



## Can Fiscal Decentralization Help Resolve Regional Conflicts in the Middle East?

By Ehtisham Ahmad and Adnan Mazarei

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The social and political upheavals that have been seen in the Middle East in recent years had many root causes. Disparities and conflicts within countries have been particularly important factors in the escalation of conflicts, especially in Iraq, Syria, Yemen, and Libya, often with spillover effects in neighboring countries. They reflect longstanding grievances over access to services, employment, economic opportunity, and finance as well as a lack of good governance. Addressing the underpinnings of these disparities and conflicts should therefore be central to any policy package intended to bring about peace and prosperity in the region.

But what are the institutional and governance measures that might help in addressing conflicts in the Middle East? Improved local governance and service delivery are critical to addressing grievances throughout the region. In this context, fiscal decentralization in unitary states could help only if certain enabling conditions are in place. This piece seeks to outline some key considerations for assessing this possible option.

### Case for federal structure

The typical case for a [federal structure of government](#) is to ensure that ethnic or religious differences within regions are minimized and that living standards improve together with national norms. This structure also implies an equitable distribution of resources, especially in resource-rich countries. In addition, it entails an appropriate use of local own-source revenues to ensure the accountability of local politicians and officials, as well as an effective provision of well-defined local and regional services and investment. This means that tight monitoring of the sources and uses of funds is needed to prevent theft.

These principles were at the heart of the National Dialogue process in Yemen and are still relevant in the new dispensation. In Iraq, similar ideas, together with efficient management of petroleum resources, assignment of own-source revenues at the regional level, and a framework to prevent the widening of regional inequalities were proposed, but were not implemented. Aside from the de facto autonomy of the Kurdistan Regional Government, political economy constraints have so far prevented the effective introduction of a

functioning and equitable federal structure, accentuating regional disparities in income and social inclusion.

### **Accountability is crucial**

Fiscal decentralization is no panacea. A federal structure *per se* is no guarantee that resources will be fairly distributed or that there will be good governance and effective local service delivery. To the contrary, a poorly designed and implemented federal structure could fan separatist tendencies, as inequalities increase and spawn conflict over resources. For example, the 18th Amendment to the Constitution in Pakistan in 2009 was designed to devolve spending power to the provinces. However, revenue assignments were not reformed in parallel, which, together with a declining overall tax to GDP ratio, has generated unfunded mandates that prevent an improvement in local services or governance.

Policies, institutions, and conflict resolution mechanisms matter in preventing inequities and conflict. Local accountability in unitary states depends on the following factors:

- Timely and accurate information on who spends what in a given sub-national jurisdiction relative to others in the region or country.
- Own-source revenues at the margin so that the electorate is cognizant of choices made on their behalf.
- An electoral process that punishes inefficient or corrupt officials for poor performance or theft.

If the electoral system does not function and officials are appointed by the center and carry out the orders of various line ministries, the sanctioning functions of the electoral process do not apply. Simply decentralizing resources under these conditions may be counterproductive.

### **Context matters**

It is tempting to point to federalism and decentralization as a mechanism for both preventing and responding to conflict. Indeed, there are theoretical arguments that support this position. The challenge, however, is that it takes the full gamut of fiscal measures to make a new system work. This often entails choices that may not be palatable to powerful vested interests.

Moreover, if fiscal institutions and information flows are weak or can be manipulated, the decentralized or federal structures may make matters worse, aggravating conflict, inequalities, and centrifugal tendencies.

Consequently, any suggestions that further decentralization can work in any given country has to take account of its relevant governance model as well as the state of its institutions. Simply applying a hypothetical federal model to a Middle Eastern country without thinking about the context is a recipe for disaster.

This poses a stiff challenge to both multilateral and bilateral agencies to provide the right sort of advice tailored to the specific context of a country at a specific point in time.

#### **Adnan Mazarei**



Adnan Mazarei is Deputy Director of the Middle East and Central Asia Department (MCD) at the International Monetary Fund (IMF). He has extensive policy experience in the Middle East and has worked on economic policy for a large number of countries in that region.

#### **Ehtisham Ahmad**



Ehtisham Ahmad is Senior Fellow, Center for Development Research, University of Bonn; and Asia Research Center, London School of Economics.