

Meredith Scovill

LOCAL REVENUE AND DECENTRALIZATION IN EGYPT:  
THE ROLE OF USAID TAX PROJECTS

INTRODUCTION

The term decentralization can be used to describe a process ranging from the establishment of local branches of central government agencies to the actual devolution of authority from the central government to local authorities. Decentralization in Egypt involves some degree of devolution of authority. The process in Egypt has involved transfers of authority both from the central government to Governorates and villages and from Governorates to villages. Decentralization can be beneficial in increasing productivity when there are economies of scale, in increasing local participation, and in making public expenditures more responsive to local needs and priorities. (Frequently, more revenue can be raised as persons see the relationship between taxes collected and services provided and feel a greater sense of involvement in the process.) Decentralization has potential disadvantages, also. It can create a local elite. To the extent activities are not only locally initiated, but locally funded, too, central government opportunities for income redistribution from one region to another diminish. Additionally, certain functions-- notably national defense-- are best performed at the central government level.

Since 1975, the GOE has made a concerted effort toward decentralizing both political and administrative responsibilities. Local authorities now have greater decision-making authority over capital expenditures for development projects; they also have greater control over the expenditure of certain locally generated revenues. Many A.I.D. projects since the late 1970's have been directed toward strengthening or supporting this decentralization process. As the process has been evolving, however, the lack of local fiscal autonomy has become more noticeable. The influence of local revenue potential on successful decentralization has also become apparent. Recent A.I.D. project papers, PIDs, and Issues papers have addressed the problem of inadequate financial management capabilities and insufficient local revenues and

their effects on GOE and USAID decentralization efforts. Portions of existing and proposed projects, such as Management for Productivity, Provincial Cities and Urban Neighborhood Services are attempting to improve local fiscal autonomy and general ability to manage finances and activities. To a large extent, the final direction taken by A.I.D. will depend on the evolving interpretation of Public Law No. 43 of 1979, the 1980 amendment to it, and the future steps the GOE decides to take in transferring authorities to local governments. Meanwhile, though, A.I.D. projects can strengthen the fiscal position of local governments by helping them make the best use of existing resources, by providing the kinds of background information on potential tax bases that would enable the GOE to make decisions on local revenue issues, and by providing training for local government personnel on financial management and revenue issues.

A.I.D. needs more projects directed specifically at this area. The Agency also needs to make the best use possible of existing revenue projects and of revenue sections of ongoing and proposed decentralization. This paper attempts to establish the necessary link between fiscal autonomy and successful decentralization and between improved financial management and decentralization. It also examines the potential information the Agency can gain through its existing activities.

#### DECENTRALIZATION IN EGYPT

The decentralization process in Egypt has been evolving over a period of time. To a limited extent, the process began in 1960 (Public Law No.124) with the establishment of town and village councils and was extended in 1971 with Public Law No. 57, which created an elected "people's Council" at the Governorate level. Since these councils could be dissolved from the national level, however, their political autonomy was severely limited. In addition, these earlier laws did not provide local governments with any significant degree of fiscal autonomy.

The explicit process of decentralization began with Public Law 52 of 1975 and was strengthened by Public Law 43 of 1979. Under the 1975 law, with approval from the Ministry of Local Government, Governorates could propose certain taxes and fees (described below), approve local production projects, and allocate public property.

In addition, Governorates could dispose of their own public properties, and the fiscal planning control of the Governorates and Governors was increased. The 1979 law extended to towns and districts the right to dispose of their public lands. It also expanded the powers given to local levels and removed the need for approval from the Ministry of Local Government. Nevertheless, full realization of the decentralization objective has not been achieved. Some central government organizations and ministries have been reluctant to relinquish authority; local governments still lack adequate financial resources to finance their projects; and many local officials lack experience in budgetary processes, general financial management, and project implementation.

#### A.I.D. DECENTRALIZATION ACTIVITIES

A.I.D. has begun implementing several projects to address the problems mentioned above and to assist in the general process of decentralization. These projects further the decentralization process by focusing activity at the local level. Additionally, these projects provide mechanisms for improving local management and budgetary skills, increasing knowledge of the budgetary process, and providing more information on revenue potential.

The projects can be roughly divided into those that were implemented before the 1979 law and those that have been developed afterwards. Pre-1979 projects would include Development Decentralization Projects I (and II), which were to develop local financial viability and developmental capability, and Basic Village Services Project, which had twin objectives of helping GOE correct deficiencies in the delivery of such services as potable water, sanitary drainage, and roads and of enhancing the capacity of local governments to finance, implement, and maintain their own infrastructure projects.

Post 1979 projects are essentially in the PID stage. One project is Mid-Egypt Provincial Cities, whose purpose is "to improve and expand growing internal capacity of 3 Provincial Cities to identify, plan for, budget, finance design, construct and maintain urban infrastructure and services." The PID relates the proposed project to the CDSS decentralization strategy in the following way:

USAID's primary objective on the management side of social services is to support and accelerate GOE efforts to decentralize both the technical and financial management of service delivery. The intent is to finance locally targeted capital investments in basic infrastructure, particularly potable water and sewerage, and primarily in rural areas and secondary urban centers of Egypt. This will represent a basic shift in the focus of social infrastructure investments toward secondary cities, district towns and villages in the rural governorates in addition to previous investments in the primary cities.

USAID strategy calls for the use of broader instruments to improve overall management in the social services sector, the most important relating to budgetary and administrative decentralization. The policy is to work for substantial decentralization of planning, finance, and administration in all social sector programming.

Another project in the decentralization portfolio is Neighborhood Urban Services, the purpose of which is "to expand and strengthen institutional capabilities in Cairo and Alexandria to undertake actions needed to improve public services and infrastructure." The project proposes to improve the living environment of low income neighborhoods by providing infrastructure and services. "USAID has been supportive of decentralization, but it recognizes that technical and administrative capabilities of local governments must be developed to assure continued movement in this new direction. The proposed NUS project complements GOE and USAID efforts to address the needs of the urban poor and their neighborhoods, to promote governmental decentralization, and to strengthen local urban government." A.I.D. is attempting to promote decentralization. According to the Provincial Cities PP, "In particular, the CDSS emphasizes that decentralization is aimed 'at fostering local administrative initiatives in the interest of greater operational efficiency and at broadening the role and responsibilities of project managers throughout the structure of the public sector! It also points out that weak local government has 'meant that people concerned have had little voice in determining what kinds of social and other governmental services are most important to them.'"

#### REVENUE

#### RELATIONSHIP OF LOCAL REVENUE CAPACITY AND FINANCIAL MANAGEMENT TO DECENTRALIZATION

To achieve eventual decentralization of authority, local governments must have some degree of fiscal autonomy. This requires control over the present and future

size and distribution of the budget. Control over the size of the budget requires autonomous revenue sources, which is not to suggest that all local government expenditures be locally financed. Some system of intergovernmental grants is possible and even desirable if the central government wishes to equalize spending capacity throughout the country. It is necessary, though, for locally-generated revenue sources to be sufficiently large to enable local governments to exercise their political autonomy and actually implement locally initiated projects.

For successful decentralization, local management abilities must also be improved. If local officials are to obtain the greatest benefit from their limited financial resources, governmental personnel need to develop financial management and technical skills: record-keeping methods must be improved; officials must understand how to obtain the greatest return possible from their monies from central government grants and income generating projects; they must also be able to determine the cost effectiveness of income generating activities and determine appropriate levels of fees if costs are to be recovered.

There is another revenue issue that affects both the central and local government level, but should nevertheless be considered in a discussion of decentralization: recurrent costs. Development projects typically generate recurrent costs which must be met by the host government if the activity is to continue after the donor project ends. In some instances, recurrent costs can be minimized by careful project design. Even when minimized, though, recurrent costs must be paid or the activity discontinued. Recurrent costs can be met through taxes, user fees, or (for local governments) grants from the central government. Recurrent costs must be considered if there is to be successful decentralization. Otherwise, as more development projects are undertaken, local government reliance on the central government will increase. To avoid this, management skills are needed at the time of project design to ensure that recurrent costs will be minimal and within the capability of the local government or that the project itself will generate revenue for maintenance. It is also necessary to have sufficient tax revenues, grants, or user fees to be able to fund local activities.

What is "local"?

all local activities?  
How much revenue?

## REVENUE IN EGYPT

In Egypt, as in many countries, local government revenues and expenditures seem insignificant compared to those of the central government. In 1978, central government revenues were 2,589.4 million Egyptian pounds. Total local government revenue was 118.7 million Egyptian pounds. The major portion of central government revenues, approximately 37%, came from taxes on international trade. About 20% came from taxes on net income and profits and 16% from taxes on goods and services. The major local government tax source is the property tax.

To a large extent, the wealthy can escape the full burden of the income tax. Public sector wage income is the most heavily taxed because it is the easiest to identify and is withheld at the source. Various types of self-employment income escape taxation because they are easy to hide. In addition, the tax is schedular, rather than global, and exempts certain categories of income from taxation, e.g., agricultural income below a certain level, income of Egyptian residents employed by international organizations, and interest on government bonds. With customs duties and property taxes, it is more difficult for the wealthy to avoid paying their "share." (Customs duties and sales taxes may even be progressive in LDCs when the items subject to tax are purchased primarily by the wealthy.) Nonetheless, present government taxes fall short as ideal methods of income redistribution. This differs from the traditional Muslim zakat, which is given willingly by the rich as a form of social insurance for the community.

This "tax" is paid only by persons with wealth above a certain level, and the wealth/property must generally be held for 12 months or longer, eliminating tax on transitory wealth. For wealth above the minimum level, the rate is usually proportional. (Because of the exemption, the tax is actually slightly progressive.) For livestock, <sup>which</sup> the tax tends to be defined in physical terms- a percentage of the number of livestock, the exact rate depending on the type of animal. On other items such as gold or articles of trade, it is on monetary value. The zakat is intended primarily as a form of social insurance or security for the poor, not as a source of funding for general public services. Revenue from the zakat may not be sufficient to provide

for the needy, however. The zakat is also not available to the state and therefore cannot be used for the financing of general government services. Central and local governments have therefore imposed a variety of taxes. (Certain taxing powers were actually granted to states by the Koran.) Whereas the zakat was held to be a religious obligation and paid voluntarily/willingly by the wealthy, however, the same has not been true for state taxes, and avoidance is not looked on with disfavor.

#### LOCAL REVENUE SITUATION IN EGYPT

Local government activities in Egypt are financed through a combination of locally generated revenues and grants from the central government. The latter category is the most significant, providing approximately 75% of revenue. Local governmental units have typically not utilized their potential revenue sources fully, partly due to the limited discretion over spending decisions and partly because the local potential revenue is small. Even if the governorates and villages collected a maximum potential from local taxes and fees, the total amount would still be too small to provide any degree of fiscal autonomy.

A major source of tax/fee revenue for the Governorate and village is the land tax (both original and additional). This tax is imposed by the Governorate, with 75% of the revenue distributed to the village within whose domain the land lies and the other 25% retained by the governorate. The rate of the additional tax is determined at the Governorate, not village, level. According to a DAI report "Monitoring and Evaluating Decentralization: The Basic Village Services Program in Egypt," the governorates did typically return to the villages their 75%, but not in a manner that gave villages actual control over the funds. When the governorates pay for wages and recurrent costs incurred at the village level, they typically consider these payments to constitute tax remittances to villages.

At the governorate level, additional revenue sources allowed by law are taxes and fees on methods of transport, proceeds of the investment of governorate funds, revenues from governorate-run utilities, and "other taxes and fees of a local nature for the benefit of the governorate. In addition to their 75% share of land taxes, villages

have the following resources:

Taxes and fees of a local nature imposed by the popular local council of the village;

Proceeds of the amusement and betting taxes imposed within the domain of the village

Returns from property owned by the village and utilities managed by it;

Resources allocated to the village by the popular local council of the governorate from the resources of the governorate;

Government subsidies;

Contributions, gifts, and bequests; and

Loans concluded by the council.

In addition to the various taxes and fees that can be levied by governorates and villages, the new laws provide for a series of development funds. At the village level, there is a special account for local services and development. The fund consists of proceeds from various properties and enterprises managed by the account (e.g., rent of dwelling buildings and utilities created by the services account and amounts received in return for the transfer of ownership of buildings constructed by the services account), and contributions, subsidies, gifts, and bequests. This fund theoretically provides village councils with an ability to generate and spend their own resources. While these funds are increasing local autonomy to some extent, their use is very limited <sup>for most</sup>  $\wedge$  villages. In the DAI study of six villages, LSF revenues and collections provided from 5% to 44% of total local revenue. (For three of the six villages, the amount was less than 10% <sup>For the other three it was 14%, 26% and 44%.</sup>) Only three of the villages placed any revenues from taxes and fees into the account. In all instances, the majority of the revenue came either from citizen's contributions (for three of the six in 1979) or revenues from village-run projects (for the other three villages).

The major impediment to local fiscal autonomy is the small percentage of revenue over which local authorities have complete control, i.e., control over both the total amount of revenue available and the manner in which it will be expended. There are too few sources of revenue actually under local control, and too many "shared" taxes

where the tax is collected from local areas by a higher governmental authority and then returned to localities, but in a manner yielding no relationship between the amount collected from an area and that returned to it.

The "shared" taxes and grants are the largest source of revenue for villages and governorates. These grants will and should continue. To advocate local fiscal autonomy does not imply that all governorate and village expenditures should be financed through village and governorate fees and taxes. (Local governments in the U.S. receive a sizable portion of their revenue from the central government.) Central governments often have access to sources of revenue not available to local authorities; certain types of revenue can most efficiently be collected by a central authority. Additionally grants provide a mechanism for redistributing income among regions. As mentioned above, however, it is important that the percentage of local budgets provided by central authorities not be so high as to restrict local decision-making. In Egypt, the percentage is sufficiently high to do so.

This lack of local autonomy over budgets has and will affect decentralization. While supporting decentralization as a strategy, the FY1983 CDSS ANNEX IV has recognized the revenue inadequacies of local governments.

Decentralization is an espoused goal of the Egyptian Government. Law 43 of 1979 gives added decision making authority to governors. But one of the most glaring deficiencies in this process is the lack of a viable means of local financing. Governorates, markazs, towns and villages are dependend upon funding for infrastructure development and maintenance, housing, schools, hospitals upon the central government. Yet, central funding for local needs is never ample; only 10-15 percent of local budget needs are met. Elaborate budget making processes are engaged in each year by towns, markazs and villages, approved by their respective governorates, only to be severely cut by central government - a highly demoralizing exercise for local government. As long as this ritualistic and futilistic system continues, a truly decentralized government structure is not possible."

Given the limited capacity of the revenue sources open to local governments, if they are to increase their fiscal autonomy it is necessary to have a devolution of taxing authority to local governments, the sharing of more centrally collected taxes or a restructuring of methods by which user fees can be calculated, e.g., the subsidization of certain services in Egypt limits the capacity for user fees since

the central government has set the amount. Sharing of taxes on the basis of origin has only limited potential. It will result in revenues remaining in the area in which they are collected, but it will not give local officials control over the size of their budgets.

A.I.D. projects are beginning to address some of these issues. The Provincial Cities PID recognizes the problems of shared revenues and user fees restrictions with the following:

At present, the collection of revenues at the local level, e.g., metered water, bears no relation to the allocation of budgetary resources. That is, revenues are remitted directly into the central government and rates which are set by the central government, are highly subsidized and unrelated to costs. In fact, the cities' accounting systems do not permit them to ascertain what actual costs are.

Cost recovery mechanisms and long range financial planning are ultimate goals of the project.

The long range goal is to develop governorate, and municipal utility operations which have officers who are competent to plan, budget, contract for engineering and manage current operations, maintenance, replacement and gradual extension of the utility, and develop a system by which rates will ultimately cover all expenses. This goal is perforce long range. This project is intended to begin the process.

The PID Review Committee questioned the ability of local governments to develop financial independence if funds were simply channeled from the central government and noted that local government financial viability would depend on central government reforms in the areas of taxes and subsidies; they suggested institution of cost recovery options in the project. The Neighborhood Urban Services PID also recognizes that ultimate success of that project will depend on the ability of local areas to manage funds wisely and to generate sufficient revenues to sustain activities.

#### REVENUE PROJECTS IN GENERAL

There are few projects in Egypt (or elsewhere) aimed at increasing revenue generating potential, improving financial management, and generally modernizing or reforming taxes. Revenue and financial management questions are addressed primarily through small portions of existing (proposed) projects.

## ECONOMIC RELATIONSHIP BETWEEN TAX ADMINISTRATION, EQUITY, AND EFFICIENCY

A good tax should be equitable, economically efficient, and easy and not costly to administer. From an economic standpoint, therefore, equity, efficiency, and administration should not be separated. In general, for a tax to be efficient, it should produce minimal unintended distortion of economic activity. Ideally, it should not alter decisions on consumption, savings, work effort, or investment, nor should it influence the manner in which a person earns his income or the types of property/assets he acquires for storing wealth. There are times when governments consciously use a tax to alter/influence economic activity, but such use of the tax system should be minimized and should be for a definite purpose.

In terms of equity, a tax should conform to either the "benefits received" or the "ability to pay" principle. The latter is the rationale for income taxes. (User charges are based on the former principle.) Regardless of the tenant, a tax should be both horizontally and vertically equitable. Under the ability to pay principle, as applied to income taxation, persons with equal ability to pay- defined by equal income adjusted for certain circumstances such as family size- should pay equal incomes; persons with a greater ability to pay should pay a greater income. While there is no economic- or other- basis for determining exactly how much more the person with greater ability to pay should be taxed, generally prevailing standards of equity favor some degree of progression.

There are some trade-offs between equity and efficiency, both theoretically and in practice. A progressive tax may decrease work effort; <sup>elasticity of supply of labor is low</sup> If elasticity of supply of various factor inputs differ, the tax can alter production decisions. When the marginal propensity to save for high income persons exceeds that for low income persons, a progressive tax can result in less savings than would occur under a more neutral tax, <sup>and - as a result - in higher dividends.</sup> Often governments will tax site value of property at a higher rate than the improvements to encourage fuller utilization of land (increased efficiency). This reduces equity on both an ability to pay and benefits received principle. ("Improved" property generally receives greater benefit from public services.)

The procedures for administration will affect both equity and efficiency, and there are inherent trade-offs here, too. Regardless of how a tax is defined by law, if it cannot be administered uniformly, it will lose both equity and efficiency. If proper enforcement of a tax requires a degree of sophistication that does not exist, certain categories of income will escape taxation. Horizontal and vertical equity will be lost as persons earning their incomes in these forms escape full taxation. Efficiency will be lost as individuals alter their decisions so as to earn income from the lesser taxed categories. If persons with incomes in certain categories, e.g., wage income and self-employment income, are taxed or untaxed depending on the ability of officials to find and record such income, the very uncertainty of the process will affect economic decision making. (This situation occurs in Egypt.) It is also important that effective administration be accomplished using a minimum number of resources since expanding a large number of resources on tax collection and enforcement reduces the number of resources available for more productive activities.

The very need to simplify a tax will often hinder attainment of equity or efficiency. Many LDCs use a form of graduated personal tax for an income tax. With this, all income within a certain bracket pays the same amount of tax. As one moves to higher brackets, the amount of tax increases, but always remaining the same for persons within a given bracket. This procedure is necessary to simplify administration, but results in regressivity within brackets and a greater than 100% marginal tax rate when moving from one bracket to another. Both result in lack of equity; the latter also results in lack of efficiency since it decreases incentives to work and earn more if doing so places one into a new bracket. (Conversely, at early stages of development, with poor record keeping, such a tax can be more equitable and efficient than a conventional income tax since nonmonetary and general subsistence income are difficult to measure and it is easier to estimate the correct bracket than the exact income amount.) The trade-offs between administrative ease and equity and efficiency are especially noticeable with a property tax, because the need to estimate value leads to simplifying procedures. (House values in England were once

based on the number of windows, with predictable results.) In LDCs, the difficulty of valuing land frequently leads to taxing on the basis of area rather than value. This places a relatively greater burden on owners of less valuable land, hurting equity and distorting buying patterns. With customs duties, the need to simplify administration results in specific rather than ad valorem rates. It is easier to count the number of chairs than to estimate value. (Receipts do not solve the problem since, ideally, the tax should be on the true value of the article, not a possibly discounted purchase price.)

#### REVENUE PROJECTS IN GENERAL

Without revenues, governments cannot undertake development activities, and taxes provide autonomous sources of revenue. Depending on the type of tax used and the method in which it is employed, a tax can either help or hinder a development effort. General management techniques of government officials also influence the course of development. There are few projects in Egypt (or elsewhere) aimed at increasing revenue generating potential, improving financial management, and generally modernizing or reforming taxes. Revenue and financial management questions are addressed primarily through small portions of existing (proposed) projects.

If tax and finance methods are not to hinder other development efforts, increased attention to methods of generating and managing revenues is necessary, e.g., the common practice in the Near East of not taxing urban undeveloped land discourages improvements and encourages the holding of land for speculation; income taxes can reduce employment in the monetary sector because wage income is the easiest to identify and therefore the most likely to be subject to tax.) Specific attention to revenue and management questions is necessary at the local level if decentralization is to be successful. It is necessary at both central and local government levels if recurrent costs are to be met and projects maintained.

Certain types of studies will provide information useful to both central and local governments, e.g., general financial management procedures, which are similar at both levels, though by no means identical. Many recurrent cost problems are also

at both levels, though the lower resource base of local levels exacerbates their difficulties, and central government imposed restrictions on user fees further hamper local officials. General tax studies can also provide information useful to several governmental layers. There are general principles of equitable and efficient taxation that do not vary whether that tax is collected by a local or central government authority. (In general, the same features that make an income or property tax efficient and equitable at the central government level apply at the local level. There is a difficulty, however, when tax rates vary among localities and the jurisdictions are small. It is easier to leave a local jurisdiction to avoid a tax than to leave a national jurisdiction, and moving to avoid tax distorts resource allocation.) Moreover, information generated on the potential tax base for one tax may provide similar information for another tax, with little or no modification. Given the paucity of tax studies, it is necessary to take advantage of the ones that do exist.

#### TAX ADMINISTRATION AND TAX MODERNIZATION PROJECTS

A.I.D. has two tax projects in Egypt: Egypt Tax Administration Project and Egypt Tax Modernization, which is a series of studies, not an official project. These projects are designed to improve the system of income taxation, increasing both equity and efficiency. The current tax is schedular, rather than global, and exempts certain categories of income from taxation, thus lessening both equity and efficiency. Also, inadequate records and generally poor management procedures make even application of the law more difficult. The Administration Project and Modernization Activity are designed to remedy these difficulties by helping the GOE design, implement, and administer an equitable and efficient tax.

The Tax Modernization program is not a project in the A.I.D. sense, but a series of subprojects or studies designed to culminate in new tax law proposals to be taken before the Peoples' Assembly. The program has twin goals of social justice and economic development; these are to be achieved by broadening the tax base and eliminating tax discrimination among sources of income while still encouraging private capital formation and private enterprise development. An

additional aim is that of complementing the Ministry's aim of modernizing tax administration and improving the public's tax conscience. One aspect of the program generation of baseline data on the actual and potential tax base; another is an analysis of the impact of proposed tax law changes on income distribution, investment, and other economic variables. Following are examples of the types of studies included in the program: designing a plan for transferring the Egyptian tax from a schedular to a global tax; gathering and analyzing data showing the fiscal impact on various groups of the existing versus proposed taxes; and analyzing the impact of extending the tax to agriculture income.

The Tax Administration project is similar to tax administration projects in other countries. In past AID projects on taxation, there have been similarities of goals, purposes, and outputs. Most projects have as a purpose the provision of additional revenues. Through increased revenues, the project goal of increased mobilization of resources for development is to be achieved. The Egypt project is no exception. The purpose is to modernize administration, improve tax equity, and provide additional revenues. The goal is "increased mobilization of domestic resources for development." (Goal and purpose as given in the PP text differ slightly from that in the logframe.) "The expected improvements in income tax administration should result in more national revenues for development purposes and help preserve a favorable distribution of national incomes/revenues." The project purpose is to be achieved by improving and upgrading the functions of the tax department by such methods as establishing a Tax Training Institute, improving ADP capabilities, providing managerial training in the U.S. and Egypt, and improving the quality and accuracy of tax assessments. These procedures should provide for a more even administration and application of the tax, lessening tax evasion and avoidance. This should improve equity as well as increase revenues.

#### TRANSFERABILITY FROM TAX ADMINISTRATION AND MODERNIZATION ACTIVITIES TO DECENTRALIZATION

Although these projects are directed toward the central government level, they can nevertheless provide some of the revenue and financial management information/skills

## NEED FOR FURTHER STUDIES

Although the Tax Modernization and Tax Administration activities can provide useful insights into decentralization issues regarding revenue and financial management, the transferability is limited. The information and skills that can be transferred should not be ignored, however. In achieving more local fiscal autonomy under decentralization, some of the options being considered are devolution of taxing authority to local governments or the sharing of certain central government taxes on the basis of origin. To know if these are viable options, there is a need to know revenue/income potential by category and region; some studies in the Tax Modernization program focus on similar areas.

Various subprojects of the Modernization program could also prove useful. One subproject is the estimation of revenue under the current law from various segments of the taxpaying public. Another is the construction of a computerized fiscal data bank to estimate the existing income tax incidence among various levels and types of income earners and to estimate as closely as possible through simulation analyses the effects of various tax change proposals on those levels and types of income earners and on revenues. Yet another task under a subproject is an analysis and report on the income distribution of the agricultural sector by bracket, land parcel, etc. Many of these studies have been or are being conducted, and with some modification, they could provide input into the process of identifying the local government tax base from both income and property. The potential will be greater if the revenue information needs for decentralization are identified now and incorporated into the Modernization activity.

In the broad areas of financial management and accountability, the Tax Administration Project can provide limited inputs. If local officials are to manage funds themselves, whether from their own sources or from intergovernmental grants, government personnel at these levels need to develop financial management and various technical skills. The types of skills needed at the local level differ markedly in some areas from those needed at the central government level; nevertheless, some

of the procedures employed in the Tax Administration Project could be modified to provide guidelines for local government personnel. There are already plans for providing such material through cassettes to central government personnel working in local areas. Ideally, projects aimed specifically at local government, decentralization needs are required. e.g., the Pilot Model for Training in Decentralized Development Planning. Until more programs/projects of this type are available, it is advisable to gain as much as possible from the two existing central government tax studies. The activities of these two projects should definitely be coordinated, which could be best accomplished if they were backstopped by the same AID/W office; when possible, they should also be coordinated with the decentralization effort.

As a long range goal, specific studies and projects are needed which address revenue and financial management questions at the local government level. This includes training programs designed specifically to consider the social and cultural constraints facing managers at local levels, tax projects which consider the limited resource base facing local governments, and studies aimed at property taxes, user fees, licences, and other revenue sources available to Egyptian local governments. The entire question of intergovernmental fiscal relations needs to be examined. The starting point should be with existing and proposed projects to strengthen the management and revenue generating activities within them.