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Directed By

**Lahcen Achy, INSEA and Carnegie Middle East Center
and**

Khalid Sekkat, Université Libre de Bruxelles

In collaboration with:

Ahmed Farouk Ghoneim (Egypt)

Saoussen Ben Romdhane (Tunisia)

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Synthesis Report

Decentralization and Economic Performance in Selected South Mediterranean Countries¹

Lahcen ACHY² and Khalid SEKKAT³

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¹ This report is part of the project conducted under FEMISE project. Four institutions took part to the project INSEA (Lahcen Achy: Project Leader), Cairo University (Ahmed Ghoneim), Université Libre de Bruxelles (Khalid Sekkat) and Ecole Supérieure de Commerce de Tunis, University of La Manouba (Soussen Ben Romdhane).

² INSEA and Carnegie Middle East Center), Email address : achyinsea@gmail.com

³ Université Libre de Bruxelles (ULB, ERF and FEMISE)

Introduction

The present report lies within the first pillar of the FEMISE Scientific Research Program in the post “Arab Spring”, which put emphasis on *the role of democracy as an engine for economic growth* and particularly the need to find an inclusive *development process—one that represents the majority of the population—*. The democratic deficit that characterized a number of southern Mediterranean countries cultivated, inter alia, wide regional disparities, and social and economic exclusion and played a prominent role in fuelling social unrest. In Tunisia, for instance, the hardest-hit cities of Sidi Bouzid, Kasserine, and Thala in the Center west of the country led the uprising against Ben Ali’s regime. With the historical opportunity offered by the “Arab awakening”, people are aspiring for broader participation with more voice and better economic opportunities, not only at the central level of government, but more importantly in their immediate neighborhoods—local and regional levels—.

In such context, reforming the government is a key component of the transition from an authoritarian regime to a more politically open democratic regime. Decentralization is key one dimension of such reform. Transforming a highly centralized government into one that shares powers and resources with local communities can meet people’s aspiration on both political and economic dimensions.

The present synthesis report is the outcome of a pilot research project that attempts to understand the specific nature of “State” and “Sub-state” relationships in the Mediterranean countries and its role in driving spatial economic and social disparities.

The report is structured in three parts. The first part provides an overview of the literature on decentralization and regional development. The second part focuses on the political economy of the process of decentralization in the three selected south Mediterranean countries. To a large extent this part presents the key findings of the country studies completed under the research project⁴. Three countries have been covered, namely Egypt, Morocco and Tunisia. Comparing and contrasting the three country-cases offers interesting insights and provides fertile ground for further research and guidance for policymaking.

The third part presents the findings of the econometric investigation of the relationship between proxies of regional performance and decentralization indicators. This part is a preliminary analytical attempt to understand the channels through which financial decentralization proxies such as the volume of local revenues or the share of central-state transfers in local revenues; are interacting with socio-economic indicators such as unemployment rates and firms’ location across the national territory.

⁴ The details of the three country studies are forthcoming on the FEMISE website. The case of Egypt is authored by **Ahmed Ghoneim** (*Cairo University*), the case of Morocco by **Lahcen Achy** (INSEA (Morocco) and Carnegie Middle East Center) and the case of Tunisia by **Saoussen Ben Romdhane** (*Tunis University*). Each country study is broadly structured into two main sections. The first section deals with the actual functioning of regional and local institutions and the political economy of resource and power sharing between the central government and various sub-national levels. The second section examines the magnitude of regional disparities through key regional and sub-regional indicators in terms of basic infrastructure, access to social services and access to economic opportunities.

I. Brief literature review

Decentralization refers to different dimension with different meanings. Political scientists are more interested in the political decentralization of government systems, economists in fiscal decentralization and administrative scientists in the decentralization of administrative structures. Political decentralization refers to some degree of transfer of the decision-making power to local officials who are elected by the local population. Political decentralization requires often constitutional reforms, development of pluralistic parties, and strengthening of legislatures and public participation in budgeting. Financial decentralization, on the other hand, means that local bodies have authority to make significant decisions regarding spending and taxation. To this end, there must be some degree of local authority to determine the level and the nature of local expenditure (spending autonomy) and service delivery and some ability to impose fees and taxes to finance those services without central interference (revenue collection autonomy). Finally, the administrative decentralization (also deconcentration) involves shifting decision-making powers from central government officials to officials located outside the capital city.

The decentralization rational is built on the assumption that sub-national authorities can be better in the provision of local public goods as they are better informed about local needs (Oates (1972)). Greater efficiency in the provision of public goods, in turn, can promote regional growth (Oates (1993)).

Decentralization can also offer sub-national authorities the opportunity to pursue economic development policies in line with their strengths (natural resources, human capital, strategic location...) instead of implementing uniform central state policies. Transforming a highly centralized government into one that fosters decentralized economic activities can help creating thriving markets (Jin et al. 2005). Baldwin and Krugman (2004) found that centralization or policy harmonization can prevent the convergence process among different regions. Recently, however, some studies started to cast doubt on the decentralization-related efficiency gains in developing countries. Tanzi (1996) found that decentralization can lead to less coordination and more administrative costs. Decentralization might also increase corruption and cronyism and undermine potential efficiency gains (Bardhan (2002)).

Theoretical analyses based on neoclassical growth framework, new growth theory, or economic geography found that convergence processes across regions are driven by factors such as migration, trade flows and knowledge spillover and externalities (Lessmann 2006).

Empirical literature on the relationship between decentralization and indicators of regional performance is scarce and tend to generate inconclusive findings. Existing research can be divided into three categories: single-country case studies, cross-country studies of developed countries, and a few cross-country studies using data of both high and low developed countries. Lessmann (2006) studied the impact of fiscal decentralization on regional disparities using panel data for 17 OECD countries from 1980 to 2001 and showed that a high degree of decentralization is correlated with low regional disparities. Single-country studies such as: Kanbur and Zhang (2005) for China, Kim et al. (2003) for Korea, Bonet (2006) for Colombia, and Akai and Hosio (2009) for the United States provide inconclusive findings. In the Chinese case, decentralization has increased regional inequality, and a similar result emerges from the Colombian departments. In Korea the effect is ambiguous, but in the U.S., decentralization has decreased regional inequalities. Thus, country-level evidence is mixed, which means that decentralization is not necessarily a recipe for less regional disparities.

II. The political economy of decentralization

South Mediterranean countries have more centralized states when compared to other emerging and developing countries. Historical but chiefly political factors explain this situation. The region inherited a strongly centralized system of taxation and public administration either or both from the Ottoman Empire and from the European colonizers, mainly France. Autocratic regimes that prevailed in most of the countries since their independence did not favor power sharing and tended to inhibit effective local political participation.

Over the last three decades, some progress has generally been made towards more decentralized forms of government. The process evolved in connection with the broad political context in each of the countries and has been subjected to forward and backward moves in some cases. For instance, in Egypt, the shift backwards towards centralization began with an amendment of the Law 43 that replaced “Local Government” by “Local Administration” in 1988 and removed the power of the elected Local Popular Councils (LPCs) to hold the appointed Local Executive Councils (LECs) accountable. The system in the region can broadly be portrayed as a form of deconcentration rather than a fully-fledged devolved local self-government. The process of *deconcentration*⁵ shifts responsibility from the public administration in the capital city to regional offices but it preserves its centralized character. The center is backed by a set of “de-concentrated” branches in ⁶the country’s regions and sub-regions. However, the centre decides on core issues or provides its approval first and the sub-national “authorities” focus on execution.

1. The institutional set-up

Multiple layers of the sub-national administration:

The three countries (Egypt, Morocco and Tunisia) are unitary states. However, the three countries have multiple layers in the sub-national administration. Egypt has five types of local administration: 27 governorates (*Muhafazah*)⁷, 186 Centers (*Markaz*), 226 cities (*Madina*), 39 districts (Hayy) and 1164 Villages (*Qariya*). In Morocco, the first tier of sub-national administration is made by 16 economic regions. The second tier is made by 62 provinces and 13 prefectures (theses are comparable to governorates in Egypt) and the third tier is represented by the “communes” that can be either urban or rural. There are 221 and 1282 communes respectively. In Tunisia, the country is organized in 24 Governorates, 262 municipalities and 2066 Imada.

⁵ Instead, *delegation* refers to the transfer of public policy making and administrative authority and/or responsibility for specific tasks to institutions and organizations that are independent or subjected to central state’s indirect control. *Devolution*, which is the most advanced form of decentralization means that sub-national governments are in charge of a set of public services’ delivery along with the authority to collect taxes and fees to finance such services. Devolution requires a fair amount of fiscal decentralization whereby sub-national governments have clear expenditure assignments and budget autonomy.

⁶ Law 43 (1979) and its implementation regulations and amendments

⁷ The Presidential decree No. 114/2008 modified the scope and administrative boundaries of different governorates and created two new governorates, namely “*Helwan*” and “*6th of October*”. Decree No. 124/2008 set the scope and boundaries of Cairo, Helwan and 6th of October governorates. By virtue of the decree, number of governorates became 28 in addition to Luxor. After the revolution of 25th of January, 2011 the number of governorates was reduced again to 26 as both Helwan and 6th of October were tied to Cairo and Giza.

Table 1
Basic figures on the countries' population and territory

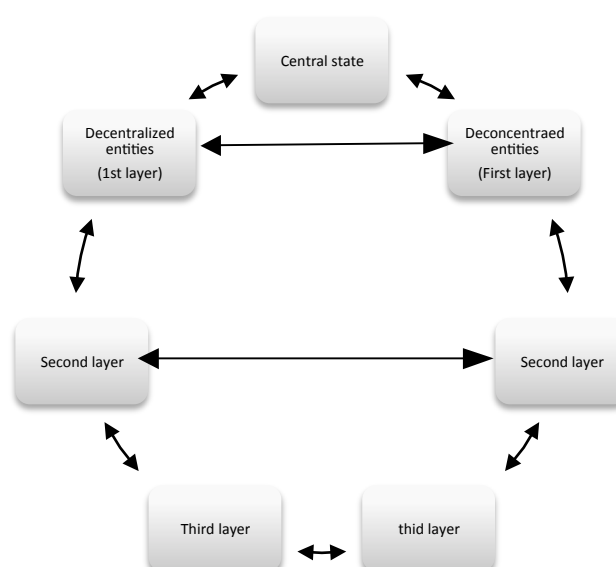
	Egypt	Morocco	Tunisia
Population (1000) inhabitants	82 814	32 725	10 673
Area in square Km	1 002 000	710 850	163 610
Number of governorates	27	75	24
Population density (inhabitants/square km)	83	46	65
Average governorate's population size (1000 inhabitants)	3 067	436	445
Average governorate's size (square km)	37111	9478	6817

Source: National sources and author's calculations

A simple comparison among the three countries shows that Egypt tends to lag behind in terms of the administrative division of its territories. The average population's size by governorate is much higher in Egypt with more than three million people compared to less than half a million in both Morocco and Tunisia. At the same time, the average size of each governorate is four times bigger in Egypt than in Morocco and almost six times compared to Tunisia.

Beyond these simple figures, other parameters are important in assessing the extent of decentralization and administrative division in a given country: the sharing of power, responsibilities and resources between the central and sub-national layers, the relationship between the different layers of the sub-national administration and the relationship between "elected" and "appointed" bodies at the sub-national layers.

Figure 1
The shape of decentralization



Decentralization with State Control

In the south Mediterranean countries under scrutiny, the central state dominates over the sub-national levels and “appointed” bodies tend to play a much more decisive role compared to elected members. In Egypt, all local administration officers are appointed—the governor by the president; the chief of the Markaz by the Prime Minister, the City and District chiefs by the minister of local development, and the Village chief by the governor. The mix of appointments is often source of conflict among the sub-national administrators as the different appointees report to different officials in the capital city.

In Tunisia, the Governor is appointed by the president and the mayor, who acts as the president of the municipal council, is an elected member. A similar set up prevails in Morocco where heads of regions (Wali) and provinces and prefectures (Governors) are appointed by the King and the presidents of the communes (urban and rural) are elected. In the three countries, governors have broad powers and resources compared to elected entities.

In Morocco, the Governor of the province or prefecture (PP) is both the state representative in his territory (head of the territorial administration) and the head of the executive of the PP council. As such he can order payments from the budget of the PP. In Tunisia, the municipal councils are strictly dependent on the central government, which can dissolve them⁸.

Dual sub-national system

The three countries tend to be endowed with a dual system of elected and appointed authority at each layer. In Egypt, each sub-national entity operates with two councils the Elected People’s Council (EPC) and the centrally appointed local executive council (LEC)⁹. The executive councils at the provincial and regional levels in Morocco and at the Governorate level in Tunisia are composed by both elected and appointed members and their lead is legally granted to the appointed members.

Sharing of responsibilities: not triggered by efficiency

The range of activities devolved to sub-national administration seems to be broader in Morocco and Tunisia compared to Egypt. In Morocco, the Communal Council, whose members are elected by the population, have legal competence in a large number of areas, ranging from urban and land-use planning, sanitation, and the environment to economic and social development. The council is in charge of the local road network, water distribution, solid waste collection, public transportation, and local health care offices. However, security services (law and order) and education are run by the central state. It seems difficult to track how Egypt compares with other countries because the decisions are made at the central entities¹⁰. The role of sub-national entities tends to be limited to “a disbursement agent” on behalf of the central government without any effective policy influence.

⁸ Saoussen Ben Romdhane (2012), “Decentralization and Economic Outcomes : The case of Tunisia”

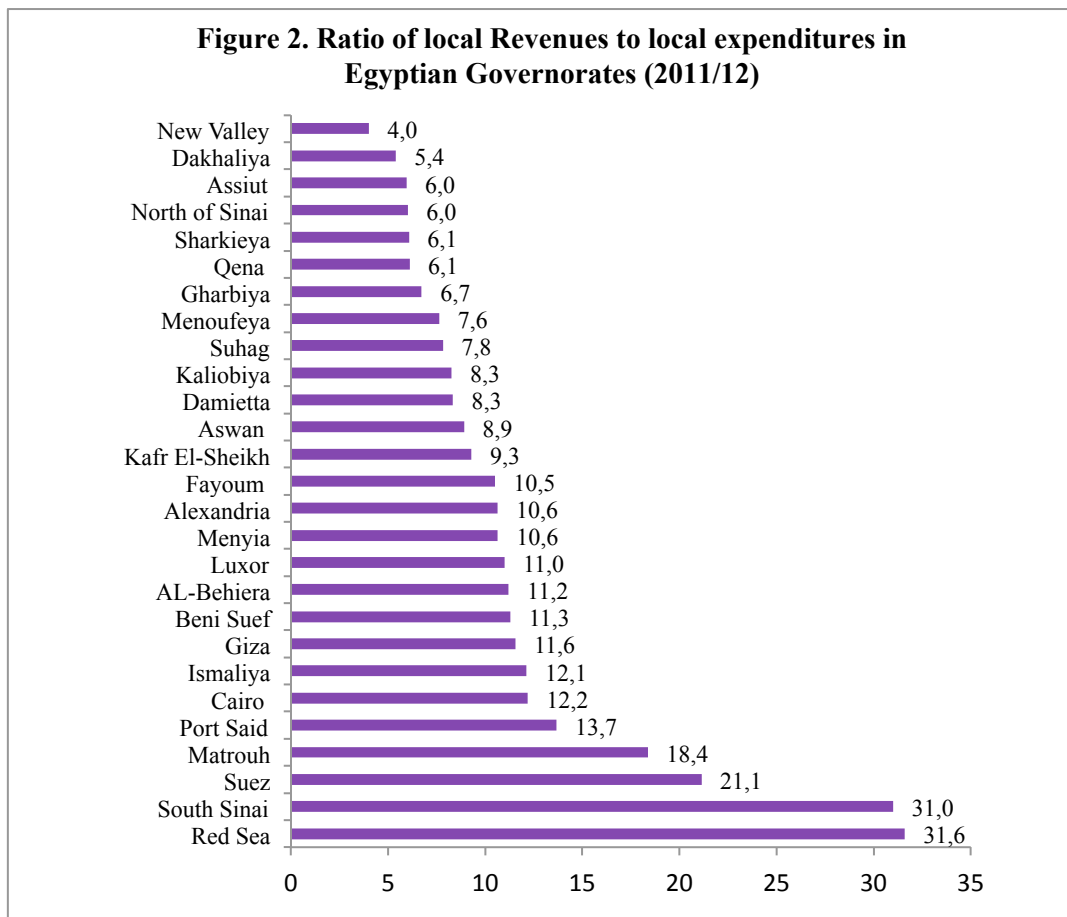
⁹ Until 1975, the local administrative system was made by a single local council composed by a mix of appointed and elected members. Since 1975, Egypt adopted two councils formula of which one is elected by the population and the other appointed by the central state.

¹⁰ Khaled Z. Amin and Robert D. Ebel (2005), “Egyptian intergovernmental relations and fiscal decentralization: Diagnostics and an agenda for reform”, Note prepared for the World Bank.

2. Decentralization of financial resources

Limited financial strength of local administration

Political decentralization, which refers to transfer of the decision-making power from the central state to elected local officials, will not achieve the objective without an equivalent progress in terms of financial decentralization. This is the case of Morocco. Conversely, a certain level of financial decentralization might occur without any significant transfer of power from the center, which fits with the cases of Tunisia and Egypt. Indeed, despite their institutional dissimilarities, the three countries are comparable in terms of the relative financial size of their local administration in their respective economies. The share of local administration spending in GDP is estimated to 4.6 percent in Egypt, 4.3 in Tunisia and almost 4 percent in Morocco. On the other hand, the share of local public expenditure in the national public expenditure hovers around 12 percent in the three countries. Such level is roughly comparable to the average ratio of developing countries (14 percent), below that of transition countries (26 percent) and well below developed countries (32 percent)¹¹. As shown in figure 2, there are wide disparities inside the same country.



Source: Ghoneim (2012) based on the data from the ministry of Finance.

¹¹ Amin and Ebel (2005)

Wages and other current costs dominate local spending

Beyond the size of local spending, the real issue in the selected south Mediterranean countries has to do with the composition of local spending. The largest part takes the form of “compulsory spending” such as the payment of wages. In Egypt, for instance, the wage bill represents 80 percent of local spending in recent years. Non wage current spending expenditures and capital spending only account for 14 and 6 percent of local expenditures, respectively. The local governments have no control over the wage bill and only ensure its payment on behalf of the central government. On average, sub-national entities in Morocco allocate 57 percent of their current spending to pay their personnel and 38 percent on other current spending items such as fuel, water, electricity, telecommunication and transport.

Weak local revenues and limited fiscal decentralization

Financial decentralization requires that local bodies have authority to make significant decisions regarding taxation and revenue collection. To this end, there must be some degree of local authority to impose fees and taxes to finance local services without central interference. The local layers in both Egypt and Morocco have limited ability to mobilize their own financial resources. In Egypt, less than 10 percent of the resources received by local administration can qualify as local own source revenue. This share is estimated to 24 percent in Morocco. The rest is made, in both countries, by sovereign revenues collected by the state on behalf of local authorities (roughly 8 percent in Egypt and 19 percent in Morocco) or by central-state transfers. Conversely, the local revenues in Tunisia seem to have a more important role as it accounts for 75 percent of the governorates’ revenues.

Excessive dependence of the central government’s transfers

In addition to fiscal revenues collected by local authorities in their respective jurisdictions by their own means or through the central-state services, the central government usually transfers additional resources to them. The first purpose of such transfers is to close the gap between the costs of the locally assigned functions and the amount of potential revenues that local administration can mobilize. The second purpose is to reduce disparities among the local authorities in terms of mobilizing resources. An equalization formula is often used so that territories with poor revenue basis have access to resources that ensure a decent level of services compared to richer territories. The central-government transfers in the case of south Mediterranean countries raise two issues: first their size and second the rational underlying the “equalization formula”.

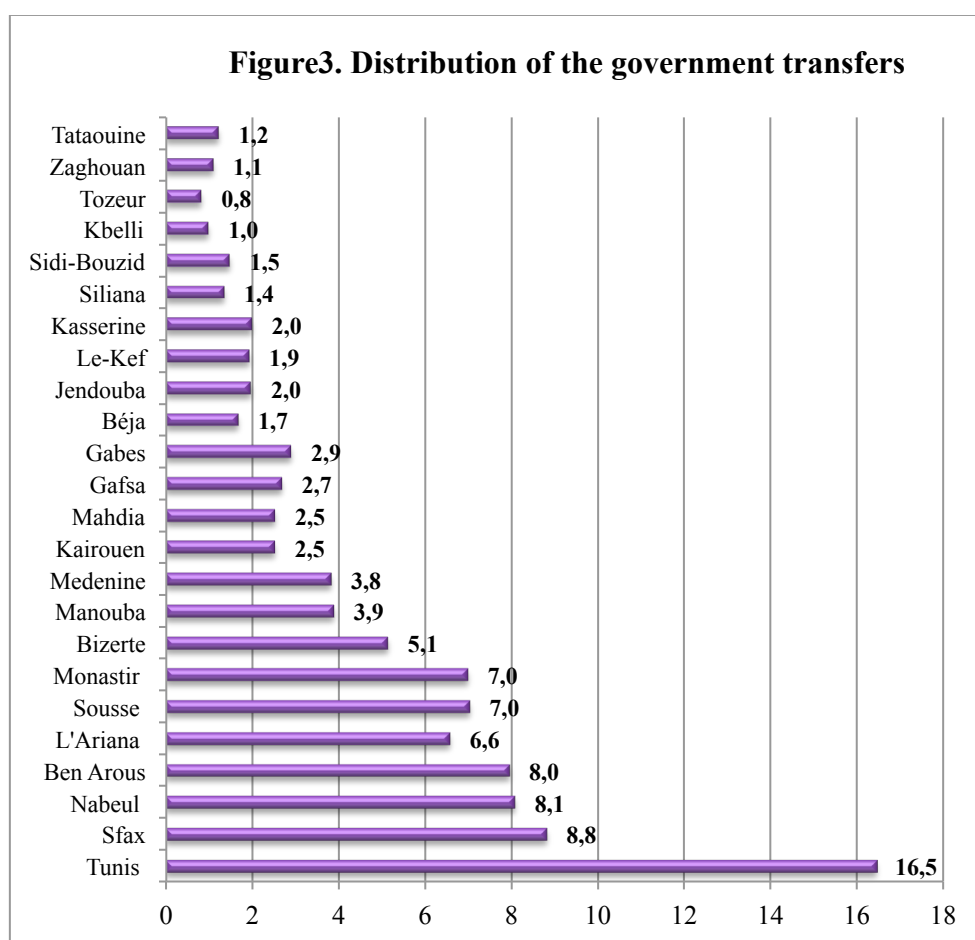
Regarding the first issue, transfers account for more than four-fifths of total local administration financial sources—and more than 90 percent in some governorates in Egypt. In Morocco, transfers from the central government represent 57 percent of total local revenues. In contrast, only one quarter of local revenues in Tunisia originate from transfers from the central state. In some small localities, however, the share of transfers may reach 75 percent of total local revenues.

Regarding, the issue of the formula and criteria used to allocate transfers among different territories, some variation exist among the three countries. For a long time, the allocation in Egypt did not comply with any specific formula as there were no announced or legally stated criteria by which transfers are allocated¹². More recently, the Ministry of State for Local Development has produced a guide on the use of transfers that was implemented during the

¹² Amin and Ebel

fiscal year (2009/2010). In urban governorates, 30 percent of the “lump sum” allocated should serve for joint projects among different cities or districts within the governorates and 70 percent shared between cities and districts based on the three key criteria: population size, size of their territory and their respective human development indexes. In rural governorate, 10 percent of the lump sum is devoted to the capital city of the governorate, 30 for the joint projects among villages, and 60 distributed between villages on the basis of specific criteria¹³.

In Tunisia, the amount of transfers¹⁴ is divided between the urban communes or municipalities and the regional councils (at the governorate level) with 86 and 14 percent respectively. The amount attributed to municipalities is shared among them based on three criteria: 10 percent is a lump sum that is shared equally among all municipalities as a core funding regardless of any economic or financial indicator; 45 percent is based on the size of the urban population in each municipality and another 45 percent associated with the local tax effort of each municipality. The second component means that larger and more urbanized municipalities receive more resources from the central state compared to small and rural municipalities. The third component rewards municipalities that collect more local taxes, more specifically “rental tax” levied on the value of properties, houses, apartments and commercial outlets and which represents the most important source of municipal revenues. Both the second and the third component of state transfers tend to exacerbate inequalities among rich and poor Tunisian territories as shown in the figure 3.



Source: Ben Romdhane (2012) based on Tunisia's Ministry of Interior Data.

¹³ Ahmed Ghoneim (2012)

¹⁴ Transfers in Tunisia are managed through the FCCL (Common Fund for Local Communities)

As far as Morocco is concerned, the state transfers each year **30 percent of Value Added Tax** (VAT) revenues to local entities. The total amount of transferred VAT is shared as follows: 60 percent for communes (32 percent for urban and 28 percent for rural), 22 percent for provinces and prefectures and the remaining 18 percent allocated to three different uses: 10 percent for “common expenses¹⁵”, 3 percent for “transferred expenses¹⁶” and 5 percent for unexpected expenses.

The VAT transferred to communes is shared among the communes according to three criteria: a) **An unconditional amount** (similar for all communes) that guarantees for all communes regardless of their size and their fiscal-wealth a minimal lump sum; b) **Fiscal potential**, which is inversely related to the commune’s own revenues collected by the state to ensure some fiscal equalization among communes ; c) **Fiscal effort**, which is directly related to the commune’s local revenues collected on their own, to reward those entities that actively mobilize revenues. The respective weight of each criterion differs between urban and rural communes as shown in the table 2.

Table 2
Formula for the central government transfers

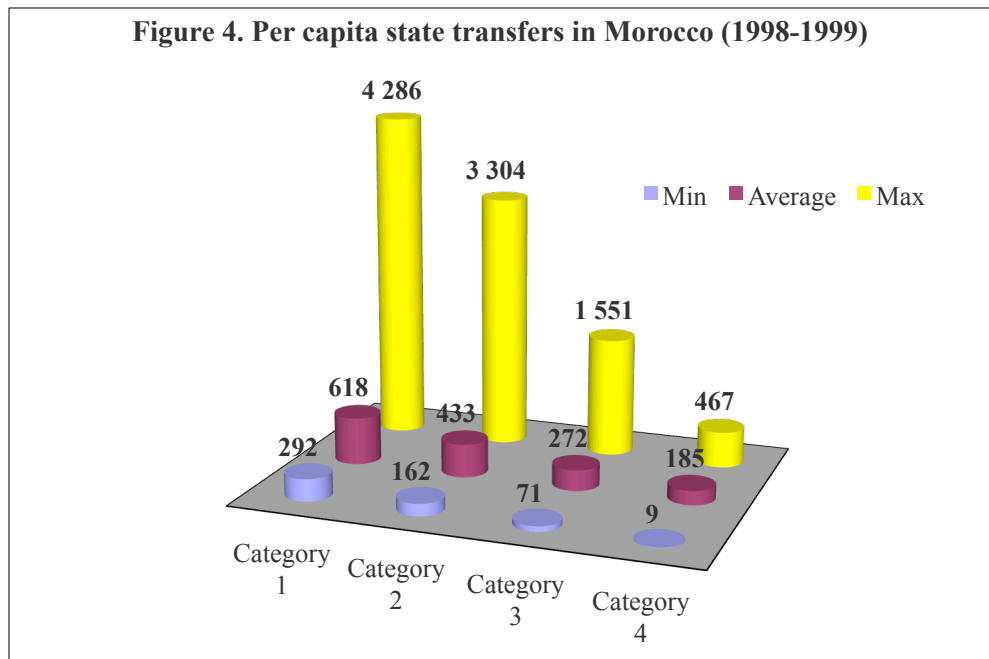
Criteria	Urban communes	Rural communes
Unconditional amount	15%	30%
Fiscal potential	70%	55%
Fiscal Effort	15%	15%
Total	100%	100%

Source: Direction Générale des Collectivités Locales DGCL), Morocco

The VAT transferred to provinces and prefectures is based on the following criteria: a) (1/6) of the amount is **unconditional** and therefore similar for all b) (4/6) of the amount depends on the **population size** and c) the remaining (1/6) relates to **the size** of province or prefecture’s **territory**. As far as “regions” are concerned, they receive from the state **1 percent of corporate taxes** and **1 percent of income taxes** collected in the country. The total amount these transfers are shared among the 16 regions based three criteria: 50 percent unconditional, 37.5 percent based on population size and 12.5 percent based on the size of the region’s territory.

¹⁵ Common to several territories

¹⁶ Projects or expenses initiated by the state and that require contribution from local entities



Source: Ratios financiers (1998/1999); Direction General of local collectivities

Note: Category 1: Communes with less than 10 000 inhabitants; Category 2: Communes of between 10 000 and 25 000 inhabitants; Category 3: Communes of between 25 000 and 100 000 inhabitants; category 4: Communes with more than 100 000 inhabitants.

Despite the multiple, and relatively sophisticated criteria used in Morocco to share state transfers among different territories, the distribution of transfers reveals wide differences. Unfortunately, only data for the year fiscal year (1998/99) are available to us. On average, each urban commune received a per capita transfer of 244 dirham (DH), which is roughly US \$ 25. This average ranges between 185 DH per capita for more populated urban communes and 618 DH (more than three times) in less populated urban communes. The gap between some privileged communes and a number of marginalized communes seem astonishing and policymakers need to address it by revisiting the sharing formula.

3. Decentralization of human resources

Human resources, made of elected and appointed staff represent a key ingredient in the success of any decentralization policy. Any transfer of “functions” or “missions” from the central state to sub-national territories is doomed to fail if not supported by adequate human resources that would be in charge of these missions. There is no systematic statistical data on the number and qualification of human resources at the sub-national layers in the three countries. Instead, there are a number of indications that provide a certain understanding of human resources’ at the local level. Before the collapse of Mubarak’s regime in Egypt, the National Democratic Party (NDP) dominated local popular councils, which led to poor checks and balances on the executive councils. The ex-military officials have been often appointed as heads of the Local Executive Councils (LECs) at the different levels (governorates, Markaz, City, District...). In Tunisia, Ben Ali’s ruling party (RCD) played a major role in local politics before revolution, which undermined potential benefits of decentralization. The absence of financial incentives and prospects for career development within the local civil service did not attract qualified individuals and constrained the decentralization process. In Morocco, no single political party dominated local politics. Yet, the high number of parties

and election mode adopted has led in many cases lead to a severe fragmentation of local councils with fragile and unstable alliances.

There are in Morocco 27 743 members of communal councils elected directly by the population for six years¹⁷. Both females and youth are underrepresented in local councils since only 12 percent of the members are female and 16 percent are under 35 years. Out of 1503 local councils, only 12 are led by females—less than 1 percent— among which 10 heading a rural council. One fifth of the members are illiterate and another quarter of them have only primary education. Finally, members of local councils are from a diverse set of professional backgrounds: 25 percent of them are farmers, 18 percent wage-earners, 11 percent operate in commercial activities, 9 percent are teachers and 8 percent are civil servants. Interestingly, 6 percent of the members have no professional occupation (1600 members). Local councils' appointed staff, on the other hand, amounts to more than 150 000 people and represents the equivalent of 25 percent of the total number of civil servants. Roughly 6 out of 10 among them are employed by urban communes and one quarter by rural communes. Provinces and prefectures' staff accounts for 15 percent, while just less than one percent is in regions.

Regarding qualification of the local entities' staff, most of them are ill-equipped and fail to perform their tasks adequately. The share of executives among them represents 11 percent; middle management 20 percent, 22 is made by employees and 47 percent by unskilled labor. The wages paid by local councils to their staffs are significantly lower than those prevailing in the central government. This situation has led to frequent labor strikes in local entities, with harmful effects on the population and regular provision of services¹⁸.

4. Regional disparities

During the past two decades, official statistics indicate that regional inequalities in south Mediterranean countries have exacerbated. The gap in poverty rates between urban and rural areas as well as within the urban population itself widened. The same patterns characterizes other economic and social indicators such as access to housing, basic services and labor opportunities with heterogeneous unemployment rates. The magnitude of such disparities appears larger in Tunisia and Morocco compared to Egypt.

Regional disparities, although to a large extent explained by different regional initial conditions and unequal natural endowments; are exacerbated by public policies. For instance, the central government transfers that should create some solidarity among sub-national territories tend to play as “un-equalizing” factor and instead of improving living standards in the poorest regions; transfers contribute to more disparities and territorial exclusion.

¹⁷ The latest local election took place in 2009.

¹⁸ Lahcen Achy (2012), “Decentralization and Regional Development in Morocco”

Table 3
Selected socio-economic indicators at the governorate level in Egypt

Governorate	Share in total population % (2008)	GDP per Capita (L.E) (2007/08)	Literacy rate (15+) 2007	Beds per 10000 people (2008)	Public Expenditure per capita (2011/12)
Cairo	10,8	7726	80,7	37,4	582
Alexandria	5,6	8978	80,5	30	645
Port Said	0,8	10550	83,6	29,4	1723
Suez	0,7	8746	82,9	27,4	1227
Damietta	1,5	7884	77,6	23,2	1312
Dakahlia	6,8	9112	72,1	15,3	984
Shrkia	7,4	8700	67,8	12,5	803
Kalyoubia	5,8	8134	72,5	21,4	667
Kafr El Sheikh	3,6	8928	65,7	10,4	848
Gharbia	5,5	8800	74,1	18,2	929
Menoufia	4,5	9854	72,6	14,7	966
Behera	6,5	9452	63,4	8,9	727
Ismailia	1,3	8970	77,2	21,4	1157
Giza	8,6	8243	80,3	13	450
Beni Suef	3,2	8857	59,5	9,2	781
Fayoum	3,5	8434	59,1	6,7	662
Menia	5,7	8656	58,7	11,5	697
Assiut	4,7	8020	60,9	17,9	736
Suhag	5,2	7330	61,5	11,6	773
Qena	4,1	6388	65,2	8,7	732
Luxor	0,6	9106	72,2	16,8	2543
Aswan	1,6	7057	77,0	19,2	1249
Red sea	0,4	8461	87,3	20,9	1891
New valley	0,3	12682	81,8	36,2	3714
Matrouh	0,4	10346	64,9	25,4	1420
North Sinai	0,5	8884	75,8	15,3	2624
South Sinai	0,2	12455	88,4	35,1	2253
National	100	8482	70,8	17,6	803

Source: Adapted from Ahmed Ghoneim (2012)

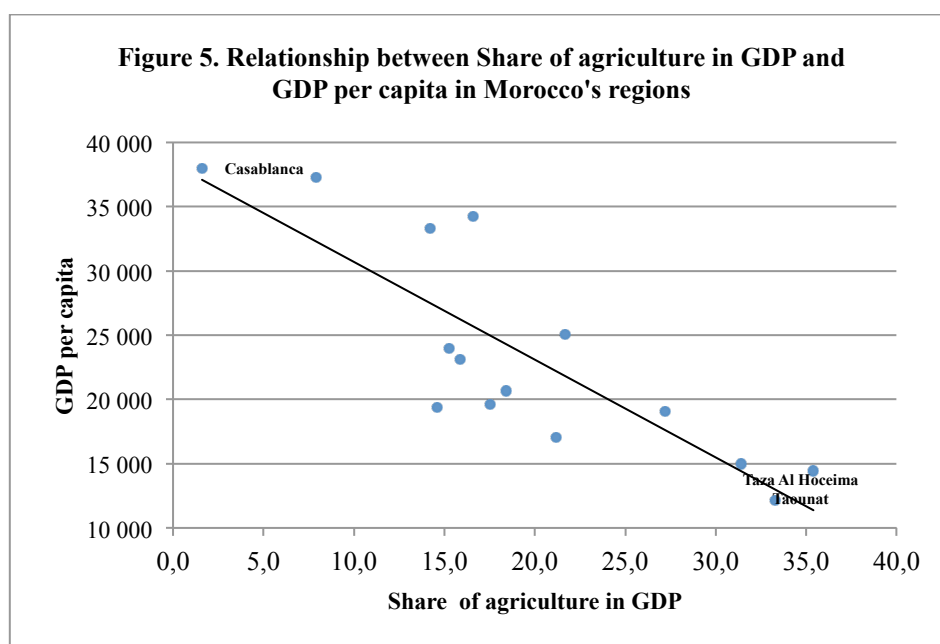
In Egypt, there are significant differences among governorates in terms of the size of their population with Cairo and Giza combined concentrate around one fifth of the population. There are however limited differences with regard to average GDP per capita among the 27 governorates. The new valley and the south of Sinai outperform substantially the national average. Together, however, they host less than 1 percent of the Egyptian population. The disparities in terms of literacy rates are also limited unlike those in the provision of health services as approached by the number of beds by 10 000 people. Curiously, the figures on public expenditure per capita across the Egyptian governorates exhibit wide dissimilarities. The national average is around double the amount allocated to populated governorates such as Giza and Cairo and represents roughly one quarter of the amount spent in less populated governorates such as New Valley and North of Sinai. Beyond the density of the population and related economies of scale in public expenditure, other factors may be at play and need further investigation.

Table 4
Basic regional indicators in Morocco

Regions	Share in total population (%)	Area square Km	Area in %	GDP %	GDP per capita in Moroccan Dirham	Regional GDP to national GDP
Chaouia Ourdigha	5,5	16846	2,4	7,5	33309	139
Doukala Abda	6,6	13285	1,9	6,8	25051	105
Fes Boulmane	5,3	20007	2,8	4,4	19357	81
Gharb Chrarda Bni Hsen	6,2	7969	1,1	4,1	15001	63
Grand Casablanca	12,2	1026	0,1	19,2	38016	159
Marrakech Tensift Al	10,4	31882	4,5	8,9	20677	86
Meknes Tafilalet	7,2	54586	7,7	5,5	19088	80
Oriental	6,4	80579	11,3	5,1	19644	82
Rabat-Salé-Zemmour-Zaer	7,9	10225	1,4	12,6	37256	156
Souss Massa Daraa	10,4	79029	11,1	7,7	17015	71
South (3 regions)	2,7	340337	47,9	4,3	34263	143
Tadla Azilal	4,9	17210	2,4	2,8	14464	60
Tanger Tetouan	8,3	13712	1,9	8	23124	97
Taza Al Hoceima Taounate	6,1	24157	3,4	3	12124	51
Total	100	710850	100	100	23955	100

Source: Authors' calculations based on data from High commissariat for Planning.

In Morocco, the seven less favored regions, in which GDP per capita in 2010 has been lower than the national average, extend over one third of the national territory, offer home to around 40 percent of Morocco's population but their contribution to GDP does not exceed 27 percent. Grand Casablanca, which is Morocco's economic capital, contributes to the national GDP by 19.2 percent with a population of 12.2 percent of the Moroccan population and just 0.1 percent of Morocco's territory.



Source: based data from Morocco's High Commissariat for Planning

In the Grand Casablanca, GDP per capita amounts 38016 Moroccan Dirham, this is the equivalent of US \$ 4500. Such level is 60 percent above the national average and three times higher than GDP per capita in the “Taza Al Hoceima Taounate” (Morocco’s poorest region) and more than twice GDP per capita in three other regions. The sectoral composition of GDP is a key factor underlying the regional heterogeneity. Poor regions—those with the lowest GDP per capita—tend to have a higher contribution of agriculture and vice versa.

The share of agriculture in GDP represents 35 and 33 percent in the two poorest regions. Conversely, the share of agriculture accounts for no more than 1.6 percent in the richest region of Grand Casablanca.

In Tunisia, economic inequality among the country’s regions has played a key role in fueling social unrest. The hardest-hit cities of Sidi Bouzid, Kasserine, and Thala in the country’s Center-West led the uprising against the regime. Official statistics show that during the past two decades, poverty rates have declined and the overall economic situation has improved in Tunisia. Large parts of the country have been neglected, however, and as a result, regional inequality has exacerbated. The gap with respect to the capital city “Tunis” increased in all regions. The North-West and Center-East, which benefited from public investments as well as private-sector projects in tourism and offshore manufacturing, are much closer to the capital city. The South and Center-West, conversely, are lagging behind. The coastal zone received 65% of total public investment, the interior region has been disadvantaged during the period 1992 – 2010¹⁹.

Table 5
Regional disparities in Tunisia

	Poverty rate 2000	Poverty rate 2010	Extreme poverty rate	Extreme Poverty rate 2010	Unemployment rate (%)
Great Tunis	21.0	9.1	4.3	1.3	17.8
North Est	32.1	10.3	10.5	1.8	17.3
North West	35.3	25.7	12.1	8.8	17.3
Center Est	21.4	8.0	6.4	1.6	11.1
Center West	49.3	32.3	25.5	14.3	28.6
South Est	44.3	17.9	17.5	4.9	24.8
South West	48.7	21.5	21.7	6.4	26.9
Total	32.4	15.5	12.0	4.6	18.3

Source: Ben Romdhane (2012) based on data from National Institute of Statistics (INS)

Unemployment rate is highest in the interior regions, which are also the poorest regions of the Tunisia. Unemployment rate of the Center-West is as high as 28.6 percent in 2012, followed by the South-West with 26.9 percent and the South-East with 24.8 percent. The jobless rates in these three hinterlands largely exceed the national average of 18.3 percent.

¹⁹ AfDB (2012, b), Tunisie : Document de stratégie pays intérimaire. African Development Bank Group. Tunis.

Two years after the revolution has erupted in Tunisia, the government faces severe social, economic and political challenges. Strengthening decentralization and reducing regional disparities are among top priorities. To this end, the Ministry of regional development has been created in 2011²⁰. The ministry prepared a regional development program²¹ made of 49 proposals. Decentralization is also debated in the constitutional Assembly. However, the draft of the constitution, circulated in August 2012, includes only one article that aims at reinforcing political decentralization. Tunisia's civil society is calling for an open debate with the Assembly in order to devote more constitutional provisions to local democracy and participatory decision-making process.

Econometric Investigation

Despite the importance of regional disparities in different economic and social areas, there are few studies that investigate its roots systematically due to poor availability of regional data. The results of existing studies, although helpful, are difficult to generalize. One issue that attracted a lot of attention in the public debate recently with the political transformation in south Mediterranean region is the extent to which decentralization can reduce regional inequalities. Decentralization and its potential effects are of particular interest to countries in the region.

Central governments are often blamed for being too far from the realities of people. Transferring various forms of authority and functions to sub-national units of government for timely adaptation to locally specific conditions is perceived to be an effective solution.

This section focuses on the econometric investigation of the relationship between proxies of regional performance and decentralization indicators. This part is a preliminary analytical attempt to understand the channels through which decentralization proxies such as the volume of local revenues or the share of central-state transfers in local revenues; are interacting with socio-economic indicators such as unemployment rates and firms' location across the national territory. Empirically, the project –to our knowledge– is the first attempt in the south Mediterranean countries to assess the specific impact of decentralization on economic and social outcomes. Data availability constraints have limited the extent to which a more ambitious econometric exercise could be conducted. Although the legal framework of decentralization in some countries doesn't assign it the task of economic development per se, the improvement of the social and political environment that should accompany it must induce, in the long run, an improvement in economic performance. The wealthy works in the empirics of growth lends unambiguous support to such expectations.

More precisely, this section examines whether financial decentralization has helped reducing inter regional differences in economic performance in Egypt and Morocco. Note that the legal frameworks of decentralization in the two countries do assign it a responsibility in economic development. Ideally, regional performance should be captured by regional GDP per employee or regional GDP per capita. However, apart from some estimates available for Morocco, there are no accurate data on these indicators in the other selected south

²⁰ Before this date, regional development was a department among the Ministry of regional development and planning.

²¹ Zouari, A (2011). *Le livre Blanc*. Regional Development Ministry. November. Tunisia.

Mediterranean countries. The data on poverty rates could have been another good indicator since it is now available at very detailed spatial level. The issue is that it has no time dimension, which is a serious limit in our case.

Given data availability, we use two indicators of economic performance (unemployment rate and the number of firms per capita), three indicators of fiscal decentralization in Egypt (Local Government Expenditures, Local Government Revenues and Intergovernmental transfers) and two indicators of economic decentralization in Morocco (similar to Egypt but Intergovernmental transfers). The indicators of economic decentralization are in national currencies at constant price. We use the consumer price index as a deflator and take the indicators in per capita term to take account of the size of the region. The estimation is conducted over 28 Egyptian governorates and 14 Moroccan regions. The data are annual covering the period 1996-2010 depending on data availability²². We follow the relevant literature (see Higgins et al., 2006 for a recent application) in estimating the following equation:

$$\Delta Y_{it} = \alpha_0 + \alpha_1 * Y_{it-1} + \alpha_2 * Decentra_{it} + \alpha_3 * X_{it} + \mu_{it} \quad (1)$$

where

ΔY_{it}	is the change in the indicator of economic performance in region i at time t
Y_{it-1}	is the level of the indicator of economic performance in region i at time $t-1$
$Decentra_{it}$	is the indicator of financial decentralization in region i at time t
X_{it}	stands for control variables
μ_{it}	is the error term

The lagged value of the performance indicator, Y_{it-1} , captures the possible conditional convergence in performance; α_1 is expected to be negative. If the indicator of economic performance is the unemployment α_2 is expected to be negative. In contrast, with the number of firms as an indicator of economic performance α_2 is expected to be positive.

The equation can be augmented with additional variables (X_{it}) to control for other determinants regional performance. The choice of such additional variables is very complicated not only for data availability reasons but also on economic grounds (see Duarluf et al., 2005). Economists suggest that one focuses on a core set of explanatory variables that have been shown to be consistently associated with the phenomenon under study and evaluate the importance of the variable of interest (here decentralization) conditional on inclusion of the core set (Woo, 2009). In what follows, we will add to Equation (1) the growth of real national GDP per capita to control of economy wide shocks.

Similar equations to Equation (1) have been generally estimated using a simple OLS on the time average of the variables for each country (i.e. the well-known Barro's regression). However, this has the inconvenience of not using the information contained in the time dimension of the sample. Islam (1995) advocated for a panel data approach to deal with this issue. The panel data framework makes it possible to allow for idiosyncratic differences across regions in the form of "fixed effects." However, in dealing with the impact of economic decentralization (especially using Local Government Revenues) another econometric issue was raised; namely potential endogeneity.

²² Since we could not have access to the similar time series in Tunisia, we limited our econometric investigation to Egypt and Morocco.

The literature adopts, in general, the GMM as the estimation method and the test of over-identifying restrictions to assess the validity of the results. The approach uses lagged values of regressors as instruments for right-hand-side variables and also introduces lagged endogenous (left-hand-side) variables as regressors. In this section we will use three different methods (OLS, Fixed effects and GMM).

Results pertaining to the unemployment rate (Table 6) suggest that OLS estimation should be preferred to the fixed effects for both countries and all indicators: the P Value of the fixed effects test doesn't allow rejecting the hypothesis that constants are the same across all "regions". The test of over-identifying restrictions confirms the validity of the results with the GMM. We will therefore focus on the GMM results especially that on, the essence, the results don't change much between the two methods.

The coefficients of the lagged unemployment rate are always significant and negative suggesting a conditional convergence on unemployment rate across regions in both countries. The speed of convergence seems higher in Egypt than in Morocco. The coefficients of the growth of real national GDP per capita is also always significant and negative suggesting that wide economy positive shocks reduce regional unemployment. Again the coefficients are higher in Egypt than in Morocco. Finally, the coefficients of the indicators of economic decentralization are never significant. Overall, unemployment rates seem to converge across Egyptian and Moroccan regions but the economic decentralization doesn't seem to affect regional unemployment rate. In contrast, national economic conditions play an important role.

For the same reasons as above, we will focus on the GMM results pertaining to the number of firms. These results are more contrasted between the two countries than for unemployment rate. In Egypt, the coefficients of the lagged number of firms are never significant suggesting the absence of any conditional convergence on the number of firms across regions. Likewise, the coefficients of the growth of real national GDP per capita are never significant. The same holds for all indicators of economic decentralization. In Morocco, the conditional convergence on the number of firms seems to take place. The coefficients of the growth of real national GDP per capita are never significant. Overall, there is no evidence in the two countries of an impact of decentralization on the number of firms by region.

So far, we run the regressions on the whole sample in each country and we failed to find any positive impact of economic decentralization. The failure might be due to the fact that our approach imposes that the coefficients should be the same for high unemployment and low unemployment regions. It is possible; however, that decentralization benefits less or more one category of regions than the other. To investigate such possibility, we run similar regressions as above using two sub-samples in each country. We split each country sample into regions with low unemployment rate and regions with high unemployment rate based on the average unemployment rate over the period of observation. We adopted a similar approach for the number of firms. The results, available from the authors, confirm the main conclusions.

Table 6
Estimation results: Dependent variable is the change in unemployment rate

Variable	OLS		Fixed effects		GMM	
	Egypt	Morocco	Egypt	Morocco	Egypt	Morocco
Local Government Expenditures						
Unemployment rate in t-1	-0.262	-0.078	-0.724	-0.343	-0.286	-0.086
	-2.849	-2.054	-4.715	-2.783	-3.316	-2.344
Local Government Expenditures in log	-0.005	0.001	0.225	0.002	-0.004	0.001
	-0.434	0.992	3.504	1.394	-0.357	0.922
Growth of real national GDP per capita	-1.098	-0.193	-0.574	-0.173	-1.105	-0.248
	-4.333	-1.729	-2.118	-1.702	-4.491	-2.396
Number of observations	81	79	81	79	81	79
Adjusted R-squared	0.28	0.06	0.44	0.07	0.27	0.05
Fixed effects test – P Value			0.03	0.34		
Test of overidentifying restrictions - P value					0.22	0.09
Local Government Revenues						
Unemployment rate in t-1	-0.256	-0.078	-0.680	-0.321	-0.290	-0.086
	-3.115	-1.963	-4.324	-2.708	-3.922	-2.229
Local Government Revenues in log	-0.005	0.001	0.021	0.001	-0.004	0.001
	-0.964	0.714	2.000	0.745	-0.784	0.633
Growth of real national GDP per capita	-1.169	-0.193	-0.665	-0.176	-1.149	-0.250
	-4.465	-1.722	-2.153	-1.700	-4.521	-2.398
Number of observations	81	80	81	80	81	80
Adjusted R-squared	0.26	0.05	0.34	0.04	0.28	0.05
Fixed effects test – P Value			0.24	0.49		
Test of overidentifying restrictions - P value					0.25	0.09
Intergovernmental transfers						
Unemployment rate in t-1	-0.271		-0.664		-0.272	
	-3.659		-5.582		-3.889	
Intergovernmental transfers in log	-0.004		-0.017		-0.004	
	-0.405		-0.378		-0.415	
Growth of real national GDP per capita	-0.600		-0.580		-0.599	
	-2.843		-2.028		-2.940	
Number of observations	108		108		108	
Adjusted R-squared	0.20		0.29		0.20	
Fixed effects test - P Value			0.09			
Test of over identifying restrictions - P value					0.97	

Table 7
Estimation results: Dependent variable is the change in the log of the number of firms per capita

Variable	OLS		Fixed effects		GMM	
	Egypt	Morocco	Egypt	Morocco	Egypt	Morocco
Local Government Expenditures						
Number of firms in t-1 in log	-0.011	-0.036	-0.310	-0.547	-0.012	-0.024
	-1.168	-2.479	-0.820	-2.689	-1.276	-4.389
Local Government Expenditures in log	0.009	0.008	-0.467	0.007	0.011	0.002
	0.615	1.098	-1.724	1.275	0.772	0.683
Growth of real national GDP per capita	0.816	-0.253	0.034	-0.048	0.549	0.257
	1.675	-0.394	0.077	-0.125	1.364	0.855
Number of observations	75	79	75	79	75	79
Adjusted R-squared	0.05	0.05	0.24	0.54	0.04	0.03
Fixed effects test – P Value			0.05	0.00		
Test of overidentifying restrictions - P value					0.29	0.34
Local Government Revenues						
Number of firms in t-1 in log	-0.010	-0.030	-0.174	-0.553	-0.011	-0.016
	-1.221	-1.790	-0.365	-2.769	-1.329	-2.425
Local Government Revenues in log	0.010	0.003	-0.031	0.007	0.011	-0.003
	0.728	0.384	-0.858	0.939	0.879	-0.913
Growth of real national GDP per capita	0.969	-0.255	0.340	-0.053	0.688	0.265
	1.664	-0.391	0.644	-0.136	1.368	0.874
Number of observations	75	80	75	80	75	80
Adjusted R-squared	0.06	0.03	0.08	0.54	0.06	0.01
Fixed effects test – P Value			0.40	0.00		
Test of over identifying restrictions - P value					0.27	0.34
Intergovernmental transfers						
Number of firms in t-1 in log	-0.008		-1.024		-0.015	
	-0.590		-7.979		-1.215	
Intergovernmental transfers in log	0.010		0.094		0.006	
	0.755		0.814		0.459	
Growth of real national GDP per capita	1.300		0.860		0.717	
	1.580		1.220		1.013	
Number of observations	100		100		100	
Adjusted R-squared	0.01		0.69		0.00	
Fixed effects test - P Value			0.00			
Test of over identifying restrictions - P value					0.15	

Conclusions and Policy implications

From a political point of view, decentralization opens opportunities for local population to be involved in local decision making process and empower them to make their local elected representatives accountable. From an economic perspective, economists emphasize allocative gains of decentralization in the provision of public goods and services. In principle, local governments are close to people and know popular preferences reasonably better than the central government. They should be able to provide public services that match local preferences. Therefore, decentralization offers sub-national authorities the opportunity to pursue economic and social policies in line with their specific conditions instead of implementing uniform central state policies.

Decentralization is not a panacea; however, it needs to be properly implemented and monitored. It can lead to coordination issues, increase administrative costs or suffer from the poor quality of local bureaucrats and people's representatives. Decentralization without appropriate safeguards also runs the risk of expanding corruption and cronyism and undermines potential efficiency gains.

Empirically, the project –to our knowledge– is the first attempt in the south Mediterranean countries to assess the specific impact of decentralization on economic and social outcomes. Data availability constrained the extent to which a more ambitious econometric exercise could be conducted. The research project offers an opportunity to raise awareness of policymakers on the fundamental role of detailed and accurate data on regional and local economic and financial indicators. At this stage and unsurprisingly the key conclusion of our econometric exercise is that the pattern of decentralization as it stands today in the countries investigated does seem to affect neither regional unemployment rates nor firms' location.

More broadly, the report provides policymakers with elements for possible strategies in the area of decentralization and regional development. Such issues are high on the agenda for policymakers in the south Mediterranean countries. The Arab spring has liberated people's voices including in remote areas that used to be forgotten or marginalized in national politics. The emerging political debate in the transition towards democracy in the south Mediterranean should lead to a new era in the relationships between the centre and the sub-national territories. Further research need to be conducted in order to determine the right mix, for each country, between providing incentives from better service delivery through political and fiscal decentralization while at the same time ensuring that the principle of national solidarity plays its role via central state transfers to adjust for regional disparities.

Appendix A: List of regions

Regions with low unemployment rate

Regions with high unemployment rate

Egypt

Beni Suef
Fayoum
Giza
Damietta
South Sinai
Menoufia
Red sea
Alexandria
Kalyoubia
Matrouh
Menia
Cairo
Suhag

Behera
North Sinai
Gharbia
Assiut
Shrkia
Dakahlia
New valley
Qena
Luxor
Kafr El Sheikh
Ismailia
Port Said
Suez
Aswan

Morocco

Taza-Al Hoceima-Taounate
Marrakech-Tensift-Al Haouz
Tadla-Azilal
Doukkala-Abda
Chaouia-Ouardigha
Souss-Massa-Draâ
Fès-Boulemane

Tanger-Tétouan
El Gharb-Chrarda- Beni Hssen
Meknès-Tafilalet
Rabat-Salé-Zemmour-Zaer
Oriental
Grand Casablanca
Oued Ed-Dahab- Lagouira - Laâyoune

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Appendix

Country Studies

1. Decentralization and Regional Development in Morocco *by Lahcen ACHY*
2. The Status of Decentralization in Egypt, *By Ahmed Farouk Ghoneim*
3. Decentralization and Economic Outcomes in Selected South Mediterranean Countries : The Case of Tunisia *By Saoussen Ben Romdhane*

1- Decentralization and Economic Outcomes in Selected South Mediterranean Countries

Decentralization and Regional Development in Morocco

Lahcen ACHY

Introduction

In Morocco, the process of decentralization has gone through different steps as laws and regulatory provisions have been passed to expand prerogatives and resources of local governments. The first Communal Charter dates back to 1960, replaced by the Communal Charter of 1976. The latter was amended in 1992 and 2002 before a new Communal Charter was adopted in 2009. One of the main pillars of the last charter is to provide local councils with margins and tools for an adequate financial base to cope with responsibilities devolved to them by the state. Morocco has achieved important progress in decentralization compared with most other Arab countries. Yet it still has many weaknesses that limit the benefits that decentralization can generate.

The purpose of this chapter is threefold. First, it examines the actual functioning of regional and local institutions and the dynamics of resource and power sharing between the central government and various sub-national levels.

Second, the chapter provides a descriptive analysis of the regional and relevant sub-regional data in Morocco in terms of basic infrastructure, access to social services and access to economic opportunities. The objective is to identify patterns and possible correlations among regional economic and social variables and decentralization-based measures.

Third, the chapter investigates the political economy factors that have been shaping the process of decentralization and what needs to be done in terms of rules and mechanisms to increase local councils' transparency and accountability to the voters and ensure that gains of decentralization trickle down the population instead of being captured by local elites.

The architecture of Decentralization in Morocco

The concept of decentralization has multiple dimensions: a) Political decentralization refers to some degree of transfer of the decision-making power from the central state to the local level.

Political decentralization requires often constitutional reforms, development of pluralistic parties, and strengthening of legislatures; b) Administrative decentralization, referred to as “deconcentration” involves shifting decision-making powers to central government officials who are located outside the capital city. Deconcentration implies that local decision-makers are subjected to the central authority, not to local constituencies. c) Financial decentralization requires that local bodies have authority to make decisions regarding spending and taxation. To this end, there must be some degree of local authority to determine the level and the nature of local expenditure (spending autonomy) and service delivery and some ability to impose fees and taxes to finance those services (revenue collection revenue autonomy). There is very often the need to complement local taxation powers with inter-governmental fiscal transfers or grants. The purpose of this section is to assess Morocco’s progress with regard these three dimensions of decentralization.

Political and administrative decentralization

In Morocco, the process of decentralization has gone through different steps as laws and regulatory provisions have been passed to expand prerogatives of local governments. The process began in 1960 with the first Communal Charter (Law of 3 June, 1960, Decree of 2 December, 1959), modified by the Communal Charter of 1976 (Law of 30 September, 1976.). The latter was amended in 1992 (Decree of 30 June, 1992) and 2002 (Law 78-00 of 3 October, 2002) before a new Communal Charter was adopted in 2009 (Law 17-08).

The objectives of these successive reforms can be summarized as follows:

- offer local entities broader responsibilities to manage local public affairs and an elected executive with extended powers (*Communal Charter of 1976*)
- Adapt the Communal Charter to the country’s geographic, demographic, economic and social conditions (*Communal Charter of 1976*)
- Re-design the communal landscape into smaller entities closer to the population and more responsive to its needs (*Communal division of 1992*)
Endow the communes with a solid financial base to cope with local duties (*Communal Charter 2002*)
- Enable citizens to actively participate in the development of local government entities and ensure their involvement in their management (Communal Charter 2002).
- Provide local councils with margins and tools for an adequate financial base to cope with responsibilities devolved to them by the state (*Communal Charter 2009*)

There are currently three tiers of local entities in Morocco. The first tier is made by regions and their number is (16). The second tier is made by provinces and prefectures. There are 62 provinces and 13 prefectures. The third tier is represented by the “communes” that can be either urban or rural. There are 221 and 1282 communes respectively. There is no hierarchical relationship between the three levels.

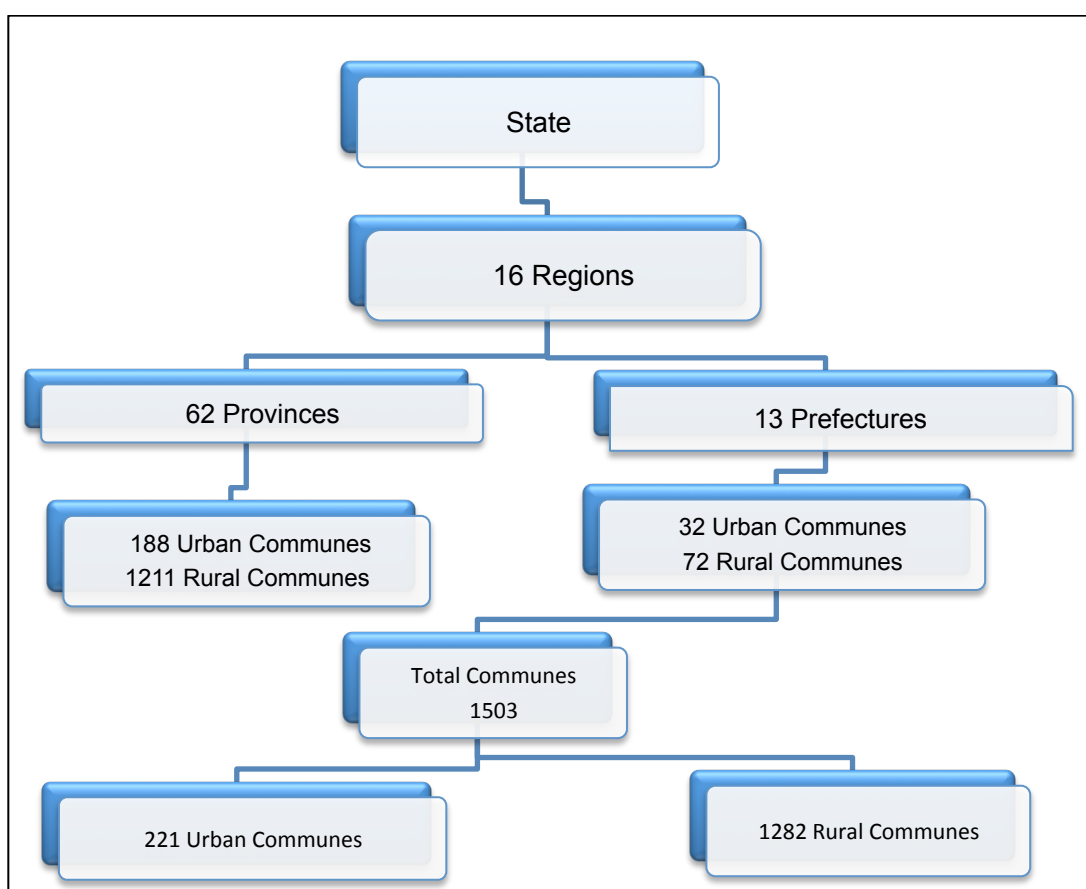
The number of local entities in Morocco over time

Years	Provinces and prefectures			Communes		
	Regions	Prefectures	Provinces	Total	Urban	Rural
1959		5	19	24	66	735
1976		3	31	34	66	735
1984		6	37	43	99	760
1992		18	41	59	247	1297
1997	16	24	44	68	247	1297
2003	16	26	45	71	199	1298
2006	16	13	49	62	199	1298
2012	16	13	62	75	221	1282

Source: Collectivités locales en chiffres (2002) and Décentralisation en chiffres (2008-2009)

The number of local entities, as shown in the table, has evolved over time to meet the needs of a growing population and the willingness to provide administrative services closer to the population. The “administrative proximity” originally motivated by reasons of political stability also led to the creation of a large number of local councils, some of which lack economic and financial viability and fail to perform their obligations effectively.

- a) **Communes:** since the adoption of the Communal Charter of 1976, communes are the backbone of decentralization in Morocco. The communes are managed by the *communal council* composed by members elected directly by the population for six years. The Communal council (CC) is lead by the president of the CC, who is elected indirectly by members of the CC.



There are large size differences among the communes. Out of 221 urban communes, 23 percent of them (50 communes) have a population of less than 10 000 inhabitants, two thirds of them have between 10 000 and 100 000 inhabitants. The largest communes (6) have a population of more than half a million.

Urban communes by categories of population size

Population size	Number	Share
Less than 10 000	50	23
From 10 000 to 25 000	72	33
From 25 000 to 100 000	72	33
From 100 000 to 300 000	16	7
From 300 000 to 500 000	5	2
More than 500 000	6	3
Total	221	100

Source: “Décentralisation en Chiffres” (2008-2009)

Rural communes, on the other hand, tend to be generally less populated. Around 16 percent of them are populated by less than 5000 inhabitants. Most of the rural communes (64 percent), however, have between 5000 and 15 000 inhabitants. Interestingly, there are 265 rural communes, which is the equivalent of one fifth of them, with more than 15 000 people. Such category of communes might be problematic, as they face substantial needs in terms of infrastructure and personnel matched with poor fiscal resources.

Rural communes by categories of population size

Population size	Number	Share
Less than 1500	24	2
From 1500 to 5000	182	14
From 5000 to 7500	264	21
From 7500 to 15 000	547	43
From 15 000 and 25 000	205	16
More than 25 000	60	5
Total	1282	100

Source: Based on “Collectivités Locales en Chiffres” (2009)

b) Provinces and prefectures²³ (PP) are endowed with a dual organization. The Governor of the province or prefecture (PP) is both the state representative in his territory (head

²³ In prefectures all communes are urban. In provinces some communes are rural.

of the territorial administration) and the head of the executive of the PP council. As such he can order payments from the budget of the PP. The council of the PP consists of members elected directly by the population who belong to communal councils located in the territorial jurisdiction of the PP and representatives of professional chambers. Members of the parliament, elected in the PP, sit in these assemblies with an advisory mandate.

- c) **Regions:** established in 1992, are led by the regional assembly that includes decision-making members (members from CC) and advisory members (Presidents of PP). Their responsibilities cover chiefly areas of economic development and protection of the environment. The *Wali* represents the state in the region and ensures enforcement of the government decisions in his territory. The *Wali* of a region is head of the executive but needs approval of the president of the regional council.

Institutional set-up of Local territories in Morocco

Local territory	Legislative body	Executive body
The Commune (221 municipalities and 1,282 rural communes)	The Communal Council of which members are directly elected by the population	The President of the Communal Council elected by members of the Communal Council among its members
The Province (62) or Prefecture (13)	The provincial or prefectural assembly elected by indirect vote among members of communal councils and colleges of professional chambers	The Governor of the Prefecture or Province, appointed by <i>Dahir</i>
The Region (16)	The Regional Council elected by indirect vote among several electoral colleges	The Wali (Governor of the Prefecture or Province capital of the Region) appointed by <i>Dahir</i>

The Communal Council: elected by the population, has legal competence in a large number of areas, ranging from urban and land-use planning, sanitation, and the environment to economic and social development. The council is in charge of local public services, which include the local road network, water distribution, solid waste collection, public transportation, and local health care offices. The council, through its deliberations, manages all communal affairs. The CC is the decision-making body and the communal authority unless there is a formal legal provision that says otherwise. Although, decisions are made through the CC's deliberations, the President of the CC has significant powers that exceed the mere preparation and enforcement of the council's decisions. The president enjoys specific authority in the area of urban planning. The president is also the head of the communal staff as such he appoints communal employees, manages their careers, and can issue disciplinary sanctions.

Communal institutions

Institution	Legal basis	Powers
The Communal Council	Elected by direct vote from the population	Manages and decides on communal affairs
The Council's Bureau: (The president and its deputies)	The president is elected by the council among its members. Deputies are appointed by the president	The council's bureau provides assistance to the president and can receive delegation of authority
The Council's Secretaries	Appointed by the president in consultation with the council	In charge of the council's minutes.

The Budget Reporter	Appointed by the president in consultation with the council.	In charge of presenting draft budgets and administrative accounts.
Committees ²⁴	Formed by the communal council's members	Prepare items to be submitted to the plenary assembly of the CC

²⁴ The CC can set up as many committees as it sees fit. Three committees are explicitly set by law: the committee for financial and budgetary issues, committee for economic, social and cultural issues, committee for urban, land-use planning and environment.

Financial Decentralization

Powers and responsibilities granted to local entities determine the magnitude of their financial needs. The share of current revenues managed by local entities in Morocco represented 11.5 percent by end of 2011. This share has been relatively stagnant over the last five years. The share of current spending by local entities amounted to 8.2 percent by end of 2011 down from 10.6 percent in 2006. Regarding, capital spending, local entities undertake the equivalent of one quarter of total investments achieved by the central state. Such figure reveals the central role of local entities in the provision of basic infrastructure for the local populations.

Decentralization rate of revenues and spending (2011)

<i>In billions DH</i>	Local entities	Central state	Share (%)
Current revenues	23 770	207207	11,5
Current spending	17 664	215086	8,2
Capital spending	12 318	49 918	24,7

Source: Author's calculation based on data from the Ministry of finance and Bank Al Maghrib

Decentralization of revenues

In Morocco, local entities rely on two main sources of funding. First, their own revenues: that can be either collected by their own means or collected on their behalf by the central state services. Second, revenues transferred to them from the State's budget.

In 2011, transferred state taxes accounted for 57 percent of local current resources up from 49 percent in 2005. On the other hand, local entities' own revenues accounted for 43 percent in 2011 down from 51 percent in 2005. Such finding indicates that the dependence of local entities on state's budget transfers has been increasing over the last years.

Sources of local entities' current revenues in Morocco

	2005	2006	2007	2008	2009	2010	2011
Revenues transferred by the state	<i>49</i>	<i>52</i>	<i>53</i>	<i>54</i>	<i>57</i>	<i>55</i>	<i>57</i>
Own resources	<i>51</i>	<i>48</i>	<i>47</i>	<i>46</i>	<i>43</i>	<i>45</i>	<i>43</i>

** Collected by the state	27	24	24	21	21	21	19
** Collected on their own	24	25	23	25	23	24	24
Total	100	100	100	100	100	100	100
Current revenues (in million DH)	15 972	16 818	16 893	17 749	21 160	22 679	23 770

Source: Author's calculations based on Morocco's General Treasury data.

a) Revenues transferred by the state

The state transfers each year **30 percent of Value Added Tax (VAT)** revenues to local entities. The total amount of transferred VAT is shared as follows: 60 percent for communes (32 percent for urban and 28 percent for rural), 22 percent for provinces and prefectures and the remaining 18 percent allocated to three different uses: 10 percent for “common expenses”, 3 percent for “transferred expenses” and 5 percent for unexpected expenses.

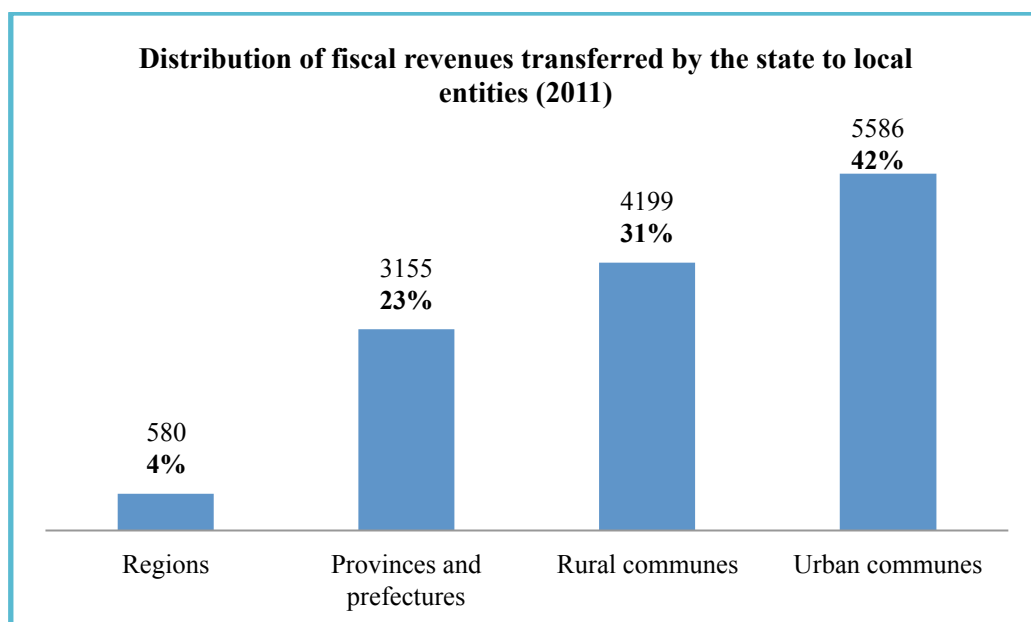
The VAT transferred to communes is shared among the communes according to three criteria: a) **An unconditional amount** (similar for all communes) that guarantees for all communes regardless of their size and their fiscal-wealth a minimal lump sum, b) **Fiscal potential**, which is inversely related to the commune's own revenues collected by the state to ensure some fiscal equalization among communes c) **Fiscal effort**, which is directly related to the commune's local revenues collected on their own, to reward those entities that are actively mobilizing revenues. The respective weight of each criterion differs between urban and rural communes as shown in the table.

Formula for allocation of VAT to communes

Criteria	Urban communes	Rural communes
Unconditional amount	15%	30%
Fiscal potential	70%	55%
Fiscal Effort	15%	15%
Total	100%	100%

The VAT transferred to provinces and prefectures is based on the following criteria: a) **(1/6)** of the amount is **unconditional** and therefore similar for all b) **(4/6)** of the amount depends on the **population size** and c) the remaining **(1/6)** relates to **the size** of province or prefecture's **territory**.

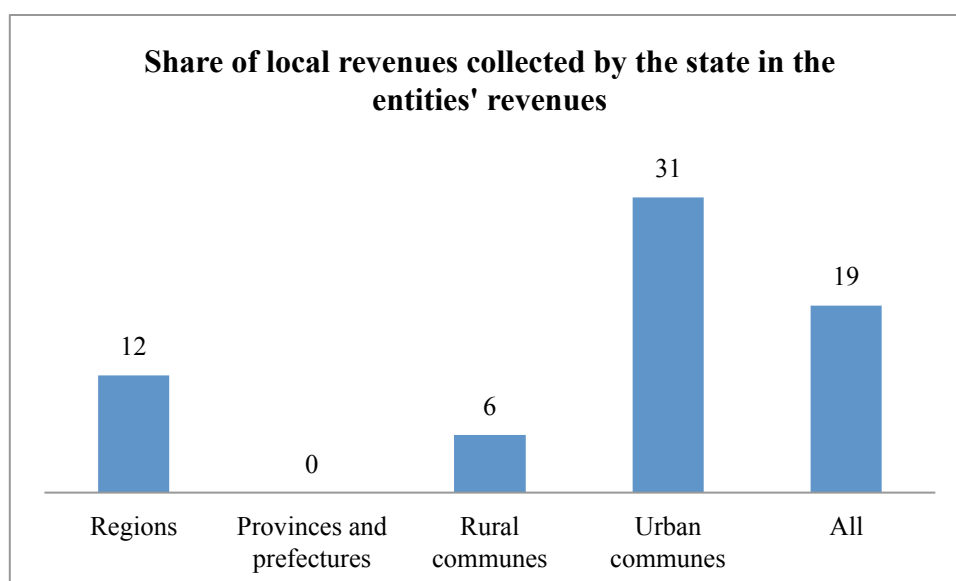
As far as “regions” are concerned, they receive from the state **1 percent of corporate taxes** and **1 percent of income taxes** collected in the country. The total amount these transfers are shared among the 16 regions based three criteria: 50 percent unconditional, 37.5 percent based on population size and 12.5 percent based on the size of the region's territory.



b) Revenues collected by the state for local entities

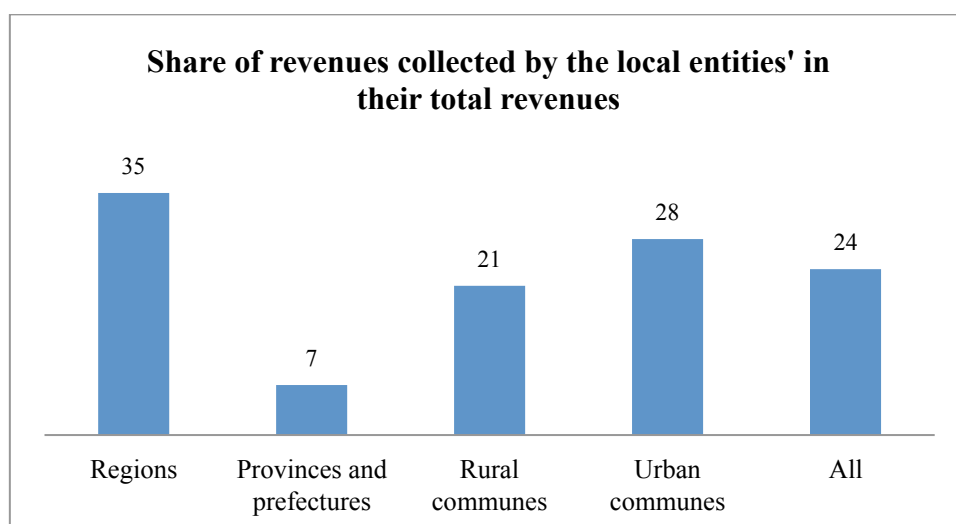
The state collects three taxes on behalf of the communes: housing tax, professional tax and tax on communal services. Regions are only involved with regard to the third tax. Provinces and prefectures earn none of these taxes. Therefore, 90 percent of local revenues collected by the state are for urban communes, 7 percent for rural communes and 3 percent for regions.

Housing tax is levied on all forms of buildings and constructions used entirely or partially par their owners as principal or secondary residence. Only building and constructions located in urban communes are subjected to housing tax. The amount of tax is based on a “hypothetical value of rent” set using a comparative approach. A 75 percent discount is granted on the principal residence. The professional tax is paid by every individual or corporation that operates a professional business in Morocco regardless of its citizenship. The amount of the tax is established on the basis of value of the rent of the business site. The tax rate depends on the nature of the business. The tax on communal services is paid on all buildings within urban communes or their peripheries. The tax is based on the equivalent of the value of rent.



c) Revenues collected by local entities on their own

There is a large number of taxes collected by local entities. The share of this category of revenues represented 24 percent for the local entities taken together (7 percent for provinces and prefectures and 35 percent for region). In addition to the limited capacity of most local entities to collect revenues in their territories, most of the taxes devolved to them tend to have poor returns.



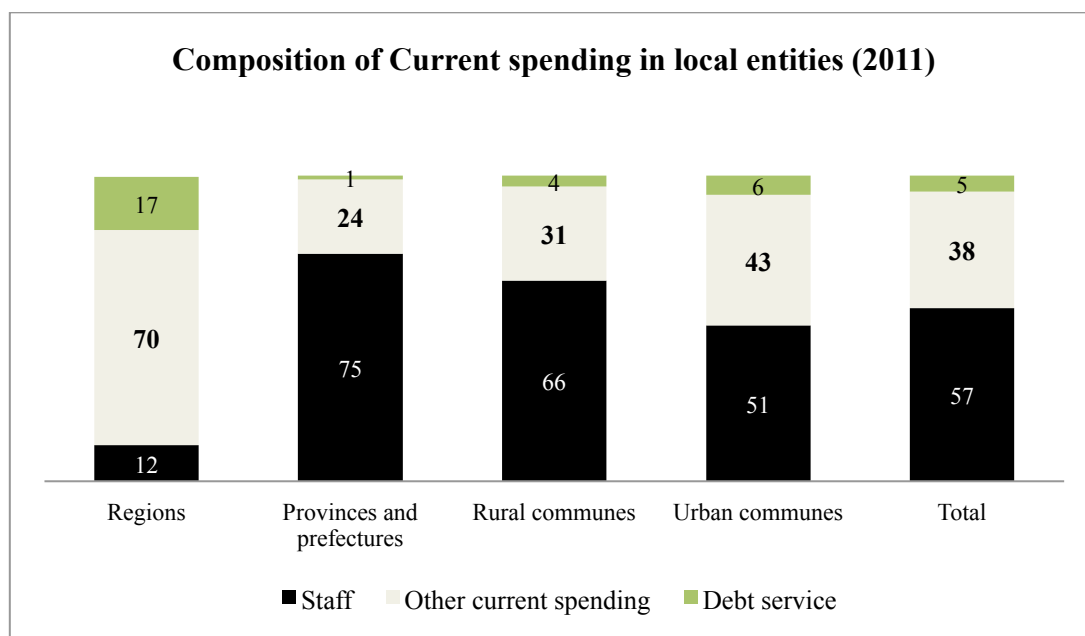
Decentralization of Spending

Current spending

Total current spending of all local governments represents the equivalent of 8.2 percent of the state budget. Current spending is shared among the local entities as follows: 2 percent for regions; 14 percent for provinces and prefectures; 21 percent for rural communes; and finally 63 percent for urban communes.

On average, local entities allocate 57 percent of their current spending to pay their personnel and 38 percent on other current spending items such as fuel, water, electricity, telecommunication and transport. Local entities allocate no more than 5 percent of their revenues to pay their debt, which is an indication of their limited reliance on borrowing. Local entities in Morocco can borrow either from the “Communal Equipment Fund” (FEC) or from other funders including the World Bank, the African Development and Islamic Development Bank.

These figures dissimulate, however, large disparities within the same category of local entities and from one category of entities to the other. The cost of personnel, for instance, represents 66 percent in rural communes compared to 51 percent in urban communes. The share of other current spending, on the other hand, tends to be larger in urban communes (43 percent), compared to rural communes (31 percent).



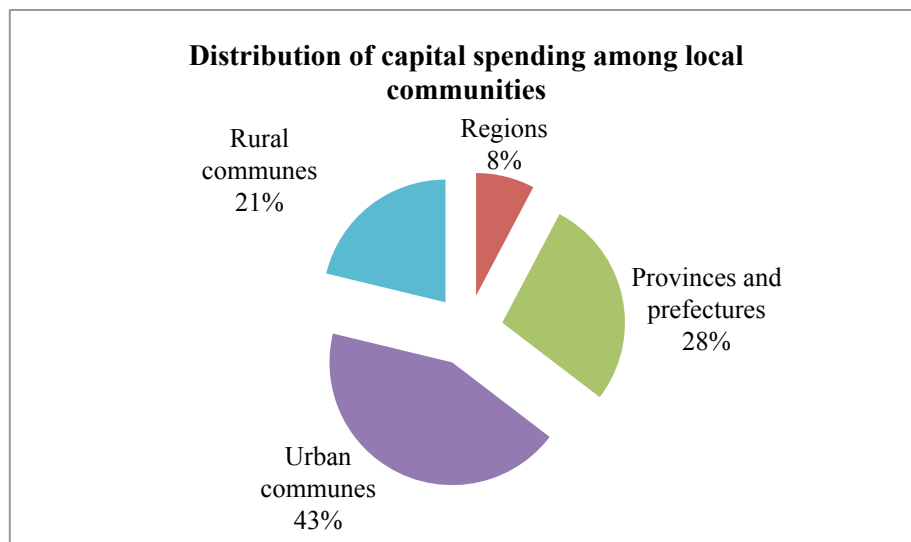
Overall, local entities have an average “primary surplus” of the equivalent of 26 percent of their revenues. Surprisingly, this surplus represents 35 percent in rural communes and 17 percent in urban communes. Such finding needs to be interpreted with caution. While some individual entities display large surpluses others lack financial resources to effectively carry

out the prerogatives devolved to them. Moreover, local entities plan and draft their budgets, but they can experience significant delays as they need an approval from the state's representatives before implementation. The budget of urban communes must be approved by the minister of the interior after endorsement by the minister of finance. If the minister of finance withholds his endorsement, the budget is submitted to the prime minister. For rural communes, the budget needs approval from the governor after its endorsement by the regional representative of the minister of finance.

Capital spending

Capital spending by local communities, which amounts to DH 12.3 billion, has almost doubled between 2006 and 2011. Investment in new infrastructure and big repair projects absorbs some 42 percent of local communities' capital spending. Contributions to integrated projects and national programs account for 17 and 15 percent respectively. Local entities devote 8 percent of capital spending to real estate acquisitions and 7 percent to acquisition of furniture and equipment. Finally, they allocate 10 percent to payback their debt. Urban communes are the most active in terms of capital spending with 43 percent of investments. One fifth of total investment is undertaken by the rural communes. Interestingly, provinces and prefectures, which have limited revenues as indicated earlier, contributed by 28 percent of investments of local communities. Finally, regions only contributed by 8 percent of investments.

Despite the importance of their capital spending, local communities in Morocco have a growing budget surplus due to accumulated cash flows. By the end of 2011, the total surplus of local communities in Morocco is estimated to DH 24 billion. Yet, there is a large need of infrastructure and equipment in most local communities. There are various reasons that explain this paradoxical situation among which: limited ability of local communities to plan and manage projects, lack of strategic planning and absence of multiyear budgeting. Both elected and administrative staff needs to be trained in project management. The central state in its assessment of local entities should also shift to focusing on performance and achievement-based indicators instead of compliance with legal and administrative procedures.



Decentralization of Human Resources

Human resources at the local entities are made of elected and appointed staff. There are 27 743 members of communal councils elected directly by the population. Both females and youth are underrepresented in local councils since only 12 percent of the members are female and 16 percent are under 35 years. Out of 1503 local councils, only 12 are led by females—less than 1 percent— among which 10 heading a rural council and only 2 a urban council.

One fifth of the members are illiterate and one quarter of them have only primary education. Finally, members of local councils are from a diverse set of professional backgrounds: 25 percent of them are farmers, 18 percent wage-earners, 11 percent operate in commercial activities, 9 percent are teachers and 8 percent are civil servants. Interestingly, 6 percent of the members have no professional occupation (1600 members)²⁵.

Local councils' appointed staff, on the other hand, amounts to more than 150 000 people and represents the equivalent of 25 percent of the total number of civil servants. Roughly 6 out of 10 among them are employed by urban communes and one quarter by rural communes. Provinces and prefectures' staff accounts for 15 percent, while just less than one percent is in regions.

The staff amounts, on average, to 404 in urban communes, 395 in provinces, and prefectures and 29 in rural communes. This average hides, however, significant differences among different local entities of the same legal category. For instance, depending on the region the staff size ranges between 21 and 92 in rural communes and between 161 and 2437 in urban communes.

²⁵ Details on the background of the local communities' elected staff are reported in the appendix.

Local entities' staff in total civil servants

Item	Number	Percent
Staff of local entities (a)	151 610	100
Among which:		
* Regions	378	0.3
* Provinces and prefectures	24 877	16.4
* Urban communes	89 449	59.0
* Rural communes	36 906	24.3
Central state's civil servants (b)	442 263	**
Share (a)/(b)	25.5%	**

Source: Décentralisation en chiffres (2008-2009)

Regarding qualification of the local entities' staff, most of them are ill-equipped and fail to perform their tasks adequately. The share of executives among them represents 11 percent; middle management 20 percent, 22 is made by employees and 47 percent by unskilled labor.

Structure of employment by level of qualification

	Urban communes	Rural communes	Provinces and prefectures
Average staff	404	29	395
Among which (%)			
Executives	8,8	10,4	19,2
Middle management	19,3	19,2	24,7
Employees	16,6	31,7	24,6
Unskilled labor	55,1	38,7	31,5
	100	100	100

Source: author's calculation based on Décentralisation en Chiffres (2008-2009)

The wages paid by local councils to their staffs are significantly lower than those prevailing in the central government. This situation has led to frequent labor strikes in local entities, with harmful effects on the population and regular provision of services.

Regional development and disparities

The purpose of this section is to examine some key indicators of economic and social development at the regional level and their evolution over the last decade.

Grand Casablanca, which is Morocco's economic capital, is indisputably the most important region in terms of its contribution to the national wealth creation and the region with highest GDP per capita. Its share in the national GDP amounted to 19.2 percent. Grand Casablanca is also the most populated region with the equivalent 12.2 percent of the Moroccan population. As this region accounts only for 0.1 percent of Morocco's territory—the smallest region in terms of its area—, it has the highest population density in the country.

The region of the administrative capital –Rabat-Salé-Zemmour-Zaer- has the second most important contribution to the national GDP with 12.6 percent and ranks fifth in terms of its population with roughly 8 percent of Morocco's population. The third most important region is Marrakech Tensift Al Houaz with 8.9 percent of the national GDP and 10.4 percent of the population. The North-western region of Tangier-Tétouan hosts 8.2 percent of the population and generates 8 percent of the national GDP. Taken together, those four regions produce approximately 50 percent of the national GDP and concentrate 40 percent the population on just 8 percent of the national territory.

Basic regional indicators in Morocco

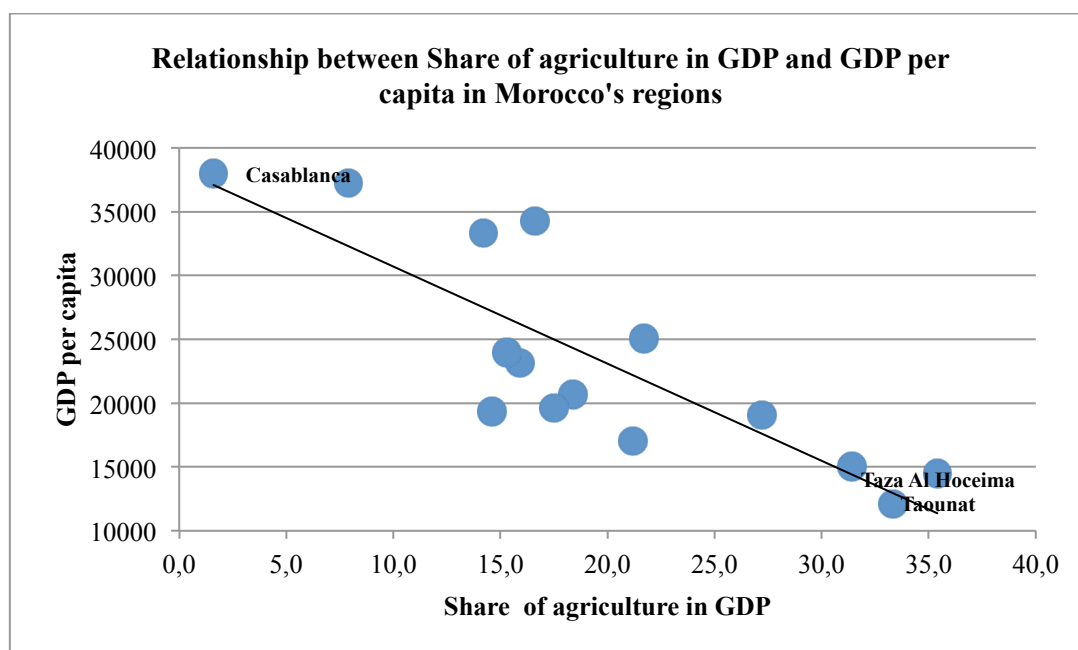
Regions	Population (%)	Area square Km	Area in %	GDP %	GDP per capita	Regional GDP to national GDP
Chaouia Ourdigha	5,5	16846	2,4	7,5	33309	139
Doukala Abda	6,6	13285	1,9	6,8	25051	105
Fes Boulmane	5,3	20007	2,8	4,4	19357	81
Gharb Chrarda Bni Hsen	6,2	7969	1,1	4,1	15001	63
Grand Casablanca	12,2	1026	0,1	19,2	38016	159
Marrakech Tensift Al Houaz	10,4	31882	4,5	8,9	20677	86
Meknes Tafilalet	7,2	54586	7,7	5,5	19088	80
Oriental	6,4	80579	11,3	5,1	19644	82
Rabat-Salé-Zemmour-Zaer	7,9	10225	1,4	12,6	37256	156
Souss Massa Daraa	10,4	79029	11,1	7,7	17015	71
South (3 regions)	2,7	340337	47,9	4,3	34263	143
Tadla Azilal	4,9	17210	2,4	2,8	14464	60
Tanger Tetouan	8,3	13712	1,9	8	23124	97
Taza Al Hoceima Taounate	6,1	24157	3,4	3	12124	51
Total	100	710850	100	100	23955	100

Source: Author's calculation based on data from High commissariat for Planning.

The seven less favored regions in Morocco, in which GDP per capita in 2010 has been lower than the national average, extend over one third of the national territory, offer home to around 40 percent of Morocco's population but their contribution to GDP does not exceed 27 percent.

There are also large disparities in terms of GDP per capita among Morocco's administrative regions. In the Grand Casablanca, GDP per capita amounts 38016 Moroccan Dirham, this is the equivalent of US \$ 4500. Such level is 60 percent above the national average and three times higher than GDP per capita in the "Taza Al Hoceima Taounate" (Morocco's poorest region) and more than twice GDP per capita in three other regions.

The sectoral composition of GDP is a key factor underlying the regional heterogeneity. Poor regions—those with the lowest GDP per capita—tend to have a higher contribution of agriculture and vice versa. The share of agriculture in GDP represents 35 and 33 percent in the two poorest regions. Conversely, the share of agriculture accounts for no more than 1.6 percent in the richest region of Grand Casablanca.



The negative relationship between living standards as approached by GDP per capita and agriculture is further corroborated when looking at the sectoral distribution of the working population. In the poorest region of Taza Al Hoceima Taounate, 70 percent of jobs are provided by agriculture compared to no more than 1.4 percent in Grand Casablanca.

Regional structure of GDP and Employment

Regions	% GDP agriculture	% GDP industry	% GDP services	% Jobs agriculture	% Jobs industry	% Jobs services	% of working population with medical insurance
Chaouia Ourdigha	14,2	53,0	32,8	53,3	18,2	28,5	10,4
Doukala Abda	21,7	41,5	36,8	60,1	14,8	25,1	9,9
Fes Boulmane	14,6	27,1	58,3	24,1	36,5	39,4	14,4
Gharb Chrarda Bni Hsen	31,4	23,2	45,4	56,1	14,1	29,8	10,3
Grand Casablanca	1,6	39,5	58,9	1,4	36,9	61,7	43,6
Marrakech Tensift Al Houaz	18,4	30,8	50,8	49,1	19,1	31,8	11,0
Meknes Tafilalet	27,2	21,0	51,8	41,2	21,0	37,8	14,2
Oriental	17,5	29,4	53,1	20,5	26,1	53,4	13,1
Rabat-Salé-Zemmour-Zaer	7,9	14,9	77,2	16,3	23,7	60,0	37,9
Souss Massa Daraa	21,2	22,6	56,2	53,1	17,6	29,3	14,2
South	16,6	20,4	63,0	21,7	18,8	59,5	35,0
Tadla Azilal	35,4	19,0	45,6	56,8	15,4	27,8	9,0
Tanger Tetouan	15,9	29,4	54,7	36,7	24,6	38,7	17,9
Taza Al Hoceima Taounate	33,3	12,8	53,9	70,2	12,2	17,6	4,6
Total	15,3	29,7	55,0	39,8	21,9	38,3	18,1

Source:

Policy recommendations

Morocco has achieved important progress in decentralization compared with most other Arab countries. Yet it still has many weaknesses that limit the benefits that decentralization can generate.

Policy makers in Morocco need to set rules and mechanisms to increase local councils' transparency and accountability to their voters and to ensure that gains in decentralization are not seized as opportunities by local elites.

To strengthen decentralization, fiscal resources need to be transferred to the local councils, and they must have their own legal setup for local tax collection.

Local councils need to shift towards outcome-based financial management and should focus on results more than on resources (some have resources that are not used). Local councils need also to adopt more widely a multi-year planning and budgeting approach

Local elected councils need highly skilled and motivated staffs so that services can be delivered efficiently and effectively. Ill-equipped and poorly paid support staffs undermine local councils' reputations and project a negative image of what decentralization can provide to people. Therefore, local councils should invest in building the capacity of their staffs and ensure that they acquire technical and managerial capabilities.

NGOs can boost participation and promote transparency and accountability, but their subordination to local authorities for their existence and operations significantly limits their potential. Amendments to the legal framework on NGOs, although positive, can only have a limited impact. There are discrepancies between the legal provisions and prevailing practices. Policy makers thus need to ensure that provisions granting more space and freedom for associations are enforced. The empowerment of NGOs can make them more effective in advocacy and in delivering social services and can thus provide the local councils with effective partners for development.

Appendix 1

Administrative decentralization in Morocco

Regions	Provinces and prefectures	Urban communes	Rural communes	Total communes
Rabat-Salé-Zemmour-Zaer	4	13	38	51
Grand Casablanca	4	10	8	18
Souss Massa Daraa	9	26	210	236
Taza Al Hoceima Taounate	4	15	118	133
Tadla Azilal	3	9	73	82
Fes Boulmane	4	12	48	60
Gelmim Es Semara	5	11	49	60
Gharb Chrarda Bni Hsen	3	11	63	74
Laayoune Boujdour Sakia El Hamra	3	4	10	14
Marrakech Tensift Al Houaz	6	18	197	215
Meknes Tafilalet	6	23	109	132
Oued Ed Dahab Lagouira	2	2	11	13
Oriental	7	27	87	114
Doukala Abda	4	10	78	88
Chaouia Ourdigha	4	19	95	114
Tanger Tetouan	7	11	88	99
Total	75	221	1282	1503

Background of the local communities' elected staff

	Number	Percent
Total	27 743	100
<i>By gender</i>		
** Male	24 319	88
** Female	3 424	12
<i>By age</i>		
** Under 25	806	2.91
** From 25 to 35	3 725	13.43
** From 35 to 45	8 309	29.95
** From 45 to 55	8 291	29.89
** More than 55	6 612	23.83
<i>By level of education</i>		
** Illiterate	5 684	20.49
** Primary	6 987	25.18
** Secondary	8 674	31.27
** Tertiary	6 398	23.06
<i>By occupation</i>		
** Teacher	2 461	8.87
** Civil servant	2 211	7.97
** Framer	6 873	24.77
** Traders	2 983	10.75
** Liberal profession	631	2.27
** Private sector wage earner	4 992	17.99
** Craftsmen	1 305	4.70
** Other occupations	4 886	16.89
** No professional occupation	1 601	5.77

Source: Décentralisation en Chiffres

2- The Status of Decentralization in Egypt

By Ahmed Farouk Ghoneim²⁶

Introduction

This study aims at investigating the status of economic decentralization in Egypt. It does not tackle issues of political and public administration decentralization, yet it deals with some elements of them when needed to serve the focus on economic (mainly fiscal) decentralization. The study provides an overview on decentralization in Egypt, while focusing on the provision of public services. The study is mainly based on desk work research complemented by interviews with senior government officials and experts.

We start in *Section One* by providing an overview on the provision of public services and the responsibilities of the local governments and the central government in terms of fulfilling such public services. The first section allows us also to understand the sources of revenues and expenditures of the local governments. *Section Two* deals with the institutional setup of the local governments identifying how they function and the relationship between the different levels and units comprising local governments as well as between the central government (executive authority) and the local governments. The relationship between the so called local executive councils (LECs) and local popular councils (LPCs) is also highlighted. This section tackles also the main problems associated with this institutional setup and highlights the political economy features of it. *Section Three* focuses on the process of finance of local governments identifying the main sources of finance and ways of expenditure. Constraints associated with raising funds or spending money in developmental projects are highlighted. The final section concludes and provides some policy implications.

1. An Overview on Decentralization and Provision of Public Services

The provision of public services in Egypt is not considered relatively weak when compared to

²⁶ Professor of Economics, Faculty of Economics & Political Science, Cairo University. Email address: aghoneim@gmx.de

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other countries as shown in table 1. Yet, such aggregate figures do not reveal regional disparities.

Table 1: Selected Indicators on the Provision of Some Public Services in a Group of Countries Compared to Egypt

Country	GDP per capita (current US\$)		Hospital beds (per 1,000 people)		Improved sanitation facilities (% of population with access)		Improved water source (% of population with access)		School enrollment, primary (% gross)		Access to electricity (% of population)	Time required to get electricity (days)
	2005	2010	2005	2009	2005	2010	2005	2010	2005	2009	2009	2010
Egypt	1,209	2,698	2.2	1.7	93	95	98	99	101	106	99.6	54
Hungary	10,937	12,863	7.9	7.1	100	100	100	100	98	102	..	252
India	732	1,410	0.9	..	30	34	86	92	112		66.3	67
Korea, Rep.	17,551	20,757	..	10.3	100	100	96	98	102	104	..	49
Lithuania	7,604	11,045	8.1	6.8	86	..	92	..	95	97	..	128
Malaysia	5,286	8,373	1.8	1.8	96	96	100	100	96	..	99.4	51
Poland	7,963	12,294	5.2	6.7	90	97	97	..	143
Russia	5,337	10,440	9.7	..	71	70	96	97	97	99	..	281
Turkey	7,088	10,094	2.6	2.5	89	90	97	100	102	102	..	70

Source: World Development Indicators, available online at: www.worldbank.org

At the local level, the distribution of public services is not fairly divided as some of the governorates enjoy better public services compared to others as shown in table 2 where no clear trend can be identified between local GDP per capita, size of local population, and level of public services provided.

Table 2: Selected Indicators on the Provision of Some Public Services in Egypt at the Local Level

Governorate	Population in thousands (2008)	Combined 1st, 2nd & 3rd level gross enrolment ratio (2007/08)	GDP per Capita (L.E) (2007/08)	Literacy rate (15+) (2007)	Beds per 10000 people (2008)		Health units per 100000 people (2008)	Infant mortality rate (per 1000 live births) (2008)	Under five mortality rate (per 1000 live births) (2008)	Household with access to water (%) (2008)
					Total	MOH				
Cairo	8128.7	63.1	7726.4	80.7	37.4	8.6	5	29.5	35.5	99.6
Alexandria	4230.6	71.7	8978.3	80.5	30	8.5	3.4	19.7	24.2	99.9
Port Said	585	70.1	10549.7	83.6	29.4	15.8	4.6	23.4	25.8	94.6
Suez	529.6	77.5	8745.8	82.9	27.4	14.6	4.7	14.7	17.4	99.9
Damietta	1136.3	80.5	7883.5	77.6	23.2	18.9	3.3	11.8	14.4	99.9
Dakahlia	5139.5	76.4	9111.5	72.1	15.3	7.3	2.8	12.4	16.6	97.5
Shrkia	5529.6	78.1	8700.4	67.8	12.5	5	1.6	14.8	19.7	93.5
Kalyoubia	4386.8	72.6	8134.4	72.5	21.4	13.7	2.3	12	15.5	98
Kafr El Sheikh	2705.7	78.6	8927.9	65.7	10.4	7.6	1.3	10.7	14.2	98.4
Gharbia	4125.9	75.1	8799.6	74.1	18.2	7.7	2.3	12.6	14.3	98.3
Menoufia	3374.2	74.9	9854	72.6	14.7	7.8	2	13	17.3	96.2
Behera	4900.9	77.6	9451.6	63.4	8.9	5.8	1	10.6	15.3	92.2
Ismailia	988.5	77.8	8970.2	77.2	21.4	10.6	3.7	15.5	20.7	98.9
Giza	6490.8	77.5	8242.8	80.3	13	4.4	3.2	12.9	16.2	98.5
Beni Suef	2371	73.7	8857.4	59.5	9.2	7.1	0.9	25.5	30.5	93.9
Fayoum	2605.2	70.8	8433.7	59.1	6.7	4.5	0.7	17.3	22	98.9
Menia	4308.4	74.2	8655.9	58.7	11.5	7.3	1.2	24	30.3	91.4
Assiut	3560.1	73.5	8019.6	60.9	17.9	8.3	2	35.2	43.5	96.3
Suhag	3874	79.5	7329.7	61.5	11.6	7.5	1.2	22.8	28.9	94.5
Qena	3096.9	78.8	6387.5	65.2	8.7	7.4	1.1	20.6	25.9	93.2
Luxor	469.5	83.5	9105.6	72.2	16.8	15.9	2.1	22.3	28.9	99
Aswan	1222.3	76.6	7057.4	77	19.2	11.9	2.8	20.6	14.8	99.4
Red sea	296.8	72.3	8460.7	87.3	20.9	15	4	13.2	16.6	91.6
New valley	193	82.3	12682.2	81.8	36.2	32.4	5.7	12.6	17.2	99.4
Matrouh	337.4	73.1	10346.1	64.9	25.4	23.2	4.7	11	14.2	79.7
North Sinai	357.9	78.8	8884	75.8	15.3	13.8	3.4	21.3	26.8	80.2
South Sinai	152.5	56.5	12454.6	88.4	35.1	32.5	5.9	14.7	22.5	82.8

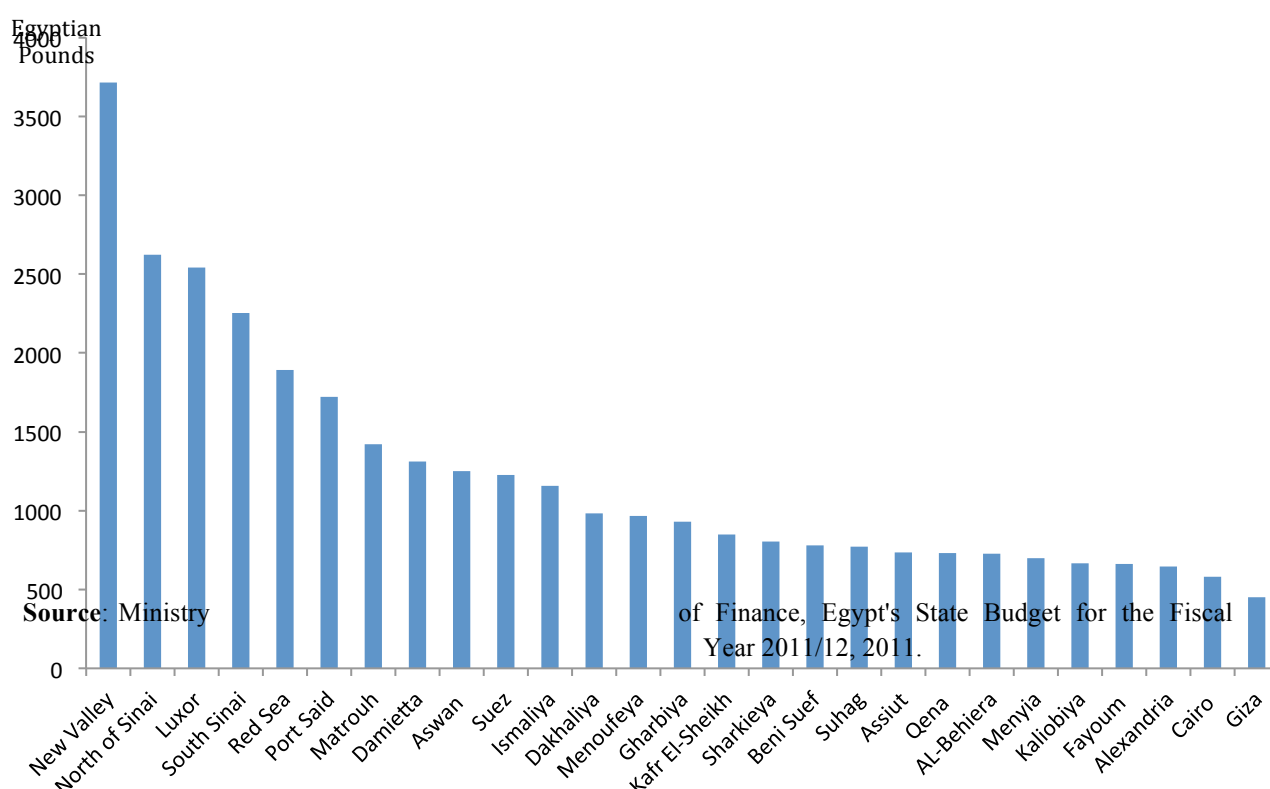
Sources:

- UNDP, Egypt Human Development Report 2010: Youth in Egypt Building our Future, 2010.
- IDSC, Egypt's Description with information, 2009.

Governorates in Egypt are divided into four types, namely: *Urban, Lower Egypt, Upper Egypt, and Frontier Governorates*. The level of development among the different types and access to public services differ extensively. The *Urban governorates* comprise four large cities, namely Alexandria, Cairo, Port Said and Suez where they together account for 18% of Egypt's population. In terms of human development, their socio economic indicators are above the national average. *Lower Egypt governorates* represent over 43% of Egypt's population and are mainly located in northern part of the country. They are predominantly rural areas with socio economic indicators around the national average. *Upper Egypt governorates* are predominantly rural areas with around 37% of the population, located south of Cairo. They suffer from the most unfavorable socio economic indicators relative to other

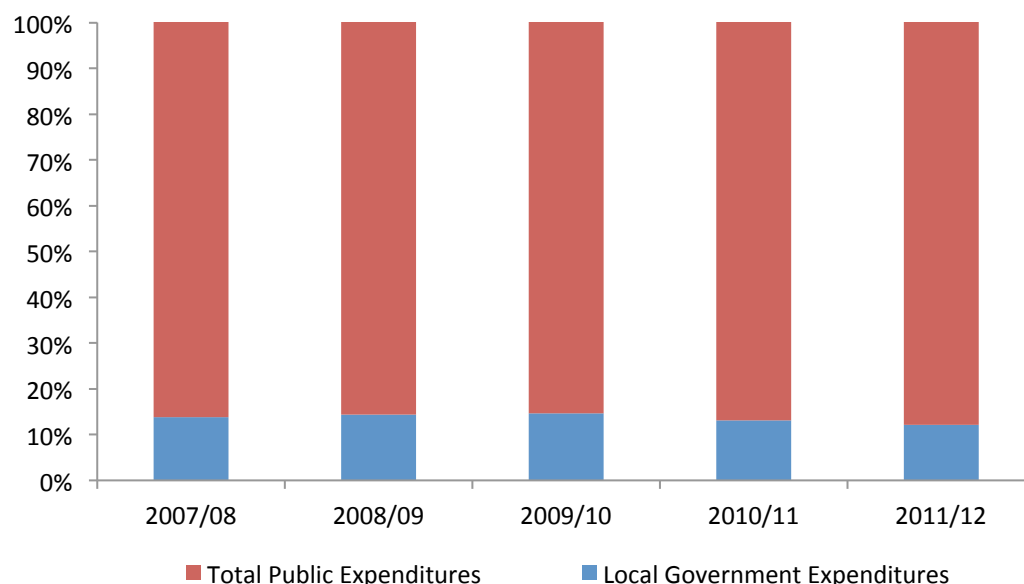
governorates. Finally, *Frontier governorates* cover only 2% of the population and are located in Sinai and the deserts that lie west and east of the Nile. They are highly urbanized governorates with above average socio-economic indicators and the lowest poverty rate in the country. However, because of their remote location, some areas in the Frontier governorates lack infrastructure such as access to electricity (Martinez-Vazquez and Tmofeev, 2008). Yet, such regional disparities in the status of living have not been reflected in public expenditure per capita as revealed in figure 1.

Figure 1: Public Expenditure Per Capita across the Egyptian Governorates for the Fiscal Year 2011/12



The state budget in Egypt is composed of three sub-budgets; namely, the central government budget, the local governments' budgets, and the service authorities' budget. The share of local government in total government expenditures represented less than 14% on average over the period 2007/08-2011/12 (figure 2) . The trend has been increasing where other sources put it at lower levels which was around 2% in early 2000s (El Migharbil, 2010).

Figure 2: Local Government Expenditures as a Percentage of Total Public Expenditures over the Period 2007/08-2011/12



Source: Ministry of Finance

- For Years 2007/08, 2008/09, 2009/10: Final Accounts Data, Different Years.
- For Years 2010/11, 2011/12: Egypt State Budget for the Fiscal Year 2011/12, 2011

From a sectoral perspective, the bulk of these expenditures goes to education (57.6%) and general public services (20.2%). However, it should be noted that more than 94% of the education expenditures are totally devoted to wages. Generally, expenditure on wages in the local governments represents between 70 and 80% of total local governments expenditure (table 3), and accounts for around 41% of total government expenditure on wages (Ministry of Finance, State Budget FY 2011/12, 2011). On the other side, non wage current expenditures and investment expenditures represent around 14% and 6% of local government expenditures, respectively. This implies that the expenditure of local governments is highly concentrated in wages' expenditures, implying that the investment and development programs come mainly from the central government. Moreover, local governments do not control the bulk of this wage expenditures; as they just act as a disbursement mechanism on behalf of the central government, which is also the case of other types of expenditures (Tohamy and Abdel Hamid, 2004).

Table 3: Development of Local Government Wages and its Percentage of Local Government Expenditures over the Period 2002/03-2011/12

*Values in Million Egyptian Pounds**

Fiscal Year	Wages	Total Expenditures	Wages as a Percentage of Total Expenditures
2002/2003	16272.9	23078.3	70.5%
2003/2004	17808.7	26726.3	66.6%
2004/2005	19659.6	31413.6	62.6%
2005/2006	22234.5	31684.9	70.2%
2006/2007	24317.3	34586.1	70.3%
2007/2008	29213.5	39157.1	74.6%
2008/2009	35992.8	50761.3	70.9%
2009/2010	39614.4	54139.7	73.2%
2010/2011*	44165.4	54379.1	81.2%
2011/2012*	48215.7	59812.9	80.6%

Source: Ministry of Finance, Egypt's State Budget for Different Years

*Values represent budget numbers (Not Actual)

Other current expenditures are conducted mainly through central government including subsidies, social insurance, and debt finance payments, resulting in high level of concentration at the central government level for non-wage recurrent expenditures reaching 94%. The situation is not different for local investments where only 9% of total government investment expenditures are made at the local level (Tohamy and Abdel Hamid, 2004).

Concerning the financial resources side for the different sub-national levels, they are stipulated by law 43/1979. These resources include mainly shared and local taxes, grants, and transfers from the central government. As for the fiscal year 2011/12, local governments' share in total government revenues was around 1.6%.

In other words, on the financial side, the local governments in fact have no major independent source of revenue and at the same time on the expenditure side they act as a disbursement agency for the central government.

Regarding the provision of public services as social security, health, education, etc, we need to differentiate between two types of expenditures that take place at the local level. The first type of expenditure is related to wages, where we find that the percentage of local expenditure out of total public expenditure differs significantly from one activity to another. For example,

in the case of justice, electricity, and water and wastewater most of the expenditures are undertaken at the central level, as such services remain highly affiliated to the central government. This is not the case in other services, as education and youth, health-religion-labor, and social security where the local governments have a higher share of public expenditure reaching 80% in the case of social security, 50% in education, and 30% in health, yet still investment and development expenditures remain highly concentrated at the central level. As has been aforementioned, most of such expenditures are devoted to wages, which are in fact paid on behalf of the central government. This pattern of expenditure is different when it comes to investment expenditures where most of the expenditures are controlled by the central government, leaving little room for local governments.

On the revenue side, and as we have seen above, the local governments are highly constrained in terms of raising revenues, however, they are allowed by law to raise funds through maintaining special accounts and funds outside the framework of the national budget. The problem is that in many cases, such funds have been left up to discretionary power for people who manage it resulting in extra unjustified charges on public services, as well as potential avenues for corruption (NDP, 2003). Yet, even in the absence of corruption and raising price levels, the actual usage of such funds is highly constrained as local governments in many cases have to complement the underinvestment of projects decided by the central government or use such revenues for the maintenance of such projects (Tohamy and Abdel Hamid, 2004).

Hence, despite the highly centralized nature of provision of public services, there has been some anecdotal evidence which proved to be successful. For example, in 1999 the Governor of Qena (a governorate in Upper Egypt) introduced an experiment by relying on raising additional resources from the local community to address specific projects of interest to local community. The projects covered a wide spectrum of public services including education, health, employment and recreation. The priorities were based on a needs-assessment survey undertaken for local communities, and in fact it has proven to be a success. Other projects were applied in other governorates where for example the Fayoum Declaration commits the governors of six governorates to use the UNDP Governorate Human Development Report Indicators as instruments for setting their budgeting priorities. Such governorates have also started applying similar conduct to that of the governor of Qena for raising resources (Tohamy and Abdel Hamid, 2004). Also an initiative of including Human Development Index (HDI) and elements of MDGs (namely population size, HDI, poverty, and provision of public services) in the process of setting budget allocations for different governorates was thought of in early 2000s by the Ministry of Planning, and started to be implemented in 2008 by three ministries (Ministry of Planning,

Ministry of Finance, and Ministry of State for Local Development). The main idea was to use the HDI and MDGs in different governorates as a driving force and main target for the governors to decide upon their local priorities through the decentralization initiative that followed after the amendment of Article 161 of the Constitution in March 2007. The pilot project was initiated in three governorates that reflect a fair geographical representation (Luxor in Upper Egypt, Fayoum in the middle, and Ismailia in Northern Egypt) and focused on three elements, namely education, social solidarity, and housing; in addition to the local development sector plans (see below). By 2009, the project was scaled up to cover all the governorates. The assessment so far indicated that implementation has been modest²⁷.

Distribution of Resources from Central Government to Governorates

There are certain procedures that have been set by the Ministry of State for Local Development in the allocation of financial resources devoted for local development sector (it is considered as a sector just like education, health and etc). Moreover, there are certain criteria based upon which the financial allocations should follow and include that the Local Executive Councils (LECs) and Local Popular Councils (LPCs)²⁸ on all levels are both aware of the financial resources that have been allocated to their governorates/districts/etc. and they are the ones who set the local developmental plan (upon which such resources are disbursed). Moreover, it is not allowed that any higher institutional level should disregard what has been set by the LEC and LPC on the lower levels as long that is in line with the available resources allocated, and is in line with the methodology set for allocation of resources and within their jurisdictions.

In general, the local development sector plans consist of five main programs, namely 1) electricity infrastructure; 2) transport and roads infrastructure; 3) environment including, but not limited to solid waste management and building pedestrian's bridges; 4) security, traffic, and fire protection; and finally 5) local units upgrading including the support of the needs of local institutions and establishing profitable projects such as community service centers.

There are also some identified ways through which the LPCs can address the community priorities in the local development plans such local polls, field visits, interviews with people living in such unites, organization of hearing sessions, dependence on planning experts in related fields, and making use of local information centers.

²⁷ Interview with ex advisor the Minister of State for Local Development.

²⁸ For the exact role and definition of LPC and LEC see section 2.3.

Notably speaking, there is some sort of mutual cooperation and coordination between the elected and the appointed or the LPCs and LECs in the local planning process. While the appointed or the LECs inform the LPC the amount of money allocated for the local unit and the criteria to be used for the distribution, they discuss with the LPCs if the projects abide by the applied regulations or not. To clarify, let us give an example, if the people at the local community want to pave a road, but the technical specifications according to the Egyptian Code of Roads do not allow pavement of the road less than 3 meters in width, then the LECs technical opinion will prevail.

There is a specific methodology used to allocate resources: in urban governorate; 30% of the lump sum allocated should go for joint projects between different units within the governorates or districts and for essential projects, whereas the 70% are allocated among the different districts and lower levels based on the number of population, size of districts, human development indicators (HDI) and other criteria. In rural governorate, 10% of the lump sum should be devoted for the capital city of the governorate, 30% for the joint projects, and 60% distributed between districts according to specific criteria. Based on interviews, such methodology has been applied in the fiscal years 2009/2010, and 2010/2011. This has also been produced by the Ministry of State for Local Development in guides at different levels (Ministry of Local Development, 2010, Criteria Guide for Application of Fiscal Decentralization for Executives and Popular Councils on the Level of Governorates and Districts).

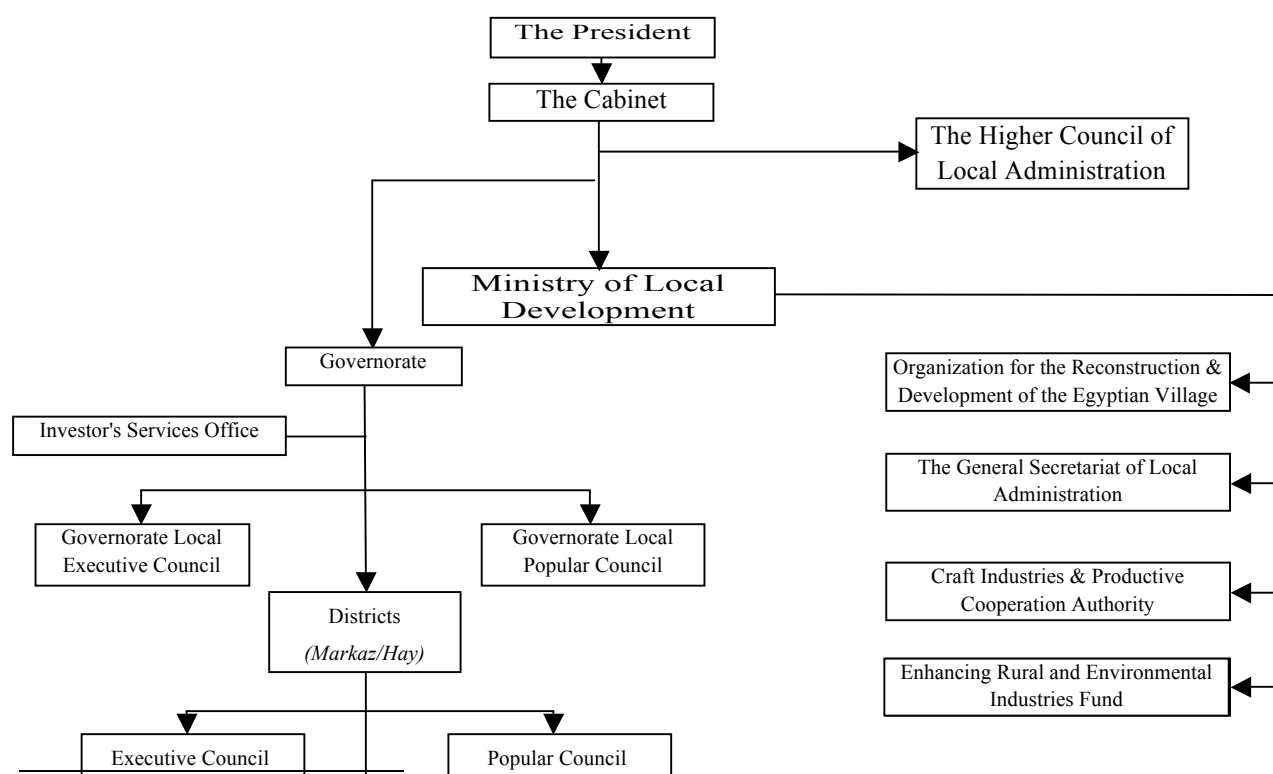
2. The Institutional Setup and Political Economy of Decentralization in Egypt

2.1 Historical Background and Institutional Setup

The Egyptian local administrative system is one of the oldest modern local administrative systems. According to some studies it dates back to 1893 where local councils were created during British occupation. The system follows to a large extent the French model which is based on the possibility of organizing local powers in general terms through legislation, while giving the central government ample powers to oversee these activities and to provide a certain amount of uniformity in administrative styles (Sheta and Abou El Kheir, 2010). The

local councils since that time till 1975 were comprised of one council, whose members, were partially elected and partially appointed. Starting 1975, the Egyptian local administration system started to adopt the two councils approach (popular and executive) (Abdel Wahab, 2008). However, as described by PADCO (2006) “Egypt is one of the highly centralized countries in the world with extremely primitive unrealistic steps undertaken to show some sort of decentralization.” By all means, if any step in fiscal decentralization has been reached it is deconcentration, and ill-functioning form of deconcentration²⁹ (Chemonics, 2004). Figure 3 shows the institutional structure of local government in Egypt.

Figure 3: The Central and Sub-National Institutions of Local Governments



²⁹ The different form of decentralization constitute of : deconcentration, delegation, and devolution (Yilmaz, 2008).

"1. *Deconcentration* involves the shifting of responsibilities from central government agencies located in the capital city to regional offices. Deconcentration is defined as local administrations in which all subordinate levels of government within a country are agents of the central authority either appointed by or are responsible directly to central government. This is the least extensive type of administrative decentralization.

2. *Delegation* refers to the transfer of public policy making and administrative authority and/or responsibility for carefully spelled out tasks to institutions and organizations that are either independent or central government's indirect control. Typically, delegation of functions is by the central ministries to semiautonomous organizations not wholly controlled by the central government but legally accountable to it, such as state owned enterprises, public utilities, and regional planning and economic development authorities.

3. *Devolution* is the most extreme form of decentralization where independently established subnational governments are given the responsibility for delivery of a set of public services along with the authority to impose taxes and fees to finance services. In a devolved system, subnational governments have independent authority to raise their own revenues and to make investment decisions. It is devolution of administrative power that underlies decentralization of power on political fronts. Devolution is usually synonymous to fiscal decentralization where subnational governments have clear expenditure assignments, substantial budget autonomy, and legally recognized geographical boundaries within which they perform public functions."

Source: Abdel Wahab, Samir (2008). "Decentralization in Egypt: Towards Effectuating the Institutional and Legal Framework", paper presented at the Public Administration Department Conference, June 2008, Cairo: Faculty of Economics and Political Science, Cairo University.

Adding to the figure identified above, there are two other entities for coordinating decentralization on regional level, the first is the committee of regional planning which aims at coordinating the plans of different governorates based on the recommendations of the other entity which is the Regional Planning Authority which undertakes studies related to investigating the capabilities of different governorates and economic regions (*Akalim Iktsdaia*)³⁰. Moreover (and as identified in the figure3), there is the higher council of local administration, and the ministry of local administration and its related bodies as fund of enhancing local industries; general secretary of local administration; production cooperatives; organization for the reconstruction and development of Egyptian village; and agency of popular development (NDP, 2003).

The current structure comprises 27 governorates (Muhafazah)³¹, 186 district (*markaz* in rural governorates and *hay* in urban governorates), 226 cities (*madina*), 1264 rural local units and 4676 Village (*qariya*). Each governorate is headed by a governor who is appointed by the President (Sheta and Abou El Kheir, 2010) and has a local elected council called local popular councils (LPCs), and there are more than 27,000 hamlets (very small settlements) which do not have local elected councils (handled by local villages surrounding them). This implies that below the governorate level, in urban governorates, there is one level below it which is hey. While in the rural governorates, there is a district level below the governorate, and there are cities and villages below the district and sometimes some cities can be divided into heys and villages. It is worth noting that each level reports up to the next level, from which it receives

³⁰ Egypt is divided into 7 main economic regions (*iklim iktsady*): 1) Cairo Region (Cairo, Giza, Qalyoubia); 2) Alexandria Region (Alexandria, Behira, Matrouh); 3) Delta Region (Menoufia, Gharbya, Kafr El Shiekh, Damitta, Dakhalia); 4) Suez Canal and Sinai Region (North Sinani, South Sinai, Port Said, Ismailia, Sharqya); 5) North Said (Beni Suef, Fayoum, Menya); 6) Mid Said (Assuit, Wadi Gadid, and part of Red Sea) and 7) South Said (Sohag, Qena, Luxor, Aswan, Red Sea).

³¹ Presidential decree No. 114/2008 was issued dividing and modifying the scope and administrative boundaries of different governorates as well as creating two new governorates, namely Helwan and 6th of October. Decree No. 124/2008 was then issued determining the scope and boundaries of Cairo, Helwan and 6th of October governorates. By virtue of the decree, number of governorates became 28 in addition to Luxor. After the revolution of 25th of January, 2011 the number of governorates was reduced again to 26 as the both Helwan and 6th of October were abolished and recontained in Cairo and Giza.

its instructions and resources. Each of these levels has a local executive council (LEC), whose members are totally appointed. The LEC is responsible for implementing the national policies on the local level. Every LEC has a counter elected council which is known as the LPC. The LPC is in charge of monitoring the LEC.

Structurally, the LECs are made up of the local head's secretariat (*Diwan*) and deconcentrated offices (called 'service directorates') of twelve central government ministries or agencies, sometimes reaching two or more sub-national levels. These service directorates are considered as representative units or a service outlet of central agencies, mainly line ministries, on the local level. Three central agencies have directorates at the governorate level only: Transportations and Roads, Property Taxation, Organization and Administration. Four agencies have directorates at both the governorate and district levels: Veterinary, Trade, Labor, Youth and Sports. Four agencies are represented at all three levels (governorate, district, and village): Education, Health, Agriculture and Housing. Finally, one agency, Social Affairs, has offices at the governorate and village level but not at the district level. The service directors form a management group which is the Local Executive Council (LEC). The LEC is formally chaired by the appointed executive head: the President appoints governors, the Prime Minister appoints mayors, and the governors appoint district heads below. The local executive heads (Governor/Mayor) have substantial authority over the finances and personnel only of their own secretariat (*Diwan*). Similarly the service directors have powers over the finances and personnel in their respective sectors. Despite the fact that Governorate line directorates retain a technical relationship to their respective line ministries, administratively there is some kind of a dual responsibility regarding the employees of these directorates. These employees are appointed, promoted, and transferred by the relevant line ministry; however, the governor has the right to refer any of these employees to a legal investigation, assign sanctions within the range set by the line ministry regulations (Law 43/1979). Moreover, holding companies for public utilities, such as water and wastewater, have operating companies at governorate levels but there is no direct oversight of the operating companies by governors or governorate LPCs.

2.2 Major Laws and Regulations

The institutional setup of the local administration dates back in Egypt to 1923 Constitution which divided Egypt into *modiraiat*, *cities*, and *villages*. Councils for such local units were also established where the members of such councils were elected. Constitution 1956 repeated

more or less what has been mentioned in 1923 Constitution, but added to it as well the source of fiscal resources that can be raised on local level including taxes and charges. Constitution 1971 included a chapter for local administration where some of its provisions were amended in 2007. The 1971 Constitution assigned three articles (161, 162, 163) organizing local administration. Article 161 states that the Republic is divided into administrative units with moral personalities such as governorates, cities and villages. Article 162 organizes the creation of local public councils within administrative units through direct elections, where at least half the council is to be composed of laborers and farmers. A number of specific laws were enacted including law 29/1913, law 24/1934, and law 124/1960. Finally, law 57/1971 replaced the concept of local administration by local governance. Another law (law 52/1975) replaced law 57/1971 where elements of local governance were properly introduced on administrative, fiscal, and political levels. Law 43/1979 (amended by law 707/1979) was introduced and cancelled law 52/1975. It also changed local council and councils to local popular councils (LPCs) and councils. The law also introduced the governors' council headed by the prime minister and including all governors and the minister of local governance. The law also included a full fledged governance system that set the responsibilities of the governor, LPCs on the district and village levels. It also sets all the conditions of financial and budgetary aspects of all administrative units as well as election procedures for such councils on district and village levels. The law was amended by law 50/1981 which introduced changes to the names of some local units, financing methods and their monitoring as well as the establishment of a supreme council for local administration. Further, the law was amended again by law 168/1981 which set the term of LPCs by 5 years and law 26/1982 prevented the governor and his deputies from running to elections of LPCs as well as parliament. Law 145/1988 replaced the local governance by local administration once again (back to the concept that prevailed following law 124/1960). Law 9/1989 introduced slight amendments and issued new regulations for cities of special importance. Law 84/1996 introduced changes to the formation of councils (Darwish, 2008). The councils have different categories starting from the governorate, to the markaz, city, district and finally to the village level. The members of such councils and their numbers are set according to conditions provided by law.

Thus, the main parameters of Egypt's current system of local government remain derived from the Constitution and Law 43/1979. The Constitution stipulates that different laws produce a gradual transfer of authority and competence to these local popular councils, which in practice has not taken place. Accordingly, the system, as it stands, became idle where the

executive representatives undertake their role without being monitored from the LPC (see below). Law 43/1979 governs the structure of local government, grants a public identity status to local government, stipulates LPCs' elections, and grants local government the power to levy additional taxes to cover for local expenditures needs. The law has various monitoring regulations intended to safeguard expenditures of public funds.

There has been a continuous move towards centralization which started with the change of the name of law 43/1979 itself from the initial "On Local Government" to "On Local Administration" when the law was amended in 1988 and LPCs lost their power to hold LECs accountable. The only elected local executive heads—*Omdas* at the sub-village level (*hamlets*) became appointed by the Minister of Interior since 1994. The governor in law 124/1960 was a representative of the central government, which was changed in law 43/1979 amended by law 50/1981 being a representative of the President. Finally, it was changed again by law 155/1988 being a representative of the executive authority.

Moreover, the administrative and personnel relations inside the local government are governed by two main laws; the first is law 43/1979. Following this law the governor has the authority on all governmental employees working for the central government ministries which by law fall under the jurisdiction of the concerned governorate. However, the second law, 5/1991 identified that the promotion of governmental employees starting from general manager and above is subject to the authority of the concerned line minister. Accordingly, the heads of the service directorates are subject to authority of their line ministers, where their subordinate employees are subject to the authority of governor. This implies that there is contradiction between the two laws.

In practice, the issue has been left to discretion where the situation differed from a minister to another and from a governor to another (NDP, 2004). In addition, the fact that there are several activities that used to be under the authority of local governments but they have been deprived of due to several changes in different laws intensified the move towards centralization. Examples include law 143/1981 which mainly deprived the local governments from controlling the desert lands in their jurisdiction. Other examples, include the Presidential Decree which gave the right of the Fish Wealth Agency the authority over 200 meters of all beaches, lakes, etc implying again depriving of authority from local governments. Also, a number of public services as water and wastewater, electricity distribution, tourism, mining,

etc are being provided through central agencies. Moreover, many of the present laws and regulations imply idle role of decentralization. For example, due to the vague roles of the head of the local units, the monitoring role of LPCs cannot be performed effectively. In addition, by law if any dispute arising between LPCs and head of local units, it is the Prime Minister who should solve this dispute. Given the large number of LPCs which reach more than 1500 councils, and given the responsibilities of the prime minister it is unexpected that such a regulation can be implemented in reality (NDP, 2003).

In a nutshell, there are several features of centralization that still prevail including the representation of the governor for the executive authority; appointment of the chiefs of local units; the control of central government over service delivery at the local level; the control of central government over budgeting process for local governments; dominance of appointed entities over elected entities; and the dominance of higher local level authorities over lower local level authorities (Amin, 2010).

2.3 Local Popular Councils (LPCs) and Local Executive Councils (LECs)

LPCs have a number of responsibilities including the monitoring of all activities and utilities set according to the general policy, as well following up on five year developmental plans, and following up on the LPCs on lower levels in their jurisdiction (Abdel Wahab, 2008). On the fiscal aspect the councils approve the yearly fiscal budget allocated for the governorate and its implementation, and identify the forms of public participation. Approval of public projects and utilities within the jurisdiction of the governorate, approval of new production projects and mainly those associated with food security fall within the mandate of LPCs. Such councils also have a role in suggesting local taxes and imposing local charges, as well suggesting projects and policies dealing with fighting illiteracy, family planning, new investment projects. The councils on the governorate level have an overriding role when compared to councils on low levels, as well as more responsibilities and tools of monitoring. They have the right to approve or object to the decisions undertaken by LPCs on lower levels. The local councils on the governorate level have also the right of borrowing up to 40% of total local revenues of the governorate, though this remains a theoretical right which is not practiced in reality. Governors are held accountable in front of such councils.

LPCs are elected following Law 84 of 1996 which applies the direct election method. In the history of LPCs there have been seven rounds of elections where the mode of elections

changes as shown in table 4, the latest of which was in 2008. The term of LPC is four years. There are certain conditions to run for elections including being Egyptian born for an Egyptian father, minimum age of 25 years old, minimum basic education, and being registered in electorate registers –and live in- for the local unit where the electorate will run for. There are relatively a large number of nominees where people have to choose from on three levels (village, city or district, and governorate) which make it relatively difficult. There is no exact number for all LPCs where the number of people being elected range from 10 to 14 on the governorate level, can reach 24 on the city and village levels, and range between 10 to 14 on the district level and 12 to 18 on hay level. In the 2008 elections 27 million people voted on 30% of the seats (more than 52 thousand seats) as 70% of the seats were won by the National Democratic Party (NDP) by being the solely party running for elections (i.e. nobody ran for elections in front of NDP). In general, 8 parties run for elections (Ahmed, 2010). Despite the change of the system to single election which is supposed to provide more equal opportunity, the hegemonic power and domination of the NDP implied that whatever system is applied, the same result will be reached. Moreover, the necessity of electing a large number of people on different levels implied that the voter (given the weak political culture) is unlikely to choose in line with his real preferences.

Table 4: Mode of Elections in LPCs

Period of Time	Electoral System
1960-1975	Combining Elections and Appointment
1975-1981	Single Direction Election System
1981-1988	Absolute Parties List System
1988-1997	Combining Absolute Parties List and Single Seats
1997- now	Single Election System

Ahmed, Saleh (2010), “Political Participation of Youth in Light of the Local Elections of 2008”, in Nourhan El Shiekh and Saleh Ahmed, *The Political Participation of Youth*, Cairo: Faculty of Economics and Political Science, Cairo University and Friedrich Ebert Stiftung

There is another form of councils, called local executive councils (LECs). Executive councils were introduced by Law 57/1971 and its amendments resulted in a gradual reduction of the role of the elected LPCs. The role of LPCs boiled down to recommendation of issues and

projects to the executive branch (governor or executive councils), whereas the right of LPCs to hold hearings questioning the executive branch on issues relating to monitoring project performance was abolished (Tohamy and Abdel Hamid, 2004). The LECs are headed by the governors and include their deputies as well as the heads of marakiz, cities, districts and villages, and the general secretary of the governorate. The responsibility of the LECs is to follow upon work undertaken by executive bodies within the jurisdiction of the governorate, and suggest the budget and allocation of resources within that budget for different investments. They also have a role in helping the governor in setting the financial and administrative plans for the governorate as well as putting the recommendations of popular councils to be implemented, setting the rules for general work of administrative units within the governorate as well as the rules for management and investment in land, and for urban planning. The LECs also have a role in studying the suggestions of the governor and LPCs as well as investment projects for the governorate. As it is the case of popular councils, the executive councils on lower levels of jurisdiction have similar responsibilities and duties, and meet more frequent than the ones on the governorate level, and play a role in enhancing the capacity building for the governance and administrative systems of their jurisdictions. The law has set several layers of monitoring and control by the central executive power giving rights for the governor, council of governors³², and prime minister to object in particular cases to decisions undertaken by the local councils (popular and executive), and then to reject such decisions, and to stop them. Moreover, the rights include the right of dissolving such councils as long as the decisions are not in line with the general policy of the country. There are several preconditions embedded in the law to ensure that such rights by the central government are not misused. However, as suggested by specialists (Darwish, 2008) the law still does not preclude the possibility of abuse of power by the central government. The law suffers from a number of loopholes including the limited power granted to local authorities, the conflicts in roles by the executive and popular councils, the overwhelming power of central government on local units, absence of local hierarchy, appointment mechanism of some key positions as governor and secretary general, absence of representation of key agencies in some councils, and conflicting aspects of jurisdiction with central authorities on lands and utilities on the border of the governorates (Darwish, 2008). Moreover, hegemonic role of the National Democratic Party (NDP) has implied that the local popular councils are merely NDP members, which with the affiliation of the central government to the NDP

³² This is a de facto practice, as the de jure should be the supreme council for local administration, which never met since it was established.

implied weak checks and balances on the executive councils. Such state of political polarization tended to discourage political pluralism on the local level and independence in the central-local relationship (UNDP, 2004). The ex-military officials have dominated the scene of being the heads of the LECs on the different institutional levels, which is a phenomenon that could be partially explained as being supported by the high level centralization of the State, but as well it became a trend that ex-military officials apply for such jobs, to the extent that it became dominated by them. It is difficult to assess the impact of such domination, yet it certainly affected the efficiency of LECs where management and leadership skills lacked among such ex-military officials.

The local administration system is hierarchical among local units or between local units and the central government. The LPCs have only the right to ask questions or request information from the head and members of LECs. LPC are dominated by government employees, which implies a potential conflict of interest in doing their monitoring job of LECs (Martinez-Vazquez and Tmofeev, 2008). There are around 60% of government employees who are considered local government employees (table 5). Moreover, the budget for LPCs is allocated from the budget of the governorate secretariat, which implies that financially LPCs follow the body which should be monitored by them, showing high conflict of interest (NDP, 2004). Even the power of LPCs in monitoring executive councils has been demolished, rendering it ineffective by all means (UNDP, 2004).

Table 5: Number of Government Employees in the Government Sector

	Central Government	Service Authorities	Local Administration	Total Government Sector
Number of Employees in Thousands	1525	491	3157	5173
Percentage of Total Government Employees	29.5%	9.5%	61%	100%

Khattab, Abdallah Shihata (2010), "The problem of governmental financing for local economic development in Egypt: Reality and Future", paper presented at the conference entitled " Towards Effectuating the Local Dimension in Development", Faculty of Economics and Political Science, Cairo, 18-19 December, 2010.

By time, the powers of the Minister of Local Development (Administration/Governance) became restricted, and were not extended more than being a coordinator. For example, he has been deprived the power to appoint local executive directors on the directorate levels (for the ministries of education, social security, and health the minister should have the approval of the governor when appointing senior government officials in his governorate) and establish

new local units (for villages). In addition, the central ministries and agencies have direct channels with local authorities, bypassing the Ministry of Local Development, which again lessened the role and power of the Minister of Local Development (Abdel Wahab, 2008).

2.4 Major Problems of Decentralization and Recent Reforms

There are several problems associated with the decentralization system currently prevailing:

- 1) *The limited role of local administrative units in setting related local plans*: this is mainly because of the fact that setting plans takes place at the central level on sector basis, and hence the role of local units is mainly confined to aggregating such plans on local level. This does not imply necessarily any effective role in participating in the planning process. Adding to that the fact that the finance associated with such plans is set on the central level, absence of data, and the conventional wisdom that human capacity at the local level is weak add to the difficulties in enabling the local units in providing significant inputs in the planning process.
- 2) *Limited role of LPCs in monitoring LECs*, especially that the LPCs were deprived from their right of appointing the heads of local administrative units. In addition they used to have the right of questioning the heads of administrative units, including the governor himself, which is still enacted, however their right to withdraw confidence from the LECs including the governor has stopped since 1988.
- 3) *Ineffective hierarchal decentralization system*: It is not clear what is the main reason behind giving the administrative units on higher level the right to approve or object to the decisions undertaken on lower levels (although both of them are directly elected from their people).
- 4) *Joint overseeing of local units from the local authorities and central government*: Despite the fact that the laws related to decentralization emphasize the trend of decentralization and giving more powers to the governor, in reality the situation is different where in many cases the local authorities have to revert back to the central government for taking decisions. This implies that in many cases, the local employees have two bosses to satisfy.
- 5) *Limited power and role of the governor*: In fact, the governor does not have any power on the majority of public agencies as they follow the central government. He has also no role in coordinating the different central government plans coming from line ministries and agencies. He has also no power in moving an employee, as he can only suggest this (with the exception of the heads of the villages, as he can choose them after consultation with prime minister). Moreover, many of the public utilities that are within the boundaries of the governorate (on the high way or Nile river side) and used to follow the jurisdiction of the governor as education and health, are not any more under his authority but follow line ministries and agencies.

- 6) *Lack of balance between duties and means*: The governor is responsible for many issues being the official representative of the central government in ensuring that the main policies are implemented, however he has no rights to control the officials working in his governorate, and has no control over the financial resources. By law the governor is asked for many duties within the jurisdiction of the governorate whereas he is not empowered by any means.
- 7) *Lack of fiscal autonomy for local units*: being highly dependant on the central government for transfers imply necessarily that there is weak fiscal autonomy for local units (Abdel Wahab, 2008).

Several reforms were undertaken as steps towards decentralization. For example, the authority of planning, building, and renovating schools was partially delegated from the Central Government and the General Authority for Educational Buildings (GAEB) to the governorates in early 2000s, and in 2005/2006 an additional room for governors to decide on public investments needed in their governorates was provided. 16.8% of public investment (2.8 billion LE) was set under the discretionary power of the governors rather than being determined by the central authorities.

In 2010 there was a new draft law on decentralization that has been circulated (was expected to be presented to the Parliament in March 2011). However, a number of the ills identified above remained evident including change resistance from both central and local governments, weak human and institutional capacity of local units, and humble financial resources. Yet, the draft law achieved some positive aspects as well where it put the elected representatives of the people—the LPCs—in charge of the subnational jurisdictions at the governorate and markaz levels. Moreover, under the draft law, Governors would no longer be the head of the executive branch at the subnational level, rather the role of Governors would be revised for them to become the representatives of the State within each Governorate, in charge of monitoring the performance of public service delivery, rather than being in charge of public service delivery, to undertake legality control, and ensuring developmental equality. The draft law has experienced several consultations between concerned ministries that deliver public services at the governorate level. International development agencies as World Bank, UNDP, USAID and IMF provided technical support as well. In addition, as part of the broader decentralization effort, the Ministry of Finance set up a permanent intergovernmental fiscal committee in February 2010 to coordinate with line ministries in moving a larger share of public resources closer to the people and had taken major steps toward adopting a ministerial

fiscal decentralization strategy. Furthermore, the Minister of Finance had taken the initial step of instructing the centrally run General Authority for Educational Buildings (GAEB) to deconcentrate its budget to the Governorate level as a pilot project in the process of decentralization (Boex, 2011) (see box 1).

Box 1: Decentralization of Education in Egypt

In December 2001, the MOE, the Governorate of Alexandria, the Alexandria Development Center (NGO) and the USAID, signed a memorandum of agreement for implementing a pilot program aiming to improve the quality of education in Alexandria schools based on a decentralized model, through: a) forging a partnership between teachers, administrators and the community at large through three tiered committees providing support, follow-up and implementation; b) implementing advanced decentralized management through modifying policies and procedures and delegating both authority and responsibility to the school level; and c) providing advanced training to employees in conformance with up to date pedagogical and educational international systems. The three tiered committees formulated to help in the program implementation are:

A Consulting Committee which includes the Minister of Education, the governor and 16 community leaders with relevant experience, meeting four times a year and responsible for mobilizing community efforts; ensuring technical and financial resources; participating in the selection/monitoring of schools, directors and principals; and providing recommendations and annual evaluation of program.

An Educational District Committee led by Head of Educational Administration, with 10 members with relevant experience. The committee meets monthly and is responsible for monitoring school performance; deciding on rewarding or transferring school teachers, supporting the Boards of Trustees' efforts to secure additional resources; and ensuring training needs are met.

A Board of Trustees composed of 16 members including the School headmaster/mistress, a representative of the educational administration within the region, the school doctor and social specialist, school faculty, local leaders and elected parent members. The Board of Trustees - a development of the prior parents' committee - develops an overall plan, including the budget required, and suggestions for non-traditional sources of finance.

The MOE has delegated unprecedented authorities to the Governor of Alexandria to support the program's implementation. Internal financial regulations for the program enable the mobilization of resources from the community and flexibility in disbursement. Financial resources will be used for providing incentives to employees; training; repairs and maintenance; equipment and furniture; reforming the educational process, media and awareness campaigns. Implementation of the pilot program is scheduled to continue for four years, with the first stage covering 30 existing schools, representing a sample of primary, preparatory and secondary stages in poor areas, while the second stage was expected to cover 20 existing schools, and 20 new schools to be built through USAID funds. Even though it is not yet finalized, it was agreed in May 2003 to replicate the program in six other governorates: Cairo, Fayoum, Beni-Suef, Minia, Qena and Aswan, and a conference was held to disseminate the lessons learnt from Alexandria's experience to other governorates.

Decree 262/2003 delegates authority to the school level by determining the responsibilities of school management and educational administrations in governorates. It also stipulates the creation of three new units in schools responsible for quality, productive activities, and training and evaluation, enabling schools to have a greater role in self assessment and in determining their own training needs.

Source: Human Development Report (2004)

3. Financial Autonomy

3.1 The Process

The national budget is divided between central administration and local administration, where local administration identifies the budget of local governments at its different levels. The bottom up approach system works as follows: the lowest administrative level (e.g. village) passes its requests to the higher level (e.g. Markaz) which passes it to the governorate level where it is aggregated with other requests of the different governorate directorates. The budget ceilings and requests from governorate directorates are determined together with budget requests from central ministries and other central administration units by the Ministry of Finance and approved by the Cabinet and Parliament as part of the annual budget process (Boex, 2011). The system does not have a feedback mechanism where after the decisions are undertaken on the central level local governments cannot oppose such decisions or change them (NDP, 2003). Higher-level central government controls only budgetary appropriations aggregated for the units at the level immediately below, which implies a large discretionary powers for heads of the superior executive jurisdiction, with no accountability procedures allowing for checks and balances (Martinez-Vazquez and Tmofeev, 2008). Moreover, as seen in table 6, most of the expenditures of local governments are concentrated in current expenditures with wages (of central government employees located in local governments) representing the lion's share of such expenditures.

Table 6: Local Government Expenditure on Some Public Services as a Percentage of Its Total Expenditure

*Percentage
(%)*

Item	Wages	Purchase of Goods & Services	Interest Payments	Subsides, Grants & Social Benefits	Other Expenditures	Investments
Economic Affairs*	8.0	2.5	0.0	1.5	5.8	0.0
Housing and Utilities	0.7	0.5	0.0	0.2	0.2	0.0
Health	11.3	19.1	0.0	3.0	7.9	0.0
Education	67.4	23.8	0.0	5.8	5.5	0.0
Social Security	1.9	0.6	0.0	23.9	0.3	0.0

Source: Ministry of Finance, Egypt's State Budget for the Fiscal Year 2011/12, 2011.

*Economic Affairs include: Mining, Industry, Construction, Transportation, Tourism, Energy, Agriculture, Irrigation, etc.

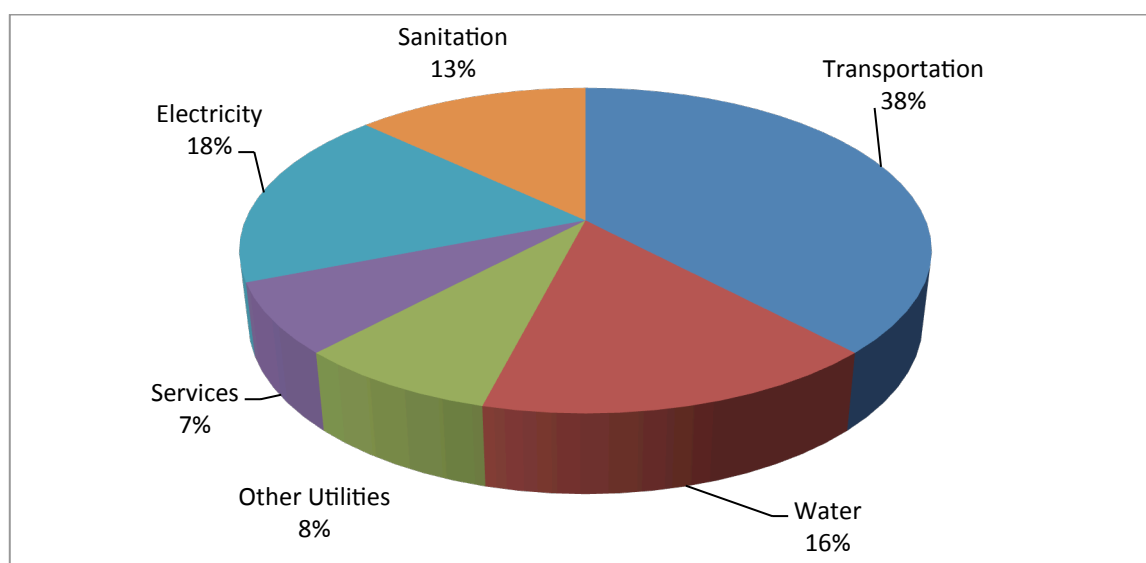
The public investments' needs of the local governments are determined according to the Five Year Plan and are often subject to the Ministry of Planning's discretion and budget constraints. The investment expenditures is a clear example of the bottom-up approach, as previously mentioned; where each level of the local governments submits its proposal (proposed investments for the coming budget year based on their needs) to the higher level. These proposals are being reviewed and modified by the higher level and consolidated together to form one proposal for each governorate. On the governorate level, these proposals are incorporated into the service directorates proposed budgets, which are submitted to the Ministry of Planning (MOP). At this point, these proposed budgets are subject to several negotiations between Ministry of Finance and Ministry of Planning. The outcome of these negotiations is not subject to any feedback by the local governments, especially at the lower levels. This fact raises a very important question which is to what extent do these investments meet the local governments needs' and priorities.

By law, the public investments in different governorates are conducted through line ministries, with the Ministry of Local Development receiving only investment allocated to the maintenance and/or expansion of the administrative function of local government. Therefore, the local governments have no role in determining the needy investments from their point of view. On the contrary, investment in different public services that is implemented in governorates is decided based on the relevant line ministry proposal. As a result, no governorate is free to allocate investment funds appropriated to a particular project to another project in line with its urgent local needs (Tohamy and Abdel Hamid, 2004).

Law 43/1979 and its amendments, mainly its articles (66, 67, and 68) give the local units the right to set and prepare their own budget in a clear bottom-up approach. However, in article 69 the law emphasized the fact that the expenditures should not exceed the amounts allocated in the budget and should not divert from what it has been intended to serve, hence lessening the flexibility. Moreover, and in practice, we find that such bottom up approach is not practiced, where in current expenditures they are merely wages and salaries which are paid for central government officials based in local units, whereas the investment expenditures is in fact determined by the central government line ministries or the independent economic authorities and holding companies as it is associated with the general plan of the government. The room of flexibility for local units in determining the investment expenditure is confined to very minor issues. As a result, the percentage of local investment to total public investment

remained below the threshold of 15% where the majority of investment is undertaken by the central government (Khattab, 2010). The local investments have been concentrated in local sector development activities including transport (mainly roads' paving, solid waste management, electricity infrastructure, security, traffic and fire protection, upgrading of capabilities of local employees) as shown in figure 4.

Figure 4: Distribution of Investment Expenditures in Local Governments across Different Sectors for the Fiscal Year 2006/07



Source: Ministry of Finance, 2006/07.

3.2 Financial Resources

The main financial resources for local governments can be divided into three, namely, taxes; transfers; and other sources. Taxes represent the main source of revenues for local governments including their share in the joint fund, taxes on cars registration, etc. The second source, namely, the transfers do not represent a major financial source of and come mainly from transfers from Central government, or foreign governments, and foreign organizations. The main source of finance comes from other sources with special accounts constituting the lion's share of such source of finance, as well as the general local revenues. However, the management of such special accounts has been subject to a lot of criticism pointing out to the large discretionary power allowed to manage it, where bonuses were given based on keeping the finances out of such funds, and hence the officials had no incentive to direct the funds for

developmental local needs, and aimed always at keeping them to enjoy private gains in the form of bonuses, especially that such accounts are not subject to any kind of accountability in front of the local councils (El Alwani and Shiha, 2008). Law 139/2006 denied the ability of local units to open different bank accounts and all of such special accounts had to be directed to one single account in the Central Bank and has been since then subject to the control of the Ministry of Finance.

The governing laws and regulations allow a certain degree of autonomy for local governments in terms of raising funds and collecting taxes. For example, law 43/1979, and its amendments (law 50/1981, law 145/1988), allow local government units to keep a share of sovereign taxes collected locally including a wide variety of taxes as (e.g. agricultural property tax, taxes on entertainment houses, moveable property, and industrial and business profits). Moreover, local governments are allowed to retain a number of tax revenues collected on local basis including motor vehicle tax, taxes and duties of local nature, and fees in return for services provided locally (Tohamy and Abdel Hamid, 2004). Additionally, 6 governorates used to benefit from the specific share in Suez Canal revenues (Amin, 2005), yet it is not practiced anymore after the introduction of Income Tax Law in 2005, and despite the fact that it remains a provision in Law 43/1979. However, the share of local governments in taxes as a source of revenues suffers from being highly limited and being unable to cover except on average around 5% of total local revenues due to several problems identified including the reluctance of taxes and customs agencies in paying the share of local governments; the non-separation in financial books of such shares, the reluctance of the general secretary of local government to distribute the shares of local governments; low revenues arising from production projects implemented in local governments, and low share of local governments in joint fund (El Alwani and Shiha, 2008). In other words, in addition to the drying up of sources, the implementation of procedures associated with share of local governments and their ability to have it affect negatively the revenues available for local governments.

There has been a retreat from decentralization where the laws that have allowed the LPCs to suggest imposition of taxes and charges have been cancelled by law 43/1979 and its different amendments granting the approval of such suggestions to the central government. Moreover, and despite that the law gives the right of local governments to borrow according to certain conditions (as depicted in *section 1*) where loans should not exceed 40% of total annual

revenues of the governorate, the procedures of obtaining such loans are difficult. For example, if borrowing was for purposes not included in the Development Plan or will result in expenditure in future periods, it required the approval of the Parliament, as well as the Prime Minister, rendering the powers again in the hand of the central government and making it too complicated for local government to borrow (El Alwani and Shiha, 2008; Amin, 2005). In addition, the right of local government units with which it can retain 50% of additional revenues exceeding what is estimated in the budget has never been practiced in reality as the revenues have never reached this percentage. Finally and as explained above, law 43/1979 and additional specific laws allow local government units to establish special accounts and funds to facilitate the provision of services and enhance these entities ability to finance these services from these sources, yet as explained the mechanism by which such funds are run have never allowed the resources of such funds to be directed to developmental needs. In theory, the performance of funds and special accounts is governed by ex-ante supervision of the Ministry of Finance and ex-post supervision of the Central Auditing Agency (Tohamy and Abdel Hamid, 2004). The ability of local governments in utilizing the law provisions regarding borrowing has been criticized by being heavily constrained due to weak human capacity especially in regards to loan management, and difficult procedures set by the law. As a result, the borrowing options have remained heavily unutilized and whenever used has been through the National Investment Bank, which provided 70% of the local capital expenditure in Egypt (Amin, 2005). There is also a problem associated with the fiscal conflict between the central government and local governments, where there exist a number of examples where the central government has abolished local taxes and charges for specific reasons (e.g. abolishment of local charges on public sector companies, and expanding the range of exemptions from real estate taxes) without taking into account the impact of the fiscal needs of local governments (Amin, 2005). Moreover, the cumbersome procedures needed to reallocate some of the local budget items, from the recurrent expenditures to investment expenditures and vice versa, have resulted in the reluctance of the governorates in trying to change any budget allocations, regardless of its effectiveness (Amin, 2005).

3.3 Expenditures

In general, the main outlets of expenditures by local units is set in the budget and classified into 8 main sections including; wages and compensations; purchasing of goods and services; interest; subsidies, grants and social benefits; other expenditures; purchase of financial asset

(investments). The local revenues have been never able to cover expenditures as seen in table 7 which shows the coverage ratio of local revenues for local expenditures. Table 8 shows the different outlets of expenditure and as seen from the table they are mainly concentrated in wages and salaries.

Table 7: The Gap between Local Government Expenditures and Local Government Revenues over the Period 2007/08-2010/11

Values in Million Egyptian Pounds

Item	Actual			Budget	
	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012
Total Expenditures	38905.5	50628.3	53979.2	54181.5	59619.91
Total Revenues	5483.5	6593.6	7785.7	5021	5545.9
Gap between Revenues and Expenditures	33422.0	44034.7	46193.5	49160.5	54074.0
% Gap	85.9	87.0	85.6	90.7	90.7

Source: Ministry of Finance, State Budget and Final Accounts Data, Different Years.

Table 8: The Local Government Expenditure according to the Economic Classification over the Period 2007/08-2010/11

Values in Million Egyptian Pounds

Item	Actual						Budget			
	2007/2008		2008/2009		2009/2010		2010/2011		2011/2012	
	Value	%	Value	%	Value	%	Value	%	Value	%
Wages	29213.5	75.1	35992.8	71.1	39614.4	73.4	44165.4	81.5	48215.71	80.9
Purchase of Goods & Services	5751.1	14.8	8840.9	17.5	8967.1	16.6	6804.6	12.6	7637.5	12.8
Interest Payments	214.2	0.6	174.1	0.3	192.3	0.4	212.6	0.4	226.8	0.4
Subsides, Grants & Social Benefits	253.5	0.7	282.8	0.6	971.6	1.8	297	0.5	352.5	0.6
Other Expenditures	92.8	0.2	89.1	0.2	118.5	0.2	101.9	0.2	123.4	0.2

Investments	3380.4	8.7	5248.6	10.4	4115.3	7.6	2600	4.8	3064	5.1
Total Expenditures	38905.5	100.0	50628.3	100.0	53979.2	100.0	54181.5	100.0	59619.91	100.0

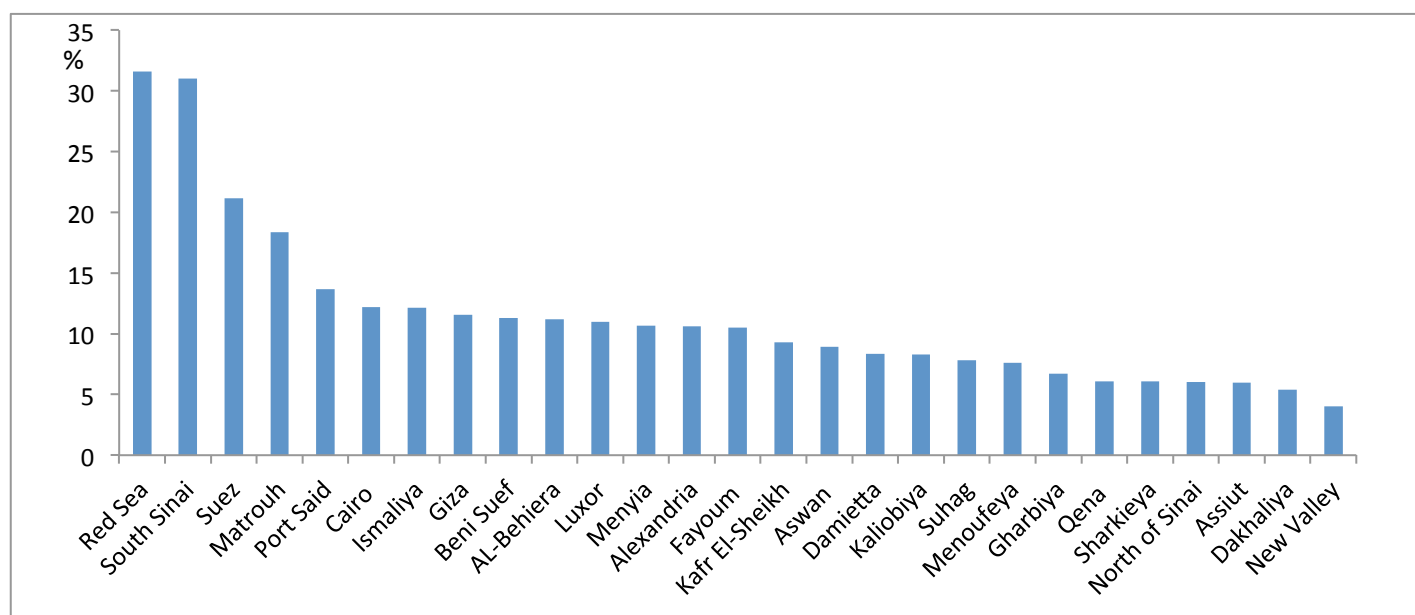
Source: Ministry of Finance, State Budget and Final Accounts Data, Different Years.

The differences between local revenues and local expenditures is financed through central government transfers and borrowing. The transfers from the central government represent the main source of revenues for local government accounting for more than 75% of the revenues of local governments. Borrowing represents the other source of financing the difference between local revenues and local expenditures and is merely concentrated in borrowing from National

National Investment Bank represents on average more than 90% of borrowing by local governments, while the rest is from foreign agencies and identified sources (El Alwani and Shiha, 2008). The local revenues/expenditure ratio differs from one governorate to another revolving around 10% in 14 governorates, and 20% in 11 governorates, with the existence of outliers as Red Sea governorate (35%), and South Sinai (25%) (Khatab, 2010) as seen in figure 5.

Figure 5: Percentage of Local Government Revenues to Local Government Expenditures across the Egyptian Governorates for the Fiscal Year 2011/12

Source: Ministry of Finance, State Budget for the Fiscal Year 2011/12, 2011.



The main outlets of expenditure are concentrated in education followed by public services as shown in table 9.

Table 9: Local Government Expenditures according to the Functional Classification over the Period 2008/09-2011/12*

Item	2008/2009		2009/2010		2010/2011		2011/2012	
	Value	%	Value	%	Value	%	Value	%
Public Services	9283.9	23.4	9475.9	20.2	10960.9	20.2	12018.1	20.2
Economic Affairs	2535.8	6.4	3613.3	7.7	3911.2	7.2	4041.0	6.8
Housing and Utilities	306.3	0.8	407.5	0.9	387.5	0.7	366.1	0.6
Health	3919.9	9.9	5235.3	11.2	5842.4	10.8	6922.4	11.6
Youth, Culture, and Religious Affairs	567.4	1.4	786.5	1.7	842.1	1.6	894.9	1.5
Education	22355.2	56.4	26466.7	56.4	31238.3	57.7	34336.4	57.6
Social Security	655	1.7	923.5	2.0	998.6	1.8	1040.6	1.7
Total	39623.5	100.0	46908.7	100	54181	100	59619.5	100

Source: Ministry of Finance, State budget Data, Different Years.

*All values represent budget numbers (Not Actual).

Hence, in practice, local governments enjoy limited financial independence given the restrictions of law 139/2006 regulating the single treasury account. In most cases, collected

funds are utilized as additional sources for financing central government expenditure on local projects. Moreover, although the existing local development laws (law 43/1979 and its amendments) have allowed the governorates to raise revenues through sharing the central government in some taxes, as well as imposing specific charges, in practice, many of such revenues are transferred into central revenues (Khattab, 2010). In reality, local governments act as collectors for central government for taxes and fees, special accounts and funds, which should act as an additional source of finance. Practice shows that things do not function as expected, and there are incompleteness of several projects due to limitations in finance from the central government, and lack of authorization for governors to handle some financial matters (Abdel Wahab, 2006). The end result is that local revenues are unable to meet their expected share in the expenditures of local governments.

Conclusion and Policy Implications:

The description of the local governments' financial system functioning and the process of decentralization or lack thereof carried out in this study identified that the decentralization process in Egypt suffers from major drawbacks including 1) high concentration of centralization powers at the level of central government, despite the piecemeal reforms undertaken to enhance decentralization; 2) weak accountability mechanisms implying absence of checks and balances and being highly subject to political discretion in terms of allocation of funds for public service provision; and 3) humble involvement of local government representatives in deciding upon the urgent needs of their local communities where the role of LPCs remains idle to a large extent.

In general, fiscal management policies and budget allocations between central and local governments resulted in a number of negative repercussions including weak effectiveness of service provision, poor utilization of human resources at the local level (despite that employees in local governments represent 61% of total government employees), and uncompleted implementation of locally-based public projects (Tohamy and Abdel Hamid, 2004). In 2008, some advancements have been undertaken where a bottom up approach has been applied and the central government announced to local governments their budget allocations before the fiscal year so that they can set their priorities in their local government plans and send back to the central government. However, the implementation has been confined to a limited number of activities.

There is an urgent need to adopt a local economic development (LED) approach. Effective LED cannot happen if major stakeholders, are not involved in the local development process. In 2005/2006 some piecemeal reforms were undertaken where for example the Unified Plan ensured that different activities related to investment in local units are set together (including the budget allocations for governorates, the emergency plan, and the agency of building and developing the village). In such an initiative governors and different local units were allowed more room to express their inputs in allocation of investments in their governorates (Khattab, 2010). However, such efforts remain piece meal, ad hoc, and not sustainable. As pointed out by Amin and Ebel (2005) and Chemonics (2004) *"Egypt can be characterized as having administrative deconcentration without authority"*.

There are several problems associated with decentralization process in Egypt including the absence of a checks and balance mechanism on local levels where the LPCs are mainly deprived from undertaking any effective role in monitoring the local projects and administrative units. The problem is also associated with the heavy control of the central government on many of the activities, and in fact what we realize are laws announcing steps toward decentralization, yet such laws are preempted by provisions which provide heavy control for the central government on the functioning of different local activities. Finally, the move towards decentralization suffers from clear cases of absence of local capacities, weak community involvement, and proliferation of rent seeking activities which make the move towards decentralization difficult to achieve on all fronts. On another front, the absence of a mechanism for involving the private sector in planning on local level, and weak infrastructure (El Migharbel, 2010) are other reasons behind weak decentralization in Egypt. Most importantly, lack of accountability where LPCs have no effective role in monitoring EPCs preempt any decentralization initiative (PADCO, 2006; CIPE, 2010).

A number of the aforementioned shortcomings have been overcome in the decentralization draft law which has been drafted by the government and has been accompanied by directories explaining how decentralization should be adopted. Issues tackled included mainly more effective role for popular councils in terms of setting the needs of their local units, upon which the budget allocations are to be allocated and disbursed. Moreover, according to the new draft law, the LPCs have more effective role in monitoring the EPCs in terms of implementing different government public services projects. The governor, has a dual role,

where he acts as a representative of the central government and at the same time he ensures as a coordinator of what the LPCs set as local priority needs to be in line with the main principles of central government budget allocations (Ministry of Local Development, 2010).

To sum up, the decentralization system in Egypt can be characterized by rather a de-concentration (representing the lowest level of decentralization in Egypt). The local governments headed by the governor act as representatives of the central government, and the level of autonomy exercised by local governments is highly constrained (Amin, 2005).

For decentralization to effectively affect the process of public services provision it must be accompanied by a reform on the political, administrative and social levels. Several preconditions must exist including the upgrading of administrative capacity at the local level as well as at the central level, enhancing the participation of citizens, enhancing democracy rules, and enforcing transparency and accountability (Amin, 2008). As pointed out by Bardhan (2002), it is of paramount importance that decentralization initiatives happen in tandem with enhancing the structure of local authorities and communities including the political, power, and administrative aspects. Moreover, and as pointed out by Bahl and Martinez-Vazquez (2006) sequencing in decentralization matters to avoid problems associated with failure of decentralization initiatives. Moreover, several preconditions need to be present (as fiscal autonomy on the revenue and expenditure sides, which does not prevail in the case of Egypt). Devolution of political power or fiscal resources from the central government to local authorities without the reform of such local authorities and communities and ensuring better participation of people at the local level will render the decentralization ineffective. Perhaps it is worth to end up with his quote "After all, the logic behind decentralization is not just about weakening the central authority, nor is it about preferring local elites to central authority, but it is fundamentally about making governance at the local level more responsive to the felt needs of the large majority of the population". Such issue should be put in mind when talking about decentralization in Egypt where as this piece of research has shown it ended up as a goal rather than as a mean. Finally, empirical evidence has shown that in countries where the central government has not been capable of efficiently providing essential public services, decentralization might not work as expected especially if the target is poverty reduction (Jütting et. al, 2004).

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3- Decentralization and Economic Outcomes in Selected South Mediterranean Countries : The Case of Tunisia

*By Saoussen Ben Romdhane*³³

I. Introduction

Since gaining its independence in 1956, successive Tunisian governments promulgated several texts that aimed at providing a relatively clear definition of the role and functions of decentralized administration at the regional, municipal, and rural levels. The texts have been revised and modified over the years to both clarify and strengthen the meaning of decentralization. However, the autocratic regime that governed Tunisia for 23 years ending in January 2011 has limited the effectiveness of the decentralization process by actually curtailing the power given to the local entities to manage their resources. The excessively centralized administrative and state controlled system in Tunisia during this period has led to an uneven wealth distribution to the detriment of the interior regions of the country, which in turn has generated heavy costs in terms of economic inefficiency and citizen alienation that eventually contributed to the social unrest.

Today, and in the wake of the revolution, strengthening decentralization and enhancing local governance are of crucial importance to achieving a successful transition towards democracy. The government should undertake a comprehensive set of structural reforms to foster local democracy, boost private investment in the interior areas, implement a system of incentives, and empower local governments.

The objectives of this paper are to assess the level of decentralization in Tunisia and its economic outcomes, and analyze the extent to which weak levels of decentralization have generated regional disparities in Tunisia. In Section II, we describe the administrative structure and analyze its decentralization process. In Section III, we discuss the political, financial, fiscal and economic decentralization aspects and features. We analyze the outcomes in terms of poverty, unemployment and regional disparities in Section IV. Finally, we describe the recent reforms and government program in Section V and sum-up by providing policy recommendations in the Section VI.

³³ Lecturer of Economics at the Ecole Supérieure de Commerce de Tunis, University of La Manouba. Tunisia. The author would like to thank Dr. Zouhour Kourda (University of La Manouba) and Dr. Saleh Ahmed (Cairo University) for their insights and valuable comments.

II. Administrative structure and decentralization

Since gaining its independence in 1956, Tunisia established a unitary centralized state and all levels of the administration were subjected to the authority of the Central Government with an ambiguous role of the Governor. This state of affairs changed in 1975 following the enactment of Law of June 13, 1975 that provided a clearer definition of the functions and responsibilities of the governor and strengthened his position as a representative of the state. Decentralization was reactivated in 1989 (Decree of March 24, 1989) and adapted to the context of the new regime that emerged in November 1987 and some activities and specific competencies have been delegated to the governors. However, the development of independent powers and local government was and continues to be confusing and the Ministry of the Interior is maintaining a centralized territorial administration.

In Tunisia, the administrative structure is organized as follows: Governorates, delegations, municipalities and Imada (see Table 1). Three collegiate and consultative institutions (local development councils, rural councils and district committees) have been formed between 1989 and 1994 in order to help governors, delegates and heads of Imada (Omdas) to achieve their tasks.

Table 1: Number of local communities in Tunisia

Local Communities	Number
Governorates	24
Delegations	262
Municipalities	262
Imada	2066

Source: <http://www.tunisieindustrie.nat.tn>

The scope of the decentralization program as measured by geographic and population coverage and substantive areas of concern appears to be relatively high in Tunisia. The decentralization program has been applied to almost all areas of the country, encompassing almost the entire population. Only a few rural areas remain outside the purview of municipal or rural councils, and all are included under the umbrella of the regional councils (at least theoretically).

The areas of substantive concern to be addressed by local entities are extremely broad, especially at the regional level, where virtually all development projects and central services are examined. The municipal councils have a more limited scope of interest than do the regional councils, but even at the municipal level, the range of issues that can be examined are quite broad. For example, municipal councils are involved in issues ranging from water, power, and solid waste disposal to libraries, cultural activities, youth clubs, preschools, and the management of markets. In addition, since the mayors of the municipalities all serve on the regional council, they have some input into broader issues of regional development and planning.

Nevertheless, decentralization has overall been limited despite several reforms and all levels of administration are closely dependent on the state. While regional and municipal councils are responsible for the important local and regional tasks, they remain the lower rings in a central administrative structure and the power that they exercise has been weak, artificial and overshadowed by the ruling party. The regional levels of the central ministries have also experienced some degree of decentralization with the creation of reporting and coordinating responsibilities to the regional governor and the creation of groups such as the AIC (Association d'intérêt Collectif). However, even with these important steps, the Ministry of the Interior maintains a parallel, highly centralized system based on the older form of prefectural administration.

Governorates and regional councils

The structure of the administrative system in Tunisia takes two forms: i) decentralization within the context of the central ministries; and ii) decentralization in the context of the territorial administration through the creation of regional councils, municipal councils, and rural councils. In the first case, the chief regional official of each ministry is officially under the direction of the Governor of the region. All work at the regional level is supposed to be coordinated by the Governor and the Secretary General of the governorates. All central government projects at the regional level are supposed to be approved and supervised by the Governor and the regional council. This implies that the governor and his staff also manage the budgets for these projects.

Governorates

There are 24 governorates covering the whole territory and representing state administration in a region. Each governorate is headed by a governor who is the executive person appointed by the President of the Republic. Each governorate has a regional council, which is a coordinating body chaired by the Governor and composed of the presidents of committees and the governor secretary. Both governorates and regional councils operate under the tutelage of the Ministry of Interior.

Table 2: List and characteristics of the 24 governorates

Source: UNDP, 2008.

Governorate	Surface Km ²	Number of municipalities	Population	% of urban population	% of rural population	Density Hab/Km ²
Tunis	294	7	933,970	100%	-	3177
Ariana	485	6	382,500	91.2%	8.8%	789
Ben Arous	675	11	466,240	90.8%	9.2%	691
Manouba	1125	9	327,240	73.3%	26.7%	291
Nabeul	2865	24	650,260	65.7%	34.3%	27
Zaghouan	2869	6	157,380	35.0%	65.0%	55
Bizerte	3535	13	527,780	60.1%	39.9%	149
Béja	3658	8	320,060	39.0%	61.0%	87
Jendouba	3100	8	430,410	25.6%	74.4%	139
Le Kef	5215	12	281,990	47.9%	52.1%	54
Siliana	4635	10	258,050	33.5%	66.5%	56
Kairouan	6690	12	570,870	30.9%	69.1%	85
Kasserine	8245	10	424,640	39.0%	61.0%	52
Sidi Bouzid	7280	10	404,270	22.4%	77.6%	56
Sousse	2710	15	510,100	78.8%	21.2%	188
Monastir	1065	31	429,300	100%		403
Mahdia	2953	14	376,490	45.7%	54.3%	127
Sfax	7153	16	832,560	63.8%	36.2%	116
Gafsa	7654	8	333,210	72.7%	27.3%	44
Tozeur	6156	5	98,530	72.9%	27.1%	16
Kébili	2235	5	144,150	55.7%	44.3%	64
Tozeur	7500	10	337,230	66.1%	33.9%	45
Médenine	9167	7	431,790	74.9%	25.1%	47
Tataouine	38465	5	150,350	58.7%	41.3%	4
Total	135829	262	9,779,370	63.4%	36.6%	72

Regional Councils

The regional councils were first created as « Conseil de Gouvernorat » in 1963. They were considerably modified in February 1989 in order to make them more than just an advisory body for the governor, and more as an independent, representative policy formulating and planning body. Indeed, the regional council elaborates the regional development plan (in the context of the national plan) as well as the regional physical planning and the town plan, advises on programs and projects established by the government, launches regional development programs and governor operating including capital budget and income taxes, manages public property, coordinates between regional and national programs and cooperates with equivalent foreign institutions, following the authorization of the minister of the interior. The office of the regional council is composed of the presidents of the permanent committees and the general secretary of the governor, as secretary and recorder. It is in charge of the coordination and follow-up of permanent commissions work, the preparation of the agenda of the committee and analysis of commission reports before presentation to the regional council. In addition to their activities within the regional council, the Secretary Generals play a leading and coordinating role in the administrative and economic fields, under their respective governors' authority. Each is in charge of relations with the heads of regional administrative services, the general administrative affairs, trade, economic and investment policies.

Regional committees

Regional committees were established in 1994 to discuss issues relative to local development. They represent the legislative body (voted by an absolute majority with public ballot), chaired by the Governor and moderated by the general secretary and include seven (7) permanent commissions composed of deputies elected in the circumscriptions covered by the governorate, municipal mayors, rural councils' presidents and other appointed members.³⁴ Regional committees are also responsible for the management of regional affairs as well as the elaboration of the regional development plans and town plans in non-urbanized areas.

These consultative entities are made up of municipalities' and rural councils' presidents, sectors' chiefs, representatives of public institutions and external services of the administration. Each permanent committee is chaired by a member of the regional council who is appointed by the governor. Committees are in charge of: (i) Planning and finance, (ii) Economic affairs, (iii) Agriculture and fishing, (iv) Equipment, habitat and town planning, (v) Social affairs, health and environment, (vi) Education culture and youth, and (vii) Cooperation and external relations.

Delegations

The Delegate is the executive body of the delegation appointed by the Minister of interior and is under the authority of the governor who can delegate his powers to them in some cases under a temporary assignment, which should be approved by the minister of the interior. Delegates are divided into two categories: (i) those working at the headquarters, and (ii) those working in the districts. Delegates chair the local development committees and are in charge of coordination and control over local services.

Municipalities

³⁴ 1/3 of members are elected, 2/3 are appointed by the Governor

Regions are composed of urbanized (communalized) and non-urbanized (non-communalized) regions. Municipalities serve urbanized territories, covering 63 percent of the population. There are 262 municipalities in urban areas and rural centers, governed by an elected municipal council that elects its mayor within its ranks.³⁵ The municipalities were first established in 1956 and became de jure organs of decentralization in 1975 (Law of 13th June, 1975). They also gained increased importance de facto capacities in 1985 (Ben Salah, 1989), and became a very serious concern since the regime changed in 1987. The mayor (president of the municipality) is the executive body who has been elected for a mandate of 5 years from among the municipal council by secret ballot with absolute majority³⁶ and chairs the municipal council. Municipal elections have not been competitive under the previous autocratic regime, which used to nominate mayors from a list of the former dominant ruling party (Rassemblement Constitutionnel Démocratique RCD). So far, no municipal elections have taken place since the revolution.

The mayor is responsible for the establishment of the agenda according to the municipal council's priorities, calls and chairs meetings of the municipal council, controls the functioning of the commissions, and executes decisions either directly, or by emission of by-laws under administrative supervision. S/He is in charge of the regulations and execution of the decisions of the authorities. In addition, the mayor prepares the budget and controls financial accounting. The Mayor is also responsible for the security of the town and its people, for public services delivery and environmental care in addition to the administration management. He represents the municipality, manages the town property, appoints administrative staff, issues permissions to build and occupy parts of the public territory. The municipality office, chaired by the mayor and managed by the general secretary, is a collegiate body, which is composed of the first deputy mayor, assistants, vice-presidents, presidents of commissions and the secretary of the municipality.

The municipal councils, which vary in size according to population, are elected for five-year terms on the basis of a majority list system. They are responsible for certain key functions mainly related to the provision of services, at the municipal level. They also levy and collect a range of local taxes such as the rental taxes, the tax on business establishments and, levies on market transactions. Their expenses and investments are essentially in municipal services and infrastructure. Within this frame, and under close financial oversight by the state, the municipalities can initiate activities, recruit staff, manage their budgets, and contract for services. Within such framework of financial and social constraints, decision-making in the municipal councils appears to be relatively open and each citizen or NGOs can access committee hearings and council meetings. Although attendance is relatively low, the committee meetings represent a good opportunity to air citizens' interests and concerns. In rural areas, populations are often regrouped in villages (agglomerations) called non-urbanized territories. Villages have consultative councils used as "sounding boards by the region", but they have no formal recognition as local governments (Vaillancourt and Belaid, 1998). There are 185 appointed rural councils covering a small portion of the country in which basic public service facilities (i.e. schools, health care centers) are available. The Governor appoints the members of the rural councils, which can best be considered as "pre-municipalities" as they are small towns, which will eventually obtain the status of

³⁵ Municipal councilors are elected for a 5 year term by direct universal suffrage by voters living in the municipal area. The number of councilors varies 10 to 60 based on the population size of the area. 20 percent of the seats are reserved for minorities

³⁶ The Mayor of Tunis is appointed by decree among the members of the town council.

municipalities if the number of their population reaches 5,000. Their president represents them on the regional council but some of them are not represented.

The relatively new element added to the decentralization landscape in Tunisia since the rise to power of Ben Ali has been the neighborhood associations "Associations de Quartier" which became very important actors in public life especially after the Tunisian revolution. Without legal texts and originally confined to issues related to protecting the environment and cleaning up the neighborhoods, these associations began to play a significant role in the life of several municipalities, especially during the revolution when they functioned as local non-governmental groups capable of mobilizing the population in support of a variety of issues and organizing themselves to protect the private and public properties of their respective neighborhoods during periods of unrest. Other associational groups could potentially play an important role in promoting overall decentralization and democratization. However, some groups, such as the Tunisian Federation of Municipalities, appear to be absent from the scene. Administrative decentralization has been constrained by inappropriate human resources management and weak capacity of the bureaucratic personnel assigned to the regions. Indeed, the governor is responsible for the coordination of the work of all ministries operating in the territory that he supervises in addition to being in charge of the evaluation of the top representatives of each of the ministries. The reserve of agents to be supervised and evaluated by the governor, outside of the remit of the ministry, has been a problem in most cases. In addition, most personnel in Tunisia's public bureaucracy have been and remain strictly linked to the central administrative structures. Even those functionaries (cadres) employed and paid by the municipalities, remain part of the Ministry of the Interior. Finally, the quality of the bureaucratic personnel assigned to the regions and municipalities is mostly quite modest. On one hand, the municipalities often lack the resources to engage the personnel they need, even when they can find willing and qualified individuals. On the other hand, neither incentives for working in the regions nor separate statutes establishing conditions for the employment of cadres at this level do exist. While the overall situation has improved, assignment to the regions is still viewed as having negative implications for career and professional developments.

III. Political, financial, fiscal and economic decentralization

Political decentralization

Political decentralization has been very limited with a predominance of the hegemonies, unique ruling party operating within an authoritarian rather than a pluralistic environment. Citizens or their elected representatives have limited power in public decision-making and narrow influence over the formulation and implementation of policies.

Under the Ministry of the Interior (with the involvement of other ministries, most notably Finance) and in the context of the territorial administration, Governors, the regional councils and municipalities have been appointed, established and modified over time. The Governor is not a representative of the region, but an appointee of the central government named by the President of the Republic to represent him at the regional level. The regional councils are composed of the region's deputies in the National Assembly, the presidents (mayors) of the municipalities in the region, and the presidents of the rural councils. This, once again, highlights the fact that these councils actually are more of a complement to the state, than being independent local governments in a politically decentralized system. In the same manner, the municipal councils are strictly creations of the central government and can be dissolved by the State (see Table 3).

Table 3: De-concentration and decentralization systems in Tunisia

Central Government Ministry Deconcentrated System	Ministry of Interior
Province	24 Governorates
Appointed by	Governor is appointed by the central government
Council	Regional assembly is made up members of the Parliament of the region, municipal mayors and other appointed members
Municipalities	262 municipalities
Elected by	Municipalities are governed by an elected municipal council that elects its mayor within its ranks

Source: Centralization, Decentralization and Conflict in the Middle East and North Africa. Middle East and North Africa Working Paper Series No. 51 . October 2008. The World Bank.

Likewise, the district (quartier) committees have been, since their creation in 1992 (Decree 92-967 of 22nd May 1992), structured around a ten (10) member "bureau" well connected to the central government, the Governor's office, the municipal council and the former ruling party (RCD) cells which often influenced their activities. Once again, this shows the political centralization by the unique political party, which dominates the local political units.

Financial decentralization

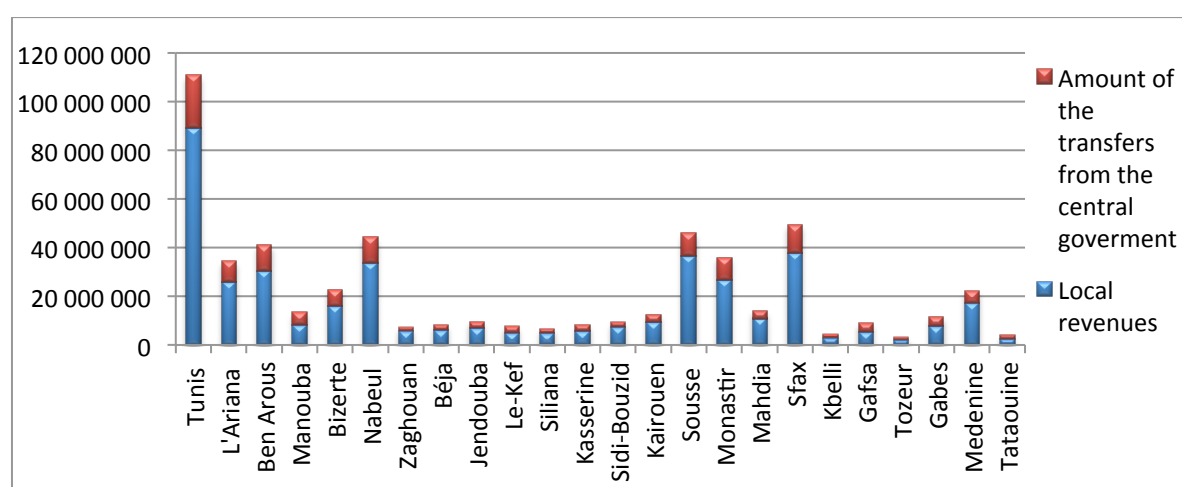
The municipalities are classified into four different categories: Category I represents the four major industrial and touristic centers (Tunis, Ariana, Sfax and Sousse) and accounts for more than one-third of all municipal revenues, Category II embodies the regional centers, including most regional capitals and accounts for the largest single share of municipal revenues nationally, Category III is the largest category and includes more than half of all municipalities, most of which are small and rural and account for only about twenty percent of the municipalities' revenues despite their significant number. Finally, Category IV is composed of the smallest and often newly-established municipalities, and its revenue base is extremely small and accounts for only about three percent of the nation's municipal revenues. As a whole, municipalities cannot finance the total amount of their expenditures from their own revenues and are supported by further financing from the Central Government. However, this transfer is uneven and there are important differences between the financial allocations received by the municipalities (see figure 1). Municipalities of Tunis (greater Tunis) received the largest share of the government transfer (16%) followed by those of Sfax (9%), Ben Arous (8%) and Nabeul (8%), Sousse and Monastir (7%) in the coastal area. The interior regions received the smallest share with only 1% for the municipalities of Sidi Bouzid, Tataouine, Tozeur and Zaghouan (see figure 2).

Financial decentralization is limited at the municipality level. Indeed, the Ministry of the Interior and the Ministry of Finance, as the local representatives of the central government, closely control the municipalities' finances. While the central ministries review the budget of

category I and II- municipalities, budgets for the smaller class III and IV municipalities are reviewed at the regional level. But because of the lack of adequate staff and analytic capabilities in the regions, budgets often come at the end to be reviewed at the central level. Hence, through the budgetary, accounting and auditing processes, a narrow authority is given by the central government to the local level to make significant decisions regarding spending and taxation.

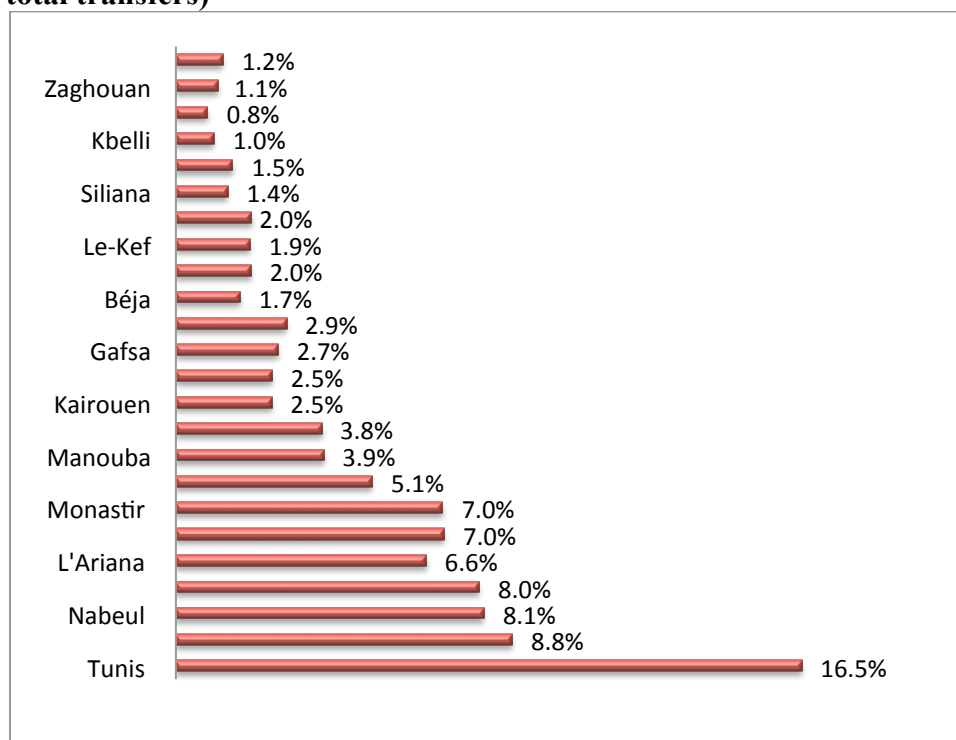
The situation regarding the governorates is slightly different. The governors are considered as the regional representatives of the state. Consequently, they are entitled to manage development projects internally (including the budgets). Although budgets allocated to them directly are relatively small, this denotes that very serious decentralization of power is at least de facto present in financial implementation.

Figure 1: Local Revenues and Transfers from the Central Government (in TND), 2010



Source: Author's calculations based on data from the Ministry of interior.

Figure 2 Share of the Central Transfers to the local collectivities (in percentage of the total transfers)



Source: Author's calculations based on data from the Ministry of Interior.

Fiscal decentralization

The most significant sources of revenue for the communes are the property taxes on residential and commercial properties and taxes on market transactions. However, these revenues are insufficient to cover the municipalities' expenditures, which are supported by the "Fond Commun des Collectivités Locales"(FCCL). This most important support fund was initiated in 1975 as part of the basic administrative reform with the objective of increasing revenues and improving the municipalities' capacities.

While there is considerable variation both within and between the different categories of municipalities, on average, FCCL accounts for 25 percent of the revenue available to local communities for their annual budgets. It accounts for up to 75 percent of the annual revenue in some of the smallest communes. The fund itself was until 1988 constituted by a range of taxes collected at the national level and specially allocated to regional and local governments. Since 1988, the FCCL is funded through the central budget and divided into two parts; 75%, allocated to collectivities, and 25% is kept as a reserve to be used to fund parastatal organizations such as SONED, STEG and ONAS which provide basic services like water, electricity and waste water management. Furthermore, a part of the reserve is reserved for the special needs of the municipality. The remaining 75% is divided between the urban communes (86%) and the regional councils (14%). The portion of the FCCL allocated to the communes is divided into three fractions, one for basic liquidity (10%), one based on population (45%), and one based on incentives associated with the local tax effort (45%). The first of these, the smallest of the three funds, is divided equally among all the municipalities in the country to provide a core of funds, available to even the smallest and poorest ones. The second fund is divided among the communes based on the percentage of the total national urban population living in the particular commune. Consequently, the larger communes receive the most revenue from this part of the fund. The third part of the FCCL is designed to

provide an incentive to communes to collect their local taxes, more precisely, the tax "locative." The tax "locative," the largest single local municipal revenue source, is the tax that the communes levy on the value of properties, houses, apartments and commercial buildings, based on their projected value as rental units.

There are several important implications for municipal finance from the way this tax is collected:

1) The incentive portion of the fund obviously rewards the richer municipalities. Only between forty and sixty percent of the potential "rental tax" is collected at the national level. This figure is lowest in the smaller, with the smallest staff municipalities. The larger, richer ones have competent staff to do the assessments and to assist with assessments and the collection of the tax (it is actually collected by the "receveur d'Etat").

2) There is a relatively low limit to the total "tax sur établissements" (the commercial equivalent of the rental tax) which is paid by industrial and commercial establishments. As a result, the potential impact on the tax of a strong industrial base is reduced. This reduces the advantages which some of the richer municipalities might naturally enjoy. In fact some municipal officials have expressed the view that the tax limit on large companies in their areas is unfair. They even suggested that the tax on some enterprises is much lower than that levied on comparable properties devoted to private residences. It also has the impact of subsidizing industry while leaving the municipalities in which they are located and whose services they consume with the problems of urban growth, but not the revenue to pay for addressing those problems and the necessary services.

3) The distribution of this fund is based on the average of a period of three years. Consequently, the advantages of even a dramatic increase in tax collection rates in any given year may be relatively difficult for municipal officials and councils to perceive. It is only over a period of two or three years that the impact on FCCL revenues is likely to be really noticed. The apparent failure of many municipal officials to understand or perceive the direct and indirect advantages of increasing the rate of compliance with the "tax locative," also serves to limit the potential impact of the incentives provided.

4) A small but growing number of communes have succeeded in improving their tax collection rates due to computerization. The result is that these communes receive a double advantage: increased local collection and increased allocations from the FCCL. However, since the total pie to be distributed under the FCCL is based on national taxes collected and not directly related to the total collected under the "tax locative," the impact is that the poorer and/or smaller communes which are not likely to obtain or be able to implement such new technology, fall further behind in their allocations under this part of the fund in both absolute and relative terms. It is clear that the current formula for allocating the incentive portion of the FCCL does not really have the desired effect. This may result from the fact that the regulations are very complex, officials lack appropriate training and information, and the tax is actually collected by an agent who works for the State rather than the commune.

Another problem stems from reliance on the "rental tax" This tax is based on an assessment of the rental value of the property. Determining the rental value is in general difficult. The agents who do the assessing are poorly trained and under paid. Furthermore, they do not have the right to enter a house, and, therefore, must make their calculations on the basis of the number of rooms as indicated by the owner. Small bribes are often given to lower the room count and therefore the assessment. Furthermore, elected counselors indicate that they must spend an enormous amount of time addressing the objections and appeals of their constituents who feel that their property has been unjustly assessed. This affects negatively both local taxes collected and the FCCL allocated to the commune. Better training and broader dissemination of computerized systems for record keeping could serve to increase local tax collection.

Table 4: Expenditure Assignment

	Macro Policy/Oversight	Financing	Provision
Social Services³⁷			
Social Welfare	C	C	C
Hospitals	C	C	P
Public Health	C	C	C
Universities	C	C	P
Secondary Education	C	C	P
Primary Education	C	C	P
Housing	C	C	C
Transportation³⁸			
Urban Transportation	C	C,P	C,P
Railroads	C	C	C
Airports	C	C	C
Ports and Navigable Waterways	C	C	C
Urban Highways	C,P	C,P	C,P
Interurban Highways	C,P	C,P	C,P
Utility Services³⁹			
Electricity	C	C	C
Waste Collection	M	M	M
Water and Sewerage	C,P	C,P	C,P
Other Services⁴⁰			
Fire Protection	C	C	C
Heating	N/A	N/A	N/A
Irrigation	C	C,P	C,P
Police	C,P	C	C

C: Central Government P: Provincial Government M: Municipal Government N/A: Not applicable

Source: Centralization, Decentralization and Conflict in the Middle East and North Africa. Middle East and North Africa Working Paper Series No. 51 . October 2008. The World Bank.

IV. Decentralization and regional economic development

³⁷ These services are national in scope, the central government has a role in correcting fiscal inefficiencies and regional inequalities, it should also provide some financing to cover spillovers.

³⁸ The overriding concern is the efficient provision of services. If the benefits accrue to local jurisdictions it should be financed by local residents. If the benefits of the service spillovers to other jurisdictions, the service is national in scope and the cost of service should be realized by nonresidents as well.

³⁹ These services are local in scope; if the services are financed by national revenues, nonresidents bear the cost of services. In that case, inefficient allocation of resources is a major concern. However, preservation of internal common market might be an area of concern; central government might have a role in regulatory function to ensure efficiency and equitable provision of some of these services.

⁴⁰ The primary beneficiaries of these services are local residents and they are most efficiently provided by local governments.

Low economic performances in the interior areas have been a natural and expected outcome of the weak political, financial and administrative levels of decentralization in Tunisia. Limited investment and resource transfers to these areas has been a contributing factor, while at the same time creating a mono-production structure of the economy that failed to sustain economic growth and preserve a social and national cohesion of the country.

Several factors have disadvantaged the development of the interior regions. They can be summarized by: (i) lack of an efficient information system and effective regional planning, (ii) weak infrastructure foundation to develop agriculture activities and attract local and foreign investment, (iii) absence of adequate training programs to upgrade farmers' skills and diversify their production, (iv) shortage of industrial activities and services that can attract a large part of the job seekers, especially the higher education graduates, (v) limited access to finance and under representation of banking, credit units and administrations bureaus to support private investment, (v) non-regularization of problems related to farmland ownership, (vi) lack of industrial activities areas with special incentives, and (vii) insufficiency of incentives to attract foreign investors. Importantly, regional inequality was a major contributing factor to the revolution.

Poverty and regional disparities

Decentralization strategies help to promote equality and reduce poverty. Bibi and Nabli (2010) argue that decentralization help policy-makers to identify the profile of subgroups who have a large contribution to overall inequality/poverty and facilitates the design of effective, consistent national and specific inequality-fighting programs⁴¹.

While Tunisia has succeeded in reducing poverty and improving social indicators, regional and socio-economic disparities across regions remain significant. Poverty is more rural than urban and the poor rural regions continued to have the most important contribution to the overall inequality.

Indeed, analysis of the poverty rate reveals widespread regional disparities. The Center-West (governorates of Kairouan, Sidi Bouzid and Kasserine) has been and continues to be the poorest region of the country with an extreme poverty rate of 14.3% in 2010, three times higher than the national average official rate estimated at 4.6 percent⁴². While the situation improved in the other regions, progress has been very limited in the Center-West region during the period 2000-2010. The extreme poverty rate is 13 times higher than that in Great Tunis in 2010. It was only 6 times higher in 2005 (Table 5).

Table 5: Regional poverty rates (In percentage of population)

⁴¹Sami Bibi and Mustapha K. Nabli (2010), Equity and Inequality in the Arab region. ERF Policy Research Report, No.33. February. Cairo.

⁴² Official poverty figures reported previously a national poverty rate of 3.8 percent in 2005. However, the National Statistics Institute published in September 2011 revised poverty estimates shows that the national average poverty rate in 2005 was 11.8 percent. This figure has been revised again in September 2012 showing a poverty rate of 23.3 percent while the extreme poverty rate has been estimated at 7.6 per cent in 2005.

	Poverty			Extreme Poverty		
	2000	2005	2010	2000	2005	2010
Great Tunis	21.0	14.6	9.1	4.3	2.3	1.3
North Est	32.1	21.6	10.3	10.5	5.4	1.8
North West	35.3	26.9	25.7	12.1	8.9	8.8
Center Est	21.4	12.6	8.0	6.4	2.6	1.6
Center West	49.3	46.5	32.3	25.5	23.2	14.3
South Est	44.3	29.0	17.9	17.5	9.6	4.9
South West	48.7	33.2	21.5	21.7	21.1	6.4
Total	32.4	23.3	15.5	12.0	7.6	4.6

Source: INS, September 2012.

Regional disparities have to a large extent been the consequence of an unequal distribution of public funds and investments. While the coastal zone received 65%⁴³ of total public investment, the interior region has been clearly disadvantaged during the period 1992 – 2010. Indeed, the governorates of Kairouan and Sidi Bouzid have been deprived of any significant public investment, with a cumulative amount of 2497 dinars per capita and 2296 dinars per capita, respectively, per year, during the period 1992-2010. Although these amounts are higher than those in the governorates of Ariana (2392 dinars / capita) and Manouba (2107 dinars / capita), they appear to be particularly limited given the relatively low population density of Kairouan and Sidi Bouzid and thus reducing the total amount of investment. Likewise, Tunis and the coastal area have benefitted from the highest amounts of private investment (9508 dinars per capita in Zaghouan, 8672 dinars per capita in Monastir and 8189 dinars per capita in Bizerte). Governorate of Sidi Bouzid, Jendouba, Gafsa and Siliana have been the most disadvantaged with 2758 dinars per capita, 2635 dinars per capita, 2613 dinars per capita and 2601 dinars per capita, respectively⁴⁴. This has in turn resulted in particularly poor service delivery, especially for health care and education.

Access to basic infrastructure, social services and regional disparities

Many social indicators corroborate the persistence of large regional disparities in terms of access to basic infrastructure, health and education. In fact, uneven distribution of public investments at the local level has fostered access to public utilities and social services in some governorates compared to others, as shown in tables 6 and 7. Furthermore, the greater centralization of the administration resulted in a forsaken of public services, even the basic ones, in the interior areas (AfDB, 2012 c).

Table 6: Number of households (in thousands) having access to public utilities

⁴³ AfDB (2012, b), Tunisie : Document de stratégie pays intérimaire. African Development Bank Group. Tunis.

⁴⁴ Zouari Abderrazak (2011), Le livre Blanc. Regional Development Ministry. November. Tunisia.

Region	Governorate	Drinking water		Sewage		Electricity	
		2004	2011	2004	2011	2004	2011
Great Tunis	Tunis	985.1	1004.8	230.1	261.4	245.8	271.2
	L'Ariana	430.3	515.8	85.3	117.6	105.9	139
	Ben Arous	511.3	591.5	102.6	133.3	120.5	152
	Manouba	336.5	377.6	48.2	61	70.7	85.4
North-Esat	Bizerte	486.5	544.2	71.5	90.3	119.9	138.8
	Nabeul	689.4	766.6	91.7	123.8	164.4	198.4
	Zaghouan	157	168.1	11.7	15.9	33.2	39.6
North-West	Béja	265.1	292.8	28.7	33.8	67.3	75.9
	Jendouba	335.6	392.3	23.4	28.2	91.9	104.9
	Le-Kef	229.3	244.8	27	33	58.7	65.4
	Siliana	194.5	222.1	17	21.8	47.2	53.7
Center-West	Kasserine	475	429	23	31.7	77.9	91.6
	Sidi-Bouزيد	360.2	404.2	10.4	16.9	76.8	89.1
	Kairouen	491.2	544.8	32.9	41.9	108	123.6
Center-East	Sousse	550.3	626.7	94.8	125.4	126.7	156.6
	Monastir	462.1	530.8	79.7	107.5	102.9	128.6
	Mahdia	361	401.6	20.7	30.7	79.8	92.3
	Sfax	847.5	936.5	83	118	200.5	242.3
South-West	Kbelli	140.7	152.8	5.9	10.3	26.8	31.2
	Gafsa	320.2	343	28.8	40	65.8	77
	Tozeur	97.9	105.3	12.5	15.8	20.6	34.3
South-East	Gabes	340.6	365.6	36.3	49.9	69.3	81.8
	Medenine	423.9	462.3	14.2	23.3	90.1	105.3
	Tataouine	142.5	149	7.2	11.9	26.1	30.1

Source: INS. Annual Report on infrastructure indicators. 2011.

Despite some progress on national health indicators, notable regional disparities are evident. Hospitals are mainly situated in Greater Tunis and in the coastal areas. Those located in the interior regions are constrained by limited human and material resources. As a result, weak health indicators are prevalent in these regions; life expectancy rate does not exceed 70 years in Kasserine and Tataouine while it is estimated at 77 years in the governorates of Tunis and Sfax. Similarly, infant mortality rates in the South-East (21 ‰) and the Center-West (23.6 ‰) are higher than the national level (17.8 ‰) in 2009.

Similarly, limited and poor quality of school infrastructure in the interior areas has reduced access to education and in turn resulted in higher illiteracy rates, higher dropout rates and lower access to formal jobs compared to the Great Tunis and the costal zones. Indeed, illiteracy rates exceed 30% in Jendouba (33.9%), Kasserine (32.8%), Siliana (32.3%), Kairouan (32%), Beja (31.3%) and Sidi Bouzid (30.2%) against less than 10% in the Greater Tunis, 14.6% in Sousse and 12.5% in Monastir.

Table 7: Number of households (in thousands) having access to public utilities

Regio	Governorat	Number of hospital beds		Number of classes of the first cycle of basic education		Number of classes of the second cycle of basic & secondary education	
		2004	2011	2004	2011	2004	2011
Great Tunis	Tunis	3498	4043	3079	2991	2913	3080
	L'Ariana	371	422	1453	1466	1289	1437
	Ben Arous	51	219	1934	1883	1640	1816
	Manouba	959	958	1290	1244	1099	1152
North-Esat	Bizerte	863	903	2321	2216	1657	1772
	Nabeul	804	953	2941	2866	2027	2119
	Zaghouan	454	475	861	842	540	613
North-West	Béja	491	549	1355	1345	994	1040
	Jendouba	567	605	2050	1962	1499	1548
	Le-Kef	538	543	1411	1376	1001	1028
	Siliana	324	391	1378	1348	877	937
Center-West	Kasserine	507	531	2552	2529	1426	1600
	Sidi-Bouزيد	369	441	2465	2337	1531	1601
	Kairouen	680	680	3098	3142	1667	1802
Center-East	Sousse	1435	1470	2347	2349	1762	1990
	Monastir	953	1181	2074	2118	1633	1867
	Mahdia	588	589	1990	1948	1272	1453
	Sfax	1587	1684	3939	3774	2684	2830
South-West	Kbelli	168	279	785	741	734	700
	Gafsa	564	744	1843	1744	1418	1459
	Tozeur	173	320	477	467	420	420
South-East	Gabes	615	615	1787	1704	1347	1448
	Medenine	663	756	2420	2374	1690	1680
	Tataouine	249	259	950	856	691	717

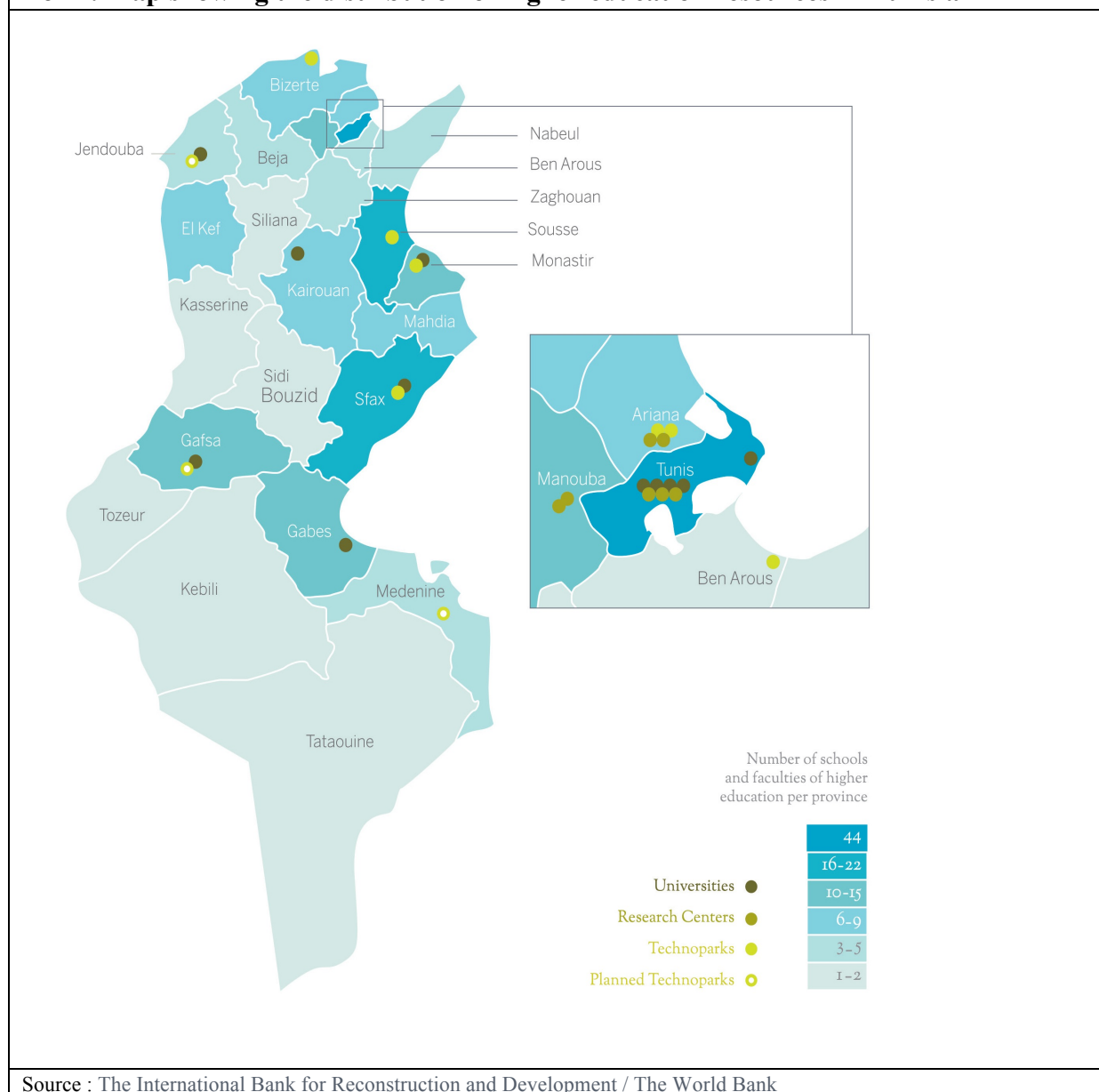
Source: INS. Annual Report on infrastructure indicators. 2011.

Furthermore, limited investment on education in these disadvantaged regions has been among others at the origin of high poverty levels in these areas. Several empirical studies demonstrate that there is a strong correlation between public expenditure on education and poverty. Ben Romdhane and Cherif (2007)⁴⁵ argue that public expenditures on education have significant impact in reducing regional poverty in Tunisia. In particular, expenditures on secondary education as opposed to elementary education are more effective in poverty reduction. More expenditure on secondary or university and “other” education categories opens up more income earning opportunities that help accelerate the reduction of poverty. This result explains the higher levels of poverty in the interior areas, where spending on secondary education are lower compared to the others regions and the majority of universities, technology parks and other research centers are located in the capital or in the Coastal Zones, as shown in Box 1.

⁴⁵Ben Romdhane, S, and O. Cherif (2007), An Empirical Analysis of the Impact of Public Expenditures on Education in Regional Poverty Reduction in Tunisia. Paper presented at the Rencontres Euro-Méditerranéenne. November. Cairo.

In addition to its impact on poverty reduction, investment on social services greatly improves the wellbeing of workers and enhances their productivities⁴⁶ and capacities to perform higher value added in a more stable and efficient economic environment (Ayed, 2013)⁴⁷.

Box 1. Map showing the distribution of higher education resources in Tunisia



Unemployment and regional disparities

Despite good overall growth performances, the unemployment rate in Tunisia has been one of the highest levels among Arab states. Official data show that average unemployment rate was estimated at 13 percent in 2010 overall (approximately 500,000 people) but at 30.7 percent for

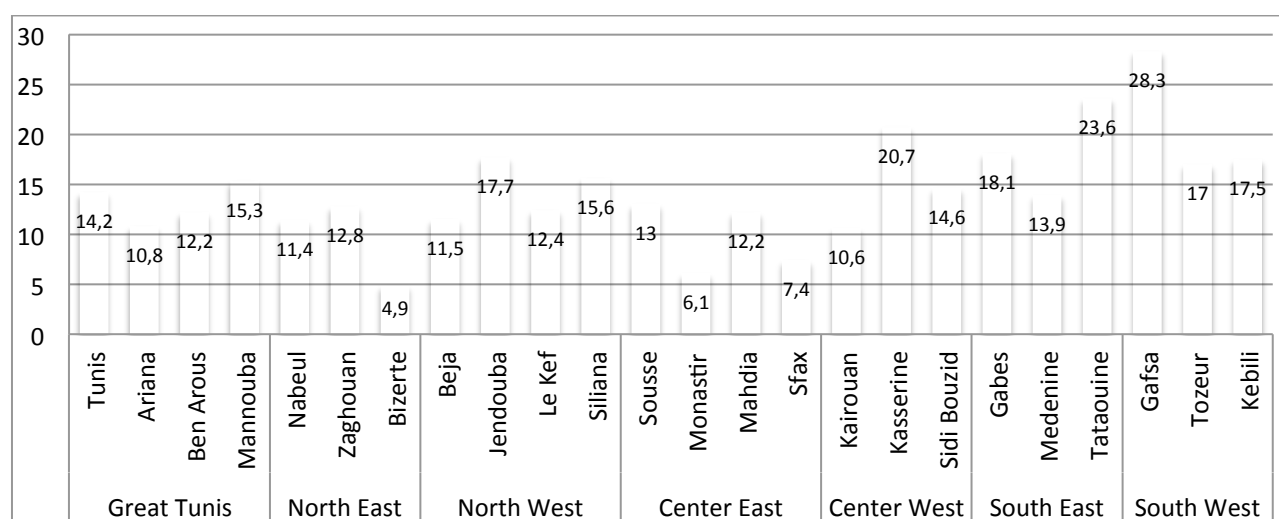
⁴⁶ The argument that low productivity caused high unemployment rates is discussed later in the unemployment section.

⁴⁷ Ayed, J (2013), Tunisie, la route des jasmins. Editions La Difference. Paris.

young people (15-24 years old), and with rates now reaching 44 percent for young university graduates (15-29 years old) as a consequence of the fast increase in the numbers of university graduates, skill mismatch and the uneven access to the job market (AfDB, 2012c).

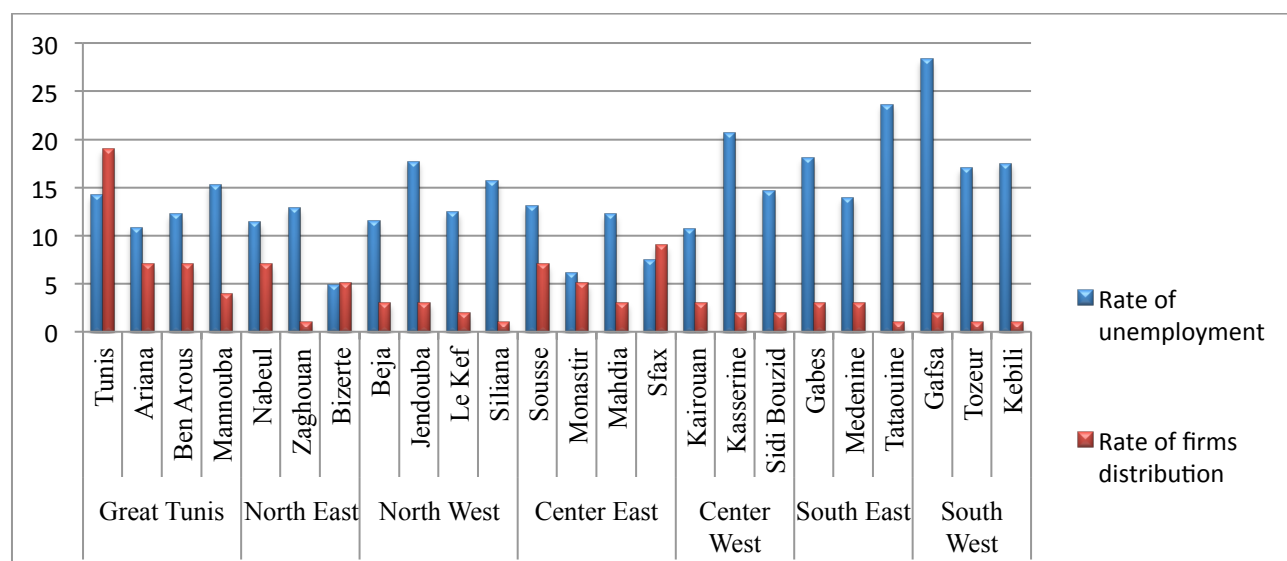
The latest survey on employment (May 2012) revealed that, unemployment is highest in the interior areas, which are also the poorest regions of the country. Unemployment rate of the Center-West is the highest with 28.6%, followed by the South-West (26.9%) and the South-East (24.8%). The jobless rates in these three hinterlands largely exceed the national average: 11.1 percent in the Center-East, 17.3 percent and 17.8 percent in the North-East and North-West, respectively (see figure 3). Indeed, uneven distribution of entrepreneurial activities and low private investment in the disadvantaged regions explain the inequalities in the number of jobs available. Over half of the private companies are located in Great Tunis and the coastal areas. Therefore, the unemployment rate is inversely related to the number of firms, as illustrated by Figure 4. This situation also intensified the rural exodus of active populations to the dynamic regions of the country (AfDB, 2012 b, 2012c).

Figure 3: Unemployment rates (in percentage) across Governorates, in 2012



Source : INS, 2012

Figure 4: Rate of firm distribution and unemployment (in percentage) by governorates, in 2010



Source: Author's calculations based on the INS data.

The breakdown by level of education show that the unemployment rate is highest among educated young than among the other categories. It appears from table 8 that the majority of the unemployed, more than 70%, have completed at least a secondary education.

Table 8: Unemployed by level of education

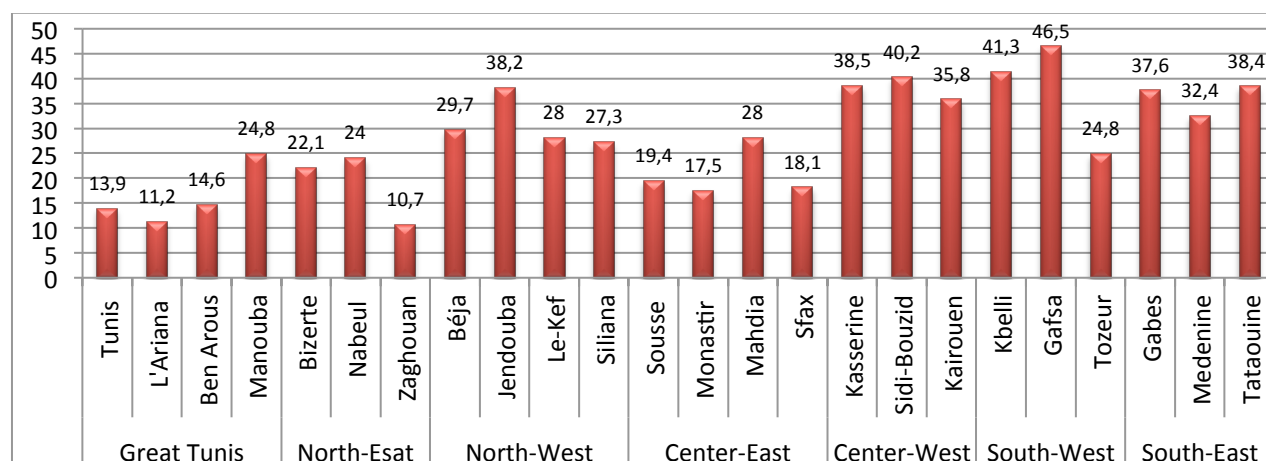
	2005	2006	2007	2008	2009	2010
Illiterate	6.2	6.6	4.2	3.6	4.8	4.5
Primary	42.0	38.3	33.8	30.3	27.0	24.1
Secondary	37.4	36.1	39.8	40.1	39.7	39.4
Higher	14.4	19.0	22.2	26.0	28.5	32.0

Source: Survey on employment, INS2012.

Unemployment among university graduates has been much concentrated in the interior areas than in the capital and coastal zones. These rates reached 46.5 percent in Gafsa (South-Est.) and 40.2 percent in Sidi Bouzid (Center-West). However, it decreased to 13.9 percent in Tunis and 11.2 percent in Ariana (see figure 5). This can be explained by the low-wage, low skill, low-value added economy in these regions that provide few job opportunities for the more educated entering the labor force. Some of them enter the informal sector, move to the capital and the coastal areas or choose to immigrate to other countries, be it legally or illegally. Lahcen (2010) argue that low productivity and limited capacity of the Tunisian

economy to absorb highly educated labor at both the individual and collective levels have reduced the outcome of public investment on education.

Figure 5: Unemployment rates among university graduates (in percentage) by governorates, in 2011.



Source: INS, 2011.

Territorial planning inequality

Territorial planning inequality is measured by the mileage of paved roads, per each square kilometer. Not surprisingly, it is the governorates of Greater Tunis that enjoy the highest concentration of paved roads.⁴⁸ By contrast, the interior region (in particular, the South and the Center-West) features the lowest density of roads.⁴⁹ This has resulted in isolation of these areas, lowered their productivity, reduced competitiveness, hindered the establishment of private investments and the implantation of industrial zones and limited FDI influx (Table 8). In fact, over 80% of the country's industrial parks are located in the coastal zone despite the fiscal incentives given to certain interior areas.

Table 8: Number of firms across governorates

Region	Governorate	2005	2006	2007	2008	2009	2010
Great Tunis	Tunis	88,377	93,355	96,435	101,339	106,632	112,100
	Ariana	28,246	30,514	31,861	34,247	36,566	39,189
	Ben Arous	29,566	31,538	33,079	35,400	37,599	39,854
	Mannouba	16,895	17,974	18,431	19,502	20,597	21,326
North-East	Nabeul	33,489	35,456	37,068	39,103	41,240	43,301
	Zaghouan	6,689	7,106	7,119	7,462	7,453	7,910
	Bizerte	23,375	24,461	25,048	26,032	27,329	28,795
North-West	Beja	12,357	13,145	13,815	14,071	14,504	14,975
	Jendouba	13,773	14,233	14,473	14,899	15,425	15,888

⁴⁸With a density of motor roads of 70.8 km/100 sq km for Tunis, 46.6 km/100 sq km for Ariana, 41.2 km/100 sq km for Manouba and 38.7 km/100 sq km for Ben Arous.

⁴⁹Kebili (3 km of roads per 100 square kilometers), Tozeur (4.8 km/100 km), Tataouine (6 km/100 sq km), Gafsa (7 km/100 sq km), Kasserine (7.1 km/100 km²) and Sidi Bouzid (8 km/100 sq km).

	Le Kef	10,941	11,409	11,286	11,293	11,460	11,536
	Siliana	6,779	7,269	7,555	7,768	8,007	8,329
Center-East	Sousse	29,074	31,287	32,403	34,713	37,178	39,812
	Monastir	23,332	24,346	25,104	25,114	26,703	28,469
	Mahdia	16,422	17,125	17,795	18,267	18,976	19,456
	Sfax	43,446	45,101	46,633	49,230	51,649	54,564
Center-West	Kairouan	16,803	17,582	17,961	18,416	18,832	19,916
	Kasserine	12,014	12,842	12,936	13,159	13,350	13,870
	Sidi Bouzid	9,915	10,353	10,657	11,081	11,607	12,185
South-East	Gabes	14,463	14,925	14,767	15,226	15,338	15,564
	Medenine	16,636	17,153	18,025	18,020	18,866	20,081
	Tataouine	4,321	4,688	4,698	4,893	5,167	5,192
South-West	Gafsa	9,575	10,108	10,538	10,709	11,371	11,954
	Tozeur	4,703	4,900	5,315	5,282	5,512	5,725
	Kebili	6,469	6,738	7,076	6,903	7,082	7,330
TOTAL		477,660	503,608	520,078	542,129	568,443	597,321

Source: INS, 2011

IV. Recent reforms and programs

Two years after the revolution has erupted in Tunisia, the government is still facing several social, economic and political challenges. Strengthening decentralization, improving governance, reducing regional disparities in addition to fighting poverty and coping with unemployment are considered top priorities.

In this regard, a Ministry of regional development has been created in 2011⁵⁰ and a regional development program⁵¹, based on 49 proposals aiming at reducing regional disparities by strengthening decentralization and enhancing glocal governance, has been prepared under the government plan, the “Jasmin Plan”. This development program is necessary to reduce unemployment and regional disparities.

The Jasmin Plan paved the way for the current transitional government that prepared a new one with the aim to enhancing competitiveness and creating sustainable growth based on greater social cohesion to sustainably improve the living conditions and well-being of the

⁵⁰ Before this date, regional development was a department among the Ministry of regional development and planning.

⁵¹ Zouari, A (2011). Le livre Blanc. Regional Development Ministry. November. Tunisia.

population, especially the most vulnerable ones. The government also developed an ambitious reform program and started discussing the amendment of the investment code and the streamlining of fiscal and regulatory incentives to create a more competitive environment. Work on tax reform has also been initiated, with the objectives of strengthening revenue, making the tax system more equitable and transparent, and supporting investment and growth. In addition, the authorities plan to use public-private partnerships to foster investments, especially in the disadvantaged regions, and develop high-value-added industries with the aim of reducing unemployment and regional disparities, which will in turn contribute to alleviate poverty.

The government adopted a finance budget for the year 2012 that has been completed by a supplementary finance law, in order to provide further financing (2.5 billion TND) helping to increase public investment allocations, and to transfer additional resources to local collectivities in the less developed regions. Public development expenses has been planned to increase by 34 % compared to those of the previous year, reaching 9.2% of GDP in 2012 against 7.4% in 2011.

Decentralization is also discussed among the constitutional Assembly members. However the first draft of the new constitution, circulated in August 2012, includes only one article that seeks to strengthen political decentralization by improving local governance. The Civil Society and some local ONGs are calling for a direct dialogue with the Constitutional Assembly members during the drafting of the constitution in order to debate decentralization and local democracy, redefine the citizen relationship with the state and strengthen the role of the civil society in the decision-making process.

Tunis is facing a number of immediate challenges. On the economic level, the development program will, in addition to the local resources, require large external financing from multilateral and bilateral institutions as well as foreign investors. For this to materialize, the political and social situation has to be stabilized. The depreciation of the Tunisian dinar in addition to the weak recovery in the Euro area pose yet another set of challenges to Tunis' own economy revival.

Politically, instability continues to define the day-to-day lives of Tunisians. No date has yet been set for the presidential and/or parliamentary elections. This will delay the launch of many reforms discussed earlier.

V. Concluding remarks and policy recommendations

Since gaining its independence, Tunisia has maintained the main features of its spatial organization and favored the country's capital and the coastal areas. The autocratic regimes, the construction of the nation-state and the primacy given to the dynamic cities, industrial competitiveness and trade openness, have led to a weak political and financial decentralization and provoked deep regional disparities within the country.

Indeed, the power has been captured at the central level and the authorities concentrated their efforts and investment in the capital Tunis, which in turn has inhibited the natural development of medium sized cities, especially those in the interior. The divide between the North and the South has given way to another, more pronounced split between the coast and the center. In addition, the centralized ministries have made regional coordination difficult and inefficient. Thus, the regional development policy, pursued in recent decades, has failed to provide economic or social support and contributed to the collapse of the social contract between the state and its citizens. Regional disparities and migration flows have increased to the relatively more developed coastal zones that became surrounded with poorly-built neighborhoods belts, inhabited by poor citizens. This has created a source of tension and conflict that has inevitably resulted in a widespread discontent of the population, which contributed to the social revolution and ended the rule of deposed President Ben Ali.

Today, decentralization is a necessity, and not a choice, especially in this post revolution environment. It can support transition towards democracy and respond to the aspiration of people for social and economic development by addressing economic inefficiencies and regional inequalities, and improving public services delivery both on the central and local levels(Dimce Nikolov, 2006)⁵².

In this regard, a wide range of reforms will need to be carried out; they span the worlds of politics, administration, finance, fiscal affairs, and economics. As a cross cutting issue, the government should enhance capacity building and empower the personnel in charge of the implementation of any reforms and those responsible for the service delivery at the regional level. This should be coupled with strong measures aiming to strengthen governance and enhance control of corruption. It is also important to establish a well-adjusted system of collaboration between the central, regional and local entities with regards to decision-making.

Enhancing Political decentralization

Political decentralization should be enhanced in order to achieve effective administration and local democracy, by fragmenting the central authority and giving citizens or their elected representatives more power in public decision-making and in the implementation of policies.

⁵²Dimce Nikolov (2006), Decentralization and Decentralized Governance for enhancing delivery of services in transition conditions. A background paper for the Regional Forum on "Enhancing Trust in Government through Leadership Capacity Building". St.Petersburg.

Transfer of decision-making powers and resources from the central government to civil society (devolution) should be accompanied by constitutional or statutory reforms such as the development of pluralistic political parties, generalization of elections by universal suffrage, the strengthening of legislatures and creation of sub national jurisdictions at regional or local level, creation of local political units and effective public interest groups and the establishment of priority local jurisdictions governed by the elected councils.

Endorsing administrative and financial decentralization

Administrative and financial decentralization can be endorsed by redistributing authority, responsibility and financial resources for providing public services among different levels of government and the institution of legal administrative control. Political decentralization should be coupled with financial resources transfer for the local entities in order to promote their independence. The establishment of structures of local accountability is then needed.

Fostering fiscal decentralization

Fiscal decentralization can be fostered by removing the supervisory role of state representatives and local power elites who tend in some cases to divert resources from the provision of public goods to other projects related to the development of the local business environment (Pranab Bardhan, 2002)⁵³, granting local authorities the right to control their budgets and to collect taxes to be autonomous, and to create regional development funds financed by a portion of the taxes gathered at the regional level.

Promoting economic decentralization

Economic decentralization can be promoted by enabling effective participation of different actors, allowing functions that had been primarily or exclusively concentrated in the central government to be carried out by businesses, community groups, cooperatives, private voluntary associations, and other non-governmental organizations.

Building capacity and enhancing governance at the local level

In order to benefit from the different forms of decentralization discussed above, it is critical to set up capacity building programs, including human resource development at the regional level by retaining skilled professional and local government staff.

The objective of decentralization is not weakening the central authority, nor giving more advantage to the local entities but to improve governance and to improve the opportunities for more participation and voice in order to make the elected entities at the regional levels more responsive to the need of a large share of the population.

⁵³Pranab, Bardhan (2002), “Decentralization of Governance and Development”, *Journal of Economic Perspectives—Volume 16, Number 4—Fall 2002—Pages 185–205*.

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