# The Municipal Finances and Challenges of Municipal Taxation in Post-Revolutionary Tunisia

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# The Municipal Finances and Challenges of Municipal Taxation in Post-Revolutionary Tunisia

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## Abstract

What factors explain the deficiencies in local taxation income in developing countries undertaking decentralization reforms? In this paper, I focus on the municipal finances in post-revolutionary Tunisia to answer this question. I analyze the official data published by the Ministry of Local Affairs and Environment for each municipality and compare it with data on other municipal properties. Through a mixed-method approach, I examine the challenges the recently formed municipalities faced in collecting municipal tax income during the 2019 fiscal year. I identify that municipalities formed after the revolution (N=86) have substantively lower per capita taxation income than municipalities that existed before the revolution (N=264). To explain this phenomenon, I conducted semi-structured in-depth interviews between March and June 2022 with 10 mayors, council members, and bureaucrats. The interviews outline challenges in identification through data (*ihsa'*) and the absence of citizen collaboration – especially among municipalities that incorporated rural councils – as factors that led to the deficiencies in tax resources. The data collected under former municipal boundaries became unusable within the novel settings. As a result, new municipalities lacked information about businesses and services provided to households, severely limiting their tax income; rural councils previously did not collect taxes. After their incorporation into municipalities, citizens within such areas were either unaware of their current tax obligations or unwilling to pay them. My findings highlight the historical legacies of administrative capacity and citizen compliance on limiting local taxation capacity in developing countries.

Keywords: local governance, taxation, Tunisia, state capacity, municipalities

## 1. Introduction

What factors explain the deficiencies in local taxation income in developing countries undertaking decentralization reforms? This study focuses on the municipal finances in post-revolutionary Tunisia, where the Arab uprisings began in 2011. The elected Constituent Assembly passed a new constitution in 2014, and the parliament passed a local code (the Code of Local Authorities) in 2018, defining the novel municipal relations. The revolution brought Tunisia a semi-presidential system with multiparty democracy until Kais Saied's "constitutional coup" on July 25, 2021. Tunisia switched to a presidential system through a popular referendum on July 25, 2022.

Before the revolution, Tunisia's municipal resource allocation structure lacked transparency (Saghiyr, 2017, pp. 590–93). Most municipalities were in debt, relied heavily on state funds, and lacked powers and qualified staff (Clark et al., 2019). As outlined by the 2018 Code of Local Collectives, the decentralization reform envisioned the municipalities acquiring financial autonomy through a transparent process. However, the taxation capacity, which had already been limited, deteriorated even further (Guy and Dafflon, 2018, p. 178). A year after the decentralization reform, 60.3% of Tunisians did not pay their municipal taxes (Al-Bawsala, 2019).[1]

In this study, I provide an overall assessment of municipal income sources in Tunisia. I analyze the official data published by the Ministry of Local Affairs and Environment (MLAE) for each municipality with data on other municipal properties.[2] Through a mixed-method approach, I examine the challenges the recently formed municipalities faced in collecting municipal tax income in 2019. I chose 2019 over the most recent year for which data is available (2020) because of the COVID-19-related disruptions in municipal income, particularly on taxation.

I identify that municipalities formed after the revolution have substantively lower income per capita, particularly taxation income, than municipalities that existed before the revolution. To explain this phenomenon, I conducted semi-structured in-depth interviews between March and June 2022 with

[1] Among their reasons for not paying taxes, 32.2% of respondents indicated that they were not notified. Others cite reasons such as the inefficiency of municipal services.

[2] Before the 2011 revolution there were 264 municipalities. In 2015 and 2016 86 new municipalities were created, bringing the total to 350. (Decree no 600 and 601 dated 26 May 2016; decree no 205, 206 and 207 dated 11 January 2016; decree no 1262 to 1278 dated 11 September 2015, Governmental order 601 dated 26 May 2016).

10 mayors, council members, and bureaucrats. The interviews outline challenges in identification through data (*ihsa'*) and the absence of citizen collaboration, especially among municipalities that incorporated rural councils, as factors that led to the deficiencies in tax resources.

Taxation is a central component of state building (Fukuyama, 2014) and derives from two major dynamics: "a social contract based on bargaining around tax, and the institution building stimulus provided by the revenue imperative" (Bräutigam, 2008, p. 1). Taxation is intrinsically linked to the main pillars of democracy, as citizens who do not pay taxes are less likely to demand services and accountability or punish corrupt practices (Bräutigam, 2008; Persson and Rothstein, 2015). Tax evasion is often widespread in developing and transitioning countries (Alm and Martinez-Vazquez, 2003, p. 147). However, fiscal decentralization may increase revenue mobilization by reaching a greater share of GDP, as subnational governments may have a comparative advantage in identification and a greater incentive to collect taxes (Bahl and Bird, 2008, p. 3).

Decentralizing countries may initially lack established tax extraction mechanisms, or the mechanisms might be unevenly distributed across the regions (Boone, 2003). Formalization, or the formation of novel taxation institutions, may constitute a central component of decentralization (Lust and Rakner, 2018, p. 289). The extent to which the novel taxation structures succeed may depend on the administrative capacity (Bahl and Bird, 2008, p. 4) and citizen compliance (Alm and Martinez-Vazquez, 2003; Bodea and LeBas, 2016, pp. 150–156). Variations in such components could contribute to regional inequalities in collecting taxes (Bahl and Bird, 2008, p. 4). Therefore, historical legacies and critical junctures can define the shape of institutions and their taxation capacity in developing countries.

The limitation of tax capabilities is an ongoing challenge in the Middle East and North Africa (MENA) region (UCLG, 2009; Vollmann, 2020), including post-revolutionary Tunisia (Yerkes and Muasher, 2018). Although citizen demands from Tunisian municipalities increased after the revolution (Salman and Baird-Zars, 2019, pp. 265–67), municipalities continued to suffer from resource limitations. Furthermore, the organization of new municipalities was done in a top-down manner, with mainly security-based or clientelistic considerations, ignoring the local realities (Kherigi, 2021). As a result, the lack of a clear mandate combined with a limited budget constitute the main limitations of new municipalities (Blackman et al., 2021). My study builds upon these

findings to examine the causes of municipality tax income limitations, which stem from historical legacies of administrative capacity and citizen compliance.

## 2. Municipal Organization

A wide development discrepancy exists between Tunisia's more developed coastal and less developed southern and interior regions (Sadiki, 2019). The new municipalities are mostly located in the southern and interior regions, as Figure 1 indicates:

**Figure 1: The Geographic Distribution of New Municipalities**

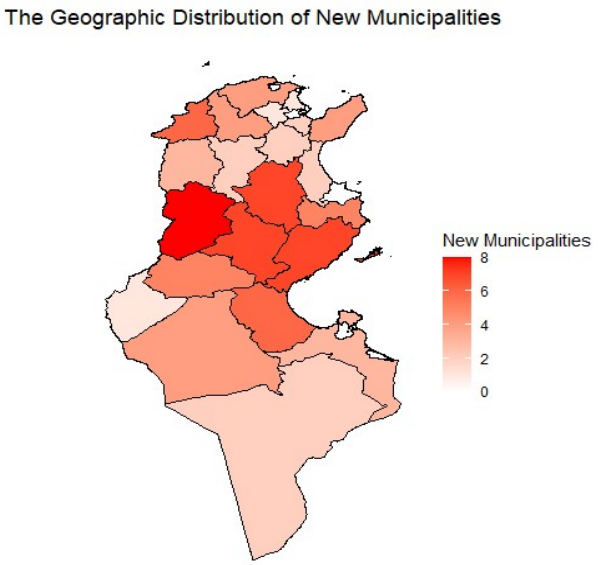



Table 1 compares the new and old municipalities based on some key properties:

**Table 1: The Properties of Old vs. New Municipalities, Distance: Distance to Governorate Capital**

| Status | Population | Urbanization % | Distance (km) |
|---|---|---|---|
| Old | 35594 | 66.25 | 30.40 |
| New | 18121 | 7.18 | 41.79 |

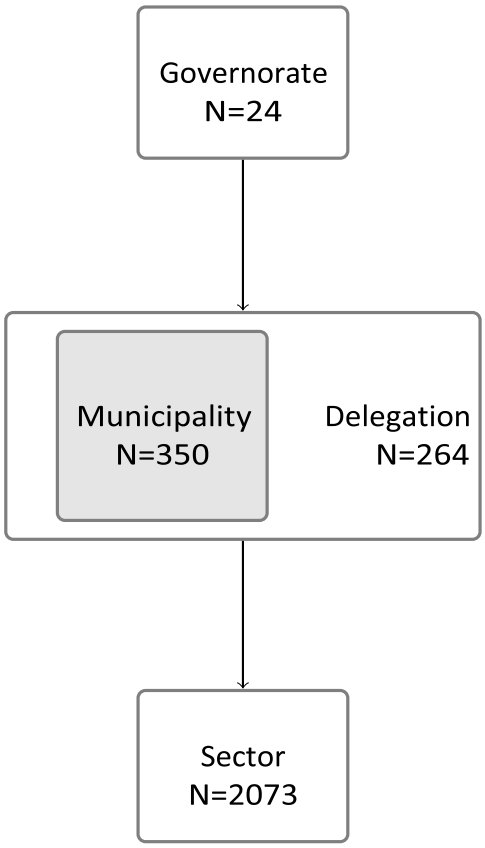
As Table 1 indicates, old municipalities tend to be twice as populous as the new.[3] Old municipalities also have more urban populations (66%) than the new ones (7.2%). In fact, only 11 of the 86 new municipalities have any urban population (>%0). This is understandable, as many new

[3] All data was obtained from the 2014 census at the sector level and adjusted to the municipal boundaries based on the author's calculations.

municipalities have incorporated areas with rural councils. Furthermore, old municipalities are closer to the governorate capitals (30.4 km on average) than the new municipalities (41.8 km on average).

In Tunisia, municipalities are organized within a broader administrative structure (Figure 2), which stretches from the governorate to sector levels.

**Figure 2: The Administrative Division of Tunisian Local Governance Structure**




Governorates (N=24) contain delegations (N=264) and municipalities (N=350), and delegations contain sectors (N=2073). If an office was obtained through an elected mandate, it is an extension of the decentralized authorities, and if appointed, an extension of the deconcentrated (Ribot, 2002, p. 4). Municipalities are decentralized units, whereas delegations, governorates, and sectors are extensions of the deconcentrated structure. Each delegation contains at least a single sector – the lowest administrative unit. Both municipalities and delegations are under the jurisprudence of the

governorate. The Cabinet/President and Ministry of the Interior appoint the governors.[4] Although the 2018 Local Code had specified that elections at the regional *cihat* (governorate) and territorial *iqliym* (a novel construction higher than governorate) levels (Janiyh, 2019, pp. 16–8), the prospects for these elections became unclear after President Saied's "self-coup".

Delegations are under the hierarchical authority of governors and assist the governors on technical matters (Al-Tiysawiy, 2020, p. 98). Some of the delegations' responsibilities overlap with those of municipalities, such as taking care of roads, sewage, public space, schools, and government offices.[5] Unlike delegations, municipalities have autonomy over their decisions. In most cases, the governors can intervene in municipal decisions in a post-hoc manner by challenging them in courts (2018 Local Code: Clauses 32, 108, 143, 163, 174, 278, 279). Yet, municipalities still rely on governors for a significant proportion of their budgets and to execute various projects (Yasun, 2022a). For instance, regional councils, which are chaired by governors, engage in many development projects for the lower units (ibid.). Both municipalities and delegations undertake projects for sectors.

The municipal elections have two forms of quotas. First, a gender quota mandates that women should lead 50% of candidate lists, and men and women should alternate within the lists (UNWomen, 2018). The second quota relates to the election formula. Council members are elected based on a 3% threshold of the proportional representation Hare quota system.[6] The number of votes is divided by the number of seats allocated within a council to determine a quota value. Each party that passes the quota threshold obtains at least one seat, and the remaining seats are allocated on the ratio of votes obtained by parties to the quota value.
Mayors are elected from among the popularly elected council members through a secret ballot.[7] If an absolute majority is not achieved in the first round (>%50), two mayors with the highest levels of support advance to the second round, where a majority determines the winner. As a result of the different selection procedures, and a quota formula that rewards smaller parties, in 290 out of 350

[4] Before President Kais Saied's intervention on July 25, 2021, appointments were undertaken in cooperation between the Cabinet and the Ministry and approved by the President. However, since July 25, 2021, Kais Saied has been appointing and dismissing governors at his own will.
[5] Interview with a former delegation chair in Tunis, 06/05/2022.
[6] Article 117 of Organic Law no 7(2017)
[7] Clause 49, 2018 Local Code

municipalities (83%), the mayors were elected to their posts even though their party did not hold a majority of seats within the council (Yasun, 2021).

## 3. Municipality Resources

The MLAE listed 10 different income sources for the municipalities, as outlined in the annual reports for each municipality. Table 2 provides a list of these sources as well as their descriptions:

**Table 2: The List of Municipality Income, Based on the Ministry of Local Affairs and Environment Definition**

| Title | Arabic | Description | Type | Labels |
|---|---|---|---|---|
| Tax Income | mudakhirrat jiba'iyya | Taxes from estates and businesses for services | Tax | 1 |
| Other Tax Income | mudakhirrat jiba'iyya ukhra | Revenues from bazaar, parking fees... | Tax | 2 |
| License fees | Al rusum waal huquq... | Fees from various certificates and licenses... | non-Tax | 3 |
| Income from municipal property... | mudakhilisgalve isti'mal... | parks, stadiums, kindergartens... owned by the municipalities. | non-Tax | 4 |
| Rental Income... and other | mudakhiyl wa mulk... | Rental income for commercial and industrial activity, sale of property, other... | non-Tax | 5 |
| Various savings and resources | Mudakhirat wa muarid mukhtalifa | Revenues from previous year, municipal police fees... | non-Tax | 6 |
| Internal Borrowing | al-iqtiraq al-dakhily | Borrowing from the Loan Fund | non-Tax | 7 |
| Transfers... (Titles) | tahawulat al-dawla... | Transfers from the Central Level | non-Tax | 8 |
| Transfers... (Credits) | muarid muta'atiyya... | Transfers from the Central Level | non-Tax | 9 |
| Equipment Grant | manah al-tajhiyz | Grant to renew municipality equipment | non-Tax | 10 |

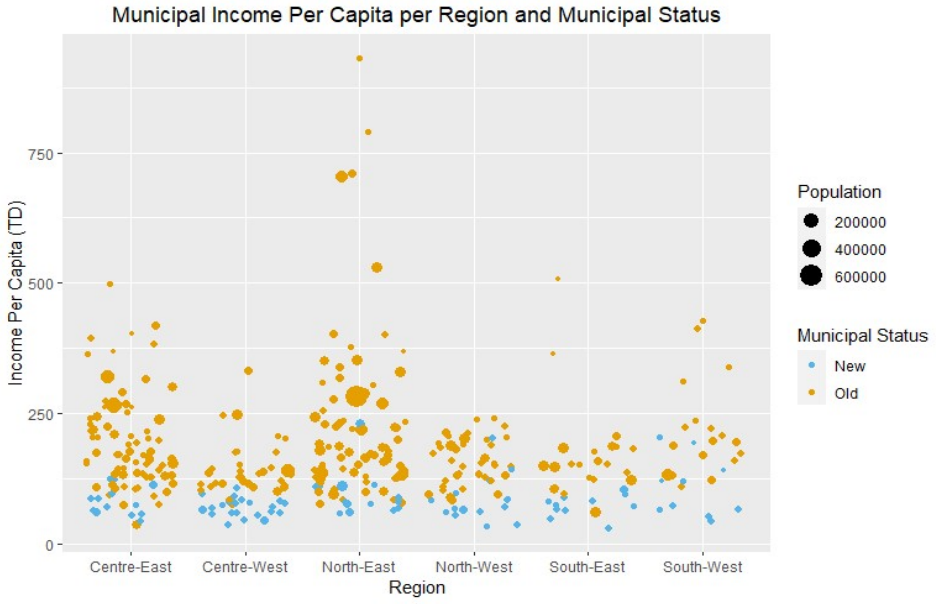
In Table 2, The first column provides a summary title in English, as the original titles are lengthy. The second column provides the title in Arabic (Latinized), the third provides a description, and

the fourth lists the type of income, as officially defined by the MLAE. Finally, the fifth column provides labels I assign for future reference.[8]

Labels 1 and 2 are municipal tax resources. Labels 8 and 9 constitute direct transfers from the central government. However, some other forms of transfers are embedded in other titles. For instance, the Decentralization Fund partially subsidizes tax income (Label 1) and license fees (Label 3). Such embedded subsidies are higher for poorer municipalities to compensate for their deficits.[9]

Figure 3 examines whether the total income per capita differs between the old and new municipalities.

**Figure 3: Total Income Per Capita (TD) by Municipality Status (2019)**




As Figure 3 indicates, new municipalities (blue dots) tend to have lower levels of income per capita (Tunisian Dinar) than the old municipalities (orange dots) across different regions. The average income for old municipalities is 194.1 Tunisian Dinars (TD), whereas, for the new municipalities, that value is 82.8 TD.

[8] I provide an example resource sheet in the Appendix.

[9] This statement is based on the author's own interpretation after examining resources for different municipalities, such as Dar Chaabane (Nabeul), Bouhajla (Kairouan) and Tunis.

One could argue that this is due to the differences in expenses. New municipalities have lower expenses and hence need less income. Figure 4 examines the budget surplus per capita (income per capita-expense per capita) between the old and new municipalities. Here, the expenses capture municipal salaries, interest, development, debt, and interest payments. However, they may exclude expenses for projects sponsored through other agencies, such as ministries. Furthermore, major social expenditures (education, health, social assistance) are often solely undertaken by or heavily subsidized through the central government.

**Figure 4: Municipal Budget Surplus (TD) by their Income Levels (2019)**

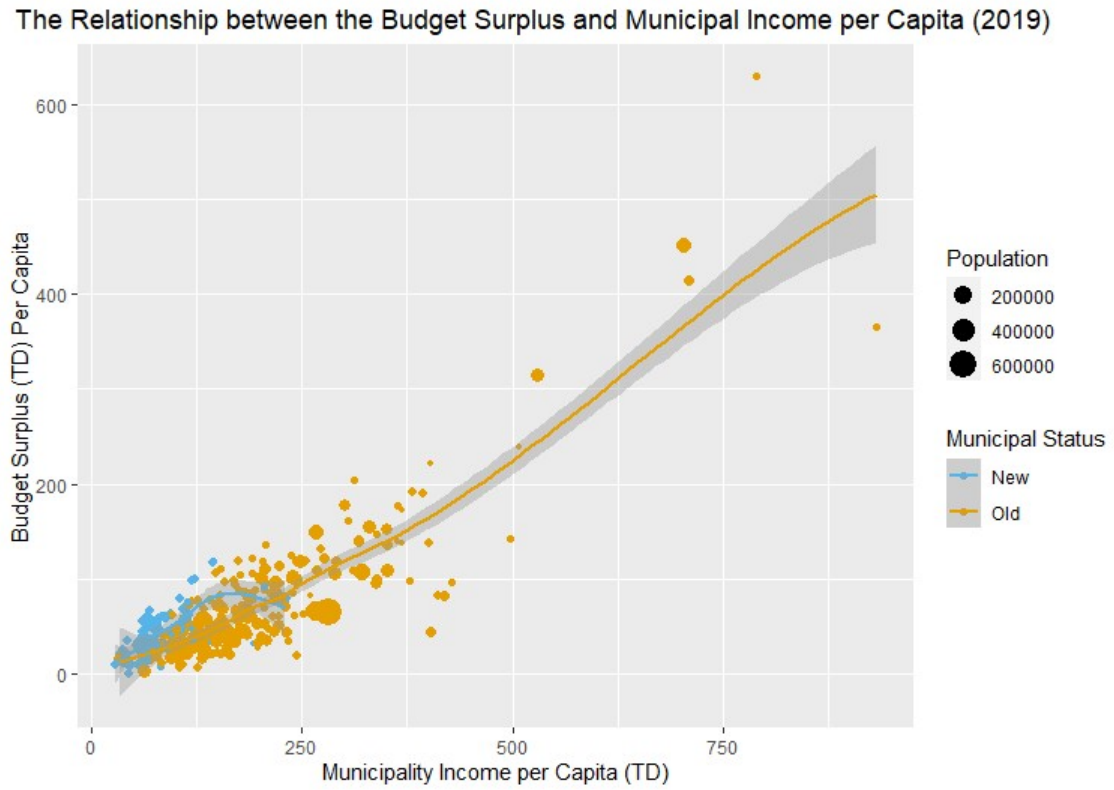
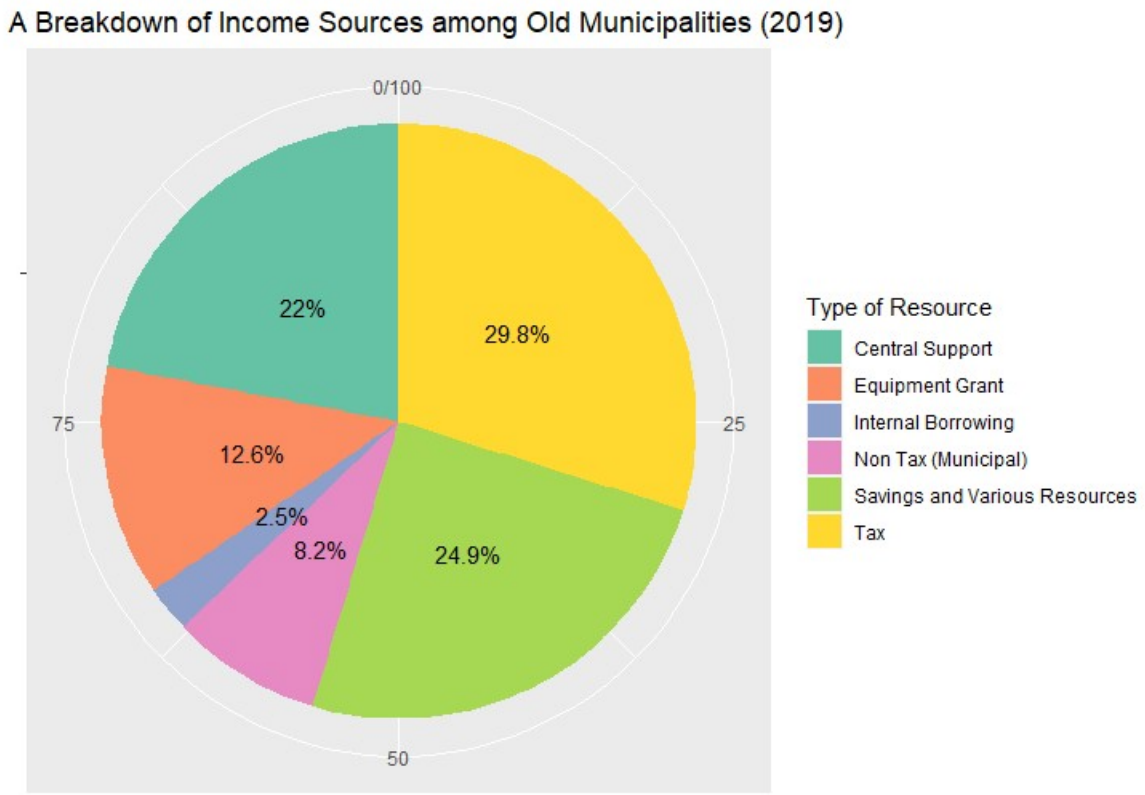



Figure 4 compares the budget surplus between new and old municipalities by their income levels (both per capita). For lower income levels, new municipalities (blue dots) have slightly higher surplus values per capita (in the Appendix, I include Figure 11 with municipalities that had less than 250 TD income per capita only). However, the difference between the old and new municipalities becomes indistinguishable as the income level reaches 200 TD per capita. New municipalities do not have any higher levels of income per capita beyond a ceiling value of 229 TD (Fouchana Municipality, Ben Arous). New municipalities may have fewer expenses at low-income levels as they

lack the administrative capacity to allocate their income efficiently. This also suggests that new municipalities have to deal with multiple challenges, and expenses alone cannot explain the variations in municipal income.

Figure 5 groups municipal resources between municipalities' tax income (Labels 1 and 2), municipalities' non-tax income (Labels 3,4,5), savings and other resources (Label 6), borrowing (Label 7), transfers (Labels 8, 9) and equipment grants (Label 10) for old municipalities:

**Figure 5: Municipal Income (Old Municipalities)**




As Figure 5 indicates, among old municipalities, most municipal income derives from municipal taxes (29.8%), followed by savings and other resources (24.9%), and central government support (22%). Figure 6 presents the income categories for the new municipalities:

**Figure 6: Municipal Income (New Municipalities)**

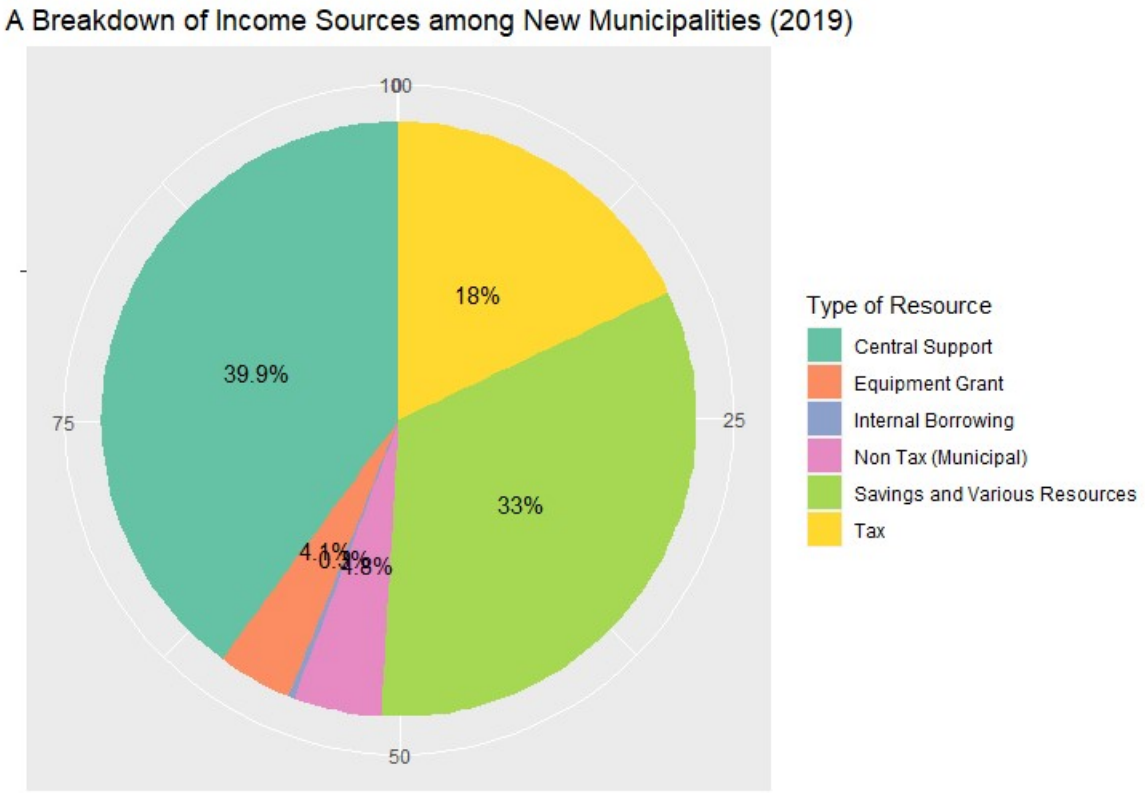



Figure 6 indicates that 39.9% of new municipalities' yearly income derives from central government support, 33% from "savings and other resources," and 18% from municipal tax income. Therefore, new municipalities are more reliant on central government resources and have fewer taxation income sources. In the following section, I analyze two central government (loan fund and state transfers) and municipal self-resources.

## 3.1 Central Government Resources

### *3.1.1 Loan Fund (Internal Borrowing)*

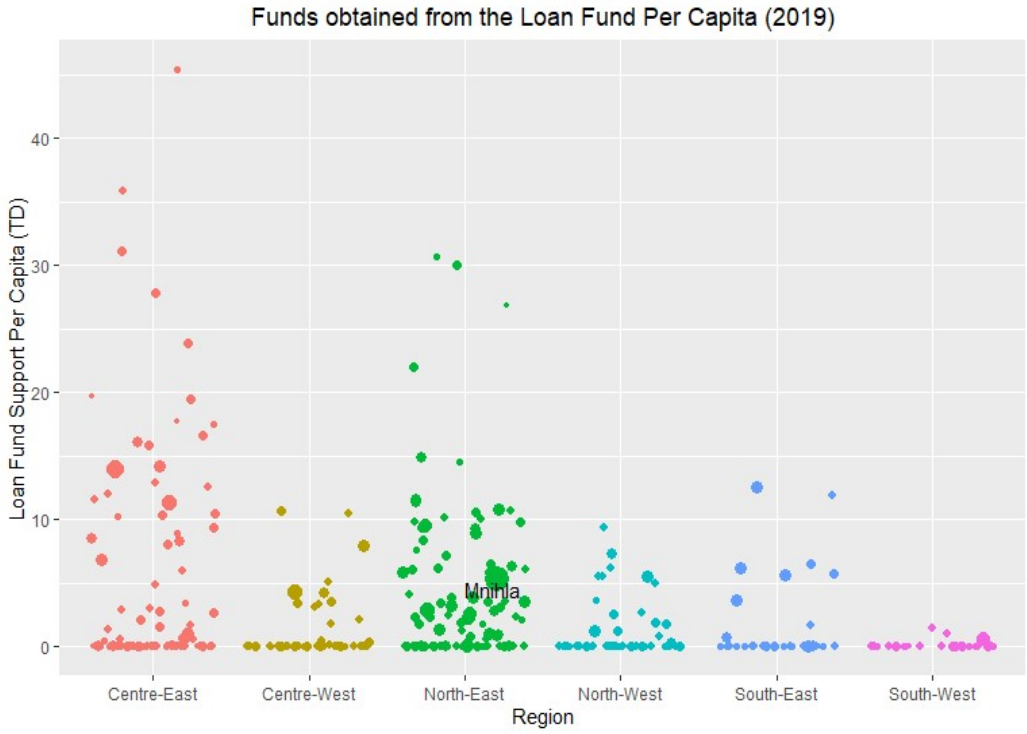
The Loan Fund (Label 7), established in 1902, constitutes a substantive funding source for local communities, distributing resources on the condition of repayment with principal and interest (Guy and Dafflon, 2018, p. 209). Municipalities may request resources from the Loan Fund through a three-fifths majority[10] for different projects, such as property maintenance, debt cleansing, and

[10] Clause 107.

resource improvement. These resources can be requested whether the project is conducted independently or in cooperation with other municipalities, the private sector, or civil society.[11]

The fund's evaluation criteria for resource allocation include feasibility, financial capacity, and the mode of execution (ibid., p. 226). The loan's surplus percentage, maturity, and costs covered vary from project to project.[12] The Loan Fund also provides exceptional funds and technical assistance for the specific needs of local communities, particularly to enhance performance capacity (ibid., pp. 235–236). While a valuable resource for the municipalities, it nevertheless comes with certain challenges. The majority vote might be difficult to obtain due to potential political conflicts within the council. Some evaluative criteria, such as transparent and participatory governance, may be difficult to achieve. Furthermore, the repayment requirement may create additional financial burdens, and favoritism may influence resource distribution, as some criteria remain ambiguous (INLUCC, 2016; Guy and Dafflon, 2018). Figure 7 describes the money borrowed from loan fund for six main geographical regions:

**Figure 7: Funds Obtained from the Loan Fund per Capita in 2019**




[11] Decree no 367, dated March 18th, 2016; Order no 3505, dated September 30th, 2014.
[12] Decree no. 1135 dated June 16, 1997.

Figure 7 indicates wide discrepancies in municipalities resorting to the Loan Fund. Municipalities from more developed Centre-East and North-East regions were the biggest resource recipients, whereas the more marginalized South-East and South-West regions received very few resources. Only one new municipality (Mnihla in Ariana) obtained resources from the Loan Fund in 2019. This is not surprising, as project approval can take substantive time, and many sectors incorporated into municipal bodies had not been tied to the councils.

### *3.1.2 State Transfers (Central Support)*

State transfers are unconditional payments to municipalities from both domestic and foreign sources. The resource transfer process is gradual, as the MLAE had specified that the state would move from allocating 4% of its annual budget to local communities in 2018 to 21% in 2027 (Group, 2019). Most of these resources are transferred under the titles of management and credits (Labels 8 and 9 in Table 2). The main credit sources are the non-allocated annual fund (mus¯a'd¯at ijm¯aliyya gayri mu¯affa), the allocated annual fund (mus¯a'd¯at ijm¯aliyya mu¯affa), the Decentralization Fund (sanduq da'am al-lamarkaziyya), and the Annual Support Fund (Al-da'am al-sanawiy al-maliy).

Specific considerations determine the amount and the recipient municipalities. The allocated annual fund focuses on national priority issues and covers the entire cost of projects.[13] The World Bank sponsors The Annual Support Fund, distributed to regional councils and municipalities. The non-allocated annual fund uses specific considerations when choosing the municipality, such as population and development level, and weighs them by governance-related considerations.[14] The Decentralization Fund[15] distributes resources based on positive discrimination to municipalities and regional councils.[16] Figure 8 displays the distribution (Labels 8 and 9) per capita by municipal status and region:

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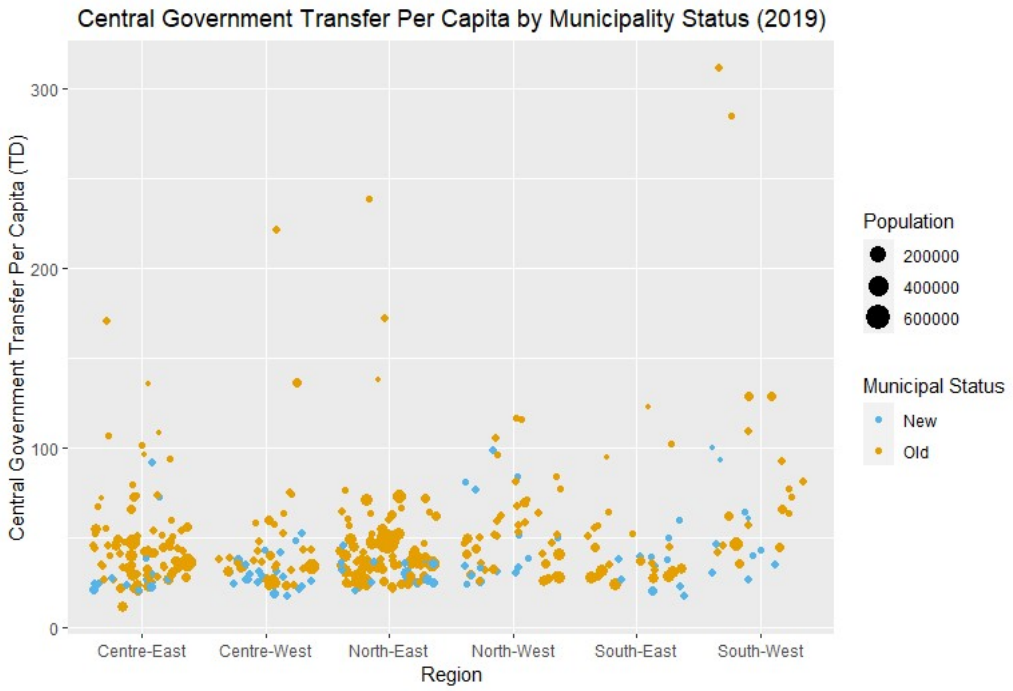
[13] Order no 3505, dated September 30th, 2014.

[14] These considerations include whether four council sessions are held per year, transparency, informing citizens online, preparing work programs for human conduct, processing ratio for complaints. See the order no 3505, dated September 30th, 2014; Governmental Decisions dating August 3rd, 2015 and December 29th, 2015; Ministry of Local Environment and Ministry of Finance decision, dated December 25th, 2018.

[15] 70% of the Decentralization Fund goes to the municipalities, 20% is to regions and finally 10% to territories

[16] It takes into consideration factors such as unemployment rate and the development index. Information was obtained from Governmental Order no. 46 for the year 2020 (dated 23 December 2020) regarding the budgetary law for 2021. Accessed through: https://legislation-securite.tn/ar/node/104932. Its full name is "the Fund to support decentralization, settlement, adjustment, and solidarity between local groups". The Decentralization Fund also takes over the resources of the Cooperation Fund (Clause 392, 2018 Code). Information obtained from Governmental Order no 2797 for the year 2020 (dated 8 July 2-2013). Accessed through: https://legislation-securite.tn/ar/node/104931.

**Figure 8: State Transfers per Capita in 2019**



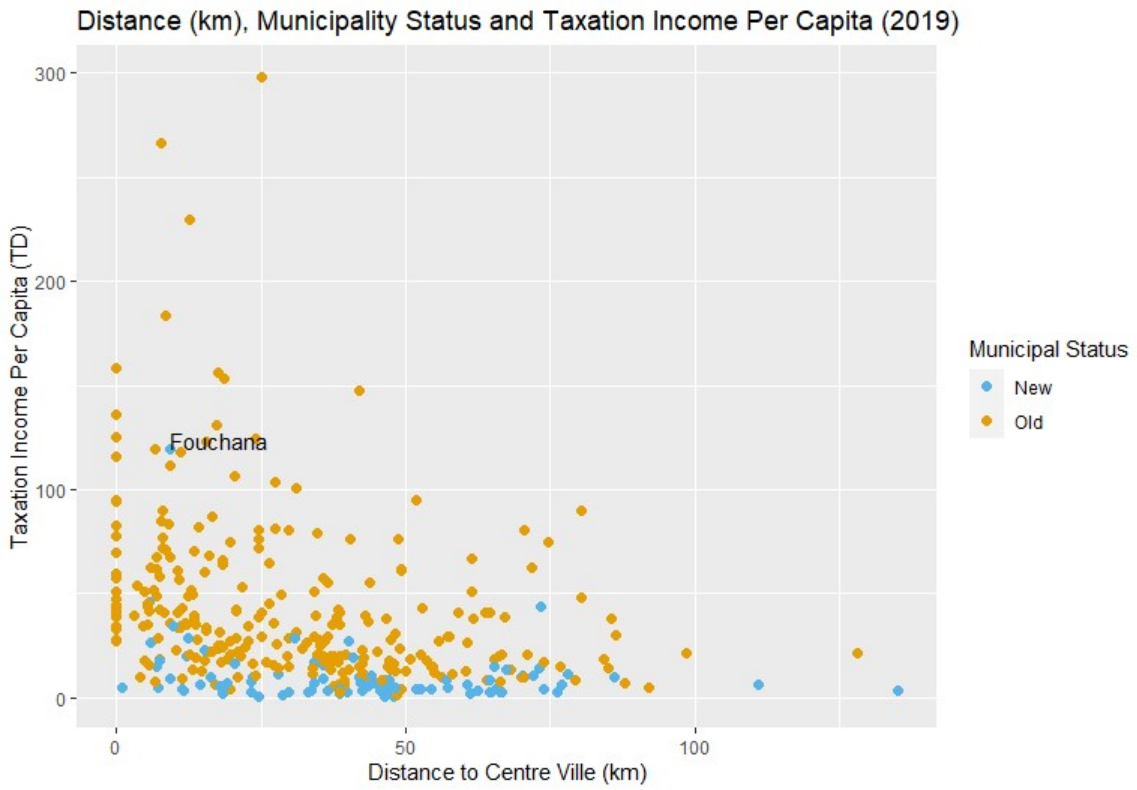

As Figure 8 indicates, the resources from state transfers per capita are more egalitarian across regions than resources obtained from the Loan Fund. Less developed regions, such as the South-West and South-East, obtained as much, if not more, transfers per capita than the more developed Centre-East and North-East regions. However, there is still some discrepancy in per capita resources obtained between New and Old Municipalities; new municipalities obtained 37.6 TD per capita, while old municipalities obtained 52.7 TD per capita.

### 3.2 Self-Resources

Municipal self-resources can be classified under two broad categories: tax income (Labels 1 and 2 in Table 2) and non-tax income (Labels 3,4,5,6 in Table 2) (Janiyh, 2019, p. 107). Tax income mainly derives from the services provided to estates and revenues, broadly referred to as *ma'alum* ([The Center for Formation and Decentralization], 2015, pp. 2–3). Among self-resources, *ma'alum* made the highest level of contributions to municipal income (Janiyh, 2019, p. 120). Non-tax income has various sources, including issuing licenses, fees paid to municipal police forces, income from municipal properties (such as parks and stadiums), rental income from trade activity, and resources rolling over from the previous year.

A substantive source of *ma'alum* derives from household payments for specific services, such as electricity, garbage collection, and street lighting. First identified within the 1997 Local Code, there are currently 82 different types of services.[17] Each local council fixes the *ma'alum* fees within pre-determined limits.[18] Figure 9 shows the taxation income per capita (Labels 1 and 2) in the old and new municipalities by their distance to governorate capital:[19]

**Figure 9: Distance (km), Municipality Status and Taxation Income Per Capita (2019)**




In Figure 9, the blue dots represent new municipalities, while the orange represents the old. The y-axis accounts for taxation income per capita, and the x-axis measures the distance to centreville (governorate capital) in km for each governorate. As Figure 9 indicates, a substantive gap exists between the old and new municipalities, even among those with a similar distance to centreville. The average taxation income per capita was 44.2 TD in the old municipalities and 10.9 TD in the new. Only one new municipality had a taxation income per capita greater than 50 TD (Fouchana), while 78 old municipalities did.

[17] Interview in Sfax, 03/29/22.
[18] Interview in Soukra, Ariana, 3/22/22.
[19] Each of the 24 governorates in Tunisia has a capital, where the main administrative branches are located.

Table 3 presents the regression analyses, with Taxation Per Capita as the dependent variable. I also include various control variables. Urbanization accounts for the percentage of the population living in urban areas within a municipality. Distance (in km) captures the distance of municipalities from their governorate capital. These variables account for both potential variations in tax income sources and access to central government resources. Finally, categorical variables for the regions capture the variation in the developmental patterns between regions.

**Table 3: Regression**

Table 3: Regression

| | *Dependent variable:* | | |
|---|---|---|---|
| | Taxation Income (Title 1 and 2) per Capita | | |
| | (1) | (2) | (3) |
| New | −23.310*** | −21.710*** | −9.503* |
| | (4.142) | (4.105) | (5.202) |
| Urbanization | | | 0.241*** |
| | | | (0.065) |
| Distance (km) | | −0.259*** | −0.172** |
| | | (0.076) | (0.078) |
| Population | 0.0002*** | 0.0002*** | 0.0001*** |
| | (0.00004) | (0.00004) | (0.00004) |
| Centre-West | −20.090*** | −16.700*** | −11.490** |
| | (5.582) | (5.585) | (5.660) |
| North-East | 14.350*** | 14.270*** | 13.830*** |
| | (4.821) | (4.747) | (4.662) |
| North-West | −18.560*** | −15.700*** | −10.790* |
| | (5.584) | (5.561) | (5.618) |
| South-East | −15.290** | −12.920** | −13.440** |
| | (6.572) | (6.509) | (6.392) |
| South-West | −21.550*** | −21.210*** | −20.280*** |
| | (6.994) | (6.888) | (6.767) |
| Constant | 41.310*** | 49.340*** | 29.800*** |
| | (3.667) | (4.305) | (6.750) |
| Observations | 350 | 350 | 350 |
| $R^2$ | 0.330 | 0.352 | 0.377 |
| Adjusted $R^2$ | 0.316 | 0.337 | 0.361 |
| Residual Std. Error | 32.090 (df = 342) | 31.590 (df = 341) | 31.020 (df = 340) |
| F Statistic | 24.060*** (df = 7; 342) | 23.180*** (df = 8; 341) | 22.910*** (df = 9; 340) |
| *Note:* | | | *p<0.1; **p<0.05; ***p<0.01 |

Table 3 indicates that new municipalities have lower taxation per capita than the old municipalities, even after the urbanization rate and distance to the governorate capital are included in the model ($p<.1$). To understand why new municipalities suffer from deficiencies in collecting tax income, I conducted interviews with mayors, council members, and administrators between March and June 2022. Figure 4 lists the title of interviewees, dates and locations of the interviews, as well as the governate/municipal status.

**Table 4: Interviews List**

| Date | Individual | Municipality | Governorate | Mun. Status |
|---|---|---|---|---|
| 03.21.2022 a | Bureaucrat | Ariana Governorate | NA | NA |
| 03.21.2022 b | Decentralization Expert | CSO | NA | NA |
| 03.22.2022 | Secretary-General | Soukra | Ariana | Old |
| 03.25.2022 | Secretary-General | Mornag | Ben Arous | Old |
| 03.28.2022 a | Mayor | Nasr | Sfax | New |
| 03.28.2022 b | Council Member | Nasr | Sfax | New |
| 03.29.2022 | Anonymous Secretary General | Anonymous | Sfax | Old |
| 04.1.2022 | Secretary-General | Awabet Khazanet | Sfax | New |
| 04.19.2022 | Bureaucrat | CFAD | NA | NA |
| 06.21.2022 | Council Member | Rouaed | Ariana | Old |

I conducted three interviews[20] in new municipalities and four in old municipalities. I chose to interview some officials in old municipalities (Soukra, Mornag, and Rouaed) because they have extensive experience managing municipal bodies. Furthermore, some of their municipalities have incorporated previously rural councils. Among the new municipalities, Nasr (Sfax) had a per capita taxation value of 9.5TD and a population of 16,976, slightly lower than the average value for new municipalities (10.9TD). In contrast, the taxation per capita of Awabet (Sfax – population 34,944) was 20TD. Due to COVID-related issues, I was unable to engage in representative sampling. Instead, I chose my respondents based on convenience sampling, relying on my former fieldwork ties (Yasun, 2022b).

[20] Each interview was approximately 30 to 45 minutes and conducted in Arabic. I noted responses in a notebook, which were then transcribed.

I also interviewed a Decentralization Expert, a bureaucrat Responsible for Municipal Affairs within the Ariana Governorate, and a bureaucrat within CFAD (Center for Formation and Supporting Decentralization). These interviews provided central authorities' perspectives on the limitations of taxation capabilities, including for municipalities not included in the sample.

### 3.3 Explaining the Tax Income Deficiencies in New Municipalities

The tax income limitations in new municipalities are due to deficiencies in physical capital and human resources. "Starting from zero", many new municipalities lacked official documents when they were formed.[21] Some still do not have municipal centers and instead rent their municipality space.[22] Some also lack competent administrative staff, including a secretary-general, who should be appointed by the central authority (Janiyh, 2019; Group, 2019, p. 129).[23] Such deficiencies put a burden on taxation capacity. As a mayor indicates, "The central government has given us the responsibility, but not the necessary sources to undertake projects... The administration [here] is new; we can't rely on them to collect taxes."[24]

New municipalities tend to offer fewer services and charge lower fees per unit utilized, lowering their *ma'alum* income.[25] They also tend to lack property;[26] some even lack a proper property registry.[27] While these are common deficiencies in rural municipalities, two factors that particularly inhibit the taxation capacity of new municipalities are the absence of data (*ihsa'*) and the incorporation of former rural councils in these new administrative bodies.

[21] Interview in Sfax, 03/29/2022
[22] Interview in Tunis, 04/19/2022
[23] Interviews in Nasr, 3/28/2022; Ariana, 3/21/2022, Sfax, 03/29/2022, Soukra-Ariana, 3/22/2022, Tunis, 04/19/2022. In a new municipality within the Sfax governorate, there are 5 administrative officials serving for approximately 40,000 residents. The central authority promised to allocate three additional administrative officials but did not fulfill their promise.
[24] Interview in Awabet, Sfax, 4/1/2022
[25] Interview in Ariana, 22/3/2022
[26] Interview in Ben Arous, 03/25/2022
[27] Interview in Tunis, 03/21/2022

### *3.3.1 The absence of data (ihsa')*

In developing countries, having accurate information is essential for collecting subnational taxes in developing countries (Bahl and Bird, 2008, p. 14). In Tunisia, a common cause for the limitations on tax income on estates and businesses (Labels 1 and 2 in Figure 2) is the lack of *ihsa'*, or data. This data could, for example, relate to firm specifications or municipally provided household services.[28] This absence of data makes identifying tax sources more difficult for municipalities;[29] no data means no taxes.[30]

Municipalities can collect *ihsa'* on their initiatives through either their administrative capacity or in collaboration with the private sector.[31] Many new municipalities find it challenging to collect data independently as they lack competent administrative staff or financial resources.[32] A project to collect *ihsa'* requires majority approval from the municipal councils, which may not always be possible due to, for instance, ongoing conflicts.[33] Furthermore, some municipalities simply choose not to demand taxes to avoid angering citizens or losing popularity.[34]

The last data collection for *ma'alum* on households was conducted in 2016 through a central authority initiative.[35] However, the information from the 2016 survey has mostly been inaccessible to the new municipalities. There are mixed accounts to explain why this is the case. It is possible that the information was not properly recorded within the areas of rural councils,[36] some areas were excluded in surveys,[37] or the territorial arrangements were split within novel municipal structures, making the information unusable.[38] The population dynamics within municipalities have also changed substantively due to the inward migration trends.

In developing countries, business taxes constitute a substantive source of municipal income (Bahl and Bird, 2008, p. 23). In Tunisia, municipalities are allowed to tax the branches of large firms, such

[28] Interview in 21/3/2022 Ariana; Tunis, 04/19/2022
[29] Interviews in Sfax, 03/29/2022 and Ariana, 03/21/2022.
[30] Interview in Sfax, 03/29/2022
[31] Interview in Sfax, 03/29/2022
[32] Interviews in Ariana, 03/21/2022; 06/21/2022
[33] Interviews in Sfax, 03/29/2022; Nasr, 03/28/2022
[34] Interviews in Tunis, 03/21/2022; Sfax, 03/29/2022
[35] Interview in Ariana, 21/3/2022
[36] Ben Arous, 3/25/2022, (Tunis, decentralization expert)
[37] Interview in Sfax, 03/28/2022
[38] Interview in Ariana, 3/21/2022

as the production units often located in rural areas.[39] While taxes on firms vary based on their income levels (The Center for Formation and Decentralization, 2015, p. 25), new municipalities sometimes do not have accurate records (*ihsa'*). As a result, firms do not pay their dues, or pay them to another municipality.[40] The formal identification of firms is often much more affordable than for households.[41] However, additional steps are often required beyond identification, such as visiting the branches and coordinating across multiple ministries.[42] These additional steps can be quite challenging for new municipalities that lack the proper administrative staff.[43] However, if executed successfully, they can substantively increase municipal income.[44] If, despite the initiative of municipalities, firms still do not pay their taxes, municipalities can collaborate with the Ministry of Finance to enact potential sanctions.

### *3.3.2 The Incorporation of Formal Rural Councils*

Some new municipalities have amalgamated the territories where municipalities did not exist and instead were governed through rural councils. The rural councils were mostly concentrated in the Western and Southern regions, serving about one-third of the population (Kherigi, 2021). They could not tax citizens[45] and were often neglected by the national authorities (Saghiyr, 2017; Group, 2019, pp. 596–597). Their meetings were held in governorate capitals, kilometers away from the regions themselves.[46] In the former rural council areas, citizens lacked an understanding of the importance of local taxes;[47] they wanted to see the development before paying.[48]

Many local taxes are voluntary,[49] and the sanction mechanisms for non-compliance are weak.[50] Citizens also expect debt forgiveness, which often happens once a decade.[51] In cases of non-compliance, issuing a charging order is sometimes an option, but it is administratively challenging

[39] Interview in Ben Arous, 3/25/2022
[40] Interviews in 28/3/2022, Sfax, 3/25/2022; Ben Arous, 3/25/2022
[41] Interview in Sfax, Nasr, 03/28/2022
[42] Interview in Ariana, 03/21/2022
[43] Interviews in Ariana, 03/21/2022; Tunis, 04/19/2022; Ben Arous, 3/25/2022
[44] In Mornag, the municipal income increased by 40,000TD ($2,300) due to the administration taking extra steps to record the local branch of a firm, interview in Ben Arous, Mornag, 3/25/2022; Interview in Nasr, Sfax, 03/28/2022
[45] Interview in Awabet, Sfax, 4/1/2022
[46] Interview in Tunis, 03/21/2022
[47] Interview in Tunis, 04/19/2022
[48] Interviews in Sfax, 03/28/2022; Ariana, 06/21/2022
[49] Interview in Awabet, Sfax, 4/1/2022
[50] Interviews in Ariana, 03/21/2022; Soukra, Ariana, 3/22/2022
[51] Interviews in Ariana, 03/21/2022; Tunis 03/21/2022

and rarely done.[52] As a result, dues are often only collected if citizens come to the municipal headquarters to obtain an additional service.[53]

Municipalities can substantively improve their taxation income by collecting data (*ihsa'*) and improving citizen service satisfaction.[54] However, officials believe a taxation income gap will persist between the old and new municipalities due to central authorities not providing the necessary support.[55]

## 4. Conclusion

This study first detailed the municipal arrangements and then examined municipal income sources in post-revolutionary Tunisia. Based on official data from the Ministry of Local Affairs and Environment, this paper identified a substantive gap in the per capita income levels between the old (formed before the revolution) and new (formed between 2015 and 2016) municipalities, even among those with similar characteristics. It then examined the sources of this gap, focusing on the tax income of municipalities.

A set of semi-structured interviews with mayors, council members, and bureaucrats identified the sources of the tax income deficits. New municipalities lack not only physical and human resources, but also data (*ihsa'*) about businesses and their properties and services offered to the households (*ma'alum*). As a result, new municipalities cannot tax a significant proportion of activity, substantively disadvantaging their incomes. Furthermore, citizens may be less aware or more reluctant to pay taxes in many new municipalities, particularly those that incorporated former rural councils. Weak enforcement and sanction mechanisms amplify the influence of these factors.

These findings underline the importance of historical legacies in shaping taxation capacity. Following an attempt to expand the tax base within a broader decentralization framework, the variations in inherited administrative structure and citizen compliance continue to exert substantive influence on taxation capacity. This suggests that countries with uneven administrative capacity and

[52] Interview in Ariana, 03/21/22
[53] Interviews in Ariana, 03/21/2022, in Nasr, Sfax, 03/28/2022
[54] Interview in Sfax, 03/28/2022
[55] Interviews in Mornag, 3/25/2022; Sfax, 4/1/2022; Ariana, 06/21/2022

development levels may experience many challenges when attempting to increase their state's capacity through undertaking decentralization reforms

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If municipalities lack the basic resources, decentralization reforms may not necessarily improve their financial autonomy or citizen compliance. Thus, countries undertaking decentralization reforms must consider the resource capacity of envisioned administrative structures. This includes taking into account the potential unintended consequences, such as former administrative data becoming unusable and municipalities lacking the capacity to collect taxes.

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# Appendix

**Figure 10: A Summary of Municipality Income for Tunis Municipality (2022)**

**خلاصة موارد ميزانية البلدية**

بحساب الدينار

| المبلغ | بيان الموارد |
|---|---|
| | **موارد العنوان الأوّل** |
| | **الجزء الأوّل: المداخيل الجبائية** |
| 81.200.000 | **الصنف الأوّل:** المعاليم الجبائية بعنوان الأداءات على العقارات والأنشطة ..... |
| 11.145.000 | **الصنف الثاني:** المداخيل الجبائية الأخرى ..... |
| **92.345.000** | **جملة الجزء الأوّل** |
| | **الجزء الثاني: المداخيل غير الجبائية الاعتيادية** |
| 11.461.000 | **الصنف الثالث:** الرسوم والحقوق ومختلف معاليم الرخص والموجبات الإدارية والإتاوات مقابل إسداء خدمات |
| 2.065.000 | **الصنف الرابع:** مداخيل أشغال واستعمال أملاك الجماعة وفضاءاتها واستلزام مرافقها وأملاكها المختلفة |
| 7.961.000 | **الصنف الخامس:** مداخيل ملك الجماعة المحلية ومساهماتها ومداخيل مختلفة ..... |
| 33.650.000 | **الصنف السادس:** تحويلات الدولة بعنوان التسيير ..... |
| **55.137.000** | **جملة الجزء الثاني** |
| **147.482.000** | **جملة موارد العنوان الأوّل** |
| | **موارد العنوان الثاني** |
| | **الجزء الثالث: الموارد الذاتية المخصّصة للتنمية** |
| 12.620.000 | **الصنف السابع:** منح التجهيز ..... |
| 44.040.000 | **الصنف الثامن:** مدخرات وموارد مختلفة ..... |
| **56.660.000** | **جملة الجزء الثالث** |
| | **الجزء الرابع: موارد الاقتراض** |
| 4.200.000 | **الصنف التاسع:** موارد الإقتراض الداخلي ..... |
| | **الصنف العاشر:** موارد الإقتراض الخارجي ..... |
| | **الصنف الحادي عشر:** موارد الإقتراض الخارجي الموظفة ..... |
| **4.200.000** | **جملة الجزء الرابع** |
| | **الجزء الخامس: الموارد المتأتية من الإعتمادات المحالة** |
| 1.099.302 | **الصنف الثاني عشر:** موارد متأتية من إعتمادات محالة ..... |
| **1.099.302** | **جملة الجزء الخامس** |
| | **الجزء السادس: الموارد الموظفة بواسطة حسابات أموال المشاركة** |
| 347.341 | **الصنف الثالث عشر:** موارد حسابات أموال المشاركة ..... |
| **347.341** | **جملة الجزء السادس** |
| **62.306.643** | **جملة موارد العنوان الثاني** |
| **209.788.643** | **جملة موارد ميزانية البلدية** |

**Figure 11: The Relationship between the Budget Surplus and Municipal Income Per Capita, Income Per Capita Capped at 250 TD**