FISCAL DECENTRALIZATION IN POST-CONFLICT TERRITORIES: CONCEPTUAL STATES

Abstract. The article concludes that the context of post-conflict reconstruction requires different fiscal priorities: as to public revenues – achieving economic efficiency as well as forming the tax structure that would contribute to expanding the tax base; as to public spending – social justice and transparency in the distribution of social expenses locally; as to subsidies – narrowing the scope of intergovernmental transfers as well as organizing the redistribution of financial resources according to "the center – post-conflict regions – post-conflict recipients" principle; as to foreign aid – ensuring good coordination for the cultivation of new cooperative institutions.

Keywords: fiscal decentralization; post-conflict territories; conceptual states of decentralization; fiscal federalism.
Urgency of the research. The policy of decentralization in Ukraine is one of the main areas of economic reforms in the context of the integration policy into the European Economic Community. The EU economy is mainly decentralized, especially in fiscal sphere, and the further development of decentralization principles in the areas of fiscal policy, fiscal discipline and structural reforms is considered to be an important means of addressing the current European problems, including those related to euroscepticism and crisis of sovereign debt [1, p. 5].

Target setting. Ukrainian economy still remains overly centralized. Progress towards decentralization that has occurred in recent years, is clearly insufficient, and much remains to be done [10; 9]. The problem is compounded by the fact that in the eastern part of the country - in Donbass - a violent conflict broke out, which has a significant and disastrous impact on the welfare of the population, social and economic conditions as a whole [2, p. 2]. It is important to consider this fact, when designing and implementing measures of economic strategy and tactics, including the field of fiscal decentralization. The links here are dialectical, both direct and reverse: not only the characteristics of the national economic policy determine the direction of the development of post-conflict areas, but also the specificity of these territories imposes essential restrictions on the range of acceptable decisions in the national sphere.

Actual scientific researches and issues analysis. Decentralization, including a fiscal one is the usual way to mitigate the conflict. As the OECD experts say: "Decentralization can stimulate local and regional participation in decision-making, thereby improving the accountability and legitimacy of government can improve the responsiveness of the state, and thereby reduce tensions which may lead to violent conflicts." [2, p. 39]. Many countries in Africa, Asia, Europe, where military conflicts occurred have followed this course [3; 4; 5; 6; 7; 8].

The matters of using the principles of fiscal decentralization to address the post-conflict reconstruction issues were studied in the papers by S. Simone [0], B. Edwards [0], V. Bojičić-Dželilović [0], I. Agimi [0], W. Fox [0], A. Hoeffler [0], J.-P. Tranchant [0], T. Ter-Minassian [0]. However, there exist no successful universal recipes for the solution of the decentralization problem in each particular case. Moreover, if it is carried out in such a way that is perceived by the population as the discriminatory allocation of resources and employment opportunities for the benefit of specific groups (ethnic, religious), the result may be a strengthening of adverse regional and separatist movements, and the central authorities may consider it as a threat to their ability to control the situation in the country [2, p. 39].

Uninvestigated parts of general matters defining. In order to avoid such unfavorable development of events, it is important not only to take into account local conditions, but also to follow some general guidelines, based on the regulations of the economic theory, adapted to the features of modern economic processes in a globalized world, as well as well-known best practices for post-conflict recovery.

The success of fiscal decentralization in post-conflict reconstruction depends on the analysis of the institutional environment of the conflicts and requires different approaches to particular areas of fiscal relations.

The research objective. In this context, the aim of this paper is to study concepts of the fiscal decentralization in the post-conflict territories, taking into account the institutional and socio-economic specificity typical for the regions that have been exposed to conflicts.

The logic of the further research is the following. At the beginning we consider the general principles of a fiscal decentralization, focusing on the political, institutional, economic and other restrictions that determine the capabilities and a scope of their application in particular cases. Next, we analyze
the typical features of the institutional environment and socio-economic status, usually emerging in the regions that have been exposed to conflicts\(^1\).

Finally, the work concludes with recommendations on the choice of conceptual provisions on fiscal decentralization, which can be used in these areas in view of their subsequent adaptation to the local context.

The statement of basic materials. Principles of fiscal decentralization and their restrictions. Economic sense of decentralization is to improve the efficient usage of limited resources in the public sector of the economy. The idea that the decentralization of powers and resources can improve economic efficiency and increase social welfare has a long history of economic thought. But as the consecutive theoretical concept it has been formulated only in the second half of the 20th century in classical works R. Musgrave [12; 13], Ch. Tibout [17; 18], W. Oates [14; 15], M. Olson [16], and then has gained development in works of followers.

The main premise of the original traditional economic theory of decentralization, also known as the theory of fiscal federalism\(^2\), is an affirmation of the availability of local public goods. This subset of public goods consists of social services, the consumption of which is geographically restricted by the residents within a given jurisdiction. At a multilevel financial system the subcentral governments have an opportunity to determine the size of such goods according to local preferences and costs. This differentiation creates economic welfare growth opportunities compared to the centralized approach, providing a more uniform granting of public goods in different jurisdictions [22, p. 314].

Realization of these opportunities demands special distribution of functions of public sector of the economy – allocation, distribution and stabilization branches [13, p. 3–27] – between different levels of the government: central and subcentral (regional and local). The recommendation of the theory in this regard is that the allocative function should be assigned to subcentral authorities and functions egalitarian redistribution of income and property, as well as the stabilization associated with macroeconomic management assigned to the central government [19]. It is explained by the fact that the activities of subcentral authorities has natural limitations. As W. Oates notes [20, p. 1121]: "In the absence of monetary and exchange-rate prerogatives and with highly open economies that can not contain much of the expansionary impact of fiscal stimuli, provincial, state, and local governments simply have very limited means for traditional macroeconomic control of their economies. Similarly, the mobility of economic units can seriously constrain attempts to redistribute income an aggressive local program for the support of low-income households, for example, is likely to induce an influx of the poor and encourage an exodus of those with higher income who must bear the tax burden ".

Assuming the specified distribution functions, decentralization success depends on the requirements of the two main principles: fiscal equivalence and subsidiarity [11, p. 120–121].

The first principle – the principle of fiscal equivalence of M. Olson [16] – demands that each subcentral authority would make decisions on two issues at the same time:

1. Concerning the size of public expenses (always desirable from the political point of view) which, taken by itself, regardless to the income, tend to increase (extend the budget expenditures);
2. Concerning the size of public income (always undesirable from the political point of view) which, taken by itself, regardless to the expenses, tends to decrease (reduce the budget revenues).

The meaning of this requirement is that the decisions on the size of public expenses were taken by the same representative body, which is responsible for its financing, as money incoming from the cen-

\(^1\) Violent conflict may spread on the territory of a whole country, and even on a few neighboring countries, or may just affect particular parts of the country. In this article we observe mainly the latter case, when the conflict has taken place in some concrete regions of the country, which for this reason differ from the other territories with their political, socio-economic, institutional, environmental, etc. aspects of life. This situation has occurred in Ukraine due to the violent conflict that broke out in Donbass in 2014.

\(^2\) In economic theory there exist two different types of federalism, political and fiscal one. These are different concepts. Political federalism solves the problem of political effectiveness through the distribution of power between different levels of government to solve the problems of citizens control over their elected representatives. Fiscal federalism, on the contrary, influences economic efficiency: "... fiscal federalism is an economic theory, and this theory tries to explain, in economic terms, the existence of different subcentral levels of government" [21, p. 2].
tral or other levels of government is perceived as "gratuitous" or "cheap" and hence will not be expended efficiently.

The second principle — the principle of subsidiarity is based on the premise that, firstly, there are always social services, which can simultaneously provide several levels of government, and, secondly, that every rational current government has a natural tendency to-extension races his authority. Taken into account these circumstances, the principle of subsidiarity requires that in any case of doubt, the power would be transferred to the lowest level of government and that a higher level of government could keep it to itself only if the corresponding function can't be well executed — even taking into account the external help — at the lower level [21, pp. 160-161]. Thus initially the local level but not the center should have a priority.

The same principle is known in W. Oates's statement as the Decentralization Theorem: "For a public good — the consumption of which is defined over geographical subsets of the total population, and for which the costs of providing each level of the good are the same for the central or for the respective local government — it will always be more efficient (or at least as efficient) for local governments to provide Pareto-efficient levels of output for their respective jurisdictions than for the central government to provide any specified and uniform level of output across all jurisdictions" [14, p. 35].

In general, the traditional theory of fiscal federalism evaluates the possibility of win-efficiency from decentralized provision of public goods generally, as a fairly large. Its sources are the differences between jurisdictions in the demand for the relevant local social services, as well as costs associated with the provision of [22, p. 317]. But in fact, a lot depends on how subcentral authorities are able to make decisions based on the requirements of economic efficiency, rather than other considerations.

Therefore, the new (second) generation theory of fiscal federalism (second generation fiscal federalism, SGFF) pays more attention to the analysis of the limitations affecting the decentralization efficiency under real operating political and fiscal institutions [23], including negative experience of the decentralization of a number of countries. There are several different branches of these theories, but they all share common approaches, different from the traditional: the authorities are not regarded as benevolent social planners, as well as economic agents have their own utility functions; analysis is focused on the external institutional environment, forming a set of incentives and constraints under which these agents have to act; problems of functioning of multilevel governments are investigated using models "principal - agent", taking into account the factors of asymmetric information, imperfect monitoring, incomplete contracts, strategic behaviour, and others [22, p. 322].

In particular, SGFF focuses on the analysis of: institutions and incentives, forcing officials to accept the rules of fiscal federalism (the problem of "self-enforcing federalism"); political mechanisms of distribution of authority for the provision of social services between levels of government; interoperability issues of decentralization and democracy in the context of its costs and disadvantages; relationship decentralization and political obstacles in the way of development [23, p. 14-15]. It is obvious that the composition and structure of these institutions, incentives, costs, etc., are not universal and depend on many circumstances such as place and time, the history of the formation and characteristics of the political and financial systems, clarity of distribution of fiscal powers, the state of key markets and others [24]. In post-conflict territories complexes of these and other circumstances have specificity, which are discussed below.

**Features of the economic and institutional environment of the territories affected by conflict.** Lev Tolstoy shrewdly noted: "Happy families are all alike; every unhappy family is unhappy in its own way."

This is also true in relation to violent conflicts at higher levels of social organization. There are many various reasons for these conflicts, which are often associated with economic, political complex,

---

3 There are different approaches to the definition of what the violent conflict is, and in what case it should be considered that violent conflict exists. For example, in the work [26, c. 12] two criterias are used for this purpose. The first one is qualitative. It is believed that the conflict is violent, if it challenges the current government and aims to overthrow or change the political regime. And the second one is quantitative. Only those clashes are taken into consideration, which have led to more than 1000 deaths per year (either directly by bullets, shells, mines and other weapons, or indirectly through the socio-economic consequences of the conflict).
cultural and historical factors, that is why their correct understanding requires a meticulous study on a basis of a broad multidisciplinary approach [25, c. 1-28]. Usually they are based on an infringement of rights, freedoms and interests of geographically isolated social communities.

The consequences of the conflicts in different countries can also be developed in different ways. For example, if during the violent conflict the farmlands are mined, as it was in Cambodia in the 70s 20th-century, it is necessary to expect a decrease in food production and food exports with a strong negative impact on the economy as a whole and the well-being of many people, especially if a significant part of economic activity and employment in the country is in agriculture. On the contrary, the economy which is more dependent on the export of petroleum products, due to the income from which food is imported, will be more damaged by the introduction of foreign trade embargo caused with the conflict [26, p. 17-18].

It also should be considered that the analysis of the effects of conflicts is often complicated by the shortage of reliable empirical data on the operation of socio-economic systems, exposed to their impact, which for obvious reasons (due to the weakness of democratic and administrative institutions, the problems of the organization of systematic reporting, high volumes of unreported and illegal activity and others) is not easy to collect. However, because in today's world conflicts, including armed unfortunately are not uncommon⁴, some typical features of the economic and institutional environment of the territories concerned is possible to allocate, although, certainly, for the analysis of each individual case of a paramount importance is a specific geographical, historical economic and socio-cultural context.

The obvious consequence of violent conflicts are to devastating effect on economic activity, employment, capital budget and the economy as a whole. As it is noted by the World Bank experts: “The average cost of civil war is equivalent to more than 30 years of GDP growth for a medium-size developing country trade levels after major episodes of violence take 20 years to recover, in other words, a major episode of violence, unlike natural disasters or economic cycles, can wipe out an entire generation of economic progress ”[27, p. 5–6].

If we turn to a more detailed examination of the consequences of violent conflict [268; 26; 27; 28; 31], we can divide them into two broad areas: economic and institutional.

**Economic features of post-conflict territories.** Human capital. Violent conflicts are accompanied by loss of population due to deaths and migration ⁵. In addition migratory processes are accelerated: the concentration of people in ethnic and confessional groups and urbanization increases, as dwelling in the cities can be safer. Unemployment rises, there is a shortage of skilled workers, who have a better opportunity to leave the conflict zone, employment reduction in a private sector and increase in public and shadow sectors.

Physical capital. Damages and speed-up obsolescence of physical capital, productive and dwellings objects take place because of battle actions and violation of economic connections. There are problems with the operation of infrastructure facilities such as power, transport and telecommunications networks, railway junctions, ports, airports, etc., energy systems, heat supply. In some countries a main obstacle for the development of agriculture and food production is made by mines.

Financial capital. As you know, money likes silence. Therefore, conflicts are always accompanied by capital flight, declining public and especially private investment volumes. Also in the post-conflict territories there are problems with the normal functioning of the payment system and the financial market (its investment, loan, securities, insurance and foreign exchange sectors).

Government revenues and expenditure. The consequence of the general economic problems is the depletion of government revenue sources. The tax base is narrowed. In the structure of income usually prevail the sources that are easier to administer. The distorted structure is typical for the charges

---

⁴ According to the World Bank every fourth person on the planet, more than 1.5 billion people, live in unstable and conflict-affected countries or in countries with very high level of criminal violence [27, p. 2]. The average duration of a civil war in the world is 8 years [31, p. 5].

⁵ In Ukraine, for example, the total official losses of population due to migration as a result of violent conflict, which started in 2014, amounted to 1.1 million people, and the total number of Ukrainian citizens, who moved from Donbass to other regions located outside the zone of ATO as for 28.12.2015 totaled 990.9 thousand people. [34, p. 79].
with excessive expenditure to the armed forces and insufficient expenditure to infrastructure, education and health. The budget is on the whole scarce, and the debts are often poorly served or not served at all.

The macroeconomic environment. The consequence of problems at the micro level is the overall macroeconomic instability, characterized by inflation, fiscal imbalances, heavy debt load. Low income and raised poverty results in a low aggregate demand for goods and services and low investment. Especially negatively the losses of export profit yield and/or external financing affect on highly dependency upon foreign trade economies.

Institutional features of post-conflict territories. The usual result of a conflict is that, what can be called "bad" institutions. The inherited from the open stage of conflicts culture of violence, attended with the wide access to the weapon, stipulates wide distribution of criminality, forms a business environment, where political and economic players do not trust each other, and follow not "long" rules, that are required for successful investment and economic activity, but "short" rules, "ad hoc". All this, in turn, leads to high transaction costs for the protection of property rights, information searching and negotiating, contracting and enforcement of their implementation, protection against opportunistic behavior, and others. In this regard, as a rule, a large part of the economy goes "into the shadows".

In addition, there is usually a crisis of legitimacy, characterized by falling of authority and real support from population towards public authorities: legislative, executive and judicial. This crisis can be stronger or weaker depending on the characteristics of a course of a conflict, as well as the specifics of the institutional environment, which has been formed in the pre-conflict period. If initially it was not favourable, then the evolution of institutes can proceed in undesirable direction in a peace-time.

It can result in the establishment of a "bad" institutional equilibrium, when many political and economic forces are not interested in improving the "rules of the game." For example, such a deadlock occurs when some politicians, civil servants, businessmen and arms dealers, drug dealers and others, unite their forces in maintaining tension on a given territory, as they get benefits from the maintenance of an artificial shortage of goods, smuggling, trade in military equipment and weapons, proscribed drugs, and others. To find the way out of this "institutional trap" [30] is not very easy and it takes a lot of time and effort.

Conceptual states of fiscal decentralization in post-conflict territories. Overcoming violent conflict requires the restoration of violated rights, freedoms and interests of individual social communities. As USAID experts say: "The key potential advantage of fiscal decentralization for post-conflict countries, and some others as well, is the capacity to protect the rights of groups that are minorities by virtue of their ethnicity or region. For example, the Dayton Peace Accords divided Bosnia and Herzegovina into two entities, Serbs primarily populate one and Croats and Bosnian Muslims primarily populate the other." [29, p. 4].

Fiscal decentralization means the transmission of part of financial plenary powers and resources to the subcentral government bodies, that get large possibilities to build the activity in accordance with local interests due to it. A result can be positive due to an economy on transaction costs in connection with the transition to the generally accepted in the territorial group hostel rules, as well as economies, universally recognized in this territorial group on transformation expenses in connection with the grant of public benefits according to local demands and expenses.

On the other hand, fiscal decentralization is not a universal recipe that is equally well suited for all situations. For example, if there are concentrated social groups in a post-conflict territory that do not constitute a local majority, fiscal decentralization can encourage these groups to fight with the local government or with the majority for the autonomous status. Furthermore, as it was noted above, all post-conflict territories are characterized by problematic economy and bad institutions, which both objectively prevent decentralization. The reason is that the problematic economy reduces local official

---

6 A study of fiscal decentralization potential for the mitigation of ethnic conflicts in the context of relations between the Local Minorities and Local Majorities released that: i) fiscal decentralization does not encourage secessionism but on the contrary dampen rebellion of local majorities but, ii) fiscal decentralization fuels rebellion of local minorities, iii) fiscal decentralization reduces communal violence for both local majorities and minorities [35, p. 2].
revenue, which in the conditions of fiscal decentralization should serve as the main source of financing for local expenditure, and bad institutions and a large informal sector impede the efficient administration of income and equitable distribution of expenditure.

A basic contradiction of fiscal decentralization in the conditions of post-conflict territories is an objective necessity of such decentralization (taking into account the features of concrete situations) for the plenipotentiary and resource providing of rights, freedoms and interests of territorial social communities and softening of conflicts, that in the conditions of stable growing economy has substantial potential of increase of efficiency, runs into the objectively high expenses of decentralization in the conditions of falling economy and bad institutes.

There are no simple ways to solve this contradiction. In addition, for the stable development of public revenues and expenditures different strategies are required, that will be considered further.

The decentralization of public revenues. According to the economic decentralization theory expenditure of subcentral authorities have largely covered their own tax revenue as: "Subnational governments that lack independent sources of revenue can never truly enjoy fiscal autonomy; they may be – and probably are – under the thumb of the central government" [32, p. 3].

However, implementation of this requirement in the post-conflict areas is difficult. As already mentioned, this is due to the influence of unfavorable economic and institutional factors, which together are responsible for contraction of the tax base and tax administration problematic.

Moreover, not all sources of public revenue are equally suitable for the purposes of decentralization. Assets taxed by subcentral authorities must be, firstly, relatively non-mobile - in order to prevent their migration to other jurisdictions due to tax reasons, and secondly, relatively stable (as the tax base) – in order to avoid significant fluctuations of subcentral budget revenues in periods of unfavorable macroeconomic dynamics. In addition, taxes of subcentral authorities should not be "exported", that is, to burden residents of other jurisdictions, and secondly, relatively stable (as the tax base) – in order to avoid complicated problems of fiscal coordination between the regions that are inevitable in the case of levying such taxes at subcentral levels).

Due to the consequences of violent conflict property loses value, and official incomes of citizens are lower. Therefore these important in ordinary terms regional (local) profitable sources lose the fiscal value up to a point. It should also be borne in mind that the property and income taxes are difficult to administer.

And as a requirement of subcentral government bodies in profits in connection with the necessity of speed-up renewal of economy is high, an emphasis should be made on relatively simple to administer indirect taxes on goods and services [28, p. 23; 36, p. 21], as well as on simple forms of tax on the extraction of mineral resources available [31, p. 15]. However, for obvious reasons (distortion of commodity prices, the decline in consumer demand, the growth of the shadow economy), the fiscal potential of such measures is limited.

On the whole in the conditions of post-conflict reconstruction the possibilities of revenue decentralization from its own sources (for which subcentral authorities have the full powers in regard to estab-
lishing tax bases and rates \(^8\)) is small. Therefore, emphasis should be placed on transparent shared national taxes (power to establish and levy these taxes is given to the central government) [36, p. 20]: allocations to subcentral budgets of certain share of corporate income tax, VAT, etc. Most of the degree of fiscal autonomy subcentral authorities can only get as far as overcoming the negative consequences of the conflict, improve institutions, including in the area of tax administration, reducing evasion scales from taxes and increase the tax base.

Therefore, the general strategy in the field of revenue decentralization on post-conflict territories should not be in a course of tax and fiscal efficiency increase, but in a course of the economic efficiency increase due to the gradual passing to such structure of taxes (both on central and on subcentral levels), that less than prevents to expansion and strong growth of tax base (displacement of fiscal burden from taxation of profits to levying of consumption and property, and also on taxes correcting ecological and other externalities [17]). The result should be of a more rapid recovery of the affected con-conflict economy with a simultaneous decrease of the shadow economic and tax evasion, as well as transaction costs at the expense of taxation of simplicity, transparency and ease of tax administration.

If the area is particularly hardly hit by the conflict, it can initially also require reducing the number of taxes, harmonization of rates, reducing all sorts of exceptions and exemptions [36, p. 21].

The decentralized of public expenditure. According to the theory of fiscal decentralization subcentral authorities should perform the allocative function in relation to regional (local) public goods benefit area (despite the fact that the benefits of a nation-wide scope of benefits offered the central government). This feature is implemented through public spending. From this point of view the situation in some countries is very different. In peacetime, their normal distribution levels of government is that central governments spend relatively greater part of the revenue budget, rather than regional and local, on social protection of citizens (pensions, unemployment benefits, etc.), on national services (the support of the legislative, executive and the judiciary, science, public debt service, etc.), on national security and defense [39, p. 88-99; 40, p. 76].

The structure of subcentral government spending, in contrast to the central government, usually is dominated by the social function of education and health, as well as social protection expenditure (although the absolute value of central government expenditure on social protection is usually more), and the economy.

This distribution is not static: it changes, including in relation to the overall economic dynamics in the country.

In periods of economic downturn (and violent conflicts are always accompanied by recessions) spending on social protection of citizens, which is of particular political importance, usually are centralized (as the central governments have more room for fiscal maneuver), and other social functions that determine the dynamics and quality of human capital, increasingly are "hang" on the regional and local authorities and are forced to cut together with the reduction of the economy and the narrowing of the tax base [42]. And since the economy contraction during the conflict is often catastrophic, the social costs also usually fall very much, despite the fact that military expenditures are growing. Together, this means that the actual degree of centralization in the country public expenditure, the negative influence caused by conflict increases.

Peaceful solution of conflicts leads to a reduction in military spending (the phenomenon of the "peaceful dividend" [29, p. 23]), which provides the authorities (especially central) with some additional possibilities, but on the places the needs in the reconstruction of the destroyed economy (infrastructure, housing, etc.) and restore of critically important for the subsequent development of expenditure on education and health care sharply increase.

In such a situation, the possibility to perform the key requirements of subsidiarity (the maximum transfer of expenditure responsibilities to lower levels of government, able to soften manifestations of confrontation) are limited and can be significantly extended only as far as the recovery of economic

---

\(^8\) In the OECD there are five main categories of tax autonomy of subcentral authorities: "a" - full powers in tax rates and bases; "b" - the powers in the field of tax rates; "c" - the powers in the sphere of the tax base; "d" - the separation of powers of the (shared) taxes; "e" - the absence of tax authorities; "f" - the other situation. [37]
growth, improve the efficiency of administration and improving institutions, that requires the revival of the atmosphere of trust between the main political and economic actors (so-called "confidence-building" [27, p. 12]) and go to the "long" code of conduct.

Therefore the general strategy in the field of decentralization of charges in post-conflict territories must be not in a course on immediate expansion of spending responsibilities and volumes of expenses of the subcentral authorities of subcentral government bodies, but in a course on providing of social justice and transparency at allocation of public charges on places. It is required to guarantee positive institutional transformations and proper management, able to give to the citizens safety, justice and work [27, 13].

Thus, as the World Bank experts justly emphasize: "Successful efforts must begin at the local level. Without emphasis on local results, citizens lose confidence in their government's ability to provide a better life. Actions to restore security, create trust, generate employment, and provide services in local communities lay the foundations for national progress" [27, p. 14].

In practice, however, many public administrations, that have a monopoly on the provision of public services in post-conflict environments are not able or do not wish (including due to corruption) duly carry out their functions, so that the allocated by the state resources sometimes simply are not provided to people.

One possible solution of this problem could be to develop an alternative network of independent offices to provide services (Independent Service Authorities, ISAs), operating under clear rules and under the supervision of the public [43, p. 123-127]. The role of ISAs is to conclude contracts with a wide range of suppliers as government agencies, private enterprises and non-profit organizations for the provision of education, health and others. In this case, the definition of objectives and related policy challenges remain in the purview of the authorities and their implementation is transferred to decentralized public agencies.

There are however arguments against this practice, in fact actually forming the double public sector of economy on places. In particular, it may happen that the best employees of public institutions will move to the ISAs, due to the relatively high wages, thereby worsening their competitive position and the possibility of proper provision of public services [32, p. 16]. Moreover, as noted in [44, p. 41]: "Although variants of ISAs are already operating we are not able to point to any organization which has all the features of a fully-fledged ISA. The introduction of an ISA should therefore be seen as an experiment and evaluated accordingly".

On the whole, in terms of post-conflict economic recovery in the affected regions, for obvious reasons, we have to maintain relatively high levels of social spending despite the fact that their sources of funding are limited. This means that the possibility of fiscal maneuvers of subcentral authorities are not great and are largely determined by external actors – the central government and / or donor organizations that provide financial assistance.

**Subsidies (intergovernmental transfers) and external financial assistance.** Subsidies (intergovernmental transfers), along with tax revenues are the most important source of financial resources of subcentral authorities in many countries. In particular, the subsidy can be used for the following tasks [21]:

- external financing services and investment of subcentral authorities. If the costs of certain regional and / or local budgets exceed their own revenues, subsidies are used to reduce these gaps and enhance opportunities of subcentral authorities to provide public services and to make investments;
- financial equalization. Usually different regions of the country have different tax potentials. Subsidies are used to redistribute resources from rich to poor regions and provide an access to the same basic package of public services on conditions that the tax burden will be approximately the same in all territories;
- correction of externalities. Providing the services to one subcentral authorities often creates external effects (effects of "overflow") to the other, which makes their inadequate supply for the whole country. The central government can make a difference by providing appropriate transfers (service subsidies).
The traditional theory of fiscal federalism believes that subsidies can be Pareto-efficient tool to solve these problems, because "... such grants to a local government were simply a "veil" for a set of grants directly to the individuals in the locality" [23, p. 324]. However, this approval does not have a lot of support now, taking into account the realities of institutional decentralization and the fact that public officials often pursue their own goals.

In practice, it turns out that subsidizing forms of "transfer depending on" local atmosphere weakens the incentives for healthy fiscal behavior, leads to an unjustified interference with the normal movement of labor and capital needed for economic growth.

This does not mean that the subsidies can be waived at all, especially in the post-conflict areas, which have limited access to their own sources of income. But, firstly, the practice of subsidizing should be better gradually reduced to a minimum, taking into account its marginal benefits and costs (decision on expansion of public programs should take into account the associated additional problems), and, secondly, it must be transparent and predictable.

In this regard, it is important to remember that overcoming the consequences of conflict requires taking into account the interests of the affected minority, and that regional and local benefits (not only economic, but also socio-cultural) do exist and do matter, and their provision is largely the prerogative of regional authorities. From this point of view, it is better to allocate subsidies not directly from the central government (which should not be concerned about a variety of local problems) directly on the site to their recipients, but indirectly — through the relevant regional authorities. Thus the formula of redistribution of financial resources through a system of intergovernmental transfers should be built not on a "center - post-conflict recipients" but on a "center - post-conflict regions - recipients of post-conflict". Though, of course, this practice should be used and expanded further only taking into account the social and cultural specifics of the respective regions, according to the formation of the population self-government traditions, as well as solving the problems of corruption, poor administration and others, that generally impede effective fiscal decentralization.

Along with subsidies from a government important external source of resources for post-conflict economic recovery is the assistance provided by various donor organizations. It can accelerate economic growth and address the complex of related issues [32, p. 17]. However, numerous studies on the problem (including econometric) indicate that there is no direct relationship between the size and the structure of the support, on the one hand, and growth on the other. For example, the analysis presented in [45] found no reliable positive relationship between assistance and growth. Also there was no evidence that assistance works better in a favorable political environment and geographical conditions, and that concrete directions of assistance work better than the others.

More often donor organizations give help through investments into the renewal of social and economic infrastructure. These trends make more than 50% of the total amount of financial support to post-conflict areas (according to data for 1995-2008 [32, p. 11]). Indeed, investments are important because they make compensate the shortage of currency savings in post-conflict reconstruction. However, there is no consensus on exactly how the investments and help influence the growth [32, p. 11].

More important are the ways the support is organized on the whole, and not a choice of concrete directions of support. As it is noted by the IMF experts, in cases when in the countries special procedures have not been established for the use of foreign support with no proper coordination between donor agencies and the Ministry of Finance, assistance was insufficient and there was a large uncovered gap between the needs of territories and actual budget expenditures. Therefore: "Better coordination was thus seen as essential for both donors and recipient countries" [37, p. 19].

From the donors' point of view, an information about the activity of other similar organizations is useful to develop their own policies and help to avoid duplication. From the standpoint of government

---

[9] There exist important theoretical arguments, grounded by the actual data, which confirm that the centralized provision of local (regional) benefits must be held at the same level, not differentially. It is true according to the informational costs of centralized accounting of local problems and political issues when different attitudes to the regional center is perceived as injustice [23, p. 315-316].
agencies, the coordination is useful because it provides information on donor activity in their areas of competence, thus helping to form their own supply plans funded by internal resources. In addition, donor funded projects determines the size of future recurrent costs, which should have been included in the government spending plans in the future.

As for the specific coordination mechanism: "In some cases, a separate unit was set up to coordinate with donors, often as part of the ministry of finance or its equivalent institution (eg, Kosovo and Mozambique). In other cases, however, a multi-donor trust fund was set up that carried out the coordination function (eg, Afghanistan and Timor-Leste). Frequent donor meetings also provided an opportunity for coordination of assistance (eg, Timor-Leste)" [37, p. 19].

In any case, the importance of this coordination is that it cultivates local new cooperative institutions that promote the better development of foreign help, and an independent effective action by regional and local authorities, that implement in practice in a specific socio-cultural environment of the principles of fiscal region decentralization.

Conclusions. Half a century ago, Charles Darwin wrote: "It must not be forgotten that although a high standard of morality gives but a light or no advantage to each individual man and his children over the other men of the same tribe ... an increase in the number of well-endowed men and an advancement in the standard of morality will certainly give an immense advantage to one tribe over another" [Darwin 1871, p. 166].

This statement is still valid today. High moral standards and the atmosphere of trust based on them – that's what to be restored in priority in post-conflict territories. Reconstruction of trust, rather than material values, as noted in the World Bank, is the key to overcoming social conflicts. The upward spiral "trust – institutions" [28, p. 12] appears to be the only way to reliably overcoming the consequences of the conflict and the formation of non-conflict "new reality."

Fiscal decentralization is one of the main ways of creating this confidence and "the new reality". But there are no simple solutions here. Moreover, for different areas of fiscal relations different approaches are required.

In the area of public income – it is the priority of the economic efficiency, not the fiscal one, with the course on the formation of such a tax structure (both at central and at subcentral levels), which promotes the expansion and sustainable growth of the tax base of post-conflict areas.

In the area of public expenditure – it is a priority not to the rapid buildup of authority and subcentral government sizes of spending, but a provision of social fairness and transparency in the allocation of social costs on the places.

In the area of subsidies from the central government – it is the priority not to expansion but to narrowing the scope of intergovernmental transfers to the organization of the redistribution of financial resources under the principle of "center – post-conflict regions – recipients of post-conflict".

In the field of external assistance – it is a priority not to the selection of its sizes and specific directions, but a good coordination, due to which the new co-operative institutions are cultivated, that promote efficient operation of regional and local authorities of post-conflict territories.

Though all the given recipes are not important by themselves, but as tools of financial and institutional support for the transition to non-conflict peace-building, based on the democratic principles of majority rule, coupled with the observance of the rights of individuals and minorities.

The further study of this transition problem goes beyond traditional neoclassical and institutional methodology, and requires the application of evolutionary one, since the performed analysis revealed that each time we have to take into account the special circumstances and the "path dependence". Because, as J. Diamond noted: "One can not just introduce good institutions to poor countries like Paraguay and Mali and expect those countries to adopt the institutions and achieve the per-capita GNPs of the United States and Switzerland... Good institutions are not a random variable that could have popped up anywhere around the globe, in Denmark or in Somalia, with equal probability. Instead, it seems to me that, in the past, good institutions always arose because of a long chain of historical connections from ultimate causes rooted in geography to the proximate dependent variables of the institutions" [47, p. 439].

Vishevsksy, V. P., Rekova, N. Yu., Chekina, V. D. Fiscal decentralization in post-conflict territories: conceptual states

184
This approach is a possible solution, if differentiated for the supranational fiscal model systems, whose areas are mobile and spread beyond state borders, as the recent appear to be a historical accident, that often unite people, who belong to different evolutionary-biological, socio-economic and civilizational and cultural communities [48]. It is not easy but very important to find such approaches, and post-conflict territories together with "long" issues of socio-economic recovery is the non-stationary environment where evolutionary theory must find a large scope.

References


32. Hoeffler, A. (2012). Growth, aid and policies in countries recovering from war / Anke Hoeffler. – OECD, the Development Assistance Committee, Working Papers, pp. 21


Література


Received for publication 20.10.2016

Бібліографічний опис для цитування: