

# Providing a New Decentralisation Framework for Sustainable Local Authorities in Lebanon\*: Pathways for Local Governance Stability Amid a Multi-Layered Crisis

## Executive Summary

Lebanon has 1,058 municipalities, which is, in international comparison, a large number for a country of Lebanon's size and population. This leads to a situation in which local authorities are chronically underfunded. This has been a trend in recent decades, which has become much more important in recent years and months in light of the ongoing economic, financial, and monetary crisis in Lebanon, and the Covid-19 pandemic which has substantially affected business activities and tax income. Many of the small and medium sized municipalities lack the capabilities for service delivery and long-term project development. In Beirut, Lebanon's largest municipality, the devastating blast of 4 August 2020 not only killed more than 180 people and injured 7,000, it also caused extensive material damage, estimated at around 15 billion USD, destroying thousands of businesses and leaving hundreds of thousands in need of housing and basic services.

As local authorities are at the forefront of crisis management, they are expected to provide an immediate answer to these challenges, but they often lack the capacity, infrastructure, and financial resources to deal with their wide-ranging responsibilities. Local authorities therefore face a situation in which they see their responsibilities and

demand for their services increase substantially, without adequate increase in administrative and financial resources.

This Policy Brief suggests pathways to overcome these challenges. To pave the way for the financial sustainability of local authorities in Lebanon, a new decentralisation framework should place local authorities and their communities at the centre of the reform, and dedicate a special ministry to local governance affairs, tasked with the provision of adequate monitoring and technical guidance.

The central government should also promote sustainable municipal structures that pool the resources of smaller local entities into larger one. A merger policy should clearly define the criteria, process and arrangements for merging neighbouring municipalities to become institutionally sustainable and benefit from economies of scale. Citizens should be involved and consulted in this process.

The revision of the municipal taxation and finance system should accompany these changes. A key reform is the restructuring of the Independent Municipal Fund (IMF). The governance of the IMF should be overhauled to ensure transparent, timely, and automated support

\* The original version of this Policy Brief was written by Soeren Keil, Reader in Politics and International Relations at Canterbury Christ Church University in the UK. It summarises the main findings from a consultation amongst 11 Lebanese municipal officials that took place on 30 June 2020. The publication was revised and edited by André Sleiman, DRI Country Representative in Lebanon.

payments to local authorities. The IMF needs to become an autonomous body, which allocates money to local authorities based on new criteria, including the number of households (based on actual residents), the number of taxpayers, and the number of registered businesses.

### 1. What kind of framework is needed to ensure that local authorities are sustainable and viable in Lebanon?

Lebanese local authorities face an ever-growing challenge to fulfil their legal obligations. Their tasks are becoming ever-more complex in the context of a compounded crisis (Covid-19, Syrian refugees, financial, monetary, economic, and political crisis). In Beirut, the devastation caused by the deadly blast of 4 August 2020, estimated at around 15 billion USD,<sup>1</sup> calls for an agile recovery plan at the short and long terms, focusing on rebuilding the infrastructure, restoring thousands of lost businesses and houses, and providing much needed services in all areas.

As local authorities are at the forefront of crisis management, they are expected to provide an immediate answer to these challenges, but they often lack the capacity, infrastructure, and financial resources to deal with their wide-ranging responsibilities. Local authorities therefore face a situation in which they see their responsibilities and demand for their services increase substantially, without adequate increase in administrative and financial resources. In some cases, municipal officials use their private money to keep services going, while in other cases services had to be reduced or stopped.

Against this backdrop, local authorities lack clear guidelines and instructions, as well as support and enablement from the central government. For example, local authorities were not consulted when the Lebanese government discussed and adopted a new public salary pay scale in 2017, but they were asked to apply the new rules without being given the financial resources to do so. Similarly, communication between local authorities and the Ministry of the Interior and Municipalities (MoIM) as well as other line ministries<sup>2</sup> is delayed by red tape and rarely delivers results on the ground. When requested, support is either withheld or delayed from the centre. In this regard, digitalisation can enable decentralisation and empower local authorities while reducing corruption and increasing efficiencies in transactions across various municipal processes.

1 Haghdoost, Y. (2020). "How the Beirut Explosion Will Worsen Lebanon's Crises". The Washington Post. 17 August 2020. Available at:

[https://www.washingtonpost.com/business/how-the-beirut-explosion-will-worsen-lebanons-crises/2020/08/14/67547828-dde3-11ea-b4f1-25b762cdbbf4\\_story.html](https://www.washingtonpost.com/business/how-the-beirut-explosion-will-worsen-lebanons-crises/2020/08/14/67547828-dde3-11ea-b4f1-25b762cdbbf4_story.html). Viewed 17-08-2020.

2 Particularly the Ministry of Environment, the Ministry of Public Works and Transport, and the Ministry of Energy and Water.

In addition, local authorities face substantial financial pressures. Their income, from various sources, is challenged. On the one hand, municipalities lack the administrative infrastructure to collect fees, surcharges, and taxes. On the other hand, tax evasion is high, and municipalities do not have legal leverage to pursue citizens and businesses who/that do not pay their dues. Similarly, Unions of Municipalities (UoMs) suffer financially because many member municipalities do not pay their yearly contribution to the UoM, often because they lack the financial resources to do so. Local authorities' inability to receive donations and loans, and actively engage in private-public partnerships further limits their capacity to deliver services in a cost-efficient manner.

The situation is even more critical as the contributions from the Independent Municipal Fund (IMF), a financial equalisation system managed by the central government, are often delayed and reduced without clear explanation. For example, local authorities only recently received funds promised to them in 2017.

#### Recommendations:

1. The reform of local governance laws is an opportunity to boost the effectiveness of local authorities if local/regional authorities and communities are considered as key actors of government rather than a layer of the government whose needs and demands can be ignored.
2. To ensure that local authorities receive the support they need and can cope with the ever-increasing demands for their services, a dedicated Ministry for Municipal Affairs should be established, which deals exclusively with local governance issues and acts as a bridge between local authorities and the central government. This new ministry needs to have a much better understanding of the situation on the ground than the current MoIM, which is mainly focused on security issues.
3. Local authorities, together with the Ministry for Local Governance Affairs, should develop long-term economic development plans and policies which include a focus on financial sustainability.
4. Local authorities should be given the legal leverage to cooperate not only with each other but also to receive donations and loans and establish public-private partnerships to deliver their services cost-effectively.
5. The administrative and technical capabilities of local authorities should be developed to improve the collection of municipal taxes and fees. Automated systems and e-governance can help increase efficiency, reduce corruption, and enable transparency. Legal leverage to curb tax evasion should also be provided.

## 2. Should municipalities merge?

### If so, what should be the criteria for municipal mergers?

Lebanon has 1,058 municipalities, which is a large number in international comparison. Nearly half of Lebanese municipalities (45%) have a population of 2,000 inhabitants or less, and a further 26% have a population between 2,000 and 4,000 inhabitants. This leads to a situation in which many of the small and medium sized municipalities lack the capacities for service delivery and long-term project development. While the size and large number of municipalities has been recognised as a problem across Lebanon, it has become difficult to change the current structure.

Many new municipalities have been created to serve certain interests (party politics, electoral gerrymandering) – a wider reform of the municipal structure requires a new municipal merger law, which needs to be decided by Parliament. Particularly, the smallest municipalities benefit politically influential individuals and groups, so there will be ongoing resistance to any reform in this direction. The reform framework needs to be clearly defined as questions about the criteria of mergers, the institutional framework and citizen involvement all need to be answered.

#### Recommendations:

1. A new law on municipal mergers should clearly define the criteria, process, and arrangements for merging neighbouring municipalities to become institutionally sustainable and benefit from economies of scale.
2. Citizens should be involved and consulted. Mergers should include public consultations and an information campaign that explains the rationale, benefits, and financial impact of mergers.
3. Institutional incentives for mergers need to be created, including provisions to ensure that previous mayors will still be able to play a vital role in a newly merged municipality. This could be ensured through a rotating mayor position.
4. The criteria for any municipal merger should be economic viability (economies of scale), the number of residents (one suggestion is a minimum of 3,000 permanent residents) and some form of spatial cohesion to ensure that services can be planned and delivered effectively.
5. If the Lebanese government has no political will for mergers right now, the formation of new UoMs that pool the resources of neighbouring municipalities into larger inter-municipal entities, should be considered as a prelude to eventual mergers.

## 3. What changes in the funding arrangements for local authorities are needed to ensure long-term financial sustainability?

Local authorities are chronically underfunded in Lebanon. This has been a trend in recent decades, which has become much more important in recent years and months in light of the ongoing economic, financial and monetary crisis in Lebanon, and the Covid-19 pandemic which has substantially affected business activities and tax income throughout Lebanon. Since IMF funds provide for most of municipal income, local authorities do not have any control over their own income sources; payment is often delayed and reduced without explanation.

Other sources of income have also not been forthcoming. In addition to delayed and incomplete IMF payments, surcharge contributions from public establishments for electricity, water and telecommunications have also not been passed on to local authorities, despite their legal right to receive a certain contribution from all public utilities. Moreover, while Lebanon has witnessed an increase in new houses and property development, this has not resulted in a substantial income for local authorities.

Local authorities consistently lack adequate funding for long-term project development. As such, most local authorities do not invest in long-term developmental (and income generating) projects but engage in firefighting to ensure a basic level of services. When local authorities want to invest in longer-term development, they often face hurdles in their spending power. Strict administrative control applies to all municipal spending above LBP 20 million (approx. 2,600 USD according to the actual market rate), and the approval process is often very long, causing heavy backlogs. This leads to a situation where the central government, particularly the MoIM is not seen as a partner but as a barrier to efficient local governance. Local authorities often work around the rules and guidelines of line ministries and seek financial support elsewhere, particularly international donor organisations and overseas remittances, to deliver basic services.

### Recommendations:

1. Controls of local government expenditure above a certain threshold should not delay projects for long periods. Local government authorities should receive additional support for long-term development projects which have an income-generating potential.
2. Local authorities should be allowed to set the rates of their own fees and/or service charges to ensure that their costs are recovered.
3. IMF payments should be calculated and paid according to the size of the actual resident population rather than the size of the registered population (which is based on family lineage).
4. To ensure transparent and timely payment of support from the IMF, municipal payment arrangements should be automated and should be paid at once and in full.
5. The IMF should be managed by an autonomous body, which allocates money to local authorities based on new criteria, including the number of households/residents (based on actual residents), the number of taxpayers, and the number of registered businesses. In this way it can be ensured that the IMF payments reflect the actual financial situation of local authorities and their economic strengths to support weaker entities and reward those performing well.

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