



CRISE CONFERENCE ON DECENTRALIZATION, FEDERALISM AND CONFLICT

Department of International Development, University of Oxford
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PANEL III: FEDERALISM, DECENTRALIZATION AND INEQUALITY

1. Decentralizing injustice? Center-periphery relations and local governance in Aceh

Samuel Clark and Patrick Barron, World Bank Indonesia.

Abstract

Grievances over perceived injustices in resource distribution between the center and periphery are often a root cause of intra-country separatist conflicts. Decentralization of political and economic authority is a commonly chosen strategy for quelling separatist demands. In Aceh, at the northwest tip of Indonesia, demands from local elites for greater control of the resource pie have been evident since the discovery of one of the world's largest natural gas fields in the early 1970s and have helped fuel a near-thirty year conflict over the political status of the province that claimed 15,000 lives. The Helsinki peace agreement (MoU) signed by the rebel Free Aceh Movement (GAM) and the Indonesian Government in August 2005 is the latest of a series of special autonomy deals—many not fully implemented—which aim to keep Aceh within Indonesia. Key tenets of the agreement, which follows and extends Indonesia-wide decentralization, are arrangements for the province to retain 70% of natural resource revenues; additional resource allocations from the center; significant devolution of political powers including the allowance of local political parties, independent candidates and control over many areas of policymaking; and the incorporation of local cultural and religious symbols and practice into the political sphere. Redefining centre-periphery relations is seen as the means of quelling separatist unrest and cementing Aceh's place within the Indonesian state and nation.

This paper challenges the notion that addressing 'center-periphery' inequality will in itself result in sustainable peace in Aceh. We argue that an evaluation of the (potential) impacts of the decentralization intrinsic in the peace agreement on conflict must look at the flow of resources within Aceh, and (more specifically) the local government institutions that manage their distribution, and mechanisms for managing local political competition. There will be plentiful resources within Aceh that can be used for developmental purposes. In 2006, local government in Aceh received revenues three times higher than before decentralization in 1999. The implementation of the MoU will further increase the inflow of public resources and the US\$ 9 billion tsunami reconstruction budget and ongoing post-conflict donor and central government support provides a windfall. Yet local government institutions do not presently have the capacity to effectively manage and spend such resources. Corruption is widespread. Mechanisms for managing political competition are weak. Government expenditure has largely been concentrated in urban centers, captured by politically connected elites, and continues to disenfranchise the rural poor. It is largely on the basis of these inequalities and grievances that GAM has been able to mobilize resentment towards the centre and forge a political identity at odds with Jakarta; if such inequalities are not addressed, conflict will likely reemerge.

The paper draws on data from the Aceh Public Expenditure Analysis (APEA) and fieldwork associated with the World Bank's support to the current Aceh peace process. We argue that over the medium-run, the key challenge for securing peace in Aceh is ensuring resources are equally and transparently distributed within Aceh. Ensuring such 'internal equality' is at least as important as tackling 'centre-periphery inequality'. This will require building strong and just local government institutions with a focus on fighting corruption, improving transparency, increasing capacity and ensuring rural participation.

2. Federalism and intrastate struggles: The role of diversity and disparity **Kristin M. Bakke, University of Washington (with Erik Wibbels)**

Abstract

Both policy-makers and scholars have turned their attention to federalism as a means for managing conflicts between central governments and subnational interests. But both the theoretical literature and the empirical track record of federations make for opposing conclusions concerning federalism's ability to prevent civil conflict. This paper argues that the existing literature falls short on two accounts: First, it lacks a systematic comparison of peaceful and conflict-ridden cases across federal states; second, many studies seem to suggest that there is one optimal mix of decentralization and centralization, while others acknowledge that there is no one-size-fits-all federal solution but leave this without further theorizing. Our argument is that the "peace-preserving" effect of specific federal traits—fiscal decentralization, fiscal transfers, and political co-partisanship—are conditional on a society's income level and ethnic composition. The argument is tested across 22 federal states from 1978 to 2000.

3. State structures, inequality and conflict in Rwanda: 1992-2005 **Kade Finhoff, University of Massachusetts**

This paper focuses on the process of decentralization as a mechanism to mitigate social conflict by considering the experience of Rwanda's ongoing program as a case study. In a region where highly centralized state structures have been largely ineffective at providing economic welfare at best, and actively involved in perpetrating violence at worst, decentralization has been looked upon as highly desirable and indeed imperative in the post genocide context. Thus, among the more compelling reasons advanced for adopting decentralization is the conviction that it allows specifically for the easing of ethnic and class inequalities and conflicts by promoting the political inclusion of new groups, legitimizing the state, devolving power and allowing greater participation of local actors and minority groups.

This said it is important to note that the empirical literature on decentralization suggests mixed results in its ability to reduce ethnic or class conflict. Scholars have pointed to several situations in which and reasons why political decentralization may fail to ameliorate tensions and may even exacerbate them (see Brancati, 2005 for an extensive discussion of the political science literature). Within the public finance literature, the efficacy of fiscal decentralization in devolving power and control and in reducing inequalities has been questioned. Recent theoretical work by Bardhan (2005), for example suggests that decentralization may be ineffective or even damaging in reducing ethnic/class conflict and social welfare when local government is subject to elite capture. Under this (common) condition, the *form* of fiscal and political decentralization is critical in final welfare outcomes. As such, it is necessary

to carefully assess each decentralization experiment in the manner and degree to which it has achieved its stated aims.

The Rwandan decentralization initiative is interesting for a number of reasons. While there have been many recent ethnic conflicts on the African continent, the Rwandan genocide of 1994 represents perhaps the most compelling example of the political manipulation of economic degradation and horizontal inequities to generate extreme violence. Much of the impetus for the decentralization initiative developed as a response to centralized authoritarian state structures which were seen as inextricably linked to the genocide of 1994. Secondly, the historical context of violence in Rwanda acts as a reminder of the importance in understanding the impacts of policy on distribution and inequality. Thirdly, the decentralization initiative offers a unique opening in public policy for the inclusion of traditionally marginalized populations in decision making, which may provide greater political legitimacy for the government and change the development trajectory of the country.

This paper examines this relationship between decentralization, inequality and conflict in two parts. First, it provides a historical overview of the trends in state structure that have occurred in Rwanda from 1992 to 2005 and the implication of these for various measures on inequality. While it is somewhat early to assess the impacts of decentralization, this paper makes a modest attempt to trace out the effects empirically. I examine changes in regional inequality in terms of health outcomes using the nutritional status of children from the Demographic and Health Surveys (DHS) data collected at the beginning of the decentralization period 2000 and in 2005.

Second, I analyze the adoption of the National Decentralization Policy in 2000. I describe the reasons for its implementation and the impact that this policy may have had on reducing inequalities in Rwanda. I describe in detail the contours of this policy in terms of both macro and micro level interventions and the unevenness of its effects. Thus, for example, I study the regional variation in the effectiveness of decentralization in terms of its stated goals.

Comments from the discussant: Luca Mancini

Luca Mancini (LC) commended the authors for their interesting papers. He then commented on the papers by Samuel Clark (SC) and Kade Finhoff (KF). Both papers aimed to analyze the impact of decentralization/federalization on conflict.

He noted that both papers took a very 'pessimistic' view of the decentralization/federalization process. The process was doomed before it even started. The failures of previous peace agreements obviously influenced this attitude. However, he mentioned some positive signs in Aceh that were previously not present: 1) GAM was now involved in governance in Aceh, and previously it was not, 2) local parties were now allowed to participate in elections, and 3) there was a clear plan for withdrawal of armed forces. He asked SC whether her view on the current situation was really so bleak and pessimistic.

While pointing out that the voter turnout was extremely high in Rwanda, he asked KF whether this was a positive sign, or what we should make of it? He also asked KF whether the 'language' variable in the DHS of 2000 could be used as a proxy for ethnicity. KF was replied that language, or any other variable that could be used for ethnic group identification for that matter, was omitted from the 2000 DHS data.

With regard to Kristin Bakke's (KB) quantitative paper, LM commented that she could try to explore the 'panel dimension of her data' in more detail. While this would mean that she would lose out on the number of observations, it would help to address the problem of 'omitted variables' and endogeneity which is common in pooled datasets. He further suggested extending her study to non-federations, which was later also suggested by Graham Brown (GB). KB mentioned that she would like to do that, however lack of data prevented her from doing so.

Questions from the floor:

Yvan Guichaoua (YG) was asked what the term 'democratic deficit' meant. The same person also mentioned that YG's research did not analyze the role of 'corporate relationship'.

Graham Brown (GB) pointed out that KB could not really say anything about non-federal states as she only included federal states in her analysis and he suggested that her datasets should be extended to include non-federal countries. Secondly he noted that KB's paper, like Jean-Pierre Tranchant's paper, only looked at the impact of federalisation on the incidence of conflict/protest rather than the nature of it. Thirdly, with regard to SC's paper, he observed that the issue of land distribution was largely absent from the paper. He also asked him whether the World Bank had more recent data on the distribution of land across groups.

Another participant asked KF whether in the Rwanda context research had been done on the role of international or outside actors, particularly the IMF, and the emergence of violent conflict. Another question noted that in the Rwanda paper, inter-ethnic inequalities only explained a relatively small proportion of the overall inequality in Rwanda and asked whether she had included the Twa ethnic group in her analysis as this group is seriously disadvantaged compared to the two major ethnic groups.

Riwanto Tirtosudarmo (RT) commented that Aceh was an interesting case from the point of view of Sharia Law implementation. He asked Samuel Clark who was advocating Sharia Law in Aceh and particularly what the position of the GAM was in this respect.

Gordon Crawford commented to Samuel Clark that in his paper he did not mention Tsunami. He asked him what he thought had been the impact of Tsunami on local governance in Aceh.

Responses from the presenters

Samuel Clark (SC): With regard to Graham's comment, SC pointed out that in their research the issue of land inequality did not come out as being very important. Access and distribution to land was not a big issue in the post-conflict period. With regard to Riwanto's comment, SC mentioned that he was unsure who was the main driving force behind the implementation and spread of Sharia Law in Aceh. He did however point out that the GAM was definitely not the main driving force.

Kristin Bakke (KB): With regard to GB's first comment, she pointed out that it brought up the issue of how to define federalism and federal states. She said that her research had relevance for both federalized and decentralized states.

Kade Finhoff (KF) said the Twa ethnic group was included in her research and agreed that this group was socio-economically disadvantaged as a result of historical

discrimination. However she pointed out that the Twa group impact on the overall analysis was likely to be very limited as they only constituted around 2% of the population. With regard to Luca Mancini's question relating to the high voter turnout in elections, she explained that one should not read too much into this as many people were forced to vote.