



# Executive Summary

## Principles on Fiscal Decentralization

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Europäisches Zentrum für Kurdische Studien  
European Center for Kurdish Studies





Disclaimer: The principles in this paper reflect the discussions of the workshop. This does, however, not mean that all participants agree on all points of this document.

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# Principles on Fiscal Decentralization

## An executive summary of the discussions in Caux between 26-31 August

Extended decentralisation requires financial decentralisation. Vertical decentralisation of political power from the centre to the periphery will not work without decentralising state finances (“The one who pays, commands”). If subnational entities are expected to act autonomously, they need to have their own funds. Their income can be generated through taxes, transfer payments or a combination of both. It is of most importance that both the income and its distribution are controlled and secured by the constitution. This way, they cannot be changed, reduced or stopped according to changing preferences, in other words, be subject to political despotism.

Fiscal decentralisation can also benefit democratisation and improved rule of law. When citizens of communities and regions can decide individually about the (partial) use of taxes, they tend to be more open to carry the cost of public services. Until now, the population was unwilling to support an authoritarian and corrupt government through tax payments. In a decentralised tax system, however, tax payments will no longer go to the centralist power only. Therefore, fiscal decentralisation serves the purpose to link taxes paid by citizens closer to the public services they receive. By involving citizens in the decision-making about the form and use of taxes, fiscal decentralisation deepens democracy and facilitates the fight against corruption.

The following principles have been derived from the discussion about fiscal decentralisation in the future Syria:

1. The constitution lays down the governmental tasks for the central state, regions and communities.
2. The constitution secures that the central state, regions and communities have sufficient income to complete their tasks.
3. When tasks get transferred from one state level to another, according funds have to be transferred as well (principle of coherence).
4. The collection and use of taxes and other state funds have to happen on the basis of reliable data. This includes a census per region and community and a structural analysis of the according population, infrastructure and economy. This data has to be updated frequently.
5. Authorities on all state levels may demand and administrate appropriate remuneration for their service provision. The remuneration has to be determined on a legal basis.
6. Tariffs are determined and administered by the central state.
7. The tax system is supposed to be just, transparent and mostly simple. Citizens, communities and regions should finance the state according to their economic capabilities and income. Tax liability and calculation should be transparent and simple; digitalization of the tax administration might be helpful in this regard. The tax system should be easily understandable so that citizens and authorities know which territorial entity they owe their payments to.
8. The constitution should determine which state level may collect which taxes and whom they are administered by.
9. The central state decides the corner stones of the tax system. The central state and regions collect taxes individually which have to be decided on a legal basis.
10. The constitution provides for tax revenue sharing which guarantees an income distribution so that the central state, regions and communities are able to complete their tasks. Tax revenue sharing should secure that public services are accessible to everyone from everywhere to prevent huge differences between regions and communities. The revenue shares might be



appropriated or not. The central state, regions and communities should be represented in the authorities that decide about tax revenue sharing.

11. The constitution determines the ownership and use of natural resources. It guarantees that resource revenue and rents will be shared with the regions in which natural resources are used.
12. The tax system should be structured in a way which incentivizes reliable tax payments. The amount of taxes and payments should be decided democratically and abuse and corruption should be fought. Regions and communities must have institutions at their disposal that guarantee legitimate collection and use of taxes. Training and further qualification of authorities and the population with respect to taxes plays an important role for this.
13. The responsible parliaments decide about taxes and budgets based on reliable data that represents the affected population. The parliaments also have to guarantee an adequate representation of the according population.
14. Independent courts settle disputes about the collection of taxes and use of income. In order to act legitimately, both the central state and the regions have to be involved in the election of the committee of judges. Fiscal decentralisation needs strong, independent and trustful legal authorities.

