



POLICY CHALLENGES OF DECENTRALIZATION IN TUNISIA



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Cover photo: Protestors in Tunisia. (Credit: Reuters)

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ACRONYMS

AFD	French Development Agency
CIDA	Canadian International Development Agency
DGCL	Tunisian Ministry of Local Affairs, Directorate General of Local Government
DGCPR	Tunisian Ministry of Finance, Directorate General of Public Accounting and Collection
EU	European Union
FNVT	National Federation of Tunisian Cities
GDP	Gross Domestic Product
GIZ	German Society for International Cooperation GmbH
GOT	Government of Tunisia
JICA	Japan International Cooperation Agency
OECD	Organization of Economic Co-operation and Development
SIDA	Swedish International Development Agency
UNDP	United Nations Development Programme

SECTION I

BACKGROUND

Tunisia is where the Arab Spring began, and its trajectory to democracy continues to be more peaceful than most of its neighbors. The stability of the democratization process in Tunisia is often attributed to unique circumstances that are not replicated in other Middle Eastern states: civil society is stronger; the role of military institutions more circumscribed; religion and external influences are less intrusive. The post-revolutionary Tunisian Constitution of 2014 acknowledges the state to be civil and not religious in character, centers legitimacy on the will of the people, establishes freedom of conscience and belief, redefines state/citizen relations, and emphasizes gender parity. Tunisia has yet to define the political path however, for putting the ideals in the 2014 Constitution into practice.

A desire for social justice underlies the fundamental principles of the new constitution, but momentum has been frustrated by the absence of decisive government action and deteriorating economic conditions, declining investment, ballooning unemployment, and inflation. A practical set of priorities for improving the economy and for implementing democracy at the local level has yet to be enacted. While standards of living stagnate, civil strife is reaching critical levels. An accumulation of extra-legal assets from black market activities is fueling corruption and support for terrorism, while investment in the formal sector is diminishing. Freedom of expression, association, participation, and debate have increased, but the criteria of legitimacy set for government by the revolution are not being met. The public wants elected officials to honor promises to deal with the rising cost of living, to create jobs, to hold municipal elections, and to implement other needed reforms in public administration and public law.

Many institutions and practices of government echo previous patterns that continue to polarize the country and marginalize the hinterland. During the Ben Ali period¹, the regulatory system was designed and managed to benefit vested interests and protect rent-seeking by executive agencies and their cronies. Old habits and practices that protect the interests of pre-revolutionary elites and regions remain. Reform of the regulatory system has stagnated, and the tax code still protects the wealthiest citizens and reinforces inequality, tax evasion, and illegality. For example, the wealthiest municipality, Carthage, is fully subsidized; its residents do not pay taxes. Significant regulatory reform is needed to reverse these patterns. Devolution is a critical part of needed reforms.

Outside of the capital, Tunis, formal institutions seem distant and weak. Democracy is not yet established at local levels, while inaction erodes trust in the intentions of central governing institutions. The revolution of 2011 encouraged hopes that decentralization would address a deep-seated sense of discrimination toward the inland regions. It is

¹ Zine El Abidine Ben Ali was the second President of Tunisia from 1987 to 2011. Ben Ali fled Tunisia for Saudi Arabia following the Tunisian revolution in January 2011.

thought that institutionalizing meaningful participation in the political process, reestablishing ties between disenfranchised citizens and the state, would offer opportunities to redress previous imbalances. Decentralization could also provide local governments options to attract jobs and reduce feelings of vulnerability and marginalization.

However, local governments have only meagre resources at their disposal and a limited mandate within which to respond to demands of their inhabitants. Regional polarization in incomes, security, and development continues at the same levels as before the revolution, while socioeconomic challenges caused by uneven regional development continue to accrue. Those regions with the lowest human development levels have seen little relief. In 2015, the inhabitants of Kasserine, one of the least well-served regions, submitted to the Supreme Court a grievance claiming collective victimization, systematic marginalization, and exclusion. An anticipated realignment between national and local priorities is still a work in progress.

The government is sensitive to these concerns and seeks to address a pent-up desire for change by committing itself to holding municipal elections by the first quarter of 2017 (at the latest) — finally beginning the process of decentralization called for in the constitution. The creation of the Ministry of Local Affairs in mid-2016 is an important milestone. The government announced its intention to endow the municipalities with sizable grants to undertake local government functions and services. Proposed municipal elections in early 2017 coincide with preparation of the next five-year economic plan. Thus, important opportunities exist for donors to provide technical support.

Decentralization is idealized in Tunisia as a means to encourage regional investments and discover complementarities among regions. There is a weak understanding in Tunisia however, of just how federalism can contribute to such synergies. This report aims to review the current state of operationalization of Tunisia's decentralization law; identify critical information gaps and expertise needed to fully assess the state of decentralization in Tunisia; and provide recommendations for USAID and other donors to support the Government of Tunisia (GOT) to enhance and speed progress. This attempt to trace progress was carried out during a brief visit to Tunis (March 17-27, 2016), and subsequent interviews and reviews of government and donor initiatives. The report also assesses the first draft of the Organic Law on Local Government, released in May of 2016.

Given the short time available to conduct interviews and gather information on Tunisia's decentralization process for this report, more analysis will be needed to fully assess the challenges and opportunities of this large-scale functional and fiscal transition. For example, a full assessment of current financial management practices of provincial governments and the human resource and regulatory effects that are likely to arise as a result of decentralization must be undertaken to build and further inform the suggestions offered in this report. In addition, follow up will be required to help all stakeholders form reasonable expectations of decentralization and the associated timeline for its implementation.

SECTION II

INTRODUCTION

The Tunisian constitution has endorsed the idea that good governance means bringing government closer to the citizens. The constitution emphasizes expanded local participation as a means toward greater accountability to citizens and more effective service delivery.

In the spirit of correcting past inequities, the government has recently announced that the municipal share of the national financial award will be increased to roughly 30 percent of the federal budget.² It has also announced its intention to devolve many government functions to the municipal level. These two announcements are consistent with the new constitution, which envisions greater autonomy for the provinces as a way of bringing government closer to the people and to enhance the quality of services. But it takes more than moving the location of government to improve the quality of governance. Other measures are necessary to ensure that local needs will be met. These include:

- Allocation of appropriate and trained human resources to the devolved units
- Creation of accountability mechanisms to ensure public servants are responsive to the citizens that they serve
- Design of an appropriate regulatory framework
- Clear articulation of financial links among the levels of government
- Inter-ministerial coordination
- Coordination across municipalities.

The sections that follow in this report attempt to shed some light on the current state of devolution in each of the areas listed above, as well as additional challenges and risks that Tunisia will no doubt encounter on its road to decentralization. These sections also highlight information gaps that need to be addressed to inform the Government of Tunisia's decision-making process. Wherever possible, the report also provides insights into where USAID and other donor institutions are providing resources and assistance to support Tunisia in its efforts to devolve decision-making authority and service delivery to regions or municipalities. In its final section, the report presents conclusions and broad recommendations for donors to support the decentralization process in Tunisia.

² The intergovernmental financial award was announced before the devolution of responsibilities was assigned. This raises questions about how well-matched the financial allocations will be to the functions that must be served.

SECTION III

HUMAN RESOURCES

ALLOCATION AND ACCOUNTABILITY

The human resources needed to ensure the success of devolution are vast. Sixty-one new municipalities have been created. Roughly 1,500 authorities will be transferred from the central to local governments. Additionally, 10,000 new local government officials will be elected, which entails enormous requirements for training on basic management skills. The GoT has not yet developed a strategy for transferring staff or competencies to local and regional governments. The process for how these newly created units obtain basic resources to establish viable services is also yet to be determined. *How will staff transfers be determined? What will career paths look like in a decentralized polity? What incentives will motivate performance? What performance measures will be in place? What rules will govern financing of transferred staff?* These are all questions to be answered as Tunisia prepares for decentralization.

HUMAN RESOURCES ALLOCATION AND SERVICE QUALITY

Facilitating the redeployment of staff to regions outside the capital will be critical for decentralization of services. As part of the Memorandum of Understanding with the International Monetary Fund (IMF), Tunisia committed in 2016 to adopt a civil service reform strategy which includes redeploying officials between ministries and regions to optimize government activities according to needs. By December 2016, the GoT intends to have completed a review of the legal framework for redeploying civil servants and other government personnel.

Three categories of employees will be affected by the process of decentralization in Tunisia: regular employees, employees in attached and autonomous organizations, and consultants or staff hired on a project basis. The number of civil servants affected probably will be lower than the number of employees of autonomous bodies and project employees. As federal ministries orient their activities toward handing over responsibilities to the devolved units, they will need to estimate the financial cost of carrying out particular functions in various municipalities, and these will no doubt vary by location. The Government will need this information, as well as training, to help local and regional governments construct scenarios that enable cost-efficient choices to be made.

Municipalities lack staff with capacity to plan, budget, or provide devolved services in many cases. The GoT will likely need assistance to develop appropriate incentive schemes to entice staff to voluntarily take positions outside Tunis, as well as assistance training redeployed staff for their new positions in the regions.

At the same time, Tunisia has committed to reducing overall government staff numbers and potentially not replacing some staff who may transfer to the regions. (IMF, 2016)

Tunisia must work to balance the number of remaining federal staff from the devolved ministries appropriately against vacancies.

Additionally, the pension system to which workers and employers contribute will be a contentious issue as devolution proceeds. The municipalities are likely to face unanticipated costs associated with the transfers at the same time that they might experience lower-than-expected resource generation.

ACCOUNTABILITY MECHANISMS FOR MORE RESPONSIVE GOVERNMENT

For devolution to work, administrators must be given incentives to respond to the new priorities. The performance appraisal system is inadequate; annual appraisals rarely translate into salary increments and promotions. As part of Memorandum of Understanding with the International Monetary Fund (IMF), Tunisia committed in 2016 to adopt a civil service reform strategy aimed at:

- 1) Establishing statutes for the senior civil service and revising statutes for general status
- 2) Updating the civil service recruitment process
- 3) Reviewing the salary and benefits structure
- 4) Redefining civil service performance evaluation and career paths.

The Government of Tunisia is currently reviewing ministries' functions and responsibilities. The reviews for four ministries (the Ministries of Health, Education, Finance, and Infrastructure), which account for over half of all the country's civil servants, are expected to be completed by December 2016. In 2017, functional reviews will cover all remaining ministries, which will define duties and responsibilities, recruitment requirements, staff reallocation, and budget cost structure of each ministry.

COORDINATION

These human resource management issues also require coordination between the existing central units with newly formed devolved units. While a Technical Commission under the High Commission for Decentralization in Tunisia is envisioned to coordinate with Regional Commissions to support the transfer of capacities and authorities to local governments, the Technical Commission has not yet been established. (Ministry of the Interior, 2015) It is not clear whether the Technical Commission will also coordinate across central line Ministries and between the Ministries and the regions to ensure the expedient transfer of skills and responsibilities.

SECTION IV

REGULATORY FRAMEWORK

Tunisia's Constitution emphasizes expanded local participation as a means toward greater accountability to citizens and more effective service delivery. While it is a critical step towards decentralization, Tunisia's Constitution is just the first in a series of laws and regulations needed to codify the formal rules by which the country's new decentralized system will function. The Ministry of the Interior – the institution tasked with designing and implementing the processes by which decentralization in Tunisia will be operationalized – has prioritized the drafting and enactment of the following laws to define the specific parameters of the intergovernmental fiscal system and the institutional details of the local government structure, including, key structures, procedures (including elections), and accountabilities:

- Organic law of local authority budgets
- Organic law on local government
- Decentralization framework law
- Electoral law for municipal and regional councils
- Code of local authorities.

In addition, a series of regulations associated with each law should interpret and describe in detail the practices and measures by which the related law will operate. In addition, each law and its associated regulations should address tasks to be shared between national and subnational governments and mechanisms to facilitate intergovernmental relations. (World Bank, 2001)

THE FEDERAL GOVERNMENT'S ROLE

In building a regulatory system of devolution, a key question will be to determine which parts of the regulatory framework should be maintained at the federal level. Devolution requires distinguishing functions that can best be carried out by the federal level from those that can be best managed by the localities. To improve the impact of devolution, we will need to collect information about issues such as police jurisdiction; conflict resolution between municipal units and among and between federating units; the role of existing federal councils; and municipal or provincial representation in federal organizations.

The delivery of social services is one area that will come under stress as devolution proceeds. Concerns such as quality benchmarks for higher education, curricula, drug quality and pricing, petroleum licensing, and natural resource concessions all require high degrees of experience. The devolution of education and health in particular will create great uncertainty. Initial service delivery at the municipal level can be negatively affected by the burden of new regulatory requirements and priorities. For example, curriculum development is currently done at the federal level and requires highly skilled staff. Devolution of the Health Ministry will raise questions concerning drug laws, as well as the nation's ability to abide by commitments to international agreements such as the

Millennium Development Goals. The process of reviewing laws concerning these two sectors will be lengthy. And until skills to manage an effective regulatory regime are transferred to the regions, the federal government will have to continue to play a role that can be eased out over time.

Devolution will also affect the environment. Many laws and rules concerning the environment in areas like industrial production and commerce will be devolved to the local units placing the capacity of municipalities to protect the environment under severe strain. Donors can help Tunisia design and conduct surveys for each area to be regulated, the current status of that regulation, the initial impact of regulation, and the probable longer-term impact of devolution.

The role of the recently formed cabinet-level Ministry of Local Government in representing municipalities concerns regarding policy should also be clarified. Will that Ministry be the venue by which the municipalities are to be represented in the federal cabinet? Will that body take the lead role in crafting national consensus on economic, social, and commercial policy issues among the municipal units?

THE ROLE OF PARLIAMENT AND THE LEGISLATIVE FRAMEWORK FOR FINANCIAL MANAGEMENT

In May, under the aegis of the recently created Ministry of Local Government a Draft *Organic Law on Local Government* that codified the decentralization of local government was submitted to Cabinet. That code did not receive Cabinet approval and was subsequently rewritten. The revised code, which is not publicly available, is currently under Cabinet review and has yet to be approved by the Parliament. What are the capabilities and rights of Parliament to amend the code? Will domains of local government be defined over which Parliament will have exclusive authority?

The constitution requires that the budget be presented to Parliament, which must approve any additional taxes, but it does not adequately provide Parliament with oversight over issuances and uses of public funds. The extent of legislative scrutiny of the budget is not clearly defined in statutes. In addition, the legislature has only marginal capacity to debate or oversee the budget, leaving enormous room for political discretion by the executive branch. This is a capacity deficit that donors could help to augment. A review of the legislative framework for financial management should also be conducted to explore several pending questions (see box below).

Legislative Framework for Financial Management: Outstanding Questions

- Is there a legislative requirement for the executive to inform Parliament of actual performance against the budget or to take action to protect financial probity or the efficient use of public monies?
- What provisions are there in the constitution for parliamentary control over the issuance and use of funds? Are they adequate? How should they be augmented?
- Is the executive mandated to present performance targets against the previous year's budget to Parliament? Is parliamentary approval required for deviations from performance against the budget?
- What representation will municipalities have at the provincial level? What will be the reporting lines?
- Will municipalities answer to Parliament, for example, and what will be their operational procedures?
- What role will Parliament play in determining local financial awards?

MATCHING FISCAL RESOURCES WITH FUNCTIONAL RESPONSIBILITIES

At the time that this study was undertaken, little was known about the financial award to municipalities and how it would be different from previous revenue-sharing arrangements. Some questions include:

- How will the financial award help equalize resources among municipalities?
- Which federal body will monitor implementation of national financial awards to the provinces?
- How will the auditor general at the federal level be restructured to conduct audits at the various units of government?
- Will the revenue of the national award be sufficient to finance additional liabilities that are devolved to local units of government?

It is not uncommon for devolution processes to result in misalignment of revenue-collection spending powers. To avoid this, Tunisia must review the full list of the responsibilities being assigned to sub-national governments, to determine if the allotted fiscal powers are adequate to manage these responsibilities. While Education and Health are the two main ministries discussed, full information on which ministries and which divisions were earmarked for devolution were not publicly available at the time of writing of this report.

FISCAL IMPLICATIONS FOR FEDERAL GOVERNMENT

Devolution provides an opportunity for better governance, but often at considerable cost to the finances of the federal government. Federal fiscal deficits are likely to grow after an initial increase in the financial award to the localities. Fiscal rigidities at the federal level such as debt servicing, defense, and administration cannot be made to disappear. After accounting for military and debt repayment, the federal government may find itself under-provisioned by existing revenue sources. Efforts at tax reform at all levels of government will need to increase to help the national government meet responsibilities that only it can manage. The question for reformers is to determine what those responsibilities are.

Unfortunately, the gap between timing of the costs and benefits of devolution can be considerable. The benefits of devolution may take years to accrue, but the costs are front-loaded. Over the next several years, the Tunisian government will face the challenge of incurring the political costs of raising the tax burden while transferring revenues to the localities. It remains to be seen whether in the face of that challenge, the GoT will revert to central controls to avoid short-term disruptions.

How will grant transfers for municipal activities be determined? How will local priorities be determined? Should transfers from the central to local government be tightly earmarked? Should minimum levels of performance be determined by central government overseers? At the same time that the federal government's fiscal position may be adversely affected, it will have to collaborate with municipalities to gain buy-in for national-level priorities.

FISCAL IMPLICATIONS AT THE MUNICIPAL LEVEL

An emphasis in the public debate in Tunisia on decentralization focuses on equalization rather than on fostering competition among regions. The most frequently mentioned goal is a nation of equal regions attained via the deconcentration of functions traditionally carried out at the center. But what measures can Tunisia put in place to ensure discipline within municipalities and prevent runaway spending and waste that has been a commonplace occurrence in devolution experiences around the world? Often inter-jurisdictional competition for investment can unleash local problem-solving creativity and improvements in services.

Rapid enhancement of the ability to design, execute, and manage projects is needed to prevent the absorptive capacity of the localities from being strained. There are risks of unmet fiscal targets and inadequate resources for improved service delivery, coupled with the costs of maintenance and the procurement of services. The municipalities have limited experience in project planning, monitoring budgets, and negotiating with vendors. Federal government assistance will need to fill the gap. And ample time will need to be provided for municipal governments for budget preparation.

The regulatory framework should also help define the controls put in place on municipal budgets and municipal accounts. For example, what oversight will there be for municipal budgetary approvals? Will the role of mayor be monitored? Is municipal council approval required for the mayor to deviate from budgeted expenditures? How will municipal accounts be audited? How will uniformity in expenditure reporting and budgeting across municipalities be established? Will there be a database for reporting of cash disbursements?

Taxation. A strong relationship exists between local financing and the quality of local governance established in the literature on decentralization. Currently, less than 50 percent of municipalities are capable of self-financing even minimal services. Many municipalities have large deficits. The regulatory framework should outline how municipalities can determine local tax rates and if they are permitted to set local taxes above mandatory rates. In addition, it should outline whether municipalities will be given authority to raise domestic or foreign loans, with the consent of the national government.

In many devolution processes undertaken among developing nations, the devolved units find that their new responsibilities require additional revenue commitments from the center. Shortfalls in federal tax collection often arise. Unfunded federal mandates can eliminate any budgetary surpluses at the local level. How will municipalities be able to manage contingent liabilities that arise as the result of underfunded federal mandates to the municipalities?

Provinces may diminish their fiscal efforts in anticipation of a funding windfall from the federal government. Large federal transfers can create a dependency syndrome; as a result, after an increase in the federal award, local tax collection efforts can slacken.

What incentives can the federal government institute to promote greater fiscal effort in collection and reductions in spending?

The regulatory system should also clarify the discretion of local tax officials over questions of nonpayment, delayed payment, and fraud. It should lay out the tax appeal process at the local level and whether appeals are lodged with a body that is different from the official against whom the appeals are lodged.

Section V on Inter-governmental Finance provides additional considerations for local tax systems.

POLITICAL ECONOMY RISKS

The Alfred Deakin Institute reported that 75 percent of Tunisians have negative perceptions of political parties and 48 percent think that parties are not useful at all for dealing with local and regional development issues. (Mansouri, 2016) While political parties are not seen as playing a useful role in regional development, there is a fear that the parties will capture the electoral process, which may result in local governments that are not responsive to local needs, but that enable centralized elites to capture local institutions.³

In all devolution exercises newly created local institutions risk capture by local elites that might not have an interest in local accountability and transparency. Groups that already have influence locally are typically best positioned to take advantage of decentralization. Local civil society must be given the resources and skills to counterbalance the social assets of local elites. Donors can make an important contribution in helping to build that capacity.

³ An unintended consequence of decentralization in Indonesia was the emergence of local elites with little interest in local accountability or transparency and efforts by these elites to insulate themselves from local civil society.

SECTION V

INTER-GOVERNMENTAL FINANCE

CHALLENGES RELATED TO DEVOLUTION

LOCAL TAX SYSTEMS

In Tunisia, the tax-to-gross domestic product ratio is on par with many developing countries (about 22 percent of gross domestic product). This should not mask the fact that a more equitable system that broadens the tax base is needed and is essential for returning growth to the economy.

Fiscal powers. For decentralization to work in Tunisia, the fiscal capacity of municipal governments must be augmented. Currently, limits exist on revenue sources under municipal jurisdiction, such as taxes on services, capital value taxes, and immovable property taxes. It will be critical for local governments to raise local taxes for several reasons:

- As explained by the Council of Europe: “Firstly, power to vary tax rates allows local governments to fit their levels of expenditure to local needs and preferences. Secondly, fixing the amount of tax which citizens have to pay makes local leaders more answerable for the way they spend their income.” (Council of Europe, 2006)
- When citizens pay taxes to local governments, they are more likely to demand services from those governments (Martin, 2014). Local governments will feel more pressure to be proactive about local development, which is an underlying justification for decentralization.

Tax revenues. Gross Domestic Product per capita purchasing power adjusted (GDP PPP) in Tunisia was about \$11,000 in 2014. Tax revenue was 23 percent of GDP in 2014.⁴ The tax to GDP ratio of the eight African countries that account for almost a quarter of Africa’s total GDP Africa (Cameroon, Cote d’Ivoire, Mauritius, Morocco, Rwanda, Senegal, South Africa, and Tunisia) was 31.3 percent in 2014. This figure of the Organization of Economic Co-operation and Development (OECD) countries was about 34.4 percent. (OECD/ATAF/AUC, 2016)

The two major sources of tax revenue are personal income and payroll taxes (33 percent) and value-added taxes (48 percent). Opportunities exist however for many people to opt-out or evade these tax systems. According to a 2014 World Bank survey, 38 percent of households reported that they do not pay taxes. (World Bank, 2015) According to Alm, “Tunisian government officials have suggested that the revenue loss

⁴ <http://www.africaneconomicoutlook.org/en/statistics>

due to evasion of the payroll programs themselves may be at least one-half of the actual collections from the programs, but this seems largely a guess, even if an informed one; officials make a similar estimate for the loss of personal income tax revenues.” (Alm, 2015, p. 15) In addition, the size of the country’s informal economy, on which taxes cannot be not calculated nor collected, is 32 percent. (Alm & Embaye, 2013)

Lack of a good enforcement system makes visible taxpayers bear most of the tax burden, which creates inequality in Tunisian society. This may “contribute to feelings of unfair treatment and disrespect for the law, creating a self-generating cycle that feeds upon itself and leads to even more evasion.” (Alm, 2015)

As a result, local tax revenue is insignificant, making local governments depend almost entirely on central government for funding, hence defeating the purpose of decentralization. There is a view that the tax base in Tunisia is narrow and shrinking, while the goal of most tax reforms is to broaden the tax base. (Alm, 2015) Tax compliance and corruption reduction should go hand-in-hand in future work. The Government of Tunisia has been implementing tax policy reform aimed at strengthening revenue collection and increasing fairness and transparency. These have included policies to rationalize VAT exemptions, reduce the number of customs tariff rates, and close the gap in corporate taxes between on- and off-shore businesses. The GoT’s full strategy also includes harmonizing VAT rates, further reducing the number of exemptions, implementing a more progressive personal income tax (IRPP) with lower rates for low-income people, and revising allowances and deductions.

Tax administration. The GoT also aims to design a more modern, efficient, and fair tax administration system, in line with international practices, over the next several months, with the goal of institutionalizing changes over the next 3-5 years. (IMF, 2016) Tunisia’s tax system is still primarily paper-based, but the Government plans to digitize the system as part of its overall dematerialization/digitalization plan.

Currently, municipalities collect several taxes and fees. The distribution of these taxes and fees and their contributions to local tax revenue can be seen on the following page. Among the type of tax and fees for which we have data, the three categories that contribute the most to local budgets are business taxes, license rights in local markets, and property taxes.

- The business tax can be based on sales (0.1 percent for offshore firms and 0.2 percent for onshore firms) or profits. From 2007 to 2011, the business tax contributed 39 percent to the local budget, and these figures for 2012 to 2014 were a little over 50 percent.
- License rights in the local markets are fees to enter the local market. For example, vendors of fruits, vegetables and other farm products pay two percent of total sales; seafood vendors pay 1 percent. From 2007 to 2011, the fees for license rights contributed 23 percent to the local budget, and the total from 2012 to 2014 was 15 to 17 percent.

- The property tax is a tax on buildings. The tax base depends on which among four categories the property belongs to: $<100m^2$; $100 m^2$ to $200m^2$; $200m^2$ to $400m^2$; and $>400m^2$. The tax rate depends on how many public amenities (public lighting, pavement, etc.) are near the property. The property tax contributed about 13 percent to local budgets from 2007 to 2014.

Figure I. Distribution of Local Tax Revenue in Tunisia, 2007-2014



Source: Tunisia Ministry of Finance Directorate General of Public Accounting and Collection (DGCPR) and Ministry of Local Affairs Directorate General of local government (DGCL)

Fiscal assessments are needed to develop a more thorough understanding of local tax administration systems in Tunisia. Specifically, assessment would be helpful in answering the following questions:

- Are all taxes at the local level (property tax, turnover tax) collected by the same tax officials? Or do different officials collect different taxes?
- Are tax collectors who collect local taxes and central taxes the same people?
- Are tax collectors' salaries/wages fixed? Or are salaries/promotions based on their performance?
- How often is auditing done?
- What fines do taxpayers face if they are caught evading?
- What penalties do tax collectors face if caught accepting bribes?
- How do taxpayers pay local taxes? Do they fill out a paper form? Is there an online tax system where they can pay? Or do they just give the money to the tax collectors?

There is discussion among donors on how increased transparency and better services will increase tax yields. But there are questions on how to motivate this effect. How

should reforms be sequenced? The goal must be to create a policy platform to increase tax compliance. This means a strategic plan to change behavior on the ground. There are several dimensions of the relationship between structures, rules, and incentives to be considered:

- 1) *Create a full record of properties.* According to an International Monetary Fund report, the Tunisian government does not have an up-to-date record of all buildings and properties. (International Monetary Fund, 2015) Therefore, donors can help local governments create a full record of properties by funding survey teams and technology to identify and verify the existence and borders of properties.
- 2) *Examine the relationship between rates and levels of collection.* If the tax rate in a given country is too high, taxpayers are likely to misreport. Evidence from Poland shows that top earners reported a higher income when the country changed from a progressive personal income tax to flat tax, lowering top rates from 40 percent to 19 percent. (Kopczuk, 2012) In a number of middle-income nations, lowering the tax rate actually increased compliance. On the other hand, if the tax rate is too low, revenue will be insufficient to fund public goods, roads, community health clinics, etc.
- 3) *Examine the role played by tax officials in assessing, enforcing, and auditing taxes.* Tunisia does not have a results-oriented civil service system. It lacks reliable financial and administrative data, and like most emerging economies, it lacks third-party verification methods. Donors could fund a survey to collect information about the relationship between taxpayers and tax collectors and the degree of tax evasion and/or collusion at the local level. Donors could also assist Tunisia to evaluate and pilot performance rewards for collectors and strategies to eliminate any collusion between taxpayers and tax collectors.⁵
- 4) *Create a consolidated computerized taxpayer database.* While the tax system in Tunisia is mostly paper-based, significant progress has been made toward digitizing it as part of the GOT's dematerialization/digitalization plan. Donors could support Tunisia with technical assistance and/or equipment as needed to address gaps and help fully implement a computerized taxpayer database.

⁵ With limited mechanisms for enhanced tax capacity, some emerging market economies are considering incentives for tax officials. If tax collectors receive a share of the revenue collected (performance-based wages), they have more incentive to enforce taxes, which might increase tax revenue. Evidence in Pakistan shows that when tax collectors shared some of the taxes they collected, tax yields increased by 62 percent. (Khan, Khwaja, & Olken, 2016)

BUDGETARY INTEGRITY AND PUBLIC FINANCE MANAGEMENT

FEDERAL BUDGETARY PROCESSES

Fiscal interdependence between national and sub-national governments means that budgeting and evaluation of transfers are important elements in ensuring municipalities can provide efficient service delivery at a reasonable cost. (Ahmad, Devarajan, Khemani, & Shah, 2005)

Budget preparation. A 2015 IMF review of fiscal transparency in Tunisia reports that revenue and expenditure forecasts that inform Tunisia's budget are produced by competent teams and based on reliable data. Significant improvements to the legal and fiscal reporting frameworks are currently underway with the preparation of a new draft organic budget law. This law, which is expected to be published in December 2016, will ensure a better designed budget that allows for tighter controls on expenditures and simplifies budget execution and monitoring procedures. Preparation of the law has also helped to entrench performance-based budgeting, with 18 ministries (representing roughly 85 percent of the budget) already preparing their budgets according to new classifications and a multiyear framework. (Pattanayak, Boukezia, Chevauchez, & El Rayess, 2016)

However while the budget process at the central level in Tunisia is relatively bottom-up, with each department involved in the preparation phase, sub-national inputs to the budget have few opportunities to influence the process. Local governments are generally not addressed in government budget documents. Tunisia would benefit from a more "bottom-up" process that used regional inputs to inform general government budget development.

Another key element for decentralization in Tunisia is the development of a medium-term perspective. The IMF recommends that Tunisia formulate an explicit medium-term fiscal policy, which would entail the regular adoption of quantified targets for total revenues and expenditures as well as deficit and debt targets for general government, over a period of no less than three years. The USAID Tax and Customs Reform activity will assist the Ministry of Finance Fiscal Analysis Unit to develop and implement a model for a Medium-Term Fiscal Framework in early 2017. In addition, the GoT is currently in the process of finalizing a Medium-Term Expenditure Framework covering the period of 2016–2020. (Pattanayak, Boukezia, Chevauchez, & El Rayess, 2016) In many countries, the MTEF allows sub-national entities to participate in a multi-year budgeting system. Even if the fiscal transfer system in those countries does not have a predictable, formula-driven division of total revenues between different tiers of government, the multi-year nature of the MTEF can provide some certainty over a multi-year span. (Ahmad, Devarajan, Khemani, & Shah, 2005) While no medium-term fiscal forecast is currently available for local finances, the IMF recommends that ultimately, all government entities in Tunisia operate under an explicit and transparent multi-year fiscal framework, when adopting their annual budgets. (Pattanayak, Boukezia, Chevauchez, & El Rayess, 2016)

Predictability and control in budget execution. Comparing estimates with actual expenditures allows Governments to assess the accuracy of the budgeting process. The

volatile political and economic environment in Tunisia in recent years has given rise to more pronounced gaps between the budget and actual expenditures than in prior years. Since the beginning of 2015, Tunisia experienced additional, unforeseen costs of 1.2 percent of GDP. More than half of these costs (0.7 percent of GDP) were due to unforeseen security expenditures and increases in security personnel. A transfer to the pension system (0.4 percent of GDP) made up roughly one-third of the costs and was related in a delay in approving legislation to extend the retirement age. The impact of these costs was exacerbated by a declines in tax revenue and non-tax revenue (due to the contraction of the economy) and declining oil prices. Despite offsets from reductions in energy subsidies, profits from the Tunisian Refineries Corporation, sales of 4G mobile telephone licenses, and the rationalization of promotions and performance bonuses, the structural fiscal deficit for 2016 was 0.4 percent of GDP higher than budgeted.

Transparency and reporting. Per the IMF report, “fiscal reporting is relatively transparent for the central government but is fragmented for other government entities and does not cover all public sector entities.” (Pattanayak, Boukezia, Chevauchez, & El Rayess, 2016, p. 15) All fiscal reports are centrally prepared by the MOF Directorate General of Resources and Balances in accordance with the IMF Special Data Dissemination Standard. The Ministry produces monthly, quarterly, and semiannual reports, including a biannual budget execution report, which presents comparisons between approved budget and expenditures.

Fiscal reporting for other public sector entities however, including public corporations, whose budgets represent 38 percent of GDP, is incomplete or nonexistent. And while reports on the stock and composition of public debt (48.5 percent of GDP) are published on a regular basis, there is no overview of net worth reflected in a balance sheet for the general government. This is somewhat problematic as the public sector's negative net financial worth is large at 86.7 percent of GDP. (Pattanayak, Boukezia, Chevauchez, & El Rayess, 2016)

LOCAL FINANCES ARE ALSO NOT SUBJECT TO THE SAME TRANSPARENCY REQUIREMENTS AS CENTRAL GOVERNMENT FINANCES. MUNICIPAL BUDGETARY PROCESSES

Local budgets (264 municipalities and 24 regions) represented 4.3 percent of public expenditures in Tunisia in 2013. Only government appropriations, calculated according to regularly updated criteria and formula, are included in the government budget as part of the Subnational Governments Common Fund (FCCL). The FCCL is managed by the Ministry of the Interior. (Pattanayak, Boukezia, Chevauchez, & El Rayess, 2016)

The majority of municipalities' resources come from government appropriations; the rest come from local tax and non-tax resources (see box next page). The budgets of local governments are approved by their own councils. Currently, the budgeting process at the local level begins with top down estimates of federal transfers to be received by municipal governments. These estimates are the basis for municipalities to prepare their annual budgets. Limited experience exists at the municipal level in Tunisia, however to

Fiscal Analysis of the Draft Organic Law on Local Government

The draft law recently submitted to Cabinet by the Ministry of Local Affairs offers general proposals about how the central government would distribute funds to local governments. For example, article 151 states that “The local communities shall receive fifty percent (50 percent) of revenues from the occupation and exploitation of the State’s public land and public bodies headquartered in their district.” However, it does not give specific guidelines for how local governments can raise their own taxes and revenue. The draft law also does not allocate adequate authority to communities to raise local taxes and local revenues.

The power to vary tax rates gives local governments flexibility to decide what they want to finance based on local needs and preferences. In addition, if local governments raise their own taxes for their expenditure, the local leaders have more authority and accountability to answer their citizens’ requests. These are important first steps toward fiscal autonomy can motivate local governments to be more financially innovative and to make decisions based on local needs and preferences, and be answerable to their citizens.

direct and manage budgetary processes. For municipalities to play a wider role in absorbing and managing public finances, they will need training on best practices in budget preparation and execution processes. Currently, few municipalities have the experience or capacity to manage the technical and financial requirements of project development. Should services like health and education – currently being discussed for devolution – be devolved, it will be critical that municipalities have the requisite skills and resources to adequately plan and budget for them in order to ensure continued access to basic services.

The World Bank-supported Urban Development and Local Governance Program is working to strengthen the financial and managerial capacities of municipalities as well as strengthen the delivery of municipal infrastructure and services and bring them in line with citizens’ priorities. As part of the program, the government has reformed the capital grants system, the way in which funds from the central government are distributed to local municipalities. The revised fiscal transfer system rewards municipalities based on their performance improvements (as measured against key indicators). As of July 2016, the program had helped 260 of the 264 municipalities prepare annual investment plans using a participatory approach. The Government reported that 92 percent of municipalities had satisfied minimum mandatory conditions, and the MOF released block grants for implementation of the investment plans. However, as of July, the Local Government Support Loan Fund (CPSCL) had not yet established its technical assistance (TA) system to provide practical support to municipalities to implement their annual investment plans; the delay in the TA system launch could cause a delay in implementation of the municipalities’ annual investment plans.

SECTION VI

INTER-GOVERNMENTAL COORDINATION

Decentralization raises three issues – 1) the capacity of local governments to carry out their responsibilities; 2) the comprehensiveness and clarity of the rules; and 3) the consistency of the code of local governments to uphold the constitution. While Tunisia’s Constitution (see box below) laid the foundation for decentralization, much work remains to be done to ensure all issues are addressed to permit the process to move forward successfully in Tunisia. In May, under the aegis of the recently created Ministry of Local Affairs a Draft Organic Law on Local Government that codified the decentralization of local government was submitted to Cabinet.⁶ The following sections review key clauses in the Draft Organic Law, particularly with respect to how the Draft Law addresses the critical aspects of inter-governmental coordination.

Articles of Tunisia’s Constitution Related to Decentralization

Article 131 of the Constitution dictates that local authority will be based on decentralization and divides the entire territory of Tunisia into local authorities composed of municipalities, regions and governorates.

Article 132 of the constitution specifies that local authorities “shall enjoy legal personality as well as financial and administrative independence.”

Article 133 specifies that “municipal and regional councils will be elected by virtue of general free, direct, secret, fair, and transparent elections.”

Article 134 mentions that joint and delegated powers shall be distributed in accordance with “the principle of subsidiarity” but that principle is not defined.

Article 137 establishes that “local authorities will have the freedom to dispose of their resources within the framework of good governance and under the supervision of the financial judiciary.”

Article 140 establishes that “local authorities may cooperate and enter into partnerships with each other in order to implement programs or undertake activities of common interest.”

Article 142 affirms that “The administrative judiciary shall determine all disputes related to jurisdiction arising among local authorities and between central government and local authorities.”

Coordination. Our analysis of the initial draft law found many inconsistencies with “the principle of free administration” affirmed in the constitution. The draft law is opaque in many areas, making it operationally inappropriate. For example, the document recognizes that collaboration among federal authorities and local communities is needed to ensure the smooth provisioning of public services, but does not offer clear, adequate mechanisms for coordination. Nor does the draft law propose adequate mechanisms for interministerial coordination. It asserts the role of governors but does not articulate how governors can manage interministerial decision-making. For example, the Health

⁶ That code did not receive Cabinet approval and was subsequently rewritten. The revised code, which is not publicly available, is currently under Cabinet review and has yet to be approved by the Parliament.

Ministry and the Ministry of Equipment have activities throughout the country but do not coordinate with each other or with the governors. This makes a project like building a hospital very difficult to accomplish. The draft law also lacks sufficient mechanisms for coordination across municipalities. Equalization is given priority rather than the capacity to create new opportunities and new ventures locally.

Local government independence. The governors derive their authority from their connection with security matters but the draft law extends their oversight to other matters of local government administration. The Code does not specify how governors will be appointed, yet it gives governors certain veto powers over aspects of community decision-making. There are few stipulations regarding how Governors should coordinate with ministries or their peers prior to decision-making.

Other compromises of local independence in the Draft Organic Law on Local Government include the stipulation that local functionaries will be supported by the central government. There is little autonomy given in the draft law to municipalities to manage local budgets. Financial controls rest with the center. The financial judiciary is under supervision of the central government and has been criticized by the Association of Tunisian Magistrates – an independent committee of judges – for lacking judicial independence.

In sum, the draft bill on the organization of local communities limits local government independence both administratively and financially (see box next page). It does not clearly articulate a separation of powers between the administrative, political and judicial oversight of local governments. Much of the human resources at the disposal of communities remain under central control. Elected local officials and their deputies can be suspended without due process by decree of higher authorities.

Decentralization will rest on three pillars — electoral legislation, local elections, and a code of local authorities which has yet to be written — but we wait to see what the new code will say about role of locally elected officials in relationship to the guardianship exercised by governors. The lingering concern is that a powerful Ministry of the Interior responsible for security will hold on to broadly defined prerogatives that enable it to encroach on the civil liberties and autonomy of locally elected officials.

Challenges to Local Independence within the Draft Organic Law of Local Government

Article 8 of the draft law states that district councils will not be elected directly but will be selected by members of the municipal and regional councils. There is fear among those experts familiar with national politics that this will enable political parties to take control of the process.

Article 13 of the draft law specifies that "service groups" can be created between local communities in the same region by agreement approved by their boards and transmitted to the central authority. The State will grant benefits to encourage the creation of these service groups which pool resources allocated to local authorities established in the same district to prepare development plans and monitor their achievement. The service group is a collective interest legal entity designed to manage non-commercial activities. Its chairman is to be appointed by the College of Presidents of local communities in the region for three years renewable. While creative, the "service group" concept seems to be an inadequate solution for districts and regions that are too small to have sufficient financial resources to manage large infrastructural investments.

Article 29 specifies that local communities can sign contracts with states that have diplomatic relations with Tunisia. In negotiating with foreign parties, local communities must consult with the Ministry of Foreign Affairs. The head of state on the basis for reasons of sovereignty can oppose any agreement.

Article 32 establishes three types of powers: 1) Powers that belong entirely to the local government; 2) Powers delegated from the federal to local government; and 3) Joint powers shared by central and local authorities. The Article recognizes that collaboration among federal authorities and local communities is needed to ensure the smooth provisioning of public services, but does not offer adequate mechanisms. *Article 33* explains that a local government must refrain from exercising its own powers in the jurisdiction of another local government without the agreement of the latter. However, the central authority may exercise its powers over a local government at that local government's request. The central authority may, on exception, exercise its powers on a local government in the event of inertia or the inability of the local government to exercise its authority after formal notice from the General Coordinator of Decentralization and the Assembly of People's Representatives. Thus the powers to suspend local governments exists which is a great cause of concern to judicial officials.

Article 42 calls for 1) Regular meetings of the College of Presidents of local communities in the region to better cooperate with external services of the state and take necessary steps to develop, monitor, and oversee the integrated development plan, as well as to resolve problems that may arise in the regions; 2) Designation of a "Forum for Cooperation and Collaboration," – composed of the president of the region, the governor and three presidents of municipalities elected by their counterparts in the region – to meet whenever convened by the President of the region or as proposed by one or more members to resolve disputes; 3) A document to define protocols for program coordination, collaboration and grouping of public interventions, approval of joint projects, and determination of financial obligations of each party under the regional development plan. The State shall support project developed for the benefit of residents of local communities through these processes with competitive financing or through allocation of additional financial resources. The process and mechanisms described above however, appear to be awkward substitutes for clear administrative boundaries with necessary administrative and financial capacity. They will be prone to ad-hoc decision making.

Article 49 stipulates that members of local government councils cannot be prosecuted for acts performed in the context of its representative function unless they have violated the law or regulations, or unless it has been shown that they manifestly failed to provide sufficient diligence, given the powers and resources at their disposal. However, the criteria for "sufficient diligence" by which to hold local officials accountable is vague. Responsibility for determining performance should vest with the community.

Article 209 establishes that in an emergency, the City Council may be suspended by order of the Interior Minister issued on the basis of a reasoned report by the governor. The suspension cannot exceed two months. Per *Article 212* an interim management committee can replace the City Council should it be dissolved, the majority of its members resign, or elections are cancelled. *Article 269* gives the Interior Minister the right in an emergency to suspend the Regional Council on the basis of a reasoned report by the governor. The suspension cannot exceed two months.

Article 300 if the president of the region fails or refuses the fulfillment of one of the acts to which he is bound by laws and regulations, the governor can inform the General Coordinator of Decentralization. Should the president of the region continue to fail to comply with the law, the Governor may personally nominate a replacement.

COORDINATION AMONG DEVOLVED UNITS

Municipalities may differ on the amount of financial assets they are entitled to and on the fixed assets owned by autonomous bodies and attached departments. They may demand an equitable distribution of geographically immovable assets. The Government needs to clearly articulate a formula for the equitable division and distribution of resources from the center.

Per the Draft Organic Law on Local Government, when there are inconsistencies between federal and municipal laws, or conflicts concerning the division of powers, these will be settled by consulting the Administrative High Court. For example, water, roads, and electricity will all have areas of contention that overlap municipal and regional bodies. The Administrative High Court is empowered to approve and regulate matters when differences of interpretation arise among government levels or between municipalities. How will its members be chosen and who will sit at its head however, is not specified in the draft law. The criteria that will be used to guide its judgments is also not defined.

The High Council of Local Authorities in conjunction with the General Coordinator of Decentralization will oversee the functions of local government in terms of their public goods nature. It will facilitate the collaboration of the local governments and the authorities of the federal government. This body will need training in how to determine externalities and spillover effects. It must establish some analytical criteria to determine how the costs and benefits of actions in one municipality affect another.

COORDINATION AMONG CENTRAL MINISTRIES

Currently, different institutions that have jurisdiction over communities report to different central government ministries that have weak habits of cooperation and information-sharing. There is also redundancy: the roles of the Local Community Fund, the Local Cooperation Fund, and the *Caisse de Prix* (Local Award Fund) are not readily distinguishable and sometimes overlap.

Mechanisms for addressing crosscutting problems do not exist and information is frequently siloed in separate government agencies. For decentralization to work, it will be important to develop task forces or other coordinating and convening bodies to facilitate information sharing and decision making between critical ministries such as the Ministry of Finance, Ministry of the Interior, Ministry of Local Government, and the Ministry of Exterior Development.

Guidance and mechanisms for central agencies to avoid politicization, maintain transparency and coordinate international cooperation will also be critical. Without these, disruptions in service delivery are likely in the short term.

SECTION VII

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

Devolution offers the promise of correcting many past social and political inequities by creating a structure of government that is closer to the citizenry. For positive consequences to prevail, the devolution process must address a number of risks going forward.

Human resources. Decentralization must include public administration reform. Comprehensive administrative reform that redesigns staff incentives and performance appraisals is needed. Provisions and incentives will be needed to encourage staff in Tunisia to transfer voluntarily to the provinces. At the same time, the number of remaining federal staff from the devolved ministries must be adjusted against vacancies.

Tunisia will need to build the capacity of locally staffed agencies to plan, budget, design, implement, and manage services, such as health and education. Human resource management issues will require coordination between the existing central units with newly formed devolved units. Federal ministries must orient their activities toward handing over responsibilities to the devolved units rather than focusing only on scaling back their roles.

Regulatory framework. The ambiguity and lack of coordination at the federal level has aroused a concern that the government lacks sincerity in its commitments to the objectives of the Constitution. Many Tunisians continue to feel excluded politically, socially, and economically. This in turn undermines the credibility of those steps that have so far been undertaken. To enhance the legitimacy of the process and build trust across the social spectrum a cohesive plan and effective implementation is needed to make government promises credible.

The Cabinet must first finalize and pass laws governing both local elections and decentralization. This should be done in an open and transparent manner, inviting public comment and debate and inputs from local and regional governments. Regulations laying out the new responsibilities and authorities of municipal and regional councils, as well as how resources will be allocated and managed to fulfill those responsibilities must also be agreed to and approved. (Aliriza, Muasher, & Pierini, 2016)

Inter-governmental finance. The quality of governance within municipalities is highly variable and the danger exists that this divergence of quality might deteriorate further unless strict guidelines are maintained to ensure financial responsibility at the municipal and provincial levels.

First, because the national financial award has been announced before expenditure responsibilities have been assigned, there is a danger that the resource base will not match with those responsibilities. Tunisia must review the full list of the responsibilities being assigned to sub-national governments, to determine if the allotted fiscal powers are adequate to manage these responsibilities.

Second, the federal tax system suffers from a lack of equity. Whether devolution will contribute to greater equity will depend on the distribution of political power in the municipalities and the creation of mechanisms to prevent capture by local elites. The equitable distribution of power in the newly devolved units requires strong institutional measures to safeguard due process and active promulgation of the rights of citizens.

Inter-governmental coordination. Currently the plan for decentralization and its implementation fall short of the vision announced by the government and heralded by the Constitution of 2014. Weak interministerial coordination may increase the already great risk that different parts of federal administration will pursue different objectives. Mechanisms for addressing crosscutting problems do not exist and information is frequently siloed in separate government agencies. For decentralization to work, it will be important to develop task forces or other coordinating and convening bodies to facilitate information sharing and decision making between critical ministries such as the Ministry of Finance, Ministry of the Interior, Ministry of Local Government, and the Ministry of Exterior Development.

The plan to extend devolution will also not be complete until it includes the provincial level of intergovernmental relations. Strengthening of local governments must be accomplished in the context of strengthening civil society representation at both municipal and provincial-levels. Democratic legitimacy for the governors as intermediaries between the federal government and the municipalities is needed. Also critical to the process is the need for transparent reporting of government performance at all levels of administration and in all sectors of the economy.

RECOMMENDATIONS

The success of devolution depends on proper implementation of a number of overlapping and interfacing reform programs, with the institutional and managerial capacity to resolve emerging issues in a timely fashion.

HUMAN RESOURCES

Incentivize and train staff to serve local government. Municipalities lack staff with capacity to plan, budget, or provide devolved services in many cases. The government should freeze federal recruitment to encourage job-seekers to be deployed in the localities. Donors could support the GoT to create a module to help match local government job openings with the experience and education of existing government officials. Donors can also provide the GoT with assistance to develop appropriate incentive schemes to entice staff to voluntarily take positions outside Tunis, as well as assistance training redeployed staff for their new positions in the regions. Federal employees working in the regions should receive incentives for retention.

Donors can also aid in training municipal staff in project monitoring and evaluation techniques to ensure quality services.

REGULATORY FRAMEWORK

Support drafting of decentralization laws and regulations. The finalization of laws governing both local elections and decentralization has stagnated. Donors could provide assistance to help reenergize the drafting and/or review of these laws, drawing best practices from other emerging economies with recent experiences with decentralization. In addition to providing peer reviews of draft legislation and regulations, donors could support the High Commission for Decentralization and the Technical Commission, both charged with developing a strategic perspective on devolution. This commission should support, rather than supplant, permanent bodies created to facilitate these determinations and should terminate after a designated period (e.g. two years). Donors could also foster strategies and mechanisms for inviting and public comment and debate and inputs from local and regional governments and incorporating relevant inputs into the drafts.

Regulations laying out the new responsibilities and authorities of key councils and entities must also be developed. For example, the Organic Draft Law on Decentralization did not provide details as to how the members of the Administrative High Court would be chosen or what criteria would be used to guide its judgments.

Analyze impacts of devolution at the federal and local level. Functions that are public goods may need some degree of federal or intergovernmental oversight to ensure that policy formulation and implementation among all fields of common concern are uniform. The regulatory system will come under strain in the area of service delivery. Municipalities should be given more autonomy to manage local budgets, but this means they will have to cope with challenges they have no experience in managing. Initial service delivery can be negatively affected by the burden of new regulatory requirements and priorities. Donors can help the GoT to conduct a survey to identify each area of regulation, the current status of that regulation, the initial impact of regulation, and the probable longer-term impact of devolution. Donors can also help the GoT develop an awareness of costs of devolution in terms of their positive or negative externalities. Two issues are relevant: first, identifying how the costs and benefits of actions at the local level are exported to another level; second, determining the relationship between the size and character of the externalities and the jurisdiction that in which they are implemented.

The High Council of Local Authorities in conjunction with the General Coordinator of Decentralization will oversee the functions of local government in terms of their public goods nature. It will facilitate the collaboration of the local governments and the authorities of the federal government. This body will need training in how to determine externalities and spillover effects. Donors can support the Council in establishing a set of analytical criteria to determine how the costs and benefits of actions in one municipality affect another.

INTER-GOVERNMENTAL FINANCE

Articulate a formula for distribution of resources to municipalities. Municipalities may differ on the amount of financial assets they are entitled to and on the fixed assets owned by autonomous bodies and attached departments. They may demand an equitable distribution of geographically immovable assets. The Government needs to clearly articulate a formula for the equitable division and distribution of resources from the center. Donors can aid the GoT to develop this formula as well as help the GoT devise strategies to provide incentives for devolved units to make efficient and cost-effective decisions. Devolution works best when municipalities compete for resources and investment based on superior service delivery.

Capture citizen perceptions of local government. Donors can also help the GoT and municipalities to carry out citizen surveys to capture citizens' perceptions about local governance (such as health, education, and corruption) and how these perceptions vary by municipality. Additionally, donors can support studies in select districts to provide in-depth local level analysis of local government units/municipalities and their interaction with other stakeholders. This level of analysis would aim to capture and analyze the power dynamics between municipalities and the state, as well as the relationship between municipalities and citizens. The fiscal profile of municipalities, outlining expenditures, own revenues, and transfers, could also be analyzed to understand the accountability lines of the local governments.

Build planning and management capacity of municipalities. Rapid enhancement of the ability to design, execute, and manage projects is needed to prevent the absorptive capacity of the localities from being strained. Donors should support the federal government to design and establish a unit to assist municipalities to develop capacity to design and plan for new projects or services. Training should cover the cycle of project identification, participatory planning, accurate budgeting, transparent procurement, and effective management and monitoring. Building on World Bank capacity building efforts, donors could also partner with municipalities to plan and implement major projects, such as local infrastructure. A coordinated project development process would allow investment in infrastructure to be used to train local officials on a full sequence of project planning and management, including engagement of civil society groups to inform the planning process. Such a project could provide an opportunity to strengthen and reform the entire local system of fiscal management and could help that municipality operationalize a system by which municipal funds could be effectively and responsibly used. The aim would be to create a success story in the local context that could be used to influence other municipalities.⁷⁷ Independent public account committees would be established to monitor compliance with directives. Donors could also prioritize those local and regional projects with potential positive contributions for horizontal equalization.

⁷⁷ An example is the rebuilding of Byblos in Lebanon. See: <http://www.100resilientcities.org/blog/entry/resilient-byblos-home-to-the-middle-east-s-first-office-of-resilience#/-/./>.

Develop municipal forecasting and budgeting capacity. Municipalities will also need capacity building in developing annual budgets, including revenue and expenditure forecasts. Certain municipalities could also be chosen to pilot medium-term expenditure planning. This includes training on multi-year strategies, especially medium-term budgeting and planning. Donors could also provide training in best practices in expenditure monitoring, management, and reporting, as well as best internal audit practices.

Evaluate local tax assessment and collection capabilities. In order to more accurately forecast revenues from year to year, municipalities will have to strengthen their tax assessment and collection capabilities. As a first step, donors could support fiscal assessments to develop a more thorough understanding of local tax administration systems in Tunisia. These assessments would examine the relationship between rates and levels of collection as well as examine the role played by tax officials in assessing, enforcing, and auditing taxes. For example, surveys would provide information about the degree of tax evasion and corruption/bribery at the local level and the relationship between taxpayers and tax collectors. Based on findings from the assessments, donors could assist municipalities to evaluate and pilot performance rewards for collectors or other strategies to increase collection rates and reduce collusion between taxpayers and tax collectors. Donors can also help municipalities establish or improve independent tax appeal mechanisms.

Create a full record of properties. Donors can help local governments create a full record of properties by funding survey teams and technology to identify and verify the existence and borders of properties.

Create a consolidated computerized taxpayer database. Donors can also support development of a centralized, computerized database integrating motor vehicle, property registration, and tax data. This could be through the provision of technical assistance to develop specifications and requests for proposal and/or purchase of equipment to help fully implement the database.

INTER-GOVERNMENTAL COORDINATION

Currently, different institutions that have jurisdiction over communities report to different central government ministries that have weak habits of cooperation and information-sharing. There are also some redundancies; for example, the roles of the Local Community Fund, the Local Cooperation Fund, and the Caisse de Prix (Local Award Fund) are not readily distinguishable and sometimes overlap. Donors can provide guidance and mechanisms for central agencies to avoid politicization, maintain transparency, and coordinate international cooperation. Without these, disruptions in service delivery are likely in the short term. Donors could also support the GoT to create an interprovincial coordination committee and criteria to assess the externalities and spillover effects of local development schemes.

ANNEX A. DONOR SUPPORT

Below are summaries of donor initiatives supporting decentralization in Tunisia.

Table I. Donor Programs Supporting Decentralization in Tunisia

Canadian International Development Agency (CIDA)	The Canada Fund for Local Initiatives (CFLI), which ran from 2011-2012 was designed to support small projects proposed and implemented by local organizations in Tunisia. In providing funding for small projects that offer direct social, economic, or technical assistance to local populations, the CFLI's aim was to contribute to the overall goal of reducing poverty in Tunisia.
European Union (EU)	The EU is focused on assisting with emergency transfers to regions. They are concerned with the low level of regional investment since the revolution. They would like to see local revenues augmented and efforts made to tax individual Tunisians. Local governments have no information about the taxpaying capacity of local payers. The EU fears decentralization will make it more difficult to collect taxes because a democratically elected local leader will find it difficult to raise taxes and be reelected. A virtuous circle needs to happen, but this will take time. It will be a long time before there is a sense that local government can perform. It is not realistic to think this can happen quickly. Expectations are out of proportion to what can be realistically accomplished even at a low level of performance.
French Development Agency (AFD)	AFD has very little direct activity in the area of decentralization. Most projects are focused on livelihood creation in under-provided regions. More engagement is promised once the ministry in Paris is reorganized; the entire agency is in a process of reorganization.
GIZ	<p>GIZ employs close to 40 expatriates and 150 local personnel. It prioritizes improving the institutional conditions for regional development and making local participation effective. At the regional level, it seeks to assist regional councils in performing their jobs. It calls for abetting cooperation between civil society and the private sector. At the national level, it aims to support ministers to elaborate law and regulation and to strengthen administrative procedures.</p> <p>GIZ also offers support for creation of the next five-year development plan. It wants to provide resources to local experts to conduct studies of why there has been little success with regional development. It seeks to develop plans aimed at reducing poverty at the local level by creating sources of medium- and long-term employment. It hopes both of these initiatives will support the next five-year plan.</p> <p>GIZ lacks the means for a quick response to local priorities. In its critique of the existing environment, it notes a lack of coordination of sectorial ministries and insufficient local or regional infrastructure. It also emphasizes the danger of regions being given the rights of self-governance without the tools or experience to proceed. The questions it identifies as critical are: At what administrative level will regional plans for infrastructure be developed? How will local inhabitants participate in these decisions? How will financing be found for the regions that are doing poorly? What will be the role of communes?</p>
Japan International Cooperation Agency (JICA)	Will offer primarily technical and financial assistance to build infrastructure in southern districts. Nevertheless, it is aware of the need to make democracy function as a means of delivering services that people desire. Local residents must have confidence that if they contribute, they will receive; that confidence is yet to be established. A priority is to enable local collectivities to select and manage their own investments, and in so doing, make themselves attractive to outside investment. Budget management remains under the authority of the Central Ministry. The administrative architecture of devolution has not yet been determined.
Swedish International Development Agency (SIDA)	<p>The SIDA project has the overall objective that Tunisian Local Government is strengthened and lessons from Tunisian and other countries' decentralization experiences are considered by reform advocates from MENA transition countries. By completion, it is expected that the project will have contributed to four main results:</p> <ol style="list-style-type: none"> 1. Central government has defined roles, responsibilities and resources for at least two municipal/regional competences and has considered other proposals advocating for the adoption of a decentralized system of government. 2. National Federation of Tunisian Cities (FNVT) proposals for improvement in municipal financial management/control and intergovernmental transfers are adopted by the central government based on work in four pilot Municipalities.

	<p>3. FNVT is a legitimate representative of Tunisian Municipalities that influences local government politics in Tunisia.</p> <p>4. Tunisian and other countries' decentralization experiences inform consultations by reform advocates in MENA transition countries. The project will include a special emphasis on gender equality and will include training to Tunisian partners on, amongst other things, different tools for gender mainstreaming, gender Communication and gender awareness. (SKL International, n.d.)</p>
<i>United Nations Development Programme (UNDP)</i>	<p>The UNDP's representative has been in country since 2011. He emphasizes that there are "many big question marks." The central ministries are not able to coordinate their activities at local levels. There needs to be some authority with a mandate to coordinate local affairs. The UNDP representative feels that Ministry of Local Affairs is the same Ministry of the Interior in new clothing and does not have an attitude of being transparent or adaptive. The mandate of the governors after the municipal elections is uncertain. Citizens do not understand the difference between a decentralized and deconcentrated system. So far, the measures undertaken ensure deconcentration, but not decentralization. How will the decentralized and deconcentrated powers coexist?</p>
<i>World Bank Urban and Local Governance Program</i>	<p>The World Bank program seeks to motivate local officials with incentives to encourage them to expand the scope and resources of their activities to get matching grants. It also seeks to abet local investment by complementing that investment with counterpart funding. And it works to strengthen the financial and managerial capacities of municipalities as well as strengthen the delivery of municipal infrastructure and services and bring them in line with citizens' priorities. As part of the program, the GoT has reformed the capital grants system, the way in which funds from the central government are distributed to local municipalities. The revised fiscal transfer system rewards municipalities based on their performance improvements (as measured against key indicators). As of July 2016, the program had helped 260 of the 264 municipalities prepare annual investment plans using a participatory approach. The Government reported that 92 percent of municipalities had satisfied minimum mandatory conditions, and the MOF released block grants for implementation of the investment plans. However, as of July, the Local Government Support Loan Fund (CPSCF) had not yet established its technical assistance (TA) system to provide practical support to municipalities to implement their annual investment plans; the delay in the TA system launch could cause a delay in implementation of the municipalities' annual investment plans. World Bank officials are seeking partners for long-term commitments and welcome cooperation with USAID.</p>

Recommendations. All donors expressed a need to coordinate and communicate, but so far, only the World Bank has activities with which USAID's objectives align. The Tunisian government has a new commission to see that the process of devolution yields positive results. This should be matched with creation of a facility in the aid community to track progress and coordinate external assistance.

ANNEX B. LIST OF INTERVIEWEES

NAME	TITLE	ORGANIZATION
Gueye Mouhamed	Analyst	African Development Bank
Leila Haouaoui Khouni	Project Advisor	Forum of Federations
Makram Montacer	Economist	Forum of Federations
Kaneko Yurato	Representative	JICA
Nizar Jabeur	Senior Program Officer	JICA
Karim Chabir	Senior Program Officer	JICA
Ingrid Schwoerer	Coopération Municipale – Gouvernance locale et participative au Maghreb	GIZ
Francis LeMoine	Chargé de Programme	EU Delegation
Safouane Ben Aissa	Conseillé du Ministre des Finances	Ministry of Finance
Habib Houij	Directeur General CGABE	Ministry of Finance
Lazhar Mazigh	Chef d'Unité des Finances Locales DGCP	Ministry of Finance
Faten Chtourou	Directeur à l'Unité des Finances Locales DGCP	Ministry of Finance
Moufida Romdhani	Directeur de la fiscalité locale DGELF	Ministry of Finance
Sabine Beddies	Senior Urban Specialist	World Bank
Phillip Bottern	Senior Social Development Specialist	World Bank
Ayah Mahgoub	Urban Economist	World Bank

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