

An essay on fiscal equalization system in Morocco

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Abstract: *This paper aims to make an overview of the fiscal equalization scheme practiced in Morocco. It highlights its inefficiency by identifying the weakness observed by territorial disparities not sufficiently redressed by current system. This paper is a contribution which reveals the ineffectiveness of fiscal equalization adopted by Morocco, particularly because of the effects it causes. Despite the reforms that have been introduced, fiscal equalization evolved timidly without actually satisfying an equitable distribution of wealth among local authorities. In Morocco, the adoption of a new constitution, following the movement in the Arab world known as the "Arab spring" and the launch of the "advanced regionalization" project, should open horizons leading to the strengthening of solidarity between the territories. The analysis of the system deficiencies shows that it lacks opportunities that can be provided by equalization.*

Keywords: *equitable distribution, fiscal equalization, regionalization, solidarity, territorial disparities*

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I. Introduction

Since the establishment of the communal charter in 1976, decentralization in Morocco was gradually deep-seated in the organization of the State [1]. The reforms introduced in this process are still unable to overcome the local finances difficulties [2]. The State continues to bear the increasing expenditure of local authorities. The charges supported by the State, through fiscal transfers, have become the consecration of financial relations between central government and local authorities. The system of sharing financial resources between local authorities has actually evolved, but without meeting the expectations. Financial disparities between sub-national authorities contribute to the distortion noticed in territories development [3]. The current equalization system, supposed to reduce financial disparities between local authorities, seems ineffective.

II. Fiscal equalization in the legal, political and economic landscape in Morocco

Overall, fiscal equalization draws its legitimacy from its virtues. The territorial disparities, which are the result of a decentralization process, are supposed to be redressed through such system. It is a framework that aspires to solidarity by referring to the principle of territorial equity [4], one of the foundations of the fiscal federalism theory. The State, as a public authority, is responsible for regulating the equalization instrument through the redistribution of financial resources and the establishment of sharing arrangements [5]. The aim is to reduce the disparities that can occur and cause an imbalance between territories [6].

2.1 Fiscal equalization in the constitutional corpus

If we place the equalization system into its legal framework, we can assess its value in the pyramid of legal rules. Equalization has been recently insinuated, for the first time, in the Constitution submitted to referendum on July 1st, 2011 under a form of solidarity, becoming a principle in the highest law¹.

¹The Constitution adopted in a referendum on July 1st, 2011 registered for the first time in chapter IX, article 136 and 142 the solidarity between regions which has become a constitutional principle:

- Article 136 of the Constitution provides "The territorial organization of the Kingdom is based on the principle of free administration, cooperation and solidarity...".

- Article 142, "It's created for a determined period, for the benefits of the regions, a social upgrade fund for the reduction of the deficits in terms of human development, infrastructure and equipment. It creates further interregional solidarity fund aiming at a fair distribution of resources, in order to reduce the disparities between regions".

In the new Constitution, the formulation of solidarity between local authorities is very general. Remained broad and ambiguous, the Constitution didn't mention the term equalization. The Moroccan Constitution does not go beyond the establishment of a fund without expressly establishing the equalization as a constitutional principle, contrary to other Constitutions especially in federal States like Germany or unitary State such as France, where equalization has a real constitutional value².

But again, the scope of solidarity in the Constitution formulation may seem less binding to the extent that the statement seems vague, confusing and makes way for interpretations³. The purpose of equalization is clearly expressed, as the Constitution evokes equity⁴ between local authorities that refers to a redistribution of financial resources.

In Morocco, the mechanism of solidarity is clearly mentioned in the new Constitution. It is realized through the creation of an interregional solidarity fund which aims to reduce disparities between regions. The problematic of solidarity between regions exceeds the creation of funds and requires deeper reflections in order to establish equity between sub-national authorities⁵. The complexity becomes stronger when it is necessary to avoid going against some constitutional principles related to the autonomy and the independent management practice in the territorial administration [7].

2.2 The equalization policy and the autonomy of local authorities

The equalization system adopts a national policy that makes local authorities adhere to the principle of solidarity. This will is clearly expressed within the framework of the "advanced regionalization" project⁶. The public services disparities and the cost of living heterogeneousness disrupt the territorial population distribution⁷. The socioeconomic impact is evident, especially when the territorial imbalances effects weigh down on State finances⁸ [8]. This imbalance remains a source of overwhelming burden for local authorities, especially when they do not reap homogeneous fiscal resources. This mainly results from an uneven distribution of the fiscal potential.

Some local authorities enjoy an advantageous taxation (as in industry areas)⁹. The recourse to the financial support from the State remains an inevitable solution to meet the social needs. Decentralization is accompanied by fiscal equalization made through taxes and managed by central government.

²-In Germany: Paragraph 2 of the Article 7 of the Chapter X in the Fundamental Law "... the law has to define the conditions for rights compensation to beneficiaries Länder and equalization obligation to debtors Länder as well as the criteria determining the compensatory payments...".

-In France: Paragraph 5 of the Article 72-2 in the constitutional revision of March 23rd, 2003, "the law provides equalization devices intended to promote equality between local authorities".

³In France, the Constitutional Council ruled on the question of interpretation of the equalization mentioned in the constitutional revision of 2003 by two statements, one of July 17th, 2003, "combining the principle of freedom with that of equality, by the institution of equalization mechanisms, does not require that each resource be subject to equalization, "and the statement of December 18th, 2003, which says that the text does not involve that "each transfer or creation of responsibilities generate an equalization".

⁴The principle of equity is often mentioned when the issue of the territorial solidarity is addressed, this is found in the new Moroccan Constitution, in Title IX, article 142 "It also creates inter-regional solidarity fund aiming at a fair distribution of resources in order to reduce disparities between regions", while the coupling between equalization and equality included in the fifth paragraph of Article 72-2 of the French Constitution "the law provides equalization instruments, intended to promote equality between territorial authorities".

⁵In the Finance laws, there is already a dedicated account for solidarity between regions in the Special Treasury Accounts, specifically in the Special Allocation Accounts and where the term "equalization" appears in the account title "equalization fund and regional development".

⁶Extract from the King's speech of March 9th, 2011 "Our ultimate goal remains to strengthen the foundations of a Moroccan regionalization throughout the Kingdom with the Moroccan Sahara provinces in head, a regionalization based on good governance to ensure appropriate, new fair distribution not only of attributions but also the means between center and regions".

⁷A Study of High Commission for Planning-HCP on the cost of living in 2007 in Morocco.

⁸In Morocco, the effects of rural-urban migration, the proliferation of shanty towns and unhealthy housing environment have been unmistakably expensive for the State. Despite efforts made to eradicate this scourge, the consequences still remain heavy; an investment of 70MMdh/year, nearly 40% of Gross Fixed Capital Formation-GFCF, and an overall cost of 25MMdh for "cities without slums" projects (1Mdh=1million of Morocco dirham-MAD, 1MMdh=1billion of Morocco dirham-MAD (1 MAD ≈0,102201USD)).

⁹In the literature, some areas in Morocco were known by intense economic activities, in particular the territories in the northwest and west of the Kingdom. A nickname was rather related with the colonial period "useful Morocco" and "unuseful Morocco".

According to the principle of subsidiary, central government gradually transfers some of its responsibilities to local authorities. Despite the persistence of supervision, local authorities have progressively evolved in consolidating their autonomy while enforcing decentralization. Unregulated autonomy could result in a widening territories competitiveness that would develop a variable geometry evolution of territories if equalization instruments are missing [9].

The equalization system expands every time the financial autonomy of local authorities becomes important. Balancing between equalization and autonomy is always undermined by divergent interests [10].

The practice of subsidies transferring represents, for some, interference of the central government in local affairs¹⁰. The central government grants constitute the main source of funding for local authorities. This reliance on the central government transfers is seen as a threat for local autonomy [11].

Enrichment of the local tax revenues cannot be attributed to an improvement of the local taxes yield, but to the growth of fiscal transfers realized by central government for the benefit of local authorities. These have developed a spendthrift behavior, which let it be said that basically, equalization is stimulated by the expense.

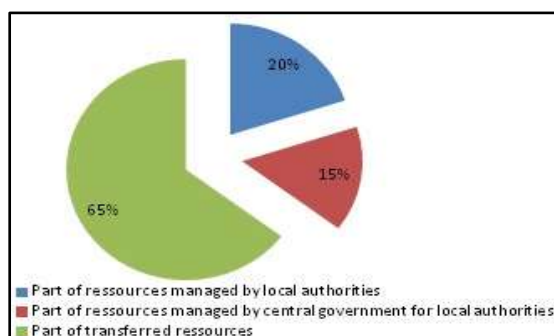


Fig. 1: The local authority resources breakdown by nature in 2015

Source: The TGR local finance newsletters

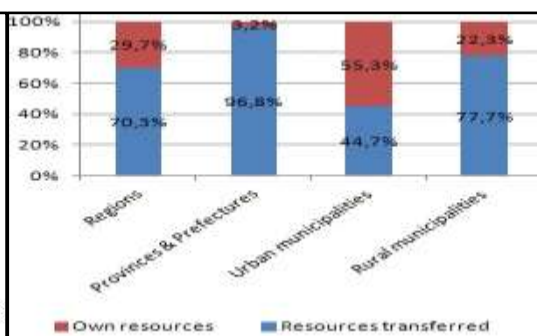


Fig. 2: The local authority resources breakdown by nature and by type of local authorities in 2015

2.3 Evolution of the central government transfers patterns for the benefit of local authorities

The central government transfers intended to support local authorities resources took the form of discretionary subsidies [12]. This system arose from an imbalance in the resources sharing between the central government and the local authorities. In 1985, central government proceeded to the retrocession of a part of the value added tax (VAT) for the benefit of local authorities. The volume of this transfer, being fixed for each year in the finance law, benefits to local authorities at 30%¹¹. An account designated as “Part of local authorities in the VAT revenue” was created¹².

The VAT revenue constitutes a safe financial resource for the State and therefore, the 30% allocated to local authorities is considered stable and consistent. In 1996, the architecture of transfers has changed, it moved from subsidies form to endowments form. Local authorities had to receive subsidies in three forms: fixed grants, equalization endowments and proportional allocation to their ability to mobilize their own resources [13].

Tab.1: The global subsidies of VAT revenue breakdown by type of municipalities

Global subsidies(VAT)	Urban municipalities	Rural municipalities
Inclusive	15%	30%
Fiscal Potential	70%	60%
Fiscal Effort	15%	10%
Total	100%	100%

Source: World Bank

¹⁰Some countries have left subsidies transferred to the free use by the recipient local authority; it is the case of the global subsidy in France.

¹¹Article 65 of the law 30-85, published in the official newsletter (BO) n° 3818 of 19 rebia II 1406 (January 1st, 1986).

¹²Article 33bis of the 33-85 law relative to the finance law 1986 of 18 rebia 1406 (December 31st, 1985) published in the official newsletter (BO) N 3818 of 19 rebia II 1406 (January 1st, 1986).

The global subsidy of VAT was attributed to cover the charge of operating part in the budget of local authorities. It was used to balance their budgets suffering from a structural deficit in the operating part of budget, while the special investment grant covers the expenses resulting from responsibilities that are transferred by central government.

The special allocation of investment is attributed mainly by demographic criteria and management efficiency (part of own resources, research of tax deposits, debt ratio... etc). However, a redistribution system based on criteria of needs is missing. The geographical nature of territories is disparate. Investments in social infrastructure are also conditioned by the nature of the territory to develop. Some countries that have undertaken reforms of their equalization system set up a sharing mode based on needs in parallel with the resources¹³. In the new transfer mode to local authorities, central government adopts simple criteria referring to the financial capacity. These distribution criteria are not the only ones, the personal relationships of the assemblies presidents with the central government could lead to increases [14]. Thus, financial decentralization would also be affected by “annuity” taxation [15].

III. An equalization system that is getting stronger

In the local budget law, local authorities benefit from a budget which resources are composites. Besides these and the resources managed by central government for local authorities, the central government proceeds, at the beginning of each year to a transfer of part of tax income for the benefits of local authorities.

The part of local authorities in the central government transfers is designated by two accounts in the finance laws: the special accounts of the treasury including six groups among which one is intended for the financing of the local development¹⁴. In the special affectation accounts, there are two accounts representing the central government transfers to local authorities. One concerns the transfer of a part of VAT, this is the account entitled "Part of local authorities in the VAT revenue" and the other as a special fund dedicated to regions "The special fund relating to the tax revenue allocated to regions» which is provided by both corporate tax (IS) and income tax (IR). It was in 1986 that the account “Part of local authorities in the VAT revenue" was created in the finance law of 1986¹⁵. The part of VAT allocated to local authorities is registered in their budgets to cover the costs related to their attributions.

3.1 Subsidies continue to grow since their creation

The tax revenues of local authorities have known considerable growth during the last decade and following favorable fiscal achievements in the State budget. Indeed, the central government transfers to local authorities have been increasing in terms of volume taking advantage of a steady economic growth. A notable decrease in transfers took place in 2010 following a downturn in the economic activity resulting from the crisis effects. This has negatively impacted tax revenues feeding the State fund. The resources allocated to local authorities, 30% of the VAT revenues and 1% of IS and IR, increased from 8507Mdh to 27981Mdh (2004-2016) thus realizing a growth rate of 229% during this period. In thirteen years, subsidies which are transferred by central government have more than tripled (with an average annual growth rate of nearly 15%). Before 2005, the annual growth rate of transfers rarely exceeded single digits, when it reached its maximum value in 2009 (25%). The only time it registered a negative value in 2010 and 2015. In 2010, this rate reached a maximum of negative value (-6.4%) following a drop in State revenue in terms of VAT, IS and IR due to the fiscal measures established by the finance law of 2010¹⁶. The VAT recipes which represented 23,184MMdh in 2010 losing 3 billion compared to 2009, while the State revenues in IS and IR rose to 64,567MMdh in 2010, a shortfall of 7MMdh compared to the previous year. The account “Part of local authorities in the VAT revenue registered receipts of around 23,7MMdh for the year of 2016. The graph below illustrates the evolution of transfers to local authorities during the period of 2004-2016.

¹³In Switzerland, the year 2004 saw a reform introducing an equalization which combines resources and needs called “Reform of Equalization and the entanglement of Tasks” (RPT).

¹⁴“The accounts of special affectation”, “The accounts of membership accounts to the international organizations”, “The accounts of monetary transactions”, “Loan accounts”, “The advance accounts” and “subsidies expense accounts”.

¹⁵Dahir n°1-85-347 of 18 rebia II 1406 (in December 31st, 1985) promulgating the law 30-85 relative to the value added tax published in the official newsletter (BO) n° 3818 of 19 rebia II 1406 (in January 1st, 1986).

¹⁶Dahir n° 1-09-243 of 13 Muharram 1431 (December 30th, 2009) promulgation the finance law n° 48-09 for the budget year of 2010, published in the official newsletter (BO) n° 5800 bis of 14 Muharram 1431 (December 31st, 2009).

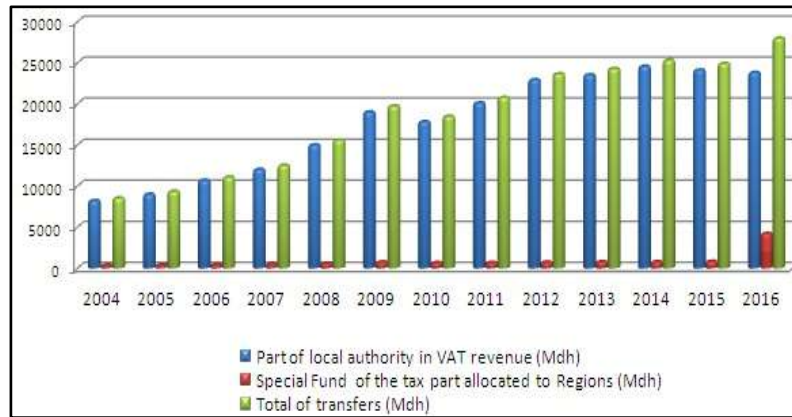


Fig. 3: Evolution of the central government transfers to local authorities (Mdh)

Source: Finance laws

If we look at the evolution of the subsidies by type of local authorities, we notice that since the communal charter of 1976, they have all known increase. In spite of this increase, the financial resources of local authorities were facing shortfalls. Some resources were qualified as “low efficiency yield”. These resources did not satisfy the local growing needs.

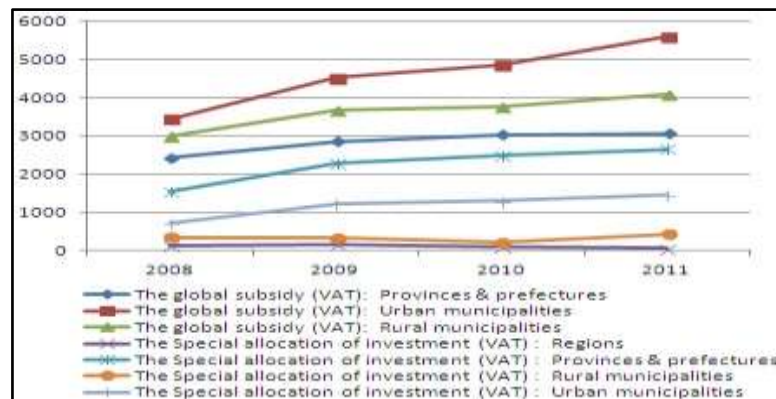


Fig. 4: Evolution of the VAT subsidy transfers allocated to local authorities (Mdh)

Source: The TGR local finance newsletters

3.2 Equalization subsidies rather focus to cover the expenses related to operating expenses

The overall subsidies of the VAT still remained higher than the special investment allocations. Indeed, the financial burdens supported by local authorities have continued to increase because of the heaviness of charges involved in used operating expenses.

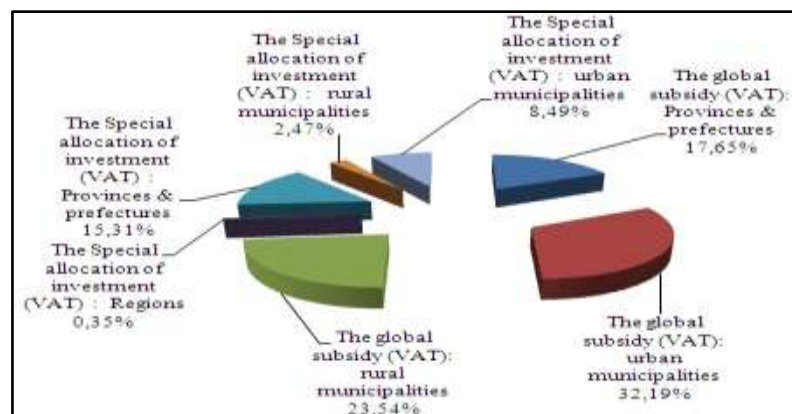


Fig. 5: The VAT subsidy breakdown by nature and by type of local authorities in 2011

Source: The TGR local finance newsletters

In 2015, the central government transfers to local authorities reached a volume of 23,1MMdh, including part of the VAT transferred (19,3MMdh), part of the IR and IS transferred to regions (0,8MMdh), part of insurance contracts tax (0,5MMdh), the assistance funds and subsidies (2,5MMdh).

The overall allocation of VAT¹⁷ constitutes the most important transfer mode in the equalization mechanism (with a volume of 19,3MMdh out of total of 23,1MMdh in 2015, it represented 84% of the central government transfers to local authorities). Regional part of this transfer was only 1420Mdh, representing 6% of the volume transferred.

The resources transferred for covering operating part of the local budget (the global subsidy of VAT and the part of regions in IS and IR (for operating expenses)) increased in volume since 2008 to 2015 going from 9630Mdh to 13521Mdh. Reported to operating resources in the main budget, they represented slightly more than half of operating resources, except for few years where the ratio didn't exceeded 50% (especially in 2009). Furthermore, during the same period, allowances for operating expenses (global subsidy of VAT and the part of regions in IS and IR (for operating expenses)) represented three quarters of total resources transferred of VAT, IS and IR.

Concerning the transferred resources related to the investment (the special investment grants, subsidies and endowment of investment), they increased, too, in volume from 2008 to 2015 with near-stagnation in 2009 and 2010. During this period, the resources transferred for investments (the special allocation of investment of VAT, and the part of regions in IS and IR (for investment expenses)) represented quarter of total resources transferred of VAT, IS and IR. The increase of local investment in recent years is explained by the investments made by the national programs.

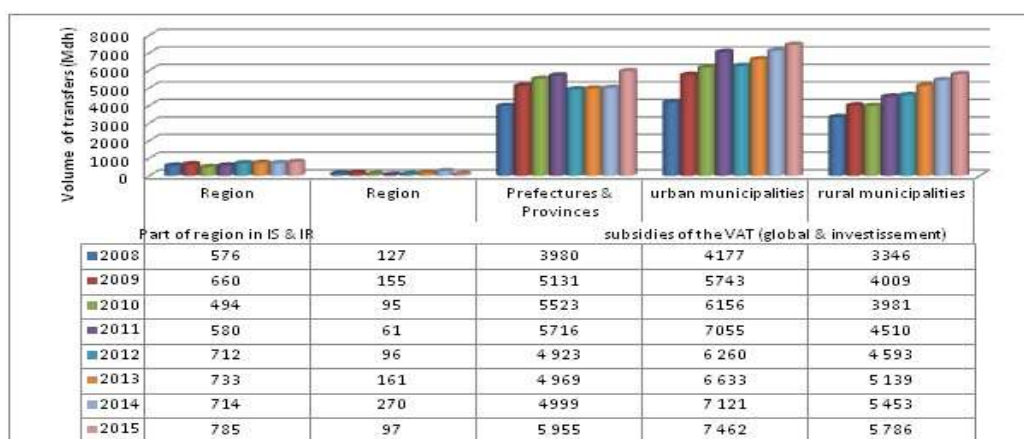


Fig. 6: Evolution of the volume of transfers to local authorities

Source: The TGR local finance newsletters

The VAT transferred to local authorities was penalizing in a large extent the basic equipments of local authorities. This provision was intended primarily to cover the operating costs related to responsibilities transferred from the central government particularly in healthcare, education and agriculture sectors. Local authorities consider that, in the communal charter of 2002, the central government had given them additional responsibilities without appropriate financial support.

Seen the structural deficit of the first part of the budget (operating budget), the regime of VAT revenues is primarily concerned to cover the operating expenses of local authorities, their financial burdens which are induced by the transfer of responsibilities previously held by the central government and the financing of common expenditure related to the local communities grouping. This condition being met, the rest is distributed among local authorities on a mainly demographic basis, but also according to the cyclical economic conditions.

¹⁷In France, this subsidy is called the global of operating (DGF). It represents 80% of assistance from central government to local governments. In France, this allocation is distributed into equalization allocations for each type of local government: municipality equalization grants and their groupings (urban solidarity grants, rural solidarity endowments, national endowment equalization and municipality grouping's grants), equalization allocations of department* (equalization grants of department, minimum allocations of department) and equalization allocations of region).

*In France, "department" is a territorial level which is situated between region and municipality.

It would be necessary to say that the first concern of the central government is to cover the deficit operating expenses. The VAT allocations, intended to balance local budgets, are attributed according to the projected deficit of the operating budget.

In 2015, operating expenses represented 60% of the total local authorities spending. They are distributed between the cost of staff, goods and services and the interest on the debt.

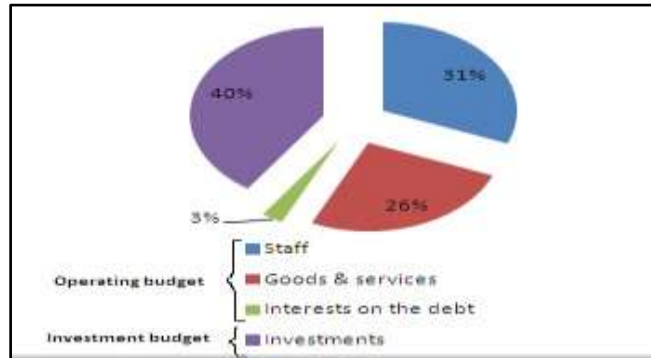


Fig. 7: Distribution of local expenditure in 2015

Source: The TGR local finance newsletters

The resources transferred to local authorities are mainly consumed by operating expenses which reduce the investment opportunities as subsidies balance are exclusively allocated to correct the deficit of the first part of the budget.

Although the investments of local authorities have increased, in terms of volume, during the last years, however, the annual growth rate has seen a remarkable drop in the period of 2008-2015 losing 10 points. This corresponds to a loss of a share of 30% in annual additional resources allocated to investments.

The part of the local authorities investment in GDP (nominal value), recorded 1.14% in 2008 and evolved to 1.46% in 2015. Despite this increase, spending is still considered low if we take into account the relentless pressure for basic infrastructures. The distribution of investments by type of local authorities in the total of local investment shows that the part of regional reached 9% in 2015 down from 13% in 2008. However, in the case of prefectures and provinces, this rate increased from 21% in 2008 to reach 35% in 2015. This rate depreciated in the case of urban municipalities by falling from 43% in 2008 to 35% in 2015. Only rural municipalities knew no change, keeping the largest share around 23% during the same period.

3.3 Territorial disparities that occur despite the strengthening of equalization

The interest of fiscal equalization is its ability to reduce territorial disparities. For an apprehension of these disparities, we consider a territory scale which corresponds to the political trends in Morocco within the framework of the “advanced regionalization” project adopted in the Kingdom. The wealth of regions caught by the RGDP or RGDP/capita is the best indicator of the regions contribution in the national economy. These disparities remained significant without too much reduction. The Gini index point out the regional disparities varies from a State to another. The average of this index in OECD countries is in the order of 0.15 [16] and has little fluctuated during the end of last century [17]. The calculation of this coefficient, in the case of Morocco, gives the value of 0.3.

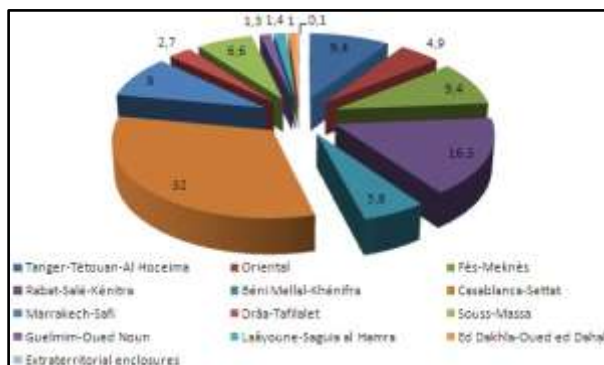


Fig. 8: Regional breakdown of Regional Gross Domestic Product (RGDP) in 2014

Source: The HCP reports

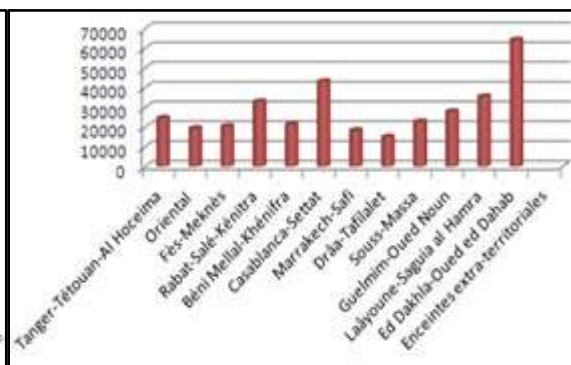


Fig. 9: Regional Gross Domestic Product per capita (RGDP/capita) in 2014 (Mdh)

The regional disparities don't concern only the produced wealth, but also spending related to the offered public services. This disparity is manifested through the cost incurred by social factors such as the demography and factors related to the geography of the territory, which make similar public services, may be offered with different costs depending on territorial specificities.

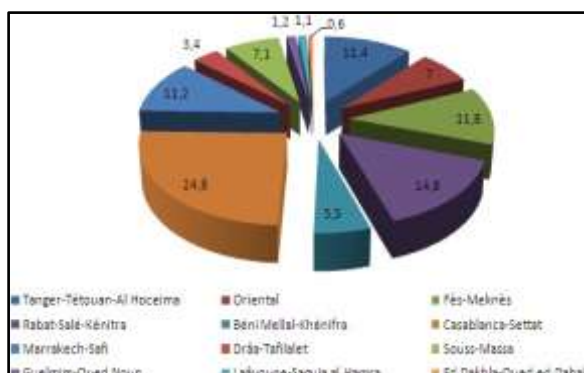


Fig. 10: Regional breakdown of Household Final Consumption Expenditure (HFCE) in 2014
Source: The HCP reports

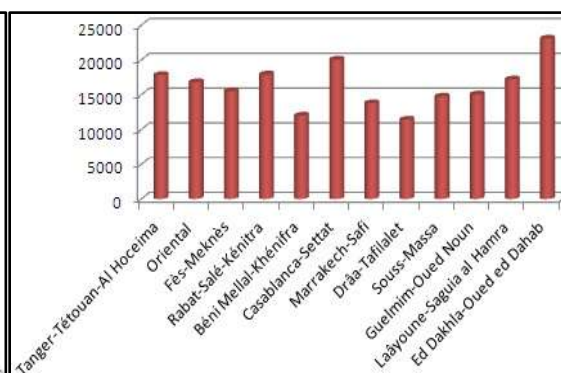


Fig. 11: Household Final Consumption Expenditure per capita (HFCE/capita) in 2014 (Mdh)

The evolution of demography has impacted the cost of public services. Thus, aging contributes to the increase of the costs of these services especially in healthcare sector. Projections of demography in Morocco in the coming decades provide a form in the age pyramid which would tend towards a growth in the class of the advanced ages [18]. This sends back to planning social welfare considering the rise of social public services costs.

Also, the cost of public services is also affected by the urbanization mode. In Morocco, a high degree of population concentration is observed in certain territories. Nearly half of the population lives in predominantly urban regions. Some public services generate higher costs when the population is scattered in a territory, while a concentrated population benefits from scale economies. The public services cost less while the territorial policy is more effective.

IV. Conclusion

4.1 Rethinking equalization in a logic of efficiency

Of the recommended fiscal equalization, cause ineffectiveness the adopted measures. The question is how to seek equitable distribution of financial resources between territorial authorities according to performance criteria.

4.1.1 Wouldn't the solidarity funds multiplication go against the efficiency of the equalization system?

The advisory commission for the "advanced regionalization" had looked during the years 2010 and 2011 over the project of an enlarged regionalization. The establishment of a "social upgrade fund" proposed by the commission is a way of expressing the difficulty, in the current context, to adopt a horizontal equalization system. In logic of progress, the aforementioned commission has suggested that the priority is to heighten the level of territories development through the provision of short-term profitability services and infrastructures. On the other hand, the commission had proposed other sources of funding for territorial solidarity through establishment of another fund said "interregional solidarity fund".

While in Morocco, we continue to set up funds intended to finance territorial solidarity, other countries such as France, tend to follow the opposite path by aggregating the funds under different levels of territorial authorities in a national fund. The multitude of funds in fiscal equalization system makes it more complex. Effective equalization system exceeds the creation of funds to seek financial arrangements ensuring its viability. The question is to think about the mechanisms that ensure the sustainability of the supply of these funds and the guarantee of resources assigned to local authorities.

4.1.2 Modalities of attributions: towards broader criteria

A revision of terms of attributions adopted in the current equalization system, would aim at a calculation system based on criteria that are related to both resources and expenses. A level of mandatory expenses should be recognized for all local authorities, while taking into account the resources criteria. The choice of the criteria related to charges should go to the sense to avoid at first the complexity of the calculations

and secondly to preserve the equalization effect. In this sense, the transversal criteria are an element to be considered especially for the common expenses assumed by local authorities. To approach the desired efficiency, the equalization calculation would consider the geographical constraints and socio-demographic parameters.

Allocations for expenses relating to the intervention of local authorities in the territories (highways, roads... etc) are expected to be calculated on the basis of targeted criteria such as population density. Such criteria are more interesting when they have an incentive nature as long as they allow the elimination of the inefficient local actions. A local authority would expand its intervention while measuring the interest of the impact of its actions on the population. Tax potential is the most important criterion to be taken into account in resource equalization. The equalization criteria should give much consideration to the exogenous constraints (geography, topography, localities isolation ... etc). In most countries, the equalization system introduces criteria and rather complex procedures which hinder the evaluation of the equalization policy. The result is often open to criticism which causes periodic reforms. Thus, simplifying equalization is required.

4.1.3 Strengths points to consolidate in the current equalization system

The equalization system advocated in Morocco is characterized by an advantageous simplicity despite some critics. Although the footprint of the State appears clearly in the guidelines of the equalization policy, local expectations have gradually taken in the conception of the sharing tax revenue system. The simplicity and restriction in the criteria should considerably reduce the points that may cause discords while at the same time avoiding in a large extent errors that may occur. The fiscal equalization efficiency is based on simplicity and soundness two fundamental elements, among others, in assessing any performance. The allocations attributed to local authorities within the framework of transfers realized by central government are limited. In France, the allocations intended for the equalization are grouped with non equalization subsidies. The equalization system is penalized by the scattering of allocations assigned to local authorities.

4.2 Perspectives of the equalization system evolution

Although the conception of the equalization system remains far from the creation of unitary States, the experiments that can be pulled from States that are way ahead in territorial democracy is still hardly transposable. The improvement of the equalization system necessarily depends on the ability of governments to integrate it within the local finance reforms. The tendency is still towards a vertical equalization while keeping budget balances and without impacting negatively public finances.

4.2.1 Difficulties to transpose foreign experiments

The equalization system differs from a country to another. Some States opt rather for a vertical equalization. This is the case of Spain, Great Britain, Switzerland, where the State provides grants as subsidies whose puncture is done by national funds according to the resources of local authorities but also according to the supported charges. The same type of equalization is found outside the old continent, it's the case of Canada and Japan. Other countries advocate a horizontal equalization system as the main form of subsidy, allocated to municipalities. In the Scandinavian countries, it is the State which is involved in the horizontal equalization, except Finland, where the municipalities are responsible for redistribution. Finally, the hybrid system which combines both equalization systems is found in France and Germany. The latter has set up an equalization system which equalizes the financial capacity of Länder. Most of the federal States practise at first equalization between the federated States, which next distribute financial resources throughout local authorities within their territories. We find an almost similar scenario in the unitary States if we disregard equalization among sub-national authorities. In the case of Morocco, the law forbids the supervision between municipalities. The only supervision existing is the one practiced by the government through the Ministry of Interior. In some countries which have a long advance in the process of regionalization like Spain, Italy and Belgium, the significant disparities between regions may cause large distortions. The interregional financial transfer is widely questioned because some regions having financial means dispute more and more their financial participations in the solidarity with other regions.

Equalization models usually take architectures corresponding to certain matters specific to the historical evolution of the State organization. We imagine an imported model of equalization would hardly be adapted to the Moroccan context, without inspiring experiments of other countries. It would be wise to think about objectives for equalization which should be differentiated according to the territorial level. This allows the establishment of a coherent equalization as a whole.

4.2.2 Towards an adapted system of equalization

The reforms introduced in the equalization are often characterized by superficiality and slowness. The first problem that shows up is deciding which equalization to recommend. Being a vertical equalization where

the State intervenes through its allocations to local authorities by redistributing wealth or a horizontal equalization where the State proceeds by taking resources from the rich local authorities to redistribute them later to the poor local authorities through solidarity funds. The equalization system is not limited only to these two equalization instruments as there is the equalization between the local communities grouping. The first concerns appear whenever one attempts to identify the equalization to be adopted; however, the difficulty remains in the apprehension of the modalities to practise it. The criteria to be recommended should consider not only the local authorities wealth inequalities but also charges supported. With circumstances which don't allow having most public funds burden equalization, it would be desirable to take action in the short and medium term, the existing equalization instruments. This would prevent the proliferation of allocations that would facilitate their management. Political will should move to reform the equalization system aiming at coherence, transparency and evaluation of subsidies intended to support local public action. Some foreign experiments don't seem to constitute a model for Morocco in their territorial solidarity approach. They aren't spared from advanced criticism towards their equalization systems. This is particularly striking in States where still increasing territorial disparities exist (Spain, Italy ...etc). Especially, several federal States practise a two-dimensional equalization system, which on one side keep the State intervention and the other one a subordination between local authorities themselves. It is appropriate, in the case of Morocco, to favor a vertical equalization within the framework of the "advanced regionalization" project, without sparing the possibility of using later to a horizontal equalization between territorial levels scales below the regional level. It is clear that the scenarios for the equalization system are much more complex than they appear. Equalization is to be elaborated bearing a double dilemma in mind: freedom-equality and equity-efficiency. If this frame is the subject of many reflections in literature, it has the merit to open horizons to an integrated vision of the reform of local finances in order to establish a well balanced-regionalization.

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