

Alternative Public Service Delivery Mechanisms in Iran

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November 2004

Abstract

This paper pursues two related goals. First, it develops a framework for examining the fit between a country's political and institutional circumstances and the mechanisms for delivering public services. Second, the paper applies the framework to the case of Iran and shows that it is operational and promising. Analyzing the match between service delivery arrangements and the economic and institutional characteristics of the country is important because the arrangements that are successful in some countries do not seem to do well in some countries. The case study of Iran sheds light on how an important set of public foundations engaged in welfare services operate in the country and how they compare with NGOs and standard government bureaus active in the same areas.

* This article has benefited from the comments and support offered by a number of scholars and government officials, whom cannot be all mentioned here due to space limitation. I am thankful to all of them. In particular, I am indebted to Monali Chowdhurie-Aziz, Mohammad Moeini, and Amir Hassan Rafiey. None of those individuals is responsible for the views expressed here. All errors and omissions are also mine.

1. Introduction

Improving the delivery of public services, especially in the area of poverty alleviation, remains a major concern for most developing countries. Although attempts at administrative reforms have been almost universal, developing country governments have rarely managed to enable and motivate their employees to deliver adequate and timely services at low costs. This outcome has prompted active policy debates and research on alternative means of public service provision. Favorite alternatives are private-public partnership and private sector participation (especially nonprofit and non-governmental organizations or NGOs), which can potentially raise the operational efficiency of public service delivery. While there is evidence of success for such arrangements in some cases, in most countries private organizations and NGOs have had limited impact on the provision of the needed services (World Bank, 2004). Such observations prompt one to explore the conditions under which various delivery mechanisms may work better. Also, there may be more general lessons to be learned from mechanisms that show effectiveness under particular circumstances, but have not been examined in depth because they are deemed too specific.

Addressing the above issues is critical at the present time because, as the World Bank's *World Development Report 2004 (WDR)* expositively vividly, the failure of public services has contributed to the vicious circle of poverty in numerous developing countries and imperils further human development in many parts of the world. In fact, the equivocal balance of evidence on experiments with service delivery mechanisms seems to be encouraging a refocusing of research and policy attention on growth as the main solution (Dollar and Kraay, 2002).¹ However, although the evidence on the association of growth with poverty reduction is strong, it is not clear that most of today's low-income economies can take off without fixing the basic problems that impede the efficiency of public services. Moreover, one wonders if the only hope for the poor in those countries is to wait until growth accelerates and higher per capita incomes are reached. The question is whether there are ways of tailoring support systems to country conditions so that poverty is reduced faster and better foundations are laid for rapid growth.

WDR examines these issues and develops a framework for analyzing them. The main finding of the exercise is that public services can be improved if the poor can avoid bad providers and reward the good ones through competition, voice, or direct participation. *WDR* also argues that it is important to promote service delivery mechanisms that empower the poor in these ways, particularly in countries where politics are not "pro-poor" and governments are not anxious to address the concerns of low-income

¹ This perspective is reinforced by shortage of evidence that formal democratic institutions or public spending on health and education have systematic effects on incomes of the poor (Dollar and Kraay, 2002).

groups. However, the Report does not show how the politicians in such countries can be encouraged to opt for policies that empower the poor. More generally, the key question that remains is *how various service delivery mechanisms fit different institutional setups, both in terms of feasibility and efficiency*. To answer this question, one needs to go beyond the *WDR* framework and examine the organizational and institutional characteristics that matter most for the match to be effective.

This paper is an attempt to explore the above issues by developing a framework and applying it in a case study. The case study is Iran's system of welfare service delivery. The situation in Iran offers an interesting natural experiment that can offer insights about important tradeoffs and arrangements that remain unexplored. The most important tradeoff that the case highlights is economic efficiency vs. patronage or promotion of particular agendas by the service providers. This is, of course, a perennial issue surrounding the activities of non-government organizations (NGOs) that are energized by particular religious, social, or political perspectives that are not shared by the entire population.² Barring such organizations may deny the society valuable services, but their presence may be conducive to tension or waste through patronage. This tradeoff may not matter in countries where public services can be delivered efficiently through multiple competing channels. But, in many developing countries with weak institutions, the tradeoff is crucial and, depending on the country's circumstances, the choice may have a significant impact on the country's development potential.

In the case of Iran, a number of public foundations (often referred to as *bonyads*) have taken dominant positions in the public service delivery areas and compete with a host of small NGOs as well as the government bureau in charge of welfare services. In the past several years, many reformist members of Iran's elite have come to view *bonyads* as impediments to the development of civil society and, thus, have sought to dismantle them. Others, on the other hand, have argued that *bonyads* provide the much needed services to the poor and contribute to the economic well-being and stability of the country. Exploring this controversy is important for understanding the possibilities and potentials of economic and political developments in the country. It also offers a glimpse of the host of factors that may play a role in the fit between various service arrangements and Iran's complex political and institutional conditions.

² This controversy is quite alive in many countries, ranging from prosperous countries such as the United States (e.g., inclusion of religious schools in voucher systems), to middle income countries such as Egypt, where the government is concerned about political ramifications of some NGO activities, and to poor ones such as Nigeria and Tanzania, where Wahhabi missionaries funded by Saudi Arabia compete with Christian evangelists receiving support from churches in the United States (Rice, 2004). One of the most controversial cases is Hezbollah of Lebanon, which has strong religious and political agendas, but remains locally popular due to its efficient provision of public services. For a recent in-depth report on Hezbollah's various facets, see the video essay by Philip Kennicott (Washingtonpost.com, 2004).

Besides the tradeoff issue, the case of Iranian bonyads points to a service delivery mechanism that seems important in many countries, but has not been studied very widely. The mechanism is "autonomous public agencies" that are backed by sources of political power outside the main body of the executive branch. For example, in monarchies often the king heads certain offices and foundations that are outside the regular branches of the government. Similar arrangements may be found in some presidential-parliamentary systems where the prime minister controls the regular bureaucracy while the president supervises some organizations outside the bureaucracy. In presidential systems, such agencies may take the form of commissions that report directly to the legislature. Pension funds and social security services in many countries are set up in these ways with different levels of autonomy. There are also welfare service providers of this nature around the world, though their roles and performance have not been studied in much detail. The key features of such agencies from the point of view of the present study are the extent to which they can work flexibly like private sector entities, while having their missions set through public political channels. Political backing in the system for such agencies is crucial because it helps protect them against pressures to become a part of the regular bureaucracy and, thus, lose their flexibility and performance incentives.

Provider autonomy is important for effective delivery of many welfare services because the tasks involved must be tailored to the specific context in which social and personal problems arise. This requires local innovations and the use of grassroots networks, for which centralized bureaucracies are not very well suited (Hart, Shleifer, and Vishny, 1997). This is why private organizations present potentially more attractive alternatives. However, in most developing countries, independent private agencies have little institutional protection against political pressures. Governments in those countries often find it difficult to impose arms-length regulations over private providers and assure them of autonomy and reasonable entitlement to their investments' returns. For this reason, private participation may not be a solution under such circumstances, and those countries may have to settle for second- or third-best outcomes such as autonomous public agencies.

The key reason for the high costs of attracting compliant private participants is the inherent imperfections that prevent the emergence of private markets for welfare services in the first place: Those who need welfare support cannot pay for the services and, therefore, must be covered by public funds. This lack of internalization of the costs introduces serious informational problems that make it very difficult to write complete contracts for identifying the potential beneficiaries and for delivering the services that fit their circumstances. The nature of such problems may vary when NGOs rather than profit-oriented firms are the service providers. But, often politicians sense that when they recruit not-for-profit private agencies to reduce the economic costs, they may have to pay in terms of political costs

because the agendas of such organizations are not well aligned with those of the government. For example, it is not uncommon that some groups opposing the incumbent government volunteer to engage in service delivery as a means of developing ties in the population. Even when the volunteer group does not have political agenda, it may be simply seeking rents for a patronage network. The problem is exacerbated in most developing countries by the difficulties that the government has in promising credibly to avoid opportunistic policy changes that take away the returns to the service providers' investments. In the absence of such commitments, private entities are unlikely to make the necessary investments for service improvement. All these factors render the choice of service delivery arrangements a major dilemma. Understanding the problems involved and exploring possible solutions may not fully resolve the dilemma, but can help diminish it.

Before attending the framework and the case study, a word of caution about the analysis is in order. The debates about Iranian bonyads are highly politicized and one can hardly find objective and cool-headed analyses of their roles in the economy. Media articles and studies examining them often look like polemics and suffer from inconsistencies.³ Favorable articles typically ignore the limitations of bonyads and the ramifications of their particular political and religious agendas. Opposing articles tend to describe them as cancerous organisms that control large parts of the Iranian economy. The present paper departs from that literature by focusing on the available evidence regarding the political and economic tradeoffs that bonyads entail. The question is whether in context of existing political and institutional reality of the country alternative feasible mechanisms work better or worse than bonyads in various lines of public service. Also, assuming that bonyads are there to stay for some time, the paper considers policies that may enhance their contribution to the economy. This is important because the government of Iran has been facing serious difficulties in delivering adequate welfare services in efficient and targeted manners and, as argued here, its effort to recruit help from the private sector does not seem to have been successful. Therefore, if bonyads could be motivated to augment the provision of such services at reasonable costs, there can be tangible gains in terms of overall economic well-being in the country.

The basic facts about bonyads are as follows. Iranian bonyads are generally under the supervision of the country's *Leader*, whose office does not have operational responsibilities in the government and stands above the three branches. This set up gives bonyads institutional autonomy from the government. Also, bonyads enjoy some financial autonomy because they all own enterprises and assets. Their mission

³ For example, numerous articles have describes bonyads as highly inefficient, money losing conglomerates and, at the same time have claimed that those foundations are in charge of a substantial part of Iran's GDP (usually claimed to be around 20%-30%). The authors do not seem to note that if bonyads do not produce much valued added, they cannot command such large parts of the GDP.

is to use their resources and government funds allocated to them to enhance the welfare of the deprived, militia veterans, and martyrs' families. Bonyads perform a variety of tasks and their presence in the economy is extensive and significant. They provide various forms of services to almost 15 percent of the total population and receive about 30 percent of the government's budget for healthcare, social insurance, and welfare.⁴ They are also active in most sectors of the economy and the largest four of them produce about 3-5 percent of the GDP. These roles have allowed bonyads to develop deep roots and connections in the country's economy, politics, and institutions. These roles and roots have been controversial because bonyads have ideological and political leanings among the elite groups in Iran and use their autonomy to be selective in the choosing their employees and business partners.

To make the analysis in this paper more focused and manageable, the bulk of the case study here focuses on a comparison of one of the most prominent bonyads, *Imam Khomeini's Emdad Committee* (IKEC), with a government bureau, the *State Welfare Organization* (SWO), which has more or less similar responsibilities.⁵ This comparison allows us to examine the successes and failures of the two mechanisms more concretely and in greater detail. At the same time, the comparison represents a sufficiently prominent case that it sheds light on the role of bonyads and their major links to the national policies and priorities.⁶

The results of the analysis in this paper suggest that in the welfare and poverty reduction areas, IKEC may provide a better fit for the institutional conditions of Iran. SWO, on the other hand, is a more suited to rendering rehabilitation services. This does not mean that the two organizations should completely specialize because competition between the two, as well as other NGOs, can help motivate service improvements. However, integrating all service providers into one bureaucratic organization seems to be an inferior arrangement compared to the current one. This finding is important because the government has created a Ministry of Social Security and Welfare to coordinate all services in those areas.⁷ Some advocates of the Ministry, especially among reformist policymakers, believe that it should consolidate all service providers into a bureaucracy under the control of the elected executive. But, that

⁴ These figures are this author's estimates based on data from annual government budgets, the Yearbooks of the Statistical Center of Iran, and IKEC (2001).

⁵ The English names and acronyms of Iranian organizations used in this paper are the ones employed by those organizations themselves in the recent past.

⁶ Haqjou (2003) also presents a comparison of IKEC and SWO, but that paper focuses on the debates about the two organizations and does not look at their match with the country's institutional setup.

⁷ For detailed debates about the formation of the Ministry and its associated law, see the whole issue of *Majles and Research*, No. 33, Spring 2003, which is published by the Parliament Research Center in Iran.

vision seems to ignore the institutional realities of the country. The alternative view is that the Ministry must be a policymaking and regulatory body that improves the management of the current set up. This perspective is supported by the analysis in the present paper and currently seems to have come to dominate the policymaking circles in Iran.

The rest of this paper is organized as follows. Section 2 develops the theoretical framework of the paper by expanding on the above points regarding the advantages and disadvantages of alternative service delivery arrangements. Section 3 presents the historical background about the origins of bonyads and the institutional context in which they have developed. Section 4 focuses on a comparison of IKEC and SWO. Finally, section 5 concludes by reviewing bonyads as outsourcing mechanisms for public services.

2. An Analytical Framework for the Study of Public Service Delivery Mechanisms

Public services are products such as social safety nets, social insurance, and defense and security that have severely imperfect markets. In many such cases where governments find it difficult to mobilize and regulate private producers, they establish bureaucratic units to deliver the product. In other instances, especially when the task depends crucially on innovative work or when market imperfections are not too severe, the bureaucratic units are turned into public service agencies that are relatively autonomous in their operations. As imperfections decline and innovation rises in importance, the tasks are delegated to private providers under contract from the government.

Private provision is an attractive option because it entails operational flexibility and efficiency. However, it is not always a feasible alternative because the nature of public services often prevents complete contracting between the government and private firms (Hart, Shleifer, and Vishny, 1997). Unlike the market performance of private enterprises that can be summarized in indicators such as returns on assets, measuring performance in public services is difficult. Each service and the economic activities that produce it have a multitude of dimensions, some of which are difficult to specify *ex ante* or verify *ex post*. For example, to contract out a clinic for the poor to a private organization, the government may be able to specify the broad terms of the service, the kind of material to be used, and the qualifications of individuals working in the clinic. However, there is a variety of important details about the way the clinic operates, treats patients, and deals with contingencies that cannot be specified and enforced through a contract (unless, of course, the government gets into monitoring the clinic's operations on a day to day basis and participates in selecting the material and in hiring and firing personnel, which defy the purpose of contracting out in the first place). Another example is the distribution of welfare benefits to the needy, which is beset with malfeasance problems because the non-needy have an incentive to hide their incomes or to collude with the service agents to be identified as needy. Similar arguments can be made about most other activities that are commonly viewed as public services. When the contracting difficulties are

substantial relative to innovation and cost reducing investments that private enterprises can bring about, the government is more likely to end up relying on bureaucratic agencies. This is indeed the nature of most welfare services, which makes it more difficult to involve the private sector, compared to some other services such as garbage collection and telecommunications, where the contracting conditions are better (Hart, Shleifer, and Vishny, 1997).

Of course, incompleteness in contracting would not matter if the private service provider has the same preferences as those of the government. But, this is the heart of the problem: private entities have their own agendas that almost certainly differ from that of the government at least on some dimensions. For example, in the case of a clinic, the service provider may be keen on his own net revenue and, as a result, may not care as much about disease prevention or employment generation as the government does. Also, the provider may favor some groups or tendencies in the society (say, on the basis of religious affiliation or simple patronage) and, consequently, may be biased in its service delivery or employment policy and the like. In fact, groups with such motives are more likely to be represented in the pool of agencies that volunteer to provide services at low costs.

One might argue that once contracting is incomplete, getting the public employees to perform the task may not be any easier than arranging for private provision. However, there is a difference between the private and public cases. Under public provision, the government can screen and reallocate personnel and resources according to its own taste as the process unfolds. In the private case, on the other hand, the government would have to wait until a clear breach of contract occurs, which might be too late or too costly to fix (Hart, Shleifer, and Vishny, 1997). For example, in a healthcare agency, a private operator's incentive to cut costs may be too strong to allow sufficient spending on disease prevention, while a public employee may have less incentive to reduce such expenditure if the government is paying. Indeed, when curing activities are more easily contractible, a private operator may have an incentive to induce excessive *ex post* government expenditure on curing diseases that could have been prevented.

Incomplete contracting in public services is not always a problem of getting private firms to comply with the demands of the government. The reverse problem is also a concern: The government may not be able to commit to a set of tax and regulatory policies that allow the private agents to earn normal returns on their investments (Weingast, 1995; Levy and Spiller, 1996). This is important because to ensure service quality and high productivity, the government wants the private service provider to invest. Whether the service provider is a for-profit or non-profit organization, it can apply its resources to alternative activities that further its goals. As a result, to be willing to apply those resources to a public service, the provider always needs to be motivated by sufficient returns. This cannot be done if the government can opportunistically change its policies in ways that take away the investors returns once the

investment is in place. For example, the government may change *ex post* employment regulations or other input costs for private providers or may refuse to raise service fees or its own payments to the service provider to compensate for unanticipated inflation. When the leeway for such actions is wide, private agents may be reluctant to invest and the government may have to carry out the task itself even if its operations are not as efficient as those of private organizations.

The choice of an organizational form for the provision of a public service in a given country depends on the characteristics of the service and the country; specifically the characteristics that affect the extent of incompleteness of the required contracts. Contracting difficulties become more serious when the government is more strongly disposed to expand employment and redistribute income (Esfahani and Toossi, 2002). The problem is further exacerbated if the government lacks institutional mechanisms to assure private service providers minimum returns to their investments (Spiller and Savedoff, 1999).

In countries where contracting problems are more severe, the government may have to maintain more direct control over the production of services. However, the exact form and extent of government controls should vary depending on the nature of the activity and institutional capabilities of the country. The most extreme case is when the government badly wants to control the activities that produce a public service but has major handicaps in assessing the provider's performance in important dimensions and there are few institutional mechanisms to limit opportunistic policy changes. In such cases, the service is typically assigned to a bureaucracy where the tasks, budgets, and compensations are determined rigidly. When through ideological or institutional arrangements the government manages to constrain its drive for control of service operations and takeover of investment returns, then service provision through private entities becomes more feasible, especially in areas where innovation and cost-reducing investment matter and agency problems of the provider can be better contained (e.g., by introducing competition).

Autonomous public agencies backed by institutional sources of political power outside the bureaucracy offer an intermediate form of organization that may be helpful when the conditions for efficient private participation or direct government provision are inadequate. The main advantage of such agencies is that their missions are defined by at least part of the ruling political forces and, as a result, are likely to be more closely aligned with the government's agenda than what private volunteers may offer. Also, the institutional affiliation and backing by powerful offices may help mitigate concerns over the government's commitment. On the down side, autonomous public agencies may become the nucleus of patronage networks. Although the government may be able set up watchdog agencies, it is unlikely that rent extraction by such networks can be eliminated. As a result, the outcome may not be as efficient and as desirable as what can be achieved under perfect conditions. However, it may still serve as a practical

alternative when incomplete contracting is a serious problem. The key issue is whether this intermediate form is feasible and a better match for the institutional set up or not.

Based on the above discussion, one can assess the efficiency of a service delivery system under given conditions by first examining the factors that affect the extent of incomplete contracting and, thus, the costs of using less bureaucratic means of service provision. An important factor of this kind is the extent to which a country's politics are polarized and ideologically driven. When interest groups are more polarized, they have stronger motives to turn public services to their advantage and are, thus, more likely to raise the government's incentive to control the process of public service provision. Another important factor that may exacerbate the problem is the lack of professional expertise in the government to assess performance and enforce contracts. Also, contracting is more problematic when the government does not have access to effective institutional mechanisms for constraining its own opportunistic policy changes.

When a country's conditions raise the contracting costs of a given service, private participation in that service is likely to be hampered. Even if private entities enter the scene, they may not be able to enhance the welfare of the population in significant ways. Under these conditions, the question is to what extent the political set up of the country allows the creation of autonomous public agencies that can operate with less contracting problems than private entities and with more flexibility than government bureaus. When such arrangements can be made with some checks and balances, then there may be an opportunity for improving welfare. These ideas are the basic elements of the approach taken in this paper to assess the role of bonyads in Iran.

3. Historical and Institutional Background

Most bonyads in Iran were born in their current forms in the aftermath of the 1979 Revolution. Some of them had existed before the revolution as charitable foundations based on assets donated by the public for religious purposes (an act that is technically known as *waqf* in Islam). Another set of bonyads was a transformation of the foundations that had existed before the Revolution under the auspices of the royal family or their associates. The most prominent example of this group is *Mostazafan and Janbazan Foundation* (MJF), which was formed in the first few weeks of the Revolution to take over the former royal family's Pahlavi Foundation in addition to a host of other expropriated assets. A third group of foundations was established in the process of the Revolution or shortly thereafter to deal with various welfare issues ranging from general concerns such as reduction in rural poverty to more specific ones such as addressing the needs of the war refugees. The most significant example of this type of *bonyad* is IKEC. All three groups of bonyads have assets of their own, though they also receive substantial implicit and explicit financial support (to different degrees) from the government to carry out their tasks.

The resources and tasks assigned to bonyads after the Revolution could have been placed under the control of the government bureaucracy (as happened with parts of expropriated enterprises), or turned to private charity organizations, or simply privatized. But, the political forces and institutions that emerged from the Revolution did not favor those options in all cases. Since the same forces and institutions continue to influence the role of bonyads in Iran, it is useful to briefly review their main characteristics. As the following review shows, the demand for control of the production process is strong in Iran because the ruling elite are a collection of small groups with relatively clear boundaries and with difficulty trusting and recruiting from the rest of the population. This means considerable political activism, fragmentation, and divergence in interests, which translates into substantial difficulty for the government to delegate tasks to private organizations. The same factors also impede the government's ability to offer commitment. Using controls rather than delegation is further facilitated by the availability of oil resources that make it easier for the government to bear the cost.

Iran's revolutionary movement in the late 1970s gathered momentum and triumphed in very short order largely based on the popular appeal of Ayatollah Khomeini. The process had been facilitated by a number of small groups and individuals who had direct or indirect relations of trust with the Ayatollah and later came to fill all positions of power in Iran and to form the country's new elite. While the members of the elite were committed to follow Khomeini's vision of an *Islamic Republic*, they represented different social strata and had major differences concerning the economic and political content of such a republic. Indeed, the elite never formed a unified and effective party and remained a fragmented set of relatively well-organized small groups.⁸ The reasons for this phenomenon are three fold. First, Iran's social and political cultures seem to have a long standing bias towards high degrees of fragmentation, where narrow loyalties to family and clique are reinforced by distrust of all others.⁹ Second, the breadth and depth of the anti-Shah movement meant that the groups active in the Revolution did not have to make major compromises and unify their visions about the future the country. This ensured a speedy revolution, but the outcome was a contradictory situation where many participants expected an open democracy even though they could not muster the minimum required mutual understanding and trust. To ensure the stability and safety of the new regime, most of the elite connected with Ayatollah Khomeini quickly closed ranks and created institutional and informal barriers to restrict the access of "outsiders" to positions of power. These entry barriers provided the elite with highly privileged positions

⁸ To be exact, they tried to form a dominant party, but the party ended up acting as an arena for intense infighting. To reduce the direct conflicts among the groups and to channel dispute resolutions through the office of the Leader, Ayatollah Khomeini ordered the party to disband in 1987.

⁹ For detailed discussions of this issue and its social and political roots, see Abrahamian (1980: 169-176), Behnam (1986: 96-105), Azimi (1989: 23-25), and Seifzadeh (2003), among others. The high degree of ethnolinguistic heterogeneity of the country (Kurian, 1991) may have also contributed to the extent of political fragmentation.

and ensured that they had a strong interest in preserving the system. But, they also allowed for vigorous infighting to continue within the elite boundaries based on Riker's (1962) pattern of "minimum winning coalition."¹⁰ Third, the ideological heritage of the Revolution was inherently contradictory because the elite believed that they could build an *Islamic Republic*, where both the religious establishment and the people would be sovereign (Schirazi, 1997: 1). This may have been feasible if everyone agreed to the rule of God as represented by a leading jurist. But, the nation and even the elite themselves were too heterogeneous to ensure consensus on the word of the leading jurist over the broad set of dynamic and complex issues facing the country. In an attempt to deal with the problem, the framers of the new system incorporated democracy into the constitution by requiring elections for the executive and the legislature, but at the same time created the office of the *Leader* who would be an Islamic jurist with veto power over all legislative and executive decisions. The Leader is selected through a web of councils controlled by Islamic jurists, who are in turn indirectly screened by the office of the Leader. The end result is a dichotomous system where there are many decision makers with different sources of power: there is a group of veto-holders with theocratic source of power, while the executive and the legislature are separately elected and have democratic mandates, though subject to screening by the theocratic side. This distribution of power between two sources prepared the ground for the conflicts among the elite groups to persist, some coalescing on the theocratic side and others leaning towards the ballot box.

The contentiousness and fragmentation of Iranian politics and the institutions that emerged from them have had important consequences for private sector activity and the emergence of bonyads in Iran. From the onset of the Revolution, the new elite groups showed a great deal of interest in controlling and reshaping all aspects of the economy as a means of establishing their new order and containing other contenders and non-elite groups. Initially, this was mainly driven by the new elite's need to wrest control from the old regime and its associates. But, the demand for control went well beyond the individuals identified with monarchy and engulfed most of the private sector. All banks, large firms, and large landholdings were expropriated. While some elite groups went to ride the government bureaucracy and state owned-enterprises (SOEs), others took control of the pre-existing foundations and the expropriated private sector resources. A third set of elite groups pushed to establish new agencies that they could command. All three drives represented forces that undermined independent private sector activity and gave birth to bonyads. The assets that came under the control of some elite groups in these ways could not be operated privately. The elite groups outside the government also did not want to submit their assets to the bureaucracy and lose their control to those who occupied government offices. As a result, many of them chose to associate themselves with the Leader.

¹⁰ Riker's *Theory of Political Coalitions* posits that when coalitions form in a decision-making body, the winning coalition will tend to be the smallest one that can win based on the decision-making rules.

The demands for control were not directed simply at the types of goods and services being produced; both the producers and consumers had to comply with the ideological and political orientation of the new elite groups. These demands, of course, diminished over time as the regime became more established and ensured that its political contenders were at bay. But, the room for the revival of the private sector remained limited because control over economic activity played an important role in the conflict among elite factions.¹¹ Each group had to muster as much resources as it could in order to maintain bases of support in the population and counteract with its rivals. In this environment, private enterprises could not operate well without having patrons among the powerful members of the elite. Even private enterprises that belonged to elite groups were not immune from take over efforts by rival groups. This was why most of the organizations that controlled the assets taken over or formed outside the government could not operate independently and sought supervision from the office of the Leader.

Economic activity independently of the sources of political power has faced significant additional difficulties because of the weak commitment capability of the government. This was also an outcome of the post-Revolutionary politics and governance institutions. The multiplicity of sources of power has created opportunities for various elite groups to hold up or undermine earlier promises made to the producers by the other factions in the government. In fact, at times they have had incentives to do so and have used their options as a means of exerting factional control.¹² This has been done both within the legislature and the executive as well as through vetoes, which have sometimes been used not only to block change but also to overturn the status quo and to move it back to earlier situations. Commitment problems were further aggravated by the fact that some veto holders were also in charge of interpreting the constitution and had discretion in determining where their vetoes would apply.

Another factor that made commitment difficult was the ambiguity of laws and rules. One reason for this ambiguity is the multiple origins of laws and institutions. Under the Islamic Republic, the ruling jurists have tried to establish a system of laws based on Islamic jurisprudence. However, there were a host of secular and Western institutions and concepts that the Iranian society had adopted over the years in order to tackle the challenges of modern times. Eliminating the latter in favor of Islamic jurisprudence

¹¹ For example, when President Rafsanjani's government tried to privatize some firms in the early 1990s, it was accused of passing them on to its allies. Those left out argued that the assets should be transferred to foundations and holding companies that they controlled on behalf of the deprived and the veterans of the Revolution and the War.

¹² A recent major example is the unilateral takeover of the Tehran's new airport by the Revolutionary Guards on May 8, 2004, and demanding the cancellation of the management contract granted by the government to an Austrian-Turkish consortium. See, Eurasianet.org, May 15, 2004, "Iran's Revolutionary Guards Making a Bid for Increased Power."

was not practical and even most of the elite did not favor such a move. As a result, multiple sources were allowed to coexist, imbedding major contradictions in the county's systems of law and governance (Schirazi, 1997: 161-171). A second factor that made the laws de facto nebulous was the extreme security concerns of the elite that placed exigency considerations far above established rules and procedures. Another related factor was the entry barriers that the elite wanted to maintain for the outsiders, but could not make them explicit because of the democratic promise of the regime. To resolve the contradiction, some rules were written in ways that could be interpreted in widely different ways. All these institutional features left excessive room for discretion by different policymakers, with serious consequences for the credibility of policies towards private sector activity. The combination of the discretion and the urge to control has made it particularly difficult for the government to commit to more efficient policies because such policies generate larger surpluses and create stronger incentives for opportunistic actions.

The presence of large oil rents has interacted with the above factors and has played a very important role in the formation of the public service system in Iran. While it has supplied substantial rents to be channeled towards public service activities, it has also made it cheap for the government to tolerate the costs of inefficient controls. The result has been expansion in those services, but mainly through public organizations. [Similar developments can be seen in other parts of the economy as well.] As a result, the key issue has been whether the services are managed through the bureaucracy or through agencies such as bonyads.

The political system's characteristics, especially its entry barriers, have impeded the adoption of efficient contracts and policies through other channels as well. In particular, they have caused major difficulties for the government to recruit based on merit and retain expert cadres in professional positions. This is because the number of professionals whom the elite could trust with management or even advisory positions has been limited.¹³ This problem has in fact bred on itself because the shortage of high quality personnel in important policymaking areas has also impaired the government's ability to assess the skills and performance of the existing staff or potential recruits. It has even adversely affected the government's ability to recognize some of the areas where expert advice is needed.

The difficulties of private sector operation in Iran are more pronounced in the case of social and welfare services because their inherent contracting problems are greater and, therefore, their outputs are

¹³ Based on a study of the elite of the Islamic Republic, Ehsani (2002) puts the number of individuals who have held any position of power in Iran since the revolution at about 2500 to 3000. The individuals in this group are interrelated and have been rotating in those positions. In addition to this limitation, the public statements made by some revolutionary leaders concerning professionals suggest that many among the elite had little understanding of what sort of expertise was needed for running a modern government.

more sensitive to the characteristics of the institutional environment. These problems are not entirely new and existed in other forms before the Revolution as well, which explains why private social service agencies have hardly played a significant role in improving welfare in Iran. This is not to say that such organizations have been absent from the scene. In fact, by official counts, there are currently at least 2,000 traditional charities and NGOs and about 200 modern NGOs active in Iran in the fields of health, family planning, women in development, the environment, children and youth, science and technology, and the delivery of social services.¹⁴ But, as some recent surveys have shown, the scale and quality of their services are very limited (Namazi, 2000). The traditional NGO that survive independently lack resources and remain quite small and the new ones that try to innovate face major constraints, including "legal barriers and too much government control exercised through multiple and uncoordinated decision making centers" (Namazi, 2000). Interestingly, the new NGOs that have been encouraged by the reform movement in recent years have sought to become quasi-governmental NGOs in the capital city. On the other hand, the traditional charities that are trying to improve their situation have formed local and national federations with a Central Coordinating Committee (of mostly religious charities) that reports to the Supreme Leader (Namazi, 2000).

In the absence of a hospitable environment for private sector growth, bonyads have come to play important roles both in business development and in the delivery of public services. The shortage of jobs and economic activity and the widespread presence of poverty and social ills have created an impetus for the expansion of investment by the government or bonyads. The bureaucratic rigidities that frustrate productivity in economic units directly controlled by the government have forced even the ministries in charge of those units to transfer their tasks to "semi-private" affiliates that can operate with greater flexibility. This, of course, has also created opportunities for the promotion of particular agendas and patronage. However, at the same time, the multiplicity of elite groups and sources of power has generated opposing forces that act as partial checks and balances. For the activities dominated by each group, several others have been demanding transparent information and evidence of good performance. These forces tend to set reduce potential abuses, though they still remain limited because often the demands can only come from within the elite.

In this environment, bonyads and other relatively autonomous public agencies, such as the Pension Fund and the Social Security Organization, have had more room for maneuver and have grown

¹⁴ Quoted from Namazi (2000). He suggests that the official figures may be underestimates and puts the actual numbers around 3,000 Community Charity Funds and over 5,000 women cooperatives. There are also thousands of micro credit organization (often branded as interest-free loan funds, *Sandogh-e Qarz-ol-Hassaneh*), which are community-based and help with risk-sharing.

much faster than the independent private sector. Interestingly, these entities have also been the main beneficiaries of the government's efforts to "privatize" SOEs over the past dozen years, whereby the enterprises controlled by ministries have been transferred to autonomous public agencies including bonyads. Although this restructuring has not contributed much to the growth of an independent private sector, it seems to have increased the flexibility of the transferred units without exposing them to the risks that independent private firms face.

In the rest of this paper, the focus will be mostly on the development and role of bonyads in the provision of welfare services. The next section compares the most prominent bonyad in terms of welfare services—namely, IKEC—with the government's primary organization responsible for such services—i.e., SWO. Understanding how and when each has done better than the other can yield important insights about the fit of those arrangements for the tasks that they perform and the environment in which they operate. To make a case for our theoretical claims, ideally we should compare the experiences of IKEC and SWO with that of an independent private organization. However, as pointed out above, there are no such organizations with a tangible size or sufficient effectiveness to serve as a comparison. Of course, this absence itself provides positive evidence in favor of the claim that private organizations have difficulty operating in social services areas of the Iranian economy. Interestingly, as we will see, IKEC and several other bonyads were initiated outside the government first, but to survive and thrive, they found it necessary to link themselves to the main sources of political power.

4. State Welfare Organization and the Imam Khomeini's Emdad Committee: A Comparison

SWO was established in 1980 by combining a series of small pre-revolutionary organizations run under the auspices of the government or the royal family in the welfare and rehabilitation sector. All the constituent units were consolidated into a bureaucracy under the supervision of the Health Ministry. Initially, SWO did not receive much attention from the government and suffered from serious mismanagement (Nadimi, 1989). But, after the late 1980s, it was upgraded and given opportunities to attract technically trained staff. Since then it has been rendering some of its intended services effectively. But, its operations focus on major cities and on tasks that are intensive in technical skills that involve easily identifiable problems, such as physical rehabilitation, rather than on tasks that need institutional innovation and networking such as social protection. It is worth noting that the same pattern existed before the Revolution among the organizations that constituted SWO. While in the 1960s and 1970s, the task of social protection had become quite important due to the social instability caused by a sudden acceleration of socio-economic change, those organizations and the government did not take many steps to address the problem even though the country was about to erupt with a revolution. It is quite possible that the individuals working for those agencies understood the problem and appreciated the need for

innovative approaches. But, they all depended on the country's highly centralized bureaucracy that could not pay much attention to many details.

Interestingly, during the decades of 1960s and 1970s, especially in the aftermath of 1963 anti-Shah uprising, some of the followers of Ayatollah Khomeini had started to develop a network to provide assistance to the families of political prisoners with the help of bazaar merchants. Later the network expanded its operations as an informal organization responding to a wider range of welfare needs. But, under the circumstance of the Shah's repressive regime, its growth remained very limited. With the advent of the Revolution the network became more active and its old ties with Ayatollah Khomeini proved important. Shortly after the Revolution, the leaders of the network set out to formalize and expand it as an organization with the mission to provide assistance to people living in need, particularly in rural areas where poverty was more widespread. They saw this as a much needed function that had been ignored under the Shah and carrying it out was essential for the success of the Revolution. The organizers could have sought to become a government agency or they could have maintained their organization as an independent private entity. But, they chose to take it under the auspices of Ayatollah Khomeini and associate themselves with the Leader's office. It was very clear that this option would give them a lot more independence and flexibility than joining the bureaucracy, which they probably did not admire anyway. Remaining independent, on the other hand, would have deprived them of the backing they needed to elicit cooperation and resources from the government. Indeed, there were other networks that opted for independence. After a few years, some joined the government and were eventually absorbed by the bureaucracy (such as the Reconstruction Jihad), others either disbanded or remained marginal, as discussed in the previous section.

The information about the operations of the IKEC and SWO in the first half of the 1980s is patchy. But, we know that IKEC's coverage of the population grew very rapidly at that time, while SWO did not go much beyond the level of activity that its constituent agencies had had earlier. SWO continued to provide physical and social rehabilitation programs as well as family support, orphan care, youth programs, prevention services, and technical and vocational training. But, its welfare role remained limited. IKEC, on the other hand, quickly defined its hallmark program, the Aid Project, and sought government and private support to expand it. The project used the comparative advantage of IKEC in identifying the poor and their needs to provide them with pensions or cash and non-cash support for specific needs such as education, food, healthcare, house repair, marriage, etc. Unlike SWO, IKEC energetically moved into rural areas. It also started to define new activities and to take over projects that the government wanted to initiate. It used its flexibility advantage to compete effectively with SWO and other contenders. Its sign of clear success in this respect came in 1985 when it was awarded the Rajaei

Project, which targeted the rural elderly facing poverty. This project had initially been proposed by the former President Rajaei in 1981 and was assigned to SWO, but its management was very unsatisfactory (Soleimanzadeh, 1988; Nadimi, 1989). As a result, the government decided to pass it on to IKEC, which had a much better network for identifying the eligible individuals and keeping track of them.

Figure 1 summarizes the histories of IKEC and SWO since the mid-1980s. The measure of output used in this graph is simply the sum of all cases of welfare service handled, regardless of their nature, per 100 population of the country. The measure of resource use by the two organizations is the total expenditure of each divided by the total population. Despite their crudeness, these measures capture the main trends in the two organizations, as we will see later after we examine more specific projects. Note that the data for SWO only cover its welfare activities which are comparable to those of IKEC. The other function of SWO is rehabilitation, which we will examine later. In any event, Figure 1 shows that by mid-1980 the size of IKEC had reached to more than ten times that of SWO's welfare activities.

During 1986-1988, IKEC continued to grow as the economic difficulties imposed by the War with Iraq were mounting, but this process was reversed when the War ended in 1989. SWO's activities, on the other hand, remained relatively flat during those years. Both organizations started growing in the early 1990s under the First Five-Year Plan, when the economy started restructuring away from the war situation. However, after 1993 when the economy experienced a foreign exchange crisis, and government budgets were cut, IKEC used its own resources and took off, while SWO's welfare program began to decline. This was because of a crucial difference between the two: SWO was bound by the annual budget controlled by the legislature and the Management and Planning Organization (MPO). When the crisis set in, inflation had to be contained and all government expenditures were cut, including those of SWO. SWO did have some revenues of its own from user fees, but that was not by any means sufficient to help SWO grow (see Figure 2). Certainly, the recession was not the time to increase the fees of the services used by the poor. IKEC, on the other hand, had developed a buffer fund by saving part of its revenues and especially by investing in businesses of its own. This can be seen in Figure 3, which presents the total expenditure and revenues of IKEC. Note that the organization had a surplus until 1995 and kept increasing its expenditures in 1994 and 1995 despite cuts in funding from the government.

The difference in the behavior of IKEC and SWO during 1994-1995 was not an anomaly. It was repeated again during the slowdown of 1998-1999 (for the behavior of GDP since 1989, see Figures 4). This time the government initially cut the welfare budget of SWO, but not of IKEC (see Figure 2). It seems that by then a consensus had developed to create a division of labor between IKEC and SWO, with the latter focusing on rehabilitation tasks and leaving welfare activities entirely to IKEC. This idea was in fact made explicit in Article 43 Note 1 of the Third Five Year Plan Law, which was to be launched in 2000. However, by then Mr. Khatami had been elected president and new factions ("reformists") were in

control of the executive and had a different vision for the organization of public services. They espoused the idea of promoting new NGOs under the supervision of SWO by allocating more funds to be passed on to them. To this end, they quadrupled the welfare budget of SWO in real terms and cut that of IKEC. [The increase in the total budget of SWO, including the rehabilitation programs, was 114 percent.] SWO was encouraged to pass on its existing tasks to NGOs as well.

The above observations regarding the responses of IKEC and SWO to economic downturns may be seen somewhat more systematically in regressions of the first differences of log of service cases on the level and current and lagged first differences of GDP per capita. The results are summarized in Table 1. Although the number of observations for these regressions is low, their outcomes help support the idea that IKEC's service delivery responds inversely and strongly to changes in current economic conditions, while SWO's corresponding response is insignificant. Moreover, SWO shows a positive response to lagged GDP growth rates, which reflects the fact that its activity level is partly driven by the availability of government resources rather than the needs of the poor. It might be argued that SWO is more concerned about chronic problems and is not suited to dealing with crisis situations such as the ones that occurred during the 1990s. However, the post-1993 macroeconomic crisis in Iran was a very prolonged one and the urgency of responding to changes in long-term needs was quite evident early on.

Table 1. Service Responses of IKEC and SWO to GDP Growth, 1989-2002

Right-Hand Side Variables:	Dependent Variable:			
	$\Delta\log(\text{IKEC service cases per 100 pop.})$		$\Delta\log(\text{SWO service cases per 100 pop.})$	
Constant	2.808	2.451	3.513	-0.068
$\Delta\log(\text{Lagged Real GDP per capita})$	<i>1.677</i>	<i>1.456</i>	<i>1.072</i>	<i>-1.200</i>
	-1.089		3.102	3.240
$\Delta\log(\text{Real GDP per capita})$	<i>-1.198</i>		<i>1.743</i>	<i>2.138</i>
	-1.995	-2.338	-1.606	
$\text{Log}(\text{Lagged Real GDP per capita})$	<i>-1.936</i>	<i>-2.311</i>	<i>-0.796</i>	
	-0.482	-0.421	-0.635	
	<i>-1.619</i>	<i>-1.405</i>	<i>-1.091</i>	
R ²	0.438	0.348	0.380	0.294
Number of Observations	13	13	13	13

Note: Numbers in italics are *t*-statistics.

Since 1999, the government has kept its real payments to IKEC practically constant and has pressed the organization to rely more on its own resources. IKEC seems to have coped with that situation well and has continued its growth until 2002 when the economy started to experience fast growth and poverty rates began to decline. On the other hand, SWO has been struggling to set up NGOs that would fulfill the tasks expected of them. The NGOs that did engage in welfare services have acted similar to bureaucratic units and are in some cases headed by former bureaucrats who are essentially appointed to the job.¹⁵ So, their performance has not tangibly better than SWO itself. Meanwhile, SWO's own welfare services have continued to decline because it is under various constraints, including budget and employment restrictions that the MPO has imposed on government agencies to slow down the growth of the bureaucracy. As a result, in 2001 and 2002 the service cases handled by NGOs under the supervision of SWO remained at about 20-25 percent of SWO's own cases and total had a slow growth (Figure 1).

The responses of IKEC to the slowdowns of 1994-95 and 1998-99 are exactly what one wants to see in welfare programs: Extra expansion during recessions. This is because the recessions are the times when the economic needs of the poor are greater. IKEC produced the correct response because of its flexibility, while the web of bureaucratic constraints on SWO has prevented it from doing the same. Bureaucratic units need not be always rigid. In fact, in many countries welfare agencies do cushion the impact of adverse macroeconomic shocks on the vulnerable population. However, in Iran the demand for control over economic activity is high and the bureaucracy is highly centralized. At the same time, the government's budget is generally pro-cyclical because of the credit constraint resulting from the system's serious commitment problems. As a result, flexibility cannot be reached without some degree of autonomy from the government bureaucracy.

One indicator of the difficulty to reach the poor through SWO and its NGOs is the tendency of their service units to locate themselves in more urban and high income parts of the country. This is why Namazi (2000) refers to these agencies as "quasi-governmental NGOs in the capital city." To get a sense of the locational differences between IKEC and the NGOs under the supervision of SWO, Table 2 presents the correlations between the share of population served across Iran's 28 provinces and two development indicators—non-mining GDP per capita and the share of urban population. A negative correlation shows that the service providers favor poorer and more rural areas. As Table 2 shows, these correlations have the right sign and large magnitude for all IKEC programs. But the NGOs seem to be

¹⁵ The evidence of such behavior in another type of service was recently documented in a court case where a public polling agency under the Ministry of Islamic Guidance had been dissolved and replaced by a private agency. But, the head of the new agency was still appointed by the Ministry and there was no sign of an arms-length relationship.

more inclined to operate in higher income areas and, for some programs, prefer the more urbanized provinces.

Table 2. Correlation of Development Indicators with the Share of Population Served by Welfare Agencies in Iran Across 28 Provinces

Development Indicators:	Share of Service Recipients in Province Population				
	IKEC				
	Rajaei Project (Elderly Support)	Self-Help Project	Medical Services and Insurance	Educational and Cultural Services	Housing Services
Non-Mining GDP per Capita	-0.431	-0.509	-0.539	-0.505	-0.406
Share of Urban Population	-0.577	-0.344	-0.514	-0.409	-0.359
	NGOs under the Supervision of SWO				
	Orphans	Daycare	Headless Households	Elderly Care	Disabled
Non-Mining GDP per Capita	0.054	-0.172	0.366	0.167	0.404
Share of Urban Population	-0.206	-0.187	0.171	-0.363	0.156

Effectiveness of IKEC relative to SWO in the provision of welfare services can be seen in other respects as well. In particular, Figure 1 makes it clear that besides responding to the macroeconomic situation, IKEC's services have been growing quite fast, while SWO's welfare program has stagnated. By year 2001, well over 6 million people (or almost 10 percent of the total population) were receiving some form of support from IKEC. This was about 15 times larger than the services rendered by SWO, while the ratio in the mid-1980s was about half that much. IKEC's share in total budget of health and welfare programs had also continued to grow until it was capped in 1999. While in the early 1990s, IKEC used to receive about 5 percent of the health and welfare budget, its share jumped to about 18 percent in 1997-1998.

Another example of the effectiveness of IKEC is its greater ability to ensure that it receives and absorbs the budget approved for it by the legislature. As Figure 5 shows, SWO has never managed to absorb its entire approved budget, and has done particularly poorly in this respect in the most recent years. IKEC, on the other hand, has been able to receive its approved allocations completely in all years except in 1994-1995 when the budget was revised downward in mid-year for all agencies. Interestingly, Figure 5 shows that the government had tried to cut back the budget of IKEC in 1998, but then the law was revised in mid-year and IKEC managed to receive more than initially allocated to it. The reason why

IKEC is more successful in receiving its budget is that it has political backing to reasonably protect its resources even under the strong pressure that it has faced from the reformists in recent years.

It should be pointed out that SWO's weaknesses are mainly in the area of welfare services. In rendering rehabilitation services where the tasks are technical and social and institutional context do not matter as much, SWO has clearly done very well, as shown by the recent studies of the rehabilitations services (Hemmati, 2001). Figure 6 confirms this claim by showing that the rehabilitation budget of SWO has grown robustly and its services cases in that category has risen even faster.

Although the above discussion provides evidence concerning the responsiveness and flexibility of IKEC, there is still a need for a lot more comparative research on unit costs and on the nature of services being rendered. These are, of course, important tasks but lack of data at the present time does not permit a detailed analysis of this type. Some preliminary pieces of research on the effectiveness of IKEC and SWO in achieving their objectives seem to support the dichotomy identified here. For example, Roknoddin Eftekhari and Sharafi (2001) find that the IKEC's program to raise the nutrition standards of villagers in southern Iran has indeed produced tangible results.

Below, we further examine the details of IKEC services and compare them with SWO whenever data is available in order to produce a more comprehensive picture of what it does and how well it fits the current circumstances in Iran. The questions that we ask are: What types of services are provided and how important are they in IKEC's overall activities? Who are the beneficiaries? What are the exact non-government sources of financing for IKEC? How has IKEC coped with the government budget cuts?

IKEC's activities are categorized according to projects that define the population to be covered and the services to be delivered to those eligible. Aid and Rajaei Projects mentioned above were among the first to start and are still by far IKEC's largest activity areas. Jointly they account for about half of the total expenditure by IKEC. In the Aid Project, about 42 percent of the beneficiaries are individuals whose household head has deceased and another 23 percent belong to households with disabled heads. The project tends to give more coverage to women and rural population: Of the population covered by the Aid Project, 60 percent are women and 40 percent live in rural areas (compared to the overall rural population share of about 35 percent). As Figure 7 shows, the number of beneficiaries of Rajaei Project has been relatively steady, but the coverage of the Aid Project has continually risen and presently absorbs more than 30 percent of the total expenditure of IKEC. The average annual payment per beneficiary has been quite modest and since the mid-1990s has remained stagnant in real terms. About 40 percent of the families covered by Rajaei Project are headed by women.

The Aid Project has a subcategory that offers support for prisoners' families. This is similar to the original activities of IKEC in 1963, but now it applies to the families of common prisoners who have lost their livelihood because of their bread winners' offense. This project takes up less than 2 percent of IKEC's budget and has not experienced much growth (Figure 8). The Aid Project also bails out poor heads of households who have ended up in jail because of default on small debts. A related project with much faster growth and a separate source of funding is Prisoners' Penalty Compensation (Figure 8). The purpose of this project is to pay out the penalties associated with unintentional offenses or injuries caused by individuals associated with IKEC and keep them out of jail. This is an example of the mechanisms that IKEC employs to enhance recruiting and support for its own network.

Two other large projects of IKEC are its medical and cultural-educational activities, which absorb about 10 percent and 7 percent of its total expenditure, respectively. The service output of both projects has grown steadily in the past decade. The expenditure of the Medical and Insurance Project grew phenomenally during 1995 and 1996, but later returned to its earlier trend. The education project, on the other hand, suffered cuts in 1995 and 1996 and recovered in the following two years. The total expenditure of the two projects followed the trend in the first one: It reached almost 30 percent of IKEC's total expenditure in 1995, declining to about 17 percent by 2000.

IKEC has two major loan projects that comprise about 13 percent of its total payments. The larger of the two is the Self-Help Project, which offers investment loans to enable the poor to develop or improve their micro enterprises. This program has grown rapidly since the early 1990s both in terms of number of beneficiaries and the average amount of loan per case (Figure 9). It experienced an unusual growth during 1994-1995, but in the following years returned to its earlier trends. The second project, Interest-Free Loan Project, serves mostly emergency needs. Its average growth in terms of number of loans has been as brisk as the first program, though with a much steadier pace (Figure 9). The average loan sizes of the two projects were almost a par in 1989. But, since then they have had divergent trends. The loan size of the Interest-Free Loan Project declined steadily after 1989 and started to recover slowly only in 1997, ending up far below that of the Self-Help Project. IKEC has two other small self-help-type loan projects that have been on the decline. One of them has been based on a note attached to the annual budget laws obliging banks to provide IKEC with some resources for lending to the poor. The amounts of these funds have varied over the years. The second one enables the poor rural women who are heads of household to engage in income-earning activities.

IKEC has other notable projects as well. One is the Housing Development Project, which offers support to the poor to build or improve their dwellings. Like most other projects, the number of beneficiaries of this one has increased over time, but the real amount of benefits distributed per case has

markedly declined. The total benefits as a share of IKEC's expenditures has remained relatively steady at about 4 percent. Another notable project, the Young Couples, accounts for about 3 percent of IKEC's budget and provides facilities and dowries for poor young couples who wish to marry. More than a third of the beneficiaries of this Project are typically orphans. The number of support cases of this project has grown rapidly since 1992, but the average real amount of support per case has followed a downward trend. Interestingly, SWO and a number other organizations have similar programs. But IKEC's has been far more dynamic in providing coverage, although it has had to spread its resources more thinly.

IKEC has a host of minor projects as well. For example, it offers grants to migrants from rural to return to their villages. It also provides meals to the poor, especially on religious holidays, and often uses those occasions for fund raising and for encouraging potential donors to sponsor poor students or wedding ceremonies of poor couples. An important example of this activity is IKEC's Orphan Support Project which in year 2002 had attracted almost 41,000 donors to sponsor about 56,000 orphans by contributing the equivalent of \$3.9 million. Interestingly, the size of these activities had doubled between 2000 and 2002. Finally, IKEC has an Overseas Aid Project, which collects foreign donations and carries out relief missions for Muslims worldwide. In 2002, the foreign proceeds of that project was about \$3.4 million and its total spending was well over \$8 million.

The volunteers that IKEC has found to help with the service projects are an interesting aspect of its activities. As Figure 10 shows, the number of volunteers and part-time workers has been growing as fast as the total number of beneficiaries and much faster than the size of IKEC's permanent workforce.

While IKEC has revenue generating activities of its own, about 85-90 percent of its revenues come directly from the government budget (see Table 3). Its actual receipts from the government are somewhat larger than indicated by the budget figures because some of the donors to IKEC are government agencies (e.g., Ministry of Trade and some others are included in Table 3 under the rubric "Organizations"). Parts of the donations also come from high officials such as the Leader and the President.¹⁶ In addition, it receives implicit subsidies due to the government's massive subsidy program on food and energy.

To sum up, our review and comparison of IKEC and SWO indicate that the former's organizational arrangement and institutional position have provided it with a great deal of flexibility and vigor in the provision of welfare services. As we have seen IKEC has managed to expand its operations in

¹⁶ For example, in 1997, President Rafsanjani donated 400 million rials to IKEC and SWO and in 1999, the Leader donated 100 million rials at a charity feast is sponsored by IKEC (Islamic Republic New Agency, March 4, 1997, and March 9, 1999).

terms of scale as well as scope and when it has faced budgetary pressures, it has used its own resources and thinner spread of expenditures per beneficiary to avoid scaling back its population coverage. Notably, IKEC has been able to move to far corners of the country, even locations that are used by courts as internal exile places for the condemned.¹⁷

Table 3. Sources of Revenues of Imam Khomeini's Emdad Committee in 2000

Structure of Own Sources	Revenues in Billions of Rials	Percent of Total
Private Donations	166.2	5.0
Feeding Donations	1.2	0.0
Dowry Donations	2.6	0.1
Organizations	44.6	1.3
Income of Agencies Associated with IKEC	19.2	0.6
Profits of Business Subsidiaries	25.7	0.8
Support from the Ministry of Trade	50.0	1.5
Securities Returns	65.7	2.0
Receipts from Government Budget	2,973.0	88.8
Total	3,348.2	100.0

Source: University of Welfare and Rehabilitation Sciences, "A Study of Welfare and Rehabilitation Organizations", 2002.

Our observations on the two welfare organizations suggest that the problems facing different public services are not the same and the potential for delivery through bureaucratic agencies or private sector exist for some areas of service. This is reflected in the ability of SWO to do quite well in expanding rehabilitation services, through its own units or by contracting out. Such services are far less dependent on the knowledge of the surrounding conditions than welfare service and, therefore, are less dependent on local innovation. They deal with individuals and apply standard technologies that professionals can follow in a bureaucratic environment. IKEC may not be able to compete with SWO in this area because it may not be able attract the required type of professionals. These results, of course, are suggestive and more detailed work is needed on cost and performance comparisons to strengthen the conclusions.

¹⁷ An example of such a place is Beshagard in the Province of Sistan and Balouchestan, which came to limelight when a well-known political dissident was condemned to serve part of his sentence there. For information on the place, see www.baloch2000.com/forum/beshagard.htm.

Taken together, the above findings offer support to the claim in earlier sections that bonyads have a potential to contribute to the provision of welfare services in Iran. This is because effective delivery of welfare services requires innovativeness in networking specific to each social context. In addition, to be able to operate well in the Iranian political system, service providers need to have strong ties to the sources of power. IKEC has had a comparative advantage in these respects and has done relatively well. Government agencies such as SWO that are part of the executive branch do have such backing, but they are also constrained and lack the necessary flexibility for innovative networking because by their very nature they are under centralized controls. Lessening the burden of such controls is not easy under the contentious political system in Iran because the polarization and the rivalries among the politicians prompt them to vie for control over every resource, even when it is costly for the country. An interesting example of this phenomenon is the behavior of reformist politicians in their effort to bring bonyads under bureaucratic control at the same time that they themselves were trying to establish semi-public agencies around ministries to help them enjoy more flexibility. Naturally, their political opponents took aim at exactly these same flexibility-enhancing agencies and dragged them to the courts.

5. Conclusion

This paper has worked towards two related goals. The first goal has been to develop a framework for analyzing the fit between public service delivery mechanisms and the political and institutional circumstances under which those services are delivered. The application of the framework to a concrete case has shown further that it is operational and promising. Analyzing the match between service delivery arrangements and the economic and institutional characteristics of the country is important because the arrangements that seem successful in some countries do not do well in many others. Evidently, the regulations and rules that help improve incentives for efficient provision of welfare services depend on the situation. While this basic point is often recognized in the literature on social protection policies, there has been little systematic exploration of the key elements in country conditions and in service delivery arrangements that matter for generating good matches between the two. This paper has taken a step in filling that gap. It has argued that the starting point of such an analysis must be the factors that determine the incompleteness of contracts in particular activities. These factors should then be examined in the context of institutional characteristics that drive the demand for control, the extent of commitment, the amount of rents available for redistribution, and the level expertise available for working out solutions to situation-specific problems.

The second goal of the paper has been to provide a detailed analysis of an interesting case that appears unusual, but offers generalizable insights. Research on the Iranian economy has been limited and the operation of bonyads has been more of a mystery in the past. This paper has managed to shed light on

how an important bonyad, IKEC, operates and how it compares with NGOs and the government bureau in charge of welfare services.

Could bonyads help improve public service provision in Iran beyond the current situation? Or, is it the case that further improvement in service delivery is contingent on the introduction of other arrangements, possibly at the cost of bonyads? Some observers have argued that bonyads are unlikely to be part of the solution for at least three reasons. First, bonyads have traditional attitudes towards welfare services and act more like charities than creating an enabling environment for the poor. Second, the resources that bonyads control ultimately belong to the public, which has the right to know how those resources are used, while bonyads use their political muscles to minimize accountability to the executive and the legislature. Third, bonyads have an anti-reform bias because they have grown into large and monopolistic patronage networks that wield a great deal of economic and political power. Thus, the argument goes, putting more resources at the disposal of bonyads would only enable them to better maintain the status quo and benefit from it.

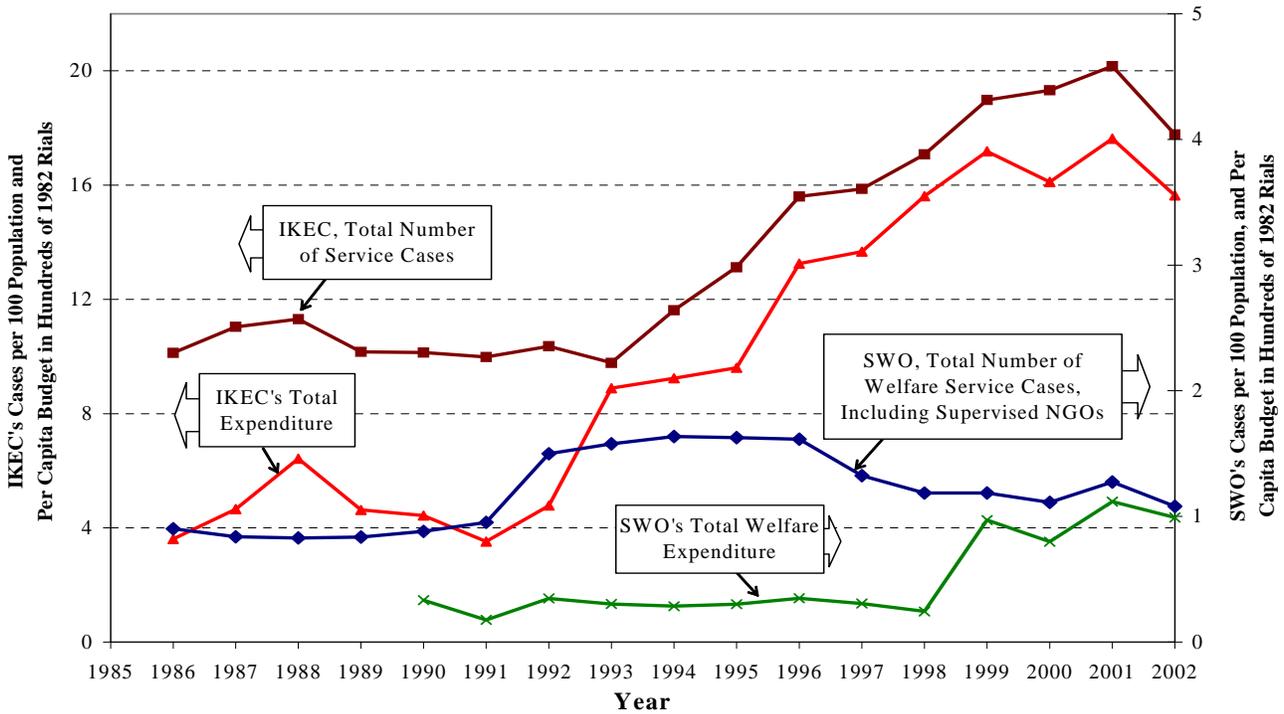
This paper does not contend to make any political argument in favor or against bonyads. The political economy analysis here is meant to be entirely positive. The analytical framework developed here predicts that in the institutional and political environment of a country such as Iran, bonyad-like organizations have the best chances of growth. This hypothesis fits the picture that emerges from a careful consideration of the available data. Because in the institutional environment of Iran other mechanisms of service delivery have had handicaps, the growth of services in the past two decades has been achieved mainly through bonyads. It may be that shifting service delivery to other sources and helping NGOs grow in the system will help strengthen the civil society and contribute to the country's political development. But, the policymakers who want to pursue that avenue should not ignore the costs of transition. Processes of political change are often quite long and the inadequacy of public services during that time is a cost that the poor segments of the population bear. The analysis here suggests that bonyads' characteristics have enabled them to perform better than their private and government counterparts in such service areas. That advantage remains strong under the current conditions, though it may not be the case when circumstances change. As a result, there may be a tradeoff between (a) upgrading welfare services now by enhancing the contracts that have existed between bonyads and the government and (b) accelerating political change and improving economic conditions later (if that is indeed what the political reformers' strategy entails). This tradeoff would favor alternative (a) if the persistence of poverty can undermine political development. Assuming that the political reformers' alternative does indeed lead to faster political development, there is still a choice to be made between these two alternatives. That choice is, of course, a political one.

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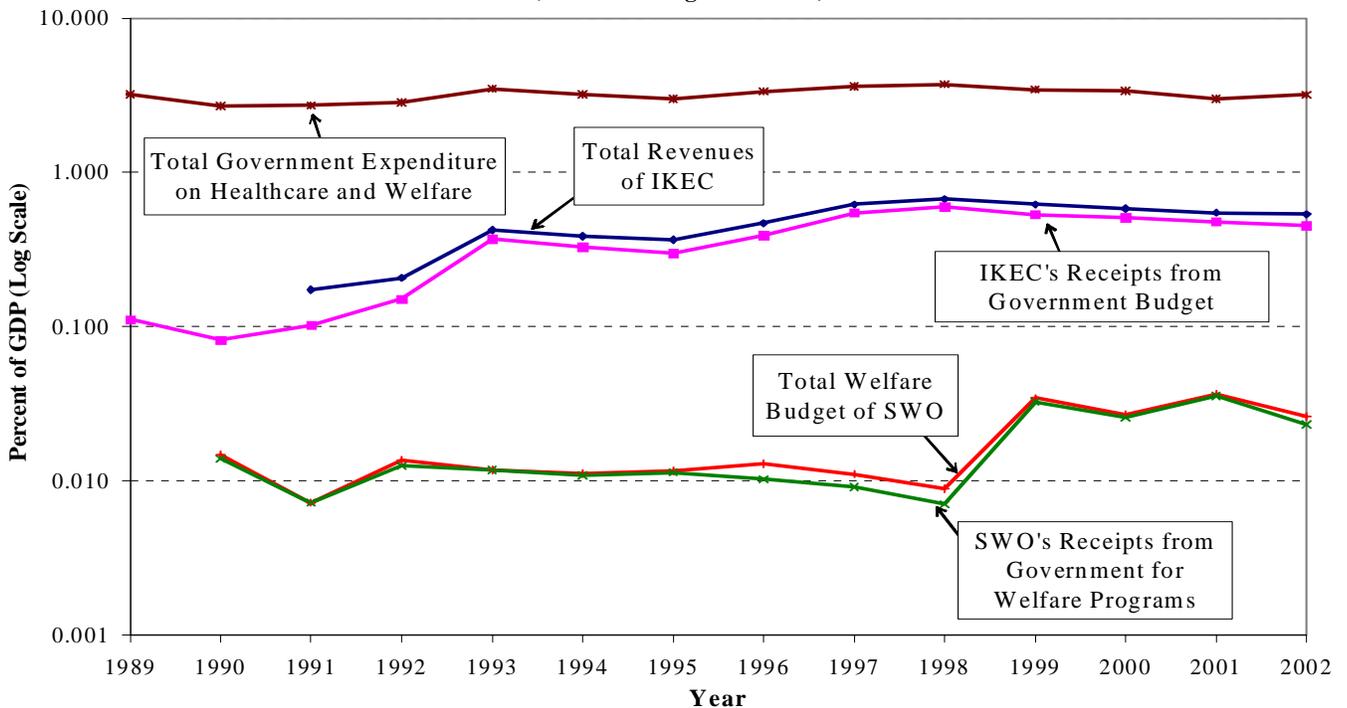
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Figure 1
Expenditures and Total Social Welfare Service Cases Handled
by Imam Khomeini's Emdad Committee and by the Social Welfare Organization



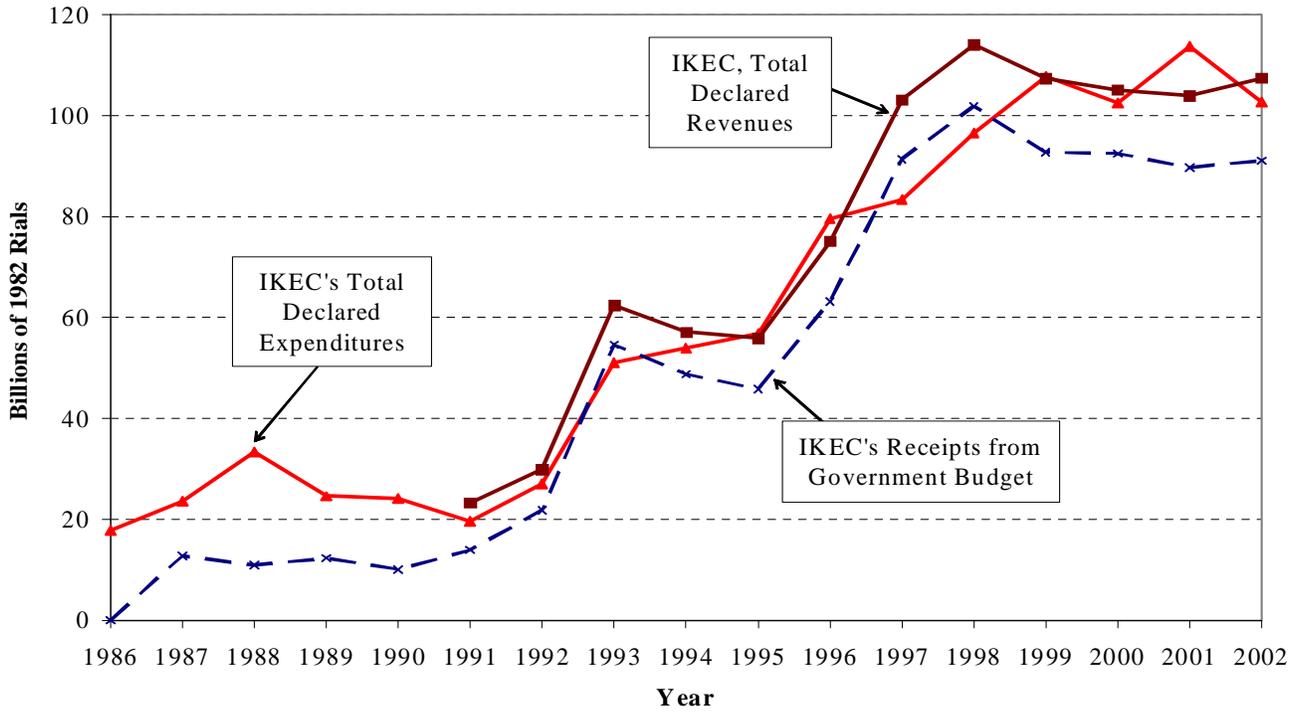
Note: Thin arrows link labels to graphs and wide arrows point to the relevant axis for each graph.
 Source: IKEC (2001), Annual Budget Laws, and SCI Yearbook, various years.

Figure 2
Budgets of Imam Khomeini's Emdad Committee and the Social Welfare Organization
(As Percentages of GDP)



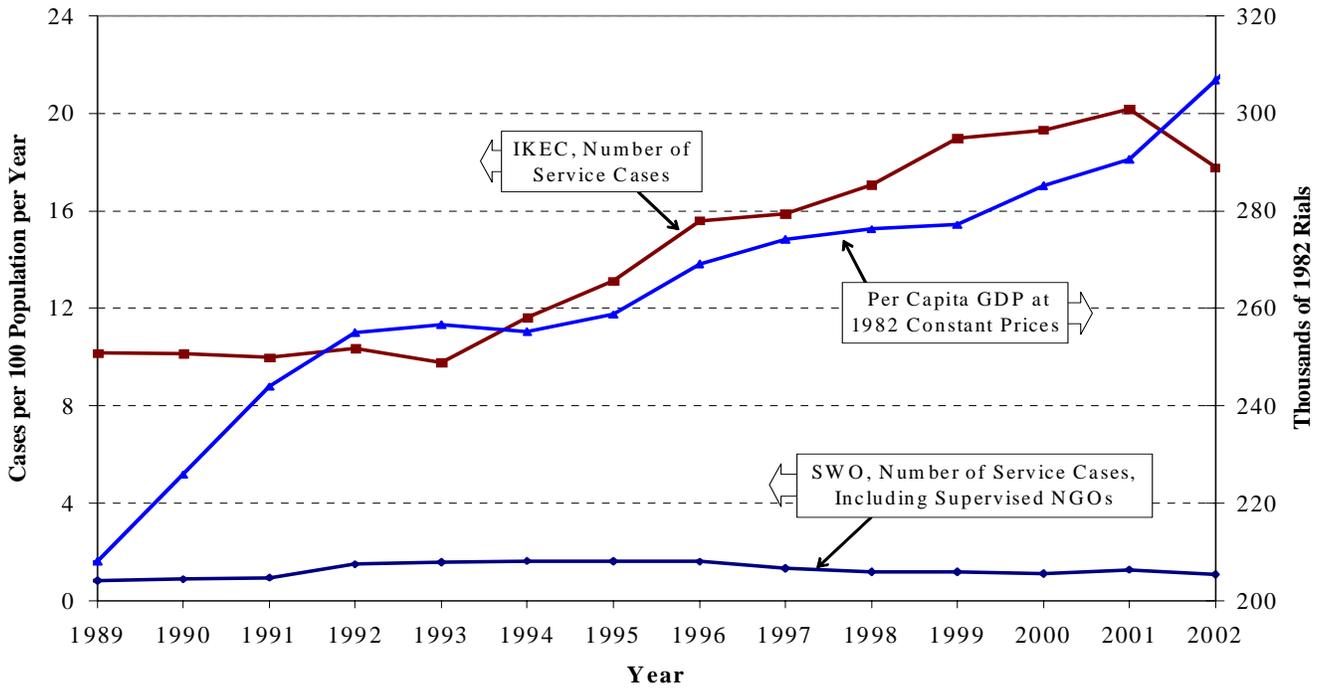
Source: IKEC (2001) and Statistical Center of Iran Yearbook, various years.

Figure 3
Revenues and Expenditures of Imam Khomeini's Emdad Committee



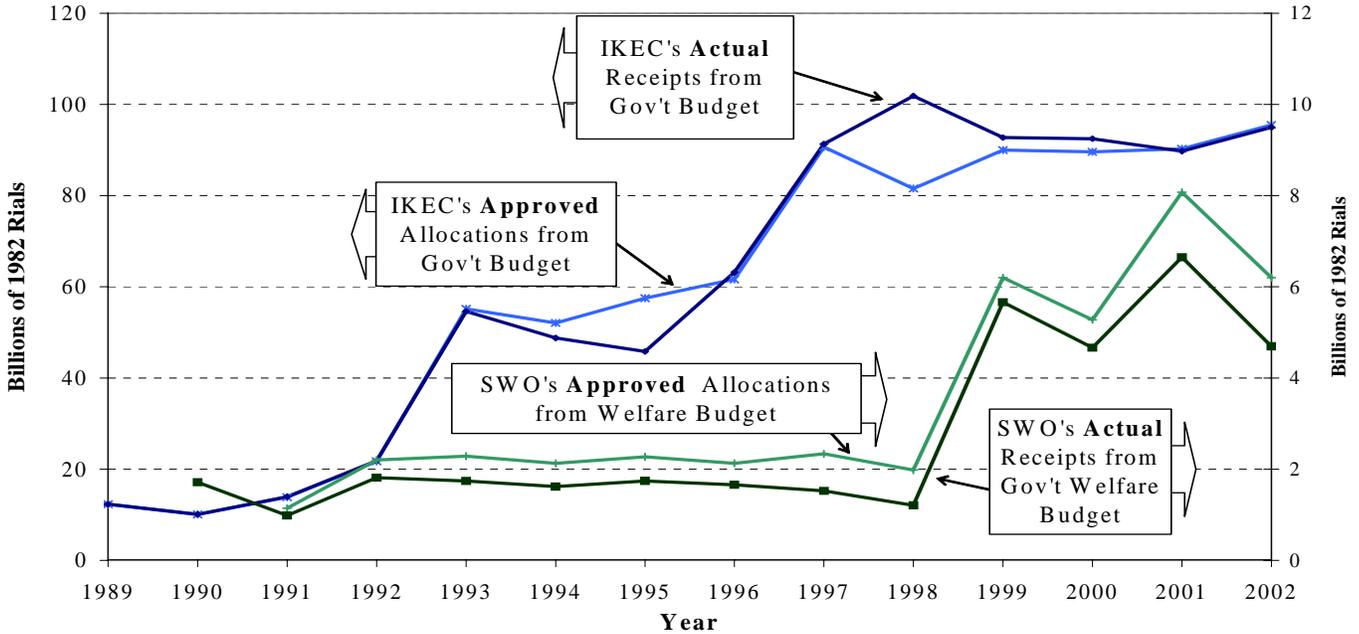
Source: IKEC (2001), Annual Budget Laws, and Statistical Center of Iran Yearbook, various years.

Figure 4
Economic Growth and Welfare Service Provision by IKEC and SWO



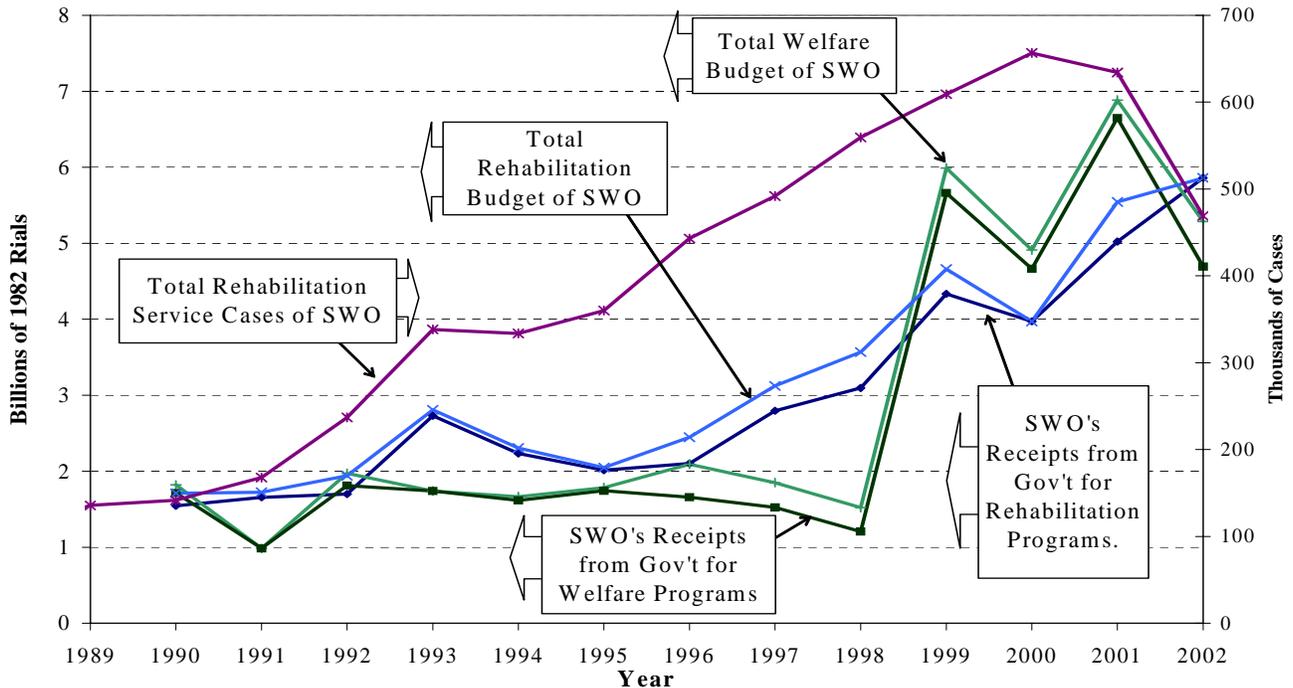
Note: Thin arrows link labels to graphs and wide arrows point to the relevant axis for each graph.
 Source: IKEC (2001) and Statistical Center of Iran Yearbook, various years.

Figure 5
Actual vs. Approved Budgetary Allocations
of Emam Committee and the Social Welfare Organization
(Calculated in Constant Rials Using the GDP Deflator)



Note: Thin arrows link labels to graphs and wide arrows point to the relevant axis for each graph.
 Source: IKEC (2001) and Statistical Center of Iran Yearbook, various years.

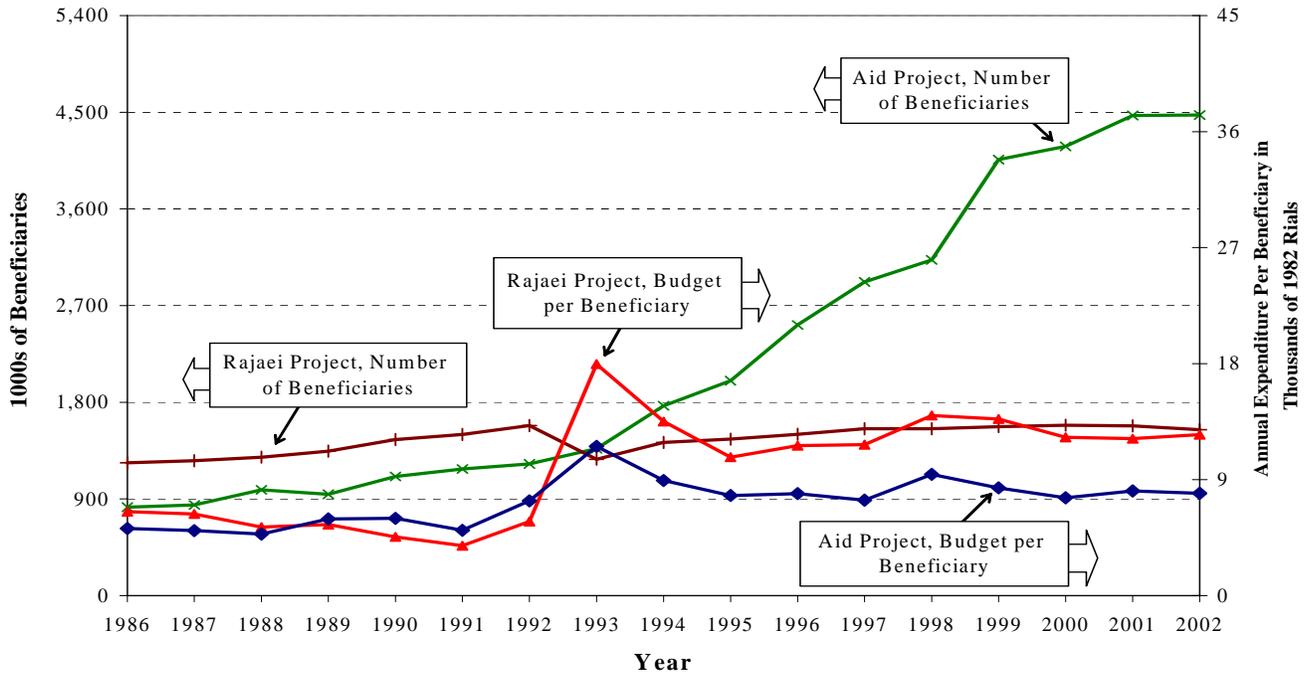
Figure 6
Welfare and Rehabilitation Budgets and Rehabilitation Cases
of the Social Welfare Organization



Note: Thin arrows link labels to graphs and wide arrows point to the relevant axis for each graph.
 Source: IKEC (2001) and Statistical Center of Iran Yearbook, various years.

Figure 7

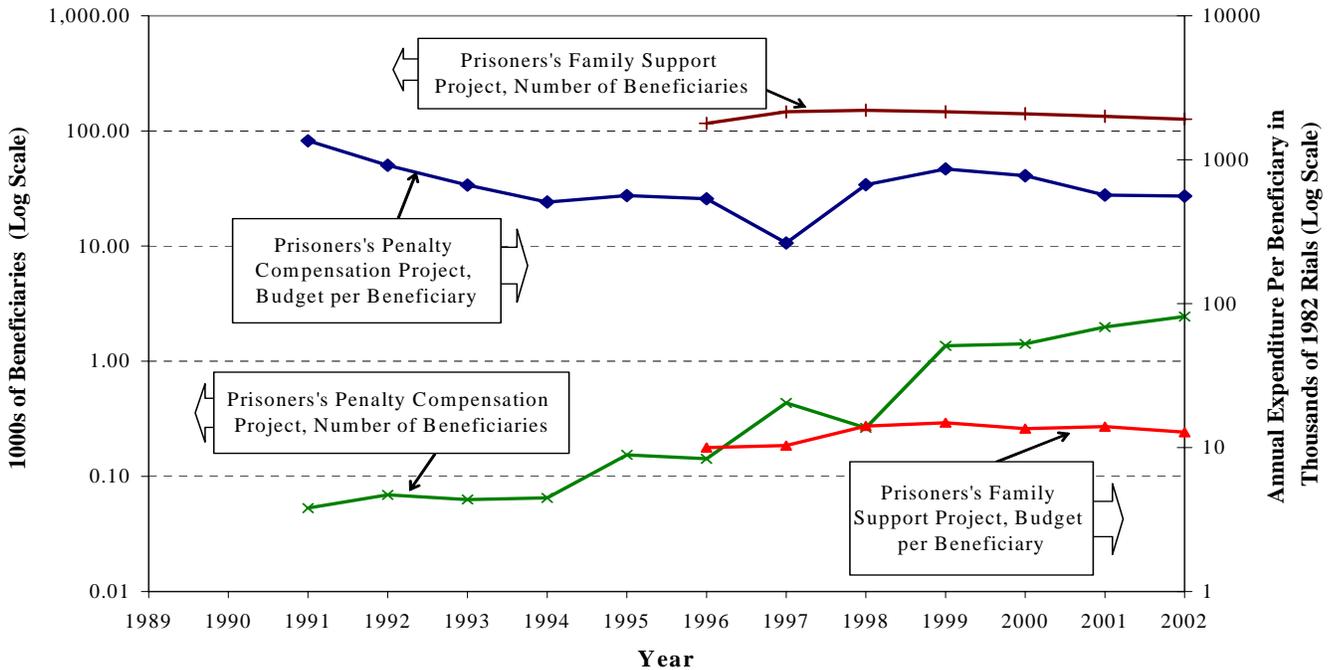
Budgets and Number of Individuals Covered by the Rural Old Age Support (Rajaei) and Aid Projects of Imam Khomeini's Emdad Committee



Note: Thin arrows link labels to graphs and wide arrows point to the relevant axis for each graph.
 Source: IKEC (2001) and Statistical Center of Iran Yearbook, various years.

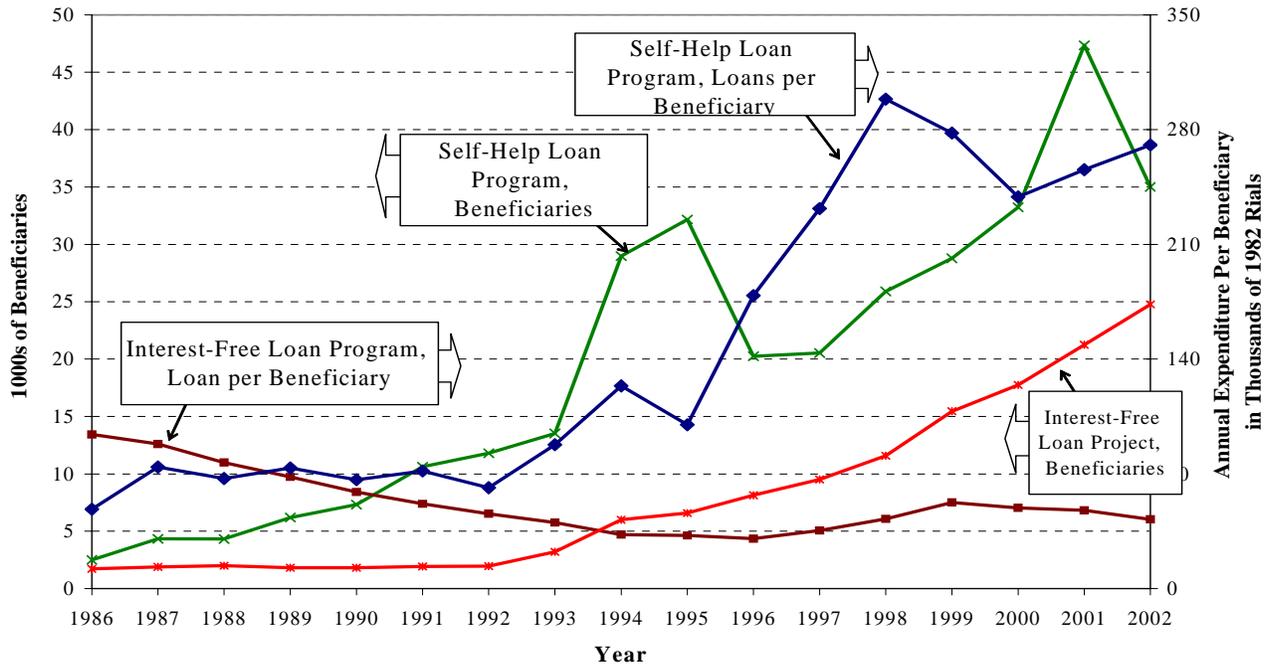
Figure 8

Budgets and Number of Individuals Covered by Prisoners' Penalty Compensation and Prisoners' Family Support Projects of Imam Khomeini's Emdad Committee



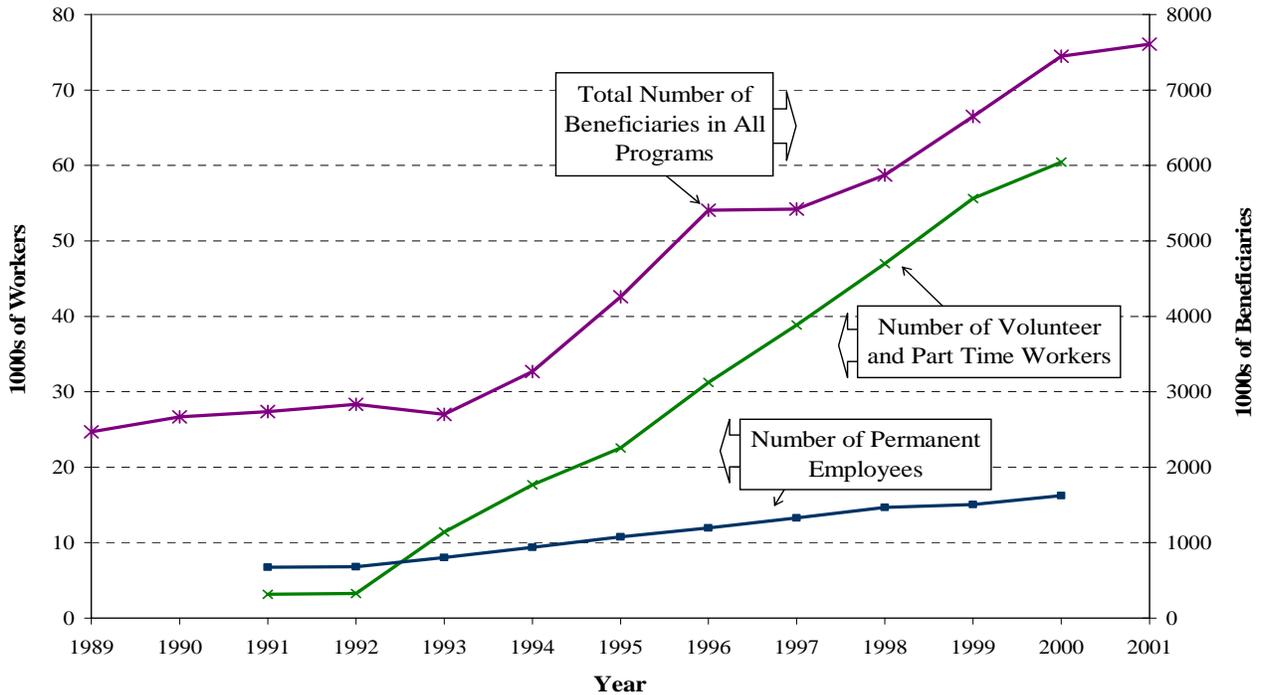
Note: Thin arrows link labels to graphs and wide arrows point to the relevant axis for each graph.
 Source: IKEC (2001) and Statistical Center of Iran Yearbook, various years.

Figure 9
Lending and Number of Individuals Covered by the Self-Help and Interest-Free Loan Programs of Imam Khomeini's Emdad Committee



Note: Thin arrows link labels to graphs and wide arrows point to the relevant axis for each graph.
 Source: IKEC (2001) and Statistical Center of Iran Yearbook, various years.

Figure 10
Development of Imam Khomeini's Emdad Committee



Note: Thin arrows link labels to graphs and wide arrows point to the relevant axis for each graph.
 Source: IKEC (2001) and Statistical Center of Iran Yearbook, various years.