Restructuring Subnational Governance in Lebanon: Towards Efficient Public Spending and Reduced Regional Inequalities
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Executive Summary

The wave of mass protests that started in October 2019 have brought the dire state of Lebanon’s infrastructure and public services even more starkly to the public’s attention. In a country where subnational governments (SNGs) are already chronically underfunded, the ongoing economic, financial, and monetary crisis in Lebanon have further hampered the capabilities of SNGs to provide services and plan for long-term project development. This situation is further exacerbated by the presence of around 1.2 million refugees from Syria in need of assistance, and the catastrophic repercussions of the Covid-19 pandemic on the economy and the health sector.

In Beirut, Lebanon’s largest municipality, the devastating blast of 4 August 2020 not only killed more than 200 people and injured 7,000, it also caused extensive material damage, estimated at more than 15 billion USD, destroying thousands of businesses and leaving hundreds of thousands in need of housing and welfare.

Restructuring Lebanon’s Decentralisation System

Lebanon’s SNGs can play an essential role in the country’s recovery. But the existing decentralisation system suffers from structural deficiencies that undermine public service provision and the quality of infrastructure. The country’s decentralisation framework, dating back to 1977, needs to restructure its municipal and regional administrations to improve developmental outcomes at the local level.

This report reviews the structural conditions that constrain Lebanon’s SNGs to derive options that would make SNGs financially sustainable. By drawing on theoretical research, quantitative, and qualitative data, we argue that a new framework should be put in place, encompassing two key reforms aimed at enhancing the efficiency of public goods provisions. In a first step, the 2014 draft law on Administrative Decentralisation should serve as a basis for transferring tax collection and service provisions from the central government to newly established regional governments. In a second step, municipal mergers and inter-municipal collaboration should be facilitated to improve their financial position and administrative capacity.

This study reviews literature on the effects of decentralised governance and derives a set of preconditions for a novel SNG framework to achieve its goals. First, central government authorities must develop their institutional and technical capabilities to oversee and support the work of SNGs. Second, a new framework should improve central and regional governments’ financial standing by enhancing tax collection and the efficiency of service delivery. Third, any new SNG framework must contain strong transparency and accountability mechanisms to minimise the risk of state capture of public funds and to improve the efficiency of public spending. Fourth, regional governments must have the institutional capacity to efficiently carry out their responsibilities.

Incentivising Intermunicipal Collaboration and Mergers

With 1,058 municipalities, Lebanon has one of the highest numbers of municipalities relative to its surface area and population size. More than 70% of the municipalities have fewer than 4,000 registered residents and 38% have only one municipal employee. While the number of municipalities should be reduced through mergers, the requirements for the creation of municipalities need revising to include criteria such as population size and average income.

International experience suggests that, under certain conditions, mergers can make municipalities more financially viable. In some countries, mergers led to cost-efficient public spending, improved service provision, and better economic results in terms of employability. However, a cautious approach must be considered for Lebanon. Municipal mergers are not always successful, depending on economic and political conditions in each country. In this study, we show that it is preferable to incentivise mergers, rather than prescribing them, by changing taxation structures or offering lump sum payments. A necessary initial step to limit the number of municipalities would be to first create a legal mechanism to enable mergers of small municipalities that are adjacent and of similar size.

The central government should devise ways of promoting the benefits of mergers through, for instance, awareness campaigns and public consultations that focus on the opportunities that mergers generate increased investment, lower unemployment, and better public services. Key conditions for successful mergers include financial incentives from the centre. Emerging municipalities could be given a lump sum amount to initiate collaborative projects. These would support smaller municipalities with few financial resources and would also stimulate collaboration in joint projects.

It is also more effective to merge municipalities of similar economic levels. Richer towns tend to be dissatisfied when merged with poorer ones. To ensure an impartial representation within the municipal council, a fair municipal electoral law is essential. A
proportional representation system will encourage political engagement for citizens in smaller towns who might fear that their choices would be undermined under a majoritarian electoral law.

Another option to strengthen local governance is to incentivise inter-municipal partnerships and cooperation schemes. This can be done by creating ad hoc clusters that can be formed without decrees to implement joint projects. These can be temporary or permanent, based on the voluntary decision of neighbouring municipalities. Those clusters should stretch across administrative district borders.

To be sustainable, ad hoc municipal clusters need a source of revenue to finance and implement the uniting developmental projects. Basic methods to coordinate the financing of the clusters’ projects include: (1) lump sum funds from the central government, (2) legally binding agreements between municipalities to contribute shares and redistribute the project revenues, and (3) if the cluster was to be a permanent institution, then a regular share of intergovernmental transfers like the Independent Municipal Fund (IMF) should be made available. A council and a president for these clusters must be elected to carry out, administer, and supervise the intended projects.

Reforming the Municipal Taxation System

Lebanese municipalities enjoy, theoretically, a wide range of powers, which they cannot use because of low institutional capacities. While they are entitled to collect 16 taxes and fees, only half of the municipalities’ direct revenues are budgeted fees, and these represent only 1% of the Gross Domestic Product (GDP), a low ratio compared to peer-countries. Based on international standards and principles for local taxation and a thorough analysis of the list of all taxes and fees directly collected by municipalities, this report presents principles for local taxation reform in Lebanon.

We recommend the restructuring of the municipal taxation system based on three steps. First, tax rates as well as the margins within which municipalities are allowed to set taxes should be amended to improve the profitability of tax collection and reflect regional differences in income levels. Second, technical assistance within a novel national framework should enable municipalities to accurately specify and broaden their tax base by ensuring equality between taxpayers. Third, taxes that still prove unprofitable to collect should be merged or abrogated based on a qualitative study of the administrative challenges that municipalities face to collect taxes.

To raise accountability and improve tax collection, it is important to modernise financial management and institutionalise transparency. E-governance and the use of Geographic Information System (GIS) mapping that tracks tax collection are essential in this regard. To enhance the billing procedure, increasing the availability and choice of payment channels for taxpayers will be beneficial. Building the capacity of municipal human resources is also central to directly benefit the tax collection system. This can be done through a peer-to-peer exchange between strong SNGs and weaker ones.

Making Regional Administrations Fiscally Viable

Currently, regional administrations such as governorates and districts do not have financial and administrative autonomy and are limited to exerting deconcentrated powers. Decentralisation at a regional scale is deployed at the level of unions of municipalities (UoMs). In view of the pervasive regional inequalities across UoMs, and building on the 2014 Administrative Decentralisation draft law, we first derive a set of principles to devolve prerogatives from the central government to regional administrations. Such devolution will enhance the financial viability of SNGs and serve developmental purposes. We then identify a set of taxes to devolve and close with some remarks about the applicability of decentralisation in the present-day economic context. Another way of reducing inequality across regions is the redrawing of geographic boundaries based on the size, population, and income of SNGs to ensure equity across different districts.

On the qada (district) level, accountability should be a prerequisite to strengthening regional administrations. Qada administrations should be key developmental actors that have councils directly elected by the people. Elected officials are more likely to know and answer to their constituents’ needs than appointed officials. To ensure that, the 2014 Decentralisation draft law stipulates that every village should be proportionally represented in the qada council.

To ensure that qada councils function effectively, it is beneficial to develop a coherent executive authority. Authority will be given to a smaller and coherent team whose role will be to elaborate and implement a development strategy. Citizens and civil society organisations should be allowed to monitor the work of qada administrations by institutionalising transparency and access to information. Qadas must periodically collect, analyse, and publish data that pertain to its performance, decisions, and finances.

Qada councils should be mandated with a wide range of services as well as the fiscal power to implement them. A portion of the central government resources should be transferred to the district level to further support them, particularly weaker qadas. Property tax, a portion of the income tax, real estate registration fees, and other taxes and fees can be devolved to the districts.
Based on the draft law of 2014, a Decentralised Fund should replace the IMF and provide an additional revenue source for the district administrations. The new Fund should have a more transparent and more effective governance structure than the IMF, more resources and equitable distribution criteria to all SNGs. This new governance structure should ensure that the Fund is not misused for other spending.

An alternative to creating qada administrations is to restructure UoMs. UoMs should be geographically coherent and allowed to stretch beyond district borders. To ensure complementarity between UoMs and municipalities and avoid overlaps or duplication, the mandates of each should be clearly delineated.

In addition, UoMs can be strengthened by entrusting them with a taxation power. The Decentralised Fund should adopt new distribution criteria to ensure equality between the unions. Since many municipalities do not pay the required 10% contributions to UoMs, there should be a legal leverage or an institutionalised modality to transfer them directly to the union.

Restructuring the Intergovernmental Transfers

Lebanon has serious inefficiencies in its transfers of revenues from the central level to SNGs. The IMF, Lebanon’s intergovernmental transfer system, is legally required to finance SNGs, but faces four major constraints: (1) the central government does not publish the data on the IMF’s revenue sources and how the share of each SNG are calculated; (2) a major portion of the IMF is deducted or withdrawn by the central government for expenditures not related to SNGs; (3) IMF payments are often delayed and unsystematic; and (4) distribution criteria increase regional inequalities. As a result, SNGs struggle to plan their finances and use IMF resources for project funding.

There is a need for a regulatory and administrative structure to end the arbitrary deductions from the IMF in the form of an independent executive body, independent from the intervention of the central government and the Ministry of Interior. A transparent mechanism is required to monitor the transfers from the IMF on different expenses.

The distribution criteria of the IMF should be amended based on the following: (1) the payments should be calculated based on the number of the resident population instead of the registered population; (2) rural SNGs should be prioritised, as the larger demography of urban ones are privileged in the current system; (3) the number of municipalities within UoMs should not be a criteria in calculating the payment; and (4) the payment should not rely on the average of the last two years of direct revenues collected by the municipality.

IMF transfers should be paid in full rather than in instalments. Currently, it takes on average six months for SGNs to receive them, which makes it difficult for SGNs to plan budgets ahead of time.

For the central government to exert its oversight and guidance role, it is essential to decouple municipal affairs from the Ministry of Interior and establish a dedicated line ministry responsible for regulating regional development.

The findings of these study should be put into the current socio-political context. A revision of the fiscal decentralisation framework and the devolution of taxation powers to newly instated regional governments are a long-term endeavour that still largely depends on Lebanon’s recovery from the present-day economic, financial, and monetary crises.
Introduction

The wave of mass protests that started in October 2019 have brought the dire state of Lebanon’s infrastructure and public services even more starkly to the public’s attention. In a country where subnational governments (SNGs) are already chronically underfunded, the ongoing economic, financial, and monetary crisis in Lebanon have further hampered the capabilities of SNGs to provide services and plan for long-term project development.

While Beirut, Lebanon’s largest municipality, and Mount-Lebanon have relatively better infrastructure than the national average, peripheral areas like Akkar and Marjayoun, lag behind. However, the extensive material damage caused by the devastating blast of 4 August 2020 in Beirut has created massive relief and reconstruction needs, estimated at more than 15 billion USD. The explosion destroyed thousands of businesses and left hundreds of thousands in need of housing and welfare in the capital and the surrounding areas.

Lebanon’s SNGs can play an essential role in the country’s recovery. In the absence of a strong central government to guide regional development efforts and regional governments that lack the prerogatives for financial autonomy and service delivery,1 municipalities and unions of municipalities – henceforth referred to as subnational governments (SNGs) – can become the primary provider of public services.

During the diverse challenges in recent years, SNGs, the immediate contact of citizens with the state, have been the primary respondents. They have coordinated the responses to the Syrian refugee crisis 2012, were tasked with organising the disposal of solid waste in 2015 and are responsible for implementing measures towards mitigating the fallout of the Covid-19 health crisis in 2020. However, SNGs lack the financial and institutional resources to translate their legal prerogatives into developmental outcomes.

The inability of SNGs to assume their developmental responsibilities contributes to persisting economic, infrastructural, and social inequalities across regions.2 In an effort to address some of the shortcomings of the current decentralisation framework,3 the Lebanese Parliament has been discussing a draft law on Administrative Decentralisation (2014). The draft law aims to establish regional governments as an additional administrative tier, assigning them a range of political, administrative, and financial responsibilities, including a set of taxes to be levied at a regional level. While the draft law leaves the prerogatives of municipalities untouched, it offers a point of departure to strengthen subnational governance.

This report outlines options to restructure subnational governance in Lebanon to improve developmental outcomes. Strengthening subnational governance needs to be a central part of the reform response to improve the quality of public services and balance the development across regions. The policy options address all tiers of subnational governance, including municipal and regional governments, their interrelationship, as well as the role of the Independent Municipal Fund (IMF) and its intergovernmental transfers.

To strengthen subnational governance, a two-pronged framework should be followed. In a first step, municipal mergers and inter-municipal collaboration should be encouraged to improve their financial and administrative capacities. A taxation reform according to international standards can furthermore improve the effectiveness of tax collection of municipalities. In a second step, the 2014 draft law on Administrative Decentralisation should serve as a basis for transferring tax collection and service provision responsibilities from the central government to newly established regional governments. As the current economic conditions render devolution of the tax authority infeasible, further decentralisation should follow economic recovery that makes tax revenue flows predictable.

We first review theoretical arguments on fiscal decentralisation and discuss its merits and drawbacks. We then derive principles that fiscal decentralisation should follow to realise the desired efficiency gains and discuss the extent to which Lebanon’s present-day decentralisation framework satisfies these conditions. Section 1 discusses options to make municipalities financially sustainable, drawing on international experience with municipal mergers and other forms of subnational administration. In Section 2, we discuss regional administrations and options for devolving fiscal powers from central to local governments. Section 3 scrutinises the IMF and offers options for reform.

2 Garotte Sanchez, D. 2018. ‘Combating Corruption, a Necessary Step Toward Improving Infrastructure.’ Lebanese Center for Policy Studies.
3 Atallah, S., R. Baassiri, and J. Harb. 2014. ‘Municipal Finance Must Be Reformed to Address Lebanon’s Socio-Economic Crisis.’ Lebanese Center for Policy Studies.
Methodology

This study draws on theoretical literature on decentralisation, quantitative data from Lebanon and peer countries, and qualitative data on the current decentralisation structure in Lebanon.

In a first step, we draw on a comparative analysis of peer countries that underwent municipal mergers. By examining seven cases that either witnessed municipal mergers or that unsuccessfully attempted to merge municipalities, we focus on five aspects: (1) The type of merging, whether it was voluntary or compulsory; (2) push factors which incentivise mergers; (3) pull factors which discourage mergers; and (4) the implications of merging on service provision, expenditure, political engagement, and (5) other indicators. Based on these insights, we derive a set of principles for municipal mergers. We then review the literature on municipal taxation to derive principles for a municipal tax reform by conducting an examination of all municipal taxes according to the Law on Municipal Fees and Surtaxes and its amendments (Decree-Law No. 60, issued on 12 August 1988) as well as disaggregated data on municipal tax revenues.

We supplement the literature review on international experiences with a discussion on which indicators to use for defining cases as successes or failures. Drawing on the lessons learnt from these experiences, we derive principles for ad hoc regional clusters that could serve as alternatives to municipal mergers in Lebanon.

The study then examines the 2014 draft law on Administrative Decentralisation and proposes criteria for the devolution of financial prerogatives at the district level. We collect extensive data on qadas and UoMs from 1977 to 2019 to highlight the weaknesses in the capture of public funds by officials as well as tax evasion. It provides regional governments with incentives for economic development risk losing valuable tax revenues by experiencing falling land values and the loss of capital and labour.

Decentralised governance has important benefits. Firstly, distributing administrative and political responsibilities to regional governments can provide mechanisms to increase the incentives for public officials to improve public service provision and thereby development outcomes. Responsibility over their own sources of revenue is shown to enhance subnational public finances, improve tax collection, as well as the propensity to adhere to budget constraints. Such constraints to avoid overspending available revenues are particularly important in Lebanon given the inefficiency of accountability mechanisms for public officials. Furthermore, equalisation mechanisms via financial transfers can enable regional governments to offer the same standard of service across the country.

Secondly, localised revenue autonomy can curb state capture of public funds by officials as well as tax evasion. It provides regional governments with incentives to compete with each other for public sector resources and private sector investments, which fosters local economic prosperity rather than clientelist services. Local governments that fail to provide incentives for economic development risk losing valuable tax revenues by experiencing falling land values and the loss of capital and labour.
Thirldly, well-administered SNGs can improve the responsiveness of government and with that the trust of citizens in public institutions. This trust plays out positively in increasing tax collection rates and civic participation in political affairs, among other things. The success of local governments can also be established through new institutions and local taxation that spread the costs and benefits of governance across the whole of society. Finally, well-administered SNGs can lead to an increase in accountability. It is easier to hold local officials to account than national ones. This accountability increases, in turn, the likelihood of good governance, as local officials need to deliver on promised infrastructure and services.

Prerequisites for an Efficient SNG

Restructuring subnational governance can answer some of Lebanon’s most persistent challenges if the right framework is in place. As the current decentralisation framework in Lebanon dates to 1977, the new framework must draw on recent theoretical advances as well as international experiences. Based on a review of the literature on the political economy of decentralisation, we identify four central prerequisites that must inform the development of a new SNG framework.

Firstly, central governmental institutions must develop the institutional capacities and technical capabilities to administer and support SNGs. Redefining spending and revenue responsibilities across government tiers is complex and must be accompanied by adequate central governmental oversight. This requires mechanisms to oversee fiscal relations with SNGs, based on which rules and regulations can be credibly enforced. The focus of any novel decentralisation framework must ensure balanced development and government integrity. Decentralised governance should go hand in hand with a rule of law system at the central level that has strong accountability, monitoring, and backstopping mechanisms.

Secondly, a new framework should improve the financial position of both the central and regional governments by boosting tax collection and the efficiency of service delivery. Any devolution of tax assignments must be commensurate with the assignment of responsibilities for public services. That way, at the central level, revenue decreases can be matched with spending cuts to ensure a neutral or even positive impact on the fiscal performance. International experiences show that insufficient funds for regional governments undermine fiscal prudence. Underfunded regional governments may either constrain their spending, which ultimately reduces the quality of services they provide, or resort to unsustainable borrowing, in the case they are allowed to, expecting to be bailed out by the central government. A new framework must therefore clearly define responsibilities of each tier to avoid the duplication of spending.

Thirdly, any new SNG framework must establish strong accountability mechanisms that ensure the efficiency of public spending. Public financial management systems must make spending decisions transparent and tie public officials to their spending decisions. There are specific measures for making public finances transparent, including the publication of a realistic and timely budget, effective audit mechanisms to detect the misuse of public funds, and requirements for enforcing timely and accurate reporting. That way, a new SNG framework can unify the financial management systems of Lebanese SNGs with the national level and bring them to par with international standards. Moreover, the responsibility for tax administration and the assignment to the provision of services must be visible to taxpayers, in particular the base and rate of taxes levied at a regional level. As taxpayers’ knowledge about the assignment of their tax increases, so does their incentive to monitor how public officials are spending regional revenues.

Fourthly, regional governments must have the administrative capacity to efficiently carry out their spending and revenue responsibilities. For any tax to be collected at a subnational level, the cost of administering a tax must be lower than the amount of revenue it can generate. Ensuring sufficient administrative capacity at the regional level will be crucial to increase the low levels of tax collection that currently characterise tax collection at the municipal level. This could be facilitated by a transition to e-governance and an improvement of hiring procedures that bring qualified staff that utilise modern financial management systems.


15 International Monetary Fund. ‘Macro Policy Lessons for a Sound Design of Fiscal Decentralization.’


17 Ibid.
Lebanon’s Current Administrative Structure

Lebanon is a unitary state with a multi-tier governance system composed of the central government, regional governments (8 mohafazat or “governorates”), sub-regional governments (24 qadas or “districts”), unions of local governments (58 unions of municipalities), and local governments (1,058 municipalities) (Figure 1). While the mohafazat and qadas are deconcentrated levels of governance with no autonomous governance bodies, municipalities and their unions constitute the main decentralised tier of governance. Municipalities are governed by a municipal council elected by their registered population. The elected council then elects the mayor, who acts as the council’s chief executive. The council holds policymaking power which benefits from the administrative and financial autonomy granted by the Municipal Act.\(^\text{18}\)

Municipalities can form unions of municipalities (UoM) to implement common projects while retaining their individual autonomy. Municipalities and UoMs rely heavily on revenues from intergovernmental transfers, administered by the IMF.\(^\text{19}\) The IMF is funded by 11 taxes and fees collected by the central government, public agencies, and private companies on behalf of municipalities.\(^\text{20}\)

According to the Municipal Act (Decree-Law No. 118, issued on 30 June 1977 and its amendments), 25% of the IMF revenues should go to UoMs and 75% to municipalities. In practice, however, more than 25% of the IMF revenues are deducted by the central government before the distribution of funds and used for other purposes.\(^\text{21}\) A central government decree gives civil defence, for instance, 5% of these revenues annually, while other amounts go to school fee exemptions, central government wages, waste management, and other expenditures, which are deducted without any transparent legal mechanism.\(^\text{22}\)

While UoMs depend heavily on the IMF for revenues, they also depend on the financial contributions of their member municipalities, which are often not paid. By law, municipalities affiliated with a union must allocate 10% of their budget to the union, but there is no legal leverage for the unions to collect their dues if the member municipalities do not pay.

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\(^{18}\) Except for Beirut, which is headed by a governor, appointed by the Council of Ministers.

\(^{19}\) 31% of total municipalities’ revenues and 70% of total UoMs revenues come from the IMF.


\(^{21}\) Ibid.

\(^{22}\) Atallah. ‘Establishing Regional Administrations for Integrated Development.’
Restructuring Subnational Governance in Lebanon

Section 1: Making Lebanese Municipalities Sustainable

1.1. Towards a Strategy for Municipal Mergers

As Lebanon faces an economic, fiscal, and monetary crisis of existential dimensions, its municipalities suffer from falling revenues amid increasing responsibilities to address the crisis’ fallout. This section reviews Lebanon’s municipal taxation system and compares it to peer-countries and derives guidelines for reform to improve developmental outcomes. The section argues that a reduction of the number of municipalities combined with a reform of the taxation system can contribute towards making municipalities financially sustainable.

Weakness in Municipal Governance: Broad Prerogatives with Limited Fiscal Power

Lebanese municipalities are endowed with a wide range of responsibilities to provide and manage public goods and services, including natural resources, solid waste management, the environment, culture, infrastructure, police, and other services. To fund these responsibilities, municipalities substantially depend on two main sources for revenues: 31% of municipal revenues come from IMF transfers while 43% come from direct revenues. For small municipalities in 2008, the dependency on the IMF increased to up to 90% of revenues.

While the number of taxes and fees that municipalities can levy are high compared to international standards, they fail to provide a solid base for municipal taxation. Out of 16 direct taxes and fees municipalities can collect, only three types make up 86% of the total direct revenues (rental value tax, building permits, and pavement and sewerage maintenance). At the same time, revenues from municipal taxation are much lower than other countries, exposing shortcomings in administrative structures. For example, the ratio of the rental value fees to national GDP (0.016%), the equivalent to a property tax in Lebanon, is much lower than the average in developing and transitional economies (0.6%).

Several legal and administrative constraints undermine municipalities’ ability to fund their operations and render them dependent on other contributions. First, municipalities have no legal power to establish additional fees or re-define their tax base, depriving municipalities of opportunities to adjust their taxation to changing economic environments. Second, several financial constraints impede administrative capacities: 75% of municipalities do not have sufficient funds to hire new employees, while only 43% have an administrative structure and about 400 municipalities have only one employee. Lastly, the unreliability of IMF disbursements further undermines the ability of municipalities to forecast and plan developmental activities (see Section 3).

Comparing to Peer Countries: Too Many Municipalities

Many municipalities are too small to deliver quality public services. The number of municipalities has been constantly increasing since the municipal elections were held in 1998 for the first time in 35 years. In 2017, Lebanon recorded 1,045 municipalities, a 46% increase compared to the 709 municipalities in 1998 (Table 1). Although all regions witnessed a multiplication of the number of municipalities, South-Lebanon and North-Lebanon witnessed the largest relative increase (91% and 78%, respectively).

While fewer than 2% of municipalities have a registered population of 24,000 or more, over 70% of municipalities have a population of fewer than 4,000 registered citizens, while 45% have a population of fewer than 2,000 (Table 2).

23 Atallah. ‘Establishing Regional Administrations for Integrated Development.’
24 ICMA. ‘Municipal Finance Studies Program: Final Strategic Framework.’ Other sources of revenue include aid and loans, revenues from municipal properties, fines, and grants, among others.
26 These 16 taxes and fees comprise several sub-categories and make up a total of 36 single tax items municipalities can collect. For example, fees on advertisements are subdivided into four single items: investment and license fees on temporary and permanent advertisement of shops, as well as a weekly fee on ads outside cinemas and investment fees on ads displayed in cinemas.
27 ICMA. ‘Municipal Finance Studies Program: Final Strategic Framework.’
28 Ibid.
Table 1. Number of Municipalities in Lebanon, 1963–2017

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<tbody>
<tr>
<td>Mount-Lebanon</td>
<td></td>
<td>173</td>
<td>228</td>
<td>269</td>
<td>304</td>
<td>313</td>
<td>323</td>
<td>328</td>
<td>480</td>
<td>69</td>
</tr>
<tr>
<td>North-Lebanon and Akkar</td>
<td></td>
<td>60</td>
<td>105</td>
<td>157</td>
<td>212</td>
<td>238</td>
<td>267</td>
<td>280</td>
<td>385</td>
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<tr>
<td>Beqaa and Baalback-Hermel</td>
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<td>46</td>
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<tr>
<td>South-Lebanon</td>
<td></td>
<td>21</td>
<td>69</td>
<td>79</td>
<td>133</td>
<td>141</td>
<td>144</td>
<td>150</td>
<td>176</td>
<td>86</td>
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<td>Nabatiyeh</td>
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<td>71</td>
<td>81</td>
<td>115</td>
<td>116</td>
<td>117</td>
<td>118</td>
<td>131</td>
<td>90</td>
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<tr>
<td>Beirut</td>
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<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>339</td>
<td>580</td>
<td>709</td>
<td>904</td>
<td>964</td>
<td>1,018</td>
<td>1,045</td>
<td>1,409</td>
<td>74%</td>
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Table 2. Municipal Council Size in Relation to Registered Population Size

<table>
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<tr>
<th>Size of municipal council (members)</th>
<th>Registered population</th>
<th>Share of total municipalities</th>
</tr>
</thead>
<tbody>
<tr>
<td>9</td>
<td>≤2,000</td>
<td>45%</td>
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<tr>
<td>12</td>
<td>2,001–4,000</td>
<td>26%</td>
</tr>
<tr>
<td>15</td>
<td>4,001–12,000</td>
<td>23.6%</td>
</tr>
<tr>
<td>18</td>
<td>12,001–24,000</td>
<td>3.72%</td>
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<td>21</td>
<td>&gt; 24,000</td>
<td>1.5%</td>
</tr>
<tr>
<td>24</td>
<td>Beirut and Tripoli</td>
<td>0.18%</td>
</tr>
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</table>

Throughout this section, we compare Lebanon to peer countries to learn from international experiences: Jordan, Palestine, Bulgaria, Armenia, and Costa Rica. We choose these countries based on three central criteria that ensure comparability with Lebanon. First, they are unitary—rather than federal—countries. Second, they have one subnational tier of government with fiscal prerogatives, that is, municipalities. Third, they are upper-middle income countries of comparable wealth level. Compared to these peer-countries, the number of municipalities in Lebanon is high in terms of both its surface area and number of residents (Figure 2). Even countries with a larger population than Lebanon do not exhibit a higher number of municipalities (for a more comprehensive cross-country comparison, see Appendix 2).

**Municipal Mergers: Successes and Failures**

Mergers are considered successful when they lead to better service provision, efficiency gains, higher employment rates, and increased political engagement. But there are five challenges to evaluating the success of merging programmes. First, the objectives of a programme tend to be insufficiently specified, making it difficult to judge whether desired results are fulfilled or not. Second, improving efficiency does not necessarily increase effectiveness, since the reduction of funds spent does not guarantee better outcomes. Third, performance indicators risk overlooking the quality of services that municipalities offer. Fourth, even if outcomes improve, they may not necessarily be the consequence of the merging programme. Macroeconomic conditions can change during the programme, while some merging programmes can include the reorganisation of municipal services or existing inter-municipal collaboration. Fifth, changes in the way results are measured can make it difficult to compare outcomes before and after implementation.

To derive learnings for a merging programme in Lebanon, we review past international experience and qualify their successes and failures. Generally, the success of merging policies is determined by a set of political and macro-economic circumstances, requiring cross-country comparisons to be done with caution and by considering contextual factors. For each of the international merging experiences, we focus on four key aspects in a set of countries that have executed municipal merging programmes (Table 3):

1. **Type of merger**, whether it is voluntary or forced. Voluntary merging happens when the government runs a referendum or leaves it up to municipal officials to decide if they want to merge. In forced merging, the central government decides to merge local governments regardless of popular support. Often, merging policies include a combination of both: first a process of voluntary mergers is incentivised by the central government, while mergers become compulsory over time, as was the case in Germany and Finland.

2. **Push factors**, i.e. factors that incentivise municipalities to merge. Push factors are mainly economic and include prospects of economies of scale, larger investments, better services, higher employment, and the unification of populations into one political entity.

3. **Pull factors** are reasons that deter municipalities from merging. They are mostly political, e.g. fear of minority underrepresentation and lower access to resources.

4. **Post-merger outcomes**, by considering municipal public service delivery, expenditure per capita, employment rate, intra-municipal inequality, political engagement, amongst others.

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34 OECD Economic Surveys: Finland 2014.

35 Ibid.
Figure 2. Average Geographical Area in Square Kilometres (left) and Average Number of Residents (Right) of Municipalities in Peer-Countries

Table 3. Drivers and Outcomes of Municipal Merging Programmes

<table>
<thead>
<tr>
<th>Country/City</th>
<th>Period</th>
<th>Type of Merger</th>
<th>Push Factor(s)</th>
<th>Pull Factor(s)</th>
<th>Effects of Merging</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finland</td>
<td>2007–2013</td>
<td>Voluntary</td>
<td>Financial incentives; Economies of scale; Improved service delivery</td>
<td>Municipal rivalry; Differences in interest among municipalities; Small municipalities’ fear of losing decision-making power; Negative opinion of residents towards mergers</td>
<td>From 416 to 320 municipalities Reduction of number of municipalities in deficit Wider range of health services available Higher intra-municipal difference in satisfaction with public services and decrease in social services in politically marginalised municipalities No change in municipal expenditure Decrease of voter turnout in small municipalities (compared to small municipalities that did not merge)</td>
</tr>
<tr>
<td>Japan</td>
<td>1999–2006</td>
<td>Voluntary (incentivised by central government)</td>
<td>Fiscal incentives; Weak fiscal capacity of small municipalities</td>
<td>Small municipalities’ fear of losing decision-making power and thus benefitting from a lower level of public service; Difference in scale (minority)</td>
<td>From 3,232 to 1,821 municipalities Perceived weakening of public services Higher intra-municipal inequality Lower electoral and political engagement</td>
</tr>
<tr>
<td>The city of Abbotsford (Canada)</td>
<td>1995</td>
<td>Voluntary</td>
<td>Capacity to carry out large-scale business projects and investments; Economies of scale</td>
<td>Difference in cost between towns (due to difference in scale)</td>
<td>Cost savings from lower number of civil servants Greater capacity to carry out large infrastructure projects: upgrade of water and sewer infrastructures</td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>Country/City</th>
<th>Period</th>
<th>Type of Merger</th>
<th>Push Factor(s)</th>
<th>Pull Factor(s)</th>
<th>Effects of Merging</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jordan</td>
<td>2001</td>
<td>Forced</td>
<td>Economies of scale; Putting an end to spiralling municipal debt; Eliminating service duplication</td>
<td></td>
<td>From 328 to 99 municipalities (excluding Greater Amman) Some cost savings Lower loan dependency Less municipal staff, but same amount of expenditure on staff salaries Higher intra-municipal inequality</td>
</tr>
<tr>
<td>Barraba (Australia)</td>
<td>2004</td>
<td>Forced</td>
<td>Decrease in unemployment</td>
<td></td>
<td>Unemployment rates decreased, yet post-merger surveys reveal that residents did not perceive these decreases: Barraba: 15.3% to 7.8% unemployment Tamworth: 9.3% to 6.4%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1970s–2011</td>
<td>Combination</td>
<td>Improved service quality; Increased administrative efficiency; Fixed costs spread over larger area</td>
<td>Residents’ hostility; Strong local municipal identity; Less effective political yardstick competition</td>
<td>From 913 municipalities in 1970, to 403 in 2011 Reduced administrative spending No significant effect on aggregate spending: cost savings spent on increased service delivery</td>
</tr>
</tbody>
</table>

Source: Refer to Appendix 1 for detailed description for each experience.

Whereas push factors mainly pertained to economies of scale linked to administrative cost savings and efficiency gains, as well as improved public service delivery, pull factors pertained to governance and representation issues. In Finland and the Netherlands, some citizens reported having negative opinions of mergers, fearing that mergers would decrease political competition and thus impact local democracy.

International experience suggests that mergers usually meet some of their intended objectives. In Abbotsford, the municipality carried out infrastructure investments it had not been able to pursue in the past. In Finland, the number of municipalities facing fiscal difficulties decreased, because municipalities with large deficits merged with those in budgetary surplus. In the Netherlands, cost savings linked to reduced administrative spending were used to improve municipal services.

However, merging programmes can fail to meet their objectives. While policymakers often perceive mergers to improve the effectiveness of municipalities, there are also costs for merging, such as lower levels of competition between municipalities, increased intra-municipal inequality, weaker accountability, and lower levels of political trust and participation. Such challenges eventually led to lower levels of public service delivery in Japan and Jordan, only stable or increasing administrative costs in Jordan and Finland, or lower political engagement in Japan and Finland. In Jordan, for example, mergers did not reduce municipal budget deficits as intended. Expenditures on staff salaries remained high, making up on average 47% of municipal expenditures in 2004 (49% in 2016).

The evaluation of outcomes of merging programmes must be further qualified by examining their distributive consequences. Studies presenting economic averages hide substantial heterogeneity across the municipalities that have undergone mergers. The distribution of gains and losses from a merger varies across the newly formed municipality, especially if the merged municipalities varied in size and were geographically dispersed. In Japan, smaller peripheral municipalities experienced more cost-cutting than the larger entities they merged with. For example, school closures and healthcare downsizing were more apparent in peripheral areas of new municipalities. Similarly, politically underrepresented towns and villages in post-merger councils experienced decline in social services. In Jordan, the 2001 mergers increased intra-municipal inequality. In many cases, towns and villages located in the centre of municipalities benefited from higher levels of public services. Elite capture of public funds persisted, and many mayors favoured their own clan or pre-merger municipality in the distribution of public goods and services. Furthermore, smaller peripheral entities suffered from lower representation in municipal councils.

Lessons for Lebanon: Political and Social Considerations

Municipal mergers can improve administrative efficiency under certain conditions. International experience shows that governments must showcase the economic benefits that such process would trigger to increase popular acceptance for voluntary mergers. In Canada, where merging was voluntary, focusing on increased investments encouraged citizens to favour it. In Lebanon, mergers can be advocated by highlighting the benefits from economies of scale, lower administrative costs and per capita expenditure, and better services. These economic benefits would particularly benefit poorer municipalities that merge with richer ones.

International experience also suggests that participatory approaches should feature prominently in the planning stages of municipal mergers. Accountability and participation are cornerstones of local governance. By increasing the size of municipalities and thereby reducing the per capita size of municipal councils, mergers create concerns for local democracy and
political representation. Fears may arise given mergers’ potential distributive consequences. In Finland and Japan, these political concerns and fears decreased citizens’ trust in municipal government and belief that they could impact political affairs. A participatory design of municipal mergers helps counter resistance emanating from these concerns. Tools to strengthen citizen participation include opinion surveys, citizen consultative committees, consultative town halls, and referenda on merger decisions. A revised system should be representative of the country’s diversity, with the inclusion of marginalised groups and women during the consultative process. As governments embark on such participatory approaches, they need to reflect the outcome of such processes in the design of the merger to avoid inadvertently weakening civic participation in the future.

Several preconditions for successful merging emerge from the above discussion:

1. A legislative decree should specify new requirements for the creation of municipalities, such as financial and institutional capacities (revenues, administrative structure, adequacy of staffing level to fulfil municipal functions).
2. Mergers should focus on economic benefits, such as opportunities for infrastructure investment and improvements in public services.
3. A fair electoral law based on proportional representation would ensure representation of citizens in smaller towns or villages and encourage their political participation.
4. A legal mechanism should include requirements and sequential measures that municipalities should undertake. It is more desirable to start merging smaller municipalities that are not significantly different in size.
5. The central government should provide the consolidated municipalities with a lump sum amount to initiate collaborative projects. These projects will support small municipalities with weak financial resources and stimulate the necessary sense of unity.

Alternative Strategies for Municipal Partnerships: Ad Hoc Clusters

Another regional modality that can enhance inter-municipal cooperation is the creation of “ad hoc municipal clusters” that would allow adjacent municipalities to take up projects together. By law, municipalities can partner to implement a project or a common developmental agenda. This partnership can apply for a short- or longer-term period.

To improve the success of ad hoc clusters, institutional arrangements must be taken, and financial incentives could be provided by the central government to initiate collaborative projects, allowing municipal clusters to establish shared administrative bodies (building on Article 83 of the Municipal Act, which allows this for municipal police units) and appoint a steering committee to monitor the project and ensure greater cohesion.

Such options for inter-communal cooperation can be found in several countries. In Germany, municipalities have the option to collaborate in the form of a kommunaler Zweckverband (purpose-specific municipal unions), which establishes a novel legal entity entrusted with the authority to perform functions in specific policy areas that a single community would not be able to perform effectively, such as planning, financing, and running wastewater facilities, schools, local banks, or infrastructure planning. While a Zweckverband does not have the authority to levy its own taxes, contributions by each of its members make up the basis of their income, which can include their municipalities but also other legal entities. In addition, they are entitled to take on loans to realise capital-intensive projects, such as infrastructure, and profit from subsidies from national and international sources, such as the INTERREG-Programme of the European Union.

Similar functions are provided by the Établissements publics de coopération intercommunale (EPCI) in France. These associations can take the form of a novel entity, in which the cooperation takes over financial responsibilities, or a more flexible associative arrangement without fiscal responsibilities, which focus on the management of certain public functions. These arrangements proved flexible to cater to the needs for public service provision and at the same time preserve the local identities of citizens.57

54 Harjunen, O., Saarimaa, T., & Tukiainen, J. 2019. ‘Political representation and effects of municipal mergers.’
55 Ibid. Yamada, K. 2018. ‘From a Majority to a Minority: How Municipal Mergers in Japan Changed the Distribution of Political Powers and the Allocation of Public Services Within a Merged Municipality.’
These options for inter-communal collaboration necessitate institutional and financial arrangements to implement the uniting projects. In Lebanon, options to coordinate the financing of the clusters’ projects include: (1) lump sum funds from the central government; (2) legally binding agreements between municipalities to contribute explicit shares; and (3) a regular share of intergovernmental transfers like the IMF if the cluster were to become a permanent institution.

For greater responsiveness and accountability, a steering committee or supervisory board should be elected by the participating municipalities to carry out, administer, and supervise the intended projects, as is the case for UoMs. Similarly, municipal employees can be seconded to these clusters based on their skills and competencies.

In summary, ad hoc clusters can serve as an alternative to mergers when time pressing developmental projects are considered or mergers face other sets of challenges. The following aspects require consideration in the formation of ad hoc clusters in Lebanon:

- Ad hoc clusters should generally be formed to implement specific types of developmental projects, such as waste management. Should their institution remain permanent, this should be based on voluntary decisions by all member municipalities.
- While municipal mergers are suggested for only two or a small group of municipalities, ad hoc clusters can be for more and can more easily include members of different sizes.
- A council should be elected to carry out, administer, and supervise the intended projects of the ad hoc clusters.

Economic Benefits of Municipal Mergers and Impact on Tax Collection

Municipal mergers are usually motivated by reaching economies of scale in administrative functions and procedures, such as lowering the unit costs in the production of public goods and services as well as the reduction of transaction costs in the collection of taxes. Based on these considerations, a set of recent studies has estimated the optimal size of municipalities at between 25,000 and 250,000 residents, below which administrative costs are too high for public services and above which economies of scale no longer occur.

In addition, the impact of mergers on the production costs of public goods and administrative procedures requires an analysis of the labour and capital intensity of the tasks performed by municipalities. For labour-intensive tasks, such as policing and tax collection, the impact of mergers is lower than on capital-intensive tasks, such as infrastructure investment. Mergers, as well as other forms of resource-sharing agreements between municipalities, can therefore enable significant efficiency gains in tasks like waste management as well as infrastructure planning and financing.

A policy for incentivising municipal mergers in Lebanon should first prioritise small municipalities with no or few employees as well those of similar size. Since forced mergers are unlikely to succeed in the Lebanese context of weak executive capacities, they will have to be voluntary, incentivised by financial resources, such as project assistance and lump-sum payments.

Recommendations for Municipal Mergers

- A decree should specify the requirements as well as the sequence of steps for the creation of new municipalities. Criteria should include the population size and income; literature provides no evidence that other sociological determinants will increase the likelihood of success of mergers.
- The central government should lead a national awareness campaign that focuses on economic benefits, opportunities for increased investment, lower unemployment, and better services post-merging.
- A fair electoral law based on proportional representation to select the municipal council should be implemented to facilitate citizens’ political participation. Proportional election laws will encourage political engagement by citizens and marginalised groups in smaller towns or villages who might fear that their choices would be undermined by a majority electoral law.
- The central government should provide the new emerging municipality with a lump sum amount to initiate collaborative projects. These projects will support small municipalities with weak financial resources and will also stimulate the necessary sense of unity between the two merged municipalities as they proceed to implement projects together.

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60 Dollery and Fleming, ‘A Conceptual Note on Scale Economies Size Economies and Scope Economies in Australian Local Government.’
1.2. Reforming the Municipal Taxation System

The above discussed structural issues undermine tax collection of municipalities. To improve the efficiency of tax collection, a reviewed decentralisation framework should address three distinct issue areas of municipal taxation: administration, complexity, and structure. Administration refers to the way municipalities organise forecasting and collection efforts. For example, e-government is still underdeveloped so that tax collection is generally not done automatically via electronic payments but through tax collectors. In many municipalities, the tax valuation method is not digitised, which results in inconsistencies and manipulation, sometimes for electoral purposes. The high number of taxes and fees that must be administered requires from local administrations a degree of planning and forecasting that is too complex for many municipalities to meet. Structure refers to structural issues that undermine tax collection efforts at the level of incentives of both the central and local government. While improvements in the first two issue areas will alleviate some pressures of municipal taxation, only a novel decentralisation framework that restructures the prerogatives of subnational governments will be able to address such structural issues.

This section reviews Lebanon’s municipal taxation to reduce its complexity. We first conduct a comparison with the above identified peer-countries. Thereafter, we review the composition of Lebanon’s municipal taxes and identify a set of taxes to be abrogated or merged. We finish with an outlook of how to resolve some of the structural issues related to municipal taxation.

Comparison to Peer Countries

To learn from international experiences, we analyse the subnational government revenue structures of the five peer countries identified above: Jordan, Palestine, Bulgaria, Armenia, and Costa Rica. Our analysis reveals that municipal revenues vary widely across countries (Figure 3). In the five countries, municipal governments rely mainly on intergovernmental transfers (Bulgaria), revenue from taxes and fees (Jordan,61 Costa Rica, Palestine), or a mix of both (Armenia). In Armenia and Palestine, fees account for the majority of “other revenue”. On average across the five countries, nearly half of municipal governments’ revenue stems from taxes and fees.

Lebanese municipal governments predominantly rely on a mix of revenue from three taxes as well as from intergovernmental transfers and surcharges collected by other state institutions on their behalf. While municipalities collect few taxes themselves, the central government is assigned to collect them on their behalf and to reallocate them via the IMF (see Section 3). More generally, the experiences of other countries show that the higher the income of a country, the more its municipalities rely on revenue from taxes and fees, rather than intergovernmental transfers.62

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61 In Jordan, the central government collects taxes on behalf of municipal governments.

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Figure 3. Composition of Municipal Governments’ Revenues in Selected Countries
Source: OECD/UCLG, 2019; authors’ own calculations. Data for Lebanon is based on the year 2006.
We narrow the analysis to subnational tax and fee revenue to identify dominant patterns across countries. As a share of GDP, municipal tax and fee revenue is relatively homogeneous across the selected peer countries, averaging 1.6% of GDP excluding Palestine – due to differences in its fiscal accounting framework – and Lebanon (Figure 4). Accounting for 1% of GDP, Lebanese municipalities’ tax and fee revenue is much lower than in peer countries. At the same time, Lebanese municipalities rely on a higher number of taxes and fees (16) in comparison to municipalities in other countries (between 8 and 13 assigned taxes and fees).63

Tracing the composition of tax revenues reveals that municipalities in peer countries rely either on taxes on property or taxes on goods and services (Figure 5). In Palestine, Armenia and Bulgaria, revenue from taxes on property dominates. In Costa Rica and Jordan, revenue from the two types of taxes is roughly equal. For Lebanese municipalities to levy such taxes, administrative capacity must adapt to revenue collection based on taxes rather than solely on fees. In 2006, tax collection relied to 99% on property taxation in the form of rental value fees.

Examining the specific taxes and fees assigned to municipalities reveals recurrent patterns (Table 4). First, all peer countries rely on taxes on property as a source of municipal revenue. Second, three of the five countries include a tax on business or economic activity at the municipal level. Third, municipalities in all countries rely on fees on the provision of public goods and services, including fees on waste collection, electricity, water distribution, the delivery of building permits, local transportation, and public space.

The assigned fees are tailored to the specific context of the country, as reflected by the variety of fees across the five countries: out of the 27 fees included in Table 4, 19 are levied in one country only (calculation excludes Lebanon). In Armenia and Costa Rica, municipalities can determine taxes and fees in addition to those assigned by law, reflecting a high degree of autonomy.64

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64 Ibid.
Figure 5. Structure of Municipal Tax Revenue in Selected Countries
Source: IMF, Government Finance Database, 2019; authors’ own calculations.

Table 4. Taxes and Fees Assigned to Municipalities in Selected Countries

<table>
<thead>
<tr>
<th>Taxes</th>
<th>Palestine</th>
<th>Armenia</th>
<th>Bulgaria</th>
<th>Jordan</th>
<th>Costa Rica</th>
<th>Lebanon</th>
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<td>Taxes on property and land</td>
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<td>Construction tax</td>
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<tr>
<td>Taxes on goods and services</td>
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<td>Tax on business/economic activity</td>
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<td>Vehicle tax</td>
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<td>Share of tax levied on oil products</td>
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<td>Taxes on income and profits</td>
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<td>Share of profit tax</td>
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### Fees

#### Fees on municipal services

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<tr>
<th>Service</th>
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<tr>
<td>Fee on waste collection</td>
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<td>Share of fees on civic acts</td>
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#### Fees on business activities

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<td>Fee on retail and wholesale markets</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fee on pet ownership</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>Share of fees levied on oil products</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>Fees on auctions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>Fees on animal slaughters</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>Fees on inflammable and explosive material</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>Fees on gas stations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>Fees on street vendors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Yes</td>
</tr>
</tbody>
</table>

**Notes:**

1. Includes taxes on rental value and the renovation of buildings.
2. Includes entry to archaeologic sites with rates to be set by municipalities. Half of proceeds return to the National Treasury.
3. Includes fees on betting clubs and meeting places, such as cafes, casinos, and others.
4. Includes fees on statements and data of technical nature, such as on surfaces of property.
5. Registration services provided by central government.
Reviewing Lebanon's Municipal Taxes

We review the taxes and fees that Lebanon's municipalities levy to identify options to reduce the complexity of administration and incentives of collection. The Municipal Act and Law No. 60/1988 grant municipalities the right to collect 16 taxes and fees directly. These taxes cover a variety of areas of social life, from building permits to casino licenses and fees on animal slaughter.

Municipalities rely mostly on three taxes and fees for their direct revenue, the rental value fee, building permit fee, and sewerage and sidewalk fees (Figure 6). We disaggregate by municipal size as measured by their number of council members (9 and 12 for small ones, 15 and 18 for medium-sized ones, and 21 and 24 for large ones) to account for the possibility that collection patterns for smaller and potentially more rural municipalities differ from their bigger and more urban counterparts. We find that the same pattern holds for all sizes of municipalities as the share of revenue generated by these three fees is between 84% and 88% for all three sizes. While rental value fees are more important for smaller municipalities, large ones rely disproportionately on building permits. Revenues of other items are declining in share equally to the size of a municipality.

Based on the distribution of tax revenues, a reform of municipal taxation should follow three steps.

1. Amendment of the tax base
2. Abrogation or amendment of outdated taxes and fees
3. Enlarging the tax base

Amendment of Tax Base

Taxes generate meaningful revenues for municipalities by levying a percentage on the underlying value of an asset or service. By contrast, fees are collected on an incidence basis, and generate hardly any revenue, such as the license fee on advertisement in cinemas, street vendor licenses, or the license fee for fuel stations. When the base rate for these fees was revised in 1999 (pursuant to Law No. 107), it did not reflect inflation adjustments or income differentials across municipalities. That way, these fees contribute little to municipalities’ overall budgets and leave municipalities with little incentives to pay staff to collect them. The costs for an investment license for gas stations, for example, are low compared to their turnover and amount to a maximum of LBP 200,000 (around USD 28 according to the actual currency exchange rate in September 2020) while the yearly fee amounts to a maximum of LBP 100,000. For example, technical advice from the municipality offices, such as on...
property valuation, is provided for a flat fee of LBP 2,000. Similarly, the fee for slaughtering animals ranges between LBP 2,000 and LBP 8,000.

To improve municipal taxation, tax rates should be amended first to reflect present realities. Municipalities must then be given a larger margin to determine rates on their own. That way, municipalities can reflect varying income levels and allow richer municipalities to tax accordingly. In addition, taxes should be indexed to both the prevailing income level of a municipality and the level of price inflation. Generally, any amendments must emanate from considerations for equality among citizens to avoid the imposition of regressive taxes that place a higher burden on poorer parts of society.66

Enlarging the Tax Base

Due to the low level of tax collection as well as lack of administrative capabilities, municipalities, particularly smaller ones, are often unable to value the base for taxation accurately. Even the rental value fees, which form a large part of municipal direct fees, have a lower ratio to GDP than average (0.016% in Lebanon compared to 0.6% in developing and transitional economies).67 Assessing the tax base accurately is a prerequisite for effective budgeting of tax revenues, which facilitates project planning and IMF revenue disbursement. Moreover, identifying the constraints of a tax base facilitates finding measures to enhance it.

For municipalities to properly estimate the value of the tax base, central government support is needed. Updating the cadastre68 and accurately reflecting buildings and rental values will be crucial steps towards improving revenue collection of the building permit fee, the rental value fee as well as the renovation tax. Another important example is the tourist tax, of which the municipalities needs to transfer half to the central government, undermining incentives for municipalities to maintain touristic sites.

Abrogation and Amendment of Taxes and Fees

While most of these taxes are incidence-based and occur at the specific point of use of an item or service, they require forecasting and budgeting by municipal treasurers in addition to the actual collection efforts. For small municipalities that do not have established administrations, such workload is unrealistic and precipitates low-quality forecasting, unnecessary administration, and arbitrary tax collection. Streamlining the number of taxes and fees that municipalities levy will contribute towards concentrating municipal administrative activities on the most essential issues. The administration cost of a tax must be lower than their revenues.

In a third step, some fees should be abrogated. An assessment of which to abrogate, however, would necessitate an analysis of the elasticity tax revenues exhibit once they are set on a more flexible base that provides incentives for municipalities to collect them. A qualitative, in-depth analysis of administrative constraints preventing municipalities from collecting taxes should inform the feasibility of fees and their sub-components. As a first estimate, fees on auctions appear to require more administrative resources (as at least one municipal employee needs to be present at an auction) than can generally be generated. Fees on classified institutions, such as industrial establishments, include outdated fees on machines based on their horsepower, which is difficult to measure. The tax should therefore be amended to reflect the productive output of a company and – crucially – include taxes on negative externalities, such as pollution.

Resolving Structural Issues of Municipal Taxation

Amending and streamlining the municipal taxation framework set forth in Law No. 60/1988 will be only one important step towards greater municipal taxation efficiency. The challenges confronting municipalities, however, emanate from a set of structural issues that relate to the division of powers between the central and local governments. Eventually, the central government should give municipalities more autonomy. Due to the over-centralisation of decision-making in Lebanon, all significant financial decisions at the local level, including project financing, must be approved by the central government. This results in arbitrarily delayed or non-decisions, which significantly impedes planning activities of developmental projects and gives rise to political patronage in that projects are approved for political loyalty.69

These structural issues need to be addressed in a comprehensive new decentralisation framework that is informed by a more accurate understanding of the tax base available at the local level. Such an amendment needs to be accompanied by strong accountability mechanisms that include an electoral law to improve the checks and balances for local actors and avoid abuse of power at local levels. By widening opportunities for citizens to take part in local administration, increasing leeway for developmental projects, and being able to hold officials accountable, taxpayers will be much more likely to abide by regulations.

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66 Bird. ‘Subnational Taxation in Developing Countries: A Review of the Literature.’
67 ICMA. ‘Municipal Finance Studies Program: Final Strategic Framework.’
68 The cadastre is Lebanon’s official record/register of the owners of land and real estate as well as the amount and value of the land they own. It is used for calculating the amount of tax owed.
Recommendations for Tax Collection Efficiency

- A major amendment of municipal taxes to simplify, merge, and add margins of taxes is required for sustainable local governance. Such amendments can increase tax collection rates and consequently provide the revenues for municipalities to deliver public services.

- Amendments of the municipal taxation framework should follow a three-point plan:
  - First, municipal tax rates should be amended by adjusting both the tax rates and the margins that municipalities collect. These amendments should make it profitable to collect taxes and reflect differences in the income level of a municipality.
  - Second, municipalities need to be given technical assistance to accurately specify and broaden the tax base to facilitate budgeting efforts. A national framework should be created to ensure the consistency of valuation and equity between taxpayers.
  - Third, those taxes that still prove to be unprofitable to collect should be merged or abrogated but only after a qualitative study into the administrative challenges of municipalities has been drafted.

- To increase accountability and incentivise tax collection, transparency in financial management should be enhanced. E-governance and the use of GIS mapping and tracking tax collection are beneficial in this regard. Improving the use of Information Technology (IT) and building capacity of municipal staff can directly benefit the tax collection system. This can be achieved with the support of UoMs that can assist municipalities in conducting financial tasks, such as collecting rental value fees.

- Billing procedures should be standardised to improve tax collection procedures and their enforcement. This can be done through increasing availability and choice of payment channels available to taxpayers for the payment of rental value fees.

- Eventually, the central government should decentralise decision-making and reduce municipalities' dependencies on central political actors.
Section 2: Making Regional Governments Sustainable

Presently, in Lebanon the 8 governorates and 24 districts are the upper and lower deconcentrated tiers of the central government. As such, they have no governmental body, nor any specific tax revenue assigned. In this section, we discuss options to improve regional administrations. We do so by, first, discussing options to improve the workings of unions of municipalities (UoMs).

In a second step, we discuss the role of elected district councils as stipulated in the 2014 Administrative Decentralisation Bill. Under this bill, regional councils act as a new administrative tier with certain administrative, political, and fiscal duties, including tax collection. We identify suitable taxes for devolution and propose several scenarios for their funding. We close by putting our findings into the contemporary context of economic and financial crisis and argue that devolution will first require Lebanon’s economic recovery.

2.1. Revisiting Unions of Municipalities

The Municipal Act of 1977 authorised two or more municipalities to form unions of municipalities (UoM) through a government decree, at the request of the concerned municipalities. The UoM’s policy-making powers are in the hands of its union council, made up of representatives of member municipalities. Executive powers are held by a president, assisted by administrative units that carry out the UoM’s prerogatives: engineering and health, administrative and financial, and police. There are currently 58 UoMs in Lebanon that comprise more than 75% of municipalities (Appendix 3).

According to Article 126 of the Municipal Act, UoMs can coordinate or develop public projects of common interest from which the member municipalities can benefit. These projects include roads, sewerage, garbage, slaughterhouses, firefighting, organisation of transportation, co-operatives, and markets. Such projects are usually too costly for individual municipalities to pursue themselves, while they can reach economies of scale in bundling economic and administrative resources. UoMs and municipalities therefore pursue complementary roles in the types of projects they implement.

UoMs’ expenditures are not limited to specific sectors or services. The Municipal Act does not set requirements regarding the number of members, geographical area, or population size of the union. Presently, UoMs vary significantly in terms of size and population. For instance, half of UoMs comprise under 10 municipalities, while nearly one third comprise between 11 and 20 municipalities and 15% between 21 and 30 (Figure 7). On average, there are 12.4 municipalities per union. The heterogeneity among UoMs is also reflected in the large variations in budgets, which range from USD 0.3 million to USD 26 million in 2017. Although UoMs manage their own finances and budgets, they have no fiscal autonomy to impose or collect new taxes and fees. According to Article 133 of the Municipal Act, UoMs avail of the following funding sources:

- Ten percent of the revenues of member municipalities.
- An additional percentage of the budget of member municipalities benefiting from a joint project.
- Aid, loans, grants, and bequests.
- UoM property revenue.
- UoM’s share of Independent Municipal Fund transfers.

Figure 7. Distribution of UoMs by Number of Member Municipalities (2015)
Source: UN-Habitat, 2015 and Official Gazette, authors’ own calculations.


71 ICMA. ‘Municipal Finance Studies Program: Final Strategic Framework.’

The central government’s contribution to the budget of some unions, with the aim of funding specific development studies or recovery of areas in need. In their current form, UoMs are unable to carry out the developmental role they are required to fulfill. Many UoMs are administratively weak. According to a 2017 survey, 41% of UoMs do not meet the legal obligation of having a formalised administrative structure or lack bylaws and internal procedures. Although the Municipal Act calls for administrative units to support UoMs’ developmental role, many UoMs have insufficient human and financial resources to establish these units: 37% lack an engineering department, while 22% lack administrative and financial departments.

Financially, most UoMs suffer from persistent underfunding and unpredictable revenue streams. 74% of unions identify lack of financial resources as their primary weakness and main obstacle to enhancing their technical, administrative, and planning capacities. This is mainly caused by the UoMs’ dependency on the IMF (see Section 3) and on their member municipalities, which tend to bail on their annual contributions, as the Municipal Act does not entrust UoMs with the legal power to claim contributions if member municipalities do not pay them voluntarily. Previous research has found that in some UoMs the share of municipal contributions to the overall budget of UoMs is as low as 10%. Such uncertainty in budget forecasting impedes strategic coordination between municipalities and the implementation of common projects.

**Recommendations**

- UoMs should federate contiguous municipalities for ease of implementation of common projects.
- Minimum performance targets in terms of financial and institutional capacities should aim at limiting the number of small unions that are financially weak.
- UoMs should be given a legal mechanism to collect the yearly contributions of municipalities.

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74 Ibid.


76 Atallah, S. 2012. ‘Establishing Regional Administrations for Integrated Development.’
2.2. Devolution of Central Governmental Fiscal Powers to Regional Governments

Elected District Councils (Qadas)

The qada represents the lower level of administrative deconcentration in the current decentralisation framework (Table 5). They are headed by a grade-two civil servant, the qaimaqam, who represents the central government, supervises the general situation in the qada, and informs the central government of the developments through the governor (mohafez), a grade-one civil servant who heads the higher level of administrative deconcentration. Other roles include administering the regional offices of various ministries in the qada, controlling and supervising employees, implementing regulations, preserving public security and order, supervising the agricultural sector, granting licenses for hunting and building, imposing health measures, and appointing certain low-level employees.77

In April 2014, President Michel Sleiman officially introduced a Bill for Administrative Decentralisation, which stipulated the creation of regional governments (qada) in the form of elected councils. This was in line with the reforms introduced by the 1989 Ta’if Accord, which had called for the further devolution of authority from the central government to the regions.78 This elected council would have fiscal and administrative autonomy and elect a Board of Directors responsible for executive decisions on public matters.

The size of the council would be based on the population of each qada. To make it more representative than the current municipalities, the population living within the qada – both residents and people originally from the qada – are entitled to vote and run for elections. Accountability is further enhanced by facilitating citizens’ access to information about the work of the council and the Board of Directors. Transparency is institutionalised through the adoption of e-governance and information-sharing channels.

<table>
<thead>
<tr>
<th>Mohafaza</th>
<th>Number of Qadas</th>
<th>Number of Municipalities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Akkar</td>
<td>–</td>
<td>132</td>
</tr>
<tr>
<td>Baalback-Hermel</td>
<td>2</td>
<td>82</td>
</tr>
<tr>
<td>Beirut</td>
<td>–</td>
<td>1</td>
</tr>
<tr>
<td>Beqaa</td>
<td>3</td>
<td>86</td>
</tr>
<tr>
<td>Mount-Lebanon</td>
<td>6</td>
<td>328</td>
</tr>
<tr>
<td>Nabatiyeh</td>
<td>4</td>
<td>118</td>
</tr>
<tr>
<td>North-Lebanon</td>
<td>6</td>
<td>148</td>
</tr>
<tr>
<td>South-Lebanon</td>
<td>3</td>
<td>150</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>24</strong></td>
<td><strong>1,045</strong></td>
</tr>
</tbody>
</table>


Table 5. Governorates (Mohafazat), Districts (Qadas), and Municipalities in Lebanon (2017)

Tax Items to Be Devolved to Regional Governments

This section revisits the fiscal powers of regional governments. Building on previous research analysing taxes assigned to regional administrations in peer countries and the composition and volatility of Lebanese tax revenues,79 we identify tax items that could be devolved from the central government to newly created regional governments. In a second step, we provide scenarios for combinations of tax assignments to achieve a target level of regional revenues.

There are several mechanisms by which the devolution of fiscal powers can improve developmental outcomes. First, distributing administrative and political responsibilities to regional governments can increase the incentives of local politicians to improve service provisioning.80 As local actors enjoy responsibility over their own sources of revenue, subnational public finances tend to improve81 and actors are more likely to

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79 Atallah, Mahmalat, and Vennin. ‘Decentralization in Lebanon: Funding Regional Governments.’


adhere to budget constraints. Second, by increasing competition between SNGs, revenue autonomy can foster conditions for enhanced local economic prosperity.

Not all taxes are suitable for devolution to regional governments. Based on the prerequisites for an efficient SNG derived above, recent research identifies four criteria for devolving suitable taxes from central governments to regional ones:

1. Taxes’ visibility for taxpayers: Taxes should be visible in that citizens feel ownership over their payment. Visible taxes create a clear accountability link between taxpayers and regional governments by increasing the pressure on governments to justify expenditures.

2. Tax revenue volatility: The flow of revenues must be sufficiently stable to predict the services a regional government can offer to their constituencies. Volatile tax revenue impedes regional authorities’ ability to deliver a constant level of public services and can eventually threaten their fiscal viability.

3. Revenue basis: Taxes should be devolved in full to give regional governments responsibility over the administration of their tax revenue.

4. Taxes’ adequacy in terms of ratio of administrative effort relative to the revenue they generate: Revenue generation must outweigh administrative costs for incentivising regional governments to collect the taxes assigned to them.

The choice of taxes to be devolved depends on the targeted total amount of tax revenues to be assigned to regional governments. To determine this amount, the authors of the 2014 draft law took the governmental and subnational expenditures in peer countries of 25% as a benchmark. In Lebanon, these 25% result in expenditures of roughly USD 2.2 billion, based on a total governmental primary expenditure of about USD 9 billion in 2015. While municipal governments are responsible for roughly USD 0.5 billion in expenditures according to the figures of the 2014 draft law, regional governments would be assigned some USD 1.7 billion.

The authors of the draft law further found that peer countries tend to work with transfers administered by a central fund that manages and supervises payments across regional governments. These funds aim to ensure financial stability, to equalise regional disparities in public service provisioning and therefore administer roughly 40% of regional governments’ revenue. In the 2014 draft law, a Decentralisation Fund would replace the Independent Municipal Fund and administer roughly USD 0.7 billion for regional governments. The outstanding amount, some USD 1 billion, would be levied directly by regional governments.

Based on these four criteria and the target amount of tax revenue to be assigned, recent research has derived five taxes and fees as suitable for devolution to regional governments. These are the built property tax, real estate registration fees, the inheritance tax on property, private car registration fees, and car excises (Table 7). Real estate and private car registration fees have the advantage of being highly visible and exhibiting low volatility, while proving substantial revenue sources.

- The built property tax and the inheritance tax on property are also highly visible, yet their revenue exhibits more volatility than that of other taxes. Because these property and inheritance taxes would compose a significant part of regional governments’ tax revenue, the government would have an incentive to increase their currently low collection rates.

- For revenue to be commensurate with administrative efforts for tax collection, however, the devolution of property-related taxes and of real estate registration fees requires the update and improvement of Lebanon’s cadastre.

- Finally, tax revenue from car excises displays moderate volatility thanks to well-defined points of sale and contact with public authorities. While their revenue base is substantial compared to other candidates for devolution, car excises exhibit little potential for improving collection rates. Because cars are imported, collection of car excises and car registration fees by regional governments also requires close coordination with customs and import duty officials.

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84 Atallah, Mahmalat, and Vennin. ‘Decentralization in Lebanon: Funding Regional Governments.’


86 Atallah, Mahmalat, and Vennin. ‘Decentralization in Lebanon: Funding Regional Governments.’

87 Respectively 516.6 million USD and 160 million USD in 2015 revenue base. See: Atallah, Mahmalat, and Vennin. ‘Decentralization in Lebanon: Funding Regional Governments.’

88 Mahmalat and Atallah. ‘Why Does Lebanon Need CEDRE? How Fiscal Mismanagement and Low Taxation on Wealth Necessitate International Assistance.’

89 The 2015 revenue base of car excises was 318 million USD. See: Atallah, Mahmalat, and Vennin. ‘Decentralization in Lebanon: Funding Regional Governments.’
Restructuring Subnational Governance in Lebanon

Given the target amount of tax revenue to be devolved and the evaluation of potential regional taxes, previous research identifies three scenarios, each with four different tax items to be administered by regional governments in a new framework (Figure 8). In all three scenarios, taxes on car excise as well as real estate registration fees would set the foundation of regional tax revenues, as these are sufficiently large to deliver the needed revenues and prove to be the most suitable items for regional administration. Scenario 1 would levy private car registration fees as well as the built property tax, which would result in approximate revenues of USD 1.132 billion, slightly more than the target of USD 1 billion. Scenario 2 would leverage inheritance taxes instead of the built property tax and has slightly lower revenues with USD 1.047 billion. Scenario 3 would include both the inheritance tax and the built property tax instead of private car registration fees, which would amount to USD 1.028 billion.

Table 6. Evaluating Potential Regional Taxes

<table>
<thead>
<tr>
<th>Tax</th>
<th>Visibility</th>
<th>Volatility of tax revenue</th>
<th>2015 Revenue Base (in millions of USD)</th>
<th>Adequacy (administrative efforts for regional governments relative to revenue base)</th>
<th>Prerequisites</th>
</tr>
</thead>
<tbody>
<tr>
<td>Car excise</td>
<td>Moderate</td>
<td>Moderate</td>
<td>317.8</td>
<td>Commensurate</td>
<td>Coordination between regional governments and customs/import duty officials</td>
</tr>
<tr>
<td>Private car registration fee</td>
<td>Low</td>
<td>High</td>
<td>160</td>
<td>Commensurate</td>
<td>Coordination between regional governments and customs/import duty officials</td>
</tr>
<tr>
<td>Real estate registration fee</td>
<td>Low</td>
<td>High</td>
<td>515.6</td>
<td>Commensurate, but dependent on quality of administration of cadastre</td>
<td>Update and improvement of cadastre</td>
</tr>
<tr>
<td>Built property tax</td>
<td>High</td>
<td>High</td>
<td>139.4</td>
<td>Commensurate, but dependent on quality of administration of cadastre</td>
<td>Efficiency enhancing measures to reduce volatility and increase collection</td>
</tr>
<tr>
<td>Inheritance tax on property</td>
<td>High</td>
<td>High</td>
<td>55</td>
<td>Commensurate, but dependent on quality of administration of cadastre</td>
<td>Efficiency enhancing measures to reduce volatility and increase collection</td>
</tr>
</tbody>
</table>

Scenarios for Funding Regional Governments (qadas)

Table 6. Evaluating Potential Regional Taxes

<table>
<thead>
<tr>
<th>Tax</th>
<th>Visibility</th>
<th>Volatility of tax revenue</th>
<th>2015 Revenue Base (in millions of USD)</th>
<th>Adequacy (administrative efforts for regional governments relative to revenue base)</th>
<th>Prerequisites</th>
</tr>
</thead>
<tbody>
<tr>
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<td>317.8</td>
<td>Commensurate</td>
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<td>Efficiency enhancing measures to reduce volatility and increase collection</td>
</tr>
</tbody>
</table>

90 Based on the authors’ assessment. See also Bird, 2010. ‘Subnational Taxation in Developing Countries: A Review of the Literature’; and International Monetary Fund. ‘Macro Policy Lessons for a Sound Design of Fiscal Decentralization.’

91 Atallah, Mahmalat, and Vennin. ‘Decentralization in Lebanon: Funding Regional Governments.’

Figure 8. Three Scenarios for Tax assignments for Regional Governments in a New Decentralisation Framework (in millions of USD)
While the implications of administering the real estate registration fees and car excises would accrue in all scenarios, they have distinct advantages and disadvantages. Scenarios 1 and 2 contain the private car registration fees, which makes them less susceptible to volatility. Car excises exhibit moderate volatility given that the point of sale and contact with local administrations is well defined. These scenarios also carry the advantage of merging the administrative procedures for collecting taxes and fees related to car ownership. Yet, they exhibit the lowest potential to increase revenue collection.

Scenarios 1 and 3 have the potential to bundle administrative procedures related to the collection of real estate and property taxes. To become fully functional, however, these scenarios will require the update and improvement of Lebanon’s cadastre. Scenario 3 exhibits most potential for improving tax collection rates and can bundle all administrative procedures related to property taxes at the regional level. As tax collection rates for inheritance taxes and built property taxes are low, Qadas should be endowed with a mandate to follow the national authorities’ orders. To ensure that most voices are heard, the 2014 Administrative Decentralisation draft law stipulates that every village must be represented in the qada council, in a way proportional to the villages’ size.

The exact combination of taxes assigned to regional governments will depend on two constraints. First, the taxes must match the responsibilities for service provisioning assigned to regional governments and thereby their anticipated expenditures. Second, they must emanate from an economic model that allows for a sufficiently reliable forecasting of tax revenues depending on the overall performance of the economy.

This second constraint, however, requires fiscal decentralisation to newly instated regional governments to follow economic recovery from the present-day economic, financial, and monetary crisis. While the crisis has led to a significant decline in overall tax revenues, the two most substantial taxes to be devolved, car excises and the real estate registration fee, will be among the most significantly hit. New building permits, for example, have decreased by more than 50 percent from 2016 to 2019, while a further reduction is expected in 2020 and beyond. As part of a longer trend, banks significantly reduced credit to the private sector, which will depress the real estate sector. Similarly, car imports will experience a significant contraction due to capital account restrictions that hamper the sale of imported goods in US dollar.

As fiscal devolution requires predictability of revenues for regional governments, revenues from major tax sources must stabilise before decentralisation can be implemented. Given the transformation the economy is likely to undergo over the upcoming period, the above analysis must be updated to reflect changes in taxation and revenue flows.

**Recommendations**

- To increase accountability, qadas must be transformed into key developmental entities by having a council directly elected by the people. The rationale behind this is that elected officials are more likely to know and answer to their constituents’ needs than appointed officials who follow the national authorities’ orders. To ensure that most voices are heard, the 2014 Administrative Decentralisation draft law stipulates that every village must be represented in the qada council, in a way proportional to the villages’ size.

- Developing a coherent executive authority (which includes the president and vice-president of the district) is essential to ensure that councils are effective. The council must entrust a smaller and coherent team, whose job will be to develop and implement a developmental strategy.

- Qadas must periodically collect, analyse, and publish data linked to their performance, such as audit reports and decisions that are public in nature. They must also give citizens the right to access the executive authority’s decisions within a period of two days. This would allow the civil society and citizens to effectively monitor work done.

- Qadas should be endowed with a mandate to provide a wide range of services as well as the financial resources to do so. With that, they will be responsible for developing the region.

- To guarantee necessary fiscal resources, a set of taxes should be devolved to regional governments based on the criteria outlined in this section.

- Based on the 2014 draft law, a Decentralised Fund should replace the IMF and provide a new source of revenues for qadas. The created fund would enjoy a new governance structure, more resources, and equitable distribution criteria to both qadas and municipalities.

- Redrawing the administrative boundaries of qadas is a critical and political issue. It should be done in consultative processes with municipalities and citizens, while taking into consideration size, population, and income, to ensure equity across different districts.
<table>
<thead>
<tr>
<th>Type of reform</th>
<th>Number of municipalities</th>
<th>Type</th>
<th>Governance structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipal mergers</td>
<td>2 or more contiguous</td>
<td>Permanent</td>
<td>Directly elected council</td>
</tr>
<tr>
<td>Unions of Municipalities</td>
<td>2 or more contiguous</td>
<td>Permanent</td>
<td>Formed by the two municipal councils</td>
</tr>
<tr>
<td>Ad hoc clusters</td>
<td>2 or more</td>
<td>Temporary</td>
<td>Steering Committee</td>
</tr>
<tr>
<td>Creating regional governments (qadas)</td>
<td>All municipalities within the district (qada)</td>
<td>Permanent</td>
<td>Directly elected council and an executive body at district level</td>
</tr>
</tbody>
</table>
Section 3: Restructuring Lebanon’s Intergovernmental Transfer System

Intergovernmental transfer systems allocate resources such as taxes and fees from central to subnational governments. They serve as a mechanism to equalise resources between subnational governments to meet two main objectives. First, intergovernmental transfers ensure that municipalities have sufficient fiscal resources to meet their expenditure responsibilities. Second, they enable similar standards of public services across the country. In Lebanon, intergovernmental transfers are made through the Independent Municipal Fund (IMF), which, according to the Municipal Act, should distribute resources including taxes and fees from central to local governments. By law, the IMF should be managed by the Ministry of Interior and Municipalities.

According to Article 7 of Decree No. 1917/1979 (which sets forth the rules for calculating and disbursing the IMF payments), after removing 5% of IMF revenues used for civil defence, 75% of the remaining amount should be allocated to municipalities, and 25% to UoMs (Figure 9). 70% of the sum earmarked for municipalities should be allocated to support their budget while 30% is assigned to development projects (Article 11). As for the sum earmarked for UoMs, 25% is supposed to go to the UoMs' budgets, based on their registered population numbers, and 75% to development projects addressing their needs (Article 8) (Figure 9A).

Figure 9A. Distribution of IMF Revenues by Law


94 ICMA. ‘Municipal Finance Studies Program: Final Strategic Framework.’
However, the central government has consistently ignored this formula. In practice, both the Ministry of Finance and the Ministry of Interior and Municipalities decide the UoMs’ share of IMF revenues. In the past years, they have increased the share distributed to the budgets of UoMs from 25% to 60%, with the remaining 40% of UoMs’ share being distributed based on the number of member municipalities, rather than on developmental projects. Similarly, 60% of the revenues allocated to municipalities were based on the registered population numbers and 40% on actual direct revenues collected during the previous two years (Figure 9B).

Therefore, if both ministers do not agree with each other on the disbursement of the funds – as is often the case for personal or political reasons –, SNGs do not receive their payment. By controlling the IMF, the central government not only subjects the IMF’s revenue distribution to political bargaining,95 it also undermines the independence of the Fund and the financial autonomy of SNGs, given their dependence on these disbursements.

This section situates the IMF in international comparison and discusses common challenges with its distribution. First, the IMF tends to delay payments which undermines planning activities of municipalities. Second, a lack of transparency and oversight in the process of disbursement leads to corruption and the misuse of funds. And third, based on several changes in the way the distribution criteria are applied over time, the distribution mechanism advantage wealthier municipalities, which increases regional inequality in the provision of public services. We close with a note on the challenges for IMF transfers in light of the ongoing economic, financial, and currency crisis that broke out in the fall of 2019.

IMF in international comparison

With an amount of LBP 700 billion (roughly USD 467 million) in 2017,96 the disbursements of the IMF are equivalent to 0.87% of national GDP and 56.9% of total revenue of SNGs. Compared to the peer-countries identified above, Lebanon’s intergovernmental transfers as a share of GDP as well as its contribution to SNG revenues are average (Figure 10). Generally, the share of transfers to SNG revenue increases as transfer spending increases in relation to GDP (Appendix 4).

Over the past 10 years, the IMF spending increased from LBP 300 billion (around USD 200 million) in 2008, to LBP 700 billion (around USD 467 million) in 2017 (Figure 11). The ratio of pre-deduction spending to GDP has fluctuated between 0.68% in 2008 and 0.87% in 2017.


96 The official exchange rate of LBP 1,507 to USD 1 is used throughout the report for all figures prior to 2019. As a result of the devaluation of the Lebanese pound, figures in 2020 are accounted for following the parallel rate of LBP 7,000 to USD 1, which reflects the actual trading rate on the market.
Distribution of IMF Revenues in Practice

**Revenue Distribution by Law**

- At most 25% Municipal unions
  - 6.25% Municipal union budgets
  - 18.75% Development projects
- At least 75% Municipalities
  - 22.5% Development projects
  - 52.5% Municipality budgets
  - 21% Previous direct revenues basis
  - 31.5% Population basis

**Revenue Distribution in Practice**

- At most 12% Municipal unions
  - 4.8% Based on number of municipalites
  - 7.2% Based on population size
  - 4.4% Civil defence
- At least 88% Municipalities
  - 83.6% Municipal budgets
  - 8.36% Development projects
  - 16.62% Previous direct revenues basis
  - 58.62% Population basis

Figure 9B. Distribution of IMF Revenues in Practice
Restructuring Subnational Governance in Lebanon

Source: OECD/UCLG, 2019; LCPS, 2015; authors’ own calculations.

Figure 10. Intergovernmental Transfers as a Percentage of GDP and Total SNG Revenue
Source: OECD/UCLG, 2019; LCPS, 2015; authors’ own calculations.

Figure 11. Total IMF Spending (Pre-deduction for Other Expenses) (2008–2017)
Unreliability of IMF Transfers

Article 7 of Decree No. 1917/1979 states that the distribution of funds from the IMF should be done no later than 9 months after the end of the year in which the taxes were collected. Disbursements, however, happen with substantial delays. Between 2008 and 2018, the distribution was never on time, with an average delay of five months (Table 8). As of September 2020, the Ministry of Interior still has not announced a date for the disbursement of payments for 2018, inducing a delay of more than 8 months. Moreover, IMF transfers tend to be paid in several instalments rather than in full (as is required per law) further prolonging the time by which municipalities and unions obtain the full amount of revenues. The irregular transfers undermine municipalities’ ability to plan strategically and to finance developmental projects.

The Dependence of the IMF on Few Revenue Sources

The Ministry of Finance collects 11 taxes and fees (Appendix 5), after which it is the responsibility of the Ministry of Interior and Municipalities to distribute the funds of the IMF to municipalities and unions. Out of the 11 taxes and fees, 4 had their tax base changed (built property tax, income tax, customs tax, and insurance fee), 2 had their tax rate modified (income tax and custom fees), and 1 was replaced with a Value-Added Tax (TV or radio advertisement surtax). In addition to the central government, public agencies and private companies collect several taxes and fees which are put in the “account for municipalities”, an account based in the central bank.98

Table 8. Delay Period of the Actual Distribution of IMF Funds

<table>
<thead>
<tr>
<th>Year</th>
<th>Legal Deadline</th>
<th>Date Announced</th>
<th>Delay Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>September 2019</td>
<td>None yet</td>
<td>More than 8 months</td>
</tr>
<tr>
<td>2017</td>
<td>September 2018</td>
<td>April 2019</td>
<td>7 months</td>
</tr>
<tr>
<td>2016</td>
<td>September 2017</td>
<td>January 2018</td>
<td>4 months</td>
</tr>
<tr>
<td>2015</td>
<td>September 2016</td>
<td>October 2016</td>
<td>1 month</td>
</tr>
<tr>
<td>2014</td>
<td>September 2015</td>
<td>November 2015</td>
<td>2 months</td>
</tr>
<tr>
<td>2013</td>
<td>September 2014</td>
<td>March 2015</td>
<td>6 months</td>
</tr>
<tr>
<td>2012</td>
<td>September 2013</td>
<td>February 2014</td>
<td>5 months</td>
</tr>
<tr>
<td>2011</td>
<td>September 2012</td>
<td>April 2013</td>
<td>7 months</td>
</tr>
<tr>
<td>2010</td>
<td>September 2011</td>
<td>January 2012</td>
<td>4 months</td>
</tr>
<tr>
<td>2009</td>
<td>September 2010</td>
<td>October 2010</td>
<td>1 month</td>
</tr>
<tr>
<td>2008</td>
<td>September 2009</td>
<td>July 2010</td>
<td>10 months</td>
</tr>
<tr>
<td>Average</td>
<td></td>
<td></td>
<td>~4.7 months (2008–2017)</td>
</tr>
</tbody>
</table>


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98 ICMA. ‘Municipal Finance Studies Program: Final Strategic Framework.’
The revenue sources of the IMF are many but mainly depend on two main taxes: the income tax and custom fees, which constituted more than two thirds of its revenues between 1999 and 2009. Adding insurance fees and registration on motor vehicles, these four taxes and fees constitute around 90% of IMF revenues. The high dependence on relatively few sources of revenues increases the IMF’s susceptibility to shocks and further hamper planning activities if revenues from single taxes deviate from the anticipated amounts (Appendix 6).

The Mismanagement of IMF Payments

The central government often uses its discretionary power over IMF disbursements in several ways to cover its own budget deficits. The Ministry of Finance commonly deducts substantial amounts from the IMF before distributing its revenues. These deductions serve as budget support for central governmental agencies, such as civil defence (Appendix 7), qaimaqams (to spend on villages that have no municipalities), the Council for Development and Reconstruction (CDR) for services such as waste collection and development projects for certain municipalities, and the Ministry of Education. These deductions are not authorised by law. In 2003, for example, LBP 12 billion (USD 8 million) were deducted from the IMF to cover the scholarships of students in public schools. This is exacerbated by a lack of transparency to the extent that the disbursement of IMF is at the discretion of the central government and facilitates misuse of funds.

According to the Ministry of Interior and Municipalities, of the USD 2.7 billion that should have been transferred to the IMF between 1999 and 2009, only 70% (USD 1.9 billion) were collected. 27% of these USD 1.9 billion were deducted for central government expenses: LBP 405 billion (USD 270 million) for wages, salaries, waste management and public works, and LBP 360 billion (USD 240 million) for civil defence and other expenses. This left municipalities and UoMs with less than 73% of the IMF’s collected amount. Data from 2008 to 2017 shows that, from the remaining 95% of collected IMF revenue, 12% were allocated to UoMs and 88% to municipalities (Appendix 7).

Unfair Distribution Criteria

In addition to the mismanagement of IMF revenues, several changes in the way the distribution criteria are applied increase the gap between rich and poor SNGs. For one, the calculation of the IMF share for municipalities considers the registered population instead of the number of residents in the municipality. The use of registered population size as a criterion is problematic in view of the discrepancy between registered and resident population. While municipalities with fewer than 4,000 registered people are eligible to apply for support for developmental projects, the amount allocated is not enough to have any real developmental effect (LBP 36 million or USD 24,000 in 2008 and 2009). Similarly, discrepancies between registered and resident population numbers lead to a misallocation of resources between UoMs.

This allocation of money is further exacerbated by a second criterion, considering the average direct revenues collected by a municipality in the last two years. As direct revenues mainly consist of rental value fees on residential and non-residential units, urban and more touristic municipalities tend to receive a larger share of IMF funds than more rural or agricultural ones. This criterion is therefore biased against poorer municipalities, further increasing inequality across regions.

Lastly, the calculation of the IMF share of UoMs is equally problematic because it is based on the number of member municipalities, which is not commensurate with the number of residents living in the union area. In other words, UoMs with higher numbers of member municipalities and fewer residents receive more money than unions with fewer member municipalities but more residents.

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99 Ibid.
100 Ibid.
101 Ibid.
102 Ibid.
103 ICMA. ‘Municipal Finance Studies Program: Final Strategic Framework.’
Challenges to IMF transfers in the present context

The precarious financial position of the central government resulting from the economic, financial, and monetary crisis that broke out after October 2019 will further decrease the ability of the IMF to serve as an equalisation mechanism. The above-average delay in disbursement of the 2018 transfers as well as the March 2020 default on sovereign debt indicates the extent to which the central government struggles to meet its financial obligations. IMF transfers will therefore likely become even less predictable.

Moreover, some of the most important taxes the IMF disburses, the property, income, and custom taxes, will likely see substantial reductions in the short to medium term. Significant rises in unemployment and undermined opportunities to fund housing will depress tax collection rate, while custom fees will decline alongside a reduction in the current account deficit at the central level.

These developments render amendments to the IMF operating framework necessary to ensure that municipalities can sustain their operations and deliver at least a minimum level of public services.

Recommendations

- The central government should develop a regulatory structure to formalise and legitimise any deductions from the amount the IMF can disburse.
- The IMF needs an independent executive body, separate from the central government and the Ministry of Interior, to disperse funds directly to municipalities and UoMs.
- A transparent mechanism is required to monitor the deductions from IMF funds towards other expenses.
- To reduce uncertainty for municipalities and UoMs, the timeline to distribute the funds of the IMF should be fixed, automated, and independent from a central government decree.
- IMF transfers should be paid in full rather than in installments to ensure predictability of payments.
- The distribution criteria of the IMF should be amended to ensure equal distribution of resources, based on the following criteria:
  - Distribution should be based on the number of residents, rather than the number of registered populations.
  - Rural and less developed municipalities should be prioritised to mitigate inequality across regions.
  - Rather than using the number of municipalities within a UoM as a criterion, transfers should be made based on developmental needs and the number of residents.
  - The central government should better incentivise municipalities’ efforts to increase their tax collection rate. The present method of leveraging the average of the last two years of direct revenues collected by a municipality can be augmented with additional mechanisms, such as lumpsum payments, that offer more immediate rewards for the efforts exerted to improve tax collection.
Appendices

Appendix 1: International Merging Experience

Finland

Finnish municipal mergers over the 2007–2013 period took place in the framework of the PARAS reform. The reform aimed at strengthening municipal and service structures, improving productivity and slowing the growth of municipal government spending. The government set out three approaches to reach these objectives: municipal mergers, increased intermunicipal cooperation, and the renewal of municipal government management systems and operating models.

While municipal mergers were voluntary, the government used financial incentives to promote mergers. The government distributed grants for a five-year period, with population size of the merged entity and the number of merging municipalities determining the amount transferred. The government also guaranteed to avoid layoffs in newly created municipalities during the five years following a municipal merger. A small number (18) of municipalities used referenda as consultation tools. The results were not in all cases in favour of mergers. In the end, the number of municipalities was reduced from 416 in 2007 to 320 in 2013.

Academic literature suggests that the mergers’ results were mixed. The number of municipalities in deficit decreased, because those in difficult fiscal situations engaged in mergers. However, mergers did not generally result in the intended cost savings, with municipal expenditures remaining constant. In terms of municipal social services, the range of social welfare and health services became somewhat wider in small municipalities, yet their cost efficiency did not improve.

Mergers also had distributive consequences. In comparison to municipalities with stronger representation, municipalities which were politically marginalised in the post-merger council lost local public jobs in health and social care sectors. Differences in intra-municipal satisfaction with public services increased: residents living in the periphery of newly formed municipalities displayed more dissatisfaction with public service delivery relative to those living in the centre.

1 Meklin, P., and M. Pekola-Sjöblom. 2013. ‘The Reform to Restructure Municipalities and Services in Finland: A Research Perspective.’
Harjunen, O., Saarimaa, T., & Tukiainen, J. 2019. ‘Political representation and effects of municipal mergers.’
Lapointe, S., Saarimaa T., and J. Tukiainen. 2018. ‘Effects of municipal mergers on voter turnout.’

Japan

Since the 1950s, the Japanese government has imposed (1950s) or incentivised (2000s) two waves of municipal mergers, reducing the number of municipalities from 9,968 in 1953 to 1,821 in 2006. This report focuses on the second wave of mergers, also known as the Great Heisi consolidation. Starting in 1999, 3,229 municipalities were incentivised to merge via tax advantages and authorisation for merged municipalities to issue local government bonds. The focus of the Japanese authorities lay in developing independent administrations with autonomous decision-making power and delegated responsibility.

The Municipal Merger Law specified six steps towards a merger. These steps consisted in 1) a vote in each municipal assembly, 2) the creation of a merging consultation committee which agreed on the name of the merged municipality and a development plan, 3) a vote by the assembly of each potential merged municipality, 4) an application for the merger to the governor of the prefectures, 5) governor’s approval of the merger, and 6) public notice of the merger.

Literature studying the Great Heisi consolidation shows that small municipalities administering fewer than 10,000 citizens had more ease in implementing mergers. However, smaller peripheral municipalities experienced more cost-cutting than the larger entities they merged with. As a result, the level of public services in smaller municipalities often decreased.

1 Meklin, P., and M. Pekola-Sjöblom. 2013. ‘The Reform to Restructure Municipalities and Services in Finland: A Research Perspective.’
Harjunen, O., Saarimaa, T., & Tukiainen, J. 2019. ‘Political representation and effects of municipal mergers.’
Lapointe, S., Saarimaa T., and J. Tukiainen. 2018. ‘Effects of municipal mergers on voter turnout.’

2 Yamada. 2016. ‘From a Majority to a Minority: How Municipal Mergers in Japan Changed the Distribution of Political Powers and the Allocation of Public Services Within a Merged Municipality.’
The City of Abbotsford

On the first day of 1995, the city of Abbotsford was formed by the merger of two districts: Matsqui and Abbotsford, with 68,000 and 19,000 citizens respectively. Population growth was a push factor for both municipalities: merging would enable economies of scale and capacity to invest in larger-scale projects. Merging also enabled better management of shared and interrelated transportation, water, and sewerage systems.

As expected, the merger resulted in upgrades of water and sewerage infrastructures which had not been carried out pre-merger. The total costs incurred by the merger were shared proportionately to the population size.

Jordan

Imposed by the central government, the 2001 wave of mergers reduced the number of municipalities from 328 to 99 (excluding the capital, Amman). The government merged municipalities mainly based on their geographical proximity, with the aim of containing costs and eliminating service duplication. Most municipalities faced administrative and financial crises, given mounting debt, inflation in the number of employees, absence of organisational structure and poor service delivery.

Mergers produced mixed results. In some cases, post-merger municipalities saved on equipment, such as garbage collection vehicles, and reduced duplication of public services. In many municipalities, however, costs remained the same or increased. For example, many municipalities facing higher population dispersion provided services to a larger geographical area, without the additional tax revenue making up for additional expenditure. Furthermore, mergers did not reduce municipal budget deficits. Expenditures on staff salaries remained high, comprising 47% of municipal expenditures on average in 2004 (49% in 2016).

Academic literature has also pointed to Jordanian mergers’ distributive consequences: in many cases, mergers created a discrepancy between towns at the centre of municipalities, which benefited from most resources, and those geographically distant from the centre. Mayors favoured their pre-merger municipality in the distribution of public goods and services. Because municipalities comprising different clans or tribes were merged into one, mayors of the new, larger municipalities also favoured their own clan or tribe, to the detriment of others. Finally, with multiple municipal councils merging into one, the number of elected representatives decreased, disadvantaging smaller villages in terms of representation.

Barraba (Australia)

In 2004, the small rural community of Barraba was forced to merge with Tamworth, a municipality 32 times more populated than Barraba. Based on empirical evidence only, both areas benefited from improvements of their economic and social situations. In the span of 10 years, the percentage of unemployment in both regions dropped. In Barraba, the percentage declined from 15.3% to 7.8%, whereas that of Tamworth decreased from 9.3% to 6.4%.

However, surveys of residents of the community of Barraba reveal discrepancies with official statistics. For instance, most residents did not believe that employment opportunities had increased post-merging. This discrepancy highlights a critical phenomenon: people’s perspective may be deformed or mis-shaped due to biases, whether behavioural, emotional or otherwise. Observed biases show the importance for governments to highlight municipal merging existing benefits.

The Netherlands

In 2011, there were 12 provinces and 418 municipalities with an average of 40,000 inhabitants in the Netherlands. The Dutch case differs from the other selected peer countries, given that merging municipalities has been a political tradition dating back to 1830. The number of municipalities has been steadily decreasing from year to year: between 1970 and 2011, the number of municipalities decreased from 913 to 403. Most municipalities which merged were of similar size, ranging from 5,000 to 20,000 inhabitants. In most cases, 2 municipalities were merged, yet the number of municipalities being merged ranged from 2 to 6.

Municipality mergers were motivated by increased administrative capacity, more efficient and better service delivery. Although mergers lowered levels of administrative spending, aggregate spending did not decrease: cost savings were spent on better service delivery.


5 Dollary & Wallace. 2018.

Appendix 2: Area, Population, and Governing Bodies on Municipal, Intermediate and Regional Level

<table>
<thead>
<tr>
<th>Countries</th>
<th>Area (km²)</th>
<th>Population size (million inhabitants)</th>
<th>Number of municipalities</th>
<th>Average municipal size (population)</th>
<th>Intermediate level</th>
<th>Regional or state level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armenia</td>
<td>29,740</td>
<td>2.930</td>
<td>502 municipalities/communities</td>
<td>5,848</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Austria</td>
<td>83,879</td>
<td>8.809</td>
<td>2,098 municipalities</td>
<td>4,200</td>
<td>9 states</td>
<td></td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>86,600</td>
<td>9.854</td>
<td>1,607 municipalities (73 city, 147 settlement, 1387 village)</td>
<td>3,700</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Belgium</td>
<td>30,326</td>
<td>11.348</td>
<td>589 municipalities</td>
<td></td>
<td>10 provinces (2018)</td>
<td>6 (3 regions and 3 communities)</td>
</tr>
<tr>
<td>Belarus</td>
<td>207,600</td>
<td>9.508</td>
<td>1,190 (14 towns of district subordination, 10 urban settlements, 1,166 rural councils)</td>
<td>7,990</td>
<td>128 (118 districts, 10 cities of regional subordination)</td>
<td>7 (6 regions, 1 capital city)</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>51,210</td>
<td>3.507</td>
<td>141 (79 municipalities and cities in Federation of BiH, 62 municipalities and cities in the Republika Srpska)</td>
<td>24,700</td>
<td>10 cantons</td>
<td>3 (2 entities (one federal state and one unitary state), 1 district)</td>
</tr>
<tr>
<td>Botswana</td>
<td>581,730</td>
<td>2.3</td>
<td>16 councils: 10 district, 6 urban (4 town, 2 city)</td>
<td>143,229</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bulgaria</td>
<td>110,372</td>
<td>7.076</td>
<td>265 municipalities (2016)</td>
<td>26,702</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Burundi</td>
<td>27,830</td>
<td>10.8</td>
<td>119 municipalities (116 rural, 3 urban)</td>
<td>91,296</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cabo Verde</td>
<td>4,033</td>
<td>0.546</td>
<td>22 municipalities</td>
<td>24,818</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Costa Rica</td>
<td>51,100</td>
<td>4.906</td>
<td>81 municipalities (+1 in creation for 2020)</td>
<td>60,565</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Croatia</td>
<td>56,594</td>
<td>4.154</td>
<td>556 (428 municipalities and 128 towns)</td>
<td>7,472</td>
<td>21 (20 counties and 1 capital city)</td>
<td></td>
</tr>
<tr>
<td>Cyprus</td>
<td>9,250 / 5,695</td>
<td>1.180 / 0.855</td>
<td>526 / 380 (39 / 30 municipalities, 487 / 350 communities)</td>
<td>2,242 / 2,249</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Czech Republic</td>
<td>77,219</td>
<td>10.590</td>
<td>6,258 municipalities</td>
<td>1,692</td>
<td>14 regions</td>
<td></td>
</tr>
<tr>
<td>Denmark</td>
<td>42,924</td>
<td>5.767</td>
<td>98 municipalities</td>
<td>58,449</td>
<td>5 regions</td>
<td></td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>48,670</td>
<td>10.767</td>
<td>159 (158 municipalities, 1 national district)</td>
<td>65,500</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

OECD/UCLG (2019), own calculations.
<table>
<thead>
<tr>
<th>Countries</th>
<th>Area (km²)</th>
<th>Population size (million inhabitants)</th>
<th>Number of municipalities</th>
<th>Average municipal size (population)</th>
<th>Intermediate level</th>
<th>Regional or state level</th>
</tr>
</thead>
<tbody>
<tr>
<td>El Salvador</td>
<td>21,040</td>
<td>6.378</td>
<td>262 municipalities</td>
<td>24,343</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Estonia</td>
<td>43,432</td>
<td>1.316</td>
<td>79 municipalities (15 urban, 64 rural)</td>
<td>16,653</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eswatini</td>
<td>17,360</td>
<td>1.367</td>
<td>68 (55 rural councils, 13 urban councils/urban municipalities)</td>
<td>20,407</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finland</td>
<td>338,150</td>
<td>5.508</td>
<td>311 municipalities</td>
<td>17,670</td>
<td>1 autonomous county</td>
<td></td>
</tr>
<tr>
<td>Georgia</td>
<td>69,700</td>
<td>3.717</td>
<td>72 (5 self-governing cities, 67 communities)</td>
<td>55,740</td>
<td>2 autonomous republics</td>
<td></td>
</tr>
<tr>
<td>Honduras</td>
<td>112,490</td>
<td>9.265</td>
<td>298 municipalities</td>
<td>31,090</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hungary</td>
<td>93,030</td>
<td>9.788</td>
<td>3,177 municipalities</td>
<td>3,081</td>
<td>20 (19 counties and 1 capital city)</td>
<td></td>
</tr>
<tr>
<td>Iceland</td>
<td>100,243</td>
<td>0.343</td>
<td>74 municipalities</td>
<td>4,640</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ireland</td>
<td>70,280</td>
<td>4.802</td>
<td>31 councils (26 county, 3 city, 2 city and county)</td>
<td>154,912</td>
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<td>Jamaica</td>
<td>10,990</td>
<td>2.890</td>
<td>14 (12 parishes, 1 municipal council, 1 municipal corporation)</td>
<td>206,450</td>
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<td>Jordan</td>
<td>89,320</td>
<td>9.702</td>
<td>101 (100 municipalities + 1 leading municipality)</td>
<td>96,063</td>
<td>12 governorates</td>
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<td>Korea</td>
<td>99,461</td>
<td>51.446</td>
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<td>224,742</td>
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<td>1.831</td>
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<td>48,176</td>
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<tr>
<td>Kyrgyzstan</td>
<td>199,950</td>
<td>6.198</td>
<td>470 (453 rural communities, 17 “cities of district significance”)</td>
<td>13,188</td>
<td>12 “cities of regional significance”</td>
<td>2 “cities of national importance”</td>
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<td>1.941</td>
<td>119 (110 municipalities, 9 cities)</td>
<td>16,312</td>
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<tr>
<td>Lebanon</td>
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<td>1,058 municipalities</td>
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<td>58 unions of municipalities</td>
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<td>2.848</td>
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<td>Luxembourg</td>
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<td>0.597</td>
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<td></td>
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<td>Mauritania</td>
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<td>16,121</td>
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<td>15 regions</td>
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<table>
<thead>
<tr>
<th>Countries</th>
<th>Area (km²)</th>
<th>Population size (million inhabitants)</th>
<th>Number of municipalities</th>
<th>Average municipal size (population)</th>
<th>Intermediate level</th>
<th>Regional or state level</th>
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<td>Mauritius</td>
<td>2,040</td>
<td>1.264</td>
<td>130 village councils (128 rural, 2 urban)</td>
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<td>5 municipal councils (4 town councils, 1 city council)</td>
<td>1 island</td>
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<td>1,564,120</td>
<td>3.076</td>
<td>1,720 (1,568 communities, 152 neighbourhoods)</td>
<td>1,788</td>
<td>339 (330 regions, 9 districts)</td>
<td>22 (21 provinces, 1 capital city)</td>
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<td>Montenegro</td>
<td>13,810</td>
<td>0.622</td>
<td>23 (21 municipalities, 2 urban municipalities)</td>
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<td>27,060</td>
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<tr>
<td>Namibia</td>
<td>824,290</td>
<td>2.534</td>
<td>57 local councils (3 “part I” municipal (city), 10 “part II” municipal, 26 town, 18 village)</td>
<td>48,727</td>
<td>14 regional councils</td>
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<td>Netherlands</td>
<td>33,688</td>
<td>17.127</td>
<td>380 municipalities</td>
<td>45,071</td>
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<td>12 provinces</td>
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<td>New Zealand</td>
<td>267,710</td>
<td>4.820</td>
<td>67 territorial authorities</td>
<td>70,450</td>
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<td>11 regional councils</td>
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<td>Nicaragua</td>
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<td>153 municipalities</td>
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<td>Norway</td>
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<td>5.277</td>
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<td>33,524</td>
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<td>18 counties</td>
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<td>Panama</td>
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<td>4.099</td>
<td>78 municipalities</td>
<td>52,546</td>
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<tr>
<td>Paraguay</td>
<td>406,752</td>
<td>6.811</td>
<td>257 (256 municipalities, 1 capital)</td>
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<tr>
<td>Portugal</td>
<td>92,226</td>
<td>10.291</td>
<td>308 municipalities</td>
<td>33,524</td>
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<td>2 autonomous regions</td>
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<td>Albania</td>
<td>28,750</td>
<td>2.87</td>
<td>61 municipalities</td>
<td>4,064</td>
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<td>12 regions</td>
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<tr>
<td>Moldova</td>
<td>33,850</td>
<td>3.550</td>
<td>925 (56 cities (including 13 with municipality status), 869 communes or villages)</td>
<td>3,840</td>
<td></td>
<td>35 (32 districts, 2 municipalities, 1 autonomous territory)</td>
</tr>
<tr>
<td>Republic of North Macedonia</td>
<td>25,710</td>
<td>2.083</td>
<td>81 (80 municipalities, 1 capital)</td>
<td>28,050</td>
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<tr>
<td>Rwanda</td>
<td>26,340</td>
<td>12.208</td>
<td>30 districts</td>
<td>350,352</td>
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<tr>
<td>Serbia</td>
<td>77,474</td>
<td>7.022</td>
<td>174 (23 cities, 150 municipalities, 1 capital)</td>
<td>40,358</td>
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<td>2 autonomous provinces</td>
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<tr>
<td>Countries</td>
<td>Area (km²)</td>
<td>Population size (million inhabitants)</td>
<td>Number of municipalities</td>
<td>Average municipal size (population)</td>
<td>Intermediate level</td>
<td>Regional or state level</td>
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<td>----------------------</td>
<td>------------</td>
<td>--------------------------------------</td>
<td>--------------------------</td>
<td>-------------------------------------</td>
<td>--------------------</td>
<td>-------------------------</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>71,740</td>
<td>7.557</td>
<td>22 councils (15 district, 7 city)</td>
<td>343,636</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Slovak Republic</td>
<td>49,036</td>
<td>5.438</td>
<td>2,930 municipalities</td>
<td>1,856</td>
<td>8 regions</td>
<td></td>
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<tr>
<td>Slovenia</td>
<td>20,145</td>
<td>2.066</td>
<td>212 municipalities</td>
<td>974</td>
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<td></td>
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<tr>
<td>Sri Lanka</td>
<td>65,610</td>
<td>21.444</td>
<td>341 councils (24 municipal, 41 urban, 276 rural)</td>
<td>62,880</td>
<td>9 provincial councils</td>
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<td>Switzerland</td>
<td>41,290</td>
<td>8.452</td>
<td>2,222 municipalities</td>
<td>3,804</td>
<td>26 cantons</td>
<td></td>
</tr>
<tr>
<td>Tajikistan</td>
<td>141,380</td>
<td>8.920</td>
<td>369 local self-government bodies</td>
<td>19,000</td>
<td>65 (7 city, 45 rural district of subordination, 4 cities, 9 district of national subordination)</td>
<td>4 (2 regions’ local state government of national subordination, 1 autonomous region, 1 capital city)</td>
</tr>
<tr>
<td>Togo</td>
<td>56,785</td>
<td>7.798</td>
<td>116 municipalities</td>
<td>67,200</td>
<td>39 prefectures</td>
<td>5 regions</td>
</tr>
<tr>
<td>Uruguay</td>
<td>176,220</td>
<td>3.456</td>
<td>112 municipalities</td>
<td>21,391</td>
<td></td>
<td>19 departments</td>
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Appendix 3: The Structure of Districts, Unions, and Municipalities in Lebanon (2012)\(^9\)

<table>
<thead>
<tr>
<th>Districts</th>
<th>Name of Unions</th>
<th>Number of Municipalities</th>
<th>Year of establishment</th>
</tr>
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<tbody>
<tr>
<td>Nabatiyeh</td>
<td>Al-Arkoub</td>
<td>7</td>
<td>2008</td>
</tr>
<tr>
<td></td>
<td>Jabal’ Amil</td>
<td>16</td>
<td>2006</td>
</tr>
<tr>
<td></td>
<td>Al-Qalaa</td>
<td>11</td>
<td>2010</td>
</tr>
<tr>
<td></td>
<td>Bint Jbeil</td>
<td>15</td>
<td>2005</td>
</tr>
<tr>
<td></td>
<td>Al-Shqif</td>
<td>29</td>
<td>1982</td>
</tr>
<tr>
<td></td>
<td>Iqlim Al-Tuffah</td>
<td>9</td>
<td>2003</td>
</tr>
<tr>
<td></td>
<td>Al-Hasbani</td>
<td>8</td>
<td>2013</td>
</tr>
<tr>
<td><strong>Total (Nabatiyeh)</strong></td>
<td><strong>7</strong></td>
<td><strong>95</strong></td>
<td></td>
</tr>
<tr>
<td>Beqaa and Baalbek</td>
<td>Hermel</td>
<td>6</td>
<td>2005</td>
</tr>
<tr>
<td></td>
<td>Baalbek District</td>
<td>8</td>
<td>2005</td>
</tr>
<tr>
<td></td>
<td>Western Baalbek</td>
<td>14</td>
<td>2007</td>
</tr>
<tr>
<td></td>
<td>Eastern Baalbek</td>
<td>7</td>
<td>2006</td>
</tr>
<tr>
<td></td>
<td>Al-Shallal</td>
<td>4</td>
<td>2007</td>
</tr>
<tr>
<td></td>
<td>Northern Baalbek</td>
<td>11</td>
<td>2011</td>
</tr>
<tr>
<td></td>
<td>Dayr Al-Ahmar</td>
<td>8</td>
<td>2011</td>
</tr>
<tr>
<td></td>
<td>Zahle District</td>
<td>8</td>
<td>2005</td>
</tr>
<tr>
<td></td>
<td>Interior Bekaa</td>
<td>5</td>
<td>2006</td>
</tr>
<tr>
<td></td>
<td>Eastern Zahle</td>
<td>10</td>
<td>2009</td>
</tr>
<tr>
<td></td>
<td>Al-Sahl</td>
<td>12</td>
<td>1987</td>
</tr>
<tr>
<td></td>
<td>Al-Buhayra</td>
<td>18</td>
<td>2004</td>
</tr>
<tr>
<td></td>
<td>South Baalbek</td>
<td>4</td>
<td>2017</td>
</tr>
<tr>
<td><strong>Total (Beqaa and Baalbek)</strong></td>
<td><strong>13</strong></td>
<td><strong>115</strong></td>
<td></td>
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<tr>
<td>South-Lebanon</td>
<td>Jezzine District</td>
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<td>2006</td>
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<td></td>
<td>Jabal Al-Rihan</td>
<td>6</td>
<td>2006</td>
</tr>
<tr>
<td></td>
<td>Saida Al-Zahrani</td>
<td>16</td>
<td>1978</td>
</tr>
<tr>
<td></td>
<td>Al-Zahrani Coast</td>
<td>18</td>
<td>2009</td>
</tr>
<tr>
<td></td>
<td>Tyre District</td>
<td>55</td>
<td>2003</td>
</tr>
<tr>
<td><strong>Total (South-Lebanon)</strong></td>
<td><strong>5</strong></td>
<td><strong>122</strong></td>
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<table>
<thead>
<tr>
<th>Districts</th>
<th>Name of Unions</th>
<th>Number of Municipalities</th>
<th>Year of establishment</th>
</tr>
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<tbody>
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<td><strong>North-Lebanon</strong></td>
<td>Al-Fayhah’</td>
<td>4</td>
<td>1988</td>
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<td>Danniyeh</td>
<td>22</td>
<td>2004</td>
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<tr>
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<td>Minieh</td>
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<td>2002</td>
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<tr>
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<td>Zgharta</td>
<td>25</td>
<td>1987</td>
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<tr>
<td></td>
<td>Koura</td>
<td>31</td>
<td>2003</td>
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<td></td>
<td>Bcharre</td>
<td>12</td>
<td>2003</td>
</tr>
<tr>
<td></td>
<td>Batroun</td>
<td>27</td>
<td>2002</td>
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<tr>
<td></td>
<td>Jurd Al-Qayta’</td>
<td>12</td>
<td>2005</td>
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<td></td>
<td>Central and Coastal Qayta’</td>
<td>11</td>
<td>2006</td>
</tr>
<tr>
<td></td>
<td>Al-Shift</td>
<td>12</td>
<td>2006</td>
</tr>
<tr>
<td></td>
<td>Al-Dreib Al-Awsat</td>
<td>9</td>
<td>2011</td>
</tr>
<tr>
<td></td>
<td>Sahel Akkar</td>
<td>5</td>
<td>2011</td>
</tr>
<tr>
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<td>Al-Jouma</td>
<td>18</td>
<td>2002</td>
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<td>Al-Dreib Al-Gharbi</td>
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<td>Jabal Akroum</td>
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<td>Wadi Khaled</td>
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<td></td>
<td>Akkal Al-Shamali</td>
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<td>2016</td>
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<tr>
<td></td>
<td>Al-Dreib Al-Shamali</td>
<td>6</td>
<td>2018</td>
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<td><strong>Total (North-Lebanon)</strong></td>
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<td><strong>234</strong></td>
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<td>1978</td>
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<td>Northern, Coastal and Interior Metn</td>
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<td>Upper Metn</td>
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<td>Upper Gharb and Shahar</td>
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<td>2012</td>
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<td>Upper Jurd - Bhamdoun</td>
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<td>1981</td>
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<td>Chouf-Swaijani</td>
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<td>Upper Chouf</td>
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<td><strong>Total (Mount-Lebanon)</strong></td>
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<td><strong>12</strong></td>
<td><strong>196</strong></td>
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<td><strong>Total</strong></td>
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Appendix 4: Grants and Subsidies as a Percentage of Total SNGs Revenue and GDP in Unitary Countries

<table>
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<tr>
<th>Country</th>
<th>Abbrev.</th>
<th>% of GDP</th>
<th>% of SNG revenue</th>
<th>Tax revenue as % of total SNG revenue and GDP</th>
<th>% of GDP</th>
<th>% of SNG revenue</th>
<th>Year</th>
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<td>AM</td>
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<td>AZ</td>
<td>0.6</td>
<td>76.6</td>
<td>AZ</td>
<td>0.1</td>
<td>20.0</td>
<td>2015</td>
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<tr>
<td>Belarus</td>
<td>BY</td>
<td>3.5</td>
<td>21.6</td>
<td>BY</td>
<td>11.3</td>
<td>69.3</td>
<td>2016</td>
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<td>BJ</td>
<td>0.6</td>
<td>49.8</td>
<td>BJ</td>
<td>0.4</td>
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<td>2016</td>
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<td>BO</td>
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<td>2016</td>
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<td>56.5</td>
<td>BW</td>
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<td>43.5</td>
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<td>40.7</td>
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<td>0.8</td>
<td>16.0</td>
<td>2016</td>
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<td>0.3</td>
<td>20.4</td>
<td>KH</td>
<td>0.9</td>
<td>76.5</td>
<td>2016</td>
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<td>CL</td>
<td>1.6</td>
<td>41.7</td>
<td>2016</td>
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<td>CN</td>
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<td>CN</td>
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<td>47.9</td>
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<td>50.8</td>
<td>CO</td>
<td>3.7</td>
<td>28.9</td>
<td>2016</td>
</tr>
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10 Ibid.
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<th>% of GDP</th>
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¹¹ Authors’ own data collection and calculations.
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<th>% of SNG revenue</th>
<th>Year</th>
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Appendix 5: Taxes and Fees Collected by the IMF

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<th>List of Taxes and Fees</th>
<th>Law 60 of 1988</th>
<th>Amendments</th>
<th>Notes</th>
</tr>
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<tbody>
<tr>
<td>1- Property Tax</td>
<td>10% surtax on progressive built real estate (Article 87)</td>
<td>10% deducted from the total built real estate tax</td>
<td>Although the tax remained the same, Article 30 in Budget Law 583 of 2004 made the tax base less progressive since owners pay taxes on each property separately and the highest tax bracket was reduced from 17% to 14%.</td>
</tr>
<tr>
<td>2- Income Tax</td>
<td>15% surtax on profit of industrial, commercial, and non-commercial profession (Article 88)</td>
<td>10% deducted from the income tax (Law 282 of 1993)</td>
<td>The tax base increased to also include salaries and wages as well as income from stocks and bonds</td>
</tr>
<tr>
<td>3- Transfers of estates, bequests, and grants fees</td>
<td>10% surtax on the transfer of estates, bequests, donation, and grants (Article 89)</td>
<td>No changes</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Tax base is a transfer fee which ranges from 3% to 33% based on taxpayer’s closeness to the testator or donor (Decree-Law 146 of 1959 and its amendments)</td>
<td>No changes</td>
<td></td>
</tr>
<tr>
<td>4- Real estate registration fee</td>
<td>5% surtax on the registration fee which is either a flat fee of LBP 7,500 or a percentage that varies between 0.5% and 25% depending on the kind of registration (often it is based on the value of the real estate or the outstanding debt if it is a mortgage) (Article 90 of Law 60, Decision no. 189 of 1926, Decree-Law 20 of 1939)</td>
<td>No changes</td>
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<tr>
<td>5- Tax on liquid combustible good</td>
<td>4% on gasoline</td>
<td>No changes</td>
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<tr>
<td></td>
<td>2% on kerosene and fuel oil</td>
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</tr>
<tr>
<td></td>
<td>1% on fuel</td>
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(Article 91)
<table>
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<tr>
<th>List of Taxes and Fees</th>
<th>Law 60 of 1988</th>
<th>Amendments</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>6- Custom fee</td>
<td>3.5% on imported goods&lt;br&gt;(Article 92)</td>
<td>10% deducted from custom revenues (Law 191 of 1993)</td>
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<td></td>
<td>1.5% surtax on the following goods: beers, wines, alcohols, mineral and carbonated water, meat, and fish (Article 95)</td>
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<tr>
<td>7- Registration fee on cars, motor vehicles, and motorcycles</td>
<td>25% surtax (Article 94)&lt;br&gt;Tax base is 4% for private cars and 2% for public cars (Article 9, Law 76 of 1967)</td>
<td>No changes</td>
<td>No changes</td>
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<tr>
<td>8- Fines</td>
<td>20% of fines from traffic law violations (Article 294 of Traffic Law)</td>
<td></td>
<td>No changes</td>
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<tr>
<td>9- Insurance fee</td>
<td>6% tax on insurance contracts, except life insurance, collected by insurance companies and disbursed every 6 months into the IMF within 15 days of the end of the period (Article 93)</td>
<td>Exempted re-insurance contracts (Article 32 in Budget Law 1998)</td>
<td></td>
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<tr>
<td>10- Surtax on cigarettes and tobacco products</td>
<td>5% surtax on the value of cigarette pack, cigars, or a pack of loose tobacco (Article 99)&lt;br&gt;The Régie, a tobacco public company, collects the tax and deposits it</td>
<td>No changes</td>
<td>No changes</td>
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<tr>
<td>11- Surtax on TV or radio advertisement</td>
<td>5% on the value of TV or radio advertisement&lt;br&gt;This was replaced by a 10% VAT (Article 55 in Law 379 of 2001)</td>
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## Appendix 6: Nominal Vs. Real IMF Values, 1999–2009

<table>
<thead>
<tr>
<th>Year</th>
<th>Nominal IMF Revenue</th>
<th>Revenues Real IMF Revenues</th>
<th>Change in real IMF revenues</th>
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<td>250,406</td>
<td>Real IMF Revenues</td>
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<tr>
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<td>228,446</td>
<td>228,446</td>
<td>-8.77%</td>
</tr>
<tr>
<td>2001</td>
<td>222,610</td>
<td>223,430</td>
<td>-2.20%</td>
</tr>
<tr>
<td>2002</td>
<td>200,719</td>
<td>197,975</td>
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<tr>
<td>2003</td>
<td>173,671</td>
<td>169,153</td>
<td>-14.56%</td>
</tr>
<tr>
<td>2004</td>
<td>196,826</td>
<td>188,552</td>
<td>11.47%</td>
</tr>
<tr>
<td>2005</td>
<td>289,118</td>
<td>278,969</td>
<td>47.95%</td>
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<td>2006</td>
<td>252,300</td>
<td>230,600</td>
<td>-17.34%</td>
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<td>2007</td>
<td>291,473</td>
<td>256,017</td>
<td>11.02%</td>
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<td>2008</td>
<td>340,573</td>
<td>270,086</td>
<td>5.50%</td>
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<tr>
<td>2009</td>
<td>394,111</td>
<td>308,818</td>
<td>14.34%</td>
</tr>
<tr>
<td>Total</td>
<td>2,841,147 (USD 1.89 billion)</td>
<td>2,602,454 (USD 1.73 billion)</td>
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<tr>
<td>Yearly Average</td>
<td>258,286 (USD 172 million)</td>
<td>236,587 (USD 158 million)</td>
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### Appendix 7: IMF Distribution

<table>
<thead>
<tr>
<th>Year</th>
<th>Total in Billion LBP 88%</th>
<th>IMF Transfer 5% Billion LBP</th>
<th>Registered Population and Collected Revenues 90%</th>
<th>Municipality Union</th>
<th>Civil Defence (5%)</th>
<th>Total Billion LBP</th>
<th>Total/ GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Amount Billion LBP</td>
<td>Registered Population Billion LBP</td>
<td>Collected Revenues Billion LBP</td>
<td>Total Billion LBP</td>
<td>Registered Population Equal or Less than 6000 Billion LBP</td>
<td>Number of Municipalities per each Union 40% Billion LBP</td>
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<tr>
<td>2017</td>
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<td>30.8</td>
<td>526.68</td>
<td>410.81</td>
<td>115.87</td>
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Atallah, S., R. Baassiri, and J. Harb. (2014). “Municipal Finance Must be Reformed to Address Lebanon’s Socio-Economic Crisis.” The Lebanese Center for Policy Studies.


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Since 2016, DRI Lebanon has worked with civil society and government at local and national levels to reinforce effective governance of public services and advocate for reforming the decentralisation framework in line with transparent and accountable governance principles.

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