

# **Political Economy of Elite Capture and Clientelism in Public Resources Distribution: Theory and Evidence from Balochistan, Pakistan**

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## **Abstract**

The paper critically examines the presence of political and bureaucratic capture in public sector resources allocation in Balochistan province, Pakistan. The paper builds a plausible theory and applies robust empirical techniques to evaluate that how the political and bureaucratic elite indiscriminately and disproportionately allocates the public sector funds to meet two overarching ends: to allow maximum misappropriation of public funds to their personal and benefits; and to constituency/district-specific allocations to buy political allegiance and promote pork-barrel and patronage politics (political clientelism). For empirical purpose the paper uses an unbalanced panel technique using data for districts from provincial level sources. The theoretical predictions and the empirical results show a strong capture and clientelism in the process of budget making and the allocations of resources/projects to districts/constituencies, for incumbent politicians and senior career officials who are at the helm of affairs make disproportionate budgetary allocations of public resources to their home districts or constituencies or the projects with much leverage of extraction (read bribes) in the process of project allocations, bidding or execution. The evidence suggests that districts, which are neither represented in incumbency or provincial government nor by senior bureaucrats in ministries that make public policy, receive far lesser budgetary allocations than their proportionate share despite prevailing poor social and economic landscape. Such capture to suffice personal interests and support clientelism in resources sharing creates an inter-regions and inter-districts/constituencies disparity in terms of economic and social development within the province.

**Keywords:** Political Economy; Elite Capture; Clientelism; Distribution of Resources; Disparity; Deprivation; Balochistan

## **1. Introduction**

The paper presents the political economy of public resources distribution in Balochistan, Pakistan during the budget making and distribution process, and examines that how political and bureaucratic vested interests and clientelism influence the funds allocations to the districts/constituencies. After presenting a logical political-economic model of budget allocation on bargaining game principles, the paper gives a systematic and robust empirical insight on how the politicians in office and civil servants consistently, and disproportionately, allocate the public sector funds in order to meet primarily two implicit purposes: to allow maximum misappropriation of public funds that suit their best personal benefits; and to constituency/district-specific allocations to ascertain political allegiance and promote pork-barrel and patronage politics. In the process, they paper argues, they invariably discard the developmental and socio-economic needs of the districts or constituencies in public resources sharing.

Balochistan is the largest province of Pakistan covering 44% of total landmass of the country, endowed with abundance natural resources. Yet only 6% of total population of Pakistan resides in Balochistan (Census, 2017). Balochistan has vastly an undeveloped economy with primary modes of production. Its economy rests on natural resources – majority of them still untapped –, fruits and crops, livestock, fisheries and (in)formal border trade with neighbouring Afghanistan and Iran. The agriculture consists of high value and non-staple products that are favourable for the water scarce high-altitude environment in midland, north and south of the province. Yet agriculture in Balochistan has invariably remained at subsistence level with no marked potential for further growth. However, crops cultivation in the canal-irrigated districts in the northeast of the province resembles and follows the general trends of agricultural growth of Indus Basin region of Pakistan.

While the economy lacks diversification at the local level, the distinct ecological systems in different areas – flood plains, uplands, and deserts to the coastal area – lead to a considerable variety at the provincial level. As the northern area specializes in horticulture, the central and western districts engage foremost in livestock rearing, the southern Balochistan relies on (in)formal border trade with Iran, subsistence agriculture based on perennial water sources (*Kahn and Kareez*<sup>1</sup>), fisheries and service provisions to the public sector in Balochistan and elsewhere to the Middle East (Bengali, 2018). Whereas, rich mineral deposits, such as coal, copper, gold and natural gas, are scattered around the province, few influential tribal chiefs (*Sardars, Nawabs*) with strong control upon these resources are rudimentarily and crudely exploiting them with substantial role in provincial economy. Balochistan's economic and social development faces daunting challenges. The province lags far behind other provinces of Pakistan in all socioeconomic and development indicators such as basic healthcare, education (primary and secondary) and gender equity, economic, social, and physical infrastructure (Ahmed and Hassan, 2020).

In order to meet its fiscal needs, the province heavily relies on federal transfers through National Finance Commission (NFC) Award<sup>2</sup> and other straight transfers and given that the horizontal distribution of the NFC Award had historically been entirely on single criterion of population, the province received merely 5% of total horizontal distribution. The historic underdevelopment of the province has squarely placed on the lack of available resources with certain degree of justification. However, the 7<sup>th</sup> NFC Award, which was constituted and implemented in 2009, has changed the fiscal landscape of Balochistan, while the share of the provinces has increased from 54% to 57% in total divisible pool, more criteria such as backwardness/poverty, revenue generations and collections, and inverse population density were included for horizontal distribution besides population – the latter with 82% weight still takes far greater a share.<sup>3</sup> The share

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<sup>1</sup> For more information about Kahn and Kareez, see Fazle K. and Nawaz, (1995).

<sup>2</sup> The inter-governmental resource transfer, which is the significant feature of provincial governments' finances in Pakistan, takes place under the fiscal arrangement of the National Finance Commission (NFC) Award. As mandated by the Constitution of Pakistan, after every five years the President of Pakistan constitutes the NFC Award that prescribes a formula-based fiscal resource distribution and sharing of taxes and non-taxes revenues between the federation and the provinces and among the provinces (for more discussion on NFC and resources sharing arrangement between federal government and provincial governments and among the latter, see Ahmed and Baloch, 2014).

<sup>3</sup> From national resources divisible pool, which comprises of 82% of population share, 10.3 % of Poverty and backwardness, 5% of revenue collection share and 2.7 % of inverse populations density in horizontal distribution criteria as it was up to 5% with 100% population-based criteria in horizontal distribution (Iqbal et al., 2012). Although since 2009 a greater number of criteria—like backwardness and revenue collections—have been included in the horizontal resource mechanism, population retains an 82 percent weight. This criterion

of Balochistan therefore has increased up to 9.09% (Iqbal et al., 2012). However, this somewhat consolidated fiscal position of the province owing to the 7<sup>th</sup> NFC Award and the 18<sup>th</sup> Constitutional Amendment<sup>4</sup> in 2010 has so far failed to bring a visible and meaningful change to social and economic landscape of Balochistan, which has further pushed the province backward to other provinces of the country. Resultantly the majority of districts in Balochistan are multidimensional poor (Naveed *et al*, 2016) and their status has further worsened since 2009.

At provincial level, the Provincial Finance Commission (PFC) was established in 2001 with the advent of the Devolution Plan<sup>5</sup> to distribute the provincial share of resources among the districts. Besides allocations through the PFC the districts received resources (funds, grants, etc.) from federal government on random bases.<sup>6</sup> However, in 2008 the PFC was abandoned with shelving of the Devolution Plan. Thus, in the absence of criteria-based PFC, looking at the public finance distribution in Balochistan, one can easily notice unbalanced (not considering the developmental and social needs of the respective districts/regions) and biased allocations to districts beyond their just share based on any judicious criteria that led to create a significant intra-provincial disparity in Balochistan as well as a sheer wastage of public resources through misappropriations, kicks back and pork-barrel by public officials and politicians.

Such lopsided and distorted resources allocations to districts/constituencies appear to be on politico-bureaucratic considerations warrant a sound theoretical insight and empirical inquiry to understand the underlying political economy behind such practices. This paper therefore is an attempt to investigate and explain this issue and make a plausible contribution to the existing literature of public finance and political economy. The paper postulates the presence of a phenomenon of preponderance elite capture and clientelism on the public finances of the province, particularly the annual budgetary share allocated for Public Sector Development (Annual Development Plan) in which the discretionary powers and manipulations of public officials and politicians are instrumental.

The sectors in which the development allocations *normally* take place are grouped into three main categories (sub-sectors are clubbed under these three sectors).

*Social Sector:* It comprises of healthcare and education (primary and secondary), water supply and sewerage, social welfare, labour and manpower, culture, sport, tourism and youth, information technology and women development.

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preserves Punjab's domination over resources (Jaffery and Sadaqat, 2006; Ahmed *et al.*, 2007; Ahmed and Baloch, 2014).

<sup>4</sup> Pakistan took a major shift towards federalism through the 18th Amendment to the Constitution passed in April 2010, which was billed as the most comprehensive reform package in the constitutional history of Pakistan. The 18th Amendment arguably has a profound impact on the governance and economic management of Pakistan. The provinces have received additional powers as a result of the abolition of the Concurrent List, which ensures the transfer of large amounts of economic authority to the provinces. The 18th Amendment is by and large conceived formally along provincial lines but substantially along ethnic lines. Federalism in Pakistan remains ethnic in both substance and style. The 18th Amendment has invariably given Balochistan a far wider space and autonomy to make an indigenous administrative and fiscal arrangement. Yet for Balochistan the 18th Amendment has barely been effective in addressing the decades-old grievances. While it provided a constitutional and fiscal space for the province, it could hardly help to address the persistent economic and political issues in Balochistan. In order for the Baloch to coexist and be part of the Pakistani federation, the federal project of the country needs to be restructured (Ahmed, 2010).

<sup>5</sup> In 2001, Pakistan embarked on reforms through which sizeable powers were shifted to third-tier (i.e., local governments,) mainly from the provincial governments (Ahmed M., 2016)

<sup>6</sup> For More discussion See, Ahmed, M.

*Productive Sector:* It includes agriculture, forestry, fisheries, livestock and dairy development, industries, mineral and mines.

*Infrastructure:* It includes transportation and communication, energy (fuel and power), public health engineering, irrigation, local government and planning and development.

Interestingly, there is not any sound, systemic, and criteria-based policy for the resources distribution among districts in the province, which therefore leads to arbitrary allocations at the discretions of head of the provincial government and his key cabinet allies and senior bureaucrats, and undoubtedly those at the helm of affairs wield a strong urge and political motives to give disproportionate priority to their home districts/constituencies to mollify two very conspicuous interests as earlier eluded. Indicators like poverty, backwardness, illiteracy, unemployment, and lack of basic amenities are not kept in any consideration while allocating the development funds that are presumed to be top priority in any normal and transparent resource sharing process. After presenting a rigorous theoretical model based on bargaining game principles considering some of the defining factors in overall public resources sharing, the paper further delves into empirically examine how the politics of influence determines the overall distribution of resources in Balochistan.

The rest of the paper is organised as follows: Section two describes the political economy, the political economy of resource distribution, the elite capture and sheds a brief light on Balochistan economy, while section three presents a budget allocation theoretical model. Section four explains the empirical methods; section five presents the empirical results and their discussions. Section six concludes the paper and provides some policy recommendations.

## **2.1. Political Economy**

Political economy is the study of the socio-economic and political relations that constitute the distribution and (re)production of resources within any country/region. Political economy deals with the production, trade, and consumption, which are linked with the laws, rules of the state, and political considerations of the incumbent government at national or subnational level. Political economy explains how the economic theory and methods fill up the socio-economic gap and analyses that how the public policies are shaped and implemented by public and private sectors and enterprises.<sup>7</sup> Edmund (1985) explains political economy to the combined and interacting effects of economic and political structures or processes and by extension to the scholarly study of this domain. He believes that the terminology emerged in the 18<sup>th</sup> century, where the economic policies of the state were aimed to enhance the economy via politics. It relates to the economic policies, resource distribution, taxation and other means of resource mobilization, transfers and resource exchange, and imports and exports of a state. Adam Smith defined the term political economy as the allocation of resources and was concerned with how mankind arranges to allocate scarce resources with a view towards satisfying certain needs and not others.<sup>8</sup> To Adam Smith political economy specifically is the branch of social sciences, which deals with production, consumption and distribution of resources, wealth creation in any economy under the certain political considerations and impulses. In other words, political economy is a process through which the allocation of resources among various economic units and agents take place. At the outset of the academic disciplinary study, political economy

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<sup>7</sup> For a thorough theoretical discussion on political economy see Torsten & Guido (2002).

<sup>8</sup> For further discussion on Adam Smith's views on political economy, see Smith, A. (2002).

was meant to study and analyse the conditions of economic policies and their inherent implications within the framework of political institutions. Offering a conceptual point of view, Eatwell *et al* (1987:59) give us a succinct definition by stating that “political economy is the science of wealth” and “deals with efforts made by man to supply wants and satisfy desires”.

## **2.2. Elite Capture and Institutional Aspects of Corruption**

Social scientists tend to be sceptical about the motivations of politicians and public officials in developing countries. When encountering politicians or bureaucrats the tendency is to think not about the leadership skills and competence that allowed them to obtain these positions, but rather to imagine all the myriad ways that they are scheming to extract from the public resources. The common belief the political and bureaucratic elites stealthily capture resources has deep roots in almost all underdeveloped societies (Hamilton *et al.*, 1787; in the development context, see also Wade, 1982, and Dreze and Sen, 1989). More recently, the phenomenon of elite capture has been further explored and developed in such works as Bardhan and Mookherjee (2000), Acemoglu (2006) and Acemoglu *et al.* (2012). Rumbul *et al* (2018) define elite capture as the dominance of political elites in all stages of the budgeting process, often resulting in budget policies that fail to promote the public good.

Elite capture is a phenomenon where a few, usually politically and/or economically powerful groups usurp resources transferred for the benefit of the masses, at the expense of the less economically and/or politically influential groups. The elite can be defined along variety of lines including income, professional, social, power, education attainment and gender.

According to Laffont and Tirole (1991) the origin of elite capture phenomenon can be traced to the ‘interest group capture’ paradigm in the works of Marx, Stigler and Peltzman. The interest group capture happens because of information asymmetry, inefficient or lack of regulation and allocation of public resources. The two main ways of bringing about capture are bribes and collusion. This has significance for elite capture. If elite capture means capture of government decision-making or resources, and has the means to influence public decision-makers, then we must know by virtue of what attributes or quality will it be brought about. Collusion is one such quality, which is easier to notice at lower levels where public officials invariably collude with local politicians or their loyalists. Public officials and politicians are more prone to elite capture than higher/central government agencies (Platteau and Gaspart 2003).

Looking at elite capture in terms of access to power, then Bardhan and Mookherjee’s (2002) work is much suggestive in the consideration of the idea of ‘relative’ capture. They investigate the greater vulnerability of subnational governments to relative capture through an extended version of the Baron (1994) and Grossman and Helpman (1996) models of electoral process, which are subject to the influence and lobbying by special interest groups. The basic presumption of why subnational governments and electoral process are more prone to elite capture in these models is similar to the Laffont and Tirole (1991) and Platteau and Gaspart (2004) premise, that is, information asymmetry and collusion. Lieten (1996) mentions that the extent of information asymmetry will depend upon the economic base of the political structure and robustness of the administrative structure of the state.

The existence of vested interests that come in the way of establishing a more equitable system, by local and national elites has been discussed by Acemoglu and Robinson (2002). In countries like Chad and Niger in Sub-Saharan Africa they note that the ‘existence of powerful “interest groups” block the introduction of new technologies, or

any other vehicle of development in order to protect their economic rents. Their analysis tries to differentiate and identify which type of elites is most likely to feel threatened and block the development. In case of Sub-Saharan Africa and the case for introduction of new technology and beneficial economic changes, Acemoglu and Robinson (2002) argue that elite ‘groups whose power and economic rents are eroded, will block technological advances. Similarly, it is perhaps a useful exercise to differentiate various local elite groups and identify who stand to lose most if elite capture of public resources is eliminated.

Elite capture often takes place and nurtures in an institutional framework. Thus, a brief understanding of institutional nature is imperative to grasp the nature of elite capture. Douglass North (1990: p. 3) offers the following definition of institutions: “... are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction.” Three important features of institutions are apparent in this definition: (1) that they are “humanly devised,” which contrasts with other potential fundamental causes, like geographic factors, which are outside human control; (2) that they are “the rules of the game” setting “constraints” on human behavior; (3) that their major effect will be through incentives (see also Acemoglu D, Robinson J. 2010).

Corruption is very much shaped by the nature of institutions, and if someone looks around the world at different societies they have different levels of corruption, and part of that is very much shaped by the kind of institutions they have. Theoretical insight of Political Clientelism (see Bardhan and Mookherjee, 2012) explains that with weak and unaccountable governance and power structure the political elite tends to capture the public services not only for them and their immediate families and friends, they also use it for clientilistic purposes: to reciprocate the favours to their voters. The absence of different mechanisms necessary for making politicians and public officials accountable to the people promotes corruption, clientelism and capture, which leads to inefficiency of institutional structure and encourages elite capture through institutional corruption.

The extent of relative elite capture (possible) of government in Balochistan is crucial to understand the likely impacts of unconstrained elites and their captures of public resources elsewhere in similar societies in the developing world (Jayal, 2008). We postulate (tentatively) that the capture of provincial resources by local elite depends on the interplay of a large number of underlying institutional factors such as efficiency of bureaucracy (meritocratic recruitment and promotion, technical expertise, formality et.), social and economic inequalities, inequality within and among communities and districts (share of each district in overall development and non-development funds), the nature of elections and political representations, cohesiveness of special interest groups, decision making process and transparency (checks and balances) in public accounts.

### **Political Economy of Resources Distribution**

It is fair to argue that politics and the political process is essential and plays an important role not only in distribution of national resources, but also a crucial factor in devising public policies, planning and development at provincial/subnational level. In majority of underdeveloped societies, the political or social/local elite and the officials who run state apparatus (both civil and military bureaucracy) tend to have an overriding influence in entire process of politics and political culture. The public resources and their policy planning, budgeting, distribution and execution are consistently influenced and shaped by the prevailing political and social culture and institutional structure of that society. In a country like Pakistan, where politics is very much patronage-based and resources distribution is undertaken largely on political priorities and considerations

than socioeconomic grounds, resource distribution is driven largely by political economy dynamics (Finan, 2004).

In an ideal situation it is the prime responsibility of the state and its incumbent government to ensure a justly distribution, considering their needs, of public resources among all different segments of society, regions, provinces/units, districts, and constituencies so that all communities or individuals of nation are treated fairly and equally.

Resource distribution plays a key role in increasing the overall living standard of a society – mainly of a developing society/economy –, helps reducing poverty and inequality, and generates opportunities for jobs, employments, and social and economic wellbeing. Such utopian distributional mechanism does not take place voluntarily or through market forces, hence it is imperative and essential for the incumbent government(s) to guarantee a distributional mechanism in which those segments of society lagging behind are enabled to become effective partners in overall social and economic growth process. It is fair to argue that the prevailing socio-political culture with inherent political incentives tends to define the general pattern and trend of the public resources distribution of that society. Hence, government(s) – be it federal, provincial, or local – tends to do it, considering the political motives. In nutshell for somewhat fair mechanism of resource distribution, a justly inclusive and representative government needs to be in place.

However, in Pakistan – and particularly in Balochistan province<sup>9</sup> – the political process has consistently been selective and unrepresentative in nature. Some of the historical trends show that (see for example, Khan, 2012; Ahmed and Khan, 2014) during both political dispensations or military regimes, the representation and the resources sharing mechanism, determined purely on population bases, has disproportionately favoured the bigger federating unit(s)/province(s), which cost Balochistan (with just 6% of population) heavily in terms of deficiencies in all socioeconomic and political dimensions.

In more democratic societies the political process intrinsically is a key driving force through which the resources and wealth of the nations may reach across all segments of society. Yet in less developed and less-democratic countries like Pakistan, politics is the vehicle through which patronage is used to flatter and buy off loyalties and allegiance, which would create entrench public resources capture of the conventional elite as well as produce local interest groups that will lead to culminate their political influence for further resources capture. This political ecology tends to pave the way and further facilitates for favouritism, despotism, and corruption, which tends to support the elite capture. The remainder of the section discusses very briefly the resources distribution in Pakistan.

Pakistan is a federation of four federating units/provinces: Balochistan, Sindh, the Punjab and Khyber Pakhtunkhwa. The resources are distributed between federal government and four provinces – the vertical distribution – and among the four provinces – the horizontal distribution based on a systematic mechanism of the NFC Award. Looking at historical processes of the NFC, one can notice an extremely uneven resource sharing in Pakistan<sup>10</sup>. As discussed earlier, the population had remained the sole criterion for resource distribution among provinces, which inherently had had an adverse impact on smaller provinces. Since the decision of resource distribution is mainly done by governments and in latter politics plays out a remarkable role, therefore

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<sup>9</sup> For more discussion on this see, Ahmed, M. (2020).

<sup>10</sup> For a thorough debate on NFC Awards, see Ahmed, M. and Baloch, A (2014).

it is fair to argue that the process of resources sharing has a critical political economy. While, the political economy of resource distribution has endowed the Punjab and Sindh, the bigger provinces, it adversely affected Balochistan and KPK, the smaller ones, leading the country to a course of an unconformable politics of discontent and disenchantment.

It can be argued therefore that the tension between the federation and Balochistan province was historically explained through a framework of resources distribution in the country. The development literature<sup>11</sup> shows that any conflicts seemingly with political contour are fundamentally triggered by the underlying discontent cause on resources sharing mechanism. Such conflicts primarily on resource distribution are not uncommon in many developing countries. For instances, in many African, the Middle Eastern and Latin American countries, resources distribution is a great source of political conflict.<sup>12</sup> Thus, resource distribution mechanism of any country is a major cause of political conflicts, limited not only to Pakistan.

According to Ahmed and Baloch (2017) resource distribution in Pakistan follows a principle of typical game theoretic bargain, where the province with more political and bureaucratic clouts at the federal level has far greater leverage to get disproportionate size of resources – far in excess to its size and justly share. Such a political leverage normally leads to a situation where the economic interests of the dominant provinces or regions/districts are reflected in public finance distribution of the country/province, while weaker provinces/districts/constituencies with lesser political influences to manoeuvre, end up receiving far lesser resources than their justly share. Ahmed and Khan (2015) show that the budget deficit in Pakistan has been much higher when there was an elected dispensation of government in the country. This phenomenon is best explained by Alesina and Tabellini (1990). Their politico-economic theoretical framework defines that the government spending invariably remains higher with chronic budget deficit, as the elected governments tend to allocate more resources to people centric social and economic services. In addition to this, political dispensation often finances unproductive projects – sometimes out of their patronage policies – to buy loyalty and allegiance in the prospects of garnering alliances in elections.

The resource distribution pattern – both in federal and provincial level – is driven largely by politics and vested interests of political and bureaucratic elite with significant manoeuvring power. The apparent preferences of politicians to their constituencies in resources allocation are, as explained earlier, driven by patronage and resource extraction through bribes and kickbacks. This may not necessarily reflect the economic needs of regions or constituencies the funds are allocated national/provincial exchequer. Looking at budgetary documents in Pakistan, it is conspicuously illustrative that political and bureaucratic elite and its preferences always influence projects and schemes selection and resources distribution. And such an uneven distribution tends to create a huge and chronic disparity among the regions, provinces, districts, and constituencies in terms of development and social and economic status of those communities.

Milanović (2010) using a panel data from a many developing countries explains that the economic policies adopted and pursued by many states play a significant role in explaining the inequality across class and regions. The policies pursued by the state are somewhat egalitarian and enabling to wider scale to all segments, it could, in the longer run, converge the groups and regions on similar path of social and economic trajectory.

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<sup>11</sup> See for discussion Harvey, David (2003).

<sup>12</sup> See, Acemoglu, D. and Robinson, J. (2012).

China in this case provides a classic example of the state role in economic policies and their impinging impact on poverty reduction. Over the period of three decades China has succeeded in reducing poverty by more than 25 percentage point, where more than 300 million have been lifted out of poverty.<sup>13</sup>

#### **2.4. Politics of Resource Allocation and Development of the Provincial Economy**

The barren and desolate terrains of Balochistan are full of natural treasures and wealth, which make the province the richest of all provinces of the country. Balochistan commands 75% of total coastal line with immensely rich marine lives and coast related wealth. Despite vast potential for development, the coastal belt – comprising Districts Gwadar and Lasbela – is underdeveloped to the extent that both districts are even among the ten most deprived districts of Pakistan (Naveed, *et al*, 2016). Thus, the natural wealth of Balochistan has not been used to improve the lives of its people and develop its economy and society. In all measures the people of Balochistan are the poorest if compared to any other provinces and regions of Pakistan. The World Bank estimates show that Balochistan with around 70% of rural poverty is the poorest region of Pakistan even surpassing many of the poorest countries of the world (WB, 2018). The physical and economic infrastructure of the province resembles an ancient time structure. There are multiple political and economic reasons making Balochistan a poor region, despite, of course, having a remarkable economic potential and resource endowments, which is sharply evident from all dimensions – be it social, economic, or political.

Two oft-repeated portrayals of the province over the last seven decades are that “Balochistan is rich in natural resources”, and “Balochistan is the least developed province of Pakistan”. This is although very contradictory, yet it is very true in all accounts. A search of economic development events over the first two decades of country’s creation aptly reveals that Balochistan does not figure meaningfully in any national economic plans or budget documents, except for the discovery and extraction of natural gas at Sui, Dera Bughti District, and other sites of natural resource explorations and extractions. An analysis of growth in Balochistan over the rest of the consequent three decades, that is during 1970s, 80s and 90s, shows to the continuing saga of economic and political neglect of Balochistan in national mainstream policy mechanism (Bengali, 2018).

Statistics depict a depressing story. This is indicated by mere 2% average gross regional product (GRP) growth in Balochistan during the 1970s, resulting in 5.2% in per capita income. Growth picked up to a robust 5.9% during the 1980s but fell to 3.5% during the 1990s and further to 2.8% over 2000-11. Per Capita income growth was 2.2% in the 1980s, sliding to 1.6% during 1990s. Over the three-decade period 1970s to 1990s, per capita growth was 0.3% implying zero growth and stagnancy. Consequently, Balochistan’s average share in national income has dropped from 4.5% in the 1970s to 4% in the 1980s and 1990s, indicating a sharp drift from national averages (table 1). The situation does not appear to have improved post-2000s, given that GRP growth over the decade – 2000-11 – has been the lowest at 2.8% – less than 60% of the average combined GRP growth of the other three provinces. Balochistan is not only lagging behind other provinces, but also falling further behind.

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<sup>13</sup> For more discussion on Chinese strategies on growth and poverty reduction, see Pei X. (2018).

The robust 5.9% average growth during the 1980s is attributable to the small base effect. The first steps to development in Balochistan commenced with its formation as a province in 1970, with the provision/up-gradation of some essential services – electricity, telephone, official housing, etc. – yet that also only in the provincial capital, Quetta. Banks brought under public domain in the early 1970s, established/expanded their branch network in Quetta and other cities. Banks brought under public domain in the early 1970s, established/expanded their branch network in Quetta and other cities (Bengali, 2018).

**Table 1: Balochistan: Gross Regional Product Growth by ‘Material’ Sectors and by Decades**

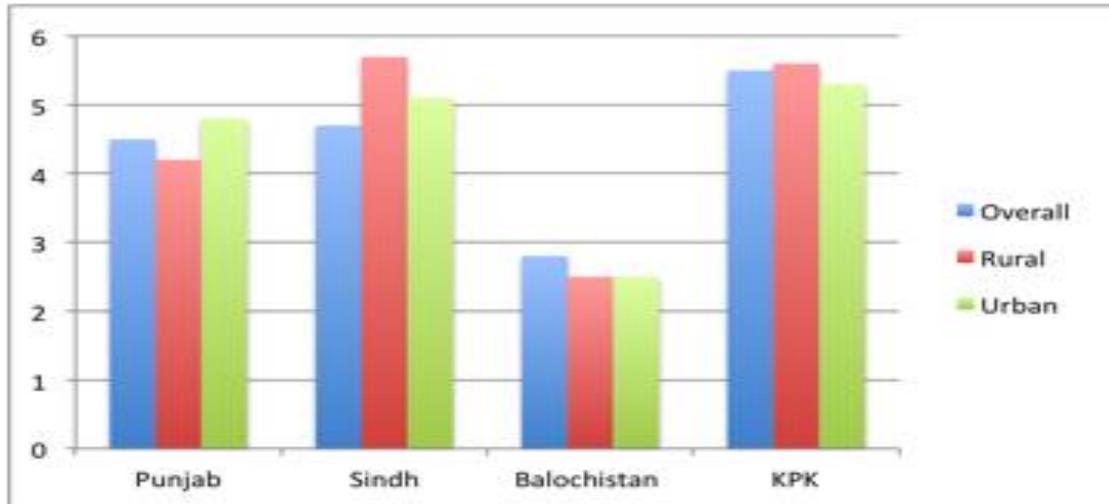
<b>Material Sectors</b>	<b>1970s</b>	<b>1980s</b>	<b>1990s</b>	<b>1947-2000</b>
Major Crops	10.2	14.0	4.3	9.2
Minor Crops	9.5	6.5	1.2	5.0
Livestock	-5.2	6.8	6.0	3.8
Fishing	-4.9	3.1	4.9	2.1
Mining and Quarrying	1.4	4.8	3.2	3.4
Manufacturing	19.0	19.5	5.9	13.9
Construction	2.0	2.3	5.4	3.5
Electricity and Gas	29.1	8.5	2.8	10.8
Transport	-0.4	9.7	4.4	5.3
Communication	22.2	10.5	6.9	11.6
Trade	4.5	8.0	3.8	2.8
Finance	12.4	8.4	6.0	8.3
Overall GRP Growth	2.0	5.9	3.5	4.3
Per Capita Income Growth	-5.2	2.2	1.6	0.3
Share of Balochistan GRP in National GDP	4.5	3.9	4.0	4.1

Source: Bengali and Sadaqat, Provincial Accounts of Pakistan: Methodology and Estimates 1973-2000, Social Policy and Development Centre, Working Paper No. 5, 2005.

**Table 2: Gross Regional Productivity by Province: Average Growth Rate 2000-11**

<b>Province</b>	<b>Overall</b>	<b>Rural</b>	<b>Urban</b>
<b>Punjab</b>	4.5	4.02	4.8
<b>Sindh</b>	4.7	5.7	4.1
<b>Khyber Pakhtunkhwa</b>	5.5	5.6	5.3
<b>Balochistan</b>	2.8	2.5	2.5

Source: Social Policy Development Centre, Social Development in Pakistan Annual Review 2014, State of Social Development in Rural Pakistan.



**Figure 1: Gross Regional Productivity by Province: Average Growth Rate 2000-11**

Source: Social Policy Development Centre, Social Development in Pakistan Annual Review (2014)

Four major public investment initiatives in the 1970s are instrumental in altering the economic geography of the province, leading to some expansion of output and employment.

1. The Indus Water works benefited Balochistan in terms of the construction in Nasirabad Division of the 170 km Pat Feeder Canal in 1969-70 and the construction of the Tarbela Dam in 1974. The first served to expand area under cultivation and the second increased the quantum of water availability.
2. The construction of the RCD Highway connected Karachi via Lasbela, Khuzdar and Quetta with Chaman on the Afghanistan border and with Taftan on the Iran border and which served to expand the transport and trade sectors.
3. The establishment of two large textile mills, one in Quetta and another in Lasbela district, served to raise the manufacturing sector growth rate over a near zero base. Both mills were shut down in the 1980s.
4. The introduction of a fiscal incentive regime for Balochistan in the late 1970s lead to a rush of private industrial investments in Hub Chowki across the border from Karachi, which compensated for the closure of the two textile plants. However, most plants shut down within the first few years of operation and many did not commence commercial production at all.

The above investments served to boost the growth rate in the 1980s. However, the two subsequent decades – 1990s and 200s – saw no major investment initiatives, with the result that growth across almost all sectors has stagnated.

On socio-political front Balochistan back to history in the 19<sup>th</sup> century got partially integrated into British India. This partial integration keeping in view the strategic importance of the region was dictated by the strategic and imperial interests of British which wanted to ensure its imperial interests in the region remain intact and to secure the western frontier of its colonized India from the then Russian imperialism and expansionism in the region.<sup>14</sup> To promote and protect its imperialistic policies and objectives in the area the British Raj then resorted to encourage and foster the patrimonial and dynastic retrogressive polity based on *sardari* system or decadent

<sup>14</sup> See for more discussion, Dalrymple, William (2013).

tribalism in Balochistan. Under this scheme of fostering feudalism in Balochistan, British greased the palms of feudal chiefs and strengthened their power in order to strengthen the dependence of local chieftains on the then imperial and colonial administration as well as to have those feudal and their tribal followers not to oppose and resist the imperialistic and colonial interests of British in Balochistan against the Russian expansionism (Scholtz, 2002, and Baloch, 1958). According to Max Weber “patrimonial” is a kind of polity which is considered as the personal property of the ruler wherein the administration of the society or state essentially becomes the extension of household of the ruler with all kind of relations and reliance to be personal whereas the modern states are, on the other hand, impersonal, with relations are based on the merits, talents, education, technical know-how and status of the citizens (Fukuyama, 2014). But such a modern, progressive and impersonal society being based on merits, knowledge and education has never been implemented by the colonial and post-colonial rulers to take roots and flourish in Balochistan due to which there is – even after Balochistan being recognised as a province of Pakistan – a lack of effective and autonomous financial and political institutions which could be empowered with autonomous power to work and function for the interests and development of Balochistan. Keeping the people in Balochistan at the mercy of a centuries old social structure based on obsolete *Sardari* and tribal system deepened the sense of deprivation and poverty among the general public with being caused to have lost their freedom of say and earning. As this study shows, the same elite involves in capture and clientelism of public resources.

### 3. A Budget Allocation Model

Consider a provincial economy where there are two districts, A and B; additionally, there are two constituencies (provincial assembly seats),  $i = \{1,2\}$ , within each district. Individuals differ in their inherent labour productivity, denoted by  $s_i$ , which is distributed according to the density function  $\gamma_i(s)$ . An individual’s wage rate,  $w_i s_i$ , is linear in the productivity parameter. An individual of type  $s_i$ , residing in constituency  $i$  of district A, receives utility from private consumption  $c_i(s_i)$  and a constituency-specific public good,  $G_i$ ; conversely, that individual receives disutility from the labour supply  $\ell_i(s_i)$ . For simplicity, we assume Cobb–Douglas preferences.

$$\ln u_i(s_i) = \ln(c_i(s_i)) + \ln(1 - \ell_i(s_i)) + \ln(G_i). \quad (1)$$

We denote the B constituency with  $\tilde{\cdot}$ . In other words, the utility of a type- $s$  individual in district  $i$  of district B is:

$$\ln \tilde{u}_i(\tilde{s}_i) = \ln(\tilde{c}_i(\tilde{s}_i)) + \ln(1 - \tilde{\ell}_i(\tilde{s}_i)) + \ln(\tilde{G}_i). \quad (1')$$

An individual of type  $s_i$  in constituency  $i$  of district A receives an after-tax wage income, as well as a provincial budget allocation,  $b$ ; both are used for public consumption/goods:

$$c_i(s_i) = (1 - \tau)w_i s_i \ell_i(s_i) + b, \quad (2)$$

where  $\tau$  is the income tax rate. Consequently, in district B:

$$\tilde{c}_i(\tilde{s}_i) = (1 - \tau)\tilde{w}_i\tilde{s}_i\ell_i(\tilde{s}_i) + b. \quad (2')$$

We will suppress the  $\sim$  when there is no ambiguity (i.e., when we calculate the derivations for district A, and can always obtain the corresponding quantities for district B by adding  $\sim$ ). We assume the constituency-specific wage rate to be linear in that constituency's development expenditure,  $D_i$ , and that the “base wage”  $w$  is the same across constituencies—namely:

$$w_i = wD_i \quad (3)$$

$$\tilde{w}_i = w\tilde{D}_i \quad (3')$$

### 3.1. Economic Equilibrium

Maximizing (1) s. t. (2) derives the labour supply function and the corresponding indirect utility:

$$\ell_i(s) = \frac{1}{2} - \frac{\theta}{2wsD_i} \quad (4)$$

$$U(\tau, ws, \theta, D_i, G_i) \equiv \max_{c_i(s), \ell_i(s)} U_i(s) = ((1 - \tau)ws) \left( D_i + \frac{\theta}{ws} \right)^2 \frac{G_i}{D_i} 2^{-2}, \quad (5)$$

where

$$\theta \equiv \frac{b}{1 - \tau}. \quad (6)$$

### 3.2. Government Budgets

Each district is given a budget,  $R$  and  $\tilde{R}$ , by the provincial government, to use on development expenditure and the public good in each of the two constituencies:

$$R = D_1 + D_2 + G_1 + G_2 \quad (7)$$

$$\tilde{R} = \tilde{D}_1 + \tilde{D}_2 + \tilde{G}_1 + \tilde{G}_2. \quad (7')$$

The government collects tax revenue from wage income and distributes it to the provinces/districts, in addition to providing the federal/provincial subsidy.

$$R + \tilde{R} + Nb + \tilde{N}b = \tau(Y_1 + Y_2 + \tilde{Y}_1 + \tilde{Y}_2), \quad (8)$$

where

$$Y_i = \int_s wD_i s \ell_i(s) \gamma_i(s) ds, \quad (9)$$

### 3.3. The Bargaining Game

We assume a simple alternating-offer bargaining game principle in provincial budget making process, as in Marsiliani and Renström (2007). Take district A, with two elected representatives (types  $s_1$  and  $s_2$ ). If constituency 1 representative is the senior minister/finance minister/planning and development minister of the two constituencies, we assume that the elected representative from constituency 1 makes and presents the budget. Representative of constituency 2 can accept or reject budgetary proposals. IN case the representative of constituency 2 rejects the proposals, the provincial budget may undergo into another round of proposals and deliberations till the final offer. (The game could be extended to several rounds, without altering the qualitative properties.) In the final round, representative 1 of constituency  $i$  is to make the final offer, he/she will maximize utility of his/her constituency subject to (7), thus implying the setting  $D_j = G_j = 0$ . Maximizing (5) subject to (7) provides the optimal level of development expenditure and of the public good when a major part of the budget is used in constituency  $i$ , and the resulting indirect utility as follows, provided that the constituency  $i$  does not receive any share above its annual development grant:

$$D_i = R \frac{1 + m_i(R)}{4} \quad (10)$$

$$G_i = R \frac{3 - m_i(R)}{4} \quad (11)$$

$$V(\tau, ws_i^*, \theta, R) \equiv \max_{D_i, G_i} U_i(s_i^*) = R^2 (3 - m_i(R))^3 (1 + m_i(R)) ((1 - \tau)ws_i^*) 16^{-2}, \quad (12)$$

where

$$m_i(R) \equiv \sqrt{1 - 8 \frac{\theta}{ws_i^* R}}. \quad (13)$$

If constituency 2 is not chosen in the final round, then since  $G_2 = 0$ , it follows that  $V_2 = 0$ . If constituency 2 is chosen in the final round, the utility is given by (13). If we denote the probability that constituency 1 is chosen as  $p$ , then the expected utility of constituency 2 in entering the final round is:

$$E[V_2(R)] = (1 - p)R^2 (3 - m_2(R))^3 (1 + m_2(R)) ((1 - \tau)ws_2^*) 16^{-2}. \quad (14)$$

Thus, constituency 2 accepts any proposal that satisfies

$$\left( (1 - \tau)ws_2^* \left( D_2 + \frac{\theta}{ws} \right)^2 \frac{G_2}{D_2} 2^{-2} \geq (1 - p)R^2 (3 - m_2(R))^3 (1 + m_2(R)) ((1 - \tau)ws_2^*) 16^{-2} \right) \quad (15)$$

When the representative of constituency 1 makes the first offer, it maximizes its own utility, subject to both (15) and (7).

Note that this problem can be written as

$$\max_{D_1, D_2, R_2} \left( (1-\tau)ws_1^* \left( D_1 + \frac{\theta}{ws_1^*} \right)^2 \frac{R - R_2 - D_1}{D_1} 2^{-2}, \right. \quad (16)$$

subject to

$$\left( (1-\tau)ws_2^* \left( D_2 + \frac{\theta}{ws_2^*} \right)^2 \frac{R_2 - D_2}{D_2} 2^{-2} \geq (1-p)R^2(3-m_2(R))^3(1+m_2(R))((1-\tau)ws_2^*) \right) 16^{-2} \quad (17)$$

The first-order conditions imply that (9), (10), and (11) hold for the respective constituency evaluated at  $R_1$  and  $R_2$ , respectively.  $R_2$  is chosen at the level where (17) holds with equality—that is:

$$D_i = R_i \frac{1+m_i(R_i)}{4} \quad (18)$$

$$G_i = R_i \frac{3-m_i(R_i)}{4} \quad (19)$$

$$V(\tau, ws_i^*, \theta, R_i) = R_i^2(3-m_i(R_i))^3(1+m_2(R_i))((1-\tau)ws_i^*) 16^{-2} \quad (20)$$

for  $i = 1, 2$  and

$$R_2^2(3-m_2(R_2))^3(1+m_2(R_2)) = (1-p)R^2(3-m_2(R))^3(1+m_2(R)). \quad (21)$$

Equations (18) – (21) completely characterize the bargaining equilibrium as a function of the district budget  $R$ , the federal tax rate  $\tau$ , and the benefit rate/welfare transfer,  $\theta$ . The same equations are obtained for district B, using the  $\sim$  notation.

### 3.4. Provincial Level Decision-Making

We characterize the situation where one constituency within one district dominates at the provincial level. That situation can occur when the chief minister/finance minister/head of planning and development department comes from one of the districts.

The finance minister decides the allocation to the districts,  $R$  and  $\tilde{R}$ , taking into account the bargaining game at the provincial level, so as to maximize its own utility. At first, it could look as if the finance minister would set  $R$  for the other district to zero. This is not the case, as production there would then stop, and no taxes could be collected from that district, and certain other pre-emptive political economy compulsions would stop the finance minister from zero allocation. Instead, it is optimal to maximize the net tax revenue from the other district in one hand, and to avoid any stalemate in politics. Suppose the finance minister comes from constituency A; then,  $\tilde{R}$  is chosen so that

$$\max_{\tilde{R}} \tau(\tilde{Y}_1 + \tilde{Y}_2) - \tilde{N}b - \tilde{R}, \quad (22)$$

subject to (4), (9), (18), and (21).

The first-order condition to (22) gives  $\tilde{R}$  as a function of  $\tau$ ,  $\theta$ ,  $w$ , etc.

$$\tilde{R} = \tilde{R}(\tau, \theta, w) \quad (23)$$

Differentiating (23), and evaluating within a symmetric equilibrium (where the two districts within a province are equal), we obtain

$$\frac{\partial \tilde{R}}{\partial \theta} = \frac{\tilde{R}}{\theta} \frac{1}{(1 - \phi_{\tilde{R}})^2 + \phi_{\tilde{R}}^2}. \quad (24)$$

Notice that by (6),  $b = (1 - \tau) \theta$ ; then,

$$\frac{\partial}{\partial b} \left( \frac{\tilde{R}}{\tilde{R} + b} \right) = \frac{b}{(\tilde{R} + b)^2} \frac{\partial \tilde{R}}{\partial b} - \frac{\tilde{R}}{(\tilde{R} + b)^2} = \frac{\theta}{(\tilde{R} + b)^2} \left( \frac{\partial \tilde{R}}{\partial \theta} - \frac{\tilde{R}}{\theta} \right) = \frac{\tilde{R}}{(\tilde{R} + b)^2} \frac{2\phi_{\tilde{R}}(1 - \phi_{\tilde{R}})}{(1 - \phi_{\tilde{R}})^2 + \phi_{\tilde{R}}^2} > 0, \quad (25)$$

Where the second equality follows from (6)—i.e., from  $b = (1 - \tau) \theta$ —and the last equality from equation (24). Then, we have:

*Proposition: In the bargaining equilibrium, the ratio of the local expenditure to the total expenditure is increasing in the provincial budget allocation.*

The proposition implies that if the provincial budgetary allocation,  $b$ , to that specific constituency is larger, then the overall resource availability to that constituency is greater. Since a larger provincial budgetary allocation to one constituency comes at the cost of another constituencies/districts, we would expect total funds allocations and total number of schemes to be negatively related with the indices for poverty, deprivation, and backwardness of the districts/constituencies, but the same will adversely affect the other districts/constituencies.

Thus, the “elite capture” is conspicuous in the resource sharing at the provincial level, where unlike social and economic indicators, the political and bureaucratic representation in the provincial cabinet and top-ranked bureaucracy determines the budget allocations and resource share to districts and constituencies. The “influence” or “capture” of the chief minister/finance minister, key cabinet members or bureaucracy (that includes head of Planning and Development Department – Additional Chief Secretary Development, finance minister chief secretary etc.) defines the allocations of development budgets to the districts/constituencies. We postulate that those constituency/district to which the chief minister, finance minister and additional chief secretary etc. belong to, gain a disproportional development budgetary allocation in the provincial budget. The bureaucratic corruption may not clientelistic in nature, as bureaucrats would not engage in reciprocity or exchange any favour.

The overarching proposition and theoretical argument are that the public resources distribution takes place more on political considerations and less on economic and social grounds. The political-driven public policies that invariably drive the funds and resources distribution, therefore jeopardizes the key economic considerations. The districts or constituencies rampant with extreme poverty, deprivation and economic underdevelopment are unlike to get any priority in resource distribution given the incumbent political economy of resource sharing at provincial level where political and bureaucratic portfolios matter more than social and economic conditions of the districts/constituencies.

The study assumes that if the Chief Minister or member of his/her cabinet belongs to constituency/district  $i$ , during his/her tenure the constituency/district invariably disproportionate resource allocation. Since the cabinet minister for finance or senior minister plays an important role in budget making and funds allocation like the Chief Minister (CM), the finance minister is in-lined to allocate more resource to his/her home district/locality. (In Balochistan because of low population density in many districts a provincial constituency composes entire districts – Awaran, Washook, Kharan, Panjgur, Gwadar are cases in point). Another key player in budget making and public resource sharing is the Additional Chief Secretary (ACS). The ACS is a top ranked bureaucrat who hails from one of the districts/constituencies of Balochistan. We assume that the incumbent ACS allocates more funds to his/her home district/constituency.

## 4. Methodology for Empirical Inquiry

Our primary objective is to assess the presence of elite capture, clientelism and strong influence of politicians and public officials in public resources distribution in the process of provincial level budget making process. We operationalise this empirically by using total fund allocations and number of schemes in absolute terms to each districts as outcomes, and as measures of political and bureaucratic capture and clientelism. The models, variables, data, and estimation procedures are explained in the following.

### 4.1. The Empirical Models

For empirical model, following the predictions of theoretical framework developed in section 3, the empirical models of Barankay and Lockwood (2007), Faguet and Sánchez (2014) and Faguet et al (2020) our strategy proceeds as follows:

$$Y_{it} = \alpha_i + \phi X_{it} + \gamma P_{it} + \delta K_{it} + \beta_1 D1 + \beta_2 D2 + \beta_3 D3 + \beta_4 D4 + \beta_5 D5 \mu_{it} \quad (26)$$

Where outcomes  $Y$  are total yearly funds allocations (TFA) in absolute terms and share of district to total number of schemes (Share) to total provincial level schemes and developmental funds. This captures the effects of districts/constituencies with political and bureaucratic clouts disproportionately are credited with developmental schemes.  $\alpha$  captures the regional/district fixed effects.  $X$  is the Index of multiple deprivation. Multiple deprivations are made up of separate dimensions or ‘sectors’ of deprivation. Four key dimensions are used to construct the index: The education, housing quality, residential housing services employment. These sectors reflect different aspects of deprivation. Each sector is made up of a number of indicators, which cover aspects of this deprivation as comprehensively as possible (for more discussion, see Jamal, et al. 2003). Data on deprivation index show Jafarabad, Harnai and Awaran the most deprived districts in Balochistan, while Quetta, the capital city, is least deprived district. The index ranges from maximum 96% and minimum 13%.

“ $P$ ” is the population of each district according to current and previous Census reports that captures the per capita expenditure. Poor data even affects regional population estimates, which are entirely based on three censuses thirteen years apart (1981, 1998, 2017), with no annual population data other than projections derived from these. Following, Faguet *et al* (2020) to address potential inaccuracies in regional population data, we instead use each region’s population share. Our assumption is that even if absolute population estimates are

inaccurate, population shares will be more accurately estimated. This measure is likely to mask rural-urban migration within a region, unfortunately. But it seems a reasonable second-best option for dealing with poor data availability.  $K$  is the area of the district, which allows the capture the developmental funds needs for physical infrastructure. All subscripted by year  $t$ , and district index  $i$ . Quetta is the largest district of Balochistan in terms of population and smallest in term of area after Ziarat. Chagai is the largest district in terms of area and if development funds/resources were allocated considering areas/inverse population density maximum share would go to Chagai.

D1, D2, D3, D4 and D5 are the dummy variables that capture the effect of chief minister (CM) of the province, the senior minister or P&D minister (SM), finance minister (FM), the additional chief secretary (ACS) and members of provincial assembly who are the coalition partners of the incumbent government (CG). ACS heads the P&D Department, and undertakes the entire budget making process and constitutes the Annual Development Plan. His influence in diverting funds and schemes to his/her home district is remarkable. Dummy variables Zero (0) show the official(s) and politicians are not from that district/constituency and One (1) shows them from that specific district(s).

## 4.2. Variables and Data Sources

**Table 3: Variables and data sources**

Variable	Symbol	Sources	Measurement
Total yearly funds allocations to each District <sup>15</sup>	TFAs	Budget documents, Finance Dept. Govt. Balochistan	Expressed in absolute terms, in Millions Rupees
Yearly hare of each district to total projects in the province	Share	Budget documents, Finance Dept. Govt. Balochistan	Expressed in Percentage share
Total number of schemes to each district	TS	Budget documents, Finance Dept. Govt. Balochistan	In absolute number, in Millions Rupees
Index of Multiple Deprivation of the Districts	IMD	SDPI, OPHI <sup>16</sup> , UNDP	1= least deprived 100= Most Deprived
Chief minister	CM		dummy variable (0,1)
Senior minister/P&D minister/finance minister	SM		dummy variable (0,1)
Additional chief secretary	ACS		dummy variable (0,1)
Finance Minister	FM		dummy variable

<sup>15</sup> The data are available only for 29 districts, hence, we restrict to 29 that include, Districts Awaran, Barkhan, Bela, Chagai, Dera Bugti, Gwadar, Harnai, Jaffarabad, Jhal Magsi, Kachhi. Kalat, Kech, Kharan, Khuzdar, Kohlu, Loralai, Mastung, Musa Khail, Nasirabad, Nushki, Panjgur, Pishin, Qilla Abdullah, Qilla Saifullah, Quetta, Sibi, Washuk, Zhob, Ziarat.

<sup>16</sup> Oxford Poverty and Human Development Index

			(0,1)
Members of Provincial Assembly in Coalition Government	CG		dummy variable (0,1)
Population of District	Pop	Census reports, Govt. of Pakistan	Expressed In millions
Area/Inverse Population Density of District	Area	Govt. of Pakistan	In Square Km

### 4.3 Panel Estimations

Given the nature and heterogeneity of the data the panel estimation is best method to assess the prevalence of political and bureaucratic capture in overall resources/development funds distribution/allocations to districts or constituencies. Our panel is sufficiently long and (un)balanced. Panel estimations enable us to control for time-invariant characteristics (e.g. geography) and statistically unobserved phenomena (e.g. culture, social structure etc.), especially when results are clustered at the level of districts. Given our postulation and theoretical predictions, we expect a positive relationship, and hence statistically significant coefficients with positive (negative for X) signs of any effects of these variables to outcome variables. We use a fixed effects (FE) model to address omitted variable bias and endogeneity issues. A Hausman<sup>17</sup> test confirms that the fixed effects strategy is correct, yet we report both fixed and random effect (RE) models. Hausman (1978) test compares the FE with RE test where the null hypothesis is that the coefficients of RE model are same as that of FE

FE model removes the time variant characteristics from explanatory variables and enables us to assess the predictor's net effects. In the FE model it is assumed that the time invariant characteristics distinctive to one entity may not be correlated with other included entities' characteristics (Baum, 2006). Using the FE model comes at the cost of loss of considerable degree of freedom, which consequently increases the estimators' standard error and reduces the effectiveness of the model to test coefficients. The FE model controls for all time invariant differences between the individuals/entities so the estimated coefficients of the FE model cannot be biased because of omitted time invariant characteristics like culture, religion, gender, race etc.<sup>18</sup>

## 5. Results and Discussions

The empirical results obtained using the model specification (26) portray a clear and sharp presence of 'political and bureaucratic capture' in the process of budgetary allocations for the development schemes to districts and constituencies. The salient statistics of variables are described in table 4 to show a clear picture of dataset used. Using a panel dataset, in the following we present and discuss descriptive statistics. Prior to the empirical results, we present and report the descriptive statistics to get prior information of the subject matter. The results obtained from both models of FE and RE are discussed and analysed correspondingly.

**Table 4: Descriptive Statistics – First Set of Variables**

Variable	Obs.	Mean	Std. Dev.	Min	Max
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<sup>17</sup> Hausman, Jerry A. 1978. 'Specification Tests in Econometrics'. *Econometrics* 46(6):1251–71.

<sup>18</sup> For more discussion, see Baum, C., E (2006) *An Introduction to Modern Econometrics Using Stata*, A Stata Press Publication, Stata Corp LP, College Station, Texas.

<b>Total Fund Transfer to District (TFA)</b>	319	930.2168	1440.348	0	14206.57
<b>Total number of Schemes District (TS)</b>	319	52.5799	67.1033	0	652
<b>Percentage share of district to total Projects/Schemes (Share)</b>	319	1.9531	2.3722	0	23.39
<b>Index of Multiple Deprivation (IMD)</b>	318	52.1509	12.0604	13	96
<b>Chief Minister (CM)</b>	313	0.0288	0.1674	0	1
<b>SM/FM (Senior Minister/Finance Minister)</b>	314	0.0350	0.1842	0	1
<b>Geographical area of district (Area)</b>	314	1.2803	1.3480	0.15	5.055
<b>Population of District (Pop)</b>	319	0.3591	0.3269	0.03	2.54
<b>Member of Provincial Assembly in coalition government (CG)</b>	312	0.6025	0.4902	0	1
<b>Additional Chief Secretary (ACS/SM)</b>	274	0.0328	0.1786	0	1
<b>Finance Minister (MF)</b>	274	0.0328	0.1786	0	1

Second row of table 4 shows total funds allocation of last ten years development budget. The mean and standard deviation are 930.2168 million and 1440.348 million respectively and the minimum amount of total funds allocation is zero and the maximum is 14206.5 million to any district. Third row is yearly number of schemes to each district for last ten years from the provincial budget. The mean and standard deviation of total number of schemes are 52.57 and 67.103 while minimum value is 0 and maximum value is 652. As we see for some given years some of the districts virtually zero allocation from the provincial budget. Percentage share in total projects of each district are described in fourth row, while fifth row tells us that minimum value of index of multiple deprivation is 13, while the maximum value is 96 with the mean 52.15094 and standard deviation 12.06 for last ten years. Next row provides information about CM, which shows that whenever a Member Provincial Assembly (MPA) is elected CM, a substantial amount of funds and schemes is disproportionately given to his home district. Similar is the influence of P&D or finance minister in allocations to his home district/constituency. The statistics further show that resources are not distributed on the bases of area, weak social and economic profile, poverty and backwardness. The footprint of ACS is conspicuous in overall budgetary allocations to districts.

The results using FE and RE models are reported in tables 5&6, showing significant political considerations and other vested interests in budget allocation process. More pressing indicators like poverty, socioeconomic backwardness (captured by IMD) and poor physical infrastructure (captured by geographical size of district) are *not* taken into account. The regressions results are presented with the sign and level of significance of the coefficient of all included variables reported results follow rigorous analytical discussions.

**Table 5: The determinants of total fund allocations to districts (TFA)**

Fixed Effects	Random Effects
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TFA	Coefficient	t-statistics	Coefficient	z-statistics
<b>Cons</b>	-1232.31 (2563.13)	-0.48	-523.226** (158.58)	-3.30
<b>IMD</b>	-1.3702 (3.022)	00.45	-2.105622 (2.63)	-0.001
<b>CM</b>	789.2422*** (194.90)	4.05	633.4927*** (172.0)	3.68
<b>PDM/FM</b>	129.1641** (201.59)	2.64	165.942*** (157.7)	3.05
<b>Area</b>	405.1006** (2061.7)	2.20	43.19005** (22.92)	1.88
<b>Pop</b>	2036.975*** (326.16)	6.25	1147.993*** (152.55)	7.53
<b>CG</b>	178.052* (73.076)	2.44	93.5656** (66.391)	3.41
<b>ACS</b>	675.536** (243.67)	2.77	34.45721*** (199.52)	2.17
<b>FM</b>	543.112** (432.04)	3.1	27.56801*** (201.12)	3.12
<b>F-test</b>	117.96***			
<b>Wald <math>\chi^2</math></b>			1990.88***	
<b>Fixed effect (F-test)</b>	F (24, 232) = 2.36***			
No. of observations/ groups	265/25		265/25	
Hasuamn Test Result	Chi2 (10) [P. Value]	19.31 (0.0133)		

**Note:** Values are in million Rs, Panel regressions robust standard error in parentheses. \*p < 0.10, \*\*p < 0.05, \*\*\*p < 0.01

Table 5 shows the empirical result by using FE and RE Models correspondingly. The results explain that the IMD, an important variable to capture the socioeconomic landscape of districts in *insignificant*, showing that socioeconomic conditions of districts may not reflect in overall consideration of the planners at provincial level while devising the provincial budget. The ‘area’ or geographical length of district also has a weak correlation with the total fund allocations. The coefficient of deprivation index is negative (i.e., -1.37), which suggests to the fact that deprivation and poverty of any district not reflected in total fund allocations, no matter how deprived the district may be. It doesn’t get least footprint and reflection in overall budgetary allocation. In normal scenario however the most deprived districts should have attracted more allocation/projects in order to address the deprivation level.

Likewise, the Chief Minister coefficient is positive (i.e., 789.24) and statistically significant, showing the fact that the home district of the CM would receive disproportionately more funds/schemes from the provincial budget. Also, high-level significance for the finance minister and P&D minister shows the relevance and predictive power of this variable in the model. The variable is positively correlated with the total fund allocation, which means like the CM, the minister also grabs more funds and schemes for his constituency/district. The variable, CG (part of coalition government) is statistically significant, illustrating the fact that the minister/MPA being part of the collation government also influences the budgetary allocation and therefore allocates more projects to the district that he belongs to. The population variable of all districts is also positive and statistically significant, with a clear illustration that more populous districts, like Kech and Quetta, attract more schemes, irrespective of their representatives being in the incumbent government. The ACS (Additional Chief

Secretary) variable is also significant and showing the hypothesized sign, exhibiting that the ACS disproportionately allocates more projects and schemes to the district to which he belongs.

Table 5 also reports the empirical results using RE model. Like FE model, the RE model results also show a similar trend where one can clearly notice the presence of political and bureaucratic capture, clientelism and pork barrel in overall fund distributions during Annual Development Plan. The concerned variables that would potentially indicate to any possible existence of elite capture and pork barrel in the budgetary allocation process show the expected signs and are also statistically significant. While, the empirical results not only support our main hypothesis of the strong presence of political and bureaucratic capture in funds allocations to districts and constituencies, it also corroborates the predictions discussed in theoretical framework of the paper.

**Table 6: The Determinants of ‘Share of Each Districts to Total Projects (Share)’**

Variable	Fixed Effects		Random Effects	
	Coefficient	t-statistics	Coefficient	z-statistics
Cons	3.087 (4.57)	0.68	1.078*** (0.374)	2.88
TS	0.0094** (0.0014)	6.68	0.0073*** (0.001)	4.97
DP	-0.012 (0.0053)	-0.26	-0.021167 (0.0058)	00.65
CM	0.899** (0.347)	2.59	0.5730*** (0.3811)	2.50
PDM/SM	0.286** (0.35)	0280	0.19124** (0.376)	2.51
Area	-1.054 (3.67)	-0.29	-0.00714 (0.082)	-0.09
PP	0.120 (0.581)	0.21	3.1743*** (0.412)	7.61
CG	0.518*** (0.130)	3.98	0.6544*** (0.142)	4.58
ACS	1.93*** (0.434)	4.46	0.239*** (0.451)	4.53
FM	2.66** (.5440)	5.22	0.155*** (0.342)	5.13
F-test Wald $\chi^2$	17.99***			341.14***
<b>Fixed effect (F-test)</b>	F(24, 232) = 9.21***			
No. of observations/ groups	265/25		265/25	
Hasuamn Test Result	Chi2 (10) [P. Value]	23.45 (0.0038)		

**Note:** Values are in million Rs, Panel regressions robust standard error in parentheses. \*p < 0.10, \*\*p < 0.05, \*\*\*p < 0.01

Table 6 shows the results where the ‘share of districts to the total annual development budget of the province’ is the dependent variable. Similar to the previous models on total fund transfers, the share of total projects or schemes variable is significant with all expected signs vis-à-vis dummy variables detecting the presence of ‘elite capture’ (the influence of CM, senior cabinet members, powerful coalition partners and senior bureaucrats like ACS). Whereas the wrong signs of coefficients of the variables

included in the model in order to capture the social and economic landscape of the province (what they should have theoretically been) or the statistical insignificance of the variables that show the social and economic status of the districts are the clear manifestation of the fact that the planners are least interested taking such determinants into account during budgetary allocations for developmental schemes. In other words, political and vested interests are key in this entire process of public finance allocation for development schemes, where the influential politicians and bureaucrats tend to prefer their home districts/constituencies at the very cost of the developmental needs of many other regions and districts. Such a practice is bound to lead towards more uneven social and economic development and create an acute inequality and economic and social disparity among districts and constituencies.

Similar to the earlier results and discussions, using RE model and regressing the Share of schemes/projects of districts/constituencies to total developmental schemes of the province gives identical results where virtually all variables with certain degree of statistical significance suggest a strong 'elite capture' in the process of budget making and funds allocations to various districts and constituencies in Annual Development Plan. With certain degree of confidence we, therefore, can argue that in line with basic postulations and theoretical prediction(s) in the paper the allocations of public funded schemes and projects are allocated mainly on political and vested interests' considerations than social and economic needs of the districts and constituencies. This suggests a strong elite capture in entire process of budget making in Balochistan.

## **6. Conclusions and Policy Recommendations**

It is commonly understood that public resources, particularly development budget, in Balochistan is *not* distributed among districts and constituencies considering largely the social and economic landscape, and physical infrastructural needs of the districts/constituencies. In a normal scenario, nevertheless, indicators such as poverty, low literacy, poor healthcare facilities, economic backwardness and inverse population density etc. should catch the attention of the planners during the budget making process and Annual Development Plan allocations. In such an ideal case, the political and bureaucratic considerations would play a miniscule role in the overall resource distribution to the districts in Balochistan. Yet in reality, nothing of sorts exists during the resource allocation process in annual budget, where, on the contrary, the politics and strong bureaucracy call the shots, favouring excessively their home districts/constituencies during development budget making process. Thus, the evidence of this warrants a systematic and robust study of the political economy of resource distribution in Balochistan. This paper was an attempt towards that direction.

The empirical evidence shows that politics and bureaucratic considerations have significant influence and intervention in the budget making process and allocation of projects to the districts or constituencies. The political elites and top ranked bureaucrats/administration are more cognizant to their own interests and clientelistic considerations in resource allocation process in a way that their districts/constituencies get the major share on the cost of other poor districts. Better represented districts in the incumbency get larger share of funds/resources and create in the process a huge disparity in the shape of development, even though these districts are better off in all level: they are better nourished, attaining better health and education facilities.

Both the theoretical prediction and empirical evidence of the paper suggest a strong presence and prevalence of political and bureaucratic capture and clientelistic behaviour

in resources distribution in Balochistan. The main argument of the paper is in line with some of the profound theoretical and empirical work in the existing literature. Scholars (see for example, Bardhan, 2006; Laffont and Tirole, 1991; Zaidi 2005; Bardhan, 2002) believe that elite capture makes the resources allocation ineffective in addressing some of the important social and economic challenges, because it may increase the chances of some districts or constituencies to usurp the rightful shares and allocations of their counterparts (Dellinger, 1994; Krishna, 2003). Bardhan and Mookherjee's (2005) work in this regard provides a fine insight to understand more of the elite capture phenomenon in resources allocation during the budget making process. They propose that in the absence of transparent electoral process, the lack of political awareness, and the presence of strong and rich lobbies to influence political parties and representatives through their finances, resource allocation process tend to be much prone to elite capture and clientelism.

The scale of capture and clientelism is high in those countries or provinces where institutions are weak and dysfunctional. Balochistan not only the poorest province of Pakistan lagging behind other regions and provinces in almost all social and economic fronts, its public institutions are abysmally weak with virtually no checks and balances, and accountability. The weak institutional setup couple with undemocratic culture defined largely by tribal allegiances and kinship not only support pork barrel and patronage-based politics, it also encourage an unrestrained corruption and misappropriation of public resources. In such a situation politicians and bureaucrats are less likely to be accountable for any possible lack of transparency and political retributions to weaker and poorer districts or constituencies. Bardhan and Mookherjee (2005) further highlight that under central budget making process, given the "bureaucratic corruption" the stronger and more representative districts/localities may receive better allocation provided that aggregate supply is greater than the black-market demand, which comes from the rich.

An important caveat of provincial autonomy and devolution is indeed the elite capture and clientelism (Bardhan and Mookherjee, 2012) in the process of budgetary allocation at the provincial/local level, particularly in those subnational units where the institutional structure is weak and without any robust system of accountability (Bardhan and Mookherjee, 2005, 2012 showed elite capture in relation of decentralisation in India). The political economy literature (see Laffont and Tirole, 1991; Bardhan and Mookherjee, 2000; Persson and Tabellini, 2000; Pranab, 1996) point out that the fruits of devolution and fiscal autonomy are likely to be jeopardised because of the presence of the 'elite capture' and clientelism on the public resources once they are devolved. Therefore, the essence of devolution may fail to produce any tangible outcomes due to such practices.

Balochistan is a kind of a society where strong chieftains, tribal elders and few well-connected families or kin have high stake to explain the trend and nature of political economy of public resources distribution and expenditure/consumption, as they normally ascend to capture political control. Influence of these individuals or families is conspicuous in rural areas. In case of decentralisation and devolution, they potentially have the power to divert the public resources to their own interest as well as indulge in clientelism at the expense of public benefits at large at the provincial level.

Our theory indicates the extent of elite capture in resource allocations: the disproportionate allocations to the projects of their own choice as well as clientelistic transfers. The empirical evidence in tables 5&6 support our theoretical predictions of elite capture and institutionalised nature of corruption. The kind of capture and clientelism that we witnessed in our empirical investigation are a form of institutional

corruption. Weak governance and lack of institutional checks and balances provide an unbridled leverage to political and bureaucratic elite to capture resources in form of disproportionate allocation and political clientelism. Whereas, our analysis is fine tune with existing literature, see for example Kitschelt and Wilkinson (2007) who provide an overview of studies from Africa, India, Latin America and South Asia documenting pervasiveness of ‘patronage-based clientelism and capture, however, our research adds a new dimensions to the understanding of capture and clientelism. Our research implies that in weak governance and poor accountability framework, as we witnessed in case of Balochistan, public resources captured and diverted to suffice the interests of politicians and senior bureaucrats, not necessarily reflecting the developmental and social needs of the districts or constituencies to which disproportionate funds are allocated, as we know that there are much poorer districts in Balochistan (see MPI in Pakistan, 2016; Naveed *et al*, 2016).

### **6.1.Policy Recommendations**

Given the theoretical predictions and empirical evidence, the paper may provide the following policy recommendations to the planners at provincial level to consider:

- i. Development budget may be processed and prepared purely by the Planning and Development Department with the consultation of line departments.
- ii. Influence of politics and political elite in reflection and allocation of projects and funds to their districts/constituencies may be abandoned.
- iii. A comprehensive annual or five years development plan for the province may be devised at the earliest so that fund could be allocated to those sectors and districts, which are in dire need of resources to come at par with other districts and constituencies of the province if not the country.
- iv. Sectoral criteria for allocation of fund should be strictly followed in order to avoid wastage of resources.
- v. Budget calendar may be strictly followed up so that the projects should be processed and included in budget book on time and complete timely.
- vi. For proper implementation of the schemes and projects, monitoring and evaluation wing of Planning and Development Department must be staffed with relevant experts and made fully functional and autonomous.
- vii. Planning may be carried out by experts – economists, social scientists, educationists etc. – in close consultation with district-level think tanks and universities, whereas the bureaucrats should be restricted only to the implementation of the planned projects and schemes.

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