

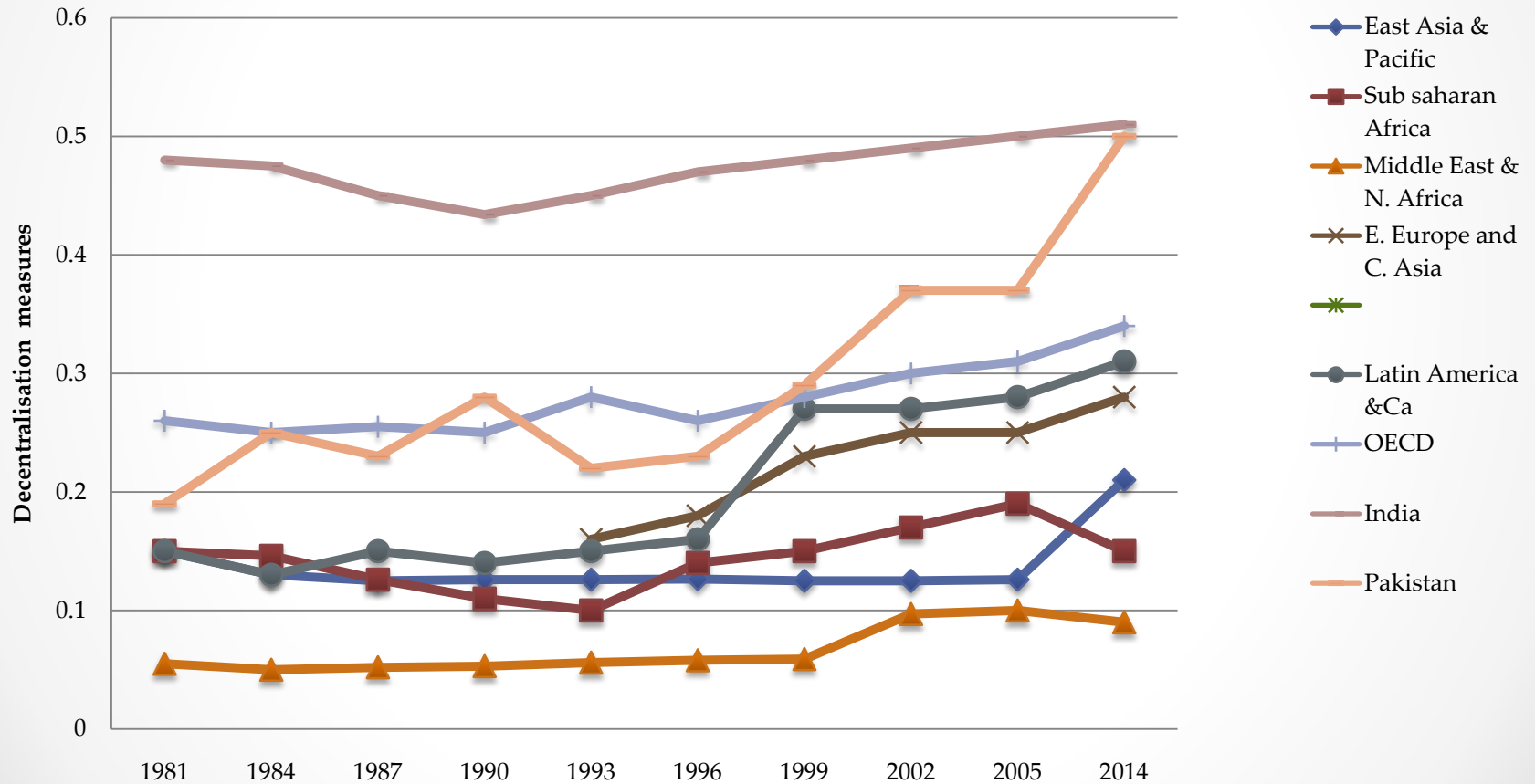
Does Decentralisation Enhance Responsiveness to People's Needs? Empirical Evidence from Pakistan

Syed Manzoor Ahmed (*PhD, UK*)
Associate Professor and Dean

Lasbela University of agriculture, Water and
Marine Sciences, Balochistan

Exp. Decentralisation

Trend of Decentralisation around the World



Source: Own Calculation Based on IMF, Financial Yearbook data and FBS (2014)

Decentralisation Debate

- Over the past two decades decentralization has become one of the broadest movements, and most debated policy issues, in the world of development
- It is at the center of reform efforts throughout Latin America and many parts of Asia and Africa; and under the guises of subsidiarity, devolution and federalism is also central to policy discourse in the European Union, United Kingdom and United States
- A key argument used by its proponents is that decentralization makes government more responsive to local needs by 'tailoring levels of consumption to the preferences of smaller, more homogeneous groups
- Opponents counter that local government's lack of human, financial and technical resources will prevent it from providing appropriate public services under decentralization, and thus power should remain in the hands of central governments that are relatively resource rich

Decentralisation Debate

- Despite going to the heart of the decentralization debate, these claims have not been extensively tested. What evidence does exist is largely anecdotal and/or inconclusive.
- This paper seeks to answer the question of responsiveness clearly and convincingly for one remarkable case: Bolivia. I examine how decentralization changed local investment patterns across all

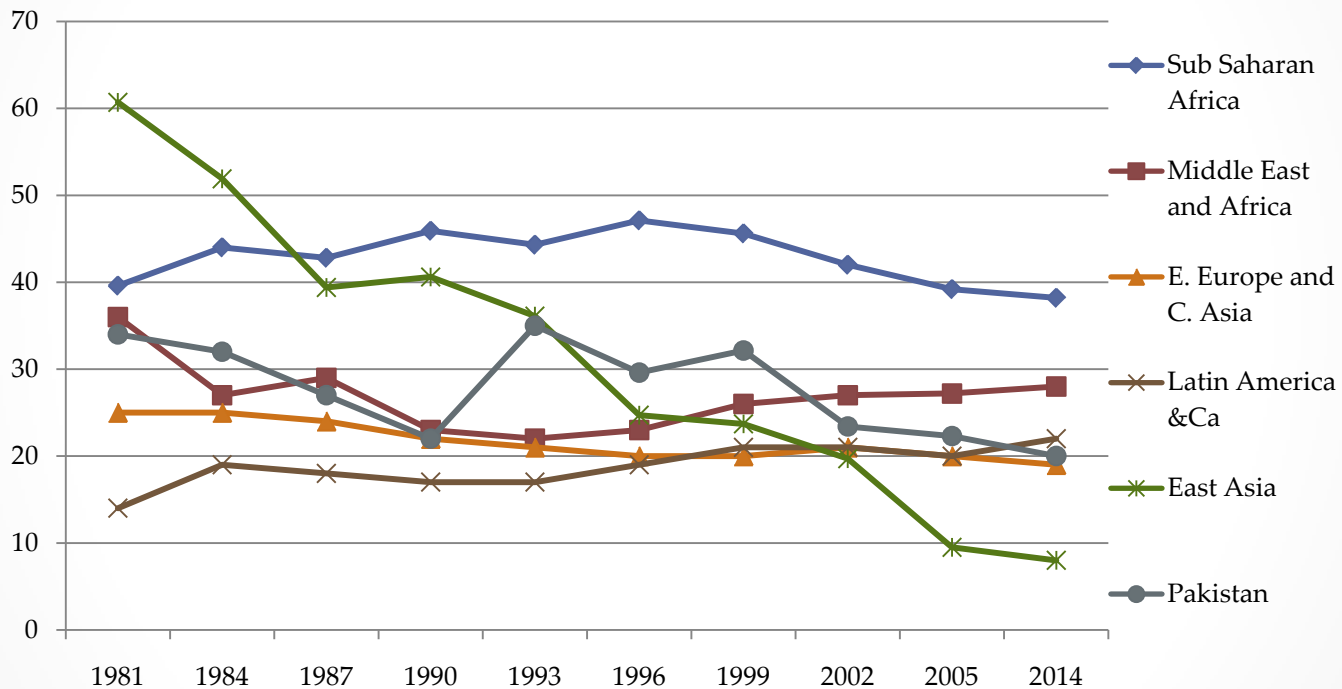
Decentralisation Debate

- Transfer of fiscal decision making and the authority of planning and management of public functions from central/federal government to provincial/sub-national governments (Oates, 1973, 1999 & others).
- Decentralised governments, mandated with the fiscal and administrative authority, are expected to perform far better and with more efficiency in developing, planning and provision of the public services than a remote central government (Faguet, 2004 & others).

Decentralisation

- Enhances the quality and quantity of social services provision like health and education (see Litvack et al., 1998 & others).
- However, opponents of fiscal decentralisation believe that it causes inefficiency in economies, increases social inequality and distorts social services provision (see Tanzi, 2002 & others).

Trend of Headcount Poverty



Source: Own calculation based on data taken from World Bank (2014)

The Theoretical Framework

- How public good provisions in a fiscally decentralized setup would be people-centric considering various institutional types
- For simplicity we assume:
 - Decentralized govt. – proximity advantage
 - Centralized govt. – Technological/administrative efficiency edge
- In the production and provision of public services
- Assuming two countries: I) fiscally centralised country (C), and II) fiscally decentralised country (F).
- The centralised county has one regime.
decentralised country, there are (k) number of sub-national govt.

- Consider a citizen of a locality, who consumes two baskets: Basic necessity goods and services (G) and private goods (N).

$$L=f(G, N) \dots\dots\dots 1$$

Where, (L) is the living condition. to meet the (L) (G) and (N) amount. (G), contains the people centric goods (P), therefore, (G) is the function of (P).

$$G=G(P) \dots\dots\dots 2$$

(N) is determined by all private goods and services, which we denote as (Z):

$$N=N(Z) \dots\dots\dots 3$$

$$LG>0, \text{ and } LGG \leq 0 \dots\dots\dots 4$$

$$LN>0, \text{ and } LNN \leq 0 \dots\dots\dots 5$$



Assuming that each region (k) has a necessity factor, that we characterise as "need" ($\lambda > 0$). This factor gives knowledge about policy in which (P) and (Z) are required to provide public goods. Since the decentralised government is nearer to the local population, therefore, due to the proximity condition, decentralised country has an advantage in local need parameter (λ).

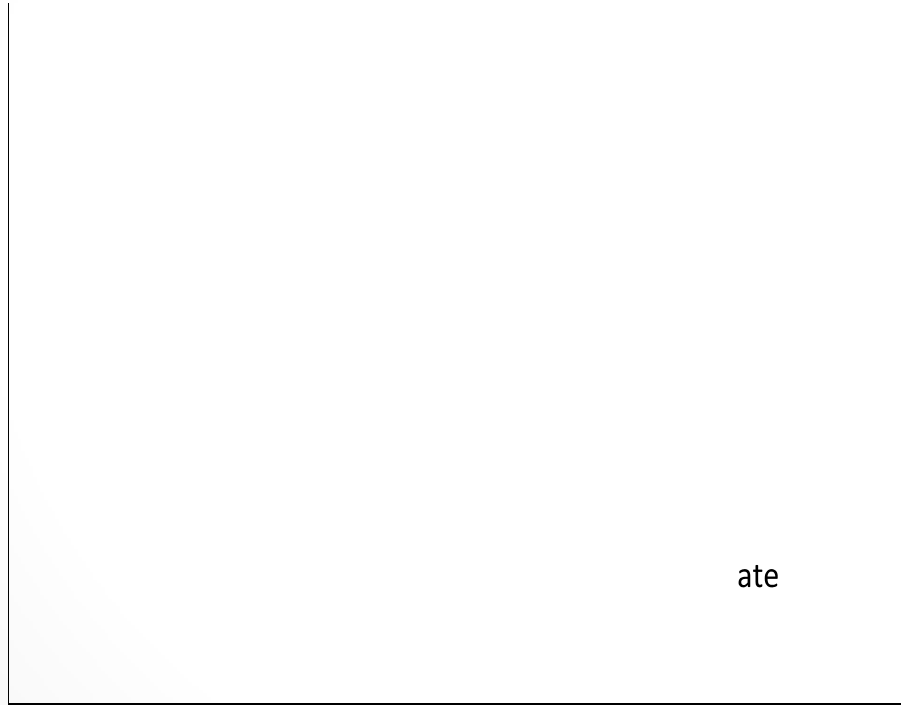
putting eq. (3), (4) and (5) together based on the above-arguments:

$$L=f\{\lambda G(P), N(Z)\} \dots\dots\dots 6$$

This function is concave, and increasing with respect to (P) and (Z).



Relationship between Living Standard and Goods Consumption



ate

The Budget Constraint

Centralised and decentralized government, both have balanced budgets with the (R) amount of Revenue, and (e) amount of expenditure.

$$\tau^i = w(P+Z)$$

Where, τ^i is the total tax for all (i), $i = 1, 2, \dots, n$

- The central country betters in technological advancement, the production of both goods compared to the fiscally decentralised one. γ to rep. "technological edge" or cost effectiveness of the centralised country. it has disadvantage in remoteness Reproducing equation (4.5) and inserting superscript (i) and (j), we have:

$$L = f\{\lambda^i G(P^j), N(z^j)\}$$

Where $J = F$ and C

private consumption of citizen is the function of total number of hours work (w), minus the amount of taxes (τ^i) which they need to pay. Therefore, the private consumption function of the citizen

$$C^i = V(wL^i - \tau^i)$$

Applying the Lagrange, and putting the equations (7), (8) and (9) respectively, we get our objective

function:

$$\mathcal{L} = \left\{ \sum_{i=1}^n \left(\sum_{i=0}^n f[\lambda^i G(P), N(Z)] + V(wL^i - \tau^i) \right) + \theta \left(\sum_{i=1}^n \tau^i - WP - WZ \right) \right\}$$

$$Z = \frac{1}{\left((\alpha A \lambda^i \gamma \left(\frac{\alpha}{1-\alpha} \right)^{\gamma(\alpha-1)} \left(\frac{1 + \phi WL - \phi}{\phi} \right) \right)^{\frac{1}{\gamma-1}}}$$

$$P = \frac{\frac{\alpha}{\beta}}{\left((\alpha A \lambda^i \gamma \left(\frac{\alpha}{1-\alpha} \right)^{\gamma(\alpha-1)} \left(\frac{1 + \phi WL - \phi}{\phi} \right) \right)^{\frac{1}{\gamma-1}}}$$

- Pro-people public goods provision by decentralised government is the trade-off of the centralised regime's "cost effectiveness" factor (γ) and decentralised government's "proximity advantage factor" (γ).

Comparison of the provision of pro-people good (P) under fiscally centralised and decentralised regimes

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/ i)

P^C as preferred P^F

$$P^C = P^F$$

Social Service Provision and The Devolution Plan in Pakistan

- Expenditure on social services particularly on education and health has been recognised as an important source for the human development and poverty reduction.
- Countries like Pakistan with compelling fertility rate, widespread and chronic poverty and increasing rate of unemployment need to enhance efficiency of its public expenditure on social services.
- We postulate that since the local governments are more responsive to local people needs because of being accountable them the pattern of investment may be in the favour of those sectors that can incur benefits to the poor.

Empirical evidence

- Following Faguet (2004); Faguet and Sanchez (2008); Aslam and Yilmaz (2011) we identified nine sub-sectors of public sector which could impact the living standard of local communities in general and the poor and marginalised social groups in particular.
- We comparing pre and post Devolution in terms of the inter-sectoral resource allocations, as well as the pattern of public sector investments.

$$Sec_{it} = \alpha + \beta_1(Pdum)_{it} + \beta_2(Ydum)_{it} + \beta_3(Dev_{it}) + \beta_4(Pop_{it}) + \beta_5(GDP_{it}) + e_i + \mu_{it}$$

Variables Used to Determine Sectoral Allocation Public Resources

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|--|-----------------------------|----|-----------------------------|
| 1 | Police | 7 | Agriculture |
| 2 | Public health | 8 | Irrigation |
| 3 | Social Services | 9 | Rural Development |
| 4 | Education | 10 | Transport and Communication |
| 5 | Health | 11 | Civil Work |
| 6 | Social Security and Welfare | | |

Empirical evidence

- each service Random and Fixed effects are estimated separately
- Devolution indicator is significant and positive (negative sign for population per bed as expected) sign across all social and economic indicators
- It therefore suggests that the Devolution on average has been effective in provision of social and economic services provided to local communities
- It is plausible to conclude that following the Devolution; the magnitude of all nine vital socio-economic services has increased.

Decentralisation Debate

Ostensibly objective of the Devolution was to make the local public services accessible to the local people and the improvement of social infrastructure

Theoretical prediction and empirical evidence show that Decentralized governments are more effective in meeting people needs

Pakistan being an federal country with three tier of governments, shall be more effective with local governments

Devolution significantly changed the size and magnitude of social and economic investment.

Decentralisation and Service Delivery

- And these shifts are strongly and positively related to real local needs.
- Our analysis leaves open the question of how political power is distributed in a central government, the institutional mechanisms by which governments sense and take up local demand for public services, and the precise nature of the organizational or technical advantages or scale economies which might benefit one level of government over another.

Issues With Decentralisation/Devolution

- Sheer Presence of Elite Capture
- Political Expediency
- No democratic continuity
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