect landlord influence to be manifested, land concentration, seems not to be the main source of policy outcomes in rural areas.

Finally, a careful survey of 125 primary schools in selected rural locales (Gazdar, 2000) further underlines the difficulty of tracing the failures in the provision of government services back to “elite capture” by the landlords. Specific landlord influence was visible in several of the observed cases of non-functional or poorly functioning schools, but it was neither unambiguously pernicious, nor was it sufficient to explain the pervasive breakdown of the educational system that was observed. In some cases, school buildings were used for the landowners’ personal purposes. However, in other cases, when for instance the landlords’ children attended the school, they tended to function better. It is also easy to overstate the extent to which political and rural elites ignore the poor. Rather, the evidence suggests that they are selective in what they provide the poor. Pakistan’s relatively high – and commendable – rate of access to potable water is an example of elected officials’ emphasis on providing targeted benefits.¹⁸

If landlords do not undermine democratic processes, at least directly, and if electoral competition really has been serious in Pakistan, then one must look elsewhere to discover the roots of policy distortion, and to analyze the likely influence of decentralization. One of these is the susceptibility of central and local governments to capture by special interests because of political competitors’ needs for campaign finance.

Lobbying, special interests and decentralization in Pakistan

While there are no exact figures on the role and magnitude of campaign finance in Pakistani politics, vote buying and the growing expense of elections are widely noted.¹⁹ Shafqat (1999) has argued that campaign spending rose to \$120,000 per parliamentarian in the 1997 elections. To provide some context, the electoral system that most closely resembles Pakistan’s is the United Kingdom’s. There, spending per constituency amounted to less than \$10,000 in the 1992 elections.²⁰ Bardhan and Mookherjee (1999) develop a model of electoral competition under uncertainty in which, in the style of Baron-Grossman-Helpman lobbying models, campaign expenditures from the rich help to persuade uninformed voters. The rich (special interests) are more influential to the extent that they are cohesive, electoral competition is limited, loyalty or ideological biases of voters are significant, voters are uninformed, poor voters are

¹⁸ Compared to countries with similar incomes per capita and population characteristics, access to potable water in Pakistan in 2000 was 25 percentage points higher than expected – compared to 20 percentage points less in the case of primary school enrollment

¹⁹ see, e.g., Wilder, page 206

²⁰ The information comes from Pattie et al (1995)

disproportionately uninformed and, somewhat more ambiguously, uncertainty about the ideological or loyalty biases of voters is greater. Evaluating each of these in the case of Pakistan suggests a somewhat mixed, but overall optimistic picture about the likely effects of decentralization on policy outcomes.

First, special interests, whether they be landowners or family or clan lines (*zaats*), appear to be no more cohesive at the local than national levels. In some rural areas, a single family or landowner is dominant; in those circumstances, decentralization will increase special interest cohesiveness; in most areas, however, there are multiple clans and landowners who are often at loggerheads and do not form political alliances; special interests are therefore likely to be divided rather than cohesive in both national and local elections.

Second, the recent local elections were much more competitive than national elections of the 1990s (and, obviously, than national elections since the 1990s, when none have been held). In the 1990s, it was well understood that military dissatisfaction with the incumbent parties would ensure that the opposition would take power. There were two manifestations of this. First, voter abstention but, second, the widespread willingness of candidates for office to buy their way onto the lists of one party and not the other.

Third, by the same logic, electoral outcomes are less certain in local than they have historically been in national elections in Pakistan. Bardhan and Mookherjee (1999) argue that this uncertainty reduces the payoffs to special interests of making payments to candidates in the first place, reducing their influence on candidate positions.

Fourth, ideological biases of voters are likely to matter more in national than in local elections. Voters in Punjab and in Sindh, the two most populous states in Pakistan exhibited a large and persistent bias towards either the Muslim League headed by Nawaz Sharif and the People's Party of Benazir Bhutto. Decentralization in this context forces politics to a lower level where intra-party rivalries are more likely to emerge and where pronounced biases towards one or another candidate independent of performance are likely to be attenuated. This is particularly true given the prohibition of party-based competition in local elections under the Pakistani devolution plan. The relative absence of strong biases in local elections would discourage local politicians from sacrificing voter concerns to the demands of special interests.

Optimism about decentralization in Pakistan is tempered by the fifth factor, information considerations related to voter ability to identify which policy makers are responsible for outcomes. There is significant uncertainty about the specific institutional characteristics of Pakistani devolution. As the discussion below makes clear, these characteristics are particularly complex, particularly with regard to the ability of voters to identify and hold accountable key decision makers. Voters do not directly elect key decision makers and elected local government decision makers have little control over important aspects of policy implementation. Poor performance by those officials whom voters can directly elect is therefore difficult to evaluate. In particular, the institutional structure makes it difficult for voters to verify whether candidate failure to fulfill promises is a result of candidate shirking or incompetence, or because of exogenous institutional and fiscal factors outside of the candidate's control undermine. By this logic, decentralization should worsen public sector performance.²¹

²¹ Information about outcomes, however, is less likely to plague decentralization. Voters – even poor voters – are at least as well-informed about policy performance at the local level as at the national level as it pertains to the policy issues that have been delegated to local authorities (e.g., whether a school has been built or a teacher has been absent). Similarly, low media incentives to report relevant political events, analyzed by Strömberg (forthcoming) may be particularly weak for local government. Certainly, media coverage of local issues is weak in Pakistan and in rural areas practically non-existent. However, these

The credibility of pre-electoral promises and the benefits of decentralization in Pakistan

Models of capture and special interest influence do not directly capture several other political phenomena that also influence the likely effects of decentralization. The first of these is the credibility of the pre-electoral promises of candidates. In Grossman-Helpman style models, these promises are assumed to be credible. However, in Pakistan, as in countries ranging from Bolivia and Indonesia to the Philippines and Bangladesh, political parties project no credible policy stances to voters on issues ranging from education to trade reform. On issues where parties are credible, it is on matters such as religion that are not directly relevant to economic and social policies. For large parties in such democracies, any credible positions they have rarely diverge and are therefore not relevant for political competition. The largest Indian and Pakistani political parties, for example, are united in their respective positions regarding conflicts between India and Pakistan. The lack of credibility has a significant negative impact on policy outcomes. If elections at local levels present voters with competitors able to make more credible promises to them on a broader range of policy issues, decentralization could therefore improve policy outcomes.

Credibility is a crucial element in political competition. A large class of models, including lobbying models, assumes that pre-electoral promises are entirely credible to the voters who know about them. There are two possible outcomes if voters believe no promises whatsoever. The worst is that no public goods at all are provided. This is the case in the political economy models of Acemoglu and Robinson (1990). Ferejohn (1986) describes conditions under which a moderately better outcome, with some positive, but still low level of public goods is possible.

The better outcome results because voters are able to coordinate on an *ex post* voting rule. Using this rule, policy performance must meet a certain threshold or voters reject the incumbent regardless of the promises of the (non-credible) challenger. In these models of *ex post* voting, an excessively high threshold leads politicians to forego re-election and the non-pecuniary rents from holding office, and to abscond with all public resources in the form of rents. High rent-seeking and low levels of government performance result. Ferejohn's model seems to be more realistic, since we observe voters applying *ex post* sanctions to non-credible politicians whose policies have disastrous consequences; we also observe positive levels of public good provision, such as education, in nearly every country. Neither of these would be evident if voters had no leverage at all in a society.

Some anomalies remain, however, even when using Ferejohn-style models of political credibility. Persson and Tabellini (2000, chapter 8) develop a model as in Ferejohn (1986), but allow politicians to spend resources either on narrow, targeted goods or on broad public goods. Non-credible political actors in these models have an incentive only to provide a low level of broad public goods, but no government services or goods targeted to specific voters, and to retain substantial rents for themselves. This result is somewhat anomalous because politicians confronting election in most developing countries are desperate to provide narrow, targeted public goods.

Keefer (2002) adjusts the credibility assumptions to yield results consistent both with the proliferation of narrow targeted goods and with an early literature on clientelism. Even if the policy stances of candidates or parties are not credible to voters broadly, legislators or other politicians can still rely on their personal reputations for providing goods, jobs and government access to individuals with whom they have had contact. These relationships with voters are often

issues have never been reliably covered in Pakistani media, regardless of the level of government in charge of them.

termed “clientelist”. Such candidates have little incentive, however, to provide public goods that benefit a broad range of the public. When voters have only at most one “patron”, candidates competing in a clientelist electoral milieu offer a modicum of targeted goods to their clients, extract large rents, and leave citizens lacking patrons with the same public services that they receive were no electoral promises credible. If some voters have credible personal relationships with more than one candidate, however, all of the rents that candidates would otherwise have retained for themselves are competed away in the form of targeted transfers to these voters. Where the number of such voters is large, it becomes worthwhile for candidates to promise public goods that benefit all.

The foregoing arguments suggest several conditions under which decentralization in Pakistan might change policy outcomes. First, political competitors at local levels might simply be more credible, at least regarding issues that are within local government jurisdiction, than are political competitors at provincial or national levels regarding those same issues. In general, the credibility of pre-electoral promises does not seem to have been the hallmark of the first elections under Pakistan’s new devolution plan, however. Candidates for local office were either new to the political game or had held national office; in neither case is it possible to argue that they were more credible, and some reason to think that their reputations were weaker. In addition, parties were entirely disallowed in the recent local elections, depriving voters of one important vehicle by which politicians can bind themselves to policy promises. At the same time, though, party reputations are typically strongest and most useful to candidates for national level issues (national defense, trade, inflation and employment). In any case, in this regard as well it is difficult to argue that politicians were more credible in the recent local elections.

Second, if the non-pecuniary rents from holding office are higher for local government office than for higher government office, decentralization would improve policy performance by making politicians more reluctant to pursue rents at the expense of office-holding. However, it is more likely that non-pecuniary rents from holding national office are substantially greater than those from local office. In this case, we might expect policy performance to be worse in decentralized systems where political promises are non-credible.

Third, though, the clientelism analysis suggests that an increase in the number of decision makers, which always occurs under decentralization, should also increase the number of decision makers, each with their own client base. Any given voter is therefore more likely to have a patron in office and benefit from some targeted transfers. This might be the situation in Pakistan. The extent to which this is the case, however, may be lessened by the weak decision making authority of the councils and the extent to which the complicated system of indirect elections attenuates the influence of voters on the most important decision makers, the district nazims. These institutional considerations are discussed further below.

Fourth, quality public good provision is more likely as the number of voters rises who are able to believe the promises of competing candidates. Decentralization therefore improves outcomes if it increases the number of decision makers at the local level relative to the national level, or if it raises the likelihood that political competitors compete for the votes of a larger number of mutual clients. Again, the magnitude of the effect depends on the extent to which elections of union council members and union nazims allow voters to influence the decisions of indirectly elected district councils and nazims.

Evidence reported in Gazdar (2002) implies that rural voters, as individuals, are not likely to be able to have multiple patrons and to extract competing offers from candidates. Based on extensive fieldwork in 13 rural villages throughout Pakistan, he finds that voters are almost always identified with exclusive and well-defined voting blocs, each headed by an influential person (a *zaat* head, a teacher, a landlord). Defection is very rare, making it unlikely that voters

have credible relations with multiple potential candidates for local office (i.e., belong to multiple voting blocs). The heads of the voting blocs, on the other hand, may be able to extract competing promises (one aspect of the attractiveness of membership in a voting bloc), but may need only to pass on a fraction of the benefits of competition to the voters in the bloc as a condition of maintaining bloc cohesion.

All of the credibility models discussed so far assume that the resources available to the new local governments, the powers that they can exercise, and the process of decision making and the relative strength of the players inside the new governments is well-known to voters and political competitors. In fact, there is considerable uncertainty about these matters in Pakistan. This makes it even more difficult for credible promises to be made to voters prior to election, since voters know that verification of compliance will be difficult. This is a difficulty, perhaps only transitory, that decentralization confronts but that central government decision makers have not. It undermines the ability of even candidates who enjoy strong reputations with voters to make credible promises, since they do not know the resources or powers that they will have at their disposal to fulfill the promises. This uncertainty would suppress the benefits of decentralization in Pakistan.

Intra- and inter-governmental conflict and decentralization

The discussion so far assumes that governments are unitary actors. In fact, governments are comprised of multiple actors, each of whose actions typically influences the welfare of the others (or the others' constituencies). These relationships give rise to conflicts of interest that lead to significant shifts in policy if the multiple actors cannot make credible agreements with each other. Persson and Tabellini (2000, chapter 9) describe a stylized system in which one decision maker controls the agenda for spending and the other for taxation. Unable to make credible commitments to each other, these decision makers can agree only on a much smaller government than would otherwise be the case. Officials with the authority to set taxes, not believing promises that their constituents will benefit from the decisions of officials who control spending, either set taxes at a low level or they impose tight constraints on the spending authority's discretion.

In the context of decentralization, conflicts of interest operate at two levels: among decision makers all located at the local level, and between the local and national governments. Pakistani devolution tightly limits local government discretion: local governments cannot hire and fire most service providers in their jurisdiction, are restricted in their ability to raise taxes, and are limited in the discretion that they can exercise regarding the allocation of funds coming from higher levels of government. This simply means that decentralization is less likely to change outcomes than would otherwise be the case.

With respect to the first, one would like to know whether conflicts of interest among decision makers at the local level are worse than conflicts of interest at the national level, but also whether decentralization, *per se*, relieves conflicts at the national level. These two comparisons turn out to operate in different directions. At the national level, under the elected governments of the 1990s, the political regime type was parliamentary. In theory, in parliamentary systems the conflict of interest between legislature and executive is mitigated because legislators can remove the prime minister. In practice, Nawaz Sharif and Benazir Bhutto had unassailable positions atop their parties; the parliamentary majority could therefore do little to ensure that their spending priorities would be included in the budget in the first place, or implemented if they were included. This would have led legislators to resist increased taxes.²²

²² One might argue that the threat of exclusion from party lists would force majority party members of parliament to support any legislation submitted by the prime minister. However, in a clientelist system,

At the local level, conflicts of interest are almost precisely the same, though the institutional structure is different. District nazims control spending and budget policies, but need council approval of tax increases. The system is more “presidential” than “parliamentary”, however, since the district nazims are elected by a college of all union councilors rather than by the district councilors. Since they cannot easily remove or impeach the nazim, therefore, and since they cannot easily control the nazim’s spending and budget decisions, we would expect that the district council would be at least as reluctant to fund government (e.g., to fund public goods) as the national legislature.

There is a key difference, however, between the two levels of government. Most funding for local government – as much as 98 percent – is projected to come from revenues authorized and collected by higher level governments. The quantity of government spending on public goods therefore depends largely on political incentives at the national level to send resources to local governments. In fact, under two conditions, decentralization may help resolve conflict of interest problems at the national level. First, if legislators feel that they have greater influence over local governments or that they will get political credit for transfers to local government; second, to the extent that they believe such transfers are “automatic” and will not be subverted by the prime minister. Given these, legislators would likely be more eager to increase tax revenues under decentralization than they were when the prime minister controlled both budgets and implementation. It is not yet possible to say whether these two conditions are met in Pakistan, since there is currently no national elected government.

The effects of decentralization on corruption in Pakistan

Models in the Grossman-Helpman tradition do not explicitly consider the possibility that politicians divert rents to themselves, as opposed to special interests. Models as those of Persson and Tabellini (2000) or Keefer (2002), on the other hand, abstract from special interest influence but do allow for rent-seeking. Rent-seeking is useful to consider since rents that serve no purpose but to enrich politicians are a significant source of distortion in policymaking and one that often triggers interest in decentralization. All models conclude that rents are high when voters cannot force politicians to compete them away in the form of promises of better public sector performance.

One factor that relaxes competitive pressures on politicians is the absence of credibility, as the previous discussion demonstrates. In addition, though, greater electoral uncertainty – for example, about the ideological or loyalty biases of voters – also influences rents. However, although uncertainty reduces special interest incentives to peddle influence in lobbying models, as Bardhan and Mookherjee (1999) show, it actually encourages politicians to pursue rents. There is no inconsistency between the models: uncertainty in both cases reduces the probability of election, for any give policy announcement, which devalues both the expected value of the privileges that special interests seek and the value of seeking office.

Decentralization encourages or discourages rent-seeking, therefore, depending on the competitive pressures to which candidates for office are exposed and the level of electoral uncertainty in local compared to national elections. The earlier discussion suggests that in Pakistan, it need not be the case that voters believe the promises of competing local candidates

where personal credibility is key, an MP with an extensive local network of “clients” would have been very costly, politically, to exclude from the list. There is evidence that seemingly contradicts this argument: candidates purchased their candidacies from party leaders with cash. This, however, relates to a different issue, the fact that for most elections in the 1990s, candidates and voters knew that the military and security services would work against one or the other incumbent party that had not met their expectations. In “normal” times, with competitive elections, we would expect the reverse, extensive efforts to persuade candidates to ally with one or the other political party.

when they did not previously believe the promises of competing provincial or national candidates. Electoral uncertainty, though, is likely to be greater at the local level in Pakistan, certainly for the foreseeable future, in light of the earlier discussion. Decentralization, even if it suppresses special interest influence, may therefore increase politician incentives to pursue rents.

Political incentives to provide private and public goods and the impact of decentralization in Pakistan

Many models of political competition assume that policy is on a single dimension, such as the provision of a homogeneous public good or a particular policy. Mayhew (1974), though, showed that the provision of targeted goods is a consuming concern of US legislators. Persson and Tabellini-style models allow governments to choose between spending on public goods and the provision of narrowly targeted (nearly private) government goods and services. Distortion arises because any given amount of spending on public goods delivers larger benefits to voters than the same amount of targeted spending. Under many circumstances, however, political decision makers have greater incentives than others to provide targetable private goods rather than public goods. In particular, as the earlier discussion suggests, in a country where politics is largely clientelist and where electoral promises are generally not credible, the tendency to focus on targeted goods is likely to be exaggerated. The earlier discussion suggests that decentralization may offer little relief from clientelism in Pakistan, however, leaving unchanged this motivation for political decision makers to continue to focus on targeted transfers at the expense of broad public good provision.

Electoral rules are complicated at the local level, but they provide some reason to expect a greater focus on public goods relative to elections at the national level. The district nazim is elected by an electoral college of officials (union councilors) who are themselves elected at large in the unions.²³ A union council candidate is sure to take office, therefore, if he or she wins 1/19 of the total vote, but could win with considerably less if there are a large number of competitors or if one candidate wins a disproportionate number of votes (assuming that each union voter has only one vote to cast). The district nazim requires the support of 10/19 of all union councilors to win election (at least in the first round). What, then, is the relationship of the district nazim to the union voters? If every union councilor was elected with 1/19 of the vote, then the district nazim must effectively keep 10/19 of the voters happy. However, union council elections are likely to be skewed, such that there are many candidates who divide the vote, or there are one or two candidates who receive large pluralities. In that case, the average union councilor could represent much less than 1/19 of the vote of the union, and the district nazim could therefore take office needing, indirectly, the support of many fewer than one-half of all voters in the district. The fewer the voters whose support is required, the lower the incentives of the district nazims to provide broad public goods and the greater their incentive to provide targeted transfers.

In contrast, the executives of provincial or national governments in the 1990s took power only if their MPs and the MPs of possible coalition partners, each elected in first past the post, single member district elections, won a majority of parliamentary seats. To win, a prime minister needed at least the majority of seats in parliament, and the winner of each seat required at least a plurality of the votes in the constituency, but not more than one half of all the votes. At most, the prime minister therefore required the support of just one-fourth of all voters, mitigating their incentives to supply public goods. To the extent that the district nazims are forced to seek the support of union councilors who collectively need the support of more than one-fourth of all voters, therefore, the electoral rules under devolution should improve public good outcomes.

²³ If a nazim/naib nazim ticket does not receive a majority of all votes in the first round, a second round of elections is held in which the ticket obtaining a plurality of votes wins.

However, there are many circumstances in which this may not be the case, and the number may fall substantially below one-fourth.

The indirect election of district nazims and political accountability to voters

The likely effects of decentralization are likely to be conditioned on two additional dimensions: the fact of indirect election of key decision makers at the local level in Pakistan, and the horizons of elected leaders at the local level. With respect to the first, an important advantage of decentralization is meant to be the greater ability of voters to hold local decision makers accountable for their actions. Discussions of decentralization usually assume, however, that voters directly elect these decision makers. As the foregoing makes clear, however, in Pakistan the indirect election of the main local decision makers, the district nazims, constitutes a notable departure from this model. Though there is little research on this question, the introduction of indirect elections seems to yield several opposing effects on accountability.

One is related to the earlier arguments about electoral rules. Lizzeri and Persico (2001) argue that electoral colleges of the type used to elect the US president concentrate candidate attention on a few swing states, depressing their incentives to provide broad public goods. They assume that candidate promises are credible. Since the electoral college arrangement means candidates need only win a bare majority of votes in states that represent a bare majority of electoral votes, states with large numbers of core supporters for one or the other candidate are ignored by both candidates – winning non-core voters in those states does not affect the electoral college votes of either candidate. Instead, both candidates focus all of their attention on a few swing states, whom it is most advantageous to target with narrow transfers.

Unlike presidential candidates in Lizzeri and Persico, candidates for district nazim are not credible, although the arguments from the previous section suggest results in the same spirit – the larger the number of voters represented by the union councilors whose support the district nazims need, the greater the incentives for public good provision. Because union councilors are not obliged to vote for any particular district nazim candidate, however, results from parliamentary or electoral college analyses do not speak to the fundamental issue of accountability and the ability of voters to use their votes for union councilors to discipline the behavior of district nazims. In a world of perfectly informed voters in which the district nazim makes all key decisions and elections for union nazim are as or more competitive than direct elections for district nazim would otherwise be, it would not matter whether district nazims were directly or indirectly elected. Voters could observe bad performance and reject union nazims who voted for the district nazim. None of these three assumptions is likely to hold.

Voter welfare is likely the product of both politician actions and exogenous shocks, and voters are unlikely to observe either perfectly. Information asymmetry creates a dilemma for voters. They prefer not to penalize politicians whose beneficial decisions on voters' behalf are masked by negative shocks that result in observed bad outcomes, but they also prefer not to shield politicians whose shirking is disguised by positive shocks that result in observed good outcomes. In such a – quite common – model, the propensity to shirk is likely to be high. To the extent that union nazims are better informed about the actions of district nazims and shocks unobservable to voters, outcomes could improve.

To the extent that union nazim elections are less competitive than direct elections for district nazim would have been, however, indirect election undermines accountability. Crudely put, under these circumstances, the rents left over for the district nazim are higher after bribing the union councilors under indirect elections than they would be if the nazims had to persuade

voters to support them under direct elections.²⁴ Finally, and more generally, the more that the specific identity of a union nazim matters for voters above and beyond the decisions of a district nazim, the greater the costs to voters of punishing union nazims for their support of district nazims who perform poorly. The latter two conditions are likely, in Pakistan, to outweigh the information advantage of union nazims and undermine the ability of voters to hold district nazims accountable for their actions.

Limited horizons and political incentives under decentralization

The shorter are politician horizons, the less likely they are to pursue public policies with payoffs further in the future and the more likely they are to pursue rents. These effects are mitigated to the extent that politicians expect to return to office or expect that their actions in office will affect the pecuniary and non-pecuniary rents they can achieve when out of office. National and provincial governments were characterized by short horizons in the 1990s, with the threat and reality of expulsion from office a permanent condition. It has been evident since the late 1990s that both of the chief political actors of the 1990s, Nawaz Sharif and Benazir Bhutto, intended to return to office.

Decentralization in Pakistan would be expected to improve outcomes to the extent that local officials enjoy longer horizons or expect that malfeasance will have greater negative consequences for their post-official life. Given the extraordinary circumstances of the 1990s for national level politicians, this might seem an easily achieved advantage of decentralization. Military governments intervened several times to bring to a premature end the term of office of elected prime ministers; one would not expect any particular local government to feel threatened by such an occurrence. However, decentralization itself, the powers of local officials, and the ability of the unelected central government to easily remove any officials suggests that horizons of local officials could easily be shorter than those of national politicians of the 1990s. Evidence on this point, however, is not available.

The Demand for Services and Decentralization

Beyond the political incentives created by informal rules of political competition, it is also the case that many Pakistani households seem to place a different value on education than households in comparator countries, particularly the education of daughters. Nearly half of all girls between 10 and 20 years old in Pakistan have never attended school. When asked why, the parents of nearly 40 percent of these girls indicated that parental or elder disapproval was the main reason. These responses may mask the supply-side problems that are the focus of the analysis here, or more complex parental trade-offs between the relative costs and benefits of sending their female children to school. The regression results earlier, however, support the literal interpretation of such survey responses: voters in rural Pakistan do not attach a high value to girls' education. From the point of view of elected officials, pushing for expanded access for girls to existing educational facilities is therefore not only of limited political utility, but presents real political hazards.

The analysis of decentralization generally takes for granted the demand for quality public services on the part of the public. This is not necessarily so, as the Pakistani case amply demonstrates, and influences how one thinks about decentralization. In particular, to the extent that some localities have particularly low demands for public goods that might be regarded as important for development, such as the education of girls, decentralization can lead to a

²⁴ Behm and Grüner (2002) conclude, however, that if constituency-specific shocks that affect voter preferences for candidates are large, indirect election of a welfare-maximizing president through an electoral college is more likely than through direct elections.

deterioration of development by suppressing central government influence over local tendencies to underprovide critical services.

Experience in Nepal and other places show that girls' education can be dramatically improved by paying families to send their daughters to school. In these instances, poor families saw little economic return to educating girls, and monetary compensation was a natural means to persuade them to decide otherwise. In Pakistan, however, any similar program would have to set compensation at a level sufficient not only to offset the economic costs of girls' education, but also the disutility that parents attribute to sending their daughters to school.

In the United States, efforts to persuade states to provide education to African-American students in the same facilities as other students eventually required federal intervention, over the objections of the representatives of these states in the national legislature. Again, the parallels with Pakistan are inexact, since African-American families were eager to educate their children and frustrated by the lack of access. The key point, though, is that significant local opposition to an education reform did not naturally dissipate as a consequence of local reform efforts, but required the intervention of a higher level government.

Conclusion

The efficacy of decentralization as a remedy for distortion in public policy is, as the analysis here suggests, contingent on numerous factors, ranging from the information of voters to electoral rules to the potential for intra- and inter-governmental conflicts of interest. Moreover, each of these dimensions of political institutions and competition influence public policy outcomes in different ways. Some, such as the credibility of pre-electoral promises and some formal electoral rules, affect both the quantity of public spending and its allocation across different kinds of government goods and services (targeted or broad). Others, such as conflicts of interest between national and sub-national governments, influence whether decentralization will have any change at all on outcomes. Tests of the efficacy of decentralization must therefore capture several dimensions of public policy making in order to make comprehensive findings.

For example, among the most rigorous studies of the public policy effects of decentralization in developing countries are Faguet (2002) and Azfar, et al. (2000). They conclude that public investment by local governments is more progressive and responsive to the poor than central government investment decisions. Faguet's work concerns Bolivian decentralization and looks at actual patterns of public investment by national and local government. The transfer of public investment funds to local government control led to a sharp decline in allocations for transportation and hydrocarbons and more to health facilities and schools. This is not entirely unexpected, since investments that benefit multiple communities would always be under-provided by communities acting separately.

On the assumption that large public investments have a lower payoff for the median Bolivian voter, the shift can be explained as a consequence of greater of special interests on national than on local politicians. Other sources of inefficiency require additional investigation, however, including those that affect the quality of public investment (holding quantity constant), as well as overall government spending. That is, even a shift in public investment towards the poor does not preclude a total reduction in spending effort or a decline in the quality of spending.

The importance of these additional issues is perhaps implicitly supported by the more qualitative and ambiguous evidence on the effects of decentralization on public sector *performance*. Manor (1999), for example, argues that the effect of decentralization on public sector performance is far from assured, in contrast to the more robustly positive empirical findings in Bolivia and the Philippines. The predictions here provide an explanation for the

disjunction between the statistical studies of some aspects of public policy and the more neutral findings from qualitative studies of public policy under decentralization.

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