

## **Fiscal Decentralization and Economic Growth in Morocco: Theoretical Framework, Current Situation, and Analysis of Stylized Facts.**

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**Pour citer cet article :** AMRANI .W & ELOUARDIRHI .S (2025) « Fiscal Decentralization and Economic Growth in Morocco: Theoretical Framework, Current Situation, and Analysis of Stylized Facts», African Scientific Journal « Volume 03, Num 28 » pp: 1536 – 1549.

**Date de soumission : Janvier 2025**

**Date de publication : Février 2025**



DOI : 10.5281/zenodo.15098762

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**Abstract**

Fiscal decentralization aims to strengthen the financial autonomy of local governments by granting them greater control over their own resources and improving their management capacities. In Morocco, this process is sustained by an evolving legal and institutional framework, with ongoing reforms seeking to enhance the efficiency of local finances. This article explores the theoretical foundations of fiscal decentralization, drawing on the seminal works of Tiebout, Oates, and Musgrave, and examines its practical application in the Moroccan context. Through a combination of qualitative analysis and empirical data, the study identifies key challenges, including regional disparities in resource allocation, heavy reliance on state transfers, and institutional constraints. The article concludes by emphasizing the urgent need for comprehensive reforms to bolster the financial capacities of local governments, promote equitable resource distribution, and ensure sustainable development. These reforms should focus on diversifying revenue sources, improving local tax collection, and fostering inter-municipal cooperation, while addressing regional inequalities through effective solidarity mechanisms.

**Keywords:** Fiscal decentralization, Local finances, Local authorities, Financial autonomy, Regional disparities.

## **Introduction**

Fiscal decentralization has emerged as a major global trend, affecting both developing countries and advanced economies. Its goal? To strengthen local governance and promote balanced economic development. By granting greater fiscal responsibilities to local authorities, states aim to respond more effectively to citizens' needs, improve administrative responsiveness, and enhance the financial autonomy of regions. This process allows local governments to generate their own revenues, whether through local taxes or financial transfers, while making them more accountable to their populations. In Europe, for example, decentralization is often accompanied by solidarity between regions to reduce inequalities. In contrast, in regions such as Latin America and sub-Saharan Africa, although fiscal decentralization is a priority, it faces common structural challenges, including incomplete or poorly enforced legislative frameworks, deep regional disparities, and limited administrative capacities. These obstacles are exacerbated by fragile economic contexts and a heavy reliance on central government transfers. Despite these challenges, decentralization remains a key lever for diversifying funding sources, stimulating local innovation, and strengthening public governance, drawing on successful experiences from other parts of the world.

In Morocco, fiscal decentralization is part of a broader administrative reform initiated by the 2011 Constitution, which granted greater autonomy to local authorities, particularly regions. This reform aims to strengthen local governance, improve administrative efficiency, and ensure a more equitable distribution of economic resources across the kingdom. However, its implementation faces various challenges. While regions now have certain powers to gather local taxes, the majority of fiscal resources remain centralized at the state level, limiting the financial autonomy of local authorities. Moreover, disparities between regions, with some being significantly wealthier than others, raise critical questions of equity and interregional solidarity. Despite the improvement made, fiscal decentralization in Morocco remains an ongoing project, requiring additional reforms to guarantee genuine financial autonomy and more balanced regional development.

Fiscal decentralization aims to grant local authorities' greater financial autonomy to amplify the efficiency of public management and promote balanced territorial development. However, in a country like Morocco, this process raises plenty challenges: to what extent does fiscal decentralization strengthen the financial autonomy of local authorities and reduce regional disparities? What institutional, economic, and administrative obstacles limit its effectiveness, and what reforms would be necessary to optimize its impact?

To better understand these issues, this article will be structured into three sections. The first section will present the theoretical framework of fiscal decentralization through the key economic approaches that underpin it, particularly those of Tiebout, Oates, and Musgrave. The second section will provide an overview of fiscal decentralization in Morocco, highlighting the legislative framework, the resources of local authorities, and the progress made. Finally, the third section will analyze stylized facts using empirical data illustrating the evolution of local finances and regional disparities in terms of contribution to national GDP. The article will conclude with a summary of findings.

### **1. Theoretical Framework of Fiscal Decentralization**

Fiscal decentralization is an essential concept in public finance theory and represents a measure frequently employed in the context of public sector reforms (Yushkov, 2015). Until the early 1990s, this field remained largely neglected by fiscal policy researchers. However, over the past decade, a marked global trend toward fiscal decentralization has been observed (Chandra Jha, 2012). This process is grounded in several economic theories that explain why and how decentralization can enhance economic efficiency, the quality of public services, and economic growth. Among the most influential theories are those of Tiebout, Oates, and Musgrave, which provide complementary perspectives on the strengths and limitations of decentralization.

The model proposed by Charles Tiebout in 1956 offers an innovative approach to fiscal decentralization. According to him, citizens, viewed as consumers of public services, select their place of residence based on the availability of public goods and the level of taxation. This framework, known as "voting with one's feet," produces inter-municipal mobility and inspires local governments to provide quality services at cut costs to attract and retain residents. This competition among local authorities leads to an optimal allocation of public resources, with each community adjusting its offerings to the preferences of its inhabitants.

However, Tiebout's model relies on several beliefs that do not always reflect reality. It assumes perfect mobility among citizens, which is rarely the case, particularly in developing countries where economic, cultural, or geographical constraints limit movement. Additionally, the model overlooks regional externalities and income inequalities, which can lead to significant disparities between communities and intensify territorial imbalances. Moreover, citizen mobility is not uniquely determined by local fiscal policies but also by cultural, social, and environmental factors.

Wallace Oates, in his decentralization theorem (1972), argues that the provision of public goods and services should be assigned to the lowest level of government possible, provided it has the

necessary capabilities. This principle is based on the idea that local governments are better positioned to address the specific needs of citizens and allocate public resources efficiently.

Oates also emphasizes that certain functions, such as macroeconomic stabilization and income redistribution, must remain centralized to avoid interregional disparities. Income redistribution requires national coordination to ensure that underprivileged regions receive adequate support. Likewise, economic stabilization, which involves fiscal and monetary policies, is more effectively managed at the national level. The main challenge, therefore, lies in finding an optimal balance between centralization and decentralization. Extreme decentralization could lead to inefficiencies and gaps, while excessive centralization could limit the ability of local governments to address the specific needs of their citizens.

Richard Musgrave, on the other hand, identified three fundamental functions of public finance: resource allocation, income redistribution, and economic stabilization. Resource allocation aims to grant public goods and services that the market cannot efficiently supply (roads, schools, hospitals, etc.). Income redistribution corrects economic inequalities by transferring resources from the richer to the needy. Lastly, economic stabilization utilizes fiscal policy to promote growth, maintain employment, and control inflation.

In the context of fiscal decentralization, resource allocation is optimized when local governments, being better informed about local preferences, take charge of providing public services. Yet, redistribution and stabilization are more the duty of the central government, which has the resources and coordination needed to secure equity and stability at the national level.

Fiscal decentralization offers significant benefits in terms of economic efficiency and the quality of public services, but it requires a careful balance between local autonomy and central coordination to prevent inequalities and budgetary imbalances. The theories of Tiebout, Oates, and Musgrave provide a valuable framework for better understanding these dynamics and guiding public policies in this area. By tailoring fiscal policies to local specificities while preserving national unity, the benefits of fiscal decentralization can be optimized for society as a whole.

## **2. Overview of Fiscal Decentralization in Morocco**

Fiscal decentralization in Morocco is embedded within a well-defined legislative framework aimed at strengthening the autonomy of local authorities while improving local governance. Organic Law No. 113-14 concerning municipalities operates as the pillar of this system. It governs the functioning, responsibilities, and management of municipalities in accordance with

the Moroccan Constitution. This law is based on the principle of free administration, allowing municipalities to exercise their own powers (urban planning, local public services), shared responsibilities with the state (economic development, employment), or those transferred by the state. Municipal councils, elected through universal suffrage, ensure democratic management of municipalities under the oversight of the governor, thereby guaranteeing the legality of decisions.

In this context, the financial framework for municipalities requires a balanced budget, funded by their own resources (local taxes, fees) and state financing. The law also encourages inter-municipal cooperation, allowing municipalities to pool their resources to boost the management of public services, it, also, emphasizes modern governance, transparency, and citizen participation, which are essential for effective and responsible management of local development.

Beyond municipalities, local authorities such as regions, prefectures, provinces, and communes play a central role in implementing decentralization. They manage their affairs democratically through elected councils, relying on three fundamental principles: free administration, cooperation, and solidarity. These principles enable autonomous management while facilitating collaboration between local authorities and with the state. Furthermore, citizens are encouraged to actively participate in local life, particularly by submitting proposals or influencing the agenda of councils. Each local authority has its own responsibilities but can also provide certain responsibilities with the state or receive delegated tasks. To lessen regional inequalities, solidarity funds have been built, aiming to support the development of less favored regions and improve infrastructure.

This decentralization dynamic is helped by a resilient legislative framework. The Dahir of July 7, 2015, promulgates Organic Law No. 113-14 concerning municipalities, establishing a framework for democratic and decentralized management. This law defines the responsibilities of municipalities, their financial and administrative autonomy, as well as the modalities of inter-municipal cooperation. Municipal councils, elected through universal suffrage, manage local affairs under the supervision of the president and vice-presidents, while administrative oversight is exercised by the governor to ensure the legality of decisions. The law places particular emphasis on transparency, accountability, and citizen participation, notably through the right to petition.

In parallel, the Dahir enacting Organic Law No. 112-14 governs the management of prefectures and provinces, thereby reinforcing decentralization and local democracy. These local

authorities have administrative and financial autonomy, with responsibilities that are either their own, shared, or transferred. The council of the prefecture or province, composed of elected members, makes decisions during ordinary or extraordinary sessions. A precise budgetary framework is established, with resources derived from taxes, grants, and loans, under the supervision of regional audit courts. Governance is based on transparency, citizen participation, and accountability, ensuring effective and equitable management.

Within the framework of advanced regionalization, the Dahir enacting Organic Law No. 111-14 defines the organization and management of regions in Morocco. This law distinguishes between the exclusive responsibilities of regions (economic development, transport, environment), those shared with the state, and those transferred to them. Management is carried out by a regional council elected through universal suffrage, responsible for designing and implementing local policies. The financial framework for regions relies on diverse resources, including taxes, grants, and loans, with control mechanisms ensuring transparency and good governance. Two funds are established to reduce territorial disparities and improve infrastructure.

To enhance these reforms, the implementation of decentralization benefits from international support, particularly through Moroccan-German cooperation. The German Agency for International Cooperation (GIZ) implements several programs to empower the capacities of local authorities, improve governance, and promote the economic and social development of regions. This collaboration supports job creation through assistance to small and medium-sized Enterprise, agricultural development, and local tourism. Additionally, it aims to improve basic services, particularly in the sectors of health, education, and access to drinking water.

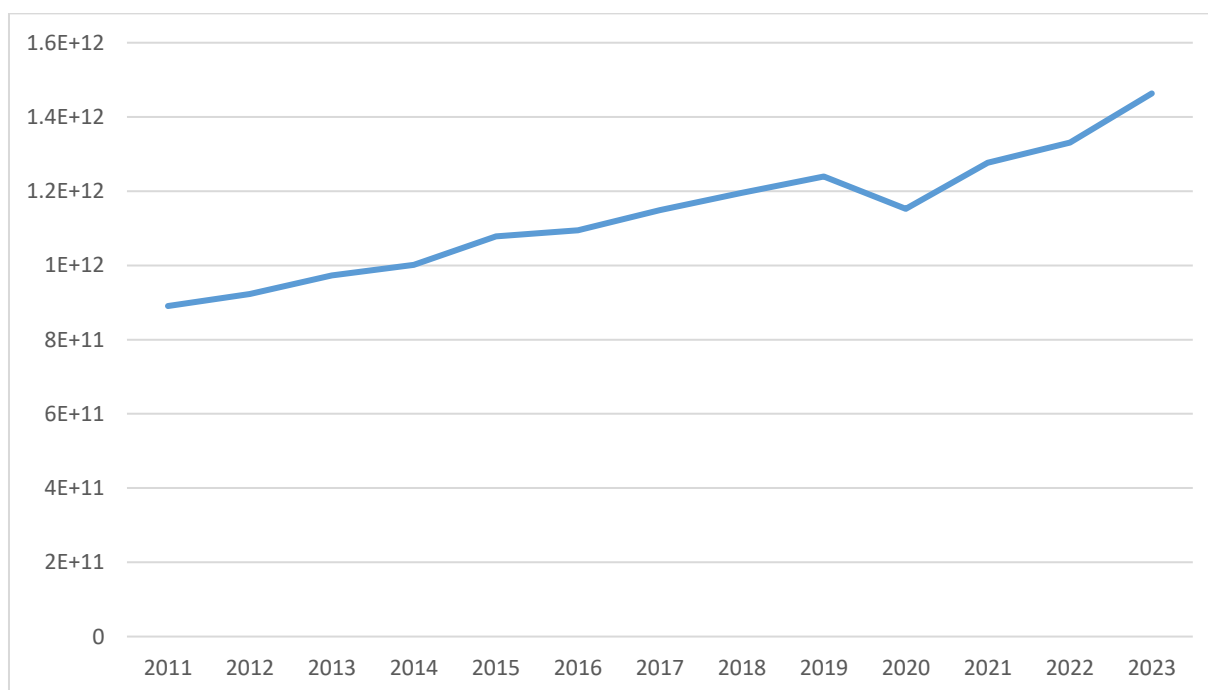
In addition to these international initiatives, territorial governance in Morocco is also guided by national monographs and the National Conferences organized under the patronage of King Mohammed VI. These events provide a platform to discuss the country's strategic challenges and propose adapted solutions. The national monographs address defined themes such as advanced regionalization, taxation, or sustainable development, while the National Conferences deal with major reforms like education or the development model. These assemblies result in structured recommendations, although their implementation may be hindered by administrative and financial constraints. Nonetheless, they reflect a commitment to renewal and insertion in the management of public affairs.



### 3. Analysis of Stylized Facts

The analysis of stylized facts helps identify the main trends and characteristics of fiscal decentralization in Morocco. It focuses on the evolution of local finances, regional disparities in terms of resources and public spending, as well as the dependence of local authorities on state transfers. This approach provides an overall view of the economic and institutional dynamics that influence the effectiveness of local governance and territorial development.

**Graph 1: Evolution of Real GDP in Morocco During the Period 2011-2023 in Dirhams**

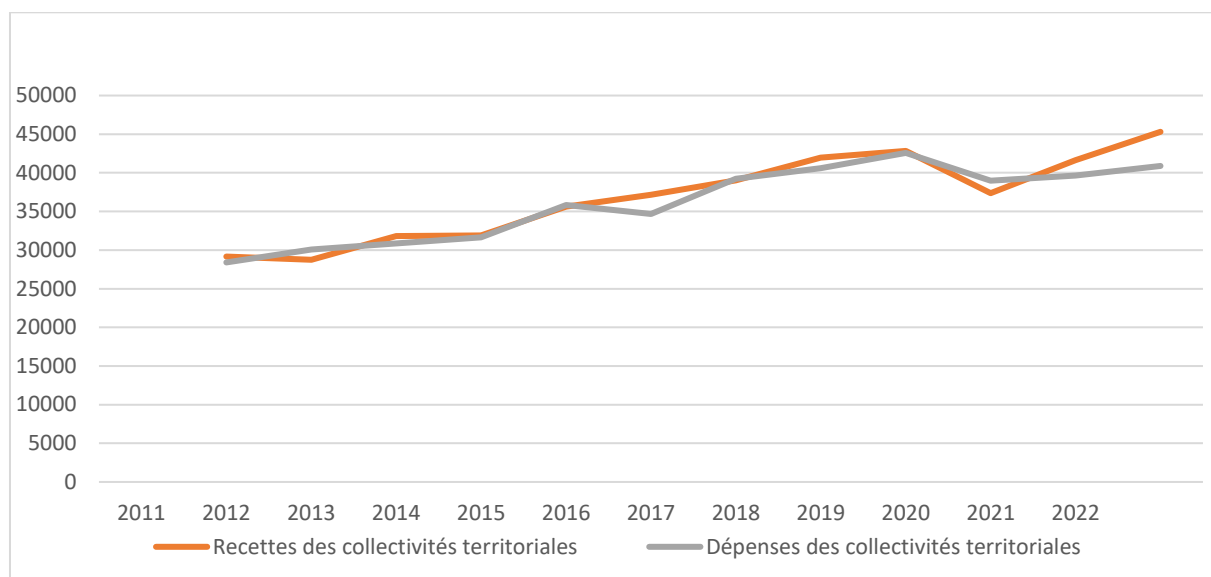


**Source: Prepared by the authors using Excel software (Data: World Bank)**

The graph illustrates the evolution of Morocco's real GDP from 2011 to 2023, expressed in dirhams, showing overall growth from 600 billion to 1,600 billion dirhams. This progression reflects sustained economic expansion over the period, driven by efforts to diversify and modernize the Moroccan economy. However, a slight slowdown is observed between 2019 and 2020, coinciding with the global COVID-19 pandemic. This health crisis caused major disruptions in key sectors of the economy, such as tourism, trade, and services, leading to a temporary slowdown in growth. Despite these challenges, Morocco demonstrated notable economic resilience, with a recovery beginning in 2021. This recovery was supported by government measures, including economic stimulus plans and investments in strategic sectors such as renewable energy, industry, and agriculture.



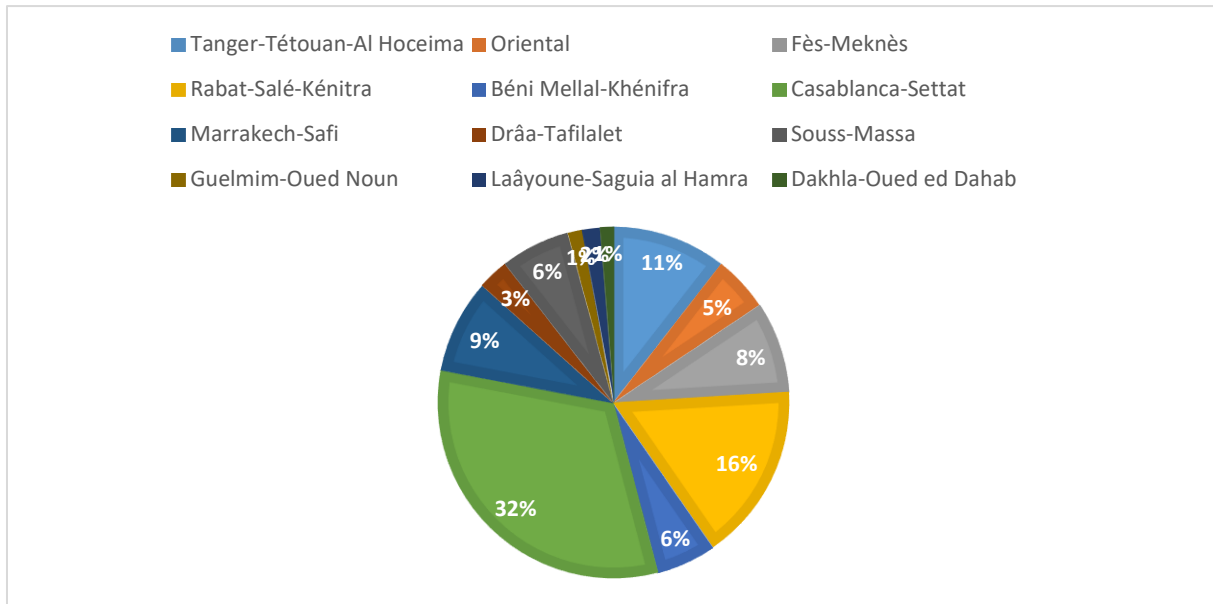
**Graph 2: Evolution of Revenues and Expenditures of Local Authorities in Morocco During the Period 2011-2022 in Thousands of Dirhams**



**Source: Prepared by the authors using Excel software (Data: Ministry of Economy and Finance)**

The graph presents the evolution of local government revenues and expenditures in Morocco from 2011 to 2022, expressed in thousands of dirhams. Both revenues and expenditures show an upward trend over this period, with revenues increasing from around 10,000 to nearly 45,000 thousand dirhams, and expenditures following a similar trajectory. The two curves appear closely linked, suggesting that local governments generally adjust their spending based on their revenues. However, there are years when expenditures slightly exceed revenues, which could indicate temporary deficits or increased investments.

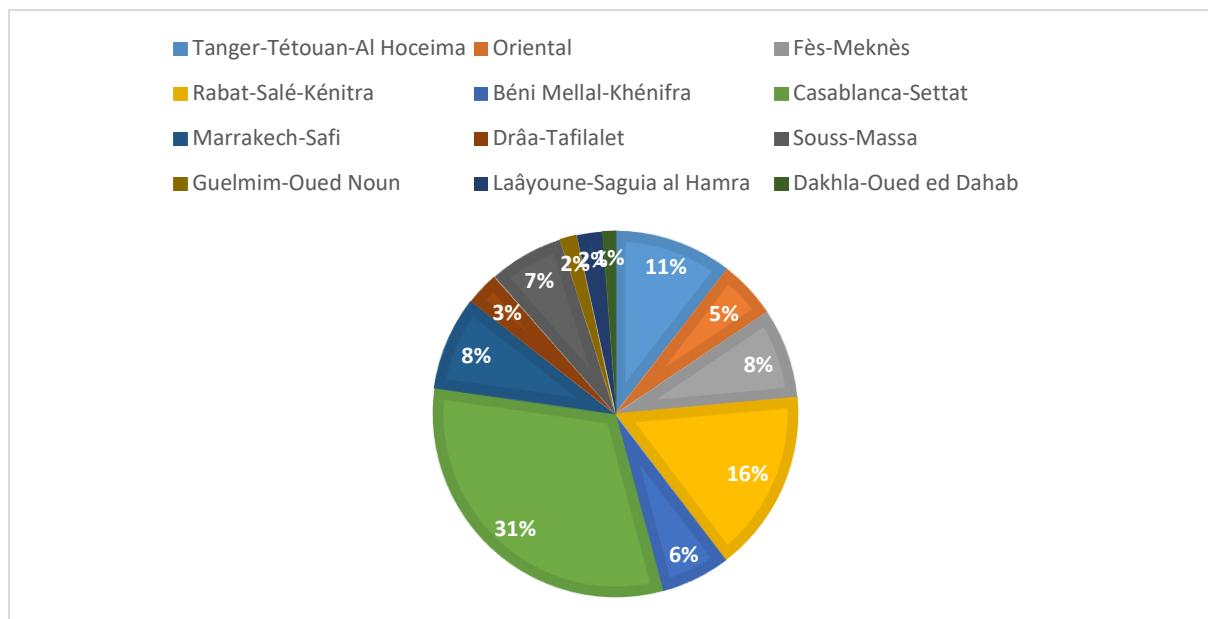
**Graph 3: The Contribution of Regions to the National GDP in Percentage (%) in 2017**



**Source: Prepared by the authors using Excel software (data: High Commission for Planning)**

The graph illustrates the contribution of different regions of Morocco to the national GDP in percentage for the year 2017. The Casablanca-Settat region is the most significant, contributing 32% of the national GDP. It is followed by the Rabat-Salé-Kénitra region with 16%, Marrakech-Safi with 11%, and Fès-Meknès with 9%. The regions of Tanger-Tétouan-Al Hoceima and Souss-Massa each contribute 8%, while the Oriental and Béni Mellal-Khénifra regions contribute 6% and 5%, respectively. The regions of Drâa-Tafilalet, Guelmim-Oued Noun, Laâyoune-Saguia al Hamra, and Dakhla-Oued ed Dahab have the lowest contributions, with 3%, 1%, and unspecified percentages. This graph highlights regional disparities in economic contribution within Morocco.

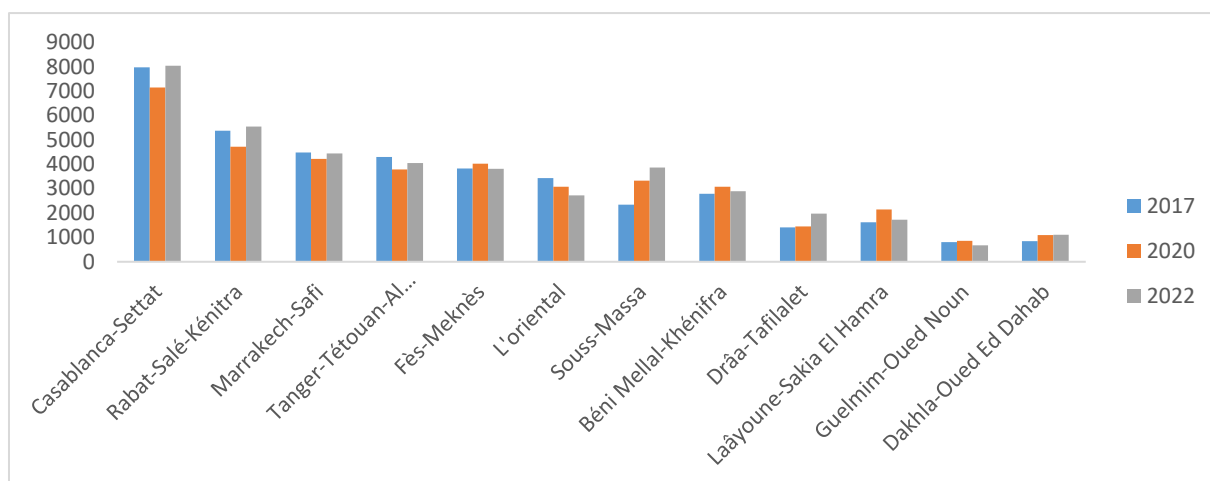
**Graph 4: The Contribution of Regions to the National GDP in Percentage (%) in 2020**



**Source: Prepared by the authors using Excel software (data: High Commission for Planning)**

The graph presents the contribution of different regions of Morocco to the national GDP in percentage for the year 2020. The Casablanca-Settat region remains the most significant, contributing 32% of the national GDP. The Rabat-Salé-Kénitra and Marrakech-Safi regions follow, with contributions of 16% and 11%, respectively. The Fès-Meknès region contributes 9%, while Tanger-Tétouan-Al Hoceima and Souss-Massa each contribute 8%. The Oriental and Béni Mellal-Khénifra regions contribute 6% and 5%, respectively. The regions of Drâa-Tafilalet, Guelmim-Oued Noun, Laâyoune-Saguia al Hamra, and Dakhla-Oued ed Dahab have the lowest contributions, with 3%, 2%, and 1%. This graph highlights regional disparities in economic contribution within Morocco, with a significant concentration in urban and economically developed regions.

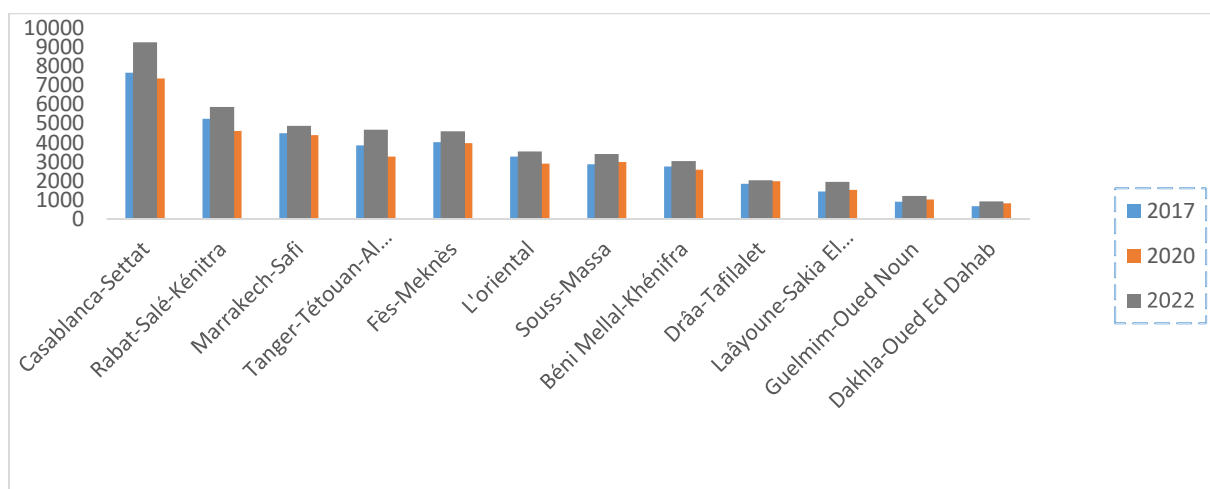
**Graph 5: Regional Distribution of Expenditures in Thousands of Dirhams**



**Source: Prepared by the authors using Excel software (Data: Ministry of Economy and Finance)**

The graph presents regional expenditures in Morocco for 2017, 2020, and 2022, highlighting significant regional disparities. Casablanca-Settat and Rabat-Salé-Kénitra lead with the highest expenditures, reaching 8,049 and 5,553 thousand dirhams in 2022, respectively, reflecting their economic importance. Marrakech-Safi and Tanger-Tétouan-Al Hoceima maintain stable levels, while Souss-Massa and Drâa-Tafilalet experience significant increases, indicating development efforts. In contrast, the Oriental and Guelmim-Oued Noun regions record declines, suggesting economic challenges. Dakhla-Oued Ed Dahab shows moderate growth, highlighting its strategic potential. These data illustrate efforts to reduce regional inequalities while maintaining investments in the most dynamic regions.

**Graph 6: Regional Distribution of Revenues in Thousands of Dirhams**



**Source: Prepared by the authors using Excel software (Data: Ministry of Economy and Finance)**

The graph shows the regional distribution of revenues in thousands of dirhams for 2017, 2020, and 2022, with Casablanca-Settat leading at 9,255 in 2022, followed by Rabat-Salé-Kénitra (5,858 in 2022) and Marrakech-Safi (4,875 in 2022). Most regions experienced a decline in revenues in 2020, particularly Tanger-Tétouan-Al Hoceïma and Fès-Meknès, due to the impact of the COVID-19 pandemic. Southern regions, such as Laâyoune-Sakia El Hamra, Guelmim-Oued Noun, and Dakhla-Oued Ed Dahab, recorded lower revenues. However, the 2022 figures show a strong economic recovery after the COVID-19 crisis, with revenue increases in almost all regions.

## **Conclusion**

Fiscal decentralization in Morocco represents a key challenge for strengthening the financial autonomy of local governments and promoting balanced economic development. The reforms initiated since the 2011 Constitution, particularly through the organic laws related to municipalities, prefectures, provinces, and regions, have laid the foundations for a more democratic and efficient local governance. However, despite these legislative and institutional advancements, the implementation of fiscal decentralization faces several structural challenges. Regional disparities in terms of resources and contribution to the national GDP, as shown by the empirical data, highlight the importance of reducing inequalities between regions. The Casablanca-Settat and Rabat-Salé-Kénitra regions dominate in terms of economic contribution and public spending, while the southern regions and some rural areas remain marginalized. This concentration of resources and economic activities in a few urban regions raises crucial questions of equity and interregional solidarity.

Furthermore, the dependence of local governments on transfers from the central state limits their financial autonomy and their ability to address local needs. Although revenues and expenditures of local governments have increased over the past decade, temporary deficits and budgetary imbalances persist, particularly in less developed regions. These challenges are exacerbated by sometimes insufficient administrative and institutional capacities, as well as economic and social constraints.

To optimize the impact of fiscal decentralization, further reforms are necessary. These include strengthening the financial capacities of local governments by diversifying their revenue sources, improving local tax collection, and encouraging inter-municipal cooperation. At the same time, it is essential to establish more effective interregional solidarity mechanisms to reduce disparities and support the development of less advantaged regions. Finally, transparent and inclusive governance, coupled with increased citizen participation, is crucial to ensuring the effective and equitable management of public resources.

In conclusion, fiscal decentralization in Morocco remains an ongoing process, requiring strong political will and structural reforms to achieve its goals. By drawing on the theories of Tiebout, Oates, and Musgrave, as well as international experiences, Morocco can learn valuable lessons to adapt its public policies and maximize the benefits of decentralization. A well-managed decentralization could thus become a powerful lever to stimulate economic growth, reduce regional inequalities, and strengthen local governance, contributing to a more harmonious and sustainable development of the kingdom.

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