

EuropeAid/129887/C/SER/JO

**BUILDING DEVELOPMENT CAPACITIES OF JORDANIAN
MUNICIPALITIES - BALADIATY**

**The Quest for Decentralizing Government in the
Hashemite Kingdom of Jordan:
Some Preliminary Findings of a Situation Analysis**

Service Contract N° ENPI/2010/244-066



This project is funded by
the European Union



The content of this publication is the sole responsibility of the consortium led by SOFRECO and can in no way be taken to reflect the views of the European Union.

Table of contents

1	Introduction: Main objectives for the situation analysis team.....	3
2	The Government’s policy objectives for decentralization.....	4
3	The organizational and institutional setting.....	6
	3.1 Governorates	6
	3.2 Municipalities.....	7
	3.3 The structure of government	8
4	The chances for decentralization at the Governorate level.....	11
5	The chances for decentralization at the municipal level	13
6	Addressing embedded disincentives	15
7	Summary	18
	Appendix	20

1 Introduction: Main objectives for the situation analysis team

On the instigation of the Informal Development Partners Working Group (IDPWG) on Decentralization and Local Governance a team consisting of Mr. Paul Bernd Spahn (lead), Ms. Shorouq Faraj Mubarak al Hashem and Messrs. Jürgen Binder, Steven Tweedie and Zayyan Zawaneh examined the situation on decentralization and local administration in Jordan during a first phase from 29 May through 13 June, 2011. In line with the *General Guiding Principles for Enhancing Alignment and Harmonization on Local Governance and Decentralization* of the IDPWG adopted in December 2008¹, the overall objective of the situation analysis was to contribute to enhancing the harmonization of international development assistance in the field of decentralization and local governance (DLG) and contribute to its alignment with related policies and strategies of the Government of Jordan (GoJ).

The purpose of the situation analysis was to inform donors' programming strategy through mapping the institutional context for decentralization and local governance and give the GoJ a baseline for development of a decentralization strategy or Policy Paper. The main output should be the relevance of continuous support to the GoJ in regard to decentralization and local administration development.

The main problem for the analysis team was the fact that the two important laws under discussion, a Municipal Law and a Local Councils Law (and possibly a Decentralization Law), were still in the making. These laws exist in draft form, but the secretive process of legislation, which does not even involve high ministerial officials such as directors - let alone the institutions and their main representatives concerned (Governors, mayors, for instance; local government associations do not exist), made it impossible to find texts to which leading politicians would commit. This was the main reason for asking the IDPWG to postpone the second part of the Mission until such time that the fundamental political decisions are made clear through the passing of conforming legislation. At the same time the delays to holding the municipal elections and the installation of "Technical Mayors" and "Technical Councils" which consist of "deputized" civil servants meant that although useful meetings and briefings were held with 3 municipalities those bodies had no definitive mandate to represent citizens. This limited the value input into the Mission's understanding of municipal perceptions of the progress and potential of decentralisation in the Kingdom. A delay in the second Mission until later in 2011 and after the municipal elections would facilitate more meaningful input by newly elected municipalities.

In the interim the team had to „guess“ the main traits of these laws from interviews, in particular the informative meeting with the Governor of Zarqa, H.E. Mr. Sameh Al Majali, who had participated in the political discourse and reflected the tacit present thinking of the GoJ in the form of a PowerPoint. Moreover the team had discussions with representatives of local governments (Greater Amman, Zarqa and Jerash) as well as members of the relevant ministries, the Ministry of Interior (MoI), the Ministry of Planning and International Coordination (MoPIC) and the Ministry of Municipal Affairs (MoMA), including its financial "arm", the Cities and Villages Development Bank (CVDB). While the picture is hence incomplete – and may change as parliament deliberates on the draft laws – it is sufficient to

¹ http://www.dpwg-lgd.org/cms/front_content.php?idcat=3.

give a first impression and analysis. This is all the more true as Jordan's institutional setup is not unique but organized in accordance with a centralist view of the State as found in many other countries, in particular the former Soviet Union and some of Jordan's neighbours in the Middle East.

2 The Government's policy objectives for decentralization

The GoJ's decentralization policies were originally driven by His Majesty's vision as expressed in a speech of January 26, 2005, which asserts that public policies should be developed through a "bottom-up" process rather than imposed from the top down.²

This initial vision clearly focused on (to be created) regions ("development areas or regions each of which consisting of a number of Governorates"), a concept that was later reviewed in the light of a speech given by His Majesty in November 2010, which promised to parliament a draft law on decentralization.³ From then on the layer of government to be activated through decentralization was the Governorate. This is an ambitious goal given the fact that the present organizational structure of the State is extremely centralized, with some qualifications regarding municipalities, and that Governorates were so far simply regional "antennae" and executives of central powers mainly focusing on security issues under the MoI, with little experience in socio-economic planning and development, and certainly with no traditional links to the "grassroots" - a local electorate or locally elected bodies at the municipal level.

Activating such a system by giving citizens "a larger role ... in building their future and determining the development priorities for their Governorates" remains the key challenge of Jordan's decentralization policies. A sincere "bottom up" approach would dramatically alter the nature of public decision making and the incentives for setting policy priorities. Unfortunately what is known about the planned restructuring of the State is not what is commonly understood as decentralization with the objective of giving subnational authorities greater self-rule in political decision making ("a larger role for the people"), of enhancing the accountability of their officials, of some managerial and financial autonomy, of achieving greater efficiency in managing local budget, and of linking of public decision-making to political control by an electorate instead of higher-level authorities. There are little indications that the GoJ is willing to relax central control in a process called "decentralization", or to concede greater self-government, including financial autonomy. This is why some observers prefer to speak of a "deconcentration" of powers, but even this is a misnomer for the new policy. A deconcentration of powers exists already under the present arrangements within line ministries operating through regional directors.

It was also the view of the Mission that although His Majesty had outlined a vision and desirable outcomes for decentralisation in the Kingdom that Executive Government was not well placed in developing a strategy for implementing the vision. This was manifest through

² In His Majesty's words: "political development should start at the grassroots level, and then move up to decision making centers and not vice versa". In more specific terms, His Majesty proposed the creation of a "number of development areas or regions each of which consisting of a number of Governorates. Each will have a local council directly elected by its people, to work hand-in-hand with the elected municipal councils in the Governorates to set priorities and draw up plans and programs related to their respective regions."

³ In His Majesty's words: "the government will also refer to you the Draft Decentralization Law, which seeks to build capacity in the various Governorates, and to ensure a larger role for the people in building their future and determining the development priorities for their Governorates."

the poor intergovernmental relationships between ministries, agencies and departments in determining which would have responsibility and what the proper roles and responsibilities of each would be. Executive government at the Cabinet level (that is the Prime Minister and Ministers) should have resolved such matters early on, although it is acknowledged that regular Cabinet reshuffles make continuity, coordination and high level policy development in portfolios difficult.

3 The organizational and institutional setting

3.1 Governorates

In the Hashemite Kingdom of Jordan the highest political power emanates from Directives given by His Majesty who appoints the Prime Minister, the Head of the GoJ (Council of Ministers), which represents the various sectoral and inter-sectoral ministries. The members of the GoJ are ultimately appointed – through the Prime Minister –, not elected or ratified by parliament as in other countries. The political framework for public decision making is governed by legislation in which two Houses of Parliament participate where the members of the Lower House of Representatives are elected and members of the Upper House (Senate) are appointed. So there is some political control through elected bodies and citizens' participation in principle. However the opposition in parliament, as an active counterpart and controlling instance for the government, appears to be much weaker than in other democratically ruled governments.

A peculiarity of the situation in Jordan is the existence of regional authorities: the 12 Governorates (subdivided into Districts), which are headed by a Governor appointed by the King.⁴ Moreover the line ministries work through regional agents (Directors) who are assigned to the Governorates. This is what is normally understood as “deconcentration” of central powers. The regional authorities act as agents “on behalf” of their respective central authority as the principal. Yet their freedom of action at the regional level is weak. On all important issues they have to coordinate with the central ministry. In principle this also applies to the Governor himself/herself.

Budget operations are fully centralized in Jordan (although a regional breakdown by Governorates exists)⁵ – with some limited scope for municipalities whose special problems will be addressed below.

By law the Governor is the coordinating administrative authority for all government departments and development projects in his/her respective area. However a Governor has no own budget. He/she and his/her staff are employees of the Ministry of Interior and also subject to central authority. And in fact the “represent” central authority at the Governorate level. In particular executive functions are predominantly in matters of security where the Governor acts as an agent of the MoI. And his/her role in socio-economic policies is purely coordinative (in planning, not necessarily implementation, which remains under the responsibility of respective line ministries).

Every Governorate has two Councils in support of the Governor who is also chairing them:

⁴ See Chart 1 in the Annex for the importance of Governorates by population.

⁵ See Charts 2 and 3 in the Annex for the breakdown of sector budgets by Governorates.

- The Executive Council includes the local Heads of sectoral line ministries (directors). However the Executive Council, despite its name has no executive power within the current centralized governance structure. The Council is to simply “coordinate” among line ministries at the regional level – whatever this means.
- The Advisory/Consultative Council is made of up to twenty five appointed members who are selected among honorary person at the Governorate level, including MPs, mayors, CBOs, NGOs, and in this capacity it reflects a participatory approach. However the members of this Council are not democratically elected and apparently have no accountability other than to the Council and the appointing body.

Based on a document prepared by UNDP⁶ (which appears to have served as a blueprint for current legislation) there is the feeling, albeit no evidence, that a third Council could soon complement these consultative bodies: A Council of Mayors comprising a number of elected mayors and possibly other elected members from the municipal level. The objective of this new Council is obviously not only to coordinate policies horizontally, but also vertically between the Governorate and its municipalities.

In support of the Governor’s planning competency each Governorate has a so-called Local Development Unit (LDU). It is supposed to act as a secretariat of the Governor to study, examine, and evaluate central socio-economic policies that are relevant for the region as well as to develop proposals for coordinated policies. Although these LDUs are formally working toward the Governor, they are conjointly subject to central control under a Governor at the Mol^{7, 8}. Their role is limited in view of the vertical command lines the local directors of line ministries are subject to. And of course the staff of the LDUs, as the Governors themselves, is all employees of the Mol.

3.2 Municipalities

After a significant amalgamation of local governments in 2001, the Kingdom has now 93 municipalities plus the Greater Amman Municipality (GAM). Municipalities are considered to be private association in Jordan and they do not form part of central government. As such they possess some elements of self-rule through elected officials. According to the actual Municipal Law of 2007 (Law No 14) municipalities are considered local service providers (e.g. garbage collection). They are not seen as local public entities with broader local responsibilities. However they possess the right to levy and collect a limited range of local taxes and fees, which explains their “quasi-public” nature.

Municipalities are subject to supervision by the Ministry of Municipal Affairs (MoMA). This ministry, and not the Ministry of Finance, which is inactive in decentralization, also supervises the municipalities’ financial affairs, mainly through the CVDB which is under its control. As an exception GAM reports directly to the Prime Minister. GAM is part of the Governorate of Amman, yet there are two other municipalities in Amman Governorate that are supervised by MoMA and not the Prime Minister, Al-Ameriya and Oum Al-Rasas Al-

⁶ UNDP (8-20 January 2011), Support to Jordan’s Decentralization Reforms and Sub-National Planning System. Mission Report [Leonardo G. Romeo, Mohamed El Mensi].

⁷ The term “Governor” is used ambiguously in Jordan. There are not only 12 Governors as Heads of the Governorates, but also “Governors” (perhaps better understood as “State Secretaries”) within the Mol and possibly other central government agencies and departments.

⁸ The LDU in the Governorate of Zarqa underlined that it is to report to the Mol but is yet to experience some feedback.

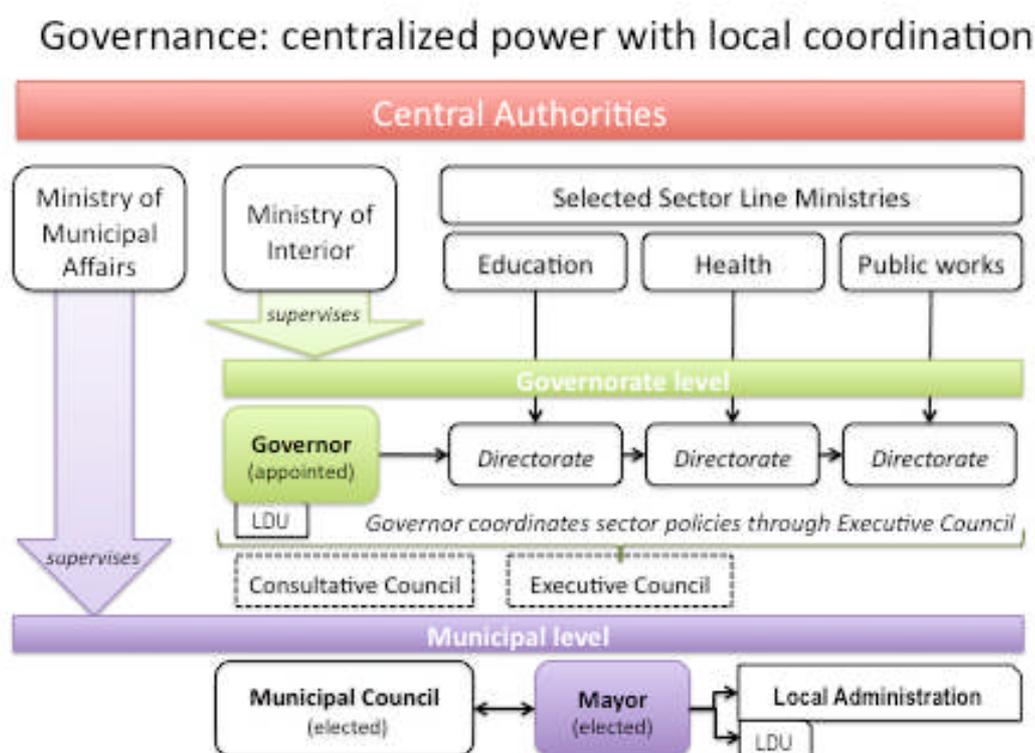
Jadedá. The municipal jurisdictions appear to cover only 3,6 percent of the whole territory of the Kingdom, so there are significant territories under direct control of the State.

Municipalities are governed by an elected mayor (at present appointed technical or *interim*), and the local “jurisdiction” is confined to a local council whose members are also elected.⁹ It was said that the control through the local council is weak given the strong legal position of the mayor who enjoys executive powers and is effectively the head of the elected body and of the appointed official body.

The mayor is supported by a local administration whose Head is an employed city manager, at least for very few of class-A municipalities. Similar to the situation at the Governorate level, municipalities also enjoy support by an LDU which is to coordinate central sector policies at the municipal level. However the members of these LDUs are on the payroll of the municipality, not of a central ministry.

3.3 The structure of government

The governance structure of the public sector (including municipalities) is best depicted through the following self-explanatory chart:



⁹ However elected officials have temporarily been suspended and were replaced by appointed officials through the MoMA.

It is perhaps useful to make some preliminary comments on the ability of the two ministries in charge of horizontal coordination: the MoI and the MoMA.

Ministry of Interior (MoI): The Mission did not look into the main responsibilities of the MoI, which are in the area of security and policing. It is obvious (based on two inspections only) that the visibility of the MoI through Governors' headquarters is strong in the regions. Governors reside in highly discernible mansions clearly demonstrating central power, in sharp contrast to municipal administrations that blend well into their cultural and commercial environment. The Mission was chiefly interested in identifying the MoI's (and the Governors') ability to coordinate socio-economic policies and regional development across Governorates.

A full session at the MoI was devoted to analyzing this particular planning capability of the ministry. The Mission left with the impression that the organization of the MoI as represented in its organizational chart is poor: There is just about one layer of hierarchy only: The Minister/Secretary General and the Governors¹⁰. Governors are responsible for a hotch-potch of (about 20) itemized functions of varying importance and without clear structuring. Socio-economic planning and regional development is just one of those items.

The Mission had asked to talk to the staff of this particular department but instead received a lengthy powerpoint presentation by the Governor Assistant on all sorts of issues related to MoI functions. It was not possible to seriously discuss issues of socio-economic planning and development. This – together with the apparent lack of staff the Mission had requested to see – does not indicate strong competencies in the area of socio-economic planning in this ministry.

This impression is corroborated by the fact that the two Governorates visited said that their LDUs continuously report to the MoI without getting substantial feedback (see footnote 8).

Finally, it was obvious during the Mission that there are strong conflicts of interest between the MoPIC and MoI, of which, unfortunately, the team became hostage during its stay in Jordan. And in fact, a sharp intrinsic controversy between the two horizontally coordinating ministries cannot be overlooked in case the MoI would become responsible for socio-economic planning and development at the Governorate level.

The Ministry of Municipal Affairs (MoMA). The team was hosted in the premises of the MoMA, but, different from the MoI, has yet to explicitly test its ability to coordinate socio-economic policies and regional development across municipalities. However there is some casual empiricism on the functioning of MoMA at a professional level and in its relationship with the municipalities that can be drawn upon in this preliminary analysis.

First of all MoMA should have been in the driving seat for the overhaul of the Municipal Law. However none of its staff, including the Directors, except the legal advisor had been informed as to what this reform meant and what the consequences would be. Moreover the (bad) translation of the Draft Law that went to parliament (and was made available only after the team had left Jordan) bears testimony of a serious lack of competency in law making: the draft law is ill-structured, not very logical (e.g. Amman would have required a special section, electoral provisions should go into a special section, etc.), there are contradictions (e.g. on the ability to change borders), and repetitions. A thorough analysis of this piece of draft legislation before it went to parliament (which may further mutilate the text) would be a valid indicator of MoMA's quality in preparing legislation and ordinances.

The team was surprised that some standard data such as the number of inhabitants by municipality or its area size was not available in the ministry. This data was received from

¹⁰ The official term "Governor" is used here in the sense of "department head", not as Head of a Governorate.

the CVDB (at least subordinate to the MoMA), which needs the information to run the equalization formula because they are criteria for transfer allocation. Although MoMA staff was extremely friendly and helpful, occasional experience sheds some doubts on its administrative capacities.¹¹

The meeting with top officials of the CVDB was frustrating. Neither the Deputy General Manager nor the Financial Head Department seemed to understand the structure of a balance sheet of a bank. They claimed to be financial advisories to municipalities and to train municipal officials in this matter, but the team was not able to obtain concrete evidence (the person in charge of human capacity development was apparently on leave, with no replacement available on the spot). The officials of CVDB also assert to look at the financial viability of municipal budgets although – by international standards – about two thirds of all municipalities must be considered insolvent (see below).

This all sheds doubts on the ability of MoMA and its financial arm, the CVDB, to coordinate municipal policies effectively. It is also questionable whether the vertical coordination between municipalities and Governorates would work as planned: There are already conflicts between MoMA and Mol (for instance on the simple matter of organizing the team's visits to municipalities), which bodes badly for a concept based on strengthening the Governorates vis-à-vis municipal governments, and it is questionable whether a third council, the Mayors' Council, will be able to mitigate such potential conflicts.

¹¹ For instance the author needed help to use a more sophisticated copier because the text was all in Arabic. None of the 12 persons in the room was able to provide competent copying service.

4 The chances for decentralization at the Governorate level

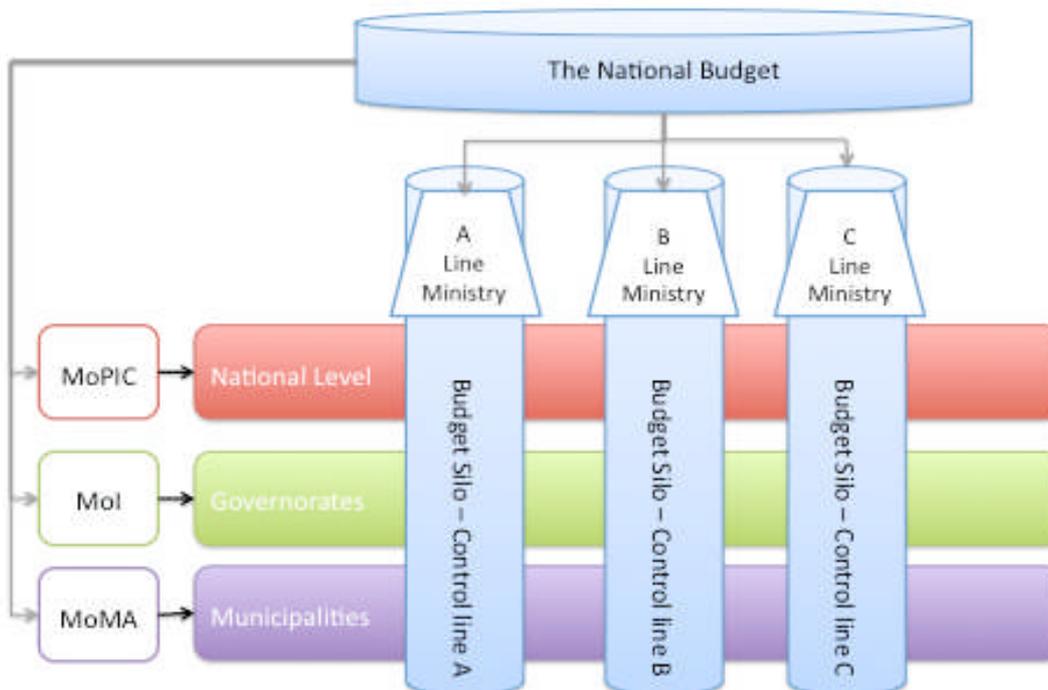
It is best to view the organization of the Jordanian State as a grid with a vertical and a horizontal line.

Vertical line. There are various sectoral ministries (e.g. for education, health or public works) with a strict top-down control line and their own centralized budgets. Resource flows are organized in a “silo” fashion, i.e. they are allocated from the central budget to ministries, and then to Directorates in the regions (Governorates, Districts) and finally to projects within the Governorate/municipality geographical area without much linking to citizens’ preferences. A possible “bottom up” budget process is organized by the line ministry’ officials assigned to the regions, not by the Governor let alone by relying on “grassroots”. At best a strong Governor (less so a mayor) could manage to draw more resources to his region (at the expense of others), but - once budgeted - the assigned resources gush vertically through “silo” ministerial budgets without any possibility to reset priorities and/or restructure resources among silo boundaries at subnational levels. As said before: the Governorate itself does not control an own budget. It sits on the payroll of the MoI.

Horizontal line. At the same time there are horizontal structures at three layers of authority: national, Governorate and municipal.

- At the national level, responsibility for socio-economic planning and development (including for sectors) is principally assigned to the MoPIC. This is potentially leading to conflicts with the line ministries which ought to be resolved through inter-ministerial coordination.
- At the Governorate level, responsibility for socio-economic planning and development (including for sectors) is assumed by the Directorates of line ministries and coordinated by the Governor who heads both the Executive and Advisory/Consultative Councils. Responsibilities for socio-economic planning and development are expected to be assigned to the Governor (MoI) (if the Law on Local Council will pass parliament in line with expectations). Even if the position of the Governor is strengthened in the process, it is unlikely that central control through the MoI will be relaxed, and it is questionable whether the Governor will be given authority over “own policies” with an own budget. So there are not only potential conflicts with line ministries (respectively their Directors at the Governorate level); there are also potential conflicts with MoPIC, which is responsible for national socio-economic planning and development, and with MoI, which aims at controlling Governors and Governorate LDUs, and hence regional socio-economic development, at the same time.
- At the municipal level, conflicts appear to be less acute because the functions of municipalities are small and limited to the provision of specific local services. However the launching of municipal LDUs reveals an ambition to extend municipal functions to local socio-economic planning and development as well, which would then become subject to supervision by the MoMA. It could also be that municipal LDUs, via a yet to be created Council of Mayors, could become subject to central control by the Governor and hence ultimately the MoI. This would totally change the role of municipalities and is likely to lead to conflicts between all three ministries in charge of horizontal coordination. However discussing these options must remain pure speculation as long as the new legislation has not yet been adopted.

Whatever the outcome of the current legislative process will be: It is unlikely that it will give lower tiers limited sectoral policy discretion with an own budget to set local priorities in line with “grassroots” preferences. Under this premise it will be hard to break up a governance structure that is mutually entrenched in two directions: vertical and horizontal. The existing (and conflict-prone) grid is likely to end up as a “gridlock” as schematized below.



This gridlock can only be broken by defining certain policy areas (for instance in primary education or health) and transferring the responsibility for such policies from a central line ministry to subnational authorities with a conforming autonomous subnational budget for implementation. Obviously accountability has to be imposed not only through democratic control and an appropriate incentive structure, but also through the penal code and its strict enforcement. Such an approach would be true decentralization, but it is highly unlikely that the Jordanian authorities would take this route.¹² So the re-structuring of the public sector will not only preserve existing command lines with their inherent economic inefficiencies, but is likely to even exacerbate potential conflicts in socio-economic planning and development if the MoI is to play a more active role in this area.¹³ Moreover it is hard to discover any hint in current legislation on ensuring, in His Majesty’s words, “a larger role for the people in building their future and determining the development priorities for their Governorates”. None of the expected Governorate Councils consists of elected members, except perhaps the yet to be created Council of Mayors.¹⁴ x

¹² However the mission was informed that the GAM has recently obtained responsibility for local mass transportation from the Ministry of Transportation, a potentially “true” decentralization measure if this was accompanied with a budget and policy discretion at least on the management side.

¹³ The mission also found that the present resources for socio-economic planning of the MoI are extremely weak. There is no central capacity for planning and development (the organizational chart of the Ministry resembles a selection of topics rather than a well-structured hierarchy of responsibilities) and the competency will be in the hands of the Governorate LDUs (if functional) and hence the Governor. And it is doubtful whether there are sufficient coordinating capabilities among Governorate LDUs at the MoI.

¹⁴ It remains to be seen whether this new Council fulfills the promise by His Majesty that “(e)ach (Governorate) will have a local council directly elected by its people, to work hand-in-hand with the elected municipal councils in the Governorates to set priorities and draw up plans and programs related to their respective regions.”

5 The chances for decentralization at the municipal level

It is obvious that the present strategy to decentralize government focuses on the Governorate level, not on existing municipalities. Nevertheless it is worthwhile examining the possible role municipalities could play in this process and whether “grassroots” democracy could be installed without counting on this important sector.

At first it is important to note that municipalities play a relatively minor role in Jordan. Measured in terms of expenditures for the year 2010, they represent only roughly 3 percent of total public spending (excluding GAM).¹⁵

The structure of public spending (budgets of 2010)

	Mill. JOD	In % of total
Central level	3.867	62,9%
Governorate level	2.103	34,2%
Municipal level (est.)	177	2,9%
TOTAL SPENDING	6.147	100,0%

As said before, municipal responsibilities are also severely limited and confined to the delivery of certain local services. Casual empiricism suggests that not all municipalities are able to deliver all of the services stipulated in the law. Moreover a financial analysis reveals serious problems in the municipal sector as a whole that have to be addressed before discussing a possible extension of their role in the process of decentralization. However these problems will have to be solved anyway although their relevance may be negligible from a macroeconomic point of view given the small size of the municipal sector. Yet indeed: the analysis reveals serious distortions in the incentive structure that could also be relevant also for other layers and sectors of the public purse.

Just a few indicators on municipal finance:

- Own revenue raising of municipalities is very low in Jordan. On average only about 23 JOD per capita was collected in 2009. Some municipalities do not collect own revenue at all. It raises the question whether local governments are willing to tax their citizens and whether these low returns from own tax sources will at least cover collection costs in many instances.¹⁶
- Current spending as a share of municipal budgets is high – 68 percent on average. 45 percent of all municipalities are above average with some municipalities achieving shares as high as 90 percent and more (Talal Al-Jadeda, Rabiet Al-Kura, Al-Qatraneh, Ma’adh bin Jabal, Al-Hassa). For this type of spending the wage bill predominates.

¹⁵ For lack of data, the following analysis excludes GAM, Aqaba and Petra, which all have special status.

¹⁶ See also Chart 4 in the Annex for own municipal revenue per capita.

Obviously some of the wage bill is linked to municipal services, but an analysis of the data also points to significant overstaffing.¹⁷

- An analysis of the payroll per capita for different municipalities according to population size reveals that staff costs vary significantly for municipalities of similar size. The payroll may vary by a factor of 4 to 5 for municipalities with the same number of inhabitants. Moreover the payroll per capita is the higher the smaller is the municipality.¹⁸
- Debt service as a share of municipal budgets is skyrocketing. On average it was 26 percent in 2009 (most countries would consider 20 percent an absolute limit). Two thirds of all municipalities are above a reasonable international benchmark of 15 percent. Ten municipalities have a totally unsustainable share of debt service above 50 percent of their budget.¹⁹ In addition there are significant payment arrears (mainly toward suppliers, to a lesser extent on payroll) in the two municipalities visited, which may be symptomatic for the municipal sector as a whole.
- Given the squeeze between current spending on the one hand and debt service on the other, most municipalities have stopped investing altogether. In 2009, almost 70 percent of all municipalities spent less than 1 percent of their budget on investment, 60 percent did not invest at all.²⁰

These figures indicate a highly dysfunctional municipal sector in Jordan, which is also in severe financial distress. So the chances of decentralizing the public sector toward municipalities are slim under these conditions. But some of the results from this analysis can reasonably be explained by a number of embodied disincentives that ought to be addressed when trying to revitalize local government. These incentives may also work at the national level, so there is a more general concern that must be looked at irrespective of decentralization.

¹⁷ See also Chart 5 in the Annex for the share of current spending of municipalities.

¹⁸ See Chart 6 in the Annex for the municipal payroll per capita by the number of population.

¹⁹ See Chart 7 in the Annex for the municipal debt service as a share of total municipal spending.

²⁰ See municipal investment in Chart 7 and the structure of municipal spending in Chart 8 of the Annex.

6 Addressing embedded disincentives

Decentralization has a number of objectives, political and economic. Among the political objectives, accountability to the local electorate as well as the citizens' linkage of local decision making stand out as the most prominent features. Among the economic objectives, greater efficiency in the provision of public services, a better match between local preferences and public sector activities, as well as greater fairness toward minorities are high up. Achieving successful decentralization will enhance the welfare of society as a whole and hence contribute to political stability.

Accountability as a key element of decentralization is however totally lacking at the municipal level where grassroots democracy should work best. The findings are conclusive and may be symptomatic for Jordan's public sector more generally:

1. Most damaging, because affecting the whole of the public sector, is the inefficient system of ex ante auditing through the National Audit Bureau. Each financial transaction has to be authorized by an external auditor (strangely even after the commitment has been made!), which is not only counterproductive but simply removes accountability. Once a payment has been authorized, public officials are formally "exonerated" from being accountable. Moreover the goal of inspecting is missed: Inspectors just report without interest to correct. While it is understood that this procedure is to combat mismanagement and fraud, ironically it constitutes a fertile breeding ground for corruption ("each signature costs money"). Most successor countries of the former Soviet Union have abandoned this system in favor of ex post external audit combined with internal supervision and effective sanctions. As municipalities are considered private associations in Jordan, it would probably be easier to subject them to these common procedures – starting with the GAM and some better run pilot municipalities – than for the public sector as a whole. But a more general revision of the policy is needed to install accountability and even financial discipline at all levels of government – including debt restructuring of municipal governments.
2. In the case of municipalities, the role of the municipal council ought to be strengthened relative to the position of the mayor (and possibly the city manager). Casual empiricism suggests that some mayors are able to pursue highly idiosyncratic policy goals and extended patronage by intimidating (or at best: deactivating) local councils under the present law. There are no rewards for citizens-oriented action of local officials. Criticism is typically penalized. Local democracy can only function if elected councils can exercise effective control.
3. The hiring of staff is mainly based on personal relations, not qualifications. Even where there is a formal qualification, this does not say anything about the effectiveness and appropriate employment of talents. While the Mission has seen only two municipalities, one of them did not even have an organizational chart (now introduced by the acting mayor). This augurs badly for an active, result-oriented employment strategy at the local level.
4. The Municipal Law of 1955 was said to be better than the actual law by all municipal officials interviewed. The functions of municipalities are said to be better defined in this law, and they were also more comprehensive (36 functions) leaving greater budget autonomy to municipalities. Local functions are said to have been eroded to the benefit of line ministries, which is effectively a re-centralization. Moreover the position of the municipal council appears to have been much stronger under the old law, and they were in a better position to counteract the possible profligacy of a mayor.

5. The coordination of sector activities of line ministries at local levels were said to be deficient. The silo structure of their budgets does not allow them to respond to local needs flexibly, and municipalities were said to be the last ones to be informed about centrally managed projects with a local incidence.
6. There is a strong suspicion that local administrative capacity is weak – both at municipal and Governorate levels. His Majesty appears to admit that there is need “to build capacity in the various Governorates”. As said the Mission found striking inadequacies in the professional dealings of central ministries, in particular MoMA and the CVDB. All international donors/lenders have a human capacity formation component in their programs, yet these are themselves fragmented and uncoordinated. And capacity building programs are typically supply-driven, where mayors may have to pay staff to accept the training supplied. Where training is successful at the individual level, public authorities risk losing valuable human resources to the private sector due to large differentials in pay. On the positive side it appears that the National Institute for Training has a qualified leadership and is eager to set up competitive training programs in decentralization (although they are also engaged in supply-driven activities with questionable impact).
7. Financing arrangements exhibit large distortions. Not only is the Minister of Finance absent in streamlining and supporting municipal budgetary processes (although there is some support in local taxation). The financial supervision of municipalities through MoMA – in particular the CVDB – is highly counterproductive and includes incentives to overspend and mismanage local resources. The allocation of resources through the CVDB has little to do with efficiency:
 - a. The allocation formula for budget support exhibits flaws. Just to stress the two major points: The most important criterion (apart from population and area size) is annual spending per capita, which is rewarded through the formula. This encourages spendthrift. (A correct measure would be based on a standardized value for spending.) Moreover the weight given to incentivize own revenue collection is too small (2 percent).
 - b. The policies of CVDB are distorting the revenue flow to municipalities and soften their budget constraint. The CVDB has at least three functions that may be in conflict with each other:
 - (i) a local development bank;
 - (ii) a clearing house for the transfers to municipalities; and
 - (iii) a Treasury Single Account for the municipal sector (by law, although not always in practice).

The main flaw of this dysfunctional institution may be the fact that, as a bank, it does not have to assess risks at all because it can always intercept the debt service from a municipality's transfer entitlements. Municipal budget deficits are practically automatically financed (and must be financed because payments were all authorized by the National Auditor) through prolongations. The good thing is that the CVDB has no access to the capital market, which will render this institution insolvent at some point – requiring an intervention of the MoF.

Distortions of this type can only be avoided by breaking the CVDB up in at least two parts – one concerned with current financing (including TSA functions), and the other concerned with lending for local infrastructure.

8. The good thing is that the grants to the municipal sector (6 percent of the tax on oil derivatives), which were formerly off-budget, have now been brought onto the budget for parliamentary control – although in an ad-hoc fashion with a disruptive cutback of 25 percent in one year, which has created havoc in municipal budgeting and planning. Such large disruptions ought to be avoided in order to secure a continuous flow of public services at the municipal level.
9. Finally, the Mission had extremely positive and constructive discussions with the GAM. There is no doubt that this municipality is professionally run although it equally suffers

from centrally imposed “red tape” and negative incentives (in particular ex ante inspections and audits). It has recently won competency in local transportation where it had to develop its expertise from scratch. So human capacity building can be effective if demand driven. It would also be desirable to roll out the expertise gained in administering the capital city to the whole territory through piloting.

7 Summary

His Majesty has committed the GoJ to fostering a “political development (that) should start at the grassroots level, and then move up to decision making centers and not vice versa”. The focus of this policy is on strengthening the Governorate level under the auspices of the MoI. Certain aspects of this policy have already been implemented without changes in legislation, for instance the creation of Governorate LDUs. But it is questionable whether the institutional changes envisaged will work toward vitalizing this layer of government because of internal contradictions in the governance structure that combines conflicting vertical and horizontal control elements imposing a gridlock.

In the vertical dimension, budgets are already deconcentrated and the budget process is organized in a silo fashion with no possibility to transcend sectoral limits in response to shifting local priorities. The Governorate itself is likely to remain without an own budget and continue to be nurtured from the central budget of the MoI. Even though there may be consultative bodies in support of a Governor’s attempt to coordinate sectoral policies, they will have little impact on horizontal planning and development as long as vertical control through line ministries predominates and there may be centralized control of Governors through the MoI.

Moreover the MoI’s capacity in socio-economic planning and development is still to be developed. Furthermore the linkages to municipal socio-economic development remain to be established effectively. At last the new role of the MoI is likely to create conflicts between ministries, in particular with the MoPIC but possibly also with MoMA. Whether citizens’ participation in local decision making will increase remains to be seen.

It is also doubtful whether both the MoI and the MoMA are prepared to coordinate socio-economic planning and regional/local development effectively. These doubts are grounded on the organizational design of ministry and the lack of human capacity in the case of the MoI; and for MoMA on the disastrous financial situation of municipalities that incurred under its past directives and policies.

As to developing the municipal sector as an existing layer of authority with direct access to the “grassroots”, this priority ranks low under present circumstances. Nevertheless a new Municipal Law is in the making, yet more so in view of expected local elections and less as an instrument to strengthen local governments. The financial analysis of the municipal sector reveals serious impediments to developing this sector however: high recurrent spending, in particular payrolls, low own revenue raising, and in a majority of cases unsustainably high municipal debt and unbearable debt service. The sector’s ability to invest has all but vanished.

An important aspect of public sector reform, including municipalities, is to eliminate existing procedural and financial distortions such as ex ante auditing, the hiring of staff on meritocracy, not patronage, the strengthening (or in the case of Governorates: creation) of local tax bases, and the elimination of implicit financial bailouts. This cannot be achieved without a major reform of existing institutions, in particular a dismantling of the CVDB. But it may also require a revision of the existing governance structure at the national level in order to minimize conflicts of authority.

Finally, a true decentralization policy implies the transfer of genuine responsibilities to lower-tier authorities, such as Governorates, with an autonomous budget to fund such services.

These would have to be cut out of existing responsibilities and budgets of line ministries. However it is highly questionable whether the Kingdom of Jordan is prepared to embark on this avenue.

Appendix

Chart 1: The Governorates by population share 2009

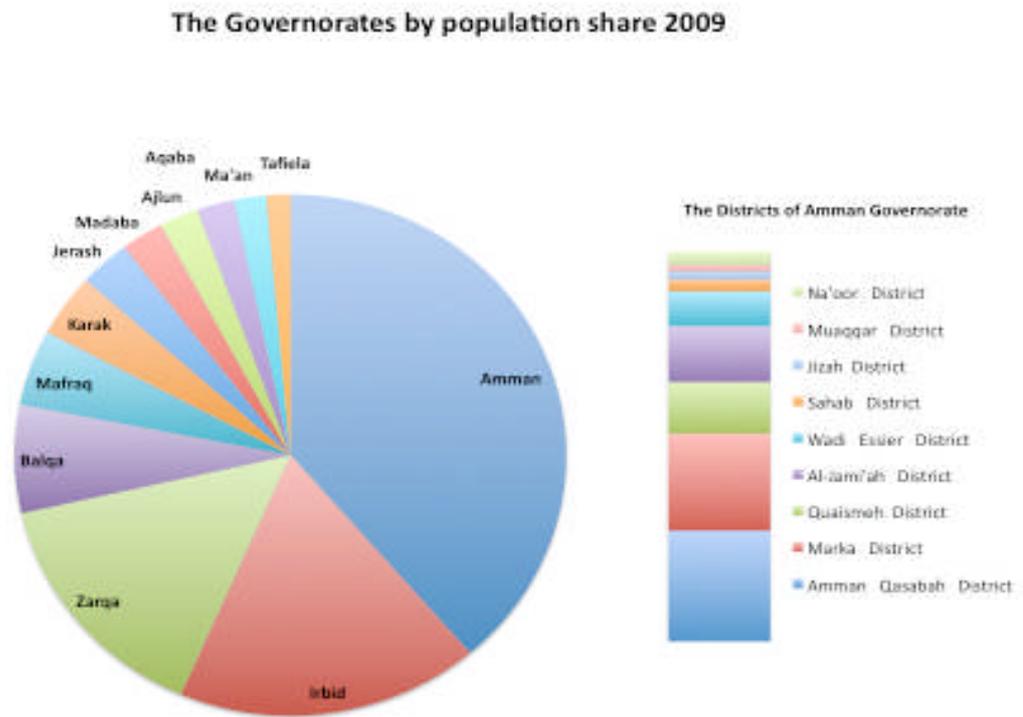


Chart 2: The Structure of the National Budget by level of Governorates, 2010

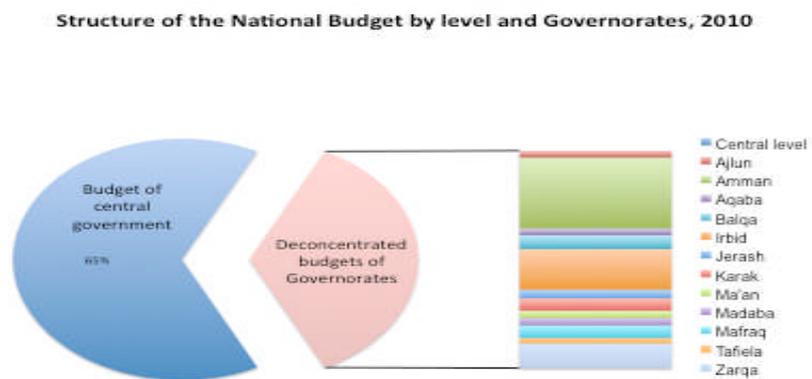


Chart 3: The National Budget by ministry and level of government, 2010

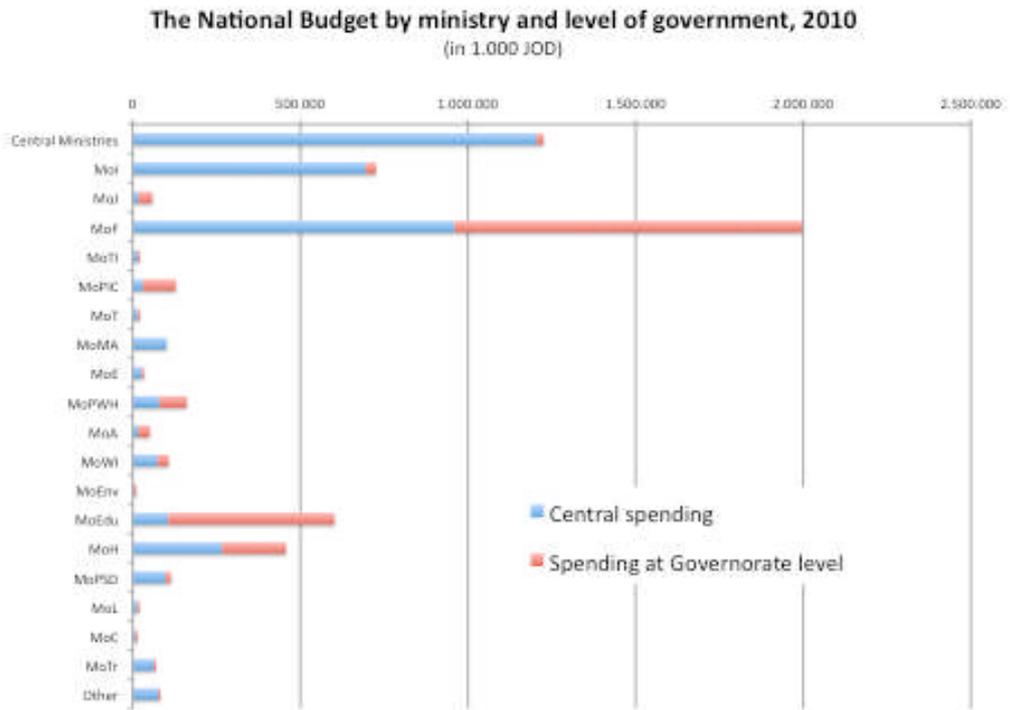


Chart 4: Own municipal revenue per capita, 2009 (without GAM)

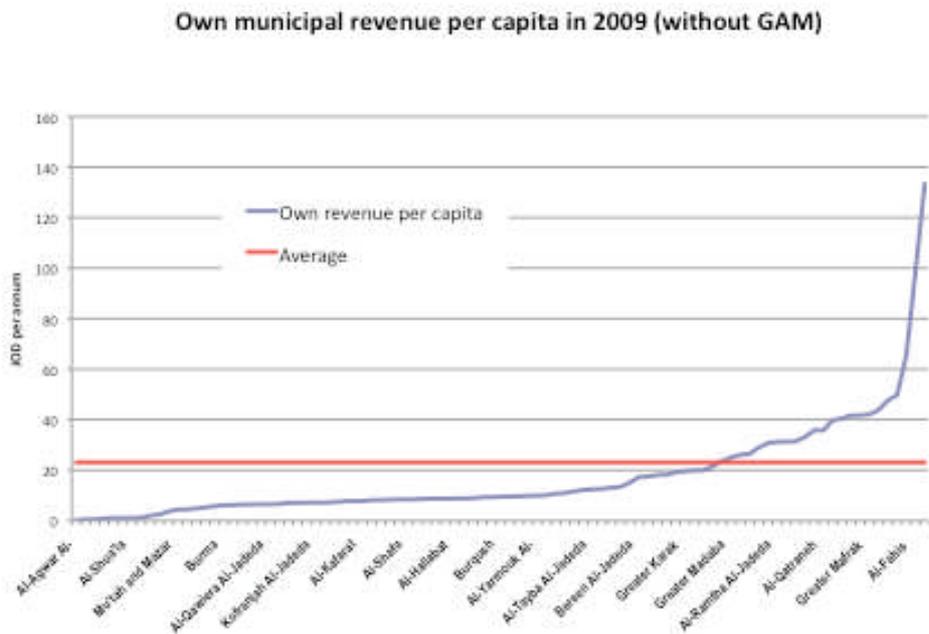


Chart 5: Share of current spending of total spending of municipalities 2009 (without GAM)

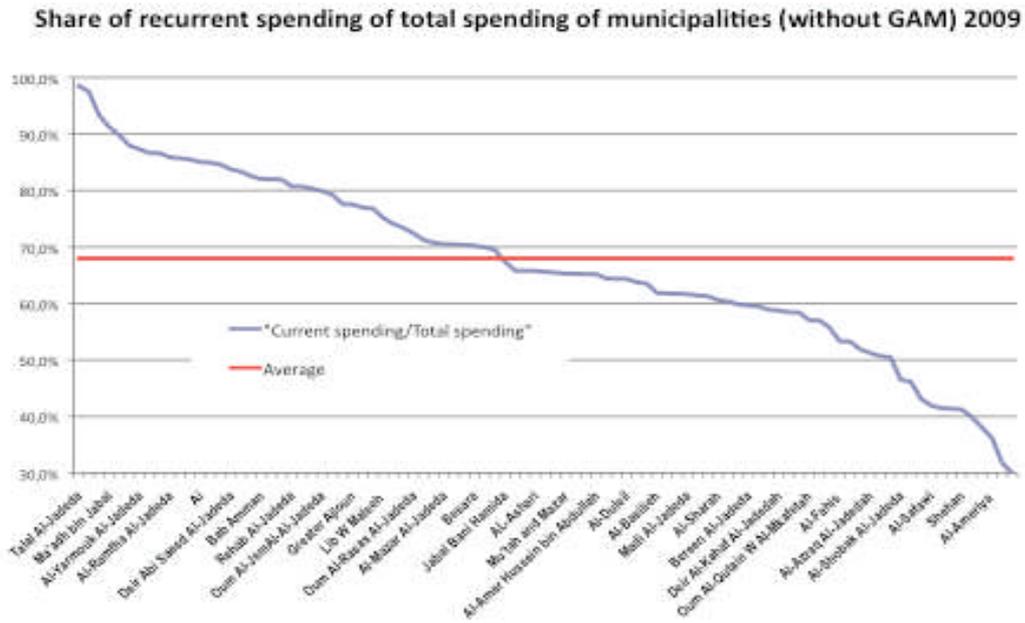


Chart 6: Payroll per capita for municipalities according to population, 2009

Scatter diagram for payroll per capita for different municipalities according to population size (without GAM) 2009

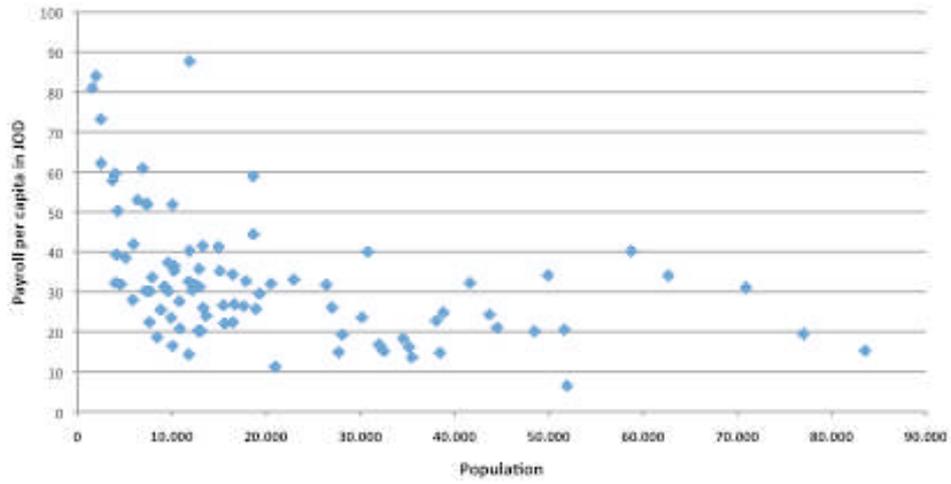


Chart 7: Share of municipal debt service and investment of total municipal spending, 2009 (without GAM)

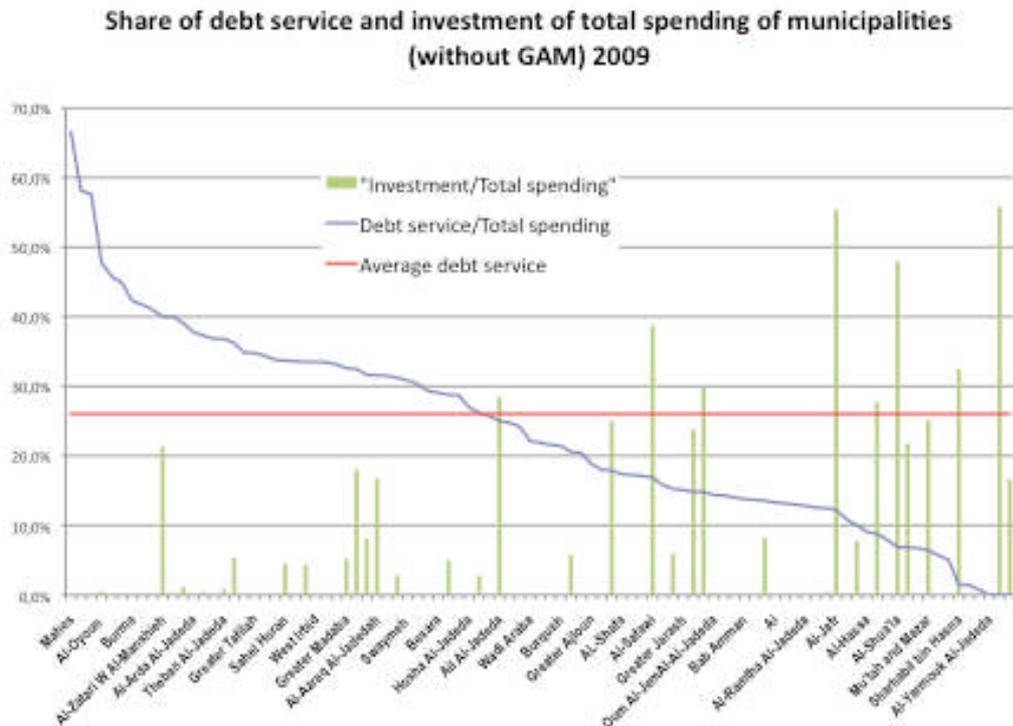


Chart 8: Share of municipal debt service and investment of total municipal spending, 2009 (without GAM)

