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Centralization, Decentralization, and Conflict in the Middle East and North Africa

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Abstract

This paper examines broadly the intergovernmental structure in the Middle East and North Africa region, which has one of the most centralized government structures in the world. The authors address the reasons behind this centralized structure by looking first at the history behind the tax systems of the region. They review the Ottoman taxation system, which has been predominantly influential as a model, and discuss its impact on current government structure. They also discuss the current intergovernmental structure by examining the type and degree of decentralization in five countries representative of the region: Egypt, Iran, West Bank/Gaza, Tunisia, and Yemen. Cross-country regression analysis using panel data for a broader set of countries leads to better understanding of the factors behind heavy centralization in the region. The findings show that external conflicts constitute a major roadblock to decentralization in the region.

Centralization, Decentralization, and Conflict in the Middle East and North Africa

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Centralization, Democracy, and Conflict in the Middle East and North Africa

1. Introduction

There have been significant decentralization efforts in developing countries in recent decades. These efforts led to an extensive literature on the causes and consequences of both centralization and decentralization. In this paper, we examine decentralization and intergovernmental relations in the Middle East and North Africa (MENA), a region that has lagged behind other developing regions in decentralization.

The MENA region has unique socio-economic and political characteristics. First, there is economic dependency on oil revenues particularly in Gulf Cooperation Council (GCC) countries. Second, the MENA region has one of the highest population growth rates in the world. This demographic explosion has led to young population structures throughout the region. Third, the region has been impacted by both internal and external conflicts that have affected economic performance of the countries.

Despite these good reasons to study government structure in the MENA, there is surprisingly sparse literature on the region. While recent studies followed a comparative perspective and showed similarities and differences between the decentralization efforts in a variety of developing countries, the MENA countries are left out of those comparisons (Bardhan and Mookherjee, 2006). This is mainly due to lack of appropriate data and information on decentralization in the countries of the region. Our goal in this paper is to combine descriptive and empirical analyses to provide a comprehensive picture of decentralization and the reasons behind its slow progress. We also discuss some reform options.

The paper is structured as follows. In the next section we look at the history of decentralization and centralization in the region by examining the taxation system of the Ottoman Empire. We provide a comparative description of the intergovernmental structure in five MENA countries, Iran, Egypt, Tunisia, West Bank/Gaza and Yemen in Section 3. In Section 4 we explore the determinants of centralization and decentralization in the region in a regression analysis. We discuss the intergovernmental reform options in the final section.

2. Centralization in the MENA Countries: A Historical Perspective

MENA countries have relatively more centralized government structures compared to other developing countries. It is argued that many MENA countries have based their government organization on the administration structure of the Ottoman Empire.

2.1. Ottoman Taxation System

Overall, the Ottoman taxation was a centralized system of taxation. Lewis (1979) argues that Ottoman taxation included elements from Islamic taxation as well as from taxation law and practices of Roman, Byzantine, Mongolian, Turkish and pre-Islamic Persian civilizations. Cosgel (2005) examines the evolution of the tax system in the Ottoman Empire as a clash between competition and rigidity in institutions. For example he argues that while the Ottomans changed the tax system in the conquered lands to collect revenue in the most efficient way, they were faced with local institutional constraints. Hence, this explained the substantial regional variation in taxes throughout the empire.

Lewis also asserts that Ottoman tax administration changed from a relatively decentralized system with strong center to a weaker but more centralized system. This change started around the end of the sixteenth century. There had been a consolidation of tax collection after the sixteenth century, particularly during the eighteenth and nineteenth centuries.[1] While many argue that this coincides with the stagnation and decline in the Empire, Barkey (2008) argues that this "adaptation was a sign of flexibility and pragmatism, not a sign of decline."[2] In places such as Egypt more government centralization took place in accordance with heavier European influence (Hanna, 1995). In this centralization trend, we see a change from the *Timar* system (strong center with decentralized military expenditures) to *Iltizam* or Tax-farming system (weaker center with more centralization of military and more decentralization of other government services at the province level) towards the end of the sixteenth century. *Timar* is a land-tenure system where the land was allocated to *Sipahis* (feudal cavalry) in return for military service in Ottoman provinces (Barkey, 1994: 36).[3] In the *Iltizam* system the state receives an initial monetary sum from private interests in return for rights to collect taxes (Barkey, 2008: 229). Some of the reasons for the system change from *Timar* to *Iltizam* were: *Sipahi* cavalry becoming less important due to introduction of new war technologies, higher demand for full-time regular troops, changing patterns of trade, influx of Spanish silver from America and subsequent inflation leading to a sharp

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[1] See Barkey (2008, Part 2) and Inalcik (1977) for excellent accounts of transformation in the Ottoman administration towards centralization in the eighteenth and nineteenth centuries.

[2] Barkey, *Empire of Difference: The Ottomans in Comparative Perspective*, 194.

[3] Inalcik (1994: 114-118) gives a detailed description of the Ottoman *Timar* system. As Inalcik notes, an interesting characteristic of the Ottoman *Timar* system was "the lack of inheritance rights on land and the frequent dismissal from *timars*" (Inalcik, 1994: 115). With the *Timar* system, Ottoman state was able to maintain provincial armies without direct centralized expenditures. In addition, the lack of inheritance rights prevented *timar* holders from forming land-based hereditary nobility that could become a threat to the central authority.

decrease in real income (Lewis 1979, Barkey 1994). Barkey (1994) argues that Ottoman state was able to overcome (global) economic distress without any significant rebellions throughout the empire. She explains that this was mainly due to success of the state in aligning officials at different levels of government with the objectives and success of the central government. Similarly, Hess (1977) describes what can be called Ottoman central administration's success in keeping the North African provinces of the empire in the midst of decentralization in the eighteenth century.

There have been few sporadic efforts to change the centralized government structure in the Ottoman Empire. For example, Saliba (1978) explains in detail efforts and achievements of Midhat Pasha to decentralize political and fiscal powers when he served as Governor of the Syrian province. Such efforts faced strong opposition from the central government in Istanbul and were mainly approached with suspicion as the Empire was experiencing significant loss of territories. Reform efforts during the Tanzimat or Reorganization period in the nineteenth century aimed at creating a more centralized government structure (Ortayli, 2006). This was thought to be a way to save the Empire from total collapse.

McLure (2001) argues that tax assignment over different levels of government depends on history, and has been subject to change through economic evolution. Hence, he asserts there is no one-size-fits-all formula for tax assignment. Cosgel and Miceli (2005) examine the tax assignment in the Ottoman Empire in the mid-sixteenth century. They provide evidence that the tax assignment was done according to a transaction cost hypothesis rather than risk hypothesis. They classify taxes into categories of fixed and variable taxes. Fixed taxes category includes personal taxes based on marital and

economic status, input taxes based on production inputs such as land, trees and animals, and enterprise taxes. These taxes are thought to be less risky due to absence of factors that would cause variation and they also have lower transaction costs. Variable taxes category includes trade taxes from market exchange of goods in towns and output taxes such as taxes on grains, legumes and fibers. These taxes are riskier due to high variability and also carry greater transaction costs for the same reason. Using data from Ottoman tax registers (tahrir defterleri) the authors conduct an ordered probit analysis for the influences on tax assignments and find that the proportion of variable taxes are negatively associated with the higher levels of government lending support to the transaction cost hypothesis which asserts that variable taxes can be more efficiently collected at the local level due to lower transaction costs. The key underlying assumption here is that transaction costs are higher for higher levels of government. The authors conclude that transaction costs were more important in tax assignment in the Ottoman Empire. However, they do not model fixed taxes specifically.

In summary, we see that the taxation system was not as centralized in the early period (until the end of the sixteenth century) of the Ottoman Empire as it was in the later period. Centralization gained momentum particularly during the Tanzimat (Reorganization) period in the nineteenth century when the empire was declining rapidly and consolidation of power at the center was seen as a solution to prevent total collapse. Centralization that started in the sixteenth century is, by no means, unique to the Ottoman Empire. In fact, Europe started its transformation from small, decentralized city-states to large and centralized territorial states at the end of the fifteenth century.[4] It was also

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[4] Alesina and Spolaore (2003) note that French invasion of Italy in 1494 marks the beginning of the period of absolutism in Europe. They argue that main reasons behind the centralization trend were the need for

argued that European influence in the Middle East and North Africa fueled more government centralization (Hanna, 1995). Aside from few courageous attempts at decentralization, the region inherited a heavily centralized system of taxation and public administration from the Ottoman Empire and other European States.

3. Comparison of Intergovernmental Structure in Selected MENA Countries

In this section, we examine the intergovernmental structure in a selected number of MENA countries to demonstrate the centralized features of local government systems in the region. Our selection includes five countries representing both Maghreb and Mashreq regions. These are Egypt, Iran, Tunisia, West Bank/Gaza and Yemen. The central government in these countries is the senior partner in the intergovernmental relationship. The share of subnational expenditures in GDP is very low compared to OECD average of 17 percent[5] (see Table 1). In many countries in the MENA region, such as Yemen and Iran, a large share of the expenditures is disbursed through subnational governments that act as agents of central government ministries and departments. In these countries locally elected representatives have little decision-making power over expenditures.

3.1. Deconcentration and Decentralization in MENA

Overall, local government systems in the MENA region can be characterized as a form of deconcentration rather than one of devolved local self-government. In general, the public administration system is highly centralized, equipped with an elaborate system of deconcentrated field offices of line agencies. Decisions for the most part, especially

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institutions and larger domestic markets caused by growing economies in Europe, and rising costs of war and public administration.
[5] http://siteresources.worldbank.org/INTDSRE/Resources/WBFDISummaryNote17Aug2004.doc

service delivery decisions, are made by the central government and the role of subnational authorities is largely confined to carrying these out.

In the region, the general trend is to have two distinct types of local government units: deconcentrated and decentralized (municipal) units (See Table 2). The operations of these two types of local governments are subject to totally different rules. In all countries, the deconcentrated units of the central government provide a big chunk of public services, including health and education, under strict guidance of the central government. Whereas, decentralized units (generally municipalities) perform limited number of functions such as street paving and maintenance, construction of local roads, street lighting, garbage collection, library and park services, and issuing permits for constructions.

Table 2 shows that our five selection countries differ in their deconcentrated systems. While West Bank/Gaza and Tunisia have only provincial or governorate level governments, Iran, Yemen and Egypt have a variety of sub-provincial level governments. In all five countries, the central government and/or the President appoint the heads of provincial governments. On the other hand, elected officials in all of them, except Egypt, run municipalities. In Iran, representation of people is partial and indirect. First, there is involvement of the Ministry of Interior (MOI) in both urban and rural municipalities. Second, people elect city or village councils that in turn appoint mayors jointly with the MOI.

3.2. Expenditure Assignment

Although the degree of centralization differs among MENA countries, they generally have heavily centralized expenditure and revenue systems. In almost all

countries in the MENA region the assignment of expenditure responsibilities between central and local governments does not conform to generally accepted principles for setting the right incentives for efficient and equitable delivery of public services. In contrast, intergovernmental expenditure responsibilities have been assigned largely according to static bureaucratic and administrative considerations.

In the region, subnational deconcentrated governments have a very limited number of "own" responsibilities. Most of the local expenditure responsibilities can be classified as "delegated" expenditures as opposed to "own" expenditure responsibilities.[6] Central government ministries make decisions on most services that are traditionally provided by local governments in other countries (See Table 3).

Table 3 shows the expenditure assignments in five MENA countries and also includes the worldwide practice. Expenditure assignments are indicated as central government (C), provincial government (P), and municipal government (M). Assignments are shown for Social Services, Transportation, Utility Services and Other Services, and are also broken down by Macro Policy and Oversight, Financing, and Provision. MENA countries have significantly more centralized expenditure functions compared to the worldwide practice. To compare MENA countries among themselves, we assigned points to central, provincial and municipal government involvement in expenditures. Accordingly, we assigned 1 point to C, 2 points to P and 3 points to M.[7] Total expenditure assignment scores and average scores are listed in Table 4. The average

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[6] Delegated responsibilities are those transferred to the deconcentrated branch units of the central government for delivery of services while the actual decisions on budgeting and financing are carried out at the central level. Some of the delegated responsibilities, such as primary education, health, and public security have high local public good characteristics and in many countries are not delivered by locally elected governments.

[7] In addition we assigned 1.5 points to C, P; 2.5 points to P, M and 2 points to C, P, M. We gave 1 instead of 0 to central government assignments since the worldwide practice shows that some central government involvement is probably desirable to facilitate decentralization.

scores for countries across government services and government involvement show that West Bank/Gaza has the most decentralized expenditure system among the group followed, in order, by Egypt, Iran, Tunisia and Yemen.

3.3. Revenue Assignment

Table 5 shows revenue assignment characteristics in the region. West Bank/Gaza is the only country with a truly decentralized revenue system. However, municipal revenue autonomy in West Bank and Gaza is not something granted by the laws. Due to the circumstances, municipalities invent their own ways of raising revenues and they often find ways of rationalizing such practices (World Bank, 2006).

Other than West Bank/Gaza, all other countries in the region have largely an ad-hoc local revenue system. The only exception might be property tax system in Iran. We see a glimpse of autonomy in land-based taxation in Iran.

3.4. Intergovernmental Transfer Characteristics

Table 6 shows that allocation rules for transfers to local governments are also mainly ad-hoc, except in Tunisia and West Bank/Gaza. In both countries, the transfer system is based on a formula. In West Bank and Gaza municipalities have been historically less dependent on central government transfers compared to other countries in the region. Both due to historical reasons and current political and security problems, West Bank and Gaza municipalities rely little on central government transfers in providing services. In fact, this situation has not been affected significantly by the Intifada period, as there is no difference today in the amount of central government

transfers as a share of total local revenues, which remains constant at about 5 percent[8] (World Bank, 2006).

3.5. Discussion

In this section, we presented an overview of the deconcentration and decentralization systems in selected MENA countries and compared these countries in terms of three important aspect of decentralization: expenditure assignment, revenue assignment and intergovernmental transfers. We also compared these countries to the worldwide practice in expenditure assignments. First, we see a good potential for a rich deconcentrated and decentralized government structure in MENA countries. Most of the countries analyzed have a good number of lower tier governments such as governorates, districts and a variety of municipalities (e.g. 1000 urban municipalities and 68,000 rural municipalities in Iran). Second, MENA countries are significantly behind the worldwide practice in decentralization regarding expenditure assignments. We see in Table 4 that this is particularly true in social services, which is one of the most important government expenditures that directly affect the welfare of residents. Third, West Bank/Gaza seems to have the greatest degree of decentralization from the perspective of both expenditure and revenue assignments. Among the countries analyzed, West Bank/Gaza gives the greatest autonomy to its local governments. While this highlights West Bank/Gaza as an interesting case to consider for other countries in the region, one should approach the decentralization efforts cautiously as the observed decentralization seems to spring from special political and security circumstances of that country. Finally, there is need for improvement in intergovernmental relations in MENA countries. Intergovernmental transfer rules are largely ad-hoc. Our comparative analysis leads us to conclude that

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[8] This is the average figure for West Bank and Gaza municipalities in the Intifada period.

MENA countries have highly centralized government fiscal structures. This is despite our observation that there is a potentially rich deconcentrated and decentralized government systems. In the next section, we will examine the reasons behind this heavy centralization using different regression analyses.

4. Determinants of Centralization and Decentralization

4.1. Measurement Issues and Review of the Literature

Decentralization is difficult to measure. Despite the popularity of decentralization as a research topic in recent literature, there are serious problems with the measurement of decentralization. Ebel and Yilmaz (2003) note that this is mainly due to data imperfections, particularly in the IMF's Government Finance Statistics (GFS). Problems with data availability and quality get worse in the case of the MENA countries. Hence an empirical investigation of decentralization in the MENA region is difficult due to aforementioned data problems. As so many other studies did before us, we started with data from the GFS. We have realized however that data on conventional fiscal decentralization measures such as share of local governments in total government expenditures or revenues are simply nonexistent. That left us with using data on total central government expenditures relative to an economic base such as gross domestic product (GDP). Thus, we first used total budgetary central government expenditures as share of GDP of the country. While this measure captures mainly the size of the central government, it will also be closely related to the degree of delegation of central government powers to lower levels of government. A reduction in the size of the central government could be one avenue for decentralization. Indeed, we get a negative correlation (-0.47) between the share of local government spending in GDP for the

countries shown in the first column of Table 1 and the average share of central government expenditures from our panel dataset. In the absence of better government finance data on fiscal decentralization, we use central government expenditures to get a feel for the weight of central government in economic activity.

We also use a non-financial measure of decentralization, which is derived from the World Bank's Database of Political Institutions (DPI). This decentralization indicator is created by taking the sum of three other indicator variables from DPI for local elections in municipal governments (Muni), local elections in state/province governments (State) and authority over taxing, spending or legislating in state/provinces (Author).[9] Hence, higher numbers in our decentralization indicator mean greater degree of decentralization.

There is considerable literature on the effects of fiscal decentralization on economic growth. Determinants of fiscal decentralization received less attention. Two recent papers provide theory and empirical evidence on the determinants of the decentralization process in a wide variety of countries. Panizza (1999) builds on the work by Alesina and Spolaore (1997) on the number and size of nations by introducing different levels of government. Panizza's theoretical model shows negative correlations between fiscal centralization and country size, income per capita, taste differentiation and level of democracy. He finds empirical evidence supporting these theoretical correlations. Panizza also compares his results to two other cross-sectional or panel studies by Oates (1972) and Wallis and Oates (1988) and finds similarities particularly in regards to country size and income per capita. Arzaghi and Henderson (2005) examine the determinants of fiscal decentralization using panel data on 48 countries over the period

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[9] Muni, State and Author are the names used in DPI under the sub-heading "Federalism." See Beck *et al.* (2001) and Keefer (2007) for detailed descriptions of these variables. Higher numbers indicate greater degree of federalism, and thus decentralization of central government authority.

1960 to 1995. They show that the Middle East and North Africa region has the highest share of central government and the lowest federalism index.[10] They also show that the Middle East and North Africa lags behind all other regions in the democracy index. Arzaghi and Henderson follow Panizza's approach to model decentralization first and then empirically test hypotheses derived from the theoretical model. Their empirical findings mainly confirm previous findings on the determinants of decentralization (or centralization). They find that past colonial experience and initial constitutional provisions matter in the decentralization process.

4.2. Empirical Analysis

We are using an unbalanced panel for fourteen countries with a study period broadly from 1975 to 2004.[11] As mentioned above, we are examining centralization and decentralization in MENA in two parts. In the first set of regressions we use total budgetary central government expenditures as share of GDP as our dependent variable, which we see as a rough indicator of centralization. To address the shortcomings of this variable as a measure of centralization (or decentralization), we run a second set of regressions with a decentralization indicator derived from DPI as the dependent variable.

Given our key dependent variable measuring degrees of decentralization, which is thus inherently ordered, our second set of regressions are based on the probabilistic ordinal dependent variable regression model of the Logit type

$$P\left(Y = j \,|\, X\right) = \Lambda\left(\mu_j - \beta' X\right) - \Lambda\left(\mu_{j-1} - \beta' X\right),$$

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[10] Their evidence on MENA is based on only few countries in the region due to problems with available data on fiscal decentralization.

[11] These fourteen countries are Bahrain, Djibouti, Egypt, Iran, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Saudi Arabia, Syria, Tunisia and Yemen. We had to reduce our sample to nine countries in the regressions with central government expenditures due to lack of government expenditure data for Djibouti, Lebanon, Libya, Saudi Arabia and Yemen.

where $P(Y = j|X)$ is the probability of observing $j \in \{0,..,J\}$ outcome of the dependent variable Y conditional on the vector X of individual country characteristics, Λ is the standard logistic distribution function, and β is the vector of regression coefficients to be estimated by the Maximum Likelihood method. Denoting Y^* the latent variable driving the observed outcomes of Y and μ_j the $J-1$ cutoff points such that $\mu_{j-1} < \mu_j$, the model assumes that $Y = 0$ if $Y^* < \mu_0$, $Y = j$ if $\mu_{j-1} < Y^* < \mu_j$, and $Y = J$ if $\mu_{J-1} < Y^*$.

Our choice of explanatory variables is based mainly on the theoretical and empirical analyses by Oates (1972), Wallis and Oates (1988), Panizza (1999), and Arzaghi and Henderson (2005). We use *GDP per capita*, *Population* and *Land Area* to capture the effects of the size of the economy and the size of the country. Oates (1972), Panizza (1999) and Arzaghi and Henderson (2005) all found that these are negatively correlated with centralization. If decentralization is a normal good, we would expect a negative relationship between income per capita and centralization (Panizza, 1999). Wallis and Oates (1988) argue that smaller states may benefit more from centralization as economies of scale may not be exhausted due to small population size at decentralized levels. Wallis and Oates also argue that population concentration in urban areas increase the benefits from decentralization. Hence, we would expect a negative relationship between urbanization and centralization. We use *Share of Urban Population* to find the effect of population concentrations. Both Panizza (1999) and Arzaghi and Henderson (2005) point to the importance of democracy and other institutional factors in decentralization. In Panizza's model level of democracy is inversely related with the willingness of the central government to extract rent and ignore the preferences of the

median voter, which imply a negative correlation between democracy and centralization. We use *Democratic Environment* and *Quality of Governance* as two types of institutional variables. These come from the International Country Risk Guide (ICRG) published by the PRS Group.[12] *Democratic Environment* is the average of the following political risk components law and order, democratic accountability, military in politics, and religion in politics. *Quality of Governance* is the average of law and order, bureaucratic quality and corruption.[13] Finally, we add two other variables that were not specifically used by the literature mentioned above. First, we have *Trade Openness*, traditionally defined as the ratio of the sum of exports and imports to GDP. Rodrik (1998) argues that more open countries have larger governments to stabilize the economy against external shocks. To the extent that the stabilization role is undertaken by the central government we would expect a positive relationship between openness and centralization. The second variable we introduce is *External Conflict*. This may be an important factor in centralization especially in the MENA region. Tosun and Sen (2007) show that the MENA countries have more major conflicts such as war, on average, than other developing countries. They find evidence of significant spatial spillovers from regional conflicts. Alesina and Spolaore (2003) present a model with conflict and size of nations. They show that external shocks give a strong incentive to form larger jurisdictions. We draw a parallel and further argue that external shocks may legitimize greater central government budgets since national defense is a function of government undertaken by the central government. Alesina and Spolaore also address the interaction between democratization and conflicts,

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[12] Note that higher risk points correspond to an improvement in the institutional variable.

[13] This was recently used as a measure of governance quality by Knack (2001). Components of these institutional variables, particularly corruption in government, were used in many other studies including Tanzi and Davoodi (2000), Mauro (1996) and Knack and Keefer (1995).

showing that democratization becomes a less important factor in reducing the size of countries when there are major conflicts. We also examine how the impact of democratization changes when external conflict is introduced into the empirical analysis. Data on *External Conflict* also comes from the ICRG dataset. We adjusted this variable, however, to have higher points representing worsening of conflicts.[14] Finally, we use *GCC* as a dummy variable for the Gulf Cooperation Council (GCC) countries to control for the possible impact of heavy dependence on oil on the government structure of these countries.[15]

4.3. Empirical Results

We provide the summary statistics on the variables described above in Table 7. We start with the first set of regression results in Table 8. In addition to the explanatory variables explained above, we also include country fixed effects in our Table 8 regressions. Hence, country characteristics such as land area, being an oil producer, and all time invariant institutional factors are captured by the fixed effects estimation. We also see that serial correlation of errors could be a serious problem in our data. We run AR(1) fixed effects regressions to correct for the serial correlation problem.

We find that the coefficients of the size variables, *GDP per capita* and *Population* have the expected negative sign but not statistically significant in all four regressions. The coefficient of the *Share of Urban Population* is positive, significant and robust across all regressions. This finding is counter to the argument by Wallis and Oates (1988). We see in columns (1) and (2) that both institutional variables have the expected

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[14] We have also tried with a variable on internal conflicts but that didn't turn out be a significant factor in any of the regressions.

[15] We removed *GCC* and *Land Area* from the first set of regressions as these cause perfect multicollinearity in the fixed effects regressions.

negative sign and statistically significant with lower significance for the *Quality of Governance*. Column (3) shows that *External Conflict* has a significant positive effect on centralization, which is also expected as we argued above in section 4.2. When we include both institutional variables and *external conflict* in the same regression in column (4), we see that *External Conflict* still has a positive and significant effect while democratic environment loses its significance and the coefficient of quality of governance turns positive. Hence, external conflict is the only robust factor among the institutional and conflict variables. Similar to the implications of the theoretical model of Alesina and Spolaore (2003), we find that *Democratic Environment* loses its importance when *External Conflict* is added to the analysis. Finally, *Trade Openness* is significant only in regressions (3) and (4). With a positive and significant coefficient, results for openness in columns (3) and (4) support Rodrik's argument.

While results in Table 8 are interesting, these regressions are open to the criticism that the dependent variable, central government expenditure as share of GDP, may just be capturing the size of central government instead of centralization in the government sector. To address this, we ran a second set of regressions with a decentralization indicator derived from the World Bank's Database of Political Institutions (DPI). Since our new dependent variable is an indicator variable where higher numbers indicate greater decentralization, ordered logit regressions are run as described in section 4.2. Results from those regressions are shown in Table 9. We get similar results to the ones in Table 8. We find that the size variables, *GDP per capita* and *Population* have the expected positive sign and they are statistically significant in most of the regressions. The coefficient of the *Share of Urban Population* is negative and significant in all regressions,

which is counter to the argument that urbanization triggers decentralization. We now get conflicting results from our institution variables in columns (1) and (2). While *Quality of Governance* has the expected positive sign, it is not statistically significant. What is surprising is that *Democratic Environment* has a negative sign indicating a negative effect on decentralization. While this may seem puzzling, it may be pointing to a possible nonlinear relationship between democratization and decentralization. It may be that it is too early to see the decentralization outcome in MENA countries during the initial phase of democratization. Results in column (3) shows that *External Conflict* still has the expected negative effect on decentralization (or positive effect on centralization). When we again include both institutional variables and *External Conflict* in the same regression in column (4), we see that *External Conflict* still has a negative and significant effect on decentralization. Hence, we repeat that *External Conflict* is the only robust factor among the institutional and conflict variables. Finally, we see that GCC countries have significantly lower level of decentralization compared to other MENA countries and trade openness also has a positive and significant association with decentralization.

In summary, our main findings show that improvements in the institutional variables have some negative effect on the centralization but these do not seem to be as important as the strong negative (positive) decentralization (centralization) effect of external conflicts. When we examine the marginal effect from external conflict in the ordered logit regression in column (4) of Table 9, we compute that every one degree improvement in external conflict increases the probability of moving from a zero score in decentralization to a score of one by about 4%. This may look small but considering that MENA countries, on average, had an external conflict score of 10 out of a maximum of

12 in 2003, they have a lot of room for improvement in external conflicts. For example, if MENA countries manage to move to a zero score on external conflicts, which means no external conflicts, this would increase the same probability by 40%.

5. Intergovernmental Reform Options and Conclusions

Our empirical analysis gives us interesting insights into determinants of the central government's role in the economy. The most striking result is the significant role of external conflicts in centralization (or decentralization). It seems external conflicts set a major obstacle in decentralization. This would lend itself to a recommendation that countries in the region and other related countries should work together to remove this obstacle. As Tosun and Sen (2007) suggest regional conflict prevention is an international public good and a collective provision of this public good would ease the burden on central governments of individual countries. This will, in turn, release resources from the grasp of central governments that are currently charged wholly with the provision of this public good and make it available to the local governments.

A precondition for transferring additional resources to local governments is fixing intergovernmental fiscal systems. The most striking feature of the public management system in the MENA region is the degree of centralization. All countries in the region have a highly centralized administrative structure with very limited decision-making power assigned to local governments. For a variety of reasons (e.g., tradition, history, culture), responsibilities assigned to local governments have not been as extensive as those in many other parts of the world. In their efforts to reform local government sector, governments should recognize that decentralization requires sharing of fiscal roles and responsibilities between central and local governments accompanied by a robust capacity

to deliver services both centrally and locally. The challenge is to determine how to sort-out the responsibilities and financing among different types of local governments. It is important for the decision makers in the region that decentralization reforms may be asymmetric. They can set criteria to classify local governments into different categories that have asymmetric taxing and spending responsibilities and borrowing privileges. This would give impetus to decentralization reform process by which regional governments (governorates) and local governments might be empowered with increased autonomy in expenditure and revenue decisions. However, they should keep in mind that there is a need for systematically reviewing legal and regulatory standards for "sorting out" rules and responsibilities among different types and levels of governments.

Decentralization is a dynamic process where the intergovernmental relations system needs constant adjustments. The governments in the region should consider establishing a mechanism to (a) improve the design and gauge the direction, pace, and extent of decentralization, and (b) disseminate information, provide training and directly engage municipal governments in the decentralization process.

In the long run, the governments in the region need to devolve expenditure responsibilities further to local governments while making them fully accountable before their respective constituencies for policy results, in terms of their effectiveness and efficiency in delivering quality public services. To this end, they should consider strengthening local government accountability mechanisms by systemic collection, analysis, and dissemination of information about local fiscal performance and compliance with financial and policy goals. Such information is essential both to informed public

participation through political process and to the monitoring of municipal performance by the central government.

An important issue in the MENA region is to increase local public expenditure efficiency in areas of concurrent expenditure responsibilities and creating strong incentives (financial and legal) to promote cooperative arrangements among local governments for service delivery. In this context, outsourcing public service to the private sector as well as private sector participation in both financing and delivery of public services can be a way to improve overall efficiency of local government expenditures.

In reforming local government systems the most challenging task for the governments in the region would be restructuring the overall revenue system in a manner that provides local governments "fiscal space" to strengthen own revenue and expenditure arrangements. The governments should first make sure that adequate steps are taken to establish accountability mechanisms, then boost revenue autonomy by giving local governments adequate decision-making powers on tax rates and the determination of some tax bases in order to improve budgetary predictability. They should gradually lift central government controls on local fees and taxes after making sure that local revenue mobilization is maintained.

An important characteristic of intergovernmental fiscal systems in the region is the use of ad hoc transfers. The governments should study rationalizing the transfer system so as to make it more effective instrument for the implementation of policies of national interest at the local level and reduce horizontal fiscal disparities. This would include an examination of conditional and unconditional (e.g., equalization) transfer systems alike. They should established transparent rule-base transfer system with explicit

formulas for equalization. They should explore ideas for a combination of unconditional and matching open-ended type of grants that would to force municipal governments to exploit their revenue bases. A related topic is to enforce hard budget constraints for local governments. Governments in the region should credibly commit to a hard budget constraint and avoid bailing out local governments that get into a financial mess.

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Table 1 Share of Local Government in GDP and in Total Government Expenditures

Country (Year)	Percentage of GDP	Percentage of total public sector spending
Egypt (2005/06)	4.6	15.6
Iran (2004/05)	6.0	9.0
Yemen (2004)	6.4	11.2
West Bank/Gaza (1999)	2.3	11.1
Tunisia	4.3	12.1

Source: Authors' compilation.

Table 2: Deconcentration and Decentralization Systems in MENA Countries

	Iran	Yemen	Egypt	West Bank/Gaza	Tunisia
Central Government Ministry	Ministry of Interior (MoI)	Ministry of Local Administration (MoLA)	Ministry of Local Development (MoLD)	Ministry of Local Government (MoLG)	Ministry of Interior
Deconcentrated System					
Province District County	30 provinces (Ostan) 318 districts (Shahrestan) 854 rural counties (Bakhsh)	22 governorates 332 districts	26 governorates 180 districts (markaz) 213 cities (madina) 74 districts (hay) 1164 rural villages (qariya)	16 governorates	24 Governorates
Appointed by	Provincial governor (Ostandar) is appointed by the President District Governor (Farmandar) is appointed by MoI Rural county administrator (Bakhshdar) is appointed by the Ostandar	Governor is appointed by the President District governor is appointed by the Prime Minister	Governor is appointed by the President Chief of markaz is appointed by the Prime Minister City and district chiefs are appointed by the minister of MoLD Village chief is appointed by the governor	Governor is appointed by the President.	Governor is appointed by the central government
Council	Provincial Planning and Development Council (Chair: Ostandar; Line Ministry reps) District Planning Committee (Chair: Farmandar; Line Ministry reps)	Governorate council directly elected by people District council directly elected by people	There are two councils at each local government level: Elected People's Council and centrally appointed local Executive Council. Executive council is composed of representatives of central government ministries and departments.		Regional assembly is made up members of the Parliament of the region, municipal mayors and other appointed members.
Decentralized System					
Urban Municipalities Rural Municipalities	More than 1000 municipalities (Shahr) More than 68,000 rural municipalities (Deh/Roosta)	N/A	N/A	119 municipalities 251 village councils 49 joint service councils	262 municipalities
Elected by	Mayor of an urban municipality (Shahrdar) is jointly appointed by the MoI and City Council, which is directly elected by people. Mayor of a rural municipality (Dehyar) is jointly appointed by the MoI and Village Council, which is directly elected by people.	N/A	N/A	Municipal mayor and council members are directly elected by people. Village councils and joint services committees are appointed by the MoLG.	Municipalities are governed by an elected municipal council that elects its mayor within its ranks.

Table 3: Expenditure Assignment in MENA Countries

Function	Macro Policy/Oversight						Financing						Provision					
	Iran	Yemen	Egypt	WBG	Tunisia	Worldwide	Iran	Yemen	Egypt	WBG	Tunisia	Worldwide	Iran	Yemen	Egypt	WBG	Tunisia	Worldwide
Social Services①																		
Social Welfare	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C,P,M
Hospitals	C	C	C	C	C	C	C	C	C	C	C	C,P,M	C	C,P	C	C	P	C,P,M
Public Health	C	C	C	C	C	C,P	C	C	C	C	C	C,P,M	C	C,P	C	C	C	C,P,M
Universities	C	C	C	C	C	C,P	C	C	C	C	C	C,P,M	C	C	C	C	P	C,P,M
Secondary Education	C	C	C	C	C	C,P	C	C	C	C	C	C,P,M	C	C	C	C	P	C,P,M
Primary Education	C	C	C	C	C	C,P	C	C	C	C	C	C,P,M	C	C	C	C	P	C,P,M
Housing	C	C	C	C	C	C,P	C	C	C	C	C	C,P,M	C	C	C	C	C	C,P,M
Transportation②																		
Urban Transportation	C,P,M	C,P	C,P	C,P,M	C	C,P,M	C,P,M	C,P	C,P,M	C,P,M	C,P	C,P,M	C,P,M	C,P,M	C,P	C,P,M	C,P	C,P,M
Railroads	C	C	C	N/A	C	C,P	C	C	C	N/A	C	C,P	C	C	C	N/A	C	C,P
Airports	C	C	C	N/A	C	C,P	C	C	C	N/A	C	C,P	C	C	C	N/A	C	C,P
Ports and Navigable Waterways	C	C	C	N/A	C	C	C	C	C	N/A	C	C	C	C	C	N/A	C	C
Urban Highways	C,P,M	C,P	C,P	C,P,M	C,P	C,P,M	C,P,M	C,P	C,P,M	C,P,M	C,P	C,P,M	C,P,M	C,P,M	C,P	C,P,M	C,P	C,P,M
Interurban Highways	C	C,P	C,P	C,P,M	C,P	C,P	C	C,P	C,P	C,P,M	C,P	C,P	C	C,P,M	C,P	C,P,M	C,P	C,P
Utility Services③																		
Electricity	C	C	C	C	C	C,P,M	C	C	C	M	C	C,P,M	C	C	C	C	C	C,P,M
Waste Collection	M	P	M	M	M	M	M	P	M	M	M	M	M	P	M	M	M	M
Water and Sewerage	P,M	C,P	P,M	M	C,P	M	P,M	C,P	P,M	M	C,P	M	P,M	C,P	P,M	M	C,P	M
Other Services④																		
Fire Protection	C	C,P	M	C,P,M	C	M	C	C,P	M	C,P,M	C	M	C	C,P	M	C,P,M	C	M
Heating	C	N/A	N/A	N/A	N/A	M	C	N/A	N/A	N/A	N/A	M	C	N/A	N/A	N/A	N/A	M
Irrigation	C	C,P	C,P	C,P	C,P	M	C	C,P	C,P	C,P	C,P	M	C	C,P	C,P	C,P	C,P	M
Police	C	C	C	C	C	C,P,M	C	C	C	C	C	C,P,M	C	C	C	C	C	C,P,M

C: Central Government   P: Provincial Government   M: Municipal Government   N/A: Not applicable

① These services are national in scope, the central government has a role in correcting fiscal inefficiencies and regional inequalities, it should also provide some financing to cover spillovers.

② The overriding concern is the efficient provision of services. If the benefits accrue to local jurisdictions it should be financed by local residents. If the benefits of the service spillovers to other jurisdictions, the service is national in scope and the cost of service should be realized by nonresidents as well.

③ These services are local in scope; if the services are financed by national revenues, nonresidents bear the cost of services. In that case, inefficient allocation of resources is a major concern. However, preservation of internal common market might be an area of concern; central government might have a role in regulatory function to ensure efficiency and equitable provision of some of these services.

④ The primary beneficiaries of these services are local residents and they are most efficiently provided by local governments.

Table 4: Expenditure Assignment Scores*

	Macro Policy				
Country	Social Services	Transportation	Utility Services	Other Services	Average Score**
Iran	7	8	6.5	4	1.28
Yemen	7	7.5	4.5	4	1.21
Egypt	7	7.5	6.5	5.5	1.39
West Bank/Gaza	7	6	7	4.5	1.53
Tunisia	7	7	5.5	3.5	1.21
Worldwide Practice	9.5	9.5	8	11	1.90

	Financing				
Country	Social Services	Transportation	Utility Services	Other Services	Average Score**
Iran	7	8	6.5	4	1.28
Yemen	7	7.5	4.5	4	1.21
Egypt	7	8.5	6.5	5.5	1.45
West Bank/Gaza	7	6	9	4.5	1.66
Tunisia	7	7.5	5.5	3.5	1.24
Worldwide Practice	13	9.5	8	11	2.08

	Provision				
Country	Social Services	Transportation	Utility Services	Other Services	Average Score**
Iran	7	8	6.5	4	1.28
Yemen	8	9	4.5	4	1.34
Egypt	7	7.5	6.5	5.5	1.39
West Bank/Gaza	7	6	7	4.5	1.53
Tunisia	11	7.5	5.5	3.5	1.45
Worldwide Practice	14	9.5	8	11	2.13

Source: Computed by the authors.

* Expenditure assignment scores are determined as follows:

Central Government (C) = 1 point

Provincial Government (P) = 2 points

Municipal Government (M) = 3 points

C, P = 1.5 points

P,M = 2.5 points

C,P,M = 2 points

** Average score is calculated by dividing the sum of total scores for each country in the table by the total number of services listed in Table 2.

Table 5: Revenue Assignment in MENA countries

Country	Revenue Assignment
Egypt	There is a national tax sharing system combined with local tax and fee surcharges. Rates are set nationally and the central government collects a portion (25-50%) of local taxes into special national funds. Popular participation (down-payments of citizens) is the most important local revenue under the discretion of local governments.
Iran	All local levies are required to be consistent with the government's annual budget and the National Five Year Development Plans and to be in line with the capacity to pay as determined by the Ministry of Interior (ceiling for local tax/local income ratio). With adoption of the Law on Tax Amalgamation (2003) revenue collection has been effectively re-centralizes and almost all taxes are collected by the central government. One of the main locally collected fees is the land use change and density increase tax.
Tunisia	LGs can set and administer local taxes on developed real-estates, but this right is rarely exercised. Other taxes, fees, and charges are introduced by central government decrees and managed by central agencies.
WBG	Of all the MNA-8 countries the WBG regulatory framework provides the greatest autonomy to the LGs. While LGs have a right to set taxes or create new ones, they can do so through initiating amendments to the tax law. Many taxes and fees are collected and administered locally by LGs.
Yemen	Central government sets both tax rates and base, LGs can make proposals for taxes and fees. Apart from the religion tax ('zakat') most taxes are not collected in many districts particularly in rural areas.

Table 6: Transfer Characteristics and Allocation Rules in MENA Countries

	Transfer Characteristics	Source	Allocation Rules
Egypt	General development grants: mutual plus earmarked (service & development, land, housing, cleanliness, road).	National budget.	No rule-based allocation nor formula. Discretionary grants and donations.
Iran	Transfers to urban LGs appear to be negligible, particularly, in the larger cities. Development transfers: 60% earmarked 30-40% discretionary.	Oil revenues.	No formula. Allocation rules decided annually by the Parliament.
Tunisia	Earmarked: operating grants through LG Common Fund (FCCL), development grants managed by Fund for Loan and Support for LG (CPSCL); sector based transfers; Regional Development transfers.	National budget.	Formula based – 10% flat rate, 45% size of LG, 45% according to average property tax.
WBG	Current transfers and grants for transport fees are not earmarked. Discretionary/emergency transfers are channeled to specific projects.	Transport fees and a separate account assigned for discretionary/emergency transfers.	A formula for the pool and distribution of transport fees exists on paper (1997 Local Government Law). Yet, the formula is only partially applied. Discretionary/emergency transfers are ad hoc.
Yemen	30% of grants from extra-budgetary funds that are earmarked, others are not.	Shared revenues from 28 taxes, mainly – Zakat.	No formula, but Council of Ministers uses non-binding guidelines – population density, financing gap, degree of deprivation, performance in revenue collection.

Table 7. Summary Statistics for the Regression Analysis on the Determinants of Centralization in MENA Countries

	Number of Observations	Mean	Standard Deviation	Minimum	Maximum
Total central government spending (% GDP)	206	35.467	15.958	16.225	211.182
Decentralization	289	0.761	1.281	0	4
GDP per capita (constant $)	356	4,732.248	5,354.927	443.060	27,114
Population	417	13,900,000	18,000,000	224,000	72,600,000
Share of Urban Population	420	64.101	20.506	14.800	98.280
Trade Openness	361	82.507	36.579	13.772	251.140
Land Area (square km)	420	582,721.3	690,737.2	690	2,000,000
GCC	420	0.286	0.452	0	1
Democratic Environment	253	3.168	0.795	0.750	4.750
Quality of Governance	253	2.790	0.678	0.667	4.333
External Conflict	253	3.803	2.923	0	12

Table 8. Determinants of Central Government Expenditure in MENA Countries

	(1) Total Central Government Spending (% GDP)	(2) Total Central Government Spending (% GDP)	(3) Total Central Government Spending (% GDP)	(4) Total Central Government Spending (% GDP)
Log of GDP per capita	-0.109 (0.133)	-0.028 (0.132)	-0.113 (0.138)	-0.035 (0.118)
Log of population	-0.154 (0.129)	-0.085 (0.130)	-0.167 (0.132)	-0.158 (0.120)
Log of Share of Urban Pop.	1.543 (0.559)***	1.101 (0.543)**	1.414 (0.570)**	1.193 (0.501)**
Log of Trade Openness	0.146 (0.088)	0.118 (0.090)	0.222 (0.090)**	0.262 (0.087)***
Democratic Environment	-0.088 (0.028)***			-0.065 (0.046)
Quality of Governance		-0.055 (0.029)*		0.086 (0.044)*
External Conflict			0.026 (0.007)***	0.035 (0.008)***
Constant	-0.028 (0.222)	0.063 (0.244)	0.038 (0.195)	-0.021 (0.246)
Fixed Effects	Yes	Yes	Yes	Yes
Rho (AR1)	0.452	0.417	0.522	0.365
R^2 (within)	0.64	0.60	0.68	0.65
Observations	125	125	125	125
Number of panels	9	9	9	9

Standard errors in parentheses
* significant at 10%; ** significant at 5%; *** significant at 1%

Table 9. Determinants of Decentralization in MENA Countries

	(1) Decentralization	(2) Decentralization	(3) Decentralization	(4) Decentralization
Log of Land area	-0.113 (0.236)	-0.047 (0.237)	-0.031 (0.210)	0.046 (0.214)
Log of GDP per capita	4.384 (1.135)***	4.788 (1.183)***	4.357 (1.100)***	4.666 (1.151)***
Log of Population	1.577 (0.723)**	1.352 (0.722)*	1.145 (0.674)*	0.978 (0.667)
Log of Share of Urban Pop.	-4.749 (1.563)***	-5.724 (1.865)***	-4.793 (1.621)***	-5.373 (1.742)***
Log of Trade openness	6.922 (1.645)***	6.549 (1.498)***	5.995 (1.461)***	6.361 (1.477)***
GCC	-8.065 (1.887)***	-8.790 (1.903)***	-8.220 (1.789)***	-9.104 (1.967)***
Democratic Environment	-0.184 (0.379)			-0.690 (0.336)**
Quality of Governance		0.570 (0.417)		0.296 (0.490)
External Conflict			-0.196 (0.092)**	-0.260 (0.127)**
Fixed Effects	No	No	No	No
R^2	0.19	0.20	0.21	0.22
Observations	197	197	197	197

Robust standard errors in parentheses
* significant at 10%; ** significant at 5%; *** significant at 1%

Appendix A: Government Structure in Egypt

Egypt has five types of local governments: governorate, markaz, city, district and village. There are 26 governorates headed by governors who are appointed by the president. A governorate, which is the main service delivery unit in Egypt, can be simple and completely urban (with no markaz or village) or complex, consisting of urban rural communities (See Figure A-1). Governorates are deconcentrated local governments without policymaking power over sectoral issues; they simply follow the instructions from the center.

Markaz is the second tier local government units in complex governorates. A markaz consists of a capital city, as well as other cities and villages, and functions as the center for the jurisdiction. It is headed by a markaz chief, appointed by the prime minister. Each governorate has at least one city. Cities may be divided into districts. District (hay) is the smallest local government unit in urban governorates. Districts are divided into sections (subdistricts) or neighborhoods (sheyakha). City and district chiefs are appointed by the minister of local development. Village (qariya) is the smallest local government unit in rural governorates. Service responsibilities of villages vary according to the size. Larger villages are part of the local government system with service responsibilities. Smaller ones, on the other hand, called satellite villages, are not considered as local government units and have no service delivery responsibilities. They are part of either a village or a markaz (Amin and Ebel, 2006). The village chief is appointed by the governor.
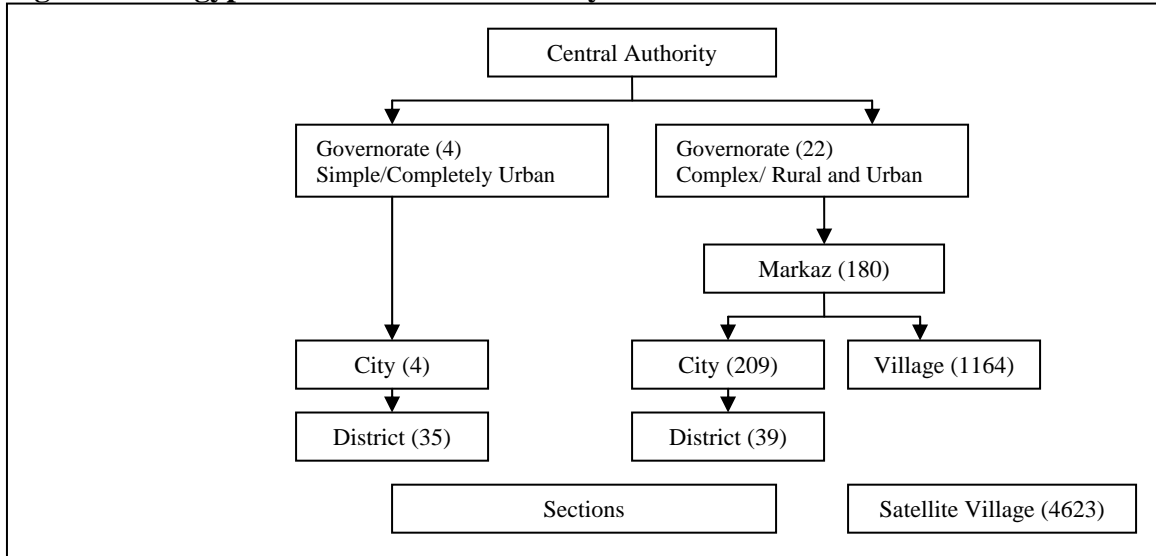
The Constitution and the Law 43 of 1979 require having two councils operating in each of the local government units: elected People's Council (EPC) and local Executive Council. The members of EPC are elected by popular vote every four years. Article 162 of the Constitution requires that half of the members be from workers and peasants. The members of the local Executive Council, on the other hand, is appointed by the central government. It is composed of the governor as the head of the council, chiefs of the Markaz, cities and districts as well as the heads of the directorates of central ministries.

The responsibilities of EPCs include (i) supervising various utilities and activities that fall under the jurisdiction of the governorate with the context of the national public policy; (ii) requesting, through the governor, any data related to the activities of other productive and economic unites operating in the governorate; (iii) approving the drafts of the annual budget and economic and social plans; (iv) outlining and approving various plans for local projects requiring community efforts and resource mobilization; and (v) proposing new local taxes and imposing specific local fees and duties (Amin, 2005).

The responsibilities of the executive council include (i) preparing the governorate budget; (ii) assisting the governor through preparing administrative and financial plans and preparing decrees to be issued by the EPC; and (iii) supervising the work of executive organs and assessing implementation performance of projects and service delivery at the governorate level (Amin, 2005).

Although the laws empower EPCs in overseeing the budget preparation and implementation as well as service delivery in their jurisdictions, in reality, EPCs are less powerful than the appointed executive council (Amin and Ebel, 2006). They have limited power to play "any meaningful role in the preparation of the budgets of the jurisdictions they represent" (Amin and Ebel, 2006; 16).

Figure A-1: Egyptian Local Government System

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                          ┌──────────────────┐
                          │ Central Authority │
                          └──────────────────┘
             ┌────────────────────┼────────────────────┐
             ▼                                          ▼
   ┌────────────────────┐                    ┌────────────────────┐
   │ Governorate (4)    │                    │ Governorate (22)   │
   │ Simple/Completely  │                    │ Complex/ Rural and │
   │ Urban              │                    │ Urban              │
   └────────────────────┘                    └────────────────────┘
             │                                          │
             │                                          ▼
             │                                ┌──────────────────┐
             │                                │ Markaz (180)     │
             │                                └──────────────────┘
             ▼                            ┌───────────┴────────────┐
   ┌──────────────┐                       ▼                        ▼
   │ City (4)     │              ┌──────────────┐       ┌──────────────────┐
   └──────────────┘              │ City (209)   │       │ Village (1164)   │
             │                   └──────────────┘       └──────────────────┘
             ▼                           │
   ┌──────────────┐              ┌──────────────┐
   │ District (35)│              │ District (39)│
   └──────────────┘              └──────────────┘

             ┌────────────────────────┐   ┌──────────────────────────┐
             │       Sections         │   │ Satellite Village (4623) │
             └────────────────────────┘   └──────────────────────────┘
```

Source: Amin, Khalid Z. and Robert D. Ebel. 2006. Intergovernmental Relations and Fiscal Decentralization: Egypt Public Expenditure Review. World Bank MENA Region Policy Note: 8.

Appendix B: Government Structure in Iran

The Iranian public administration system is composed of the central government and two types of local government units—deconcentrated line agencies and the municipal authorities. The Constitution of Islamic Republic of Iran defines the deconcentrated local government units as governmental and municipalities as non-governmental units (see Table B-1):

1. Public, Governmental Sector (*Umumi, Dowlati*): The "public governmental" sector includes the line ministries and central government agencies with offices at sub-national levels. It consists of officials appointed by the central government. At the provincial level, deconcentrated service delivery is coordinated through planning bodies under the supervision of the Management and Planning Organization (MPO), the Ministry of Interior (MOI) and the Ministry of Housing and Urban Development (MHUD).

2. Public, non-governmental sector (*Umumi Gheir-dowlati*): The "public non-governmental" sector includes urban and rural municipalities, as well as the hierarchy of representative directly and indirectly elected councils. It consists of the representative bodies which include the directly elected urban and rural local councils (established in 1999) and the indirectly elected hierarchy of Islamic councils (established in 2002 and comprising of County Islamic Councils, District Islamic Councils, Provincial Islamic Councils, and the High Islamic Council of Provinces) as well as the administrative bodies of urban and rural municipalities at the city and village levels.

These two structures make up the sub-national administration framework in Iran. The first type—public, governmental Sector (*Umumi, Dowlati*)—is referred as the deconcentrated (provincial) local governments. Line ministries providing services, such as gas, electricity, transportation, education and health, are organized sectorally at the provincial level and are coordinated at all levels through the MPO and the Ministry of Economic Affairs and Finance (MEAF). The second type—public, non-governmental (*Umumi Gheir-dowlati*)—is referred as decentralized (municipal) local governments. The municipal sector is coordinated separately through Ministry of Interior's Municipalities Organization (MO) and provides urban municipal services including public health, recreational services including parks, public safety including fire stations and local transportation including buses and taxis as well as rural municipal services.

The subnational administration in Iran is primarily organized at the provincial level. For administrative purposes the country is divided into 30 provinces (ostan). The populations of ostans vary considerably with more than eleven million inhabitants in Tehran and fewer than 600,000 in the smallest ostans such as Ilam and Semnan. The ostans have subdivisions called districts (shahrestan). Shahrestans also have subdivisions called rural county (bakhsh). Ostans, shahrestans and bakhsh are deconcentrated governmental units and cover the whole territory of Iran.

The head of osthan administration is Ostandar, who is an appointed by the central government. Expenditures at the osthan level are organized through line agencies and spending units. These units are responsible for provincial expenditures while national public services such as defense and those public goods with significant externalities are assigned to the central units.

An important component of the subnational administration system in Iran is the local councils. Iran has an elaborate local council structure (Tajbakhsh, 2000). There exists a hierarchically nested system of directly and indirectly elected councils.[16] In addition to the directly elected city and village councils, there are intermediate representative councils at geographic and administrative levels. At the lowest level, representatives from a group of directly elected village councils constitute a rural county council (bakhsh). At the district level, representatives from rural county and urban councils within a district make up the members of the district council. At the ostan level, representatives from each district council within an ostan send representatives to the ostan level council. Finally, Higher Council of Provinces is comprised of one representative from each ostan council. However, while the councils are the only source of local legislation, and the mayor, as the local executive, is charged with carrying out these decisions, the areas in which the council can legislate and pass bills is restricted. In fact, in relation to the entire range of issues that impact local economic development, the council and municipality has a secondary or almost no role. The restricted interactions and limited role of elected councils constitute a major obstacle to increased inclusiveness and accountability (Tajbakhsh, 2000). This weak institutionalization, in conjunction with the enhanced role of the MO is among the factors that exacerbate Mayor-Council tense relations, primarily because mayors feel increasingly dependent upon Central Government and consequently less accountable to the Municipal Council (Tajbakhsh, 2000).

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[16] The city councils have a term of four years. The size of councils varies 5 to 11 people depending on the population of the locality. Tehran as the capital city has 15-member council.

Table B-1: The System of Subnational Administration in Iran

Administrative Level & Geographic Unit	No.	**A. Deconcentrated System**		**B. Municipal System**		**Coordination between A and B**
		A. Govt appointed Official (Ministry of Interior)	A. Appointed By:	B. Elected Body (Direct or Indirect)	Appointed executive-manager by B.	Planning Body
National				Higher Council of Provinces		Urban Master Plans, designed by MOH approved by Higher Council of Architecture and City Planning (inter-sectoral body), implemented by MOI and Urban Municipalities
Ostan (Province)	30	Ostandar (Provincial Governor)	President-Cabinet	Provincial Council		Provincial Planning and Development Council (Chair: Ostandar; Secretary: MPO Province Office Director; Line Ministry reps; Higher Council of Provinces), responsible for Ostan Capital Expenditures and Programs
Shahrestan (District)	318	Farmandar (District Governor)	Minister of Interior	District Council		District Planning Committee (Chair: Farmandar; Secretary: MPO District Office Director; Line Ministry reps; District Council)
Bakhsh (Rural County)	854	Bakhshdar	Ostandar	Rural County Council		
Shahr (City – Urban Municipality)	1000 (approx)			City Council (Directly Elected)	Shahrdar (Mayor) – jointly appointed by MOI and City Council	
Deh/Roosta (Village- Rural Municipality)	68,000			Village Council (Directly Elected) 35,000	Dehyar (Village Manager) (14,000)	

Source:Tajbakhsh. 2000.

Appendix C: Government Structure in Tunisia

Tunisia has a two tier local government system. Governorates (conseils regionaux) are deconcentrated units representing state administration in a region. There are 24 governorates covering the whole territory of the country. Each governorate has a regional assembly headed by the governor. Governors are appointed by the central government. Both governorates and regional assemblies operate under the tutelage of the Ministry of Interior. Regional assembly is made up of deputies elected in the circumscriptions covered by the governorate, municipal mayors, rural councils' presidents and other appointed members. Regional assemblies are charged with the management of regional affairs and elaboration on the regional development plans and town plans in non-urbanized areas. In addition, local councils of development were established by law in 1994 to discuss issues relative to local development. These consultative bodies are composed of municipalities' and rural councils' presidents, sectors' chiefs, representatives of public institutions and representatives of exterior services of the administration.

Regions are divided into urbanized (communalise) and non-urbanized (non communalise) territories. Urbanized territories, covering 63 percent of the population, are served by municipalities. There are 262 municipalities in urban areas and rural centers. Municipalities are governed by an elected municipal council that elects its mayor within its ranks.[17] The rural areas in non-urbanized territories are served by the deconcentrated units (governorates and their subdivisions). Populations in non-urbanized territories are often regrouped in villages (agglomerations). Villages have consultative councils used as sounding boards by the region, but they have no formal recognition as local governments (Vaillancourt and Belaid, 1998). There are 185 appointed rural councils covering a small portion of the geography. They are created by the Ministry of Interior in the rural areas where basic public service facilities (i.e. schools, health clinics) exist.

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[17] Municipal councilors are elected for a 5 year term by direct universal suffrage by voters living in the municipal area. The number of councilors varies 10 to 60 based on the population size of the area. 20 percent of the seats are reserved for minorities.

Appendix D: Government Structure in West Bank/Gaza

The local government system in West Bank and Gaza (WBG) reflects the realities of Israeli occupation. The overriding concerns in the design of local government system have always been providing emergency services and security through central control. As a result, laws, political system, administrative arrangements and development practices of local governments are geared towards these objectives rather than providing services to local communities.

Prior to the 1994 Oslo Peace Accord, in the absence of a sovereign state, Palestinian local governments have had to fend for themselves in providing services to local communities. The Ministry of Local Governments (MOLG) established in 1994 to help build an effective local government system. However, the current legal framework in WBG assigns the central government strong formal controls over local governments (World Bank, 2006).

The Law on Local Authorities of 1997 (LLA) provides the legal basis for the current local government system in WBG. There are three different levels of local government units:
- 16 governorates, representing the central government at the regional level;
- 120 municipalities, providing public services in urban areas;
- 251 village councils, providing public services in rural areas.

LLA draws heavily on other regional country legislative frameworks, particularly that of Jordan. LLA grants significant powers to the central government, primarily Ministry of Local Government in its role as the sector regulatory agency, including provisions for approvals of a wide range of activities of local governments and claw-back clauses where autonomy appears to be granted (World Bank, 2006).

Governorates are deconcentrated local government units operating at the provincial level. There are sixteen governorates (eleven in the West Bank, five in Gaza). Governors appointed by the President of the Palestinian Authority head governorates. They are charged primarily with security and public safety functions (World Bank, 2006).

Municipalities are decentralized local government units with elected mayors and council members. Municipalities are classified into four categories based on population criterion[18] as well as location and date of establishment characteristics (See Table D-1).

The LLA provides the legal basis for municipal expenditure responsibilities and revenue-raising authorities. However, a there is a significant mismatch between the legal assignments to municipalities and the reality on the ground (World Bank, 2006). The absence of an effective public administration system compels the larger municipalities

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[18] Population figured prominently as a criterion for classification when first defined in the LLA. As stated in the LLA, wherever a local population exceeds 5,000, there is a basis for establishing municipality. This basic criterion has not been applied consistently as many of the newly established municipalities have population less than 5,000 (World Bank, 2006).

assume responsibilities that are not necessarily assigned to them by law, such as fire fighting service and maintenance of school buildings (World Bank, 2006).

Table D-1: Categorization of Local Government Units in West Bank & Gaza

Category	Number	Criteria
Class A Municipality	14	Governorate Centers (major cities)
Class B Municipality	24	Established before 1994
Class C Municipality	41	Established after 1994, with a population of more than 15,000
Class D Municipality	40	Established after 1994, with a population of between 5,000 and 15,000
Village Councils	251	Population of less than 5,000

Source: World Bank. 2006.

The LLA grants the central government with extensive powers over municipal governments in terms of control over revenue sources. They have to obtain the approval of the central government in setting the tax rates and defining the revenue bases. Mostly within the confines of the centrally defined tax and fee bases, assessment strategies, and rates, the local governments are provided with revenue sources such as property taxes, building permits and utility revenues. They are also allowed to perform certain public functions and market services to raise additional revenues. Yet, in practice, the municipalities invent their own ways of raising revenues and they often find ways of rationalizing such practices in old laws (World Bank, 2006). Furthermore, the municipalities impose new taxes or fees without an explicit approval of the central government and they collect and administer them locally. For certain revenue items, there are differences in practice between West Bank and Gaza. For example, while property taxes are collected and administered by the central government in West Bank, in Gaza municipalities collect and administer property taxes themselves.

Appendix E: Government Structure in Yemen

In Yemen, there are 22 governorates and 332 districts both of which are called administrative units. Each administrative unit has its own local authority, which consists of the administrative head of the unit (either the governor at governorate level or the director at the district level[19]), the elected local council at both governorate and district levels, and the executive organs (branches office of the ministries and other government agencies).

At the governorate level, there are 14 areas for which the local authority has responsibility for funding, managing and maintaining projects. These include building, equipment and maintenance of technical and skilled manpower schools and centers, high schools for teachers, general and specialist hospitals, medical drug and equipment warehouses and medical laboratories, medical schools, centers for the handicapped, orphan and senior care, water supply dams and reservoirs, agriculture, veterinary and fishing institutes, agriculture and fishing natural museums, administrative buildings for governorates and districts, bridges and tunnels, cult concerts, museums and libraries, art exhibitions, youth centers and sports stadiums.

At the district level, there are 22 items for which the local authority is seen as responsible for funding, managing and maintaining. These include religious, primary and secondary schools, literacy centers, children day care centers, libraries, school teaching and handicraft workshops, health centers, motherhood centers, family planning centers, primary health care centers and rural health units, social development and subsidies for productive families, centers for agricultural and rural extension advice, husbandry for domestic animals and fish, veterinarian and agricultural services, seed preparation, nurseries and demonstration farms, agricultural dams, irrigation systems, electricity networks, children playgrounds and public parks, secondary highways and roads, bridges and parking, services and rest areas for public transportation users, slaughterhouses, public markets and toilets, cemeteries and public shelters, clearing land and planting trees environmental projects, local water supply and sewage systems, maintaining historic buildings and sites, beaches and tourists projects, local playgrounds, sports locations and swimming pools.

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[19] Until 2008, governors were appointed by the central government.