About Administrative Decentralization in Lebanon
Introduction

As part of LCPS’s mission to disseminate policy research findings to decision makers, experts, and the wider public, this booklet presents facts and figures about the oil and gas sector in Lebanon, which we hope will contribute to a better understanding and perspective on the significance of the sector locally and internationally, as well as what the sector’s governance and sound development entails.

The booklet is divided into three main sections. The first section introduces the Lebanese energy sector and highlights the importance of petroleum to the Lebanese economy. The second section, ‘Where We Stand’, offers a description of Lebanon’s potential reserves and the progress of the sector compared to regional and international players, as well as the sector's institutional and fiscal framework. The final section, ‘The Way Forward’, presents the challenges that will eventually need to be addressed in the sector. This booklet combines information from LCPS research as well as external sources, which has been simplified and visually represented for those interested in learning about the oil and gas sector.

LCPS would like to thank the British Embassy in Lebanon for making the production of this booklet possible.
Government tiers

Central Government

8 governates

26 qadas

51 municipal unions

1,108 municipalities

Deconcentration

Decentralization

Source: Municipal law in Lebanon, decree-law 118/1977 and its amendments, articles 1, 47, 50
Municipalities
## Number of municipalities

The number of municipalities in Lebanon is high relative to its surface area and number of residents.

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of Municipalities</th>
<th>Surface Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lebanon</td>
<td>1,108</td>
<td>10,452 km²</td>
</tr>
<tr>
<td>Croatia</td>
<td>428</td>
<td>56,594 km²</td>
</tr>
<tr>
<td>Finland</td>
<td>336</td>
<td>338,424 km²</td>
</tr>
<tr>
<td>Cyprus</td>
<td>40</td>
<td>9,250 km²</td>
</tr>
</tbody>
</table>

2014 data, except Cyprus 2013
Definition and role of the municipality

Municipalities are local bodies with administrative and fiscal autonomy. They are endowed with tasks that have a public character or utility within their area and they are entrusted to establish, manage, and help in the implementation of projects like:

- Infrastructure
- Kindergartens
- Public schools
- Vocational training centers
- Playing fields
- Dispensaries
- Public hospitals
- Public housing

Source: Municipal law in Lebanon, decree-law 118/1977 and its amendments, articles 1, 47, 50
Local services

Municipalities provide services in different sectors including infrastructure

<table>
<thead>
<tr>
<th>Service</th>
<th>New services</th>
<th>Maintenance services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sidewalks</td>
<td>35%</td>
<td>49%</td>
</tr>
<tr>
<td>Potable water network</td>
<td>38%</td>
<td>55%</td>
</tr>
<tr>
<td>Road lighting network</td>
<td>62%</td>
<td>88%</td>
</tr>
<tr>
<td>Road paving</td>
<td>72%</td>
<td>88%</td>
</tr>
<tr>
<td>Retaining walls</td>
<td>82%</td>
<td>65%</td>
</tr>
</tbody>
</table>

Only 8% of municipalities offered all of the above services in 2012

Percentages refer to the number of municipalities that provide these services

Source: Atallah, "Municipal Performance", Sudgest Aid, 2012
Local spending

The share of local to central government spending is 6% in Lebanon, which is low compared to other countries.

- Lebanon: 6%
- Luxemborg: 11%
- Ireland: 13%
- Hungary: 22%
- France: 24%
- Switzerland: 42%
- Norway: 42%
- Finland: 56%
- Denmark: 85%

Source: IMF-Data and Statistics-Government Finance Statistics
Structural constraints

Municipalities are endowed with many prerogatives and responsibilities, but suffer from administrative constraints.

- **70%** Municipalities with a registered population lower than 4,000.
- **43%** Municipalities with an administrative structure.
- **400** Municipalities with one employee only.
- **87%** Municipalities with fewer than six employees.
- **68%** Municipalities that need new employees.
- **75%** Municipalities lacking the financial means to hire new employees.
- **57%** Municipalities that prefer to hire temporary employees.
- **30%** Mayors who are above the age of 64.

Sources of revenue

Municipalities are funded by seven sources of revenue, the most substantial ones being direct fees and the Independent Municipal Fund (IMF).

Other sources
Aid and loans
Revenues from municipal properties, including commons
Fines
Grants and bequests
Fees transferred from autonomous agencies and public institutions

Collected fee

Collected fees make up only 30% of the total budgeted fees

Source: Atallah, "Municipal Performance", Sudgest Aid, 2012
Municipalities are not allowed to impose any new tax or determine the tax base

Rental value fee

Even though rental value fees form a large part of municipal direct fees, their ratio to GDP is lower than the average in other countries.

0.016% 0.6%
Lebanon Developing and transitional economies

Municipal development level and collection rate

Municipalities in richer areas do not necessarily collect more taxes.

46% of municipalities in richer areas collect less than 30% of their total budgeted revenues.

Source: Municipalities' financial statements, 2010
Ministry of Interior and Municipalities, UN Habitat and Sudgest Aid, “Performance of municipalities questionnaire”, Lebanon 2011
Municipal performance and development level

A high development level does not necessarily translate into better municipal performance

1 Municipalities in poorer regions have a high performance level.
2 Municipalities in wealthier regions have a low performance level.

1 Development index lower than 40%
2 Performance index higher than 3
3 Development index higher than 60%
4 Performance index lower than 3

The development index was developed by Consultation and Research Institute (CRI) in 2006, and is composed of 12 indicators. The performance index is calculated based on 4 components: existence of development plan, existence of urban planning strategy, number of new infrastructure services provided and number of infrastructure maintained in 2012 data.

Source: Ministry of Interior and Municipalities, UN Habitat and Sudgest Aid, “Performance of municipalities questionnaire”, Lebanon 2011
Municipal Unions
Municipal union membership

There are 51 municipal unions in Lebanon with more than 700 municipalities

1/3 of municipal unions were founded before 1999
2/3 of municipal unions were founded after 2000

700 out of 1,108 Municipalities

51 Unions

2013 data
Municipal unions have many prerogatives, which include executing public projects with common benefits for all or some member municipalities, such as:

- Roads
- Sewerage systems
- Waste collection
- Slaughterhouses
- Civil defense Organization
- Transportation
- Cooperatives
- Souks
- Markets

Source: Municipal law in Lebanon, decree-law 118/1977 and its amendments, articles 1, 47, 50
Municipal unions’ prerogatives

Municipal unions have many prerogatives, which include executing public projects with common benefits for all or some member municipalities, such as:

- Roads
- Sewerage systems
- Waste collection
- Slaughterhouses
- Civil defense
- Organization of transportation
- Cooperatives
- Souks and markets

Source: Municipal law in Lebanon, decree-law 118/1977 and its amendments, articles 1, 47, 50
Municipal union size

Municipal unions have between 3 and 53 member municipalities with an average of 14 municipalities, spread accordingly:
Municipal union facts

- **70%** IMF share from total municipal unions’ revenues in 2011
- **42%** Municipal unions that do not collect any membership fees*
- **50%** Municipal unions whose president is present daily in the union’s headquarters*
- **58%** Municipal unions that do not have any full-time employees*
- **21%** Municipal unions that have one or two full-time employees*

*2013 data

Source: Municipal unions’ financial statement, 2010
LCPS, “Performance of municipal unions questionnaire”, 2013
Expenditures of municipal unions

More than half of municipal unions’ funds are spent on the construction of public roads.

**Other expenditures**
- Provision of public lighting networks
- Construction of public water networks
- Project studies
- Buildings
- Other facilities

Source: Municipal unions’ financial statement, 2010
Sources of municipal union financing

The most important source of municipal unions’ revenues is the Independent Municipal Fund

Municipal unions cannot impose or collect fees and taxes

Source: Municipal law in Lebanon, decree-law 118/1977 and its amendments, article 133
Independent Municipal Fund
Distribution of IMF funds

70% of municipal unions’ revenues and 31% of municipalities’ revenues come from the IMF

31% of total municipalities’ revenues come from the IMF

70% of total municipal unions’ revenues come from the IMF

Source
Municipalities’ financial statement, 2010
Municipal unions’ financial statement, 2010

2010 data
Intergovernmental grant transfers

Transfers for municipalities and municipal unions constitute 0.4% of GDP, a very low share compared to other countries.

IMF revenues

IMF revenues comprise 11 taxes and fees, only 7 of which are collected.

Revenue collection

Only $1.9 billion of the $2.7 billion that should have been collected for the IMF between 1999 and 2009 was actually collected.

Deductions and withdrawals

The IMF suffers from withdrawals and deductions to cover costs that do not benefit all municipalities

Collected sum
$1.9 billion

Deductions
$270 million
Salaries, wages, public works, waste management

Withdrawals
$246 million
Civil defense, villages without municipalities, school fee exemptions

Municipalities and municipal unions


1999-2009 data
Distribution of revenues

Revenue distribution by **Law**
- Municipal unions: 25% Municipal union budgets, 75% Development projects

Revenue distribution in **Reality**
- Municipal unions: 40% Based on number of municipalities, 60% Based on population size

**Municipal unions**
- At least 75%
- At most 25%

**Municipalities**
- At least 75%
- At most 25%

According to decree 1917/1979
- 88% Municipal union budgets, 12% Development projects

According to decree 10234/2013
- 95% Municipality budgets, 5% Civil defense

Revenue distribution criteria

Unfairness in IMF’s revenue distribution

1. Direct revenues are one of the criteria for distributing IMF revenues to municipalities. More than 80% of these revenues originate from fees related to the real estate sector, which is often more developed in urban rather than in rural areas. This results in an unfair distribution of revenues between urban and rural municipalities.

2. Part of the IMF revenues go to small municipalities (having a registered population lower than 4,000), based on the presumption that these municipalities are more in need of financial support and development projects. But in reality, 60% of small municipalities have high levels of development. Thus, such assumptions contribute to increasing the gap between rich and poor municipalities.

3. The registered, not the resident, population is a primary criterion for the distribution of IMF revenues, resulting in an unfair distribution. For example, there are 42 municipalities which have a registered population of 231,000, versus a resident population of 961,000.
