Public Finance Management:
In The Context of Centralization/Decentralization
"Pre-assessing The Design for Egypt"

Nevine Mokhtar Eid

Ph.D. in Economics
Faculty of Economics & Political Sciences,
Cairo University, Egypt

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Belgium**

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Nevine Mokhtar Eid [*] [**]
"ladynmeid@yahoo.co.uk"

Abstract:

In an attempt to determine the framework of Decentralization that to be adopted by Egypt in the mean time, with regard to the anticipated changes either regulatory or institutionaly in the very near future. The *Soufflé Theory* has been used as a base of indication of the decentralization different concepts, and as a benchmark to which the results of the *toolkit methodolody* are compared. Thus after identifing "At what stage of decentralization is Egypt now?". *Marrow's Model* was used to analyse the impact of decentralization of Egypt on the size of the public budget so as to characterize the behavior of the past government's actions.

Keywords: Public Finance Management, Decentralization, Egypt

"The smaller the society, the fewer the distinct parties and interests, the more frequently will a majority be found of the same party; and the smaller the number of individuals composing a majority, and the smaller the compass in which they are placed, the more easily will they concert and execute their plans of oppression. Extend the sphere, and you take in a greater variety of parties and interests; you make it less probable that a majority of the whole will have a common motive to invade the rights of other citizens." (Madison 1787).

Introduction:

Centralization and decentralization are not "either-or" conditions. In most countries an appropriate balance of centralization and decentralization is essential to the effective and efficient functioning of government, both should be harmonized as shown in Figure(1).

Figure 1: Equilibrium of centralization and decentralization forces

CENTRALIZATION	DECENTRALIZATION
National Unity and indivisibility National interests Coordinated development Equity	Local diversity Local autonomy Local social systems Local interests

Central Government
Local Governments
Civil society
Local Elites
Private sector
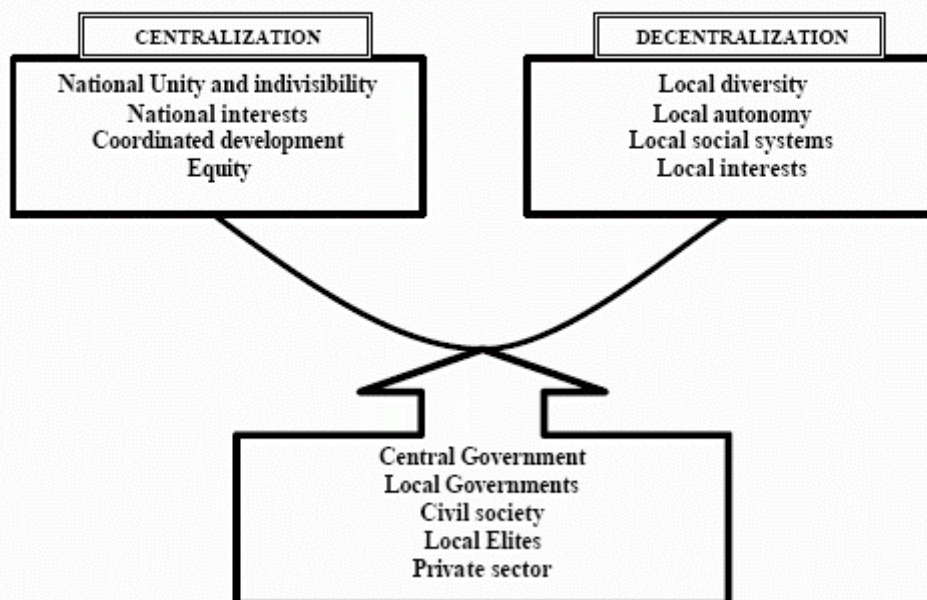
Source: Barnett, Camille Cates, et al. (1997; p.6), "Democratic Decentralization", paper prepared for the United States Agency for International Development under the IQC for Democracy and Governance.

Optimal realization of governmental tasks calls for differentiated and *meaningful co-operation and links* between the various levels of governmental organization. For purpose of good governance the central government should decentralize responsibilities and resources in situations where it serves the *optimal fulfillment of governmental tasks*.

Ideally central authorities should maintain their decision-making competency in questions of strategic importance, providing general guidance. They must create or maintain the *"enabling conditions"* that allow local units of adminstration or non-government organizations to take more reponsibilities. Central ministries often have crucial roles in promoting and sustaining decentralization by developing appropriate

and effective national policies and regulations for decentralization and strengthening local institutional capacity to assume responsibility for new functions.

Moreover, it is worthy to emphasize that decentralization is neither good nor bad for efficiency, equity, or macroeconomic stability; but rather that its effects depends on institution-specific design.

The paper is going to investigate the applicable decentralization framework that to be adopted by an emerging economy like Egypt. The paper is divided into four sections: The first introduces the literature review concerning decentralization. The second presents the definition and different concepts of decentralization. The third assesses the existed degree of decentralization in Egypt using the Toolkit approach. The fourth estimates the impact of the existed level of decentralization on the size of the public budget.

1. Literature Review:

The economic literature on (de)centralization is usefully divided by Bell (1989) into two methodologically distinct camps: (i) the conventional literature, exemplified by Oates (1972)[1], in which government officials act as social planners maximizing well-defined objective functions; and (ii) the Leviathan literature, exemplified by Brennan and Buchanan (1980)[2], where officials are self-interested individuals who maximize private utility functions.

The leviathan literature is more generally central to the fields of public choice and political economy. But its treatment of issues of decentralization is much more limited than the conventional literature. It does not address how decentralization comes about, nor why it might fail[3].

On the other side, Tiebout (1956) the earliest exponent of the conventional view, and the classic economic treatment of decentralization, posited a world of well informed individuals, where competition among subnational governments is said to allow for a variety of bundles of local public goods to be produced. Thus individuals costlessly are said to reveal their preferences for those goods by moving to those jurisdictions that satisfy their tastes -"voting with their feet" – which in turn is argued to enhance

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[1] On theoretical ground, Oates (1977) shows how decentralized provisions of public services could minimize the welfare loss from the centralized provision of public services. Oates and Schwab (1991) also show that under the assumption that taxes play the same role as prices, "the outcome under interjurisdictional competition is identical to the outcome that would emerge if one were to replace local governments with perfectly competitive firm that supplies local public goods to firm and households at marginal cost", (pp. 140-1).
[2] Brennan and Buchanan (1980) asume government as "Levitahan" which "systematically seeks to exploit its citizenry through maximization of the tax revenues that it extracts from the economy", Oates (1985, p.748).
[3] For more details see, Becker (1983).

the efficiency and accountability of resource allocation by increasing the likelihood that governments satisfy the wishes of citizens.

This benefit was captured by the well-known decentralization theorem" (Oates, 1972), which states that, in the absence of scale economies and inter-regional spillovers, welfare maximizing local authorities may tailor the supply of local public services to local tastes, and thereby achieve a solution that is welfare superior to the solution provided by the central government. As stated by Oates (1994, page130):

> "The tailoring of outputs to local circumstances will, in general, produce higher levels of well-being than a centralized decision to provide some uniform level of output across all jurisdictions. And such gains do not depend upon any mobility across jurisdictional boundaries."[4]

However, recent studies argue that the conventional wisdom may remain true in developed countries, but it is not the case in developing countries. They hold that the conventional argument that decentralized provision of public goods will increase efficiency in resource allocation may not be applicable in developing countries, Bahl and Linn (1994), Prud'homme (1995). The reason is that most developing countries do not meet implicit or explicit assumptions posed by fiscal fedralism theory.

In support to such an argument, Litvach, Ahmad and Bird (1998) suggest that the ability of consumers to "vote with their feet" in relevant to Tiebout's style, may be missing in developing countries. Low income and poor information flows may limit interjurisdictional mobility, preventing consumers from sorting themselves on the basis of their demands for public goods, as envisioned by Tiebout. In the absence of such sorting, many of the potential gains from decentralization cannot be realized.

Moreover, Tanzi (1996) noted that bureaucrats in local and regional governments may be poorly trained and thus inefficient in delivering public goods and services to the population. When delivered subnationally, the per-capita cost of such services is then higher than if they were delivered by the national government, whose bureaucracy may be more efficient. Exactly the same conclusion applies if all bureaucrats are equally efficient but corruption is more extensive at the local and regional levels than at the national level. The cost of subnational public-good provision is again higher, but the differential now serves to line the pockets of the bureaucracy rather than to offset technical inefficiencies in production. In both situations, the higher cost of subnational public-good provision limits the benefits from fiscal decentralization. In developed countries, by contrast, technical efficiency is high across all levels of government, and corruption is mostly absent at both the subnational and national levels, so that no such limitations exist.

Tanzi (1996) also argues that taxes levied at the subnational level may exhibit poor "productivity" relative to national taxes. One reason may be weak administration of income or property taxes by subnational governments, which allows consumers to engage in substantial and costless tax evasion. This outcome appears to limit the usefulness of such taxes as revenue sources, calling into question the ability of subnational governments to function as independent fiscal entities. In developed

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[4] It is worthy to note that his argument was provisioned in systems with heterogeneous tastes and no spillovers, but with spillovers and no heterogenity, centralization is superiod on efficiency grounds.

countries, by contrast, evasion of taxes levied by subnational governments is typically difficult, eliminating this obstacle to successful fiscal decentralization.

A review of international determinant studies regarding decentralization has found that stage of economic development in a country, measured by income, urbanization, and Gross Domestic Product (GDP), is associated with a significantly greater subnational share of expenditure (Kee 1977; Bahl and Nath 1986; Wasylenko 1987; Pinizza 1999). Bahl and Linn (1992) conclude,

> "[t]he implication of this observation is that government policies to promote fiscal decentralization are more likely to be effective for [developed] countries." (p.393)

Further, there has been little empirical research on developing countries with regard to the argument that decentralization promotes demand responsiveness of government services. The existing research tends to focus on the effect of decentralization on expenditure allocation or on the impact of public services provided, and tends not to address whether the resource allocation is tailored to local demand or not. The results of these researches are mixed. For example, Bird, Ebel, and Wallich (1995) examined decentralization in Eastern and Central Europe. Their results suggest that public services can suffer as a result of decentralization, at least in the short run. By contrast, Matheson and Azfar (1999) explored the impact of decentralization on health and education outcomes in the Philippines. In Filipino provinces where national minorities formed local majorities after decentralization, decentralization improved health outcomes.

Some studies indicate that decentralization may widen regional disparities in social spending if local governments are made responsible for their funding and delivery. For example, West and Wong (1995) show that in China decentralization increased regional disparities in the provision of health and education services. Similarly, Winkler and Rounds (1996) demonstrate that decentralization created inequities in school expenditures in Chile. Though undesirable, inequity appears difficult to avoid in genuine decentralization reforms – the issue here is whether (and over what time frame) local initiative and equalization transfers improve welfare compared to the *status quo ante*.

One empirical study that addresses the demand-responsiveness of decentralized service delivery is Isham and Kähkönen (1999b). They analyzed the performance of community-based water services in Central Java and found that only if user themselves were directly involved in service design and selection, were services likely to match users' preferences. Their results indicate that informed user participation in service design and decision-making led to different water technology choices: households expressed a willingness to pay for more expensive technologies than village leaders and government officials would have chosen. The study also shows that water services that matched user preferences were likely to perform better.

The developing-country evidence on the impact of decentralization on accountability and corruption is scanty. One study suggests that corruption is greater in decentralized

than in centralized countries (Treisman 1998)[5]. Also, anecdotal evidence indicates that there is plenty of corruption among local officials[6]. On the other hand, there are case studies of governance improvements arising from local efforts in decentralized systems. (See Litvack et al. 1998, Klitgaard 1988)

Overall, these studies as well as anecdotal evidence and theoretical work, suggest that the performance of decentralized service delivery depends on the design of decentralization and institutional arrangements that govern its implementation.

Thus, a logical question herein appraised; despite of all of these evidences against adopting decentralization in developing countries, why these countries decentralize? Then, the logical answer is: "are these countries planning to continue acting as developing ones forever?" Indeed, no, so why not targeting a policy that can create a more accountable and transparent government. Putting into consideration, that the trend to decentralize is driven by a range of "push and pull" factors: the need to reduce central bureaucracies and cut budgets, a history of government forest management failures, increased economic liberalization and market orientation, and growing commitment to more socially just and equitable forest management. Also, the economic objectives of better decisions might coincide with the political objectives to increase political responsiveness and participation at the local level about the use of public resources and increased willingness to pay for local services. Noticing that there are very successful practices at some developing countries like Brazil[7], Johan Van Zyl et al. (1995).

2. Definition and Different Concepts:

In most countries decentralization reflects a broader process of political and economic reform (World Bank, 1997). Political Changes worldwide have given voice to local demands and the need to bring economic and political systems closer to local communities.

The trend toward decentralization has been specially strong in Europe and Latin America, but a variety of intuitives in that direction have also been taken in many developing countries. The dictionary definition of decentralization is "the removal of

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[5] Treisman (2000) implement statistical tests using newly collected data on up to 154 countries, suggest that states which have more tiers of government tend to have higher perceived corruption.
[6] Park (2002, p.5) argued that there are two opposite prediction on the effects of decentralization on corruption: (1) giving more discretionary power to local officials may increase corruption due to closer relationships between local officials and special interests. (2) decentralization may make local officials more accountable to local voters and, as a result, it may reduce corruption. Therefore the actual effect may depend on the institutional details of particular cases.
[7] In Brazil, the preliminary evaluation of the reformulated program showed a general improvement in the living conditions of the rural poor and an increase in productivity and employment generation in the region, Aside from improved project design and sustainability, what contributed to the positive outcomes were the increased participation by residents in the subproject selection and execution, transparency in project design and implementation, and decentralized fiscal and investment decision making by the state and local governments.

certain centralized powers or control to various areas, usually the area where operations take place", Webster (1995).

Decentralization generally describes the transfer of competencies and responsibilities for performing public service obligations from the central government to decentral (subordinate or independent) authorities or to the private sector. According to Rondinelli (1987):

"The transfer of planning, decision making or management functions from the central government and its agencies to field organizations, subordinate units of government, semi-autonomous public corporations, area-wide or regional development organizations, specified functional authorities or non-governmental organizations".

However, it is not easily defined. It takes many terms and has several dimensions:

Political Decentralization: gives local citizens and their representatives more power in any type of decision making, including setting standards and legal frameworks. According to Smith (1996):

"A government has not decentralized unless the country contains autonomous elected subnational governments capable of taking binding decisions in at least some policy areas".

Knowing that the political decentralization is subdivided into different concepts:

First, Structural Decentralization: refers simply to the number of tiers[8] of government. The more tiers there are, the more decentralized is the system[9].

Second, Decision Decentralization: focuses on the scope of issues on which sub-national governments can decide autonomously (that is, without fear of being overruled by higher tier governments). A country whose constitution reserves a large subset of policymaking areas to the subnational governments is more decentralized than one in which final decisions on all matters are the central government's preserve.

Third, *Resource Decentralization*: refers to how government resources (revenues, manpower) are distributed between central and subnational tiers.

Fourth: *Electoral Decentralization*: refers to the method by which subnational officials are selected. If subnational officials are chosen locally (by election or

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[8] Each government in a country has a jurisdiction, an area of space or a subset of the country's population over which theta government has constitutional authority. *A tier* of government is the subset of governments on a country such that all members of this subset have jurisdictions that are contained by the same number of (other governments') jurisdictions. For instance, all governments whose jurisdictions are contained only by the jurisdictions of the national government are denoted "first-tier" sub-national governments. All those, whose jurisdictions are contained by that of the national government and that of one "first-tier" government are "second-tier" governments, Treisman (2000).
[9] For instance, Singapore, in which no local government exists separate from the national government, is maximally centralized in this conception. China, which has four tiers of government below the national government – provinces; prefectures; counties and county-level cities; townships, villages, and city districts – is far more decentralized.

appointment by local communities), the system is more decentralized in this sense than if all local officials are appointed by the central authorities.

Fifth: *Institutional Decentralization*: concerns the degree to which the subnational communities or their representatives have formal rights within the procedures of central decision making. A system in which state legislatures must ratify constitutional amendments is more decentralized in this sense than one in which the constitution can be changed by just a national referendum. Countries in which states have significant veto powers over central legislation via their representatives are also more "institutionally decentralized".

Administrative Decentralization: redistributes authority, responsibility and resources among different levels of government. Suitable capacities and institutional strength at all tiers are preconditions for the effectiveness of this term, Litvach (1999). This type of decentralization can be differentiated by four main forms:

First, Deconcentration: refers to the redistribution of decision competencies and responsibilities to regional or local units of the central government (e.g. regional ministerial offices). It represents the weakest form of decentralization. Some argue that this is not even part of decentralization because the shift in responsibility simply takes place within the Central State hierarchy.

Second, Delegation: is a stronger form of administrative decentralization. Through delegation central governments transfer responsibility for decision-making and administration of public functions to semi-autonomous organizations not wholly controlled by the central government, but ultimately accountable to it. Governments delegate responsibilities when they create public enterprises or corporations, housing authorities, transportation authorities, special service districts, semi-autonomous school districts, regional development corporations, or special project implementation units. Usually these organizations have a great deal of discretion in decision-making. They may be exempt from constraints on regular civil service personnel and may be able to charge users directly for services.

Third, Devolution: is the strongest form of administrative decentralization. It is the creation or increased reliance upon subnational levels of government, with some degree of political autonomy, that are substantially outside direct central government control yet subject to general policies and laws, such as those regarding civil rights and rule of law. Usually referring to municipalities with locally elected organs and clearly defined territorial responsibilities, that have independent authority to make investment decisions. In a devolved system, local governments have clear and legally recognized geographical boundaries over which they exercise authority and within which they perform public functions.

Fourth, Delocalization: is the spatial distribution of central government socio-economic development facilities and activities such as schools, hospitals, etc in peripheral regions.

Fiscal Decentralization is an essential component of each form of decentralization. A decentralized unit cannot accomplish its duties independently unless it has access to required resources and has the power to make financial decisions. There are different ways of financing local services:

- Self-financing or cost recovery through users charges.
- Co-financing or co-production arrangements through which the users participate in providing services and infrastructure through monetary or labor contributions.
- Expansion of local revenues through property or sales taxes, or indirect charges.
- Intergovernmental transfers that shift general revenues from taxes collected by the central government to local governments for general or specific uses.
- Authorization or municipal borrowing and the mobilization of either national or local government resources through loan guarantees.

Economic or Market Decentralization[10]: It refers to the transfer of functions from the public to the private sector, in other words, tasks which have been handled by the government are now left to private enterprise cooperatives, interest groups, volunteer organizations and other non-governmental organizations. There are two main forms of economic decentralization:

Privatization[11]: the transfer of complete or partial responsibility for the production of specific goods and services from the government to private sectors

Deregulation: the reduction of legal barriers which obstruct the private production of goods and services; or enabling competition between private sectors in areas which have been dominated by government services or regulated public enterprises monopolies.

In sum, any form of decentralization means, "getting closer to communities/people". As stated by Uphoff (1997):
"The basic elements of decentralization are: (a) that persons who make authoritative decisions are physically located closer to rather than farther from the people and situations that are affected by these decisions, and/or (b) that decision-makers are accountable to these persons through some kinds of constitutional, institutional or traditional connections".

However, it is difficult to come across a country that has undertaken only one of the above different types of decentralization. All these components must complement

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[10] Economic Decentralization touches the key question of role sharing between the government and private initiative, while other forms of decentralization relate to distribution of duties within government structures. Thus it follows basically another logic which development policy undoubtedly must cope with.
[11] Privatization has been linked to a range of action which includes: *asset sales*, in which government sells all or part of state-owned enterprises or property; *contracting out* services, in which public officials act as service managers; internal market arrangements, in which the purchasing of services is separated from their provisions; *user fees*, in which government levies charges for services that are still provided by the public sector; *private-public partnerships*, in which government finances, manages and shares the risk with the private sector on a joint project; and *liberalization,* which involves the removal of statutory provisions which prevent private sector firms entering public sector markets. These range of actions indicates that privatization is increasingly defined broadly to include all efforts to encourage private sector participation in the delivery of public services. In this broader sense privatization does not necessarily lead to the complete transfer of ownership and control of the service to the private sector and in this case the term "marketization" is often used interchangeably with privatization, Braddon & Foster (1996).

each other to produce more responsive local governments, this has been referred to as a *"Soufflé Theory"*, as shown in figure (2). Almost all countries, centralized or decentralized always seek to find an appropriate mix of these types. The central question always concerning how much decision-making power should be transferred to local governments.

## Figure (2): Indicators of Decentralization: The Soufflé Theory
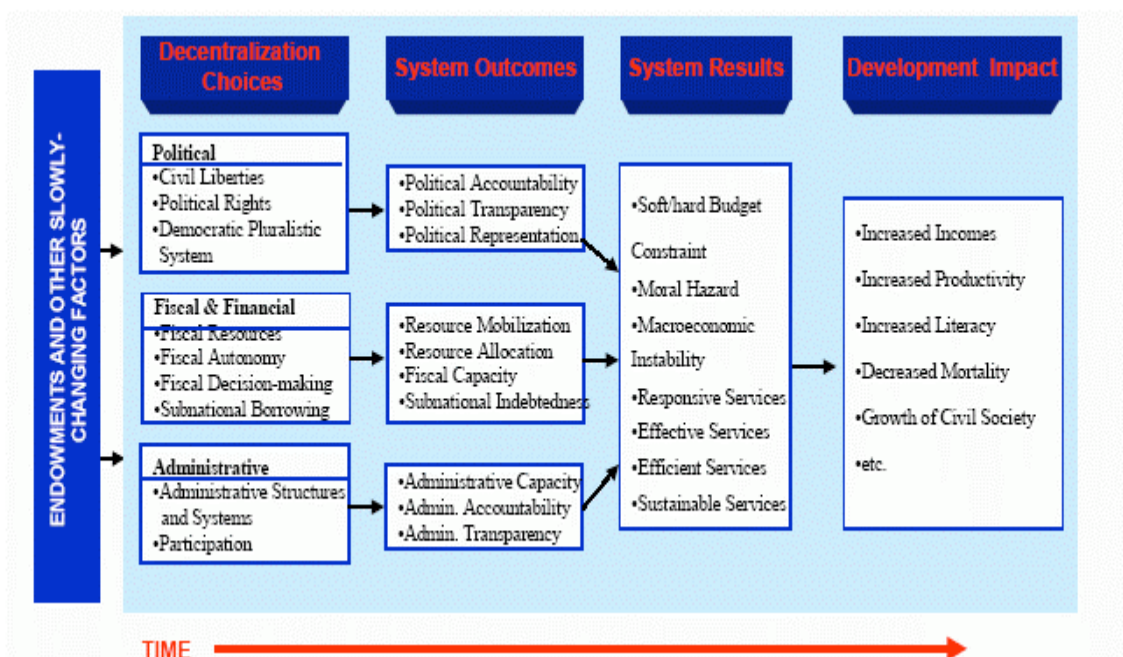
Source: Paker, Andrew N. (1995), Decentralization: The Way Forward for Rural Development? Policy Research Working Paper 1475, The World Bank, Washington, D.C, as postulated by Neven, Inn (2003).

But before answering such a question, one should assess first the existed level of decentralization in Egypt.

3. Assessing the Existed Degree of Decentralization in Egypt:

Based on the above discussion, it is quite obvious that the main instrument of achieving a successful decentralization program, is to have an effective democratic and development-oriented local participation as shown in Figure (3):

Figure (3): Framework for Effective Participation:
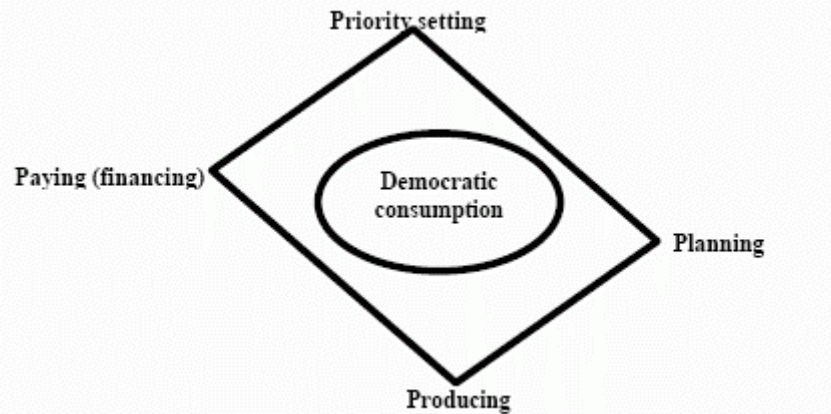
Source: Barnett, Camille Cates, et al. (1997; p.8), "Democratic Decentralization", paper prepared for the United States Agency for International Development under the IQC for Democracy and Governance.

Where people are rational enough;
- To decide which problems concern them most and in what ways in order to set priorities on which to expend their energies and resources for their own benefit.
- To plan the way their problems will be solved and their needs met.
- To produce goods and services and distribute them through engagement in a full range of economic, commercial and non-profit activities.
- To pay for goods and services which in essence underpins their participation in consumption.

On the other side, if people are capable and skilled to that extent, decentralization should be locally voted, and not targeted by the government or raised in a political agenda.

Indeed, in our case, it is a political decision, so under such a circumstance, people should be taught how to be rational first. In other words, "to stop expecting to participate only in consumption without participating in paying", Kauzya (2003). But we should comprehensively regard that this is always the condition all over the world, "Decentralization does not simply happen – it is a strategic choice made by self-interested politicians", Rodden and Garrett (2001).

Thus to start assessing the existed level of decentralization in case of having any, there should be a pre-determined benchmark, to whose parameters, our findings should be compared. There are five main parameters for designing a democratic decentralization as shown in figure (4). They are:

- Legal reforms to devolve power not only to local governments but also to local communities (giving decision making power and authority to them especially in matters of socio-politico-economic local concern).

Figure (4): The Main Parameters of Democratic Decentralization:
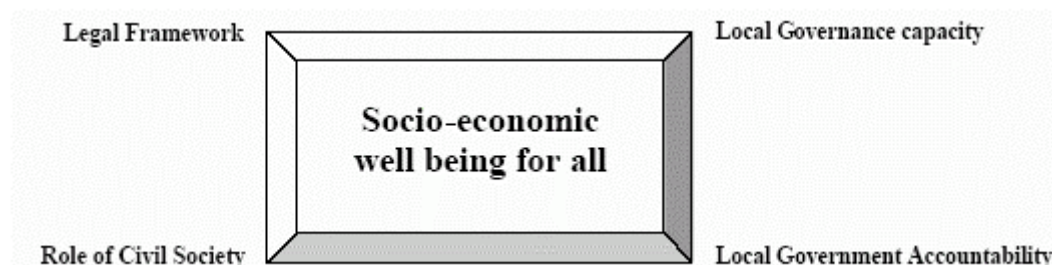
Source: Barnett, Camille Cates, et al. (1997: p.9), "Democratic Decentralization", paper prepared for the United States Agency for International Development under the IQC for Democracy and Governance.

- Strengthened local governments' capacity (in terms of finances, personnel, organization structures, management systems, data and information, facilities, networks, etc..)
- Local government accountability to both citizens and central government, transparency, and responsiveness.
- Enhancing the role of civil society both at local level and national levels (practicing horizontal decentralization)
- Showing both intent and progress in improving the quality of life for the local people (i.e. enhancing people's participation in consumption of goods and services).

3.1. THE TOOLKIT APPROACH OF ASSESSMENT:

In relevant to the above presented theory, a toolkit approach of assessment has been implemented on basis of a scaled questionnaire, Neven (2003) which in turn after answering, the existed policy can be determined, thus aid in pre-designing the forthcoming policy.

i.   Political Scale of Decentralization:

- Are governments elected?   No[12]
- Are there multi-party elections?   Yes
- Are Ballots cast secretly in government elections?   No

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[12] The governors and other key administrators are appointed by the central government. Only the president is to be nominated by the People's Assembly for a six-year term, the nomination must then be validated by a national, popular referendum; national referendum last held 26 September 1999 (next to be held on October 2005); prime minister appointed by the president.

- Are elections held at regular intervals?   Yes[13]
- Are election Free and Fair?   Yes[14]
- Does the center have the authority to override results of local decisions?   No
- Is the head of local government elected directly, indirectly or appointed?   Appointed
- How effective is civil society at keeping on local corruption (e.g. through budget or anti-corruption watchdogs, media etc..)   n.a.[15]

ii.   **Administrative Scale of Decentralization**:

- Is this a Federal or Unitary Country?   Unitary
- In practice, where does sovereignty lie? (at the center or at the state level)   At the center[16]
- List the administrative tiers of government?   4 tiers[17]
- What tier of government is responsible for determining the salary and hiring of civil servants at each level of government?   Tier (1)[18]
- Who approves at the line item budget at each level of government?   People Assembly [19]

iii.   **Fiscal Scale of Decentralization**[20]:

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[13] This concerns the presidency and the people's council.

[14] Bicameral system consists of the People's Assembly or Majlis al-Sha'b (454 seats; 444 elected by popular vote, 10 appointed by the president; members serve five-year terms) and the Advisory Council or Majlis al-Shura - which functions only in a consultative role (264 seats; 176 elected by popular vote, 88 appointed by the president. Elections: People's Assembly - three-phase voting - last held 19 October, 29 October, 8 November 2000 (next to be held on November 2005); Advisory Council - last held 7 June 1995. Election results: People's Assembly - percent of vote by party - NDP 88%, independents 8%, opposition 4%; seats by party - NDP 398, NWP 7, Tagammu 6, Nasserists 2, LSP 1, independents 38, undecided 2; Advisory Council - percent of vote by party - NDP 99%, independents 1%. But it is worthy to note that this situation was before the 27th of February 2005, after which his Excellency, President Mubarak called for the ammendment of constitution, so as to allow more than one candidate to run for the office. This implies an anticipated democratic era.

[15] Such procedures and awareness is not existed, except in case of Banking Sector, if the Tellers' Cameras are to be included.

[16] Even in federal countries such as South Africa or India, the sovereignty lies at the center unlike the US where it lies at the state level.

[17] The four tiers are: governorate, district (Markaz), Villages/cities and neighborhoods, for more details see, Fox and Ghanim (1998).

[18] For example, the head of the governorate education directorate and his immediate staff are on the governorate budget, but costs for teachers and other classrooms personnel and the school operating budget are in the Ministry of Education Accounts.

[19] The governorate Executive Council prepares the governorate budget, the District Executive Councils prepare budgets for all cities and villages. The expenditure responsibilities are all delegated to the central government. Then the People's council only have the powers to approve or disapprove, suggest, recommend , and follow-up with the bounds of state public policy.

[20] The estimation of these table is based on the data imported from the "Government of Egypt Final Accounts – fiscal year 2003/04".

- What share of general government spending is incurred at the national level as own spending? 30.45%[21]
- What share of general revenue is raised and retained at the sub-national level? 31.91%[22]
- What percentage of sub-national expenditures is financed by intergovernmental grants? 88.49%[23]
- What percentage of local expenditure is financed from local revenues? 26.38%
- How important are extra budgetary funds to local finance? Very important
- What share of aggregate public expenditures do subnational governments have effective control over?[24] 5%
- What are the norms used to determine the subnational budget? Budget norms[25]

3.2. ANALYSIS OF RESULTS:

Based on the above assessment, and on basis of the toolkit's benchmark indicators, one can emphasize that "In Egypt, the degree of decentralization is relatively low". Most of the decisions and especially the most important ones are made by the government, then the country can be categorized as centralized one, but in orientation C[26], which is shown in figure (5), where decentralization of policy development is given to regional level, but in the constraints of national policy[27]. Thus, specific regional goals and quality can be developed.

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[21] Infrastructure expenditures are not included in our estimate.

[22] This indicator is estimated on average of governorates retained revenue.

[23] It should be noted that the proportion of grants ranges from 10% to 80% in industrialized countries, Developing countries are likely to have a much higher vertical imbalance since the major tax bases are national.
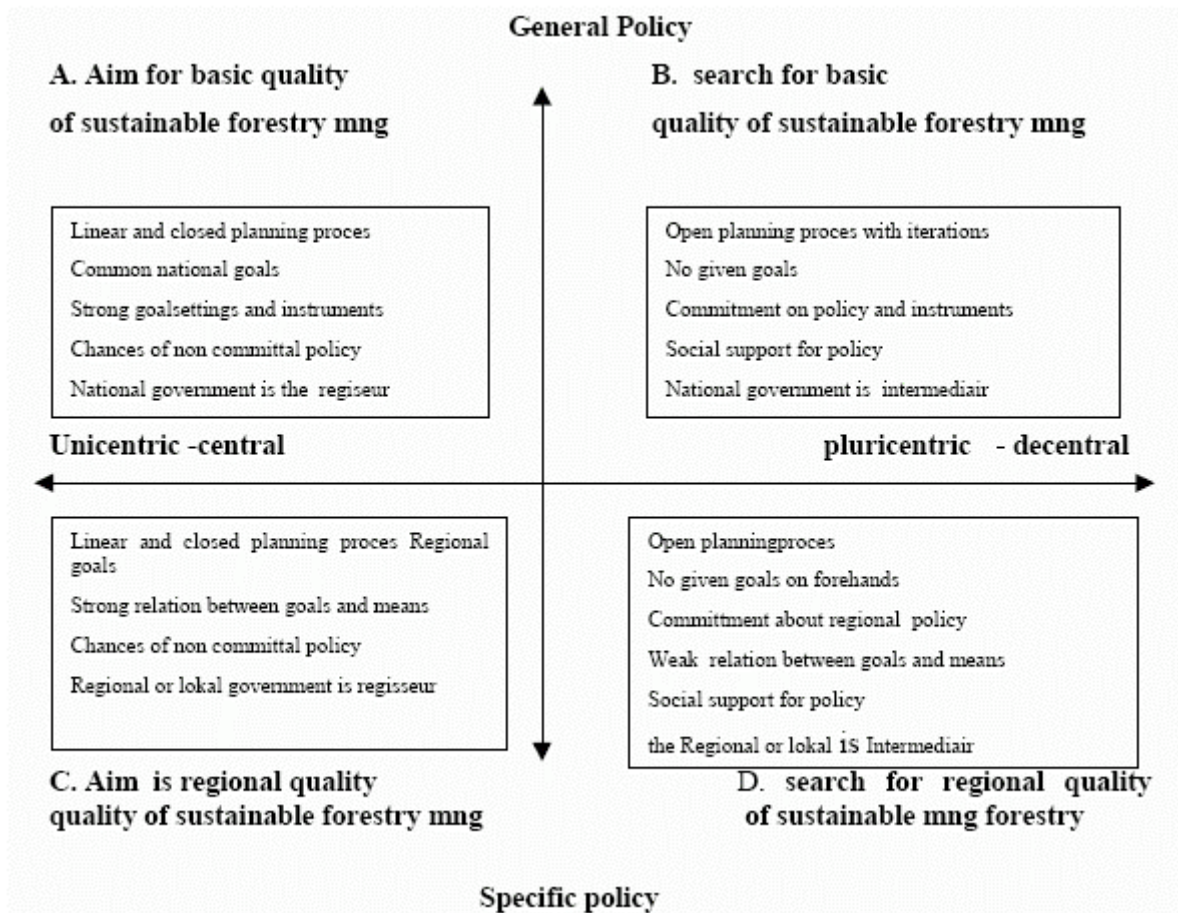
[24] The joint revenue fund (JFR) is financed with ½ of the local shares of taxes on customs, profits and moveable assets. The General Secretariat for Local Adminstration is free to distribute the revenues without any formal guidelines from the parlimant.

[25] The budget guidelines for local units are drawn from the "Models of the States' General Budget Preperation", which is designed by the Ministry of Finance and includes separate guidelines for the current and capital budgets.

[26] It is worthy to note that orientation A is based on exante formulation of results and expost – evaluation of social support. Risks are well known – ineffective policy implementation. The need for information grows and new instruments will be developed to get a stronger hold on the social developments. However orientation B, D represent higher degree of decentralization. Orientation B is based on ex-ante evaluation of social support and ex-post formulation of results. Risks are generality of policy and weak effect of solutions. With the expertise of local and regional adminstrators the regional policy is developed. Condition for this strategy is the democratic chosen representative in the policy process. Orientation D of this typology is based on co-production of different stakeholders. Characteristics are policy-making in circumscribed area and iteration between the different faces in the policy-process. Central theme is the common interest in specific problems. Condition for this approach is the knowlede of supporting actors and the generation of many inititives and instrumental package deals, as illustrated by Neven (2003).

[27] The conception of a local plan is one-sided, as indicated by Article 118 of Law No. 43 of 1979 which states: "The local unit is to determine its needs according to well prepared priorities. It is to accumulate these needs and co-ordinate them in a draft local plan to be approved by the concerned local Peoples' Council, and transmit them to the governorate People Council."

Figure (5): The Decentralization Diagram of Assessment:

General Policy

A. Aim for basic quality
of sustainable forestry mng

- Linear and closed planning proces
- Common national goals
- Strong goalsettings and instruments
- Chances of non committal policy
- National government is the regiseur

Unicentric -central

B. search for basic
quality of sustainable forestry mng

- Open planning proces with iterations
- No given goals
- Commitment on policy and instruments
- Social support for policy
- National government is intermediair

pluricentric - decentral

- Linear and closed planning proces Regional goals
- Strong relation between goals and means
- Chances of non committal policy
- Regional or lokal government is regisseur

C. Aim is regional quality
quality of sustainable forestry mng

- Open planningproces
- No given goals on forehands
- Committment about regional policy
- Weak relation between goals and means
- Social support for policy
- the Regional or lokal is Intermediair

D. search for regional quality
of sustainable mng forestry

Specific policy

Source: Hage, J. (1997), "Decentralization". In: NICHOLSON, N. (ed.) The Blackwell Encyclopedic Dictionary of Organizational Behaviour, Oxford, postulated from Neven, Inn (2003; p.10), "Background Paper on Decentralization", Institute Alterra, Green World Research, Wageningen, The Netherland.

Therefore, based on the depicited diagram, the following symptoms should be highlighted:

- The subsystem have no powers and responsibilties in policy formulation, but their participation in the decision making of the central authority is <u>very limited</u>.
- The degree of free decision making of the sub-systems is regulated by a <u>narrow</u> choice-set.
- The sub-systems are financially <u>dependent</u> on the central authority.
- The central authority <u>can enforce</u> policies against the will of the sub-systems.

Our findings can be supported by that shown by Ghanim and Fox (1998), where they define the existed system as a deconstrated one which involves relatively little delegation of authority to the local level. Moreover, they emphasized that the fiscal system is very centralized based on international norms, and the local units have little control over expenditures since they are unable to shift resources from one item to another.

However, what we have just implement is identifying where we are, from the decentralization framework. Thus, our target now is to answer the following question "What will be the impact of fiscal decentralization on the size of public budget in Egypt?". Sequencing our steps, we should start first assessing the impact of the existed low degree of decentralization on the size of public budget, then anticapate the near future trend within the changing areana, where many laws are either established or modified especially, that concerning the new suggested law of taxes.

4. Impact of Decentralization on the Size of Public Budget:

In order to measure such an impact we can rely as suggested by Kwon (2002), first on the international tax burden comparison between Egypt and more advanced economies as shown in table (1), so as to clearly define our hypothesis, that to be tested.

The table shows that the ratio of total tax revenue to GDP is well below other developed countries. However, the ratio of central tax revenue to GDP is not below other countries. This fact may indicate that the central government's intrusion into economy is larger than what citizens want while local government intrusion in economy is smaller than what citizens want. Therefore, we hypothesize that as decentralization proceeds, the size of the central budget decreases while the size of local budget increases.

Thus, the second step is to test this hypothesis using the expenditure measure[28]. Here we are going to borrow Marlow's model[29], since it is the best fitted into the Egyptian setting.

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[28] If a study includes the central government activities, researcher tends to employ expenditure measure (e.g. Marlow 1988, Joulfaian and Marlow 1990, Shadbegian 1999). However, if a study is only concerned with local government activities, researcher tends to employ revenye measure (e.g. Zax 1989; Forbes and Zampelli 1989).

[29] Marlow suggests that government expenditure measures are more precise measure of public sector size. In his time-series and expenditure measure model, he finds that the relationship between the public sector size, measured as the ratio of federal and non-federal expenditure to GDP and decentralization, measured as share of state local expenditure in total government expenditure, is statistically significant negative, which means that a more decentralized public sector is associated with a smaller public sector.

Table (1): The Ratio of both the Total Tax Revenue and Central Tax Revenue to GDP, 2003:

Dec. 2003		
Countries	% Total Tax Revenue/GDP	% Central Tax Revenue /GDP
Egypt	23.5	23.1
Japan	37.2	11.3
U.K.	39.9	26.73
U.S.	32.5	12.72
Germany	41.7	22.39
Canada	40.6	19.47
Australia	42.2	22.04

Source: IMF, Government Finance Statistics, Dec. 2003.

4.1. ESTIMATING THE IMPACT[30]:

The data series on the central and local levels of Egyptian government is constructed over period 1975/76-2003/04[31]. The choice of this time period is to capture the period after which local units have played a role in both the budgeting and planning process[32].

(i) The Dependent Variables are:
  ▪ The ratio of the central government expenditure to GDP (CE).
  ▪ The ratio of local government expenditure to GDP (LE).
  ▪ The ratio of total government expenditure to GDP (TE).
(ii) The key independent variable is fiscal decentralization measured by the ratio of local expenditure to total government expenditure (DEC).
(iii) Control variables include real per capita income (INCOME) and population (POP).

The researcher conduct OLS regression analysis of three dependent variables (CE, LE, TE) and independent variable (DEC), table (2). The logistic transformation[33] of dependent variables is conducted because dependent variables have a range limited to

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[30] The methodology used in modelling is similar to that adopted by Kwon (2002), in testing the impact of decentralization on public spending in Korea.

[31] All of the data is imported from the Ministry of Finance, Final Accounts.

[32] Prior to 1975, there was no clear relationship between planning and budgeting at the local level. Both preperation and implementation of budgets were considered as a national matter. Local planning is viewed as a major channel towards achieving the best use of available resources, discovering new opportunities inside each local unit, and suggesting a distribution of available resources in accordance with local priorities.

[33] $\text{C\'E} = \log (CE/1-CE)$

the zero-to-one interval that is not satisfied with basis assumption of regression model.

Table (2): OLS Estimation of CE, LE, and TE (N=29)

	CE	LE	TE
Intercept	-0.735 (-6.576)**	-1.756 (-18.658)***	-0.793 (-6.345)**
DEC	0.207 (0.635)	2.619 (8.112)***	1.000 (2.734)***
R^2	0.036	0.865	0.326

t-statistics in parentheses
** significant at the 5% level, two-tailed test; ***1%

Signs of DEC in three equations are all positive that means a more decentralized government tends to be associated with a larger spending.

We conduct OLS regression analysis with control variables (INCOME and POP), as shown in table (3).

Table (3): OLS Estimation of CE, LE, and TE with control variable (N=29)

	CE	LE	TE
Intercept	-0.666 (-0.599)	-1.897 (-2.235)***	-0.723 (-0.701)
DEC	-2.225 (-3.113)***	0.295 (0.524)	-1.669 (-2.147)**
INCOME	1.006E-06 (1.296)	7.322E-08 (1.225)	1.009E-07 (1.383)
POP	1.009E-08 (0.350)	1.644E-08 (0.721)	1.427E-08 (0.419)
D-W	0.590	0.688	0.690
Adjusted R^2	0.423	0.898	0.590

t-statistics in parantheses.
*significant at the 10% level, two tailed test; **5%, ***1%

In CE equation and TE equation, the sign of DEC is negative that means a more decentralized public sector is associated with a less central spending and a less total spending. In LE equation, the sign of DEC is positive that means a more decentralized public sector is associated with a more local spending, but there is no statistically significant relationship between LE and DEC.

The Durbin-Watson d test is used to detect autocorrelation problem. The researcher find all three equations suffer from autocorrelation. The GLS (Generalized Least Squares) regression method[34] is conducted as a remedial procedure.

In order to conduct GLS regression, we need to know ρ[35] of each equation. The researcher use the Cochrane-Orcutt method[36] that uses the estimated residuals to obtain information about the unknown ρ.

Table (4): GLS estimation of CE, LE, and TE (N=28)

	CE	LE	TE
Intercept	-1.835	-2.032	-1.987
	(-3.675)**	(-3.997)***	(-3.536)**
DEC	-1.685	0.900	-0.869
	(-3.634)***	(1.958)*	(-1.787)*
INCOME	-3.958E-06	-4.186E-06	-5.001E-06
	(-0.813)	(-0.876)	(-0.901)
POP	7.362E-08	6.555E-08	5.726E-08
	(3.201)***	(2.003)***	(3.009)***
Rho	0.400	0.405	0.416
Adjusted R^2	0.688	0.898	0.875

t-statistics in parantheses.
*significant at the 10% level, two tailed test; **5%, ***1%

Table (4) shows that GLS estimation of CE, LE, and TE on DEC, INCOME, and POP. To ensure the absence of autocorrelation in these transformed equations, non-parametric test[37] is conducted. Based on the run test, the researcher cannot reject the hypothesis that there is no serial correlation in the residuals from each of the above three regressions.

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[34] GLS is OLS on the transformed variables that satisfy the standard least-squares assumptions, Gujarati 1995, p. 363.

[35] The simplest method to estimate ρ based on Durbin watson d statistics ($\rho \approx 1\text{-d}/2$). Mandel suggests that in small samples instead of estimating ρ as (1-d/2), it is estimated as $\rho = \{(n^2(1\text{-d}/2)+k^2)/(n^2\text{-}k^2)\}$, where n=total number of observation, d = Durbin-Watson d, and k = number of coefficients (including intercept) to be estimated.

[36] Is an algorithm for estimating a time series linear regression, in the presence of auto-correlated errors. The serie of residuals e(t) constructed from the OLS regression of y on x, will be regressed on e(t-1) to estimate the auto-correlation coefficient, denoted ρ here. Then construct series y* and x* by $y_1^* = \text{sqrt} (1\text{-}\rho^2)y_1$, $x_1^* = \text{sqrt} (1\text{-}\rho2) x1$, and $y_t^* = y_t \text{-}\rho y_{t-1}$, $xt^* = xt - \rho x_{t-1}$. One estimates b in y = bx+μ, by applying this procedure iteratively – renaming y* to y and x* to x at each step, until estimates of ρ have converged satisfactorily. Using the final estimate of ρ, one can construct an estimate of the covariance matrix of the errors, and apply GLS to get an efficient of b. Transformed residuals, the covariance matrix of the estimate of b, R2 and so forth can be calculated.

[37] Gujarati (1995, p.436) notes that the Durbin-Watson tables may not be appropriate to test for serial correlation in the data that have already been adjusted for autocorrelation, and he recommend non-parametric test for this situation.

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Like in OLS regression, the sign of DEC in CE and TE equations is negative, while the sign of DEC in LE equation is positive. The coefficient of DEC in CE equation is statistically significant which means a more decentralized public sector is associated wih a less central spending. Also, the coefficient of DEC in LE equation is statistically significant at 10% level that means a more decentralized public sector is associated with more local spending. The coefficient of DEC in TE equation is also statistically significant at 10% level, which means a more decentralized public sector is associated with a less total spending. The coeficients of POP in all three equations are statistically significant which means an increase in population is associated with a more public spending. Finally, the coefficient of INCOME in all three equations are not statistically significant. This finding indicates that level of income does not affect the level of public spending in Egypt. As Bahl points out, this result may come from the fact that voter preferences have not been revealed into either national or local budget outcomes.

There may be an endogenous relationship between two dependent variables (CE and LE) and DEC because an increase in the central expenditure will increase total government expenditure, leading to a decrease in decentralization ratio. Or an increase in the local spending may lead to an increase in decentralization ratio.

A version of the Hausman specification error test[38] is used for testing the simultaneity problem in CE and LE equation. The researcher finds simultaneity problem only in CE equation. Two-stage least squares (2SLS)[39] method is used as a remedial method.

Table (5): 2SLS Estimation of CE (N=29)

	CE
Intercept	-0.705 (-0.624)
DEC	-2.759 (-2.068)**
INCOME	1.002E-06 (1.045)
POP	1.654E-08 (0.532)
Adjusted R^2	0.29

t-statistics in parantheses.
**significant at the 5% level, two tailed test

Therefore, DEC has a negative coefficient of statistical significance, which means a more decentralized government tends to be associated with a less central spending.

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[38] Hausman (1978) test is widely used in applied research to test the endogenity of explanatory variables in a regression. Such a test is implemented in SAS and Stata.
[39] Where the ratio of import and export to GDP is used as an exogenous variable in the model, it is correlated to DEC (-0.750), but it is not correlated to CE (0.003)

4.2. POLICY IMPLICATIONS:

Based on the above conducted tests, we can conclude that in case of Egypt, there is a negative relationship between the level of the central government expenditure and the degree of decentralization. The relationship between the level of local government expenditure and the degree of decentralization is positive even though it is statistically insignificant. Also, the relationship between the level of total government expenditure and the degree of decentralization is negative and statistically significant at 5 percent level.

These results imply that the central government had behaved as "Leviathan", and was not responding to the citizens' demands as suggested by Brennan and Bauchanan[40].

Herein we should emphasize that the only solution for such a problem is that in the near future, each function in the expenditure assignment should be assigned to the lowest level of government in consistency with its efficient performance (the subsidiarity principle – the basic rule). Since tastes and costs vary from place to place, it is argued that the assignment of responsibilities to different level could be asymmetric and based on population size, rural/urban classification and fiscal capacity criteria. Thus large cities may have responsibilities for some services which are provided directly by the central or regional governments in other areas.

Once the expenditure assignment is decided, the crucial question that should arise is who will pay for them? The problem is that this logical squencing was not followed in the Egyptian decentralization processes. The revenues were transferred first to the central government and only after that has the devloution of service functions, or negotiations over service devolution begun.

The appropriate way to pay for collective goods, which benefit the entire local community is through local taxes. Knowing that the only "good" local taxes are said to be those that are easy to administer locally, are imposed solely (or mainly) on local residents, and do not raise problems of "harmonization" or "competition" between subnational governments or between sub-national and national governments (e.g. property tax, vehicle tax, taxes and levies on local business and user fees). However, property tax is seldom fully collected and the revenue potential is not well taped, as well heavy reliance on such a tax may lead to some problems[41]. As a result, a model of allocation was suggested by Kee (2003) in table (6), after his examination to the theory of fiscal decentralization and the practices of nations such as Brazil and China. He emphasized that there are some widely agreed principles that point a particular direction in Fiscal reform, this can be briefed as follows:

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[40] It is worthy to note that these results are typically similar to that concluded by Kwon (2002) in case of Korea, the only difference is that he has taken a time serie that covers before and after decentralization, however, in case of Egypt, this was not available because of the data limitation.

[41] These problems can be briefed in the following points: property taxes are costly and difficult to administer, and have high visibility, which fosters accountability but also creates political resistance that limits its revenue potential. Even a well-adminstered local property tax cannot finance major social expenditures (education, health, social assistance) except perhaps in the richest communities. The problem of the insufficiency of the conventional sub-national revenue sources becomes more severe in the case of larger countries with important intermediate levels of government . For more details see; Bird (1999).

First: For stabilization and Fiscal equalization/redistribution purposes, the central government should collect 5 percent or more of total taxes, and those taxes should be from a broad-based elastic tax bases (such as income or value added). The three developed nations whose central share exceeds 50 percent, Germany, Japan, and the U.S., arguably gave the strongest macroeconomic programs. In contrast, Brazil, China, India and Russia have all experienced problems with having insufficient national revenues.

Second, For alocational efficiency and accountability, regional and local governments should have sufficient discretion on "own-source" taxes. If regional and local governments rely on sharing national revenues, there is less incentive to develop their own tax resources and more incentive to overspend with money other than their own-source taxes (including some discretion on rates) to fund discretionary local expenditures.

Third, For horizontal equity (among regions and states) and vertical balance (matching revenues and expenditures), the national government should have at least one tax that is shared with sub-national governments on a formula basis, which takes into account fiscal capacity and tax effort. While the degree of fiscal equalization is a political question, attempts at 100 percent equalization are probably not desirable. In Germany and Russia, there is little incentive for states and local governments to develop their own-source revenues because it simply results in less revenue sharing from the national federal system. Some combination of tax sharing and rate sharing could deal with the equity issues while not crippling national stabilization functions.

Fourth, Regional or state governments could play a useful intermediary role, allowing the national government to deal with national disparities and the regions to deal with local disparities and individual allocation needs. Regional oversight over local taxes may be important to ensure integrity and uniformity, especially if the local tax base is used in formula determining fiscal capacity (e.g., assessed real property values).

Table (6): Model Tax Allocation System:

Central Government	Regional/Local Government
▪ Income Taxes ▪ Import and Export Duties	▪ Property Taxes ▪ Business Taxes ▪ Charges and Fees ▪ Gaming/Lottery ▪ Income or VAT ▪ Excise Tax
Shared/Joint Taxes	
▪ Natural Resource Taxes ▪ VAT	

Source: Kee, James Edwin (2003; p.14), "Fiscal Decentralization: Theory as Reform", VII Congreso Internacional del CLAD sobre la Reforma del Estado y de la Administración Pública, Panamá, 29-31 Oct. 2003

It is very important that sub-national governments have some significant degree of liberty[42] to make changes in the level and composition of their revenues.

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[42] Sub-national governments should be able to set fee charges and tax rates and have the freedom to make mistakes and to bear their consquences, which in a democracy will be reflected by the electoral

Regardless, of the revenue sources, it is quiet obvious that still transfers from central to local governments should certainly continue to be an important source of funds at least in the near future. Therefore, a well-designed formula based system of intergovernmental transfers, that imposes accountability at the margin whether in case of collection[43] or distribution[44], should be implemented. Putting into consideration that such a system should provide some degree of stability to local government and some degree of flexibility to the central government, where a fixed percentage of all central taxes or current revenues is to be transferred[45].

Moreover, it is worthy to note that fiscal decentralization might have negative impact on macroeconomic performance especially in developing countries, as it becomes very difficult to co-ordinate fiscal policy in a counter-cyclical sense. Thus excessive spending or deficits might take place especially when:

- Subnational government pursue expansionary fiscal policy at the time that the national government is pursuing a contractionary policy.
- Expenditure responsibilities are transfers but central government continues providing them in a concurrent manner.
- Revenue sources are reassigned to subnational governments but they fail to exert adequate fiscal effort.
- Transfers are increased but subnational governments reduce their efforts to collect from the revenue sources they already control.
- There is a high degree of decentralization, thus not leaving to the central government enough room to exercise adequate macroeconomic management.
- Central government fails to impose hard budget constraints on the sub-national governments – local government face soft budgets and can easily borrow[46].

However, most of these defeciencies can be eliminated normally and gradually by processing the privatisation program.

"The more extensive is the process of privatization, the lesser justification there must be for fiscal decentralization. Privatization should be considered as an alternative to decentralization for many public activities", Tanzi (2000, p.6).

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process. Without this freedom, It would be difficult to be adequately responsive to local needs and decisions, and there would be no local autonomy and consequently no local accountability.

[43] It depends on the structure of local political institutions, since they are the ones that create the incentives that determine to what extent elected and non-elected government decision makers carry out their duties transparently, responsibly and in a manner which responds to citizens needs and preferences.

[44] In our case, it depends on the extent of conditionality maintained. Thus if the central government is going to use local governments as agents in executing national policies, it is reasonable to make the transfer conditional upon the funds being spent for the desired purposes, (i.e. when local governments provide important national services such as education and health, monitoring of performance should be a key element of design).

[45] Experience has shown that sharing specific national taxes is less desirable than sharing all national taxes because it may lead central governments to increase more those taxes that they do not have to share.

[46] This can be limited by adopting some kind of exante limits on subnational borrowing and follow the "golden rule" where borrowing is only permitted for investment purposes. In practice this may be difficult to enforce in absence of good financial classification and reporting system.

Therefore, for the time being it is highly recommended in our case to adopt the *Scottish decentralization framework*, in which spending is decentralized and taxation is centralized. Thus, there is no reason to think that fiscal decentralization is an accurate indicator of all types of political decentralization. As Scottish devolution shows for example, substantial political decentralization might take place without fiscal decentralization.

At least until the following procedures are undertaken in paralleling order with the privatization program:

- The effectiveness of the new taxing law[47] as well as custom administration computerization[48].
- The implementation of an appropriate program/performance based budgeting system[49].
- The effectiveness of the competition law.

In sum, it should be highlighted that improvements in the public financial management system are largely a function of creating the political will to develop reforms and make (and sustain) institutional change. However, it is the distinction between institution and organization and the interplay between the two, which is the key to understanding how the public financial management system can be improved. In other words, budgeting[50] and public financial management organizations can be improved, but economic, social and political behavior will not change unless the rules and procedures change (and are internalized) as well. The reverse is also true: rule modification is unlikely to produce results in an operationally meaningful time frame

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[47] According to the tax reform program suggested by the IMF, efforts were made to provide serious relief to workers who suffer too heavy a burden from PAYE (pay-as-you-earn) of the pre-reform. Egypt had a high income tax of about 40%. But the tax on average income level was still 27%. The progressive rate of the individual income tax varies between 5% and 25% according to the tax bracket. Tax deductions or other allowances are possible: 2000 Egyptian pounds for single people; 2500 pounds for childless married people and for unmarried couple having at least a dependent child, and 3000 pounds for married people having at least a dependent child, Thisen (2003). However, the new suggested law has raised the family allowances to reach 5000 Egyptian pound, and 2500 pounds for single people. With regard to the mentioned reform program; branches are subjected to the corporate tax as all the other companies. Thus, double taxation of corporate income and corporate dividends was avoided in Egypt. Corporate profits from non-industrial activities are taxed at 40% and those from industrial activities are taxed at 32%. Moreover, two categories of the VAT rates were introduced in Egypt, the general sales tax (GST), which applies to the sale of all industrial products and its rate is 10%, except for some products where the rate can go up to 25%. Services are taxed at either 5% or 10%, depending on their types. Commodity taxes were applied on land products, excises or production taxes and consumption taxes. In February 2002, the government converted general sales tax into proper Value Added Tax (VAT). This sales tax aimed to suppress the disadvantages of the enlarged excise system that was in practice since early 1990s, and to collect enough resources in order to fund the development plan with the minimum possible administrative burden.

[48] Tax and customs departments are often the locus of major fraud and corruption.

[49] Based on international experiences, robust monitoring of performance should; (1) include swift and predictable consequences, (2) consider the probable impact of introducing performance indicators on individuals' behavior and take compensatory measures (if needed). Also, in order to install performance-based systems, it is essential to; (1) understand the different limitations of input, output, outcome and process indicators of performance, and tailor the use of each to the specific sector in question, (2) build in provisions for the systematic assessment of performance of the performance system itself.

[50] Diagnostic questionnaires are to be used as principles for budgeting process; which in turn should include comprehensiveness, accuracy, authoritativeness and transperancy, for more details see Schaeffer (2002).

unless organizational improvements proceeds apace, Schiavo-Campo and Tommasi (1999). Thus, improving public expenditure management requires both institutional (regulatory and procedural) reform and organizational development, as shown in table (7). Knowing that the primary criteria for judging the effectiveness of public financial management system are the extent to which:

- It includes a priori controls.
- Existing laws and secondary legislation enable the recovery of amounts lost.
- Structures are in place to fight fraud and corruption.

Table (7): Public Finance Management Framework:

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Macroeconomic Stability	- Identification and assessment of the future implications of current policies. - Recognition of the resource constraint. - Maintenance of an extensive database and profile of all agency expenditures. - Maintain cost data where services funded by public agencies are provided by private and non-governmental sector.
Efficiency Improvement	- Measurement and publicizing of the costs of important activities. - Factors or areas contributing to expenditure increase should be identified and addressed. - Pursuit of alternative strategies for the delivery of services when costs tend to increase.
Technical Infrastructure	- Establishment of an information system, which makes relevant operation data available to all policymakers and program managers. - Focus on core tasks by central agencies responsible for financial management. These tasks include policies, costs, and the specification of the desired performance levels. - Managerial autonomy for spending agencies in the use of allotted resources. - Selective conversion of accounting systems to an accrual basis particularly in agencies with large inventories. - Eliminate patronage for public service appointment. - Eliminate off budget/off-balance organizations/accounts. Independent audit functions, and strong budget execution.
Accountability	- Specific costs and expected performance, as an integrated part of the overall framework of accountability. - Avenues for people to secure information on historical series such as government accounts. - Establish oversight bodies (where none may currently exist). - Disseminate information.

Source: Schaeffer, Michael (2002 p.25), "Corruption and Public Finance", Sectoral Perspectives on Corruption, Prepared by MSI, sponsored by USAID, DCHA/DG.

5. Conclusion:

The paper has showed that in Egypt, the decentralization level is still very low, and that its impact on the local expenditure is positive but still insignificant, which implies that it still requires a long path of modification whether administratively or regulatory basis before being capable to be optimally decentralized, as shown in orientation C in the previously depicted figure (5). Thus a political decentralization can take place in the mean time without fiscal decentralization (decentralized spending but centralized taxation).

Figure (6) can describe the anticipated evolution of decentralization in Egypt, where decentralization is to be more effective when downward accountability is stronger.

Figure (6): Regular Evolution of Decentralization In Egypt:
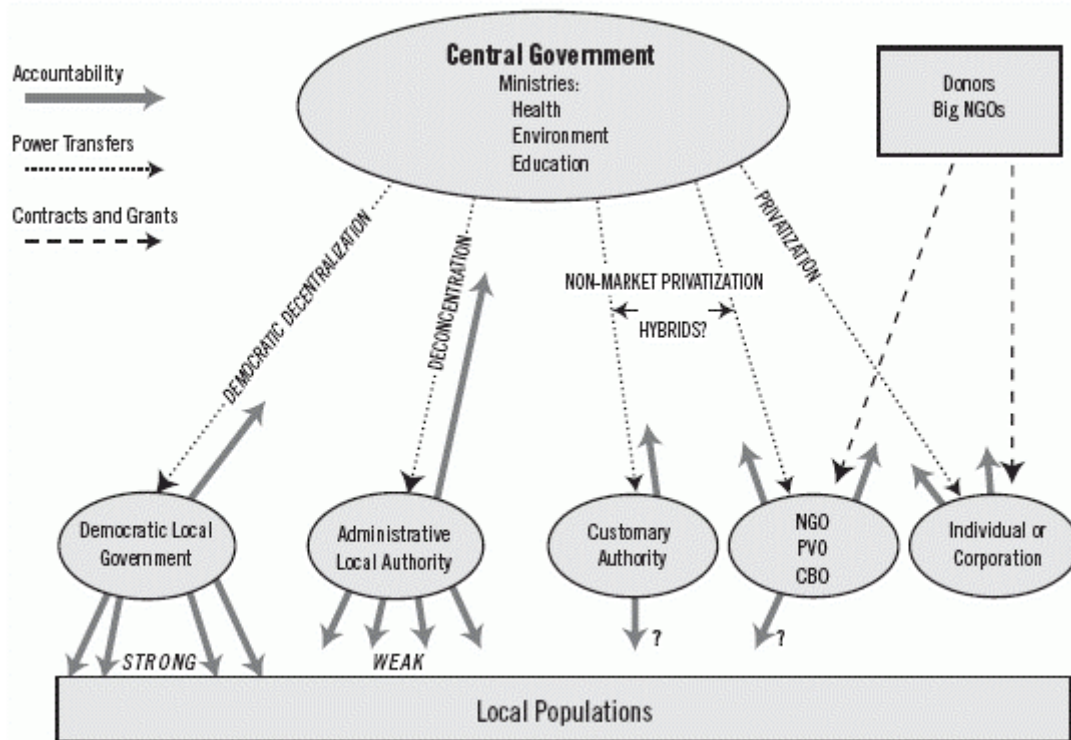
Source: views of Agrwal, A. and Ribot, J (1999), "Accountability in Decentralization: A Framework with South Asian and West African Cases", Journal of Developing Areas 33(4): 473-502, as potulated by Ribot, Jesse C. in his book; "Waiting for Democracy: The Politics of Choice in Natural Resource Decentralization", World Resources Institute, September (2004), p.19, Section 1: "Theoretical Foundation of Decentralization's Political Environmental Benefits".

Therefore, The triangular syndrome of decentralization can be fully achieved normally after the effectiveness of the above mentioned laws in parallel with the privatization program, which might lead to the implementation of Ghandi's Ideaology if such a program is finalized in a great domestic share and biodiversity conservation attitude.

In relevance to Ghandi, the society is organized in the form of an *"Oceanic Circle";* such a structure is composed of innumerable villages, where there will be ever-

widening but never-ascending circles. Life will not be a pyramid with the apex sustained by the bottom. But it will be an oceanic circle whose center will be the individual always ready to perish for the village, the latter ready to perish for the circle of villages, till at last the whole becomes one life composed of individuals, never aggressive but ever humble, sharing the majesty of the oceanic circle of which they are integral units. Therefore, the outmost circumference will not wield power to crush the inner circle, but will give strength to all within and derive its own strength from it[51].

Gandhi's thought is similar to that of Plato. There is a link between the health of the soul and the health of the city, and the maintenance of the health of the city depends in practical terms on the moral character of the 'guardian' class. It is the 'guardians' who must undergo a moral transformation and serve others. Thus, Gandhi destroyed the dichotomy that existed between professional life and personal life, between precept and practice, and ushered in an era where liberation of the nation and greed for power and wealth should be replaced by the selfless desire to love and serve others, particularly the weaker sections of the society.

Finally, one still should ask; can decentralization be a healthy channel towards the achievement of a realistic ideal democratic economy? This is still openend for forthcoming debates or has Ghandi's imagination been buried with him.

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[51] He believed that all power resided in the people and that it should also originate from the people. The dynamo of power in a country like India should be the village. The village was to be a knot in a system of oceanic circles in which the remotest circle derived its strength from the center, i.e., the individual. This would mean that sovereignty was not to remain concentrated at any one level. It was to be diffused among units rising horizontally till they reached the national level. In terms of political science, the residuary power remained with the village and the center was there to co-ordinate the work. Gandhi believed that government is the best which governs the least. The village according to his vision should be self-sufficient in vital wants, but interdependent in many other spheres. Interdependence, while maintaining the independence of the village, is the keynote of Gandhi's approach to village life.

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