



## Democratization in Egypt: The Potential Role of Decentralization

Jamie Boex

February 2011

Although the timing and fervor of the unrest in Egypt over the past several weeks have come as a surprise to many, the underlying causes of the unrest should not. The scenes that played out in the streets of Cairo, Alexandria, Suez, and around Egypt not only reflected a popular uprising against an autocratic regime but exposed mass frustration with a public sector that was unresponsive to the public service needs of the people, that failed to generate sufficient employment opportunities and economic growth, and that failed to empower people over their public sector.

While the removal of President Hosni Mubarak signifies the achievement of the demonstrators' main demand, merely substituting the president or cabinet will not make Egypt more democratic, nor will a change in the national leadership empower the people over the public sector. Instead, deep structural reforms are needed within Egypt's public sector to ensure it can respond to the needs of the people. This policy brief highlights the role that decentralization reform could play in that process.

### **The centralized nature of the Egyptian public sector**

Egypt is a highly centralized country and, as the joke goes, has been so for the past five thousand years. Although Egypt's public sector has undergone significant reform since the country abandoned its centrally planned economic system in 1991, state control over the public sector's finances remains highly centralized and concentrated.

Below the central government level, the country does not have elected regional or local governments. Instead, Egypt is divided for administrative purposes into 29 Governorates. Governorates are led by Governors who are appointed by the President and in practice are largely drawn from the Ministry of Interior or the military. The central ministries (Ministry of Education, Ministry of Health Affairs, and so on) have directorates in each of the country's 29 Governorates. Although the Governor is the administrative head of the Governorate and in that role has considerable administrative power, the Governorate line directorates retain a technical relationship to their respective line ministries. Below the Governorate level, there are two additional levels of local administration, notably the *Markaz* or district level (or metropolitan cities in urban areas), and local administrative units, such as villages, towns, and city neighborhoods. Each level reports up to the next level, from which it receives its instructions and resources.

In addition to the subnational administrative structure, the national budget structure further reflects the centralized nature of Egypt's public sector. The national budget is divided between central administration and local administration, where local administration signifies spending and revenues that take place at the Governorate level and below. In accordance with the hierarchical structure of the budget system, any need or spending request identified at the lowest level must be passed from the village to the district to the Governorate level, before it can be included in a budget request prepared by one of the 11 directorates at the Governorate level. Ultimately, budget ceilings and requests from Governorate directorates are determined—together with budget requests from central ministries and other central administration units—by the Ministry of Finance and approved by the Cabinet and Parliament as part of the annual budget process.

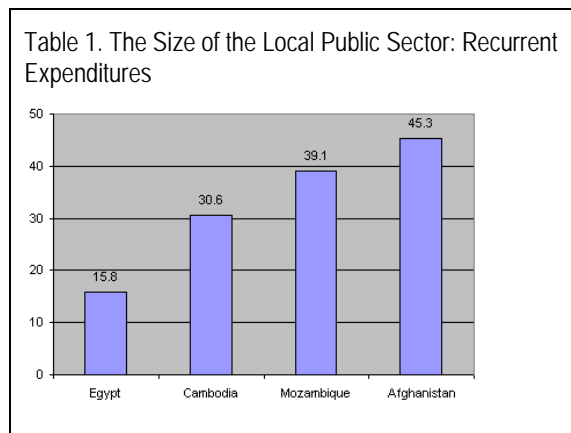
### **The unresponsiveness of public service delivery in the Egyptian public sector**

While many countries (including the United States and most industrialized countries) have chosen to deliver public services in a “devolved” manner through elected state and local governments that are closer to the people, many developing and transitional countries have chosen—with varying degrees of success—to deliver public services through a deconcentrated state administration.

Regardless of whether a country chooses a devolved or deconcentrated public sector, for a public sector to effectively and equitably deliver services to its people, it has to accomplish three things: first, it has to ensure adequate financial resources are provided to the local (administrative or government) level, where most public services are provided (this is known as the vertical allocation of budgetary resources); second, the resources provided to the subnational public sector should be distributed across the national territory in an efficient and equitable way, so that regional or local governments with greater needs have access to greater resources; and third, the resources available to the local public sector should be used efficiently to transform inputs into outputs and policy outcomes.

*Vertical allocation of resources.* Although few comparative statistics are available for deconcentrated countries, we know that developed countries generally spend 30 to 40 percent of public resources at the subnational (devolved regional and local) government level, while transition economies spend 20 to 30 percent of budgetary resources at the subnational level. In contrast, Egypt spends only 14.7 percent of its public resources at the subnational level. If we take into account only recurrent expenditures that fund the delivery of public services (on the assumption that central agencies may be in a better position to deal with the procurement of capital expenditures), still only 15.8 percent of national recurrent resources are provided to the local administration level in Egypt. In other words, only *one out of seven* Egyptian pounds is budgeted for the provision of public services at the local level for the benefit of the Egyptian people. In contrast, *six out of seven* pounds of public resources are spent on central government administration.<sup>1</sup>

Although comparative data on deconcentrated expenditures are not readily available for most countries, how does Egypt's vertical allocation of resources compare with some other selected deconcentrated countries for which data are available? The short answer is: not well. Whereas Egypt allocates about 16 percent of its recurrent expenditures to the local administration level, Cambodia and Mozambique allocate almost twice as much to subnational level: in Cambodia approximately 30.6 percent of recurrent resources are provided to the subnational level, while in Mozambique, 39.1 percent of recurrent budgetary resources are made available for subnational expenditures. In fact, despite its myriad of problems (fiscal and otherwise), Afghanistan provides 45.3 percent of national recurrent budgetary resources to the subnational (provincial) level.<sup>2</sup>



*Horizontal allocation of resources.* The horizontal distribution of resources at the Governorate level (i.e., the distribution of public resources across Governorates) is also a potential area of concern, with the best-off Governorate receiving ten times more in financial resources per capita than the worst-off Governorate. Such large variations raise concerns about the equity and efficiency with which public resources are used. However, preliminary analysis indicates this variation is not random nor the result of political influence. Instead, the size of a Governorate's population is the primary determinant of its (per capita) resource allocation, with more sparsely populated Governorates receiving greater per capita allocations than more populated, higher-density regions. However, additional analysis is needed to verify the extent to which public resources are distributed across the national territory in accordance with expenditure needs.

*Efficient use of local public resources.* Difficulties created by the scarcity of resources provided to the local administration level are compounded by rigid local administrative systems and local officials with only very limited discretion over the resources provided to the local public sector. In fact, over three-quarters (75.3 percent) of all local administration spending in Egypt is on wages and salaries, over which local officials have no control: all decisions regarding local administration staffing levels and salaries are made centrally in Cairo. Only about one-fifth of local public expenditures is available for

operation and maintenance expenditures, while around 6 percent is budgeted for local capital expenditures. While these resources are spent at the local level, these funding streams are already centrally earmarked to be spent within specific sectors and often for specific purposes, allowing local officials little or no discretion to prioritize resources at the local level in accordance with local needs.

To the extent that the inefficient use of resources isn't already the result of central controls, the administrative systems in place at the local level further contribute to the inefficient use of public resources. As noted above, the hierarchical and bureaucratic nature of local administration in Egypt means that several administrative levels are involved in allocating budgetary resources in accordance with public needs at the grass-roots level, often resulting in the inefficient allocation of resources. The hierarchical structure of the public sector further complicates transparency and accountability within the local public sector. While Governors are the administrative heads of their respective jurisdictions, in fact, they have only limited control over the budgets and management of Governorate line departments, which receive their budgets directly from the Ministry of Finance. Although local sectoral officials routinely pass blame for their inability to deliver adequate public services to their respective line ministries, it is unclear in which cases this is deserved and in which cases it is not.

### Recent decentralization efforts in Egypt

Although there are mixed opinions about the degree to which decentralization can help hold together nations in a fragile or post-conflict environment,<sup>3</sup> there are several reasons why decentralization may provide a substantial opportunity for democratization and for improvement in responsiveness in Egypt's public sector.

While Egypt does not have elected local governments through which public services are delivered, Egypt does have a system of directly elected Local Popular Councils (LPCs) in place at each subnational level. Although LPCs at the Governorate, Markaz, and sub-Markaz levels

currently merely serve as advisory bodies without any executive responsibilities and without control over any financial resources, LPCs are potentially legitimate subnational governance structures that could form the core of a local governance system in Egypt.

In fact, since 2007, the ruling National Democratic Party (NDP) had been promoting a process of decentralization reforms, with strong support from a reformist faction within the NDP led by Gamal Mubarak. Indeed, by December 2010, the Ministry of Local Development (MOLD) was in the final stages of preparing a new Local Administration Law that would have introduced significant changes in the subnational governance structure. The draft law would have put the elected representatives of the people—the Local Popular Councils—in charge of the subnational jurisdictions at the Governorate and Markaz levels. Under the draft law, Governors would no longer be the head of the executive branch at the subnational level; instead, the role of Governors would be revised for them to become the representatives of the center within each Governorate, in charge of monitoring the performance of public service delivery, rather than being in charge of public service delivery.

The development of the decentralization-minded Local Administration Law has not been a niche effort. As part of drafting the law, extensive consultations took place between the MOLD and the other ministries that deliver public services at the subnational level. The International Monetary Fund, World Bank, United Nations Development Programme, and the U.S. Agency for International Development all supported—directly or indirectly—the preparation of decentralization reforms.

As part of the broader decentralization effort, the Ministry of Finance set up a permanent intergovernmental fiscal committee in February 2010 to liaise with line ministries to move a greater share of public resources closer to the people and had taken major steps toward adopting a ministerial fiscal decentralization strategy. Furthermore, the Minister of Finance had taken the initial step of instructing the centrally run General Authority for Educational

Buildings (GAEB) to deconcentrate its budget to the Governorate level.

### **Decentralization and democratization in Egypt: Going forward**

Hopefully the transition of power that took place in February 2011 will merely form a temporary interruption in the process toward democratization and decentralization, as the new Local Administration Law was finding its way to parliamentary approval, which was expected by March 2011.

The current turn of events does not necessarily bode well for the chances of decentralization in the near term, as the Supreme Military Council suspended the constitution and parliament, while the main political force behind the decentralization reform process has been discredited and was essentially forced out of the ruling party. One could further question the interest among the country's new military leadership to support a reform initiative that would instantly demote nearly three dozen of their former comrades in arms from the most senior (and most lucrative) civilian positions in government.

However, if the virulent protests that led to the ouster of Hosni Mubarak suggest one thing, it is that the decentralization reforms that were being pursued did not come fast enough. If the transitional authorities in Egypt listened to the protesters, one of their highest priorities would be to pursue constitutional and legal reform to pursue the empowerment of the people through the empowerment of their Local Popular Councils.

## About the Author

Jamie Boex is a Senior Research Associate with the Urban Institute Center on International Development and Governance.

The Urban Institute is a nonprofit, nonpartisan policy research and educational organization that examines the social, economic, and governance problems facing the nation. The views expressed are those of the authors and should not be attributed to the Urban Institute, its trustees, or its funders.

For a more detailed discussion on the recent (fiscal) decentralization process in Egypt, see “Towards a Fiscal Decentralization Strategy for Egypt: A Framework for Discussion” by Jamie Boex and Paul Smoke (May 2010).

## Notes

<sup>1</sup> While 84 to 85 percent of budgetary resources in Egypt are spent at the central administration level or central service authorities, some of these central resources trickle down to the local level. For instance, while basic education is provided and funded through local (Governorate) line directorates, the construction of new school buildings is within the purview of the centrally run General Authority on Educational Buildings (GAEB). However, in the absence of the necessary detailed budgetary data, it is difficult to quantify what share of central expenditures benefit the local public sector indirectly. Yet, there is ample anecdotal evidence that the benefits and value-for-resources from such spending is extremely limited for the people that the public sector intends to service.

<sup>2</sup> See Jamie Boex, *Moving Forward with the Development of a National Fiscal Decentralization Policy Framework in Cambodia* (NCDD Secretariat, 2008); Jamie Boex and Ângelo Macuacua, *An Analysis of District Finances in Mozambique* (MPD, 2009); and Jamie Boex and Roland White, *Intergovernmental Fiscal Relations and Subnational Expenditures In Afghanistan* (World Bank, 2008).

<sup>3</sup> For further discussion, see Dawn Brancati, *Peace by Design: Managing Intrastate Conflict through Decentralization* (Oxford University Press, 2009).