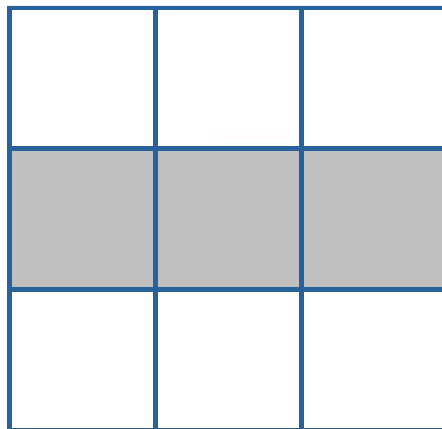


The

Local Public Sector *Initiative*

Local Public Sector Country Profile Handbook

MEASURING THE LOCAL PUBLIC SECTOR: A CONCEPTUAL AND METHODOLOGICAL FRAMEWORK



**The Urban Institute
December 2012**

**MEASURING THE LOCAL PUBLIC SECTOR:
A CONCEPTUAL AND METHODOLOGICAL FRAMEWORK**

Local Public Sector Country Profile Handbook
Jamie Boex

The Urban Institute
December 2012

Copyright © 2012. The Urban Institute.

2100 M Street NW
Washington DC, 22037
Telephone: (202) 833-7200
Email: idginfo@urban.org
Internet: www.urban.org

The material in this publication is copyrighted. Except for short quotes, copying and/or transmitting portions or all of this work may be a violation of applicable law. The Urban Institute encourages dissemination of its work. The information contained in this publication may be used, with appropriate acknowledgment, for research, academic, policy or other non-commercial purposes.

ACKNOWLEDGEMENTS

This handbook is the product of the efforts, contributions and insights shared by countless colleagues, many of whom have dedicated their professional careers to the topic of decentralization, local governance and public sector reform. I am thankful for the financial support of the US Agency for International Development (USAID)—which provided financial support for the development of this Handbook—and for the efforts and contributions of Edwin Connerley, David Dod, Michael Keshishian, Sarah Lane and Kail Padgitt. I would like to express my gratitude to the many people who provided encouragement, shared insights, offered comments, and assisted in the background research, editing, and proofreading of the manuscript, including Serdar Yilmaz, Charles Cadwell, Roy Kelly, Paul Smoke, François Vaillancourt and Edgardo Bilksy. I am further thankful for the insights and contributions from Faigy Abdelhak, Roy Bahl, HansJoerg Bloechliger, Jihyun Chung, Nicola Crosta, Tyler Dickovick, Jingqiang Du, Claudia Dziobek, Robert Ebel, Jonas Frank, Claire Frost, Leif Jensen, Brittany Lane, Jochen Mattern, Blanca Moreno-Dodson, Fernando Rojas, Frans Ronsholt, Gohar Sargsyan, Tara Sharafudeen, Aladeen Shawa, Valerie Stevens, Andrey Timofeev, Victor Vergara, Lorena Viñuela, Roland White and numerous others. Any errors and omissions in the manuscript remain those of the author.



PREFACE

This handbook deals with the Local Public Sector. The Local Public Sector is the part of the public sector that is closest to the people; it is the part of the public sector that interacts on a regular and localized basis with residents, civil society, and the private sector; and it is where most public services are delivered. In short, the Local Public Sector is the part of the public sector where people interact face-to-face with the public sector and where people are empowered as directly as possible over public decision-making. In other words, the Local Public Sector is where inclusive development takes place.

Despite the immense importance of the topic, and in spite of decades of academic and policy research on decentralization and local governance, considerable knowledge gaps exist with regard to the role of the local public sector in attaining effective public service delivery and achieving sustainable development outcomes. The *Local Public Sector Initiative* seeks to fill that knowledge gap by promoting the systematic collection and analysis of information and data on the local public sector in countries around the world.



TABLE OF CONTENTS

SECTION 1: INTRODUCTION	1
1.1 BACKGROUND	1
1.2 THE LOCAL PUBLIC SECTOR INITIATIVE (LPSI)	2
1.3 WHAT IS A LOCAL PUBLIC SECTOR COUNTRY PROFILE?	2
1.4 WHO CAN PREPARE LOCAL PUBLIC SECTOR COUNTRY PROFILES?	3
1.5 WHO IS THE TARGET AUDIENCE FOR LOCAL PUBLIC SECTOR COUNTRY PROFILES?	4
1.6 BUILDING ON PREVIOUS EFFORTS TO ANALYZE AND MEASURE THE LOCAL PUBLIC SECTOR.....	5
1.7 STRUCTURE OF THE LPS COUNTRY PROFILE HANDBOOK	6
SECTION 2: PUBLIC SECTOR STRUCTURE AND THE SCOPE OF THE LOCAL PUBLIC SECTOR	8
2.1 A BRIEF INTRODUCTION TO THE LOCAL PUBLIC SECTOR	8
2.2 THE LOCAL PUBLIC SECTOR AND DECENTRALIZATION: DEVOLUTION, DECONCENTRATION, DELEGATION AND DIRECT (CENTRALIZED) DELIVERY	9
2.3 A FUNCTIONAL DEFINITION OF THE LOCAL PUBLIC SECTOR.....	15
2.4 THREE POSSIBLE SCOPES OF THE LOCAL PUBLIC SECTOR	17
2.5 THE IMPORTANCE OF LOCAL PUBLIC SECTOR INSTITUTIONS AND GOVERNANCE	20
2.6 THE CENTRALITY OF THE LOCAL PUBLIC SECTOR	21
SECTION 3: MEASURING LOCAL PUBLIC SECTOR FINANCES	23
3.1 LOCAL PUBLIC SECTOR EXPENDITURES AS AN INPUT INTO DEVELOPMENT OUTCOMES	23
3.2 LOCAL PUBLIC SECTOR EXPENDITURES AS AN INDICATOR OF PUBLIC SECTOR DEVELOPMENT	25
3.3 LOCAL PUBLIC SECTOR FINANCES: WHAT FINANCES FALL WITHIN THE LOCAL PUBLIC SECTOR?	27
3.4 MEASURING LOCAL PUBLIC SECTOR FINANCES	29
SECTION 4: AN ANALYTICAL FRAMEWORK FOR ASSESSING DECENTRALIZED LOCAL GOVERNANCE	36
4.1 THE OUTLINES OF A FRAMEWORK FOR ASSESSING LOCAL PUBLIC SECTOR INSTITUTIONS.....	36
4.2 IDENTIFYING THE POLICY OBJECTIVES OF DECENTRALIZATION	37
4.3 TECHNICAL DIMENSIONS OF THE LOCAL PUBLIC SECTOR.....	38
4.4 INSTITUTIONAL ENTRY POINTS IN DECENTRALIZATION: CENTRAL, LOCAL AND CIVIL SOCIETY	41
4.5 COMBINING THE PIECES: ARRIVING AT AN OVERALL ASSESSMENT FRAMEWORK FOR LOCAL PUBLIC SECTOR INSTITUTIONS	41
4.6 MOVING FROM ASSESSMENT FRAMEWORK TO COUNTRY PROFILE.....	43



SECTION 5: GENERAL GUIDANCE ON THE PREPARATION OF THE LPS COUNTRY PROFILE	46
5.1 WHO SHOULD PREPARE AN LPS COUNTRY PROFILE?	46
5.2 HOW SHOULD AN LPS COUNTRY PROFILE BE PREPARED?	46
5.3 GENERAL GUIDANCE ON THE COMPLETION OF AN LPS COUNTRY PROFILE.....	47
5.4 GUIDANCE ON THE COMPLETION AND SUBMISSION OF THE LPS COUNTRY PROFILE	49
5.5 EXTRACTING AN LPS COUNTRY PROFILE FOR MULTI-COUNTRY ANALYSIS.....	49
SECTION 6: GUIDANCE ON THE PREPARATION OF THE LPS COUNTRY PROFILE: GENERAL COUNTRY INFORMATION.....	50
C1. BASIC COUNTRY INFORMATION.....	51
C2. CENTRAL PUBLIC SECTOR INFORMATION	52
C3. FRAMEWORK GUIDING THE LOCAL PUBLIC SECTOR AND INTERGOVERNMENTAL RELATIONS.....	53
SECTION 7: GUIDANCE ON THE PREPARATION OF THE LPS COUNTRY PROFILE: ORGANIZATIONAL STRUCTURE OF THE PUBLIC SECTOR	56
S1 – S6. TERRITORIAL-ADMINISTRATIVE LEVELS OF THE PUBLIC SECTOR	58
SECTION 8: GUIDANCE ON THE PREPARATION OF THE LPS COUNTRY PROFILE: GOVERNANCE STRUCTURE OF THE PUBLIC SECTOR	61
SECTION 9: GUIDANCE ON THE PREPARATION OF THE FUNCTIONAL PROFILE OF THE PUBLIC SECTOR	67
F1 – F 27. RESPONSIBILITY FOR FUNCTIONS AND PUBLIC SERVICE DELIVERY	69
A1. LOCAL AUTHORITY TO REGULATE AND PLAN PHYSICAL SPACE.....	73
SECTION 10: GUIDANCE ON THE PREPARATION OF THE LPS FISCAL PROFILE: PUBLIC EXPENDITURES.....	74
10.1 THE LPS FISCAL PROFILE: GENERAL BACKGROUND.....	74
10.2 THE LPS EXPENDITURE PROFILE	76
10.3 THE CLASSIFICATION OF GOVERNMENT EXPENDITURES.....	77
10.4 FURTHER GUIDANCE ON COMPLETING THE EXPENDITURE PROFILE FOR DIFFERENT TYPES OF LOCAL PUBLIC SECTOR EXPENDITURES	79
10.5 COMPLETENESS OF THE EXPENDITURE PROFILE (AND REVENUE PROFILE).....	82



SECTION 11: GUIDANCE ON THE PREPARATION OF THE LPS FISCAL PROFILE: PUBLIC REVENUES.....	83
11.1 LOCAL (OWN SOURCE) REVENUES	83
11.2 INTERGOVERNMENTAL FISCAL TRANSFERS	85
11.3 FISCAL BALANCE	87
SECTION 12. GUIDANCE ON THE PREPARATION OF THE LPS INSTITUTIONAL PROFILE: POLITICAL ASPECTS	89
P1. SUBNATIONAL POLITICAL POWER STRUCTURES.....	90
P2. STRUCTURE AND QUALITY OF SUBNATIONAL ELECTORAL SYSTEMS.....	91
P3. NATURE OF POLITICAL PARTY SYSTEMS.....	93
P4. SUBNATIONAL POLITICAL PARTICIPATION AND ACCOUNTABILITY.....	94
SECTION 13. GUIDANCE ON THE PREPARATION OF THE LPS INSTITUTIONAL PROFILE: ADMINISTRATIVE ASPECTS	96
A1. LOCAL AUTHORITY TO REGULATE AND PLAN PHYSICAL SPACE.....	97
A2. LOCAL PUBLIC FINANCE MANAGEMENT AND PROCUREMENT	97
A3. LOCAL HUMAN RESOURCE MANAGEMENT AND ADMINISTRATION.....	99
A4. ADMINISTRATIVE CONTROL OVER LOCAL PUBLIC SERVICE DELIVERY.....	100
SECTION 14. GUIDANCE ON THE PREPARATION OF THE LPS INSTITUTIONAL PROFILE: FISCAL ASPECTS.....	102
F1. THE RESPONSIBILITY FOR FINANCING OF FUNCTIONS AND EXPENDITURE RESPONSIBILITIES.....	102
F2. NATURE OF REVENUE ASSIGNMENT AND SUBNATIONAL REVENUE ADMINISTRATION	103
F3. NATURE OF THE INTERGOVERNMENTAL FISCAL TRANSFERS.....	105
F4. SUBNATIONAL BORROWING AND DEBT.....	106
REFERENCES	109



SECTION 1: INTRODUCTION

1.1 BACKGROUND

While most public service delivery is local in nature, the arrangements that governments use to provide people with key public services vary dramatically from country to country. A common feature in many developing countries, however, is that the share of public financial resources flows down to the local level—where these resources can be used for front-line public service delivery—is often inadequate. Instead, funds often remain stuck at the central government level, where resources frequently fund bloated and inefficient bureaucracies. In addition, local officials are often constrained in the degree of discretion that they have over the resources available at the local level. These systemic problems limit the ability of many developing countries to effectively deliver critical, pro-poor public services such as basic education, health services, and other public services that are essential to economic development and poverty reduction.

Relatively little is known about the degree to which public finances remain stuck at the central level, particularly in developing countries. Likewise, little is known about the degree to which subnational officials are actually given discretion over the financial resources that trickle down to the local level, or whether accountability mechanisms are in place to hold officials at the regional and local level accountable. In line with this gap in our knowledge about the functioning of the public sector, the Local Public Sector Initiative (LPSI) seeks to promote international development and strengthens public sector governance worldwide by advancing the understanding of the local public sector.

A comprehensive analysis of the local public sector should take into account that there are different approaches by which governments interact with—and deliver services to—the people. Many countries around the world rely on elected regional or local governments to interact with the communities and residents at the grassroots level and to provide certain public services, in a process known as devolution. Indeed, much of the existing analysis of the local public sector and local public sector finances has focused on the expenditures and revenues of devolved state and local governments.¹ However, roughly half of the countries around the world deliver public services predominantly or exclusively through mechanisms other than devolution. Many of the countries rely on local “deconcentrated” administrative bodies, which are not elected and are a hierarchical part of the state administration. In other cases, central government may delegate the delivery of public services to para-statal organizations or NGOs, or may even deliver certain public services directly through central government agencies.

As a starting point, in order to stay methodological neutral, the Local Public Sector Initiative does not assume that any single type of subnational or intergovernmental institutional arrangement is inherently more efficient or superior than others. Instead, the Initiative seeks to empirically explore under which

¹ Unless otherwise indicated, the term “local” is generally used throughout this document to indicate sub-central activities, at any level or tier below the central government. In other words, the Local Public Sector is understood to cover activities or services that are delivered by regional governments (e.g., states or provinces) as well as local governments (districts, municipalities, town governments, and so on).



conditions different institutional approaches (such as devolution or deconcentration) might be appropriate and efficient mechanisms for the delivery of government services within the public sector.

In order to enhance our collective understanding of the local public sector and in order to compare local public sector institutions and finances across different countries, LPSI has developed a standardized framework for analyzing and comparing the structure and functioning of the Local Public Sector in different countries. This handbook presents a conceptual and methodological framework for measuring the local public sector by preparing Local Public Sector Country Profiles.

1.2 THE LOCAL PUBLIC SECTOR INITIATIVE (LPSI)

The Local Public Sector Initiative (LPSI) is a multi-year collaborative effort anchored at the Urban Institute's Center on International Development and Governance. The mission of the initiative is to promote the empowerment of people over the public sector in developing countries in order to strengthen public service delivery and to achieve inclusive development.

The LPSI is supported by a broad informal partnership of multi-lateral and bilateral development agencies, research institutions, non-governmental development organizations, civil society organizations and national and subnational government organizations, united with the common purpose of promoting international development and public sector governance by improving the understanding of the local public sector and by strengthening of the local public sector through decentralization and/or other appropriate public sector governance reforms.

The LPSI Secretariat at the Urban Institute primarily functions as the steward of the methodological framework to analyze the local public sector. It promotes the adoption of LPSI's methodological framework by other stakeholders; coordinates the preparation of Country Profiles; provides quality control; and makes Country Profiles publicly available with the intent to have a comparison set of LPS Country Profiles in each global region.

As discussed further below, LPSI's methodology is open for interested researchers and policy practitioners to use in the analysis and study of the local public sector. Permission to use the LPSI methodology is granted based on the expectation that the resulting Country Profile is shared with the LPSI Secretariat, which will make the profiles publicly available online at www.localpublicsector.org. Please contact the Head of the Local Public Sector Initiative if you would like to apply the Local Public Sector's Country Profile methodology, or if you have any questions or concerns with regard to the Local Public Sector Initiative. The Head of the LPS Initiative is Dr. Jamie Boex. He can be reached by email at jboex@urban.org.

1.3 WHAT IS A LOCAL PUBLIC SECTOR COUNTRY PROFILE?

The Local Public Sector Country Profile methodology was developed with the intention to give policy makers, public policy experts, development practitioners as well as the research community a better understanding of the structure of the (local) public sector and provide comparative information on how local public sector entities are governed, administered and financed around the world. In doing so, the LPS Country Profile seeks to capture not only the role of subnational elected governments, but also of subnational deconcentrated bodies, and other mechanisms used to provide "local" public services.



The Local Public Sector Country Profile thus intends to capture the most important features of the local public sector in the country, including the country's territorial-administrative structure; the functions assigned to subnational governments and subnational administrative tiers; the financing of subnational levels and tiers; and the political, administrative and fiscal institutions that are in place at the subnational level.

Each Local Public Sector Country Profile has the same, following structure, which is further elaborated in this conceptual and methodological handbook. The Country Profile can be subdivided into four segments or sub-profiles:

- The Organizational / Governance Structure of the Public Sector
 - General country information (worksheet: 0 General)
 - Organizational structure of public sector (worksheet: 1 Organization)
 - Governance structure of local public sector (worksheet: 2 Governance)
- Functions and responsibilities of the Local Public Sector
 - Assignment of functions and public service delivery responsibilities (worksheet: 3 Functions)
- The Fiscal Profile of the Public Sector
 - Expenditures (worksheet: 4 Exp)
 - Revenues (worksheet: 5 Rev)
- The Institutional Profile of the Local Public Sector:
 - Political aspects of the Local Public Sector (worksheet: 6 Political)
 - Administrative aspects of the Local Public Sector (worksheet: 7 Admin)
 - Fiscal aspects of the Local Public Sector (8 Fiscal)

A final worksheet (worksheet: 9 Info) captures the details of the profile completion process itself.

The Local Public Sector Country Profile is not intended to be exhaustive in capturing all aspects of the Local Public Sector, and should not be considered a substitute for an in-depth country case study of the Local Public Sector. In contrast, the Country Profile is intended to give a “big picture” view of the local public sector at a certain point in time in a comparative manner. This point notwithstanding, the methodological framework can also be used to prepare a more extensive analysis of a country's intergovernmental (subnational) architecture and systems.

In order to gain comparative insights, individual Local Public Sector Country Profiles will be merged into a single Local Public Sector Database. To the extent that the local public sector is a cross-cutting aspect of economic development, public sector governance, public financial management, and other governance dynamics, it would be useful to merge information extracted from the Local Public Sector Database with other cross-country panel data sets on governance, sectoral outcomes, fragility and conflict, corruption, private sector development, and so on.

1.4 WHO CAN PREPARE LOCAL PUBLIC SECTOR COUNTRY PROFILES?

The analytical framework developed by the LPSI is an open methodological tool. Research institutions, universities, development agencies, international financial institutions, policy experts, civil society



organizations, local government organizations and other organizations are encouraged to apply LPSI's methodological framework and prepare Local Public Sector Country Profiles for one or more countries of interest.

1.5 WHO IS THE TARGET AUDIENCE FOR LOCAL PUBLIC SECTOR COUNTRY PROFILES?

The deeper understanding of the local public sector that results from preparing a Local Public Sector Country Profiles can benefit different audiences, and may be different depending on the reason for one's interest in the local public sector. Generally speaking, the LPS Country Profile should be relevant to three specific audiences.

The academic research community on public finance and local governance

The research on local governance and public finance in developing countries is limited quite considerably by the weakness of existing measures of decentralization and local public finance. Few consistent databases are available to quantify the state of decentralization in the developing world. For instance, the IMF's Government Finance Statistics are often unavailable or incomplete for developing countries, especially at the subnational level. As such, the LPS Country Profiles (especially when combined into a single database) provide a wealth of comparative data to answer basic yet fundamental questions about the sub-central public sector. What percentage of countries in a region is predominantly deconcentrated versus devolved? What is the average share of public resources being spent within the local public sector? What are the institutional characteristics of the sub-central public sector? Many of these questions are hard to answer given the incomplete nature of available data sources. The Local Public Sector Database will make it considerably easier to answer some of these fundamental questions about local public finance and local governance.

The global development community

The global development community is interested in improving development by improving the effectiveness of the public sector (as well as the private sector) in developing economies. Among others, public sector effectiveness includes making sure that the public sector plans for the delivery of public goods and services in a responsive and pro-poor manner and that it produces these goods in an effective, efficient and accountable manner. Since –according to the subsidiarity principle- most important public sector functions (including basic education, basic health services, as well as typical local services such as solid waste management) should be delivered at the territorial-administrative level that is relatively close to the people, the local public sector plays a critical role in improving public service delivery, governance, and economic development.

Making sure that public sector outcomes are achieved in the most efficient way possible requires a detailed understanding of the “production function” of the public sector: what is the most efficient way to combine public sector inputs at different levels of the public sector (such as wages, operation and maintenance expenditures and infrastructure spending) into public sector outcomes, such as improved educational outcomes, health outcomes, and increased agricultural production. Thus, the achievement of long-term development objectives (including a sustainable and efficient public sector) can only be achieved by understanding the structure and nature of the local public sector. In addition, to the extent that donor agencies themselves wish to work through the public sector in the short run to achieve intermediate development objectives and to support public service delivery (in health, education, and



so on) on an intermittent level, the development community will benefit from a better understanding of how the public sector functions as well.

Policy makers and civil society organizations

The final group of constituents for Local Public Sector Country Profiles includes policy makers and their counterparts in civil society in developing countries themselves, particularly in countries that are undergoing a transition with respect to the structure or nature of their public sector. Under current circumstances, it is hard to judge for policy makers whether the amount of resources that a country is spending for public service delivery for different functions is adequate, and whether these resources are reaching the grass-roots level. The LPS Country Profile seeks to answer these questions by providing the “big picture” of the institutional structure and financial resource flows within the public sector. As such, the process of preparing and analyzing the Country Profile –and comparing the profile with neighboring countries- can be a catalytic input into policy reforms and can allow a broader dialogue between the public sector and civil society as part of a broader process of research-based policy reform.

1.6 BUILDING ON PREVIOUS EFFORTS TO ANALYZE AND MEASURE THE LOCAL PUBLIC SECTOR

The Local Public Sector Initiative was not launched in a vacuum. It seeks to build on existing information resources about the local public sector whenever possible, and builds extensively on previous efforts to learn more about the different aspects of the local public sector.

As such, the efforts of many stand at the intellectual foundation of LPSI, and many have contributed directly or indirectly to the development of the LPSI methodology. Much of the inspiration for the LPS Initiative comes from the previous World Bank Institute’s Fiscal Decentralization Initiative (FDI). Similarly, much was learned from IMF’s efforts to collect government finance statistics at different government levels, as well as from the OECD’s efforts to analyze and study sub-central public finances. Approaches used to prepare country profiles for local governments developed by United Cities and Local Governments (UCLG), the Commonwealth Local Government Forum (CLGF) and the Forum of Federations were considered in the development of the current methodology. Similarly, USAID’s Handbook on Decentralized Democratic Local Governance (2009) provides useful insights, as does the methodology used by USAID to prepare a comparative assessment of decentralization in Africa (2010).

The LPSI further builds on many recent efforts within the World Bank to better understand the local public sector. Chief among them are the World Bank Decentralization Indicators prepared at various stages by the Poverty Reduction and Economic Management (PREM) Network within the World Bank, as well as several regional initiatives (*Decentralization in Africa: A Stocktaking Survey* and *East Asia Decentralizes*). In addition, much of the LPSI methodology is built on a series of analytical reports and studies on local government discretion and accountability led by Serdar Yilmaz. These reports include *Local Government Discretion and Accountability: A Diagnostic Framework for Local Governance* (Yilmaz, Beris, and Serrano-Berthet, 2008); *Local Government Discretion and Accountability: Application of a Local Governance Framework* (World Bank, 2009), numerous sector studies and country case studies based on the diagnostic framework; as well as a series of Social Development Department “How-to Notes” prepared by Serdar Yilmaz, Ghazia Aslam and Asli Gurkan.

Finally, the LPSI is built on the thinking that has been encapsulated in a number of Urban Institute working papers, including *Fiscal Decentralization and Intergovernmental Finance Reform as an*



International Development Strategy (IDG Working Paper 2009-06); *Localizing the MDGs: Unlocking the Potential of the Local Public Sector to Engage in Development and Poverty Reduction* (IDG Working Paper 2010-04); *An Analytical Framework for Assessing Decentralized Local Governance and the Local Public Sector* (IDG Working Paper 2010-06); and *Exploring the Measurement and Effectiveness of the Local Public Sector* (IDG Working Paper 2011-05).

1.7 STRUCTURE OF THE LPS COUNTRY PROFILE HANDBOOK

This Handbook is structured into two parts and fourteen sections. Part I of this handbook (Sections 2-4) discusses the main ideas, concepts and definition underlying the Local Public Sector. Section 2 considers the Local Public Sector within the context of the organizational/governance structure of the public sector. Section 3 provides a background discussion on local public sector finances (expenditures and revenues), while Section 4 presents the main dimensions for an institutional assessment of the local public sector (covering political, administrative and fiscal institutions).

Part II of this handbook (Sections 5-14) provides guidance on the completion of the LPS Country Profile. General guidance on the use of the LPS Country Profile template and further general guidance on the preparation of the LPS Country Profile is provided in Section 5. Specific guidance on the preparation of the General Country Background is provided in Section 6. Instructions on the preparation of the Organizational / Governance Profile and the Functional Profile are provided in Section 7, 8 and 9 of this Handbook. Next, Section 10 and 11 presents guidance on the preparation of expenditure and revenue components of the LPS Fiscal Profile, respectively. Finally, Section 12, 13 and 14 provide guidance on the preparation of the political, administrative and fiscal worksheets that together comprise the LPS Institutional Profile.



PART I

UNDERSTANDING

THE LOCAL PUBLIC SECTOR



SECTION 2: PUBLIC SECTOR STRUCTURE AND THE SCOPE OF THE LOCAL PUBLIC SECTOR

Successful interaction between the public sector and “the people” (citizens or residents, civil society organizations and the private sector) is a major ingredient in development. Many of these interactions take place in a localized manner, as the delivery of key public services often requires direct interaction between the providers and the recipients of these services (teachers and students, doctors and patients, firefighters and residents, and so on). Development is hampered when the public sector is ineffective or inefficient in delivering key public services –such as education, health care services, or road infrastructure- to the people. Similarly, development and good governance are hampered when the public sector is unresponsive to the needs of the people, or when communities lack the interface with the public sector to express their needs and preferences or hold public officials accountable.

2.1 A BRIEF INTRODUCTION TO THE LOCAL PUBLIC SECTOR

Definition of the local public sector

As a working definition, the local public sector could be conceived of or defined as that part of the public sector that regularly interacts with residents, civil society, and the private sector within a localized setting; it is where residents and businesses receive services from the public sector and where residents interact with government officials. As such, the distinguishing feature of being part of the “local public sector” is not the legal or organizational status of a public entity that interacts with the community, but rather, whether the primary objective of the public entity or institutional unit is to interact with the public within a local setting, in terms of providing public services, regulation, public information, and so on.

The role of the local public sector in many countries in terms of public service delivery is wide-ranging. In most countries, local public sector bodies are responsible for community affairs and localized public services, such as solid waste management, street lighting, road maintenance and local water supply. Similarly, in most countries, key social sector services are delivered through local entities, including basic education and public health services. In addition, certain responsibilities for food security, economic development and environmental protection are assigned to bodies that are part of the local public sector. Finally, based on the working definition above (which defines the local public sector as the space where interaction takes place between the public sector and citizens in a localized setting), certain law and order functions (particularly police and fire protection) are public services that are typically part of the local public sector.²

The ambition of the LPSI is to better measure and to better understand the local public sector and its role in achieving economic and social development. In doing so, we must recognize from the outset that the public sector is wider than just local governments (or the State and Local Government Sub-Sectors, according to the terminology used by the IMF). The Local Public Sector could also include local

² A more complete and specific list of which public services should be considered part of the local public sector is contained in Section 2.3 and Section 2.5 below.



administration entities (for instance, in countries with a deconcentrated administrative structures) and possibly even, delegated or direct interactions and expenditures between central government organizations and the people.

To the extent that there has been a focus on decentralized governance and local public sector finance in the development community, the attention has largely focused on one particular modality of decentralization – notably, devolution. Indeed, the only consistent and comparative cross-country source of local public sector finance data is the IMF’s Government Finance Statistics Yearbook.³ In addition to reporting on central government finances, the IMF GFS Yearbook collects and reports on financial data for local governments.⁴ Unfortunately, the coverage of local government finances by the IMF GFS Yearbook is quite weak across developing countries. Furthermore, even in the countries for which IMF GFS data are available, the data only cover a subset of public spending at the local government level. As a result, there is a need for a more systematic effort to collect information about the size and nature of the local public sector institutions and finances in countries around the world.

2.2 THE LOCAL PUBLIC SECTOR AND DECENTRALIZATION: DEVOLUTION, DECONCENTRATION, DELEGATION AND DIRECT (CENTRALIZED) DELIVERY

Territorial-administrative structure

The territorial-administrative structure of countries varies greatly between countries and over time in terms of the number of levels, the number of jurisdictions at each level, and the functions and responsibilities assigned to each level. It is an ongoing challenge to accurately capture the territorial-administrative structures of countries in a comparative manner (GADM 2011; Law 2011). Within most classification schemes, however, provision is made for three general territorial levels of government or administration: (i) the central or national government; (ii) intermediate (state, provincial, or regional-level) jurisdictions; and (iii) local-level jurisdictions.

States, provinces, or regions can be defined as “the major administrative divisions of countries” (Law 2011) or “the largest geographical area into which the country as a whole may be divided for political or administrative purposes” (IMF 2001, 14). From country to country, these intermediate jurisdictions may be described by other terms, such as governorate, cantons, republics, prefectures, or administrative regions. In some countries, this intermediate level has its own public service delivery functions, while in others they largely serve to oversee the adequate functioning of local jurisdictions within their jurisdiction. Likewise, in some countries the intermediate is led by elected local governments, while in others, the intermediate level serves as the highest hierarchical deconcentrated level in the country.

³ It is important to note that it is not the primary objective of the IMF’s Government Finance Statistics to provide information on local public sector finances. The IMF’s primary mission is to ensure global macro-economic stability. As such, to the extent that we seek to rely on the IMF GFS database for a better understanding of local public sector finances, the data source should not be blamed for any shortcomings in serving this purpose.

⁴ By definition and in practice, the IMF defines the Local Government Sub-Sector as essentially containing only devolved local governments. However, the IMF seems to be inconsistent in adhering to its own definition. For instance, in some countries of the Former Soviet Union, the IMF counts local administrative bodies (that lack corporate status or budget autonomy) as being part of the Local Government Sub-Sector. At the other extreme, the IMF defines the Local Government Sector in the Netherlands to include not only municipal entities, but also (non-municipal) Charter Schools and various non-profit institutions (which are funded and controlled by government).

At the local level, a local government or local administrative jurisdiction can be defined as the institutional body for a specific local area—such as a town, county, or district—that constitutes a subdivision of a major political unit, such as a central government or regional government. The International Monetary Fund (IMF 2001) somewhat awkwardly defines local government units as “being restricted to the smallest geographic areas distinguished for administrative and political purposes.” The local government level can encompass a wide variety of different general-purpose or special-purpose local governmental units, such as counties, district administrations, municipalities, cities, towns, townships, village authorities, boroughs, school districts, water or sanitation districts, and so on. It is possible to have multiple types and even multiple levels of local governments or local administration in a country.

Decentralization and the local public sector

Although it is clear that decentralization denotes the process of “bringing the public sector closer to the people”, there is actually no single universally accepted definition of decentralization.⁵ However, if the local public sector is defined as that part of the public sector that is “close to the people” or regularly interacts with the people, then decentralization can be defined as the empowerment of the people through the empowerment of the local public sector.

The organizational nature or status of local public sector entities

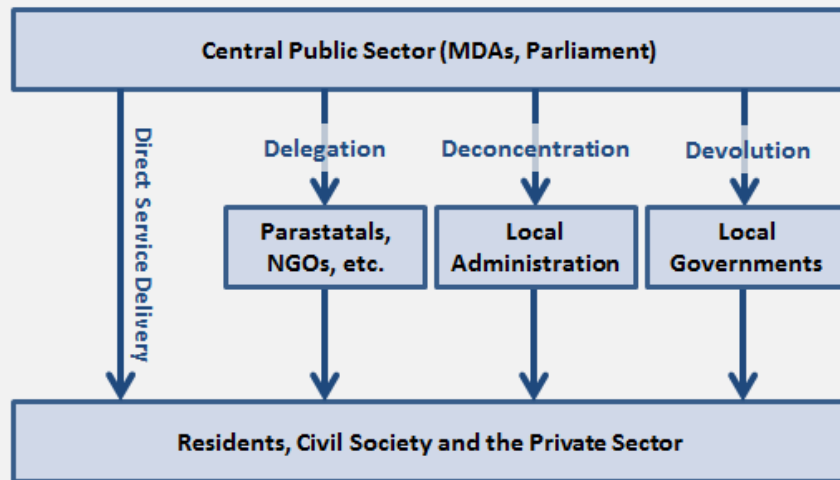
Perhaps one of the most intuitive ways to look at the local public sector is to consider the institutional ways the central public sector interacts with its residents and delivers public services (Figure 2.1). Together, the four institutional arrangements represented in the figure—in one way or another—comprise the building blocks of the local public sector. Each of the four mechanisms through which the central public sector interacts with the people is defined by the legal nature or organizational status of the local body that forms the interface between the center and the grassroots. This conceptualization is (largely) consistent with the traditional understanding in the decentralization literature that decentralization can be achieved through **delegation**, **deconcentration**, or **devolution**.⁶ However, in contrast with the previous literature, the terminology used here defines “devolution”, “deconcentration” and “delegation” (as well as the concept of “direct or centralized local interaction”) exclusively by the legal nature or organizational status of the local body that forms the interface between the center and the grassroots.

⁵ Perhaps the most frequently used definition of decentralization defines the concept as “the transfer of authority, responsibility for public functions and public resources from the central government to subordinate or quasi-independent organizations or the private sector” (see Litvack and Seddon, 1999). While this is the most common definition, this traditional definition is also increasingly considered to be out-of-date. For instance, most experts today would not consider the transfer of authority, responsibility for public functions to the private sector (i.e., privatization) as part of the process of decentralization. Similarly, the term decentralization is sometimes defined more narrowly as the transfer of powers and responsibilities from the central government to quasi-autonomous local governments. For instance, UCLG (2008: 310) argues that decentralization is “characterized by the existence of locally elected authorities, distinct from the state’s administrative authorities, and exercising, in the framework of the law, their own powers and responsibilities for which they have a degree of self-government. As understood in this way, decentralization in its modern meaning is inseparable from the idea of local self-government and the democratic principle.” This application of the definition appears to be especially common in the non-English applications of the decentralization terminology. As further discussed in the text below, this approach to decentralization is more commonly referred to as “devolution” in the Anglophone decentralization literature. More recent definitions of the concept of decentralization focus on the notion of empowerment. For instance, Professor Roy Bahl (2008) defines decentralization as “the empowerment of people by the empowerment of their local governments”. These definitions have found increasing acceptance within the decentralization community.

⁶ This classification is closely associated with the work of Professor Dennis Rondinelli.



Figure 2.1. Interaction between the Central Public Sector and Residents, Civil Society and the Private Sector



Devolution

Devolution (or “decentralization by devolution”) can be defined as “the transfer of authority for decision-making, finance, and management to quasi-autonomous units of local government with corporate status” (Litvack and Seddon 1999).⁷ The defining institutional feature of devolution, therefore, is that the local or regional entity that provides the interface between the central public sector and the people is a quasi-autonomous local government unit with corporate status. In a devolved public sector, local governments have clear and legally recognized geographical boundaries over which they exercise authority and within which they perform public functions. Although there is not a single consensus definition for what comprises a devolved local government, devolved local governments are typically understood to (i) be corporate bodies; (ii) that perform public functions within their territorial jurisdictions; (iii) have their own (often elected) political leadership; and (iv) prepare and approve their own budgets.⁸

While in some countries a broad range of public functions and services are assigned to the local government level (including basic education, health services, and so on), in other countries local governments are responsible for a narrower set of services (e.g., “typical” municipal services, such as solid waste management and the operation of local markets). A devolved governance structure enables residents to interact not only with local service providers and local administrators, but also with the

⁷ Devolution is sometimes referred to in the decentralization literature as “political decentralization”. This nomenclature is confusing, however, as the downward transfer of political powers and discretion is sometimes extremely limited, even when local government entities are accorded corporate status.

⁸ In classifying the public sector, the IMF relies on a combination of administrative and fiscal features to define local government entities. In the IMF’s view, local (and state) governments must be institutional units “entitled to own assets, raise funds, and incur liabilities by borrowing on their own account. They must also have some discretion over how such funds are spent, and they should be able to appoint their own officers independently of external administrative control” (IMF 2001, 14).

elected local officials who are responsible for supervising the delivery of government services at the local level.

Some experts argue that the only “true” way to empower people of the local public sector is through elected local government structures. As a result, the term devolution is sometimes used as being synonymous with decentralization. However, for clarity, this document will use each term as defined here, with “decentralization” connoting a more general process of empowerment and downward transfer of authority, and resources, whereas the term devolution specifically refers to a process of decentralization that involves elected local governments.

Table 2.1
A comparison of features of devolved local government entities versus deconcentrated entities

	Devolution	Deconcentration
Local entity	Local government	Local administration
Legal characteristics	Corporate body (can own assets, engage in financial transactions, sue and be sued in its own name)	Part of national / state administration
Political characteristics	Own political leadership (typically, elected local council and/or local executive); adopts its own budget	No political decision-making power (advisory council, if any)
Admin. characteristics	Local government appoints own officials and has discretion over own human resources	Local staff are hierarchical part of national civil service
Fiscal characteristics	<ul style="list-style-type: none"> • Has its own budget (separate from higher-level government) • Has own budget accounts; can carry forward balance from year to year • Can raise funds and retains own revenues in own budget • Can incur liabilities by borrowing on its own account 	<ul style="list-style-type: none"> • Budget of jurisdiction is part of national budget as (sub-)organization • Budget is approved by higher-level government (e.g., Parliament) • Finances are part of Consolidated Treasury Account • Any revenues belong to central government

Deconcentration

In countries that do not have elected local government levels, the local public sector is typically formed by “deconcentrated” subnational line departments or subnational territorial units of the national government, which form a hierarchical, administrative tier of the higher-level government. Consistent with our organizational classification of local public sector entities, deconcentration takes place when a deconcentrated administrative body provides the interface between the central public sector and the people.⁹ In countries without devolved local governments (or in countries where local governments only play a minor role), deconcentrated subnational administrative units are generally assigned the

⁹ Confusingly, deconcentration is sometimes referred to in the decentralization literature as “administrative decentralization”. This nomenclature is confusing, as administrative decentralization (the downward transfer of administrative powers and discretion) can be pursued in a number of territorial-organizational public sector structures, including under a devolved public sector structure where corporatized local bodies form the interface between the center and the people.



responsibility for delivering key government services—such as education, health services, and so on—within their respective geographic jurisdictions. As such, in a deconcentrated system, the provincial education department or the district education office might be a sub-organization of the national Ministry of Education, rather than reporting to any elected local council. A comparison of the features of devolved local government entities versus deconcentrated entities is contained in Table 2.1.

Because deconcentrated departments or jurisdictions are merely a hierarchical part of the next-higher government level, unlike local governments, deconcentrated units are not corporate bodies. This means that deconcentrated local bodies do not have their own political leadership and cannot own their own assets or engage in financial transactions in their own name.¹⁰ Nor do deconcentrated jurisdictions have their own budgets; instead their budgets are typically contained as sub-organizations within the budget of the higher government level. When deconcentrated local entities are recognized in the national budget structure as separate budgetary units (or sub-units), we speak of budgetary deconcentration. When deconcentrated local entities are organizationally deconcentrated but they are *not* recognized in the national Chart of Accounts as separate budgetary units (or sub-units), we can refer to this situation as non-budgetary deconcentration or as organizational deconcentration.

In deconcentrated administrative systems, “local” officials are an integral part of the national public service, and local executives (such as regional or district governors, as well as local department heads) are generally appointed by the central government. Even in countries that do have elected local governments, the central government often delivers certain public services in a deconcentrated manner. For instance, in many countries police services are often delivered in a deconcentrated (or even in a centralized) manner.

Deconcentration is often considered a relatively weak form of decentralization. Within this broad category of interaction between the public sector and the community, however, opportunities for subnational discretion vary considerably: Deconcentration can merely shift implementation responsibilities from central government officials in the capital city to those working in regions, provinces, or districts, or it can create strong local administrative capacity where a degree of operational and budgetary discretion is yielded to deconcentrated line departments under the supervision of central government ministries (Litvack and Seddon 1999).

Box 2.1: Vertical deconcentration versus horizontal deconcentration

It may be helpful to recognize that a deconcentrated public sector structure can fall into one of two different types of deconcentration: vertical (or sectoral) deconcentration versus horizontal (or territorial) deconcentration. The hallmark of a vertically (or sectorally) deconcentrated structure is that line ministry budgets are organizationally broken out across different government levels or tiers, so that subnational (e.g., provincial or district) line departments service as separate sub-organizations and cost centers within their line ministry budgets. Thus, under a vertical or sectoral approach to deconcentration, each line ministry operates ‘vertically’ in a deconcentrated manner, with limited or no harmonization of planning and budgeting at the provincial or

¹⁰ Political leadership is considered to exist if there is degree of authority and autonomy vested in local leaders over deciding the affairs of the local jurisdiction. When a local jurisdiction or entity has its own political leadership, it is often (but not always) the case that part or all of the local political leadership is elected. It should be noted that the presence of an (elected) advisory council which does not hold executive or legislative authority at the local level should not be considered to be part of local political leadership.

district level. From an institutional and budgetary view point, this means that every line ministry follows a ‘silo-structure’ or a ‘stove pipe’ from the central level down to the province level (and possibly to district level). Vertical deconcentration allows line ministries a strong role in planning and implementing sectoral services.

Under a horizontally (or territorially) deconcentrated budget structure, subnational line departments are not included in the budget under their parent ministries. Instead, subnational revenues and expenditures are included in the central budget aggregated into territorial units, which are then broken down into subnational departments. As a result, under horizontal (or territorial) deconcentration, sectoral departments at each administrative level are administratively subordinate to the Provincial Governor or to the District Governor, respectively. As such, under horizontal deconcentration, the ‘subnational budget’ reflects the aggregation of spending decisions made by the center to be executed within the subnational jurisdiction. However, since the subnational spending is no longer contained with the budget votes of individual line ministries, subnational officials may have marginally greater discretion over subnational expenditure priorities.

Delegation (to parastatals and Non-Governmental Organizations)

A third organizational mechanism for the central public sector to interact with the people in a localized manner is through third parties, such as parastatal organizations, non-governmental organizations (NGOs) or even through outsourcing certain functions to the private sector. As such, delegation is defined to take place when a public sector function is performed by an institutional entity that falls outside the regular public sector hierarchy (such as a parastatal organization) or outside the public sector altogether (including non-governmental organizations (NGOs) and/or private sector entities).¹¹

In some instances, central line ministries or central agencies may deliver government services and interact with the public through parastatal organizations that are part of the central government, but that are not operationally controlled by the central ministry (and that are not necessarily fully on-budget central government entities). For instance, although national hospitals and public universities generally are (fully or partially) funded by—and report to—their respective central government line ministries, these institutions typically have a degree of legal, administrative, and financial autonomy as parastatal entities.¹² By establishing these entities as parastatal entities, these organizations tend to gain discretion in managerial and budgetary decision-making, as the construct may allow them to be exempt from constraints on regular civil service personnel and enable them to charge users directly for services.

Alternatively, central government agencies sometimes deliver government services by delegating the responsibility for providing the services to non-governmental organizations (NGOs) or other entities outside the public sector, which are contracted to act as agents of the public sector. Religious-based

¹¹ Note that according to the definition of “delegation” adhered to here, delegation in principle does not include functions that are “delegated” to elected local government entities. In the institutional classifications considered here, the transfer of functions to elected local government entities—even if local government authorities have extremely limited or no discretion over the delivery of certain local public services—is captured under the concept of devolution. In many countries, local governments in practice only have limited discretion over a sizeable share of the functions and resources assigned to them, whether as a result of central government regulation or as a result of earmarking of the intergovernmental transfer system.

¹² Similarly, in some countries “local” public water utility companies are agents of the central Ministry of Water rather than of the local jurisdictions which they serve, while local housing corporations may report to the central ministry with responsibility for housing. To the extent that local governments themselves use public corporations, public enterprises, and NGOs for the purpose of delivering services, these locally delegated expenditures are part of the local public sector as well.

organizations that are contracted to provide health care services or non-public schools that receive public sector funding could also be counted as being part of local public sector expenditures. Since in these cases NGOs act as agents of the public sector, such delegated expenditures should be considered to be part of local public sector expenditures as long as the agents of the public sector interact on a regular basis with the community.

Direct interactions between central government institutions and citizens

Finally, central governments sometimes (albeit not very often) interact directly with their residents and/or deliver government services directly to the general public. It is not uncommon for border control, the issuance of passports and national identity papers, the issuance of certain (business) licenses, and the collection of national taxes and revenues to be conducted directly by central government line ministries or agencies. Most of the interactions between central officials and people are neither regular in nature, nor do interactions with central officials typically take place in a localized manner. As such, the majority of central government activities and spending should be considered to fall outside the local public sector.

In many countries, however, the provision of law and order (or police services) is a central government function, which is often fully funded through the central government budget and managed in a centralized manner. Based on the definition of the public sector provided above, we could consider police services as being part of the local public sector, as typical police services involve regular interactions between public servants and residents in a localized setting in order to maintain public order.

In addition, it is not unusual for central line ministries to incur capital infrastructure expenditures and other expenditures (such as spending on schoolbooks and drugs and medical supplies) that are used for frontline service delivery by the local public sector. In these cases, the actions and expenditures of central government officials have an immediate and localized impact on public service delivery. A broad definition of local public sector spending could count such expenditures as a centralized expenditure toward local public sector service delivery.

2.3 A FUNCTIONAL DEFINITION OF THE LOCAL PUBLIC SECTOR

The Local Public Sector is not simply an aggregation of public services provided in a certain place or territorial jurisdiction. Nor is the local public sector defined by the set of functions and services that is delivered by a certain type of local entity. Instead, the local public sector is defined by the nature of the interaction between the public sector on one hand and citizens or residents (broadly defined, including civil society and the local private sector) on the other hand. According to the working definition set forth above, these interactions must be regular and localized. As such, in order to judge whether certain activities or public expenditures fall within the local public sector, we consider whether the benefits from such activities or spending accrue to the people in a direct and localized manner (for instance, the purchase of school books by the public sector, or the construction of school buildings and so on).

Although it is impossible to draw an absolute and comprehensive list of activities that fall within the local public sector, Table 2.2 below presents a list of public sector functions that involve direct, regular and localized interaction between the public sector and citizens. As such, this list provides a functional definition of the activities should be considered to fall within the local public sector:



Table 2.2**Functions, activities and public services that fall within the local public sector**

Functional Area (IMF classification)	Government functions, and services that involve regular interaction in a localized manner
General public services (701)	Local administration (activities of local executive and legislative organs); civil registration
Defense (702)	None
Public order and safety (703)	Police services and fire protection
Economic affairs (704 excl. 7042)	The construction and operation of local markets; construction and maintenance of local roads and infrastructure; traffic management and urban transportation; and local economic development activities.
Agriculture, forestry, fishing & hunting (7042)	Agricultural extension services (including the provision of fertilizers and seeds), construction and operation of irrigation systems, and livestock services.
Environmental protection (705)	Solid waste management, waste water management (sewer and drainage systems), and protection of local biodiversity and landscape.
Housing and community amenities (706 excl. 7063)	Housing development; community development activities and street lighting.
Water supply (7063)	Construction, operation, maintenance and support to drinking water supply systems and schemes.
Health (707)	Public health service provided by local health posts, dispensaries, health centers, and local hospitals. This includes both out-patient as well as in-patient services, preventative and curative services, as well as the provision of pharmaceuticals (drugs) and medical supplies. Because health service delivery systems are often vertically highly integrated, it is prudent to count all front-line health services (including those provided by regional and national hospitals) towards the local public sector, rather than creating an arbitrary cut-off in hierarchical health service delivery systems.
Recreation, culture, and religion (708)	Local involvement in –and support to - recreation, culture and sporting services, including the operation or support of libraries, museums, art galleries, theaters, exhibition halls, monuments, historic sites, zoological and botanical gardens, and so on.
Pre-primary, primary and secondary education (7091, 7092)	Construction, operation, maintenance and support to pre-primary, primary and secondary schools and education. Includes scholarship and public-sector support to non-governmental educational institutions. This category may include the provision of subsidiary services to education, such as operation or support of transportation, school-provided meals, and related subsidiary services for students (70960).
Education (709 excl. 7091, 7092)	Because it is difficult to standardize whether educational services are “regular and localized” at different levels and type of education, it is prudent to count the front-line provision of all schooling and education (including vocational education and tertiary (university) education as part of the local public sector.
Social Protection (710)	Certain types of social protection activities fall within the local public sector: these include local activities of social action funds, food for works programs, and other similar social protection programs or livelihood activities that take place at the community level. These should be considered part of the local public sector. Cash transfer programs should be considered part of the local public sector only if there is a strong local or participatory element to the program.

It should be noted that there is no single authoritative list of functional responsibilities with which the local public sector can be defined, or that this functional definition of the local public sector can suitably applied in all countries under all circumstances. After all, different countries assign functional responsibilities in different ways. However, by providing a standardized comprehensive list of public sector functions and activities that should be considered to be part of the local public sector, the listing contained in table 2.2 allows a more even-handed analysis and comparison between local public sector activities in different countries.

2.4 THREE POSSIBLE SCOPES OF THE LOCAL PUBLIC SECTOR

The interest of the Local Public Sector Initiative in the local level of the public sector is not exclusively limited to measuring the functions or financial transactions of local government entities that are legally or budgetarily autonomous from the central government. Instead, we are interested in understanding how the public sector plans, finances, and provides public goods and services to its constituents. In other words, we are interested in the “production function” of the public sector, where the public sector includes not only government institutions at the national level, but also local administrative units and/or local governments.

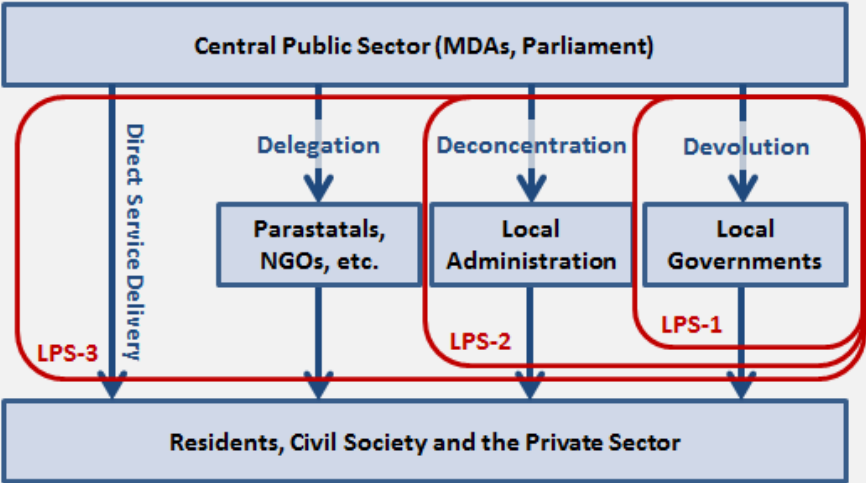
As a result, in addition to measuring the finances and funding flows to local governments (as currently captured by the IMF Government Financial Statistics), we are equally interested in knowing about the resources that flow to regional and local administrative jurisdictions that are not considered to be autonomous local government entities, but that nonetheless provide direct public services to local communities and the private sector. In order to move the state of knowledge forward on the role of the local public sector, our challenge is to arrive at a metric for local public sector finances that allows us to measure regional and local-level public finances in a standardized and comparable manner around the world, even though the institutional structure, responsibilities, powers, and characteristics of public sectors vary considerably between countries.

The exact scope of the local public sector, however, depends on our specific interest. In some cases, it may be appropriate to define the local public sector more narrowly, while in other instances it may be appropriate to capture the local public sector in a more comprehensive manner.¹³ If the local public sector is defined as that part of the public sector that regularly interacts with residents, civil society, and the private sector—where residents and businesses receive services from the public sector, then for measurement purposes, we could define the local public sector more broadly. However, if we conceive of the local public sector as that segment of the public sector where residents interact with either subnational administrators or elected local government officials who are responsible for delivering services in their subnational jurisdiction, then the scope of the local public sector would be less expansive.

¹³ For instance, if we are interested in subnational financial management, it may be appropriate to define the local public sector more narrowly as local public sector entities that have their own financial management processes (LPS-1, below). In contrast, if we are interest in the production function of the public sector, than all financial flows between the central public sector and civil society are relevant (LPS-3, below).

A set of three different measures used to define the scope of the local public sector should accommodate these different interests and different interpretations of the concept. Thus, local public sector finances are defined by three progressively comprehensive definitions (figure 2.2):

Figure 2.2. Defining the Scope of the Local Public Sector: Three Metrics



- **LPS-1.** The narrowest definition of the local public sector (LPS-1) captures only the finances of devolved local governments. This formulation considers that in order for there to be a true interaction between the public sector and residents at the local level, there should be political and administrative as well as fiscal decision-making authority and discretion at the local level. This definition essentially consistent with the IMF’s current definition of the state and local government sector.
- **LPS-2.** A somewhat broader definition of the local public sector (LPS-2) captures the financial transactions of devolved local governments as well as the transactions of deconcentrated local administrative jurisdictions. This metric implies that a necessary condition for inclusion in the local public sector is the existence of a subnational administrative jurisdiction (whether devolved or deconcentrated) that interacts with residents, civil society, or the private sector.
- **LPS-3.** The broadest definition of the local public sector incorporates all interactions between the central public sector and residents, civil society, and the private sector, through devolution, deconcentration, and delegation, as well as public services and infrastructure provided directly by the central government. This definition recognizes that—in addition to devolution and deconcentration—delegation and direct service delivery is an attempt by the center to bring the public sector closer to the people.¹⁴ While this definition is the most inclusive, capturing the

¹⁴ The reason delegated and direct expenditures are grouped together in LPS-3 is that they are similar in two important aspects: first, the funds for both direct and delegated functions are contained in the central government budget, and second, the direction of accountability for direct and delegated spending is toward the central government.

functions and finances that flow from the central public sector to the people either directly or through delegated entities may also be hardest to do in practice.

Countries use different approaches to interact with their citizens at the same time

It should be noted that in order to provide a clear picture, Figure 2 presents a somewhat simplified picture of the local public sector. For convenience, the figure abstracts away from the fact that many countries have more than one level or tier of local governance. Different subnational government levels or tiers often each have different institutional or organizational features. The LPSI methodology generally adheres to the concept that all levels or tiers below the central government or the central administrative level should be considered to be part of the local public sector.¹⁵

Although in common parlance countries are often referred to as “deconcentrated” or “devolved,” in fact, the central government in any country often interacts with its citizens or residents in a number of different ways. For instance, a country that predominantly relies on elected regional and/or local governments for the delivery of key public services (i.e., a “devolved country”) may nonetheless deliver certain public services in a deconcentrated manner, just as a predominantly deconcentrated country may engage in a limited amount of devolved expenditures. For example, Tanzania -a “devolved” country- delivers regional health services (regional hospitals) in a deconcentrated manner. In contrast, Mozambique -a largely “deconcentrated” country- delivers urban public services through elected local governments (municipalities).

In fact, even within a single sector within a country, it is not unusual for different elements of a single public service to be delivered or managed through different mechanisms at the same. For instance, in some countries, employing primary school teachers and ensuring the operation and maintenance of schools is the responsibility of local governments, while procuring capital infrastructure (including school buildings) and textbooks might be the (de facto) responsibility of the Ministry of Education. In other countries, employing and supervising primary school teachers may be a function performed by the central government, while the construction, and/or the operation and maintenance of school buildings might be a local government responsibility (or the responsibility of the School Committee).

In addition, some countries rely on “hybrid” local public institutions which combine elements from different organizational structures. For instance, local bodies may combine features of devolved local governments (for instance, an elected local council) with features of deconcentration (e.g., the local body is a hierarchical element of the state administration).

Indeed, an initial review of public sector structures around the world would find it difficult to identify any country that is fully consistent with any single one of the pure “textbook” models for the public sector structure. As such, it is generally more appropriate to measure the relative share of centralized (direct) expenditures, delegated expenditures, deconcentrated expenditures, or devolved expenditures in a country by sector, and looking carefully at the institutions that guide the delivery of specific local services, rather than characterizing an entire country as adhering to one approach or another. In addition, we would want to capture the institutional arrangements that surround each of these funding flows.

¹⁵ This issue is dealt with in somewhat greater detail in Section 3.3.

Despite these complications, the concept of the Local Public Sector should take into account the activities of all sub-central territorial governance levels and administrative tiers. However, we should simply treat all local public sector mechanisms the same or simply aggregate all local public sector expenditures into a single total. Since “institutions matter”, different local public sector organizational mechanisms do not necessarily result in the same degree of responsiveness of the public sector, the same quality of public services, or the same economic or governance benefits. As such, any metric of the local public sector should provide a breakdown of the different types of local public sector mechanisms and expenditures (rather than simply aggregating them). In addition, a comprehensive local public sector profile should provide a detailed institutional profile that considers the political, administrative and fiscal institutional features of each of the different funding streams for each country for which the local public sector is assessed.

2.5 THE IMPORTANCE OF LOCAL PUBLIC SECTOR INSTITUTIONS AND GOVERNANCE

Although devolution, deconcentration, and delegation (and possibly even direct centralized service delivery) all play a role in the “production function” of public sector services, this does not necessarily mean that each of these intergovernmental mechanisms is expected to produce the same public service delivery outputs or outcomes. In line with decades of writing on the topic, a comprehensive profile of local public sector institutions and governance should decompose the public sector (and the decentralized public sector in particular) into its political, administrative, and fiscal dimensions. Each of these three main dimensions of decentralization should be balanced with the others in order for the benefits from decentralization to materialize (Eaton and Schroeder 2010). For instance, unless meaningful political authority is provided to a local government—in a manner that balances discretion and accountability—it is unlikely that decentralized finances will end up being used in an efficient and accountable manner in response to the needs of the local community. Therefore, in order to achieve a thorough understanding of local public sector finances, a detailed local public sector institutional profile is required that captures the detailed aspects of the public sector’s subnational political, administrative, and fiscal dimensions.

Building on work by Yilmaz, Beris, and Serrano-Berthet (2008), Boex and Yilmaz (2010) developed a detailed analytical framework for assessing decentralized local governance and the local public sector. This assessment framework breaks down each of the three main dimensions of decentralization into more detailed components.

For instance, political decentralization and empowerment are divided into four components: (1) institutional arrangements for separation of powers among executive, legislative, and judicial bodies at the local level; (2) election laws and the electoral systems; (3) the nature (existence and functioning) of party systems and political party laws; and (4) local participation and accountability mechanisms. Each of these technical dimensions requires the balancing of local authority and autonomy on the one hand versus local capacity and accountability on the other hand.

Next, it is recognized that local governments require powers in four broad areas of local public administration in order for local governments to play a meaningful role in local government administration. These areas are (1) to make, change, and enforce plans and regulations, including regulations regarding the use of local physical space and local economic development; (2) to administer and manage local government finances and manage local procurements; (3) to engage in local human

resource management and make local employment decisions; and (4) to flexibly administer and deliver local government services.

Finally, fiscal decentralization and the fiscal empowerment of local governments are traditionally divided into four elements or “pillars”: (1) the assignment of expenditure responsibilities; (2) revenue assignments and local revenue administration; (3) the design and provision of intergovernmental fiscal transfers; and (4) local government borrowing and debt. Each of these elements potentially provides the local government level with authority and fiscal discretion, but each pillar should also incorporate fiscal accountability mechanisms to ensure that local officials manage local government finances in a responsive and accountable manner.

Thus, in addition to the preparation of a quantitative local public sector budgetary profile, a deeper understanding of local public sector finances requires us to capture these more qualitative subnational governance and institutional details as part of a local public sector institutional profile.

2.6 THE CENTRALITY OF THE LOCAL PUBLIC SECTOR

A stronger understanding of the basic features of a country’s local public sector is an important pursuit in its own right. However, there is only a relatively narrow base of constituents that is interested in local governance for the sake of improving governance. In addition to this basic objective, achieving a better understanding of a country’s local public sector institutions and finances has major implications for a number of related fields of interest in the area of international development. Most importantly, perhaps, is the importance of good local governance for improved public service delivery in developing and transition countries around the world.

Figure 2.3: The Central Role of the Local Public Sector in Development



Since the LPS Country Profile provides a thorough understanding of the responsibilities and public service delivery functions of different government levels, the LPS Country Profile provides a platform or starting point for understanding the way in which key sectoral public services are delivered, including



primary education, basic health services, agricultural extension services, or HIV/AIDS programs. The bulk of service delivery within these sectors takes place within the local public sector.

In addition, the structure of the local public sector and the system of intergovernmental relations is an important point of departure for any discussion on urban development and management in a country, including the delivery of urban public services.

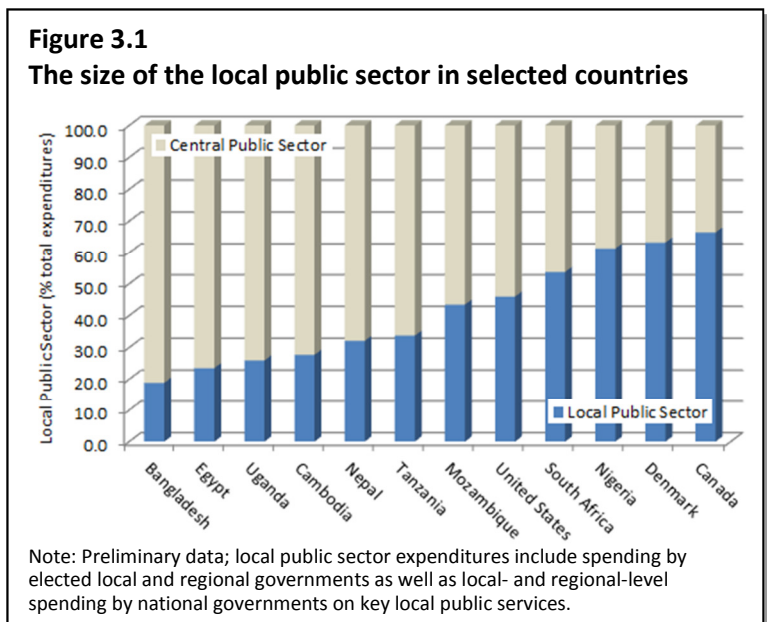
Similarly, while falling partially beyond the scope of the Local Public Sector, the Local Public Sector is central to the achievement of results-based public sector management, providing performance-based incentives within the public sector, and to a stronger understanding of public sector governance (including the political economy dynamics of the public sector). Finally, to the extent that local governments or other local bodies are developing-country institutions that have a major role in pro-poor public service delivery, it would be unwise not to carefully examine the potential role of the local public sector in aid effectiveness reforms, with local governments and other local public sector entities acting as potentially partners in achieving effective and sustainable aid programs.



SECTION 3: MEASURING LOCAL PUBLIC SECTOR FINANCES

Although there is a broad-based push for aid effectiveness and evidence-based development interventions in the international development community, the realm of decentralization and subnational governance is under-served in recent international data-gathering efforts.¹⁶ While there is a need to better understand the institutional and fiscal characteristics of local public sector entities, there is a dearth of relevant comparative data when it comes to measuring or quantifying the nature of decentralization or intergovernmental relations, especially in developing and transition economies. One area that is particularly underserved in terms of data available is local public sector finance (Abdelhak et al, 2012).

Perhaps the most obvious indication that the level of local public sector expenditures plays an important role in growth-enhancing service delivery and inclusive development is the fact that industrialized countries typically spend 50 percent or more of public sector resources to fund public services at the local level. In contrast, developing economies typically dedicate a much smaller share of public resources to front-line service delivery within the local public sector (see Figure 3.1). For instance, in countries like Bangladesh or Egypt, only about 20 percent of all public sector spending trickles down to the local level for service delivery, which is expected to fund service delivery across all key sectors, including education, health, agriculture, water supply, solid waste management, and so on. In these The bulk of public sector funding remains stuck at the central government level, where these resources often finance bloated bureaucracies or inefficient development projects.



3.1 LOCAL PUBLIC SECTOR EXPENDITURES AS AN INPUT INTO DEVELOPMENT OUTCOMES

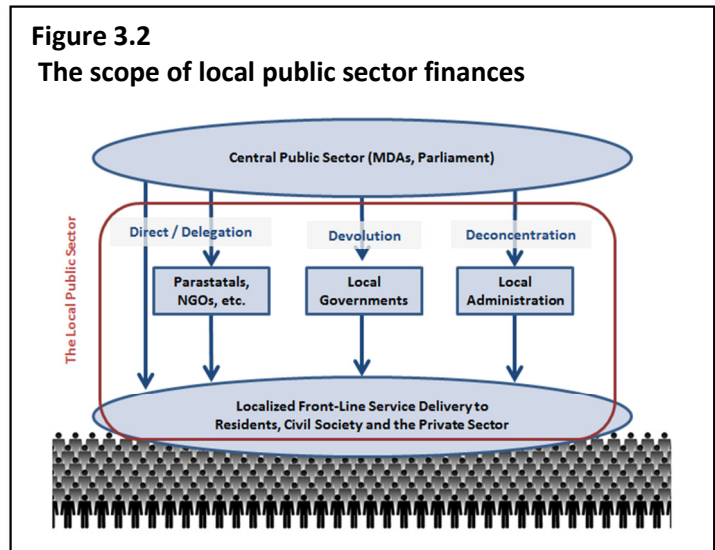
The process of transforming public sector inputs (e.g., financial resources) into public sector outputs or outcomes (such as progress on MDG indicators) is referred to by economists as the “production function” of public services. It is reasonable to expect, however, that a public sector dollar spent on a public service at the central level has a different impact on service delivery outcomes when compared to a dollar spent at the local level. For instance, assuming a reasonable level of good governance and accountability at the local level, one might expect that spending one more dollar on front-line service

¹⁶ This section relies heavily on: Jamie Boex and Serdar Yilmaz, *An Analytical Framework for Assessing Decentralized Local Governance and the Local Public Sector*, IDG Working Paper 2010-05, Urban Institute, December 2010.

delivery at the local level (in terms of getting one more teacher in the classroom, or purchasing one more school book) will have a bigger impact on public service outcomes than spending one more dollar on central ministry overhead.¹⁷

Consistent with the concept of the Local Public Sector discussed in Section 2, a comprehensive analysis of the “production function” of public services should take into account that there are different approaches by which governments interact with—and deliver services to—the people. Many countries around the world rely on devolved regional or local governments to interact with communities and residents at the grassroots level and to provide key public services. Indeed, almost all of the existing data collection efforts and much of the analysis of local public sector finances has focused exclusively on the expenditures and revenues of devolved state and local governments (e.g., IMF 2001).

However, as already noted earlier in this document, roughly half of the countries around the world deliver public services predominantly or exclusively through mechanisms other than devolution. Many of these countries rely on deconcentrated administrative bodies, which are not elected and are a hierarchical part of the state administration. In other cases, central government may delegate the delivery of public services to para-statal organizations or NGOs, or may even deliver certain public services directly through central government agencies.



In fact, in most countries, front-line services—even within a single sector—are often provided and funded through a combination of different mechanisms at the same time. For instance, teacher salaries and operation and maintenance expenditures may be the responsibility of local governments (and hence, devolved expenditures), while the construction of school buildings and the procurement of textbooks and other learning materials may be undertaken by the Ministry of Education and provided to the local level in-kind (direct central provision).¹⁸ In addition, basic education in some parts of the country may be provided by religious organizations or NGOs that receive government funding for the provision of public services (delegated provision). According to the definition of the Local Public Sector, the finances of all of these different institutional arrangements should be considered to part of the local public sector (Figure 3.2). To the extent these different funding flows can be systematically captured within and across countries, the more we can learn about the role and functioning of the local public sector.

¹⁷ In practice, the relative impact of central versus local public spending on public service outcomes will differ depending on the exact assignment of functional responsibilities as well as the type of spending as well. As discussed later in this section, trade-offs will have to be made not only between spending at different government levels, but also between greater spending on wages and salaries; operation and maintenance; sectoral supplies; and capital infrastructure spending.

¹⁸ This is merely an example. In other countries, for instance, the operation and management of primary schools may be the responsibility of local governments, while teacher salaries may be paid directly by the Ministry of Education.

Box 3.1 A detailed breakdown of local public sector expenditures by sector

The LPS Fiscal Profile (further discussed in Section 10) provides a relatively aggregate view of (local) public sector expenditures. While the Fiscal Profile takes into account 13 categories of public spending (by function), the profile considers all sectoral expenditures within each of these sectors in aggregate.

In order to achieve a more nuanced picture of the role of local public sector finances within each sector, it is important to consider the detailed role of local public sector entities in managing and financing different aspects of sectoral services. This would require breaking down sectoral expenditures by type of public expenditure. For instance, a table could be constructed for each sector (see example below) that would require sectoral expenditures at each level to be broken down by personnel expenditures (wages and salaries); operation and maintenance (O&M) or expenditures on goods and services; sectoral supplies; and capital infrastructure expenditures. Total expenditures should reflect the sum of the different spending categories.

		Personnel Exp.	O&M Exp.	Supplies Exp.	Capital Exp.	Total Exp.
C	Central (Non-Local) Expenditures					
D	Direct & Delegated Expenditures					
1	Provincial Expenditures					
2	District / Municipal Expenditures					
	Total Expenditures					
	Substantial Central Control over LPS Exp?					

While it is not necessary to prepare such a detailed breakdown of public sector expenditures by sector in order to prepare the LPS Fiscal Profile, such details would provide helpful insights into identifying bindings constraints that are being faced by local entities in the effective delivery of public services within each sector.

3.2 LOCAL PUBLIC SECTOR EXPENDITURES AS AN INDICATOR OF PUBLIC SECTOR DEVELOPMENT

It is not uncommon for an undeveloped public sector (for instance, consider a government in medieval Europe) to be described as a public sector that is not only resource-poor, but that is also largely extractive and even predatory in nature: people are forced to pay taxes to the public sector without getting very little -either in terms of public services or good governance- in return.¹⁹ Since the people in countries with such underdeveloped public sectors are typically not in a position to hold central authorities accountable for levels of taxation or the services delivered, public resource allocation decisions made by the center are typically highly centralized and inefficient from the viewpoint of the citizen. Indeed, since the legitimacy of the state is not supported by effective public services or the consent of the governed, a substantial share of the spoils from public taxation tend to be allocated by the governing regime to benefit the aristocracy or national elites with the primary purpose of keeping itself in power.²⁰

¹⁹ The main public service received is a degree of physical security and protection from external forces.

²⁰ Although this description of undeveloped public sectors in medieval Europe, the description is equally applicable to many failed, fragile and (post-) conflict states.



In contrast, highly developed public sectors (think about, for instance, countries in Scandinavia) are often described to have contrasting features: the public sector is facilitative and developmental in nature, as it seeks to provide citizens with greater benefits (in terms of good governance and public services) than the resources extracted from society through taxation. Public and social accountability mechanisms are in place to ensure that the public sector is participatory, effective, responsive and accountable. Public finances are thus spent in accordance to the needs and priorities of the people, and therefore, are predominantly used to fund front-line public services that have a direct, positive impact on peoples' lives. Since the legitimacy of the public sector rests on effective public services and good governance, only a relatively small share of public resources is needed to lubricate national political decision-making processes in order to maintain political stability at the center. Central bureaucrats are held accountable by central government policy makers for their performance. As such, central public servants are limited in their ability to engage in inefficient spending or to build bureaucratic 'empires', and therefore, a greater share of public resources is available to fund sub-central front-line public services.

Although these contrasting views of the public sector are somewhat exaggerated for illustrative purposes, one can easily see how the description of weakly developed public sectors results in a dominant central public sector with only few resources available for sub-central public services (in other words, countries on the left-hand side of Figure 3.1). In contrast, highly developed public sectors place great emphasis on local public sector spending, with a much smaller share of public resources retained at the central level for central (administrative and policy) functions, the central bureaucracy, or for central political economy purposes (in other words, countries on the right-hand side of Figure 3.1).

To the extent that most or all pro-poor public services are local in nature, and to the extent that inclusive development can essentially only be achieved at the local level, the more local public spending takes place in a country (all else equal), the more highly developed the public sector as a whole. In other words, we would argue that the relative size of local public sector expenditures is an important metric of public sector performance or indicator of public sector development.

This means that the starting point for developing any development assistance portfolio (whether cross-sectoral or within a single sector) should be preceded by an analysis of the vertical distribution of public resources.

Care should be taken to accurately interpret the statements above. Although the relative size of local public sector expenditures is most likely an important metric of public sector performance, this does not mean that the relationship between these two variables is necessarily (or exclusively) causal in nature. It is possible (or likely even) that greater front-line public spending (or greater public spending closer to the people) has a positive impact on public sector performance, as reflected by better public service delivery outcomes. At the same time, the causality may also run in the opposite direction. It is equally likely that greater local public sector spending is the result of more effective local institutions and local governance. It is equally possible that both the relative size of local public sector expenditures as well as public sector effectiveness are simultaneously influenced by other variables, such as increases in social capital, economic development and increases in public accountability in a country. These inter-relationships require further study.

3.3 LOCAL PUBLIC SECTOR FINANCES: WHAT FINANCES SHOULD BE CONSIDERED TO FALL WITHIN THE CONCEPT OF THE LOCAL PUBLIC SECTOR?

One question to be addressed at this stage is whether the measurement of local public sector finances should incorporate only public expenditures on local front-line service delivery, or whether local public sector finances should be considered more broadly as public sector expenditures that take place below the central level?

Front-line service delivery expenditures versus all sub-central finances

Conceptually, to the extent that we would like to narrowly focus on the direct and localized delivery of public services to the people, it could be argued that the total funding received by front-line service delivery units across the range of functions and activities that are included within the scope of the local public sector (covering front-line salaries, operation and maintenance expenditures, supplies, and capital infrastructure expenditures) provides the best measure of the public sector's responsiveness to the direct, localized service delivery needs of the people. There are two limitations to this narrower definition. First, this narrower definition of local public sector spending would most likely exclude (spending on) local offices and local officials who are directly accessible to the local community that are responsible for overseeing or supervising the delivery of local public services, while these officials are in fact a local input into the efficient and accountable production of local public services. A second (and more practical) concern is that expenditure data for the delivery of key front-line services (whether by sector or in aggregate) would be almost impossible to obtain. Since the availability of such data would be a binding constraint on availability in most countries, it would be practical to cast the net slightly wider and to consider all relevant expenditures below the central level as part of local public sector expenditures.

The alternative approach would be to consider all the expenditures and revenues of sub-central public sector organizations (e.g., local governments or local administrative units) as part of the measurement of local public sector finances. This organizational definition of local public sector finances is a reasonable approach to the measurement of local public sector finances, especially in countries with a single local government level (or local administration level).

On the positive side, this measurement approach closely follows the conceptual underpinnings of the local public sector, which is built on the different institutional mechanisms by which the central public sector interacts (directly or indirectly) with the people. This approach is also more closely aligned with the existing approach to measuring local finances (which largely focus on local government finance). In addition, it is likely that data is more readily available for a measure of local public sector finances that is based on institutional units. On the negative side, we should be aware that as a result of this more expansive way of defining local public sector expenditures, the concept now also includes local expenditures that do not necessarily go directly towards funding the delivery of front-line services. In particular, local administrative expenditures are now part and parcel of local public sector expenditures. However, depending on the size of local jurisdictions in a country and depending on the responsiveness of local institutions, it could be argued that these subnational administrative expenditures –in contrast to central expenditures on the bureaucracy at the national level- are closer to the people, and that having local administrators closer to the people improves the potential for responsiveness, accountability and good governance.

Should the finances of intermediate (regional) entities be considered to be part of the local public sector?

To what extent should regional (state or provincial) expenditures be considered part of local public sector expenditures, or should the expenditures of intermediate levels be considered part and parcel of the central public sector?

Although there are conceptual arguments that could be made both in support as well as against the inclusion of intermediate territorial (administrative or governance) levels within the local public sector, for practical reasons, the LPSI methodology systematically counts all sub-central public institutions as part of the local public sector.²¹

One could argue that intermediate levels should be classified as being part of the local public sector, or not, by applying the conceptual definition of the local public sector – do jurisdictions at this level interact in a direct and localized manner with the people? To the extent that intermediate governments or administrations in some countries are responsible for the delivery or front-line services, the answer would be yes, and therefore, these entities would be included within the local public sector. To the extent that intermediate governments or administrations are supervisory entities and do not have direct service delivery responsibilities, conceptually the answer should be no.

Classifying the regional level in its entirety as either ‘central’ or ‘local’ is complicated by the fact that, in most countries, the regional level plays an oversight role as well as a (partial) service delivery role. For instance, regional administrations in Tanzania are largely intermediate-type governments, but the regional level also provides regional health services. Likewise, states in Nigeria are largely intended to be an intermediate government level, but –in practice– play an important role in front-line service delivery. As a result, it is quite difficult to break down intermediate-level spending into spending that is central in nature versus public spending that is local in nature. Furthermore, in most countries, limitations on data availability make it impractical to try to break out regional expenditures into either ‘central’ or ‘local’ expenditures.²² This means that one has little choice but to systematically assign the expenditures and revenue of an intermediate governance (or administrative) level as a whole.

In the case of a three-tiered classification scheme (such as the IMF’s Government Finance Statistics), all intermediate-level expenditures can be assigned to the regional (state or provincial) level. In a two-tiered classification scheme such as the Local Public Sector methodology (that only has a ‘central’ public sector level and a ‘local’ public sector level), intermediate-level finances have to be assigned either to the central public sector or to the local public sector based on whether the intermediate level generally has direct service delivery responsibilities and interacts with the people in a direct and localized manner.

²¹ This sub-section presents a conceptual discussion whether the finances of intermediate (regional) entities be considered to be part of the local public sector. Section 7 of this handbook provides guidance on how intermediate government levels or intermediate administrative tiers should actually be incorporated in the Local Public Sector Country Profile.

²² Furthermore, if the regional level were to be considered to be part and parcel of the central public sector, it would be almost impossible to determine the degree to which regional budgets contain direct and/or delegated local public sector expenditures. Similarly, if the regional level were considered to be generally local in nature, it would be almost impossible to exclude regional expenditures should have been counted as “central” in nature (i.e., not producing a direct and localized benefit to the community that is served).

To the extent that –for international comparative purposes- a definitive judgment has to be made whether an intermediate level or tier is ‘local’ or not, it is recommended to treat any sub-central level or tier as local, unless the level or tier completely lacks any (de facto and de jure) discretion or autonomy in its political, administrative and fiscal processes and procedures.

The implication of this rule of thumb is that in federal and multi-tiered public sectors –when considering public sector finances in only two categories: central or local- the local public sector is likely to be over-estimated when all intermediate finances are deemed to be part of the local public sector.²³

3.4 MEASURING LOCAL PUBLIC SECTOR FINANCES²⁴

As discussed earlier in Section 2.4 of this handbook, there are three possible scopes of the Local Public Sector, from the narrowest scope (covering only devolved local government entities, LPS-1) to the broadest scope, covering not only devolved subnational entities, but also deconcentrated subnational organization as well as direct and delegated local public expenditures made by central public sector entities (LPS-3). To the extent that interactions between the central public sector and the community involve the outlay of expenditures or the collection of revenues (as in the case of the funding and delivery of public services), each of the funding flows presented in figures 2.2 has to be carefully defined in order to ensure that local public sector’s finances in different countries are measured and captured in a consistent and comparative manner.

Measuring Devolved Expenditures

The first funding stream that should be considered as part of local public sector finances is formed by devolved local government expenditures. The size and scope of the devolved local public sector expenditures (LPS-1) depends to a large extent on where the distinction is drawn between deconcentrated entities and devolved local governments. In contrast to some of the public financial management literature, much of the decentralization literature recognizes that, while greater levels of autonomy at the subnational level may be desirable or an ideal, in reality, local governments (unlike central governments) are not fully autonomous entities but rather semi-autonomous entities, subject to the legislative, regulatory, and administrative controls of the central government. Therefore, it seems prudent to define local governments as local entities that (i) are corporate bodies; (ii) engage in governance activities; (iii) have their own political leadership (typically an elected council and/or elected executive); and (iv) prepare and adopt their own budget. In this view, the remaining IMF “conditions” for being a local government then become desirable factors rather than necessary conditions of local government entities.

By this definition, the objective of devolved, elected local governments is to engage in governance activities, or in the words of Mancur Olsen (1969), to provide a mechanism for collective decision-making and public service delivery at the local level. Therefore, the preponderance of local government functions and services—whether exclusive local functions or concurrent responsibilities—involve direct interaction with civil society and the private sector. To the extent that “local public sector finances”

²³ It should be noted that in practice, therefore, the concept of the Local Public Sector captures the entire sub-central or subnational public sector, covering both the regional (or state) level as well as the local level.

²⁴ This section discusses the measurement of local public sector finances in a general and somewhat conceptual manner. A more detailed discussion of the classification and measurement of local public sector finances –in the context of completing the Fiscal Profile as part of the Local Public Sector Country Profile- is contained in Sections 10 and 11 of this handbook.

measure the financial transactions of that part of the public sector that regularly interacts with residents, civil society, and the private sector, the local public sector should then generally include expenditures made at the local government level, unless there is a specific reason to exclude specific local government expenditures from local public sector expenditures.

Measuring Deconcentrated Expenditures

Depending on the definition of the Local Public Sector that is being applied, the second category of local public sector finances is composed of deconcentrated expenditures and revenues. Since the distinguishing feature of being part of the local public sector is whether the primary objective of the operating entity is to interact with the public (generally by providing direct services to the public), the local public sector can be defined to encompass expenditures made at the local government and/or local administrative level, including the totality of frontline service delivery units and local administrative staff. This means that deconcentrated expenditures and revenues by definition are part of the local public sector. Then, what comprises a deconcentrated financial transaction?

In contrast to a devolved local government (as noted in table 2.1 above, and further discussed below), a deconcentrated administration department is an integral, hierarchical part of its higher-level government agency. By default, deconcentrated entities are not corporate bodies with their own budgets; instead, the budgets of deconcentrated entities are part of the budget of the higher-level government. In a system of vertical or sectoral deconcentration, deconcentrated departments should be formally recognized as a sub-organization of the central (or high-level) government entities within the organizational classifications that are part of the Chart of Accounts. In this case, the central ministry's budget should break out spending on central administration departments within the ministry and spending for the ministry's local administration departments (whether in aggregate or by jurisdiction).

In a system of horizontal or territorial deconcentration, deconcentrated subnational jurisdictions (for instance, deconcentrated provinces or districts) are formed by subnational budget organizations that contain deconcentrated expenditures for the relevant territorial-administration jurisdiction at hand. In this case, the deconcentrated jurisdiction should be reflected as a budget entity in the organization classifications that form part of the Chart of Accounts. In other words, under a system of territorial deconcentration, subnational expenditures are not contained within the ministerial budgets, but rather, deconcentrated line departments are contained within the budgets of their respective subnational jurisdictions, which are assigned their own (top-level) organization codes.

The key distinction, then, between central expenditures on direct and delegated public service delivery on the one hand, and deconcentrated expenditures on the other hand, is that deconcentrated expenditures are classified and identified by a sub-central (sub-)organization in the national budget, whereas this is not the case for purely central expenditures.

With the key social and economic sectors, it might be prudent to assume that the majority of deconcentrated expenditures are intended and used for the delivery of frontline public services, or for other interactions between the public sector on the one hand and civil society and the private sector on

the other hand.²⁵ As such, to the degree that deconcentrated expenditures are broken down by sector, such expenditures are assumed to be “local public sector expenditures” unless the opposite is evident from an evaluation of functional assignments and available budgetary documentation.²⁶

To the extent that a country may have more than one level or tier of deconcentrated administration, from a measurement viewpoint, deconcentrated expenditures should be attributed to the lowest level of deconcentration contained in the budget breakdown. For instance, as part of budgetary practices in the Soviet Union and other planned economies, the budgets of higher administrative levels would systematically contain the budgets of the lower administrative levels, in what was sometimes referred to as the “matrushka” model of deconcentrated budgeting. For these countries, to the degree that lower-level budgetary information is available, the lowest level of deconcentrated budget data should be used. This budgetary practice continues to be followed in certain countries of the former Soviet Union as well as other deconcentrated planned economies.

Measuring Central Government Expenditures on Direct and Delegated Public Service Delivery

Most central government expenditures are spent by central ministries, departments, and agencies in ways that do not—or only indirectly—provide benefits for residents. To the extent that line ministry spending takes place to cover the operational and administrative costs of the central ministry or department itself, these expenditures should be considered central public sector finances. Only in very limited cases can central government expenditures plausibly be considered part of the local public sector, notably when central government ministries or agencies incur expenditures to deliver public services directly to the public at large.

Expenditures for central government agencies, departments or budget programs should be considered part of the local public sector and counted as “direct and delegated public services” if and only if (a) the government service being delivered is localized in nature, and (b) the public service being provided results in a major interaction between the public sector and citizens (e.g., children attend a government school daily; families rely on a government health center on a regular basis as their primary source of health care; support by agricultural extension workers is felt throughout the crop cycle).

Disentangling national and local budgets to determine the size of the local public sector

Generally, analysis of the central government budget will provide information on central government spending and revenues, whereas regional and local budgets form the primary data source for local public sector finances. However, central government spending (or central public sector spending) should be reduced by (a) deconcentrated expenditures, (b) intergovernmental fiscal transfers to devolved local governments; and (c) direct/delegated expenditures, in order to arrive at true “central public spending”.

The table below provides a list of functions and expenditures that may be contained in national budgets that are potential local public sector expenditures, including both deconcentrated as well as

²⁵ Some countries have a “location” classification code as part of their Chart of Accounts. For instance, this is the case in Afghanistan. However, such a location code should not be deemed a valid substitute for a subnational organization code (or sub-organization code) in order to classify an entity or expenditure as “subnational.”

²⁶ Not all deconcentrated expenditures should be considered to be part of local public sector finances. For instance, deconcentrated expenditures on military schools (e.g., as in Mozambique) could reasonably be excluded from the local public sector finances.

direct/delegated expenditures. Deconcentrated expenditures should be identifiable in the national budget as expenditures for deconcentrated budget organizations or as sub-organizations. In some countries, this means that separate budget chapters or budget votes are included in the budget for deconcentrated territorial entities, while in other countries the budget votes for some or all ministries are further divided into central administration departments and deconcentrated local administration departments.²⁷ In almost all budget systems, intergovernmental fiscal transfers (grants) are identified as such by the budget classification code. Typically, the total amount of devolved regional and local government expenditures is not contained in the national budget. In some countries, an overview of local government finances is contained in an information annex to the national budget. In other countries, an overview of local government finances is produced by the Ministry responsible for Local Government.

Table 3.1
Local public sector expenditures potentially contained in the central government budget

Central line ministry functions and spending	Potential deconcentrated spending or direct and delegated services
General public services (701)	Deconcentrated: Central agencies may include deconcentrated administrative offices (e.g., Governor’s Office or District Administrative Secretary for each province). Often under Ministry of Local Government or PMO). Direct/ delegated: None likely.
Defense (702)	Deconcentrated or Direct/ delegated: None likely.
Public order and safety (703)	Deconcentrated or Direct/delegated: Police Services (7031) are directly provided by central government in many countries by the Ministry of Interior or National Policy Force. Regular police services should be considered part of the LPS. Included: police salaries, construction and maintenance of police stations, police cars, and operation and maintenance of police services. Excluded: ministry administrative expenditures; national police services; forensic institutes; immigration policy; border police; etc. Fire protection (7032) may be provided directly by national fire brigade or national fire fighting force. Included: relevant operational fire-fighting expenditures (salaries, equipment, and so on). Excluded: administrative expenditures of national fire-fighting agency.
Economic affairs (704 excl. 7042)	Deconcentrated: None likely Direct/delegated: Economic functions that are part of the LPS include the development and operation of local markets; local roads and infrastructure (local roads in urban areas, village roads and rural roads, but not inter-district or inter-state trunk roads); and urban transportation (bus systems, and so on). Investment by central government in these areas should be considered part of the local public sector.
Agriculture, forestry, fishing & hunting (7042)	Deconcentrated or Direct/delegated: In some countries, agricultural extension, irrigation and livestock services may be delivered in a deconcentrated or in a direct/delegated manner. In these countries, the salaries of agriculture extension workers, and other spending of local agriculture offices, are part of the Local Public Sector. Even in countries where these services are delivered in a devolved manner, certain

²⁷ Many budgets (particularly in the British Commonwealth practice) are divided by budget organization based on the votes taken by Parliament to adopt the parliament. These budget sections or budget chapters are therefore referred to as ‘budget votes’.

	<p>expenditures for these functions may still be provided at the central level. For instance, many agriculture ministries provide support to “local” agriculture infrastructure projects, seed and fertilizer programs, and so on.</p>
Environmental protection (705)	<p>Deconcentrated: None likely Direct/delegated: Typical “local” functions within environmental protection include waste management (7051), waste water management (7052), and protection of biodiversity and landscape (7054). Central government investments and operational expenditures in these areas should be counted towards the LPS.</p>
Housing and community amenities (706 excl. 7063)	<p>Deconcentrated: None likely Direct/delegated: Typical “local” functions within housing and community amenities include housing development (7061); community development (7062) and street lighting (7064). Central government investments and operational expenditures in these areas should be counted towards the LPS.</p>
Water supply (7063)	<p>Deconcentrated: None likely Direct/delegated: Drinking water supply (7063) is a “local” function and should thus be included within the LPS. However, in many countries central governments contribute to this function by financing the construction and maintenance of urban and rural water schemes. In many cases, central government may provide grants to para-statal local water supply companies. In addition, central government spending may include capital investment in piped water schemes, boreholes, hand pumps, and other potable water sources. Avoid including central project management expenditures associated with water projects whenever possible.</p>
Health (707)	<p>Deconcentrated or Direct/delegated: Hospital services (7073): often included in national budget as para-statal organizations. Salaries, O&M expenditures and capital expenditures for hospitals should be considered part of the LPS.</p> <p>In some cases, regional hospitals are managed by deconcentrated regional level.</p> <p>Direct/delegated: Spending on a variety of public health and outpatient services (7072,7074) is sometimes/often provided in a direct/delegated manner. In some countries, the Ministry of Health has a contract with one or more private or non for profit (including religious) organizations to provide public health services. In many countries, drugs, medical supplies and medical equipment are often procured centrally and provided in kind, but should be counted as part of the LPS. Similarly, central government contributions to health infrastructure (dispensaries, health posts, health centers, hospitals) are part of the local public sector.</p> <p>In many countries, numerous “parallel programs” or “vertical programs” exist within the central government health sector that provide various direct public services to the local or community level, including inoculation campaigns (GAVI); HIV/AIDS programs that provide ARV drugs and community health services direct to communities; child and maternal health programs; anti-malaria campaigns (bed nets); and so on. The “on the ground” share of these programs should be counted as local public sector activities.</p>
Recreation, culture, and religion (708)	<p>Deconcentrated: None likely. Direct/delegated: Direct subsidies to CBOs and other local organizations supporting recreation, culture</p>

	and sporting services should be considered part of the LPS (direct/delegated services). Earmarked grants to local governments for this purpose should be counted as devolved expenditures. Excluded: support to national religious organizations, support for national Olympic committee, other national sports organizations, and so on.
Education (709 excl. 7091, 7092)	Deconcentrated: None likely. Direct/delegated: Many education programs (outside of primary and secondary education) are provided in a direct/delegated manner. This includes support to vocational (postsecondary, non-tertiary) Education, support to universities / Tertiary Education (7094); as well as support to adult education programs and literacy centers. These should be counted as part of the LPS. Excluded: educational loans provided directly to students.
Pre-primary and primary education (7091)	Deconcentrated or Direct/delegated: To the extent that the provision of pre-primary and primary education is directly supported by central government (rather than delivered by local governments), these expenditures should be counted as part of the LPS. This potentially includes central government spending on teacher salaries (as well as other wages for primary education), school operation and maintenance expenditures; school books and learning materials (such as computers or lab kits); school meals; classroom rehabilitation; construction, rehabilitation and maintenance of school buildings and related primary education infrastructure. Direct central spending on the operation and maintenance of special education schools (blind, disabled, etc.) is also part of the LPS. "Capitation grants" provided by central government to schools or school management committees (SMCs) should also be counted as LPS resources. Excluded: scholarships and educational loans provided directly to students. Spending on teacher training is also excluded from the LPS. Centrally-provided training of teachers (inline) is not included in the LPS.
Secondary education (7092)	Deconcentrated or Direct/delegated: Similar to primary education above.
Social Protection (710)	Deconcentrated: None likely. Direct/delegated: Social action funds, food for works programs, and other similar social protection programs or livelihood activities that take place at the community level should be considered part of the LPS. Include only the portion of resources that is provided to the local or community level (or in-kind transfers). Exclude: cost of operating national programs, cost of "facilitation" and other operational costs.

Measuring Local Public Sector Revenues

In addition to capturing the expenditures of the local public sector, the metric of local public sector finances should also seek to capture revenues that belong to the local public sector. In contrast to the expenditure funding flows, local public sector revenues are not necessarily equivalent to the revenue streams collected by delegated, deconcentrated, or devolved entities. An argument could be made that while revenues of devolved local governments should be considered local public sector revenues, most revenues collected by deconcentrated and delegated entities should not be considered "true" local public sector revenues.

Indeed, it should be understood that the nature of local revenues (and hence, the incentive around local revenue collections, and the incentives surrounding the use of these resources) is very different in



devolved systems versus deconcentrated or centralized systems. In most countries, public revenues that are collected by deconcentrated administrative entities are neither collected at the discretion of the local entity nor retained at the local level (other than potentially at the local branch of the national treasury for cash-flow purposes). Instead, “local” revenues in deconcentrated public financial management systems are typically collected either by the deconcentrated units of the national revenue authority or by deconcentrated units of the national treasury fully as agents from the center, and the resulting funds are generally deposited in the general treasury account of the central or national government. As such, it could be argued that local revenue collections should only be considered to be part of the local public sector to the extent that local (devolved or deconcentrated) officials are allowed to retain these resources in an account controlled by local officials, and to the extent that local jurisdictions are allowed to carry these finances forward from year to year for the future provision of local public services.

SECTION 4: AN ANALYTICAL FRAMEWORK FOR ASSESSING DECENTRALIZED LOCAL GOVERNANCE

A thorough understanding of the role and the functioning of the local public sector requires, first, an understanding of the territorial organization and governance structure of the public sector (Section 2), and second, a comprehensive picture of the local public sector's finances (Section 3). However, providing greater financial resources (or access to financial resources) to the local level does not necessarily improve public services. Whether providing more financial resources to the local public sector results in improved public sector outcomes is determined by the interaction of central and local institutions, as well as how these resources are governed and managed at the local level.

Since the local public sector plays a key role in delivering a wide range of public services, it should be unsurprising that many of the persistent impediments to more effective service delivery and public sector performance also take place at the local level. For instance, it is not unusual in a developing country to find over 20% of teachers absent from their schools or over 30% of public health providers to be away from the local health clinic. In other cases, critical resources such as medical supplies or school books simply fail to reach the service delivery facilities where front-line services are delivered. Institutional obstacles to effective local governance and service delivery may occur as a result of shortcomings in the intergovernmental relationship between the center and the local level, as well as due to problems with the institutional arrangements at the local level itself. These examples suggest that the true global development challenge is not necessarily to provide additional financial resources to improve public services, but rather, to fix the institutional weaknesses in the public sector's management of the resources that are already available.

According to World Bank (2009), improved public service delivery and inclusive development requires a balance to be achieved between subnational discretion and subnational accountability: public service delivery can be improved when front-line public servants within the local public sector are given the necessary resources, discretion, and incentives to do their jobs well, while at the same time being held accountable for their performance. Thus, in order to understand the effectiveness or ineffectiveness of the local public sector, it is important to carefully assess the degree of discretion and accountability that the institutional framework provides local officials.

4.1 THE OUTLINES OF A FRAMEWORK FOR ASSESSING LOCAL PUBLIC SECTOR INSTITUTIONS

Boex and Yilmaz (2010) propose a comparative decentralization assessment framework for rapidly assessing the institutional aspects of a country's local public sector, including its political-administrative structures, its system of intergovernmental relations and the financing and functioning of the country's decentralized local governments.²⁸ This assessment tool is comprehensive in its scope, taking into account the different technical dimensions of decentralization, as well as the institutional and political economy aspects of decentralization, local governance and intergovernmental relations. After all, no decentralization reform (or any public sector reform involving multiple government levels, for that

²⁸ Consistent with the broader view of the local public sector, the assessment framework thus covers devolved as well as deconcentrated public sectors.

matter) would succeed without, first, putting forth a technically sound decentralization strategy, and second, a sufficient understanding of the political and institutional dynamic to ensure the adequate implementation of the reform.

The assessment framework is not a rigid one. It is flexible capturing variations in countries' territorial-administrative structures and in their chosen degree of decentralization, ranging from deconcentrated public sectors—which lack elected local governments but deliver public services through deconcentrated local administrative departments—to a highly decentralized, devolved system—where elected local governments successfully serve as the interlocutor between the public sector and the people in delivering major public services. The assessment framework attempts to capture qualitative aspects of a country's decentralization efforts as well as commonly used quantitative aspects—such as the expenditure decentralization ratio or the revenue decentralization ratio.

4.2 IDENTIFYING THE POLICY OBJECTIVES OF DECENTRALIZATION

For the purpose of developing the decentralization assessment framework, we will follow the working definition that decentralization is the empowerment of people through the empowerment of the local public sector.²⁹ Yet—even with a definition in place—before we can proceed to assess the effectiveness of the degree and manner in which a public sector is decentralized, we need to understand why any given country is pursuing (or for that matter, not pursuing) a more decentralized public sector.

Different countries and different stakeholders within countries pursue decentralization for different reasons. Since the organization of the public sector and the subsequent systems of intergovernmental relations are shaped to a large extent by the policy objectives that the public sector pursues, the implicit or explicit reasons why a country pursues decentralization or intergovernmental reforms should provide a benchmark for evaluating the success of the reforms.

International experiences suggest that there are five broad reasons why countries pursue decentralization. First, countries pursue decentralization because there are strong theoretical reasons to suggest that (under certain conditions) decentralized governance improves economic efficiency and economic growth (Martinez-Vazquez and McNab, 1999). Second, if central bureaucracies in a country function as distant, hierarchical rent-seeking organizations that are unaccountable and inefficient or ineffective at delivering public services, then decentralization could improve public service delivery and strengthen poverty reduction if decentralized local governments are generally more responsive and accountable than their central government counterparts. A third reason for pursuing decentralization is that the presence of elected decentralized governments could be seen as more democratic and therefore—separately from the empowerment achieved by having a more responsive public sector and better public service delivery—worthy of being pursued on its governance merits. Fourth, decentralization reforms could be promoted (or in fact, opposed) for political or institutional reasons. In fact, political leaders in scores of countries pursue some form of decentralization primarily for specific political gain, rather than for reasons of good governance or improved public service delivery. Fifth, and finally, some countries pursue decentralization in a specific attempt to counteract centrifugal political forces and to preserve the nation-state.

²⁹ This working definition is a slight generalization of the definition used by Bahl (2005).

Many countries pursue decentralization for more than one of these reasons, although it is common for one of these reasons to be dominant in defining a country's approach towards decentralization. During the 1980s and 1990s, the efficiency argument for decentralization often carried the day, with the expectation that decentralization would introduce greater competition in the public sector and lead to a smaller, leaner, more efficient public sector. A more common argument for decentralization and local government reforms in developing and transition economies is the desire to achieve more responsive public services for effective poverty reduction. While this improved public service delivery and poverty reduction are often the stated objective of decentralization reforms, this is not necessarily the viewpoint held by all stakeholders in a developing country. Many bilateral development agencies tend to support decentralization primarily on its democracy and governance merits, while central government politicians—to the extent that they support decentralization reforms in the first place—tend to support decentralization either in the aftermath of major political upheaval (Indonesia, Russia, South Africa) or in a manner that provides them greater political capital, sometimes even in spite of the good governance or public service delivery implications of the reforms.

4.3 TECHNICAL DIMENSIONS OF THE LOCAL PUBLIC SECTOR

Because the Local Public Sector is a broad and complex area of the public sector, it makes sense to decompose the local public sector along its main dimensions. In line with decades of writing on the decentralization and local governance, decentralization is often decomposed into three main dimensions: political, administrative, and fiscal decentralization. This categorization is thus used as the first dimension of the assessment framework. This division provides a convenient categorization of the topic in accordance with the academic disciplines that study decentralization: political scientists who study the distribution of political power among different government levels; administrative decentralization is dealt with by public administration experts; while the realm of fiscal decentralization (or fiscal federalism) is generally left to the economists.

Furthermore, if we believe the process of development is about empowering individuals over their lives—including over the public sector—then these three categories represent the three main dimensions of interaction between the State and its citizens, and therefore, these three dimensions represent three top-level objectives in the development process. Within the political sphere, the development community seeks to empower people over their public sector through democratic, participatory and responsive political mechanisms. Within the administrative sphere, the development objective is to empower the people by making sure that the public sector administers the delivery of public services in an efficient and equitable manner. In terms of the public sector's finances, people are empowered if the financial resources within the public sector are used in a responsive and efficient manner (achieving fiscal discipline, as well as allocative and technical efficiency). Last but not least, the development objective is to manage finances transparently and in an accountable manner to prevent abuse.

An advantage of this tripartite division along technical lines as part of an assessment framework for decentralization and the local public sector is that the broad subject becomes more manageable to comprehend once it is divided into these three segments. At the same time, however, decentralization and the local public sector are quintessentially a cross-cutting policy realm, so that a great deal of understanding would be lost if we were to focus exclusively on one of these three dimensions without taking into account either of the other two. Indeed, successful decentralization reforms (in terms of the

definition noted above) can only occur when local authorities are politically, administratively and fiscally empowered to be responsive to their constituents (Table 4.1). When local governments are only empowered in one or two of these dimensions, their ability to respond in an effective and meaningful way to the needs of their citizens is substantially hampered.³⁰ As such, the success of decentralization reforms or the effectiveness of a system of intergovernmental relations can only be assessed in a meaningful way by considering the three dimensions of decentralization together.

Table 4.1.
Decentralization reforms and empowerment

	Political Decentralization	Administrative Decentralization	Fiscal Decentralization	Full Empowerment?
A	No	Yes	Yes	No
B	Yes	No	No	No
C	No	Yes	No	No
D	Yes	No	Yes	No
E	No	No	Yes	No
F	Yes	Yes	No	No
G	No	No	No	No
H	Yes	Yes	Yes	Yes

Source: Prepared by Boex and Yilmaz (2010) based on Eaton and Schroeder (2010).

Perhaps surprisingly, few real-world decentralization reforms portray an ‘ideal’ situation in which local governments are empowered across the board (Point H).³¹ In fact, Schroeder and Eaton (2010) argue that this is because national governments are often hesitant about the loss of authority that decentralization reform might entail, so that central officials can agree to decentralize in one or two policy dimensions while preserving full control over the local government level by preserving centralist practices and/or national government prerogatives in the other dimension(s).³² However, without considering all three dimensions, it is impossible to know how effective the overall system of decentralization is in empowering the people through their local governments, or which (if any) dimension of decentralization requires the attention of policy makers.

³⁰ For instance, consider the lack of local empowerment that occurs in a case where local governments are politically and administratively empowered, but have no control over financial resources. Similarly, the absence of effective mandate and control over local public servants and service delivery processes and procedures (in spite of political and fiscal decentralization), or the absence of effective local political autonomy (even in the presence of administrative and fiscal decentralization) will fail to yield the local empowerment needed for local officials to be responsive to the needs of their communities.

³¹ State-level jurisdictions in federal systems may be empowered in all three dimensions.

³² Eaton and Schroeder discuss options A-D as being four common combinations. The current authors added points E-H. Point E is rare, but may arise in certain circumstances – for instance, when a donor seeks to promote decentralization by transferring external resources to the local government level in the absence of meaningful political or administrative decentralization. For example, this case may arise in a post-conflict situation in which community development committees or quasi-local governments are provided with resources but neither with political or administrative powers. Point F is a situation in which local governments are *de jure* decentralized in their political and administrative aspects, but highly conditional fiscal instruments effectively rob local authorities from real decision-making authority.

It should be noted that Table 4.1 presents a simplification of reality, as each dimension of decentralization is merely considered as a binary (yes/no). In reality, of course, each main dimension of decentralization is further broken down into multiple sub-categories and pursued along a full spectrum of options, ranging from the complete absence of decentralized powers or competencies on one end of the spectrum to complete decentralization of powers on the other end, and every combination and permutation in between.³³

Despite the complexities that it brings about, we believe that any meaningful assessment of the state of decentralization and intergovernmental relations requires the consideration of all three dimensions of decentralization, and should be done with some level of detail. The decentralization assessment framework proposed below reflects this thinking by treating the three technical dimensions of decentralization (and their constituent sub-components, which are further discussed in Section 3) as the first axis of the assessment framework.

Box 4.1: International Guidelines on Decentralization and Strengthening of Local Authorities

In 2007, UN Habitat adopted guidelines on decentralization and strengthening of local authorities. These guidelines address four dimensions of effective decentralization by devolution: governance and democracy, powers and responsibilities, administrative, financial resources and capacities of local authorities.

- Political decentralization to the local level is an essential component of democratization, good governance and citizen engagement; it should involve an appropriate combination of representative and participatory democracy (art. 1)
- Local authorities should be acknowledged in national legislation, and, if possible, in the constitution, as legally autonomous sub-national entities...(art. 28)
- The principle of subsidiarity constitutes the rationale underlying to the process of decentralization. According to that principle, public responsibilities should be exercised by those elected authorities, which are closest to the citizens (art. 15)
- Local authorities should freely exercise their powers, including those bestowed upon them by national or regional authorities, within the limits defined by legislation. These powers should be full and exclusive, and should not be undermined, limited or impeded by another authority except as provided by law (art. 33)
- Local authorities should be allowed to determine as far as possible their own internal administrative structures... and should have full responsibility for their own personnel (art. 43 & 44)
- Effective decentralization and local autonomy require appropriate financial autonomy. Local authorities' financial resources should be commensurate with their tasks and responsibilities and ensure financial sustainability and self-reliance. (art. 48 & 49)

Source: UN Habitat (2007).

³³ In fact, a more subtle policy objective in pursuit of effectively organized public sector might not require that all dimensions switch to 'yes', which would presume that total decentralization is the only optimal policy approach. Instead, a less stringent assessment standard would require that the degree of decentralization in each of the three dimensions is coordinated, to make sure that there is a balance in the degree of decentralization within each of the main dimensions.

4.4 INSTITUTIONAL ENTRY POINTS IN DECENTRALIZATION: CENTRAL, LOCAL AND CIVIL SOCIETY

Regardless whether the local level in a particular country is assigned limited or specific functions or whether local jurisdictions are able to play a broader developmental role in pursuing economic growth, delivering public services and reducing poverty, there is a general need for an enabling framework that allows decentralized local governments (or deconcentrated entities, as the case may be) to function effectively in achieving their role in the public sector. This means that decentralization reforms and efforts to improve the effectiveness of local interventions should not only focus on improving the capacity of local officials and organizations.

In line with the notion that decentralization is empowerment of people through the empowerment of the local public sector, any complete assessment framework should recognize that the two main actors in achieving such empowerment are, first, the public sector—whose powers are largely (if not exclusively) vested in the central authority of the State—and second, the people themselves. By its very nature, the local public sector lies between the central public sector and the voters/citizens that the State seeks to serve. In this context, efforts to strengthen the effectiveness of local governments require that specific attention is paid to the role of the central government in enabling decentralized local governance, among others, through the development of a suitable decentralization policy, reform of the legislative framework, establishing appropriate intergovernmental fiscal systems and developing sound central-local institutional relations within the relevant sectors. In addition, the roles of the local private sector, community-based organizations and the local community itself are also pertinent for the effective and accountable functioning of the local public sector. These local-level actors are the ultimate clients of the public sector and have an important role in informing and guiding local government officials with respect to community priorities. They are important stakeholders in keeping local officials accountable for the responsive and efficient delivery of local public services.

In addition to these domestic institutional entry points, the international development community plays an important (and often a semi-autonomous) role in supporting decentralization and local governance reforms in many developing and transition countries. Although the assessment framework does not explicitly incorporate development partners as a fourth institutional pillar, the assessment framework does provide a solid framework for mapping development partner interventions and analyzing their contributions. The role of the international development community in supporting decentralization reforms is explored in greater detail by Boex and Yilmaz (2010).

4.5 COMBINING THE PIECES: ARRIVING AT AN OVERALL ASSESSMENT FRAMEWORK FOR LOCAL PUBLIC SECTOR INSTITUTIONS

The conclusion from the discussion up to this point is that if we want a decentralization assessment framework to provide us with a comparative framework for rapidly assessing a country's situation with respect to decentralization, intergovernmental relations and subnational governance, then two dimensions are imminently important: the technical dimension (political, administrative and fiscal aspects of decentralization) and the institutional dimension (central government, local government institutions and the role of civil society). Table 4.2 brings together these two dimensions in a three-by-three matrix that presents a visual representation of a convenient—albeit admittedly somewhat

rudimentary—decentralization assessment framework. This framework provides a clear structure for a descriptive assessment of the status of decentralization, local governance and intergovernmental relations in a country.

Table 4.2.
A Framework For Assessing Decentralization, Decentralized Local Governments And The Local Public Sector

	Central Government Policy, Legislation & Institutions	Local Government Institutions, Management and Administration	Local Civil Society & Private Sector
Political Empowerment & Decentralization			
Administrative Empowerment & Decentralization			
Fiscal Empowerment & Decentralization			

The proposed assessment framework for the local public sector encourages the policy analyst to consider the functioning and effectiveness of the institutional stakeholders at all government levels with regard to decentralization and decentralized local governance across each of the technical dimensions of decentralization. For each of the cells in the matrix, the question should be asked whether the respective institutional actor or actors are supporting a well-functioning, decentralized public sector with respect to the relevant technical dimension of decentralized governance. An efficient, responsive and accountable public sector requires local governments—as well as stakeholders at all other institutional levels—to have, on one hand, an appropriate amount of discretion (authority and autonomy) and on the other hand, for local governments (and each stakeholder) to have sufficient capacity, processes and procedures, and incentives to use this discretion in an accountable manner.³⁴

For instance, as part of the effort to complete the cell in the center of this matrix, one should assess how effective local governments are in administering local government services (Table 4.3). Do local governments have the right degree of authority and autonomy in their administrative processes to deliver local services? Do local governments have the right degree of institutional capacity? Are administrative processes and procedures in place to make sure that local officials use this discretion in an accountable manner for the benefit of their local constituents?

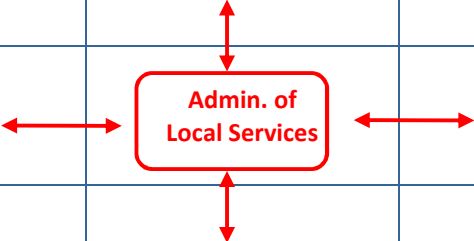
It should be noted that in contrast to many previous diagnostic tools, the diagnostic framework explicitly requires an assessment of actors other than local governments themselves. In addition to

³⁴ While Yilmaz, Beris and Serrano-Berthet (2010) focus on the balance between discretion and accountability within each technical dimension of decentralization, USAID (2009) considers four characteristics—authority, autonomy, accountability, and capacity—in assessing the effective of decentralized local governance.



exploring the questions of discretion, capacity and accountability at the local government level, the framework requires an assessment of whether the central government level and the community level, respectively, have the right balance of discretion and accountability (or authority, autonomy, accountability, and capacity) to contribute to an effective local public sector. The ineffectiveness of the local public sector is often caused by poorly designed intergovernmental systems or by central government agencies that have excessive authority and/or insufficient accountability or capacity.

Table 4.3. Using the Assessment Framework for the Local Public Sector: An Illustration

	Central Government Policy, Legislation & Institutions	Local Government Institutions, Management and Admin	Local Civil Society & Private Sector
Political Empowerment & Decentralization			
Administrative Empowerment & Decentralization			
Fiscal Empowerment & Decentralization			

In addition to highlighting nine important areas of a well-functioning decentralized public sector, the assessment framework forms an important tool to identify critical inter-relationships between the different elements and levels of a country’s intergovernmental systems. To continue the example of the assessment of efficient and responsive administration of local government services, the assessment framework recognizes that the delivery of local government services is heavily influenced by factors outside the realm of administrative decentralization, as well as stakeholders outside the local government organization. These relationships are illustrated in Table 3.3. For instance, does the local political leadership provide proper guidance and supervision when it comes to the administration of local government services? Similarly, are sufficient financial resources available to fund the administration and delivery of local public services? Do central authorities provide an enabling framework and support for local governments to deliver the public services within their mandate? Do consultative mechanisms exist for the local private sector and civil society to be involved in the delivery of local government services, for instance, in the form of School Committees, or other mechanisms to facilitate dialogue between local administrators and the community?

4.6 MOVING FROM ASSESSMENT FRAMEWORK TO COUNTRY PROFILE

Although useful for thinking through a decentralized governance system, the decentralization assessment framework presented in Table 4.2 is admittedly only a rudimentary diagnostic tool, and may be refined in a number of ways, depending on its intended usage. A first refinement that could be introduced is to consider the technical dimensions of decentralization—political, administrative and



fiscal—in greater detail and break them out into their constituent elements. What exactly is meant by “political decentralization”, “administrative decentralization” or “fiscal decentralization”, and how can we assess each of these technical dimensions and their elements? Likewise, it would be possible to expand the number of columns in the assessment framework according to the number of government levels or administrative tiers in a country, as in a multi-tiered governance system, it could be useful to introduce a separate column to assess the role of each government level. In doing so, the assessment framework provides helpful guidance in conducting in-depth country case studies of the local public sector.

One of the disadvantages of preparing in-depth studies of local public sector structures –beyond the resources required to prepare such in-depth case studies- is that they are highly adopted to the unique features of the country that they are reviewing, and therefore, that it becomes more difficult to compare features of the local public sector across countries based on country case studies and descriptions alone. Therefore, using the assessment framework for the local public sector developed by Boex and Yilmaz (2010) as its base, the Local Public Sector Initiative has built on this assessment framework to develop a standardized Local Public Sector Country Profile that serves as an effective entry-point into understanding each country’s local public sector, and that allows for the cross-country comparison of the qualitative and quantitative features of each country’s Local Public Sector.



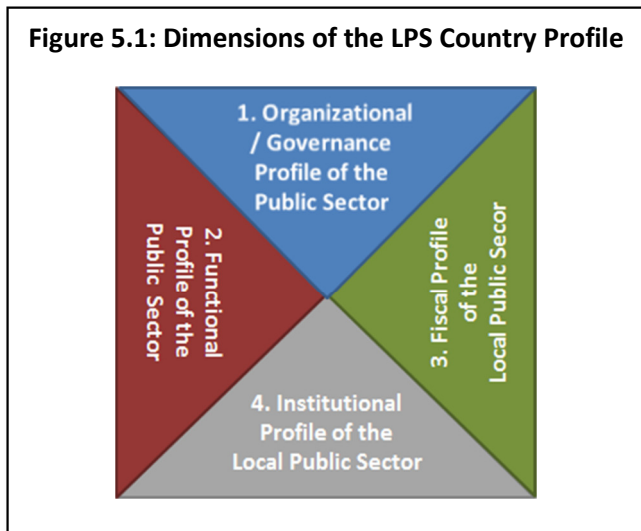
PART II MEASURING THE LOCAL PUBLIC SECTOR



SECTION 5: GENERAL GUIDANCE ON THE PREPARATION OF THE LPS COUNTRY PROFILE

Whereas the previous three sections of this handbook have sought to give greater conceptual insight into the structure, nature and composition of the local public sector, the remaining sections in this handbook provide practical guidance in the completion of the Local Public Sector Country Profile.

The Local Public Sector Country Profile is formed by an Excel workbook that aims to capture the most important features of the local public sector in each country in four dimensions or sub-profiles (Figure 5.1). These dimensions include (1) the territorial-administrative organizational structure of the public sector; (2) a profile of the functions assigned to subnational governments and subnational administrative tiers within the public sector; (3) the financing of subnational levels and tiers; and (4) the political, administrative and fiscal institutions that are in place at the subnational level.



The entire Country Profile comprises ten worksheets, numbered zero through 10. Sections 5 through 14 of this handbook provide guidance on the completion of each individual worksheet. The current section provides general guidance with regard to the completion of the Country Profile.

5.1 WHO SHOULD PREPARE AN LPS COUNTRY PROFILE?

As noted in Section 1, the analytical framework for the LPS Country Profile is an open methodological tool. Anyone within the community of practice with an interest in the local public sector –including research organizations, development agencies, international financial institutions, policy experts, civil society organizations, local government organizations and other organizations- are encouraged to apply LPSI’s methodological framework and prepare Local Public Sector Country Profiles for one or more countries of interest.

5.2 HOW SHOULD AN LPS COUNTRY PROFILE BE PREPARED?

Local Public Sector Country Profiles should be prepared by researchers after careful review of the existing literature on a country’s public sector structure, subnational governance systems, and intergovernmental fiscal relations. In addition, budgetary documents from all government levels should be carefully reviewed and scrutinized in order to determine how certain expenditures and revenues should be classified. In most cases, the information and data required for the LPS Country Profiles is drawn from legislation, budget documents, and other documents that are in the public domain.

Completion of the profile should be guided by extensive input from country experts in public sector governance and public sector finance. In fact, whenever possible, the completion of an LPS Country Profile should be informed by a seminar that brings various stakeholders, including government officials (from Ministry of Finance, Ministry of Local Government, and relevant line ministries), governance experts, local government officials or associations, as well as other relevant stakeholders.

The preliminary draft of the Country Profile should be reviewed and scrutinized by peer reviewers prior to being finalized and made public available through LPSI's Secretariat.

Please contact the Head of the Local Public Sector Initiative if you would like to apply the Local Public Sector's Country Profile methodology to one or more countries, or if you have any questions or concerns with regard to the Local Public Sector Initiative. The Head of the LPSI is Dr. Jamie Boex. He can be reached by email at jboex@urban.org.

5.3 GENERAL GUIDANCE ON THE COMPLETION OF AN LPS COUNTRY PROFILE

Please keep in mind the following general guidance when completing a LPS Country Profile:

- The preparation of an LPS Country Profile consists of the preparation of the Excel-based LPS Country Profile workbook, along with the preparation of an associated Notes document.
- Many of the questions in the Country Profile require the researcher to choose from a distinct set of possible responses. Sometimes, a more nuanced response may be needed. Alongside the Excel-based survey instrument, the researcher should prepare a *LPS Country Profile Notes* document (in Word) to explain complexities which are not easily captured by the instrument itself. The Notes document can also be used to identify specific sources used to complete specific parts of the profile.
- Save Country Profile file (both the Excel workbook and the Word background file) as: LPSCP_CountryName_Year (e.g., LPSCP_Egypt_2000.xls).
- The researcher preparing the Country Profile is also encouraged to electronically collect relevant budget documents, background studies and other relevant reference materials. Researchers are encouraged to include the Profile, Notes and all supporting documents in a folder named following the same convention as the Profile and Notes.
- The LPS Country Profile is contained in the workbook as a series of nine worksheets. Whenever possible, complete the profile sequentially. All cells that require responses are highlighted. All other portions of the workbook are locked to prevent accidental entries. Please do not unlock any of the worksheets, as this may unintentionally disrupt links in the workbook. Complete Worksheet 9 ("*Info*") last.
- In most cases (unless otherwise mentioned), the Country Profile should reflect the actual (*de facto*) conditions in the country, rather than the legislated (*de jure*) situation.
- When the researcher is required to select from a limited set of possible responses, the profile will offer the available options in a drop down menu. For instance, many cells that require a qualitative response have a defined set of answers (e.g., Yes / No / Mixed or Other). If none of the available options are adequate to explain the situation, please select the best possible option, highlight the cell yellow, and provide additional information in the Notes document. If it



is impossible to select any response, highlight the cell red, and provide additional information in the Notes document for follow-up by the LPSI Secretariat.

- If the question does not apply to the country at hand, you may either enter ‘-’ (whenever provided as an option), or leave the answer as “...”
- If specific information or data are unavailable, please leave the answer blank (‘...’). If the lack of a response constitutes a major omission in the profile, please highlight the cell in red and explain the absence of the necessary information in the Notes document.
- The Functional, Fiscal Profile and Institutional Profile require the researcher to complete information for every main government level or main administrative level. If not using all four levels (because the country has fewer than four main levels or tiers), simply leave the unused columns blank. (Set the local level name to “N/A” in the Structure worksheet for levels that remain unused.) You may hide the columns for these unused levels/tiers in the subsequent worksheets
- All fiscal/budgetary data will have to be in the same unit (e.g., all in thousands, millions, billions, etc.). You cannot enter some budgetary figures in thousands, while entering other figures in millions. (You may wish to use same unit as used by the IMF GFS, if applicable and practical).
- In some cases, computations may need to be done in separate excel spreadsheets. This is especially true where data from various budget documents has to be manipulated and combined in order to fit into the Fiscal Profile. Researchers are encouraged to capture the source data in a separate Excel workbook (with source citations), use formulas to sum up or subtract any necessary values (or make any other manipulations), so that the link between the source data and the ultimate figures is clear. Save the supporting workbook, and then cut and paste the values from the supporting workbook into the Country Profile (using “paste/values”). Please do not past formulas or permanent links to other workbooks into the Country Profile.

Box 5.1: Accuracy and quality of the LPS Country Profile data

Considerable effort should be made to ensure accuracy and quality of LPS Country Profile data. This is particularly important in order to make sure that the data are comparable across countries. As such, preparing the Country Profile as a simple desk study will often prove inadequate: specific knowledge of local governance and (central and local) budgetary systems in the country at hand will be needed in order to complete the profile. The quality of the document will be enhanced if the profile is the result of a collaborative effort between a number of stakeholders, including government officials, civil society stakeholders, development partners (in countries where donor partner researcher play a prominent role in public sector finance) and public policy researchers.

However, in order to achieve coverage of the Local Public Sector database across a relevant subset of developing countries, trade-offs between the availability and accuracy of the data are unavoidable. This is especially true for budgetary data, particularly for countries for which IMF GFS statistics for local governments are unavailable.

While all efforts should be made to follow this handbook and to collect necessary institutional information and primary budget sources, available data sources may be insufficient to complete answer all questions in the profile. In some cases, it may be necessary to rely on certain assumptions or secondary data sources. Whenever sources other than authoritative country documents or primary data sources are used, this should then be mentioned in the Notes.



5.4 GUIDANCE ON THE COMPLETION AND SUBMISSION OF THE LPS COUNTRY PROFILE

Upon completion of the first nine worksheets (numbered 0-8) of the Country Profile, the researcher should complete the Profile Completion Information Worksheet (*Worksheet 9 - Info*):

- Profile completion information in this worksheet includes the details about the researchers involved in preparing the information (Z1); reference materials and data sources used (Z2); and an indication of the degree to which it was possible to complete the different segments of the Country Profile (Z3). In addition, Questions Z4 and Z5 refer to the completion of the Fiscal Profile, and are further discussed in Sections 10.5.
- Once completed in draft form, the Profile and the Notes should be reviewed by a renowned public policy expert or scholar that is extremely familiar with relevant local governance, (local) public administration and (local) public finance systems.
- Upon review by an external expert and final revisions, the profile should be submitted to the LPSI Secretariat for final quality assurance and for inclusion in the LPSI Country Database.
- Despite consistent attempts to collect the necessary information of fiscal data, it may prove impossible to complete all aspects of the Country Profile. The absence of necessary data or information should be noted in the LPS Country Notes.

5.5 EXTRACTING AN LPS COUNTRY PROFILE FOR MULTI-COUNTRY ANALYSIS

In order to facilitate extracting a LPS Country Profile for multi-country analysis, the LPS Country Profile workbook has a hidden 'extract' worksheet. This worksheet allows the user to copy all responses entered into a Country Profile by copying only a single worksheet. The Extract Worksheet can be unhidden by selecting the following sequence of options on the Home Menu in Excel: *Format/ Visibility/ Hide & Unhide/ Unhide*, and the select *OK* in order to unhide the Extract worksheet. By pasting this page (using *Paste Special/Values*) into a new workbook, it is easy to combine different Country Profiles for multi-country analysis.



SECTION 6: GUIDANCE ON THE PREPARATION OF THE LPS COUNTRY PROFILE: GENERAL COUNTRY INFORMATION

The first worksheet of the LPS Country Profile provides general country background information for the Local Public Sector Country Profile. It is used to identify the country and year that is being analyzed. In addition, the General Country Information worksheet gives an overall picture of the country being analyzed. The first worksheet of the profile provides basic information about the central public sector; about the framework guiding local public sector and intergovernmental relations; and about the legislative framework guiding the structure and finances of the (local) public sector. By no means is the country information intended to be all-inclusive. Instead, only basic information relevant to the (local) public sector is being captured.

If a specific research question requires additional country information or data (for instance, data or information on economic conditions, central governance structures, public service delivery outcomes, and so on), the LPS Country Profile Database could be merged with other existing datasets.

Figure 6.1: Screenshot – LPS General Country Information

	A	B	C	D	E	F	G	P	
1									
2			LOCAL PUBLIC SECTOR INSTITUTIONAL COUNTRY PROFILE: GENERAL COUNTRY INFORMATION						
3									
4									
5									
6		C1	Basic Country Information						
7		C1.1	Country Name:	[Country Name]					
8		C1.2	Information/Data for Year:	[Year]					
9		C1.3	Budget Year (Central Government Budget):	...					
10		C1.4	Local Government Budget Year same?	...					
11		C1.5	Currency Name:						
12		C1.6	Currency Unit (used in budget tables for this survey):	...					
13		C1.7	Exchange Rate (US\$ 1 = X Local Currency)						
14		C1.8	Gross Domestic Product						
15		C1.9	Total National Population						
16		C1.10	Population density (people per square kilometers)						
17		C1.11	Percent Urban Population						
18									
19		C2	Central Public Sector Information						
20		C2.1	Administrative tradition	...					
21		C2.2	System of government	...					
22		C2.3	Competitive elections at national level?	...					
23		C2.4	Parliament structure	...					
24		C2.5	Election of parliament (general assembly / lower house)	...					
25		C2.6	Election of parliament (upper house), if any	...					
26									
27		C3	Framework guiding local public sector and intergovernmental relations						
28		C3.1	Intergovernmental political structure?	...					
29		C3.2	Is the LPS structure uniform across urban and rural areas?	...					
30		C3.3	Are there (other) asymmetries in the structure of the LPS?	...					
31		C3.4	Recognition of principles of autonomy and subsidiarity?	...					
32		C3.5	Clear and consistent assignment of the powers?	...					
33		C3.6	Formal mechanism for intergovernmental coordination?	...					
0 General | 1 Organization | 2 Governance | 3 Functions | 4 Exp | 5 Rev | 6 Political | 7 Admin | 8 Fiscal | 9 Info									

C1. BASIC COUNTRY INFORMATION

Section C1 provides basic country information for the profile. The Country Name (C1.1) can be the country's commonly used "short form" (rather than a country's longer, more formal name).

Local public sectors change over time, and part of LPSI's ambition is to capture these changes in the local public sector over time. As such, time coding of the information is important. Typically, a Country Profile will seek to collect information for the latest year for which actual financial data (i.e., executed budget data) is available. This calendar year is to be indicated for C1.2. In addition, it is important to indicate the Budget Year for the Central Government Budget (C1.3). If the IMF GFS Yearbook is used to complete the LPS Fiscal Profile, the GFSY provides information on the central budget or financial year. The response for these questions might be "Jan –Dec 2010", "Jul 10-Jun 11", etcetera. Next, indicate whether the Budget Year for Local Government Budgets is the same as the central government's budget year (C1.4). Only in very few countries (if any) is the budget year for local government different from the central government budget year. If not, record in the local budget year in the Notes.

Whenever possible, non-fiscal data (e.g., population, GDP, etc.) should be matched with the calendar year at the beginning of the fiscal year (essentially, those prevailing at the beginning of the budget year). For instance, data for FY 2010-11 (in a July-June fiscal year) should be matched with 2010 population data, and other institutional arrangements for the year 2010. The exchange rate for the mid-point of the reporting period should be used (e.g., in the case of FY 2010-11, January 1, 2011 should be used).

For clarity and consistency, all fiscal tables will be produced in the local currency. Please identify the Currency Name (C1.5); the Currency Unit used in budget tables for this survey – for instance, "thousands", "millions", "billions" (C1.6): and the Exchange Rate (C1.7), specified in terms of US\$ 1 = X Local Currency. As needed, use a web-based source for current or historical exchange rates. (For instance, <http://www.oanda.com/currency/historical-rates/>)

Gross Domestic Product (GDP, C1.8) reflects the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. This variable is included in the Country Background Information for comparative purposes. GDP should be reported in its total amount (i.e., not in per capita), at current prices (i.e., not in constant prices) and in the same currency and currency unit as selected in C1.5 and C1.6. In order to ensure consistency between profiles, it is preferable to use a consistent cross-country data source for GDP figures (whenever available). For this purpose, data for GDP may be available from the World Bank at:

- << <http://data.worldbank.org/indicator/NY.GDP.MKTP.CN> >>

The researcher should next enter basic demographic information (C1.9 – C1.11). Total national population is to be entered in persons (i.e., not in thousands or millions).³⁵ The population figure can be used to convert fiscal amounts into per capita amounts, and to determine the average size of

³⁵ Although national population should be entered in thousands or millions, the entry may be rounded to the nearest thousand.

jurisdictions. In addition, population density (people per square kilometers) and urban population (as a percent of total population) are to be entered into the profile in order to provide country context.

Country-specific demographic estimates can vary considerably. In order to maintain a degree of uniformity, the preferred data source for 2010 is World Population Prospects, the 2010 Revision, or other related UN data sets:

- << http://esa.un.org/unpd/wpp/Sorting-Tables/tab-sorting_population.htm >> (main source)
- << http://esa.un.org/unpd/wpp/unpp/Panel_profiles.htm >>
- << <http://www.un.org/popin/data.html> >>

C2. CENTRAL PUBLIC SECTOR INFORMATION

The second element of the General Country Profile is a segment on Central Public Sector Information. The information gathered about the central public sector is not intended to be comprehensive in any way, but provides some information about possible political incentives that the central public sector might face in its interactions with the local public sector. Whenever necessary, please clarify responses in the Country Profile Notes.

C2.1 What is the administrative tradition of the country (at the central government level)? Possible responses that are available include ‘British’, ‘French’ or ‘Other’. It should be noted that France and the UK’s own (local) public sector traditions have changed considerably over the past fifty years; nonetheless, the influence of the British Commonwealth and French colonial administrative traditions continue to play a strong role in many countries.

C2.2 What system of government does the country have at the central government level? Possible options include ‘Presidential’, ‘Parliamentary’ and ‘Other’. A presidential system reflects a system where the President (typically the Head of State and Head of the Executive Branch) is directly elected. A parliamentary system reflects a system where parliament elects the Prime Minister, who acts as the Head of the Executive Branch.

C2.3 Do competitive elections take place at the national level? Valid responses include ‘Yes’, ‘No’ or ‘Mixed/Other’. The intent of this question is to capture the existence of a strong and effective democratic tradition that results in meaningful change in political power at the central government level through electoral processes. As such, the existence of competitive, multi-party elections at the national level is considered a necessary but not a sufficient condition for a competitive electoral system. Instead, we would like to observe regular elections over the past twenty years (one election at least every seven years), whereas we would expect at least one democratic transition from one political party to another to have taken place (either in the legislative branch or in the executive branch) as proof of the *de facto* competitive nature of the political system over the past twenty years.

C2.4 How is the central government’s parliament structured? Appropriate responses include ‘Unicameral’, ‘Bi-cameral’, or ‘Other’.

C2.5 / C2.6. What electoral process is used in the election of the general assembly / lower house and senate / upper house (if any) of parliament? Options for these two questions include ‘Proportional Representation (Party List)’, ‘Single-Member Constituency (First Past The Post)’, ‘Other Direct Election’,

'No Direct Election', or 'Mixed System'. Please record "Mixed" (and clarify in the Country Profile Notes) if there are special/appointed seats in parliament (e.g., the military, labor unions, societal organizations, and so on) alongside "regular" elected seats. If there are set-aside seats in parliament for women, but all other members of parliament are directly elected, please select the main electoral process (rather than selecting "Mixed"). The "Other Direct Election" option includes different direct election mechanisms, such as Multiple-Member Constituencies. The option "No Direct Election" includes indirectly elected parliaments as well as countries where there is no elected institution that holds legislative power. If there is no upper house of parliament (as indicated in C2.4), simply leave the answer for C2.6 blank.

C3. FRAMEWORK GUIDING THE LOCAL PUBLIC SECTOR AND INTERGOVERNMENTAL RELATIONS

The final segment of the General Country Information considers the constitutional and legislative framework guiding the local public sector. Whenever necessary, please clarify responses in the Country Profile Notes.

C3.1 What is the country's intergovernmental political structure? Valid responses to this question include 'Federal', 'Unitary' or 'Other'. A federal country is a country where the constitution assigns certain powers to state or regional governments, which cannot be unilaterally abrogated by the national government. In contrast, a unitary country is a state governed as one single unit in which the central government is supreme and any subnational units (whether local administrative units or local governments) exercise only powers that their central government chooses to delegate. Many states in the world have a unitary system of government. There are only a select number of federal countries in the world (see the Forum of Federations, <http://www.forumfed.org>).

It should be noted that decentralization (devolution) is possible in both federal as well as unitary countries. Indeed, many unitary countries (particularly in the industrialized world) are quite decentralized (in terms of the share of public expenditures that takes place below the central level). Although the degree of expenditure decentralization within federal countries varies considerably, federal countries often have a higher share of sub-central expenditures than unitary countries.

C3.2 Is the structure of the LPS uniform across urban and rural areas? Appropriate responses include 'Yes' and 'No'. If the territorial-administrative structure of the local public sector is not uniform across urban and rural areas, this issue will likely be addressed as part of the Organizational Structure segment of the General Country Profile (see Section 6 below). Whenever necessary, please clarify the response in the Country Profile Notes.

C3.3 Are there (other) asymmetries in the structure of the LPS? Beyond any possible asymmetries between urban local government and rural local governments, are there any (other) asymmetries in the structure of the LPS? Appropriate responses include 'Yes' and 'No'. If there are asymmetries in the territorial-administrative structure of the local public, this issue may or may not be raised as part of the Organizational Structure segment of the General Country Profile. Whenever necessary, please clarify the response in the Country Profile Notes.

C3.4 Does the central government recognize local self-governments and the principle of autonomy and subsidiarity? Appropriate responses include 'Yes', 'No' and 'Mixed/Other'. Most constitutions

(and/or the relevant legislative framework) recognize the existence of local governments. This does not necessarily mean that central governments recognize local self-governments and the principle of autonomy and subsidiarity. Instead, the concept of local self-governance requires the recognition that local governments are not primarily agents of the central government, but rather, that local governments have their own decision-making space and that local bodies exist primarily in order to promote the priorities, interests and wellbeing of its constituents. Recognition of the principles of autonomy and subsidiarity is demonstrated when local autonomy is protected by constitution or law and respected by central government, with central supervision confined to *ex post* verification of the legality of local government decisions.

C3.5 Does the constitution or the legal framework provide a clear and consistent definition of the powers and responsibilities of different government levels, and is this assignment of functional responsibilities adhered to in practice? Appropriate responses include ‘Yes’, ‘No’ and ‘Mixed/Other’. An affirmative response should be provided when existing legislation is on the whole clear and precise on the roles and responsibilities of different local government levels and is adhered to in practice. A negative response should be provided when no legislation exists; when there are unclear or contradictory laws and regulations; or when the legislated expenditure assignment is not consistently adhered to. The answer to this question should be consistent with the more detailed analysis of (de jure and de facto) assignment of functions and expenditure responsibilities, which is discussed in greater detail in Section 9.

C3.6 Is there a formal mechanism for intergovernmental coordination? Appropriate responses include ‘Yes’, ‘No’ and ‘Mixed/Other’. An affirmative response should be given if there is a formal institutional mechanism that brings together representatives from central, regional (as appropriate) and local governments in order to coordinate intergovernmental (financial) issues, and/or to serve as a platform for intergovernmental dispute resolution.³⁶ Examples as such institutions include Germany’s Financial Planning Council, South Africa’s Fiscal and Financial Commission (FFC), Nepal’s Local Bodies’ Fiscal Commission (LBFC) or Uganda’s Local Government Finance Commission (LGFC). A negative response should be provided if no formal organizational mechanism exists to bring together representatives from different government levels to provide a platform for dialogue and/or for dispute resolution. For instance, this is the case in the United States (where the Advisory Commission on Intergovernmental Relations was abolished in 1996). Other countries may provide mixed or other systems. For instance, in India and Pakistan, Intergovernmental Finance Commissions are formalized commissions that are periodically constituted to guide reforms of the intergovernmental fiscal system. In other countries, local government association may play a more or less formalized role in vertical intergovernmental coordination (e.g., the Netherlands).

C3.7 Does the country have experience with regular local elections? This question applies to the main elected subnational government level (if any). Options include ‘Yes’, ‘Emerging’, ‘Minimal’ and ‘No’, in accordance with the following standards:

- Yes – regular local elections have been held consistently over the past 20 or more years, with intervals of less than 7 years between local elections.

³⁶ This question does not pertain to the election of an upper house of parliament, which may or may not be constituted to represent the interest of subnational jurisdictions at the central level.

- Emerging – local elections have been held regularly over the past 15-20 years, with intervals of less than 7 years between local elections.
- Minimal - local elections have been held at least once in the past seven years (but have not yet been held on a regular basis over a period exceeding 15 years).
- No – local election have never been held, or local elections were held more than seven years ago.

C3.8 Does the timing of central and local elections coincide (or are elections at different levels timed sequentially)? Appropriate responses include ‘Yes’, ‘No’ and ‘Mixed/Other’. Turnout can be expected to be higher when central and local elections are held concurrently. In contrast, sequencing of elections (e.g., local government elections prior to center elections) may allow political parties to build on gains in local elections as a springboard to national elections.

C3.9 Recent or ongoing decentralization reforms? The final question with regard to the framework guiding intergovernmental relations asks whether a major decentralization reform took place during the years preceding the survey. Appropriate responses to this question are ‘Yes’, ‘No’, and ‘Mixed/Other’. Only answer ‘yes’ if a major decentralization reform is actually being implemented that is resulting in a major change in the structure, functioning or financing of the public sector. Typically, such reforms are the result of a constitutional reform or major public administration reforms. Do not answer ‘yes’ if a new constitution or decentralization act was adopted, but without the accompanying reforms being (at least, in part) implemented prior to the year for which the Country Profile is being completed. Decentralization reforms and local government reform efforts of lesser magnitude can be indicated using the ‘Mixed/Other’ designation, with further detailed provided in the Country Notes.

C4.1 – C4.3 What is the name/year of the main law(s) guiding structure and finances of the local public sector? Please respond with the name of the legislation, and the year in which the main original legislation was enacted. Typically, the establishment and the legislative framework for the operation of local governments is guided by a Decentralization Law, a Local Government Act, or Municipal Law. It is not unusual for local government finances, local public service management, (local) elections, and (local) procurement to be addressed by separate legislation. Please also make reference to the Constitution if state and local governments are constitutional bodies. In countries with a deconcentrated public sector structure, the relationship between different administrative tiers is often codified as part of a Local Administration Act.

SECTION 7: GUIDANCE ON THE PREPARATION OF THE LPS COUNTRY PROFILE: ORGANIZATIONAL STRUCTURE OF THE PUBLIC SECTOR

The first “real” part (or sub-profile) of the LPS Country Profile covers the organizational and governance structures of the public sector. This segment of the LPS Country Profile should provide an idea how the public sector is structured across the national territory below the national (central or federal) level: How many levels or tiers of subnational administration or subnational government are present in a country? How many subnational jurisdictions exist at each level? What is the average size (in terms of population or land area) of subnational jurisdictions at each level or tier?

The information elicited in this segment of the Country Profile helps sketch the territorial-administrative structure of the country. The number of government levels or administrative tiers and the (average) jurisdiction size at each level has an impact on the economies of scale that jurisdictions can achieve in terms of service delivery, as well as possibly on the degree of local participation and downward accountability. Smaller jurisdiction sizes may provide greater voice and empowerment, while larger jurisdiction sizes (in terms of population) may allow the local public sector to capture greater economies of scale (Boex and Simatupang, 2008). The information about the organizational structure of the local public sector may, when seen over time, also provide a better understanding of the relationship between local government fragmentation, governance, and the quality of local public service delivery.³⁷

A closely related set of questions explores the basic governance nature of each sub-central level or tier of governance or administration. After all, it is not unusual for a type of jurisdiction to be named the same in two countries, but to be completed different in terms of organizational/ governance features. For instance, in some countries a ‘province’ is an autonomous subnational governance level (with its own responsibilities, budget and elected leadership), while in other countries ‘provinces’ are merely deconcentrated budget entities. In yet other countries, ‘provinces’ are merely a geographical classification, without few or no territorial-administrative implications. In order to make sure we are not inadvertently comparing apples with oranges, the organizational-governance profile of the public sector is comprised of two elements:

- Organizational structure of public sector (worksheet: 1 Organization)
- Governance structure of public sector (worksheet: 2 Governance)

Guidance on completing worksheet detailing the organizational structure of public sector is provided in the current section (Section 7), while guidance on completing the governance profile of the local public sector is provided in Section 8.

³⁷ Note that some profiles (for instance, OECD subnational profiles) provide more extensive details on territorial-administrative structure and jurisdiction sizes, including a size-distribution of jurisdictions. Due to the data intensity of this requirement, this detail will not be captured in the LPS Country Profile.

Figure 7.1: Screenshot – LPS Organizational Profile of the Public Sector

	A	B	C	D	E	F	G
1							
2		LOCAL PUBLIC SECTOR ORGANIZATIONAL / GOVERNANCE PROFILE: ORGANIZATIONAL STRUCTURE OF THE PUBLIC SECTOR					
3							
4							
5							
6				(a) Main Structure		(b) Alternate Structure	
7	S1	First administrative-territorial level/tier					
8	S1.1	Name of regional level/tier					
9	S1.2	Name of regional level/tier (in English)					
10	S1.3	Number of jurisdictions at this level:					
11	S1.4	Complete national coverage?					
12			...			...
13	S2	Second administrative-territorial level/tier					
14	S2.1	Name of local level/tier					
15	S2.2	Name of local level/tier (in English)					
16	S2.3	Number of jurisdictions at this level:					
17	S2.4	Complete coverage of higher level?					
18			...			...
19	S3	Third administrative-territorial level/tier					
20	S3.1	Name of local level/tier					
21	S3.2	Name of local level/tier (in English)					
22	S3.3	Number of jurisdictions at this level:					
23	S3.4	Complete coverage of higher level?					
24			...			...

There are a number of reference sources that provide good source materials for the completion of the General Country Profile. These reference sources include United Cities and Local Governments (UCLG), the Commonwealth Local Government Forum, and the Forum of Federations:

- http://www.cities-localgovernments.org/gold/country_profile.asp
- <http://www.clgf.org.uk/policy-and-research/>
- http://www.forumfed.org/en/federalism/by_country/index.php

The Organizational Profile (discussed in the current section) accommodates up to six sub-central territorial-administrative levels, which could either be administrative tiers or government levels. The profile records the existence of each government level or administrative tier, and the number of jurisdictions that are present at each level. Care should be taken, however, that the Organizational Profile portrays the *de facto* situation, rather than reflecting the legislated system, geographical (rather than administrative) divisions or historical conditions.³⁸

After defining the country’s complete territorial-administrative structure, the profile asks the researcher to select up to four “main” sub-central governance levels or administrative tiers. For each of these four (or fewer) levels, the remainder of the LPS Country Profile will elicit further details on functional responsibilities; local public sector finances; and political, administrative and fiscal institutional arrangements.

³⁸ At the discretion of the researcher, intermediate administrative tiers that are not (or no longer) widely used or only marginally relevant in terms of governance or administration may be omitted from the profile.

S1 – S6. TERRITORIAL-ADMINISTRATIVE LEVELS OF THE PUBLIC SECTOR

The territorial-administrative structure of a country is sometimes defined in the constitution, whereas in other countries, the organization architecture of the country is defined by the legislative framework. In the latter scenario, the entire public sector structure may be defined by a single decentralization framework law or local administration law, or the structure may result from a variety of different laws, each of which define part of the subnational architecture.

It is the intent of the Country Profile to reflect the *de facto* nature of the country's territorial-administrative structure. For instance, the legislative framework may contain references to an administrative tier that in practice does not exist or does not function as a deconcentrated tier of the central administration. Similarly, if a law is passed that states that local governments should be led by elected councils, but in reality no elections have been held or the elected council is only given an advisory role (and not actually given the political leadership over the jurisdiction's executive responsibilities), then the true structure should be reflected in the profile. As such, information on the occurrence on local elections and a clear understanding of national and local budget structures and budget processes will be critical in determining the exact organizational structure of the public sector.

The profile of the organizational structure of the public sector allows the researcher to record (a) a main territorial-administrative structure, as well as (b) an alternate structure. In some countries, the public sector simply has a simple, single, symmetric territorial-administrative structure. In this case, only the column for the main structure needs to be completed. In other countries, different governance structures may be applied to different parts of the national territory. For instance, in some countries, substantial differences exist between the governance structure of rural areas and urban areas, where urban areas may have substantially different functions, financial resources or governance mechanisms. In that case, the column for the alternate structure can be used to record the nature of the territorial-administrative structure in urban areas. The presence of other asymmetric territorial-administrative arrangements should be recorded in the Country Profile Notes.

For each level or tier of subnational administration of governance that exists in a county (including the primary and possibly any alternate territorial-administrative structures), the organizational structure profile asks the researcher to report three things, namely: 'Name', 'Number', and 'National coverage':

Name: the researcher is asked to complete the name of the government level both in the country's own national language as well as in English.

Number: What is the number of jurisdictions of this type that exists? Determining this information may require specific information from the Ministry responsible for Local Governments, as in many countries jurisdictions are created by administrative action (and thus, the number may not be reflected in the legislative framework).

Complete coverage of the higher level: Is the entire territory of the next-higher level covered by jurisdictions of this nature? For instance, is the national territory completely divided up into provinces, or are districts completely divided up in municipalities? The responses available for this question include 'Yes', 'Yes (a+b)' and 'No'.

In many countries, sub-central administrative or governance levels cover the entire national territory (or, for levels 2-6, they cover the entire territory of the next higher-level government). In countries where two types of jurisdictions exist, in which case the territory of a province is divided into urban and rural local authorities that have a substantially different local governance mechanism. In this case, the response 'Yes (a+b)' would be appropriate. In yet other countries, certain governance entities only cover part of the national territory (or only part of the higher-level jurisdictions). For instance, in some countries municipalities only exist in urban areas, whereas there is no equivalent governance entity in rural areas. In that case, municipalities clearly do not provide national coverage.

Further guidance for completing the organizational profile

As already noted, many countries have different subnational governance structures in urban areas and in rural areas. In some countries, the jurisdictions are essentially equivalent in how they operate (despite the different label). In other countries there are only relatively minor differences in functions and operation of urban and rural local governments, whereas in yet other countries, urban and rural structures are completely different and unrelated. After careful consideration of country systems, the researcher should use his or her discretion to determine whether the main and alternate structures are sufficiently different in nature to warrant assigning separate status in the organizational structure profile. For instance, urban and rural (district) local authorities may be empowered by two different laws, but for all intents and purposes, have the same functions and governance structures. It should be noted that even if the organizational profile separates the two different types of local entities, the researcher can subsequently decide in Question G1.1 (and G3) to analyze the fiscal and institutional for the main and alternative governance structures if they are similar enough in nature.

In completing the organizational profile it should further be noted that in some countries, there may be parallel systems that are not necessarily hierarchical, or that do not necessarily follow the hierarchical structure of the main territorial-administrative system. For instance, in Mozambique, municipalities operate alongside the hierarchical state administration system. In such cases, it may be practical to list the parallel structures below the hierarchical structures, or to clarify the relationship (or lack of relationship) between different territorial-administrative levels in the Country Profile Notes.

In some countries, there are asymmetrical subnational governance structures, which may be difficult to capture in the profile. For instance, a metropolitan government may be formed as a separate governance entity for the capital region, or for a handful of large urban areas. Sometimes metropolitan governments fulfill the functions of a regional government as well as the functions of lower-level local governments. Depending on the exact nature of these entities, they may either be captured in the profile together with the equivalent higher-level government, or may need to be assigned a separate level or tier in the territorial-administrative structure within the alternate structure. Clarifications should be provided in the Country Profile Notes.³⁹

³⁹ With respect to national coverage, it may be the case that national coverage is universal, with the exception of an autonomous region or another asymmetric feature. (For instance, since Tanzania is a Union of Mainland Tanzania and Zanzibar, while Mainland Tanzania is fully divided up into Regional Administrations and Local Government Authorities (district and urban local authorities), Zanzibar (which accounts for less than 5% of national population) has its own local governance structure. In this case, it would be prudent to indicate that Tanzania's district level has full national coverage. (The asymmetry should be noted in the General Country Profile).

An alternative asymmetry challenge in completing the organizational structure profile may be posed by the presence of an “autonomous region” (or several autonomous regions) that has a different sub-regional structure from the rest of the country. If possible, the region should be counted at the appropriate comparable sub-central governance level (if it exists in the overall hierarchical structure), and its special status should be commented on. Alternatively, the existence of the autonomous region could be classified as a separate level in the local public sector. Again, clarifications should be provided in the Country Profile Notes.

Another potential idiosyncrasy is that, in some countries, there may be two different entities (for instance, deconcentrated administrative entities and elected governance entities) at the same territorial-administrative level. For instance, in Zambia, there are deconcentrated district administrations and elected district councils, both operating at the district level, but each with separate functional responsibilities, each with their own governance mechanisms and leadership, and each with their own associated finances. While these entities operate within the same territorial-administrative borders, they should be included separately within the organizational structure of the local public sector.

In the rare case that more than six important levels or tiers exist in a country, please provide details on the remaining territorial-administrative tiers/levels in the accompanying Country Profile Notes, including the same information for these levels as contained in the data collection instrument.

Finally, if a significant part of the local public sector is formed by special-purpose governments (such as school districts in the United States), these special-purpose local governments should be included in the structure profile as a separate level of the public sector.

Care should be taken, however, not to include bodies that are closely aligned to public sector operations but that are not proper local public sector entities, such as School Management Committees or community groups that –while sharing many features with local governments- should not be considered a separate territorial-administrative level within the public sector.

SECTION 8: GUIDANCE ON THE PREPARATION OF THE LPS COUNTRY PROFILE: GOVERNANCE STRUCTURE OF THE PUBLIC SECTOR

Based on the territorial-administrative levels and tiers recorded in Questions S1-S6, the researcher should select the four (or fewer) “main” sub-central levels for further analysis in the Governance Profile of the public sector and throughout the rest of the Country Profile. The Governance Profile asks basic questions about the legal and budgetary nature of local entities at each of the (up to) four main levels (or type) of local jurisdictions.

Figure 8.1: Screenshot – LPS Governance Profile of the Public Sector

A	B	C	D	E	F	G	H	I	J	K
LOCAL PUBLIC SECTOR ORGANIZATIONAL / GOVERNANCE PROFILE: GOVERNANCE STRUCTURE OF THE PUBLIC SECTOR										
	[Country Name]		LPS Level/Type 1	LPS Level/Type 2	LPS Level/Type 3	LPS Level/Type 4				
	[Year]		[Name 1]	[Name 2]	[Name 3]	[Name 4]				
G1	Main institutional features of local entities									
G1.1	Name of the local entity level/type		[Name 1]	[Name 2]	[Name 3]	[Name 4]				
G1.1a	Are local entities at this level/type institutional units?		...	...	...	...
G1.2	Are local entities at this level/type (semi-)autonomous corporate bodies?		...	...	...	...
G1.3	Do local entities at this level/type engage in governance functions?		...	...	...	...
G1.4	Do local entities at this level/type have their own political leadership?		...	...	...	...
G1.5	Do local entities at this level/type prepare/adopt/manage their own budgets?		...	...	...	...
G1.6	Are local entities entitled to own assets and raise funds in own name?		...	...	...	...
G1.7	Are local entities able to incur liabilities by borrowing on their own account?		...	...	...	...
G1.8	Are local entities able to appoint their own officers?		...	...	...	...
G1.9	Are local entities able to employ, hire/fire/promote their own staff?		...	...	...	...
G1.10	Are local entities budgetary units or sub-units of the higher-level government?		...	...	...	...
G1.11	If (G1.10) yes, are local departments organized sectorally or territorially?		...	...	...	...
G1.12	If (G1.10) no, are local entities non-budgetary sub-units of the higher level?		...	...	...	...
G2	Governance of local entities									
G2.1	If (G1.4) yes, is the local political leadership (at least in part) locally elected?		...	...	...	...
G2.2	If (G2.1) yes, have elections been held in the past seven years?		...	...	...	...
G2.3	Does the local political leadership include elected local councils?		...	...	...	...
G2.4	If (G2.3) no, is there a local advisory / supervisory council?		...	...	...	...
G2.5	Does the local governance structure include (in)directly elected executive?		...	...	...	...

G1.1 Name of local entity level / type

In order to complete Question G1.1, the researcher should choose up to four government levels or administrative tiers from both the main and alternate territorial-administrative structures, as relevant. In fact, if applicable for the country under review, the researcher may define a main administrative-territorial level or tier by combining the main and alternate jurisdictions at the same level. For instance, if a country has Rural Local Authorities and Urban Local Authorities, they may be combined in one “LPS Level/Type” for the purpose of reporting fiscal and institutional data if they are largely similar in nature. In fact, in some countries, the fiscal data for such entities may already be reported in an aggregated manner across the two types of entities.⁴⁰

⁴⁰ To the extent that there are minor differences in institutional arrangements for the different types of local entities at the same level, please indicate this in the Notes, and consistently report the institutional arrangements for the local jurisdiction



Alternatively, if the institutional characteristics are sufficiently different, and the relevant fiscal and institutional information is available, the researcher may opt to report separately on two different types of local government entities that operate at the same level. The headers “LPS Level/Type 1-4” should not be seen as a formal designation of each territorial-administrative level or tier; instead, the headers should merely be seen as a place-holder for whatever types or levels of local jurisdictions play the most prominent role in each country’s local public sector.

In selecting and determining the composition of up to four main local public sector levels or tiers, insights may be drawn from the IMF Government Finance Statistics: the Institutional Tables presented at the back of each Statistical Yearbook indicate which local governments the IMF considers to be included in its institutional definition of the State and Local Government Sub-Sectors. Of course, the LPSI and IMF have diverging views of the scope of the local public sector, as –depending on the metric used to measure the local public sector– the LPSI methodology also considers deconcentrated and delegated and direct expenditures as part of the local public sector.

The LPS Country Profile should generally contain fiscal and institutional details for the main sub-central entities where the bulk of sub-central interaction takes place, as reflected by the levels of public spending and revenue collections. It is therefore useful to have some idea of the level of public spending at the different local levels before proceeding and selecting the local public sector levels to be included in the Country Profile. The intent of the LPS Country Profile methodology is to capture at least 90 percent of sub-central interaction between the public sector and the people, as measured by public expenditures.⁴¹

G1.1a – G1.12 Main features of local entities

Question G1.1a –G1.12 ask elementary questions about the organizational nature, legal status and basic governance of the four levels/tiers/types of local entities selected in Question G1.1. Appropriate responses to these questions include ‘Yes’, ‘No’ and ‘Mixed/Other’.

Rather than simply classifying local entities as either devolved local governments, deconcentrated local administration bodies or some other type of local entity, the first batch of questions seeks to capture the main organizational, legal and governance characteristics of local bodies. As such, the LPSI methodology does not impose a single specific definition of what constitutes a local government.⁴² This approach recognizes the reality that not all countries have ‘pure’ local governments or ‘pure’ deconcentrated administrative entities. Instead, in many countries, local entities combine features of semi-autonomous elected local governments and deconcentrated local units.

G1.1a Are local jurisdictions at this level/type organized as integrated institutional units? The first thing we want to know about local jurisdictions is whether they are organized as integrated institutional

type that are most prevalent (e.g., District Authorities). If the differences are substantial, it might be appropriate to report the main and alternate jurisdiction types separately.

⁴¹ Contact the LPSI Secretariat for guidance if it is necessary to include more than four LPS levels in the further analysis.

⁴² As noted in Section 2.2, local governments are typically defined as local entities that are (i) corporate bodies; (ii) that perform public functions within their territorial jurisdictions; (iii) have their own (often elected) political leadership; and (iv) prepare and approve their own budgets. However, not everyone adheres to this definition. For instance, the IMF suggests that in order for a local entity to be a ‘real’ local government, it should be entitled to appoint their own officers; to own assets and raise funds in own name; and to incur liabilities by borrowing on their own account (IMF, 2001).

units. For the purpose of this question, an institutional unit is either an administrative entity or a governance entity that has a single administrative structure and has a single budget.^{43,44} For instance, elected local governments –as defined in Section 2.2- are legally formed as corporate bodies with their own budgets, and therefore function as institutional units. In addition, in some deconcentrated countries, deconcentrated local bodies are also organized and funded in a territorial manner as integrated institutional (administrative and budgetary) units. In these cases, the answer to Question 1.1a should be ‘Yes’.

In other deconcentrated countries, however, local administrative line departments may be organized and/or funded vertically as part of their respective line ministries. In these cases, the possibility for coordination at the subnational level is much more limited, and therefore, we cannot speak of integrated institutional units of the local level. In these cases, the answer to Question 1.1a should be ‘No’.

G1.2 Are local entities at this level/type (semi-autonomous) corporate bodies? Is the local entity a separate legal entity, which is not fully controlled by the central (or higher-level) government? Typically, corporate bodies can own and transact property in their own name, open and manage their own bank accounts, and can sue and be sued in their own name?

G1.3 Do local entities at this level/type engage in governance functions? Does the jurisdiction have binding decision-making authority over certain affairs within its jurisdiction territory? Does it provide public services or infrastructure, regulate the use of public space or other common resources, provide public order or dispute resolution, engage in civil or local administration, engage in other activities for the common good of the jurisdiction, and/or does the jurisdiction engage in taxation? If the entity or jurisdiction at hand does not engage in any of these governance functions, it should not be considered a public sector entity that should be considered as part of the Local Public Sector Country Profile.

G1.4 Do local entities at this level/type have their own political leadership? Political leadership is considered to exist if there is degree of autonomy vested in local leaders over deciding the affairs of the local jurisdiction. When a local jurisdiction or entity has its own political leadership, it is often (but not always) the case that part or all of the local political leadership is elected. It should be noted that the presence of an (elected) advisory council which does not hold executive or legislative authority at the local level should not be considered to be part of local political leadership.

G1.5 Do local entities at this level/type prepare/adopt/manage their own budgets? Answer ‘Yes’ if the local entity prepares, approves and manages its own (operating and/or capital/development) budget. For the purpose of this question, do not consider “deconcentrated budgets” as “own budgets” if the budget for an entity is prepared and/or approved by a higher government level, and then contained (as an organization or sub-organization) in the budget of the higher level.

G1.6 Are local entities entitled to own assets and raise funds in their own name? When local entities raise funds through local revenues, are they allowed to deposit these funds in their own accounts and

⁴³ Note that in order to be considered an institutional unit, there is no requirement for the institutional unit to have any control over its own budget.

⁴⁴ Please note that this definition diverges from the definition of an institutional unit as defined by the IMF (2001, p.8).

decide over the use of these funds? Furthermore, at the end of the financial year, are local entities permitted to carry forward their financial resources from one financial year to the next?

G1.7 Are local entities able to incur liabilities by borrowing on their own account? Are local entities able to incur liabilities by borrowing on their own account? For the purpose of this question, it is irrelevant whether such borrowing requires approval by a higher-government level. Borrowing issues are further explored as part of Question F.4 (Subnational borrowing and debt), which is part of the Local Public Sector Institutional Profile (Fiscal Aspects of the Local Public Sector).

G1.8 Are local entities able to appoint their own officers? Local officers include the senior executive or administrative staff of the local entity, including the chief executive, the chief administrative officer and/or the chief finance officer of the local body, as well as the heads of the main local departments. Answer 'Yes' if the local political or administrative leadership of the local body is able to select and appoint its own officers to these positions. Answer 'No' if the people in these positions are typically hired or appointed by central government or someone other than the local political or administrative leadership. Answer 'Mixed / Other' if only part of the local executive team is locally appointed.

G1.9 Are local entities able to employ, hire/fire/promote their own staff? Answer 'Yes' if local entities are able to determine their own organizational structure and staff contingent, and are generally able to employ, hire, fire, promote and manage their own staff, without direct involvement of (or requiring approval from) higher-level government officials. Local human resource management issues are explored in greater details as part of Question A.3 (Local human resource administration), which is part of the Local Public Sector Institutional Profile (Administrative Aspects of the Local Public Sector).

G1.10 If (G1.5) no, are local entities budgetary units or sub-units of the higher-level government? One of the main distinguishing features of local government entities is that they prepare, adopt and manage their own budgets. As such, the budgets of local governments are typically not part in the budget of the higher-level government.⁴⁵ In this case (if G1.5 is answered positively), questions G1.10-G1.12 do not apply and may be left unanswered.

In contrast, the budgets of deconcentrated administrative units consistently form part of the higher-level government budget (see the discussion in Section 2.2). In fact, in some deconcentrated countries, local entities are formally recognized in the national Chart of Accounts as budgetary units or budgetary sub-units of the higher-level government. Answer 'Yes' if local entities are recognized as budgetary units within the higher-level government budget, or when local line departments are recognized as budgetary sub-units of their respective higher-level government ministries or agencies.

G1.11 If (G1.10) yes, are local departments organized sectorally or territorially? When a deconcentrated line department is a budgetary sub-unit of its respective line ministry (and therefore, when the line department's budget is part of its central ministry budget), then this is known as sectoral (or vertical) deconcentration. When subnational jurisdictions are primary budget entities and the

⁴⁵ In the case of devolved local governments, the budget of the higher-level government typically only includes the level of intergovernmental fiscal transfers provided to the subnational governments as part of the budget estimates. For information purposes, however, an annex to the central government budget may report on all local revenues and expenditures.

budgets of local line departments are contained in the budget of these territorial administrative jurisdictions, then this is known as territorial (or horizontal) deconcentration.⁴⁶

G1.12 If (G1.10) no, are local entities non-budgetary sub-units of the higher level? Deconcentrated local entities are not always recognized in the national Chart of Accounts as budgetary units, or as budgetary sub-units of the higher-level government. In fact, local entities in some deconcentrated countries are merely organizational (but not budgetary) sub-units of their parent organization at the central level. Of course, in the absence of their own budget space, such non-budgetary (organizational) sub-units have little or no opportunity for discretionary decision-making. Answer 'Yes' if local entities at the level/tier under review are merely organizational (non-budgetary) sub-units of the higher level.

G2 Governance of local entities

The governance of local entities varies considerably between countries. Unless otherwise noted, these questions should be answered for all countries and types of local entities, including (predominantly) devolved entities and (predominantly) deconcentrated entities. In fact, it is not unusual for local entities to be a hybrid entity that has governance features of both types deconcentration and devolution.

G2.1 If (G1.4) yes, is the local political leadership (at least in part) locally elected? If local entities have their own political leadership, is the local political leadership (at least in part) locally elected? In most countries with devolved local governments, local bodies have either an elected executive or an elected council, or both.⁴⁷ Answer 'Yes' if any part of the local political leadership (i.e., either the local executive or the local council/legislative) is (directly or indirectly) elected by popular vote. The researcher should be reminded that the political leadership of a local entity is comprised of those local organs that have decision-making power over the affairs of the local jurisdiction; the presence of an (elected) advisory council which does not hold executive or legislative authority at the local level should not be considered to be part of local political leadership.

G2.2 If (G2.1) yes, have elections been held in the past seven years?

G2.3 Does the local political leadership include elected local councils? In many countries with devolved local governments, the power to make political decisions (as reflected by the power to adopt local legislation or regulations, and/or the power to adopt the local budget) is vested in an elected local council. Although local entities in some countries have an executive-type council (which may consist of either appointed or elected officials or leaders), this question refers more narrowly to a council that hold legislative-type decision-making power.⁴⁸ Answer 'Yes' if the local political leadership includes –or is formed by– local (legislative) councils that are either directly or indirectly elected. Direct elections include electoral mechanisms by which local voters choose the local council members directly, for instance, through proportional representation or first-past-the-post elections. Indirect elections take

⁴⁶ Subnational jurisdictions are primary budget units when a country's main administrative subdivisions are contained in the budget structure alongside central line ministries. For instance, budget votes for regional administrations in Tanzania are listed in the budget structure alongside central line ministry budget votes; these votes contain budget programs for regional administration and regional health services. As such, regional administrations in Tanzania are territorially deconcentrated.

⁴⁷ In a handful of countries, local governments are led by appointed (unelected) local political leaders, who nonetheless retain a certain degree of autonomy from those who appointed them (e.g., Mayors in Afghanistan).

⁴⁸ Depending on the local political structure, such a council may or may not also hold executive power. This is further explored in Question P1 (subnational Political Power Structures) in Section 12.

place, for instance, when local councilors are elected by the elected representative of a lower government level. Further details about local political structures and electoral systems will be considered as part of the institutional profile of the local public sector (Section 12: Political Aspects).

G2.4 If (G2.3) no, is there a local advisory / supervisory council? An (elected or appointed) advisory council is a council or deliberative body that does not hold executive or legislative authority, but that primarily has an advisory or supervisory role. In other words, the responsibility of such bodies may include the provision of input into local planning processes and/or oversight and monitoring of the execution of local responsibilities. Since they do not hold real executive or legislative powers, such councils should not be considered to be part of local political leadership. Examples of such councils include Provincial Councils in Afghanistan or Local Popular Councils in Egypt (prior to the political transition that started in January 2011).

G2.5 Does the local governance structure include (in)directly elected executive? A local political executive is considered to be (directly or indirectly) elected when he or she is elected in direct election by popular vote (regardless of electoral mechanism), or when he or she is elected indirectly, for instance, by being elected or selected by the local (legislative) council (presuming that the council in turn is directly or indirectly elected). Answer 'No' if the local executive is appointed by a higher-level government.

G3.1 Functional Profile level/types

The four (or fewer) levels or types of local entities selected in Question G1.1 serve as the default levels or types of subnational entities that are used in completing the remainder of the Country Profile. However, there may be compelling reasons to use different classifications of local levels/types for different parts of the Country Profile. For instance, the manner in which local government fiscal data are reported may be different than what is practical for the reporting of the Functional or Institutional Profile.

The researcher is able to over-ride the four default levels or types of local government entities through Questions G3.1 – G3.3, for the Functional Profile, Fiscal Profile, and Institutional Profile, respectively.

SECTION 9: GUIDANCE ON THE PREPARATION OF THE FUNCTIONAL PROFILE OF THE PUBLIC SECTOR

The second main segment of the LPS Country Profile deals with the assignment of functions and regulatory responsibilities across different levels or tiers of the public sector. The main objective of this part of the Country Profile is to determine which territorial-administrative or governance level has the mandate or the responsibility to perform certain public functions or deliver the related public services.

Figure 9.1: Screenshot – LPS Functional Profile of the Public Sector

Consistent with the desire of the Country Profile to capture the actual situation on the ground, the Functional Responsibility Profile asks the researcher to indicate the actual (or *de facto*) functions and tasks that each government level or administrative tier performs, rather than indicating which (*de jure*) functions and tasks that each government level or administrative tier is expected to perform according to the legislative framework.

In many countries, the factual assignment of functions and responsibilities of local jurisdictions coincides with the mandates and responsibilities assigned to them by the legislative framework.⁴⁹ As such, the Country Profile Notes should reference the source of legislative functional assignments. The functional profile itself, however, should exclusively reflect the level(s) of government that are responsible for delivering different public services.

⁴⁹ During the transition from one legal framework to another, the assignment of functional responsibilities may reflect the previous legal framework if the newly legislated assignment of functional responsibilities is yet to take effect. If this is the case, this should be recorded in the Country Profile Notes.



Background on the assignment of functions and expenditure responsibilities

In some countries, especially in federal countries, the assignment of functional responsibilities is made in the constitution. However, this is not the norm around the world, especially not in unitary countries. Instead, in most countries with devolved (elected) local governments, the assignments of functional responsibility is often made by law (e.g., by a Local Government Act). It is not unusual for the functional assignment to be vague or inconsistent, or for there to be gaps between the *de jure* expenditure assignment and *de facto* practices. In deconcentrated countries, the assignment of responsibilities between different administrative tiers is typically done by a Local Administration Law, while in other countries the assignment of responsibilities is defined by (sectoral) policy, regulation or simply driven by practice.

Different terms are used in different countries with the regard to the assignment of functional responsibilities and authority. Legislation may refer to the assignment of powers; functions; responsibilities; mandates; or make distinctions between different types of functions, such as mandatory functions versus optional functions (and sometimes prohibited functions).

It should be noted that the assignment of functional responsibilities are multi-dimensional in nature. For instance, the responsibility for the delivery of primary education can be “unbundled” into the responsibility for (a) the development of the school curriculum, setting of educational standards and norms; (b) the responsibility for providing the financial resources for primary education; (c) the actual “provision” of primary education (i.e., making sure that the service is provided); and (d) the production of the school (which may be done by public sector itself, or by a private provider).⁵⁰ The discussion of functional responsibilities in this segment of the profile focuses exclusively on the responsibility to *provide* or *deliver* the public service: in other words, which government level or administrative tier is responsible for making sure that the public services are actually *delivered*.⁵¹ Which government official has the responsibility for making sure that schools are operated and maintained, that teachers show up in the classroom, and that learning materials are present; who is responsible for making sure that solid waste is picked up and transported to the land fill; who is assigned the responsibility for operating health clinics and providing health services; or –more generally- who makes sure that the public sector’s resources are transformed into public service outputs for any specific function?

It should further be noted that the assignment of functional responsibility or legal authority does not automatically mean the government is given adequate control over administrative or fiscal systems to deliver the function properly, or that the relevant officials have discretion over the utilization of resources. For instance, it is not unusual for the responsibility for primary education to be assigned to an elected district council, while the hiring and firing of teachers may be done by the central Civil Service Department; the rehabilitation and construction of school infrastructure may be controlled by the Ministry of Education; textbooks are produced centrally and distributed in kind; while sectoral guidance is issued by the line ministry on how to spend operational and maintenance (O&M) resources.

⁵⁰ Functional responsibilities may be unbundled into further, smaller dimensions as well (e.g., the responsibility to hire and fire teachers; responsibility for infrastructure; and so on).

⁵¹ In other words, this segment of the profile does not deal with the policy or policy standards aspect for public services; or with the responsibility for financing; nor necessarily with details about responsibility for infrastructure. These issues are dealt with subsequently in the institutional profile. For further discussion, see profile questions A4 and F1.

F1 – F 27. RESPONSIBILITY FOR FUNCTIONS AND PUBLIC SERVICE DELIVERY

Worksheet 3 (Functions) of the LPS Country Profile presents a list of 27 government functions (Box 9.1).⁵² For each of these functions contained in the Functional Profile, based on actual situation, the researcher should indicate which level of government or administration has the factual authority or responsibility to deliver the function. In other words, who is the delivering authority?

Box 9.1: Functional Profile of the Public Sector	
<p>General Administration (701) F1.1 Civil Administration * (registration of births, deaths, and marriages)</p> <p>Defense (702) --</p> <p>Public Order and Safety (703) F1.2 Police Services (7031) F1.3 Fire protection (7032)</p> <p>Economic Affairs (704) F1.4 Agricultural extension services* F1.5 Irrigation* F1.6 Livestock promotion* F1.7 Development and operation of markets * F1.8 Roads and infrastructure * F1.9 Traffic and urban transportation * F1.10 Local economic development *</p> <p>Environmental Protection (705) F1.11 Waste management (7051) F1.12 Waste water management (7052) F1.13 Protection of biodiversity and landscape (7054)</p>	<p>Housing and Community Amenities (706) F1.14 Housing development (7061) F1.15 Community development (7062) F1.16 Water supply (7063) F1.17 Street lighting (7064)</p> <p>Health (707) F1.18 Hospital services (7073) F1.19 Public health and outpatient services (7072,7074)</p> <p>Recreation, culture, and religion (708) F1.20 Recreation and sporting services (7081) – incl. parks F1.21 Cultural, religious and other community services (7082, 7084)</p> <p>Education (709) F1.22 Pre-primary Education (70911) F1.23 Primary Education (70912) F1.24 Secondary Education (7092) F1.25 Vocational (Postsecondary, non-tertiary) Education (7093) F1.26 Tertiary Education (7094)</p> <p>Social Protection (710) F1.27 Social Protection (710)</p>

The list of functions contained in the Functional Profile is largely based on the Classification of Functions of Governments, which was developed by the IMF and is presented in great detail in the IMF Government Finance Statistics Manual 2001 (pages 79-110).⁵³ The structure and the selection of the list of functions included in the functional profile is further based on the country profile format developed by the Commonwealth Local Government Forum (CLGF). The CLGF Country Profiles may provide a useful input into the completion of the LPS Functional Profile.

⁵² Since the assignment of functions and expenditure responsibilities is typically considered the first pillar of fiscal decentralization, consistent with the remaining questions about fiscal institutions, the functional assignment questions are indicated with the letter 'F'.

⁵³ Functions indicated with an asterisk in the Functional Profile are not based on the IMF classifications.

Figure 9.2: Overview of the Classification of the Functions of Government (COFOG)

7	Total outlays		
701	General public services		
7011	Executive and legislative organs, financial and fiscal affairs, external affairs		
7012	Foreign economic aid		
7013	General services		
7014	Basic research		
7015	R&D ¹ General public services		
7016	General public services n.e.c. ²		
7017	Public debt transactions		
7018	Transfers of a general character between different levels of government		
702	Defense		
7021	Military defense		
7022	Civil defense		
7023	Foreign military aid		
7024	R&D Defense		
7025	Defense n.e.c.		
703	Public order and safety		
7031	Police services		
7032	Fire protection services		
7033	Law courts		
7034	Prisons		
7035	R&D Public order and safety		
7036	Public order and safety n.e.c.		
704	Economic affairs		
7041	General economic, commercial, and labor affairs		
7042	Agriculture, forestry, fishing, and hunting		
7043	Fuel and energy		
7044	Mining, manufacturing, and construction		
7045	Transport		
7046	Communication		
7047	Other industries		
7048	R&D Economic affairs		
7049	Economic affairs n.e.c.		
705	Environmental protection		
7051	Waste management		
7052	Waste water management		
7053	Pollution abatement		
7054	Protection of biodiversity and landscape		
7055	R&D Environmental protection		
7056	Environmental protection n.e.c.		
		706	Housing and community amenities
		7061	Housing development
		7062	Community development
		7063	Water supply
		7064	Street lighting
		7065	R&D Housing and community amenities
		7066	Housing and community amenities n.e.c.
		707	Health
		7071	Medical products, appliances, and equipment
		7072	Outpatient services
		7073	Hospital services
		7074	Public health services
		7075	R&D Health
		7076	Health n.e.c.
		708	Recreation, culture, and religion
		7081	Recreational and sporting services
		7082	Cultural services
		7083	Broadcasting and publishing services
		7084	Religious and other community services
		7085	R&D Recreation, culture, and religion
		7086	Recreation, culture, and religion n.e.c.
		709	Education
		7091	Pre-primary and primary education
		7092	Secondary education
		7093	Postsecondary nontertiary education
		7094	Tertiary education
		7095	Education not definable by level
		7096	Subsidiary services to education
		7097	R&D Education
		7098	Education n.e.c.
		710	Social protection
		7101	Sickness and disability
		7102	Old age
		7103	Survivors
		7104	Family and children
		7105	Unemployment
		7106	Housing
		7107	Social exclusion n.e.c.
		7108	R&D Social protection
		7109	Social protection n.e.c.

Source: IMF GFS Manual (2001). For further details about these functional classifications, see Annex to Chapter 6: Classification of the Functions of Government (IMF 2001, pages 79-110).

As noted above, although functional assignments may be multi-dimensional, the Functional Profile focuses on the *delivery* of these functions. In most cases, the entity or level that has primary responsibility for making sure that the service is delivered is the administrative tier or governance level that administers or manages the staff that are responsible for the front-line delivery or the relevant public service. In some countries, this is the same level that is responsible for managing the operational and maintenance aspects of service provision, or for ensuring that the capital infrastructure is in place. In other countries, these responsibilities may be assigned to different levels or tiers. Since the delivery of public services requires combining human resources with other recurrent inputs (including operation and maintenance expenditures as well as certain types of sectoral supplies) and capital infrastructure, the researcher should consider whether the same level of government or administration in practice is responsible for providing or delivering all of these different components of a functional responsibility.

As further discussed below, the researcher will have the option to indicate whether multiple government levels or administrative tiers share the responsibility for delivering a particular function or public service.

The *de facto* assignment of responsibilities is generally (although perhaps not always) revealed by the budget. For instance, if the budget for primary school teacher salaries is assigned to local administration level, this level typically has the responsibility for managing the teachers and delivering primary education. For the purpose of the Functional Profile, we do not consider which government level is responsible for setting standards and norms, or which level is responsible for financing the recurrent provision of these services.

The profile indicates the level or type of local entity that is primarily or exclusively responsible for a specific function with the designation that it is the ‘Main’ responsible authority. In other instances, functional responsibilities may be shared between different levels or types of local bodies. The researcher is requested to indicate the nature or type of responsibility that the indicated entity or level has over each respective function. The possible responses to be used in completing the functional assignment profile include:

Main	The law/regulation generally or fully assigns the responsibility for the delivery of a function to the relevant local government level
Shared	The law assigns part of service delivery to different levels; for instance, water supply may be either provided by districts in rural district governments and by centrally-managed water companies in towns and urban areas. Alternatively, the law (or different laws) assigns different parts of service delivery within this function to different levels. ⁵⁴
Limited	In some cases, the local level is assigned a limited role within a functional category. For instance, the district level may be assigned the responsibility to maintain public order (through “local police” or “village watchman”) although main police services are provided by the central level. In this case, the research may indicate the limited functional responsibility of the local level (or alternatively, it would be acceptable to indicate the main responsibility of the central government) for police services.
Optional	This option is only to be used when the assignment of expenditure responsibilities specifically makes a distinction between mandatory functions and optional functions, and the law assigns certain functions to the local level as “optional” (mandatory functions would fall under “main”).
Default (“...”)	Indicates no responsibility assigned to a level/tier, or the response is not applicable

The researcher preparing the Country Profile should be aware that the list of functional responsibilities contained in the Country Profile is not a fully complete list of all government functions. The list of functional assignments contained in this segment of the Country Profile does not generally ask the researcher to assign responsibility for General Administration (701) or Defense (702).⁵⁵ The remainder of the list focuses on responsibilities that are frequently assigned to the local public sector. Relatively

⁵⁴ Note again that the functional assignment profile should only consider the legal assignment of responsibility for the provision or delivery of a public service. In other words, the option “Shared” should not be used to refer to a concurrent assignment of functional responsibilities, where policy and/or finance is assigned as a responsibility of higher-level government, whereas delivery of the function is assigned to the local level.

⁵⁵ It is assumed that each level or tier within the local public sector has responsibility for administering itself, whereas the local public sector is generally not assumed to have any responsibility for national defense.

minor functions or functions that are generally not assigned to sub-central entities are left out of the list to make the list manageable. The researcher should note in the Country Profile Notes if there are considerable functions assigned to the local public sector that are not noted in the functional assignment profile.

Depending on the practices on the ground (and depending on the comprehensiveness of the constitution or relevant laws), not all 27 functions listed in the profile may be clearly assigned to any specific government level or tier. As such, only functions for which it is possible to determine which tier or level is on a *de facto* basis responsible should be included in the profile.

Further guidance in completing the functional responsibility profile

Although the profile should reflect the actual (not the legal) situation, in the Country Profile Notes, please provide a reference to the legal source for the functional assignments. (E.g., cite the section or schedule of the Local Government Act or Constitution that provides for the assignment of functional responsibilities).

The researcher completing the profile should interpret both legal and factual mandates with care. In some countries, local governments are assigned vague mandates or responsibilities, such as the responsibility to “support the general social and economic wellbeing of the community” or to “encourage and promote education” or to “monitor the implementation of service delivery”. While in some of these cases, such vague language is the basis for assigning specific functional responsibilities in public service delivery, in many other countries, such a vague legal assignment of functional responsibilities denotes the assignment of very limited responsibilities at best, or may only represent an oversight role or even merely “lip service”, but no actual service delivery responsibility or authority. As such, care should be taken in interpreting such vaguely worded legal assignment of expenditure responsibilities in completing this functional assignment segment of the Country Profile.

The assignment of responsibilities between different administrative tiers may be less clear-cut in deconcentrated systems. Sometimes a general law assigns functional responsibilities between different administrative tiers (such as the *Law of Local State Organizations* in Mozambique).

Consistent with IMF definitions, social protection functions should not consider publicly-funded social security insurance programs if they are run outside the general budget. However, social protection programs that are traditionally provided through the public sector (either at central or local level) should be included into the functional assignment profile, including employment programs, livelihood programs, social action programs, and so on.

Finally, how should the Country Profile be completed if the policy and legal framework was reformed in recent years, and the assignment of functions still follows the previous legal approach? If limited or no efforts have been made at all to introduce the new assignment of responsibilities, please note the new legislative framework in the Country Notes, but complete the profile based on the previous legal framework. If steps have been made to start implementing the new functional assignment, or if there are explicit or even implicit transition arrangements, please incorporate the new legal framework in the profile. In either case, please clarify the change in functional responsibilities in the Country Profile Notes.

A1. LOCAL AUTHORITY TO REGULATE AND PLAN PHYSICAL SPACE

In addition to the power and authority to deliver certain public services, local bodies are often also given a certain degree of administrative power to initiate local laws and regulations on issues affecting their jurisdiction. In theory it is argued that the local governments are more effective regulators and can improve allocative efficiency because they are better able to ascertain and aggregate their constituents' preferences than regional or central governments. In administratively decentralized systems, regulatory discretion of the local government often extends to areas including local economic development, land use planning and management, zoning, as well as some aspects of public safety, public health, social protection, education, and environmental protection (World Bank, 2008). In addition to the ability to regulate, local governments also need the authority to sanction non-compliance to ensure enforcement of these regulations, for example through administrative penalty.

For the following questions, please note whether jurisdictions at each level have (and generally exercise) the authority to plan physical space and/or establish and enforce regulations in the following areas. Possible answers to the following questions include 'Main', 'Shared', 'Limited' and 'Optional'.⁵⁶

A1.1 Land use planning and zoning

A1.2 Land assignment, acquisition and transfer

A1.3 Land conservancy; environmental protection

A1.4 Building and construction regulation; building permits

A1.5 Traffic and parking

A1.6 Local tourism promotion

A1.7 Billboards and the display of advertisements in public places

A1.8 Cemeteries, funeral parlors and crematoria

A1.9 Regulation of local markets and street vendors

A1.10 Regulation of local businesses (barbers, salons, retail, and food consumption)

⁵⁶ As regulatory powers are often considered part of administrative decentralization, these questions rely on the letter code ('A') as the institutional questions about the administrative aspects of the local public sector.

SECTION 10: GUIDANCE ON THE PREPARATION OF THE LPS FISCAL PROFILE: PUBLIC EXPENDITURES

In addition to organization-governance (sub-)profile and the functional (sub-)profile, the third main part of the LPS Country Profile covers the Local Public Sector’s Fiscal Profile. The Fiscal Profile encompasses two segments or worksheets, including (local) public expenditures (worksheet: 4 Exp) and (local) public revenues (worksheet: 5 Rev). The revenue worksheet includes not only the own-source (tax and non-tax) revenues of each government level or administrative tier, but also considers the flow of intergovernmental fiscal transfers and (local) borrowing. Guidance on the preparation of the public sector expenditure profile is provided in this section of the Handbook (Section 10), whereas the preparation of the revenue profile is discussed in greater detail in Section 11.

Figure 10.1: Sample Screenshot – LPS Expenditure Profile

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q
1																	
2			LOCAL PUBLIC SECTOR FISCAL PROFILE: PUBLIC SECTOR EXPENDITURES														
3																	
4																	
5			[Country Name]	Central	Direct / Delegated	LPS Level/Type 1	LPS Level/Type 2	LPS Level/Type 3	LPS Level/Type 4	Total							
6			[Year]	Public Sector	Central Expend.	[Name 1]	[Name 2]	[Name 3]	[Name 4]	Public Sector							
7																	
8			Total Expenditures (by Functional Classification)														
9			E701	General public services (701)													0
10			E702	Defense (702)													0
11			E703	Public order and safety (703)													0
12			E704	Economic affairs (704 excl 7042)													0
13			E7042	Agriculture, forestry, fishing & hunting (7042)													0
14			E705	Environmental protection (705)													0
15			E706	Housing and community amenities (706 excl 7063)													0
16			E7063	Water supply (7063)													0
17			E707	Health (707)													0
18			E708	Recreation, culture, and religion (708)													0
19			E709	Education (709 excl 7091, 7092)													0
20			E7092	Pre-primary, primary and secondary education (7091, 7092)													0
21			E710	Social Protection (710)													0
22				Total	0	0	0	0	0	0	0	0	0	0	0	0	0
23				Total Expenditures (by Economic Classification)													
24			E21	Compensation of employees (21)													0
25			E22	Use of goods and services (22)													0
26			E23	Consumption of fixed capital (23)													0
27			E24	Interest (24)													0
28			E25	Subsidies (25)													0
29			E26	Grants (26)													0
30			E263	Grants to other general government units													0

In preparing the Fiscal Profile, whenever possible, the aim should be to use actual expenditure and actual revenues figures (i.e., budget execution data) for the latest year available. This is in line with the intent of the LPS Country Profile to reflect the *de facto* status of the local public sector in a country. Only if actual expenditures or revenues are not available should the researcher consider using budget plan figures.⁵⁷

10.1 THE LPS FISCAL PROFILE: GENERAL BACKGROUND

The purpose of the LPS Fiscal Profile is to capture the various expenditures and revenues that take place within the Local Public Sector. Consistent with the concept of the local public sector defined in Sections 1 through 4 of this handbook, the LPS Fiscal Profile seeks to capture not only devolved expenditures

⁵⁷ In the latter case, this should be indicated in the Profile Completion Information (worksheet 9: info), question Z5.9.



(i.e., expenditures made by devolved local governments), but also deconcentrated expenditures (the expenditures made by subnational administration entities that are deconcentrated budget units). In the widest conception of the local public sector (LPS-3), we even consider certain central government expenditures (direct and delegated public service delivery expenditures) as part of the local public sector, if (a) the government service being delivered is localized in nature, and (b) the public service being provided results in a major interaction between the public sector and citizens. Section 3 of the Handbook already provides considerable guidance on what types of expenditures should be considered to be part of the local public sector.

The wider definition of the local public sector is one of the innovations of the Local Public Sector Initiative. Whereas previously, it was only possible to compare the local expenditure patterns of devolved countries (for which comparable data is available for some developing countries, including from the IMF), the LPS methodology allows the comparison of the size and scope of the local public sector across devolved, deconcentrated and even centralized countries.

Naturally, the source of information that is required to prepare a LPS Fiscal Profile differs from country to country, in large part based on the country's intergovernmental fiscal architecture. For instance, deconcentrated expenditures are contained in the national budget, since –by definition– deconcentrated expenditures are made by subnational entities that are classified as budgetary (sub-) organizations. Similarly, centrally funded direct and delegated functions may be contained in the national budget, but may require a detailed review of the entire budget document. The expenditures and revenues of devolved local governments are reported by local governments themselves, but may be monitored and reported on by either the Ministry of Finance and/or the Ministry responsible for Local Government.

Whenever possible, the LPSI aims to be consistent with the classifications and methodology set forth in the IMF Government Finance Statistics (GFS) Manual (2001). Furthermore, the LPS Fiscal Profile should rely on statistics from the IMF GFS Yearbook whenever these statistics are available for the country and government levels being considered.

The IMF uses up to three levels of public financial data within a country: Central Government (either Consolidated Central Government or Budgetary Accounts), State Government, and Local Government. The Institutional Tables in the back of each Yearbook clarify which government levels are included in each government level. Although for some countries financial statistics are available for CG, SG and LG, for some other countries, one or more relevant levels may be unavailable. If the IMF GFS data have combined different government levels into a single category, and the LPS Country Profile seeks to provide a greater level of detail, it may be necessary to break out the data into its constituent government levels using original local government budget documents.

Because it is likely necessary to combine financial data from various sources in order to prepare the LPS Fiscal Profile, the researcher preparing the Profile is encouraged to combine all budgetary source data into a single Excel workbook, from which central and local government expenditures and revenues can be mapped to the Fiscal Profile based on the different budget classification codes. From this analytical workbook, the final financial figures can be copied (using the 'past value' option) into the LPS Fiscal Profile. This background analysis should be saved in a separate Excel workbook (and made available with the remaining background information).

In the analytical workbook (that accompanies the LPS Country Profile), please highlight a cell red if – after making reasonable effort to collect the relevant budgetary data- specific data points are not available. Use the comment option in Excel in order to clarify issues in the analytical workbook. Clarifications of the Fiscal Profile can further be made in the Country Notes.

In virtually all cases (even when IMF GFS data are available), the LPS Country Profile will need to rely on national budget documents, as the LPS Fiscal Profile also tries to identify deconcentrated expenditures as well as central direct/delegated expenditures. Whenever possible, public budget documents should be used in the preparation of the LPS Fiscal Profile. Secondary data sources should be avoided for completing the Fiscal Profile. It would be prudent to retain the source documents among the background documents for future reference, and should be referenced in the Profile Completion Information. If public budget documents do not provide sufficient detail, the researcher should attempt to contact the Ministry of Finance and/or the Ministry of Local Government.

10.2 THE LPS EXPENDITURE PROFILE

The (local) public sector’s expenditures are captured in two different segments or tables in the LPS Fiscal profile:⁵⁸

The first table considers total expenditures by functional classification for each government level or tier, which is similar to Table 7 in IMF GFS Yearbook. This table covers questions E701-E710, following the main functions of government. In three cases, the researcher is asked to complete expenditures for a sub-category of functions (agriculture, water supply and basic education) whenever data are available. If data are not separately available for one or more these categories, these functions should be reported together with the main functional classification.

If the country has a separate recurrent and development budget, both budgets should be taken into account (and aggregated) in order to arrive at the functional assignment of expenditures across different government levels and tiers.

The second table considers total expenditures by economic classification for each government level or tier. This table (covering questions E21-E28) is similar to Table 2 in the IMF GFS Yearbook. Based on data availability, the researcher is asked to identify the level of spending at each level/tier of government (aggregated across all sectors and functions) for each economic category of public sector spending, including compensation of employees (21), use of goods and services (22), capital expenditures, and so on. Details on the use of the economic classification codes are discussed in Section 10.3 below. If the central and/or local governments within the country have a separate recurrent and capital budget (or development budget), these two budgets would have to be combined at each level in order to complete the economic breakdown of public expenditures across the different levels and tiers of the public sector.

⁵⁸ Ideally, the LPSI would like to know the amount of local public sector spending by economic classification for every government function and for each government level or tier. However, the time-cost of collecting such detailed data would likely be excessive for most countries (or would simply be unavailable). In fact, even the IMF’s GFS does not provide data on public expenditures that is cross-tabulated by functions and economic classifications.

If it is not possible to complete both tables, the researcher is encouraged to prepare at least one of the two expenditure tables (preferably the functional expenditure breakdown). Unless a functional profile is already prepared by the Ministry of Finance, this may require inferring the functional nature of line ministry expenditures. In the absence of specific reports on expenditures by economic classification, it may be more difficult to prepare the expenditure profile reflecting economic classifications.

Finally, it should be noted that worksheet 9 (Profile Completion Information) asks a number of questions regarding the availability and quality of public finance data (questions Z4-Z5), discussed further in Section 10.5.

10.3 THE CLASSIFICATION OF GOVERNMENT EXPENDITURES

The Functional Classification of Government Expenditures

The IMF's Classification of Functions of Government (COFOG) is already described in Section 9 of the Handbook. A highly detailed listing of how government activities and spending should be classified according to functions is provided in Annex to Chapter 6 (Classification of the Functions of Government) in the 2001 IMF Government Finance Statistics Manual (pages 79-110).

In practical terms, many budget organizations (whether central government ministries or local government departments) fall exclusively into a single functional category. For instance, in most countries, all spending of the Ministry of Defense quite clearly falls into the functional category 702 (defense). In some instances, however, the spending of a single ministry or department may have to be divided (typically by program or by sub-unit) into different functions. For instance, this would be the case if the District Health Office is both responsible for district hospitals as well as for basic health services (7073/7074) as well as public sanitation and solid waste management (7051).

The Economic Classification of Government Expenditures

A second budget classification system is highly relevant in completing the LPS Fiscal Profile, most notably the Economic Classification of Government Expenditures. Again, the details of this classification are provided in the IMF GFS Manual.

IMF's Economic Classification of Expenditures

2	Expense		
21	Compensation of employees [GFS]	263	To other general government units
211	Wages and salaries [GFS]	2631	Current
2111	Wages and salaries in cash [GFS]	2632	Capital
2112	Wages and salaries in kind [GFS]	27	Social benefits [GFS]
212	Social contributions [GFS]	271	Social security benefits
2121	Actual social contributions [GFS]	2711	Social security benefits in cash
2122	Imputed social contributions [GFS]	2712	Social security benefits in kind
22	Use of goods and services	272	Social assistance benefits
23	Consumption of fixed capital [GFS]	2721	Social assistance benefits in cash
24	Interest [GFS]	2722	Social assistance benefits in kind [GFS]
241	To nonresidents	273	Employer social benefits
242	To residents other than general government	2731	Employer social benefits in cash
243	To other general government units	2732	Employer social benefits in kind
25	Subsidies	28	Other expense
251	To public corporations	281	Property expense other than interest
2511	To nonfinancial public corporations	2811	Dividends (public corporations only)
2512	To financial public corporations	2812	Withdrawals from income of quasi-corporations (public corporations only)
252	To private enterprises	2813	Property expense attributed to insurance policyholders [GFS]
2521	To nonfinancial private enterprises	2814	Rent
2522	To financial private enterprises	282	Miscellaneous other expense
26	Grants	2821	Current
261	To foreign governments	2822	Capital
2611	Current		
2612	Capital		
262	To international organizations		
2621	Current		
2622	Capital		

Source: IMF Government Finance Statistics Manual, 2001 (p. 63).



Across all functions, the economic classification adds up all expenditures based on the economic type or nature of the expenditure into eight basic categories: the compensation of employees (21), use of goods and services (22), consumption of fixed capital (23); interest (24); subsidies (25); grants (26); social benefits (27); and other expenses (28).

On the recurrent side of the budget, the most sizeable category of expenditure is typically formed by the compensation of employees, which includes wages and salaries of public servants, as well as social contributions. Different types of allowances for public servants are typically also included in this expenditure category.

The second category of recurrent expenditures that is highly relevant in the delivery of public services is the use of goods and services (22). This category is sometimes referred to as non-wage recurrent expenditures or operations and maintenance expenditures (O&M).

To the extent that a higher-level government unit provides grants to foreign government, international organizations and lower-level general government units, these expenditures should be reported under expenditure code E26. Yet, in order to prevent double-counting (since these grant will largely if not fully be spent at a lower government level during the same year), “grant to other general government units” (2631/2632), should also be reported separately in the LPS Fiscal Profile (E263).

Reporting on capital expenditures (E23: Consumption of Fixed Capital) is often more complex, as discussed in the remainder of this sub-section.

Capital expenditures versus development expenditures

An important tenet of public financial management is that budgets should be prepared and managed in a unified manner, by which the recurrent budget for each budget organization is prepared together with the capital budget. In that case, each line ministry presents a single budget that contains both their recurrent expenditures as well as their capital expenditures.

In many developing countries, however, the practice persists of preparing two budgets: an ordinary (recurrent) budget and a development budget. The notion of “development expenditures” (those activities contained in the development budget) is often wider than merely capital expenditures: in most countries, development expenditures include a mix of capital infrastructure (development) project, along with non-capital development expenditures. These non-capital development expenditures typically include projects and activities that are non-recurring in nature, including (a) the recurrent implementation costs of capital projects (including the preparation of plans, monitoring of implementation, and so on); (b) non-recurring projects and activities focused on developing human resource capacity; and (c) in many countries, any project funded from external sources is automatically classified as a development expenditure, regardless of the recurrent or development nature of the spending financed by the external funds.

Under ideal circumstances, when a country has both a recurrent and development budget, both budgets are broken down by economic type, so that it is possible to identify the amount of non-capital spending in the development budget, and similarly, the (typically small, if any) amount of capital spending in the recurrent budget. In that case, the IMF’s economic classification can be reported in the LPS Fiscal Profile by aggregating expenditures across the two budget documents. However, if the

country's budget structure divides the budget into a current budget and development budget and *does not* break down development expenditures into capital and non-capital development expenditures, it is permissible to report all "development expenditures" as capital expenditures under code E23. However, this should then be flagged under question Z5.7 ("Capital expenditures include non-capital development?") in the Profile Completion Information (worksheet 9). If necessary, further clarification should be given in the Country Profile Notes.

Capital expenditures versus the Consumption of Fixed Capital (E23)

According to the IMF GFS 2001 classifications, government budget statistics should be provided on an accrual accounting basis rather than on a cash-flow accounting basis. As such, rather than recording the amount of actual outlays on capital infrastructure, the GFS budget classifications require governments to report the use or "consumption of fixed capital." In other words, rather than reporting the outlays for the construction of a public school building that took place in the current fiscal year, the main budget statistics should report the consumption of this fixed capital, or the depreciation of the infrastructure asset. If the school building is used up over a twenty-year period, E23 should reflect approximately 1/20th of the cost of the building each year, depending on the depreciation method applied. Further information about the accounting for the consumption of fixed capital is available from the IMF.

In practice, however, many developing countries continue to prepare their budgets and budget statistics based on a cash-flow basis. This is the case for many central governments as well as for many local governments around the world. This practice was in line with the previous (1986) version of the IMF's Government Finance Statistics Manual, which simply requires governments to report the annual expenditures (outlays) on capital infrastructure.

To the extent that IMF GFS statistics or accrual-based government expenditures are not consistently available across different government levels or tiers, the LPS Country Profile should follow the country's budget approach. Thus, if the country records capital expenditures on a cash-basis (rather than accrual basis), question E23 should report actual capital expenditures (outlays) rather than the user cost of capital (UCC)/consumption of fixed capital. This practice should subsequently be noted in the Profile Complete Information worksheet, question Z5.6 ("Capital expenditures reflect spending or UCC?"). If necessary, further clarification should be given in the Country Profile Notes.

10.4 FURTHER GUIDANCE ON COMPLETING THE EXPENDITURE PROFILE FOR DIFFERENT TYPES OF LOCAL PUBLIC SECTOR EXPENDITURES

Completion of the LPS Expenditure Profile for most countries will require the compilation and analysis of national expenditure data, typically by line ministry and program, as well as data from local government sources. The researcher preparing the Country Profile should heed the following guidance on completing the LPS Expenditure Profile for different types of local public sector expenditures.

Central government expenditures

The IMF defines central government budgetary data using two definitions of the central government: the so-called Budgetary Central Government and Consolidated Central Government. The statistics for Budgetary Central Government are based on the general revenue or treasury account for the central government, whereas the consolidated central government includes a wider notion of central government finances (for instance, the accounts of the Central Bank). Conceptually, it makes more

sense to use Budgetary Central Government in order to prepare a comparatively consistent profile of the public sector, whenever data are available.

If the IMF provides finance statistics for the Consolidated Central Government but not for Budgetary Central Government, it is suggested that the researcher completing the LPS Fiscal Profile relies on the figures for the Consolidated Center, as it is not expected to have a major impact on the main expenditure categories of interest at the subnational level. Please use question Z5.8 (see Section 10.5) to record which definition of the central government is used.

Please record whether central financial statistics are available from the IMF Government Finance Statistics Yearbook in the Profile Completion Information worksheet, questions Z5.1-Z5.3. If central government expenditures are not available from the IMF, the LPS Fiscal Profile will have to rely on national budget documents to capture the relevant central government expenditure levels. Irrespective of the availability of central government finance statistics from the IMF, national budget documents will still be required to determine the level of deconcentrated expenditures as well as the level of expenditure that the central government uses for direct and delegated expenditures.

Deconcentrated expenditures

Deconcentrated expenditures are not collected or reported as part of IMF's Government Finance Statistics. Instead, deconcentrated expenditures are aggregated into the expenditure figures of the higher-level government's organizations. Thus, breaking out deconcentrated expenditures, where they exist, requires vetting the country's national budget document (and sectoral budget documents, as needed).

As already discussed in Section 2.2 of this handbook (and considered in greater detail in Section 7), budgetary deconcentration is defined as the spending of entities that (i) form an organizational part of the national (state) administration; (ii) deliver public services or perform its functions in accordance with a territorial mandate; and (iii) form a formal budgetary entity in the Chart of Accounts. (Note that this definition accommodates both horizontal or territorial deconcentration, as well as vertical or sectoral deconcentration).⁵⁹ The Table 3.1 captures which deconcentrated expenditure may be contained in the national budget.

To the extent that subnational budget entities exist (i.e., where the budget contains a budget vote or chapter for provincial administrations or district jurisdictions), these expenditure are easily identified in the budget and should be recorded as deconcentrated expenditures in the LPS Expenditure Profile (and these expenditures should be subtracted from the central government column as needed in order to prevent double-counting).

⁵⁹ In some instances, it is possible to break down (some) expenditures across different administrative tiers in countries that are fully budgetarily centralized (i.e., not budgetarily deconcentrated). For instance, Bangladesh does not have sub-central budget entities in its budget classification system. Nonetheless, different programmatic codes in the chart of accounts allow researchers to identify some expenditures as being organizationally deconcentrated. In the absence of (secondary) budget authority for sub-central entities, these resources are technically fully under the control of the center, and should therefore be considered "direct or delegated expenditures". However, the researcher has the choice to classify and record these expenditures as organizationally deconcentrated under the respected local level. If pertinent, this issue should be discussed in the expenditure section of the Country Profile Notes.

Sectoral (or vertical) deconcentration can be detected by analyzing specific line ministry budgets, especially those expected to be active at the local level (i.e., Ministry of Education, Health, Local Government, and so on). In some instance of sectoral deconcentration, the line ministry budget is divided into two components: “central administration” and “local administration”.⁶⁰ In other instances, the line ministry budget is divided by department, reflecting both central administrative departments (e.g., Policy Department) as well as subnational departments (e.g., District Education Department for District X; District Education Department for District Y; and so on).

Direct and delegated expenditures

In a few highly centralized countries, all fiscal and budgetary powers are concentrated with the central line ministries at the national level, rather than being devolved or deconcentrated to subnational departments of these ministries that are formally recognized as budget (sub-) organizations. In this case, the central government engages in the delivery of public services almost exclusively in a centralized (i.e., direct or delegated) manner. For instance, this is the case in Afghanistan, where all major public services are financed directly from the central line ministry budget, without any further territorial-administrative breakdown (World Bank, 2008). In such cases, essentially all local public sector expenditures take place through direct or delegated centralized public service delivery.

These cases –where direct and delegated expenditures are the only kind of local public sector spending– form an extreme example. However, many countries that are more decentralized (either through deconcentration or devolution) also rely –to a greater or less extent– on central expenditures for direct and/or delegated public services that form part of the local public sector. Many countries ensure law and order through a national police apparatus that is neither deconcentrated nor devolved. Likewise, many countries provide a share of public health services through national or regional hospitals which directly report to –and are directly financed by– the Ministry of Health.

Finally, it is not unusual for a certain public service to be delivered locally (through deconcentration or devolution), while the respective central line ministries retain full control over certain portions of public service delivery expenditures. For instance, in many countries where the provision and expenditure of primary education services is deconcentrated or devolved to the local level, the Ministry of Education may still retain the responsibility for funding the capital infrastructure required for primary education (school buildings), or the procurement of goods and service required for the provision of primary education (school books or educational kits). Likewise, it is not unusual for the Ministry of Health to procure drugs and medical supplies for the local delivery of health services. In these cases, the supplies are transferred in-kind to the local health facilities or for the central Ministry of Agriculture to procure seeds and fertilizer on behalf of the local bodies entrusted with the local delivery of extension services. In some other cases (e.g., Sierra Leone), staff may be seconded to the local government level while the salaries for these “local” public servant is retained in the central government budget. These are all examples of direct and delegated local public sector expenditures.

A complete list of examples of direct and delegated expenditures is contained in Table 3.1 (presented in Section 3.4) of this handbook. Whenever direct or delegated expenditures are entered into the LPS

⁶⁰ “Local administration” often refers to the highest level of sub-central entities, sometimes with no further disaggregation provided to any lower-level units.

Expenditure Profile, the total amount of central public sector spending typically needs to be offset by the same amount to avoid double-counting.

10.5 COMPLETENESS OF THE EXPENDITURE PROFILE (AND REVENUE PROFILE)

Questions Z4 and Z5 (in worksheet 9, Profile Completion Information) contain a number of questions about the completeness of the LPS Expenditure Profile as well as the Revenue Profile. In particular, Question Z4.1-Z4.3 considers whether the LPS Fiscal Profile covers (1) devolved finances, (2) deconcentrated finances, and (3) other (i.e., centrally-funded direct and delegated) finances? Whereas ideally all of these elements are included in the LPS Fiscal Profile, completion of the remainder of a LPS Country Profile should not be held hostage to the unavailability of relevant data. Likewise, for questions Z5.1-Z5.3, please record whether sub-central (state and local) sub-sector financial statistics are available from the IMF Government Finance Statistics.

While the IMF aims to report expenditures for State Government and Local Government (in addition to Central Government), coverage of the GFSY is rather weak for developing countries. Also, caution should be taken to match the IMF territorial classifications with the levels and tiers of sub-central government and administration that were selected in the LPS Organizational Structure Profile. The IMF clarifies the definition of public sector structure in the Institutional Notes in each Yearbook. In rare cases, the IMF may aggregate the expenditures of two different levels of local government into a single government level. In these cases, it may be necessary to break out the expenditures back into the original government levels.

Given the state of development and public financial management of the countries of greatest interest to the Local Public Sector Initiative, the IMF GFS Yearbooks are not likely to report on sub-central government expenditures for many countries for which a LPS Country Profile will be prepared. In this case, LPS researchers will need to exclusively rely on national budget documents, documents provided by the ministry responsible for local governments, or other documents reflecting public sector finances (sometimes compiled by the central bank or statistics bureau). Even still, completion of the LPS Country Profile may be hampered by the availability of sound data sources on local public sector finances.

Depending on data availability, it may be necessary to combine more robust data sources for local public sector finances with less reliable data regard local public sector finances. While this is acceptable if no other viable options exist, it is important to fully disclose the sources and quality of the financial data used to complete the LPS Fiscal Profile. Please complete questions Z5.4-Z5.11 accordingly:

- Z5.4 Details of deconcentrated expenditures (if any) are contained in the national budget?*
- Z5.5 Details of devolved expenditures (if any) are contained in the national budget?*
- Z5.6 Capital expenditures reflect spending or UCC? (See Section 10.3)*
- Z5.7 Capital expenditures include non-capital development expenditure? (See Section 10.3)*
- Z5.8 Nature of central budget data: Budgetary Account or Consolidated Central Gov. (Section 10.4)*
- Z5.9 Does the LPS Fiscal Profile reflect Budget estimates or actual expenditures (or mixed/other)?*
- Z5.10 Local expenditures: officially reported data or estimated by experts?*
- Z5.11 Local own revenues: officially reported data or estimated by experts?*

SECTION 11: GUIDANCE ON THE PREPARATION OF THE LPS FISCAL PROFILE: PUBLIC REVENUES

The level and composition of local public sector expenditures is not the only aspect of local public sector finances that is important. An equally important part of the local public sector’s fiscal profile is how local public sector spending is financed. Financing of local public sector expenditures takes place through one of three channels. First, local governments (or other local bodies) may collect and retain own source revenues. Second, the local public sector may be funded through intergovernmental fiscal transfers (or budgetary allocations to deconcentrated units). Third, local spending can be funded from subnational borrowing. The composition of public revenues and the way in which the local public sector is funded has potential implications both for the efficiency as well as for the accountability of the local public sector.

In addition to the quantitative profile of local public sector revenues, the LPS Institutional Profile describes the institutional features of the fiscal arrangements within the local public sector (see Section 14). It would be prudent to review the discussion in Section 14 prior to completing the LPS Revenue Profile.

Figure 11.1: Screenshot – LPS Revenue Profile

A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q
1																
2	LOCAL PUBLIC SECTOR FISCAL PROFILE: PUBLIC SECTOR REVENUES (INCLUDING TRANSFERS AND BORROWING)															
3																
4																
5		[Country Name]	Central	LPS Level/Type 1	LPS Level/Type 2	LPS Level/Type 3	LPS Level/Type 4	Total								
6		[Year]	Public Sector	[Name 1]	[Name 2]	[Name 3]	[Name 4]	Public Sector								
7																
9		Revenues														
10	R111	Taxes on income (111)														0
11	R112	Taxes on payroll and work force (112)														0
12	R113	Taxes on property (113)														0
13	R114	Taxes on goods and services (114)														0
14	R115	Taxes on international trade and transactions (115)														0
15	R116	Other taxes (116)														0
16	R12	Social Contributions (12)														0
17	R131	Grants from foreign govt and intl org (131, 132)														0
18	R133	Grants from other general govt units (133)														0
19	R14	Other [non-tax] revenue (14)														0
20		Total Revenues	0	0	0	0	0	0	0	0	0	0	0	0	0	0
22																
23		Intergovernmental Fiscal Transfers														
24		General Transfers														
25	R1331A	General Purpose Grants (incl General Revenue Sharing)														0
26		Conditional Recurrent Transfers														0
27	R1331B	Conditional wage grants														0
28	R1331C	Conditional non-wage recurrent grants														0
29	R1331D	Other conditional recurrent grants														0
30		Conditional Capital Transfers														0
31	R1332A	Conditional capital grants														0
32	R1332B	Cross-sectoral capital grants														0
33		Total Intergovernmental Fiscal Transfers	0	0	0	0	0	0	0	0	0	0	0	0	0	0

11.1 LOCAL (OWN SOURCE) REVENUES

As noted in Section 3.4, divergent views could be held about what should constitute a local revenue source in the context of our definition of the local public sector. To qualify as a local government



revenue source, a necessary but not sufficient condition is that the revenue collected accumulates to the local government entity. However, the definition of a local government revenue source typically further requires that the local government entity has some degree of control, whether over the rate or base of the revenue source, or over the administration of the tax.

In line with LPSI's broad view of the local public sector, the LPS Country Profile will seek to capture revenue at each government level or tier where it is reported to be collected by national budget documents, allowing the users of the profile to determine whether each revenue source should be considered "local" or not. The researcher preparing the Fiscal Profile is urged to describe the presence or absence of local control over local revenue sources, particularly for non-devolved local administrative structures.

The classification of public sector revenues

For general government units, the IMF (2001) considers that there are two basic sources of revenue: taxes and other compulsory transfers from households and businesses imposed by government units on one hand, and non-tax revenue sources on the other hand. Tax revenue, which is composed of compulsory transfers by households and businesses to general government entities, generally forms the dominant share of revenues for many central government units, although local governments in most countries tend to rely extensively on non-tax revenues (much more so than central governments). In some countries, local own source revenues form a majority of local public sector financial resources. In most countries, however, the degree of revenue-raising power at the local level is much more limited.

The IMF revenue classification differentiates taxes by the nature of what is being taxed, resulting in six basic categories of tax revenues: income taxes (111); taxes on payroll and work force (112); taxes on property (113); taxes on goods and services (114); taxes on international trade and transactions (115); and other taxes (116).

Non-tax revenue is a heterogeneous category of other types of revenue sources, which is further broken down to include social contributions (12), grants (13), and other revenues (14). This latter category includes revenues from property income (141), sales of goods and services (142), fines, penalties, and forfeits (143), and miscellaneous other non-tax revenue (144, 145).

In many cases, each revenue categories will contain revenues from more than one specific revenue instrument: for instance, a local business income tax and a local tax on household income (sometimes collected as a poll tax) should both be considered income taxes, and hence aggregated into R111. Care should be taken to understand the nature of the various central and local revenue sources in order to map the revenue source to the right category.

The revenue segment incorporated in the LPS Revenue Profile is derived from Revenue Table 1 contained in the IMF's Government Finance Statistics Yearbook. Researchers preparing the LPS Revenue Profile should note, however, that revenue line item R131 combines grants from foreign governments (131) and grants from international organizations (132) into a single entry.

Figure 10.2: IMF's Classification of Revenue

I	Revenue	I2	Social contributions [GFS]
11	Taxes	121	Social security contributions
111	Taxes on income, profits, and capital gains	1211	Employee contributions
1111	Payable by individuals	1212	Employer contributions
1112	Payable by corporations and other enterprises	1213	Self-employed or nonemployed contributions
1113	Unallocable	1214	Unallocable contributions
112	Taxes on payroll and workforce	122	Other social contributions
113	Taxes on property	1221	Employee contributions
1131	Recurrent taxes on immovable property	1222	Employer contributions
1132	Recurrent taxes on net wealth	1223	Imputed contributions
1133	Estate, inheritance, and gift taxes	13	Grants
1134	Taxes on financial and capital transactions	131	From foreign governments
1135	Other nonrecurrent taxes on property	1311	Current
1136	Other recurrent taxes on property	1312	Capital
114	Taxes on goods and services	132	From international organizations
1141	General taxes on goods and services	1321	Current
11411	Value-added taxes	1322	Capital
11412	Sales taxes	133	From other general government units
11413	Turnover and other general taxes on goods and services	1331	Current
1142	Excises	1332	Capital
1143	Profits of fiscal monopolies	14	Other revenue
1144	Taxes on specific services	141	Property income [GFS]
1145	Taxes on use of goods and on permission to use goods or perform activities	1411	Interest [GFS]
11451	Motor vehicle taxes	1412	Dividends
11452	Other taxes on use of goods and on permission to use goods or perform activities	1413	Withdrawals from income of quasi-corporations
1146	Other taxes on goods and services	1414	Property income attributed to insurance policyholders
115	Taxes on international trade and transactions	1415	Rent
1151	Customs and other import duties	142	Sales of goods and services
1152	Taxes on exports	1421	Sales by market establishments
1153	Profits of export or import monopolies	1422	Administrative fees
1154	Exchange profits	1423	Incidental sales by nonmarket establishments
1155	Exchange taxes	1424	Imputed sales of goods and services
1156	Other taxes on international trade and transactions	143	Fines, penalties, and forfeits
116	Other taxes	144	Voluntary transfers other than grants
1161	Payable solely by business	1441	Current
1162	Payable by other than business or unidentifiable	1442	Capital
		145	Miscellaneous and unidentified revenue

Source: IMF Government Finance Statistics Manual, 2001: page 49.

To the degree that IMF GFS data may not be available for either central or local government revenue sources, researcher needs to rely on national and local budget documents (or documents from the relevant revenue authority). This will require creating a supporting Excel workbook (as in the case of expenditures) that maps the list of central and local government revenues to the different revenue codes.

11.2 INTERGOVERNMENTAL FISCAL TRANSFERS

The first segment of the LPS Revenue Profile focuses largely –although not exclusively– on local own source revenues. Public sector revenues also include grants, including recurrent and capital grants from higher-level governments (R133). Due to the importance of intergovernmental fiscal transfers in intergovernmental fiscal systems, the LPS Fiscal Profile seeks to provide greater detail on the nature and

composition of intergovernmental fiscal transfers received by local governments.⁶¹ In addition, the questions under segment F3 (in the LPS Institutional Profile / Fiscal Arrangements) provide further institutional details with regard to the nature of the intergovernmental fiscal transfer system.

It is important to note that the breakdown of intergovernmental fiscal transfers received by local governments does not follow any IMF classification scheme, since the greatest level of detail provided by IMF revenue classifications is the breakdown into recurrent grant (1331) and capital grants from higher-level governments (1332). Although the classification used by the OECD (2006) for intergovernmental transfers was carefully studied and informed our approach, the LPSI transfer classification structure does not follow any pre-existing classification of intergovernmental transfers. As such, the researcher completing the profile will have to compile the amount and type of transfers being provided to (and subsequently, received by) local governments, in order to provide a breakdown of transfers by type in this segment of the profile.

Similar to the collection of own source revenues, amounts received for different grant schemes that fall within the same category should be aggregated and reported on the same line within the LPS Revenue Profile. For instance, as further discussed below, an earmarked grant provided for the purpose of classroom construction and another grant scheme for the rehabilitation of health centers are both conditional capital grants, and therefore, should both be reported under line R1332A.

General Transfers. One of the main distinctions made in this segment of the LPS Revenue Profile is between General Transfers (i.e., non-earmarked or general-purpose transfers) received by local governments versus Conditional Transfers (including sectoral, earmarked or otherwise targeted transfers). This basic division is consistent with the main OECD (2006) classification of intergovernmental fiscal transfers between earmarked and non-earmarked transfers. General transfers should be considered free from higher-level conditions or earmarks if the resources are deposited into the general revenue account of the local government, and if they are free from explicit conditions on their use, so that the local government can use these resources as freely as it would use its local own source revenues.

General Transfers can typically be used by the recipient government for both recurrent as well as capital (development) purposes, and should be recorded in the Revenue Profile under R1331A. General Transfers can include two types of general-purpose transfers received from other general government units (typically higher-level governments): General Revenue Sharing and General Purpose Grants. Both General Revenue Sharing as well as General Purpose Grants should be recorded in the Revenue Profile under General Transfers (R1331A).

In many countries, when a higher-level government unit collects taxes and then transfers some or all of them to another government unit, these resources should be classified as General Revenue Sharing as

⁶¹ In a deconcentrated setting, local administration entities may receive budget allocations and allotments from the national treasury. While “transfers” may be provided to provincial or district treasuries, these transfers are merely ways to manage the cash-flow of the national government at the sub-central level. They are substantively different in nature from the intergovernmental fiscal transfers received by devolved local government authorities. Depending on the subnational budgetary arrangements, it may nonetheless be worthwhile to report on the composition of deconcentrated budget flows. This is left to the discretion of the researcher completing the Country Profile. Naturally, details and clarifications should be provided in the Country Profile Notes.

opposed to as own source revenues. However, how these financial resources should be classified depends on the specific details of the revenue (or tax) sharing arrangement. In general, a revenue source is only attributed to the local government level if the lower-level government level (a) exercises the authority to impose the tax (either as a principal or through the delegated authority of the principal), (b) has final discretion to set and vary the rate of the tax, and (c) has final discretion over the use of the funds (IMF 2001). In all other cases, the shared revenue is considered a General Transfer. ⁶²

In addition to general revenue sharing, General Purpose Grants include unconditional transfers or equalization transfers, typically provided by a higher-level government to a lower government level. General Purpose Grants should be free from explicit conditions on their use, so that the local government can use these resources as freely as it would use its local own source revenues.

Conditional Transfers. In the LPS Revenue Profile, Conditional Transfers are broken down by whether they are intended for recurrent or capital purposes, as well as by the economic nature of their conditionality. If transfers can only be used for wages (regardless of the determination of the grant amount or any further conditionality), then the grant should be considered a conditional wage grant (R1331B). Similarly, grants specifically provided for non-wage recurrent purposes should be classified as conditional non-wage recurrent grants (R1331C). Recurrent grants that are somehow conditional in nature, but which can be spent either for wages or for non-wage purposes should be classified as other conditional recurrent grants (R1331D).

Conditional Transfers

R1331B Conditional wage grants
R1331C Conditional non-wage recurrent grants
R1331D Other conditional recurrent grants

R1332A Conditional capital grants
R1332B Cross-sectoral capital grants

Similarly, capital grants should be classified as conditional capital grants (R1332A) when they are earmarked for a specific project, purpose or within a specific sector. A transfer should be classified as a cross-sectoral capital grant (R1332B) if the grant is a capital grant (and therefore *prima facie* conditional in nature), but if the receiving government unit is given discretion to use the grant for different purposes across different sectors.

It should be noted that to the extent that grants may be received from different higher-level governments (e.g., a local government may receive grants from the federal level as well as from the state level), the researcher completing the profile would have to sum up grants received from different government levels.

11.3 FISCAL BALANCE

⁶² According to the IMF's (2001) definition, General Revenue Sharing should be considered an intergovernmental fiscal transfer (rather than an own local revenue source) since the lower-level government has not control over the tax rate, the tax base, or over tax collections. It should be noted that the definition of General Revenue Sharing used here may differ from the legal terminology or the revenue classification used in some countries. For instance, the Russian Federation classifies shared revenues as subnational own source revenues. Determining the dividing line between revenue sharing or tax sharing versus and other general purpose grants is a difficult challenge. For a fuller discussion of this issue, see OECD (2006: 15-17).

Whether or not local governments can hold and transact property and borrow funds is an important element of local governance and local government finance. As part of the LPS Institutional Profile, question F4 deals with local borrowing and debt. Since only corporate bodies are legally able to hold property and engage in borrowing (in their own name), these questions are only relevant for devolved local government entities.

The balance sheet of any local government records the stocks of assets, liabilities, and net worth of the government entity at the end of each accounting period. Two important analytic balances are derived in the balance sheet, or the Statement of Government Operations (IMF, 2008: 28). Revenue less expense equals the **net operating balance**. The subsequent deduction of the net acquisition of non-financial assets results in **net lending (+)/borrowing (-)**, which is also equal to the net result of transactions in financial assets and liabilities. Line R99 requests the researcher to include the level of “Net Lending/Borrowing” (NLB) for each government level in the profile.

SECTION 12. GUIDANCE ON THE PREPARATION OF THE LPS INSTITUTIONAL PROFILE: POLITICAL ASPECTS

The third part of the LPS Country Profile covers the LPS Institutional Profile. It explores the nature of institutional relationships at each subnational level, as well as the intergovernmental relationship between the subnational level and its higher levels. Consistent with the assessment framework presented in Section 4, this part of the LPS Country Profile encompasses three segments or worksheets:

- Political aspects of the local public sector (worksheet: 6 Political)
- Administrative aspects of the local public sector (worksheet: 7 Admin)
- Fiscal aspects of the local public sector (worksheet: 8 Fiscal)

These three worksheets are discussed in Sections 12, 13 and 14 of this handbook, respectively.⁶³

Figure 12.1: Sample Screenshot – LPS Institutional Profile (Political Aspects)

	A	B	C	D	E	F	G	H	I	J	K	L
1												
2			LOCAL PUBLIC SECTOR INSTITUTIONAL PROFILE: POLITICAL ASPECTS OF THE LOCAL PUBLIC SECTOR									
3												
4												
5			[Country Name]		LPS Level/Type 1	LPS Level/Type 2	LPS Level/Type 3	LPS Level/Type 4				
6			[Year]		[Name 1]	[Name 2]	[Name 3]	[Name 4]				
7												
8												
9		P1	Local political power structures									
10		P1.1	What is the local power structure?		...	...	...	...
11		P1.2	Does the local executive have veto power over council decisions?		...	...	...	...
12		P1.3	Can council remove local executive by no-confidence vote?		...	...	...	...
13		P1.4	Do local decisions require higher-level (central) confirmation?		...	...	...	...
14		P1.5	Can higher-level remove local officials without judicial intervention?		...	...	...	...
15		P1.6	Can local jurisdictions use legal system against higher-level government?		...	...	...	...
16												
17		P2	Structure and quality of local electoral systems									
18		P2.1	How are local councilors elected?		...	...	...	...
19		P2.2	For what term are local councils elected (years)?		...	...	...	...
20		P2.3	What is the level of citizen participation in local elections?		...	...	...	...
21		P2.4	How are local (political) executives elected?		...	...	...	...
22		P2.5	For what term are local (political) executives elected (years)?		...	...	...	...
23		P2.6	Are local council elections party-based?		...	...	...	...
24		P2.7	Are there electoral quotas for women and/or minority candidates?		...	...	...	...
25		P2.8	Do recall provisions exist for local elected officials?		...	...	...	...
26		P2.9	Are there term limits for locally elected officials?		...	...	...	...
27												
28		P3	Nature of political party systems									
29		P3.1	Can multiple parties run in elections?		...	...	...	...
30		P3.2	Can only national parties run in local elections?		...	...	...	...
31		P3.3	How are party candidates for local council elections selected?		...	...	...	...
32		P3.4	Are there established rules for local party financing?		...	...	...	...

⁶³ Many questions in these sections are drawn from –or heavily rely on- *Local Government Discretion and Accountability: A Diagnostic Framework for Local Governance* (Yilmaz, Beris, and Serrano-Berthet, 2008), Chapters 2 through 4; *Local Government Discretion and Accountability: Application of a Local Governance Framework*, (World Bank, 2009), as well as a series of “How-to Notes” prepared by Serdar Yilmaz, Ghazia Aslam and Asli Gurkan, derived from these reports.



Political decentralization is the primary mechanism through which citizen preferences are represented in the local decision-making process, and is therefore essential to an effective system of decentralization. The purpose of this part of the Country Profile is to elucidate components of a well-designed political system and is aimed at assisting stakeholders to evaluate the political decentralization efforts in any given country. It should be noted that the basic governance features of each government level and/or administrative tier are already highlighted in the Governance Profile (see Section 8).

It should be noted that some (or in fact, many) of the questions regarding the subnational political power structure are not relevant for deconcentrated budgetary or organizational levels. In that case, the corresponding answers can be left blank ('...') or marked as not applicable ('-'). With exceptions, the questions under P1-P3 are generally not applicable for deconcentrated local administrative bodies.

P1. SUBNATIONAL POLITICAL POWER STRUCTURES

Separation of powers means that the legislative, executive and judicial branches of government are independent in the exercise of their discretionary powers. A well-designed political decentralization system requires that the roles and functions of elected and non-elected branches of government are clearly identified and local councilors are independently able to carry out the oversight function of the local executive bodies. In addition, the vertical separation of power –between different government levels- prevents the monopolization of power at any government level and allows for additional checks and balances within the public sector. The segment on the subnational political power structures (P1) seeks to capture the political relationships at the local level, as well as between the government level and its higher-level government.

It should be noted that the questions dealing with local councils refer to a local legislative or deliberative body, and not a local executive council, which is formed in some countries as a coordinating body by the local chief executive, department heads, and/or other members of local executive departments.

P1.1 What is the subnational power structure? There are four major institutional arrangements that define the division of authority and responsibilities between the elected council and the executive. These are (i) a strong executive, (ii) a strong council, (iii) a council-manager system and (iv) a commissioner system. The table below (at the end of Question P1) briefly discusses the main characteristics, benefits, risks and country examples of each arrangement of power.

The next two questions seek to further clarify the political power relationship between the local executive and the local (legislative) council, and can be answered with 'Yes', 'No' and 'Partially'.

P1.2 Does the local executive have veto power over council decisions?

P1.3 Can council remove local executive by no-confidence vote?

The final three parts of question P1 deal with the political relationship between the local government and its higher-level government, and can be answered with 'Yes', 'No' and 'Partially'.

P1.4 Do local decisions require higher-level (central) confirmation?

P1.5 Can higher-level remove local executive without judicial intervention?

P1.6 Can local jurisdictions use legal system against higher-level government?



With respect to question P1.4, please answer ‘No’ only if none of the key decisions made at the local level (budget decisions; regulatory decisions; adoption of local taxes, as permitted by the legal framework) do not require central government review and approval.

In the case of question P1.6, please only answer affirmatively if a local government has in fact used the legal system against the higher-level government in the previous three years.

Institutional Mechanism	Main characteristics	Benefits	Risks	Country-Examples:
Strong Executive	The mayor is directly elected; he/she typically dominates the decision making process and has a strong symbolic role in representing the locality.	Mayor can undertake swift public policy measures.	Local councils are often marginalized.	Cote d’Ivoire, Uganda, Pakistan, Philippines, Ethiopia
Strong council (parliamentary system)	Mayor is elected by the council.	Local council retains the major decision making authority.	Decision making process may not be very efficient.	Rwanda, Guinea, Angola, India (Kerala), Tanzania, Indonesia
Council-Manager	The council appoints and contracts with a politically neutral administrator to run and manage the city.	Combines the strong political leadership of elected officials with the strong managerial experience of an appointed administrator. Such an arrangement can preclude politically motivated patronage.	Requires high capacity level among government to institute such a mechanism.	Canada, Australia, Netherlands, New Zealand
Commissioner	The commissioners are both legislators and department chairs.	All have equal powers even though one commissioner may have the title of mayor.	The system violates the principle of separation of powers.	India

Source: World Bank (2009).

P2. STRUCTURE AND QUALITY OF SUBNATIONAL ELECTORAL SYSTEMS

Electoral systems shape the incentives of both the elected officials and the citizens and make elected officials more responsive to citizens’ preferences. In this capacity, elections can act as an empowerment tool, as competition among local politicians increases the chances for vulnerable groups to be included in decision-making. The two most common electoral arrangements – a proportional representation (PR) or party-list system and a first-past-the post (FPTP) or single-member constituency system- are explained in more detail with their benefits and risks in the table below.

Electoral arrangement	Main characteristics	Benefits	Risks	Country examples
Proportional representation-	Voters generally vote for a party rather than a specific candidate. Electoral districts have multiple representatives. The share of votes received by a party is translated by a fixed formula into the number of seats to be held by that party.	More inclusive of minorities and women candidates compared to first-past-the-post system.	Independent candidates with no political affiliation can become marginalized. Accountability can be compromised in favor of representation.	South Africa, Indonesia, Turkey, Germany, Sweden, Burkina Faso, Ethiopia, Guinea
First-past-the-post	Single candidate is elected from each constituency based on plurality	Voters have greater clarity of the individual they are voting for which leads to better accountability	Minority candidates may not be electorally represented.	United Kingdom, Canada, United States, Uganda, Tanzania, Pakistan
Mixed systems	Mixture of PR and nomination of district representatives.	May guarantee territorial representation, creates a transition period between other two established systems (PR and FPP).	May create confusion in representation of local candidates.	Rwanda, Angola

P2.1 How are local councilors elected? Possible responses include ‘Direct/FPP (majority)’, ‘Direct/FPP (plurality)’, ‘Direct/PR’, ‘Indirect election’, ‘Appointed council’, ‘Mixed or Other’ or ‘No council’. If a number of ‘special seats’ on the council is set aside for women or minorities (as raised under question P2.7), in this case, please answer this question for the election of ‘regular’ councilors (rather than answering ‘Mixed or Other’). Of course, in other cases, where the council is a mix of elected and appointed councilors (e.g., as is the case in Ghana), the researcher should elected ‘Mixed or Other’.

In the case of direct, first-past-the-post (FPP) elections, the difference between the first two responses is that in a first-past-the-post majority system a majority of votes (in excess of 50 percent) is required in order to win the election, whereas under a first-past-the-post plurality system, the candidate with the most votes wins (even if a majority is not obtained). In contrast, other countries have direct proportional representation (or ‘party list’) elections at the local level. In yet other countries, local councils may be elected indirectly (e.g., each village council may send one or two representatives to the district council, and so on); this is currently the case in countries including China and Cambodia.

P2.2 For what term are local councils elected (years)? This question is open-ended, and should be answered in the number of years for which councilors hold office according to the appropriate legislation. If the factual practice deviates from the legislation, please note this in the Country Profile Notes.

P2.3 What is the level of citizen participation in local elections? Voter turnout can be an important indicator of citizen participation in local election.⁶⁴ Valid responses for this question include:

- Low – Voter turnout is below 35 percent of eligible (registered) voters.
- Average – Voter turnout is between 35-60 percent of eligible (registered) voters.
- High – Voter turnout is over 60 percent of eligible (registered) voters.
- The response should be left as ‘...’ if voter turnout is unknown or not applicable to the situation.

P2.4 How are local political executives elected? Valid responses include ‘Direct/FPP (majority)’, ‘Direct/FPP (plurality)’, ‘Direct election (other)’, ‘Elected by council’, ‘Centrally appointed’, ‘Council-Manager’, and ‘Other appointed’.

P2.5 For what term are local (political) executives elected (years)? This question is open-ended, and should be answered in the number of years for which (political) executives hold office according to the appropriate legislation. If the factual practice deviates from the legislation, please note this in the Country Profile Notes.

P2.6 Are local council elections party-based? Electoral dynamics may be different when independent (non-party based) candidates are permitted to run in local elections, vis-à-vis a situation where only party-based candidates are allowed to stand for local election. Appropriate responses include ‘Yes’ (only party-based candidates permitted), ‘No’ (only independent candidates permitted), and ‘Partially/Mixed’ (both party-based and independent candidates permitted).

The last three questions in question P.2 seek to identify if there are additional electoral mechanisms in place to empower voters. Valid answers include ‘Yes’, ‘No’, and ‘Partially / Mixed’.

P2.7 Are there electoral quotas at the local level for women candidates or minority candidates?

P2.8 Do recall provisions exist for local elected officials?

P2.9 Are there term limits for locally elected officials?

Question P2.7 should be answered in an affirmative manner if special seats or set-aside council seats (or possibly, set-aside local executive positions) exist for either women or minority candidates. Likewise, P2.8 and P2.9 should be answered in an affirmative manner if any of these provisions exist, either for local councilors or for the local executive officials.

P3. NATURE OF POLITICAL PARTY SYSTEMS

A key factor that influences party systems is the partisanship of local elections. Although multi-party elections are widely accepted to be more competitive than single party systems, some countries only allow national parties to run in subnational elections in order to prevent regional political fragmentation. However, research on the role of regional political parties on overall political stability is not yet conclusive. Similarly, not enough research is available to be able to make definite conclusions regarding when partisan or non-partisan local elections are more effective. Some research suggests that a party-based election system at the local level may promote patronage by identifying the support base

⁶⁴ It should be noted that voter turnout might be influenced by a variety of factors, such as the methods used for registering voters, the timing of local elections (e.g., higher turnout is common in many countries when local elections coincide with national elections) or by compulsory voting requirements.

of the candidate, while elected officials may be more concerned with taking measures to ensure their promotion and advancement within the internal party structure, rather than in passing policies that benefit the community. On the other hand, holding local elections on non-party basis can exclude a large cadre of political workers that form the base of the political parties, thereby restraining political development in the country. Other features of the political party system at the local level –such as the selection of candidates through primary elections or funding rules for political parties- may further enhance the responsiveness and accountability of locally elected officials.

P3.1 Can multiple parties run in local elections? Possible answers include ‘Yes’, ‘No (single party system)’, ‘No (non-partisan elections)’, or ‘Mixed or Other’. Please ensure that the answer reflect the *de facto* situation; e.g., in a single-party regime, the ruling party may notionally permit some marginally independent parties to contest local election; this should still be considered a single-party system.

P3.2 Can only national parties run in local elections? Options for responses include ‘Yes, national parties only’, ‘No, registered local political parties can run’, ‘No, only local parties or non-partisan elections’ or ‘Other’. For the purpose of this question, local political parties are political parties that do not contest national elections, and limit their platforms to local issues. If in practice only national political parties exist (although the law does not specifically prohibit local political parties), please select ‘Yes, national parties only’ and clarify in the Country Profile Notes.

P3.3 How are party candidates for local council elections selected? Valid responses include ‘Primary election’, ‘Selected by party’, or ‘Mixed / Other’. The option ‘Selected by party’ can include both selection by the central party apparatus as well as by local party officials.

The final two parts of question P3 can be answered with ‘Yes’, ‘No’ and ‘Partially’ :

P3.4 Are there established rules for (local) political party financing?

P3.5 Does the ruling national party have a dominant position in local elections?

With regard to question P3.5, a dominant position in local elections is considered to be a situation in which the national ruling party is able to leverage its political strength at the national level in order to ensure that more than 75 percent or more of localities or locally elected positions (councils and/or executives) are consistently won by ruling party candidates.

P4. SUBNATIONAL POLITICAL PARTICIPATION AND ACCOUNTABILITY

Participation and accountability are not automatic outcomes of increased discretion of the local government level. Specific mechanisms should be designed to ensure that citizens and higher officials are able and willing to hold local governments accountable for their discretion. Political accountability can be the result of public accountability mechanisms as well as social accountability. These accountability mechanisms may be imposed by the central government for elected local governments as well as for deconcentrated administrative jurisdictions.

All parts of question P4 can be answered with ‘Yes’, ‘No’ and ‘Partially’. Please only answer affirmative if, in addition to the legal requirement to be participatory, accountable or transparent in a specific manner, the requirement is widely practiced. In contrast, if the law exists but is not widely followed, answer ‘Partially’ or ‘No’ depending on the degree of adherence.



- P4.1 Are all council meetings (required to be) open to the public?*
- P4.2 Are local records and documents (required to be) available to the public?*
- P4.3 Is the council (required to) engage in an open, participatory planning process?*
- P4.4 Are alternative participatory mechanisms used, such as referendums?*



SECTION 13. GUIDANCE ON THE PREPARATION OF THE LPS INSTITUTIONAL PROFILE: ADMINISTRATIVE ASPECTS

Local governments as well as local administrative jurisdictions need to be endowed with administrative autonomy in order to be able to respond to local needs effectively. Four broad powers can be identified as being crucial for local governments to be administratively autonomous: the power or authority (i) to make, change and enforce regulatory decisions (including the planning and regulation over physical space), (ii) to govern a procurement system, (iii) to manage its own human resources, and (iv) to have substantive administrative control over local public service delivery. The objective of this section in the LPS Institutional Profile is therefore to evaluate the components of an administrative decentralization system in order to ascertain, first, whether subnational jurisdictions have the necessary degree of authority and administrative discretion, and second, whether the necessary systems are in place to ensure that subnational officials act in an accountable manner.

Figure 13.1: Sample Screenshot – LPS Institutional Profile (Administration Aspects)

	A	B	C	D	E	F	G	H	I	J	K
1											
2		LOCAL PUBLIC SECTOR INSTITUTIONAL PROFILE: ADMINISTRATIVE ASPECTS OF THE LOCAL PUBLIC SECTOR									
3											
4											
5		[Country Name]			LPS Level/Type 1	LPS Level/Type 2	LPS Level/Type 3	LPS Level/Type 4			
6		[Year]			[Name 1]	[Name 2]	[Name 3]	[Name 4]			
7											
8											
9		A2.1	Local public financial management								
10		A2.1a	Local entity controls and manages own finances in own bank account(s)		...	...	...	...
11		A2.1b	Standardized local Chart of Account / local budget format?		...	...	...	...
12		A2.1c	Computerized financial management systems widely used?		...	...	...	...
13		A2.1d	Internal auditor / controller approval required for local transactions?		...	...	...	...
14		A2.1e	External or higher-level approval required for transactions?		...	...	...	...
15		A2.1f	Requirement for public budget transparency during execution?		...	...	...	...
16		A2.1g	Regular oversight over finances by local council (committee)?		...	...	...	...
17		A2.1h	Regular administrative oversight over financial management by higher level?		...	...	...	...
18		A2.1i	Local bodies required to make their budget accounts public?		...	...	...	...
19		A2.1j	Timely ex-post external audit of final accounts takes place		...	...	...	...
20		A2.1k	Audit of local accounts performed by higher-level audit institution?		...	...	...	...
21		A2.1l	Accounts reviewed by parliamentary accounts committee?		...	...	...	...
22											
23		A2.2	Local procurement								
24		A2.2a	Authority to procure capital infrastructure / supplies?		...	...	...	...
25		A2.2b	Authority to engage in lease / concessions / mgmt contracts?		...	...	...	...
26		A2.2c	Is there a local procurement threshold / ceiling ?		...	...	...	...
27		A2.2d	Follows international competitive bidding standards?		...	...	...	...
28		A2.2e	Legal mandate to make procurement information public?		...	...	...	...
29											
30		A3	Local human resource administration								
31		A3.1	Nature of the legal framework for local sector staff		...	...	...	...
32		A3.2	CAO, department heads and senior staff are locally appointed		...	...	...	...

Please continue to ensure that the responses in the profile of administrative institutions reflect not just the legal situation in the country, but rather, the actual practice.



A1. LOCAL AUTHORITY TO REGULATE AND PLAN PHYSICAL SPACE

The first of the four dimensions of regulatory and administrative authority and responsibility of local public sector entities to be considered in the local authority and discretion to regulate and plan physical space and the economic activities taking place within their jurisdiction. Rather than including questions about the ability of local bodies to regulate and plan physical space in the administrative profile, these questions have been included in the functional profile of the public sector (Section 9).

A2. LOCAL PUBLIC FINANCE MANAGEMENT AND PROCUREMENT

Local public financial management

In the administration of financial resources, the public sector generally relies on a combination of public and social accountability mechanisms to improve administrative accountability at the local level. Public accountability mechanisms which can be imposed on local bodies include hierarchical or bureaucratic accountability structures, specially designed independent bodies, as well as administrative courts (the latter are particularly common in francophone and lusophone traditions). Social administrative accountability mechanisms require monitoring by individuals or groups outside of government of the quality of public services and procurement processes. Some mechanisms for instituting social accountability include freedom-of-information and open access laws, information provision to citizens, citizen oversight councils, and user groups of local services.

For the following questions, please note whether the following public and social accountability mechanisms are in place (and generally being followed) with regard to local public financial management processes at each level within the local public sector. Possible answers to the following questions include 'Yes', 'No' and 'Partial'. Please only answer affirmative if, in addition to the legal requirement to be participatory, accountable or transparent in a specific manner, the requirement is widely practiced. In contrast, if the law exists but is not widely followed, answer 'Partially' or 'No' depending on the degree of adherence.

A2.1a Local entities control and manage own finances in own bank account(s)?

A2.1b Standardized local budget format / Chart of Account?

A2.1c Computerized financial management system widely used?

A2.1d Internal auditor / controller approval required for transaction?

A2.1e External or higher-level approval required for transactions?

A2.1f Requirement for budget transparency during budget execution?

A2.1g Regular oversight over finances by local council (committee)?

A2.1h Regular administrative oversight over financial management by higher level?

A2.1i Local bodies required to make their budget accounts public?

A2.1j Timely ex-post external audit of final accounts takes place?

A2.1k Audit of local accounts performed by higher-level audit institution?

With regard to Question A2.1a, please answer 'Yes' only if local entities control and manage own finances in their own bank accounts within a commercial bank or third-party financial institution. Answer 'partially' if local entity control and manages its own finances, but they do not hold their financial accounts with a bank of their choice; for instance, choose this option if local entities are



required to hold their accounts within the national/central bank or within national treasury instead. Answer 'No' if local entities do not control or manage their own finances.

The final question (A2.1I) with respect to local public financial management considers whether local accounts are reviewed by a parliamentary accounts committee? Appropriate responses for this question include 'Yes, local accounts (or audited local financial statements) are reviewed by the Public Accounts Committee', 'Yes, local accounts are reviewed by a (separate) Local Accounts Committee', 'No', or 'Partial/mixed'. This question does not concern itself with sporadic or limited reviews of local government finances or intergovernmental fiscal transfers. Instead, this question aims to uncover whether parliament at the central level (or higher-level) scrutinized local financial management at roughly the same intensity as central government expenditures, or whether it relies on other mechanisms (e.g., review by local councils) for ensuring the proper management of local government finances.

Box 13.1: A Framework for Assessing Subnational Public Expenditure and Financial Accountability

A common standard tool for the assessment for public financial management and accountability reviews is the Public Expenditure and Financial Accountability (PEFA) Framework. A subnational version of the PEFA framework is currently being finalized by the PEFA Secretariat (February 2012).

Although the questions contained in the LPS Institutional Profile regarding local public financial management do not require a review with the same level of depth as a PEFA assessment, the PEFA assessment manual is nonetheless instructive regarding the rigor of public accountability and control mechanisms. For instance, guidance with regard to the standards upon which the quality and timeliness of in-year budget reports or the quality and timeliness of annual financial statements may be judged may be drawn from the PEFA framework (Performance Indicators 24 and 25, respectively).

The PFM Performance Measurement Framework (better known as the PEFA Framework) is available online at www.pefa.org.

Local procurement

In addition to regulatory authority, local government also needs discretion to procure goods and services from the private sector or other entities to ensure efficient service delivery to citizens. Beyond the basic procurement of infrastructure or goods and services, procurement contracts can take many forms including service or management contracts, leases, concessions, joint ventures, and full or partial ownership. (These latter types of procurements are often not catered for, thereby limiting the flexibility with which local government can deliver public services). The legislative framework guiding public procurement should provide clear guidance on the roles of different branches and levels of government in all of the various steps of procurement processes, which involves preparing the specification of goods and services to be procured; designing the contract; selecting suppliers; appraising the technical and financial qualification of the bidders; managing the bid process; finalizing the bid process; and contract management. In a decentralized procurement process, local entities or officials are involved in all of these stages.

Since procurement processes provide a potent opportunity for corruption of local governments, citizen involvement in the process can be helpful in mitigating some of these risks. For example, in some countries, the legislative framework guiding local procurement requires the establishment of special bodies in which user groups or other accredited nongovernmental and community-based organizations have a role in the pre-qualification, bid, award, and management of local contracts. Some examples of user group committees are school management committees, water user groups and health facility boards.

For the following questions, please note whether local government has the authority to engage in procurement, and whether public and social accountability mechanisms are in place (and generally being followed) with regard to local procurement processes. Possible answers to the following questions include 'Yes', 'No' and 'Partial'. Please only answer affirmative if, in addition to the legal authority to engage in procurements (and the legal requirement to be participatory, accountable or transparent in a specific manner), the authority is widely exercised. In contrast, if the law exists but is not widely followed, answer 'Partially' or 'No' depending on the degree of adherence.

A2.2a Authority to procure capital infrastructure / supplies?

A2.2b Authority to engage in lease / concessions / management contracts?

A2.2c Is there a local procurement threshold / ceiling ?

A2.2d Follows national or international competitive bidding standards?

A2.2e Legal mandate to make procurement information public?

As noted in the box above, the PEFA PFM Performance Measurement assessment manual is instructive regarding the rigor of public accountability and control mechanisms that can be expected within the (local) public sector. In this regards, PEFA Performance Indicator 19 sets specific standards for the transparency, competition and complaints mechanisms in procurement.

A3. LOCAL HUMAN RESOURCE MANAGEMENT AND ADMINISTRATION

Human resource management forms a crucial link in sound public sector management by aligning public sector activities and the human resources needed to engage in these activities. According to the definition contained in the IMF Government Finance Statistics Manual (IMF, 2001: 14), local (and state) governments must be institutional units that are "able to appoint their own officers independently of external administrative control." In many countries, however, (both those considered deconcentrated as well as devolved), a substantial amount (if not full) of responsibility for managing local human resources is retained at the central government level, making it hard for local governments to respond to specific local needs and reducing the incentive for local bodies to manage their human resources efficiently.

Local government authority over human resources and employment policies ranges from the authority over pay policy (setting overall wage rates as well as local hardship and remote allowances), budget transparency (paying staff from one's own budget), budget and establishment control (controlling staff numbers and authority to remove surplus staff), recruitment autonomy (recognition as the formal employer), career management control (vertical and horizontal mobility, including transfers to other

units within the local government system), and performance management (directing and supervising activities and tasks, conducting evaluations, and exercising the ability to discipline and fire).

The most fundamental question regarding local human resource management (Question A3.1) regards the nature of the legal framework for local sector staff. Are local staff part of the national civil service (under the same legal arrangement as central government officials); do local staff belong to a separate local civil service (which is often similar in nature to the national civil service, but with a parallel organization for local staff, which does not necessarily allow local civil servants to flow into central government cadre); or do local staff rely on other legal or contractual arrangements? As an example of the latter arrangement, in some countries, local government employees do not have any specific civil service protections, but simply work under the same labor laws as corporations and other private sector entities. To the extent that different legal frameworks apply to different local government staff, please answer the question as relevant for the largest number of staff at the local level.⁶⁵

In addition to the constraints that local governments in many countries face over the discretion in the management of personnel working within their purview, intergovernmental institutional arrangements may further limit the authority of the local political leadership to appoint their own chief executive or administrative officer and/or local department heads, thereby reducing the effective control by the local political leadership over local administrative affairs.

In regard to the latter point, the profile should indicate whether it is the local executive, the local council, or higher-level authorities (“Centrally appointed”) who appoint the CAO and department heads. For the following questions, please note the extent to which local governments have authority and discretion over their human resource management processes. Possible answers to the following questions include ‘Yes’, ‘No’ and ‘Partial’. Please only answer affirmative if, in addition to possessing the legal authority, the authority is widely exercised in practice at the local level.

A3.2 Local executive (/council) appoints CAO and department heads

A3.3 Wages paid/disbursed by local officials / from local treasury

A3.4 Local entity has authority to determine staff numbers/type by department (establishment control)

A3.5 Local entity has the authority to set wage rates

A3.6 Local entity has the authority to set local incentives, bonuses, top-ups

A3.7 Local entity has the authority to recruit/hire

A3.8 Higher level authorities recruit/hire/transfer on local jurisdiction behalf?

A3.9 Local entity has the authority to dismiss staff (underperforming / surplus staff)

A4. ADMINISTRATIVE CONTROL OVER LOCAL PUBLIC SERVICE DELIVERY

The final aspect of administrative arrangements at the local level addressed by the LPS Institutional Profile is the degree to which local entities have effective administrative control over the delivery of local public services. As part of the assignment of functions and authority (worksheet 3 – functions), the

⁶⁵ For instance, in some countries, the senior management of local governments may be hired and fired at the discretion of the local government’s leadership, without civil service protections, whereas all other workers (teacher, health staff, and so on) may be covered under regular (either national or local) civil service systems. As another example, in some countries, local day laborers and other temporary employees are similarly excluded from (local) civil service protections.

profile indicates the legal and *de facto* assignment of authority. The intent of this segment of the profile is to determine whether local entities in practice have effective administrative control over each of these functions.

Although different local functions and sectoral service delivery often falls under a common administrative and regulatory framework, local control over public services may vary from sector to sector. For instance, in some countries, the degree of administrative control that local bodies have over “purely local functions” (such as solid waste management) may be greater than the degree of administrative control that the local entities have over the provision of primary education.

It is difficult to measure or objectively qualify or quantify the existence and degree of local autonomy and discretion over local public services, or the degree of accountability that local officials are subjected to in the delivery of local public services. Indeed, to some extent the nature of what constitutes “substantive local control” over public service delivery is subjective, but the concept aims to capture the degree of autonomy, discretion and incentives that local entities (and local service delivery units, such as schools, clinics and other local service delivery units) have in transforming their financial resources into service delivery outcomes.

Possible answers to the final set of questions in this segment include ‘Yes’, ‘No’ and ‘Partial’.

- A4.1 Do formal service delivery standards exist to guide local service delivery?
- A4.2 Is there effective vertical coordination on (sectoral) public service delivery?
- A4.3 Are there formal mechanisms for horizontal inter-jurisdictional cooperation?
- A4.4 Do service delivery units (SDUs) have a degree of administrative or managerial discretion?
- A4.5 Do service delivery units (SDUs) have their own public oversight mechanism?

The central government can play a constructive role in facilitating effective local service delivery. Question A4.1 considers whether central line ministries prepare or issue formal service delivery standards (e.g., ‘National Minimum Service Delivery Standards’) for key public services to guide the quality or access to local services. Next (Question A4.2), is there an effective interface between central line ministries and local departments responsible for the delivery of local public services?

The remaining questions deal with how public services are delivered at the local level. To the degree that local public services can be more efficiently delivered by two or more local jurisdictions, do formal mechanisms for horizontal inter-jurisdictional cooperation exist? Another aspect that may influence the effectiveness of local service delivery is the degree of administrative or managerial discretion or control that local service delivery units (SDUs) have over the delivery of their public services vis-à-vis the control or instructions that are being issued by local officials.⁶⁶ For instance, do headmasters play a role in the selection and hiring of the teachers that teach within their school, and/or do they have the ability to dismiss under-performing staff? Similarly, in addition to accountability mechanisms for the local jurisdiction as a whole, do public oversight mechanisms exist for individual service delivery units, such as user committees or similar accountability mechanisms (such as school committees, school boards, or parent-teacher associations)?

⁶⁶ In other words, is control over public service delivery ‘centralized’ at the local government level, or are those responsible for actually delivering public services at the front line provided with a degree of discretion and autonomy?

SECTION 14. GUIDANCE ON THE PREPARATION OF THE LPS INSTITUTIONAL PROFILE: FISCAL ASPECTS

Intergovernmental fiscal relations are traditionally defined into four aspects or “pillars”. These pillars include: (i) the assignment of expenditure responsibilities; (ii) the assignment of revenue sources; (iii) the provision of intergovernmental fiscal transfers; and (iv) the institutional framework surrounding subnational borrowing and debt. The final worksheet of the LPS Institutional Profile (8 – fiscal) is organized along the lines of these four pillars.

Figure 14.1: Sample Screenshot – LPS Institutional Profile (Fiscal Aspects)

	A	B	C	D	E	F	G	H	I	J	K
1											
2		LOCAL PUBLIC SECTOR INSTITUTIONAL PROFILE: FISCAL ASPECTS OF THE LOCAL PUBLIC SECTOR									
3											
4											
5		[Country Name]			LPS Level/Type 1	LPS Level/Type 2	LPS Level/Type 3	LPS Level/Type 4			
6		[Year]			[Name 1]	[Name 2]	[Name 3]	[Name 4]			
7											
8											
9	F2	Nature of revenue assignment and subnational revenue administration									
10	F2.1	Local entity collects revenues?									
11	F2.2	Local revenues retained in own accounts?									
12	F2.3	Revenue assignment is 'closed-list'?									
13	F2.4	Local authority to establish own tax instruments									
14	F2.5	Local authority to establish own non-tax instruments									
15											
16	F2.6	Local control over tax rate									
17	F2.6a	Taxes on income (111)									
18	F2.6b	Taxes on property (113)									
19	F2.6c	Taxes on goods and services (114)									
20	F2.6d	Administrative fees (1422)									
21											
22	F2.7	Local control over tax base									
23	F2.7a	Taxes on income (111)									
24	F2.7b	Taxes on property (113)									
25	F2.7c	Taxes on goods and services (114)									
26	F2.7d	Administrative fees (1422)									
27											
28	F3.1	Intergovernmental fiscal transfers: ruled-based vertical allocation of resources?									
29	F3.1a	General Purpose Grants or General Revenue Sharing									
30	F3.1b	Conditional wage grants									
31	F3.1c	Conditional non-wage recurrent grants									
32	F3.1d	Other conditional recurrent grants									
33	F3.1e	Conditional capital grants									

F1. THE RESPONSIBILITY FOR FINANCING OF FUNCTIONS AND EXPENDITURE RESPONSIBILITIES

The first of the four dimensions or pillars of fiscal decentralization is the assignment of functions and expenditure responsibilities. Rather than including questions about expenditure assignments in the fiscal institutional profile, questions regarding the assignment of functions and expenditure responsibilities have already been included in an earlier portion of the Country Profile, namely the functional profile of the public sector (Section 9).



F2. NATURE OF REVENUE ASSIGNMENT AND SUBNATIONAL REVENUE ADMINISTRATION

Revenue assignment and subnational revenue administration is often considered to be the second pillar of fiscal decentralization and intergovernmental finance. Local governments in developed countries rely on a number of own source revenues including taxes (for example, property taxes) as well as non-tax revenues including regulatory fees (for instance, for licenses and permits), rent on local government property (for example, building and equipment) and user fees (for example, market fees or tolls on roads and bridges owned by the local government). Complete local revenue autonomy would be accomplished when local governments are able to assess and set the tax base, set the tax rate and collect revenue from respective sources. Many countries assign a more limited degree of revenue discretion, whereby local tax bases are defined centrally, but perhaps allowing local government to vary local tax rates within certain limits. Perhaps more important is for local governments to have discretion over utilization of locally-raised funds. In addition to the discretion of local governments to collect own source revenues, it is necessary to assess local governments' capacity to perform this function.

Some have argued that in order to achieve some of the efficiency benefits of decentralization (in terms of matching the costs and benefits for local public services), substantial local revenue authority is required (e.g., Bahl, 1999). The disadvantage of low discretion on the part of the local government to raise own-revenues –or the inability of the local government to collect revenues when they have the discretion– is that it could result in excessive reliance on transfers from central government authorities. Excessive reliance on central government transfers may discourage local governments from exploiting their own resources. It may also reduce local responsiveness and accountability as higher degrees or reliance on transfers create incentives for local governments to respond to the demands of the central authorities rather than their own constituencies.

Background: what is a local revenue source?

The legal status of a revenue source is not a critical factor in determining what is a local revenue. For instance, in the Russian Federation, the personal income tax is a shared revenue source which is collected by federal tax authorities, although a pre-determined share of revenue collections is shared with subnational governments on a derivation basis. While the law refers to this revenue as a 'local revenue source', the local government has no control over the tax base, tax rate, or collection. As such, this should be considered as an intergovernmental transfer rather than as a local revenue source.

For devolved entities, a local revenue source is a revenue source which is collected by the local jurisdiction itself and which is deposited in its own account (over which it has spending discretion).

In a few cases, a revenue source that is not collected by a local government entity itself (but rather, by a higher-level local government) may still be counted as a local revenue source. In these cases, the collection must be performed on an agency basis, and the local government must still have some discretion over the tax rate and/or the tax base. For instance, a local income tax (or local sales tax or property tax) that is collected as a "piggy-back" tax by a higher-level tax authority can be considered a local revenue source as long as the lower level has some degree of discretion over the tax rate (or tax base).

For deconcentrated entities, local officials are often required to deposit "local" revenue collections in the central government's general revenue account. In selected cases, in deconcentrated systems, local

officials are allowed to retain (certain) locally collected revenues in accounts under their own control. Please note this in the Country Profile Notes if this is the case. For the purpose of the LPS profile, both of these types of revenues are considered “local” (albeit to different degrees).

In some cases, deconcentrated entities collect both types of “local” revenues: some revenues are deposited in the national treasury account, while others are retained locally. In Egypt, for instance, most local revenues are deposited into the national treasury, while specific non-tax revenues are deposited into a Local Service Delivery Account (controlled by Governor). In such cases, the report of local revenues reflects an aggregation of the two types of revenue collections.

Overall nature of revenue assignments and subnational revenue administration

The first set of questions with respect to revenue assignment deals with the overall nature and structure of revenue assignments. To what degree do local entities have authority to determine their own revenue structure? In some countries, a pre-determined, fixed list of revenue sources is determined by higher-level authorities which local entities are allowed to collect. Such “closed list” systems are very different in nature from “open list” systems, where local entities are fundamentally allowed to define their own revenue sources (even though locally-defined revenue instruments might still be subject to higher-level approval). Note that the nature of revenue assignments in a country sometimes makes the distinction between local tax revenues and non-tax revenue instruments. In some countries, the authority of local entities to legislate or define its own tax instruments (F2.4) is more constrained than the local authority to regulate or define non-tax revenue sources, such as user fees, and so on (F2.5).

For questions F2.1 –F2.5, the possible responses include ‘Yes’, ‘No’ and ‘Partial’. Use the response ‘...’ if the question is not relevant or does not apply.

F2.1 Local entity collects (any) revenues?

F2.2 Local revenues from local revenue instruments are retained in own accounts?

F2.3 Revenue assignment is 'closed-list'

F2.4 Local entity has the authority to establish own tax instruments?

F2.5 Local entity has the authority to establish own non-tax instruments?

F2.6 Degree of local control over rate

The remaining questions dealing with the institutional structure of local revenue assignments and collections address individual (or categories of) revenue sources. For this purpose, the same list of revenue sources is used as contained in the LPS Fiscal Profile described in Section 9 (based on the IMF revenue classifications).

Note that in some countries, there might be multiple local revenue sources that fall within the same revenue code at a specific local level. In that case, please consider the main revenue source (the revenue instrument yielding the greatest amount of revenue) in the respective category to determine the degree of local discretion over the tax rate.

Question F2.6 considers whether for each local revenue source, the local jurisdiction has control over the tax rate. This question is posed separately for (a) Taxes on income (111); (b) Taxes on property (113); (c) Taxes on goods and services (114); and (d) Administrative fees (1422).



For questions F2.6, the possible responses include ‘Yes’, ‘No’ and ‘Partial’. Control over the tax rate is considered to be partial if the local entity is constrained by higher-level legislation in the setting of local tax rates or fee rates.

F2.7 Degree of local control over base

Question F2.7 considers whether for each local revenue source, the local jurisdiction has control over the tax base. This question is posed separately for (a) Taxes on income (111); (b) Taxes on property (113); (c) Taxes on goods and services (114); and (d) Administrative fees (1422).

For question F2.7, the possible responses include ‘Yes’, ‘No’ and ‘Partial’. Note that control over the tax base deals with both the definition and measurement of the tax base. Full local control over the definition and measurement of the tax base exists if the legal basis for the tax base is defined by local regulation and legislation. Partial control over the tax base exists in several cases, for instance, if the local entity does not define the local tax base, but if it measures it (for instance, by assessing property values to be taxed), or if the local entity is entitled to give tax exemptions to local taxpayers.

F3. NATURE OF THE INTERGOVERNMENTAL FISCAL TRANSFERS

Background on the design of intergovernmental fiscal transfers

Four elements of the intergovernmental transfer system have important local government discretion and accountability implications: (i) rules that determine the total amount of transfer—also referred to as the vertical allocation of resources or the determination of the distributable pool; (ii) rules that govern the “horizontal” allocation of distributable pool among eligible local governments; (iii) the purpose for the transfer or the degree of conditionality of the grant (i.e., an unconditional general purpose grant versus a conditional specific transfer); and finally (iv) the degree to which the provision of the transfer is dependent on (or intended to) incentive or promote certain local behaviors. This last dimension of the transfer schemes is particularly relevant for performance-based grants.

The nature of the overall grant system should be reflective of the country’s desired intergovernmental ambitions. Whereas revenue sharing or unconditional grants allow greater local discretion (which is appropriate where there is strong accountability to local constituents), conditional grants allow line ministries or departments to provide stronger guidance (or exercise control) over local administrative departments or governments (which may be appropriate in the absence of strong local accountability relationships).

A (vertically and horizontally) rule-based transfer system brings greater stability and predictability, and thereby promotes good local planning and efficient service delivery effort. This is why some countries define the vertical allocation of resources (or the distributable pool) as a fixed percentage of budgetary resources or based on some other vertical allocation criterion. Similarly, this is why many countries adopt a formula-based grant system. On the other hand, if the distributable grant pool is determined by the central government in an *ad hoc* and opaque manner, it likely creates allocative inefficiencies and gives rise to uncertainty at the local level regarding the receipt of the transfer revenues. This uncertainty leads to poor budgeting practices and weakens the accountability linkage between local governments and citizens. Similarly, restrictions on the use of funds transferred to the local government also diminish the ability of the local governments to respond to the preferences of the citizens.

With regard to the nature of the grant –or the degree to which the provision of the transfer is or intended to incentivize or promote certain local behaviors-, we note that introducing a matching grant or a performance-based grant is intended to reward certain local decisions, and is therefore understood to be an incentive for certain local choices. Therefore, the provision of a matching grant or the introduction of performance-based conditions is understood to introduce incentivize criteria in the allocation of intergovernmental fiscal transfers.

F3.1 Intergovernmental fiscal transfers: ruled-based vertical allocation of resources?

Consistent with the LPS Fiscal Profile, the LPS Institutional Profile recognizes six types of intergovernmental fiscal transfers.⁶⁷ Whereas the Revenue Profile (Section 11) seeks to capture the amount of funding provided by the various transfer mechanism, segment F3 of the fiscal institutional profile is interested in clarifying the nature of the different intergovernmental fiscal transfer schemes. Note that in some countries, there might be multiple grant schemes that fall within the same transfer category at a specific local level. In that case, please consider the main grant scheme (the transfer instrument that provides the greatest amount of revenue) in the respective category to determine the nature of the transfer scheme.

Question F3.1 considers whether the country's main intergovernmental fiscal transfer schemes determine the vertical allocation of resources in a ruled-based manner? The set of possible responses includes 'Yes', 'No' and 'Partial'. This question is answered separately for (a) General Purpose Grants and/or General Revenue Sharing; (b) Conditional wage grants; (c) Conditional non-wage recurrent grants; (d) Other conditional recurrent grants; (e) Conditional capital grants; and (f) Cross-sectoral capital grants.

F3.2 Intergovernmental fiscal transfers: formula-based horizontal allocation of resources?

Question F3.2 considers whether the horizontal allocation of transfer resources is determined in a formula-based (or norm-based) manner? The set of possible responses includes 'Yes', 'No' and 'Partial'. This question is answered separately for (a) General Purpose Grants and/or General Revenue Sharing; (b) Conditional wage grants; (c) Conditional non-wage recurrent grants; (d) Other conditional recurrent grants; (e) Conditional capital grants; and (f) Cross-sectoral capital grants.

F 3.3 Completeness, timeliness and consistency of transfers

A final question with regard to the intergovernmental transfer system is whether transfers are (mostly) being provided by the higher-level authority (or authorities) in a complete, timely and consistent manner. In other words, during budget execution, are transfers fully disbursed compared to the budgeted amount? Are transfers released in a timely manner? Are transfers disbursed in accordance with the allocation formula or the disbursement pattern determined in the budget? Possible responses for this composite question include 'Yes', 'No' and 'Partial'.

F4. SUBNATIONAL BORROWING AND DEBT

⁶⁷ We should note that funding provided to deconcentrated local units should not be considered as intergovernmental fiscal transfers, but rather, as budgetary allocations to budget entities at different administrative levels. This section of the Country Profile can still be used to assess the rule-base vertical allocation of budgetary resources, as well as the formula-based or norm-based horizontal allocation of subnational budgetary allocations.

Local borrowing can act as a significant source of revenue for local governments, especially in countries where own source revenues and intergovernmental transfers fall short of responding to local investment needs. However, irresponsible borrowing practices or excessive reliance on subnational borrowing can put macroeconomic stabilization at risk. The possibility of local defaults on the expectation of a bail-out by the central government creates a moral hazard problem for local officials, which could potentially result in inefficiency and over-spending at the local level unless appropriately addressed by the institutional framework. Therefore, local government borrowing, if allowed, should be adequately overseen by the central government by devising precise rules and procedures of borrowing. Consequently, in developing countries, many central governments limit, control, or prohibit the issuance of debt by local governments.

Different countries rely on different types of subnational borrowing controls. For instance, Ter-Minassian and Craig (1997) suggest that countries generally rely on one (or a combination) of five subnational borrowing controls, including: market discipline, rule-based controls, cooperative control, administrative control, or outright prohibition of subnational borrowing. Market discipline refers to the reliance on market forces and private credit rating agencies to impose discipline over local borrowing (as in the presence of a functioning local capital market, irresponsible local borrowing results in higher borrowing costs for individual local governments). At the other extreme is direct administrative control of local government borrowing, in which the central government directly controls subnational borrowing, by requiring central approval of specific local government investment projects and their terms of finance, requiring limiting local government borrowing exclusively through a centrally-controlled financial intermediary (such as a municipal investment bank or local government loans board), and/or other specific central government controls.

Rule-based controls refer to the need for local entities to comply with certain quantitative and qualitative rules and limits regarding their ability to borrow (for instance, quantitative limits on borrowing related to own source revenues, and limitations on the use of borrowed funds). Cooperative controls refer to a situation in which limitations on local government borrowing are generated in a negotiation process between central government and local governments.

For the questions under F4, possible responses generally include ‘Yes’, ‘No’ and ‘Partial’:

F4.1 Do local entities have the authority to borrow without higher-level approval?

F4.2 If the answer to F4.1 is negative, do local entities have the authority to borrow with higher-level approval?

F4.3 Local borrowing takes place extensively (local borrowing is practiced by more than one-third of local entities).

F4.4 Subnational government bond issuance allowed/practiced?⁶⁸

F4.5 Rule-based constraints are imposed by higher-level authority legislation on local borrowing (for instance, limits exist on the size or use of borrowed resources)?⁶⁹

F4.6 Specific electoral or local accountability constraints exist on borrowing? (For instance, local borrowing may only take place after approval in a referendum).

⁶⁸ For this question, possible responses include ‘Allowed and practiced’; ‘Allowed, but not practiced’ and ‘Not allowed’.

⁶⁹ Likewise, some countries impose limits on borrowing in the year prior to the next local election.

F4.7 A local borrowing institution (such as a Municipal Infrastructure Bank, a Local Government Loans Board or a similar institution) exists?

F4.8 Vertical coordination takes place between central and local authorities on the aggregate level of local borrowing and/or local fiscal rules?

REFERENCES

- Faigy Abdelhak, Jihyun Chung, Jingqiang Du and Valerie Stevens. Measuring Decentralization and the Local Public Sector: A Survey of Current Methodologies. IDG Working Paper 2012-01. Washington: The Urban Institute.
- Bahl, Roy. 2008. The Pillars of Fiscal Decentralization. CAF Working Paper N° 2008/07. CAF (Development Bank of Latin America).
- Boex, Jamie, and Renata R. Simatupang. 2008. "Fiscal Decentralization and Empowerment: Evolving Concepts and Alternative Measures." *Fiscal Studies* 29(4): 435–465.
- Boex, Jamie and Serdar Yilmaz. 2010. "An Analytical Framework for Assessing Decentralized Local Governance and the Local Public Sector." IDG Working Paper 2010-06. Washington, DC: The Urban Institute.
- Eaton, Kent, and Larry Schroeder. 2010. "Measuring Decentralization." In *Making Decentralization Work: Democracy, Development, and Security*, edited by Kent Eaton Connerley and Paul Smoke. Boulder, CO: Lynne Rienner Publishers.
- Ebel, Robert D., and Serdar Yilmaz. 2002. "On the Measurement and Impact of Fiscal Decentralization." Policy Research Working Paper 2809. Washington, DC: The World Bank.
- International Monetary Fund. 1986. *IMF Government Finance Statistics Manual*. Washington: The Fund.
- International Monetary Fund. 2001. *IMF Government Finance Statistics Manual*. Washington: The Fund.
- GADM. 2011. GADM Database for Global Administrative Areas. <<<http://www.gadm.org>>>
- Law, G. 2011. Administrative Divisions of Countries ('Statoids'), <<<http://www.statoids.com>>>
- Litvack, J. and Jessica Seddon (eds.). 1999. *Decentralization Briefing Notes*. Washington, DC: World Bank.
- OECD. 2002. *Fiscal Design Surveys across Levels of Government*. Paris: OECD.
- OECD. 2006. *Intergovernmental Transfers and Decentralized Public Spending*. OECD Network on Fiscal Relations Across Levels of Government: Working Paper No. 3.
- Olsen, Mancur. 1969. The Principle of "Fiscal Equivalence": The Division of Responsibilities among Different Levels of Government, *AER* 59(2): 479-487.



- Ter-Minassian, Teresa, and Jon Craig, 1997, "Control of Subnational Government Borrowing," in *Fiscal Federalism in Theory and Practice*, ed. by Teresa Ter-Minassian (Washington: International Monetary Fund).
- United Cities and Local Governments (UCLG). 2008. *Decentralization and Local Democracy in the World: First Global Report by United Cities and Local Governments*.
- UN Habitat. 2007. *International Guidelines on Decentralization and Strengthening of Local Authorities* (UN Habitat, 2007).
- USAID. 2009. *Democratic Decentralization Programming Handbook*. Washington DC: June 2009.
- USAID. 2010. *Comparative Assessment of Decentralization in Africa: Final Report and Summary of Findings*. Washington DC: December 2010.
- Vinuela, L. 2012. *The World Bank's 14 Decentralization Indicators*. Presented "Local Public Sector Finances, Governance And Service Delivery: Practices And Experiences In Measuring The Local Public Sector", January 13, 2012.
- World Bank. 2008. *Intergovernmental Fiscal Relations and Subnational Expenditures In Afghanistan*. Washington/Kabul: The World Bank.
- World Bank. 2009. *Local Government Discretion and Accountability: Application of a Local Governance Framework*. Social Development Department, Report No: 49059-GLB.
- World Bank. 2011. *Fiscal Decentralization Indicators; Qualitative Indicators*.
<<<http://www.worldbank.org/>>>
- Yilmaz, Serdar, Yakup Beris, and Rodrigo Serrano-Berthet. 2008. "Local Government Discretion and Accountability: A Local Governance Framework." *Social Development Working Paper No. 113*. Washington, DC: The World Bank.