

Policy Brief 32

Local Revenue Development in Egypt

Prepared by:

Adel Elhemaily
Heba Yousry
Mohamed Hesham
Nada Bedir
Riham Soliman

Under the Supervision of:

Dr. Khaled Abdel Halim



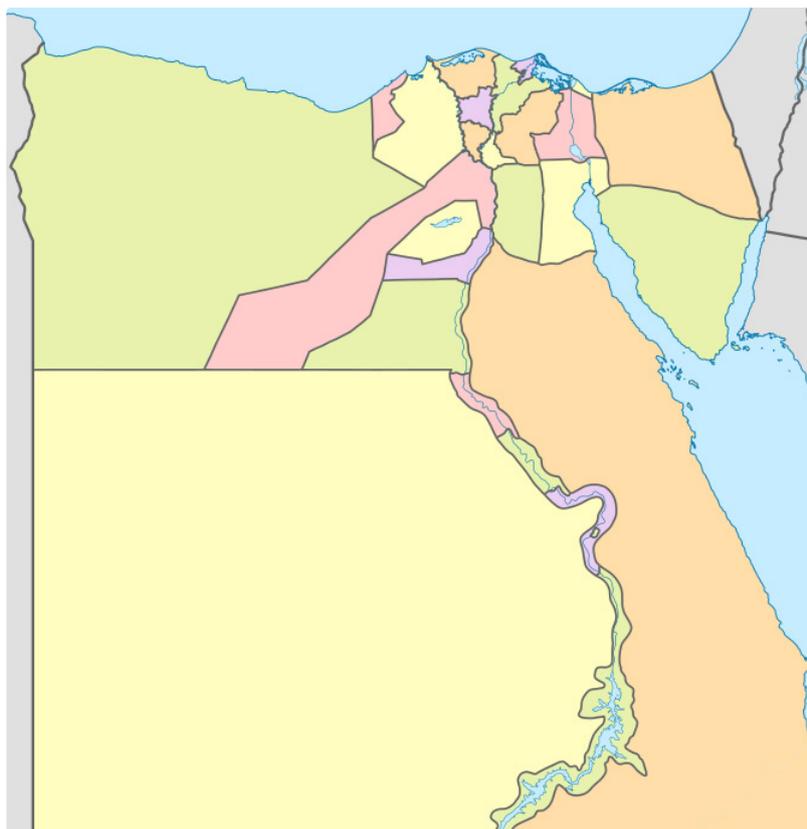
Executive Summary

Local administration in Egypt faces several challenges that hinder fulfilling its responsibilities towards citizens sufficiently. The main challenges are the lack of financial resources due to over-regulation as well as the non-enforcement of laws and regulations that allow the local administration to collect its own tax share, the local administration staff's lack of skills to manage and develop revenue sources, and lack of accountability mechanisms. This policy paper seeks to propose policies to aid the local administration in increasing its financial resources.

In this paper, the authors depended on desk research as well as interviews held with officials from the Ministry of Finance and the Ministry of Local Development. Based on the information gathered, the authors proposed three policy options. Finally, they selected the "Local Non-Tax Revenue Mobilization" policy option based on the evaluation criteria, and provided recommendations for this policy's successful implementation

Introduction

The Egyptian government has been facing challenges in generating revenues from local resources. These revenues are crucially needed by the local administration to fund the infrastructure and the multitude of services required to meet the demands of the growing population. Over the past fifty years, the local administration relied on central government financing which accounts for 80-90% of the local administration's expenditures. Additionally, the limited financial strength of the local administration is demonstrated by the decrease of the ratio of local revenues to local expenditure. According to the World Bank, over the period from 1980 to 2020, the underlying trend was the decline of subnational revenue as a percentage of national revenue



Legal and Political Frameworks

The local revenue is governed by a complex legal framework. The authors highlight the following laws that impact subnational revenues:

1) *Article No. 178 of the Egyptian Constitution of 2014.*

2) *The financial resources for the different sub-national levels are stipulated by the Local Administration Law No. 43/1979 under Articles (35-38), (51-54), and (69-71).*

3) *Law No. 139/2006 imposing restrictions on managing funds and accounts by governorates.*

Less than 10 percent of the resources received by the local administration can qualify as local own-source revenue. This shows that the local administration in Egypt has a limited ability to generate its financial sources. There are three local revenue sources:

1. *Internal financial sources including local taxes, local fees, revenues from commercial, and industrial businesses owned by the local administration, etc.*

2. *External financial sources which include government subsidies/transfers, loans, etc.*

3. *Private accounts*

As for the political context, “over-centralization” has been the main characteristic of the Egyptian fiscal system over the past several decades. The pressure to narrow Egypt’s budget deficit and raise additional revenues led to a significant shrinking in local administration revenues (tax and non-tax sources). Revenues were either transferred to the central government or collected by central agencies with a reluctance to transfer to the local administration their revenue share.

Over the past two years, the parliament has discussed the draft of the new municipalities law which empowers the local administration with more financial and administrative authorities aiming at improving the governance of revenues collection. Although the proposed law is promising, the law draft is continuously postponed, and hence, affects the implementation of the municipalities’ election

Policy Options/Alternatives Analysis

The main policy objective is the development of local government revenues via a set of interventions and policies focusing on expanding or creating new revenue streams.

Policy Option (I): Local Revenue Mobilization via Taxes

The revenue base can be expanded through devolving relevant local taxes to the local administration units. Many local taxes that were previously collected by the local administration are currently collected by the central government. Furthermore, the local administration does not receive its share from local taxes as the central government keeps it under its sole authority.

It is recommended to effectuate the related legislations so the local administration can receive its portion of the local taxes, update the laws to resolve any contradictions and create a committee to set a system that ensures providing the local administration with its share of the local taxes. The advantages of this policy include increasing the local administration’s revenue, while maintaining the public’s acceptance. However, the policy may face challenges due to the lack of political acceptance, a comprehensive system on taxes collection, and the complexity of the legislation’s reform.

Policy Option (II): Local Non-Tax Revenue Mobilization

The local administration is underutilizing the non-tax revenue options. It is proposed that the mobilization of local non-tax revenue would be through the following two sub-policies:

- *Making better use of and increasing revenue from existing non-tax local sources of revenues and tapping into new local sources of revenue.*

- *Developing productive projects through proper planning, management and sharing best practices.*

The policy’s advantages are the variety and flexibility of the non-tax revenue instruments, and the possibility of addressing structural challenges in revenue collection. However, non-tax revenue is more volatile, and there is no systematic process for non-tax revenue administration, collection, and allocation.

Policy Options/Alternatives Analysis

Policy Option (III): Reforming the Legislative Framework Governing Local Revenue

The Parliament is discussing the reformation of the local administration law No. 43 of 1979 to give way to the formation of local councils whose role is to actively formulate policies that can maximize the benefit from the resources, capabilities of the units, improve government spending, and work on developing resources and spending priorities of the governorates and local units.

The advantages of this amendment include giving the local administration power to determine budgeting and spending as well as maximizing revenue sources. However, adapting a new law is a lengthy process. Since this law affects multiple stakeholders, and strikes on a multitude of intersectionalities, the proposed law can stay in limbo indefinitely.

Conclusions and Recommendations

The policy paper investigates the root causes of the weak local revenue stream in Egypt. The policy alternative aims at improving the local revenues in order to develop the services provided to citizens. Three policy alternatives were presented accordingly. Policy option (II) entitled "Local Non-Tax Revenue Mobilization" is selected. This policy option scored the highest on the evaluation matrix and it ranked "high" on the financial and political criteria which were selected by the authors as the decision rule.

The proposed policy discusses the importance of expanding the services that can be implemented by the local administration within the current legislative framework, and hence, increasing the collection and sources of funds. Moreover, efforts needed to be exerted to improve the collection process through promoting digital transformation and increasing electronic payments to minimize leakages and increase collection efficiency. The policy also proposed a comprehensive and detailed description of the non-tax revenue sources.

For the best implementation of the proposed policy option, the following is recommended:

1. *Establishing a joint committee between the Ministry of Finance and Ministry of Local Development, with membership of all relevant entities to develop a national strategy to increase local revenue sources and monitor the aforementioned strategy.*
2. *Establishing a systemic and extensive review of current legal legislative framework to develop existing and potential revenue sources.*
3. *Fostering capacity building for public servants to encourage the entrepreneurial approach and unconventional revenue dependence with incentives for revenue maximizing initiatives.*
4. *Incorporating accountability mechanisms into local governance structures to counter corruption and mismanagement.*

«All the academic references used in this brief are mentioned in the policy paper.»

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