

**Regional Joint Work Programme in the MENA region**

The primary objective of this Joint Work Programme (JWP) is to strengthen the process of democratisation through inclusive city governance supported by enabling national frameworks in selected partner countries of the Mena Region. This JWP provides a vehicle for coordination and pooling of the experiences, resources and implementation capacity of the CA members active in the region. A set of principles is guiding the JWP:

1. The Joint Work Programme responds to demand from cities and countries in the region and establish a continued dialogue with partner institutions;
2. All activities undertaken under this programme explicitly seek to engage, involve and empower national, regional and local partners from the region;
3. Wherever possible, the joint work programme utilizes and builds upon the resources and existing or planned activities by Cities Alliance members and partners;
4. In order to leverage a greater impact, joint activities may not replace than add value to members and partner operations (Principle of Additionality),
5. The Joint Work Programme will be collectively managed and administered by the Secretariats of the Cities Alliance and the Centre for Mediterranean Integration (CMI).

Against this background, any outputs and deliverables funded and produced by the JWP shall be made available to and can be used by JWP members.

**1.) Name of Activity:**

Tunisia - Municipal Finance and local Fiscal Study

**2.) JWP Members and/or JWP Country Implementation Partners:**

|  |  |
| --- | --- |
| **JWP Member** | **JWP Country Implementation Partner** |
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**3.) Grant Recipient:**

The World Bank

**4.) Expected Duration:**

Eight months

**5.) Geographic Scope:**

Nationwide activity

**6.) Budget Summary:**

* Amount of total budget requested from Cities Alliance funding: USD $100,000
* Co-financing amount of total budget, including local partners: n/a
* Total project budget cost: USD $100,000

**7.) Target Audience(s):**

The target audience includes:

* Ministries involved in urban planning and municipal infrastructure in Tunisia-and their dedicated agencies- including the Ministry of Regional Development and Planning, and the Ministry of Interior via the Municipal Development Fund *(Caisse des Prêts et de Soutien aux* *Collectivités Locales- CPSCL)*, and the General Directorate for Municipal Development *(Direction Générale des Collectivités Locales- DGCPL)*, and Ministry of Finance.
* Tunisian municipalities
* Multi and bilateral donors community
* Bank sector and country management units

**8.) Background**

Tunisian municipalities have always been suffering from weak and inadequate resources. Just before the revolution, the ratio of municipal resources to central resources was estimated at 4% and was on a declining trend, which is a lower performance than in many Sub-Saharan countries. The January Revolution has lead to a consequential disorganization of tax management. Particularly, the current situation is characterized by an absence of fiscal discipline with two major developments: (i) a complete collapse of local revenues; and (ii) an exceptional one-time-only doubling of total government transfers from 147MD to 294MD supported by various donors.

The municipalities’ financial situation has been gradually deteriorating, for several combined reasons:

***The stagnation of tax revenues*:** This is despite registering a 6% increase in revenues on average over the period 1999-2005, and a slightly higher rate since 2005, due to several factors: a one-time impact of the 2006 fiscal amnesty; the increase of the tax base subsequent to completion of the census in 2007; changes to the fiscal rates and/or base implemented in 2007; and efforts aimed at improving local tax collections in the face of serious municipal financial difficulties and loan/debt payment arrears. Stagnation of municipal revenues is coupled with a falling behind on expenditures needed for new investments as well as maintenance and operation of existing infrastructure. It important to note that prior to January Revolution, the tax collection was faulty and neither the State’s tax administration nor the municipalities were really committed to improve it.

***An inappropriate system of intergovernmental fiscal transfers, which is currently functioning according to a complex formula, and has thus far been biased towards richer municipalities.*** Transfers from the state budget are administered via the Common Fund for Local Communities or FCCL (*Fonds Commun des Collectivités locales)* and theyhave declined as a share of total municipal expenditures, from 45 % in 1989 to 35% in 1998, and further down to 25 % in 2008. The formula used for direct transfers to municipalities is complex, is fixed by decree and has not evolved much since 1995. It includes four criteria: (a) 10% - Fixed amount for each municipality, (b) 45% - Population, (c) 41% - TIB collection, and (d) 4% - equalization[[1]](#footnote-1). The use of this system benefited mostly to cities with large fiscal potential, hence penalizing poorer municipalities.

***Increasing indebtedness of municipalities, due to an excessive investment policy, imposing investment plans drawn up without consideration of their creditworthiness.*** At present, the total debt at the local level has reached 167 M TD, and, before the revolution, about half of municipalities were unable to face both their running costs and the reimbursement of their loans. Municipal investment programs defined through the 5-year Communal Investment Programs (PIC - *Programme d’Investissement Communal*) are in effect “imposed” on municipalities, with their financing split between municipal and state shares and loans from CPSCL. This system is characterized by excessive centralization and control, the rigidity and the cumbersomeness of administrative procedures, and the central authorities’ reluctance to give the means of a minimal autonomy to the local governments. Furthermore, as the only lender to municipalities, the CPSCL’s approach to issuing loans was to ensure a general authorization of municipalities to borrow for financing their communal investment plan irrespective of their financial situation and creditworthiness.

***Municipalities have not been incentivized for efficiencies in their revenues and expenditure management.*** There has not been a direct cost to municipalities for their poor loan and debt payment records, given that arrears have been rescheduled without addition of any interest penalties, and loans sometimes completely forgiven. For example, at the National Conference of Municipalities in 2007, it was decided that municipal arrears to public enterprises as of 2005 would be paid in installments over 10 years, without interest. And only the most financially vulnerable have been removed from access to CPSCL credit, pending implementation of their budget restructuring programs and return to sound financial ratios.

Finally, all previous studies showed that most of the municipalities have fiscal potential resources, generally under exploited, though they are computerized and many tools have been provided to improve their financial management. It thus appears possible to aim at ambitious goals for an appropriate reform of municipal financesthat could potentially serve as good practice to the region at large.

**9.) Activity Objective(s):**

The main purpose of the proposed activity is to present a set of reforms aiming at sustainably enabling the municipalities to mobilize the necessary resources for performing efficiently needed services to the population and for financing investments and development projects.

**10.) Expected Outcomes:**

* Advance the policy dialogue to provide inputs for the reform of the sector towards : a) Increasing the performance of the municipal tax system: strengthening registration of tax payers, revising tax bases and improving tax collection; b) Revising the system of intergovernmental fiscal transfers 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; c) studying scenarios of evolution of the Caisse des Prets et des Collectivities Locales (CPSCL) , which is the main Municipal development Fund and d) Providing several consistent options for the reform of the municipal finances’ framework.
* Inform future urban operations to implement the reform program of the government.

**11.) Main Activities/ Tasks and Outputs/Deliverables– for each Implementation Partner:**

Each activity and task will be implemented based on partnership arrangements as follows:

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| --- | --- | --- |
| **ACTIVITIES / TASKS** | **OUTPUTS/DELIVERABLES** | **JWP MEMBER and/or JWP COUNTRY IMPLEMENTATION PARTNER** |
| Task 1:  Based on the existing results of previous studies related to local finances, assessment of the difficulties faced by Tunisian municipalities in mobilizing revenues from their tax base (including enumerating the type and number of administered taxes, the breadth of the tax base and whether administered taxes are efficiently captured) | Report 1:  Diagnosis and analysis of the current fiscal and financial situation of Tunisian municipalities | WB/AFD |
| Task 2:  Proposal of a typology of municipalities and specific evaluation of the difficultiesencountered by each type of municipalities |
| Task 3:  An evaluation of the formula used to administer intergovernmental fiscal transfers in Tunisia and its consequences on the distribution of central resources across municipalities, with a particular attention to the municipalities lacking sufficient tax bases. |
| Task 4:  The drawing up of different scenarios of reforms to fill the gap between actual and potential tax revenues, and to propose different formulas to reorganize intergovernmental fiscal transfers in a more equitable and more stimulating way, including options of CPSCL evolution | Report 2:  Scenario of reforms at short, medium and long term to propose to national stakeholders | WB/AFD |
| Task 5 :  Deepening of validated scenario of reforms at short, medium and long term to improve local finances (tax, bank sector and transfer from the State) and to allow the adjustment of the municipal finances’ framework to the institutional framework of decentralization, when defined. | Report 3:  Improvement of reforms at short, medium and long term and implementation action plan | WB/AFD |
| Task 6:  Dissemination activity to share findings and validate proposed action plan | 3 day workshops (one at each stage of the study progress) | JWP members and national stakeholders |

**13.) How could the project outputs/deliverables be used by other JWP members?**

In the centralized context of the MENA region where financial resources are mobilized at the national level for top-down investment programs, many MENA cities face similar challenges in efficiently extracting resources from their tax base as well as negotiating well targeted intergovernmental fiscal transfers to finance investments within their jurisdictions. As such, recommendations and proposed policies emanating from this study may be used as pilots in other contexts and are very relevant to several MENA cities/JWP members. The Bank has a solid track record of good cooperation with other donors and agencies in Tunisia and works notably in close cooperation with the Agence Francaise de Developpement (AFD) in the urban sector.

**14.) How do project activities consider gender issues?**

Project activities do not consider gender issues.

**15.) Timeframe and Activity Plan Summary**

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Activities** | **2012** | | | **2013** | | | | **2014** |
| **2 Q** | **3 Q** | **4 Q** | **1 Q** | **2 Q** | **3 Q** | **4Q** | **1Q** |
| **Output 1** | | | | | | | | |
| Report 1 |  | **X** |  |  |  |  |  |  |
| **Output 2** | | | | | | | | |
| Report 2 |  |  | **X** |  |  |  |  |  |
| Report 3 |  |  |  | **X** |  |  |  |  |
| **Output 3** | | | | | | | | |
| Dissemination workshop |  |  |  |  | **X** |  |  |  |

**16.) CA Funding By Activity**

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| --- | --- | --- | --- | --- | --- |
| **Project Activities and Tasks** | **Total**  **(US$)** | **Type of Expenditure** | | | |
| **Consulting Services**  **(US$)** | **Training/ Capacity Building**  **(US$)** | **Dissemination Costs**  **(US$)** | **Other**  **(US$)** |
|  |  |  |  |  |  |
| Task 1:  An assessment of the difficulties faced by the Tunisian municipalities in mobilizing revenues from their tax base | 20,000 | 15,000 |  |  | 5,000  (Bank staff : 2K ; travel expenses: 3K) |
| Task 2:  A specific evaluation of the difficultiesencountered by the municipalities which lack sufficient tax bases and are apparently financially non viable. | 20,000 | 15,000 |  |  | 5,000  (Bank staff : 2K ; travel expenses: 3K) |
| Task 3:  An evaluation of the formula used to administer intergovernmental fiscal | 15,000 | 10,000 |  |  | 5,000  (Bank staff : 2K ; travel expenses: 3 K) |
| Task 4:  The drawing up of different scenarios of reforms | 20,000 | 15,000 |  |  | 5,000  (Bank staff : 2K ; travel expenses: 3K) |
| Task 5:  Improvement of validated scenario regarding decentralization orientations | 10,000 | 10,000 |  |  |  |
| Task 6:  Dissemination workshop | 15,000 |  | 10,000 |  |  |
| **TOTAL – Partner CA Activity Budget** | **US$**  **100,000** |  |  |  |  |

**17.) Co-Financing:** Not Applicable

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| --- | --- |
| **Co-financing Source** | **Amount (***US Dollars)* |
|  |  |
|  |  |
| **TOTAL** |  |

**16.) Costing assumption:**

(For Consultancy budget, specify the number of consultants, fee rate and number of days, and travel and subsistence costs. For training /workshop, the number of events. For Dissemination and other costs, detail the proposed costs).

|  |  |
| --- | --- |
| **Detailed activity/task** | **Amount (***US Dollars)* |
| **Consultancy fees**  Number of Consultants: 3  Daily Rate: USD 700-800  Number of days: 100-120 | Total amount: 80,000 |
| **Dissemination workshop**  Number of events: 3 | 10,000 |

1. Hammami, 2005. [↑](#footnote-ref-1)