SUMMARY OF DEBATES AND DISCUSSIONS

Overview: The following note contextualizes and provides a summary of the discussions that took place during the urbanization knowledge exchange held in Rabat on March 18-19, 2013. It outlines next steps for the initiative. The full conference program and conference presentations can be viewed at urbanknowledge.org/MENA.

BACKGROUND

Building a community of knowledge and practice for urban development in the Middle East and North Africa: The opportunities and challenges confronting cities in the Middle East and North Africa (MENA) are grand in scope and number; urban decision-makers need resources to help them problem-solve, innovate, and maximize results on the ground. One approach to providing such resources is the recently launched MENA Urbanization Knowledge Platform. It is a community of practice of senior decision-makers and other stakeholders who influence urban development in MENA. The community interacts through periodic workshops focused on specific topics of interest, an electronic platform, and other activities that enable members of this group to learn, collaborate, and communicate with one another. They interact with one another, with similar communities of practice in other regions, and with a range of international practitioners and experts.

Collaborating to improve municipal finance: The Center for Mediterranean Integration (CMI) in partnership with the World Bank and the Arab Urban Development Institute convened the second MENA Urbanization Knowledge Exchange conference in Rabat on March 18-19, 2013, at the invitation of the Mayor of Rabat, H.E. Fathallah Oualalou. The topic of focus was municipal finance. More than 70 senior officials and urban practitioners and experts from seven MENA

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1 The MENA Urbanization Knowledge Platform has been officially launched in September 2012 as a collaborative effort between the Center for Mediterranean Integration, the World Bank and the Arab Urban Development Institute. For more details, see the presentation by Ellen Hamilton and Dennis Linders on the CMI e-community.

2 The electronic platform can be accessed through the official MENA Urbanization Knowledge Exchange web page: www.urbanknowledge.org/MENA.
countries (Egypt, Jordan, Lebanon, Morocco, Palestinian Territories, Tunisia, and Yemen) where the World Bank serves as a partner in municipal development participated in this conference. They exchanged with one another and with experts from Colombia, France, Georgia, India, South Korea, and South Africa.

The municipal finance challenge: In a context of rapid urban growth (by 2030, MENA will experience a 45% increase in its urban population) coupled with economic stagnation and political unrest, demands for reform and results fall on the shoulders of local decision-makers. Although they are well-positioned to solve local problems, they lack the authority and the resources to do so. Most cities in MENA remain extremely limited in practice in their financial and decision-making authority. Most are restricted in their decision-making authority to solid waste management and the provision and maintenance of local road networks. Despite a strong correlation between urbanization and GDP, municipalities spend on average below 5% of GDP in the MENA region and account for less than 10% of national public resources. A longstanding goal, municipal efficacy is increasingly crucial in the context of the Arab Spring as citizens (especially the urban poor) have demanded, in addition to political reforms, governmental interventions to create more jobs and improve their quality of life through the provision of affordable basic municipal services.

Enhancing municipal finance through better intergovernmental transfers, own-source revenue generation and capital financing: The municipal finance portion of the conference was organized around two building blocks. The first block dealt with the 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). It was discussed during a session entitled “Financing the City of Today and Tomorrow: Review of Current Challenges and Future Priorities.” The second building block was discussed during the session entitled “Municipal Development Funds: Sharing Lessons Learned from Other Countries.” It focused on the activities of municipal funds which play a critical role in the region in ensuring subproject feasibility and providing complementary services such as capacity building. Leveraging international experiences, this building block showcased how municipal banks and/or funds secure 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 following is a summary of the discussions that ensued during the conference:

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3 See for more details the presentation by Anne Sinnet (http://community.cmimarseille.org/sites/default/files/asinet-rabat.pdf).
DAY 1
09:00 – 10:30 AM. INTRODUCTION AND FIRST SESSION: “THE MENA REGION CONTEXT: BUILDING THE NEW URBAN AGENDA”

Introduction

Mr. Fathallah Oualalou, Mayor of Rabat
Mr. Ahmed Al-Salloum, Director of the Arab Urban Development Institute
Mr. Mats Karlsson, Director of the Center for Mediterranean Integration
Mr. Franck Bousquet, Sector Manager, Urban, Social, and Disaster Risk Management Unit, MENA Region, The World Bank

First Session

H.E. Mr. Nabil Benabdellah, Minister of Housing, Town Planning and Urban Policy, Morocco
H.E. Mr. Mohamed Saifallah Lasram, Mayor of Tunis, Tunisia
H.E. Mr. Mostafa Ahmed Sayed Mourad, Vice Governor of Cairo for Southern District, Egypt
H.E. Dr. Khaled Al-Qawasmi, Minister of Local Government, Palestinian Authority

Seizing the opportunity of the Arab Spring to increase municipal efficacy. Acknowledging the challenges brought by the Arab Spring for city management, the speakers called for making the current context an opportunity for reforming urban governance. The Ministers and Mayors all insisted on the importance to promote actual decentralization (notably through financing tools) to enable cities to answer the rising demands of the urban populations. In a transition phase when constitutional changes are under way in several countries, promoting dialogue between city leaders and city managers and building networks among them constitutes a useful initiative to help better define the needs and potential changes in the legal framework on which cities are operated.

Box 1. Five basic principles for redefining the municipal finance framework

Throughout the debates and discussions held during the conference, participants regularly insisted on the need to redefine the institutional framework of municipal finance in MENA countries. Balakrishna Menon Parameswaran (World Bank Lead Social Specialist) summarized the five key objectives of such reforms (insisting on the fact that a basic framework enshrined in the constitution can evolve and be refined through new rules on the middle and long run):

1) Build a clear basic institutional and regulatory framework in order to ensure a precise allocation of responsibilities and sharing of tasks between national and local governments at multiple levels.
2) Balance municipal activities with resources (less functions delivered well is often better than more functions not delivered, and the same applies for taxes).
3) Predictability is essential for the stability of urban management; local governments need to know in advance what resources they will have at their disposal (especially intergovernmental transfers) and when they will have those resources.
4) Embrace asymmetries – they are not necessarily bad and can be considered an advantage.
5) Allow systems to evolve slowly.

Mismatch between finances and de jure responsibilities. “Li mâ ‘andhou fouflouss, klamhou massous” (He/she who has no money does not count): quoted by H.E. the Mayor of Rabat, this Moroccan saying well reflects the importance (underlined by all speakers) of municipal finance to
urban development in a region where central governments have launched a series of decentralization reforms since the 1990s, which remained very limited, notably because local governments were not given the financial means to assume their responsibilities.

**Financing is necessary but insufficient.** Although money is a key asset for local governments, it cannot automatically ensure development. The keynote speakers all stressed the need for strategic and integrated urban planning and financing; urban development should be thought of at a global level, taking into account different scales (local, regional, national), different policy sectors, and encouraging intergovernmental relations. **Improving access to finance for municipalities should thus go hand in hand with improving capacity building of local authorities.**

**Beyond the political changes, the importance to build sustainable infrastructure for MENA cities.** In concluding this first session, Mr. Mats Karlsson, Director of the CMI, emphasized the central role played by urban development and more specifically by urban services in the future of MENA cities: “The political and constitutional changes witnessed by MENA countries are decisive and focus all attention, yet let us not forget that urban utilities also constitute critical challenges for the region, both on the short and on the long run.”

**11:00 AM – 01:30 PM. TAPPING INTO THE WORLD BANK KNOWLEDGE PRODUCTS. PRESENTATION OF SELECTED TOOLS FOR URBAN DECISION-MAKERS**

As MENA transforms, so does the World Bank approach, which aims to collaborate with a broader set of partners (and especially with municipalities) through a participatory and inclusive approach and to provide more flexible answers to the rising demands of central and local governments in the MENA region. Following the Marseille workshop, the Rabat conference aimed to advance the debate on the need for greater empowerment of municipalities and for effective municipal development by sharing tools for urban management and facilitating knowledge exchange on municipal finance.

**The World Bank Institute (WBI) Learning Program for Local Governments.** Rethinking the capacity building of local governments, WBI has recently developed a set of e-learning products on urban development, focusing on topics which appear very close to the heart of the key issues currently faced by the MENA region. As presented by Catherine Farvacque-Vitkovic (Lead Urban Specialist, WBIUR), WBI’s urban curriculum is organized around four key topics: (i) urban planning and land management; (ii) municipal finance and governance; (iii) efficient and inclusive service delivery; and (iv) public safety and resiliency. The Program on Municipal Finance is structured around a series of modules (financial management practices; improving revenue management; improving expenditure management; public asset management; external funding; municipal finance performance measurement). With the objective of helping local practitioners adapt their strategies to local contexts, the learning program also provides a framework for self-assessment.

**The World Bank as not only a generator of knowledge, but also a connector and catalyst for knowledge.** The World Bank has designed tools to facilitate connecting urbanization rates with a policy framework. This urbanization policy framework is part of a series of diagnostics and is reflected in a threefold system of cities analysis: (i) Planning (land management, long-term urban

44 See for more details the presentation by Catherine Farvacque-Vitkovic: http://community.cmimarseille.org/sites/default/files/presentationwbi_farvacque.pdf
development strategy); (ii) connecting (with jobs); and (iii) financing (how to pay for the infrastructure the city needs).\(^5\) Pushing this initiative further, the World Bank Sustainable Development Network Department has developed an online Urbanization Knowledge Platform\(^6\) (UKP) available to all. Building on global consultations and on an action network of partners, the UKP is a repository of knowledge about urban issues worldwide in the form of an information and data portal where urban policy-makers—such as mayors—can learn from best practices and international experiences to address challenges faced in their own context. Within the MENA UKP,\(^7\) these experiences become the thematic basis along which the platform is further populated with MENA specific data, experiences, and lessons learned, with the ultimate aim of transforming ideas into action. As a UKP partner, the Global Development Partnership Center, within the Korean Research Institute for Human Settlements (KRIHS), highlighted its contribution to building knowledge and populating the website through the organization of seminars focused on specific themes (e.g. land market infrastructure, green city).

**Developing capacity building through flexible and locally-adapted mechanisms.** During the debates, the participants unanimously emphasized the need to develop capacity building, notably through training and through the building of a community of knowledge among practitioners of urban development. As the examples taken by participants during the discussions directly put into perspective the specificities of each local context, the importance of adapting training to these contexts and providing flexible solutions was also reiterated, for urban development cannot be encouraged through standardized mechanisms. This does not mean that national/local experiences will not be relevant in other countries/regions, but rather that in order to leverage from these experiences, there is a need to take into account the specific configurations in which they are embedded and those to which they could (or could not) be adapted (e.g. regarding institutional framework, the balance of power between the different stakeholders, etc.). In particular, creating a platform in order to facilitate the flow and sharing of information is consistent with this need; successful practices cannot be copied and pasted but their dissemination can help finding solutions elsewhere.

**02.30 – 05:00 PM. FINANCING THE CITY OF TODAY AND TOMORROW: REVIEW OF CURRENT CHALLENGES AND FUTURE PRIORITIES**

**The need to develop comprehensive urban programs.** Although cities are engines of growth, their development faces many constraints (in terms of urban poverty, informal housing, under-employment, security, the rising share of youth in the urban population, etc.) which to some extent can appear as unsolvable. Indeed, many officials and elected representatives (including ministers and mayors) expressed the feeling that answering an urban issue can lead to replicating it, or even to worsening the situation (several participants took the example of slum upgrading projects, the implementation of which can encourage the development of informal settlements). The conference allowed for experts to raise awareness on the importance of developing integrated answers to what could appear as sectoral issues and for municipalities to shape strategic solutions at the city-scale rather than on a case-to-case basis.\(^8\)

\(^5\) The World Bank’s flagship report on Urbanization provides a framework for city leaders to think through the complex challenges that they need to resolve in order to prepare for and manage urbanization, “Planning, Connecting, and Financing Cities—Now: Priorities for City Leaders”, 2013

\(^6\) http://www.urbanknowledge.org/

\(^7\) http://www.urbanknowledge.org/mena.html

\(^8\) See in particular the presentation of Philip Van Rynveld on South African case, who shows how widely drawn municipal boundaries allow to facilitate redistribution within cities and to develop strategic answers at the most relevant scale of intervention:
**Insufficient financial resources.** Emphasizing a common lack of local financing, city officials discussed two major channels of municipal finance (i.e. state transfers and municipal taxes, as municipal borrowing, the third main channel of local financing, was to be discussed during a next session). Commenting on state transfers which often account for most of municipal resources, some participants insisted on their sometimes irregular or even “fictive” nature. However, examples like the Tunisian case suggest that massive public subsidies/transfers are counter-productive in the sense that they prevent ownership at the local level. Participants also discussed not only the limited scope of municipal taxes, but also the low capacity of municipalities to collect such taxes in an efficient way. As President of the Commission on Local Finance at the United Cities and Local Governments (UCLG), the Mayor of Rabat also insisted on the importance of the valuation of land resources, which could become an effective financing tool of urban development and urban management if used strategically.

**Box 2. Do municipalities use their resources optimally? A Guide by the Moroccan FEC**

The debates allowed for the Moroccan Municipal Equipment Fund (Fonds d’Equipement communal, FEC – see section below) to inform the audience about the existence of a Guide of Financial Self-Assessment Guide for Local Authorities (Guide d’autoévaluation financière des collectivités locales) the FEC published in 2009 in partnership with the French Agency for Development (AFD) and United Cities and Local Governments (among others). Designed to be used internationally, the guide includes an analysis of the internal and external environment of municipalities. Conceived with a similar objective as the WBI modules on Municipal Finance, it also provides tools for developing retrospective and prospective analyses to use investments on a multi-annual basis in the framework of a strategic project of urban development.

**The central State, a crucial role in encouraging urban development.** Even though the conference was focusing on local development, the debates pointed at the crucial role of central governments in coordinating national and sustainable development policies going beyond cities and linking different levels/scales of intervention. Calling for clearer governance frameworks, municipal officers recognized the importance of working with efficient and active deconcentrated levels of decision-making in order to shape comprehensive policies of urban development. Yet they also called for central governments to fulfill their responsibilities vis-à-vis decentralized authorities; for example, several mayors (especially from capital cities) expressed their concern regarding the fees imposed on municipalities by central states keen on building national libraries or museums, the maintenance of which is then ensured by municipal services without any financial compensation.

**Bringing the private sector in.** As underlined by several participants, ensuring sustainable urban development requires collective solutions, and urban management can only be successful if it is organized within a framework of partnership, not only at different scales (i.e. national, regional, local), but also between the public and the private sectors. Indeed, by themselves, governments cannot meet imperatives such as the funding of major infrastructure or the necessary specialization of their staff on technical issues, etc. Several kinds of public-private partnerships were evoked, but participants insisted on the importance of good upstream preparation and strong project support/framing by public actors for this cooperation to be efficient and well-balanced.

http://community.cmimarseille.org/sites/default/files/some_ideas_from_south_africa_mena_conference_rabat_18_march_0.pdf
DAY 2
09:00 – 11:00 AM. MUNICIPAL DEVELOPMENT FUNDS: SHARING LESSONS LEARNED FROM OTHER COUNTRIES

As underlined by Rajivan Krishnaswamy in his presentation on India, nine common conditions appear necessary to allow for municipal borrowing: (i) a legal framework which clearly sets the rules enabling municipal borrowing; (ii) a stable decentralization framework guaranteeing stable resources for municipalities; (iii) solid investments projects ensuring returns on investment; and (iv) limited interest rates.

Presenting successful international experiences. The conference showcased the examples of the Municipal Development Fund in Georgia, as well as that of Findeter (Financiera del Desarrollo Territorial) in Colombia, in order to demonstrate how a market response to municipal borrowing can be successfully initiated, and to learn from international practices that could be of relevance for the MENA practitioners and decision makers. Indeed, these two institutions have proved able to address the dearth of long-term finance for local infrastructure through linking municipalities to the private sector (operating through the banking sector as “second-tier” lenders).

Municipal funds/banks in the MENA region: diverse institutional arrangements. The conference also brought together officials from four municipal banks/funds of the MENA region: the Caisse de Prêts et de Soutien aux Collectivités Locales (CPSCL) in Tunisia, FEC in Morocco, the Municipal Development and Lending Fund of the Palestinian Authority, and the Cities and Villages Development Bank in Jordan. The presentation of the missions of each institution allowed for demonstration of the diversity of institutional arrangements; the Moroccan FEC can be considered as a public development bank (which only grants loans to municipalities, resorting to private banks or investment funds on the national market to finance their investments), while the Tunisian CPSCL redistributes almost exclusively State subsidies to municipalities. As for the Jordanian Cities and Villages Development Bank, it also provides capacity building to municipalities (especially in terms of financial management of development projects).

Box 3. Encouraging the exchange of best practices between MENA municipal banks/funds

FEC was the first institution from an Arab country to join the International Center for Local Credit, which brings together banks specialized in financing the local public sector. This allows FEC to benefit from a platform of exchanges on best practices in financing the local public sector. Karim Mansouri, General Director of FEC, suggested creating an exchange group among MENA municipal banks/funds on a similar model.

Reinforcing municipal accountability: a key challenge for municipal finance. Because of insufficient financial (as well as human, technical, etc.) resources, municipalities are often considered inefficient institutions in the MENA region by the population and by the private sector. This lack of legitimacy has a negative impact on tax recovery, as citizens sometimes feel entitled not to pay their taxes to a local authority which has not answered their expectations (and sometimes their most basic needs). Truly, a significant proportion of the urban poor are

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10 See the presentation of Elguja Khokrishvili on the Municipal Development Fund of Georgia (http://community.cmimarseille.org/sites/default/files/df_gorgia_presentation.pdf) and that of XXX on Findeter (http://community.cmimarseille.org/sites/default/files/findeter_colombia_presentacion_.pdf).
financially unable to pay their share of local taxes. Thus, improving municipal resources through additional local taxes might prove inefficient, as part of the taxpayers might not be able to pay. Throughout the conference, the question of increasing tax efficiency was largely debated. For example, several participants highlighted the importance of clearly explaining what use a municipality intends to have for each local tax in order to gain taxpayers’ confidence and for the population to better identify the link between taxes and public investment in infrastructure, basic services, and other matters of general interest. Whereas Egyptian municipalities cannot allocate the resources of local taxes to specific expenditures, some experiments on specific projects for sewerage systems proved the population can accept to financially participate to the building of urban services.

11:00 AM – 1:30 PM. WRAP-UP SESSIONS: WHAT NEXT STEPS FOR THE UKP?

“City is life.”

Cities are at the heart and soul of citizens’ lives. Municipalities must accompany them in each step of their lives, ensuring a high quality of services ranging from urban transport to access to basic services, education, health, employment, and civic participation. Cities are the future, and cities need to be anchored in the World Bank strategy through a cross-cutting approach that takes into account all the dimensions of urban development.

Dire need to learn from each other. Participants raised the need for more efficient tools to mobilize finance to benefit the municipalities. H.E. Mr. Fathallah Oualalou suggested that the World Bank design an impact evaluation indicator in order to assess municipal funds’ efficiency and the achievement of their primary objectives. In so doing, MENA cities need to learn from international experiences and to hear from other best practices, such as the participative budget approach developed by Brazil. Furthermore, peer-to-peer exchanges are critical to enhance past experiences and highlight successful approaches. The challenges, such as municipal staff training and human resources capacity building to better manage urban policies and respond to citizens’ needs, are numerous and should be the subject of continuous debates. Donors’ efforts to coordinate have to be pursued and collaboration could be cemented by defining a common strategy to be shared between political and financial tools. In this sense, the World Bank could play an instrumental role and should partner with regional institutions, such as AUDI or the Local Finance Commission of UCLG, and explore synergies to be created, specifically during the next UCLG annual conference to be held in Rabat in October 2013.

Targeted World Bank responses. Through the facilitation of such dialogues, the World Bank, already active in most of the MENA countries, is committed to pursuing these exchanges of experiences and scaling up efforts. Moving beyond these interactions and debates, Franck Bousquet reiterated the World Bank’s commitment to engaging further with its clients, especially by implementing tangible outputs. Building on the priorities which emerged from the surveys and maintaining this momentum, its strategy is to develop an integrated action plan, in order to both provide targeted responses to participants’ topics of interest and to close the identified knowledge gaps. Therefore, this strategy would integrate the following components: (i) partnering with WBI on a learning program with municipalities; (ii) sharing knowledge through the Urbanization Knowledge Platform, including the CMI e-community, and making it available to all; and (iii) establishing a community of practice that is nourished by peer-to-peer exchanges. The Palestinian Minister of Local Government, H.E. Dr. Khaled Al-Qawasmi, supported the initiative and welcomed future events. The Bank will also explore how to link knowledge to operations and promote concrete projects with Mediterranean cities.

11 Quoted by Mr. Fathallah Oualalou, Mayor of Rabat