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## Instrumental incoherence in institutional reform: Decentralization and a structural solution to political exigency

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# Working Paper Series 2015

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## **Instrumental Incoherence in Institutional Reform:**

Decentralization as a Structural Solution to Political Exigency

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# INSTRUMENTAL INCOHERENCE IN INSTITUTIONAL REFORM

## Decentralization as a Structural Solution to Political Exigency<sup>1</sup>

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### Abstract

If the effects of institutional reforms are long-term and unpredictable, why do leaders undertake them? We analyze reforms where the incentives of agents pursuing a change, and the effects of that change, are highly asymmetric in time and policy dimensions. We examine detailed evidence from decentralization in Bolivia and Pakistan, and explain very different outcomes with a simple game-theoretic model of the incentives and interactions amongst ruling and opposition parties, and civil society, over multiple periods. Politicians decentralize to solve a discrete, often short-term political problem. But decentralization is neither short-term nor discrete, but rather a deep change in the structure of public finance and authority with long-term effects on government, politics and society. Understanding the original problem is key to understanding the characteristics of the reform implemented, as well as its ultimate success or failure. Our analysis likely extends to a broader class of deep reforms with long-term consequences.

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## 1. Introduction

Why do elected leaders undertake institutional reforms? By *institutional reforms*, we mean changes to the ‘rules of the game’ (North 1990) that determine how collective decisions are taken, and resources raised and expended for public purposes. Why do senior politicians choose to modify the structures and patterns of governance by which a nation is run? Changes of this type, for example to voting rules (e.g. first past the post vs. proportional representation), presidential vs Westminster-style legislative and executive branches, or federal vs. unitary states, have deep, long-term consequences across a wide array of public and private activities, and policy areas, most of which are unforeseeable at the point of reform. That consequences should be so broad and deep is implicit in the ‘rule of the game’ concept of institutions. By contrast, politicians’ time horizons and incentives are famously short-term (Pierson 2004), prioritizing immediate electoral and transactional advantages over uncertain payoffs further in the future. The reasons for this are straightforward: in a democracy, elected politicians must win the next election or cease being politicians; in authoritarian regimes, politicians on the losing side of important decisions or transactions quickly lose relevance. And yet politicians persist in acting to change institutions. Why?

Institutional reform falls into an analytical category marked by serious *time-horizon mismatch* between the incentives of the reformers and the effects of the reforms. This is broadly related to the time inconsistency problem originally analyzed by Kydland and Prescott (1977), which produced a simple but powerful insight: it can be beneficial for policymakers to announce in advance a policy they expect to influence private agents’ decisions. But once private agents have made their decisions, it is in policymakers’ interests to renege and act differently. Over time, private agents see that policymakers are unreliable, and distrust any policy announcement. In such a context, it can be in everyone’s interest – including policymakers – to commit to a fixed policy rule at the expense of their own discretion. This is the crux of the argument behind, for example, independent central banking, and laws prohibiting ransom payments to terrorists.

The problem of time inconsistency in policy choice has been broadly analyzed by the economics literature, and is now well understood.<sup>4</sup> We argue that it is but a special case of the broader problem of time horizon mismatch, where the incentives of agents pursuing a change, and the effects of that change, are temporally dissimilar, and at the limit can be wildly asymmetric. Indeed, where institutional reform is concerned, the problem is far more powerful than that analyzed by Kydland and Prescott, because – unlike inflation or the fate of hostages – the reform may have no agreed long-term objective, and the full effects of the change flow over far longer time periods, implying much greater uncertainty. Lastly, the

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<sup>4</sup> Good overviews of this and related topics are provided in Fischer (1980) and Lucas (1986), although this is just the tip of the iceberg.

sorts of institutional rules in question typically have broader and more multidimensional effects on politics, the economy and society than the rules they focused on.

Amongst the reforms one might analyze, a powerful class of structural changes falls under the rubric of decentralization. We define decentralization as the devolution of power over, and resources for, specific policies and public services to independent regional and local governments, whose officials are accountable to regional and local electorates.<sup>5</sup> One contribution of this paper is to analyze decentralization explicitly as a deep institutional reform. This is in opposition to how a large part of the (mostly economic) literature has treated it: as a discrete policy measure with easily defined, unambiguous, often short-term outcomes. We treat decentralization, rather, as a deep change in the structure of public authority and public finances, which will have long-term effects on: politicians' career incentives, political parties' internal structures, the number and type of parties that can prosper in a political ecosystem, the incentives public officials face, the decisions they take, and national macroeconomic and fiscal balances, to name a few.

Why countries decentralize at all is a deceptively complex question. Why do leaders, having invested considerable time, energy, and sometimes their own resources attaining the highest position of power available in a country, devolve significant portions of that power, and comparable resources, to politicians with independent mandates whom they cannot control? This is what Eaton (2004) terms "decentralization from above"; it can be thought of as voluntaristic reform, which leaders decide, rather than being forced, to pursue. If leaders are self-interested, then decentralization from above is, on its face, absurd. It reduces the power, resources, and patronage at leaders' disposal, diminishes the standing and prestige of their office, and transforms many intended actions from straightforward command and control into exercises in negotiation. Where it happens, powerful motives must overcome the obvious incentives leaders face to retain power and resources in their hands. These motives require explanation.

Such reforms are distinct from "decentralization from below" (Eaton 2004), where subnational actors force central governments to devolve greater power and resources to them. Clear historical examples include Argentina and Brazil in the 1980s, where governors succeeded in converting their power into sweeping decentralization reforms that greatly benefited them (Diaz-Cayeros 2006, Eaton 2004, Falletti 2010, Grindle 2000). Such decentralizations serve the interests of subnational actors, and so represent rational behavior. No additional explanation is required.

The main focus of this paper begins with the simple question posed above: Why do self-interested leaders choose to decentralize? What drives them to effect a structural reform that, if successful, will change underlying patterns of governance in their country well into the long term? Understanding

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<sup>5</sup> The academic literature includes many discussions of competing definitions of decentralization. Rather than add to these here, we refer readers to Treisman (2007) and Faguet (2012).

leaders' motivations will provide insight into our second key question: Why do some reforms succeed while others fail? We define *success* as substantive change that persists over time, not just on paper in a law or decree, but as observable political economy facts: political and administrative changes bed down, and new patterns of governance emerge. *Failure*, by contrast, is when such changes wash away, reform is overturned, and resources and authority are recentralized.

We build most obviously on the work of Eaton (2004), who argues that decentralization is often driven by short-term political calculations, and is a convenient means for achieving a remarkably wide range of ends; and also Boone (2003), who analyzes decentralization as a nuanced political strategy for state-building in West Africa. We incorporate insights from both into a broader, consistent framework built around a simple game-theoretic model focusing on the incentives and interactions amongst ruling and opposition parties and civil society over multiple periods. Our framework analyzes decentralization as a solution to specific, well-defined, often short-term political problems. But the solution leaders reach for is a structural one, which, if successful, will have effects that are deep, long-term, and unpredictable on politics, governance, and society. This framework incorporates as a special case O'Neill's (2003) insight that parties decentralize when their subnational electoral prospects outshine their national prospects; and also Dickovick's (2011) insight that leaders decentralize when their parties are weakening, and recentralize when they are strong.

Section 2 develops the model, and sections 3 and 4 test it on detailed, contrasting case studies of decentralization in Bolivia and Pakistan. At first glance, this may seem an odd choice of countries. But on closer inspection, surprising similarities make them particularly rich, contrasting cases of reform. Both are lower middle income countries<sup>6</sup> with highly diverse populations and geographies, the latter of roughly similar size. Both have suffered significant political instability marked by weak democracies and frequent coups. In both, decentralization was contentiously prominent in the policy debate since at least the 1950s. And both pursued significant decentralization reforms in the 1990s. We describe the status quo ante in each country, and then analyze the decision to decentralize as a function of very different political exigencies, producing predictably divergent decentralizing strategies and polar opposite outcomes. Section 5 tests our model using a broader range of mini-case studies taken from Latin America and Africa. In both the model and our empirical evidence, we focus on the decision to decentralize per se, as opposed to the longer-term implications of reform; and then on how the characteristics of these decisions map onto reform design. This is consistent with our view that the long-term effects of structural reform are fundamentally unpredictable, rendering any attempt to model them pointless. The short-term decision to undertake reform, by contrast, can and should be analyzed. Section 6 concludes.

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<sup>6</sup> As categorized by the World Bank's World Development Indicators, available at <http://data.worldbank.org/>.

## 2. Theory

In the interests of analytical clarity and consistency, we place the decision to decentralize in a simple game theoretic framework, focusing on the incentives and interactions between the main actors in any decentralization: ruling and opposition parties, and civil society, over two periods, which can be thought of as electoral cycles (or periods in office). The version of the model presented here focuses on decentralization, in accordance with our evidence. But the model is easily generalizable to a much broader set of institutional reforms with long-term effects, undertaken on the basis of short-term political calculations. We consider three cases, corresponding to distinct types: (a) Reform intended primarily as a device to undermine opposition to the regime, which we call *Stifling the opposition*; at the other extreme, (b) Reform designed to promote citizen participation in competitive (local) governments, which we call *Participative local governance*; and (c) A middle road, reflecting the extensive political compromises required to pass such a reform, which we call *Muddling through*. It is presentationally convenient to discuss the three cases in this order: a, c, b.

### The model

Consider a country with centralized government and three relevant actors: a ruling party, an opposition party, and civil society. The ruling party is currently in office, and the opposition seeks to gain power. Civil society, which mostly engages the state through informal clientelistic networks, is indifferent between ruling and opposition parties. The ruling party, when faced with falling popularity, can try to extend its term in office by decentralizing power to the local level. Decentralization can be designed so as to achieve either of two broad goals: (a) improving governance, and so winning civil society support; or (b) suppressing political competition by undermining the opposition. The two benefits are strict trade-offs. They cannot be jointly maximized because improving governance requires increasing political competition and citizen participation, which tends powerfully towards improved accountability (Faguet 2012, Putnam 1993). This is fundamentally inconsistent with undermining the opposition. The two goals are procedurally distinct as well: a type (a) reform would be drawn up and implemented in cooperation with the opposition; a (b) type reform would not. The model assumes that the ruling party's objective function is to extend its stay in office; it is indifferent to the fate of the reform thereafter. Decentralization is thus a means, not an end in itself.

The game proceeds as follows. The ruling party decides whether or not to introduce decentralization. If it decentralizes, the opposition must choose whether to participate or boycott local government. Boycotting would entail refraining from contesting elections and instead mobilizing its informal local clientelistic networks. As many researchers have found, citizens in developing countries often turn to such networks as cheaper, easier and more effective alternatives to direct engagement with

the state.<sup>7</sup> By strengthening these networks, the opposition can persuade citizens to approach informal patrons for their needs, rather than local government officials<sup>8</sup>. If successful, informal mobilization undermines the ruling party's reform, as it steers citizens away from the formal political market and helps the opposition maintain its constituency for when it decides to contest elections again. Faced with these options, civil society must then decide whether to engage with local government directly, or continue to operate through informal networks.

No ruling party can extend its stay in office indefinitely. Therefore at some unspecified future date, which we refer to as round 2, the opposition returns to power. How quickly round 2 comes about depends on the choices the opposition makes in round 1. In the case of reform type (a) the opposition's optimal strategy would be to participate in local government and demonstrate its responsiveness to citizens, thereby enabling it to win the next election. In the case of reform type (b), on the other hand, the opposition would be better served by focusing on its informal networks, as the reform is not designed to allow for politicians to demonstrate their pro-welfare stance.

Once the game is in round 2 the opposition must decide whether to maintain a rebranded version of the reform for which they can claim ownership, or unmake it by re-centralizing. The latter implies a risk of civil society protests. If civil society fights to keep local government in place, the opposition is forced to maintain a decentralized state, and loses political capital in the process. The opposition would try to minimize this loss by modifying the decentralized system so as to distinguish it from the ruling party's reform.

The three actors' utility functions are as follows:<sup>9</sup>

$$U_R = (B - C_D) + OP + CS$$

$$U_O = -C_O + (S - R) + (L - I) + (G - A) - CS_p + \{[D - (D_C)] - CS_{prot} - K\} \delta$$

$$U_C = (B_p - C_l) + (H + J - Z) + T_O + [X_k - R_{dis} - P] \delta$$

$U_R$  is the ruling party's utility. The ruling party receives benefit  $B$  from introducing the reform and extending its stay in office, which costs  $C_D$  to enact.  $C_D$  includes transaction costs associated with the design and implementation of the reform. The value of  $C_D$  varies with the type of reform in question. A reform that seeks to suppress political competition would be unpopular with the opposition and their supporters. It would have to include clauses designed to undermine or exclude certain politicians from local government, and so would be more complicated than a reform designed to raise participation. The ruling party would have to expend considerable "political capital" to pass such a reform. A reform

<sup>7</sup> For example, Scott (1972) finds that rural peasants in the Philippines often approach patrons with demands for public goods provision, dispute resolution, unemployment benefits, etc, rather than petitioning government officials. Similar findings are reported across a large number of developing countries, including Shami (2012) for Pakistan, Bardhan (1980) and Basu (1983) for India, and Jonathan Fox (1994) and Ayouro et al (2009) for Mexico.

<sup>8</sup> In line with the literature cited in footnote 3, in this case while citizens most likely participate in the electoral process for local government, they would not use any of the facilities/opportunities the system has to offer and instead approach their local patron for most of their needs.

<sup>9</sup> For simplicity, discount rates are incorporated into payoffs.



aimed at increasing competition and participation to improve governance, by contrast, would be simpler and more straightforward, and more inclusive in its design. It would generate more support amongst parties and voters, and thus have significantly lower implementation costs. The opposition's decision to boycott the reform comes with benefit  $OP$ . Irrespective of the ruling party's aim, its payoff always increases when the opposition does not compete, as that increases its chances of winning local level elections. Lastly, the ruling party places a value of  $CS$  on civil society participation, which is higher if the ruling party's objective is to win popular support, and lower if it seeks to undercut the opposition.

$U_O$  is the utility of the opposition party, which opposes reform. The opposition incurs disutility  $C_O$  from the enactment of decentralization, as it demonstrates the ruling party's power. It gets utility  $S$  from boycotting reform, which signals discontent to its supporters. A boycott results in its exit from the formal political market, which costs it  $R$ . But the opposition can still influence political outcomes by mobilizing local patrons so as to entice citizens to approach their clientelistic networks rather than engaging with local government directly. This implies benefit  $L$ , but mobilizing cost  $I$ . If, on the other hand, the opposition participates in decentralization, it receives benefit  $G$  from competing in the formal political market, but faces cost  $A$ . The latter is the cost of contesting elections and accepting the ruling party's reform. Civil society's decision to participate carries disutility  $CS_p$  for the opposition, from choosing engagement with the state over the opposition's informal networks.

The last four variables in  $U_O$  relate to outcomes in round 2. Once in office, the opposition must decide whether to re-centralize the state, leave decentralization in place, or amend it in some way. Leaving decentralization in place implicitly accepts the value of the previous government's policies, which might abet their return to power. Discarding or changing their reform challenges their authority.  $D$  thus captures the benefit of tarnishing the ruling party's reform by attempting to discard or amend it once in office. Structural change of this nature carries cost  $D_C$ . This includes administrative costs of reverting to a centralized state, as well as costs of convincing the wider population of the need for change. As for  $C_D$ , these costs will vary based on the nature of reform, although here the relationship is inverted. While the opposition faces minimal implementation costs in the case of an anti-competitive decentralization system,  $D_C$  will be substantial when a pro-competitive, governance-enhancing reform is in place. Citizen protests to retain decentralization come at cost  $CS_{prot}$ , and essentially force the opposition to maintain decentralization. This has an additional cost  $K$  for the opposition, capturing lost political capital from a failed re-centralization attempt. All payoffs for round 2 are discounted by  $\delta^{10}$ .

$U_C$  is civil society's utility function. Decentralization entails benefit  $B_p$  if citizens decide to participate, but at a learning cost of  $C_1$ . Alternatively, citizens can reject the reform and continue operating through established, informal clientelistic networks. These offer benefit  $H$ , which increases by

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<sup>10</sup> For the sake of simplicity  $\delta$  is normalized to 1 for the options that result in round 2 coming about faster. For the options that lead to round 2 being delayed  $\delta$  is assumed to take the value of 0.8.

J if the opposition opts to strengthen its networks. But informality is not costless. Citizens face a cost of  $Z$  if there is an operating, formal political market and they opt out of it. If, instead of strengthening informal networks, the opposition decides to participate in local government, civil society receives utility  $T_O$  from increased political competition. In round 2, citizens receive benefit  $X_K$  if decentralization is retained, but receive disutility  $R_{dis}$  if the opposition tries to discard it.  $X_K$  captures the advantage of maintaining the status quo; we assume the country is unable to return to the pre-reform equilibrium, requiring costly transition to a new centralized system. Protesting for the system's continuity incurs cost  $P$ . As with the opposition's utility function, round 2's payoffs are discounted by  $\delta$ .

### **Case 1: Stifling the opposition**

The value of payoffs, and the resulting equilibria, depend on the type of reform the ruling party enacts. The ruling party can benefit from reform by either being seen to improve governance, or undermining the opposition's power base. Case 1 assumes that the ruling party offers a reform designed to stifle the opposition. This involves structuring a complex reform containing binding restrictions on political participation. Such a design implies lower political competition, lower popular participation, and fewer benefits for the average citizen. The costs and benefits of such a reform are listed in Table 1 below.

Table 1: Payoffs in Case 1

<b>Ruling Party</b>	<b>Opposition Party</b>	<b>Civil Society</b>
B=10, C <sub>D</sub> =7, (B - C <sub>D</sub> ) = 3	C <sub>O</sub> = 5	If it participates in local government.
If the opposition rejects reform. OP=10	If the opposition boycotts the reform. S=7, R=5 (S-R) = 2	B <sub>p</sub> =2, C <sub>I</sub> =10, (B <sub>p</sub> -C <sub>I</sub> )=-8
If the opposition participates. OP=1	If it participates. S= 0, R=0	If it doesn't participate in local government. B <sub>p</sub> =0, C <sub>I</sub> =0
If the opposition plays the game informally. OP=5	If it strengthens informal networks. L=9 and I=5, if (L-I)=4	If it doesn't participate and the opposition strengthens informal networks. H=5, J=7 and Z=2, (H+J-Z)=10
If Civil Society participates. CS <sub>p</sub> =1	If it does not improve informal networks. L=0, I=0	If it doesn't participate and the opposition doesn't strengthen informal networks.
If Civil Society rejects the reform. CS <sub>p</sub> =-1	If it participates. G=2 and A=10, (G-A)=-8	H=5, J=0 and Z=2, (H+J-Z)=3
	If it boycotts the reform. G=0, A=0	If it does not participate and the opposition does not strengthen informal networks.
	If civil society participates and the opposition rejects the reform. CS <sub>p</sub> =5	H=0, J=0, Z=0
	If civil society participates and the opposition accepts the reform. CS <sub>p</sub> =2	If the opposition participates in local government. T <sub>O</sub> =1
<b>Round 2</b>	<b>Round 2</b>	<b>Round 2</b>
	If it tries to discard the reform. D=15, D <sub>C</sub> =2 , (D - D <sub>C</sub> )=13	If the reform is kept. X <sub>k</sub> =1
	If civil society protests CS <sub>prot</sub> =1,	If the opposition tries to discard the reform. R <sub>dis</sub> =1
	If the reform is retained. K=2	If they protest, when they are participating. P=7
		If they protest, when they are not participating. P=9

Beginning at the upper left, the ruling party receives a net benefit of 3 (B-C<sub>D</sub>) from the enactment of decentralization. This complex reform is not only costly to design, but is likely to be met with resistance and so entails high implementation costs. Since the overriding objective is to stifle the opposition, the ruling party gets a utility of 10 (OP) if the opposition rejects reform and leaves the game,

and a reduced utility of 5 if the opposition continues to play informally. If the opposition participates formally in local government, the ruling party gets 1. Civil society participation comes with a benefit of 1 (CS), and -1 otherwise. Although popular support was not the main objective, the ruling party nonetheless receives a small disutility from civil society rejecting the reform. If the ruling party decides not to implement decentralization, its utility is 0 (implying no change).

The opposition realizes disutility 5 (C) from enactment of the reform. The net gain from signaling discontent is 2 (S-R). Strengthening informal networks provides a net benefit of 4 (L-I), while accepting comes with a net cost of -8 (G-A), as high restrictions on the opposition's participation are built into the reform. If the opposition has rejected reform, civil society participation entails disutility 5 (CS<sub>p</sub>). If, on the other hand, it accepts reform, civil society participation entails disutility 2, as in this case the opposition derives some benefit from its participation. In round 2, attempting to discard the reform gives a net utility of  $13[D - D_C]$ . If civil society then protests, the opposition receives disutility 1 (CS<sub>prot</sub>). Keeping the reform in place entails a cost of 2 (K), from both lost political capital and the disutility of having to continue working with an exclusionary decentralization system. If the opposition's actions result in an early transition to round 2 then  $\delta$  takes the value of 1, otherwise it is assumed to be 0.8. If no reform is implemented, the opposition party gets an overall utility of 0.

For civil society, the complex nature of the reform entails high learning costs, leading to a net cost of -8 (B<sub>P</sub>-C<sub>1</sub>) if it participates. Staying in the informal sector implies a net utility of 3 (H-Z), increasing to 10 (H+J-Z) if the opposition strengthens its clientelistic networks. If the opposition decides to participate in local government, civil society receives benefit 1 (T). In round 2, if the opposition keeps the system in place, civil society receives utility 1 (X<sub>K</sub>). Attempts by the opposition to discard the system entail disutility 1 (R<sub>dis</sub>). Mobilizing citizens to protest for the survival of the system is costly. Protest costs 7 (P) if civil society had decided to participate in the system, and 9 if it had not.<sup>11</sup> As with the opposition,  $\delta$  is 1 if round 2 comes relatively quickly and 0.8 otherwise. Absent any initial reform, civil society realizes benefit 3, the utility they receive from continuing to engage with informal networks.

The game is solved through backward induction. Given the payoffs described, the ruling party will always choose to introduce decentralization, as regardless of what other players do it always entails a positive payoff. Since the reform is designed to stifle the opposition, participation on its part is very costly. Hence the opposition is always better off boycotting decentralization, and instead focusing on strengthening its informal networks. Strengthening its informal networks not only offers a higher payoff regardless of what civil society chooses, but also, we argue, would enable the opposition to cater for citizens' needs better than the formal local government system. Choosing this option allows it to take up office sooner rather than later. Civil society then must decide whether to participate in local government

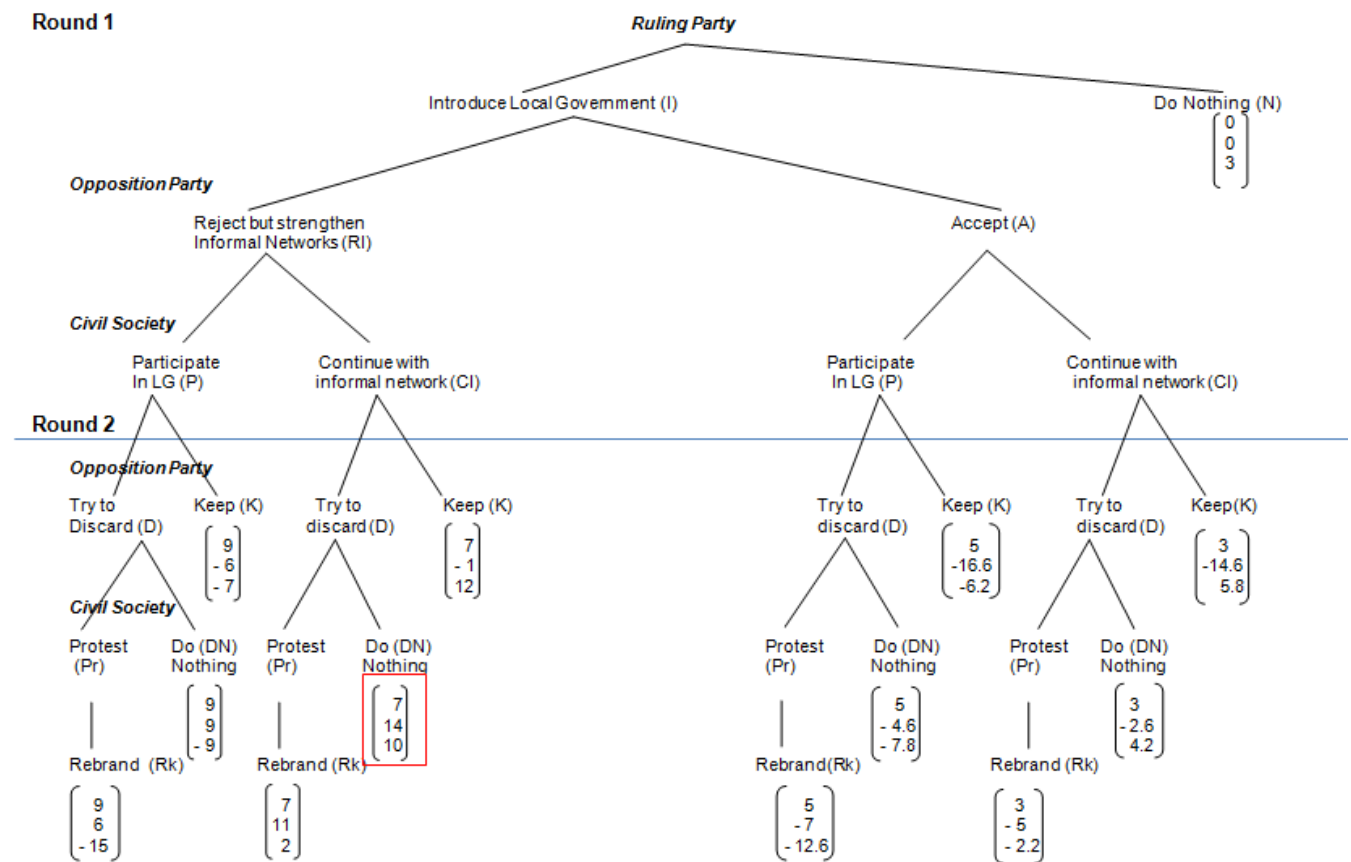
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<sup>11</sup> If civil society chose not to participate then it would be even harder to mobilise people in support of the system.

or continue engaging with the state informally. The complex nature of the reform means it has little to gain from participating in local government. And since the opposition opts to strengthen informal networks, continuing to rely on them becomes more attractive. Opting for informality may also speed the opposition's return to power, if new local governments proved unresponsive and informal networks continued to provide public goods.

When the opposition assumes power in round 2, limited support for local government facilitates abolishing it, as civil society is unlikely to protest. The Nash Equilibrium for this game is therefore (I,RI,C,D,DN): the ruling party introduces the reform (I), the opposition rejects it but strengthens its informal networks (RI), civil society continues with its informal networks (C), the opposition attempts to discard the reform (D), and civil society does nothing (DN). The characteristics of the reform introduced by the ruling party make these all dominant strategies. No player has an incentive to change their response regardless of what other players do. The game is depicted in figure 1. Repeated iterations do not change the equilibrium.

### CASE 1: Stifling the opposition



## Case 2: Muddling through

The second scenario is a middling road between our two extremes. It benefits civil society more than case 1, but still partially excludes the opposition, and is sufficiently complex to entail non-trivial learning costs for voters. Its muddled nature might be viewed as the product of negotiated trade-offs between political actors, or amongst opposing currents within the ruling party. The payoffs from a reform like this are listed in Table 2 below. The ruling party now benefits 5 ( $B-C_D$ ) from enacting the reform. Its less complicated nature implies lower administrative costs, and lower implementation costs due to less resistance than in Case 1. Rejection by the opposition yields a utility of 7 (OP) for the ruling party, which drops to 5 if the opposition engages in informal politics, and 1 if it participates in local government. This lower utility is because: (a) excluding the opposition was not the main objective of the ruling party; and (b) by participating, the opposition makes decentralization work better for civil society, which increases the reform's popularity. For similar reasons, civil society's participation now entails a higher utility of 3 (CS), while rejection implies -1. In essence, benefits to the ruling party now come partly from civil participation, and partly from making life difficult for the opposition. From the opposition's point of view, civil society's attraction to decentralization lowers the net benefit of its informal networks to 2 (L-I). Also, lowered barriers to entry make joining formal politics more attractive, with a net benefit of 7 (G-A). Civil society's participation gives the opposition a disutility of 2 ( $CS_P$ ) when it rejects the reform, and 0 when it too participates. In round 2, the net benefit from trying to discard the reform falls slightly to 12 ( $D-D_C$ ), due to the higher dissatisfaction such attempts generate. Keeping the reform in place entails a disutility of 1 (K), as does civil society protest ( $CS_{prot}$ ).  $\delta$  is assumed to be 1 for all options as in this case all the oppositions actions have an equal chance of resulting in the early arrival of round 2.

Turning lastly to civil society's payoffs, participation generates a net benefit of 3 ( $B_P-C_I$ ). This is because such a reform has both higher benefits and lower learning costs stemming from a less complex design. Informality gives a net benefit of 1 (H-Z), which increases by 5 (J) if the opposition strengthens its informal networks. Participation by the opposition brings a benefit of 3 ( $T_O$ ) for civil society. Keeping the reform in place in round 2 offers a utility of 5 ( $X_k$ ), while cancelling it gives disutility 3 ( $R_{dis}$ ). Fighting for the reform is less costly, as it now has social benefits built in. It costs 4 (P) to protest if civil society is participating in local government, and 6 if society rejects it. Other payoffs remain unchanged.

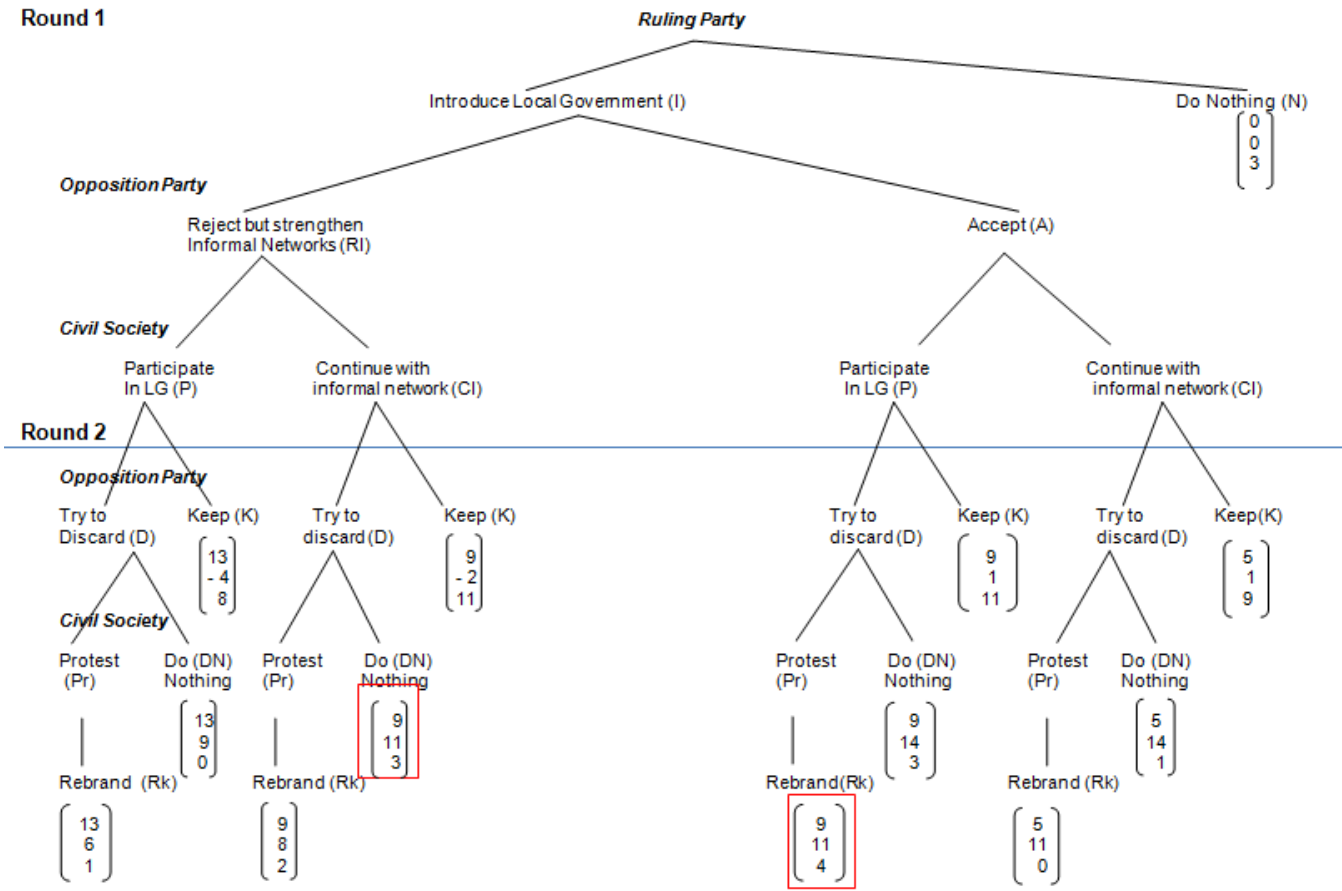
Table 2: Payoffs in Case 2

<b>Ruling Party</b>	<b>Opposition Party</b>	<b>Civil Society</b>
B=10, C <sub>D</sub> =5, (B-C <sub>D</sub> ) = 5	C <sub>O</sub> = 5	If it participates.
If the opposition reject the reform. OP=7	If they boycott the reform. S=7, R=5, (S-R) = 2	B <sub>p</sub> =6, C <sub>i</sub> =3, (B <sub>p</sub> -C <sub>i</sub> )=3
If the opposition participates. OP=1	If it participates. S=0, R=0	If it doesn't participate in local government. B <sub>p</sub> =0, C <sub>i</sub> =0
If the opposition plays the game informally. OP=5	If it strengthens informal networks. L=7, I=5, (L-I)=2	If it doesn't participate and the opposition strengthens informal networks. H=3, J=5, Z=2, (H+J-Z)=6
If Civil Society participates. CS <sub>p</sub> =3	If it doesn't improve informal networks. L=0, I=0	If it doesn't participate and the opposition doesn't strengthen informal networks. H=3, J=0, Z=2, (H+J-Z)=1
If Civil Society rejects the reform. CS <sub>p</sub> =-1	If it participates. G=10, A=3 (G-A)=7	If it doesn't participate and the opposition doesn't strengthen informal networks. H=0, J=0, Z=0
	If it boycotts the reform. G=0, A=0	If the opposition participates in local government. T <sub>O</sub> =3
	If civil society participates and the opposition is rejecting the reform. CS <sub>p</sub> =2	
	If civil society participates and the opposition is accepting the reform. CS <sub>p</sub> =0	
<b>Round 2</b>	<b>Round 2</b>	<b>Round 2</b>
	If it tries to discard the reform. D=15, D <sub>C</sub> =3, (D - D <sub>C</sub> )=12	If the reform is kept. X <sub>k</sub> =5
	If Civil Society protests. CS <sub>prot</sub> =1	If the opposition tries to discard the reform. R <sub>dis</sub> =3
	If the reform is kept. K=1	If they protest, when they are participating. P=4
		If they protest, when they are not participating. P=6

This game is depicted in figure 2. There are now two Nash equilibria. As before, the ruling party will always introduce a reform that offers a positive payoff. Indeterminacy originates with the opposition, which must decide to join formal politics or play the game informally. If the opposition accepts reform, civil society is better off participating. In round 2, the opposition will try to re-

centralize, civil society will fight to retain local government, and the opposition will ultimately retain a rebranded reform (I,A,P,D,Pr,Rk). If, on the other hand, the opposition opts for informality, civil society will continue to work through its informal networks. When the opposition tries to re-centralize in round 2, civil society will do nothing, and the country will once more have centralized government (I,RI,C,D,DN). The opposition receives the same payoff from the two equilibria, and hence is strictly indifferent between accepting decentralization or rejecting it in favor of its informal networks. Repeated iterations of this game will result in a random oscillation between the two equilibria<sup>12</sup>.

**CASE 2: Muddling through**



**Case 3: Participative local governance**

In case 3, the ruling party tries to extend its stay in office by designing a reform that generates popular support by creating local governments that are responsive and accountable. To generate popular support, the reform must be simple, and it must enhance the welfare of the average citizen. Because responsiveness and accountability are functions of political openness and competition, the ruling party not only cannot keep the opposition from participating, but actively benefits from its participation. Payoffs are given in Table 3.

<sup>12</sup> It is for this reason that  $\delta$  takes the value of 1 in both scenarios.



The ruling party receives a high net utility of 7 from enacting this reform, as implementation costs fall to 3. Costs are lower because of the reform's simplicity, which makes it easier to design and administratively cheaper to implement. As the reform seeks to promote participation, the ruling party receives utility 7 if society participates in decentralization (CS), and -5 if it does not. If the opposition rejects the reform, the ruling party receives utility 4 (OP), and 2 if it accepts it. Higher utility from the opposition's participation (vs. cases 1 and 2) is driven by the greater benefits this reform yields when all actors participate. If the opposition sticks to informal politics, its utility is 2.

For the opposition, participating in formal politics is much more attractive, and so the net benefit of accepting reform is 11 (G-A); costs are mostly associated with the implicit endorsement of the ruling party's reform. Maintaining informal networks yields benefit 1 (L-I), as citizens benefit more from interacting directly with local government. The disutility from civil society's participation is only 1 (CS<sub>P</sub>) when the opposition rejects it, and 0 if it participates. In round 2, the opposition's cost of trying to change the political structure rises to 7 (D<sub>C</sub>). This is because of the benefit the system extends to the population at large. If citizens protest against the discontinuity of the system, the opposition gets a disutility of 5 (CS<sub>prot</sub>), and additional disutility 1 (K) from lost political capital if the system is retained. Once again if the opposition's actions in round 1 facilitate the early onset of round 2 then  $\delta$  takes the value of 1, and 0.8 otherwise.

As civil society is the intended beneficiary of this reform, its benefit from participating in local government rises to 10 (B<sub>P</sub>). The reform's simplicity implies low learning costs of 1 (C<sub>I</sub>). Sticking with informal networks now yields a lower benefit of 2 (H), rising by 3 (J) if the network is mobilized. The cost of informality rises to 4 (Z), as the ease and benefit of switching means most people will do so, eroding the value of the informal network.<sup>13</sup> In this context, citizens value political competition more, resulting in benefit 5 (T<sub>O</sub>) if the opposition contests local government elections. Citizens benefit 9 (X<sub>K</sub>) if the system continues in round 2, and suffer disutility 5 (R<sub>dis</sub>) when the opposition tries to discard it. Protesting for local government survival costs only 1 (P), as the value of this decentralization is more evident to citizens, thus lowering collective action costs. Such costs rise to 3 if civil society does not participate. The value of  $\delta$  is the same as that for the opposition. Other payoffs remain unchanged. The game is shown in figure 3.

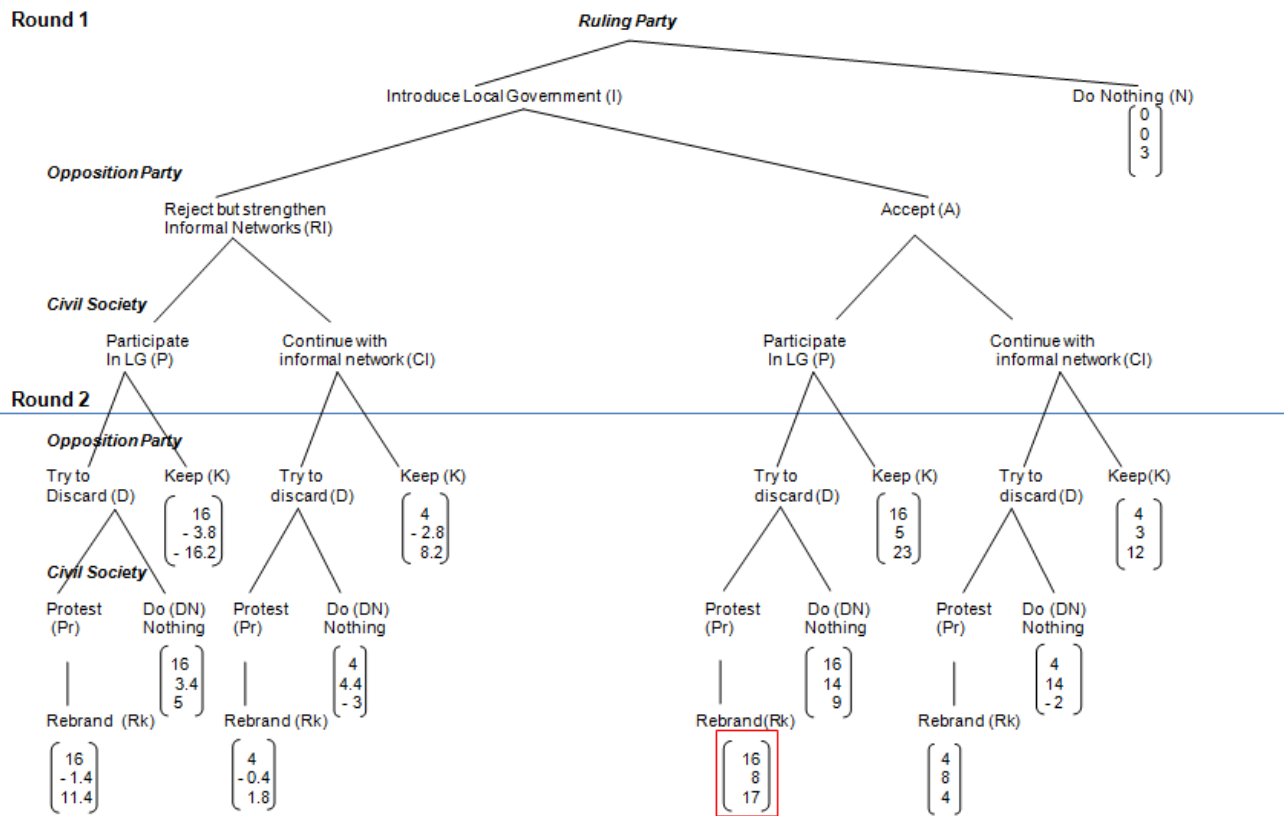
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<sup>13</sup> A network is beneficial only so long as membership is sufficiently large to cover unforeseen costs.

Table 3: Payoffs under Case 3

<b>Ruling Party</b>	<b>Opposition Party</b>	<b>Civil Society</b>
B=10, C <sub>D</sub> =3, (B-C <sub>D</sub> )=7	C <sub>O</sub> = 5	If it participates.
If the opposition reject the reform. OP=4	If they boycott the reform. S=7, R=5 (S-R) = 2	B <sub>p</sub> =10, C <sub>I</sub> =1, (B <sub>p</sub> -C <sub>I</sub> )=9
If the opposition participates. OP=2	If it participates. S=0, R=0	If it doesn't participate in local government. B <sub>p</sub> =0, C <sub>I</sub> =0,
If the opposition plays the game informally. OP=2,	If it strengthens informal networks. L=6, I=5, (L-I)=1	If it doesn't participate and the opposition strengthens informal networks. H=2, J=3, Z=4 (H+J-Z)=1
If Civil Society participates. CS <sub>p</sub> =7	If it doesn't improve informal networks. L=0, I=0	If it doesn't participate and the opposition doesn't strengthen informal networks. H=2, J=0, Z=4, (H+J-Z)=-2
if Civil Society does not participates. CS <sub>p</sub> = -5	If it participates. G=12, A=1, (G-A)=11	If it doesn't participate and the opposition doesn't strengthen informal networks. H=0, J=0, Z=0
	If it boycotts the reform. G=0, A=0	
	If civil society participates and the opposition is rejecting the reform. CS <sub>p</sub> =1	
	If civil society participates and the opposition is accepting the reform. CS <sub>p</sub> =0	If the opposition participates in local government. T <sub>O</sub> =5
<b>Round 2</b>	<b>Round 2</b>	<b>Round 2</b>
	If it tries to discard the reform. D=15, D <sub>C</sub> =7, (D - D <sub>C</sub> )=8	If the reform is kept. X <sub>k</sub> =9,
	If Civil Society protests. CS <sub>prot</sub> =5	If the opposition tries to discard the reform. R <sub>dis</sub> =5,
	If the reform is kept. K=1	If they protest, when they are participating. P=1 If they protest, when they are not participating. P=3

## CASE 3: Participative Local Governance



Once again, the ruling party will always opt to introduce a reform that offers positive payoffs. The opposition now has a strong incentive to participate in local government, as entry costs are low and the benefit of formal politics are high. Civil society will opt to engage directly with local government, rather than through its informal networks.

Contrary to case 1, the opposition's chances of returning to office are enhanced by participating in local government, as the design of reform lets it demonstrate responsiveness this way.<sup>14</sup> Despite the popularity of reform, the opposition might still attempt to erode the ruling party's political capital by recentralizing in round 2. But since reform now enhances citizen's welfare, civil society is more inclined to fight for it. Public protest will thus force the opposition to retain local government. The Nash equilibrium is (I,A,P,D,Pr,Rk): the ruling party introduces reform (I), the opposition accepts (A), civil society participates (P), the opposition attempts to discard the reform (D), civil society protests (P), and a rebranded reform is retained (Rk).

Interestingly, the Nash equilibrium is not welfare optimal. The welfare optimal solution, with total payoff 44, occurs when the opposition does not try to reverse the reform in round 2. But it is privately superior for the opposition to attempt to tarnish the ruling party's policies. Hence they try to recentralize, resulting in an overall payoff of 41.

<sup>14</sup> Strengthening informal networks would delay the advent of round 2, as the welfare enhancing nature of reform implies that most citizens would choose to participate in formal politics, and so abandon informal networks.

### 3. Decentralization in Bolivia

#### Overview

The deep history of decentralization in Bolivia is one of great contention and essentially no decentralization. The country's Spanish colonizers bequeathed Bolivia a highly centralized public administration. In such a large, sparsely populated, geographically and ethno-linguistically diverse country, demands for decentralization were an early and regular refrain. We see this most dramatically in the 1899 civil war, in which Liberal forces flying the flag of federalism and based in La Paz defeated the Conservative government and its ideal of a unitary state. The cost of the war was sufficiently high, and the outcome sufficiently close-run, that strong norms demanding the exclusion of indigenous Bolivians from public life were violated to secure the federalists' victory. Liberals pacted with indigenous leaders on the *altiplano* and incorporated them into the rebel army, where indigenous soldiers and their commanders played a decisive role. Once victory was secure, Liberals relocated the seat of government, disarmed indigenous soldiers, and executed their leaders (Klein 1993). The Liberal state that followed was as centralized and hierarchical as its Conservative predecessor, only now run from La Paz.

This betrayal did not silence calls for decentralization, which continued to be discussed throughout the 20<sup>th</sup> century. But the country's peculiar history ensured that repeated calls for decentralization were never answered. During its first 110 years of independence Bolivia lost half its national territory: the Litoral to Chile, the Acre to Brazil, and a large part of the Chaco to Paraguay, to name just a few. These traumas created a deep memory of loss, and a deep fear of national dismemberment that pervades Bolivians of all classes and backgrounds. The result is a strong shared assumption amongst politicians that their heterogeneous country has a weak center and is subject to centrifugal forces that might further pull it apart (Mesa 2012).

It is all the more surprising, then, that in 1994 the political establishment did an about-face and approved a radical decentralization reform that devolved significant resources and real power over public services from La Paz to hundreds of municipalities all over the country. Christened the "Law of Popular Participation", decentralization was one component of a sweeping package of reforms to the public sector that included privatization of state-owned enterprises, education reform, market-led public pensions reform, and reform of the executive branch.

The President who promulgated these reforms, Gonzalo Sánchez de Lozada, was re-elected in 2002. But his second term was cut short when a popular uprising in 2003 left many dead in the streets, and he was forced to flee the country. This was followed by a period of political instability, from which Evo Morales emerged as a political giant, bestriding the national stage. First elected president in 2006, Morales has won every election, plebiscite, and other electoral contest since, almost all by margins that, for Bolivia, are historically large. With a striking domination of national

politics and government, he faces no credible challenger, either within his party or further afield. Indeed, the rise of Morales coincided with the collapse of the national political party system, most of which parties no longer exist.

Once in office, Morales moved quickly to overturn each of Sánchez de Lozada's reforms one by one, re-nationalizing the oil, gas, railroad, and other sectors, unpicking education reform, re-designing the executive branch, and launching new public pension and other entitlement programs. Strikingly, the one "neo-liberal" reform that Morales not only did not overturn, but indeed deepened considerably, is decentralization. First with his new Constitution, and then with an extensive new Framework Law of Autonomies and Decentralization, Morales' government expanded and deepened decentralization well beyond its initial scope, creating new levels of subnational government with new powers and privileges, and transferring far more resources to them.

Why is this so? Surely Morales' grip on national politics and the levers of power was sufficient to bury this reform too. Why did he choose, instead, not only to allow it to survive, but indeed to push decentralization much further still and make it a centerpiece of his era? To understand this, we must understand why his enemy, Sánchez de Lozada, decentralized in the first place. We must analyze how the Law of Popular Participation promised to help him overcome specific political problems, as a function of which it was designed and implemented in very particular ways, which led it to effects that proved radically different from those we saw in Pakistan.

### **Decentralization in Bolivia: Context**

The national context in which Bolivia decentralized was defined by economic and democratic malaise, and political decomposition. Where the economy was concerned, deep reform had succeeded in overcoming the severe hyperinflationary crisis of the 1980s. But stability had produced low economic growth that only occasionally nipped above population growth, leaving Bolivians economically no better off than they had been at the end of the crisis, and considerably worse off than the late 1970s. Economic stagnation at low-income levels fed declining faith in a succession of democratically elected governments.

As denunciations of malfeasance and corruption grew, Bolivians increasingly regarded politicians as self-interested scoundrels, and began voting for newer parties and loose "movements", like the UCS (*Unión Cívica de Solidaridad*) and Condepa (*Conciencia de Patria*), built around charismatic media and business tycoons. The rise of neo-populism underlined the long-term electoral decline of Bolivia's "traditional" political parties, which had dominated politics since the 1952-53 Nationalist Revolution. By the 1990s, not even the MNR (*Movimiento Nacionalista Revolucionario*), the party of the revolution, could win elections outright. Governments were

formed by increasingly unwieldy, ideologically disparate coalitions that endlessly juggled perks and positions to remain in power.

Meanwhile, regional pressures on central government grew, as business elites based mainly in the fast-growing city of Santa Cruz mobilized against the “extraction” of natural resource wealth by La Paz. Local leaders showed great skill in weaving their business interests for greater fiscal devolution and political autonomy into a mass movement that appealed to regional identity and pride. In Congress, cross-party regional blocs were able to block legislation that threatened parochial interests. And on the streets, leaders showed they could call civic strikes and work stoppages that blocked inter-regional transport and brought Bolivia’s most successful regional economy to a halt.

### **Why did Bolivia decentralize?**

In the midst of these conflicting pressures, Sánchez de Lozada decided to decentralize. Why? The question is much more than casual. As Faguet (2012 and 2014) and others have pointed out, this is the “black hole” at the heart of the decentralization debate. Who gets into politics to give power away?<sup>15</sup> Some have argued that decentralization was a distraction from more important items on the government’s agenda, like privatization; others that it was simply “something different”, tried perhaps out of a sense of desperation (Kohl 2002).

We argue that decentralization was attractive because it offered specific solutions to pressing political problems that the new government faced. Most importantly, it offered the MNR the opportunity to forge a new covenant with the 42% of the population that lived in rural areas (INE 1992). Rural Bolivia had been the MNR’s bedrock since the Revolution, when the party redistributed land from large *latifundios* to peasants, thereby winning the undying loyalty of a generation of rural voters and their children. But by the 1990s, that second generation was beginning to die out, and with them the powerful memory of land reform. Younger voters were defecting in droves to neo-populist parties that offered a potent mix of cultural revindication and small-scale clientelism. With the Law of Popular Participation, the MNR calculated it could revolutionize government in Bolivia’s large rural hinterland, traditionally poor and under-served, if not ignored, by La Paz. By creating hundreds of local governments, complete with elected leaders and investment budgets for rural schools and health posts, another “founding moment” would ensue that forged a new, multi-generational bond between rural voters and the MNR. Like land reform, decentralization would make the MNR the natural party of government for another 50 years.

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<sup>15</sup> The question has broad similarities with the philanthropist’s dilemma: Why work hard to become rich if you will then give much of the money away? But the political version is even more acute, as democratic politicians’ shorter horizons provide much less time in which to grow tired of wielding power.

For similar reasons, the proposal appealed to other “traditional” political parties that were also losing votes to neo-populist upstarts. The more thoughtful amongst them hoped that a new, well-designed program of local public goods provision would undermine support for the UCS and Condepa by displacing the lure of their clientelistic gifts (Urioste 1997). Decentralization also appealed to powerful private sector interests throughout the country, who also feared the rise of populism. This included many firms in regional capitals like Santa Cruz, Cochabamba, and Tarija, which stood to gain from the boom in local construction and service contracts that rural municipalities were expected to put out to tender (and in fact did; see Faguet 2012). It is interesting to note, though hard to prove, that the success of the Law of Popular Participation lay partly in its ability to pit larger firms – which continued to demand decentralization to the regions – against smaller firms in Santa Cruz, which saw the benefits they could reap from serving the needs of small, rural municipalities.

The genius of Bolivia’s reform was the way in which it combined a cure for the problem of traditional parties’ long-term decline with a solution to regional pressures that threatened to break the country apart. Decentralization achieved the latter by acceding to the demands of regional elites, but in a way they did not expect. By decentralizing not to regional governments, which they would have dominated, but well beneath them to municipalities, Sánchez de Lozada pulled the rug out from under the business interests that had successfully mobilized so much popular support. This effectively neutralized powerful regional and civic opposition to the new government. In so doing, it won the support of western political elites, who opposed greater autonomy for Santa Cruz and other eastern regions. And by going well below the level of Bolivia’s major regional and ethnic cleavages, it identified decentralized governments with issues of public service delivery, protecting them from becoming pawns in the fissiparous games of regional elites that had hobbled previous governments (Sánchez de Lozada and Faguet, Forthcoming). Lastly, as O’Neill (2003) and others have observed, the MNR was the best-organized party in Bolivia, with local organizations in most towns and villages, and hence best placed to win the local elections that followed.

### **How did Bolivia reform?**

The way in which reformers debated and drew up the Law of Popular Participation, and the tenets of the law itself, are also instructive. Sánchez de Lozada convened a team of some 40 experts to draft the law, including members of the parties in his governing coalition, but also notable technical experts independent of all political parties. The group worked behind closed doors debating how best to design a decentralization that effectively devolved power and increased the participation and responsibility of citizens. Many versions of the law were produced and debated;

as the project took shape, more advanced drafts were discussed with opposition parties and other important interest groups (Faguet and Sánchez de Lozada, Forthcoming).

Initial drafts of the law decentralized to regions, as regional elites had long demanded, but these were eventually rejected. Then the group hit upon the idea of decentralizing to elected municipal governments, and leaving unelected, weak administrations in the regional capitals. This solved the problem of devolving real power and resources and increasing citizen participation without adding fuel to the secessionist fire. It also, very cannily, disempowered Santa Cruz' business elites.

The design reformers drew up was strikingly simple, straightforward, and easy to comprehend. It consisted of five main points:

1. Ownership of infrastructure in, and responsibility for provision of, primary services – primary education, health, sports, local transport, etc. – were transferred from central to local governments.
2. Resources worth 20 percent of national tax revenues were transferred to municipalities.
3. Resources were allocated amongst municipalities on a strict per capita basis.
4. Enhanced accountability was built into the law via Oversight Committees, which incorporated natural civic organizations (e.g. peasant unions, neighborhood committees, *ayllus*, *mallkus*) into municipal governance.
5. New municipalities were created, and existing ones expanded, to incorporate all Bolivian people and space into the system. Border adjustments were carried out by popular (local) consensus.

Oversight Committees (OCs) were meant to incorporate Bolivia's diverse, spontaneous civic organizations into the local governance framework. To this end, the OC and its President enjoyed legal equivalence with the Municipal Council and Mayor, such that the OC could suspend central transfers to the municipality if they disagreed with local investment or policy priorities.

### **Why did reform succeed in Bolivia?**

The initial reaction to reform was, with much hindsight, funny. Labor leaders united with business elites and NGOs to denounce the "damned law", and organized protest marches in Bolivia's main cities. But the eager take-up of decentralization in Bolivia's towns and villages gave the lie to claims that it was yet another tool of "neoliberal domination", and this attempt was swiftly abandoned. From then on, opposition to the government's program focused on its other big reforms.

Decentralization's effects on public sector investment patterns were immediate, dramatic, and nationwide. Resources shifted from a small number of rich districts to Bolivia's smaller,



poorer, more rural, traditionally abandoned municipalities; the Bolivian state as a whole became more responsive to local needs through the actions of its municipalities (Faguet 2012 and 2014). And so decentralization steadily, and fairly quickly, became a normal way of life for Bolivians, and eventually a defining national characteristic, as it remains today. Not even the political earthquake that overthrew Sánchez de Lozada's second presidency some years later, and buried the entire political establishment, could undo this reform.

During his first years in office, Morales reversed all of Sánchez de Lozada's reforms one by one, in deliberate, highly symbolic fashion. And, indeed, in many ways he quietly set about recentralizing power, returning resources and authority from departments and municipalities to La Paz. But demands from the regions – and, more powerfully, from Bolivia's villages and towns – convinced him to change course. As hardening positions around the question of constitutional reform led to violent confrontations in 2007-2008, the Morales government took a leaf out of Sánchez de Lozada's book. With quiet irony, the government changed tack and proposed further devolution to elected regional governments – no longer appointed administrations – as well as the creation of new layers of provincial-level government, and new types of rural and indigenous autonomy. Resource transfers from the center were also significantly increased.

Why was decentralization so much more long-lived and successful in Bolivia than Pakistan? First, decentralization – especially as implemented in Bolivia – was firmly in the interests of ruling politicians, because it solved important political problems they faced. Most importantly, decentralization promised to reverse the long-term decline in popularity of the MNR and other “traditional” parties. Also, it offered a means to deflect the incessant demands of Santa Cruz (and to a lesser extent Tarija and the Beni), which explicitly threatened to break the country apart. The fact that these motives were shared by certain powerful business and regional interests in western Bolivia increased the viability of reform; as did, lastly, the probability that the ruling MNR would win a disproportionate share of local elections.

This combination of incentives led reformers to design a reform that was, in internationally comparative terms, unusually simple and transparent, and then implement it in a way that was unusually sincere (Faguet 2012). Reformers really wanted a decentralization that increased citizen participation by devolving power and resources to municipalities because this was specifically useful to them in the ways outlined above. They acted in a way calculated to bring this about. Hence the deliberate, Socratic design phase that went out of its way to seek input and consensus. Hence, too, the simple, easy-to-understand design of the Law of Popular Participation, which was widely disseminated throughout the country. Hence, lastly, Sánchez de Lozada's refusal to allow his party to politicize the reform, on the grounds that it must belong to all Bolivians and so outlive his government. As the data clearly show (Faguet 2012), they succeeded.

Their plan worked in many of the most important ways. It proved massively popular at the grass-roots level. In poorer, rural areas, its effect was transformative, establishing a state presence and providing basic services where before there were none (Faguet 2012). This made it unambiguously welfare enhancing for poorer Bolivians. The fact that it was not politically branded meant that when power changed hands, the new government's interests were not strictly opposed; indeed, even the Morales government, which initially tried to recentralize, came to see decentralization as consistent with its own interests and goals. These qualities allowed Bolivia's decentralization to survive, first changes in government, and then a social revolution that upended the ethnic pyramid, brought a new social class to power, exploded the political party system, and revamped the constitution. Through all of the dramatic changes that Bolivian government and society experienced in the early 2000s, decentralization remained a constant.

## 4. Decentralization in Pakistan

### Overview

In 1999, on a return flight from Sri Lanka, General Pervez Musharraf – Army Chief of Staff and Chairman of the Joint Chiefs of Staff – was informed that Prime Minister Nawaz Sharif had removed him from office and was refusing to let his airplane land in Pakistan. Incensed, Musharraf spoke to his generals through Dubai air traffic control, the army took control of Karachi Airport, and the flight landed with 7 minutes of fuel remaining.<sup>16</sup> Once on the ground, Musharraf ordered the arrest of the Prime Minister and his closest collaborators, and dissolved the national and provincial assemblies. He went on national television to announce that he had taken over the government out of “*sincerity, loyalty and selfless devotion to the country*”<sup>17</sup>. The corrupt nature of politicians, he explained, rendered all civilian institutions dysfunctional. But as always, the people could rely on the army to come to the country's rescue and reform major institutions.<sup>18</sup> Thus on 12<sup>th</sup> October 1999, General Musharraf took over as Chief Executive of the country in a bloodless coup. The dramatic nature of these events gave the impression of Musharraf being a reluctant dictator. But as Talbot (2012) points out, the speed with which the army was able to mobilize, and rumors of growing tensions between Musharraf and Sharif, imply that some semblance of a plan was already in place.

The military's actions were deemed legal by the Supreme Court, which ruled that Musharraf had three years in office, after which democracy had to be restored.<sup>19</sup> The military government

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<sup>16</sup> <http://www.nytimes.com/1999/10/17/world/countdown-to-pakistan-s-coup-a-duel-of-nerve-in-the-air.html?ref=pervezmusharraf>

<sup>17</sup> [http://www.dailymotion.com/video/x15wbce\\_general-pervez-musharraf-speech-on-12-oct-1999-bbc\\_news](http://www.dailymotion.com/video/x15wbce_general-pervez-musharraf-speech-on-12-oct-1999-bbc_news)

<sup>18</sup> [http://www.pakistani.org/pakistan/constitution/post\\_12oct99/musharraf\\_address\\_13oct1999.html](http://www.pakistani.org/pakistan/constitution/post_12oct99/musharraf_address_13oct1999.html)

<sup>19</sup> [http://news.bbc.co.uk/1/hi/world/south\\_asia/746262.stm](http://news.bbc.co.uk/1/hi/world/south_asia/746262.stm)

seized this opportunity to revamp political institutions by decentralizing power to the local level. Local government was introduced as a third tier that sat below provincial governments. The aims of the reform were: a) to bring new blood into the political system, b) to include minorities and marginalized citizens by creating reserved seats in local governments, and c) to increase political stability and accountability (Cyan et al 2004). The reform was drafted by the National Reconstruction Bureau (NRB), and approved in March 2000. New elections were scheduled for August 2001. While the reform was initially viewed with skepticism, with limited participation from seasoned politicians, by 2005 there was greater acceptance of the system, with some parliamentarians resigning to run for district government office<sup>20</sup>. Their rising participation sent two strong signals: first, that local government had real authority and was more attractive than provincial assemblies; and second, that the system was gaining traction amongst the political class, creating the impression that it would last. But before it could enter a third round of elections in 2008, a series of events unfolded that forced Musharraf to resign as President and flee to London. Upon taking office, one of the new democratic government's first acts was to abolish local government and recentralize power at the provincial level.

### **Decentralization in Pakistan: Context**

Gen Musharraf, Pakistan's third military dictator<sup>21</sup>, came to power following Pakistan's longest and most turbulent stretch of democracy, lasting 11 years. Power in these years switched hands between two main politicians; Ms. Benazir Bhutto, daughter of one of Pakistan's oldest and most charismatic politicians, and Mr. Nawaz Sharif. Both came to power twice only to be ousted halfway through their term on charges of corruption. As Talbot (2012) notes this was essentially a period of 'constitutional coups' as the President liberally used his constitutional right to dismiss a government he deemed as being unfit. Realizing this, in 1997 when Mr Sharif came back into office one of his first acts was to amend the constitution so as to curtail the President's powers. Unfortunately, though this did not mean that he would be able to continue his tenure in office, as in 1998, half way through his term he was ousted in a military coup<sup>22</sup>.

This turbulence explains why the initial response to Gen Musharraf's coup within Pakistan was not one of resentment (Waseem 2006)<sup>23</sup>. To add to this the 1990s were also disastrous in terms of Pakistan's development policies. As Easterly (2003) notes Pakistan in the 90s was a country

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<sup>20</sup> Mr Daniyal Aziz, ex-Chairman NRB, personal interview, 5 November 2013, Islamabad.

<sup>21</sup> In its 60 years of independence Pakistan has been under military rule three times, first under Gen Ayub Khan from 1958 to 1969, then under Gen Zia ul Haq from 1977 to 1988 and lastly under Gen Musharraf.

<sup>22</sup> Talbot (2012) argues that the ousting of previous governments were merely the President following the army's wishes. Therefore, one could extrapolate that if Mr. Sharif had not curbed the President's powers the army may not have taken over government, rather would have simply dismissed his government.

<sup>23</sup> It is worth pointing out that all three coups in Pakistan received initial support from the population as the proceeded years of corrupt civilian rule (Cyan et al 2004).

which had growth without development. The fruits of economic development were strongly centered towards the elite of the country while spending on education, health care and social security was significantly lower when compared to countries at the same income level. Moreover, patronage politics within state institutions meant that government jobs at all levels were handed out to cronies and supporters (Talbot 2012). The combination of these factors meant that the average man had no opportunity of improving his economic and social status thereby instilling a feeling helplessness and a lack of faith in state institutions.

At a macro level, the country was in extreme financial distress, as testing of its nuclear weapons had resulted in strong economic sanction from the international community<sup>24</sup>. This was coupled with a significant worsening of the political situation as in September 1998 Mr. Sharif proposed a new Islamic package, which amongst other things, would empower him to make any change he wanted in the name of Islam. At an extreme, it was feared he could have declared the electoral process and the constitution to be unIslamic<sup>25</sup>. While he received almost no political support for this package, still its proposal created unrest within the country because its implementation would have enabled him to rule indefinitely as a dictator.

Therefore, within this setting it is not surprising that the military coup did not face popular protest, as it was hoped the regime would bring positive political and pro-poor change. The implementation of decentralization seemed to be a step in the right direction. The rhetoric surrounding the reform was to bring politicians closer to the people so as to make them more accountable to citizens' needs. However, it seemed that it didn't manage to achieve this as once democracy was restored, the government in power was very quick to recentralize the state. The speed and ease with which local government was abolished raises two main questions. Firstly, why was the system abolished so soon after the restoration of democracy? Why was it that the political party that took office saw no value in maintaining decentralization? This is particularly relevant given the increased participation of politicians in 2005. Secondly, the ease with which the democratic government was able to overturn the reform begs the question, Why did the system have so little popular support? Why did Pakistanis see little value in defending a system that brought government closer to them? Answers to these questions, we argue, lie in the political motivation that drove the enactment, design and implementation of the reform.

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<sup>24</sup> As Easterly (2002), amongst others, notes Pakistan relies quite heavily on foreign aid for meeting its expenditures.

<sup>25</sup> Khalid Jawed Khan, leading constitutional lawyer, quoted in India Today September 14 1998

(<http://indiatoday.intoday.in/story/pak-pm-nawaz-sharif-plays-islamic-card-to-stave-off-govt-collapse-fallout-worries-india/1/265862.html> )

## Why did Pakistan decentralize?

While Musharraf claimed his “*selfless devotion to the country*”<sup>26</sup> brought him to power, soon after the coup it became apparent that he harbored political ambitions. From the outset he mounted an aggressive witch hunt against his opponents under the guise of an anti-corruption drive. Waseem (2006) notes how the anti-corruption unit, the National Accountability Bureau (NAB), systematically targeted Musharraf’s opponents while ignoring evidence against pro-regime politicians. Moreover, those charged were often acquitted if they switched allegiance to the Pakistan Muslim League, Quid-e-Azam (PML-Q), the pro-regime political party<sup>27</sup>. This had the dual effect of weakening the political class by demonizing them as fundamentally corrupt, and at the same time creating a political party that supported the military government. But prosecuting the opposition was not enough. Pressure from the international community, combined with a free and critical media at home, implied that failure to comply with the court’s three-year deadline would seriously undermine his legitimacy. Musharraf needed widespread public support to remain in office. So like dictators before him, he opted to hold a referendum on continuing his presidency beyond 2002, with a democratically elected national and provincial government.

However, winning a majority in the referendum depended on strong civilian and political backing, as Musharraf’s military support alone was not sufficiently large (Waseem 2006, Talbot 2012). The establishment of local government was his ploy to build such a base of support.<sup>28</sup> While the reform was packaged in the rhetoric of deepening democracy, as noted by Khalid Sultan, ex-District Coordination Officer of Lahore District, “*it was clear to everyone that the system was being implemented to legitimize Musharraf’s military rule*”.<sup>29</sup> Significant efforts were made to facilitate this goal at the planning, implantation and design stages of the reform.

## How did Pakistan Reform?

The Local Government Ordinance (LGO) was drafted and implemented by the National Reconstruction Bureau (NRB),<sup>30</sup> a body headed by a military general and composed of bureaucrats loyal to Musharraf’s government, a few pro-regime politicians, and top-level military personal. No

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<sup>26</sup> [http://www.pakistani.org/pakistan/constitution/post\\_12oct99/musharraf\\_address\\_13oct1999.html](http://www.pakistani.org/pakistan/constitution/post_12oct99/musharraf_address_13oct1999.html)  
[http://www.dailymotion.com/video/x15wbce\\_general-pervez-musharraf-speech-on-12-oct-1999-bbc\\_news](http://www.dailymotion.com/video/x15wbce_general-pervez-musharraf-speech-on-12-oct-1999-bbc_news)

<sup>27</sup> In fact, researchers have argued that the NAB was instrumental in the establishment of PML-Q, also known as the King’s party (Waseem 2006, Talbot 2012). This was also the political party Musharraf himself joined when he eventually contested elections.

<sup>28</sup> Decentralisation was not unique to Musharraf’s military regime. Both Gen Zia and Gen Ayub before him had used a similar reform to enhance their legitimacy. As argued by Waseem (2006), this was a way for all three military rulers to deinstitutionalise politics, while at the same time civilianising the government. Also it enabled them to circumvent political elites so as to appeal to the masses directly (Cyan et al 2004).

<sup>29</sup> Mr Khalid Sultan, ex District Coordination Officer Lahore district, Personal interview, 31 October 2013, Lahore. This was also confirmed, albeit reluctantly, by Mr. Daniyal Aziz, ex-Chairman NRB, in a personal interview.

<sup>30</sup> Established in 1999, this bureau was meant to tackle development related reforms in Pakistan (Waseem 2006).

members of the main political parties were included, depriving the process of inputs from seasoned politicians,<sup>31</sup> and undermining any sense of ownership politicians might have felt for the system. According to Mr Shafqat Mahmood, a senior politician in Pakistan, the composition of this body essentially cast the dye for decentralisation's failure as they *"had no idea about social ethos and political reality. They approached it like a military structure, erecting power lines and hierarchies in a manner that works in the army. The result was that they created a number of positions that no one understood"*<sup>32</sup>

The LGO was passed in 2000, six months after the coup, with elections held in 2001. Since the aim of the reform was to build an electoral constituency for Musharraf, local governments had to be up and running before the referendum was held in April 2002. Therefore this meant that the new structure was in place before a democratically elected government took office in the provinces.<sup>33</sup> But the particular form of decentralization implemented in Pakistan devolved powers and resources from the provincial level down to the local level, with no compensating powers transferred to provinces from the center.<sup>34</sup> This makes Pakistani decentralization an odd outlier in the international context, where the large majority of powers and resources decentralized to lower levels previously lay with central government (Faguet 2012, Treisman 2007). Hence the provincial government that came to power in 2002 found that many of their functions had been devolved to the local level, but no additional powers handed to them from the federal government<sup>35</sup>. The result was a watered down version of their office, further constrained by the presidential protection given to local governments that eliminated the provinces' constitutional right to abolish or alter them during two terms (Talbot 2012).<sup>36</sup> Thus not surprisingly, this led to highly antagonistic relationships between provincial and local governments, which according to Dr. Sajid Yousafani, a senior Pakistani bureaucrat, could have been avoided if the reform was drafted and implemented after the restoration of democracy at the provincial and national level.<sup>37</sup>

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<sup>31</sup> The disadvantage of this became apparent within the first year of decentralization as it had to undergo close to a hundred amendments.

<sup>32</sup> Mr Shafqat Mahmood, prominent Pakistani politician, Personal interview, 6 January, 2015, Lahore.

<sup>33</sup> Even though Musharraf took his cue from past dictators, these reforms were by far the most extensive ones implemented in Pakistan as it significantly changed governance structures. (Waseem 2006).

<sup>34</sup> Federal government powers were not devolved on the grounds that it would require a constitutional amendment. The constitution included a provision for local government under the provincial government due to which that didn't require constitutional changes (Cyan et al 2004). However, Gen Naqvi, ex-Chairman NRB, explained that the idea was to first solve the problem at the bottom and then move up. According to him there were plans to eventually devolve power from the federal level also.

<sup>35</sup> This according to Mr. Mian Amir, ex-District Nazim of Lahore, was a major problem as politicians in Pakistan believed in a centralised system and did not like their powers being devolved.

<sup>36</sup> This meant that only the President had the authority to alter or dismiss Local Government. As Talbot (2012) notes, strictly speaking this was a violation of the constitution.

<sup>37</sup> Dr Sajid Yousafani, senior Pakistani Bureaucrat, personal interview 8 January, 2015, Lahore. He argued that efforts could have been made at the design phase to sooth out areas of potential conflict.

Lastly, several clauses of the reform itself limited the ability of local government to achieve the goals NRB claimed for it. These were: (a) the systematic exclusion of political parties from the local government system, (b) the complex nature of the system, and (c) a weak and unclear link with provincial governments, all of which limited the system's functionality.

Local government systematically excluded all the major political parties. Unconsulted during the planning stage, parties were further explicitly excluded from participating in local elections. The justification for this clause was the corrupt and pro-patronage nature of political parties. Reformers argued that the only way to bring true democracy to the local level, and allow new blood into the system, was to bar established parties from participating. At a more practical level, Gen. Naqvi, ex-Chairman NRB, explained that since the regime had just ousted political parties, bringing them back into the political fold was not a viable option. In fact it may have caused more harm as the purpose of local government, he explained, was to lay the infrastructure for democracy. Including political parties would have politicized this process. This, he stipulated, was particularly unnecessary since there was no theory behind the benefits of having party based elections.<sup>38</sup> While this may have indeed been one of the reasons for excluding political parties, Musharraf's need for a political constituency was also a major motivator.<sup>39</sup> Party-based elections were likely to bring parties opposed to the military regime into office, and might have thus undermined the constituency Musharraf needed to win the referendum. Therefore the regime opted to enact a reform that prevented political parties from participating in local government.

To further ensure that the regime's interests were protected, the reform called for limited direct elections. While the local government system consisted of three tiers of government – district, tehsil (municipality), and union – only the lowest tier was directly elected. Members of the directly elected union council comprised the electoral college for district and tehsil governments<sup>40</sup> (see figure 4). But most decision making authority, particularly regarding resource allocation, lay with district governments. This implied that the officials who acted as their electoral college, and were themselves directly elected, had very little say in the planning and implementation of these matters (Keefer et al 2003, Cyan and Porter 2004). The official explanation for indirect elections was that they ensured each tier had an equal-size electoral college.<sup>41</sup> But Daniyal Aziz, former Chairman of NRB, argued that this flowed from the fear that “...*if you had direct elections, then real politicians*

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<sup>38</sup> Gen (Retd.) Tanveer Naqvi, ex-Chairman NRB, Personal Interview 3 January, 2015, Karachi.

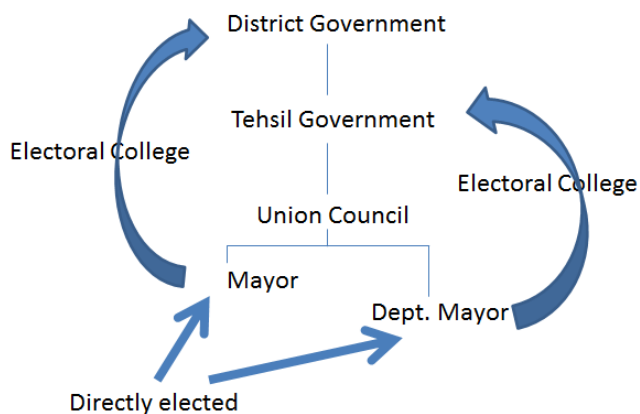
<sup>39</sup> Mr Khalid Sultan, ex District Coordination Officer Lahore district, Personal interview, 31 October 2013.

<sup>40</sup> Moreover, once elected the district and tehsil Mayors were only accountable to the Union Mayors, not to the other member of their electoral college.

<sup>41</sup> If district governments were directly elected, then several districts would have had constituencies far larger than the National Assembly. By making elections indirect, constituency size was reduced from around 1.5 million to 2000 (Waseem 2006).

would come up (within the ranks) and would sort out Musharraf<sup>42</sup>. The effect of limited direct elections was that ‘new blood’ entering politics had limited upward mobility, and local politics was marred by patronage and vote buying (Waseem 2006). However, Gen Naqvi, ex-chairman NRB, disagreed with this for two reasons. Firstly, he stated that even though elections were non-party based, politicians informally maintained their party affiliations and therefore had party backing. Moreover, he argued, that the reason local landlords or local elites were the ones who rose to take office was because they were the most obvious candidates. They were educated, had the money and understood the system.<sup>43</sup> Furthermore, the reform was instrumental in weakening the institutionalization of politics and political parties,<sup>44</sup> and turning elections into a popularity contest where individuals’ ran for office based on their charisma and influence rather than on issues (Waseem 2006).

Figure 4: Link between different tiers of Local Government.



Adapted from Cheema and Mohmand 2008

The effectiveness of the system was further marred by its complex design and incomplete implementation. If democratic participation is an objective, then simplicity of design will contribute to local government success to the extent that it makes local government more understandable and accessible for ordinary citizens. But as argued by many Pakistani politicians, policy makers and bureaucrats, Gen. Musharraf’s sole aim was to create legitimacy for himself, the actual design and implementation of the reform was of little concern to him.<sup>45</sup> Therefore, Gen Naqvi, Chairman of NRB at the time, was given a free reign. According to Gen. Naqvi the success of the reform hinged

<sup>42</sup> Mr. Daniyal Aziz, ex-Chairman NRB, personal interview, 5 November 2013, Islamabad.. In the interview he mentioned that the initial reform formulated in 2000 was meant to have direct elections for all tiers. This was amended before the final bill was passed. The amendment, according to Gen Naqvi, ex-Chairman NRB, was made at the behest of the civilians in the board drafting the reform.

<sup>43</sup> Gen (Retd.) Tanveer Naqvi, ex-Chairman NRB, Personal Interview 3 January, 2015, Karachi.

<sup>44</sup> Waseem (2006) also argues that by requiring elections to be contested on a non-party bases, the NRB essentially excluded the middle class, as they did not have the resources to stand in elections without party backing.

<sup>45</sup> See interview list in the bibliography. With the exception of Gen. Naqvi everyone interviewed stated this at some point in the interview, albeit some more reluctantly than others.



not on its simplicity but on its functionality and efficacy. Trying to achieve this was what complicated the design of the reform<sup>46</sup>.

The complexity of the reform was fairly evident amongst various aspects of local government. For starters, the three tiers of government were meant to be vertically connected, but by design there were no hierarchical fiscal or political linkages between them (Manning et al 2003). Thus each tier operated independently, resulting in poor coordination and limited oversight (Taj 2010). By design, oversight was exercised not through different tiers of government, but rather by citizens through Village and Neighborhood Committees (VNC)<sup>47</sup>. These were formal committees that involved citizens in planning and budgetary processes. But poor information flows meant that most citizens were unaware of them, and so most union councils lacked VNCs (Manning et al 2003). Their absence, combined with indirect elections, meant that the average voter had very limited means for holding higher tiers of local government accountable.

Accountability was further hindered by unclear demarcations of responsibility between different levels of government. This was particularly true for districts, which suffered not only from sluggish transfers of responsibility from provinces, but also from confused demarcations of responsibility in specific areas. For example, Manning et al (2003) note how some hospitals were put under the authority of district governments, while other hospitals remained under the purview of provincial governments.<sup>48</sup> Given high levels of illiteracy, and most citizens' limited experience of dealing with government officials, the outcome of this design was that most people were unaware of whom to approach when they needed something, and whom to hold responsible when things went wrong (Manning et al 2003).<sup>49</sup>

The last, and probably biggest, constraint to local government efficiency – and ultimately its survival – was the link created between provincial and district governments. District government was designed to be hierarchically below provincial government. But the LGO gave district mayors authority to override provincial Chief Ministers. District mayors were thus de facto independent of, or even above, provincial heads (Cyan et al 2004). Such provisions ensured that district officials

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<sup>46</sup> Gen (Retd.) Tanveer Naqvi, ex-Chairman NRB, Personal Interview 3 January, 2015, Karachi. He argued that the complexity was also necessary as Pakistani society's heterogeneity would not have allowed a simple system to survive.

<sup>47</sup> Even though the union council made up the Electoral College for the district and tehsil governments, once elected the union council had no sanctioning powers against them. The only resource they had was to invoke an audit against them (Taj 2010).

<sup>48</sup> This unclear demarcation also meant that often services were replicated by the provincial and local governments. For example, in an interview Mr Mian Amir, the old District Mayor of Lahore, told us how in Lahore there were cases of the provincial and local governments building roads parallel to each other. He argued that the provincial government was not happy to lose control over road building, as it was a visible project and therefore this was done to show the votes that the provincial government was still catering to their needs.

<sup>49</sup> Looking at rural Hafizabad, Pakistan, Shami (2012) finds that for this very reason most villagers preferred to approach their local patron for problem solving rather than to go directly to Local Government officials.

remained loyal to the military regime, but at the cost of generating huge resentment towards them from incoming provincial governments.

The NRB nonetheless realized that provincial and district governments would need to coordinate if provision across a range of services was to succeed, and made explicit efforts to create linkages between the two. The LGO created District Coordination Officers (DCOs), staffed by bureaucrats, to facilitate communication between provincial and district governments and implemented district government policies.<sup>50</sup> But DCOs were appointed by provisional governments, which had authority to transfer them at any point (Taj 2010)<sup>51</sup>. District mayors, by contrast, had limited authority over DCOs. If a mayor wanted his DCO transferred, he had to petition the provincial government. The only sanction available to district governments was the ability to write a bad performance report for the DCO. But this report required the provincial Chief Minister's signature to become official.

This arrangement placed a DCO in the awkward position of being responsible to the district government but accountable to the provincial government (Hasan 2002)<sup>52</sup>. In practice, it was the party affiliations of provincial and district officials that determined how these relationships functioned. While district elections were contested on a non-party basis, informally politicians retained their party affiliations.<sup>53</sup> Thus in districts where the mayor had allegiances to the same party as that of the provincial government, things worked relatively smoothly. As Mian Amir, Ex District Mayor of Lahore, explained, "*I never had money problems as I was part of (the political party of) the government.*"<sup>54</sup> However, problems arose when a mayor belonged to the province's opposition party. While Mr. Amir's government was allowed to function without interference by provincial authorities, Ms. Nafisa Shah, District Mayor of Khairpur, had considerable problems because she belonged to the opposition party. Not only did the provincial government delay transferring funds to her, but also any DCO that cooperated with her was quickly transferred out, making it difficult for her to implement any policies at all.

Tensions between the two levels were exacerbated by the fact that many of the powers devolved to local government concerned highly visible, labor-intensive services such as health, education and agriculture. These were some of the main sources of patronage and rent seeking

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<sup>50</sup> A similar office was created at the Tehsil level called Tehsil Coordination Officer.

<sup>51</sup> Hasan (2002) notes that the provincial government tended to maintain control over Local Government particularly through their powers over the DCO.

<sup>52</sup> Not complying with the wishes of the Chief Minister of the province could result in the DCO being transferred to an undesirable part of the country.

<sup>53</sup> Mr Khalid Sultan, ex District Coordination Officer Lahore district, Personal interview, 31 October 2013.

<sup>54</sup> Mr Mian Amir, Ex District Nazim of Lahore, personal interview, 4 November 2013, Lahore. In fact he maintained that even though the provincial government had the ability to interfere with local government, in his 9 years in office they never did.

previously available to provincial politicians.<sup>55</sup> And to add injury to insult, provincial governments were also required to devolve funds to district governments, as the latter had few revenue-generating capabilities (Taj 2010).<sup>56</sup> This according to Dr Sajid Yousafani, created a massive resource crunch<sup>57</sup>. However, Gen Naqvi, ex-Chairman NRB, argued that local government was not give taxing authority because there were no real taxes in Pakistan – the only real avenue for taxation was property which could not be devolved to the local level<sup>58</sup>. Moreover, the system called for an abolishment of the rural-urban divide in terms of resource allocation. This, Gen Naqvi explained, was meant to develop the rural areas and therefore make them an attractive place to live. In reality, as noted by Dr. Yousafani, this led to an impoverishment of the cities as now they lacked the funds needed to meet their infrastructural needs<sup>59</sup>. Thus in a political system characterized by patronage politics, local government was seen as a threat to provincial politicians’ clientelistic following (Cyan et al 2004, Waseem 2006). Such fears on part of the provinces were not unfounded. Cheema and Mohmand (2008) find evidence that district officials in rural Punjab behaved clientelistically, systematically targeting funds to mayors’ supporters and withholding public provision from opponents.

Politicians were not the only group that resented the local government system. Bureaucrats, too, were provoked as they found their authority curtailed. Prior to 2001, districts were run by deputy commissioners. Staffed by a bureaucrat, this office was in charge of most of a district’s policy-related issues. The LGO abolished the position, handed over most of its powers to district mayors, and replaced it with comparatively much weaker DCOs (Taj 2010).<sup>60</sup> Thus district-level bureaucrats also experienced a reduction in their powers, which in turn implied a reduction in perks and rent-seeking opportunities (Talbot 2012).<sup>61</sup>

Given the tensions between district and provincial governments, and the ill will from bureaucrats, it is not surprising that when the opposition regained power they quickly recentralized the state. By design the reform excluded political parties, and so was incompatible with their interests. Since the military government focused so much on undermining the opposition, and so little on enhancing citizen welfare, common Pakistanis perceived little benefit from local

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<sup>55</sup> Mr. Daniyal Aziz, ex-Chairman NRB, personal interview, 5 November 2013, Islamabad.

Mr Khalid Sultan, ex District Coordination Officer Lahore district, Personal interview, 31 October 2013.

<sup>56</sup> Transfer decisions were made through the Provincial Finance Commission, which comprised of provincial level officers. There were no provisions for Local Government officials to gain membership (Taj 2010).

<sup>57</sup> Dr Sajid Yousafani, personal interview 8 January, 2015, Lahore. He argued that this severely limited Local Government’s ability to deliver to the common man.

<sup>58</sup> Gen (Retd.) Tanveer Naqvi, ex-Chairman NRB, Personal Interview 3 January, 2015, Karachi.

<sup>59</sup> Dr Sajid Yousafani, Senior Bureaucrat, personal interview 8 January, 2015, Lahore. He argued that this severely limited Local Government’s ability to deliver to the common man.

<sup>60</sup> A certain portion of responsibilities were also handed over to the District Police Officer.

<sup>61</sup> Mr. Nadeem ul Haq, Senior Bureaucrat, personal interview, 5 November, 2015, Islamabad.

Gen (Retd.) Tanveer Naqvi, ex-Chairman NRB, Personal Interview 3 January, 2015, Karachi. Gen Naqvi claimed that Bureaucrats still had not forgiven him for devolving their powers to local level politicians.

government, and thus no need to oppose re-centralization. Thus in 2008, seven years after it was enacted, decentralization was quietly and efficiently abolished in Pakistan.

## 5. Empirical studies of decentralization

Our model of decentralization as a structural solution to political exigency appears to work well for two highly divergent cases of decentralization, Bolivia and Pakistan. Do these ideas have greater generality? This section tests them on a broader range of developing countries, focusing on cases from Latin America and Africa. Latin America is the region of the world that has reformed most eagerly, in terms of both the number of experiments and the depth and scope of reform (Campbell 2003). Hence it is a particularly rich source of empirical material for us. The contrast with Africa – which has also passed many reform laws – in terms not only of the reforms themselves but also the motivations that drove them, is particularly telling.

Why do different countries decentralize? Sometimes the immediate problem is civil conflict and the need to restore the peace. The Uruguayan decentralizations of 1872 and 1897 are good examples. Against the backdrop of a highly centralized government where departments had no autonomy and governors were named by the president, regional militias rose up in two armed rebellions, demanding an end to central oppression (Lindahl 1962). To end the conflict and restore stability, reformers significantly decentralized power, forcing the urban-based *Colorado* party in office nationally to share power with the *Blanco* party, which represented agricultural interests, in rural areas where it was dominant. These agreements ended the rebellions at the price of permitting *Blancos* to name governors and the other officials in six departments, and also reserving one third of congressional seats for them (Eaton 2004).

If the immediate problem in Uruguay was violence, the deeper problem leaders needed to solve was the skewed distribution of power across space. South Africa in the 1990s shows a broadly similar pattern, although the immediate trigger looked very different. The problem faced by the governing National Party, in transition negotiations with the ascendant African National Congress, was how to avoid electoral extermination as the country moved from apartheid to full democracy. The new South Africa would inherit a top-down, unitary state with extensive instruments of centralized control designed to maintain the separation of the races. The National Party worried about handing power over such an apparatus to the African National Congress, which stood to win any free election. Calculating that its subnational electoral prospects were better than its national ones, they demanded a structure of government that could provide a fiefdom for them (Sparks 1994). For similar reasons, the Inkatha Freedom Party also demanded decentralization. Both made decentralization a condition of support for democratization (Dickovick 2011). The ANC

eventually agreed, and the country's first democratic elections handed national power to it, while the Nationalists and Inkatha became ensconced in the Western Cape and KwaZulu Natal.

Other times, the underlying spatial motive focuses on resources more than authority or elections. Consider Brazil, whose military regime was arguably more successful, and certainly lasted far longer, 1964-1988, than most others in the region. Its longevity is generally credited to its success in channeling regional demands and appeasing local interests, as articulated by local political forces. The means for doing so were fiscal federal relations. The regime had initially attempted to centralize power away from the states. But by the early 1970s, conflicts with the states were growing dangerous and threatening to destabilize the regime. The military realized that if it wanted to stay in power, it needed to abandon these efforts and instead use the tools of fiscal federalism strategically to appease regional interests (Ames 1987). The dictatorship decentralized powers and devolved greater revenue in order to forge a coalition strategy in which four poorer Northeastern states were enlisted to counterbalance the autonomy of the largest, most industrialized Southern states, especially São Paulo (Díaz-Cayeros 2006). This fiscal strategy was twinned with a political opening which saw national authoritarianism coexist with subnational competitive elections from 1974 onwards. The strategy stabilized the regime, extending its stay in power far longer than similars in Argentina, Chile and Uruguay. It also seeded Brazil's political mentality; the transition to democracy that followed was accompanied by successful demands for further decentralization.

But sometimes the urge to decentralize has nothing to do with space, and decentralization is not "about decentralization" at all. In Uruguay at the end of the twentieth century, decentralization was about electoral exclusion. The still-dominant *Blanco* and *Colorado* parties now faced a serious threat from the upstart *Frente Amplio-Encuentro Progresista* (FA-EP), which threatened to win national elections in 1999 (Cason 2002). So in 1996, *Blancos* and *Colorados* approved a reform de-linking local from national elections. By introducing a second round of voting for president, the two traditional parties could close ranks after the first round and keep the FA-EP out of power. Other decentralizing changes were also introduced in a new constitution, but mostly not implemented. In the short term, the strategy successfully kept the FA-EP out of the presidential palace. But in the long term it had unforeseen consequences that were far more significant, enhancing subnational officials' stature at the expense of national leaders', changing politicians' career trajectories, and weakening discipline within national parties (Eaton 2004).

At about the same time, Chile decentralized in order to *counteract* political exclusion. As the country redemocratized after the Pinochet regime, the newly elected government sought to counter the systematic institutional advantages bequeathed to the Right in the legislature and judiciary, including the Supreme Court and Constitutional Court, and also replace mayors appointed

by the dictatorship with freely elected ones (Linz and Stepan 1996). Expecting they would win, the center-left government democratized local governments. The plan initially succeeded, but then backfired within the decade, as new right-wing candidates became adept at winning local elections, and soon commanded a disproportionate share of mayoralties. An unintended consequence of this reform was thus to mirror the Right's overrepresentation in national policymaking at the municipal level (Eaton 2004). Other unintended consequences include creating new career paths for aspiring politicians to reach the national stage, and helping right-wing candidates distance themselves from the dictatorship by invoking their performance as local executives.

Venezuela decentralized in 1989 for entirely different reasons. There, a highly centralized state run as a condominium between the dominant political parties, *Acción Democrática* (AD) and COPEI, gave states no important fiscal or administrative responsibilities (Grindle 2000). A proportional representation system with closed party lists, and internally centralized parties, implied that party leaders controlled the nomination process tightly for every level of government. Parties' strict internal discipline meant that candidate selection rarely reflected local and regional interests (Monaldi & Penfold 2006). This extreme centralization with pacted power-sharing was credited for overcoming the chronic instability and civil strife of the 19<sup>th</sup> century, and underpinning Venezuela's democracy (DiJohn 2009). But by the 1980s, public opinion had turned against the system, accusing it of being corrupt, self-serving, and out of touch. The restriction of democratic choice to the election of president and congressmen was harshly criticized. A presidential commission for state reform recommended decentralization, including direct election of governors and mayors, and reform of the closed-list PR system.

These reforms were firmly rejected by both the governing AD party and COPEI. Why, then, did Venezuela decentralize? The AD candidate for president in 1988, Carlos Andres Pérez, had been nominated through an electoral convention, rather than by party leaders as was traditional. Decentralization promised to increase the power of the subnational leaders who supported him, at the direct expense of the national leaders who had tried to block his candidacy. Congress approved three reforming bills which the AD attempted to block. But massive urban riots in February 1989 traumatized the country's political establishment, and forced the AD to change course and support a deeper decentralization. Thus decentralization in Venezuela, justified as a pro-accountability measure, was in fact a strategic ploy to weaken intraparty opposition to the new President. But the weakening did not stop there. AD and COPEI were highly unsuited to the new decentralized politics. Reform cast them into a rapid spiral of decline, leading to the eventual collapse of Venezuela's party system and the rise of Hugo Chavez (Penfold 2004).

Argentina's situation is in many ways more extreme. Formed initially as a federation of independent provinces, the country has in effect suffered a long series of decentralizations and

recentralizations over two centuries. Rules for revenue-sharing between the center and provinces were never written into the constitution, but rather expressed as laws that expired every few years. They were thus the object of continual renegotiation, responding to a changing set of domestic and international pressures. This is a long-term characteristic of the country's federal arrangements going back to at least the 1930s, and arguably to the republic's foundation (Diaz-Cayeros 2006). We need look back no further than 1983 to see it clearly illustrated. That year, extreme economic and political tensions related to the collapse of a military junta and return to democracy caused revenue-sharing accords to break down. The federal government sought to balance its budget at the expense of the provinces, and they rebelled (Eaton 2001). In the absence of a formal agreements, revenue sharing during the following three years occurred via an informal mechanism that was highly political, discretionary, and changed from year to year (Porto 2003). This pattern intensified during the 1990s, when central-provincial relations were buffeted by a sequence of internal and external shocks, and revenue-sharing was renegotiated almost every year. This exemplifies an Argentine tradition of federal fiscal relations that are highly complex, highly unstable, and defined by many, often conflicting, rules. The end result is an uninstitutionalized, highly untransparent system that is subservient to momentary political imperatives, and has never achieved appreciable vertical or horizontal equalization goals (Tommasi, 2002). Argentina thus takes the logic of structural change in response to political necessity one step further: the *absence of structure* in service to continually changing political needs.

These outcomes differ radically from countries where decentralization reforms were unconnected from acute political needs, or – with more reason still – where political problems called for the centralized exercise of power. In Ghana, for example, the regime's priority was to build a rural political machine to support the ruling party. The decentralization it implemented accordingly built a local state in a manner that ensured top-down control over it, and short-circuited local accountability and participation (Boone 2003). In Côte d'Ivoire, too, reforms of the 1990s were decentralizing in name only, with almost no resources or authority devolved to new municipal governments, and clear lines of accountability running upwards to central officials, as opposed to downwards to voters (Fauré 1993, Crook and Manor 1998). Local authorities lack connection to, or communication with, local citizens; their power derives from the center, not from the support or allegiance of the governed (Boone 2003). Much the same is true in Tanzania, where decentralization eliminated elected councils and replaced them with District Development Councils reporting directly to central government (Slater 1989). In such countries, decentralization reforms were announced, often with bold claims and much fanfare. But the motivating problems leaders faced were unconnected to substantive decentralization, or even opposed to it. Such reforms quickly became paper decentralizations, devoid of content and lacking in consequence.

Lastly, the parallels between the Pakistani reform described above and that of Chilean dictator Carlos Ibañez (1927-31) are telling. Soon after assuming power, Ibañez attacked decentralized governments because they were dominated by established political parties, his enemies. He suspended all elected governments and replaced them with presidential appointees, arguing this would make government cleaner and more effective (Eaton 2004). Although this closely mirrors the decisions and underlying calculations of Musharraf in Pakistan six decades later, our interviews with key figures in the latter case provide no evidence that those reforms were in any way informed by Carlos Ibañez. The strong implication is that authoritarian leaders do similar things because they face similar incentives. This is true even in very different countries during very different times.

## 6. Conclusion

Why do leaders decentralize? Who spends the better part of a career, and often a lifetime, climbing the greasy pole of power only – having reached the apex – to devolve that power, plus significant resources, to subnational officials with independent mandates whom they cannot control? Who gets into politics to give power away? This is the “black hole” problem at the heart of the decentralization debate, which some have noted but few have attempted to answer.

It is our contention that politicians decentralize in order to solve a specific, discrete, often short-term political problem. Our analysis very likely extends to a much broader class of deep institutional reforms with long-term consequences.<sup>62</sup> Normative appeals to efficiency, state effectiveness, or the common good may excite seminar discussions, but are unlikely to move politicians to undertake costly reforms. For self-interested, successful politicians to expend the energy and political capital implied in assembling the political and bureaucratic coalitions required to push through significant reforms to the architecture of government, it must be the case that these costs are outweighed by specific benefits. Absent such benefits, decentralization would never proceed from abstract discussion to action.

The crucial point is that decentralization is not a specific, short-term, or discrete policy measure. It is, rather, a deep change in the structures of public finance and authority that has long-term effects on: the incentives public officials face, the decisions officials take, the public policies they implement, national fiscal balances, macroeconomic stability, politicians’ career incentives, and political parties’ internal structures, to name a few. Decentralization changes how a country is run, and so can be expected to have deep effects on these, and many other, dimensions of a nation’s life well into the long term.

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<sup>62</sup> Other examples may include changes of voting systems, judicial independence, and the creation of new states/provinces.



But decentralization reforms are not designed around any of these factors. The key to understanding when and how countries decentralize is, rather, as solutions to specific, well-defined political problems. Understanding these underlying problems is crucial to explaining why some reforms succeed and others fail.

In Pakistan, Gen. Pervez Musharraf had more or less stumbled into power in an unplanned, unspiratorial manner. He faced the acute problem of legitimizing his *de facto* government in the eyes of the public, and then extending his rule beyond the three-year transition conceded by the Supreme Court. He and his circle hit upon a structural solution: decentralization to newly-created local governments, which would extend the reach of the state deep into the Pakistani hinterland, provide some services, and make citizens feel the government shared their concerns.

But the nature of the immediate problem – legitimizing a military regime that had overthrown an elected government – required disempowering Pakistan’s political parties. Additionally, Musharraf’s tenuous legal position, and his uncertain command of the bureaucracy, implied an overriding need to consolidate power and authority and avoid further dramatic change. The decentralized structure that emerged should not be capable of moving quickly or acting decisively. These imperatives explain the two key characteristics of Musharraf’s decentralization: (i) the explicit exclusion of Pakistan’s political establishment, and (ii) a decentralized architecture defined by ambiguity in service responsibilities, obtuse reporting, and circuitous fiscal flows. Together, these produced weak, confused accountability, and low levels of participation and legitimacy amongst ordinary Pakistanis. Such a decentralization earned little support from the grass roots of Pakistani society, and massive opposition from the parties.

In Bolivia, by contrast, the President faced key challenges deeply embedded in democratic contestation. His party, which had led the 1952 Nationalist Revolution and thought of itself as the natural party of government, was in gradual, long-term electoral decline. It could no longer win elections outright, and was finding it increasingly difficult to assemble governing coalitions with Bolivia’s other, “traditional” parties, which were suffering similar processes of decay. The root of their difficulties lay in the rise of neo-populist parties that prospered by attacking corruption, patronage, and the political elite. But a second set of pressures threatened to stop the government in its tracks, and so was arguably more pressing. These came from business elites in Santa Cruz and other Eastern regions, who aggressively threatened secession, and manipulated regional identity to extract resources and policy concessions from La Paz.<sup>63</sup> Like Gen. Musharraf, Pres. Sánchez de Lozada hit upon a structural solution: decentralization to newly-created local governments, which would extend the reach of the state deep into the Bolivian hinterland, provide primary services, and make citizens feel the state was responsive to their concerns.

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<sup>63</sup> Academics typically find the first motive more interesting. Politicians may well find the second more compelling.

Like Pakistan, the nature of the immediate problem dictated the terms of Bolivia's solution. But there the comparison ends. Sánchez de Lozada sought to treat the twin ills of political decay and secessionism by administering a jolt of democracy. He sought to win back voters' loyalty by suddenly and radically increasing their participation in government via the hundreds of municipalities he created up and down the country. If it was to work, voters would have to believe in these new local governments. If it was to last, political elites must be coopted. These imperatives explain the three key characteristics of Sánchez de Lozada's decentralization: (i) the devolution of significant resources and decision-making power from central to local government; (ii) a decentralized architecture defined by direct fiscal flows, clear service responsibilities, and simple, straightforward reporting; and (iii) the unambiguous buy-in of Bolivia's political establishment. Together, these produced strong accountability, and high – indeed increasing – levels of political participation and mobilization in the population. The high legitimacy that local governments quickly earned amongst ordinary citizens produced a massive groundswell of support for decentralization in Bolivia.

Three years later, a visit to a rural hamlet lost in the forest border with Brazil was telling. Rural schools, health posts, and irrigation projects flourished up and down the land, and local residents were eager to testify. "For decades we were ignored, we got nothing," one explained. "When our children fell ill, we crossed the river and hoped the Brazilians might treat them. Now we have our own school, our own clinic. Now, at last, we feel Bolivian."<sup>64</sup> Such sentiments were broadly shared, which explains why Morales, who reversed all of Sánchez de Lozada's reforms one by one, not only could not unpick decentralization, but indeed ended up decentralizing greater powers and more resources to lower levels of government.

How strikingly different from Pakistan, where a reform that was obtuse and confusing failed to win the trust of the people but succeeded in earning the contempt of elites. When Musharraf was forced to resign in 2008, one of the first acts of the democratic government that replaced him was to abolish his decentralization. It is notable that local government died a quiet death in Pakistan, in full view, lamented by no one.

Broader evidence from Africa and Latin America supports our analysis of decentralization as a structural solution to acute political problems. Our evidence underlines that for decentralization to proceed, the problem in question must be immediate and pressing. But it need not concern space or government hierarchy. It can be as orthogonal to decentralization as excluding an upstart rival from national elections, stabilizing a dictatorship, or countering the institutional

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<sup>64</sup> Dimitri Ojopi, oversight committee president, interview, Baures, 2 May 1997.

manipulations of a previous dictator.<sup>65</sup> In all such cases, reform has long-term effects on politics and the state that are deep, sometimes unwanted, and always unexpected. Our evidence further shows that where such motives are lacking or in opposition to decentralization, governments act in fundamentally different ways. Even where they announce decentralization, reforms are devoid of substance, empty shell decentralizations that do not alter the distribution of power and resources in a country, but instead serve to reinforce the center's control.

The theoretical results and mini-case studies suggest that our core insight has relevance beyond the Bolivian and Pakistani contexts. They emerge from a simple game-theoretic model with general incentives and behaviors. In a model of strategic interaction where the ruling party seeks to remain in power, the opposition party seeks to gain power, and civil society wants good public services, decentralization is implemented to solve one of two classes of problems: (a) stifling opposition to the regime by undermining the opposition party; and (b) gaining popularity by improving public services via competitive, participative local governments. The practicalities of reform create a third possible outcome: (c) a middling road that compromises between (a) and (b). For case (a), the model predicts reform will be overturned and the country re-centralized when the opposition gains power. In case (b), decentralization survives a change in power, albeit in rebranded form. Both are unique equilibria unaffected by repeated play. Only case (c) yields multiple equilibria, a random oscillation between de- and recentralization, which in practice are likely to be resolved by local parameters of specific reforms.

Our intuition is that the analytical approach taken in this paper is relevant to issues far beyond decentralization. The analysis of structural solutions for specific, often short-term political problems is likely to be relevant for a much broader class of institutional reforms that have consequences that are deep and long-lasting.

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<sup>65</sup> The Chilean case suggests a subtle variant of our theory: decentralization as *structural* response to structural problems.

## Right and Wrong Political Calculations

If Sánchez de Lozada got the reforms right, in that they were effective, popular, and long-lasting, there is an important sense in which it was Musharraf who got the political calculation right. His reform was convoluted, ineffective, and unpopular. It failed utterly to create for him a broad, long-term political movement that he hoped might displace Pakistan's traditional, elitist parties. But it did play a key role in keeping him in power for nine years. By creating some 80,000 new local officials who depended directly upon him for their positions, he was able to increase the three-year transitional stewardship initially conceded by the Supreme Court by a further six years, stepping down only in 2008.

In Bolivia, by contrast, simple, effective reforms proved successful beyond even Sánchez de Lozada's hopes. Decentralization was hugely popular, and over time became firmly embedded in Bolivia's governance and politics. Indeed, Faguet and Bonifaz (2015) argue that it was transformational, playing a crucial role in the elevation of a new socio-economic class into national politics. These new politicians – indigenous and mestizo truck drivers, carpenters and farmers from Bolivia's villages and peri-urban areas – were the protagonists of what must now be considered Bolivia's second revolution. This swept away the traditional, urban, white, landowning and business-based political elites, and with them their parties, and the politics they had always dominated. With a lag of about a decade, the entire political establishment was swallowed up in a political earthquake that saw politicians who got their start in local government rise up and seize the power they now felt was rightly theirs. One of them was an ex-farmer, shepherd, and coca-growers' leader called Evo Morales.

This powerfully underlines the point that decentralization is a structural reform with long-term, multidimensional consequences, many of which bear no relation to the specific problems politicians are trying to solve, and all of which are very hard to foresee. Decentralization was not the savior of the MNR, nor any other party; it did not even halt their decline. But as governance reform it was an unmitigated success, and became a defining characteristic of the Bolivian nation.

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