The Dilemma of Financial Autonomy in the Management of Public Finances at the Level of Local Governments

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Abstract

This research analyzes a group of municipalities in Algeria from the perspective of financial autonomy in the management of public finances at the level of local administrations. Local public finances in Algeria have not been as severely impacted as the State's during the global health crisis 2020, but this is more concerning than reassuring. Ironically, the reason for this is the same as what made the municipality the "driving force" of local development, a sub-national entity heavily reliant on state aid: financial constraints. As a result, this study aims to reflect on the reality of the local government's financial management through a survey conducted in Annaba's wilaya and, more specifically, in the municipality of Annaba, El-Bouni, Berrahal, El-Hadjar, and Sidi Amar. As a result, it was necessary to inquire about the obstacles that needed to be overcome to lay the groundwork for more effective local financial management and the local community's aspirations.

Key words: local governments, local finance, financial autonomy, decentralization, local taxation
J.E.L. classification: H71, R51, R58

1. Introduction

Decentralization has been recognized as a critical issue in governments' political and institutional agendas for several decades. Both internal and external pressures have forced many developing countries to expand the administrative, budgetary, fiscal, and even political power granted to sub-national levels of government, namely local governments; as a result, the rise of local authorities has piqued the interest of peers and researchers (Krisztina & Bambang, 2014). Furthermore, the success of foreign states' territorial policies urgently invites us to analyze ours from the regulatory, political, management, and especially the financial and decision-making dimensions because states that excel in local management are those whose local governments have convincing and significant financial and decision-making autonomy.

This independence is a two-edged sword. On the one hand, it allows local authorities to have free administration; on the other hand, it is a heavy burden for those unprepared to deal with their territory's local dynamics. This is not the only feature of financial autonomy; it has been identified in several studies as ambiguous, polysemous, and complex, given the many factors that mobilize it, such as resource and expenditure choices, local taxation, State control, and forms of decentralization. To understand and diagnose the management of local government finances in Algeria, we must first investigate the network of relationships, procedures, legal texts, and issues that govern it to distinguish the network's convergences and divergences.

Algerian local governments are distinct legal entities under public Law from the State, with legal and financial autonomy. In exchange, they are entrusted with various responsibilities, including local economic development, environmental protection, education, and health care for their citizens. As a result, these responsibilities are split between two levels: wilaya (department) and municipality (commune). Algeria has 48 regions, 535 districts, and 1541 municipalities, all of which are subject to the same communal status, according to the territorial reorganization 1984 (Clergerie, 1991). Then, on December 11, 2019, Law n° 19-12 relating to the country's territorial organization was adopted, giving rise to a new territorial organization consisting of 58 wilayas and 1541 municipalities (Official Journal of Algeria N° 78, 2019). For the Minister of the Interior, Local Authorities, and Territorial Planning, this decision is part of President Tebboune's commitment to bring the administration closer to the citizen and to consider the latter's needs (Beldjoud, 2021).

2. Literature review

According to Greffe X (1992), any transfer of competencies must be accompanied by a proportionate level of resources to allow local authorities to manage the local public affairs delegated to them (Telaidjia, 2016). Furthermore, to carry out the prerogatives delegated to local authorities by the State, the latter requires a set of funding resources that vary from country to country and are constantly the subject of criticism and peer analysis. These financing sources for Algerian wilayas and municipalities are tax revenues and state subsidies. Furthermore, these resources are not limited to borrowing but include income from local public services, rent from private property, and remuneration from a public domain occupation agreement (Wasserman, 2016). However, these final examples of local resources account for a tiny portion of local budgets.

Local taxation is a defensive strategy for local governments (Guengant & Uhaldeborde, 2003). Indeed, when these communities support the development of their territory by implementing investment and housing projects, they have the right to request tax revenue to help finance the means, equipment, and infrastructure needed to complete this development independently and efficiently (Delpech & Navarre, 2018). Furthermore, local taxation comprises various taxes and levies, the proceeds of which are either paid in full to the local authorities (so-called own-source taxation) or shared among the local authorities, the State, and the CFLA or The Common Fund for Local Authorities (Conseil des prélèvements obligatoires, 2010).

The State must assist local budgets through external resources, mainly State subsidies and those of the Local Government Solidarity and Guarantee Fund "LGSGF", to achieve regional balance and horizontal equalization. These grants can directly finance the municipal budget's operating or capital and investment sections: exceptional balancing grants and those related to catastrophic or unforeseeable events. The equipment and investment section primarily comprises (nearly 90%) of CFLA or state budget subsidies through communal development plans (Makhmouch, Achouche, & Meziani, 2017).

It should be noted that there is no such thing as a local government without subsidies or endowments, and these authorities are not deprived of the authority to decide on subsidies. In other words, the rationale for a subsidy cannot be limited to an act of bad faith that seeks to limit or eliminate the latter's decision-making autonomy over their expenditures (Hastings-Marchadier, 2017). In contrast, once ostensibly exceptional endowments or subsidies become systematic (Boumoula, 2010), one must be wary of an automatic recentralization of decision-making power, which leads to an imbalance in the local system and a tangle of competencies between the government and local authorities.

According to Eric Olivia (2017), financial autonomy does not imply financial independence, but it could be interpreted as such in the extreme, at least theoretically. In this case, financial independence would imply acknowledging that local governments are sovereign authorities, which is incompatible with the theory of the unitary State but could be conceived within the framework of federalism, which recognizes federated states' internal sovereignty, expressed legally through the existence of a formal constitution. Financial autonomy is a particularly elusive concept; even the term "autonomy" varies depending on context. This is based on the twofold observation that it is a multifaceted and shape-shifting concept at the heart of decentralization. It serves as the fulcrum for all forms of autonomy. When determining the degree of financial autonomy of local governments, several criteria can be used, the most basic of which are:

- Financial autonomy can only be effective through a true concretization of fiscal autonomy (Hernu, 2018).
- Financial autonomy is assured once elected bodies freely administer local authorities (Olivia, 2017).

According to Article 1 of Law 62/157 of 31/12/1962 on the renewal of French regulations, Algeria decided to maintain the French legal systems except in its provisions contrary to national sovereignty (Official Journal of Algeria N° 02, 1963), thus respecting the characteristics of the territorial administrative organization founded by the colonial power. However, the colonial-era systems had failed in several areas, and it was time for Algeria to define its administrative, political, and social choices by establishing its own constitution. Table 1 lists the four constitutions of independent Algeria, attempting to identify the stages at which the current decentralized territorial model was designed.

Table no. 1 Modification of the concept of decentralization in the Algerian constitution

Year of constitution	The beginnings of decentralization	Analysis
1963	Article 9 stipulates that the Republic comprises administrative communities whose scope and Law determine powers. The primary territorial, administrative, economic, and social community is the municipality (commune)	This article is certainly not sufficient or instead could be considered a modest initiative since decentralization and administrative reforms were not priority issues in the face of such sensitive political and economic problems for such a young government.
1976	Article 7 of this constitution states that the People's Assembly is the primary institution of the State. It is the framework within which the people's will is expressed, and democracy is realized. It is the fundamental basis for decentralization and the participation of the people in the management of public affairs at all levels. Article 35 also states, "Decentralization is based on a judicious distribution of powers and tasks that correspond to a rational division of responsibility within the framework of the unity of the State. It aims to give local authorities the human and material resources and the responsibility to promote the development of their region themselves, in addition to the efforts undertaken by the nation.	Article 7 expressed a fundamental interest in decentralization and participatory democracy, reinforcing them with Articles 8 and 9, especially Article 35, which enriched the role of the local authorities in a wide range of areas by holding them responsible for local development.
1989	Articles 14 and 16 of this constitution reaffirm that the elected Assembly is the foundation of decentralization and the framework in which the people's will is expressed, thus participating in the management of public affairs. Article 15 confirms that the territorial authorities of the State are the municipality and the wilaya. The municipality is the basic collectivity.	The 1989 constitution can be considered the only one subjected to the principle of decentralization, approving the elected Council as the basis. However, it remains insufficient as it does not explain the real meaning or exact definition of decentralization, nor does it give the latter's pillars. This point was explicitly stated in the neglect of the independence of the local authorities.
1996	According to Article 118, two-thirds of the Council of the Nation members are elected by indirect and secret suffrage from among and by the members of the communal	With the revision of the constitution in 1996, local governments became involved in composing the National Assembly, which

	people's assemblies (CPA) and the members of the people's assemblies of the regions / wilayas (PAW).	allowed them to promote their participation in the construction of national institutions.

Source: Authors adaptation of "Constitution of the People's Democratic Republic of Algeria"

It should also be noted that the Algerian constitution has used decentralization to concretize the principle of local democracy and respond to citizens' needs more effectively. Simultaneously, the government strengthened territorial organization by calling for a code specific to local government management. This code has been in effect for approximately ten years. However, the validity of these regulations, particularly their applicability, relevance, and impact on exploiting local resources, must be questioned.

3. Research methodology

Considering this a dilemma, our work focuses on the following issue: *Has the Algerian State taken the necessary and adequate measures to optimize the management of local public finances?* This problem is divided into two additional research questions to shed light on and provide a better understanding of the phenomenon being studied:

- *How has the legal framework governing the management of local finances in Algeria evolved?*
- *What about issues affecting the financial independence of local governments?*

To answer these questions, we put forward the following two hypotheses:

H1: Algeria's legislative framework for local governments promotes efficiency and autonomy in managing local finances.

H2: The financial autonomy of local Algerian governments is relatively sufficient.

The current study uses a mixed methods methodology that includes qualitative and quantitative data. On the one hand, it was a matter of accurately representing Algeria's territorial organization and emphasizing its unique features through a description and analysis of the legal acts, Laws, and codes that govern territorial action. As a result, a questionnaire-based research study seemed necessary to validate the two previously mentioned hypotheses.

The questionnaire was chosen as the data collection method for our study. The questionnaire is the primary data collection method most developed in quantitative research, according to Thietart (2003). It is divided into three stages: selecting measurement scales, constructing the questionnaire and pre-tests to ensure the measurement instrument's validity and reliability, and the questionnaire's final administration.

To confirm or refute our study's hypotheses, we created a questionnaire for local actors, including Senior public officers and local elected representatives from the five municipalities of Annaba, El-Bouni, Berrahal, El-Hadjar, and Sidi Amar (Table 2).

Table no. 2 Overview of the study area

Municipality	**Annaba**	**El-Bouni**	**Berrahal**	**EL-Hadjar**	**Sidi-Amar**
Region/Wilaya	**Annaba**				
Location	The region of Annaba is located northeast of Algeria, on the southern bank of the Algerian-Provençal basin, the northeastern end of its wilaya. It is 600 km from Algiers's capital and 106 km from the Tunisian border. The city rises at the bottom of a bay open to the east on the Gulf of Annaba. It is dominated in the west by the mountain chain of Edough (1 008 m of altitude).				
Districts/Daïra	Annaba	El-Bouni	Berrahal	EL-Hadjar	EL-Hadjar
Area (km^2)	50	95,18	174,14	64,74	110
Total population (inhabitants)	270.227	142.803	28.288	41.853	97.408
Sectors Carriers	Agriculture, Fishing, Tourism, Industry and Mining.				

Source: Authors' research

Several questions arose during our review of the literature, which aided us in developing the study questionnaire, which is divided into three sections:

- The first section comprises six questions about the respondents' socio-demographic and firm information.
- The second section comprises 12 items dealing with the first dimension, "The importance of local financial management efficiency and autonomy in Algerian legislation".
- The third section comprises 9 items dealing with the second dimension, "Overview of the financial autonomy of local governments in Algeria".

We used closed questions in the first section and the Likert scale with 5 degrees in the last two sections to determine the score of the variables with reliability (Ben M'Barek; 1983).

Over 100 questionnaires were distributed as a result. However, only 92 viable questionnaires conformed to the analysis methods used by the SPSS v22 data analysis software were retrieved.

4. Findings

The central limit theorem of Pierre-Simon de Laplace (1810) states that when the sample size is large ($n > 30$), the distribution of the sample mean will be approximately normal. Because the sample size in our study is sufficiently large ($n=92 >30$), we can note that this distribution follows a normal distribution.

The internal consistency coefficient "Cronbach's Alpha" must be calculated to verify the measurement instrument's reliability. Its value is less than or equal to one, generally regarded as "acceptable" from 0,7. (George & Mallery, 2008). The overall Cronbach's Alpha coefficient is 0,886 (Table 3), indicating that the measurement scale used for all variables has good internal consistency and will not be changed.

Table no. 3 Cronbach's Alpha result

Number of items	Cronbach's Alpha on standardized items	Degree of stability of the scale
21	0,886	88,6 %

Source: Authors' results obtained from SPSSv22 software

The socio-demographic and firmographic characteristics chosen for this study are gender, age, level of education, function, municipality, and experience (Table 4).

Table no. 4 Socio-demographic and firmographic data

Variables	Frequency (n)	Proportion (%)
Gender		
Male	60	65,2
Female	32	34,8
Age		
20 to 30 years old	16	17,4
30 to 40 years old	28	30,4
40 to 50 years old	22	23,9
50 years old and more	26	28,3
Level of study		
Elementary	4	4,3
Middle school	10	10,9
High school	22	23,9
College/University	56	60,9
Function		
Public officer	15	16,3
Senior public officer	34	37,0
CPA's President	5	5,4
Local elected representatives	38	41,3
Municipality		
Annaba	11	12,0
El-Bouni	19	20,7

Berrahal	24	26,1
El-Hadjar	17	18,5
Sidi Amar	21	22,8
Experience		
Less than one year	8	8,7
From 1 to 5 years	12	13,0
From 5 to 10 years	48	52,2
10 years old and more	24	26,1

Source: Authors' results obtained from SPSSv22 software

The study sample is composed of a majority of males, with (65,2%) compared to (34,8%) of females. Furthermore, more than half of the respondents (60,9%) have a university degree, 23,9% have a high school diploma, and only a small percentage (15,2% or 14 respondents) have an elementary or middle school education. This sample's predominant age category ranges from 30 to 40 years old, implying that 30,4% of the respondents are essentially young men and/or women. Furthermore, we note that Senior public officers and local elected representatives paid particular attention to our questionnaire, accounting for 37% and 41,3% of all respondents, respectively. In terms of experience, a small majority of respondents (52,2%) have sufficient experience (from 5 to 10 years), followed by 26,1% with +10 years of experience, 13% with 1 to 5 years of experience, and only 8,7% (eight respondents) with a minimum experience that does not exceed one year.

Table 5 shows that the total mean of items for the first dimension of our questionnaire, "The importance of local financial management efficiency and autonomy in Algerian legislation", is 2,4466, indicating that a large proportion of respondents disagree with the proposals of this dimension. Furthermore, the standard deviation of this first dimension is 0,70241, resulting in a coefficient of variation of 28,70%. As a result, the responses are moderately homogeneous. It is worth noting that 12% and 47,8% of respondents, respectively, "Strongly disagree" and "disagree" on the second proposition (Item 2), which has a mean of 2,6413 and states that the legislative framework governing local management does not ensure the strengthening of transparency, public participation, and budgetary control for effective local public finance management. Furthermore, "44%" and "14%" of respondents "agree" and "Strongly agree" on the 11th proposition (Item 11), whose mean is 3,3478, and acknowledge the existence of an equalization system designed to rebalance resources among local governments.

Table no. 5 Descriptive statistics for the two dimensions of the study

Descriptive statistics												
Dimension 1: The importance of local financial management efficiency and autonomy in Algerian legislation												
Mean	**I_1**	**I_2**	**I_3**	**I_4**	**I_5**	**I_6**	**I_7**	**I_8**	**I_9**	**I_{10}**	**I_{11}**	**I_{12}**
	2,3370	2,6413	2,1522	2,2717	2,6196	2,4239	2,6957	2,3804	1,8913	2,4130	3,3478	2,1848
Standard deviation	0,9524	1,1151	0,7694	1,3595	1,5251	1,0917	1,2020	1,2477	0,7331	1,2766	1,2617	0,9009
Total Mean	**2,4466**	**Total standard deviation**			**0,7024**	**Coefficient of variation**					**28,70 %**	

Dimension 2: Overview of the financial autonomy of local governments in Algeria									
Mean	**I_1**	**I_2**	**I_3**	**I_4**	**I_5**	**I_6**	**I_7**	**I_8**	**I_9**
	2,7717	2,9130	2,8478	3,3043	2,1087	3,3043	3,8261	2,2391	3,1522
Standard deviation	1,0904	0,8600	1,1284	1,0663	0,7908	1,2730	1,297	0,6690	1,1477
Total Mean	**3,0447**	**Total standard deviation**		**0,9083**	**Coefficient of variation**			**29,83 %**	

Source: Authors' results obtained from SPSSv22 software

The second part of Table 5 concerns the second dimension, "Overview of the financial autonomy of local governments in Algeria". It shows that the total mean of the items is 3,0447, indicating that most respondents somewhat disagree with the proposals for this dimension. As a result, the standard deviation of this first dimension is 0,9083, resulting in a coefficient of variation of 29,83%. Therefore, the second-dimension answers are also moderately homogeneous. However, they mostly disagree when it comes to the fifth proposition (Item 5) stating that: sometimes the State sees itself as obliged to help you through grants, and in this case, one has full power to allocate these grants, with 70% of the responses in the direction of "Strongly disagree". Finally, 44% and 30% of respondents "agree" and "Strongly agree" on the seventh proposition (Item 7), with a mean of 3,8261, and confirm that the challenges they face when making decisions about their municipality's expenditures are related to the municipality's budget deficit in particular.

We used the one-sample T-test to test our research hypotheses, rejecting the null hypothesis and accepting the alternative hypothesis if the calculated T-value of the statistic is greater than the theoretical T-value at the 5% significance level.

Hypothesis 1: Algeria's legislative framework for local governments promotes efficiency and autonomy in managing local finances.

H_0: Algeria's legislative framework for local governments does not promote efficiency and autonomy in managing local finances.

H_1: Algeria's legislative framework for local governments promotes efficiency and autonomy in managing local finances.

According to the data in Table 6, The calculated T-value (⎜-7.558 ⎜) is greater than the theoretical value (0.861) obtained using the student's table at the 0.05 threshold (5%) with 91 degrees of freedom, indicating that the null hypothesis is rejected. We also accept the alternative hypothesis that Algeria's legislative framework promotes efficiency and autonomy in managing local finances.

Table no. 6 One-sample T-test result (Dimension 1)

Dimension 1	T calculated	T theoretical	Degrees of freedom (Df)	Sig
The importance of local financial management efficiency and autonomy in Algerian legislation	-7.558	0.861	91	0.000

Source: Authors' results obtained from SPSSv22 software

Hypothesis 2: The financial autonomy of local Algerian governments is relatively sufficient

H_0: The financial autonomy of local Algerian governments remains insufficient.

H_1: The financial autonomy of local Algerian governments is relatively sufficient

According to the data in Table 7, the calculated T (0.472) is less than the theoretical value (0.861), which was also obtained using the student's table at the 0.05 (5%) threshold with 91 degrees of freedom, so the alternative hypothesis is rejected. We also accept the null hypothesis, which indicates that local Algerian governments' financial autonomy remains insufficient.

Table no. 7 One-sample T-test result (Dimension 2)

Dimension 2	T calculated	T theoretical	Degrees of freedom (Df)	Sig
Overview of the financial autonomy of local governments in Algeria	0.472	0.861	91	0.638

Source: Authors' results obtained from SPSSv22 software

5. Discussion

At first glance, it should be noted that while statistical processing and testing accepted our study's first hypothesis, respondents objected to several fundamental elements related to it, such as:

I_1: The evolution of the legal framework governing the management of local finances in Algeria over the last 20 years has been increasingly positive.

I_2: The Algerian legislature ensures that transparency, public participation, and budgetary control are strengthened to ensure efficient management of local public finances.

I_5: Competency transfers are defined in consultation with and based on dialogue with local authorities.

Indeed, the management of local finances in Algeria has always been problematic and has been at the center of conflicts between "centralization" and "decentralization" of decision-making, "state subsidies" and "financial handicaps," with the almost total absence of clear and useful financial information for community citizens and, as a result, their concrete participation in the management of affairs that concern them. Furthermore, the laws governing local finance management failed to ensure the application of several other principles, which is why the second hypothesis was rejected.

Indeed, the financial autonomy of local Algerian governments remains insufficient, which can be justified by the absence or presence of fiscal autonomy and the level of free administration. In terms of fiscal autonomy, the Algerian State has unbounded fiscal power. It also possesses fiscal sovereignty, which encompasses both areas of fiscal autonomy (Maherezi, 2013):

- **A normative area,** as the State has unrestricted power in creating and developing taxes that finance its budget, proof of its intervention in the various sectors.
- **A budgetary area,** as the State can use and allocate the taxes collected in the actions it deems priority, is necessary and appropriate to its government's political and economic orientations.

Furthermore, Articles 196 and 197 of Law Nº 11-10 of June 22, 2011, state that the municipality is only authorized to collect the taxes, contributions, fees, and charges set by the legislation and regulations in effect. The communal people's Assembly shall vote on the taxes and fees the municipality is authorized to collect to fund its budget within the Law's limits (Law No 11-10, 2011). Subject to the exceptions specified by Law, no one may proceed with collecting a duty or tax on the municipality's territory without the prior deliberate agreement of the communal people's Assembly (Law No 11-10, 2011).

As a result, the municipality lacks normative fiscal power, and the wilaya cannot intervene in tax matters, according to Article 111 of Law No. 12-07 of February 21, 2012, for the wilaya's role. The mayor animates, coordinates, and controls the activity of the decentralized State services in charge of the various sectors of activity in the wilaya, excluding educational action, tax assessment, and collection (Law No 12-07, 2012). In other words, the State is the sole possessor of taxing authority. Only the State can create taxes, set their rates, and scope, and determine the share of taxes paid to local government budgets, and the only competence recognized to the latter in this area is the right to vote on rates through local assemblies.

Regarding "budgetary power" and "free administration", local actors, particularly local elected representatives, are dissatisfied with their degree of freedom and believe it is vulnerable and not guaranteed. They do not have the legal or financial means to govern themselves freely, nor do they have the authority to collect their own revenues. Indeed, according to Article 204 of Law No 11-10, it is the responsibility of the public treasury to manage revenue collection and to grant advances on tax revenues (Law No 11-10, 2011). Thus, once again, it is up to the agents designated by the State (Treasury) to ensure the collection of tax revenues.

6. Conclusions

According to studies conducted both within and outside the country, local governments have set themselves the mission of local development of their territory and enhancing the various resources they contain. However, shortcomings in legal, organizational, and managerial structures and a lack of local financial resources have been identified as barriers to implementing a so-called "autonomous" development strategy. The code of local authorities is one of the first constraints at the root of this quandary. This "stereotypical" code gives the wilaya and, more specifically, the municipality several prerogatives as "the lever of all public action," but in practice, it is the State that decides which projects to carry out, the expenses to be charged to them, and the local government that will benefit from them. As a result, the Algerian government should significantly improve the legislative framework governing public finance management at the local authority level and general local management.

A second constraint revealed by our research is that a lack of financial resources has resulted in the central State's decision taking precedence over that of local elected representatives, owing to its financial power in the form of grants. This second so-called "financial" constraint alone can cause a slew of dialectical issues affecting the pillars of local management, most notably financial autonomy, which we have confirmed remains insufficient despite all efforts.

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