

DECENTRALIZATION AND CENTRALIZATION OF
LOCAL PUBLIC SERVICES IN TUNISIA

by

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ABSTRACT

In this research we investigate what determines the division of responsibilities between levels of government in Tunisia. Tunisia has experienced the paradox of fifteen years of an alleged decentralization policy and the systematic centralization of local public services (LPSs). We evaluate the content and outcome of the decentralization policy, and we analyze what has motivated the centralization of an LPSs, using the case of the sewerage service. Throughout this analysis, we highlight the limited achievements of the decentralization effort and the constraints local governments still face in providing services (i.e., an insufficient revenue base and cost-recovery mechanisms, lack of clear authority, and lack of adequate institutional arrangement for the provision of services). We find that these institutional deficiencies, which have motivated the centralization of some LPSs, are still at the core of municipalities' incapacity to provide their services efficiently. We also find that the division of responsibilities between levels of governments in Tunisia is determined by the desire to produce the service effectively rather than by the search for economic efficiency as suggested by the economic model of allocation of function, known in the fiscal-federalism literature.

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INTRODUCTION

A renewed interest in decentralization and the promotion of local government responsibility for management of urban development has emerged in the last decade from governments of developing countries, international development agencies, as well as scholars in the field. This comes as a result of the growing pressure for more and better public services and the failure of the centralized system to provide an adequate level of service while meeting development objectives. The increase in demand for public services is particularly acute in the urban areas where there is a rapid population growth due in large part to the rural urban migration. Central governments have found themselves increasingly incapable of responding to these growing demands through the traditional centralized methods and consequently are looking for alternative ways of providing and financing these services. Decentralization of some of these responsibilities to local governments is one of the most considered alternatives.

Many of the developing countries that have considered more actively involving local governments in the provision of public services have failed in their decentralization initiatives. Despite decentralization reforms, local governments in these countries remained often underdeveloped institutions carrying many limitations in their provision of services. Although a large body of decentralization literature has emerged, which has improved the understanding

of the characteristics of local governments in developing countries, analysts have produced no clear explanation of why the decentralization policies have been so unsuccessful, nor do they explain how central governments allocate responsibilities to local governments. Our objective in this research is to answer these questions of why governments in developing countries often claim the desire to decentralize and fail to achieve this objective and what is their rationale for the division of responsibilities between levels of governments.

We will use a country case, Tunisia, and a public service traditionally considered as local, the sewerage service, as a basis for this research. Tunisia has experienced the paradoxical situation of, on the one hand, two decades of rhetoric about decentralization, and, on the other hand, a gradual, but systematic, centralization of many of the most important local public services. In the last fifteen years, a series of reforms and efforts to strengthen municipalities' operation were implemented, accompanied by an alleged desire for greater participation of the local government in the public life of the country. Municipalities continue, however, to be the weak and underdeveloped institutions that they have always been. During the same period, and in spite of the alleged objective to increase the role of the local government, two major local public services (LPSs), the sewerage service and the urban rehabilitation

service, were taken away from local level responsibility and given to newly created central institutions.

Our objective in this research is to explain this paradox of a systematic centralization of local public services during the general stated commitment to decentralize in Tunisia. More specifically: Why did the decentralization reform fail to transform local governments into active participants in the public and economic life of the country? Why was the sewerage sector centralized, while the decentralization policy was being formulated and implemented? What is the rationale for the division of responsibilities between central and local governments in Tunisia? We will demonstrate that the central government's ambiguous motivations towards the decentralization initiative combined with a technocratic approach to public services explain the paradox in Tunisia of an alleged decentralization policy and a systematic centralization of services.

We will show that the central government's lack of a clear commitment to decentralize--apparent in the hesitant objectives and imprecisely motivated reform which fails to incorporate the potential benefits of decentralization--has produced an incomplete reform, which brings some improvements to the local governments' operations, but which is far from transforming them into institutions capable of providing local public services efficiently and of participating actively in the local public and economic life of the country. We will also show that the central government's

strongly rooted technocratic approach to public services, that is, its emphasis on the effective production and delivery of services determines the rationale for allocation of public services between levels of government in Tunisia.

We will conduct this analysis in two parts. First, by an evaluation of the decentralization efforts, and second by an analysis of the centralization process of one local public service, the sewerage service.

We will begin the evaluation of the decentralization efforts by an overview of the context in which the policy and reform aimed at reinforcing local governments were generated and by an identification of the motivation and level of commitment of the central government to decentralize.

(Chapter 2.)

We will then approach the decentralization analysis from two perspectives reflecting the two principal components of the local government reform: First, in an institutional analysis, we will review the new legislation governing regional and local governments, and we will evaluate to what extent this reformed legislation has modified the role and structure of the regional and local governments and has provided the local governments with the necessary legal support for decentralization (Chapter 3). Second, in a financial analysis, we will evaluate whether local government finances reflect the decentralization objective set by the reform (Chapters 4 and 5). We will analyze the evolution of the budgetary volumes of municipalities since the beginning

of the reform, and compare them to those of the central government. We will also examine in detail the revenue and expenditure structure of local governments in order to evaluate the level of autonomy and authority the local governments have over their financial activities.

We will conclude from this analysis of the decentralization reform that not much decentralization has occurred. Municipal responsibilities are ambiguously defined, their revenues are still limited and their authority over revenue sources is largely restricted. Moreover, no new responsibilities have been transferred to them. We claim that the reform was too restricted to be successful at bringing local governments to a significantly higher level of activity and that these restrictions are a reflection of the lack of clear commitment of the government to decentralize.

We will start the second part of this research with an analysis of the institutional structure for the provision of local public services and identify the role and position of municipalities amid this institutional structure. In this analysis, we will confirm the limited, role of municipalities in the provision of LPSs, but we will also demonstrate a pattern in the institutional structure for provision of LPSs characterized by a large number of centralized autonomous authorities endowed with a high level of authority over their sector of activity. (Chapter 6.)

We will then turn to the analysis of the process of centralization of one LPS, the sewerage service (Chapter 7).

By understanding the reasons that have motivated centralization, we will highlight: the deficiencies of municipalities that have made them invalid candidates for the provision of the service; the factors that made the institutional development for the sewerage service at the central level a successful one; the rationale for the centralization of local public services. We will show that the primary justification for the centralization of the sewerage service and the creation of a new sewerage institution was to achieve financial soundness and institutional soundness for an efficient provision of the service. Municipalities lacked the institutional structure and legal base to achieve these objectives.

We conclude this analysis by explaining that the centralization of the sewerage service was motivated by what we define as "a priority objective for an effective production and delivery of service" which undermines, from the point of view of the central government, any potential benefit that could be captured by a decentralized form of provision of services.

CHAPTER 1
THE ROLE OF LOCAL GOVERNMENTS IN DEVELOPING COUNTRIES :
REVIEW OF APPROACHES

Before starting our analysis of the Tunisian decentralization experience, we will review the different approaches analysts have taken to define the role of the local governments in developing countries and what different analysts have tried in order to understand their characteristics. This literature falls into two main approaches. The first is a theoretical explanation of the role of local government, based on the principles of microeconomic, welfare economic, and public finance theories. The economic explanation of the appropriate allocation of functions between levels of government is explained in the theory of fiscal federalism.

Second is the abundant literature on decentralization that has recently emerged as a consequence of the renewed interest in local governments in developing countries. This literature consists of policy analyses with a multi-disciplinary approach, which borrow heavily from the theory of fiscal federalism for the economic analysis and which also include analyses of the political, administrative, and historical factors relevant for the understanding of local governments systems. Many of these analyses are based on field research and have provided relevant explanations of local government systems and some interesting propositions for improving their operations.

ECONOMIC THEORIES

Local public finance theory is based upon three other economic theories. First, welfare economics which is concerned with the efficient allocation of scarce resources in a market system. Second, public economics or public finance, which is also concerned with the efficient allocation of scarce resources, but extends the analysis to cases where market mechanisms cannot operate due to market failures and where public intervention is required. Third, fiscal federalism theory, which is concerned with the appropriate role of local government and the appropriate levels of fiscal decentralization.

Historical Development

The field of public finance has a long history. As early as the 18th century in the *Wealth of Nations* (1776), Adam Smith established three major categories of government activity: defense, justice, and provision of public institutions and public works that is not profitable to supply privately. In the 19th century, English economists (Ricardo, Mill, and Edgeworth among others) focused primarily on the revenue aspects, as government activities were assumed to be clear and usually escaped rigorous analysis.

The field has received its major contribution following the important events of the 20th century, the Great Depression and World War II. After the Great Depression of

the 1930s, thinking in public economics was directed primarily to fiscal policy for the purpose of maintaining a high level of employment. Keynes' work on the formulation of government economic policies is one of the most significant contributions. He revolutionized the orthodox understanding of the role of the government. With the growth of the public sector in the United States and other industrialized countries, particularly after World War II, a wide range of literature on the economics of the public sector appeared. American economists (such as Howard Bowen, Richard Musgrave, and Paul Samuelson) rediscovered the previous work of European economists and integrated it into modern economic theory. Today, the emphasis in the field is on three major functions: stabilization, distribution, and allocation (Musgrave and Musgrave, 1984, p. 6).

From the general theoretical foundations, analysts moved to the analysis of the particular types of public programs. One of the major themes that they have developed as a subset of public economics was the issue of decentralization and the role of local governments. Fiscal federalism theorists question what is the optimal division of tax and expenditure responsibilities between levels of governments and what is the optimal size of local governments. Among the various theorists in this field are Tiebout (1956), "A Pure Theory of Local Expenditures," who claims that individuals can indicate their preferences concerning the combination of local public services and taxes by moving across localities; Musgrave

(1959), "The Theory of Public Finance," who conceptualized the role of the public sector as a whole and developed some preliminary observations on an economist's view of a federal system; Mc Lure (1971), "Revenue Sharing: Alternative to National Fiscal Federalism;" and Oates (1972), "Fiscal Federalism." In this last work, Oates presented the economic theory of public finance under a federal system of government, analyzed what these theories imply about the proper economic structure of the public sector, and explored the extent to which such a theory can provide insights into the actual operation of systems of multilevel finance (Oates, 1972, p. vi).

Fiscal Federalism

The basic pillars of fiscal federalism are the theories of public goods and public choices. The theory of public goods is concerned with the provision of commodities or services that, because of some characteristics, cannot be provided through the market. By definition, public goods are characterized by nonrivalry in consumption and nonexcludability, that is, if it is supplied to one person, it can be made available to others at no extra cost. Private suppliers are, in that case, replaced by the public sector. The financing of these goods is achieved through taxation. Aggregate demand is substituted by some form of collective choice, as individual demand is concealed by an individual free rider behavior and cannot be expressed through the

market mechanism. The community's choice is expressed by some sort of political process, such as voting, or by a representative government. We find the theoretical background of the demand aspect in the theories of public choice, which are concerned with the application of economics to the analysis of nonmarket decision-making and the allocation of resources to which they lead. Public finance theorists set up circumstances under which public intervention is justifiable, showing how the optimal allocation of resources can be achieved outside the market mechanism.

Once the government's function is clarified, we must answer what is the appropriate division of responsibilities between levels of governments. Fiscal federalism theorists treat this question of division of taxation and public expenditures between various levels of government. They explain the division of functions to be performed by these levels of government on the basis of the spatial economic impacts of these activities. Although some public goods confer benefits to the nation as a whole, the benefits of some others are more limited in geographical incidence. Activities that have primarily a national impact and therefore must be conducted by the central government, are, for example, stabilization policies, which can be established on a national basis; redistribution activities, through taxation and subsidies, which can rarely be applied by local governments without driving the wealthier person or firms out

of their jurisdiction; and finally, the provision of public goods that benefit the country as a whole, such as foreign affairs and national defense. Left to the local governments is the provision of public goods for which the area of benefits is much smaller than the entire country. The primary advantages of having local governments conduct these activities are that they permit closer adaptation to local needs and constraints. It is assumed that, by making decisions concerning the provision and financing of local public goods at the local level rather than by the national government, the optimal level of provision is more likely to be achieved. Thus, the system of multi-level finance is justified in terms of allocation efficiency.

One of the recognized shortcomings of these theories is the difficulty of establishing the perfect division of government activities among several levels of government because optimal size of production to attain full economies of scale may vary from one service to another. Also, activities might generate spill-overs outside the locality and necessitate some control of these inter-jurisdictional externalities. Finally, the geographical mobility from one government unit to another might result in congestion in certain areas. These difficulties, in turn, have led to the formulation of a variety of solutions, some of which raise new questions. This sets the bases for the economic theories of fiscal decentralization as developed in industrialized nations.

Relevance to Developing Countries

Many recent writers in the field agree that this theory is of limited relevance to developing countries, primarily because it cannot explain the actual intergovernmental arrangements in developing countries, nor does it provide the framework for solutions. Bird (1978) explains that the model rooted in the economic theory provided a poor explanation for how the responsibilities were allocated between levels of governments in developing countries. In more recent writings, in his proposition for an integrated political economy framework for analyzing decentralization policies and programs, Rondinelli (1989) also explains that the approach based on the economic theory alone cannot offer a .."comprehensive theoretical and methodological solutions to determine how decentralization should be carried out" (p. 58). Smoke (1988, p. 80) indicates that .."some of the basic assumptions of the model ... do not always apply in underdeveloped countries..." He mentions several examples of such assumptions, which we will discuss later.

Bird (1978) explains that the fundamental tenet of the model fails to fit reality and consequently cannot explain it. The model is founded on the principles of microeconomic theory. The individual is the unit of analysis and the optimum allocation of resources through the market mechanism is the fundamental objective. The economics of the public sector tries to replicate this context in cases of market

failures. The individual is replaced by the collectivity and the market mechanism by the voting process.

The starting point is "...the individual and builds up, or aggregates, through various levels of collectivities... to satisfy individual demands in an efficient way" (Bird, 1978, p. 21) From a deductive analysis, the model arrives at an explanation of how governmental units are determined and functions allocated. This is what Bird defines as the aggregation model explaining the division of responsibilities between levels of government. He adds that " the application of the aggregate model results in a complex and overlapping set of governmental units, though not necessarily (or even likely to be) those that exist in the real world" (p. 22). In contrast, he presents the traditional public administration perspective whose "...central idea is that it is not the individual who is the fundamental unit of analysis, but rather the nation state which is in some sense the fundamental organizational unit, so that all decentralization below this level requires special justifications" (p. 22). He adds that the devolution model is the best at explaining how "intergovernmental fiscal relations now work in developing countries and how most planners and other officials seems to think they should work" (p. 23).

Smoke (1988) provides several examples of assumptions of the model that do not hold in developing countries, although relevant to the industrialized countries in which the model

was developed. We can summarize these conditions into three types: the political factors, the cultural factors, and the factors related to the capacities of local governments. Fully developed democratic systems are rare in developing countries--for a variety of reasons ranging from the basic fear of political rivalry to choices in development ideology-- and very few substitutes for this political process exist by which preferences are expressed. Cultural factors include the limited relevance of individual preferences and the lack of mobility, both essential assumptions of the theory. "In many traditional societies in the third world, this [individual preferences] is a culturally alien concept" (Smoke, 1988, p. 89). Moreover "... for both cultural and economic reasons, mobility in developing countries may be restricted and permanent relocation away from the area of origin may be much more limited than in the developed countries" (Smoke, 1988, p. 98). Finally, the theory assumes no deficiencies in the capacity of any unit of government to provide services. Developing countries are severely constrained by lack of resources and skills "Deficiencies in managerial and technical capacity..." of local authorities..."combined with the need to ensure that the use of scarce resources supports national development priorities, suggests..." a greater intervention of central government in local activities (Smoke, 1988, p. 100).

Rondinelli supports the view that the theory alone is insufficient to provide the necessary framework to understand

and implement successful decentralization. The main limitations of the public choice theories are their overly rationalistic assumptions and narrow prescriptions (Oppenheimer, 1981, quoted in Rondinelli, 1989, p. 60).

The implication of this lack of direct relevance of the model to developing countries is primarily a warning against using it as a normative model, implicit to the theory, for assessing intergovernmental fiscal relations. Bird explains that "a more useful approach is to work within a positive framework relevant to the particular country in question" (1976, p. 25). This requires learning about the specifics of the country, the context in which the policies are formulated, the relevant policy objectives and the institutional context. He adds that this is essential for a more successful approach to the analysis and the formulation of recommendations concerning local authorities in developing countries.

Despite this important mismatch between the economic model and the reality of developing countries, many of the basic principles and tools of these models have been relevant to the analysis of specific situations of the local governments in these countries. Smoke points out that although the "individual preferences" concept might not be as relevant in developing countries, variation in conditions and context (such as environmental conditions) make special preferences for public goods more heterogeneous than in developed countries. Most analysts have suggested an

integrated approach to the issues of decentralization; there are numerous examples of such analysis. It is in the area of financial analysis--related to central government transfers, local taxation and other revenue generation issues-- in particular, that analysts have relied heavily on the principles of fiscal federalism theory. The public finance concept of user charges for private goods, which share a common foundation with public choice theory, is provided by Rondinelli (1989, p. 62) as an example of such integration of economic principles with the public administration approach.

LITERATURE ON LOCAL GOVERNMENTS IN DEVELOPING COUNTRIES

A proliferation of writing has recently emerged on the issue of decentralization and local government performance in developing countries. This came as a consequence of the recent interest in seeing local governments take a larger responsibility in the provision of public services, after it became clear that the central government alone will never be able to satisfy the increasing demands for public services. Decentralization to subnational governments is one among several of the possible alternatives that is considered. Privatization as well as participation of private voluntary organization are other options often cited to solve the same problem. Nevertheless, local governments who are the more natural providers of public services, have received most attention in the literature.

Field research has provided a large body of knowledge on the characteristics of local government operations--more often of their failure to operate adequately--in developing countries. Multidisciplinary field work has failed to provide a major theoretical explanation of the patterns of decentralization. The reason, we believe, lies in the diversity of factors that are relevant to the issue of decentralization.

A few empirical studies, using cross-sectional data of countries, have provided some generalizations about patterns of decentralization. The relationship between decentralization and stages of economic development was investigated, for example, by Woo Sik Kee (1977) using 64 countries. He found "that the degree of fiscal decentralization is greatly dependent on the ratio of intergovernmental transfers,..., the level of per capita income and the degree of urbanization." In a sample of developing countries "the degree of openness of the economy emerges as an important explanatory variable" (p. 79.) Another study with reference to Latin America (Greytak and Wasylenko, 1988) was conducted with the basic hypothesis that certain historical facts condition the nature of government decentralization. The analysis "establishes consistency among countries with Spanish heritage" suggesting that "other developing countries might reflect similar consistencies if they were grouped according to their particular colonial backgrounds" (pp. 16 and 17.) They found, that among Latin

American countries, the countries that are larger geographically are more decentralized, while those with a large public sector are more centralized. Income growth appears to lead to greater decentralization of expenditures but not of revenue raising. They did not find such a systematic consistency in patterns of fiscal decentralization, among other developing countries.

Extensive field research has provided a great deal of knowledge about the characteristics of local government in developing countries. Many studies have common findings, despite the variety of experiences and types of government and the difficulty of coming up with generalizable conclusions. Some of the most important are summarized, without being exhaustive, in the following points.

First, in developing countries, centralization is the norm rather than the exception. It is so for political, ideological, economic, and historical reasons. It was a widely held belief among leaders of developing countries in the 1950s and 1960s that centralization was necessary for a country's first stage of development.

Second, in the last 20 years many countries have, at least once and often several times, formulated the desire to decentralize after recognizing the shortcomings of excessive centralization. The reasons ranged from the dissatisfaction with the results of the centralized planning and provision of services to concerns about the inefficiency of the central government. It was believed decentralization would reduce

overload and congestion problems of the central government and also "improve the government's responsiveness to the public and increase the quantity and quality of the services it provides." (Rondinelli, 1984, p. 5). Finding alternative financing sources of these services--by delegating them to other governmental or nongovernmental institutions--becomes critical because of the central government's fiscal constraint, the goals of achieving a more diffused and equitable distribution of development, and extending services to far away communities and reaching the poor. These all became reasons for the previous and more recent interest in decentralization (Davey, 1989; Rondinelli et al., 1984); however, there is no clear evidence as to "which factors are associated with government pressure to deconcentrate or devolve planning and administrative responsibilities" (Rondinelli, 1984, p. 7). All agree that "ultimately" decentralization is primarily a political process. "...Decentralization is a political decision, and its implementation a reflection of a country's political process." (Rondinelli et al., 1984, p. 9)

Third, analysts have unanimously found that decentralization experiments in developing countries are characterized by their limited success. Most experiments have failed to attain their objectives, although many benefited from these policies. Few evaluations of decentralization programs explain the reason for their failures.

Despite the poor success rate, decentralization continues to be promoted, in part because it is believed that it will bring some relief to the ineffective centralized procedures and in part for political reasons. Decentralization programs are frequently assessed by their political effect (Rondinelli et al., 1984, p. 27).

A large part of the field research concentrates on local government revenues, primarily because lack of revenues is seen as the most critical obstacle to efficient local government operation and a key factor in a successful decentralization program. The most common problems associated with local government revenue sources are that local governments rely heavily on central government transfers for their resources, that their tax structure is insufficient and has limited growth potential, and that user charges and fees are almost nonexistent. "Commonly, local taxes have financed substantial shares of services that should have been financed from user charges, and/or transfers have been used to finance services which could have been appropriately financed from local taxes or user charges" (Bahl and Linn quoted in Mc Lure, 1983, p. 190).

Intergovernmental transfers are high on the list analysts' concerns. Their concern is related to the size of these transfers in both local and central governments' budgets. They are also one of the primary policy tools in the hands of the central government to influence local governments' activities. "[Intergovernmental transfers

are]...expected to accomplish a long list of sometimes conflicting objectives." Moreover, "...monetary transfers constitute an extremely visible political instrument." It is also expected that transfers will grow with decentralization programs and with local government playing a more important role in the provision of public service (Schroeder, 1988).

These analyses of central government transfers include reviews of the size and trend of intergovernmental flows, of the great variety of policy objectives that are formulated, of the instrument used to achieve them (i.e., formula for allocation or types of grants, etc.), and of the final outcome of these policies. "Some studies have found that distributions of funds can be equalizing and that grants can be used to stimulate local fiscal efforts." Overall, very few "hard data-based analyses" have been generated, however, for strong conclusion on intergovernmental transfers in developing countries. Even central governments rarely undertake systematic analysis of the overall effect of the grant system to evaluate its achievements. (Schroeder, 1988.)

In field research, the analysts' emphasis on revenues contrasts with their limited interest in expenditures. This revenue bias is not specific to developing countries, however. Empirical research by analysts in developed countries has also dealt much more extensively with revenues than with expenditures. It is, in part, explained by a revenue bias within economics, but it also reflects the perceived importance of the revenue constraint to local

governments in developing countries. The importance of research on expenditures lies in finding ways of improving resource utilization. Field research also has largely overlooked the institutional aspect for the delivering of services at the local level, particularly in evaluating alternative forms of provision such as private firms and voluntary organization (Rondinelli 1989, p. 62).

Finally, there is an abundant literature concerned with how to strengthen and improve the performance of the local governments, most of which was generated by international lending institutions concerned with implementation. These normative frameworks draw heavily on the conclusions of the field research literature and also borrow concepts from economic theory for financial aspects. This literature recognized that decentralization was difficult and that "improving public administration is usually an uphill task. The experience tends to bequeath more Don't's than Do's." (Davey, 1989, p. 68). The literature has produced, nevertheless, a large number of useful recommendations for designing and implementing programs to improve local operations.

This literature has also been excellent at providing a good understanding of how local government in developing countries function and at identifying their drawbacks. It provides also solid recommendations for what should be done and how local governments should function, but it does not identify what are the most significant elements of a

successful policy. This partially comes from the variety of situations and types of local government that exist, but it also comes from a lack of clear identification of what leads to successful decentralization policy. This is probably one of the most important shortcomings, but also one of the most difficult questions of analysts who deal with local governments in developing countries.

Our objective in this thesis is to explore further what are the factors that make a decentralization policy a failure or a success by looking at what determines the division of responsibilities between levels of governments. We will confirm that the economic theory does not explain the allocation of function between levels of governments. We will provide an alternative explanation for the rationale that has determined this division of responsibilities, implicit in the actions of the government.

Our evaluation of the decentralization reform will confirm many of the findings on the shortcomings of local governments in developing countries identified in the literature. We will go further than the general assessment of their deficiencies by focusing on the specific shortcomings for the provision of one local public service: sewerage service.

CHAPTER 2 CONTEXT OF THE INSTITUTIONAL REFORM

We will start the analysis of the decentralization reform in this chapter by an overview of the context in which the reform took place, by an analysis of the motivations and objectives of the Government of Tunisia (GOT), and by a presentation of the main component of the reform. We will show that municipalities institutional development in Tunisia evolved in a dynamic climate of reforms aimed at improving living conditions in the regions, in which many policies and programs were formulated and implemented. The 1975 reform of municipalities was partly a response to a larger concern about local underdevelopment and the lack of participation of the people in the public life of the country. We will also discuss how the Tunisian historical tradition of centralization and the political choices made after independence have resulted in a highly centralized form of government. Finally, we will demonstrate that the motivations and the objectives of the reform were not forcefully defined. The GOT was only indirectly motivated by the benefits of decentralization and was also hesitant and fearful of excess decentralization. These factors have had an important impact on the development and the outcome of the reform.

A CONTEXT OF REFORM

In the early 1970s, the Tunisian government started giving particular attention to the issue of regional economic development and institutional development of the local and regional administrations. According to official documents, the factors that have pushed the Tunisian government to give so much attention to these issues were the growing economic disparities between regions, the excessive centralization of public functions and congestion of the central administration, and the lack of citizen participation in the public life at the local level.¹ The GOT formulated and implemented a regional development program and a reform of local and regional governments aimed at fostering economic development in the regions and institutional development of the local and regional governments.

Although government officials recognized as early as 1956, the year of Tunisia's independence, the problems that spawned these reforms at the regional and local level, it is only in the early 1970s that they have started formulating effective actions to correct them. The circumstances that have fostered this series of reforms were the new form of

¹ Various documents from the Ministry of planning, Government of Tunisia: GOT (1980) Note d'Orientation pour la IIIème Decennie de Developpement et le VIème Plan (pp. 10-17 and 111-117.) Ministry of Planning, Tunis, Tunisia.

GOT (1982) VIème Plan de Développement Economique et Social 1982-1986, Tunisia (Juin), (pp. 229-273.) Ministry of Planning, Tunis, Tunisia, and GOT (1987) VII ème Plan de Développement Economique et Social, 1987-1991, (pp. 235-253) Ministry of Planning, Tunis, Tunisia.

liberalism that started with the government of Hedi Nouira, a government that was responsible for many structural reforms in Tunisia (Chaabane et al., 1980, p. 24), and the concern among Tunisian officials that the people's perception of increasing income disparities between regions and of neglect and alienation from local public life could be a source of political instability. Tunisian officials were also concerned about the growing number of rural-urban migrants to the large urban centers in the eastern coastal part of the country, which increased the demand for jobs and services in cities already suffering from high levels of unemployment and inadequate provision of services. Tunisian officials saw these new migrants as an additional threat to political stability.

The concerns with regional disparity and political instability started in the early 1970s and were revived after each political crisis at the regional level, in 1980 and 1984.² The regional development programs established at that time were aimed at creating "...social peace and consolidate unity," with the former president Bourguiba calling regional development "a patriotic duty." (GOT, Note d' Orientation, p.2, in Nellis, 1984, p. 6).

² In January 1980 popular revolts, which were supported by external sources, occurred in the economically depressed mining region of Gafsa. In 1984, the increases in the price of bread and other basic commodities were the cause of protest riots, which were first initiated in cities of the deprived interior regions before spreading to the coastal cities (Nellis, 1984, p.4).

Today, local and regional institutional development and regional economic development are still primary concerns of the Tunisian government. Although the GOT recognizes that the outcome of the programs and policies started in the early 1970s have not met expectations, the government continues to stress aggressively its commitment to these objectives (see VII Plan de Developpement Economique et Social, 1987, pp. 57 and 236). It recommends new approaches or new emphases and, at times, proposes new programs in a continued effort to correct their deficiencies and improve their outcome. The overall formulation of the problem remains, however, consistently the same. Why has the Tunisian government not attained its objective after such a long time of rhetoric on regional and institutional development?

Before answering these questions, we will first review the historical context that have made local governments underdeveloped institutions. We will then review the objectives and the main components of the local and regional institutional development efforts.

CENTRALIZATION AND UNDERDEVELOPMENT OF SUBNATIONAL GOVERNMENTS: HISTORICAL CONTEXT

The underdevelopment of subnational governments in Tunisia is the result of several historical factors: (i) the legacy of the poorly organized and heavily centralized administrative structure from the period of the Turkish domination and the French protectorate, (ii) the influence of

the French system of local government, and (iii) the centralized model of development adopted after independence.

The period when Tunisia was dominated by foreign powers was not favorable to the development of independent subnational institutions. During the Turkish era, the administrative system was highly centralized, exercising totalitarian rule over weak and particularly disorganized local administrations (Chabaane, et al., 1980, p. 22). During the French protectorate, part of the previous structure of local administration was kept, but these institutions were deprived of their autonomy and were subjected to the central colonial power. This policy was successful at breaking the existing tribal structure and at weakening the local social and political structure, but it deprived the country of any reliable form of subnational government. As with most colonized countries, the perceived necessity to control the regions limited the chances of developing local autonomous institutions.

Faced with the negative consequences of this poor subnational institutional structure, the French colonial government was pushed to enact reforms of the subnational government on two occasions: 1922 and 1934. In the 1922 reform, they divided the country into Caïdates or districts, and in 1934, they created rural communes, but these reforms were limited in extent. No autonomy was ever granted to the local and regional governments.

These reforms, however, were sufficient to model the Tunisian administration structure on that of the French highly centralized model of administration. The main characteristics of this model are a strong central government with a concentration of power in its executive part, the tendency to centralize most public functions, the limited level of autonomy awarded to the subnational government particularly over revenue-raising authority, and, finally, the tendency to place local and regional governments within a vertical hierarchy of governmental institutions. Locally elected assemblies have legislative power, but executive responsibility is often exercised by administrators with dual responsibilities to the people of their jurisdictions and to the central government.

After independence, the desire to remedy this lack of effective subnational administration led to a reform in 1956 of both regional and local governments. Although this reform brought an improvement to the previous system, the level of autonomy provided by the new legislation was highly inhibited by the political choice of a centralized form of administration. This option was commonly adopted by newly independent states in the 1950s and 1960s as part of their development strategy. The Tunisian government justified this choice on two grounds: first, the desire to maintain national unity and consolidate power of the newly independent state--it was believed at that time that centralization was a prerequisite to the development of the state at an early

stage of development; second, the necessity of concentrating the limited human and financial resources of the country to avoid spreading them too thinly over too large a number of institutions across the country. As a result of this political orientation in the period that followed independence, the government structure came to be highly centralized. The political power was concentrated into one unique party: the Partie Socialist Destourien (PSD) (Socialist destourian party); and one man: the president of the republic. Most public functions continued to be carried out at the central level, and further centralization of services took place.

All of these factors converged to bring about the same effect: a highly centralized system of government, with underdeveloped subnational governments. They inhibited the development of a "spirit" of subnational government where local and regional governments are responsible for local services and are accountable to their constituency, and where the people participate in the local public life. The traditionally weak regional and local governments continued a decade after independence to operate in their long tradition and practice of atrophic institutions. Their institutional weakness meant that any attempt to transfer new responsibilities to them would require the reinforcement of their structure and capacities.

**REGIONAL AND LOCAL GOVERNMENTS REFORM:
MOTIVATIONS AND OBJECTIVES**

In the early 1970s, with the new liberalism of the government of Hedi Nourira and the perceived mounting social and political pressure in the regions, the need and desire to reform local and regional governments were revived. The political discourse at that time indicated a desire to develop the regional and local administrations. The government of Hedi Nourira called for a more rational division of responsibilities among the central, regional, and local authorities, as well as for provision of the means--financial and human resources--required by regional and local authorities to conduct integrated development of their territory. It also called for a reduction of the excessive central control imposed on them, which was recognized to play an inhibitive role on subnational institutions.³

The motivation for the reforms that took place at that time was rooted in three concerns, all part of the overall objective of creating better living conditions in the regions: (i) the perception of excess centralization of the central government, (ii) the desire to improve the relationship between the population and the public institutions providing public services, and (iii) the desire to enhance citizen participation in the local public life.

The long period of centralization of the government structure resulted not only in weak and underdeveloped

³ Discourse before the assembly of Hedi Nourira in 1974, (S. Chaabane, et al., 1980, p. 24)

subnational government, but in a congested and therefore inefficient central government. According to official documents, the central government was overburdened with responsibilities.⁴ It was responsible for most public functions that ranged from policy formulation to managerial and implementation tasks in all regions of the national territory. The central government and its institutions were also perceived to be alienated from the people they were serving. Public institutions in charge of public services were said not to be responsive to the needs of the people and incapable of coordinating with other actors at the regional level. Finally, the long history of centralized government structure and the lack of subnational government culture made the citizens unconscious or uninformed about their rights and duties vis-a-vis regional and local governments. This was illustrated by their total lack of participation in the local public life of the country.

The 1975 administrative reform was born out of these concerns, which showed a need for both a deconcentration and decentralization of activities.⁵ The objective of improving

⁴ GOT (1980) Note d'Orientation pour la IIIème Decennie de Developpement et le VIème Plan (pp. 10-17 and 111-117.) Ministry of Planning, Tunis, Tunisia. GOT (1982) VIème Plan de Développement Economique et Social 1982-1986, Tunisia (Juin), (pp. 229-273.) Ministry of Planning, Tunis, Tunisia. GOT (1987) VII ème Plan de Développement Economique et Social, 1987-1991, (pp. 235-253) Ministry of Planning, Tunis, Tunisia.

⁵ We will differentiate between two forms of "decentralization" as it is in the Tunisian and French structure of government: Deconcentration consists of a delegation of activity with no decision-making authority. Decentralization is a delegation of responsibilities which includes also full autonomy over the decision-making.

the operation of the central government by transferring implementation and management tasks to the regional governments while keeping decision-making authority at the central level is a deconcentration policy objective. The alleged objective of transforming the subnational governments into important actors in the economic and social development of their region, and to make them responsible for coordinating all economic activities in their locality is a decentralization policy objective. This was to be achieved, in theory, by the decentralization of some decision-making authority and the provision of a higher level of autonomy to local governments. Although, in theory, both decentralization and deconcentration objectives seem to be equally important, in practice, the deconcentration efforts appear to have taken a stronger hold.

We should point out two elements in the GOT's formulation of the motivations and objectives of the reform that demonstrate a lack of clear commitment to decentralization and that are not favorable to a successful decentralization policy. First, the potential benefits of decentralization--such as greater accountability of local governments to their constituency and better adaptation to their needs in the provision of public services--have never been mentioned as part of the GOT's motivations for the reform. The GOT appears to be only indirectly interested in these potential benefits. Decentralization is first mentioned as a way of improving the life in the regions and achieving

political stability. The concern for an overburdened central government finds its answer in a deconcentration policy rather than a decentralization policy. The desire to enhance the participation at the local level and the desire to give more responsibilities to the local governments, which are the closest to a decentralization objective, remain vaguely stated objectives and, as we will see later, were not supported by any other action.

Second, despite this impetus for reform, the GOT indicated serious reservations about decentralization. During the same political discourse before the assembly in 1974, Hedi Nourira warned against excessive decentralization and against transforming the country into a "mosaic of autonomous republics" (Chaabane et al., 1980, p. 24). The GOT determined that the authority over political choices and orientations would remain in the hands of the central government. This important limitation was a sign of uneasiness on the part of the central government with delegation of power, which can be explained by the political tradition of the country of a one-party system.

MAIN COMPONENTS OF THE REFORM

Despite these limitations, the 1975 reform can be qualified as the most ambitious of all the reforms in the history of subnational governments in Tunisia. The creation of a new legislation is certainly the most important action of this reform. It aimed to redefine the role of both local

and regional governments, to provide them with more authority and responsibility, and to reinforce their finances with greater revenues and better financial management.

The role of local governments or municipalities was to be expanded by this new legislation. They were to assume the authority for all activities--economic and social--in their territory. The new legislation theoretically set the groundwork for the municipalities to become a more active partner in the economic and public life of their locality. It includes a definition of the role of the Municipal Council and of the mayor and a financial reform aimed at improving access to and management of local governments' resources. The reform provided new sources of revenues for municipalities, restructured the existing ones, and increased the volume of transfers from the central to the local governments. The reform also provided municipalities with new budgetary procedures aimed at improving their financial management.

The regional governments and specifically the governor, an official of the Ministry of Interior, was the focus of deconcentration efforts. The governors were to take responsibility for implementing and managing central government activities. The central government would then concentrate on policy development and control. The governorates were mandated to serve as a direct manager of all central government activities in the regions. All ministries were required to deconcentrate some of their

activities through the creation of regional services under partial authority of the governor, the head of the governorate. The role of the latter was increased by the reform.

OUTCOME OF THE REFORM AND RECENT DEVELOPMENT

We will see in the following chapters that the 1975 reform did not produce the expected results. Little of what the reform was intended to accomplish took place. Local government remained far from the model institution anticipated by the reform. Very few transfers of responsibility to local and regional governments were accomplished. The common perception in Tunisia, including that of the government is that municipalities continue to be weak, underdeveloped institutions. The GOT faced with these insufficient results continues to stress the necessity of reinforcing the subnational governments. Plan documents systematically remind officials of the need to act more aggressively to provide the subnational government with the intended responsibilities and capacity. The motivations remain the same: relief of the central government administration, better provision of public services, and increased participation of the people in the public life at the local level. Thus, during the following years the government of Tunisia made several amendments and additions to the main reform of 1975 of a much smaller scope and in the

same line as the original reform, but they did not bring the intended transformations.

Recently, more actions have been taking place. The government is implementing a reform of the governorate council planned in 1989 and is currently preparing a municipal development project through a World Bank loan. A very important action is that the governorate council is being replaced by a regional council, whose members are representatives of ministries and local governments and other government officials, with the ambitious mission of controlling all public activities in their jurisdiction, rather than just being responsible for implementing and managing central governments activities. The municipalities' development project is aimed at reinforcing the structure of the institutions, by reforming its revenue structure, restructuring its service portfolio, improving its operating procedures, and training its personnel.

By creating this regional council, the government of Tunisia is motivated by the same will to deconcentrate activities to the regional level. The extent of the projected deconcentration seems, however, much more ambitious, perhaps even too ambitious to be acceptable to the various ministries concerned. We will not evaluate the outcome of this reform, which is still in the process of implementation, nor will we analyze the planned municipal development project which will be implemented in the next two years. The recent actions only confirm the persevering, but

still unaccomplished, objective of the central government to decentralize.

SUMMARY

From this presentation of the context in which the reform took place and of the motivations of the government for initiating this reform, we can summarize three factors that had an important impact in the shape and the outcome of the reform: First Tunisia has a strong tradition of a centralized form of government, which has been reinforced by several political choices made in its recent history. Second, the GOT is only marginally concerned with the benefit of decentralization as seen from the motivations and objectives set to be achieved by the reform. Third, the GOT was also hesitant as to how much decentralization was beneficial to the country and clearly indicated its fear of excessive decentralization.

We will see in the following analysis that these ambiguities in the objectives of the reform are reflected in its formulation. It appears in the lack of clarity of the reformed legislation, which fails to define the role of local governments, and in the restricted autonomy of local governments in their financial activities.

CHAPTER 3
THE ROLE AND STRUCTURE OF SUBNATIONAL GOVERNMENTS

We will start assessing the decentralization efforts in Tunisia with an analysis of the institutional structure and the role and responsibilities of regional and local (subnational) governments as defined by law. By examining the legislation set in the 1975 reform under which municipalities are still operating, we will show what was achieved by the decentralization program. We analyze three issues: (i) Have the objectives of the reform been met? (ii) To what extent did the new legislation provide the local governments with the support necessary for decentralization? and (iii) What is the current status of both regional and local governments, more than a decade after the reform?⁶

This analysis will demonstrate that the reformed legislation of 1975 does not provide municipalities with the legal base necessary to become the decentralized governments, that are active participants in the public and economic life of their region, set forth by the reform. Their role is poorly and ambiguously defined, no new responsibilities have been transferred to them, and a strong control of the supervisory authorities is still in effect. This analysis will also show that the reform of the regional governments and the efforts to deconcentrate government activities at the

⁶ The field work for this research was done between 1986 and 1989. We will refer to this period as current in the text.

regional level, although more specifically formulated, was not much more successful.

Our evaluation will consist primarily of an analysis of the legislation and regulations governing subnational governments. For the local governments, or municipalities, we will rely mainly on the Loi Organique des Communes, a legal document defining the structure and the responsibilities of municipalities, and the subsequent legislation issued to supplement it. The Loi Organique des Communes represents one of the most significant improvements realized by the reform. For the regional governments, or governorate, we will focus on the various laws and decrees governing them that have been issued at different periods between 1963 and 1985. The 1975 reform did not replace the governorate legislation, but rather was a collection of amendments to the existing legislation. We also review the governorate institutional structure instituted by the 1975 reform, although it has been completely transformed by the newest reform of 1989. It is still too early to comment on the outcome of this latest reform, as it is only in its preliminary implementation stage. In Annex 3-1, we will discuss, instead, the reform plan of 1989 and compare the intent of this plan with the reform of 1975.

The 1975 reform targeted both the regional governments or Governorates and the local governments or Municipalities

in Tunisia.⁷ These two types of institutions roughly match two of the decentralization categories defined by the theory: the deconcentration model and the devolution model.⁸

Deconcentration "is a shifting of the workload from centrally located officials to staff or offices outside of the national capital" (Rondinelli, 1984, p. 10). With the deconcentration of a workload or a function, only limited authority is shifted to the subnational level. Deconcentration does not involve the transfer of substantial decision-making authority. The deconcentrated institution depends directly on the central authority and is accountable to it for its action.

Devolution, on the other hand, involves a transfer of decision-making authority to an autonomous institution. The devolved functions are under the full responsibility of this institution, and "substantially outside the direct control of the central government" (Rondinelli, 1984, p. 19). From their structure, level of autonomy, and breadth of activities, we contend that the regional governments or governorates in Tunisia are closer to a "deconcentrated" model of government--the governor represents the central government at the regional level. The municipalities, on the other hand, manifest many of the "devolution" model

⁷ Local governments are identified in Tunisia indifferently as municipalities or communes. For consistency, we will be referring to them as municipalities in the text.

⁸ A classification made by Rondinelli (1984) in Decentralization in Developing Countries: A Review of Recent Experience in which he summarizes the various forms of decentralization.

characteristics --they are politically autonomous units representing the population at the local level.⁹ None of them, however, are pure cases of devolution and deconcentration. The governorate councils, for example, are autonomous legal entities and the mayors have in many occasion acted on behalf of the central government. Both are shown in Figure 1. We will give a more detailed description of these types of government in the following sections.

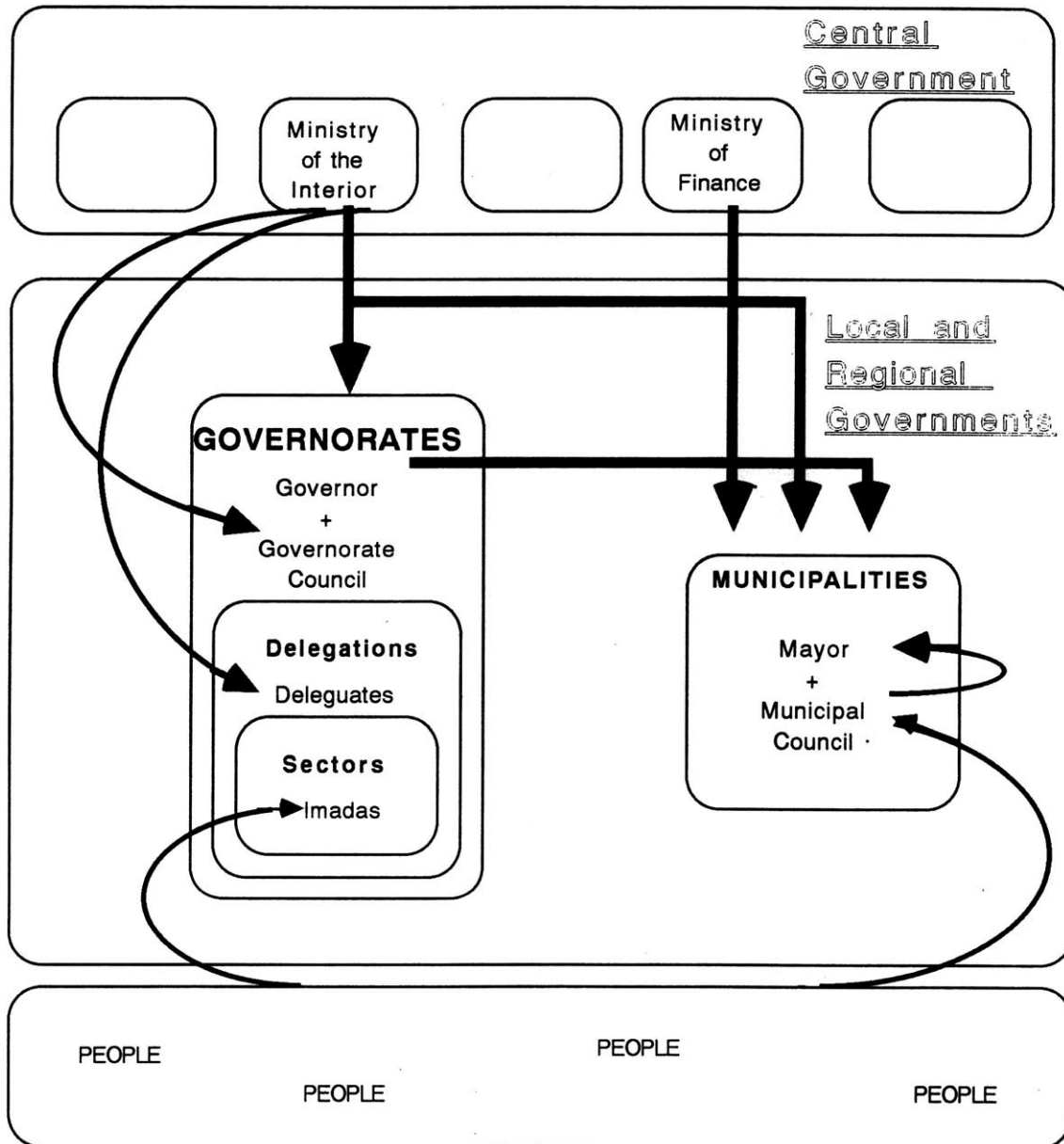
There are some exceptions to this clear theoretical distinction in Tunisia, however. In their practice and in their legal setting, we find that both institutions assume to a certain extent a double role. We will review in this chapter the details of this duality in roles. We will also see that, in spite of these ambiguities, the deconcentration/devolution distinction still holds as Governorates have always been the focus of deconcentration efforts, and the municipalities continue to carry the seeds of decentralized institutions.



MUNICIPALITIES

Before beginning to evaluate the impact of the new legislation on the municipalities, we will briefly review their structure and their development.

⁹ We will continue to differentiate between deconcentration and devolution. To maintain the terminology used in Tunisia we will use, however, the term decentralization for what Rondinelli designates as devolution, that is a transfer of decision making authority. We will use the term deconcentration, as defined by Rondinelli, for a transfer of workload or function with limited authority.

Figure 1. Local and Regional Governments and their Relationship with the Central Government.



 Election or Nomination
 Supervisory Authority

Historical Development of Municipalities

Tunisia's first municipality was created as early as 1858, but, in fact, the country does not have a long-established tradition of strong municipal government. The extension of municipalities outside Tunis and other major urban centers was very slow and never covered more than a small share of the national territory. Only 60 municipalities existed at the time of independence in 1956. Most importantly, for historical reasons, municipalities were never given significant powers and responsibilities: The colonization, the adoption of a French centralized model of government during colonization, and the post-independence tendency to preserve a centralized system of government for political and ideological reasons have inhibited the development of autonomous local government. A municipal tradition has never had a chance to develop in Tunisia. Despite some institutional developments since independence, up until the 1975 reform, municipalities were merely considered as a lower unit of an hierarchical administrative structure of the central government.

The 1975 reform was intended to endow the municipalities with the essential characteristics of an autonomous local government. It was aimed at fundamentally transforming the functions of municipalities from serving as the lowest administrative unit of the central government, to regulating and managing all local interests within their locality.

The most important action taken under this reform was the introduction of new legislation. The new law--the Loi Organique des Communes (L.O.D.C.) and the subsequent amendments--called for a re-definition of the role and structure of the municipalities, their revenue sources, and their relation with the central authorities. The reform aimed at providing municipalities with more autonomy by lessening the extent of control imposed upon them by the central government. In addition, more municipalities were created to extend the municipal administration to the rest of the national territory.

The largest increase in the number of municipalities happened in the last 15 years. The number grew from the 60 municipalities at the time of independence in 1956 to 158 by 1975 and to 177 by 1983. Today, there are 246 municipalities.

In spite of this rapid increase in the number of municipalities, the municipal structure does not cover the total national territory. Only areas that are urbanized have a municipal status. In 1989, 41% of the country's population still had no municipal services. Note that municipalities vary greatly in population. The majority of them are very small. In the 1984 census, the largest municipality, Tunis, had a population of 600,000 and the smallest one, Ouled Meliz, 871. About 47% of the municipalities have fewer than 10,000 inhabitants, while only 12%, including Tunis, have a population over 50,000.

There are no rural communes in Tunisia. Local services in rural areas, which are primarily administrative services, are provided by the governorate. The delegates, heads of the delegations, a subdivision of the Governorate, and the local party cells also play an important role in these zones that are not administered by a municipality. The governorate council is responsible by law for providing the rural population all the services that municipalities provide in their territories, and for that purpose, in every governorate there is an office specifically for these affairs.¹⁰ We will exclude this form of rural administration from most of the remainder of our discussion. We will restrict our analysis to urban communes or municipalities.

Municipal Structure and Organization

Municipalities play, for the most part, the role of a decentralized local authority and are theoretically endowed with autonomy and decision-making authority. They are designated in Tunisia as Collectivites Publiques Locales, local public authority, and endowed with financial autonomy and constituted as legal entities (LODC, 1975, Article 1). The municipalities are composed of a representative and an executive body. The municipal council and its chairman

¹⁰ The governorate councils, however, are unable to provide the same level of service that municipalities do in their territory, as each governorate council has to cover a very large territory and a dispersed population. Regional studies have revealed that the level of these disparities were significant, and, for that reason, since the 1973-1976 national economic plan, several programs for rural development (PDR and PDRI) were instituted, most of which are implemented at the governorate level.

constitute the representative segment of the institution. The administration, supported by technical services and headed by the mayor, forms the executive part.

The municipal council is a deliberative authority, representing the people at the local level. Its members are elected and, from among them, its chairman is elected.¹¹ The people's ability to choose their councillors has been, up until now, relatively limited. At the last elections in 1986, the municipalities' electorate chose their municipal councillors from a list of candidates exclusively preselected by officials of the single ruling party, the Party Socialist Destourien (PSD). The candidates were often members of the local party cells. Neither the electoral law nor the municipal law prescribe how many lists of candidates can be presented at the municipal elections. In practice, only one list, that of the PSD, and one candidate per seat is presented.¹² The people vote for or against each candidate of this single list, without really affecting the selection. Eventually, the candidates proposed are "elected" by the people. With the recent national political reform that allows for a multi-party system at the national level, we expect to see some changes for the future municipal election.

¹¹ Only the mayor of the municipality of Tunis is appointed by presidential decree.

¹² Only in rare cases was more than one list presented. In 1957, the opposition parties, independent of the PSD, presented their own list of candidates in 16 of the 94 towns and villages where municipal councils were elected: three of these lists were elected. In 1960, 1963, and 1966, isolated independent candidates also managed to win certain seats. We do not possess similar information for later years.

New legislation might also be developed to allow a multi-party municipal election process.

The mayor's position is ambiguous. On the one hand, the mayor is an elected representative of the local population and the head of the municipal council, a decentralized governmental unit; on the other hand, the mayor is considered at times to be the agent of the state. In this latter role the mayor is in charge of the implementation of laws and regulations in municipal territory, of general security, and of carrying out all special functions attributed to the mayor by law (LODC, 1975, article 69).

The mayor is also the executive chief of the municipality, being responsible for the implementation of the decisions taken by the council. In addition, he prepares the municipal budget--with the assistance of the relevant offices or commissions within the municipality--submits it for approval to the council, manages municipal properties, and administers all municipal acts, financial or others. The mayor is also responsible for the operation of municipal services and is directly assisted by the general secretary of the municipality.

The dual role of the mayor is a result of the fact that, historically, municipalities have been denied the position of decentralized autonomous institutions, and that, for a long time, they have been perceived as an administrative unit of the central government. The political orientation of the one-party system, with a very centralized

model of government, has preserved this perception despite the objectives of the reform.

Role of Municipalities

The objective of the 1975 reform and its new legislation was to provide the municipalities with expanded responsibilities and a new position in the institutional structure of the country. What has the legislation done to provide them with this new status? Have the autonomy, and the authority of the municipalities been increased by the new legislation? Through a review of the new role and responsibilities assigned by law to the municipalities, we will evaluate whether the new legislation provided municipalities with the legal base necessary--but not sufficient--to become the decentralized units of government, that are endowed with decision-making authority, as set forth by the objectives of the reform.

The new municipal legislation assigned two kinds of essential responsibilities to the municipal councils. The first is defined as a participatory role: The municipal councils are expected to participate in the economic and social development of their localities. The second is defined as a management role: The municipal councils manage municipal public interests (LODC, 1975, article 1).

The first article of the LODC provides the municipalities with ambitious new responsibilities, consistent with the objectives of decentralization. They

remain vaguely defined, however. The functions attributed to the municipal council (LODC, 1975, Chapter VI) appear in five provisions: the first two are related to the financial management of the municipality--they set (i) the budget review and approval procedures, and (ii) the maximum municipal resources to be used for investment programs--and the last three are related to the overall development of the locality--under these provisions, the municipal council (iii) helps in the national development plan, (iv) gives advise on all economic and social affairs, and (v) gives its opinion on all projects implemented in the municipal territory.

Although the primary distinction made in the first article of the LODC between the participatory role and the managerial role is not clearly defined in this article, most functions described do fall into one or the other category. We will see that this distinction is an interesting one, because it separates the functions of the municipalities into two types, one that is primarily of an advisory role (participation), and the other one that has a higher level of decision-making authority (management). The functions that fall into the latter category are enforceable, while the participatory functions are by definition not enforceable. The participatory activity relates to the economic development of the locality, while the management functions involve the direct administration of municipal financial resources as well as a series of less-important functions.

Participation in Economic Development: An Advisory Role

We have seen that the first article of the LODC provides the municipal council with an ambitious, but vaguely defined, task of participation in the promotion of the economic, social, and cultural life of their locality. Article 36 of the same document provides more specific details on the newly extended responsibilities. This latter article indicates that the council is required to define actions it will take to promote the development of their locality. The central government and all other public institutions are required to consult the council on all projects they are implementing within the municipal territory. Finally, the council is required to give its opinion on all affairs that are of local interest whenever requested by a "superior administration." These provisions, which appear to allow for comprehensive action, provide the municipal council only with a consultative or an advisory role. None of these provisions have been broken down into specific functions, and none of them have been accompanied by specific rights, laws, and regulations, that give any enforceable authority to the municipal council. Moreover, it is not very clear how often in practice the councils have the opportunity to intervene effectively in the economic development affairs of the locality and affect their course of action.

Management of Municipal Interests: An Enforceable Authority

The second responsibility attributed to the council under the first article of the LODC is the management of municipal interests, but no definition of municipal interest is provided. In Article 36 of the LODC previously cited, which defines the deliberative functions of municipal councils, two of the five provisions refer to municipal financial management. They assign the municipal council with responsibility for reviewing and approving the municipal budget and investment programs. No further elaboration of the municipal management responsibility of the council is provided in this article, but Article 42 of the same chapter lists the council resolutions that need the approval of central government to be enforceable. These functions concern the management of municipal finances. They involve the municipal budget, decisions regarding loans, local taxes, and other charges collected by municipalities, the management of municipal properties, and decisions concerning important financial transactions. Municipal councils are also responsible for the management of streets and food markets, one of the oldest and most important activities of the municipalities. This management task consists of issuing and enforcing all regulations concerning streets and public spaces, such as names, classifications, etc.; and the creation of markets and fairs. Finally, they refer to the

decisions concerning municipal financial participation in industrial and commercial institutions involved in the provision of local public services. Although this listing is the most comprehensive description of municipal council functions, it is clearly very limited.

Finally, Article 46 of the same document informs that any other resolution of the council is enforceable if there is no objection by the central government. This provision appears to compensate for the lack of legal provision by providing more authority for the municipal council. The application of this provision, however, is constrained by two restrictions. The first one subjects all municipal council decisions to the approval of the central government. The second one is more ambiguous. It limits the resolutions of the council to matters broadly defined by law as "municipal interests", which we have seen are very poorly defined.

The responsibilities attributed to the mayor provide some additional information on what constitutes the domain of intervention of municipalities. Under the supervision of the central government, the mayor is in charge of municipal regulation and of the implementation of decisions taken by the central government. Municipal regulation concerns public order and public health and hygiene, all of which relate to the environmental quality of public spaces (LODC, article 74). Specific services include street cleaning, street lighting, traffic regulation, public safety, environmental control over public health and hazardous materials, garbage

collection, food control, pest control, cemeteries, building permits, and so on. As can be seen, the scope of municipal services is relatively limited.

Supervisory Authority

As part of the decentralization reform, the control procedures of the supervisory authority over the functions of municipalities were relaxed to provide the latter with a greater level of autonomy. Nevertheless, municipalities are still subject to strict central control. Almost all resolutions of the council and all regulations set by the president of the council are subject to supervision and approval of a higher authority.¹³ Several institutions share the supervisory authority over municipalities: the Ministry of the Interior, which has the overall administrative authority over them, the Ministry of Finance, other ministries for functions related to ministerial jurisdiction, and finally the Governorates.

With the decentralization reforms, the Ministry of the Interior delegated part of the supervisory authority to the governor heading the Governorate in which the municipality is located. In Tunisia, this partial regionalization of the supervisory authority is considered to be the cornerstone of the decentralization strategy. It is, in fact, an act of deconcentration of regulatory activities, as it is a

¹³ Resolutions of the municipal councils are transmitted within 8 days to the supervisory authority, which has 15 days to approve them or exercise its right of veto (LODC, 1975, Article 37.)

delegation of functions to a representative of the central government, the governor. In the legislation, it is defined as a delegation of function from the Ministry of the Interior to the governor (article 1, Decree No 81-1011 of August 10, 1981).

The expected benefit of such a transfer is to speed up the control procedures by avoiding the overload at the central level. The governors have authority over all municipalities within their territory, which have a budget of TD 350, 000 or less. The Ministry of the Interior retains jurisdiction over municipalities with budgets exceeding this amount. The Ministry of the Interior still oversees the major decisions concerning the creation of municipalities or any large financial transactions. It also retains the overall jurisdiction over all subnational governments, including the governorates.¹⁴ The administrative jurisdiction of the municipalities is primarily the responsibility of the Ministry of the Interior. This jurisdiction is extensive, and includes, for example, the supervision of all decisions concerning management of staff (LODC, article, 114 to 119) and public services (LODC, articles 148, 150, 151).

No financial decision can be implemented by a municipality without a priori approval of the supervisory

¹⁴ The supervisory authority of the governorate council is the secrétaire d'état à l'intérieur (secretary of state to the Ministry of the Interior). (Article 31, Titre vi, Textes spécifiques aux conseil de gouvernorats, in recueil des textes législatifs et réglementaires regissant les collectivités publiques locales et régionales, p. 44)

authority. The financial jurisdiction is the most extensive and is shared between the Ministry of Finance, the Ministry of the Interior, and the governors. The governors control the budget of the 206 municipalities whose budgets are below TD 350,000. The Ministry of the Interior is responsible for the remaining 39 municipalities and for the supervision of some financial matters of all municipalities including those whose budgets are below the TD 350,000 threshold. The Ministry of Finance exercises additional control on all municipal budgets. Both Ministries take decisions concerning the legislation and regulation governing municipal finances. They also supervise all council decisions concerning borrowing and budget deficits.

Jurisdiction over technical services is shared among various interested ministries and institutions at the central level. Most of this jurisdiction belongs to the Ministry of Equipment, as an important part of municipalities activities is of direct interest to this Ministry.

The supervisory authority still exercises a strong control over the few functions that are directly assigned to the municipalities. Therefore, we see that the autonomy of the municipalities is severely restricted--a glaring contradiction to the objective of the 1975 reform.

THE GOVERNORATES

The decentralization program of 1975 also targeted the governorates. As with the municipalities case, the reform's

good intention did not translate into substantial changes at the Governorates level. The governorates were to be transformed from "a transmission station for central orders to that of serving as directing manager of all government activity in the province" (Nellis, 1984, p. 16). The governorates were clearly the focus of deconcentration efforts of the reform; that is, they were concerned with the transfers of implementation and management responsibilities to a lower unit of government for the purpose of lessening the responsibilities of the central government.

The 1975 reform of the governorate consisted of a re-definition of the role of the Governorate council, an expansion of the role of the governor, and a division of the national territory into a larger number of governorates.¹⁵

Development of Governorates

Today the Tunisian national territory is divided into 23 Governorates or regional authorities, which are themselves subdivided into 299 delegations and secteurs. The present structure of the regional territorial administration replaced an older structure, which consisted of a territorial subdivision called circumscription, introduced during the French protectorate, and an even more ancient subterritorial division, the Caidates. The Governorates were set up at independence in 1956 by a decree of the central government

¹⁵ The focus of our analysis is on the 1975 reform and the evolution of the governorates up until 1989, although the structure of the governorate has again been fundamentally transformed by the 1989 reform.

(decree of June 21, 1956) to replace the circumscription. The former Caidates were reorganized to form the so-called delegations.

The delegations represent the basic administrative units at the Governorate level. They have no legal life with assigned powers and directly exploitable sources of revenue. They are headed by a delegue (herein delegate), an officer under the Ministry of the Interior, who is also an assistant to the governor, and who insures within the delegation the authority of the governor. One of the delegates of the governorate is designated as first delegate. The first delegate is the first assistant to the governor, acts as the representative when the governor is absent, coordinates the activities of all the other delegates, and is in charge of the relationship with the other national organizations and security services. Delegations are themselves divided into sectors. The sectors are headed by the Imadas, local leaders elected from the local cells and by the members of the formally unique political party, the PSD. The Imadas assist and report to the delegates.

The impact of the reform on the regional territorial organization has been a continuous increase in the number of the Governorates, for a complete coverage of the national territory by governorates administrations.

Role of the Governorate Council

Before the 1989 reform, the Governorate structure consisted of a representative body (the Governorate Council), an executive body (the governor and the Governorate Technical Services headed by the governor), and External Services to the governorate, representing the various Ministries at the regional level.

The Governorate Council was considered within the Tunisian institutional framework as a decentralized administrative unit, designated by law as the authority responsible for the management of regional interests.

The Governorate Council members were not elected. They were members of the committe regional de coordination (regional committee for coordination) of the Parti Socialist Destourien (PSD), representatives of various national organizations (trade unions, and social and professional organizations, such as the Union General des Travailleurs Tunisiens, Unions National des Agriculteurs Tunisiens, Union des Femmes de Tunisie, etc...), and of the presidents of syndicats of communes, (associations of municipalities). Although not elected, the Governorate Council members were still considered to be representatives of the people of the region.

The council was defined as a decentralized regional institution, a collectivite publique regionale. By law, the Governorate Council was endowed with legal status and financial autonomy. The 1975 reform empowered it to manage

the interests of the Governorate. The new legislation suggested that the Governorate Council had a general right of authority over the territory of the Governorate, which allowed it to decide on policies and programs as well as to finance them.

Despite its autonomous structure and these apparent important prerogatives, the role of the Governorate Council has remained very limited. The Governorate Council has never had real autonomy in decision making. Its authority was limited to a consultative power. Its role consisted of reviewing decisions taken by other public entities and providing opinions about the regional interest. It was responsible, for example, for reviewing the regional development projects prepared in conjunction with national plans. Unlike municipal councils, none of its resolutions was enforceable.

The Governorate Council managed limited budgets under the strict supervision of the Ministry of Interior and the Ministry of Finance. These budgets were, however, very small. The Governorates did not have any revenue-raising capacity. Their revenues came from transfers from the central government, and their expenditures were mainly administrative and operational in nature. The financial autonomy was therefore mostly theoretical.

In spite of the reform, the Governorates councils remained endowed with a very limited role in the regional public life. The fact that the councils possessed few

resources and limited specified powers was criticized by many government officials and analysts in Tunisia (Chaabane, 1980, p. 78). Also criticized were the non-representative, non-participative nature of these councils. Their role was classified as ambiguous and limited to a consultative power.

Role of the Governor

Each governorate is headed by a governor, an official of the Ministry of the Interior appointed by the president. Until the 1989 reform, the governor held a double position of being at the same time the representative of the central government at the regional level and the head of the local decentralized authority. The governor was the head of the Governorate Council and was also the depository authority of the State, that is the central government's chief executive officer at the regional level. His role was highly political, and his prime responsibility was to the central government who appointed him. With the 1989 reform, the governor continues to represent the central government in the region and continues to head the new regional council.

It was as the regional representative of the central government that the governor finds a raison d'être. The limited role and importance of the Governorate Council, its lack of enforceable authority, and its limited budget made the governor's role as a local representative comparatively insignificant. As a regional representative, the governor

headed the regional assembly, prepared the Governorate budget, and managed funds appropriated under the budget.

As a representative of the central government, under the authority of the Minister of Interior, the governor was (and still is) responsible for implementing national development policy at the regional level and was also entitled to suggest to the government options for economic and social development of his territory. Moreover, the governor acted as a deputy to the Minister of the Interior for a series of responsibilities, one of the most important being the trusteeship and financial and administrative control of municipalities. The governor was also responsible for the execution of laws, regulations, and governmental decisions and for the maintenance of public order.

Finally, the governor was responsible for the administration of the Governorate and its seven services, coordinating and controlling, under the authority of the Ministries concerned, the regional services (also designated as external services) which were deconcentrated technical offices of the Ministries. Two officials of the Governorate, the general secretary and the first delegate, assisted the governor. The general secretary controlled and coordinated actions concerning administrative, financial, and economic matters and was also responsible for the administration of the Governorate. The first delegate, a political figure, was in charge of the political, cultural, social, and educational affairs of the Governorate.

Theoretically, the governor has been the most important beneficiary of the reform by being given increased authority over a wide range of issues, particularly in relation to the external services. Because of this increased authority, the governor has become the most important official at the subnational level. In practice, however, the limited development of the external services diminishes the extent of the authority that the governor has received through the reform.

Regional Services

Parallel to the Governorate structure, the reform introduced a law requiring all ministries and important public institutions to create regional services, with the purpose of deconcentrating some of their activities to the regional level and of assuring regional coordination among these activities by the governor. This had been the most concrete prescription for the deconcentration efforts initiated by the central government. It was, however, quite unsuccessful and brought very little real deconcentration of public activities.

There are four points worth mentioning about the external services.

First, the external services had no decision-making power. Most of them operated exclusively as regional implementation offices for national programs. Issues requiring decisions were systematically sent to the center.

Second, they were relatively independent from the Governorates and directly related to the various ministries that created them. In theory, the governors had some form of authority over them, but, in practice, the legislation failed to provide them with a meaningful authority. The external services consulted with the governors on all actions undertaken on their territory, but these services remained entirely under the hierarchical authority of the respective Ministries. Third, in many instances, the geographical subdivision set by the ministries for their external services did not match the Governorate's boundaries. One external service might cover three Governorates, for example, making the coordination with the regional governments more difficult to establish. Finally, the ministries were creating these services reluctantly, and after many years of consolidation, most of the existing ones remained understaffed.

The creation of external services indicated the desire to deconcentrate some of the ministries' activities to the regional level, and, at the same time, it revealed the willingness to keep these services relatively independent from the regional government. The reluctance of the ministries and other central institutions to deconcentrate activities and personnel to the regional level meaningfully also reflected a lack of consensus among the various ministries on the level and form of the decentralization.

CONCLUSION

From this analysis of the reformed legislation of 1975, it is clear that the legal provisions are insufficient to provide municipalities with the necessary structure to become decentralized units of governments. First, their stated role can be qualified as both very ambitious and totally ineffective as a mechanism of decentralization. The reform provides the councils with the overall responsibility over economic and social development in their territory, supporting the claim that the reform promotes decentralization. These ambitious provisions are limited, however, to an advisory role with no enforceable authority. The other functions of the council, which are enforceable, are few and imprecisely defined. Second, the control of the supervisory authority, still in effect, is excessive and greatly limits the level of autonomy of municipalities. Finally, no effective transfer of responsibilities and decision-making power has ever taken place.

The deficiencies in the legislation and in municipalities' relationship with the central government are now very apparent. They explain partially why the reform has failed to reach its intended objectives. The reform did not provide the municipalities with the legal base of decentralized institutions. Neither did the reform clearly enumerate the municipalities' functions or define the role of the municipal council. Are they agencies whose primary function is to counsel the central government and other

institutions on actions to be undertaken within their territory, or are they mainly decision-making authorities?

The new legislation was not without benefit, however. Compared to the previous status of municipalities, it has improved municipalities operation by providing a more precise legal structure. Nevertheless, this improvement remain well short of providing the municipalities with an effective local authority position.

The fact that the council was provided these ambitious, but vaguely defined, responsibilities, combined with the failure to provide the municipalities with the legislation necessary to enforce their authority on these functions, reflects the hesitation of the GOT in this decentralization objective and confirms its ambiguity about the role local governments should have in the country. It appears as if the legislature had purposely left these responsibilities undefined, as if there was a fear of giving important responsibilities to the municipalities. Many have speculated why there is this apparent contradiction embodied in the 1975 reform. Analysts have argued that the legislators were proponents of the view that decentralization is a gradual process (Chaabane and Kherouf, 1977). General provisions defining the optimal role of the municipal councils are set in a first stage, which would constitute the legislative base for the development of a more specific legislation that could be developed over time. The facts refute, however, the gradual decentralization explanation as no text to specify

the role of municipalities has ever been issued to supplement the LODC since the reform, more than 15 years ago.

Also commonly stated as an obstacle to decentralization in many similar experiences in developing countries, is the reluctance of those who hold the power to decentralize (Smoke, 1988, p. 8). This factor is certainly present in Tunisia in view of the country's strong centralizing tradition and the ideological influence of a one-party system inclined to concentrate power. This was clearly indicated in the address of the then Prime Minister, Hedy Nourira, in one of the earliest formulations of the decentralization policy objective (Chaabane, et al., 1980, p. 24).

The reform of the regional governments was not more successful, despite the fact that some of the changes introduced were more specific than that of the local governments. The creation of the regional services and the redefinition of the role of the governor to enhance the transfers of the implementation of central functions at the regional level has been the most concrete step of the reform towards deconcentration. The reformers appeared to be much less ambiguous about their objectives in this case. It is in the implementation of this policy that problems arose, in large part because the ministries were reluctant to comply with this particular form of deconcentration. The external services were never fully developed, however, and "the governor never received from the different ministries the mission of coordination and implementation of services."

(Nellis, 1984, p. 16). The reform of the Governorate Councils did not provide them with much responsibilities. They were limited by law to a consultative role and remained a powerless institutions. Thus, we see that the efforts to deconcentrate government activities to the regional governments were not more successful than the reform of the local governments.

ANNEX 3-1
THE 1989 REFORM OF GOVERNORATES:
THE CREATION OF A REGIONAL COUNCIL

The failure of the 1975 reform has led to a new, more ambitious reform in 1989 of the Governorates, which is currently being implemented. The stated objectives of the 1989 reform are very similar to the ones stated in the early 1970s, on the eve of the 1975 reform, including enhancing regional participation in the development of the region and increasing the level of responsibility at the regional level. This time, the reformers had in mind a somewhat more ambitious and comprehensive decentralization program. They spoke of integrated regional development conducted at the governorate level as opposed to a sectoral form of development. The governorate is to become a technical and economic institution, rather than an administrative one, where the geographical distribution is closer to the economic needs of the region rather than an administrative distribution.

The main transformation expected by this reform is the substitution of the representative authority of the Governorate, the Governorate Council, by a regional council which would be a technical and economic body. The members of the council will not be elected, but, rather, they would be ministries' personnel, important local officials (such as the presidents of municipalities, the local representatives of the national assembly, and the president of the rural

councils) and other members designated by the governor. The council is headed by the governor who remains an official of the Ministry of the Interior.

According to the reform project, the role of the regional council is to be extended to all economic activities of the regions. It will prepare the regional plan and will have an advisory role for all public projects with an economic and social content. It will be in charge of establishing economic and social priorities in the region and of coordinating national projects. As in the previous reforms, the formulation of these functions remains relatively vague. However, the new councils are different than the institutions they replace: the central government resources for regional economic and social development are to be transferred to the Governorate budget, and the regional councils are to have the authority of allocating these funds by sector and project types within their regions. Eight sectoral commissions would be created to assist the council in its task. The former external services, now called technical services, will assist the councils and the commissions.

This reform certainly appears to be another ambitious endeavor. It has some characteristics of a decentralization program rather than that of a deconcentration program. The Governorates take a policy role, as opposed to their previous implementation role, and the council is awarded the decision-making authority over the functions transferred to them.

With this new arrangement, the governor, who is the head of the Governorate Council, has extended power, becoming the principal manager of the central government funds spent at the regional level.

For some Tunisian officials, however, this reform does not represent any change.¹⁶ They claim that no new functions were decentralized, that the 1975 reform attributed to the governor all the functions that the 1989 reform plans to transfer to the regions. How does this reform differ from the previous one? Is this just a reformulation of a reform that has never been effectively implemented? What are chances of success of this new reform? There are, in fact, many reasons to think that in spite of the apparent novelty, this reform is not much different in content and has as little chance as the previous one of succeeding.

The first innovation of the reform is the transformation of the former Governorate Council into a "technical and economic institution." The regional council loses its status of a deliberative institution and of a decentralized unit of government. What appears in the formulation of this reform is a desire to de-politicize the institution, reflecting the belief that a technocratic institution is more efficient than a political one. The council allegedly promoted to a technical institution becomes a better candidate to manage the various decentralized functions. What is not clear,

¹⁶ Personal interviews by author with several government officials in Tunis in 1989.

however, is how the new council becomes a technical institution, or what its exact status is. Most of its members are local representatives and officials of the Ministry of the Interior. How does this new council differ from the previous one when its composition remains very similar?

The second and most significant transformation planned by the reform is the extensive decentralization of central government functions to the regional councils, including a large share of public funds connected to these functions. The reform project, however, does not provide any precision as to which functions are to be decentralized. Only a clear definition of the tasks to be transferred to the regional level will indicate the exact extent of the reform.

There are many reasons to think that the new reform has limited chances of being a successful decentralization policy. First, its lack of precision makes it impossible to define in an operationally meaningful way. It is still at the stage of a general statement of intent: it might never go beyond it. Second, ministries have shown in the past a great reluctance to deconcentrate their activities to the regional level. The regions' insufficient capacity to handle decentralized functions has been the reason given by the Ministries for their reluctance to deconcentrate functions in the past. According to a ministry official, most ministries do intend to deconcentrate some functions, but they intend to do it gradually, contingent upon the development of the

technical capacities at the subnational level. In other words, they do have a deconcentration program of their own, which may not conform to the decentralization program set by the reform.

There are many similarities between the former and the present reform, in the objectives, in the formulation, and in its lack of clear definition. Because of these similarities, it also has the same chances as the previous one of failing. It does indicate, nonetheless, that the GOT recognizes the need to decentralize, but lacks a clear commitment and capacity to come up with an effective strategy for decentralization.

CHAPTER 4
LOCAL GOVERNMENT FINANCES PART I:
FINANCIAL AGGREGATES AND INTERGOVERNMENTAL TRANSFERS

We now turn to the analysis of municipalities' finances. In this chapter and the following one, the objective is to evaluate the outcome of the financial reform by evaluating the objectives and achievements of this reform and their coherence with the decentralization objectives. We will analyze the sources of revenues and expenditures of municipalities and compare them to those of the central government, and we will evaluate the level of autonomy and authority the municipalities have over their finances.

The overall review of municipal finances in these two chapters points to these conclusions. The financial reform did bring important improvements to municipalities' revenue sources and their financial management. The most important of which can be summarized as follow: (i) new revenues sources were created; (ii) central government transfers were substantially increased and their allocation procedure reformed and (iii) the budgeting and accounting system was reformed and improved. The positive impact of the reform on municipalities' finances was clearly illustrated by the sharp increase in revenues in the first four years following the reform. The reform contained several limitations, however. First, the one-time increases in municipalities' revenues, although very important, were insufficient to raise

municipalities to a significantly higher level of activity, compared to that of the central government. Also, the reform concentrated on improving centrally managed revenue sources--the transfers from the central government and the newly created taxes are entirely managed by the central government--increasing local governments dependency on central governments funds. It has provided little improvement to the local taxes, tariffs, and fees managed by the local governments themselves and has provided municipalities with very limited authority over revenue-raising activities. Finally, the reform did not eliminate the central government's strict control over all financial activities of the local governments.

We will start our analysis in this chapter with an overview of the main objectives of the 1975 financial reform. We will then analyze municipal finances, their importance, their evolution, and their structure. We will also compare municipalities' financial aggregates to other macroeconomic aggregates of the country to evaluate the distribution of the national fiscal resources between levels of governments, thereby comparing municipalities' level of involvement in the public life of the country. We will turn to the analysis of specific revenue sources by evaluating the intergovernmental transfer system and its impact on local government revenues.¹⁷

¹⁷ To conduct our analysis, we used statistics from the Ministry of Finance and the Ministry of the Interior. For a description of these statistics, see Annex 4-1.

In the next chapter, we will analyze municipalities' own revenues, their borrowing system, and their expenditures.

OBJECTIVES OF THE FINANCIAL REFORM

The financial legislation established during the 1975 reform (and the subsequent additions) had two objectives: to provide the municipalities with additional resources to cope with their theoretically increased responsibilities (discussed in the previous chapter) and to improve their financial management.

Higher levels of revenues were to be achieved by creating new revenue sources, by increasing the transfers from the central government to local governments, and by reforming and enhancing municipalities' borrowing system. The improvement of financial management involved the establishment of a new accounting system and budgeting practices as well as the simplification of the procedures of central government control over municipal budgets.

Increase Municipal Resources

Two new taxes--a hotel tax and a tax on institutions of a professional, industrial, or commercial nature (hereafter called "tax on establishments")--were created in 1975 to provide the municipalities with sources of revenues based on the economic activities of their localities.¹⁸ These taxes substituted for the property tax based on the rental value of

¹⁸ Laws, no. 75-34 and no. 75-39, May 14, 1975, respectively.

the premises, which had been the only local tax levied on these businesses. The base of the new taxes--gross receipts--reflected the economic activities of these establishments better than the rental value of their premises, and it provided municipalities with increasing resources necessary to face the specific expenditure requirements created by these same establishments, which were particularly important in the case of hotels in tourist areas of the country.¹⁹ In 1976, the government also issued new legislation to improve the revenues of selected indirect taxes and fees.²⁰ The decree modified rates, bases, and procedures.

The rates were raised for the first time since 1958. The procedures were simplified, in particular those related to the collection of sale taxes and other food-market taxes. In some cases, the tax base was also changed to facilitate the evaluation and collection process. Fees that were considered either redundant or socially inappropriate were abolished. Among those fees considered as socially inadequate were some that were useful to the municipalities. Admissions fees to sport fields and sports activities, for example, were the only source of revenues municipalities had to maintain their sports infrastructure.

The most important financial reforms were to the central government transfer of funds to the municipalities. First,

¹⁹ The rates are 1% for hotels, and 0.2% for other institutions.

²⁰ Decree no. 76-826 of September 13, 1976.

two former funds set for intergovernmental transfers that existed before 1975--the former Common Fund for Local Collectivities and Fund for Fuel and Tires--were consolidated into one, the Fond Commun des Collectivités Locales (FCCL), the Common Fund for Local Governments. Its revenue sources were modified to provide the fund with more important revenues and to increase the overall amount to be transferred to municipalities. Second, the allocation procedure was revised with the aim of achieving greater equity among municipalities and of creating incentives for a more efficient collection of the property tax.

The reform also revised the municipal borrowing system. In 1975 municipalities were heavily indebted and were defaulting on their loans. The first action was a moratorium on all municipal debts. The overall debt was estimated at TD 6 Millions (current 1975 TD), which Tunisian officials attributed to poor financial management of both municipalities and the lending institution, the Caisse des Prêts. The 1975 reform transformed this lending institution to become the Caisse des Prêts et de Soutien des Collectivités Locales, which was endowed with more capital and a larger field of activity than the caisse des prêts. The lending procedures were also reformed: The criteria for allocation of loans were changed to take into account the nature of the project and the financial viability of the municipality. The broader objective set forth by the lending

reform was to encourage municipalities to invest more actively within their locality.

Improve Municipal Financial Management

On the financial management side, the only measure taken, but which was also one of the most important aspects of the 1975 reform, was the reorganization of the entire municipal accounting system. Before 1975, municipal budgets were established in two stages: An initial budget, the equivalent of the present current budget, was approved six months before the beginning of the budget year. A supplemental budget, which was essentially a capital budget, was approved much later in the middle of the budget year. The resources for this capital budget came, in part, from surpluses of the current budget of the same year, which were treated as a form of saving for capital expenditures. The surpluses could only be determined six months after the beginning of the fiscal year, which explains why the capital budget was established so late in the year. These pre-1975 budgetary practices are explained by the fact that municipal investments were relatively rare. Capital expenditures were titled extraordinary expenditures and were treated as such.

This practice had serious drawbacks. It "deprived the budget of its significance as a forecasting tool" for two reasons: (i) it prevented municipalities from considering all the resources available to them in establishing their budget, (ii) it also prevented them from substituting between

operating and capital expenditures (Prud'homme, 1975, p. 56).

The amount of receipts shown in the supplemental budget is not a forecast but a

...confirmation of receipts, everything takes place as though the capital budget were not an annual budget but a current account, credited each year with the surpluses of the operating budget, subsidies and loans, and debited from day-to-day with the capital expenditures made. (Prud'homme, 1975, p. 56.)

In the supplemental budget, capital expenditures were treated as an exceptional act, financed on residuals of the current budget.

The budgetary system needed important changes if municipalities were to become active economic participants in the public life of the country and to share the responsibilities of capital formation with other public institutions within their territory. The new 1975 regulation required that the entire budget be completed at once prior to the year to which it pertained, in two parts: a current and a capital budget.

The same law required that the budgets be balanced (art. 16, Law 75-35 May 14, 1975, LODC). The objective was to force municipalities to forecast a realistic level of revenues, to develop more control over their expenditures, and to avoid a day-to-day management of expenditures.²¹ The transfers from the current budget to the capital budget now

²¹ According to Prud'homme (1975, p. 56), municipalities' revenue forecasts were underestimated by as much as 40%.

had to be planned in advance as municipalities' own revenues to capital expenditures.

These measures have certainly introduced a great deal of rationality to the financial management of municipalities.²² A new accounting system was devised to provide for the changes related to the capital budget. The new nomenclature of the accounting documents was also tailored more closely to the financial operations undertaken by the municipalities. Changes included the differentiating between interest and capital payments for debt reimbursement, including them in the current and capital expenditures, respectively.

Finally, the reform aimed at providing the municipalities with a higher level of autonomy. The control and approval of budget procedures and all financial transactions were simplified. We have seen in the previous chapter, however, that they remain very stringent. The deconcentration of the control procedures of municipalities' finances to the governor is considered by many in Tunisia to be part of the decentralization efforts.

This summarizes the main aspects of the municipal financial reform. The reforms proposed in this field appear to be more precisely defined than those concerning the role and responsibilities of the local governments, but are they sufficient to bring municipalities to a level of activity set

²² Note, however, that the majority of municipalities continue until today to display huge unintended surpluses at the end of their budget year, a sign of still poor budgeting practices. It can be explained either by an underestimation of revenues or by an overestimation of what can be accomplished and spent, or both.

by the objectives of the reform? Have the new taxes and the new transfer system provided municipalities with substantially more revenues? If so, have the level of services provided by the municipalities and their overall activities increased consequently? What is the new position of municipalities in the economy and the public life of the country, as viewed by its revenue-raising activities and public expenditures? We now turn to answer these questions.

ANALYSIS OF MUNICIPALITIES' FINANCIAL AGGREGATES

We will start this evaluation of the impact of the reform on municipal finances with an analysis of the evolution of aggregates of municipal budgets.²³ Because most municipal activities involve financial transactions, we can take their financial aggregates as a good measure of their level of activity. We will assess their evolution in absolute and in relative terms, looking at trends since 1975. We will evaluate their present situation and compare them to other macroeconomic aggregates in order to estimate the relative position of municipalities in the economic life of the country.

Current Status and Recent Trends of Municipal Financial Aggregates

As shown in Table 4-1, by 1988, 13 years after the beginning of the financial reform, the aggregated volumes of

²³ Aggregates refers to the sum of all financial operations achieved by all municipalities.

municipal finances remain very low.²⁴ Total effective revenues and expenditures are equivalent to TD 145.9 (\$182 million) and TD 137.1 (\$174 million) respectively, which amounts to the modest figures of TD 32.6 (\$40) of per capita revenues and TD 30.7 (\$38) of per capita expenditures.

Table 4-1
Municipal Financial Aggregates and Per Capita Real Revenues
and Expenditures, 1988.
(in current TD)

	Total Volumes (TD Million)	Per Capita (TD)
Total effective revenues	145.9	32.6
Total effective expenditures	137.1	30.7

Notes: There is a difference between budget figures presented later and effective revenues and effective expenditures.

Budget figures include the various inter- and intra-budgetary transfers. Effective revenues and effective expenditures are figures corrected from these transfers. For a more detailed explanation of the accounting system, see Annex 4-2.

Source: Ministry of Finance, GOT

Table 4-2
Average Annual Growth Rates of Aggregated Municipal Budgets:
1970-1987.
(percent)

70-75	75-79	79-83	83-87	75-87
9.6	15.1	0.7	4.2	6.5

Notes: Average growth rates are calculated from data in constant TD of 1980.

Sources: Calculations based on aggregated figures of municipal budgets from the Ministry of Finance, GOT.

These low figures occurred despite the relatively high average growth rate of the budget since 1975 (6.5% between

²⁴ Effective revenues and effective expenditures are figures corrected from inter-budgetary transfers (see Annex 4-2). For a more detailed explanation of the accounting system, see Diagram 4-1, in Annex 4-2.

1975 and 1987).²⁵ Table 4-2 shows that the highest annual growth rate (15%) occurred during the period following the financial reform (1975-1979), an obvious consequence of the changes introduced, but then dropped considerably in the following years.

Comparison of Municipal Financial Aggregates with Other Macroeconomic Aggregates

A comparison of the size and growth rates of municipal financial aggregates with other macroeconomic aggregates shows the relative position municipalities have acquired in the economic life of the country.²⁶ From this analysis emerge three important facts. First, the share of municipalities' revenues and expenditures has remained constant during the period of analysis: a low 4% of the total revenues and expenditures of the central and local governments (see Table 4-3). This indicates not only that the share of municipalities' activities relative to that of the central government is very small, but also that it has not improved.

Second, the ratio of the growth rate of municipalities revenues over the growth rate of central government revenues

²⁵ We are referring to the total budgets, which are the total revenues or the total expenditures--which are equal because municipalities are required by law to keep a balanced budget--including inter- and intra-budgetary transfers. See Annex 4-1 and Figure 4-1 for a more detailed explanation of the structure of the municipal budget.

²⁶ In this analysis we will use municipal financial figures corrected from intra- and inter-budgetary transfers, that is, effective revenues and effective expenditures. This explains some of the differences that will appear with the budgetary volumes figures used in the previous tables. Also, as these statistics are available only for the years 1981 to 1986, the following analysis will cover this period.

(1.1), in Table 4-4, shows that the municipalities' revenues are growing at about the same rate as the central government

TABLE 4-3
Comparison of Municipalities and Central Government Revenues
and Expenditures, 1981-1986.
(percent)

	1981	1982	1983	1984	1985	1986
Revenues:						
Central Government*	96	96	96	96	96	96
Municipalities	4	4	4	4	4	4
Total	100	100	100	100	100	100
Expenditures:						
Central Government*	96	96	96	96	96	96
Municipalities**	4	4	4	4	4	4
Total	100	100	100	100	100	100

Notes: *Corrected for transfers to municipalities.

** Municipalities effective expenditures are corrected for the intra- and inter-budgetary transfers.

Sources: Calculations based on statistics from: (i) Statistics annex to the "Budget Economique 1986" economic budget, 1986, GOT. (ii) Ministry of Finance, GOT.

TABLE 4-4
Annual Growth Rate of Municipalities' and Central Government
Revenues and Expenditures, 1981-1986.

	81-82	82-83	83-84	84-85	85-86	81-86
Revenues:						
Growth rates						
1 Central Government*	1.8%	8.4%	11.4%	1.9%	-1.5%	4.3%
2 Municipalities**	3.9%	5.8%	9.5%	5.9%	-2.3%	4.5%
Ratio 1/2	2.2	0.7	0.8	3.2	1.5	1.1
Expenditures:						
Growth rates						
3 Central Government*	1.8%	8.4%	11.4%	1.9%	-1.5%	4.3%
4 Municipalities**	1.4%	1.4%	7.4%	8.0%	-4.7%	2.6%
Ratio 3/4	0.8	0.2	0.6	4.3	3.0	0.6

Notes: * Central government figures are corrected for transfers to municipalities.

** Revenues and expenditures figures used in these calculations are corrected for intra- and inter-budgetary transfers.

Sources: Calculation based on statistics from: (i) statistic annex to the "Budget Economique 1986" GOT, and (ii) Ministry of Finance, GOT.

revenues. On the expenditures side, however, a similar ratio for the 1981-1986 period (0.6) indicates that municipalities' expenditures are growing at a much slower rate than those of the central government.

Third, similar findings appear from comparing municipal revenues and expenditures to GDP, shown in Table 4-5. They represent respectively a low of 1.5% to 1.7% of GDP. The ratio of their growth rates for the 1981-1987 period, are respectively 1.3 and 0.7, which indicates that the growth of municipal revenues exceeds only slightly the economic growth of the country. The level of municipal activities, however, grows at a much slower rate than the overall economy.

TABLE 4-5
Municipalities Revenues and Expenditures as Percent of GDP,
1981-1987.

	1981	1982	1983	1984	1985	1986	1987
As Percent of GDP:							
Municipalities Revenues	1.5%	1.6%	1.6%	1.6%	1.7%	1.7%	1.6%
Municipalities Expenditures	1.6%	1.6%	1.5%	1.6%	1.6%	1.6%	1.5%
Ratio of Growth Rates of Municipalities Revenues and Expenditures over Growth Rate of GDP, 1981-1987.							
Municipalities Revenues/GDP				1.3			
Municipalities Expenditures/GDP				0.7			

Sources: (i) Country Reports, No. 2, 1989; Country profiles, 1986, 1987, 1988, and 1989. The Economic Intelligence Unit.
(ii) Ministry of Finance, GOT.

CENTRAL GOVERNMENT TRANSFERS

For our analysis, we have grouped revenue sources of municipalities into three categories (see Table 4-6): central government transfers, or subsidies to the current and capital

budgets; municipalities own resources, that is local taxes, fees for services, and charges for the use or sale of municipal properties; and loans. These three items accounted for 96% of effective revenues of municipalities in 1988.

The remaining 4% came from miscellaneous sources.

Table 4-6
Structure of Municipal Revenues: Transfers, Own Revenues and Loans, 1988.
(% of the total)

	1988
Transfers ¹	45%
Own Revenues ²	43%
Loans	8%
Others	4%
Total Effective Revenues ³	100%
Total Real Revenues (TD millions current)	145.9

Notes:

1 Transfers include all central government transfers and subsidies to the current and capital budgets.

2 Own revenues include direct and indirect taxes, user fees, and income from municipal property.

3 Total effective revenues are revenues corrected from the various inter- and intra-budgetary flows of funds (see Diagram 4-1, in Annex 4-2).

Source: Calculations based on statistics of the Ministry of Finance, GOT.

One of the most important outcomes of the financial reform has been the rapid growth of the central government transfers to the municipalities. They have become the most important revenue sources of municipalities. Revenues from transfers to the current budget have had a much higher growth rate (12.3%) on average between 1975 and 1985 than all

Table 4-7
Municipal Current Revenues: Share of Revenues from Transfers
and Municipalities' Own Resources 1965-1988), and Average
Annual Growth Rate 1975-1988.
(percent)

	1965	1975	1985	1988	Average annual growth rate 1975-1985
Own Revenues 1	65%	68%	50%	56%	4.1%
Transfers 2	35%	32%	50%	44%	12.3%
Total current revenues	100%	100%	100%	100%	7.3%
Total current revenues (in current millions TD)	6.86	19.52	85.60	112.00	

Notes:

Average annual growth rates are calculated with figures in constant TD.

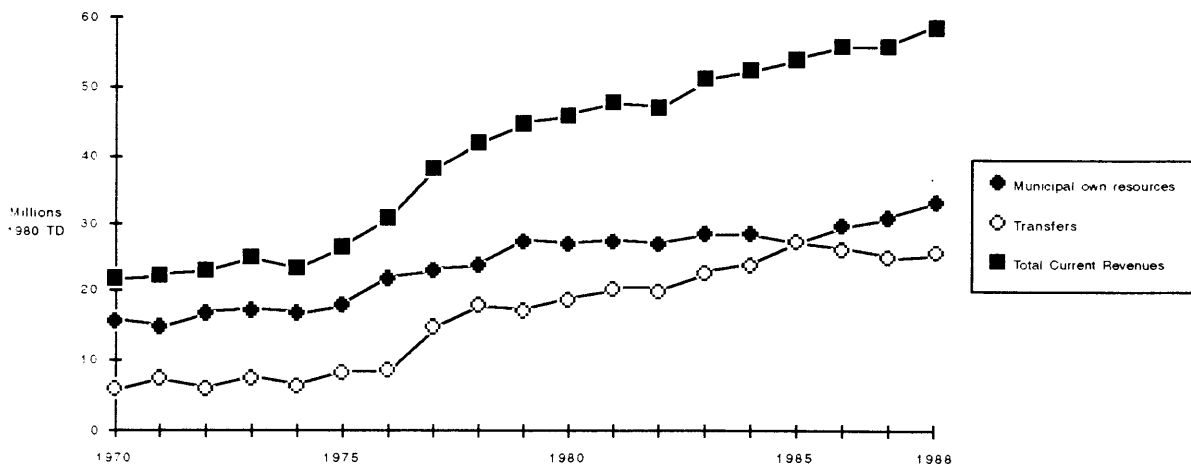
1 Own revenues include direct and indirect taxes, user fees, and income from municipal property.

2 Transfers include all central government transfers and subsidies to the current budget only.

Source: Calculations based on statistics from municipal accounts, Ministry of Finance, GOT.

Figure 4-1

Municipalities' Current Revenues
1970-1988
(In Millions of 1980 TD)



Note: Transfers include transfers to the current budget only. The various transfers and subsidies to the capital budget--estimated at 25 to 30% of the transfers to the current budgets--are not included.

municipalities' own revenues combined (4.1%) (see Table 4-7 and Figure 4-1). After ten years of continuous growth of central government transfers, municipalities' own revenues, which accounted for 68% of current revenues in 1975, represent only 55% of this total in 1985.²⁷ Revenues from loans have remained at their insignificantly low level despite the various actions taken to stimulate municipalities' borrowing activities.

Is the municipalities' reliance on central government transfers for half of their revenues incompatible with the objective of decentralization? Are municipalities developing some form of dependency on central government transfers, or should these changes be perceived as being one important benefit of the reform? The answer to these questions will depend largely on the form that these transfers take, how they are allocated to the municipalities, and how they are used.

Structure of the Transfer System

Most central government transfers to the municipalities come from the Fonds Commun des Collectivites Locales (FCCL), the common fund for local authorities, which are primarily allocated to their current budget. Municipalities also

²⁷ In Table 4-7, we are comparing current revenue structure instead of total revenue structure as in Table 4-6, because figures are unavailable for the years 1975 to 1981 to identify the amount of transfers to the capital budget. Transfer figures presented in Table 4-7 include only transfers to the current budget, thus do not include transfers to the capital budget. All municipalities' own revenues are current revenues and are therefore included in this table.

receive capital subsidies from various other sources. Most of them are transferred from the Ministry of Equipment on the request of municipalities. Others come from institutions, such as the local governments' lending institution,²⁸ the municipal development fund,²⁹ and the national housing fund,³⁰ which provide capital subsidies to the municipalities on a discretionary basis. Before examining each source of transfers, we should note that transfers from the FCCL account for 75% of all transfers. The following table presents the amounts involved and the relative importance of each source for the year 1984.

Table 4-8
Transfers Received by Municipalities, by Source: Volumes and
Relative Importance, 1984.
 (millions of current TD)

	Volumes (Millions TD, current)	Percentage Distribution (Percent)
FCCL (transfers to current and capital budget)	40.91	74.7%
Other Capital Subsidies:		
Subsidies from the Ministry of Equipment	8.69	15.9%
Subsidies from CPSC ²⁹	2.68	4.9%
Subsidies from FDM ³⁰	1.46	2.7%
Subsidies from FNAH ³¹	1.00	1.8%
Total	54.74	100.0%

Sources: World Bank, 1987, p. 76. Estimates prepared from aggregated municipal accounts for 1984, Ministry of Finance, GOT.

28 Caisse des Prêts et de Soutien des Collectivités Locales. (CPSC)

29 Fond de Développement Municipal. (FDM)

30 Fond National d'Amélioration de l'Habitat. (FNAH)

Three objectives were set forth by the 1975 reformers concerning the transfer system: (i) increase the level of revenues of municipalities, (ii) lessen regional disparities in municipalities revenues, and (iii) create incentives for better financial management and greater participation in investment activities.

The outcome of the reform was positive on many accounts. On the revenue side, the reformers allocated to FCCL new, important, and rapidly growing revenue sources. They insured stability in FCCL's revenues by indexing these revenues to national taxes. On the allocation side, they insured stability in revenues for each municipality by a systematic allocation system based on a formula.

Rapidly Growing Revenue Sources

In the 1975 reform, two previous funds--namely the Fond Communs des Carburants et pneumatiques, common fuel and tire fund, and the former Fond Commun des Collectivite Locales (FCCL) the common fund for local governments, were merged to form the new FCCL.³¹ The revenue sources of the restructured fund were extended to include more buoyant ones, the most important of which is the turnover tax (10% of the proceeds), which provides more than 3/4 of the total revenues of this fund (see Table 4-9). This new revenue source was one of the most important innovations of the municipal revenue system. Not only has it provided the FCCL, and consequently the

³¹ Law 75-36 of May 14, 1975.

municipalities, with an important and stable source of revenue, but also with a rapidly growing one. The average growth rate of this revenue source between 1981 and 1984 was 24% per year, a faster growth rate than the central government tax revenues of 17.5% (World Bank, 1987).

Out of eight revenue sources of the FCCL, only three-- including the turnover tax--provided meaningful revenue to the fund, the sum of which amounted to 98% of all FCCL revenues for 1984 (see Table 4-9). The five other sources of revenue are relatively insignificant: two of them generate no revenues, and their proceeds have a negative growth rate. Some of these ill-structured revenue sources are residuals of the previous funds that were maintained after the reform.

Table 4-9
Relative Share of the Sources of Revenues of the FCCL and
Average Annual Growth Rate, 1981-1984.

	Relative Share (Percent)	Average Annual Growth Rate 1981-1984 (Percent)
Turnover tax (10%)	77.6	23.6
Tax on petroleum products (3-9%)	12.8	11.0
Business license tax (7%)	8.2	1.5
Tax on noncommercial profits (7%)	0.7	na
Tax on olives (10%)	0.5	16.5
Agriculture tax (50% of proceeds)	0.2	13.4
Tax on grain and viticulture, 10% of proceeds	<0.1	-4.2
Tire duty (10% surcharge)	<0.1	-68.2
Total	100.0	

na= not available

Sources: World Bank, 1987, p. 79. Estimates prepared from the data contained in "Pression Fiscale 1961-1985 et Tendances 1986," Institut d'Economie Quantitative, 1985, Tunis Tunisia.

Because these revenues were indexed to national taxes, FCCL was guaranteed a stable volume of receipts, which did not need to be discussed every year as a national budget item by the political leadership. Indexing FCCL's revenue to national taxes was practiced before the 1975 reform, and was kept despite the fact that it breaks the unitary budget principle of Tunisian public finance. Although not an innovation of the 1975 reform, it did constitute an important tenet of the municipalities revenue system and conformed with the decentralization objective, because it provides municipalities with growing revenues, thus increases their capacity for action.

In 1986, however, changes were made to the system of central government transfers that eliminated the indexing of the fund resources. Several reasons explain these changes. First, a fiscal reform at the national level eliminated the agriculture tax, the tax on grain and viticulture. Second and importantly, the turnover tax--which represents over three-quarters of the fund's revenues--was replaced at the national level by a value added tax (VAT), and the VAT was excluded from the FCCL fund. Third, some Tunisian officials perceived that the system in place, and particularly the earmarking, was complex and difficult to manage. Finally, and most importantly, the central government wanted to decrease public spending because of the economic situation of the country (Sides et al., 1989).

A Systematic Allocation Procedure

The central government transfers are distributed by a systematic allocation process, based on a formula, which insured stable and progressive revenues to the municipalities. This systematic allocation process was not introduced by the 1975 reform. It was maintained by the 1975 reform and was slightly modified to fit the new objectives. Among other changes, a larger share of the total fund resources was transferred to the municipalities.

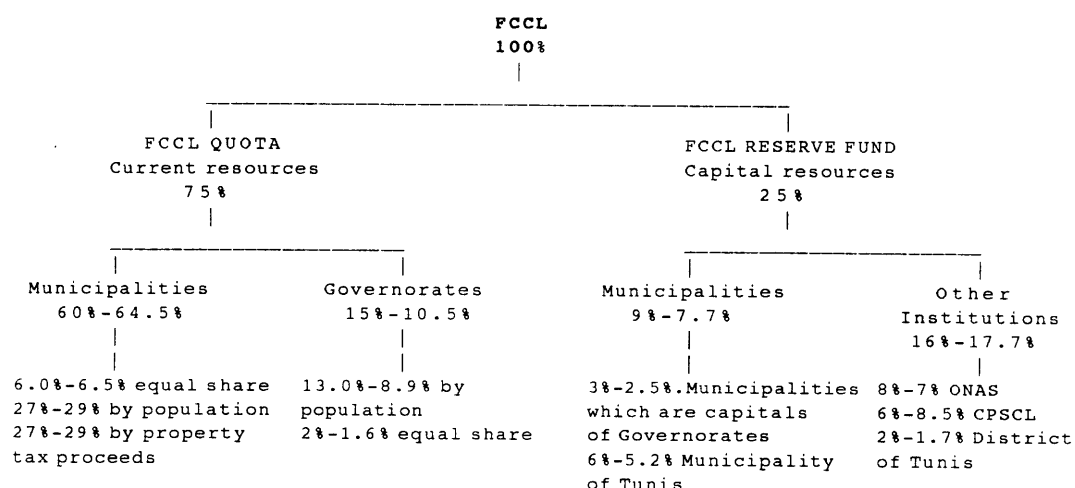
The transformation brought to the system in 1986 did not eliminate the systematic allocation process for allocating transfers. The objectives to be accomplished by the system remained identical. The total share of the funds resources allocated to municipalities was once more increased.

Over two-thirds of the FCCL fund is allocated to the municipalities (see Figure 4-1). These transfers are essentially allocated unconditionally in their use to the municipalities' current budget. Almost half of these transfers allocated unconditionally to the municipalities (which represent 27% before 1986 and 29% after 1986 of total transfers)³² are allocated on the basis of "need" to each municipalities in proportion to their population. An equal share is used as an incentive to improve the recovery by municipalities of the property tax. That is, it is allocated

³² The first number in the parenthesis refers to the first period, between 1975-1985, and the second number refers to the second period, after 1986. This applies for all the numbers in parenthesis of this section as well as in Figure 4-1.

in proportion to municipalities average proceeds (over a three-year period) from this tax. The remaining part (6% before 1986 and 6.5% after 1986) is allocated in equal share among municipalities, favoring the smallest municipalities and therefore playing the role of an equalizing tool.

FIGURE 4-2: ALLOCATION SYSTEM OF THE FCCL FUNDS



Note: The first number refers to before 1986 and the second number to after 1986. The share has not changed when there is only one number.

A smaller share of the FCCL funds (9% before 1986 and 7.7% after 1986) is allocated to the municipalities' capital budget to promote investment expenditures. They benefit a small group of municipalities, which are capitals of governorates and which are considered for that reason to have special needs. Tunis is the primary recipient of this share (6% before 1986 and 5.2% after 1986). The rest (3% before 1986 and 2.5% after 1986) is distributed equally between the few municipalities that are capitals of governorates. Other

municipalities get their capital subsidies from other sources. Other capital subsidies are reviewed in the following section.

About a third of the fund's resources, which is not used for the municipalities, is allocated to the governorates for their operations and as capital subsidies to other institutions that are considered to have a local role. This share, which was 31%, has decreased slightly after 1986 to 27.8% to compensate for the increase in the allocation to the municipalities. The governorates have taken the largest reductions, but all of the other institutions have also seen their shares decrease, with the exception of the lending institutions, the CPSCCL.³³ The national sanitation institution, ONAS, receives FCCL funds (8% before 1986 and 7% after 1986) for projects they carry out theoretically on behalf of local governments, and the planning office of the metropolitan area of Tunis--the District of Tunis--operates with 2% before 1986 and 1.8% after 1986 of the FCCL fund. The lending institution to the municipalities, the CPSCCL, receives some FCCL resources, which are partially passed on to the municipalities through a limited loan subsidy program. Its share of the fund has increased slightly from 6% before 1986 to 8.5% after 1986, while other capital subsidies from the FCCL to the municipalities have decreased (from 9% before

³³ Caisse des Prêts et de Soutien des Collectivités Locales

1986 to 7.7% after 1986), indicating the new emphasis of the government for a more rational use of capital.

Because of the growing numbers of municipalities, the larger share of transfers to municipalities' current budgets has not resulted in an increase in the amount of transfers to each individual municipality (Sides, 1989). This fact, along with the drop in the capital subsidy, appears to result from limited availability of resources and a more-constrained allocation process, rather than from an explicit change in government's transfers policy.

Other Capital Subsidies

Another objective of the central government was to create incentives for the municipalities to invest. In the 1975 reform and during the subsequent years, some innovations were put forward to help municipalities with limited financial capacity to provide basic infrastructure and create social facilities.

Unlike the FCCL allocation system, capital subsidies are distributed in an unsystematic and piecemeal manner. The most common form of awarding municipalities with capital subsidies is upon the municipalities' own demand. Municipalities are encouraged by the GOT to request subsidies to the relevant ministries to finance their investment projects. Decisions to grant the subsidies are taken by an inter-ministry commission on the basis of the nature and the importance of projects. The priority is generally given to

small municipalities with limited resources. Other capital subsidies of a more exceptional nature were institutionalized during and after the reform, some of which were eliminated a few years later.

With the reform of the loan-allocation system, the lending institution, the CPSCCL, was given the capacity to grant subsidies to municipalities, not exceeding 50% of the FCCL funds allocated to the CPSCCL and only under very specific circumstances.³⁴ We have seen that the share of the fund allocated to the CPSCCL has increased in the last transformation of the allocation system, indicating a desire to see the CPSCCL play a more important role in the provision of capital subsidies.

In 1983 a special treasury fund was established, called the municipal development fund--Fond de developpement Municipal (FDM)--to provide capital resources to the most needy municipalities. This fund received a yearly appropriation from the central government budget and from other central contributions and was the second most important source of capital subsidies to the municipalities. It was eliminated in 1987 because it was perceived as being an inefficient use of resources, due in part to the lack of a rigorous allocation process. This particularly affected

³⁴ The CPSCCL can grant subsidies only to municipalities "subject to special, necessary or unforeseeable constraints" or those facing a particularly difficult financial situation (Law 75-37 of May 14, 1975).

small municipalities which relied heavily on the fund for their capital resources.

Another special treasury fund of lesser importance to municipalities, the national fund for housing improvement--Fond National de l'Amelioration de l'Habitat (FNAH)--provides subsidies to municipalities, on their request, for housing upgrading projects and other projects carried out in conjunction with the national agency for urban renovation.

Implications of the Reform

The impact of these increases in transfers on the municipalities' finances is remarkable, particularly between 1975 and 1985 as shown earlier in Figure 4-1. Municipalities revenues from transfers have grown sharply after 1975 to the point of becoming their primary source of revenue shown in Table 4-7).

Transfers to municipalities' current budget from the FCCL tripled in real terms between 1975 and 1988 (see Table 4-10), with an average growth rate of 8.8% per year during this period (see Table 4-11). The sharpest growth rate follows the 1975 reform, with an average growth rate of about 20% per year between 1975 and 1979. The volume of transfers continued to grow until 1985, but the elimination of the indexing of the FCCL resources to national taxes created an immediate drop in real terms in the value of transfers to the municipalities.

Table 4-10
Central Government Transfers to Municipalities, 1970-1987
(Millions of 1980 TD)

	1970	1975	1979	1981	1983	1985	1987	1988
Transfers to Current Budget	5.94	8.53	17.41	20.40	22.71	27.18	24.99	25.66
Transfers to Capital Budget	na	na	na	3.17	5.91	9.97	8.31	8.55
of which:								
Capital Subsidies	na	na	na	1.91	2.53	7.06	5.66	5.64
Transfers FCCL	na	na	na	1.26	3.38	2.91	2.65	2.91
Total	na	na	na	23.57	28.62	37.15	33.30	34.21

na = not available

Source:

Calculation based on statistics from the Ministry of Finance, GOT.

Table 4-11
Average Annual Growth Rate of Transfers, 1970-1988.
(Percent)

	70-75	75-79	79-83	83-85	85-88	75-88
Transfers						
To current Budget	7.5	19.5	6.9	9.4	-1.9	8.84
To Capital budget						
Capital subsidies	na	na	na	67.1	-7.2	na
Transfers FCCL	na	na	na	-7.2	-0.0	na

na = not available

Note: Calculated with figures in constant TD.

Source: Calculation based on statistics from municipal accounts, Ministry of Finance, GOT.

The increase in capital subsidies starts much later, and because they were originally very small, they grew at a much higher rate than transfers to the current budget. The average growth rate between 1983 and 1985 was 67% per year. Their period of growth was, however, short. The recent measures that eliminated the FDM have resulted in a drop of capital subsidies after 1985. Despite their limited volumes,

capital subsidies constitute for many municipalities the major source of capital resources.

The impact on the central government budget is apparent in the growing share of these transfers relative to total government transfers and to their own budget volumes (see Table 4-12).

Table 4-12
Comparison Between Central Government Transfers to
Municipalities and Other Transfers, 1981-1987.
(millions of current TD)

	1981	1982	1983	1984	1985	1986	1987
Central Government							
Transfers & Subsidies							
To municipalities	25.7	31.3	38.6	48.4	58.7	57.4	59.7
To other institutions	207.2	200.7	229.6	235.0	285.0	na	na
Total	<u>232.9</u>	<u>232.0</u>	<u>268.2</u>	<u>283.4</u>	<u>343.7</u>	na	na
Central Government							
Transfers & Subsidies							
To municipalities	11%	13%	14%	17%	17%		
To other institutions	89%	87%	86%	83%	83%		
Total	<u>100.%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>		
Transfers to Municipalities							
as % of Central government							
Budget	1.7%	1.7%	1.8%	1.9%	2.1%	2.0%	

na = not available

Sources: World Bank, 1987, Annex, p. 263.

Municipalities statistics: Ministry of Finance.

Central Government Statistics: Annexe Statistique au Rapport sur le Budget Economique 1986. GOT.

Central government transfers to municipalities represented 1.7% of the central government budget in 1981 and over 2% in 1985. Their percentage share relative to all central government transfers and subsidies, including those

to the municipalities, has increased from 11% to 17% during the same period. This increase resulted from indexing of the revenue sources of the FCCL to a fast growing national tax revenues.

Compatibility of Transfers with Decentralization

How compatible is the reform of the transfer system with the decentralization objective? From the point of view of reaching a better division of national resources between the levels of government, the development of the transfer system is a step in the right direction. "[O]ne should expect transfers to make a significant contribution to resolving the fiscal problems of local authorities in developing countries either on ground of principle or practice" (Bahl and Linn, 1983, p. 186.). Transfers should not be treated, however, as a substitute to local taxes. In Tunisia, it resulted in a rapid increase in the revenues of municipalities. Although, this increase was insufficient to change the share of local revenues relative to national revenues, it does provide municipalities with more resources in absolute terms and enhances their capacity for action.

From the point of view of giving greater decision-making authority and autonomy to the local governments, increased transfers actually limit municipalities' autonomy over resource mobilization as municipalities have no control over revenue-raising activities. The choices over which taxes,

bases, and rates to apply and how much money to raise, all escape their authority.

There are, however, several theoretical and practical reasons that make the transfer system a good alternative mechanism to improve the division of national resources between levels of government (Rosen, p. 526). Most of them apply to the case of Tunisia. The most important one is the compensation for horizontal fiscal imbalances or unequal fiscal capacities between regions. Also, the use of transfers are justified by the need to avoid the drawback of a fragmented tax structure--such as higher administrative costs due to the duplication of collection facilities or tax competition between various local units--and the need to avoid the inefficiencies of local government in tax management, a common problem in developing countries, including Tunisia. Finally, transfers are used to correct inter-jurisdictional externalities--the spill-over effect of local decisions on other localities--and as an incentive mechanism for activities that the central government wants the local government to accomplish.

In cases where transfers are viewed as being the most efficient way of improving the division of resources between levels of government, the level of autonomy left to the local governments over the use of the transferred funds--that is, in their choice of expenditures--then becomes the alternative criteria to measure the level of decentralization. The level of autonomy over the use of transferred funds depends on the

form they take: whether they are unconditional in their use or tied to some specific expenditures.

Depending on what they are set to achieve, these transfers can take several forms. In most countries, unconditional transfers are more often used for correction of horizontal fiscal imbalances, while conditional transfers and matching grants are used to correct intergovernmental externalities, or to induce local governments to pursue some activities that are perceived by the national government as in the national interest (Rosen, p. 526).

We have seen that the majority of the transfers (65% of all FCCL transfers), in Tunisia, are unconditional (see Tables 4-10 and 4-11).³⁵ They are allocated to the municipalities' current budget and are combined with other revenues to become undifferentiated municipal revenues in a unitary budget. Local government officials have full autonomy over the use of these funds, although, it is over the limited set of functions that are under municipalities responsibilities. Funds from the FCCL reserve funds and funds from the former FDM (12% of all transfers in 1984) are partially tied transfers. Local officials must use the funds for capital expenditures but can choose the investment projects. Less than one-fourth of all transfers (23% of all transfers) are conditional. They are awarded to finance

³⁵ One-third of the FCCL fund is allocated as a function of municipalities' proceeds of the property tax, an incentive for a more efficient management of the tax. We have chosen to classify it as unconditional transfers because these transfers are totally unconditional in their utilization.

specific capital expenditures or investment projects by their specific institutions. (See table 4-13.)

Table 4-13
Relative Importance and Types of Transfers Received by
Municipalities, 1984.

	Share of total In %	Types of allocation
<u>Unconditional 65%</u>		
FCCL quota (Transferred to current budget)	65%	Unconditional
<u>Partially Tied 12%</u>		
FCCL reserve Fund (Transferred to capital budget)	10%	Capital expenditures
Subsidies from FDM	2%	Capital expenditures
<u>Tied 23%</u>		
Subsidies from MEH	16%	Tied to specific projects
Subsidies from CPSCL	5%	Tied to specific projects
Subsidies from FNAH	2%	Tied to specific projects
Total	100%	

Source: Calculated from municipal accounts for 1984, Ministry of Finance, GOT.

We can conclude that the high level of autonomy left to the municipal councils over the use of transfers does reflect in one sense the decentralization objective set by the reform. Municipalities do have the full or a high level of autonomy over the use of the majority of these funds. Less than a quarter of all the fund transferred are conditional,

and even in this case the degree of conditionality over the allocation of the funds can vary greatly. We have seen that projects are often suggested by the municipalities.

The municipalities autonomy in their use of transfers notwithstanding, the new revenue structure did create more overall dependency of municipalities on the central government transfers for their revenues. Municipalities depend on the central government for their revenues by the simple fact that transfers represent such a large portion of municipalities resources. This is particularly true for some small municipalities which rely heavily on these transfers for their revenues.³⁶ Have these transfers inhibited municipalities' ability to raise their own revenues? Our aggregated data for all municipalities are not conclusive on this issue. The drop in the share of municipalities' own resources when transfers increased rapidly between 1975 and 1985, and their rise when transfers started declining after 1985, lends support to this interpretation (see Table 4-7 and graph 4-1). We think, however, that they are insufficient evidence. Municipalities own revenues have had a positive growth rate during the 1975-1985 period--the structural change was caused only by the increase in transfers. The subsequent increase in the share of municipalities own revenues can be explained in many ways; for example, it may

³⁶ There are important differences between the revenue structure of the municipalities. The figures presented in the tables are averages for all municipalities

be the result of several years of efforts to improve municipalities' tax collection. It can also be a one-time increase in revenues due to the recovery of arrears of the property tax. We cannot conclude from any of these facts either that the growth of central government transfers has inhibited municipalities' capacity to raise their own revenues and that municipalities, in the aggregate, have developed some form of dependency on the central government transfers for their revenues or that it has not affected municipalities' autonomy.

CONCLUSION

From this first part of the analysis of the financial reform, we can already conclude that the reform did have an important impact on municipal finances, but not sufficient to support decentralization. The analysis of municipal financial aggregates indicated a sharp increase in municipal revenues in the first four years following the reform. Although very important, these increases were insufficient in raising municipalities revenues to a significantly higher level compared to that of the central governments and other macroeconomic indicators. Moreover, this growth levelled off immediately thereafter, in the early 1980s, to a rate just capable of keeping up with municipal population growth.

The reform of the transfer system was positive on many accounts and can be considered to be one of the best institutions in the local government system. On the resource

side, the FCCL fund was provided with revenues indexed on national taxes, the proceeds of which have been growing at a faster rate than all other national taxes. This has insured municipalities a stable and progressive revenue source. On the distribution side, the systematic allocation process in place insured further stability in revenues to the municipalities. Finally, most transfers to the municipalities (65%) are unconditional in their use, providing a high level of autonomy to the local officials. All of these facts conform with the decentralization objective of providing local governments with increased resources for increased activity at the local level, while leaving them with a substantial level of autonomy in their choice of expenditures.

Increased transfers, however, have changed the structure of municipalities' revenues by making transfers a primary source of revenues of municipalities. Although we do not have strong evidence to support this fact, it is legitimate to ask whether these changes might have created a dependency of municipalities on central government resources, and whether local officials rely more on transfers now than before and are less interested in raising their own revenues from local taxes. With transfers becoming their primary revenues sources, local governments become less accountable to their constituent, which results, from a theoretical point of view, in a suboptimal allocation of resources.

We will see in the second part of the analysis of the municipal finances in the following chapter that other municipalities' revenue sources received little attention confirming the above argument that the reform has failed to improve the level of autonomy and authority of local governments in their revenue-raising activities by concentrating primarily on improving central governments transfers.

We should also point out that the recent (1986) changes to the system which eliminated the indexing of the funds resources on national taxes resulted in an immediate drop in the amounts transferred to the municipalities. It is unfortunate that the economic difficulties facing the government have had the effect of partially undermining the structure of the transfer system.

ANNEX 4-1
DESCRIPTION OF THE STATISTICS USED IN THE ANALYSIS OF
MUNICIPALITIES' FINANCES

We used two sets of time-series data for our analysis. The first one, which runs from 1965 to 1980, includes aggregated figures of revenues and expenditures and a limited breakdown of revenues. We constructed this time series with statistics from unpublished reports from the Ministry of the Interior. The second one, from 1981 to 1988 includes aggregated figures of both municipalities' revenues and expenditures, with a detailed breakdown by source.

For more detailed analysis, we relied on a data base which consists of all the financial statistics for all municipalities' budgets for the years 1984 and 1985. These municipalities' budget statistics, along with the 1981-1985 aggregated figures, were collected on World Bank missions to Tunisia by Ms. Françoise Navarre and myself. I collected statistics for 1986 and 1987 in a later survey trip to Tunisia. Statistics for 1988 come from the latest report written for the Ministry of the Interior by a consortiums of consulting firms (Sides et al., 1989) working on a World Bank-initiated municipal development project.

These statistics are very reliable. They come from the Ministry of the Interior, where individual municipalities' accounts--which are submitted at the end of their budget year and which include all their financial operations, planned and

realized--were verified and aggregated into summary tables. For our analysis we have used accounts of realized financial operations.

Municipal accounting in Tunisia uses some inappropriate definitions of financial operations that do not lend themselves to a precise financial analysis, the most important of which leads to double counting. Whenever enough information was available, we have modified this breakdown to fit the objective of our analysis. The first time series, whose statistics were compiled on different occasions and for different purposes, have consequently different levels of aggregation and presentation. These have been difficult to correct. We will refer to the budget for uncorrected financial aggregates and to effective revenues and effective expenditures for corrected figures. A more detailed explanation of these differences is provided in the review of the structure of the budget in Annex 4-2.

ANNEX 4-2
STRUCTURE OF MUNICIPALITIES' BUDGETS

Municipalities' budgets are divided into two parts: The current budget records the financial transactions of municipalities' operations; the capital budget, relates to municipalities' investment activities (see Figure 4-2). Each of these budgets is subdivided into revenues and expenditures, and under these two headings, appear a series of subheadings--chapters and articles--generally related to the nature of the financial operation. The headings presented in the diagram below correspond roughly to the division in chapters of the budget. We have grouped some items for the purpose of our analysis. The 1987 aggregated budgets of all municipalities have been used in this diagram to illustrate the relative importance of the various components of the budget.

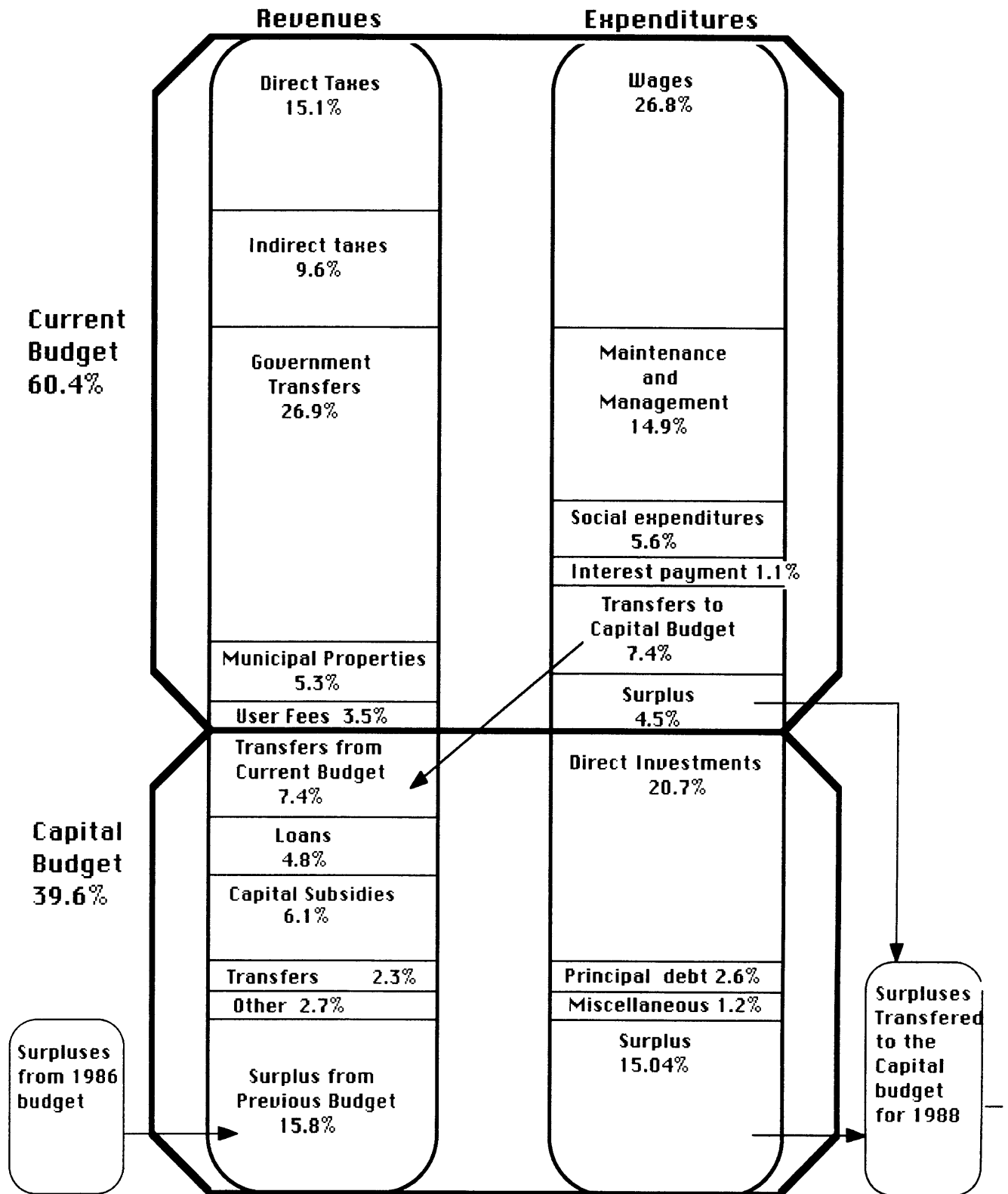
One characteristic of the budget deserves attention. An important share of the budget (about 1/4) consists of intra and interbudgetary transfers. They do not constitute effective revenues or expenditures but are recorded as such in the accounting documents. A sum is withdrawn from the current budgets and is transferred to the capital budget. It appears as current expenditures on the current budget and as capital revenues on the capital budget (See Figure 4-2.) This transaction is called the contribution of the first title to the second title and is perceived as a form of

saving from the current budget to finance capital expenditures, reminiscent of the pre-1975 budgetary practices. It is, in fact, a way of allocating revenues to the capital budget from the current budget, as most municipalities' revenues are current revenues. This transfer is nothing more than an accounting entry that does not correspond to any actual inflow or outflow of funds.

Another set of inter-budgetary transfers occurs when 80% of the surpluses of any budget year is transferred to the following year's budget as capital revenues, under the heading of municipal reserve fund. The remaining 20% is kept separately to cover shortfalls or contingencies arising during the budget year. The reserve fund is not an actual revenue item of any budget year. Like the transfers from the current to the capital budgets cited above, it is an accounting procedure and should not be considered as an effective municipal resource.

In our financial analysis, we have corrected the accounts from these intrabudgetary and interbudgetary transfers, or double counting, whenever enough information was available. We refer to "effective revenues" and "effective expenditures" in the tables of Chapters 4 and 5 when accounts have been corrected from these transfers, and we speak of "budgets" when the figures have not been corrected. Note that for 1987, effective revenues and effective expenditure account for 77% and for 73%, respectively, of the budget.

Figure 4-2: Structure Of Municipal Budget, 1987



The municipal budget, 1987: TD 166.14 Millions

Note that (i) effective revenues account for 77% of the budget
(ii) effective expenditures account for 73% of the budget.

CHAPTER 5
LOCAL GOVERNMENT FINANCES PART II:
MUNICIPALITIES' OWN-REVENUES, BORROWING AND
EXPENDITURES

In this chapter, we assess the impact of the reform on municipalities' own revenues by reviewing their structure, their potential, and the level of autonomy municipalities have on this revenue base. We also review what the reform has achieved in the municipal borrowing system. Finally, we analyze municipalities' expenditures, which inform us, not only about their level of activity at the local level, but also about the type of activity in which they are involved, both key indicators of municipalities' importance and role.

From this analysis, we demonstrate that the reform did not provide any substantial improvements to municipalities' own revenues. Despite a revision of all local taxes and fees in 1976, revenues from these sources remained low. The reform failed to eliminate old and obsolete taxes and create new more buoyant ones. It also failed to provide municipalities with authority over revenue-raising activities. A few good taxes--the rental-value tax, the establishment tax, and market fees--generate most of municipalities' own revenues (MOR). A series of small taxes and fees, some generating insignificant revenues, continue to form the majority of these revenues.

We also show that borrowing remained relatively insignificant, despite the changes introduced in the system.

Finally, the low level of municipal expenditures indicate their limited involvement in the economic life of the country.

MUNICIPALITIES' OWN-REVENUES

Municipalities' own-revenues are revenues that municipalities generate themselves by levying taxes and fees on assets or activities within their territory, and by charging for the use of municipal properties. They include all direct and indirect local taxes, which account for most of these revenues (see Table 5-1), user fees, and income from municipalities' properties. (In Annex 5-1: local taxes and fees are described for all of these revenue sources.)

Table 5-1
Volume and Structure of Municipalities' Own Revenues (MOR),
1988.
(millions of current TD)

	Direct taxes	Indirect taxes	User fees	Income from Property	Total MOR
TD Millions	26.72	18.92	6.94	10.53	63.11
Relative share	42.3%	30.0%	11.00%	16.7%	100.0%

Source: Calculation based on statistics from the Ministry of Finance, GOT.

We have seen that municipalities' own revenues (MORs) accounted for 45% of municipalities total revenues in 1988 (see Table 4-6). We have also seen earlier that their share of current revenues has declined in the ten years following the reform, due to a smaller growth rate than that for

revenues from transfers (Figure 4-1 and Table 4-7). This is not to say that MOR have not been affected by the 1975 reform. Like transfers, the period following the reform marks clearly the beginning of a new pattern. From a low 2.7% annual growth rate between 1970 and 1975, municipalities' own revenues increased at an average annual growth rate of 11% between 1975 and 1979. Although this pattern was not maintained for long, MORs have had an average annual growth rate of 5% per year between 1975 and 1988.

Reform of Municipalities' Own Revenues

To improve MORs, reformers created two new taxes in 1975 and reformed a series of indirect-taxes and user-fees in 1976. Two new taxes, a hotel tax and a tax on commercial and industrial establishment--hereafter referred to as "tax on establishments"--, were created in 1975 to provide the municipalities with sources of revenues based on economic activities within their territory.³⁷ For both taxes, the base used is the business turnover, and the rates are 0.2% and 1% respectively for the tax on establishments and the hotel tax, with a ceiling of TD 20,000 for the tax on establishment.

These new taxes are entirely under the authority of the central government, from the definition of the base and rates to the assessment and collection activities. Municipalities have no role other than to receive the proceeds. The central

³⁷ These taxes replaced a property tax applied to the same businesses, which did not reflect the economic activities of these economic agents.

government re-allocates to each municipality the exact amount that was levied by these taxes on their territory.

A series of indirect taxes and fees, most of which were created at the beginning of this century, were reformed by a decree in 1976. The changes consisted primarily of a revision of the rates that had not been revised since 1958. It included also the simplification of procedures; such as assessing tax bases and the elimination of some of the fees and taxes now considered to be irrelevant. This decree is important in the context of the reform that started in 1975 because it was intended to provide municipalities with the new revised revenue base necessary to accomplish their responsibilities--responsibilities that were presumably clarified and enlarged by the reform. This decree lists a series of taxes, fees, and charges, their bases and rates, as well as the maximum ceilings that municipalities are allowed to levy in each case. This list constitutes the base of revenue sources that municipalities have to generate the necessary revenues for their activities.

The 1976 decree was the last major effort by the central government to improve MOR. Municipalities have not received any new revenue sources since then, and most rates, bases, and maximums have not been updated since then.

Outcome of the Reform

The creation of the two new taxes and the revision of some older ones have had an important impact on MORs. These

changes have brought a sharp increase in revenues in the period that followed the reforms. (Tables 5-2 and 5-3 and Figure 5-1). It was, however, a one-time increase followed by a period of stagnation and even decline in MORs.

Table 5-2
Municipalities' Own-Revenues, 1970-1988.
(Millions of 1980 TD)

1970	1975	1979	1983	1985	1988
15.86	18.16	27.49	28.43	27.03	33.12

Note: Municipalities' own-revenues include direct and indirect taxes, user fees, and income from municipal properties.
Source: Calculation based on statistics from the Ministry of Finance, GOT.

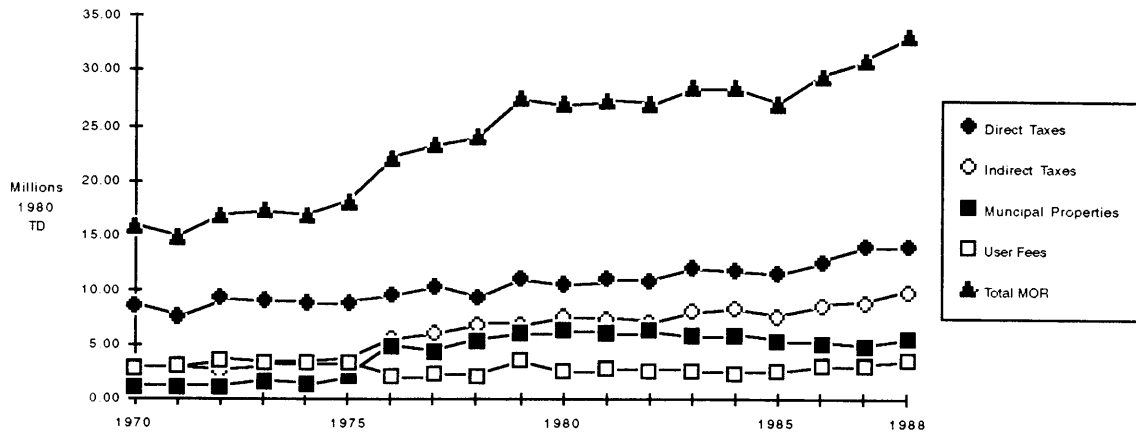
Table 5-3
Average Annual Growth Rate of Municipalities' Own Revenues,
1970-1988.
(percent)

	70-75	75-79	79-83	83-85	85-88	75-88
Direct Taxes	0.5	5.6	2.2	-2.6	7.0	3.9
Indirect Taxes	3.6	16.1	4.6	-2.5	9.0	8.5
User fees	3.1	1.5	-8.5	1.4	11.7	5.5
Income from Properties	13.2	29.5	-1.3	-4.2	1.5	8.2
Total MOR	2.6	10.9	0.9	-2.5	7.0	5.1

Notes : Average annual growth rates are calculated from figures in constant TD.
Source: Calculation based on statistics from the Ministry of Finance , GOT.

FIGURE 5-1

Municipalities' Own Revenues (MOR)
1970-1988
 (in Millions of 1980 TD)



The introduction of the tax on establishments and the hotel tax, which together constitute over half of direct tax revenues (see Table 5-4), have increased the annual growth rate of direct tax revenues from less than 1% per year between 1970 and 1975 to 5.6% during the period following the fiscal innovations (see Table 5-3.)

Table 5-4
Composition of Direct-Taxes: Volumes and Relative Share, 1985
 (Millions of current TD)

	Tax on rental value	Tax on undeve- loped land	Tax on establish- ments	Other (hotel tax) ¹	Total
TD Millions	8.3	0.2	7.9	1.8	18.2
Relative share	45.7%	1.4%	43.2%	9.7%	100%

Note: Hotel tax is the major item under the heading "other".
 Source: Calculation based on statistics from the Ministry of Finance, GOT.

Similarly, the effect of the 1976 decree is felt in all other MOR categories (see Table 5-3), as the decree touched on a large number of fees and taxes. Indirect taxes and income from the use of municipal properties have grown respectively by 16% and 29% per year from 1975 to 1979. Changes in rates of market levies and other related fees and the simplification of procedures have been the primary reasons for the increase in indirect taxes as they represent the single most important source of revenues under this budgetary heading (see Table 5-5).

Note that market taxes and fees are the only source of revenue on which municipalities have some leverage. Although maximum rates and bases are fixed by decree, municipalities have some discretionary power over their assessment and collection. They can choose to be more or less active in this process. They can also promote market activities--for example, through the construction of market facilities--to generate more revenues. For their most recent Five-Year Investment Plan, municipalities had planned to invest 11% of their total investment in the construction of market facilities.³⁸ The relatively significant size and fast growth of income from markets and related activities are partially due to the particular interest that municipalities give to these activities.

³⁸ Construction of market facilities are favorite municipal investments. In the Five-Year Investment Plans (1987-1991), market facilities accounted for 11% of total investments for all municipalities (World Bank, 1988, p. 134).

Table 5-5
Composition of Indirect Taxes 1985. (Millions of current TD)

	Enter- tainment Taxes	Electri- city Surcharges	Road Taxes	Income from Markets and Taxes on Slaughter Houses	Total
Values	0.18	0.82	1.03	10.15	12.18
Percent	1.5%	6.7%	8.5%	83.3%	100%

Note: Detailed breakdown for the various sources of revenues and expenditures are available only for 1985 figures.
Source : Calculations based on statistics from the Ministry of Finance, GOT

The elimination of some fees by the 1976 decree have slowed the growth of revenues from user-fees to less than 2% per year after the 1975 reform (see Table 5-3); however, the slow down did not have much impact on the overall MORs as user fees account for only 11% of their total. The reform did pushed the MORs to a higher level of revenues, but this was a one-time growth as it did not provide them with increasing sources of revenues. Several reasons explain this phenomena. First, obsolete tax bases that fail in many cases to capture the growth of economic activities are common among municipal taxes. This is particularly true for old taxes whose base has not been modified by the reform. Another source of limitation comes from ceilings--or the maximum levies that municipalities are allowed to raise--that are never updated for inflation. For example, a maximum of TD 2,000 (equivalent to \$2,500) is charged to individual businesses for the tax on establishments. The ceiling was

set in 1975 and is still applied today. Finally, exemptions exclude a large number of potential contributors to local revenues. Businesses with a turnover of less than TD 10,000 are exempted from the tax on establishments; many small businesses therefore avoid contributing to the tax by reporting a lower turnover than they actually have (Sides et al., 1989, Vol. 2, pp. 111, 112).

Since 1985, all MOR categories have had a sharp increase in their growth rates (see Table 5-3) which is perhaps due to the better tax management and better economic condition of the country. It could also be due to the collection of arrears whose amounts are important, in particular for the rental value tax. It is not yet clear whether this represents to another one-time growth in MOR or a trend.

Insufficient Reform

The majority of municipalities' taxes and fees have not been affected by the reform. A large number of older sources of revenues have never been reviewed or improved, and continue to operate with outdated structures. Most municipal revenue sources yield almost no revenues.

The reform has accentuated the already unbalanced municipal revenue structure. In 1985, three sources of revenues accounted for as much as 61% of MOR. They included the newly created tax on establishments (18.5% of MOR) and the rental-value tax (19.8% of MOR)--a property tax, which can be considered as the only locally collected tax

with some significance. Both taxes account for most (89%) direct taxes revenues. They also include the taxes on markets and slaughter houses³⁹ (23.1% of MOR), which were the primary beneficiary of the 1976 decree and which account for most (83%) of indirect tax revenues. (See Tables 5-4 and 5-5.)

The reform failed to evaluate the relevance of some of these sources of revenue, continuing to include totally outdated taxes. The reform also failed to update old and more relevant taxes. It overlooked the potentials of more new indirect taxes based on contemporary economic activities.⁴⁰

Municipalities' authority over indirect taxes is relatively limited. All taxable items, bases, and rates are defined by centralized regulatory instructions, with maximum rates fixed by law. A slightly higher degree of flexibility appears because of the larger number of items and rates to choose from and because municipalities differ in their choices over items to tax and rates to apply. Assessment and collection are left to the local authorities, as in the case of some direct taxes. Low user-fee revenues are a clear indication that cost recovery for services rendered by municipalities is not considered as an objective of the

³⁹ A series of small levies on market activities that are closer to fees but are classified under indirect taxes.

⁴⁰ The most important taxes are based on agricultural products and food market activities, which were the preponderant economic activities of the past, at the time of the creation of these taxes.

reform and is not perceived to be an important component of municipalities' financial well-being.

LENDING SYSTEM

Municipalities are allowed to borrow for investment spending only. By law, they cannot finance their current expenditures or balance their budget through borrowing.⁴¹ For that, theoretically, they have access to several sources of credit. They can borrow on the foreign capital market, from the various Tunisian banks, and from a specialized lending institution to local governments, the Caisse des Prêts et de Soutien de Collectivités Locales (CPSCL). Most loans contracted by the municipalities on their own initiative come from the CPSCL. Borrowing on the foreign capital market is relatively exceptional and is initiated and guaranteed by the central government, often for urban rehabilitation or development projects conducted by the Agence de Renovation et de Rehabilitation Urbaine (ARRU), an agency for urban renovation and rehabilitation. Borrowing from commercial banks has been relatively rare.

The Reform: Objective and Outcome

The changes to the lending system under the 1975 reform aimed to increase municipalities' capital resources in order to promote investment activities by municipalities. The

⁴¹ Municipalities are, in fact, required by law to have a balanced budget. Unintentional budget deficits can exceptionally--when municipalities can attest to good financial management--be covered by loans or subsidies from the CPSCL.

existing lending institution to the local government, the former Caisse des Prêts, a loan fund, was reorganized into the Caisse des Prêts et de Soutien des Collectivités Locales (CPSCl) with enlarged capacities and new procedures for lending. Although the revenue sources of the former Caisse des Prêts remained unchanged, the new CPSCl was to be provided with expended revenues to increase its activities. The majority of these resources come from subsidies from the FCCL fund. Although the share of FCCL transferred to the CPSCl was reduced by the reform--from 10% to 6%--the CPSCl benefited from the rapid growth rate of the FCCL fund. The volumes of subsidies transferred from the FCCL to the CPSCl almost doubled in real terms in the decade between 1973 and 1983. (See Table 5-6.)

Table 5-6
Share of the FCCL Funds Transferred to the CPSCl for
1973 and 1983.
(current and constant TD)

	1973	1983
Millions of Current TD	0.89	5.10
Millions of 1980 TD	1.41	2.68

A large share of the CPSCl revenues also comes directly from central government subsidies (see Table 5-7). Surprisingly, however, after such a reform, the CPSCl is able to recover only a modest sum from loan repayments. This fact reflects several characteristics and weakness of the present

lending system, which are a legacy of the 1975 reform. First, the CPSCCL charges low interest rates--negative in real terms--for its loans.⁴² Second, the CPSCCL also provides direct subsidies to municipalities. Part of its resources are therefore never recovered. The capacity of providing subsidies was awarded to them by the reform as part of the objective of promoting investment activities of municipalities. Finally, municipalities have a tendency to default partially or totally on their loans. This probably accounts for most of the low volume of loan repayments.⁴³

Despite the efforts to improve the CPSCCL revenues, they remained relatively limited. The increase in the volume of subsidies from the FCCL and the central government were insufficient to provide the CPSCCL with an appreciably higher level of revenues. For the year 1984 the CPSCCL resources amounted to only TD 12.6 millions in current prices. (See Table 5-7.)

⁴² Long-term loans (20 years) are at a 2% interest rate, and medium- and short-term loans (10 and 5 years) are at a 4% interest rate. In all cases, the CPSCCL provides negative interest rates.

⁴³ Although we do not have precise information on the amount of loans in default, evidence indicates some irregularities in municipalities debt-repayment practices. For example, in the year 1984, some municipalities with amounts still outstanding in their loans did not include any debt-service payment in their expenditures. Others have never made any payment on some of their loans. Finally, other discrepancies appear in the municipalities budget between the debt service owed, the amounts budgeted, and the effective expenditures for debt service. According to government officials, these cases are more frequent in municipalities with medium-sized and small budgets which are supervised at the governorate level (World Bank, 1987, p. 93).

Table 5-7
CPSCL Revenues, by Source, 1984.
(millions of current TD)

CPSCL Revenues	
Transferred from 1983	1.41
Central Government subsidies	4.00
FCCL quota	5.10
Loan Repayments	2.07
Total	12.58

Source: BDET.

As part of the institutional reform of the lending system, the procedures were improved and simplified. The complex chain of intermediaries involved in the loan approval processes--set as a control mechanism and which involved several ministries and institutions--was shortened but not completely eliminated. Municipalities continue not to have direct access to the CPSCL. Loans still need to be approved by the Ministry of the Interior offices, which evaluate projects and municipalities' capacity to contract loans. Criteria for evaluating projects were improved, although no economic or financial analyses of projects were introduced. The evaluation is based on an established list of priority sectors for projects and on insuring compatibility and coordination in municipalities' investments as well as with the regional and national plans. These evaluations are a useful way of screening projects, but are insufficient for an efficient credit system. Municipalities' capacity to borrow for these projects is evaluated by a simple rule: The annual

debt repayment of the municipality should not exceed 15% of its current revenues. In reality this maximum is rarely reached.

Finally, as part of their enlarged capacities, the CPSCCL was provided with the authority to provide capital subsidies to the municipalities on an exceptional basis, in addition to the subsidies in interest rates that they provide to all their borrowers.⁴⁴ This measure appears especially useful in view of the very limited resources of most municipalities and of the objective to promote investment activities at the local level. According to some analysts, it is a responsibility that affects the position and the perception of the CPSCCL as a lending institution and that is detrimental to its operation (Sides et al., 1989).

Through the 1975 reform, municipalities benefited from a moratorium on all their debts. This came as a response to the apparent inability of municipalities to repay their debt. Arrears had built up through the years and in 1975, it was estimated that the total municipal debt amounted to TD 6 Million in current prices at the time of the moratorium.⁴⁵ Despite this action, municipalities' tendency to default on their loans survived the reform and is still present today,

⁴⁴ These subsidies take several forms. They are: (i) subsidies for investment projects considered as a priority in the national plan, (ii) Interest rate subsidies for loans contracted at regular market rates by municipalities in other financial institutions, and (iii) some rare cases of direct subsidies to municipalities that have a budget deficit in spite of proof of good financial management.

⁴⁵ This figure was estimated (Nellis, 1984). This amount represents close to 80% of the municipal debt contracted between 1965 and 1973.

although to a lesser extent. It would be incorrect, however to assume that limited municipal resources is the main source of this repayment problem. Municipalities have developed a tendency for laxity in debt repayment, which has its root in municipal perceptions of government loans as some form of grant, a view that is reinforced and encouraged by the poor debt management of the CPSCCL and lack of interest of the Banque de Development Economique de Tunisie (BDET), an economic development bank that administers the CPSCCL.⁴⁶ The BDET shows very limited interest in the CPSCCL and in managing the loans granted to local government. The CPSCCL is highly understaffed and is incapable of any actions to collect the amounts due. No enforcement practices are in place. Sides et al. (1989, p. 39) describes the CPSCCL as an "abandoned" institution, whose "board of directors did not hold any meetings in the last three years", which has "no effective accounting system in place", and which is totally negligent in its loan recovery practices.

Evolution of Municipalities' Loan Revenues

No dramatic changes in municipal capital revenues have been generated by the reform of the lending system according to statistics on loans from municipalities budgets, which show the amounts of loans disbursed to the municipalities. Note that statistics from other sources differ considerably.

⁴⁶ The BDET invests the sums deposited in the CPSCCL in interest-bearing instruments and has the responsibility of evaluating the cost effectiveness of project for which loans are requested.

One possible explanation for this discrepancy would be the time lag between the approval and the disbursement of the loans. The following numbers from the Ministry of the interior provide an example.

Table 5-8:
Municipal Borrowing 1979-1985.
(Millions of current TD)

	1979	1980	1981	1982	1983	1984	1985
Loan Disbursed	1.52	3.52	7.35	9.04	7.25	8.20	11.87
Loans Approved	2.86	4.01	10.70	3.24	na	6.04	na

na = not available

Sources: World Bank, 1987, p. 89.

Municipal budgets indicate that borrowing activities did grow at a rate comparable to other revenue sources--a sharp increase after the reform of 10% and an average growth rate of 5% between 1975 and 1988 (see Table 5-10)--, but the original volume of loans before the reform was so low that this growth rate was insufficient to bring the lending activity to a significant level (see Table 5-10). Aggregated figures of disbursed loans amounted to only TD 12 Millions current in 1988.

These aggregated figures hide important differences in borrowing practices across municipalities. For example, a study based on a sample of municipalities showed that the amount of municipalities' revenues from loans varied from zero to 93% of capital expenditures in 1985 (World Bank 1987, p. 92). The municipalities with the larger budgets borrow

the most in volumes--two municipalities were responsible for 36% of total borrowing in 1984. The medium sized municipalities have larger debt per capita. Small municipalities tend not to borrow (one-third of the total, largely municipalities with fewer than 10 thousand inhabitants, received no loans in 1984).

Sizeable variation occurs within this group, however (World Bank, 1987, pp. 90-91).

Table 5-9
Revenues from Borrowing 1970-1987 Selected Years.
(Millions of 1980 TD)

1970	1975	1979	1983	1985	1988
0.93	3.22	4.78	5.18	7.47	6.29

Source:

Calculation based on statistics from the Ministry of Finance, GOT.

Table 5-10
Average Annual Growth Rate of Municipal Borrowing, Selected
Periods Between 1970-1987. (percent)

70-75	75-79	79-83	83-85	85-88	75-88
20.23%	10.39%	2.01%	20.09%	-0.06%	5.74%

Notes : Average annual growth rate are calculated from figures in constant TD.

Source: Calculation based on statistics from the Ministry of Finance , GOT.

The reasons for such discrepancies can be partially explained by the criteria used to evaluate municipal capacity to borrow--the 15% of current budget rule. It is not surprising to see therefore that the volumes of loans are proportional to the current revenues and therefore to the budgets of municipalities. For some small municipalities,

the lack of resources coupled with their inability to request loans explains the limited borrowing activities.

EXPENDITURES

The analysis of expenditures is the last part of the evaluation of the decentralization efforts through municipal finances. While the analysis of revenues illustrated municipal potentials for action, an analysis of expenditures will give a sense of the level of involvement of the municipalities in the economic life of the country and of the importance of their role as providers of public services. By reviewing the aggregated municipal expenditures and by comparing them to those of the central government and to other macroeconomic aggregates, we can quantify their level of activity in absolute and relative terms.

In an earlier comparison of municipal expenditures with those of the central government (see Table 4-3) for 1981 and 1987, we showed that the level of municipal spending is low and has not increased relative to that of the central government. Expenditures by municipalities not only represent a small share of total public expenditures by the central and local government, but this share has been stable at 4% between 1981 and 1987, and the elasticity of municipal expenditures with respect to the central government expenditures is less than one (0.6), during the same period. (See Table 4-4.) These are indications that the role of the local government within total government operations is

limited and is not increasing despite the decentralization reform. A further indication of that trend is the small share of municipal expenditures relative to the Gross Domestic Product (GDP), representing at most 1.6% between 1981 and 1987 (see Table 4-5), and the elasticity, which remains under one for the same period (0.7).

Evolution of Municipalities' Expenditures

The following table provides statistics of aggregate expenditures for selected years. In 1988, 13 years after the reform, municipal expenditures at their peak amounted to TD 137.1 Millions (equivalent to about US\$171.4 Millions). (See Table 5-11.)

Table 5-11
Current and Capital Expenditure, 1976-1988.
(Millions of Current TD)

	1976	1979	1981	1983	1985	1988
Current Expenditures	16.5	37.1	41.6	60.7	71.0	87.3
Capital Expenditures	9.7	19.5	25.5	26.0	43.5	49.8
Real Total Expenditure	26.2	56.6	67.1	86.7	114.5	137.1

Sources:

. For 1976: GOT, Ministry of Interior (1979), Communes en Chiffres, 5^{ème} Conférence Nationale des Communes, Tunis.
 . For 1979: GOT, Ministry of Finances, Office of the budget, (1980), Situations Financières des Collectivités Locales au 31/12/1980. Tunis.
 . For 1981 to 1988: Ministry of Finance, Tunisia. (1981-1987 data are from the World Bank, 1987, and for 1988 they are from Sides et al., 1989).

The low level of aggregate municipal spending is more apparent in per capita figures. The average municipal spending is equivalent to \$38 per capita for the year of

1988, which represents an increase of about 50% in real terms from the average municipal spending per capita in 1976. (See Table 5-12).

Table 5-12
Average Municipal Expenditures per Capita, 1976 and 1988.
(current and constant TD)

Expenditures	1976	1988
Total expenditures per capita		
IN TD		
Current TD	9.64	30.68
Constant 1980 TD	10.84	16.10
IN US\$		
Current \$	12.06	38.35
Constant 1980 \$	13.56	20.13

Sources: Calculation based on statistics from:

. For 1988: (Sides, 1989)

. For 1976: GOT, Ministry of Interior (1979), Communes en Chiffres, 5^{ème} Conference National des Communes, Tunis, Tunisia.

. TD 1 = US\$ 1.25

It is not surprising to find many similarities in the growth rate patterns of revenues and expenditures: The average real growth rate of expenditures is 6.5% per year between 1976 to 1988, which is comparable to that of revenues. Also similar is the sharp growth rate in the years following the 1975 reform and the considerable slowdown after 1979, which, in the case of expenditures, reached complete stagnation between 1985 and 1988. (See Table 5-13.)

The negative growth rate of capital expenditures during the 1985-1988 period reflects the fact that investment expenditures were contracted in a period of financial difficulties in order to maintain a stable level of current

expenditures and a comparable level of service. Increase in capital expenditures during the 1979 period is due to an increase in capital subsidies during this period.

Table 5-13
Average Annual Growth Rates of Municipal Expenditures,
1976-1988.
(percentages)

Expenditures	76-79	79-85	85-88	76-88
Current Expenditures	35.9	2.2	0.9	6.6
Capital Expenditures	28.9	4.7	-1.4	6.4
Total Expenditures	33.4	3.1	0.4	6.5

Note: Growth rates calculated from figures in constant 1980 TD.

Sources: Calculation based on statistics from:

. For 1976: GOT, Ministry of Interior (1979), Communes en Chiffres, 5^{ème} Conference National des Communes, Tunis, Tunisia.

. For 1979: GOT, Ministry of Finances, Office of the budget, (1980), Situations Financières des Collectivités Locales au 31/12/1980. Tunis, Tunisia.

. For 1981 to 1988: Ministry of Finance, Tunisia. (Data for 1981-1987 are from the World Bank 1987, and for 1988 they are from Sides et al., 1989).

Composition of Municipalities' Expenditures

Current expenditures are a direct expression of the level of services rendered by municipalities.⁴⁷ Despite the fact that current expenditures account for the bulk, more than two-thirds, of total expenditures, the total amount remains low. They amounted to TD 87.3 millions current 1988, (US\$ 109 Millions) equivalent to an average of US\$19.5 per capita, which illustrates the average level of services per capita provided by municipalities. The main components of

⁴⁷ Current expenditures corrected for interest payments and the various transfers represent the expenses incurred to municipalities for the provision of services.

current expenditures are wages to personnel and maintenance and management expenses (respectively about 37% and 17% of total expenditures).⁴⁸ Investment expenditures represent about 30% of total municipal spending on average. The remaining share consists of debt service, and miscellaneous expenditures. (See Table 5-14.)

The structure of expenditures reflects municipalities' limited budgets: over a third of their revenues are spent on wages to personnel. The small investment figures are also an indication of the limited amounts municipalities are able to save for their capital expenditures. Their restricted saving and investment capacity would be even more apparent if municipalities did not benefit from increased capital subsidies from the central government. The rather restricted role in investment makes municipalities appear to be more involved in maintenance and management duties and in providing services--despite the small amount of current expenditures and the limited extent of the level of service. The low investment figures indicate also that municipalities do not extend those services that require investment and that they are largely involved in administrative services that do not require substantial investment.

⁴⁸ Sectors and services in which municipalities engage most of their activities cannot be identified by analyzing their current spending. A sectoral distribution of current expenditure is not available in municipalities' accounting.

Table 5-14
Structure of Municipal Expenditures, 1981 and 1987.
(percent)

Expenditures	1981	1987
Current Expenditures	62%	66%
Capital Expenditures	38%	34%
Real Total Expenditures	100%	100%
(1) Wages to personnel	37%	37%
(2) Maintenance & Management	16%	20%
(3) Direct Investment	35%	28%
(4) Debt Service	2%	5%
(5) Other	10%	10%
Real Total Expenditures	100%	100%
Real Total Expenditure Millions of current TD	67.2	121.5

Sources: Calculation based on data from the Ministry of Finance, Tunisia.

Despite their small volume, municipalities' investments are made in a relatively large number of sectors. Table 5-15 provides an overview of the distribution by sector of direct capital expenditures. Some key issues appear from this analysis: Investments in municipal buildings, which include investments in markets and slaughter houses, represent 30% of capital expenditures. Municipalities' involvement in the area of market and slaughter house is motivated by the fact that such investments are directly productive. They generate income for municipalities through indirect taxation and increase their financial autonomy, while at the same time promoting some form of local development. Investments in roads and sidewalks are the second item in this list--23% of

total investments. Combined with street lighting, which accounts for 9% of the total, investment in this sector represent 32% of total investments. This confirms the fact that street and sidewalk construction and street lighting are among the most important activities funded by municipalities.

Table 5-15
Sectoral Distribution of Average Direct Investment
Expenditures between 1981 and 1987.
(percent)

Expenditures	Share of investment expenditures by type
Municipal Buildings	30%
Road and Sidewalks	23%
Street Lighting	9%
Housing	9%
Purchase Vehicles & Equipment	9%
Environmental Sanitation	4%
Sewerage	3%
Purchase of Land	3%
Expropriation	2%
Miscellaneous	8%
Total	100%
Average Direct Investment	
Millions of current TD	29

Note: Averages are calculated on the basis of yearly percentages, for 1980, 1982, 1984, 1985, 1986, and 1987.

Sources: Calculation based on data from the Ministry of Finance, Tunisia.

Evaluating municipalities' activities through investment expenditures is certainly biased against the services, which do not require heavy investment. This is the case, for example, of solid waste disposal, which can be considered to be one of the most important services provided by municipalities.

CONCLUSION

Municipalities are still endowed with very few good taxes and a large number of insignificant ones. With the exception of the rental-value tax, the establishment tax, and the market fees, most taxes generate low levels of revenues. Even those that constitute municipalities main own revenue sources still require some improvements. The reform has touched only a limited number of them, and often the transformations were not sufficient for these taxes to generate significant revenues.

It becomes evident after the review of the transfer system and of MOR that the 1975 reform of municipalities revenues focused primarily on external sources of revenues to the municipalities, that is, revenue sources under the authority of the central government. Transfers account for most of the increase in municipalities revenues, and the newly created taxes on establishments and hotels are totally managed by the central government. Only the 1976 decree aims at improving those revenues which are under municipalities authority, but the changes introduced by this decree were insufficient to provide municipalities with significant revenue sources.

There has been no serious analysis of the usefulness of most municipal taxes, nor was the potential of alternative taxes investigated. This limited focus on external sources indicates a lack of understanding of the various aspects of

the municipal revenue structure and unwillingness to get deeper into the reform. The reform has provided municipalities with additional resources but has failed to develop municipalities' mechanisms for generating their own revenues. Moreover, municipalities continue to have very limited autonomy over local taxes. They have a very limited role in fixing the bases and rates of all taxes and the user fees.

Despite the improvement brought by the reform, many deficiencies remain in the municipal lending system. The CPSCCL limited resources and poor management practices preclude adequate lending activities. It is not surprising to find, in view of this fact, that loan revenues remain modest. The CPSCCL still does not play the role of a financial institution that promote efficient use of resources.

More than revenues, expenditures express the limited level of activities of the municipalities. By the size of the current and capital budgets, we can conclude that municipalities' primary role continues to be geared towards the delivery of services. This is in spite of the various efforts made by the central government to stimulate local investments. Road construction and street lighting are the primary areas of investments of local government.

GENERAL CONCLUSION OF THE FINANCIAL REFORM

The analysis of the financial reform has clearly demonstrated that despite substantial improvements in some revenue sources and in the financial management of municipalities, the reform contains many limitations and failed to provide local governments with the necessary financial structure to support the decentralization objective.

The reform has been successful at providing municipalities with a relatively well-functioning transfer system with increasing revenues. It has created two new taxes which also bring substantial revenues to local governments and has improved municipal financial management by reforming the budgeting and accounting system.

The reform failed to provide local officials with significant authority over revenue-raising activities. It provided little improvement to revenues sources managed by municipalities themselves, such as local taxes, tariffs, and fees, and has potentially increased municipalities dependency over the central government, by concentrating on improving centrally managed revenue sources that are transferred to them. Finally, the central government keeps a strong control over all financial decisions.

From these findings and the findings of the previous chapter on the analysis of reformed legislation, we can conclude that not much decentralization has occurred in Tunisia. The reformed legislation did not provide

municipalities with the legal base necessary to become the decentralized unit of governments. Their role and responsibilities are ambiguously defined, and no new function has effectively been transferred to them by the reform. Their financial structure, although substantially improved, is far from that of a decentralized government unit.

The failure of the reform can be attributed to the hesitation and lack of clear political commitment to decentralization. It is a reform that has improved local governments operations, but is far from meeting the goals it set to achieve.

ANNEX 5-1
LOCAL TAXES AND FEES

Property taxes have not been affected by the reform, despite their importance and the need for their improvement. There are two property taxes: The rental-value tax and the unbuilt-land tax.

RENTAL-VALUE TAX

The rental-value tax (RVT) is one of the most important sources of revenue in the hands of municipalities, representing 45.7% of total direct taxes. Municipalities generate close to 20% of their own revenues from this tax alone.

Its importance comes also from the fact that it is the closest to being purely a local tax. Local officials are responsible for the assessment procedures, which gives them some level of leverage and autonomy over the tax. It is also a long-standing tax, well-known to the tax payers, and the focus of a lot of public attention at the local level. Assessments by the municipalities are often contested. This creates one of the most important forums for contact between local officials and local tax payers.

The RVT is a property tax applied to buildings. It is based on the rental value of the property and is imposed on the owner of the building. Attached to the rental value are a series of less important taxes designated as taxes for services rendered (which include a sanitation tax). They

have the same base, and their proceeds are aggregated with those of the RVT. The maximum rates--of the RVT and all the assimilated taxes--are set by a national law and vary according to the type and age of the building.

Municipalities are free to set any rate lower than the maximum allowed. This is where part of their limited authority over the tax lies. In practice, they always use the maximum rates. The rates applied vary, however, between 14% and 44% of the rental value depending on the age of the property and the type of building (Sides et al., 1988, p. 88).

Assessments of rental values are the responsibility of the local governments. They are conducted every three years by a commission composed of municipal agents from the office of the tax collector. The collection is the responsibility of the local tax collector, an official of the Ministry of Finance. Despite the attention and time local officials allocate administering this tax, the RVT is, in fact, underutilized and generates only a portion of the revenues it could generate.

Sides et al. (1989) estimate that the average revenue per capita of the RVT was TD 3 in 1989, is less than the average cost of garbage-collection service per capita, which is only one of the services that is supposed to be financed by beneficiaries through the RVT. The yield of RVT revenues appears high only because the other municipalities' revenue sources are so insignificant.

There are several reasons explaining the low yield of the tax. Most of them were identified many years ago and are mentioned in several analyses and reform proposals of the RVT made in the last decade by or for the Ministry of the Interior,⁴⁹ but not much effort has ever been directed at resolving these problems. The District of Tunis' 1980s reform proposal for the RVT mentions that the performance of the tax was deteriorating instead of improving in the late 1970s: the assessed tax base had dropped by 11.6% between 1976 and 1978 due to assessment problems, the collection rate fell to 65% in 1978 from 87% in 1976--if arrears are taken into account, the collection rate had fallen to 40% by 1978. It is estimated that the municipalities are owed several million TD under this heading (GOT, 1980).

The primary reason for the low RVT yield is the arbitrary differentiation made between the rates applied to owner-occupied properties and the others (World Bank, 1987). For some ideological reasons, not even supported by the legislation, owner-occupied units are taxed at lower rates than other properties. This practice is deeply rooted in Tunisia. It is estimated that owner-occupied properties account for 80% of all properties in Tunisia (Sides et al., 1989, p. 93), and large amounts of potential revenues are lost because of this. Significant improvements to the RVT

⁴⁹ Among others are : (i) District of Tunis (1980) La tax sur la valeur locative. Proposition de reforme Ministry of the Interior, Tunis, Tunisia. (ii) World Bank, 1987. (iii) Sides et al., 1989.

revenues could be made by just eliminating this arbitrary differentiation. This is not, however, the only explanation for the low yield of the RVT.

Most property owners contest the assessment of the base and rates of properties made by the assessment commission, and most valuation appeals are successful. There is a real tradition of contesting, which generally results in a revision downward of the assessment. Local officials allocate a lot of time and effort to receiving individually all the claims and deciding upon them.

Tax evasion is another reason for the low yield of the RVT. The perceived inequities resulting from these assessments and reassessment activities create many unsatisfied property owners who refuse to pay. Arrears have been building up over the years, and local officials have difficulties enforcing payments.

Enforcement measures exist but have remained unused (GOT, 1980). Tax evasion reflects also the well-known understaffing of the tax-collection offices under the responsibility of the Ministry of Finance.

Inadequate assessment practices is another problem of the RVT management. In addition to the well-known difficulties of assessing rental values of properties, the assessors are faced with difficulties of old methods, insufficient and low-skilled personnel, and a complex system with too many cases and rates.

The financial reform has completely ignored the RVT despite its importance and despite the obvious need for improvement, leaving one of the most important revenue sources of municipalities under-utilized. We are uncertain as to why such reforms were never implemented.

UNBUILT LAND TAX

The rental-value tax is applied to developed properties. Undeveloped land, in Tunisia, is theoretically taxed by the Unbuilt-Land Tax (ULT), which is a local tax. It is managed at the local level by the municipalities and the local tax offices for assessment and collection with base (land market value) and rates (0.6% of that value maximum) being fixed by the central government.

Despite its importance as a potential source of revenue, the ULT generates almost no revenues for the municipalities. Its proceeds were only 0.25 millions TD (current) in 1985, which represents 1.4% of all the direct tax revenues for the same year (see Table 5-4). Low yields are caused by the fact that very few land transactions are recorded, due to high transaction fees that land owners want to avoid, and that many titles are frozen, thus making it impossible to impose the tax and prosecute tax evaders. Improving the ULT would necessitate a reform of the relevant legislation and updating of the cadastre, solutions that are outside the municipal system.

Without underestimating the difficulties of improving a property-tax structure, we think that there were different actions possible that could have improved the management of the existing property taxes and consequently increased their yield. Such actions could have involved the improvement of municipalities and local tax offices capacity to manage these taxes for example, or a reform of the assessment practice, etc. Despite the clear knowledge of the deficiencies of the system, officials made no improvement at the time of the reform. Only very recently, with the current reform project by the Ministry of the Interior and the World Bank (which is still in a draft form), did they begin a reform of these taxes.

OTHER DIRECT TAXES

Other direct taxes include a series of insignificant taxes, most of which are little used by the municipalities and generate few revenues. They represented less than 10% of all direct tax revenues in 1985, or TD 1.77 Millions (see Table 5-4). They consist of a tax on animal-drawn vehicles, a license fee for retail beverage outlets, a tax on animal hides, and a tax for administrative services. This listing clearly illustrates the fact that half of these taxes are old and obsolete taxes that have little significance today--the tax on animal-drawn vehicles in particular.

Other taxes in this group--namely, the tax for administrative services--are more relevant to municipalities

revenues as they constitute fees for service rendered or taxes for regulatory purposes. Their low yield is explained mostly by the low rates imposed and, in some cases, the complexity of their assessment and collection procedures.

It is interesting to see that these taxes, which clearly require major reforms, were not dealt with in 1975 or in the following years. Old and outdated taxes should have been eliminated or replaced, and taxes or fees for services rendered should have been reviewed and increased to reflect the cost that these services incur to municipalities. It indicates that the reformers did not have a comprehensive approach towards municipal own revenues.

INDIRECT TAXES

Most indirect tax' revenues can be regrouped under the rubric of taxes from markets and slaughter houses. These fees and taxes are numerous and varied: They consist of a series of taxes and fees on all activities that take place in the market places. They include a range of miscellaneous items--auction fees, vendors' licenses, fees for the use of market facilities etc.--all related to market activities. These taxes account for virtually all indirect tax revenues (83% in 1985). Revenues from markets alone brought in almost 8 million TD in the same year, a receipt that is comparable to the proceeds of the rental-value tax. It is more important than the establishment tax. (See Tables 5-4 and 5-5)

All other indirect taxes provide insignificant revenue sources to municipalities. Taxes under this heading are often closer to user fees than taxes. They include taxes on the use of public domain, electricity surcharges, and entertainment taxes.

The taxes on the use of public domain are fees levied for the use (occupation) of streets and public spaces for private non-economic activities.⁵⁰ It is the second source of revenue (1.03 TD Millions current in 1985, 8%) of indirect taxes--although it is ten times less than the income from markets and slaughter houses combined. Local officials are given some authority over this tax. They set the regulation for the use of streets and choose which item to tax and at which rate from a fixed list established by the central government. They submit their decisions for approval to the Ministry of the Interior and the Ministry of Equipment. Their authority is also restricted by maximum rates fixed by law for all municipalities.

The electricity surcharge yields limited revenues to the municipalities--TD 0.8 millions current in 1985, less than 7% of indirect tax revenues. It consists of a surcharge on the subscribers of the national authority for electricity (STEG) above the charges for their own consumption. It is collected by STEG. The proceeds of the surcharge are used first to

⁵⁰ The fees consist of three parts: (i) a fee for the first time use of space, (ii) a periodic fee, applicable through out the occupancy, and (iii) a special fee for the use of machinery.

finance the cost incurred by municipalities for their electricity consumption. The surplus is paid theoretically to the municipalities for their investment in electrification work. In practice, the surcharge falls short of covering these costs, indicating clearly the need for a review of the rate or a reform of the municipalities electricity financing.

Entertainment taxes yield limited revenues (TD 0.2 Millions in 1985, (see Table 5-5). Their structure is also often relatively outdated. Some of the taxable items date from the colonial period--fees on public balls for example.

From this review we can conclude that the reform of indirect taxation remains relatively superficial. The 1976 decree was limited to detailed changes in only some rates, and the simplification of some procedures. They were the first changes introduced to indirect taxation since 1958 and did provoke a sudden rise in the level of revenues of indirect taxes of municipalities. They did not involve, however, any fundamental revision of this tax structure and failed to reform a system that was deeply outdated and unnecessarily complex.

Indirect taxes, including taxes on market activities and slaughter houses continue to be governed by a large number of complex regulations, scales, and rates that make them difficult to administer (World Bank, 1987, p. 67). This large number of legal provisions and their complexity also led municipalities to different interpretations of their legislation.

USER FEES

User fees amount to only TD 5.8 millions in 1987, which represents 10% of MOR. More important is the fact that it is the only revenue source with a negative average growth rate for the 1975-1987 period. In the first years following the reform, user fee revenues dropped by about 40%. The average growth rate, for the 1975-1979, was 1.5%. (See Table 5-3.)

There are about 10 different charges under this heading, among which are: repayment and contribution for road and sewerage construction and repair, fees from the issuance of birth, marriage and death certificates, and income from kindergartens.

User fees are also governed by complex, numerous, and difficult to interpret regulations. The low volume of receipts under this heading indicates that municipalities earn little from the services they provide. The rates, revised and increased in 1976, are still low and a number of user fees were abolished by the 1976 decree, leaving municipalities with no revenues to offset expenses of the related services. This partially explains the negative growth rate of aggregate user fees revenues just after the reform. The restructuring of the remaining fees with increases in rates was insufficient to compensate for the loss of these revenue sources. The following period (1979-1983) has been marked by an overall decline of this revenue sources (-8.5% per year). User fees started increasing,

first at a slow pace (1.4% per year between 1983-1985) when most revenue sources were in decline, and then at a much faster pace (11.3% 1983-1985), as part of the revival of municipalities' own revenues. (See Table 5-3.)

INCOME FROM PROPERTY

Income from municipal properties was about TD 10.53 Millions in 1988, representing 17% of MOR. They consist of revenues from either rent or sale of municipalities' properties, each accounting for half of total revenues under this heading in 1985.

From 1975 to 1987, income from municipal properties has increased at a rapid rate of 7% per year on average. This figure conceals the fact that this source of revenue has had a very sharp growth rate between 1975 and 1979 (29.5% per year on average) and since then has been declining at more than 3% per year on average. (See Table 5-3.)

We assume that the sharp increase following the reform was caused by sales rather than leasing properties. Municipalities public and private assets are relatively limited. Few municipalities buy land or build rental housing that has not been proven financially beneficial in the past.

CHAPTER 6
INSTITUTIONAL STRUCTURE OF LOCAL PUBLIC SERVICES IN
TUNISIA

In the three preceding chapters, through the evaluation of the decentralization efforts, we have seen the limited involvement of municipalities in public activities and in the provision of local public services of their locality. We have also seen that only a few functions were given to municipalities by law. The financial analysis confirmed the minimal level of intervention of municipalities. Despite the decentralization reform, no new functions were decentralized, and their role remained unclearly defined by the legislation.

An alternative way of understanding the role of local governments is to review their role relative to the overall institutional framework for provision of local public services.⁵¹ This review will clarify the position of municipalities amid this institutional structure and the rationale for the allocation of local services to the various institutions other than the municipalities. From this analysis we will not only confirm the limited role of municipalities in the provision of local public services (LPS), but also reveal the government of Tunisia's (GOT) actual tendency to centralize these services. We found that there has been a general tendency for the local public

⁵¹ This analysis is based on interviews that we have conducted with officials of the various institutions involved in the provision of local public services, a review of their by-laws, and a review of various documents and reports on these services.

services to be placed under national public authorities for provision. The centralization has occurred during and even after the declaration by the central government of their desire to decentralize, at the beginning of the 1975 reform.

We also found that, although the municipalities are left with only a few responsibilities, many of those are still handled by the central government and that the functions fully provided by municipalities are limited to a handful, largely related to the cleaning, maintenance, and management of public space. This analysis indicates that the priority of the central government is not to provide the local governments with a more important role, and that no concrete action is being taken to involve municipalities in the public functions of the country.

Why? We will try to answer this question in our next chapter by analyzing the reasons for the creation of one of these public institutions and the process of centralization.

LOCAL PUBLIC SERVICES

Our first task, in this chapter, is to define, briefly, what is a local public service, using two types of definition. First, we will give the definition of local public services in economic theory, and second, the definition that reflects practice, that is, generally what is considered traditionally as a local public service. Neither of these definitions will provide us with an exhaustive or precise list of local functions. We have already mentioned

the difficulty of classifying rigorously functions according to the economic theory (into public and private functions, and into local and national ones). Neither does world-wide practice provide us with an agreed-upon picture. Countries have different perceptions of what is a local public service and different traditions in allocating functions among various levels of governments. This review will give us, however, a sense of what is a LPS and a base to start the review of the Tunisian case.

The definition of LPS provided by economic theory starts with the theory of public goods, which defines the role of the government. By definition, public goods are characterized by nonrivalry in consumption and nonexcludability, which makes impossible their provision through market mechanisms. Private suppliers are replaced by the public sector, and the financing of these goods is achieved through taxation. Aggregate demand is substituted by some form of collective choice, expressed by a political process, such as voting.

Fiscal federalism theorists provide the theory concerning the division of responsibilities over the provision of these public goods between central and local governments. They define the appropriate allocation of functions between levels of governments on the basis of the geographical impact of these goods and services. Public activities that have a national economic impact are those activities that confer benefits to the nation as a whole and

must be conducted at the national level. They typically include stabilization policy, national defense, redistribution activities and so on. Left to the local and regional governments is the provision of public goods whose impact, or whose area of benefits, is much smaller than the entire country. The primary advantage to having subnational governments conduct these activities is a closer adaptation to the preferences of the community and, therefore, it is argued, a more efficient allocation of resources than if provided by the central government.

Among the recognized drawbacks of these theories is the difficulty of classifying goods between public and private ones because many of the so-called public goods have some degree of "privateness." Moreover, it is also difficult to define precisely the sphere of influence of these goods and services. They can generate spill-over effects outside their locality and may necessitate some control of these inter-jurisdictional externalities. Also, the optimal size of production may vary from one good to another and, as a result, conflict with the boundary defined by another's zone of influence. These difficulties in establishing the perfect division of government activities among several levels of government have led to the formulation of a variety of solutions, such as shared responsibility between levels of government and shared financing through intergovernmental transfers.

It is, therefore, not surprising to see that, in practice, countries have different interpretations of what is a local public good as well as the degree of their "publicness" and "localness." Functions under local government's responsibility vary considerably across countries "...the duties of municipalities vary enormously. There are a few things which most municipalities do" (Davey, 1989, p. 15.) Among the services that are almost invariably provided locally are garbage collection, street construction and maintenance, maintenance of parks and recreational areas, and cleaning and maintenance of all public spaces. The allocation of other local functions varies considerably among countries. In the case of social services, such as health and education, primary education is typically the responsibility of local governments, while secondary and higher education are provided by the central government. Primary health care is, at times, handled in local health centers by the local government, while hospitals are almost invariably under the central government responsibility. In some cases, local governments are limited to the building and maintenance of facilities for these services.

In the case of public utilities, the distribution part of the service is theoretically a local service because the impact of the service is very local. We find that the distribution of water and sewerage services, more often than electricity supply, are provided by local governments. For electricity supply, when the production and transportation

parts of the services are centralized and nationalized as a strategic economic sector for the country then the central government tends also to take over the distribution of electricity. Road infrastructure is usually divided between different levels of government: municipalities are often active participants in the provision of infrastructure. Local governments also take responsibility for transportation services, although they are more frequently provided by local public authorities or are subcontracted to the private sector.

Housing and land development are among the functions often cited as part of local responsibility. The extent and form of local government's involvement in these services vary considerably across countries. Land regulation and the control over urban development are more systematically the responsibility of local governments.

This overview provides a list of functions that are traditionally considered as local. Variations in country parameters make international comparison of the allocation of public services between levels of governments difficult.

THE TUNISIAN CASE

Let us now turn to the Tunisian case. In Figure 6-1, we have summarized all the local functions, cited above, according to their system of delivery in Tunisia. We have chosen to limit the subdivisions in types of delivery system to five particularly significant ones. At the central level,

we differentiate between the delivery of services by ministries and the delivery by national autonomous institutions. At the local level, we differentiate between services directly financed through local funds and services provided by the municipalities on behalf of a central authority and financed through central government grants. The services provided by the municipalities with their own funds are subdivided into two more categories: the services provided in-house by municipalities--we call it on force account (FA)--and those delegated to another institution or subcontracted to the private sector (Subcont).

Note that having authority over a service does not necessarily mean providing it, nor does providing a service imply having authority over it. Central or local governments that have authority over the service can provide it through many different arrangements: they can provide it in-house by their own services, they can delegate it or subcontract it to another public or private institution, or they can regulate it, depending on the level of public intervention and control in the sector they choose to impose. The financing of the service can also take many forms depending on the arrangement chosen for the provision of the service.

In Table 6-1, we differentiate between the institutions that have authority over the service (®) from those who participate in its provision with various degrees of involvement and under different arrangements (Δ).

Figure 6-1
Allocation of Local Public Services Between Central and Local Governments in Tunisia

	Central Government		Local Governments	
	Ministries	Autonomous Institutions	Financed through Local Funds Tied-Grants FA Subcont.	
Education	®			
School Maintenance				Δ
Health	®			
Electricity and Gaz		®		
Water supply				
Production/Distribution		®		
Water Points				Δ
Waste Water Disposal				
Collection		®	®	
Treatment		®		
Solid Waste Disposal			®	
Road Infrastructure				
Primary Network	®			
Secondary/Tertiary Network	Δ		®	
Street construction and management				
Traffic Control			®	
Public Lighting			®	
Construction and maintenance			®	
Transportation				
Urban Transportation	®	®		
Rail, Air Transport, Ports	®			
Physical Planning				
PDU	®			
PAU	Δ		®	Δ
PAD	Δ		®	Δ
Housing and Urban Development				
New		®		
Rehabilitation		®		
Land Management		®		
Building Permits and Urbanization Control			®	
Control over use of public space			®	
Public safety	®		®	
Recreational areas			®	
Cultural and sports facilities	®			Δ
Food and Wholesale Markets			®	
Police	®			
Fire Fighting	®			
Worship				
Mosques construction	®		Δ	Δ
Cemetery Maintenance			Δ	

Notes: (i) In this table, the list of services was chosen to highlight municipal involvement in local public services and does not represent a balanced breakdown and subdivision of services. Services under municipalities are described in more detail than others.

(ii) FA : Provided on Force Account, that is, by municipal services.

Subcont: Subcontracted.

® Authority over the service.

Δ Participation in the provision of the service.

Source: This table is based on our analysis of the Tunisian local public services.

From this table, we can see that municipalities do intervene in almost all sectors of activities at the local level. However, a closer look at their activities reveals that their level of involvement in most of these sectors is restricted to some marginal functions. Municipalities participate in many functions, but they have complete authority over only a few. We will also see, in the following analysis, that among those under their authority, some are performed by the central government because municipalities lack the necessary financial and human resources to implement them. On the other hand, municipalities do perform some functions that are not under their authority, on behalf of the central government. These activities remain, however, very restricted.

DECENTRALIZED LOCAL PUBLIC SERVICES

We start by reviewing those functions that do fall under the municipalities authority: the most important functions are local road construction and maintenance, garbage collection, control over food market activities, and functions related to urban planning and to the control of urban development. In parts of the country not serviced by the national sewerage authority, municipalities provide some form of sewerage service. Finally, municipalities are responsible for a series of minor functions that can be grouped under the general heading of "control over public

spaces." Their actions range from environmental control to management of the use of public spaces.

Note that municipalities are not always capable of independently performing all the functions attributed to them by law. Some municipalities delegate functions under their authority to the central government or to other centralized institutions when they perceive themselves as incapable of providing them. We will define these functions as local functions under partial control of the central government.

Municipal Functions Under Partial Control of the Central Government

These functions include road infrastructure service and urban planning, two of the most significant municipal functions.

Road and Street Infrastructure

The municipalities are responsible for the secondary and tertiary road networks, which include intra-regional road-networks and urban road-networks (article 123 chapter II of the LODC)⁵². They are also responsible for all street-related arrangements, i.e., park and recreational areas, street lighting and, traffic regulations (see Annex 6-1). The Ministry of Equipment and Housing (MEH) is responsible for financing construction and maintenance of the primary road-

⁵² Article 121, Chapter II of the LODC defines the municipal domain. It includes: (i) all open urban spaces, such as streets, squares, gardens, urban road networks and secondary road networks; and, (ii) all land supporting public-utilities' networks.

network, that is, all inter-regional roads also called national roads. The primary road-network is financed by national taxes, and the MEH receives an annual budget from the central government budget for road construction and maintenance.

By law, the secondary network is financed by municipal funds and the municipalities do the construction (Article 129, Chapter III of the LODC). Also, by law, the tertiary network is built and maintained by the municipalities, and its cost is recovered from the beneficiaries, the owner of the lots bordering the tertiary network (Article 132).

In practice, however, the division of responsibilities between the central, the regional, and the local government is not so clear. Municipalities are rarely able to recover their cost when they fund the investment of the tertiary network themselves. This creates a serious constraint on their ability to provide the infrastructure. Consequently, private or public developers often fund the construction of the tertiary network, which they then deliver to the municipalities for management and maintenance. In these cases, the developers recover their cost from the beneficiaries at the time of the sale of the lot or the unit.

Many municipalities also delegate their responsibility over secondary road networks. When they feel that they do not have the necessary financial resources, and the technical expertise to assume their function, they call upon the MEH. The assistance that the MEH provides to the municipalities

varies from grants, technical assistance, and equipment, to a combination of all three. Typically, the regional services of the MEH agree upon an arrangement; for example, the municipality takes the financial responsibility for the construction material, and the MEH for all other costs, while the external services of the governorate undertakes the construction work.⁵³ Generally, both parties are constrained financially, and negotiations take place before the agreement.

The MEH assistance is provided without affecting the classification of the road. By law, the secondary road network remains the property of the municipalities, independently of who provided it. By that fact, the responsibility for its maintenance remains also under the municipalities, but municipalities often have many difficulties paying for even the maintenance.

This partial centralization of the service is a useful solution to the lack of municipal resources and expertise. It provides a flexible arrangement, which insures the provision of the service when municipalities find themselves unable to do so, but without reducing their authority: The service is only temporarily transferred to the central government, while remaining under full local control. The danger remains, however, that this partial centralization could be the first step to a full centralization of the

⁵³ For a detailed description of the external services to the governorate, see chapter 3.

service if it is not accompanied with sufficient efforts to improve municipal resources and expertise.

Planning Functions

A similar situation to that of the road infrastructure exists with regards to the urban-planning functions. Municipalities are provided with some authority over the urban-development process, but they are often incapable of assuming these responsibilities. Tunisia has an extensive planning process, which ranges from national economic plans to local spatial plans. The central government undertakes all national economic planning and regional planning. Municipalities share, with the other levels of government, the tasks of urban planning, which give them some control over the urbanization process.

Urban planning and land use is governed by the urban code, a statute-book defining the legislation for urban development established in 1979. The code distinguishes three different urban planning levels: First, the Plan Directeur d'Urbanisme (PUD), an urban master plan, gives the overriding orientation to spatial urban development. It is the responsibility of the MEH. Second, the Plan d'Amenagement Urbain (PAU), the urban physical plan, fixes the land-use regulation for the entire municipal territory based on the PUD, and third, the Plan d'Amenagement de Details (PAD) a detailed physical plan based on the PAU.

Both the PAD and the PAU constitute the sole legal documents for municipal land use.

Municipalities intervene only on the PAU and the PAD.⁵⁴ By law, both plans are under their responsibility. The PAU is, however, established by the MEH on behalf of the municipalities, with their collaboration and that of the governorates, and is then submitted for comments and approval to the municipal council. The MEH has overriding authority over the PAU, however. He can disregard the comments of the council. Once approved, the enforcement of the PAU becomes the responsibility of the municipalities.

Municipalities do have more authority over the PAD than over the PAU. They are responsible for its preparation. They establish the plan themselves either in-house with their own technical staff or by subcontracting it to a private planning firm. They can also delegate the functions to the central government while maintaining ultimate authority over the plan. There are still many municipalities who lack both the technical expertise and the resources to establish the plan, and who delegate their responsibility to the central government. To be enforceable the PAD needs the approval of the supervisory authority, the Ministry of Equipment. Once

⁵⁴ Note that the municipalities of the metropolitan area of Tunis have transferred their responsibility over the planning functions to a planning institution, District of Tunis, which was created in 1972 for the coordination of all planning efforts of the area of Tunis. This institution is under the jurisdiction of the governorate.

approved, the PAD with the PAU form the legal base for land use and urban development.

This institutional arrangement shows the intent of the central government to make municipalities active participants in the planning and urban-development process: the PAD is under their responsibility, and the PAU is to be approved by the municipal council. What could have been an effective authority over the urban-development process is, however, severely eroded by three factors: First, the ultimate authority over the plans remains in the hands of the central government. It is the MEH who has the final word. Second, planning processes are almost entirely carried out at the central and regional level, as many municipalities continue to delegate their responsibility to the MEH. Through these institutional arrangements, municipalities lose all opportunities to define an urban-development policy for themselves. Third, municipalities are left with the responsibility of implementing the plans, a task of management and coordination among the various actors in the urban-development processes. The erosion of municipal authority is even more evident in this case. Too often municipalities find themselves unable to enforce the plans and control the urban-development process.

There are many factors that explain the failure of the municipalities to impose their authority over the urban-development process. One of the most significant ones is the lack of the funds required for land acquisition for public

utilities, roads, and recreational areas provided by the plan, for the provision of trunk infrastructure, such as secondary roads, and for new urban development. The legislation does not allow municipalities to recover the costs of trunk infrastructure, nor does it allow them to borrow for land purchases. These early investments have to be financed by the available funds in the municipalities' yearly budgets which, as we have seen, are limited. Also, the municipalities' right to freeze development of the land necessary for public use is contingent upon the availability of the resources necessary to purchase them. By the time the funds are available, the land is often already developed illegally. As a result, the plans are rapidly outdated and in most urban centers, municipalities are faced with the difficult task--which remains often nonachieved--of keeping them up-to-date.

The process defined by Enaifer (1986) as the "sectorization" and "autonomization" of the urban-development processes in Tunisia also reduces municipalities' authority over the implementation of the plans and the control of urbanization. These processes are characterized by a multiplicity of centralized institutions, each awarded with a high level of autonomy and important authority over their sector (we will review these institutions in detail in the second part of this chapter). Many of them have a monopoly position in their sector, including in the elaboration of their plans for extension of their infrastructure. Although

by law the various institutions' own plans must be within the bounds of the urban plans, it is not rare for these institutions to consider the urban plans inappropriate to their service and to act independently as a result. Municipalities have complained repeatedly in the past that institutions, central and others, act on their territory without any prior consultation.⁵⁵

The different actors in the urban-development process give insufficient attention to the urban plans and to the coordinating role of the local governments. Enaifer describes the Tunisian system as one in which centralized institutions have a distorted perception of their position and their role in the global system of urban development. The role of the municipalities and the usefulness of their planning tools are dismissed (Enaifer, 1986, p. 5.)⁵⁶

Several examples illustrate this point. Ministries follow their agenda and act according to their own policy objectives; they launch programs and implement projects without taking into account their implications for urban development and their conformity with the planning documents. Enaifer explains, for example, that the creation of infrastructure and facilities have had a structural impact on the country as a whole. The creation of a transportation network influenced the rate and direction of the urbanization. Rural-electrification programs, which are

⁵⁵ From interviews of government officials conducted in January 1989.

⁵⁶ La gestion des plans d'aménagement communaux.

intended to improve rural living conditions, have encouraged and accelerated illegal urban developments in rural areas. It is estimated that rural electrification programs are the primary cause for the importance of illegal construction in some rural areas and the transformation of rural areas into urban zones (Enaifer, 1986, pp. 6-7).

The land-development institutions have also transgressed the urban plans. They were awarded tremendous power, which allowed them to act totally independently. Faced with increasing demand and having to search for cheap land, they constituted important land reserves in areas outside the urban perimeter, which they have developed. These land reserves violate the plans and, eventually, led to more uncontrolled urban growth (Enaifer, 1988, p. 7). Under the current legislation, the land institutions are under the jurisdiction of three different ministries, each with different agendas and development policies.

Finally, utility companies--electricity, water, and sewerage companies--have in the past established their own extension plans which did not conform to the planning documents. They claim the plans were insufficient or outdated or that the coordination process was inefficient. These acts were more frequent in the past than they are now. Municipalities have continually reminded the utility companies of the necessity to coordinate, which has eventually led to a better planning coordination between them.

Functions Under the Full Authority of Municipalities

Only a few functions are left to the full responsibility of the municipalities. The majority of them could be classified under the general headings of control over public space and environmental protection--the most important of which is garbage collection. Another set of responsibilities is the regulation and control of markets and slaughter houses, which are among the oldest activities of municipalities. Also, municipalities do provide traffic-management services and street lighting as part of their overall responsibility for street network and public safety.

Garbage Collection and Environmental Control

Garbage collection is the only public service to be under the full responsibility of municipalities, despite the fact that relevant legislation does not specify these responsibilities for municipalities. Nevertheless, all municipalities provide this service that they run in house, on force account. The service is entirely financed by local funds and each municipality has its own equipment and personnel.

The municipal legislation, the LODC lists a series of other functions concerned with environmental control over public spaces that fall to the mayors. They consist, essentially, of public-safety and public-hygiene responsibilities. They range from the protection against

dangerous materials in public spaces to the prevention against disasters, such as fire, floods, and plagues.

Municipalities have also some responsibilities that fall in the category of public health. They launch and finance public-hygiene campaigns--such as pest eradication and rat extermination--and are responsible for controlling the potential spread of contagious diseases.

Markets and Slaughter Houses

Municipalities intervene for regulation and control purposes in food-markets and for hygiene purposes in slaughter-houses. Municipalities do have a strong interest in fostering market activities, as they reap a substantial amount of revenue. They levy indirect taxes and fees on markets, which represent the second most important revenue source of municipalities. It is the only activity that provides municipalities with some power over economic activities in their territory, which helps them generate substantial amounts of revenues.

Activities Financed by Central Government Grants

Finally, municipalities assume a series of functions on behalf of the central government that are not legally under their responsibility. These functions are financed by some form of tied-grants from the central government called Crédits Délégués in the nomenclature of the municipal budgets. These tied-grants originally financed exceptional

activities and projects that the central government delegated to the municipalities (see Annex 6-2). Today, it is increasingly used by the municipalities themselves to initiate their own projects in sectors that are both within and outside their usual responsibilities. The tied-grant system is becoming a way for municipalities to raise additional resources by requesting grants from the central government. It is also a way for them to complement the central government activities at the local level by helping in the provision of facilities in sectors that are under central authority. Finally, it is a way of increasing their involvement in the public services at the local level.

CENTRALIZED LOCAL PUBLIC SERVICES

All other local public services are centralized in Tunisia. Our analysis led us to differentiate between two types of centralized services: Those functions that are centralized because they are perceived to be contributing to national interest, and those that are centralized in an effort to provide services more efficiently. In Tunisia, the latter are also provided by national public authorities.

Centralized Services Based on National Interests

We define as services centralized on the basis of national interests those services that have some of the characteristics of local goods but are treated by the government as national goods because their benefits are

perceived to affect the nation as a whole. Among these services we include education and health services. Both are considered to be a national priority in Tunisia and are provided by their respective Ministries.

Education

In Tunisia, education is first considered to be a public good as it is provided almost entirely by the government. Second, it is perceived to be a national good. From an ideological point of view, human-resources formation is considered to be an important component of economic and social development. The country's policy towards education aims at providing education for all, equitably across income groups and across regions. It is therefore under the full responsibility of the central government. The Ministry of Education is in charge of all aspects of the service, from infrastructure building to program setting and staff management. The service is entirely financed through national taxes and is provided free of charge.

Education illustrates better than any other service the case of a local public good treated as a national good because of externalities. The national impact of its provision is perceived to outweigh its local impact.

Health

To a lesser extent, health service has some of the same characteristics. The benefits of the service, a healthier

population, is perceived to be part of the national development effort in Tunisia. Equity in access to the service across income groups and across regions is also an important objective in the provision of the service. The difference lies in that it is not provided exclusively by the public sector and that it is not provided free of charge, although it is highly subsidized.⁵⁷ For the part of the service that is provided by the public sector, the Ministry of Health is in charge of the service and the subsidies come from the national budget. Note that both health and education services have always been centralized in Tunisia. Historical precedent and political tradition play also an important role in determining the allocation of responsibilities between levels of governments.

Local governments have a very minor involvement in these two sectors in Tunisia, unlike some developing countries which have the primary education and primary health care services under municipalities' responsibility. In Tunisia, municipalities participate marginally in school maintenance activities on the behalf of the Ministry of Education. These activities are financed with transferred funds or tied grants from the Ministry. They have no involvement in health services, except for some minor role in public health, such

⁵⁷ This is an example of a service in Tunisia that falls into the grey area between a public good and private good and for which the public part of the service is perceived to be a national good as opposed to a local good.

as pest eradication and the control of the spread of contagious diseases.

Centralized Services Based on Provision Efficiency

We have grouped in this second category all local public services, in Tunisia, that have been recently transferred to a newly created public authority for their provision. The government's motivation for transferring services to public authorities was invariably the desire to improve and extend the service by improving the financial and institutional conditions of its provision. The created public authorities have a similar status. They are awarded substantial authority over the provision of the service, an autonomous institutional structure with complete financial and managerial autonomy, and they are allowed to replicate private-sector management practices. In Tunisia, this institutional model grew rapidly in popularity since independence and a large number of public services were given to such authorities. They include all utilities (electricity and gas, water supply, and sewerage services), urban public transportation, as well as housing and land development services, and urban rehabilitation.

The growth of this institutional form of public-service provision is certainly not specific to Tunisia. It is common in many countries. In the last forty years, developing countries have been in the process of building and renovating their institutions, and state-owned enterprises were

considered to be an appropriate institutional form for government participation in the provision of public services as well as in commercial and industrial activities (Rondinelli, 1984, pp. 15-18).

The uniqueness of the Tunisian case is the systematic centralization of the services at the time of creation of a public authority for their provision. Although the services were not always under the responsibility of municipalities at the time of the institutional transformation, they were often shared by institutions operating at the local level. The newly created public authorities were systematically national institutions attached to the central government, under the jurisdiction of the relevant ministry.

Electricity and Gas

The electricity and gas sectors were the first services to be centralized. In 1962, both services became the responsibility of the Société Tunisienne de l'Electricité et du Gaz (STEG) a state-owned industrial and commercial company. Before then, the services were provided by several companies under franchises. The sectors were almost entirely nationalized a few years after independence, as energy was considered to be strategic for the economy. In the nationalization process, the services were also centralized. The production and transportation parts of the service fall into the category of national services. Their centralization is therefore justified. The distribution part of the

service, however, has all the characteristics of a local service, but was centralized too.

Although not a monopoly, STEG does have a predominant role in both electricity and gas services and, in particular, in electricity. STEG is a public authority. It is defined by law as a public institution with financial and managerial autonomy and with the capacity to operate as an industrial private enterprise. It is headed by a board of directors with eight members, which has authority over the policy orientation of the institution as well as all decisions concerning financial, managerial, and administrative issues. Decisions of major importance have to be approved *apriori* by the Ministry of Economy, the supervisory authority of STEG, while all financial and technical decisions are subject to an *aposteriori* control.

The service is largely self-financed, with a progressive rate structure and cross-subsidies between the various types of consumers; however, STEG does receive some subsidies from the government budget. The municipalities' involvement in the sector is limited to some minor assistance to STEG, such as the donation or sale of land at a very low cost for the installation of transformers. Also, as part of their responsibility over streets, they must provide street lighting.

Water Supply

The water supply was the second service to be centralized. In 1968, the Société Nationale d'Exploitation et de Distribution des Eaux (SONEDE) was established, an independent national agency for the management and distribution of water. Water-resources management--the collection and storage of water, the construction and maintenance of dams, channels, and reservoirs--is under the responsibility of two ministries, the Ministry of Agriculture and the Ministry of Equipment. Water-resources management can be classified as a national good and its centralization is clearly justified. The distribution part of the service, which fits the theoretical definition of a local good, is also centralized, however. SONEDE has the authority over the distribution of potable water. It has a monopoly over the supply of water for domestic and industrial use.

Like STEG, SONEDE is a public authority. It is an autonomous public institution, which has managerial and financial autonomy. It, too, is run according to business principles. An eleven-person board of directors heads the authority and takes all major decisions concerning the management and finances of the service. Because water supply is considered in Tunisia as a socially sensitive sector, and because SONEDE is a monopoly, it is subject to a thorough supervision from its supervisory authorities, the Ministry of Agriculture and the Ministry of Equipment. All decisions of the board of directors concerning the budget, debt, tariff

rates, and user charges, need the approval of the supervisory authority to be enforceable. The ministries impose also an a posteriori control over technical and financial matters. Although SONEDE's objective is to become completely self-financing, it still receives substantial subsidies from the central government for its operation.

Municipalities do not hold any significant role in the water-supply service in regions where SONEDE operates. At times, they act as intermediaries to facilitate the installation of piped water connections to private homes or to solve procedural problems. In areas not serviced by SONEDE, generally remote rural areas, municipalities, occasionally, provide some alternative forms of services such as public water pumps and wheels. These tasks, however, are usually carried out by the governorates in rural zones that are not administered by municipalities.

According to government officials, the centralization and consolidation of the authority over the service into a single institution was motivated by the fact that the existing institutional structure was weak, fragmented, and incapable of delivering the increasing needs for water supply. The former institutional actors in the sector, including the principal water-supply agency, the Regies des Eaux, a division of the Ministry of Agriculture, was considered to be lacking the financial and managerial resources necessary to meet the country's water-supply needs.

The World Bank participated in the creation of SONEDE in 1968. Its involvement started with the need for funds for investments and for technical assistance necessary to bring the service to a more efficient level of operation. The influence of the World Bank was crucial for the orientation of the institutional development of the sector. It insisted on sound finances and a sound institutional structure, which ultimately led to the creation of the public authority. This was not achieved without some reluctance from the government, which wanted to have full control over the provision of the service and over the rates applied. The new authority, SONEDE, rapidly improved the provision of the service, however. Soon after its creation, it was already perceived to be a success, and it became a model for institutional development in Tunisia. More than STEG, SONEDE's creation and development has had an important impact on the institutional development for the provision of urban public services (UPSs) throughout Tunisia.

Sewerage Service

The sewerage service, which fits the theoretical definition of local services, was directly influenced by the successful development of SONEDE. SONEDE's creation not only provided an institutional model for the new sewerage service institution, but also its successful increase in the water supply made the improvement of the sewerage service an absolute necessity.

In 1974 the GOT started taking action in this sector, which was clearly lagging behind needs. The service was centralized and a new national authority for sanitation was created, the Office National de l' Assainissement (ONAS). Like SONEDE, ONAS was given financial and managerial autonomy as well as the monopoly over the service in areas under its jurisdiction. ONAS is headed by a board of directors composed of the various parties concerned with the services. It takes decisions on all issues concerning the sanitation service. ONAS enjoys a relatively high level of autonomy, although, like SONEDE, some decisions--those concerning tariffs, planning and extension of services, and personnel policy--are reviewed and approved by the GOT.

ONAS does not operate in all regions of the country. In some areas, the sewerage service remains under the authority of the municipalities. ONAS was originally created to solve the most urgent pollution problems of the Tunis area. At that time, its operations were limited to the metropolitan area of Tunis. It then gradually extended its service to all urban centers of the country--first to serve the larger cities who also started to have major sewerage requirements, and then gradually to all the remaining urban centers of the country as they became more densely populated. Presently, all the major sewerage systems in the most densely populated areas of the country are under the authority of ONAS. In the remaining areas, the municipalities continue to be in charge of the service. They generally do not operate a full

sewerage system and they often consider their responsibility over the service as a temporary one, a transitional situation before ONAS takes it over.

There are many similarities between the SONEDE and ONAS cases. Their institutional development was intrinsically linked. Moreover, both institutions were formed under the same circumstances. First, there was a growing need to improve the provision of the service and the GOT's desire to act upon it. Then, came the realization that the existing institutional structure was weak and inadequate. With the involvement and the influence of the World Bank, an autonomous institutional structure was chosen for the provision of both services and with it a simultaneous centralization of the services. Because of the successful example of SONEDE, ONAS's adoption of the autonomous institutional model did not raise much controversy from the central government.

What makes ONAS a surprising case--and one warranting closer examination in the next chapter--is the fact that the centralization of the service dispossessed the municipalities of the service on the basis of their lack of efficiency. This happened at the time when the decentralization programs were being formulated and municipalities had been promised a more important role in the public services of the country. The sewerage service was one of the rare local services under the responsibility of the municipalities, unlike other services that were centralized. For example, the water-

supply service was provided by various local institutions before SONEDE's creation, including, but not exclusively, by the municipalities.

Housing and Land Development

Housing and land development are also provided primarily by centralized and autonomous institutions. The institutional structure in the housing and land development sector is relatively well developed with specialized agencies for housing and land development whose creation started prior to that of the utility authorities, but continued until the early 1980s.

Housing and land-development functions are shared between the private and the public sector, but the public sector retains the dominant role. Two institutions hold the main responsibilities in the sector; both are under the jurisdiction of the Ministry of Housing and Infrastructure: the Société National Immobilière de Tunisie (SNIT), the national real estate company, and Agence Foncière d'Habitation (AFH), the land-development agency.

SNIT is a national company, fully state-owned, with managerial and financial autonomy. It was created just after Tunisia's independence, in 1957, and until the early 1970s was the principal authority for all government-sponsored housing programs, including land-development programs and slum-clearance programs. Following the creation of the land-development agency (AFH) and the urban-rehabilitation agency

in the 1970s, it limited its activities to the construction of subsidized housing. First, it operated in a dual capacity as a developer and builder, and since 1985, it has concentrated solely on building activities; it buys serviced land from AFH, the residential land development agencies. Today, SNIT holds the most important role in the production of subsidized housing in Tunisia. It has diversified its housing programs to include rural housing, relocation programs, and luxury housing. SNIT is also the manager of the public housing stock.

Two public agencies share with AFH the land development task: the Agence Foncière Touristique (AFT), a land-development agency for tourism, and the Agence Foncière Industrielle (AFI), a land-development agency for industrial use. All three agencies were created in 1973 with the objective of improving the delivery process of affordable serviced land.

AFH, the residential land-development agency is the most important of the three. It is under the administrative authority of the Ministries of Housing and Equipment. It is a national public authority, with a statutory body and financial autonomy, and with private management practices. It is a self-financed, nonprofit organization. Its statutory role is to assemble, service, and sell land for housing and commercial use.

Municipalities have had a very limited role in land development in the past, which they totally relinquished when

the national land agencies were created. Today, they still do not have any active involvement in either housing or land development. They have some authority over land development through their responsibility for the urban-planning and the urban-development process, which they have a lot of difficulty enforcing. By law, SNIT and AFH operations must conform to the various planning documents, some of which are under the authority of the municipalities. All land-development operations need an a priori approval from the mayor. In practice, however, in search for lower land prices these development agencies use land outside urban perimeters. Municipalities appear to have no control over the activities of the national development agencies. We have already mentioned these issues later, with the review of the urban planning functions.

Urban Rehabilitation

The institutional development in the urban-rehabilitation sector represents also one of the most interesting cases of centralization for the purpose of our analysis. When the rehabilitation programs started in the 1970s with a new orientation in the Tunisian policy towards low-income housing and squatter settlements, both municipalities and the central government were responsible for the sector. Programs to upgrade or rehabilitate substandard urban areas replaced previous eradication and relocation programs, and municipalities and the central

government jointly implemented these rehabilitation projects. The central government was in charge of allocating the funds between the various urban areas because of the nature of financing these projects. The programs required large amounts of funds and were financed entirely by the central government, in great part through external loans. The central government also took the responsibility for the project design. The municipalities were left with the responsibility of selecting the beneficiaries and with the implementation tasks.

Project implementation, however, experienced delays under the authority of municipalities, and municipalities were once again perceived as lacking the necessary managerial capacity for the job. Consequently, a new institution, Agence pour la Rehabilitation et la Renovation Urbaine (ARRU), an agency for upgrading and urban renewal, was created in 1981 to act on behalf of municipalities as an implementing and coordinating agency for rehabilitation operations, and the service was centralized. ARRU is also a public authority endowed with financial and managerial autonomy, under the jurisdiction of the Ministry of Equipment.

This time, however, the new institutional arrangement did keep the municipalities as the overriding authority over the rehabilitation programs. Municipalities theoretically delegate the implementation tasks to ARRU, which is supposed to act on their behalf. In practice, however, ARRU takes

full control over all activities. ARRU manages the various parts of the projects from the extension of the infrastructure network and the improvement of existing housing, to the regularization of ownership and occupancy status. It also administers small loans for the residents of the area under rehabilitation and subcontracts all specialized tasks to the relevant institutions, such as SONEDE, STEG, or ONAS.

The legal arrangement by which municipalities retain authority over the service and by which ARRU receives its authority through a delegation from them indicates some concern over the risk of alienating further the municipalities from responsibilities that are in essence local. This simple-minded concern was not sufficient, however, to insure that municipalities kept a predominant role. The authority municipalities retain by law is merely theoretical. ARRU controls all aspects of the service.

ARRU's creation is not much different from the previous centralization experiences. It is another example of separation of municipalities from responsibilities that are logically theirs, motivated by their poor performance and the GOT's desire to provide a service more efficiently. The creation of an autonomous institution on the basic model of a public authority was again accompanied simultaneously by the centralization of the service.

What makes ARRU's case even more surprising is, first, the fact that its creation happened six years after the

beginning of the local government reforms aimed at improving municipal operations and at enlarging their level and scope of activity in their locality. Second, ARRU's task is essentially a local one. Finally, the decision-makers at the central government level were aware of the evidence that ARRU's creation would further undermine municipalities' position, as indicated by the institutional arrangement they have chosen--by law the municipalities keep their authority over the service and delegate the functions to ARRU. Nevertheless, central government decision-makers still perceived ARRU to be the only option for the adequate provision of the service.

CONCLUSION

In this chapter we have reviewed the institutional structure for the provision of LPS in Tunisia as well as the process and motivation that led to this particular institutional development. In the process, we highlighted the position of municipalities in this institutional structure, their roles, and their relationship with the other actors in the local public life.

First, we confirmed that municipalities hold a very limited role. The ambiguity and lack of precision of the municipal legislation conceals the fact that the 1975 reform did not provide municipalities with any additional functions. Among the functions under their responsibility, the only one that municipalities perform effectively themselves are the

traditional municipal functions (garbage collection and control over markets), some of which are not even clearly mentioned in the legislation.

Two of the most important functions that are under their responsibility, urban planning and secondary and tertiary road-network construction and maintenance, are largely performed at the central level because many municipalities still lack the financial and human resources to do them in house. This confirms the fact that the reform did not provide municipalities with the necessary capacity to provide the most important of their functions.

The domain of intervention of municipalities is reduced to streets and urban public spaces. Their activities are limited to the maintenance, cleaning, and public safety of these areas: the most ambitious of these activities are traffic management, garbage collection, and some environmental control responsibilities. This is the only domain of intervention that fully belongs to the municipalities: it is a very confined one, particularly in comparison with the ambitious, but vaguely defined, roles proposed by the 1975 reform.

Second, we showed that the most important public services are centralized. Some have historically been centralized, and their delivery by the central government justified by the fact that the services are perceived to be national goods. This is the case for education and health services. Water supply, sewerage services, provision of

electricity, housing, land-development and urban-rehabilitation services, which constitute the majority of other services, have been centralized under similar circumstances and institutional arrangements. Their centralization was motivated by an attempt to increase efficiency in the service provision. They have been awarded an institutional structure that calls for autonomy in management and finance. The outcome has been, without any doubt, a more efficient provision of each individual service. It has led, however, to the fragmentation and the sectorization of the institutional structure.

Third, we demonstrated how the GOT, in its search for efficient provision of services, has created a fragmented and sectorized institutional structure formed by a series of powerful national autonomous authorities for the provision of LPSs. Enaifer (1986) claims that this institutional structure, which he considers to be abdication of the central government to assume its coordinating role, is the cause for major drawbacks in the urban-development process. By creating these numerous powerful and single-minded institutions, the central government has delegated its responsibility to individual entities and has not maintained any coordinating authority at the state level. We argue further that this role belongs to the municipalities because it is at the local level that this coordination can best be achieved. Both the sectorization and the centralization of

LPSs have caused the municipalities to lose their opportunities to act at the local level.

Moreover, the systematic centralization of the service with the creation of these public authorities and the dispossession of municipalities from their functions occurred in the 1970s and 1980s, at a time when the decentralization reform was formulated and implemented to improve municipal capacities and increase their responsibilities. This trend for centralization is a paradox in view of the central government's own decentralization policy reforms, which it has supposedly been following for the past fifteen years.

What is the explanation of this paradox? Our next chapter is an attempt to answer this question. For that, we will focus on the process of centralization of a LPS, the sewerage service. By analyzing the reasons that have led to its centralization, we hope to understand what are the deficiencies of municipalities that make them inappropriate candidates for LPS and how and why the reforms fall short of providing the necessary capacity to the municipalities.

ANNEX 6-1
**MUNICIPALITIES' RESPONSIBILITIES OVER STREET LIGHTING,
TRAFFIC REGULATION, AND PARKS AND RECREATIONAL AREAS.**

Street lighting is provided exclusively by municipalities. It is presented as part of their overall responsibility over the construction, management, and maintenance of street networks and urban public spaces. They are responsible for all aspects of the service, from investment to operation. The financing is done through an arrangement with STEG. STEG levies a "surcharge" for street lighting on its customers, which it transfers to the municipalities after deducting municipalities' consumption of electricity. The surplus is, in principle, used to cover the cost of investments. In most cases, however, no surpluses are generated and municipalities have to finance the investment cost from other revenue sources which is always difficult.

Municipalities are also responsible for traffic regulation as part of the mayors responsibility over public safety (article 75, LODC). It is a function that all municipalities assume fully in-house by the municipal department of roads, which exists in most municipalities, even the smallest ones.

As part of their responsibility over street construction and maintenance, municipalities are responsible for the creation and maintenance of recreational areas in urban environments, such as parks, public gardens, and all

other green areas (Article 129, Chapter III of the LODC.)
They are also responsible for the cleaning of these areas and
for insuring public safety in all recreational areas,
including natural ones, such as beaches (Article 74, Chapter
II, LODC.)

ANNEX 6-2
MUNICIPAL ACTIVITIES FINANCED BY THE CENTRAL
GOVERNMENT

Activities that municipalities undertake with tied-grant financing are generally limited to investments in social facilities, such as stadiums and other sport facilities, cultural and youth centers, and mosques. They also include the upgrading and maintenance of education facilities. Municipalities have in the past also done urgent repairs in schools or painted a classroom. They have also, on rare occasions, purchased school equipment, and, on even rarer occasions, have helped in the construction of a school, by donating land or building a classroom or a sports field.

Municipalities increasing use of tied-grants to finance their own projects is well illustrated by the Plan de Developpement Municipal (PDM), a five-year investment plan whose purpose is to make municipalities identify and rank a list of priority investment projects and propose a viable financing scheme. In the financing plans proposed, municipalities have widely used requests for tied grants from the relevant institutions. Our analysis of the PDMs established in 1986-1991 reveals that municipalities are requesting grants from various ministries for over one-third of their total investments.

The central government sees the municipalities' requests for grants, that they submit to the PDM as a way of finding out the needs for investment at the local level. Although

the municipalities' ranking of projects is not based on any financial or economic analysis, it is, nevertheless, a way for the ministries to use municipalities' knowledge of their locality. The ministries, however, retain the final say over the projects.

ANNEX 6-3
URBAN TRANSPORTATION

The level of fragmentation of the urban transportation service contrasts sharply with the consolidated institutional structure that characterizes the other public services in Tunisia. Despite its fragmentation, and the fact that the companies operate locally, the service is centralized under the jurisdiction of the Ministry of Transportation. The service is shared between the public and private sectors. The public part of the service is supplied by several independent companies offering different types of services and operating in only three major urban centers of Tunisia-- Tunis, Sfax, and Sousse. Five publicly owned companies share the responsibility for public transportation. Three of them are concentrated in the Tunis metropolitan area: the Société National des Transport (SNT) is a national agency for public transportation which operates a fleet of street buses over an extensive network; the Société du Metro Leger de Tunis (SMLT) which operates a suburban light rail system that runs from Tunis to La Marsa, a northern suburb; and the Societe Nationale des Chemins de Fer Tunisian (SNCFT), the national railway company which operates a suburban railway service. Two regional multipurpose companies, the Société Regional des Transports de Sfax (SORETRAS) in Sfax, and the Société du Transport du Sahel (STS) in Sousse, provide urban and suburban transport, as well as freight services.

Municipalities have a very minor role in public transportation services. Their responsibility is limited to authorizing private operations on the basis of the running condition of the vehicles.

CHAPTER 7
THE CENTRALIZATION OF A LOCAL PUBLIC SERVICE:
THE SEWERAGE SERVICE

In the previous chapters, we have demonstrated the limited achievements of the municipal reform. We have seen that decentralization has not taken place since the formulation of the reform in 1975. We have also seen that during this period some local services were gradually centralized. They have been taken away from municipalities' responsibilities on the basis of their incapacity to provide the service. What is the explanation of this paradox? Why are institutions other than local governments are still preferred for the provision of local public services at a time when the GOT allegedly engages in a decentralization policy that should provide local governments with increased responsibilities and that should reinforce municipalities' capacities? What are the fundamental deficiencies that make municipalities unfit for these services in Tunisia? In this chapter, we intend to highlight these precise deficiencies of municipalities by analyzing the process of centralization of one of the services: the sewerage service.

What makes the sewerage service an interesting case is the fact that the service was under the municipal authority at the time of its centralization, but also the fact that it has all the characteristics of a local good from a theoretical point of view as well as from a practical point of view. World-wide practice shows that the form of

provision of sewerage service may vary tremendously from autonomous regional agencies to the provision by the local governments themselves, but that the sewerage service is in most cases provided at the regional or local level.

Kalbermatten et al. (1980) in their study of the appropriate technology for water and sanitation presented a "... generalized example of the various agencies and accompanying functions likely to be involved in water and sanitation program planning and execution..." (p. 94) which indicates that all levels of government might have some involvement in the sector, but that national government involvement is generally restricted to functions such as establishing the sector's legislation, long-term sectoral planning, financial policy, and monitoring of quality and standards. Regional governments are generally involved in the implementation of the national policies, and in the detailed planning and allocation of the state resources. They also share some of the local responsibilities of design construction and operation of the service. Local governments are typically involved in the design and construction, and in the operation and maintenance of the service.

According to professionals in the water and sanitation sector of the World Bank with experience in a large number of developing countries, there exist many forms of institutional arrangements for the provision of the sewerage service involving central, regional and local governments. It is relatively typical to find that large metropolitan areas are

serviced by local or metropolitan institutions, while small urban centers and rural areas are serviced by regional or state institutions. It is also common to find national institutions servicing these rural and small urban areas. Peru and Mexico are examples of this type of arrangement. In Mexico City, the service is provided by local and state institutions, while outside Mexico city the service is under the authority of a national institution.

There are cases where different parts of the service are provided by different levels of government. Typically, sewage collection is handled by local authorities, while discharge control, water treatment and other aspects of the service that have an impact on a wider area are handled at the regional level. This is the case, for example, of Washington DC, where the treatment plant is handled at the regional level because of rigorous standard requirements. In the case of Mexico City, for example, each municipality has its own water and sewerage service. The drainage system to evacuate all waters from the valley, and flood control are handled by the state. There are cases where the service is entirely under local-government institutions, such as in Morocco, and cases where the service is mostly provided at the state level, such as in Brazil. It is exceptionally rare to find countries that have an entirely centralized system.⁵⁸

⁵⁸ Interviews with sanitation engineers at the World Bank.

Tunisia's fully centralized form of provision of sewerage service represents an exception in this respect.

From the analysis of the GOT's motivation to create a new sewerage institution (the Office National de l'Assainissement, ONAS) and centralize the service, we expect to understand and highlight municipalities' deficiencies in Tunisia that made them inappropriate candidates for the provision of the service. We expect also to understand the factors that have made the creation of a new centralized institution a more attractive option and the elements that have made the sector's development a success.

This analysis of the centralization process of one local public service is not an evaluation of the centralized versus decentralized form of provision of sewerage service in Tunisia. We are not arguing that the service should have been kept at the local level, nor are we justifying the centralization. Rather, our objective is to use this case to understand the motivations of the reformers and to highlight what they have considered as important elements in the areas of management and institutional structure necessary for the development of the sector. For that we will rely on the reformers' objectives stated at the time of ONAS' creation, as well as the subsequent development of the institution and the sector during the following decade. We will develop a list of these elements or factors that have determined the development of ONAS and the sector. We will then compare the identified key elements to municipal institutional structures

to highlight the deficiencies that have made them inappropriate candidates for the provision of the service.

We should note that ONAS' development has been a success story on all accounts. At present, no government official in Tunisia would conceive of decentralizing the service as ONAS has brought remarkable improvements in the provision of the service since its creation. On the other hand, many rural areas of the country receive little or no sewerage services. ONAS is reluctant to extend its full service to these remote areas for cost reasons. It is also reluctant to diversify its approaches to the service to include alternative technologies. ONAS has developed an efficient approach for a full sewerage service with a network system and treatment plants and cannot adapt to the specificities of demands of specific conditions of remote areas of the country. Moreover, ONAS faces a growing demand for extension in more densely populated areas of the country, which it cannot meet because of budget limitations

We will begin with an analysis of ONAS' creation and development. We will review: the problems that have motivated the GOT's intervention in the sector, the process of centralization and creation of a new national sewerage authority, and the achievements of ONAS. Through this analysis we will identify the key elements of ONAS' institutional development. We will then conduct a comparative analysis of these key elements within the municipalities' institutional setting.

From this analysis, we will show that municipalities lacked the capacity to provide the service before 1975, and also that the reform was insufficient to provide them with the necessary structure to handle such a task. We will show that municipalities' deficiencies are structural and that there has been a great difference in approach in the institutional development of municipalities and ONAS. ONAS was provided with all the necessary conditions and elements to succeed in its tasks while the municipalities' reform was very limited.

ONAS' DEVELOPMENT: THE PROBLEM

In the early 1970s, the sewerage service was highly underdeveloped and was operating under very poor conditions.⁵⁹ The densely populated areas of the country were already feeling the negative impacts on the environment and on the standard of living, raising awareness about the state of the sewerage sector and calling for intervention. We present the problem of the sector that mobilized the GOT officials to intervene in the following sections.

Insufficient Level of Sewerage Service

In 1974, only 20 municipalities (out of 150) had some form of sewerage system, most of them rudimentary. In many

⁵⁹ The following presentation of the state of the sewerage sector before 1974 is based on several reports of the World Bank written in relation to the World Bank's sewerage project in Tunisia, and other evaluation reports. All of them are internal documents of the World Bank.

municipalities outside large urban centers, sewerage waters were originally separated from other household waters and were discharged into cesspools. Household waters were carried through open ditches and were discharged with no treatment in water courses, in the sea, or in fields where they would eventually dry up. As population density and water consumption increased, open ditches were gradually closed and replaced by pipes. These pipes started eventually to be used for all types of used waters, household and sewerage waters, as well as rainfall waters. The increasingly abundant discharge of untreated waters in the same area created concentrated pollution points near the densely populated urban areas of the country. Moreover, these systems were rapidly saturated and were subject to flooding at each heavy rainfall.

The situation was not much better in cities with older and more developed sewerage systems. In the city of Tunis, cases of sewerage overflows were frequent during the rainy winter months, and the overflow would pollute the streets and stagnate in the low central areas of the city. New urban migrants settled in the oldest part of the city, resulting in overcrowding and in volumes of waste waters in excess of capacity of the sewerage system built at the beginning of the century. In squatters' areas sewerage systems were in most cases nonexistent, even in cities where the systems were relatively developed. Only eight municipalities had some form of treatment plant for at least part of their sewerage.

All of them, however, were overloaded and malfunctioning. Over half of the sewage collected in Tunis--and all sewages in some other cities--was discharged with little or no treatment.

A World Bank team in 1974 valued the total replacement of the sewerage system at US\$ 77.5 million. The same estimates were made for the water supply system and amounted to US\$ 190.0 million. Most of the existing systems, including the new ones built during the 1960s and early 1970s, had planning and design defects that hampered the normal collection and evacuation system. In some cases the gravity connection between parts of the system was not possible. In other cases, the slopes of the system were too flat, creating regular blockage in the system. At times, the pavements for two adjacent streets were built at different levels, preventing the normal drainage of rainfall water.

Experts attributed these planning and design drawbacks to municipalities' lack of technical skills in sanitation. Sewerage systems were also poorly maintained, in large part because municipalities lacked the appropriate material and equipment and financial resources to acquire them. More than half of the sewer accessories, such as manholes, and grit-traps, were out of service. Out of 27 lift-stations that were visited by a World Bank team in 1974, only 5 were functioning. Only large municipalities had some form of equipment, although it too was poor and malfunctioning. Tunis and Sfax each had only one mechanical sewer-cleaning

device, providing only a fraction of the capacity required. Sewer cleaning was undertaken only when problems occurred.

Deteriorating Environmental Conditions

The lack of appropriate sewerage service was already having serious negative impacts on the environment by the early seventies. Some of them were serious enough to mobilize attention and create strong incentives for actions.

The most serious environmental problem created by sewage effluent was found in the greater Tunis area and in the Lake of Tunis. Sewers were discharged with little or no treatment into the Lake of Tunis. The lake had reached such a severe degree of pollution that an eutrophy condition was created beyond the capacity of restoration by self purification. The lake is shallow salt water, one meter deep on average, with seven kilometers in diameter, very close to the gulf of Tunis on the Mediterranean. Although the lake had openings to the sea, these were not sufficient to provide water flushing in the lake to carry the waste to the sea, or even to provide enough oxygen to prevent putrefaction. Foul odors emanated from the Lake of Tunis, in particular during the summer months, which permeated at times over all of the city. The lake was rapidly filling up with carbonaceous material and septic solids. The visual appearance of the lake was also unpleasant, with dark waters and floating solids including dead fishes. The recreational use of the lake has been totally lost.

The problem of water pollution of the Lake of Tunis was not a new one. Neither was the recognition that actions needed to be taken to improve its condition. From 1962 to 1974, nine studies were conducted by various consulting firms and individual experts for the GOT, on the condition of the lake and on the means to restore it to a healthy state. None of them, however, resulted in definite actions.

The GOT was also greatly concerned about environmental pollution on sea shores and beaches in tourist areas, which were often far from urban centers and had no sewerage system; however, because tourism was an important source of foreign exchange, investment for infrastructure in these areas was easily mobilized. By 1974 the only action that the GOT had taken to improve sewerage service was in these areas, as part of the overall tourism infrastructure developed during that time.

The impact on public health strongly motivated the GOT to improve the sewerage service. Despite the progress in the standard of living during the 1960s and 1970s, infectious and parasitic diseases still ranked third in the causes of death in 1972 Tunisia. The incidence of these diseases was in the order of 100 times that of developed countries.⁶⁰ The breakout of some cases of cholera in the early 1970s produced

⁶⁰ The national average of typhoid and paratyphoid cases in 1969 was 30/100,000 population. In Canada, the incidence of these diseases were 0.3/ 100,000 in 1970. (World Bank figures)

an increased awareness of this issue and was a decisive factor for action.

Rapid Development of Water Supply

The need to catch up with the water-supply sector also motivated intervention in the sewerage sector. The existing discrepancy between the two sectors was continuously worsened by improvements in water supply. The GOT had made the water sector a national priority in the late 1950s. In Tunisia, water is a scarce resource, which necessitates careful management and optimal development. In 1956, the government started devoting considerable efforts to the provision of piped water. Since 1968, with the creation of a national water authority (SONEDE) and the rehabilitation of the sector infrastructure, actions became even more significant, with large amounts of investments made. Increase in water consumption and hence increase in waste waters furthered the need for better sewerage facilities. In the early 1970s, reducing the imbalance between the two sectors became a priority objective.

Weak and Fragmented Institutional Structure

Before 1974, the institutional structure of the sewerage service was a reflection of the poor overall state of development of the sector. Municipalities had the nominal authority over the service, from investment to operation.

Their incapacity to provide sufficient levels of service motivated many other public institutions to intervene.

Three government agencies and three ministries had some responsibilities over the sector. Some of those institutions had clearly distinct roles in the service, but others had overlapping functions. The National Tourism Authority (Office National du Tourisme, ONTT), which was responsible for all infrastructure in tourist areas, took the responsibility of financing the construction of sewerage systems in their jurisdictions. The water-supply authority, SONEDE, then received (by decree) the responsibility of operating and maintaining these sewerage facilities in tourist areas.⁶¹ The District of Tunis had the overall authority for infrastructure planning in the 13 municipalities of the greater Tunis area. The Department of Hydraulics of the Ministry of Equipment contributed to the financing of the construction of sewerage systems⁶² and was also responsible for coordinating the needs of various municipalities. The Ministry of Public Health was responsible for the control of effluent from sewage treatment plants as part of its public hygiene responsibility. The Ministry of the Interior controlled and authorized all expenditures by municipalities for sewerage service work as

⁶¹ SONEDE was however unwilling to accept this responsibility because it did not have the personnel nor the budget to undertake the rehabilitation of inoperable plants.

⁶² Under the decree of March 10, 1960, 42% of the costs of sewers construction was to come from the central government--the Ministry of Equipment--the remaining part was born by municipalities 42%, and the beneficiaries, 16%.

part of their control over municipalities' finances. Finally, all municipalities had authority over the sector in their territory. None, however, were very effective in service provision.

Too many institutions were involved in the provision of the service with no clear structure of authority. Some of them were occasional actors, intervening independently. This resulted in a severe lack of coordination and effective planning. On the other hand, when left on their own, municipalities did not have the necessary financial and human resources to provide services effectively. Sewerage service was one of the many responsibilities they had to face with their limited budgetary and human resources.

CREATION OF ONAS

The growing problems just described motivated the centralization of the sewerage service. Centralization began in 1974 with the creation of a national sewerage institution, Office National de l'Assainissement (ONAS) and the initiation of large investment projects for the rehabilitation and extension of the service. The focus was primarily on the Tunis metropolitan area, which had the highest population density and the most severe sewage-pollution problem. The Lake of Tunis in particular mobilized attention.

Municipalities were totally marginalized in the process of reform of the sector. Reformers perceived them as incapable of facing the challenge of reconstruction and

rehabilitation. Indeed, the state of the service, as outlined above, was a strong enough indication of municipalities' incapacity to handle the tasks. No sector study was done. Municipalities' potentials were never formally evaluated, nor was any investigation of the reasons for their failure in the sector or their capacity for improvement ever conducted. Municipalities were, nevertheless, eliminated as potential actors in the new service and in the program of rehabilitation. The alleged reasons were that they lacked the financial and human resources to achieve the required objective.

Determinant Environment

Three factors influenced the decisions and shaped the institutional structure adopted by the GOT for the sector.

First was the need for external financing. To be upgraded, the sector required large infrastructure investments that could only be mobilized by the central government. Although this fact does not by itself explain the centralization of the service, it did influence the institutional structure of the service by creating the need for a system that would allow for the control over the use of funds and for their reimbursement.

Second was the involvement of the World Bank in the financing of the program and its influence on the institutional development of the sector. The World Bank imposed its principles for intervention, standard to the

utility sector. It required that the GOT takes a coherent and realistic sectoral strategy that included: commitment by the GOT and the sector agency to the strategy; cooperation between the government and the agency, use of innovative and appropriate technology; stable and autonomous institutions that are able to meet growing responsibilities; a personnel policy that retains trained staff, and finally, a tariff policy that promotes efficiency, equity, and sound finances.

The third factor to influence the institutional reform of the sector was the newly reformed water-supply sector. In many ways the reform of the sewerage sector replicates the experience in the water sector six years earlier. The World Bank's cooperation with the GOT on the water-supply sector began in 1967 and 1968 when an autonomous national water authority (SONEDE) was created. It was followed in the period 1968 to 1973 by a national water program to improve water supply in areas of high population density and to introduce a realistic tariff system. Long negotiations took place between the GOT and the World Bank to insure SONEDE's managerial autonomy. The GOT was inclined to maintain some level of control over the supply and the tariffs of such a socially sensitive sector.

Six years later at the time when the GOT decided to act in the sewerage sector, SONEDE was already a success story. It became a model for the transformation of the sewerage sector. The similarity in situations between the two sectors (i.e., the need for restructuring the sector, the need for

large investments and external funding, and the World Bank involvement) led naturally to a similar answer: the creation of a new national sewerage authority. Despite the World Bank's obvious influence, there appears to have been considerable unanimity of view between the World Bank and the GOT on what needed to be done to reorganize the sector resulting in productive cooperation.

Institutional Development of the Sewerage Sector

The reform of the sector was led by an extensive institutional development, that went well beyond the one-time creation of a new institution.⁶³ It was a continuous effort of several years to shape and reinforce the structure of ONAS until it was made capable of providing the service efficiently.

This was done with large amounts of inputs and guidance from external sources. The World Bank--in addition to the set of covenants it imposes on the sector as prerequisites for loans--had had an advisory role throughout the formative years of ONAS through the implementation and monitoring of several sewerage projects. Also, a large number of international experts involved in the sector's development

⁶³ The objectives of the reform for the sewerage sector are evaluated by looking at the early documents related to the first sewerage project of the World Bank and the legal document for ONAS' creation. We also used later evaluation reports by the World Bank on the sector's achievements and our own review of the present characteristics of the sector.

provided ONAS with valuable technical assistance during that time.

We will review the reorganization of the sector under two broad categories of interventions. First, the institutional development objective was to provide the sector with a strong, stable, and viable institutional structure. We will refer to this objective as institutional soundness. Second, the financial development and resource mobilization objectives consisted of providing a revenue base for the sector and good financial management. We will refer to this objective as sound finances. From this review, we have identified four key elements that constituted ONAS' institutional development. These key elements will serve as a basis for analysis of municipalities deficiencies in the second part of this chapter.

Institutional Soundness

Reformers understood institutional soundness to mean reinforcing and concentrating the authority over the sector into one institution; providing the institution with autonomous management, and conducting a personnel policy which attracts, keeps, and reinforces skills in the sector. Regaining control over the service was one of the first objectives of the reform. This was translated into the establishment of one centralized institution, which had full authority over the service.

ONAS was created in 1974 (Law no 74-73 of August 3, 1974) to take over the responsibility of the sewerage service, first, in the Tunis metropolitan area, then to extend gradually its service in all other major urban centers of the country. ONAS was given a monopoly position over the service in all areas it has taken under its jurisdiction. In other parts of the country, municipalities continue to operate their own system, some of which will eventually be integrated into ONAS' operations. Today, ONAS holds a total monopoly over the sewerage services in all major urban centers of the country.

Its responsibilities include planning, implementation, maintenance, and operation of all the sanitation infrastructure. It supersedes all other urban development actors in the planning and design of the network, as well as the operation of the network. This applies when public or private developers build secondary or tertiary networks. ONAS supervises these investments, which will eventually be integrated into its own network, and has the authority of accepting or refusing them on the basis of their technical viability. ONAS sets the standards.

ONAS was provided also with an autonomous form of management. The primary reason was to keep the institution far from the political influence of the government. Autonomous management constitutes the first of the key elements of ONAS' institutional development.

Autonomous Management

Financial and managerial autonomy of the service was part of the World Bank's prerequisite for lending in the sector, as it was considered to be the only way to good management. On SONEDE's model, a fair amount of autonomy was awarded to ONAS' management. At the time of its creation, ONAS was set by law as a national public authority, with financial and managerial autonomy and with the capacity to run with some of the principles of private business.

An autonomous board of directors of 15 members representing the various institutions concerned with the provision of the service run ONAS.⁶⁴ The Board of Directors has authority over all of ONAS' responsibilities, from the planning of extension and investments to the operation of the service. The Ministries of Equipment and Finances have only limited control over the implementation of the board's decisions.⁶⁵

As a public institution ONAS is audited a-posteriori for most of its technical functions and its finances. Some of

⁶⁴ ONAS' board of directors is composed of two representatives of the Ministry of Equipment and one representative from each of the following institutions: the Ministries of the Interior, Finance, Agriculture, and Public Health, the District of Tunis, the Municipality of Tunis, and the mayors of municipalities where ONAS operates, the National Agency for Tourism, and SONEDE, the national water supply authority. It is headed by one of the two representatives of the Ministry of Equipment, chosen by the members of the board. This representative heads also the technical, financial, and administrative departments of ONAS.

⁶⁵ The control imposed by the government on ONAS consists of two controllers--a technical controller designated by the Ministry of Equipment, and a finance controller designated by the Ministry of Finance--who attend the board's meetings with a consultative voice and have authority to suspend any decision in their area of competence if they consider it to be in the interest of either the government or ONAS itself to do so.

ONAS' decisions, however, require a-prior approval from the GOT before implementation: decisions concerning tariffs, and wages policies, two areas with socially sensitive implications, and decisions on medium- and long-term loans, which are under the GOT's warranty.

Appropriate Personnel Policy

Providing ONAS with appropriate skilled personnel and with both wages and employment conditions to attract and retain personnel constituted another key element of the sector's institutional reform. This translated into a vigorous training program to create a core of skilled workers.

The World Bank was especially active in inducing and monitoring these training programs. The severity of the technical staff shortage led the Bank to require that an effective training program be instituted as a loan condition. Needs were assessed and a training plan was formulated in 1978. A training and professional development commission was created in ONAS to establish priorities and time tables. Many seminars were held (about 30 between 1976 and 1981), some with the help of European universities, covering administrative and technical topics. Visits to sewerage authorities in foreign countries were organized as study programs. An on-the-job training program was established, by which every supervisor had the responsibility of training subordinates. ONAS attaches a lot of importance to this

program and believes that it has been an essential factor in establishing an effective sewage treatment system.

Financial Soundness

The influence of the World Bank, through loan requirements and technical assistance, was also determinant in setting ONAS' financial structure. Although some of the World Bank objectives have never been reached--such as the objective of self-financing--both the GOT and the World bank had reached complete agreements on these objectives.

The set up of financial principles was not a one-time process. First, the World-Bank's standard principles for utility projects were applied. Also, lessons learned through the process of development of the water sector were applied to the sewerage sector. Then, the financial principles were extended and adapted to the particularity of ONAS' situation as new problem areas emerged. It was a process of trial and error, which required constant monitoring efforts by the reformers.

The overall set of principles for financial soundness finally applied to ONAS falls into two categories: (i) appropriate tariff structure and financial viability, and (ii) resource mobilization and appropriate financial management. These are the two key elements identified as constituting ONAS' institutional development.

Appropriate Tariff Structure and Financial Viability

Financial viability meant that ONAS was to earn a rate of return on net fixed assets sufficient to provide a reasonable margin for self-financing of capital expenditures. This requirement was to be reached as rapidly as possible and was part of the first project agreement with the World Bank. This meant that ONAS had to have an appropriate tariff structure and an efficient revenue-collection system.

The reformers provided ONAS with a complete cost-recovery mechanism. Operating costs are to be recovered through a surcharge on water consumption and collected by the water-supply authority. Rates applied are based on the operating costs of the service adjusted by a subsidy provided by the GOT.⁶⁶ Investment costs of the networks are partially recovered by a fee system based on the length of the frontage of the property. Finally, individual connection costs are entirely recovered from the beneficiaries through a flat fee representing the costs of connection. The primary networks, which include treatment plants and large axes are financed entirely by the GOT.

The GOT continues to provide large subsidies to the sector despite the objective of self-financing. For the Government of Tunisia, the improvement of the sewerage service brings about externalities that justify the partial

⁶⁶ A subsidy of TD 0.04/m³ of water consumed is provided by the GOT. Also, different tariffs are applied to the various consumers; small consumers are exempted.

subsidy of the service. Indirect benefits are said to accrue to all citizens through improvements in public health, in the environment--which resulted in increased land value around the Lake of Tunis for example--, and in tourism, and justify the financing of part of the service by national taxes.

The GOT also insisted on providing subsidies to the sector to soften the introduction of fees to a population unaccustomed to collections for sewerage service. ONAS was to move gradually towards a greater reliance on tariff revenues. Every year, ONAS and the GOT negotiate the tariffs that ONAS will apply and try to achieve several, and at times conflicting, objectives. First is the objective set by the national plans to extend the service, take over new systems in other cities, and meet the growing demand. Other objectives, encouraged by the World Bank, are to improve revenues and decrease subsidies in order to come closer to a self-financed service. At the same time, the GOT's social considerations require it to insure affordability of the service to the population. Despite fifteen years of tariff practices, the GOT and ONAS have not been able to adjust the tariff to the point of self financing. The service continues to be subsidized.

Resource Mobilization and Good Financial Management

The resource mobilization component consisted of insuring the sector access to resources for the much-needed investments to rehabilitate and extend the service. The

World Bank has been insisting on the need for resource mobilization as one of the key elements for a successful strategy in the sector. Its lending to the sector alone was not sufficient to meet the considerable needs for capital. In addition to the required participation of the GOT in investment in the sector, the World Bank encouraged and helped the GOT to obtain other financing, both under a co-financing arrangement and independently. The help of the World Bank was very beneficial. Its involvement attracted some grants to the sector and other independent lenders, some of which relied on its appraisals. In 1980 about half of the sector's outstanding debt was to lenders other than the World Bank group.

In addition to financial viability, providing ONAS with good financial management was also an important objective for the sector, although it was not an explicit part of the requirements for the Bank's lending activities. The realization of the need for better management tools and practices came out through the years, and important efforts were deployed to develop them. Among others things, they included better accounting systems, expertise in assets inventories, and overall control of the financial system. These improvements involved a several year process of consultation, advice, and training of ONAS staff, with the assistance of the World Bank.

ONAS' ACHIEVEMENTS

The GOT and the World Bank agree that the development of the sewerage sector has been successful on most accounts. The World Bank, which has very close links with the sector, considers its involvement in the Tunisian water supply and waste disposal sector as one of its most successful experience in this sector. The sector success has been evident in both the levels of service and the institutional development of the sector.

Improvement in the Level of Service

By 1988, ONAS had extended its service to most urban centers of the country: Tunis, Sfax, and 27 other cities. It was providing full sewerage service to a population of 1.9 million inhabitants--that is about 50% of the urban population of Tunisia and 24% of the total population.

ONAS' achievements measured in terms of new connections and increases in the level of service are sufficient to claim the success of the sector's development. The original objectives--to catch up with the water-supply sector and to take over the sewerage service of all cities over 10,000 inhabitants--were very ambitious, and ONAS had to respond to the rapidly growing urban population in the cities under its control and to cope with the shortfall in the amounts of the credits it was hoping to receive from the GOT.

The improvement in the level of service and the rehabilitation and extension of the system was achieved through ambitious programs and large investments. The GOT allocated increasing capital expenditures to the sewerage service through the national development plans, demonstrating the new commitment of the GOT to the service. From TD 8.9 million between 1969 and 1972, the national plans allocation to the service increased to TD 93 million for the 1976-1981 plan and further increased to TD 120 million for the 1982-1986 plan. These amounts are significant compared to the TD 19 million estimated value of sewerage sector assets in 1975.

Moreover, various sources contributed large amounts of financial assistance: The World Bank, Saudi Arabia, Sweden, and the EEC. The World Bank has taken the lead in the sector with three major projects, implemented between 1975 and 1990. The total investment in the sector by the World Bank assisted projects amounted to US\$ 238.2 millions.

Institutional Development

The institutional development of the sector also was considered to be successful by all. According to the World Bank, although still slightly understaffed, ONAS operates relatively well as a mature institution and has acquired appropriate managerial tools and practices. It is staffed almost exclusively with qualified Tunisian managers, engineers, and technical workers.

To the reformers, the institutional development of the sector was as important as the extension of the service. Much was engaged into ONAS' development. The process was gradual. It took several years of readjustments and reformulation of policies to arrive finally at this level of development. Loan requirements were also important in setting the objectives for the development of the institution. The World Bank's close monitoring of ONAS has helped identify problems and appropriate solutions as they arose.

ONAS' development was carried out with much international and local consulting and technical assistance, particularly in the first years of its creation. They helped set the appropriate managerial, financial, and technical operating mechanisms, and transferred expertise to the local staff. The number of consultants decreased gradually throughout the years. Today only a few full-time consultants remain in ONAS.

Training programs were one of the most significant factors in ONAS' development. Before its creation the sewerage sector was totally lacking personnel specialized in sewerage service. The World Bank estimated that, within a sample of 21 municipalities, 562 were employed in the sewerage sector, of which 350 (62%) were employed by the municipality of Tunis. Among the 562 employees only 25 had some skills related to the sewerage service, and 20 of them were attached to the municipality of Tunis. By 1987, ONAS

accounted for 1869 personnel--115 were managers, 427 were technical professionals and 1327 were workers. This was the result of an extensive training program which started in 1978.⁶⁷ It included formal, on-site, and on-job training.

Sound financial management was also an important focus of ONAS' institutional development. By the end of 1988, ONAS had a sound overall financial position, despite the fact that some of the objectives were never attained. This was not achieved easily. It also took several years of training and effort for ONAS to acquire the desired financial management practices. Two examples can be cited. ONAS' accounting had serious deficiencies. By 1988 these deficiencies were overcome, after an aggressive program to improve accounting expertise set during the second sewerage project. Also, ONAS' capacity to carry asset inventory took many years to mature. Assistance to develop the necessary skills was programmed as one component of a sewerage project.

Limitations of ONAS' Success

The widely recognized success of ONAS is based primarily on ONAS' capacity to provide the sewerage service reasonably well and resolve the serious environmental problem that had originally motivated the intervention in the sector. Its success is measured in terms of level and quality of service provided and the number of people served. This restricted evaluation of ONAS' success leaves out many other criteria

⁶⁷ Between 1980 and 1987; 1,400 employees underwent training.

that are of lesser priority to the GOT's most fundamental concerns, but that are still worth mentioning as areas in which ONAS might not have been as successful.

First is the equity criteria--a difficult one to evaluate. ONAS' intervention strategy, which gives priority to the large urban centers of the country, creates an obvious imbalance in the allocation of the sector's resources between the most and the least urbanized regions. ONAS rightly claims, however, that the emphasis on the most densely populated areas of the country is justified by the fact that it is in these areas that the environmental hazards are the highest and the needs for services most urgent. If, as ONAS seems to suggest, we use environmental cleanliness as a benchmark for equity rather than the amount of funds allocated to a region, then the answer to this equity issue is not as clear cut as in expenditures. Equity is even more difficult to determine if sources of financing are taken into account.

There are, however, some inequities in access to the service--in the level of service provided between large urban centers and less densely populated areas of the country and even between areas within cities under ONAS' responsibilities. ONAS' limited resources combined with the rapidly growing demand for the service in the urban areas has made it incapable of extending its service to all urban areas and to more remote areas of the country.⁶⁸ In most of these

⁶⁸ ONAS is largely dependent on central government subsidies for extension of the service.

poorly serviced areas, a full sewerage service is not always necessary and is often more costly than alternative systems. ONAS has been continuously reluctant to diversify its full service approach to the service--which include networks and treatment facilities.

It justifies its position by claiming that the level of service provided is the minimum acceptable level of service within these urban areas in view of their current density and their level of water consumption. ONAS claims also that since the demand for service in the large urban centers are not entirely fulfilled, they cannot divert resources to areas where the service is less urgently needed. These justifications are to a large extent valid.

ONAS' urban bias and its refusal to adapt to other alternative methods of providing the service, however, have created some inequities in access to the sewerage service between these areas which require full service and the others. If ONAS was ready to consider alternative systems for the service, this would have opened up the option of servicing other areas that require alternative systems, and that are for the time being deprived from any adequate service. This could have also been done at lower cost and therefore increased the access to the service for the same amount of resources used. Should ONAS also have equitable access to the service as an objective? Or does the task of providing alternative sewerage disposal system belong to some other institution? After all, ONAS' success has been in

large part due to its capacity to master technically the full sewerage service.

Second, there are many reasons to think that ONAS' excessive centralization has been detrimental to its efficiency. All questions, including those related to the simplest implementation tasks, are sent to Tunis for decision and approval, making work at the local level very slow. Such extreme centralization presents some managerial drawbacks. ONAS' managers have recognized this for many years, and a deconcentration program--which includes staffing regional offices with more capable people and providing them with more authority--has been part of ONAS' planning for as long.

Excessive centralization also appears in ONAS' lack of responsiveness to local governments and to local people. We have discussed in the previous chapter the limited coordination that existed between ONAS and the local governments. ONAS, as well as the other national authorities in charge of local services, tend to act at the local level according to their own planning and at times overriding local decisions and local plans. The situation has been improved recently through more contacts between the various parties. ONAS' accountability to the center, however, still determines its actions.

MUNICIPALITIES' DEFICIENCIES

We now turn to the municipalities, the focus of our analysis, to understand what the deficiencies are that have

made them inappropriate candidates for the provision of sewerage services. We have previously mentioned that the reformers rejected the option of keeping municipalities as the authority responsible for the sector because municipalities allegedly lacked the financial and managerial capacity to handle the service. No evaluation of the municipalities' potential for improvement or further precision as to their deficiencies was made, however.

To arrive at a better understanding of these deficiencies inherent to municipalities, we will use the same four key elements that constitute ONAS' institutional development and compare them to municipalities' institutional structure and their potential for change. These identified key elements of ONAS' development will appear under the following headings: institutional autonomy, appropriate personnel policy, self-financing, and resource mobilization and appropriate financial management.

Institutional Autonomy

Autonomous management was the single most important criteria set for ONAS' creation. It was achieved relatively easily because of the successful example of the water-supply institution, SONEDE, created a few years earlier. ONAS was provided by law with an autonomous managerial and financial structure.

This emphasis on autonomy is based on the widely accepted view that a more efficient provision of public

services is achieved through a specialized autonomous institutional structure. In developing countries, in particular, the development of public autonomous institutions has been the most popular form of institutional development for the provision of public as well as private goods and services. For the State, it is a way to capture some of the advantages of commercial forms of management of privately run businesses while still keeping some control over the provision of the services. Various forms of semi-public autonomous institutions for the provision of public, as well as private, goods and services abound all over the world.

At the local level, such examples of alternative institutional arrangements for the provision of public services are less common, in particular in developing countries.⁶⁹ These alternative arrangements can take several forms from delegation and subcontracting to privatization and regulation. They consist of giving some form of autonomy over any of the three basic functions involved in the provision of the service--planning, production, and financing--or part of them, to another institution.⁷⁰ A selection of functions remain under the control of the local government.

⁶⁹ Some local governments in the United States have exploited some of these options. They remain, however, the exception rather than the rule.

⁷⁰ The three activities come from a topology of local public services provision by Savers (1977).

There is only one such example of an alternative form of institutional arrangement for the provision of public services in Tunisia: Some municipalities subcontract the management of markets to private entrepreneurs for flat yearly fees. It is an old practice that municipalities use almost as tradition and which has remained an uncommon form of arrangement for the provision of a service.

Municipalities have not been able to develop any modern forms of alternative arrangements for their services, the main reason being the incomplete legislation to support it. It is also due to municipalities' inability to design such an arrangement on their own. They have no experience in the country upon which to draw for examples.

The 1975 municipal law (the Loi Organique des Communes, LODC) provides municipalities with the basis for creating alternative forms of management for the provision of their services. According to this legislation, they are allowed to create regies, which are old institutional forms of semi-autonomous provision of services that have always existed in the French model of municipal government, including Tunisia, but which provide only a limited level of autonomy. Since 1975, they are also allowed in principle to create financially autonomous institutions with the approval of the Ministry of Finance and the Ministry of Interior.⁷¹ The creation of such institutions still requires, however, that

⁷¹ LODC, Chapter VII, Article 141 and 151.

the GOT establishes a decree. Such a decree has never been made in Tunisia--not one single case of such a financially autonomous local institution for local public services has ever been created.

As we can see, municipal legislation is indeed limited, as is its application. In the late 1970s, the GOT held some preliminary discussions with the World Bank on the potential of an autonomous management for the provision of the garbage-collection services in the municipality of Tunis. This was to be an experimental case to be generalized to other municipalities if successful, but it never materialized. The GOT made no other attempt at creating an alternative form of arrangement for the provision of local public services.

At the time of ONAS' creation, reformers never considered the creation of a local autonomous institution for the sewerage services either. Without any investigation into the possible options, it appeared that the only form for provision of services at the local level was by municipalities themselves, that is, in a consolidated form of institutional arrangement. For the reformers, this option was not a viable one. Municipalities are still victims of this perception that no other form of provision of the services is possible at the local level except on-force account, that is, in-house.⁷² Local provision of services is always confused with provision in house by municipalities.

⁷² Interviews with government officials.

**Development of Skills and
Appropriate Personnel Policy**

Municipalities have been deprived of their authority over sewerage services on the basis of their lack of skills. At the time of ONAS creation, municipalities had fewer than 30 people in total that had some skills related to the provision of sewerage services.

This lack of expertise in the sector was not specific to the municipalities, although it was one of the reformers' justification for ONAS creation. The lack of expertise was a national problem, as sewerage-related technical skills were not available in the whole country. ONAS had to engage in major training programs and received technical assistance for several years to build the level of skills necessary for the provision of the service.

On the one hand, we can argue that these training efforts could have been conducted at the local level. Municipalities would have benefited greatly from such extensive training programs which would have improved their technical and managerial capacities. Municipalities have never received a comparable skills-formation effort. On the other hand, training and skills development are more easily achieved within a single institution for three reasons. First are the reasons of economies of scale. One single institution requires fewer skilled people than do several institutions, where skills would need to be duplicated as

many times as there were institutions. Therefore, fewer resources are necessary for training. Second, concentration is also beneficial for sharing knowledge. On-the-job training was one of the components of ONAS' training programs. Finally, concentration of effort into one institution is also more efficient at building institutional knowledge and a tradition of practice, as clearly demonstrated by ONAS' institutional success.

Self-Financing

The goal of self-financing meant for ONAS a greater reliance on tariff revenues and, therefore, a well-defined cost-recovery mechanism. Although ONAS never reached its self-financing objective, it has nevertheless developed a complete tariff and user-fee system. ONAS' operating costs are recovered through a surcharge on water consumption managed by ONAS, and parts of its investment cost are recovered by a fee system charged to the direct beneficiaries. ONAS continues to receive substantial subsidies from the GOT. Some are justified by the fact that the sewerage service is partially a public good. Other subsidies are provided to close the gap between the cost of the service and the insufficient tariff and fee revenues.

In comparison, the municipalities' cost-recovery mechanism for sewerage services was--and continues to be--highly underdeveloped. Municipalities have no tradition of cost recovery. We have previously examined (in Chapter 4)

the municipalities' general user-fee system and have shown that its structure was underdeveloped and its revenues limited. When they do charge for services, municipalities recover at best a very modest share of their costs. Our analysis also revealed the potential ways for municipalities to recover costs of sewerage services. None of them, however, are specifically designed for sewerage services as there are no sewerage-fees or sewerage-tariffs per se.

First, we will review municipalities' sources of subsidies, because subsidies represent such an important source of revenues for ONAS. Can the same reasons for subsidizing ONAS be applied to the municipalities? After all, the GOT provides such heavy subsidies because it feels that some of the benefits of the service--such as the environmental improvements--are national public goods and also that it is necessary to avoid levying excessive sewerage charges on the population.

The GOT has never provided subsidies to municipalities to finance specifically the sewerage service. Transfers from the Fond Commun des Collectivites Locales (FCCL) and other investment subsidies are general subsidies allocated to finance many other competing sources of expenditures.⁷³ We estimate that ONAS has received in subsidies at least one-third of the total amount of subsidies received by all municipalities during the 1981-1987 period for all their

⁷³ The FCCL transfers amount to as much as 45% of municipalities' revenues.

expenses--the same amount of subsidies transferred to the municipalities would have tremendously increased their capacity finance the sewerage service.⁷⁴ Furthermore, at the time of ONAS' creation, a share of the FCCL fund (8%, reduced to 7% in 1986)--perceived as representing the share of the transfers to finance the sewerage service--was allocated to ONAS. In the process of centralization of the service, municipalities not only lost the function, but also some of the revenues attached to it.

A traditional source of revenue to finance sewerage services at the local level is the property tax. As discussed in Chapter 5, Tunisian municipalities do have a property tax based on the rental value of properties called the Rental Value Tax (RVT). There is no indication, however, that this tax was designed to finance in part sewerage services. The RVT is composed of a sum of several taxes assessed and levied as one tax with the same base and rate, while serving different purposes. One of these subtaxes is a maintenance and sanitation tax, designed originally (1920) to cover the cost of providing garbage-collection services. It was never formally extended by legislation to cover the cost of sewerage services.

⁷⁴ ONAS received TD 123 million in transfers from the GOT (FCCL funds not included) in 1979-1987--an average of TD 15.4 million per year--for both operating and investment expenditures which covered 70% of their investment expenditures and 33% of their operating expenses. Municipalities total transfers and subsidies varied between TD 25.7 millions and TD 59.7 millions between 1981 and 1987 for all their expenses. (See Table 4-12.)

If we assume that the RVT should also serve to finance the sewerage sector--because a property tax captures part of the increase in value of properties resulting from improvements by the public sector through infrastructure investment or any investment--the total yield of this tax (TD 8.32 million in 1985) does not represent more than a fraction of ONAS' operating costs (TD 15.6 million in 1985). Moreover, municipalities do not have the authority to modify the rate and base of the tax to adjust their revenues to the cost of their services.

Finally, municipalities do not have the necessary tools or appropriate mechanism for direct cost recovery from beneficiaries. Only two articles in the municipalities' legislation refer to fees related to sewerage service. The first one, Article 132, Chapter III, of the LODC, does provide municipalities with the right to charge direct beneficiaries--defined as the neighboring property owners--for all the costs of construction or renovation of streets, sewerage networks, and flood control infrastructure. The legislation, however, is again short of providing them with the necessary tools to implement this right. A decree setting the condition by which municipalities can recover their expenses in infrastructure investment is required by the legislation. Such a decree has never been promulgated.

Municipalities make up for these deficiencies by referring to an older decree, dating to 1887, and the modifications and complements that were added to it during

the first part of this century.⁷⁵ They provided municipalities with the legislation to charge direct beneficiaries--defined as property owners of the streets of a neighborhood adjacent to the infrastructure--for the total cost of their infrastructure investment. The division of the cost between beneficiaries is evaluated on the basis of the linear meter of frontage of the property (decree of 1942). This decree also sets the maximum amount that the municipalities are allowed to raise for sewerage construction. This maximum amount is not only way out of line with the present day costs, but it is also nominated in francs, the currency used at the time but not used since independence.

Based on this outdated legislation and on Article 132 of the LODC, municipalities and other institutions involved in the provision of infrastructure at the local level have developed solutions on a case-by-case basis. One of these consisted of establishing a new updated decree, that was implemented without legalization.

In other cases, municipalities have relied on voluntary contributions for the construction of sewerage infrastructure and other social facilities--as in the case of the municipality of El-Mida. As a general rule, however, municipalities do not charge for the cost of their investment

⁷⁵ The decrees of 31/01/1887 and 04/18/1890 modified and completed by the following decrees: 10/23/1908, 10/08/1912, 07/30/1923, 11/07/1923, 01/15/1927, 03/09/1927, 12/30/1928, 02/19/1932, 11/05/1934, 04/09/1942, 03/31/1955, 01/19/1956.

and most often they do not invest in sewerage infrastructure due to lack of funds.

The second article of municipal legislation, which refers to the recovery of costs of the sewerage services, covers only the costs of maintenance of sewerage connections. This provision is found in the 1976 decree which updates municipalities' fee system (Article 33, Chapter III). It imposes a standard fee per connection, with a maximum limit of TD 3 per year. Other maintenance costs and investment costs of connections are not covered by this legislation. Municipalities have never had a sewerage tariff or fee to cover their operating costs. It is therefore, not surprising that municipalities did not have, and continue to lack even today, the necessary revenues to provide the sewerage service. Municipalities do not have an appropriate legal base nor clear mechanisms to recover the costs of the sewerage service.

By comparison, the reformers provided ONAS with a clearly structured and well-defined cost-recovery system. ONAS received technical assistance and ample guidance for its implementation and sizeable subsidies from the GOT to complement insufficient tariff revenues.

Resource Mobilization and Appropriate Financial Management

To achieve what was called financial viability or financial soundness, reformers made sure that ONAS had access

to credits for the large amounts of investments required to rehabilitate and extend the service. The World Bank was very instrumental in setting the conditions necessary to attract other creditors to complement its own lending and to insure the important financial commitment of the GOT to the sector. The World Bank organized some co-financing. Moreover, independent lenders were attracted by the assistance, the training, and the monitoring the World Bank provided to the sector.

Could credits have been mobilized for the municipalities as well? If ONAS was not required to finance its investment from its own savings but was rather provided with the necessary loans, municipalities could similarly have been granted the necessary credits to rehabilitate the sector. Municipalities, however, were not--and are still not--credit-worthy for such loans. Their lack of credit worthiness is not due to an excessive debt load, but rather to their inappropriate cost-recovery mechanism and a revenue structure, which make the financial sustainability of the service and debt repayment infeasible. It is also due to their lack of appropriate financial-management practices.

In ONAS' case, good financial management was an important component of its institutional development and much effort was put into providing ONAS with the necessary skills and tools to achieve it. Good financial management started by the financial autonomy requirement, one of the main emphases of ONAS' institutional setting. It included an

appropriate cost-recovery mechanism, to insure revenue for sustainability of the service. It also meant the development of tools and practices of good financial management.

Appropriate tools and practices for good financial management meant primarily the development of an appropriate accounting system, which includes the adoption of commercial accounting. With technical assistance and training programs, ONAS developed the necessary skills in accounting and financial management. It required effort, guidance, and time before ONAS was said to have acquired adequate financial practices.

The GOT had the need to control the use of the large amounts of funds channeled to the sector and evaluate ONAS' financial position for credit worthiness purposes. As ONAS contracted large debts, most of which came from external sources, good financial management was necessary not only for monitoring ONAS' financial performances, but it also became a prerequisite for acquiring more loans.

Municipalities are lacking the basic elements for effective financial management. They lack the necessary legislation to set up an autonomous financial management for the services they provide. Neither do they possess the skills necessary for a commercial type of financial management.

Municipal accounting does not extend beyond the traditional unitary budget necessary for the provision of public goods, which combines all revenues and allocates them

unspecified to all expenditures. It is an accounting system adapted to the provision of public goods and services financed through taxation. It does not provide for an independent accounting for each service, for the allocation of revenues to specific expenditures or the calculation of costs of service.

The present municipal legislation does not provide any base to set up such an accounting system for its services, and, in practice, no previous example of autonomous financial accounting or commercial accounting was ever established at the local level. Moreover, municipalities are totally lacking in expertise for commercial financial management. It took ONAS several years with a lot of assistance and guidance to acquire such expertise.

CONCLUSION

Our objective in this chapter was to explain what has motivated the creation of a new centralized institution for the sewerage sector in the midst of a decentralization reform, by highlighting the deficiencies of municipalities that made them inappropriate candidates to provide sewerage service.

Municipalities' Deficiencies

Municipalities had lost their responsibility over the sewerage service allegedly because they lacked the financial and human resources to provide the service. We have seen

that municipalities did indeed lack both resources and were incapable of efficiently providing the service as shown by the state of the sector before the creation of ONAS. We also found through this analysis, however, that the reason for their incapacity to provide the service extended far beyond these two issues. Municipalities' institutional underdevelopment and their insufficient legal base have been, and still are, major obstacles to the efficient provision of services.

Municipalities lack the necessary legislation to provide the service through an autonomous form of management. This represents the most important element in ONAS' creation and successful development. Municipalities continue until today to provide all services in the most traditional efficiently management of local service, that is on force account. Their legislation does not provide for alternative arrangements for more efficient provision of public services.

Municipalities also lack the necessary legislation to raise revenues. They have no adequate tariff structure and user charges to recover their costs. ONAS, on the other hand, was provided with a complete system for cost recovery. Municipalities also lack the basic tools and practice for effective financial management; for example, their accounting system remains solely based on the 19th century model of public accounting. The absence of a cost-recovery mechanism combined with inadequate financial practices have been obstacles to providing municipalities with the credits that

would have been necessary to rehabilitate the sector in a decentralized manner. ONAS, on the other hand, was given the financial structure to receive the necessary credits.

The first conclusion to be drawn from the previous analysis is that municipalities' deficiencies are primarily institutional. Their lack of appropriate institutional structure made them inappropriate candidates for the provision of the service.

Why Centralization?

This case illustrates the failure of the 1975 reform to provide municipalities with the necessary structure to operate efficiently. It illustrates further the important differences between the institutional development of ONAS and that of the municipalities. The consistent efforts and resources put into ONAS' development contrast with the hesitant and incomplete municipal reform. What prevented the GOT from enacting a local level reform that is as extensive as the one at the national level for ONAS? Why was the development of municipalities capacities to provide the sewerage service never considered as an option?

There are several explanations that come from the analysis of the motivation of ONAS' creation. The most important is that the institutional development of the sector is more easily achieved in one centralized institution as illustrated by four factors. First, the reformers explicitly set out to achieve a coherent sectoral policy by

concentrating the authority for the sector in one institution. Second, the GOT maintained a close and critical relationship with ONAS to control, review, and approve all financial and planning decisions. That is: the GOT controlled the allocation of large amounts of credits provided to the sector; controlled the tariffs and user charges policy in order to keep them coherent with the wage policy of the country and with the targeted investment programs in the sector; and finally controlled the financial management of the institution necessary because of the large amounts of loans required for the renovation and extension of the sector. Third, institution building and development are long-term processes of individual and institutional learning, which are optimized when concentrated in one institution. Fourth, monitoring and assistance by the reformers, that played an important role in the development of ONAS, are more easily done in one single institution. These factors have allowed, in the case of ONAS, a constant monitoring of the development of the institution and continuous revision of the objectives in order to correct the deficiencies of the institution. This list, although not exhaustive, gives some of the reasons why the reformers preferred to centralize the service.

Also, we should not overlook the obvious attraction of designing a new institution to meet set objectives, rather than trying to reform imprecise local government legislation

and weak institutional structure to fit the needs of the sector.

Finally there are two other factors that might have influence in the reformers' decision to centralize the service, but for which solutions could have been found at the local level. First is the incorrect perception that there is no alternative managerial forms of provision of local service other than on force account, that is in house, by municipalities. We have already mentioned that in Tunisia as in many countries options for alternative arrangements for the provision of service are often overlooked because of the lack of experience and examples to refer to.

By the same token, if local provision of services implies provision in-house by each individual municipality, the large number of small municipalities must have been a great disincentive for keeping the service at the local level. It is evidently inefficient to provide a sewerage service from each single municipality. It would also eliminate the potential of capturing the benefits of economies of scale. Although there is no evidence about what is the optimal size of a sewerage service institution, it is clear that some concentration is necessary to provide the service efficiently.⁷⁶ This does not require, however, such an extreme concentration into one national institution. Most

⁷⁶ After citing several studies, Bird (1978, p. 27) concludes on the issue of optimal scale of production of services that "...very little is known about the relationship between the cost of producing a service and the scale in which it is produced."

economies of scale are achieved through population density rather than geographical extent. Solutions could have been found by creating autonomous local sewerage authorities in each region or for each large agglomeration, each serving several municipalities under some form of intermunicipal cooperation.

The second conclusion to be drawn from this analysis is that the centralization was the outcome of the search for the easiest way to set the institutional structure necessary to provide the service efficiently. Our analysis of the motivation of ONAS' creation point to the fact that the institutional development of the sector is more easily achieved in one centralized institution. The most important justification for centralization of the service is primarily managerial.

Rationale for the Division of Responsibilities

None of the reasons presented above are sufficient reasons to eliminate entirely the option of keeping the service at the local level. Rather, they are strong incentives for the GOT, which is in search of the fastest way to provide the service efficiently, to create a new centralized institution. A solution to provide the service at the local level may have been found in some form of autonomous local or regional institutions under inter-municipal cooperation if there had been a strong motivation to keep the service at the local level. Surprisingly, the

decentralization policy objective which started to be formulated in the same period, was not sufficient motivation. Even more surprising is the fact that the decentralization policy objective has never raised any controversy or obstacle to the reformers' decision to centralize the service.⁷⁷ Managerial improvement in the sector, which would insure the effective provision of the service, was by far a more important objective than the perceived potential benefits of keeping the service at the local level. The decentralization policy objective was, in the process, forgotten.

The third conclusion to be drawn from this case is that the GOT's rationale for distribution of services between the central and the local governments was motivated by what we define as "a priority objective for an effective production and delivery of service". The GOT's priority was to provide the service as fast and efficiently as possible in order to resolve the environmental problem created by the inadequate sewerage service. The the desire for an "effective production and delivery of service" override the advantages of participation and adaptation to local preferences.

Centralization versus Decentralization

Can we claim from this case that centralization is the best institutional arrangement for the provision of the sewerage service? Our objective in this chapter was not to

⁷⁷ Some government officials seemed surprised by the parallel drawn between these policies and their obvious contradiction (in our interview with them in January 1989.)

conduct a comparative analysis of the decentralized versus the centralized form of provision of services. This would have required a different type of analysis. Our case does indicate, however, that if the objective is primarily to provide a defined level of service as rapidly and technically efficiently as possible then centralization presents obvious advantages.

In countries like Tunisia that lack the necessary skills and institutional structure to provide the service, centralization helps make the best use of financial resources and technical assistance to achieve this objective. Centralization also gave ONAS the necessary proximity to the central government for it to be responsive to its needs. The replicability of this experience to other countries should be evaluated with caution. The relatively small size of the country makes a national sewerage authority a surprising, but not a totally unconceivable, form of arrangement. Other particularities of this case include, the commitment of the GOT to act upon the environmental problem, the World Bank's heavy involvement, which was key to mobilize resources, technical assistance, and know how not otherwise available in Tunisia and finally, the availability of large amounts of financial resources to be invested in the sector. All of these factors contributed to ONAS' success.

Centralization might not be the appropriate approach to achieve other objectives that may be more valued by decision makers. One such objective might be to establish good

communication between service providers and the people served and better responsiveness to local demand. Planning and priorities would be defined at the local level. This in itself does not necessarily insure more equal access to the service, but it gives more opportunities to the local population to make their claims. ONAS was known to be not very responsive to local demand. Moreover, a better adaptation of the level of service to local conditions and local needs--by the use of alternative methods of sewerage disposal--might be desired to better use of resources if less costly systems are used whenever possible, and to extend the service to areas that do not require a full sewerage system. This would also, consequently, improve equity. We have seen that in the case of ONAS a full sewerage system approach to the service limited its capacity to reach less densely populated areas of the country. Finally, higher levels of economies of scale might be reached with more decentralized systems because optimal cost efficiency is not necessarily achieved with a national provision of the service.

CHAPTER 8

SUMMARY OF FINDINGS AND CONCLUSION

Our objectives for this research were to investigate the paradox of over fifteen years of an alleged decentralization policy with no apparent result and the simultaneous actions that contradict this objective, i.e., the systematic centralization of local public services. Our goal was to explain the paradox of a systematic centralization of local public services during the general commitment to decentralize in Tunisia. Our research was broken down in two parts. In the first part, we analyzed why the decentralization reform failed to transform local governments in active participant in the public and economic life of the country, and, in the second part, we analyzed why the sewerage sector was centralized while the decentralization policy was being formulated and implemented and what the rationale was for allocation of responsibilities between levels of governments in Tunisia.

SUMMARY OF FINDINGS

Our analysis started with an overview of the context from in which the reform and policies aimed at reinforcing local governments were formulated and implemented (Chapter 2). From this overview, we concluded that the GOT does not have a clear commitment to the decentralization initiative, and that this lack of clear commitment is at the source of the failure of the decentralization initiative. This lack of

commitment is apparent in the GOT indirect motivations for the decentralization reform and hesitation and fear of excess decentralization. The assessment of the decentralization efforts, in Chapters 3, 4, and 5, indicated that, although the reform introduced many improvements to the local government system, it fell far short of establishing municipalities as decentralized units of government.

The analysis of the role and responsibilities of sub-national governments, as defined by the new legislation set forth by the reform indicated that despite the fact that this legislation represents one of the major achievements of the reform, it is still very ambiguous in its definition of the new role of the local governments (Chapter 3). It provided local governments with seemingly ambitious responsibilities over the economic and social development activities in their locality, but these functions were restricted to an advisory role with no enforceable authority. Also, the new legislation imprecisely defined the other functions of the municipalities, leaving room for many interpretations. Finally, no functions have been effectively decentralized to the local government by the reform. The imprecise definition of the role of the local governments reflects the GOT's hesitation and ambiguous position about decentralization. The result of this ambiguity has been an insufficient legislative structure to support the transformation of local governments in decentralized authorities capable of providing local public services efficiently.

Our analysis of the financial reform in Chapters 4 and 5 indicated that important improvements were introduced in the local government financial system. The reform did improve municipalities' revenues substantially and initiated fundamental changes in municipalities' financial management. These improvements were, however, insufficient to provide the local governments with the level of revenues and the financial practices compatible with decentralization.

The financial reform introduced two new taxes--the tax on hotels and the tax on establishments--and increased central government transfers. The reform of the transfers system created a stable and rapidly growing source of revenues for the local government. Both sources, the new taxes and the reformed transfers, provided municipalities with revenues indexed to economic activities. Finally, a reformed budgetary procedures improved municipal financial management.

These changes brought a sharp increase in revenues and expenditures of municipalities. They were, however, a one-time increase only and the ratio of municipalities' revenues and expenditures to that of the central government and other macro economic indicators remained very low. More importantly, the reform was primarily focused on improving external sources of revenues to the municipalities and did not provide them with increased authority over revenue-raising activities. The newly created taxes were entirely managed by the central government, and the central government

transfers grew to the point of representing close to half of municipal revenues. Revenue sources controlled by the municipalities received limited attention. Local taxes and user fees remained, for the most part, outdated and yielded very limited revenues. This inadequate user fee and tariff structure represents one of the most important drawbacks of municipalities' revenue. Finally, the central government kept a heavy control over all financial decisions, which is another limitation of the municipalities authority over their financial activities.

We can conclude from this analysis of the decentralization reform that the reform has successfully improved some aspects of municipal operations and marginally increased their capacities. The GOT's unwillingness to commit itself to decentralization has been, however, an inhibition to the formulation of a more radical reform that would have been necessary to provide municipalities with the authority and capacity to act as decentralized government fully responsible for local public services.

To assess the effective role of the local governments so poorly defined by the legislation, we reviewed the overall institutional structure for the provision of local public services (LPSs) of the country, and the relative position of municipalities among the various institutions providing these services (Chapter 6). We confirmed the restricted role of local governments in the provision of LPSs. Among the most ambitious of municipalities' activities are traffic

management, garbage collection, and some environmental-control responsibilities. These represent a very confined area of intervention in the public affairs of their locality, particularly in comparison with the ambitious roles defined by the 1975 reform.

We demonstrated also that most LPSs are centralized in Tunisia. Although some LPSs, provided by ministries, have always been centralized, others were centralized more recently to be provided by national authorities endowed with a large degree of autonomy and power over their sector. The centralization and creation of autonomous authorities was generally motivated by the desire to provide the service more efficiently. The institutional structure that resulted from this approach to public service was characterized by sectorization and autonomization of the provision process.

To arrive at a better understanding of the motivation of the GOT in the allocation of responsibilities between levels of government and of the paradoxical situation of a simultaneous centralization of local services and decentralization initiative, we analyzed the centralization process of the sewerage service. This analysis clarified, first, the actual deficiencies of municipalities that have made them incapable of providing the service efficiently and that has motivated the centralization of the service; and, second, the government's rationale for the centralized allocation of responsibilities between levels of governments.

We have seen that municipalities have lost their responsibility over the sewerage service primarily because of their own institutional deficiencies. Their lack of appropriate structure and necessary legislation makes them unfit for the provision of the service. Their legislation does not provide for autonomous management for the provision of public services, nor does it provide for setting up an appropriate cost-recovery mechanism or accounting procedures necessary for good financial management.

The GOT's actions were motivated by what we have defined to be "a priority objective for an effective production and delivery of service". Its interest in the sector started with the environmental problem caused by the lack of an appropriate sanitation system. Its objective was to resolve it and provide an adequate level of service. With these objectives in mind, the GOT created a new institution. The criteria used in establishing this institution were institutional and financial soundness, which included autonomous management, sound personal policies, good financial management, and appropriate cost-recovery mechanisms.

Reforming municipalities was never considered to be an option for the rehabilitation of the sector despite the ongoing decentralization policy. In view of the GOT's single-minded objective of providing an adequate level of service, it was easier to achieve the desired institutional development in one centralized institution. ONAS benefited

tremendously from the proximity of the central government and the constant monitoring of its development by the reformers.

We concluded that the GOT's technocratic approach to the LPSs, which emphasis to the effective provision of services, conflicted with its decentralization policy objective. The GOT's priority to an effective provision of service over any other objectives ruled out the importance of decentralization and explains the dispossession of municipalities from their responsibilities during the alleged decentralization reform.

CONCLUSION

The decentralization initiative failed for two broad reasons, both related to the historical and ideological background of the country: (i) the strong tradition of centralization and the GOT's lack of clear commitment to decentralization and (ii) the GOT's "effective-provision" approach, or technocratic approach, to LPSs.

First, Tunisia's pre-independence legacy of centralization combined with the choices, made after independence, of a one-party state with high level of centralization of resources and authority in the hand of the central government, has given to the country a strong momentum towards centralization which has evolved in this extreme case of centralized government. Centralization has been the only model of government for a very long time and most government officials, as well as most of the population of the country, think only within this institutional

framework. The benefits of decentralization are not apparent, or even known, to most people in Tunisia. It is very difficult for decision-makers to consider solutions to problems in any other terms.

At the time of the reform, there was no clear understanding of the benefits of decentralization, of what the country's interest was in decentralization, nor of how to use it. The reform was initiated because the GOT recognized, in principle, the excessive centralization and the need to enhance participation at the local level. No more specific motives existed in which the value of decentralization was recognized and sought. Neither were there targeted objectives around which to build the reform. This is illustrated in the vaguely defined motivations of the reform with no references to the benefits of decentralization and the ambiguous role given the local governments by the new legislation.

Second, the GOT's approach to public services emphasized two elements: (i) the effective provision of the service, a technical goal, and (ii) access to the service, a social goal, which is to be achieved by providing subsidies to the sector. In ONAS' case, we have seen that self financing was part of the institutional development objective, primarily under the World Bank guidance. This objective was never reached because the GOT maintained tariffs and user charges below cost to insure affordability. For the government, this approach took care of the equity issue and eliminated the

need to consider variations in demands and adaptation to local needs. One level of service, technically determined as adequate, has been imposed unanimously.

The emphasis on effective provision of the service is motivated primarily by the fact that skills, resources, and know-how, are not widely available in Tunisia. This makes the effective provision of the service one of the most difficult objectives to achieve. Other criteria, such as least-cost production, equity, or better adaptation to local needs are secondary to the service-efficiency objective. Decentralization, whose benefits may include part or all of these above criteria and other ones too, is for this reason not valued. Our observation of the institutional structure that was created in the last thirty years for the provision of public services is consistent with this approach. It is characterized by sectorization, and autonomous management with emphasis on technical goals.

Although decentralization has not occurred, we can say that in Tunisia a form of horizontal decentralization has taken place as a consequence of this approach. The GOT has transferred its authority over services to autonomous national institutions to achieve the targeted service-efficiency, instead of transferring its authority to a lower unit of government, which would achieve other, less desirable objectives from the view point of the state.

Our findings confirm that the economic theory model on the division of functions between levels of government does

not explain reality. We have seen that the GOT's actions in the public service sector are not motivated by considerations such as individual preferences and allocative efficiency as suggested by the economic theory. There exist another rationale by which the GOT allocates responsibilities between levels of governments, which we have defined to be a priority objective for an "effective provision of service" and which consists of concentrating efforts on actually providing an adequate level of the service. In the Tunisian experience, the "effective-provision-of-service" objective substitutes for the allocative-efficiency objective of the economic theory. The government ignores individual preferences--or any form of adaptation to local needs--by imposing one level of service that it considers technically appropriate and by partially subsidizing it to insure, theoretically, affordability and accessibility.

Our analysis of the shortcomings of the Tunisian municipalities confirms many of the previous findings on the state of underdevelopment of local governments in developing countries. These include the lack of a clear definition of responsibilities, the limited involvement in the provision of services, the insufficient revenue sources, and the inadequate managerial practices. By looking at one specific local public service, we have identified with some precision the deficiencies of local governments that make them unfit for the provision of services. One of the key elements

identified is the lack of alternative forms of provision of services at the local level.

There is a difference between provision and production of services that is not always recognized or considered when evaluating the role and capacities of local governments in developing countries. Providing a service, that is having responsibility over it, should be differentiated from the actual production of it. The structure of local governments are often not suited for efficient production of services. There is a definite need for more research on alternative forms of production of services at the local level in developing countries and on specific recommendations on how to provide the local governments with the capacity to choose and set the best alternative forms of service production. The difficulty of such an approach is to insure that local governments will not be marginalized and that their public role is preserved. Too often, in developing countries, local governments lose their control over the service when these are provided by alternative arrangements.

FUTURE RESEARCH

In our research, we focused on the process and motivations of the decentralization policies and centralization practices. Our objective was to explain the rationale for the division of responsibilities between levels of government. Consequently, our analysis does not provide a definite answer to the question of whether the centralized

form of provision of sewerage service is the most appropriate one. Although we demonstrated that in the case of ONAS technical capacity is one of the most important elements for adequate provision of sewerage services, this finding does not inform us on other issues such as equity, productivity, and allocative efficiency. Different approaches are necessary to answer these questions. They may be the focus of further research not only in the case of ONAS, but in the case of other countries that have a more decentralized form of provision of sewerage services. From the diversity of experiences throughout the world, there seems to be no clear answer as to which form of provision is the most appropriate. It is found that regional or state institutions as well as national institutions are inefficient and unresponsive to local needs, while local or metropolitan provision of sewerage services can result in excessive fragmentation and lack of a coherent approach towards the sector. There is, however, a recent tendency in international development institutions such as the World Bank, first, to decentralize sewerage services in order to improve local accountability and responsiveness to local needs, which is expected to increase the efficiency of the sector, and second, to have central or federal governments define national policies for the sector including tariffs and subsidy policies and environmental standards. Other proposed activities of the central government include control of implementation of environmental standards, technical assistance, and financial

support such as access to national and international credits.⁷⁸

Country-case studies as well as cross-country comparisons, evaluating the various issues cited above, are necessary to arrive at a better understanding of the benefits of the centralized and the decentralized forms of service provision.

⁷⁸ Interviews with sanitation engineers at the World Bank.

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