# LOCAL PUBLIC SECTOR
## ALLIANCE

CONCEPT NOTE

# PREPARING
# MULTI-LEVEL GOVERNANCE
# PUBLIC SECTOR REVENUE &
# EXPENDITURE PROFILES

# PREPARING
# MULTI-LEVEL GOVERNANCE
# PUBLIC SECTOR REVENUE & EXPENDITURE PROFILES:
# A GUIDANCE NOTE

## *LOCAL PUBLIC SECTOR ALLIANCE*

## Background

Global development does not take place within the walls of international development organizations. Nor does development take place within the walls of the central government ministries that are typically the main counterparts of international development actors. Instead, public services are delivered—and resilient, inclusive, sustainable development is actually achieved—in a localized manner, in the regions, cities, towns and villages where people live and work.

A country's territorial-administrative structure and its multi-level governance arrangements thus play an important role in achieving inclusive and sustainable development. As subnational governments control increasingly higher shares of total public resources, their competence in designing public policies and delivering public services becomes crucial in achieving development objectives.

The ability of the public sector to manage its resources efficiently and achieve its development objectives across its national territory, by identifying relevant paths for territorial competitiveness and effective delivery of public services, is defined to a large extent by the institutional structure of the public sector. Yet, regardless of each country's territorial-administrative structure, central government ministries, subnational actors and citizens are mutually dependent in co-producing social and economic progress. In this context, the key underlying question is not whether to "decentralize or not" or even opt for a specific decentralization model, but to look at ways to improve capacity and co-ordination among public stakeholders at different levels of government to increase efficiency, equity and sustainability of public spending.

The question of multi-level governance and subnational public expenditures is therefore relevant regardless of whether a country's constitutional framework is federal or unitary in nature, or whether a country pursues its development objectives in a centralized or decentralized manner.

# Knowledge gaps in our understanding of the public sector

Policymakers and researchers are in need of detailed information about the organization of multi-level public sector, including governance arrangements, subnational fiscal data as well as data on demographic, social, and economic patterns to sharpen their intervention or policy advice.

Despite the immense importance of the topic, and in spite of decades of academic and policy research on fiscal federalism, decentralization and local governance, considerable knowledge gaps continue to exist with regard to the role of the local public sector in attaining effective public service delivery and achieving sustainable development outcomes.

Since 2012, the Local Public Sector Alliance—through its precursor, the Local Public Sector Initiative—has sought 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. Other efforts—including the IMF's Government Finance Statistics and the OECD/UCLG World Observatory on Subnational Government Finance and Investment—have contributed to an expanded base of knowledge and data about subnational governance, administration and finance around the world. Yet, none of these methodological advances and data collections efforts have provided the global development community with adequate insight on the impact of multi-level governance arrangements on the achievement of inclusive and sustainable development.

Recognizing that many existing public sector assessment tools focus heavily or exclusively on the central government as the most visible part of the public sector, the proposed guidance note will provide conceptual and methodological guidance that can be used to prepare a comprehensive institutional and fiscal profile of a multi-level public sector.



**Figure 1 Public sector institutions and finances: more visible and less visible parts**
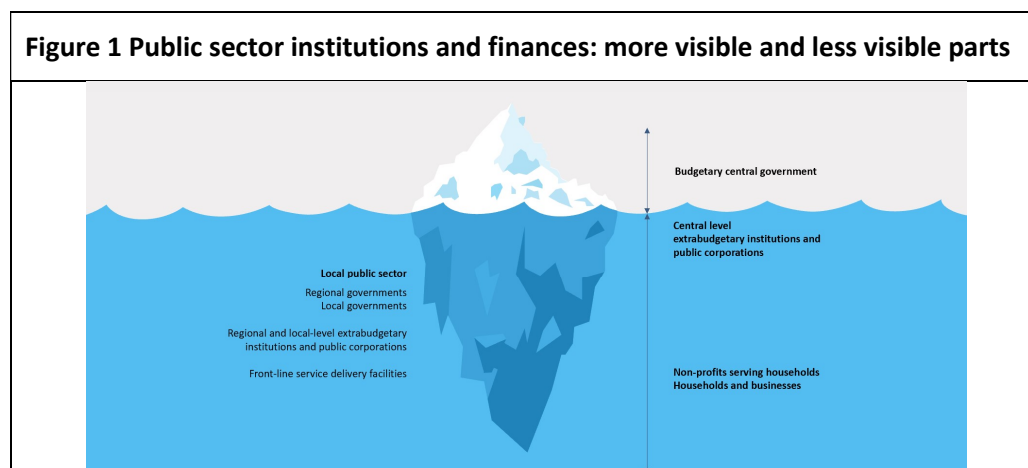
## Objective

The **Multi-Level Governance Public Sector Revenue and Expenditure Profile (MLG-PREP)** aims to provide a "big picture" understanding of the public sector's institutional structure and fiscal patterns across all government levels, covering both general government institutions at all levels of territorial administration, as well as extra-budgetary institutions, public corporations and other relevant stakeholders at each level.

A comprehensive MLG-PREP country profile provides a deeper understanding of the nature of the public sector by not only exploring the role of central government institutions, but by highlighting the role of regional and/or local governments, as well as extra-budgetary institutions, public corporations and other relevant stakeholders that are often overlooked in more traditional public expenditure reviews.

Where possible, MLG-PREP aims to provide a breakdown of expenditures by function and economic type. In terms of revenues, it aspires to distinguish between own source revenues, shared revenues, intergovernmental fiscal transfers and other funding sources.

## Main differences from other/earlier methodologies

The **Multi-Level Governance Public Sector Revenue and Expenditure Profile (MLG-PREP)** aims to build on existing public finance data definitions and methodologies wherever possible, but is different from existing methodologies in a number of ways:

- The MLG-PREP methodology comprehensively considers revenues and expenditures at all government levels; not just central *or* subnational level;
- The MLG-PREP methodology allows countries to consider general government institutions and finances at all government levels as well as institutions and finances outside general government (i.e., includes extrabudgetary institutions, public corporations and other actors at different government levels, as relevant);
- In addition to devolution, the MLG-PREP methodology provides specific guidance to document funding flows associated with alternate approaches to decentralization and localization (including not only devolution, but also central government programs, deconcentration, and delegation);
- In addition to analysis of vertical expenditure and revenue patterns (on a sector-by-sector basis, where possible), the MLG-PREP methodology encourages investigation of "horizontal" expenditure and revenue patterns across the national territory.
- The MLG-PREP methodology further permits deep-dives into sectoral finances or areas of thematic interest (including in areas such as urban development or climate finance) to strengthen links between public sector institutions, public finances and public financial management, and service delivery outcomes and development results.

## MLG-PREP's role in informing country-level policy discussions

By providing a "big picture" understanding of how the public sector is structured and the distribution of resources across different government levels and across the national territory, MLG-PREPs are an important input into policy discussions among different stakeholders within the public sector reforms, as well as their counterparts within the global development community.

Ideally, MLG-PREP profiles are prepared at the country-level in a collaborative manner by teams of experts including relevant central government officials; local government representatives; civil society stakeholders, academic scholars and/or public policy researchers; and development partners, as relevant.

Within the public sector, relevant stakeholders that should be involved in the preparation of MLG-PREPs including the Ministry of Local Government (and/or democratic governance, decentralization and local governance specialists); the Ministry of Finance (and/or fiscal decentralization and public financial management specialists); planning officials in charge of preparing national development plans (including specialists supporting the localization of the Sustainable Development Goals); as well as sectoral ministries (and sectoral / service delivery specialists).

## Collaborative approach and timeline for development of the methodology and

Building on—and refining—existing methodological guidance, the Local Public Sector Alliance seeks to develop the MLG-PREP methodology in partnership with leading stakeholders within the global community of practice on decentralization and localization, including the World Bank, UNDP, UNCDF, OECD, UCLG, the PEFA Secretariat, the Forum of Federations, ODI, DeLoG and others.

An initial draft of the methodology is expected to be prepared and made public by the Local Public Sector Alliance in March 2022.

A series of expert dialogues with key institutions partners is expected to take place from April-June 2022 in order to refine the draft methodology.

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