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DECENTRALIZATION, REGIONAL  
DEVELOPMENT, AND LOCAL  
PUBLIC FINANCE IN TUNISIA

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## FOREWORD

Decentralization has been touted by many developing countries as a solution to a variety of political, administrative and economic problems. Tunisia is no exception. In the current paper John Nellis reviews the major activities which have taken place in that country under the general heading of "decentralization".

Nellis finds that, while progress has been limited, decentralization in Tunisia has been much more than a myth. Indeed, he concludes that, perhaps, the decentralization policy has been too decentralized in that it has involved too many actors, agencies and regulations.

A unique feature of the paper is its description of the local government system which is to assist in carrying out the decentralization policies. Included is a discussion of the financial implications decentralization had for the communes (the primary local government affected).

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## Introduction

What factors push developing countries to consider or adopt decentralized modes of governance? The list is long.<sup>1</sup> Pressures to decentralize are attributed to: the need or desire to allow or respond to locally determined preferences; very large or unmanageable physical size; a large or very scattered population; ethnic, religious, linguistic or cultural diversity leading to political pressures for regional or local autonomy; geographical features separating portions of the territory of the state; divisive historical factors; regional economic imbalances; poor performance of an over-burdened central public sector; a desire to democratize, and the intellectual pressures stemming from the emerging development paradigm which claims that "programs seeking to make positive contributions to rural development must above all reach and change the lives of individual poor people."<sup>2</sup>

It is not readily apparent that the north African state of Tunisia needs to respond to most of these issues. At 164,000 square kilometers it is quite small. There are no geographical barriers of substance. The southern third of the country is virtually uninhabited desert, meaning that the country's small population of six and a half million is dispersed over a modest 100,000 square kilometers. A five hour road trip from the capital, Tunis (which is located in a corner of the country), will get one to any population center of significance. The population is homogeneous with regard to ethnicity, language and religion. History has provided Tunisians with a far better than average degree of unity and identity. By Third World standards the country has been relatively stable politically since its independence in 1956. To date, the army does not intervene in political affairs except at the request

of the civilian authorities. Tunisia has generally prospered economically; it is one of the handful of low or middle income countries to surpass, in the period 1960-1981, an annual average rate of growth of GNP per capita of 4.5 percent -- Tunisia has managed 4.8 percent.<sup>3</sup>

Nor does this appear to be a matter of "growth without development." According to a World Bank study, in Tunisia "overall social progress as measured by just about every thinkable social indicator is very good;" and "absolute poverty is declining rapidly."<sup>4</sup> In 1961, it was estimated that 73 percent of the Tunisian population expended less than 50 dinars cash per year; even after accounting for inflation, the percentage of those with minimal cash outflows has declined as follows:

1966 -- 47 percent

1971 -- 42 percent

1975 -- 28 percent

1980 -- 22.5 percent<sup>5</sup>

Both politically and economically, these are remarkable achievements. Thus, a cursory comparison of Tunisia's situation with that of many other poor countries makes it appear an unlikely candidate for decentralization ventures.

Omitted from the discussion were the issues in the latter part of the list: the performance of centralized public sector agencies, democratization, participation, rural and regional economic imbalances. It is the existence of hopes and problems in these areas which has prompted the Tunisian government to undertake a broad campaign of reform encompassing political decentralization, administrative deconcentration, and rural and regional development. Starting in 1973-75, and moving forward in small steps since, Tunisian authorities have undertaken a multifaceted effort aimed at

...giving to the regions essential rights and powers in the field of administration and management, and an economic orientation, to re-link the administration and the administered, and to develop at last in the latter a sentiment of participation in the taking of decisions and the effort of development.<sup>6</sup>

This strikes one as a laudable set of goals. But it raises a prior question: What is the precise nature of the problem that has given rise to this policy thrust?

#### The Problem

Tunisia's major problem is that, despite good growth performance and a rapid decline in the percentage of those in absolute poverty, the country remains characterized by "great regional disparities in general and substantial urban-rural differences in income levels in particular."<sup>7</sup> In 1980, for recent example, the average personal consumption expenditure of those living in rural areas was only 42 percent of the amount expended in the large cities. The average level of consumption expenditure in the country's poorest region -- the Center West -- was about 41 percent of the expenditure levels of those residing in the capital region.<sup>8</sup> What is especially alarming is that regional disparities have become comparatively worse in recent years, in spite of numerous and expensive government measures aimed at reducing their incidence and severity.<sup>9</sup> That is, while the absolute standard of living and social indicators have improved in Tunisian rural areas and poorer regions, they have improved much more rapidly in urban areas and the generally richer coastal regions.

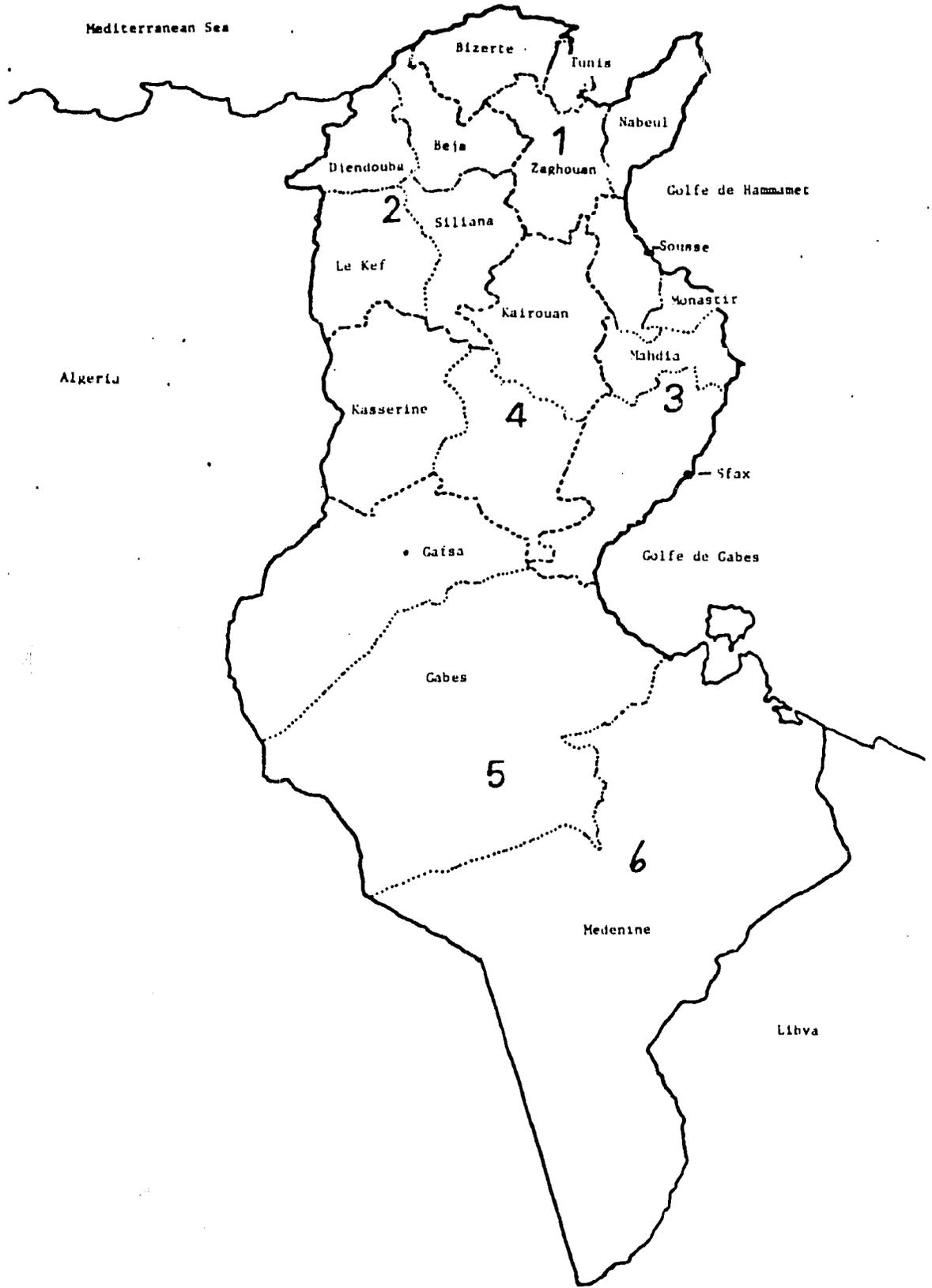
Thus, while the national aggregate economic floor has moved perceptibly upwards, the increases in relative disparities have been politically very worrisome. This has been the recognized case since the early 1970s. But the issue rose to critical prominence after January of 1980, when a group of externally trained and supported Tunisian dissidents seized the south-central mining town of Gafsa, and launched an appeal for a general uprising to overthrow the regime. The appeal was ignored, and the Tunisian army restored order in rapid but fairly bloody fashion.

The attack profoundly disturbed Tunisian leaders. The rebels had bargained on gaining support from the population in the region. While none had been forthcoming, for Tunisian authorities it was deeply shocking to think that the attackers could have conceived it even as a possibility. The Gafsa affair lent great impetus to the regional development reform movement, though it was not its primary cause. Since the event, the leaders of the regime have more forcefully and more frequently stressed the need to improve regional equality.

(The first draft of this study was completed in November of 1983. At the time of writing these revisions [February 1984] Tunisia has just undergone another violent crisis, sparked by large increases in the price of bread and other basic foodstuffs, commodities long and expensively subsidized by the central government. Reports indicate that the protest riots began in the towns of the relatively deprived interior regions, then spread to the coastal cities. They also intimate that the price rises were a catalyst which acted upon the simmering discontent of the poor and a small but vocal population of Muslim fundamentalists. Attacks centered on government offices and the property of the affluent. The army was called

FIGURE 1

TUNISIA: ECONOMIC REGIONS



out; reportedly, there was considerable loss of life. Order was restored after the President personally cancelled the price increases. The political stability of the country has been given its third severe shock since 1978.

This study does not attempt to analyze these current events. But the nature, location and severity of the outburst reveal that regional development and inequality problems obviously persist, and that efforts to date to defuse these issues -- efforts described in this study -- have been of questionable efficacy. This should be borne in mind throughout.)

A key document of the Ministry of Plan, produced in November of 1980, listed as the first priority of the next plan period social justice, a more just distribution of revenue between classes and regions, "in order to assure social peace and consolidate national unity."<sup>10</sup> In introducing the Sixth Five Year Plan of 1982-86, President Habib Bourguiba called regional development "a patriotic duty."<sup>11</sup> The tenor of these official statements, combined with the private admissions of Tunisian authorities, confirms that the primary political goal of present regional development efforts is preventing the reoccurrence of a Gafsa-like situation.

Tunisia is administratively divided into twenty gouvernorats, or provinces. These are regrouped into six (perhaps soon to be collapsed into five) economic planning and development regions. At present, regions are without administrative significance, though they are used for planning and descriptive purposes. The poor regions are those away from the coast, which is better watered, more industrialized and urbanized. It is in the western interior regions where the problems of development and poverty are most acute. These regions contain 38.3 percent of the country's population. Less than half of Tunisia's total population is rural, but 57 percent of these

rural dwellers live in the western regions. In the poorest Center West and North West regions, over three-quarters of the population is classed as rural. On average by region, 16.1 percent of the west's population is beneath the poverty line, as opposed to 10.6 percent in the eastern regions.<sup>12</sup> (Poverty is officially defined as "having an annual income of less than 120 dinars in urban areas and less than 60 dinars in rural areas.")<sup>13</sup>

Some 800,000 Tunisians are estimated to have been officially poor in 1980. The poor tend to be predominantly rural dwellers: small-holders, landless agricultural laborers, the unemployed, artisans; and unskilled urban workers. Clearly, a disproportionate share of the poor live in the western regions.

An estimates 86 percent of industrial start-ups in the period 1973-78 took place in the east. Seventy-one percent of all investments envisaged and proposed in the VI<sup>th</sup> Plan period (1982-86) will be located in the east, and this in a plan supposedly devoted to regional equilibrium.<sup>14</sup> These and many other figures which could be cited confirm that regional disparities do indeed exist within the country. But none of this is terribly surprising, nor, perhaps, far removed from world or Third World norms. It is even possible that the reported disparities are quite minor compared to those prevailing in other low and middle income countries. Nonetheless, perceptions of problems are national and relative; they arise within particular political/economic contexts. Simply because the situation may be much worse elsewhere does not mean that the Tunisians do not have a real problem; and it is certain that, especially since the Gafsa affair, the issue is perceived within Tunisia as real and critical. The government has been

challenged, and has challenged itself on the matter, and is pouring much effort into finding solutions.

### Related Issues

#### Poor Administrative Performance

Regional disparity difficulties are entwined with and made worse by the existence of other factors -- deficiencies is a more accurate term -- well recognized within Tunisia. The Note d'Orientation of 1980, a position paper on the major themes of the VI<sup>th</sup> Plan, wrote of the need for fundamental and thorough reform in almost every sub-field of public sector activity. The functioning of the large (over 150,000 employees) and pervasive public service came in for special criticism. "The administration," stated the authors of the Note, "in the eyes of the citizenry, has become synonymous with heaviness (lourdeur), with red-tape indeed...with inefficiency." It is now widely viewed as "anonymous, impersonal and sometimes inhuman."<sup>15</sup> The bureaucracy's lethargic rule-ridden performance is both inefficient and alienating. Efficiency is a major concern in Tunisia, where central government spending amounts to close to 40 percent of GDP;<sup>16</sup> and the issue of citizenry alienation, especially in the western regions, has been particularly salient after 1980.

#### Weak Sub-National Governments

Another issue in the array of factors related to decentralization is the problem of very weak sub-national governments. These are admitted to be without adequate personnel and financial resources, and are performing poorly. Normally, the world over, such weaknesses are used to justify strict (or stricter) centralized control. And it is true that there are those in

Tunisia who argue that the country possesses neither the financial nor the human resources to construct strong local government units. They conclude that the present system is sufficiently decentralized; they see no need for further reforms. However, the prevailing official view is different. It says that the political tensions, arising from feelings of powerlessness and alienation in the rural, local population, can be overcome by strengthening the local governments, making them more responsive to local needs, and more capable of resolving problems. Up to the end of 1983, further, not less decentralization, was seen as the answer to Tunisian problems.

The country's sub-national administration/political system is somewhat complicated. The twenty gouvernorats are essentially administrative units. They are directed by powerful gouverneurs, officials of the Ministry of the Interior, akin to the French préfets. They are viewed in Tunisian law as the "depository for the authority of the State,"<sup>17</sup> meaning that they are the government's chief executive officer at the provincial level. Their role is highly political, and their prime responsibility is to the central leaders who appoint and watch over them.

Gouvernorats are administratively sub-divided into délégations (186 in 1980), each headed by a délégué. These officers are also part of the Ministry of the Interior national cadre, and their career prospects are upward and outward. Under the délégués are the omdahs, non-movable leaders elected from the local cells of the formerly unique but now merely dominant political party, the Parti Destourian Socialist (PSD). Each omdah is in charge of a secteur.

Now comes the chief complication. Tunisia also contains 170 (as of 1983) communes; areas of municipal government directed by locally elected

councils. But not all the country is divided into communes. Only those locales containing some minimum urban or quasi-urban agglomeration have commune status. Communes vary in population from over a half million (central Tunis) to a few hundred. Well over half the communes contain less than 10,000 people. Only six, including central Tunis, have populations exceeding 50,000. To compound the issue, commune boundaries only very rarely correspond with délégation or secteur boundaries. At present, only half the country resides in communes. While some communes contain but tiny hamlets, it is mainly the rural dwelling portion of the Tunisian population which lives in what are called "zones not divided into communes." The entire population, "communalized" or not, has the right to vote in elections for members of the National Assembly. But only those living in communes have any sort of participatory, representative local government system. And the representative nature of these local governments is limited. Electors choose from a single list of candidates selected by the officials of the PSD. The elected councillors then vote on who among them should be designated mayor of the commune; but central officials must approve this choice and have been known to veto the wishes of the councillors.

In theory, people not living in communes are represented at the sub-national level by bodies called gouvernorat councils. These councils are composed of a large number of people, some indirectly elected by local party committees, some appointed from "national organizations" such as the women's, youth and union movements, and some are members simply because they hold key gouvernorat administrative posts. The non-representative, non-participative nature of these councils is criticized by many in Tunisia. Even more severely criticized is the simple fact that the councils possess few

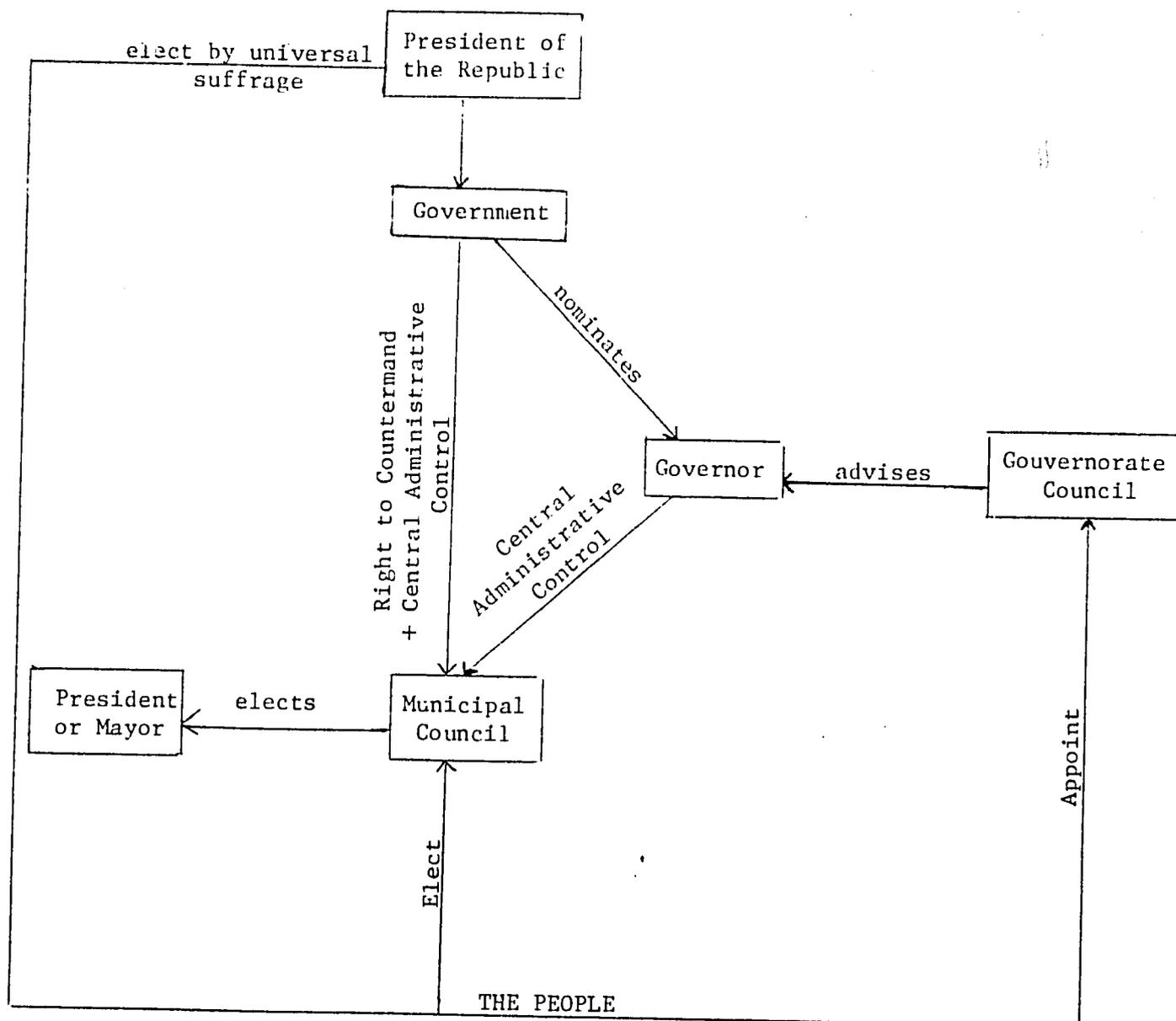
resources and fewer specified powers; their role is "ambiguous and marginal;"<sup>18</sup> they simply "do not make decisions."<sup>19</sup>

It is true that the communes, as well, have not been of much importance "due to lack of power and resources."<sup>20</sup> Indeed, many communes contain towns that are so small, are so lacking in resources and are so overwhelmed by central regulations that they have "but a legal existence."<sup>21</sup> The weaknesses of all these sub-national units, both political and administrative, are viewed as contributing directly to the growth of feelings of powerlessness, cynicism and alienation in the poorer segments of the population.

To repeat for the sake of clarity, there is in Tunisia a distinction between the deconcentrated administrative system of the central government, and the elected local government structures. All of the country is divided administratively into provinces, délégations and sectors; but only about half of the population lives in communes -- population centers or areas possessing elected local councils. Those areas not arranged in communes still have, in theory, a partially representative body overseeing administrative actions. This is the gouvernorat council. In reality, neither the gouvernorat nor the communal councils are all that meaningful, but at least the thrust of the reforms now "on-the-books" is to increase the power and efficacy of the communal councils. Finally, as communes account for 90 percent of all local government expenditures, the gouvernorat councils are decidedly of secondary interest. Despite these differences, both entities are called "local governments" (collectivités locales).

Overall, there is a sense in Tunisia that an unjustly disproportionate share of the benefits of development have gone to the eastern coastal

FIGURE 2  
STRUCTURE OF LOCAL AUTHORITY



Source: Remy Prud'Homme, "Urban Public Finances in Developing Countries: A Case Study of Metropolitan Tunis," mimeographed draft of report for the World Bank, Urban and Regional Economics Division, Development Economics Department, January 1975, p. 22.

regions, and more particularly, to the eastern urban wealthy. There is some evidence and considerable official concern that perceptions of inequity, neglect and alienation lay behind the Gafsa affair of 1980. There prevails among Tunisian planners and decision-makers a conviction that the administrative and local government systems need to be lightened, simplified and made more efficient and responsive. Ways must be found to combat popular discontent, speed implementation of actions, and improve maintenance records on finished projects. The proposed solutions to all these problems are regional development and decentralization. The two concepts are closely linked, though there are important differences in emphasis. The next sections of this study ignore purely regional development matters, and concentrate on the Tunisian decentralization efforts, with special emphasis on the critical issue of local public finance reform. Actions aimed specifically at promoting poor zone and regional development are discussed later in the study.

### Decentralization

Decentralization is attractive to many less developed countries. It is a broad concept, which can be shaped to address a variety of the more common LDC economic and political problems. That is, it speaks to questions of improving administrative, allocative and project management efficiency while at the same time it offers hope of enhancing citizenry participation and regime legitimacy. This breadth makes it appealing to political leaders, donor agencies, technocrats, sub-national officials and people, and intellectuals -- foreign and domestic --, who can agree on its general applicability, if not on how far or in what precise manner the concept should

be pursued. Congested communication channels, inappropriate project identification, slow project implementation, regional or community concerns of being slighted; in short, demands for more effective, responsive and democratic government -- all can apparently be met by one form or another of decentralization. This is what is happening in Tunisia.

As in other countries influenced by the French, the Tunisians make a distinction between the concepts of decentralization and deconcentration. They interpret decentralization to mean the transfer of responsibilities from the central government or administration to a directly elected legislative body representing a sub-national jurisdiction. Thus, the only measures in Tunisia strictly deserving the name decentralization are those which improve the powers and resources of the communes. Actions to strengthen the indirectly elected gouvernorat councils, and the more numerous efforts to transfer responsibility for initiating and implementing actions from central ministries to regional and provincial authorities, are cases of deconcentration. The distinction is not all that clear, given the great weaknesses of the communes and the continuing dominant role of the central apparatus in the key question of the allocation of financial resources. Nonetheless, it is not a bad idea to differentiate transfers to local governments from transfers to sub-national officials. The Tunisians call the general process decentralization and rely on the context to make the distinction clear; this study follows suit.

Decentralization has been spoken of, and regarded as an officially desirable achievement for Tunisia, for the past quarter century. For a variety of reasons -- the centralist and centralizing French heritage, the need to consolidate national unity after independence, the interventionist, more or less socialist economic option pursued in the

1960s, and the then prevailing intellectual climate of development opinion which saw state intervention and comprehensive planning as the key elements of a successful strategy -- the rhetoric on decentralization for long and by far exceeded action. As noted, this situation began to change in the 1970s.

The VI<sup>th</sup> Plan of 1982-86 notes that a number of decentralizing and deconcentrating activities were launched in the 1970s, precisely to respond to the types of problems identified above. For the most part these actions were relatively simple administrative changes, and entailed the creation of sub-offices in each gouvernorat of five national ministries: Finance, Education, Transport and Communications, Social Affairs and Public Health.<sup>22</sup> Reforms introduced in May of 1975<sup>23</sup> were much more important.

These new laws called for a vast restructuring of the role of the gouverneurs; and redefined the role of the commune, its relationship with central authorities, its method of financing, and its relationship with central loaning and granting bodies.<sup>24</sup> These reforms were designed to contribute to regional development by means of decentralization. For Tunisian planners the two processes are inseparably linked.

One can make a revealing comparison between what the reforms were intended to accomplish, and what has actually happened. With regard to the position of the gouverneurs, their situation changed (on paper) from that of serving as a transmission station for central orders and local compliance, to that of serving as directing manager of all government activity in the province. With the opening of the ministerial sub-offices, they would be provided with more officers and expertise to work with. Their directly supporting staffs were to be expanded. Most

of all, they were to receive increased budgetary powers, which would allow them to pass on all ministerial appropriations spent in their area. These powers would allow the gouverneurs to "animate, coordinate and control...the regional services of the civil administration of the State."<sup>25</sup> The idea was that the administration would be made more effective and responsive by bringing it closer to the population it served.

These good intentions have not yet been fully carried out. An assessment of the first three years of activity under the new regulations complained of low and half-hearted implementation of the measures. It showed that while the decentralization measures were announced with great fanfare, and presented as though they would immediately be put into practice, actual changes on the ground were very minor. The Tunisian authors of the assessment concluded that, as of 1978, there was a spirit of reform rather than the reforms themselves.<sup>26</sup>

The VI<sup>th</sup> Plan confirmed that, as of 1982, little more had changed. The language is guarded -- "The gouverneurs have not received from the different ministries the mission of coordination and implementation of the service actions."<sup>27</sup> -- but the message is clear: posts have been created but not filled, the promised support staff have not been produced, and the central ministries have been flatly unwilling to transfer their powers, personnel and above all their budgets to the gouverneurs. The paucity of meaningful change has led the new General Commissariat of Regional Development to portray the transfer of powers to gouverneurs as "in the main theoretical."<sup>28</sup>

Events in the communes have followed a similar path. The reform laws of May of 1975 stated that the communes, by these acts, were

fundamentally transformed. Previously, the communes had served the most minimal of administrative roles. Henceforth the communal council would "regulate, by its deliberations, the affairs of the commune,"<sup>29</sup> the range and importance of which were, theoretically, much expanded. The communal council now has to be "consulted" before any state activity can take place within its boundaries. It has the power to decide whether and to what financial extent the commune should become involved with commercial activity. The commune is now supposed to be involved heavily in the promotion of the economic, social and cultural life of the locality; it is to be a local government, and not merely the lowest level of the central state hierarchy. As one Tunisian observer put it:

The commune is in the future supposed to act in parallel with the central State, both to support it in its heavy responsibilities and to supplant it...the Tunisian commune has since 1975 a conceiving role in social and economic policy at the local level...<sup>30</sup>

While the words and intentions were splendid, they remained quite in-specific. Much was said about the desired future state of the communes, but little was offered in terms of what precise steps would be taken to reach that future state. Tunisian observers rightly concluded that only the basic ideas of reform had been established, and it would be through "experimentation that one will interpret in a pragmatic and progressive manner...the limits of the reform."<sup>31</sup>

#### Local Public Finances and Their Reform

However, in one key field important and concrete action was taken. Tunisian authorities in 1975 -- with further steps taken in 1976 and 1977 -- changed the local public finance system. The purpose of the actions was to

provide the subnational governments with additional resources to cope with their (theoretically) increased responsibilities.

Decentralization implies essentially that the decentralized bodies, in this case the local governments, dispose of financial power, which consists of the possibility of instituting taxing laws and of varying revenues as a function of need, in the framework of supervisory control

from the parent ministry -- which has to be efficient but subtle.<sup>32</sup>

In order to assess the scope and impact of the financial reforms, one has to have some idea of the pre-reform local public finance system. A review shall be presented; but a warning is in order. As is often the case in LDCs, there are problems with the quality and reliability of the available data, both pre- and post-reform. Different documents give different revenue and expenditure figures for the same time period, or use different time periods when discussing trends and aggregate figures. The best that one can do is present what is available, point out the major discrepancies, and warn the reader that the figures are suspect.

#### The Pre-1975 System

Tunisian accounting practice divides revenues (and expenditures) into a "current" or "ordinary" category, and a "capital" or "extraordinary" category. Table 1 shows current and capital communal revenues in the ten year period preceding the reforms. The figures refer only to communes; revenues of the gouvernorat councils are not included.

These data reveal an apparently substantial annual average increase of 11.9 percent in local revenues of both types in the period under consideration. The growth rate of the most important direct taxes lagged behind, relatively and slightly, the growth rates of other ordinary revenues. Still, taken in isolation, the figures seem to reveal a pattern of progressive growth, though the bulk of the increase occurs after 1971.

TABLE 1

Current and Capital Revenues of Communes  
1965-1975 ('000 Dinars)

Revenues	Years											Total	Average Annual Increase (percent)	
	1965	1969	1967	1968	1969	1970	1971	1972	1973	1974	1975			
Current														
Direct taxes <sup>a</sup>	3055	3830	4135	4280	4085	4373	4089	5453	5715	5998	6495	51,496	7.8	
Indirect taxes	1010	1120	1191	1175	1207	1570	1629	1585	2016	2326	2715	17,544	10.4	
Revenues from communal property	366	450	479	532	560	586	645	718	1119	903	1577	7,935	15.7	
Central government subsidies	2418	2277	2373	2152	3104	2998	4091	3617	4902	4385	6238	20,555	10.9	
Miscellaneous	810	1000	1158	1351	1253	1478	1688	2201	2153	2305	2494	17,891	11.8	
Totals	7695	8677	9336	9490	10,209	11,005	12,142	13,574	15,905	15,907	19,517	133,421	10.7	
Capital														
Internally generated <sup>b</sup>	3157	3741	3629	2928	2570	2374	2073	6248	7511	6562	9873	50,666	12.1	
Loans	403	579	252	574	735	469	231	450	345	856	2355	7,249	19.3	
Totals <sup>c</sup>	3560	4320	3881	3502	3305	2843	2304	6698	7856	7418	12,228	57,915	13.1	
Grand Total	11,219	12,997	13,217	12,992	13,514	13,529	14,446	20,272	23,761	23,325	31,745	191,336		

<sup>a</sup>The difference between direct and indirect taxes, and how they are composed, is explained in the text.

<sup>b</sup>"Internally generated" means: surpluses on the ordinary revenue accounts, savings and any unexpended capital funds from previous years.

<sup>c</sup>Eleven year average of capital revenues as a percent of current revenues: 41.8 percent.

Source: Direction du Budget, Ministère des Finances (COT), "Rapport sur l'Evolution et les Perspectives des Ressources Communales," Centre de recherches et l'études administratives, Ecole Nationale d'Administration, Actes du Séminaire sur les Moyens de l'Action Communale, 14-17 juin 1977, CREA-ENA Études et Documents No. 10, Tunis, 1978, pp. 14, 15, and 19.

However, the figures need to be interpreted and placed in context. First, the very large increases in the "internally generated" capital revenues do not necessarily indicate a rise in planned savings; rather, it could equally be a measure of the increasing inefficiency of communal operations. That is, one major reason these sums increased so greatly after 1971 was because of increasing surpluses of ordinary revenues over ordinary expenditures, and because of a generalized inability to implement rapidly capital projects. The normally desirable first part of this situation arose not because the communes were fulfilling all their planned ordinary actions at low cost (and thus had a surplus), but rather because complex rules, over-strict central control and sloppy budgeting techniques made it impossible for them to spend their ordinary revenues in the course of a single fiscal year. On the second issue, communes were (and still are) allowed to keep and show as revenue funds not spent on time for capital projects. This low absorptive capacity of the communes meant that many of them ended the year with unexpended funds, which were automatically "kicked over" into the capital revenues. (This point will be discussed further in the section on budgeting, below.)

Second, and perhaps more important, the increases in local revenues (and expenditures as well) were modest in comparison to the increases in central government spending and revenue generation in the same period. Table 2 contrasts Tunisian central and local government revenues and expenditures in the 1970s. The time period covered is for the last four years before the reforms took effect and the first three years after. (These figures come from an International Monetary Fund publication; not directly from an official Government of Tunisia document. Note the major differences in total local government revenues for the years 1972-1975 given in this table, and the total revenue figures presented for these years in Table 1. There is no

TABLE 2

## Tunisia

Central and Local Government Revenues  
And Expenditures 1972-1978 (Million Dinars)

Central Government	1972	1973	1974	1975	1976	1977	1978
Total Revenue and Grants	270.3	302.3	416.7	517.5	556.3	657.4	806.9
Total Revenue	253.8	287.4	398.3	498.6	540.9	644.0	799.2
Tax Revenue	214.8	248.2	315.8	409.0	450.6	539.9	644.0
Total Expenditure	248.6	299.4	406.3	517.8	591.2	747.4	864.9
<u>Local Government</u>							
Total Revenue and Grants	17.7	20.1	20.8	24.1	28.0	38.1	45.5
Total Revenue	11.0	11.8	12.2	13.0	18.2	20.5	23.1
Tax Revenue	8.0	8.9	8.6	11.1	10.6	17.6	22.4
Total Expenditure	16.9	19.4	25.4	28.2	29.8	40.1	45.8
<u>Local Government</u>							
Total Revenue and Grants <sup>a</sup>	17.7	18.6	17.8	19.0	20.4	25.7	28.4
Total Expenditure <sup>a</sup>	16.9	17.9	21.7	22.3	21.7	27.0	28.5

<sup>a</sup>In constant 1972 dinars.

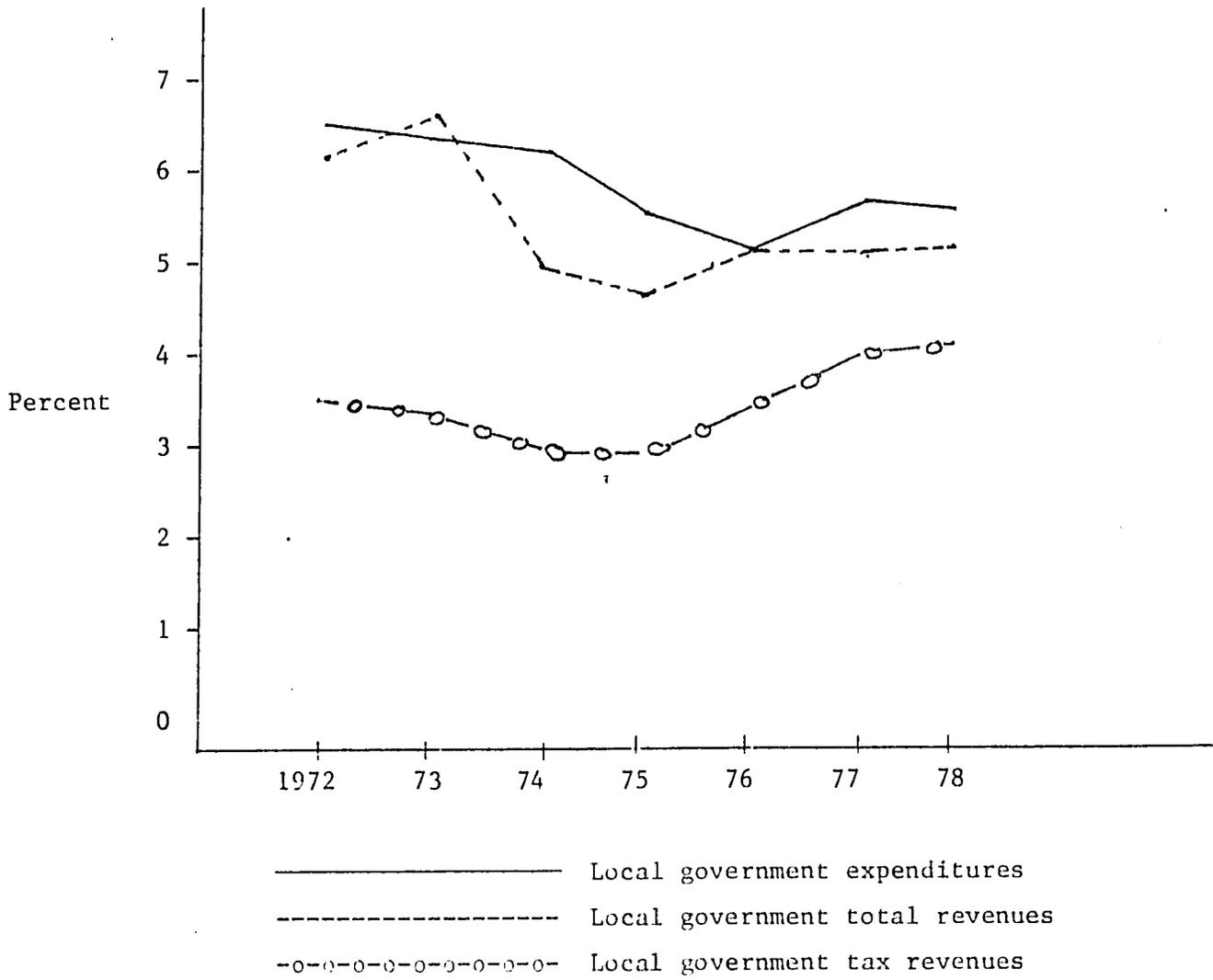
Source: International Monetary Fund, Government Finance Statistics (Washington, DC: IMF, 1982), pp. 704-705, 708.

immediately apparent explanation for this substantial discrepancy; one can only draw attention to its existence.) The table reveals what at first appear to be sizable deficits in local government operations in 1974 and 1975. These declined, but were not eliminated, in the first three years after the reform. It is quite likely that expenditures exceeded revenues only because of the expenditure in 1974 and 1975 of surplus capital funds which were not spent in their year of authorization. Thus, this was not really deficit spending. The last section of the table deflates local government total revenue and expenditure and presents these in constant 1972 dinars. The point is that, even after taking inflation into account, revenues and expenditures rose appreciably. Figure 3 graphs local government revenues and spending as a percentage of central government revenues and spending, for the period 1972-1978.

The number of observations in Figure 3 is too few to give one much confidence in establishing a pattern, but the data do reveal declines through 1975, followed by some upward movement starting in 1976 in all three areas. From 1972 to 1978, the communes expended on average about 5.3 percent of what the central state spent. (And Tunisian local government expenditures were very concentrated: the thirteen communes in the greater Tunis area alone accounts for 42 percent of all communal expenditures in the period 1965-1976; this figure declined to about 30 percent in the period 1977-1982.)<sup>33</sup> In the pre-reform period, local government tax revenues averaged a modest 3.1 percent of central government tax revenues. In the four years preceding the taking effect of the reforms (1972-1975) the absolute level of communal expenditures rose 67 percent, but central government expenditures rose 91.7 percent.<sup>34</sup> Clearly, the financial role of the communes was rising absolutely, but becoming relatively less significant.

FIGURE 3

TUNISIAN LOCAL GOVERNMENT EXPENDITURES, TOTAL REVENUES AND TAX REVENUES AS A PERCENTAGE OF CENTRAL GOVERNMENT EXPENDITURES, TOTAL REVENUES AND TAX REVENUES, 1972-1978



Source: International Monetary Fund, Government Finance Statistics (Washington, DC: IMF, 1982), pp. 704, 705, and 708.

Prior to 1975, the communes, their councils and their executive officers were in an ambiguous position. On the one hand they were legally decentralized units, with some limited revenue-raising powers and specific responsibilities in secondary road building and maintenance, refuse collection, civil protection, documenting and licensing, sanitation, the supervision of local markets, and some minor aspects of primary education and health services delivery. On the other hand the communes were generally regarded and always treated by central officials as but the lowest link in the central government/administrative chain, having little or no autonomy. The vast powers and intrusive procedures of the central government, especially with regard to financial supervision and control, reinforced this.

It is frequently asserted by Tunisian authorities that most of the average commune's expenditure before the reforms (and after) went to recurrent costs, mainly salaries. But Table 1 shows that capital revenues averaged 41.8 percent of current revenue for the whole of the period under review. How could the bulk of expenditures be going to recurrent items when the capital revenues were so high? A definitive answer is unavailable. A possible and plausible line of explanation is offered by the 1975 study of Prud'Homme, which noted that in the greater Tunis area budget categories were very loose and poorly defined. For example, central government subsidies were sometimes entered under the "direct tax" revenue heading.<sup>35</sup> Similarly, it may be that the neat distinction between current and capital in Table 1 is actually meaningless, and that funds were taken from both categories to pay recurrent cost items. Or it could well be that the widely held assumption of Tunisians, concerning the amount of resources devoted to recurrent costs, is

simply false. This is a matter needing further study.

One way to resolve the issue would be to present detailed data on communal expenditures. Unfortunately, these are quite limited. Data are available on total communal expenditures, by budget category, only for 1969 and 1970. These data are not presented by commune, but by gouvernorat. Moreover, the data deal only with ordinary expenditures; capital improvements are not covered. A summary gleaning of these data is presented in Table 3. These data may or may not be correct. The document from which they are drawn lists quite different total revenue figures than those given in Table 1. Still, bearing in mind the discrepancies, Table 3 shows personnel costs as being a modest 26 percent of communal ordinary expenditures in these two years. The assumption that salaries were eating up local government expenditures is called into question. Indeed, social expenditures (though one does not know exactly what they are) exceeded personnel costs in importance.

The key element in the 1975 reforms was that the commune had the present right and the future obligation to plan, fund and implement its own projects, "within the limits of the commune's resources and the means put at its discretion."<sup>36</sup> This change produced the financial reforms of 1975, composed of four parts:

- a - debt and cost relief
- b - changes in budgeting procedures
- c - improved generation of funds from existing sources
- d - the creation of new funding sources.

#### The 1975 Reforms

Debt and Cost Relief. The major lender to communes before 1975 was the Bank of Loans (Caisse des Prets) of the Ministry of the Interior. This first

TABLE 3

COMMUNAL ORDINARY EXPENDITURES 1969-1970  
(IN DINARS)

All communes	Debt repayment	Personnel	Admin. costs	Social expend.	Economic expend.	New work	Unforeseen expend.	Totals
1969	766,567	2,561,058	1,164,234	2,692,820	1,212,709	200,158	1,014,294	9,548,843
1970	866,354	2,487,515	1,179,862	2,633,583	983,019	136,955	1,474,447	9,761,374

Source: Habib Ayadi, "Les finances locales," Etudes et documents No. 8, ENA-CREA (Tunis: 1971), pp. 19-20.

portion of the reform simply cancelled most of the debts of all the communes to this body. The result was a write-off of six million dinars of debt (\$15 million U.S.). Six million dinars was more than 80 percent of all the money loaned to communes in the years 1965-1975. One does not know to what extent the repayments of these loans were in arrears; one does not even know the time periods of the loans or their rates of interest; but that such a large sum could be forgiven hints that inability to repay was a major consideration.

Further, in 1977, two types of sewerage "charges" which all communes had to pay previously to the national public water utility were abolished. This amounted to a savings for the communes as a whole of 300,000 dinars a year.

Changes in Budgeting Procedures. Prior to 1975, a communal<sup>37</sup> budget covering what were called "ordinary" or "Title I" expenditures (meaning recurrent costs) was passed in the middle of the year before the budget took effect. For example, the thirteen communal councils in the greater Tunis area passed their ordinary 1973 budgets in July of 1972. This ordinary budget showed all annual and continuing receipts of the commune on the revenue side, and all operating, recurrent costs and debt repayments on the expenditure side. The ordinary or "initial" budget was always balanced. It did not mention or deal with capital improvements of any sort.<sup>38</sup> Capital improvements were classed as "extraordinary" or "Title II" matters. They were dealt with in a "supplemental" budget, usually passed mid-way in the fiscal year of operation. The supplemental budget spelled out capital investments and their sources of financing. There were three main capital financing sources: any surpluses of the ordinary budgets on hand at the time

the supplemental budget was being discussed, loans planned, and any surplus from the previous year's supplemental budget. It appears that in the large municipalities at least, a substantial amount of money for capital improvements was generated by surpluses from the Title I budgets. As noted above, ordinary revenues were consistently underestimated -- an uncommon practice in LDCs.

Both the initial and supplemental budgets were rather haphazard arrangements. That is, total resources and planned expenditures, both recurrent and capital, were never viewed together, in a comprehensive fashion. Except for the shifting of Title I surplus revenues to finance Title II expenditures, no switching of items from the initial to the supplemental budget was allowed. Both budgets were subject to lengthy delays. Both had to be approved by central authorities; a process that often took five or six months. For the initial budget, this did not pose a major implementation problem. The initial budget was normally passed so far in advance of the year of operation that central approval could usually be obtained before the start of the fiscal year (January to December). but for the supplemental budget, approval normally came at the very end of the year. This meant that capital improvements officially scheduled for year X were always being done in year X + 1 or later. The delays, combined with haphazard accounting procedures, made it very difficult to keep expenditure categories and basic accounts clear and up-to-date. Moreover, the distinctions, delays and difficulties meant that budgets lost any hope of serving as forecasting devices. Tunisian communal budgets could not define policy; they could not even "serve to clarify or guide decisions."<sup>39</sup> What

one had in essence was a set of current accounts debited day-to-day. They were not truly budgets at all. To make matters worse, because centrally imposed procedures were so complicated and central supervision so inflexibly strict, many communes found it impossible to expend all their available resources in the allotted time. Even when expenditure approval was given in a timely fashion, many communes did not have the skilled personnel necessary to administer the flow of funds. Reforms were definitely needed.

The 1975 reform retained the current and capital budget distinction, but changed the format and headings of the budget documents. Changes in nomenclature were necessary and important. Much confusion had been caused in the old system merely by inappropriate and unclear categories and headings, and cavalier assignment of revenues and expenditures to these categories. The classification of grants as taxes has already been mentioned, as has the possibility that communes spent supposedly "capital" revenues on recurrent items. The reforms attempted to clarify the headings and educate the budget officers on proper categorization. It was also suggested that both budgets be considered at the same time. The general aims were to make the budget exercises analytical procedures, and to loosen (partially) excessively rigid central control.

It is admitted in Tunisia that these changes have so far had but the slightest of effects. While the changes go in the right direction, they do not solve the basic problem -- which is that the communes remain desperately short of the basic information and skilled personnel which would allow them to budget and plan realistically, to gather and interpret this information, and money to spend on remedying situations that the information and personnel might identify.<sup>40</sup> Reliable and timely information is crucial. Without data

on conditions within the commune, the availability, terms and amount of internal or external funding, the status of projects, and many other issues, restructuring of budget headings means little. This is recognized. But while there is a clear admission of the need, and a bold assertion that it will be met, there is no detailed description of precisely how this will be done. At the moment, central control remains pervasive and strict.

Improved Generation of Funds from Existing Sources.      Taxes: The Tunisian tax system at both the national and the local levels is, by official admission, both extraordinarily complex and in extreme need of reform.<sup>41</sup> It is based on an elaborate set of laws and regulations, many dating from before 1900. These have been tinkered with since independence in 1956, but never thoroughly revamped.

The 1975 reform introduced two new communal direct taxes, which will be discussed in the next section. Further reforms in 1976 also raised substantially the rates on previously existing direct and indirect taxes, as follows. Rates were raised on direct property taxes, previously the most important source of communal revenue. Two property taxes are levied: on the net rental value of buildings, and on the value of unimproved real estate. Both required (and require) assessments of value. For unimproved real estate the task is relatively simple. In theory, the landlord simply pays a set sum for every square meter of unimproved property owned. It appears that the sum per square meter is set nationally; i.e., it does not vary from commune to commune, though of course the market value of property varies greatly. A sliding scale of payments would seem logical, but would doubtless enmesh an already overburdened service in assessment disputes (already numerous). Additions in administrative costs might well outweigh revenue generated.

The difficulties are shown by the assessment process in the matter of net rental values -- which do vary. In this case, the buildings owner pays a percentage (higher after 1976) of the rental value to the commune. If the building is being rented out at the time of assessment, the actual rent being charged is used. If the property is owner-occupied, or otherwise not being rented, the assessor uses the actual rent being paid on a similar nearby building as a guide. Where this cannot be done, a formula based on the number of square meters contained in the building is used to estimate rental value. Disputes are common; litigation is frequent, indeed "permanent;" and assessors and auditors are few in number and much overworked. Reassessment is infrequent, especially in the case of owner-occupied property. The assessment of values is done by communal officials; the collection and supervision of the taxes is undertaken by central government agents. This division of labor is administratively complex, and has led to charges by central officials that communal assessors are less than enthusiastic in carrying out their duties.

The data in Table 1 indicate these two direct taxes raised 38.6 percent of the current communal revenues from 1965 to 1975. The VI<sup>th</sup> Five Year Plan states that 23 percent of communal resources are obtained in this fashion;<sup>42</sup> the time period being reviewed was probably 1977 through 1981. Assuming the Plan's figure is correct, the declining relative importance of the property taxes is likely a function of the dramatic increases in new tax revenues and especially central government subsidies, discussed shortly. Or it may be that direct taxes raise 23 percent of total revenues, current and capital

combined. The Plan is imprecise. Derycke states that the vast bulk of the property tax has been generated by the net rental value calculation, and that the tax on unimproved real estate "is symbolic and generates very little" revenue.<sup>43</sup>

The communes collect indirect taxes on: entertainment, the use of roads within the commune, on the use of slaughterhouses, on animal-traction vehicles and on the sellers of products in local markets. They impose fees for a large number of administrative formalities, licenses, documents and minor public services, such as license fees for the sellers of beverages, charges for the use of communal nurseries and gardens, charges for the use of the communal pound, and charges for the installation and maintenance of water and sewerage services. (User charges for the water itself, and for all other utilities, go directly to semi-autonomous national public utilities which operate as state-owned enterprises.) Fees and rates on all the indirect taxes were doubled in 1976. According to the Plan, indirect taxes normally provide about 16 percent of "total local resources."<sup>44</sup> (This may or may not be far off the 13 percent figure suggested in Table 1. This depends on what the Plan means by "total local resources," and the years for which it calculated its figure. The years are probably 1977-1981; i.e., the previous Plan period.) The important point is that with both the direct and the indirect taxes, the smaller and the more economically inactive a commune, the smaller the amount of resources generated through taxation. It is apparent that the direct taxes should generate increasing revenues as the population and communal level of economic activity increase. So far, this has not been the case, at least to the extent anticipated by Tunisian financial planners.

Assessments of both the pre- and post-1975 situations state that levels of recovery of direct taxes have been low, especially in the smaller communes. Communal leaders have shown "a tendency to neglect" the levying and collection of taxes, frequently to the point of imposing no property taxes whatsoever.<sup>45</sup> Partly this reflects the ease with which one can evade taxation in Tunisia; all sources attest that the tax administration system is poorly organized and large numbers of evaders slip through with impunity. But partly this reflects both the poverty and the degree of dependence of local governments, and the strength of the ingrained attitude that one can and must rely on the subsidies and loans of the central governments. Prior to the VI<sup>th</sup> Plan, the steps taken to correct these problems were rather pathetic:

The Minister of the Interior has exhorted the local governments to supervise more carefully the gathering of their taxes...He has invited the citizens to fulfill...their tax duties...Educate the citizen by informing him and sensitizing him so that he will contribute to the progress of the locality by paying the taxes he owes, and on time.<sup>46</sup>

These words were written in 1977. The situation had not greatly changed as of 1982, though it was admitted that more than verbal appeals were needed. The VI<sup>th</sup> Plan wrote of the need to reform both the national and the local tax systems, to increase the number and competence of government tax assessors and reviewers of returns, and to provide the local governments with competent officials who could and would levy the existing taxes. The wording of the Plan made it clear that these are hopes for the future, not actions under way. The earlier Note d'Orientation had admitted that as of 1980 there were only 210 tax supervisors (officials who reviewed assessments, supervised collections and reviewed tax returns) in the whole of the country, with "little means" at their disposal.<sup>47</sup> It seems evident that the needed thorough reform of the tax system at the national, much less the local level,

will be a long time coming.

Central government subsidies: Before the reforms, there were two separate funds which provided subsidies (grants) to communes and gouvernorat councils. The 1975 actions merged the two funds into the Fonds commun des collectivites locales, or FCCL (Common Fund for Local Authorities). The FCCL has replaced the direct property taxes as the most important single source of local government financing, now providing on average 42 percent of "ordinary receipts."<sup>48</sup> (Note that Table 1 indicates that subsidies provided 29 percent of communal ordinary revenues before the reforms.) Since the subsidies are not recovered from the local governments the FCCL must be constantly replenished. It now receives as stipulated income the following percentages of nationally imposed and collected taxes:

- 25 percent of the patent tax
- 10 percent of the tax on olive, grape and cereal production
- 50 percent of the agriculture tax (which produces very little revenue)
- 7 percent of the tax on "non-professional profits"
- 10 percent of the business turnover tax
- a set number of centimes on the sale of all inner tubes sold in the country, and
- a set of consumption taxes from petroleum products.<sup>49</sup>

The first three of these are new sources of finance for the Fund; the other sources had gone to the previous funds. Tunisian officials state these new sources generate about double of what the old sources produced for the two separate funds; and that they should steadily increase as the economy expands and as the talked-about tax reforms are implemented and generate more revenue through improved collection.

The FCCL, managed by the Ministry of the Interior, gives "a global subsidy to the current operations budget."<sup>50</sup> It disperses its grants according to a complex formula. Three-quarters of its outlays go to local governments. One-quarter is reserved for a select list of especially needy sub-national bodies, some special communes among them. Of the larger amount, 20 percent goes to the gouvernorat councils, and 80 percent to the communes. Table 4 explains in detail the way in which the disbursements are broken down.

Table 1 indicates that the two funds which existed prior to 1975 expended less than five million dinars annually on local governments. In the first year of operation of the new FCCL (1976) this type of expenditure more than doubled. Table 5 presents aggregate data on FCCL growth after the reform.

The reform of the FCCL had two main aims: increasing the resources available for capital improvements in the local governments, and distributing these resources much more equitably than in the past. The first aim has been accomplished; Table 5 shows that even after adjusting for inflation FCCL disbursements have dramatically increased over pre-reform levels. With the second goal it is more difficult to tall. Previously, most grants went to the wealthier communes, and much larger portions were strictly reserved for Tunis and the large cities. "The new disbursement scheme of the Common Fund has had as an immediate result the very perceptible improvement -- a doubling and sometimes tripling -- of the subsidies received by the smallest communes."<sup>51</sup> The new system of disbursements of the FCCL is also tied to the reforms on taxes, as the more communes generate revenues through taxation, the less they will receive of the FCCL grants. This is what is meant in Table 4's "45 percent based on

TABLE 4  
FCCL DISBURSEMENTS

75 Percent of All Disbursements to Local Governments	25 Percent Reserved for Specific Agencies
20 <sup>a</sup> to <u>Gouvernorat Councils</u>  15 % of which is divided equally among all Councils  85 % of which is divided based on number of non-communal population in <u>gouvernorat</u>	2 <sup>b</sup> to the District of Tunis (Planning body for the capital region)  8 % to ONAS (State-owned and operated sewerage and drainage company)  6 % to the Ministry of Interior's Bank of Loans
80 to <u>communes</u>  10 % of which is divided equally among all <u>communes</u>  45 % divided according to population  45 % divided based on revenues generated by <u>commune's</u> local property tax effort over past three years	6 % to the <u>commune</u> of central Tunis  3 % to <u>communes</u> which are also <u>gouvernorat</u> seats  25 % Total
Overall, 69 percent of all FCCL disbursements, of both types, go directly to <u>communes</u> .	

Percentages based on 3/4 of FCCL disbursements going to local governments; not on FCCL total.

In this case, percentages are based on FCCL total, not a portion of the quarter reserved for these agencies.

sources: GOT, VI<sup>ème</sup> Plan, Vol. 1, pp. 367-369; S. Chaabane et M. Kherouf, "Les aspects financiers de la réforme communale de 1975," Etudes et documents, No. 9 (Tunis: ENA-CREA, 1977), pp. 14-16, and GOT, CGRD, "Legislation administrative," (a summary of legislation relating to decentralization and deconcentration) (Tunis: MPF, mimeographed, 1982), pp. 14-15.

TABLE 5

FCCL RECEIPTS AND EXPENDITURE

1976 - 1981  
(IN 000 DINARS)

Year	Receipts	Expenditures	Expenditure in constant 1976 dinars <sup>a</sup>
1976	17,151	10,337	10,337
1977	21,048	20,000	18,484
1978	24,200	25,470	21,756
1979	27,315	25,563	20,180
1980	32,939	29,740	23,478
1981	39,932	35,000	23,601

<sup>a</sup>Using a deflator of 8.2 percent, the annual average rate of inflation in Tunisia in the period 1970-1981.

Source: GOT. MPF, Budget de l'Etat - 1982 (Tunis: Imprimerie Officielle, 1982), pp. 270 & 280.

revenues generated by communes' local property taxes..." Reducing subsidies as tax revenues increase makes sense only in the abstract, if then. Clearly, this action diminishes incentives for communes to pursue energetically property tax assessment and collection. The reasoning behind the move is evident: the goal is to direct subsidies to the smaller and poorer communes, the tax base of which (as we have seen) is just about nil. Laudable though this may be, the result will be at least some reduction in property taxing efforts in the larger, richer communes. The new direct taxes, discussed below, are not affected by this provision. It seems likely that government finance planners see the revenues to be generated from the new taxes as compensating for any stagnation or decline in property tax revenues.

Loans: With regard to loans, the 1975 reforms changed the Caisse des Prêts into a Caisse des prêts et de soutien des collectivités locales -- the Bank of Loans and Support to Local Governments. This body gives loans and what are called "subsidies, discounts and bonuses" to local governments, mainly communes. The initial and unspecified amount of capital for this organization was supplied by the Ministry of the Interior, which manages the Bank. As shown on Table 4, the Bank receives capital from the FCCL. This is a modest sum; for the years 1976-1981 the FCCL gave a total of 2.192 million dinars (1.763 million constant 1976 dinars) to the Bank. It is evident that the Bank has other sources of finance; these are not known. The Bank's most important activities are its loans, of two types:

- infrastructure loans, for twenty year periods, at an extremely low rate of interest (in 1975, 2 percent; this has been revised but the rate is still well below market levels)
- loans for projects which are assessed as profitable, of ten years, at double the interest rate for the infrastructure loans.<sup>52</sup>

Not surprisingly, before 1975 loan priority was given "to the large communes;" to those possessing significant economic activities and a tax base, and thus a good potential for repayment of a loan. The Bank previously gave subsidies (how these differ from grants of the FCCL is not specified) "only in an exceptional situation." In 1979, a special account was created in the Bank to assist basic infrastructure projects in "small communes."<sup>53</sup> The intention here was to spread more equitably the loans of the Bank. The Bank also undertook to assure, in instances of "special need," the interest payments of loans which the communes contracted from commercial sources. The overall aim of this part of the reform was "to create a link between the execution of national development plans and the activities of local governments, by means of the direct participation of the Caisse in local level investments."<sup>54</sup>

Table 1 shows that loans were a modest source of revenue, on the capital side, for communes from 1965 to 1973, averaging about 450,000 dinars. This amount was almost doubled in 1974; and it leapt up fivefold in 1975, to over 2.355 million dinars. Then this sum was doubled by 1976 loans, which totaled 5.013 million dinars. This extraordinary growth fell back in 1977 -- the last year for which figures are available. In that year 4.272 million dinars was loaned.<sup>55</sup> Thus, only two years after the cancellation of most communal debt, they collectively owed at least 9 and probably more than 10 million dinars. This was a major expansion of operations, and a major expansion of communal indebtedness, which

previously had been very low. Moreover, as of 1978, "bank authorities are presently thinking of ways to find all possible external financing for loans to communes." <sup>56</sup> There is no information available on how communes apply for loans, or on how (and why and to whom) they are awarded.

The loans are vitally important; they are an increasingly significant source of financing for capital improvement projects. These projects provide the communes with infrastructure necessary for future growth. It is through playing a larger role in the planning and implementation of these projects that communal officials are to gain the practical, applied experience which is necessary if the communes are to become truly decentralized units.

Creation of New Funding Sources. The last of the 1975 public finance reforms was the creation of two new communal direct taxes. These were:

- "the tax on establishments of an industrial, professional or commercial nature;" and
- a hotel tax.

The first action was designed to be a dynamic replacement for the older, stagnating property taxes. It levies a tax on the total annual turnover of all businesses and professionals operating in a commune. The rate is 0.20 percent of the year's turnover, up to a limit of 20,000 dinars. <sup>57</sup> The second action levies a tax on the net receipts of hotels within the commune; the rate is 1 percent, with no upper limit. It is reasonable to think that these new taxes are at least partly responsible for the post-1976 increases in tax revenue generated, as indicated in Table 2. But the fact is that there is very little information available on the precise sums raised by these taxes since their introduction. Nor does one know how these taxes are administered -- i.e., when and to whom they are paid, method of verifying turnovers and net receipts, etc. General

discussions found in Tunisian and externally-written statements assert that these new taxes will be much easier to administer than the dispute-plagued property taxes. They are also regarded as having an excellent growth potential. They should yield increasing revenues as overall economic growth, tourism and industrialization continue. Still, it is clear that the smaller and isolated, non-coastal communes will not generate much revenue by these means. For them, the increased FCCL subsidies are, and will continue to be, the primary means of local finance, though note that between one-quarter and one-third of all FCCL disbursements are going to the greater Tunis region communes.<sup>58</sup> FCCL dependency will persist unless and until the smaller communes succeed in attracting elements which will build up their local tax base.

These are the major features of the Tunisian local public finance system, pre- and post-reform. The revised system aims at greater equity, at an increase of resources for the less populated, more isolated communes. This will be achieved by the increased amount of subsidies given by the FCCL, as well as by the reformed subsidy disbursement system which favors the smaller communes. At the same time, new taxes, and increased rates on old taxes and fees, should improve the financial position of all communes. However, these changes will be of particular benefit to the high population, comparatively developed municipalities. The property taxes, former mainstay of the local fiscal set-up, are retained. But it is clear that Tunisian officials place more hope on the new direct taxes. The assertedly superior ease of assessing and collecting these new taxes, combined with their potential for growth in line with general economic expansion, makes it likely that they will soon compete with property taxes for the position of number one generator of local tax revenue.

It must be emphasized that the communes are, in the main, very small financial actors. Only seventeen of the 170 communes have budgets of over one million dinars (thus necessitating central budgetary approval; those with budgets under a million are approved by the gouverneurs.) Forty percent of Tunisia's "communalized" population, and 57 percent of all communal spending, are located in the two major cities of Tunis and Sfax. The majority of the communes have increased their financial impact and importance only very slightly since the 1975 reforms.

One needs to know much more about the level and nature of local government indebtedness, and the disbursements and procedures of the Bank of Loans. Available information is sketchy and insubstantial. This is also the case with regard to the effects of the second portion of the 1975 reforms, the changes in budgeting procedures. Information on these aspects is particularly vague and unsatisfactory; further study could profitably focus on these areas.

In 1978, three short years after the reforms, two careful Tunisian analysts of the local government scene concluded that the financial reforms were good first steps, but that they were not sufficient to transform radically the dependent and lowly status of the local governments. Chaabane and Kherouf argued that the pre-reform system remained "largely intact" <sup>59</sup> after 1975, especially with regard to the strict control exercised by central officials. Their assessment was that one would have to wait and see if the reforms produced substantial increases in revenue, and if a further loosening of central control were instituted. While some scant post-1975 data are available (as presented in Tables 2 and 5, they are inadequate to answer definitively the question of whether revenues and expenditures of local governments are greatly and enduringly different

from past patterns.

However, some information has surfaced with regard to the related issues of recent decentralization policy in general, and specific economic programs to promote poor zone development in particular. The next section of the study deals with these activities.

#### Developments in the 1980s

To "make decentralization and deconcentration a reality"<sup>60</sup> is a stated prime goal of the VI<sup>th</sup> Plan period. But so far in the 1980s, despite the impetus provided by the Gafsa affair,<sup>61</sup> (an impetus that will be added to by the events of December 1983-January 1984), the pace of decentralization activity remains very slow. Government documents and officials continue to characterize the gouvernorat councils and communes as powerless, as lacking in personnel, dynamic leaders, and, despite the finance reforms, the capacity to raise and spend sufficiently large sums of money. Central administrators have proven hesitant to give up their prerogatives (as is normally and everywhere the case) as stipulated in the 1975 reforms, and they find it easy to justify their reluctance by pointing to the minimal institutional base and modest past performance record of the sub-national units. In 1980, central planners admitted that:

there is presently, and everyone can see it everyday and everywhere, a true bottling-up in the country brought about by centralization...The present paralysis stems from the fact that everything or almost everything comes out of Tunis, and every attempt to loosen the congestion of the capital...clashes with great difficulties...all means are concentrated in Tunis,

especially the power, men and financial resources.<sup>62</sup>

In 1982, the Ministry of the Civil Service and Administrative Reform complained of the still "excessive concentration of decision-making power at the central administration level, often generating slowness and congestion in the center, and frustration at the local and regional level."<sup>63</sup> The Plan itself dismissed the gouvernorat councils as "no longer responding to the imperatives of the moment," and noted that the "weight of constraining central authority has limited in a serious fashion the communes' field of action."<sup>64</sup> A 1983 document describes the sub-national units as "living under a regime of strict central administrative surveillance."<sup>65</sup> There can be little doubt that the promise of decentralization, or at least the promise of the 1975 reforms, remains largely unfulfilled.

Yet, equally, there can be no doubt that the rhetorical pressure for more complete implementation of decentralization measures continues to mount. Officially, through the VI<sup>th</sup> Plan, the country has adopted a strategy to transform the central administration into a body which conceives and supervises, a level much less concerned than it is at present with matters of execution, and thus -- eventually -- a much more thinly-staffed level than at present. The locus of implementation will shift to the regions and gouvernorats, which will be strengthened in personnel and financial capacity. Both of these levels will work through, and take some direction from, democratic, participatory, decentralized communal governments.<sup>66</sup> This is the Plan.

Documents and official statements recently released have partially fleshed out this grand design. Suggested concrete changes have included making the gouvernorat councils directly elected. One official of the Ministry of the Interior interviewed in mid-1983 stated flatly that this

would be done before the end of the Plan period -- 1986. Another suggestion under consideration is doing away entirely with the gouvernorat councils, and spreading the commune system to the whole of the country. This might include the expansion and re-drawing of communal boundaries to make them match boundaries of existing délégations. The emphasis on the subject in the Plan, the persistence of discussion, and the obvious support of high-level leaders, has been sufficient to make the majority of Tunisian officials interviewed feel that the government's commitment to decentralization is sincere, serious and likely to increase in amplitude.

Current actions to strengthen the decentralization process might be summarized as individually minor, but nonetheless cumulatively significant. They aim generally at improving the number and competence of local level officials, and at stimulating economic activity in the poorer zones of the country. Both sets of actions are necessary to lay the base for greater participation and revenue generation at the sub-national levels. Local governments must have qualified staff to tap the central grant and loan funds, to identify, launch and monitor projects; and the local tax base can only be expanded through increases in local economic activity.

With regard to local staff, conditions and pay-scales for rural gouvernorat and communal service are being improved. Chief communal civil servants, called Secretaries-General<sup>57</sup> -- previously in service only in large urban communes -- are being appointed in all communes. A set of special allowances and benefits for those choosing rural service has been instituted. Other developing countries which have adopted similar incentives for rural service have judged the results as modest. But one can speculate that in Tunisia the central administrative pipelines are quite full, and that young graduates cannot reasonably expect urban

postings. Moreover, small interior towns in Tunisia are fairly well serviced, and good roads connect them to large cities -- which are relatively close by. The point is that Tunisian authorities have a better chance than most at moving staff out to sub-national units. There remains much to be done; few gouvernorats presently have their full complement of staff, with shortages in the technical positions being particularly acute. Nor, in spite of published intentions, have all the line ministries involved in regionalization succeeded in posting representatives to the gouvernorats.

Thus, on the policy front, there has been a continuation, indeed an enlargement, of the official rhetoric and sloganeering on decentralization, matched -- so far -- by modest practical action to transfer out of central hands the power to initiate and control the bulk of government actions. Even if the financial reforms do succeed in generating large additions to local coffers this will not automatically result in decentralization. There must also be an enlargement in the local capacity to decide how, when and where to spend these additional resources. The reforms gave the local governments, especially the communes, increased legal powers and the prospects for increased funding. Breaking ingrained centralist traditions may prove to be the last, the most important and the most difficult barrier.

Flanking the direct policy action on decentralization have been several economic programs which aim at promoting development in the poorer interior regions of the country. These merit discussion.

#### Economic Programs

The PDR. Centrally-directed activities of the line ministries' aimed at

promoting rural and regional development have been slightly increased in the VI<sup>th</sup> Plan period. Somewhat decentralized efforts to promote poor zone economic activity are numerous. The oldest of these is the Programme de Développement Rural, or PDR (Rural Development Program), founded in 1973. For a decade the PDR has annually given to all gouvernorats a fixed small grant (not a loan) which they can use on locally identified and implemented employment generating projects. From 1973 to 1980, each gouvernorat received 700,000 dinars. In addition, each of the five interior gouvernorats lying along the Algerian border received an extra million dinars, because of their poverty. Note that it is only the gouvernorats which receive the PDR grants; the communes are not directly involved. In the first seven years of the PDR a total of 137.4 million D was spent.<sup>68</sup> After 1980, both the regular and special sums were increased. In the period 1982-1986, the PDR is scheduled to expend 170 million D.<sup>69</sup>

It is worthwhile describing the operations of the PDR in some detail. While not really decentralization, it is about as close as Tunisia presently comes to thorough deconcentration; its workings reveal how the governmental system functions and what can be expected from regional development actions.

The PDR is very well-liked by gouverneurs, délégués, and most provincial staff. It is one of the only instances in which they heavily influence, if not fully determine, the direct allocation of resources. After ten years of operation there is now a standard procedure followed in all areas. Early in the year, délégation-level committees meet to submit and review requests for funds. This committee is composed of the provincial official in charge of the PDR (who holds the rank of délégué), the délégué for the area, representatives of the local branches of the

party and the national organizations, members of the National Assembly representing the area, and local-level officials of the various line ministries -- in the main, the Ministry of Agriculture. Submissions come from within and outside this group. There is now a fairly clear understanding of what sorts of projects will receive the necessary higher-level approval: employment generating actions in agriculture, fishing, artisan development, small industry buildings, rural housing, rural roads, drinking water, electricity generation, and sports and cultural facilities have been the major fields of investment.<sup>70</sup> Although the instructions for the PDR to local officials stress that projects should entail minimal recurrent costs, this has not always been the case. The instructions are really fairly simple directives. There is not much in them concerning how to determine the quality of the investment, or how to assess the opportunity cost of a particular proposal. Some local officials have devised their own rough indicators; many others have, seemingly, simply ignored the matter.

Normally, the local committee lists priorities and sends them off for a quick review by provincial technicians. They weed out the obviously faulty. Local committees tend to submit to higher authorities project lists which are 10-20 percent greater than what is normally approved. The hope is that in the inter-délégation competition, their projects will be perceived as superior.

The submissions of all the localities are reviewed by a provincial committee. Significantly, this appears to be a specially convened PDR body; it is not the Gouvernorat Council which undertakes the review. The provincial PDR body is chaired by the gouverneur. Members include the PDR official, all délégués in the province, provincial representatives of the

party, the national legislature, the national organizations, officials from the technical ministries, and -- since 1982 -- a representative of the General Commissariat of Regional Development, Ministry of Plan. This committee, knowing the exact sum of PDR money available for the province, must match requests to resources. (Though they can and do make special appeals for more funds in times of great need.)

By all accounts, debates are lively. Technical personnel generally support the more clearly productive projects; popular representatives and political figures tend to pursue welfare arguments and the need to reward loyalty or oil "squeaky wheels;" and gouverneurs try to reconcile the two views.<sup>71</sup>

When the dust settles, the chosen submissions are yet again technically reviewed, and then sent off to the Ministry of Plan for final approval. The finance office of the Ministry reviews the submissions, and -- a recent addition -- the General Commissariat of Regional Development does so as well. In the early days of the PDR, Tunis frequently turned down submissions on the grounds that they did not meet the stated goals of the program. Procedures and goals are now well known; officials consulted said that over 95 percent of submissions are approved. Notice of final funding takes place in December; projects begin in January of the new calendar (and fiscal) year.

Despite its popularity with local officials -- and, presumably, with the more than 250,000 Tunisians who have derived paid employment from the program -- the PDR has been subjected to considerable criticism. A Tunisian social scientist, A. Belhadi, has dismissed the PDR as too small, too limited, insufficiently planned, as generating high recurrent costs which the localities cannot and the central government will not cover; in

sum, as a politically motivated welfare "sprinkling" (saupoudrage) of too small an amount of resources over too large a number of beneficiaries.<sup>72</sup> The VI<sup>th</sup> Plan repeats some of the same criticisms, adding that the internal management of the PDR needs to be improved.<sup>73</sup> The attitude is not that the PDR should be abolished. The need for an effort of this sort is accepted. It is the quality of its investments which must be improved. This is where the General Commissariat supposedly comes in. Henceforth, the GCRD is to oversee the actions of the program, from the provincial level on up, in an effort to decrease costs and increase benefits, and coordinate and integrate PDR projects with normal ministerial actions, and the actions of other locales. (Coordinate and integrate are splendid, indeed indispensable terms, partly because they so resolutely resist definition.)

The precise role of the GCRD in decentralized rural development actions is presently being worked out. In mid-1983 the Ministry of Plan announced that a special fund of 100 million dinars, intentions for which had been announced in the VI<sup>th</sup> Plan, was indeed going to be made available for integrated rural development actions in the poorest zones of the country. The GCRD was given the task of identifying these zones,<sup>74</sup> and -- in consultation with local authorities and technicians -- was in the process of preparing multidimensional production projects in each of them. This is a three year special effort which, presumably, will end with the VI<sup>th</sup> Plan in 1986. But it is not clear whether these integrated actions in "poverty pockets," as the poor zones are called, will really phase out at the end of three years, or whether they will replace (or perhaps continue to run parallel to) the PDR. At any rate, the GCRD is now playing an active advisory role in the PDR, and is involved directly in the planning and implementation of a second rural development activity. What is one to

make of all this?

First, it is admitted that the PDR has shown deficiencies. Second, the government has both the right and the duty to improve the quality of its investments. Any effort to assess actions in terms of their opportunity costs must be welcomed. Still, one wonders if recentralizing PDR activities through the GCRD is wise. Perhaps this is a groundless fear; perhaps the "poverty pocket" programs will be a one-time action and the GCRD planners will spend most of their time advising and strengthening local project management capacity. However, it may prove very difficult for a young, central and essentially advisory organization to resist the temptation to administer directly and argue for the continuation of an action program of consequence.

The dilemma of both decentralization and regional development is here well illustrated: local officials -- much less popular representatives -- tend to emphasize welfare concerns and have difficulty seeing the national perspective; central technicians are impelled, by their training and position, to accentuate the efficiency rather than the equity side of the trade-off. In periods of economic difficulty, such as the present, the central perspective dominates. This means that the non-economic and longer term aspects of the PDR -- such as building local management capacity and reducing political alienation -- tend to get lost in the technical debate.

#### Special Funds

The government of Tunisia operates three special funds which, while only very weakly deconcentrated in their internal operation, have the goal of promoting the poor zone economic activity on which decentralization must eventually be based. These are the:

- Fonds special pour le développement agricole, or FOSDA (Special Fund for Agricultural Development),
- Fonds d'aide a l'artisanat et aux petits Metiers, or FAAPM (Aid Fund for Artisans and Small Businesses), and
- Fonds de promotion et de décentralisation industrielle, or FOPRODI (Fund for Industrial Promotion and Decentralization).

FOSDA has a 170 million dinars budget "envelope" for the VI<sup>th</sup> Plan period, a sum exactly equivalent to the planned expenditure of the PDR. FAAPM has a more modest allocation of 25 million dinars.<sup>75</sup> These two funds are designed to support ventures that arise during the plan period. They are sums that can be called on when officials perceive opportunities not drawn up in major project form in the Plan. The FOSDA is a substantial operation, as the large and omnipresent bureaucracy of the Ministry of Agriculture puts forward a steady flow of requests to this fund. The FAAPM is a much more modest effort.

The most innovative of the funds, and the one which has the greatest potential for generating local revenues through enlarging the tax base, is the FOPRODI, which is administered by the semi-independent Agence de Promotion des Investissements, or API (Investment Promotion Agency). FOPRODI offers investors long-term, low interest rate loans of several sorts, with preference given to investors wishing to locate actions in the poorer zones.<sup>76</sup> Incentives for industrial decentralization were extensively added to in June of 1981. In preparation for this legislation the API ranked all 186 délégations of Tunisia into five zones, with zone 1 indicating the wealthiest, most developed areas, and zone 5 the poorest. There are 12 délégations classed in zone 1, all of them in and around the three major cities of Tunis, Sfax and Sousse. There are nineteen délégations in zone 2, 21 in zone 3, 39 in zone 4 and 95 in zone 5. The délégations classed in zones 1, 2 and 3 are all located in the eastern

regions of the country; all délégations in the western regions are ranked as zones 4 and 5.<sup>77</sup>

The 1981 law offers advantages to all investors; but the size and duration of several of the tax breaks and subsidies increase depending on the class of the zone in which the investment takes place -- with, of course, the greater incentives given to those investing in the higher numbered zones. For example, investors locating in zone 5 receive a 1000 dinar cash grant per employment post created (up to 75,000 dinars), exemption from all or part of several businesses taxes for up to ten years, and the government will pay totally for certain infrastructure work.<sup>78</sup> It is too soon to tell if this legislation will change the well-established tendency of investors to locate in the eastern cities, with their markets, trained manpower, infrastructure and communications systems. On the surface, the incentives -- while significant -- appear rather modest, though one government document noted that "52 percent of all private industrial projects approved in the last third of 1981, after the promoting law of 1981, were located in the least favored interior zones 3, 4 and 5."<sup>79</sup> This is encouraging, but hardly an adequate basis on which to judge the effort. For example, this relatively high percentage may refer to a small number of projects. Even if the number were large, the enthusiasm may not last. More time and data are needed to form a definitive assessment.

### Conclusion

Tunisian authorities attach the label of decentralization to a large number of activities presently under way, some of which deserve the title, others of which do not. Despite much fanfare and rhetorical emphasis, the available numbers show relatively modest increases in expenditures on rural and regional development programs, and equally modest increases in the resources given to and generated by the local governments -- with the notable exception of the substantial increases in the receipts and expenditures of the FCCL. There is a pronounced tendency to use the future tense in describing the accomplishments of decentralization: participation will increase, the local tax base is going to be reformed, more staff will eventually be serving the communes and gouvernorats, local inputs in project identification and management will progress, etc.

In principle, there is a definite logic to this emphasis on the future. Decentralization in any form is a most complex undertaking and it is evident that, everywhere, its implementation requires a great deal of time. This is certainly the case in Tunisia, as -- in addition to the relatively easy changes in strategic approach and legal forms -- the essential local economic base must be added to if not built from scratch; technical and administrative personnel must be trained and posted; and old, ingrained centralist and centralizing patterns and habits must be broken down in all levels of the government and public. The popularity of the approach should not lead one to underestimate its complexity, and its long-term nature.

One cannot say with certainty how long one must wait before expecting concrete results. The fact is that official Tunisian statements have been phrased in the "this is what the near future will bring" vein since 1975, and even before. Some Tunisian observers dismissed the approach as merely rhetorical as early as 1978. Ben Achour and Moussa argued that decentralization was "a political myth," used by the leadership "to offset criticism of their centralized single party rule." They viewed the regime's emphasis on decentralization up to that time as a handy and popular slogan, as a seemingly progressive but less than radical defensive position for a leadership that "cannot or does not want to reconsider fundamentally its own norms of political behavior."<sup>80</sup>

In retrospect, this was too harsh and conclusive a judgment. First, it came too soon after the 1975 reforms. While it is true that one cannot say how much time is enough, one can say that two to two and a half years are too little. Second, continuation of the modest in scope but growing in number reforms after 1977-1978 makes one think that the decentralization efforts are not mere window dressing. Tunisian leaders pride themselves on their pragmatism, their politique de petits pas (policy of small steps), their avoidance of unseemly haste. Cautious incremental steps, taken slowly on a broad front, typifies the leadership style. Agreed, this philosophy is quite convenient for a regime wishing to maintain the status quo; and a case could be made for the argument that activities since 1978 have not been sufficiently drastic to warrant dismissal of Ben Achour's and Moussa's negative conclusion. But equally one can argue that all the various activities discussed above do, in the end, amount to significant changes from past theory and practice. It cannot be said that the full edifice of reform has been constructed, but one can conclude that Tunisia

is indeed on the road to decentralization.

A second, more firm but somewhat paradoxical conclusion is that Tunisian decentralization is excessively decentralized. That is, there are too many organizations and agencies involved, too many officials, too many funding sources, and too much regulation and paperwork associated with all these officials, agencies and funds. Some of this is, doubtless, inevitable. Decentralization by definition means creating new or strengthening old sub-national units. However, there is the obvious risk that the newly created or strengthened bureaucratic units will only add to administrative congestion, not reduce it. This is especially so when the units are given quite limited decision-making power; where the rationale is that untrained and untested sub-national units must be closely supervised before a complete transfer of powers can be made. But in the short run at least this means additional check-points, additional reviews and additional delays. For example, when the PDR -- the longest standing, deconcentrated operation in the country -- ran into trouble the proposed solution was to submit the operation to the review and rationalization of the central GCRD. While this might well be improving project identification and implementation, it is likely to result in a recentralization of decision-making.

There are three aspects of this particular issue worthy of comment. First, the way in which the Tunisians operate with regard to decentralization reveals their deeply-rooted sense of governmental caution, their desire to obtain the maximum of socio-political benefits from decentralization at a minimum reduction of central control. A second point is that the fragmented and compartmentalized approach demonstrated with regard to decentralization is not unusual in the Tunisian government; many

observers of the country over the years have pointed out that almost all public sector organizations are divided into an excessive number of directorates, divisions, agencies and sub-offices, each of which is near autonomous in its operations, few of which cooperate effectively with other units even in their own ministry, and all of which are deeply suspicious of collaboration with units outside their ministry. The difficulties of working in such a situation are apparent, and help explain why many central officials (as opposed to political leaders and sub-national staff) are less than enthusiastic about further decentralization. They would prefer to see the present confusion sorted out, or "rationalized" as they put it, before proceeding with decentralization efforts.

Third, the large number of agencies and funds, each with their own regulations, imposes a great administrative burden on sub-national actors, who must submit one set of proposals for the PDR, another for the FCCL, a third for the Bank of Loans, and yet others for the central supervisors of their locally collected taxes. They easily can become overwhelmed.

Does all this add up to a conclusion that decentralization is a poor idea in the present Tunisian context? Is it premature, too demanding of scarce administrative and financial resources, too likely to add to rather than reduce congestion and delay? These plausible conclusions are not easily dismissed. But one must realize that in Tunisia, as elsewhere, decentralization is ultimately a political action. While it will be judged partially on its economic and administrative efficiency merits, its final success or failure depends on how it is perceived as responding to the grand issues of regional imbalance and citizenry alienation. If the assessment is that this array of related but rather ill-defined actions is meeting some or all of the grand political objectives, then it will be

tolerated and encouraged. If it becomes evident that the decentralization programs are doing little or nothing to reduce political tensions, then their being well-run and cost effective would probably not save them. The speculative judgment of this study is that Tunisian leaders presently do perceive the decentralization programs as having a positive impact on these matters, and that they will be continued.

The dilemmas of Tunisian decentralization policy are those of the political/economic system as a whole. Tunisia's is a small and open economy, very vulnerable to external economic factors and pressures. The last decade's shift to a more liberal, free-market orientation notwithstanding, it remains an interventionist society, where the central government is expected to (and does) undertake direct action to maintain certain prices, to subsidize the cost of several social services, and to promote and provide a modicum amount of regional equality. In the 1970s, because of its energy self-sufficiency, earnings from tourism, remittances from migrant labor, relatively efficient civil service, attractiveness as a politically stable supplier of cheap labor for certain industries, ability to attract foreign aid and commercial loans, and its special arrangements with the European Common Market which provided Tunisia with a comparatively good market for its agricultural exports, it was able to sustain both good overall economic growth, and an extensive program of price supports and subsidies. The benefits of these arrangements were more often felt by the middle rather than the lower classes,<sup>81</sup> but they have become an ingrained, difficult-to-eliminate set of government actions.

A good part of the country's political/economic problems since 1978 stems from the fact that the factors which provided it with the prosperity necessary to subsidize the interventionist actions have now altered: its small amount of oil is declining, tourism earnings are down as Europe copes with recession and the French, in particular, try to deal with foreign exchange export restrictions, migrant labor to Western Europe is restricted or shut off, aid is stagnant, and new Southern European members of the Common Market produce agricultural products directly competitive with Tunisia's citrus, wine and olive oil. The situation has clearly altered; and yet, when Tunisian authorities tried to respond to changed circumstance by limiting the no longer affordable subsidies, the result was serious and destabilizing riots (in December of 1983 and January of 1984). Tunisia now finds itself in a situation it for years successfully avoided, a situation which has been one of the most frequent causes of regime fatality in LDCs: it is faced with an impossible to postpone choice between the economically essential and the politically intolerable.

The decentralization issue is a much less acute problem. It is, however, a part of the larger concern. Tunisia needs both economic growth and enhanced local participation and responsibility taking. To date, these matters appear to be in opposition to one another. They exist in an antagonistic trade-off position, with gains in one being viewed as losses on the other side. The government has put forward a significant but still fairly minimalist package of reforms. It has implemented them slowly and not forced drastic change on central decision-makers who are accustomed to deference. At the same time, it has publicized widely the changes effected, and made much of what the future will bring. It has launched modest (but again, not insignificant) programs to encourage investment in

the poorer zones. With the creation of the General Commissariat for Regional Development it appears to be seeking ways of adding to investment and action in the non-coastal regions. It wants these actions to be economically as well as politically defensible. It is having a hard time finding actions which would meet any strict cost-benefit assessment. In sum, the Tunisian government views decentralization as contributing to political stability; on the other hand, it does not want the economic costs of decentralization to detract from overall growth -- which it regards as even more essential to stability. The government of Tunisia, as many others the world over, is searching for programs which possess ideally high rates of return, economically and politically. To date, it hasn't found them.

Endnotes

1. For discussions of this issue see: Dennis A. Rondinelli, "Government Decentralization in Comparative Perspective: Theory and Practice in Developing Countries," International Review of Administrative Sciences, Vol. XLVII, No. 2 (1981), pp. 133-145; G. Shabbir Cheema and Dennis A. Rondinelli, eds., Decentralization and Development (Beverly Hills: Sage Publications Inc., 1983), and Dennis A. Rondinelli, John R. Nellis and G. Shabbir Cheema, Decentralization in Developing Countries: A Review of Recent Experience (Washington, DC: The World Bank, Staff Working Paper No. 581, 1983). For a discussion of the background to decentralization in North Africa, including the Tunisian case, see John R. Nellis, "Decentralization in North Africa: Problems of Policy Implementation," Chapter 5, pp. 127-182 in Cheema and Rondinelli, Decentralization and Development.
2. Bruce F. Johnston and William C. Clark, Redesigning Rural Development: A Strategic Perspective (Baltimore: Johns Hopkins Press, 1982), p. 205.
3. World Bank, World Development Report - 1983 (New York: Oxford University Press, 1983), p. 149.
4. World Bank, Tunisia: Social Aspects of Development (Washington, DC: The World Bank, 1980), pp. i and ii. See also John R. Nellis, "A Comparative Assessment of the Development Performances of Algeria and Tunisia," Middle East Journal, Vol. 37, No. 3 (Summer, 1983), pp. 370-393.
5. Government of Tunisia (henceforth, GOT), Ministry of Plan and Finance (MPF), Note d'Orientation sur le III<sup>ème</sup> Décennie de Développement et le VI<sup>ème</sup> Plan (Tunis: mimeographed, November 1980), p. 2.
6. GOT, General Commissariat of Regional Development (GCRD), Note sur la Décentralisation et le Développement Régional (Tunis: mimeographed, 1983), p. 1.
7. World Bank, Tunisia: Social Aspects of Development, p. viii.
8. GOT, MPF, Note d'Orientation..., p. 3.
9. GOT, GCRD, Les Aspects Régionaux du VI<sup>ème</sup> Plan (Tunis: mimeographed, 1982), p. 1.
10. GOT, MPF, Note d'Orientation..., p. 2.

11. GOT, MPF, VI<sup>ème</sup> Plan de Développement (Tunis: MPF, 1982), Vol. 1, p. 229.
12. These figures from: GOT, GCRD, Les Aspects Régionaux..., p. 2, and GOT, MPF, VI<sup>ème</sup> Plan..., Vol. 1, p. 246.
13. GOT, MPF, Les Aspects Régionaux..., p. 2. The dinar in the 1970s traded for \$2.40 US; at present it is worth around \$1.60.
14. Ibid., pp. 4 and 5.
15. GOT, MPF, Note d'Orientation..., pp. 16-17.
16. World Bank, World Development Report - 1983, p. 49.
17. École Nationale d'Administration (ENA), Administration Régionale et Locale en Tunisie (Tunis: Imprimerie Officielle de la République Tunisienne, 1980), p. 87.
18. GOT, Ministry of the Civil Service and Administrative Reform, Note de Synthèse sur les Travaux de la Commission Nationale Sectorielle de la Fonction Publique et de la Réforme Administrative (Tunis; mimeographed, February 1982), p. 3.
19. GOT, GCRD, Note sur la Décentralisation..., p. 6.
20. GOT, MPF, Note d'Orientation..., p. 14.
21. Ibid., p. 15.
22. GOT, MPF, VI<sup>ème</sup> Plan..., Vol. 1, pp. 261-263.
23. The texts of these "organic laws" of 1975 are published in ENA, Administration Régionale et Locale..., pp. 319-355. It is worth noting that 1975 was the year in which major decentralizing reforms were announced in Morocco as well.
24. GOT, MPF, VI<sup>ème</sup> Plan..., Vol. 1, pp. 261 and 263.
25. ENA, Administration Régionale et Locale..., p. 87.
26. Yadh Ben Achour et Fadhel Moussa, "Réformes, Elections Municipales, et Discours Décentralisateur en Tunisie," Annuaire de l'Afrique du Nord, Vol. XVI (1977), pp. 355 and 378. Though the article is dated 1977, it was actually written and published in 1978.
27. GOT, MPF, VI<sup>ème</sup> Plan..., Vol. 1, p. 263.
28. GOT, GCRD, Note sur la Décentralisation..., p. 29.

29. ENA, Administration Régionale et Locale..., p. 29.
30. Ibid.
31. Sadok Chaabane et Mohamed Kherouf, "Les aspects financiers de la réforme communale de 1975," Études et Documents No. 9, ENA-Centre de recherches et d'études administratives, Tunis, 1977, p. 6.
32. Direction du Budget, Ministère des Finances, "Rapport sur l'Evolution et les Perspectives des Ressources Communales," Centre de Recherches et d'Etudes Administratives, Ecole Nationale d'administration, Actes du Séminaire sur les Moyens de l'Action Communale, 14-17 Juin 1977, Études et documents No. 10, Tunis, 1978, p. 13.
33. Figures on the later period are from an excellent recent study by Pierre-Henri Derycke, "Le Systeme Financier Local de Deux Villes Africaines: Tunis et Abidjan -- Une Étude Exploratoire," Centre d'Étude et de Recherches Economiques sur la Ville et l'Espace, Université de Paris X - Nanterre, 1984, p. 40. Derycke also notes that in the period 1977-82 communal expenditures averaged 6.7 percent of central expenditures, a significant relative increase. (p. 39)
34. Chaabane et Kherouf, "Les aspects financiers..." pp. 10-11. For information on what the pre-1975 system was like, see Habib Ayadi, "Les finances locales," Études et Documents No. 8, ENA-CREA, Tunis, 1971, pp. 27.
35. Remy Prud'Homme, "Urban Public Finances in Developing Countries: A Case Study of Metropolitan Tunis," mimeographed draft of report for the World Bank, Urban and Regional Economics Division, Development Economics Department, January 1975, p. 61. Note that many of the reforms later adopted were put forward in this detailed and perceptive study.
36. Mohamed Kherouf, "Le modele d'organisation territoriale," (Tunis: ENA, mimeographed, 1978), p. 18. Note that this is a draft of what later appeared as Chapter 1 in ENA, Administration Régionale et Locale..., pp. 17-62.
37. The Conseils de Gouvernorat have the same legal status as communes. They could, but do not, levy taxes. Nor, apparently, do they go through an official budget procedure.
38. Prud'Homme, "Urban Public Finances..." p. 55.
39. Ibid., p. 56.
40. Chaabane et Kherouf, "Les aspects financiers..." pp. 15-16.

41. GOT, MPF, VI<sup>ème</sup> Plan..., Vol. 1, p. 360. See the whole of the Chapter entitled, "La réforme fiscale."
42. Ibid., p. 367.
43. Derycke, "Le Système Financier Local...", p. 28.
44. GOT, MPF, VI<sup>ème</sup> Plan, p. 367.
45. Chaabane et Kherouf, "Les aspects financiers...", p. 17. Derycke's more recent study confirms that "insufficient recovery of local taxes is a major, continuing problem." (Derycke, "Le Système Financier Local...", pp. 35-55.)
46. Chaabane et Kherouf, "Les aspects financiers...", p. 17.
47. GOT, MPF, Note d'Orientation..., p. 51.
48. GOT, MPF, VI<sup>ème</sup> Plan..., Vol. 1, p. 367.
49. Chaabane et Kherouf, "Les aspects financiers...", p. 20. It appears that in some years the FCCL receives, over and above these ear-marked revenues, a direct subsidy from general revenue, of perhaps as much as a million dinars.
50. Derycke, "Le Système Financier Local...", p. 27.
51. Direction du Budget, "Rapport sur l'Evolution...", p. 16.
52. GOT, GCRD, "Legislation administrative," p. 15.
53. Ibid.
54. Chaabane et Kherouf, "Les aspects financiers...", p. 21.
55. Ibid., p. 22.
56. Ibid.
57. Direction du Budget, "Rapport sur l'Evolution...", p. 17.
58. Derycke, "Le Système Financier Local...", p. 60.
59. Chaabane and Kherouf, "Les aspects financiers...", p. 23.
60. GOT, MPF, VI<sup>ème</sup> Plan..., Vol. 1, p. 264.
61. For an analysis of the causes and ramifications of the Gafsa affair see Pierre-Robert Baduel, "Gafsa Comme Enjeu," Annuaire de l'Afrique du Nord, Vol. XIX (1980), pp. 485-511.

62. GOT, MPF, Note d'Orientation..., p. 11.
63. GOT, Ministry of the Civil Service and Administrative Reform, "Note de Synthèse...", p. 3.
64. See "La réforme de l'administration et des entreprises publiques," in VI<sup>ème</sup> Plan..., pp. 271-273.
65. GOT, GCRD, "Note sur la Décentralisation...", p. 6.
66. See the chapter on administrative reform in VI<sup>ème</sup> Plan..., pp. 259-277, for the overall approach.
67. Note that neighboring Morocco has also, since 1981, been expanding its corps of Secretaries-General and posting these officials to rural communes. All of Morocco is communalized. See John R. Nellis, "Tutorial Decentralization: The Case of Morocco," Local Revenue Administration Project, Metropolitan Studies Program, the Maxwell School, Syracuse University, Occasional Paper No. 70, June 1983.
68. A. Belhadi, "Le Programme de Développement Rural: Les Illusions et la Réalité," Revue Tunisienne de Géographie, No. 7 (1981), p. 22.
69. GOT, GCRD, Carte des Priorités Régionales (Tunis: mimeographed, January 1983), p. 2.
70. Belhadi, "Le Programme de Développement Rural...", pp. 24-27.
71. Information derived from interviews conducted in Tunis, Kasserine and Sidi Bou Zid, June 1983.
72. Belhadi, "Le Programme de Développement Rural...", pp. 21, pp. 33-35.
73. GOT, MPF, VI<sup>ème</sup> Plan..., Vol. 1, p. 249.
74. The methods used to identify the zones, and the zones themselves, are found in GOT, GCRD, Carte des Priorités Régionales.
75. Ibid., p. 1. The total "envelope" for rural investment in the VI<sup>th</sup> Plan is 725 million D: 170 MD for the PDR, 170 MD for FOSDA, 25 MD for FAAPM, 100 MD for the integrated projects, and 260 MD for normal sector programs of the line Ministries; "more than 9 percent of the total of programmed investments for the present plan period." (Ibid.) Both the sum and the percentage strike one as small.

76. GOT, API, Decret 78-578 du 9 Juin 1978 portant organisation et fonctionnement du Fonds de Promotion et de Décentralisation Industrielles - FOPRODI (Tunis; pamphlet available from API).
77. These numbers calculated from map and documents distributed as promotional materials by API, which includes text of the 1981 law, map of zones, description in detail of advantages. Obtained from API in Tunis, June 1983.
78. Ibid.
79. GOT, MPF, Tunisie -- Budget Economique, 1982 (Tunis: mimeographed document 1-27 of MPF, 1982), p. 29.
80. Ben Achour et Moussa, "Réformes,....," p. 348.
81. This is the argument made repeatedly in the World Bank's "Tunisia: Social Aspects of Development..."