Fiscal Decentralisation and Its Effects on Health Sector in Pakistan

Referee Report

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General comments

The paper discusses an important question in decentralization, namely the effects of federal transfers on local health infrastructure. It makes use of a new dataset from Pakistan. The paper aims to contribute to the discussion of the effects of decentralization on local service delivery and has picked up an important issue in the literature. The review of the relevant literature establishes the importance of the issues as well as brings out the difficulties of the related empirical work.

Specific comments

1. On p.5, the authors mention the reasons for selecting health to assess the effects of decentralization. The reason that people have an interest in health is not convincing enough. Health is a complex sector to analyze for decentralization. Health is a 'complex' public good with some components which are pure local goods while others have externalities beyond local jurisdictions. It is not clear which components of 'health service' are being analyzed.
2. In section 3.1, a regional comparison of important health outcomes has been presented showing that Pakistan has worse indicators than regional comparators. Although this is not the main point of the paper, it will be useful to mention that all the regional countries are equally and in some cases less decentralized than Pakistan. Does this go against the main conclusion of the paper?
3. An important trend of increasing provincial funding for health is noted on p.18. Does it relate to increases in the provincial shares in NFC? Does the 69 percent include district level health expenditures which were borne out of the provincial transfers to the districts after 2001? The paper does not cover the time period after 2009 but health has been almost completely decentralized to the provinces after the 18th constitutional amendment. Does it have any implications for the conclusion?
4. On p.22 the measures of decentralization used on the analysis are discussed. The three measures are own source tax revenue as share of total government revenue, own source nontax revenue as share of total revenue and federal transfers as share of total government revenue. The three almost exhaust the provincial revenue. However, there are no summary statistics provided to see the extent of variation in these measures across provinces. Also what is there a superior measure? Should other dimensions of decentralization be also considered simultaneously (e.g., expenditure decentralization) in controlling for the decentralization level?
5. 'Provincial capacity' has been used to describe the amount of transfers received. This is no in accordance with the standard use of the term 'fiscal capacity'—which typically it

refers to potential own revenues. It would better to use another term like 'revenue adequacy' as a substitute.

6. The choice of 'hospital beds' as the only available indicator of effectiveness of health services is not at all convincing (p.25). All other variables, used as outputs of health services in the literature, have been dismissed too fast and too casually. If this variable were to be used, more convincing context specific cases should be made out. For example, if the provinces were more autonomous in deciding where to build hospitals and add beds compared with primary healthcare services like immunization, maternal and child care.

7. Again summary statistics with time trends of the output variable will show how much variation is there in hospital beds over time. It can be assumed that there will be high autocorrelation in this variable as beds once added continue over time through incremental budgeting. Should change in the number of beds be a more authentic dependent variable?

8. The structure of the panel has T much larger than N. The estimation technique uses a pooled mean group model, assuming intercept, short-run dynamic effects and error variances to differ among the groups. At the same time, it also assumes the long run coefficients to be the same across the groups. This limits the interpretative value of the model.

9. The main results shows that transfers have a positive and significant coefficient when hospital beds are used as the dependent variable. On the other hand, provincial own source revenue does not have a statistically significant relationship; nor does the provincial health expenditure. The results should be noteworthy except that the relationship of transfers with hospital beds in no necessarily a measure of the effect of decentralization.

10. What would be mechanism through which general purpose transfers are affecting hospital beds and not other health outcomes?