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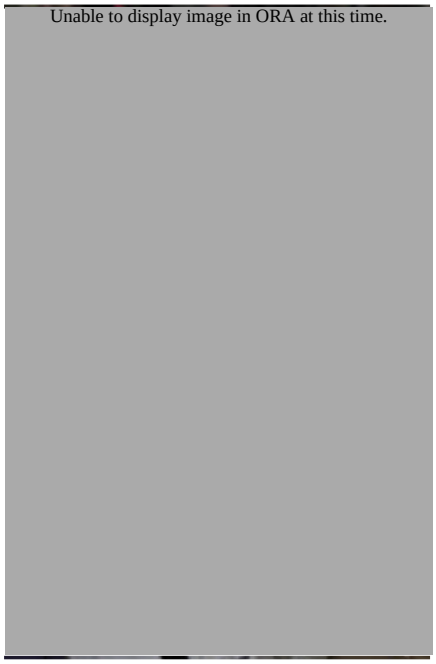
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Federalism, Decentralisation, and Horizontal Inequalities

How sub-national institutions can provoke or mitigate conflict

Federal and decentralised political institutions can appear to have diametrically-opposed impacts on conflict according to context: in some cases provoking ethnic conflict, in other cases mitigating its likelihood. This *Policy Briefing* explains the conditions under which different types of decentralised institutions can affect the likelihood of ethnic conflict; it explores the role that horizontal inequalities play in determining the success of sub-national institutional arrangements; and it offers some policy suggestions.

Constitution-making in Iraq brought the relative merits and demerits of federalism, and other forms of decentralised institutions of governance, to the fore of public and scholarly debate over the peaceful management of multiethnic societies. This debate crosses disciplinary and methodological divides. On the one hand, proponents of decentralisation see the 'federal bargain' (see box overleaf) as eminently appropriate for multiethnic contexts. They argue that decentralisation provides the level of political autonomy necessary to contain ethnic nationalism and to allow for 'heterogeneous policy tastes'.



A Kurdish boy demonstrating for federalism in Iraq

The alternative perspective sees federalism and decentralisation as a stepping stone towards greater ethnic mobilisation and, ultimately, secessionism. Bunce (2004) argued that federalism was a key factor in the post-Soviet break-ups, for example. Moreover, these fears are clearly evident in political practice: Indonesia's reluctance to countenance federal arrangements in the post-Suharto transition has been largely linked to fears that it would exacerbate secessionism in Aceh and other restive provinces (Diprose 2009).

This *Policy Briefing* shows that, while the historical and political context of federalism and decentralisation are of vital importance, some broad conclusions can be drawn that should be taken into account when designing or reforming political institutions:

Constitutional decentralisation contributes positively towards stability and reduces the risk of ethno-regional tensions;

Fiscal decentralisation can be an effective way to manage ethno-regional disparities if accompanied by clear revenue-sharing formulas;

Political decentralisation can encourage separatist pressures in relatively deprived, ethnically distinct regions; but can help mitigate separatism in relatively wealthy regions; and

Appointment decentralisation has been the source of localised violence in decentralised systems, but may serve an important role in preventing the escalation of violence to the national level.

Definitions

In this *Policy Briefing*, we use the term 'decentralisation' generically. Federalism can be seen as a particular type of decentralisation. We follow Treisman's (2007) useful categorisation:

- **Administrative decentralisation** where implementation of centrally-determined policy is undertaken by local agents;
- **Constitutional decentralisation** where local authorities have a say in national policy-making;
- **Fiscal decentralisation** where sub-national tiers either have tax-raising powers or control a significant proportion of total government spending;
- **Political decentralisation** where decentralised institutions have a degree of policy-making authority; and
- **Appointment decentralisation** where local elections are held for local leaders.

Federalism, decentralisation and conflict: exploring the linkages

A key message of this *Policy Briefing* is that the relationship between federalism, decentralisation and conflict is crucially mediated by other factors. Here we outline some of the main ways in which different forms of decentralisation can affect conflict.

Horizontal inequalities. There is increasingly clear evidence that regional inequalities are a major source of political instability and violence, particularly where region and ethnic identity largely overlap (see back page). Both relatively poor regions (such as East Pakistan or Southern Thailand) and relatively rich regions (such as Aceh or Spain's Basque region) have seen such tensions escalate to violent secessionism. Fiscal decentralisation with well-defined revenue sharing processes (including equalisation formulas, such as those in Nigeria, Australia and Indonesia), can help mitigate regional horizontal inequalities. However, as McGarry and O'Leary (2009) make clear in their discussion of pluri-national federations, arriving at such agreements is often difficult. This is particularly true in places such as Iraq, where a substantial proportion of revenues comes from natural resources located in particular parts of the country.

Regionalism. In some contexts, political decentralisation with local elections – either through federalism or other local arrangements, as in Indonesia – can generate local conflict over electoral positions or district boundaries (see next page). Just as at national level, local elections can contribute to the accountability and representative character of government; but they can also generate tensions and ethnic divisions where they are poorly managed or implemented. Local elections also risk driving the growth of regionalist parties (Brancati 2006), although many countries have passed regulations to encourage national parties rather than local and/or ethnic-based parties.

Ethnic demography. An important factor in the success or failure of federal institutions in particular is a country's underlying ethnic demography. Federal systems are typically more stable where there is a *Staatsvolk* ('a national or ethnic people who are demographically or electorally dominant': McGarry and O'Leary 2009). A *Staatsvolk* 'may be more willing to have its territory divided up into multiple regions, knowing that it is not likely to be coerced by minority peoples at the federal level' (O'Leary 2001). But while the presence of a *Staatsvolk* helps stabilise ethnic federations, administrative division of a country to include a 'Core Ethnic Region' is strongly destabilising: for example, Russia in the Soviet Union, or Punjab in Pakistan (Hale 2004). There is still considerable debate about whether administrative boundaries work best when they 'cut through' or 'cut around' major ethno-regional groups, and this seems to be one issue that is best determined in individual cases, depending on the particular histories and links between different ethno-regional groups.

Shared rule. Typically, policy makers and academics who have looked at federalism and decentralisation have been mainly concerned with how, and how far, national powers and resources should be devolved to lower tiers of government. CRISE's research, however, points to the importance of the other side of the 'federal bargain' (see below) – the extent to which sub-national tiers contribute to national policy-making. Decentralised structures will only work if they contribute to an overarching sense of national, rather than ethnic, identity and interests. Self-rule may placate ethnic grievances, but shared rule appears to be much better at inculcating trans-ethnic national solidarities.

The historical context of federalism: revisiting the Rikerian bargain

In his classic study, Riker (1964) described a 'federal bargain' in which federal institutions provided sub-national regions with local autonomy to placate separatist incentives, while also providing sufficient inducements for regions to benefit from inclusion in a larger political entity. For Riker, more important than the particular institutional form of federalism was the sociological process leading to federalism: Riker saw federalism as a form of regional social contract. More recently, Stepan (1999) differentiated between 'coming together federalism' (such as Switzerland and Canada), where the different elements of the federation come together voluntary to form a federation; 'holding together federalism' (such as Belgium and, arguably, Indonesia), where federal structures are adopted to prevent disintegration; and 'put together federalism' (such as the Soviet Union), where the different elements are brought together by force. Stepan argues that 'coming together' federalism has by far the best historical track-record. While these historical arguments are important, they are of limited use for policy makers in countries facing ethno-regional tensions: 'coming together' federalism is not an option in such cases, but while the track record of 'holding together' federations may not be as good, is it better than no federalism at all? Statistical evidence (see back page) suggests that federal institutions can be useful, but that the socio-economic context of these institutions is important. What is also clear is that federalism should not be imposed, either by central diktat or by the international community. Federalism works best when it is the outcome of an inclusive political process across all sectors and regions of a country.

Decentralisation and elections: demography, boundaries, and implementation

Fully-functioning democracy reduces the risk of ethnic conflict by creating good institutional channels for the legitimate expression of grievances. But elections are frequently the spark for violence, particularly in newly-established democracies and where elections are heavily ethnicised. With such countervailing influences at play, are local elections for sub-national tiers of government helpful or not, from a conflict perspective?

One important issue in determining the impact of sub-national elections is the size and the ethnic make-up of the regions that make up the second tier of government. Federal systems with a small number of large states have historically been particularly unstable (including the four regions of Nigeria before the Biafran War; the two regions of pre-secession Pakistan – West Pakistan and East Pakistan, now Bangladesh; and, more recently, Serbia and Montenegro).

Decentralisation to much smaller units appears to help prevent the emergence of national-level violence, particularly where these smaller units cut across ethnic boundaries. The ability of Nigeria to contain its ethno-regional pressures has been credited to the way in which it has allowed new states to be created, with the number of states increasing from 10 in the aftermath of the Biafran War to 36 since the mid-1990s (Suberu 2009). In Indonesia, the post-Suharto administration of B J Habibie recognised that decentralisation was necessary in order to contain regionalist pressures. The government, however, chose to extend the vast bulk of the decentralised powers and resources to the third tier *kabupaten* and *kota* (districts and cities) rather than to the second tier provinces. This was precisely because it was feared that offering extra powers to the larger provinces would encourage secessionism, while the districts were seen as too small to cause such problems (Diprose 2009). In contrast, the continuing ethno-regional pressures in Pakistan are largely linked to the concentration of power in Punjab state, which constitutes more than 50 per cent of the population (Adeney 2009).

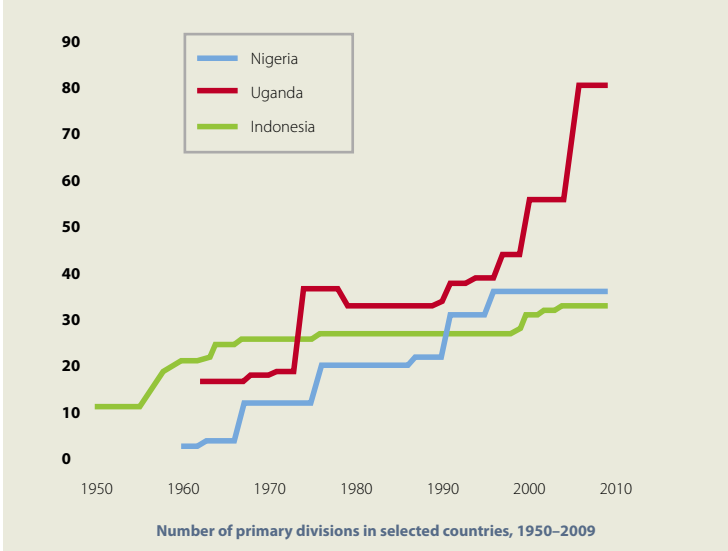
If smaller units of decentralisation are better in general from a conflict-prevention perspective, they are not problem-free. Elections for local leaders in smaller units can be problematic and can lead to sustained pressures for further redistricting. In Indonesia, the competition for political office in the ethnically and religiously diverse districts of areas such as Sulawesi and Maluku was a driving factor in the emergence of communal conflicts during democratisation (Diprose 2009). Tensions created then led to pressures for new districts that allowed ethnic groups to control their 'own' affairs. The process of district splitting in Indonesia is hard to track, but in 1999 there were 291 districts; there are now over 480. The number of provinces has also increased threefold since independence, from 11 to 33.



Campaigning for state elections in Sabah, Malaysia

A similar process of local contestation and redistricting demands has occurred in Uganda, where there are now 80 primary divisions, one of the highest number of primary sub-national units in the world. Almost half these districts have been created since the passage of a 1997 decentralisation law. As in Indonesia, ethnic tensions were stoked during elections for newly powerful local positions, particularly in the 2002 elections, the first after the new decentralisation laws (Green 2008).

In both countries, however, ethnic violence associated with local elections has been more closely linked to the process of redistricting that to the conduct of local elections per se. In Indonesia, a recent moratorium on the creation of new provinces and districts has been accompanied by a decrease in communal tensions; while an escalation of violence in Uganda has accompanied Museveni's promotion of redistricting, linked to patron-client building imperatives in his political move to overturn presidential term limits. Local elections, in other words, may not in themselves be conflict-inducing, but where they are open to boundary manipulation, they are.



Number of primary divisions in selected countries, 1950–2009

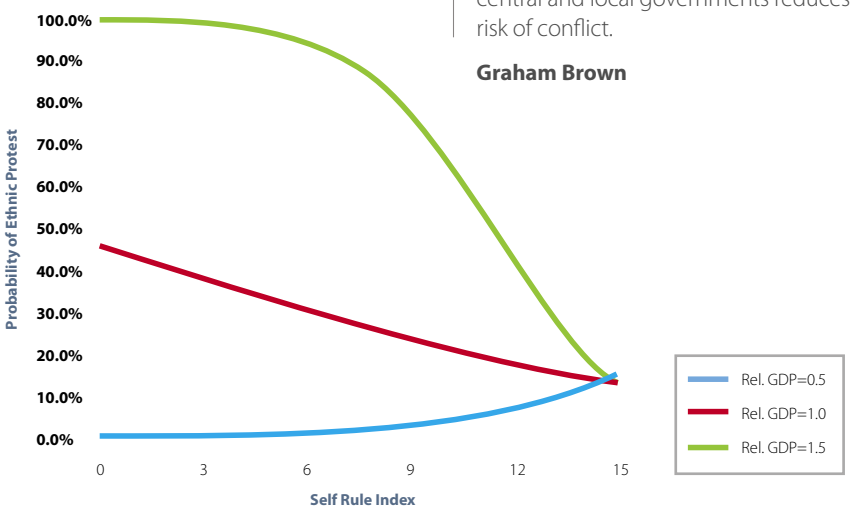
Horizontal inequalities, decentralisation, and conflict: econometric evidence

A number of recent econometric works have investigated the relationship between regional inequalities, different forms of decentralisation, and the incidence of ethnic protest and violence. These studies clearly show that it is not simply the extent of inequalities, nor the nature of decentralised institutions, but the interaction between the two which is important. Brown (2009) considered the impact of different forms of political decentralisation, concluding that the higher the GDP per capita in a sub-national region relative to the national average, the higher the chance of ethnic protest, particularly in ethnically distinctive regions. Institutional arrangements that allow sub-national tiers of government a say in central policy making – shared-rule institutions – have a strong mitigating impact on conflict. Self-rule institutions, however, have a more complicated effect on conflict: in relatively wealthy regions of a country, self-rule features mitigate the likelihood of ethnic protest; but in relatively poorer regions, they have a more inflammatory effect (although the overall risk of protest is still much lower in relatively poor regions than richer ones at any level of self-rule).

The figure below represents an otherwise average region, but one in which a majority of the population are ethnically distinct from the rest of the country. In such a region, if GDP per capita is 50 per cent higher than the overall country average (the green line), ethnic protest is highly likely at low levels of self-rule, but the risk diminishes quickly as self-rule is extended. In an otherwise identical region, but one in which GDP per capita is equivalent to the country average, the impact is similar though less severe (the red line). However, where such a region has GDP per capita of around half the country average (the blue line), it is only at higher levels of self-rule that there is any substantial risk of protest. Tranchant (2008) examined the impact of fiscal decentralisation, measured as the proportion of government expenditure devolved to lower tiers of administration. He found a negative correlation with ethnic anti-government rebellion, but not with communal conflict not involving the state. In countries with higher levels of ethnic difference, fiscal decentralisation was particularly effective in reducing the likelihood of rebellion. Fiscal decentralisation was also found to be more conflict-reducing in richer states, a finding mirrored on the local level by Murshed and Tadjoeddin's (2008) study of district violence in Indonesia. But Tranchant also found a surprisingly positive interaction between fiscal decentralisation and bureaucratic quality: in countries with more effective institutions, fiscal decentralisation is associated with a higher risk of conflict, although this could be because higher quality bureaucracy is associated with other factors, such as higher income.

Finally, Kirsten Bakke and Eric Wibbels (2006) found that fiscal decentralisation encourages ethnic protest and violence when regional inequalities are high. They also find that copartisanship between central and local governments reduces the risk of conflict.

Graham Brown



This *Policy Briefing* draws on the findings of the CRISE Conference on Federalism, Decentralisation and Conflict (October 2006); select proceedings have been published in special issues of *Conflict, Security and Development* 8:4 (December 2008) and *Ethnopolitics* 8:1 (March 2009).

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