

The Importance of Local Government Revenues in Achieving Local Development, "The Case of the Municipality of Maghnia"

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Abstract:

The democratic development that the world is witnessing has led to the participation of citizens in political life, which has contributed to the emergence of the role of local groups because they are the first cell with which the citizen deals. Therefore, local groups have major tasks in various fields, and to carry out these duties, local groups need huge resources, which are not available in most municipalities, which has put them in a difficult financial situation, leading them to depend on foreign aid, which requires comprehensive and immediate reforms from valuing revenues, reforming local taxation and paying attention to human resources.

Keywords: local communities, local finance, local development.

Jel Classification Codes : H71 ; H72 ; O18 ; R11

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1. Introduction

Historically, the idea of local communities most likely started in Lyon, France, when prominent citizens asked the king for approval to impose local taxes. To support infrastructure development and create comfortable living conditions for the city's residents and many visitors, these funds were overseen by an elected group. Travelers and merchants traveling from east to west and north to south used Lyon as a rest stop because of its central location in France. Due to the great success of this endeavor, Lyon became a major financial and commercial center and experienced considerable prosperity. As a response to the demands of the French Revolution to end the absolute monarchy that ruled France in 1789, this idea expanded throughout the French Republic and eventually throughout the world.

After France occupied Algeria in 1832, France over more than a century developed a system of administration for Algeria. The system was also adopted by Algeria following its independence. The municipality was created by Ordinance No. 67-24 on January 18, 1967, which was afterwards modified by Law No. 81-09 on July 4, 1981, Law No. 90-08 on April 7, 1990, and more recently Law No. 11-10 on July 2, 2011. The wilaya (province) was instituted by Ordinance No. 69-38 on May 23, 1969, which was modified by Law No. 81-02 on February 14, 1981, Law 90-09 on April 7, 1990, and most recently Law No. 12-07 on February 21, 2012.

Local communities in Algeria have a remarkable historical and political significance. Local communities also participate in the economic and social life of the country by executing local development initiatives, working to fulfill societal needs, and prioritizing citizen concerns. Realizing these goals requires local communities to obtain sufficient budgetary resources and subsequently channel these funds towards goals that balance the aspirations of citizens and the prevailing policies of the state. Yet, local communities in Algeria are confronted with various obstacles, in particular the ongoing financial shortfall that most municipalities are facing and that needs to be addressed with systemic changes to provide local communities with adequate financial means.

1.1 Importance of the Topic

No genuine reform of the Algerian economy can be achieved without reforming local communities. Therefore, this study derives its significance from addressing a critical issue: the revenues of local communities. Given the difficulties faced by most municipalities and a cursory examination of the state of local communities in Algeria, we observe a dire situation in some municipalities, underscoring the importance of this topic.

1.2 Reasons for Choosing the Topic

The primary reasons for selecting the topic of local communities include:

- The Importance of Local Revenues: Local revenues are crucial for granting financial autonomy to local communities.
- Lack of Adequate Research: Studies on local revenues by students and institutes have not received sufficient attention or focused on research.
- Alignment with State Reforms: The topic of local revenues aligns with the series of reforms initiated by the state.

1.3 Research Problem

The issue of local community revenues and the significant challenges it encompasses inevitably leads to the following research question:

What is the role of local community revenues in promoting local development in the municipality of Maghnia?

This prompts an investigation into the following areas:

- What is the concept and role of local communities in achieving development in Algeria?
- Examining the budget of a municipality, focusing on the components of its revenues.
- Describing and analyzing the components of the revenue budget of the Maghnia municipality.
- What are the necessary reforms to address the challenges of the Algerian context?

This framework aims to explore how local revenues can enhance financial independence and contribute to sustainable local development, particularly in the context of the Maghnia municipality, while identifying the reforms needed to overcome existing challenges.

2. Previous studies

- The contribution of local tax revenues to reducing the deficit of local community management expenses: case study of Annaba's municipality during the period 2015-2018.

Farid Boulhabal

According to the study's findings, municipal finance is essential to local governments' ability to become financially independent and promote local growth. The main source of funding for municipalities is local taxes, which allow them to raise funds for expenses and to pursue social, economic, and cultural objectives. The establishment of legal and regulatory frameworks guarantees appropriate operation and disciplined financial management, enabling municipalities to work together with the state to accomplish their goals at the local level.

- The role of local taxation in financing local communities: a case study of the municipality of Mostaganem

Baba Abdul Qadir. Mekki Amariya

This study examined important ideas like development, finance, and local governance structures with an emphasis on the crucial role that funding sustainable local development plays in Algeria. It looks at how local development is financed and assesses sustainability initiatives. Strong financial mechanisms and strategic policies are crucial for supporting Algeria's local communities, as the study's main conclusions and practical suggestions to improve sustainable local development illustrate.

- Fiscal reforms and their impact on reducing the budget deficit of local communities
-case study of the municipalities of Tlemcen-

Tabti Khadija, Ben Mansour Mohamed

This study highlighted the state's attempts to address municipal financial difficulties through several reforms, with a particular focus on the role that local revenue collection plays in funding municipal budgets in Algeria. To lower budget deficits, these reforms focus on enhancing management and procedural frameworks. Many municipalities struggle because of an imbalance between their meager resources and the heavy burdens placed on them, which makes it difficult for them to carry out their developmental responsibilities and provide services efficiently.

- The legal system of municipal finance in the Algerian legislation Municipal budget municipal property

Ben Sheikh Abd el Basit, Yama Ibrahim

This paper outlines the legal framework governing municipal finances in Algeria, focusing on budget-related processes. It identifies the main principles guiding budget preparation, the stages involved, and the required procedures and documentation. Additionally, it examines the budget's structure, categorizing revenues and expenditures for both administrative and operational departments. The study also looks at budget implementation, detailing the roles of the authorizing officer and the public accountant. It emphasizes managing and valuing municipal property as stated by relevant laws.

- Mechanisms of Algeria's municipal system and local development -The weight of reality and the aspiration of the future-

Al-Murtaji Saidawi, Al-Maki Draji

This study concluded that the evolution of Algeria's municipal system is crucial for keeping up with global trends and improving the municipality's connection with its environment. This change is needed to achieve sustainable local development based on societal potential and capabilities. However, Algeria's current municipal system struggles with major challenges that prevent effective action toward local development goals. Key issues include limited financial resources, insufficient municipal capacities, inefficient administrative structures, and low levels of public involvement. To tackle these challenges, it is necessary to create a strong municipal framework that can meet its developmental responsibilities.

- The Contribution of Local Taxation to Financing the Budget of Local Groups in Algeria. Case Study of the Municipalities of Tlemcen(2017 – 2015)

Jilali el habib

This study looks into local taxation in Algeria and how it helps finance the budgets of local authorities. It focuses on certain taxes and fees that are legally set aside, either partially or fully, for local groups. A case study of selected municipalities in Tlemcen province shows that local tax revenues do not meet the amount needed to properly fund local budgets. Differences in income from taxes and fees make this problem worse. A clear strategy is needed to improve revenue generation for local authorities.

- The role of local taxation in financing the budget of local communities - local communities in the wilaya of Djelfa as a model-

Ben Qaddour Amal. Asali Sabah

This study looks at local development in Algeria and how tax reforms in financial legislation can improve it. The state recognizes the importance of this topic. It has worked on strategies to boost local revenue collection to support local authorities' budgets. Instead of defining local taxation, the study clarifies the taxes and fees that local groups collect directly or indirectly. It also examines the national tax policy as a viable solution to their financial challenges. The main question it addresses is: How much does local taxation help fund local authority budgets? This is explored through tax and financial laws, both in theory and practice. The study highlights the policies and financing methods adopted to promote local development.

- The contribution of fiscal resources to finance budgets municipalities, Case study of Magra's municipalities in M'sila during the period of 2010-2018.

Bey Abdel Haq. Imran Abdel Hakim

This paper examines how fiscal resources help fund municipal budgets. It focuses on the administrative accounts of Magra's municipalities in M'sila province from 2010 to 2018. The findings show that fiscal resources are an important source of revenue for the budgets of Magra and Belaiba municipalities. However, their contribution is limited in other municipalities. Three main taxes make up the primary fiscal resources: the Professional Activity Tax, the Single Fixed Tax, and the Value Added Tax. The importance of these taxes differs among municipalities, influenced by variations in commercial and industrial activity levels.

3. methodology and finding

3.1 Maghnia Municipality revenues from 2020 to 2024

Table 1: Maghnia Municipality revenues from 2020 to 2024

the accounts		years				
Management Department		2020	2021	2022	2023	2024
70	Products of exploitation	2805937.20	3701491.20	4002319.20	2921965.20	2616847.20
71	Public property income	21615903.69	21835953.52	14700170.76	14489357.71	15482581.49
72	Collections, grants and contributions	166945077.17	134778862.53	129973343.57	463466245.50	207577933.49
73	Reducing burdens	1113480.48	565048.48	919962.56	238409.69	0.00
74	Mutual Fund Grants	398586615.48	430661628.12	393735963.96	401430254.52	442983776.64
75	indirect taxes	19661500.68	19213928.36	21752775.96	27041488.29	30994761.26
76	direct taxes	282420969.88	222147300.98	235714169.77	186867197.05	203898096.00
79	Exceptional product	108412768.44	433289.26	5814398.37	2805926.35	1453372.56
82	Income and expenses of previous fiscal years	13106460.59	325770908.46	391322344.42	583337488.34	593431421.04
the total		1014670733.60	1159110431.90	1197937470.56	1682600355.65	1498440813.67
Equipment and Investment Department		years				
60	Deficit or surplus carried forward	47866952.19	51733940.50	195020674.85	257299291.67	470389740.94
10	Supplies	279902315.72	313086230.16	224541490.18	349553330.95	211649306.16
24	Real estate and movable property	5046332.00	1048471.15	252524.00	0.00	0.00
the total		332815599.91	365868641.81	419814689.03	606852622.62	682039047.10

Source: Prepared by researchers based on the administrative account of the Maghnia Municipality from 2020 to 2024.

3.2 Operating and property revenues ratio / management department revenues

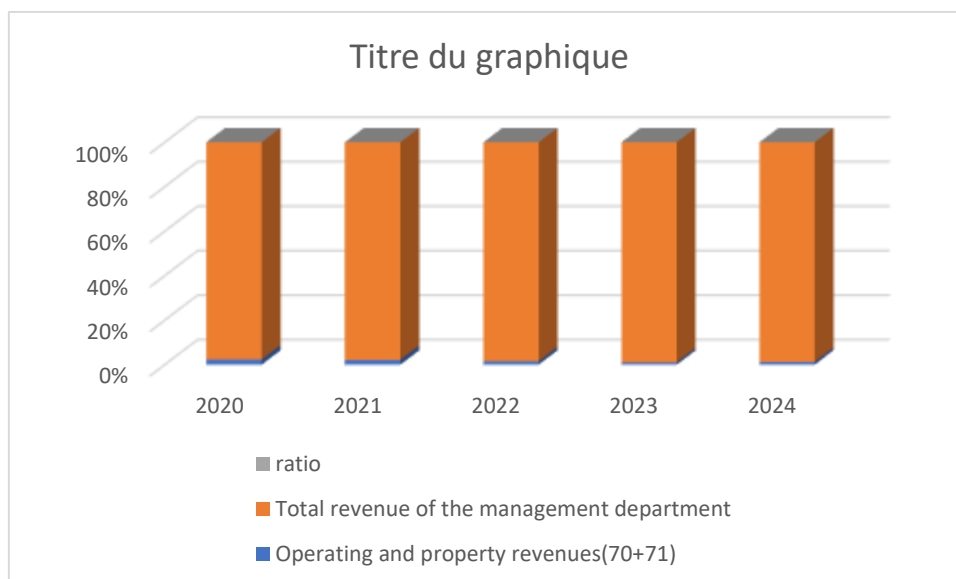
Table 2: Operating and property revenues ratio / management department revenues

	2020	2021	2022	2023	2024
Operating and property revenues (70+71)	24421840.89	25537444.72	18702489.96	17411322.91	18099428.69
Total revenue of the management department	1014670733.60	1159110431.90	1197937470.56	1682600355.65	1498440813.67
ratio	2.41%	2.20%	1.56%	1.03%	1.21%

Source: Prepared by researchers based on the administrative account of the Maghnia Municipality from 2020 to 2024.

This percentage shows how much revenue from operations and properties contributes to the total revenues of the administrative department. It is less than 3%. This indicates that Maghnia municipality heavily relies on other sources for financing rather than its own resources. The low rental rates and poor management of public property revenues contribute to this significant shortfall. Therefore, the municipality must prioritize its properties and work to improve the revenue they generate.

Figure 1 : Operating and property revenues ratio / management department revenues



Source: Prepared by researchers based on the administrative account of the Maghnia Municipality from 2020 to 2024.

3.3 Percentage of revenue received from aid contributions/management department revenue

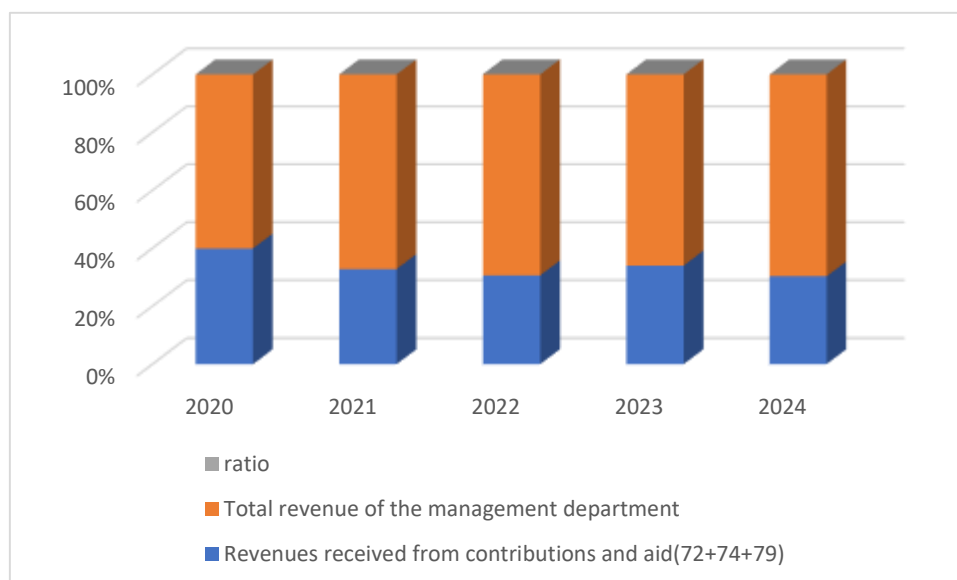
Table 3: Percentage of revenue received from aid contributions/management department revenue

	2020	2021	2022	2023	2024
Revenues received from contributions and aid (72+74+79)	673944461.08	565873779.91	529523705.90	867702426.37	652015082.70
Total revenue of the management department	1014670733.60	1159110431.90	1197937470.56	1682600355.65	1498440813.67
ratio	66.42%	48.82%	44.20%	51.57%	43.51%

Source: Prepared by researchers based on the administrative account of the Maghnia Municipality from 2020 to 2024.

This percentage shows how much the Maghnia municipality relies on money from subsidies and contributions, which was 66.42% in 2020. While this number dropped to 43.51% by 2024, it still makes up about half of the municipality's total revenue. This highlights a serious gap in the municipality's ability to finance itself.

Figure 2: Percentage of revenue received from aid contributions/management department revenue



Source: Prepared by researchers based on the administrative account of the Maghnia Municipality from 2020 to 2024.

3.4 Tax revenue ratio / management department revenue

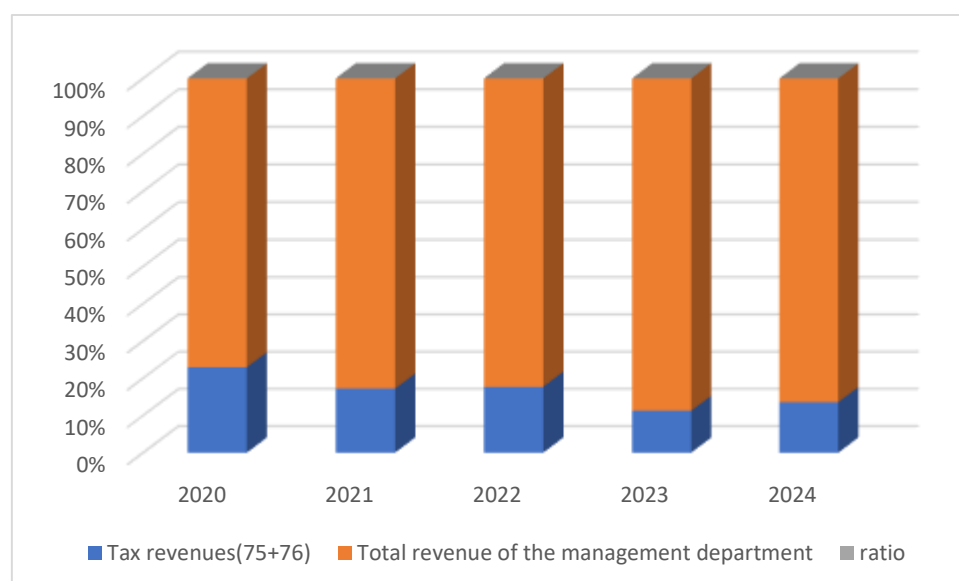
Table 4 : Tax revenue ratio / management department revenue

	2020	2021	2022	2023	2024
Tax revenues (75+76)	302082470.56	241361229.33	257466945.73	213908685.34	234892857.25
Total revenue of the management department	1014670733.60	1159110431.90	1197937470.56	1682600355.65	1498440813.67
ratio	29.77%	20.82%	21.49%	12.71%	15.68%

Source: Prepared by researchers based on the administrative account of the Maghnia Municipality from 2020 to 2024.

We see a drop in the share of tax revenues compared to the revenues of the administrative department. This share was about 29.77% in 2020, but it fell to around half that amount in 2024. Although Maghnia has considerable industrial, commercial, and service-based economic activity, tax collection is still low due to tax evasion, fraud, and the growth of the informal economy.

Figure 3 : Tax revenue ratio / management department revenue



Source: Prepared by researchers based on the administrative account of the Maghnia Municipality from 2020 to 2024.

3.5 Revenues of the Equipment and Investment Department of the Maghnia Municipality

Table 5: Revenues of the Equipment and Investment Department of the Maghnia Municipality

Equipment and Investment Department	2020	2021	2022	2023	2024
Deficit or surplus carried forward (60)	47866952.19	51733940.50	195020674.85	257299291.67	470389740.94
ratio	14.38%	14.14%	46.45%	42.40%	68.97%
Supplies (10)	279902315.72	313086230.16	224541490.18	349553330.95	211649306.16
ratio	84.10%	85.57%	53.49%	57.60%	31.03%
Real estate and movable property (24)	5046332.00	1048471.15	252524.00	0.00	0.00
ratio	1.52%	0.29%	0.06%	0.00%	0.00%
the total	332815599.91	365868641.81	419814689.03	606852622.62	682039047.10

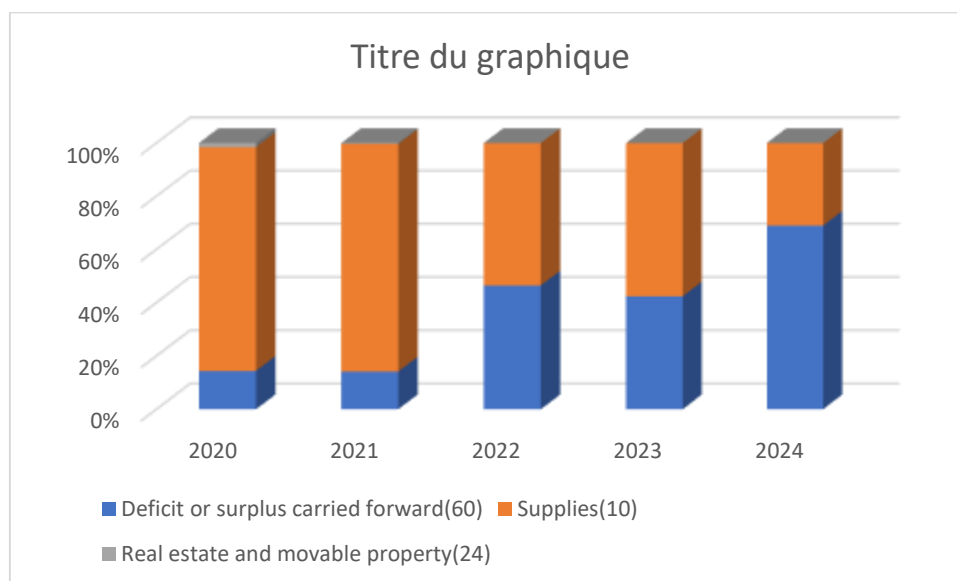
Source: Prepared by researchers based on the administrative account of the Maghnia Municipality from 2020 to 2024.

By looking at the funding sources for the equipment and investment department, we see that income from selling real estate and movable properties plays a small role. This income was less than 1.52% in 2020 and kept decreasing, becoming almost nonexistent in 2012 and 2013. The municipality struggled to collect revenue from real estate properties.

Grants make up a large part of the funding for the equipment and investment department, even though there has been a noticeable decline. These grants varied from 85% to 53% but fell to 31% by 2024. This drop is because Maghnia municipality depends on subsidies, provincial grants, and other outside help.

Regarding the carried-over surplus, it correlates directly with grants. Its contribution to funding the equipment and investment department increased from 14% in 2020 to 69% in 2024. This increase happened because of delays in completing equipment projects in Maghnia municipality.

Figure 4: Revenues of the Equipment and Investment Department of the Maghnia Municipality



Source: Prepared by researchers based on the administrative account of the Maghnia Municipality from 2020 to 2024.

4. Discussions and solutions

4.1. Reconsidering Municipal Organization and Consolidation Efforts

Many researchers point to Law No. 84-09, dated February 4, 1984, as a major factor in the problems municipalities face. This law created 713 new municipalities. As a result, material, human, and financial resources became scattered among local authorities. Over 1,000 out of 1,541 municipalities fell into financial crisis.

A study by the National Center for Studies and Analysis for Planning found that 85% of the municipalities formed under the 1984 territorial reorganization operate at a loss. Most of these struggling municipalities are rural, making up 57%, while urban municipalities account for 18%. The largest number of these municipalities were created under the 1984 administrative division. They often have weak economic activity and nearly no tax collection capacity.

A thorough study of all municipalities in the country identified four groups:

- First Group: This group has four municipalities with an average wealth greater than 4,000 DZD per capita.
- Second Group: This group includes 302 municipalities with enough resources for appropriate development according to national goals. They have low agricultural activity and moderate average wealth.
- Third Group: This group has 358 municipalities with moderate development potential. They need support from public authorities and have average wealth levels.
- Fourth Group: This group contains 877 municipalities. Their limited resources hinder development and require significant support. They are characterized by high agricultural activity. (Ben Mansour & Thabet, 2021, p. 5)

4.2. Rethinking the Relationship Between the State and Local Authorities: Towards a Balanced Development Partnership

- **Structural Imbalances Hindering Local Authority Performance**

Local authorities face several structural and functional challenges. They struggle to secure enough resources to meet public needs. Their ability to achieve meaningful economic and social development is also limited. The increasing number and complexity of local issues make these challenges worse. As a result, the state has started to delegate some responsibilities to these local units.

- **The Limits of State Intervention and the Crisis of Decentralization**

Even though the state gives local authorities many responsibilities, the lack of resources and increased administrative oversight make decentralization less effective. Assigning responsibilities without true empowerment weakens the principle of independent management. Therefore, the state should reduce its tight control and direct involvement in the everyday operations of local authorities. Instead, it should concentrate on setting broad development strategies. (Ben Cheikh & Yama, 2021, p. 4)

- **Conditions for Effective Decentralization**

Decentralization won't meet its goals without a real transfer of decision-making power, along with the delegation of administrative and financial authority. This means that local authorities should take on responsibilities that the central administration currently manages. The central government should focus on high-level tasks like planning, coordination, evaluation, and policy development.

- **Partnership and Complementarity Over Domination**

To achieve consistent and inclusive local development, there must be a shift away from domination and control. Instead, we need to build a balanced and fair partnership between the state and local authorities. Success in this relationship comes from cooperation and complementarity, where each party works flexibly and efficiently within its role. (Saidaoui & Daraji, 2023, p. 8)

4.3. Reforming Local Finance and Taxation

Local authorities today face a persistent imbalance between their financial resources and the heavy responsibilities assigned to them. This situation is made worse by their closeness to citizens and the practical challenges they deal with on the ground.

However, even with the clear importance of financial issues, reform cannot focus solely on financial matters. For reform to be successful, it must involve a review of the entire organizational structure of local authorities and the broader context in which they operate.

Such reform should be part of a long-term vision, based on a thorough assessment of the current system and thoughtful input from all relevant sectors. It should also be carried out gradually, ensuring the necessary resources and tools are in place.

In this sense, the reform of local finance and taxation should be seen as a part of a more comprehensive reform of local governance. Following the directives of the government, an inter-ministerial committee for the reform of local finance and taxation was established on July 9, 2007.

This committee presented a set of proposals that include immediate actions, a short-term plan, and a long-term strategy aimed at implementing significant structural reform to fix the shortcomings and imbalances seen in the financial management of local authorities. (Imran & Bay, 2020, p. 6)

4.4. Enhancing Revenue Generation

The low productivity of local community assets comes from not using these resources wisely and relying too much on tax revenue and subsidies. While municipalities have limits on tax resources, they do have significant control over operational resources. This control allows them to set rates and methods for their use.

To increase the value of these resources, local communities need to take a detailed inventory of all available assets, including real estate and movable properties.

A. Revenue from Public Assets:

To boost revenue from public assets, municipalities must carry out a thorough inventory of all their properties. This includes details like the type of property, its address, size, value, and how it's used. Municipalities typically own real estate and movable assets. However, unauthorized use of these assets without payment, like using beaches, sidewalks, or stealing sand, counts as misappropriation of public funds. Therefore, the inventory and assessment of municipal assets should ensure regularization of properties exploited without compensation or those used for very low fees. This step will help increase their revenue potential.

B. Revenue Collection:

The municipal treasurer collects revenues and manages municipal expenses. The treasurer is solely responsible for overseeing municipal revenue collection, handling funds owed to the municipality, and paying authorized expenses. To make this easier, the head of the municipal council prepares schedules of fees, sub-allocations, and service lists for the treasurer to collect. These lists are enforceable. (Baba & Makki, 2016, p. 9)

C. Revenue from Operations:

In managing their assets and operating local public services, municipalities can set financial contributions for users that match the nature and quality of the services offered. To improve municipal asset revenues, the following measures should be put in place:

- Mandate municipalities to complete an inventory of real estate and movable assets, keeping an updated inventory register and asset schedule.
- Use competitive bidding or tendering for every sale or acquisition of municipal real estate or movable properties.
- Link every lease of municipal real estate to a contract or terms that specify all conditions and obligations for the lessee, including lease duration, cost allocation, lease terms, payment methods, and termination conditions.
- Re-evaluate rental rates for commercial or residential properties leased by the municipality, as past rental amounts often do not reflect their real value, resulting in significant losses in local community revenue.
- Ensure municipalities enforce agreements (up to 50%) with sidewalk users for any construction or repair work on sidewalks.

- Apply balanced pricing for various public services, like kindergartens, nurseries, and school transportation, by determining the percentage of beneficiaries and the value of services provided.
- Issue warnings to companies or institutions to repair roads after they finish their projects.
- Ensure that temporarily occupied municipal public properties have formal permits, clearly outlining the rights and obligations of beneficiaries. (Jilali, 2022, p. 8)

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