Municipal Finance Challenges in the MENA Region

The need for greater empowerment of Municipalities was pointed out by many participants as a key challenge during the September 2012 KSA launch in Marseille. Several reasons can account for that interest. As cities grow and costs rise (notably due to new demands for infrastructure and higher land prices), improved municipal management has become increasingly challenging. In the countries bordering the Mediterranean, more than two out of three inhabitants are already city-dwellers. By 2030, three quarters of the Mediterranean will be urban. This urban growth is sustained mainly by endogenous factors (i.e. natural urban population growth), while urban-to-rural migration is either decreasing, like in Tunisia or in Egypt, or being maintained, like in Morocco or in Syria.

Managing cities appears all the more crucial in the context of the Arab Spring as most of the uprisings have originated in urban areas, thus showing the rising expectations of the urban population. The latter has voiced its will for political, social and economic reforms not only at the national scale but also at the local level (for example through their participation to decisions taken at the city-scale or at that of their neighborhoods). While people have voiced demands in terms of job creations, they have also (and especially the urban poor) claimed for concrete governmental intervention to improve their quality life through the provision of affordable housing, as well as through that of basic and local infrastructure and services, etc. (demands which often exceed the capacity of existing resources and systems).

Pursuing the debates initiated during the Marseille Workshop in September 2012, the second and third building blocks of this conference will discuss the resources available for local governments to fulfill their functions in a new political background pushing towards a reform agenda articulated around greater local governance, accountability and decentralization. Titled “Financing the City of Today and Tomorrow: Review of Current Challenges and Future Priorities”, the first building block dedicated to municipal finance will concentrate on two main elements of local government financing: i) intergovernmental transfers (which address vertical inequities in revenue distribution between municipalities and national priorities/externalities) and ii) local taxes, fees and charges (managed directly by the municipalities). A second building block under the title “Municipal Development Funds: Sharing Lessons Learned from Other Countries” will focus on the activities of the Municipal Funds which play a critical role in the region in ensuring subproject feasibility and providing complementary services such as capacity building. Leveraging on international experiences, this building block will allow to show how municipal banks and/or funds can also allow to address the question of capital financing (i.e. long term loan/grant financing, to address investments that warrant
intergenerational equity) which remains a marginal source of funding for most decentralized local communities of the MENA region.

The objectives of these presentations and discussions are the following: i) Prioritize the key strategic issues on municipal finance in the MENA region; ii) take stock of the most relevant MENA experiences; iii) discuss the information targeted on the UKP platforms; iv) lay the ground for the municipal session of the United Cities and Local Governments annual conference (October 1-4, 2013). The panel will be organized around three main sessions:

**FINANCING THE CITY OF TODAY AND TOMORROW: REVIEW OF CURRENT CHALLENGES AND FUTURE PRIORITIES**

This first building block aims at providing an overview of the overall financing framework of MENA municipalities, to identify the main existing constraints, but also potential reforms. Indeed, despite important differences in terms of municipal financing needs across the region, MENA countries share common constraints regarding their municipal systems and share a common need for reforming the legal and financial framework governing municipal finance, including the intergovernmental fiscal framework.

1) Financing framework and intergovernmental fiscal reforms

a- How public municipal finance is related to national regulations and fiscal transfers and what is the part of intergovernmental transfers in the resources of municipalities? What is the nature, level, etc. of tax transfers from the central governments to municipalities (global allocations or operating and capital grants; structural or cyclical transfers, etc.)? Are these transfers adapted to the functions attributed to municipalities, i.e. do they ensure enough resources for the municipalities to perform their missions?

b- From what resources do municipalities benefit (in terms of direct or indirect taxation) to fulfill their functions, and do these resources fit the municipalities’ financial needs to fulfill their legal functions?

NB: These questions appear all the more crucial in the current context, as decentralization and empowerment of local authorities are presented as necessary and emergency reforms (the transfer of responsibilities from national to local authorities being optimal/efficient only if it coincides with adequate transfer of resources). Moreover, since the beginning of the Arab Spring, “territorial equity” within and between cities has become a major political objective, since the population of informal neighborhoods, as well as that of medium and small cities, have played a large part in the uprisings, asking for new development and redistributive strategies: (how could these new redistributive strategies be
developed? Which tools could be used to ensure that the poorest municipalities get enough subsidies to provide their inhabitants with basic services while at the same time not discouraging them from developing their own resources?)

c- More widely, there is a need to consider the complex interrelations with national policies (including decentralization) and their impact on municipal fiscal management, including revenue mobilization and expenditures, as well as political factors.

d- In the light of the various situations registered, what main municipal finance reforms could enable to strengthen the municipal finance framework and allow for more important and sustainable municipal resources (municipal reforms on transparency, public financial management, tax collection, asset management, etc)? How could the system of intergovernmental transfers be revised in order to give the poorest municipalities the necessary means to manage their own development and to stimulate all the municipalities to exploit their fiscal potential resources?

2) Public Financial Management (PFM) and core institutional development issues

This building block will also allow to further explore the issue of the municipalities’ own revenues and the practical ways to raise them in order to improve the performance and the accountability of the municipal tax system:

a- How are local expenses and investments programmed and funded? What are the nature, sustainability and predictability of these resources (tax base, tax economic basis, etc.)?

b- What is the degree of local autonomy in determining the tax base, the tax rate or the tax amount? What are the systems and modalities of tax collection?

c- What level of autonomy do municipalities benefit from concerning their expenditure management system and what kind of management control (ex ante or ex post) are exerted by the central government over municipalities?

d- What is the transparency level in the management of municipal finance and what access does the population have to the financial statements of municipalities?

e- How could the municipalities’ own revenue be increased (through strengthening tax registration of tax payers, revising tax bases and improving tax collection,) without reducing the affordability of local services (through the increase of local tariffs)? How the evaluation of the unexploited value of municipal assets (land or buildings) and a better municipal management of these resources could maximize the financial return on land or buildings and thus increase its own revenues?

f- To what extent can the municipalities increase their revenues through organizational and managerial measures?

g- What are the existing experiences in terms of inter-municipal structures and initiatives (notably concerning the management of basic urban services – such as solid waste collection)? How could such experiences be developed in order to favor economies of scale in terms of city management and encourage more efficient systems of public finance?
MUNICIPAL DEVELOPMENT FUNDS: SHARING LESSONS LEARNED FROM OTHER COUNTRIES

This building block will allow to i) present the activities of the various municipal banks and lending funds (MDFs) in the MENA region, and ii) learn from international experiences of successful municipal banks and/or funds developed to address the lack of long-term finance for local infrastructure.

3) Municipal Development Funds (MDFs) in the MENA Region: Successful practices and remaining challenges.

This building block will be dedicated to the Moroccan, the Tunisian and the Jordanian MDFs in order to draw lessons from their successful practices and to identify the main challenges they are facing:

- Municipal Equipment Fund – Fonds d’Equipement Communal, FEC – in Morocco;
- Local Authorities Support Fund – Caisse de Prêts et de Soutien des Collectivités Locales, CPSCL – in Tunisia;
- Cities and Villages Development Bank in Jordan, etc.).

The presentation of K. Rajivan, Former Chief Executive Officer of the Tamil Nadu Urban Development Fund, India, will trigger the exchange of international experiences and best practices. Among them, the experience of FINDETER (La Financiera Del Desarrollo Territorial S.A.), a financial institution supervised by Colombia’s banking regulators, which operates through the banking sector as a “second-tier” lender, will allow to see how a market response to municipal borrowing can be successfully initiated. The differences between the Colombian context and that of the countries from the MENA region will be underlined in order to identify the institutional/financial/economic reforms which should be put into place to leverage from the experience of FINDETER.