



Urban Institute IDG Policy Brief

Urban Institute Center on International Development and Governance

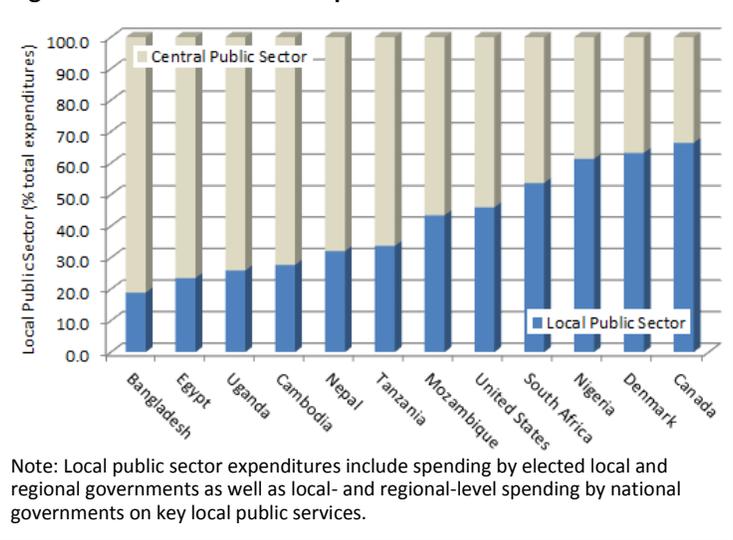
IMPROVING PUBLIC SERVICES AND ACHIEVING SUSTAINABLE, INCLUSIVE DEVELOPMENT: DEVELOPMENT ASSISTANCE AND THE ROLE OF THE LOCAL PUBLIC SECTOR

In countries around the world, the local public sector delivers the public services that people rely on day to day: schools for their kids, public health services, access to drinking water, roads for getting goods to market, extension services for small farmers, and so on. In fact, almost all pro-poor public services that are believed to spur sustainable economic development are delivered at the local level, where the public sector interacts on a regular basis and in a localized manner with the people that it serves.

Perhaps the most obvious indication that the local public sector plays an important role in growth-enhancing service delivery and inclusive development is the fact that industrialized countries typically spend 50% 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 1). For instance, in countries like Bangladesh or Egypt, only about 20% 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. The bulk of public-sector funding remains stuck at the central government level, where these resources often finance bloated bureaucracies or inefficient development projects.

Development progress depends on local public sector progress. 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 percent of teachers absent from their schools or over 30 percent of public health providers away from the 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. These examples suggests that the true global development challenge is not necessarily to provide additional financial resources to improve public services, but rather, to fix the weaknesses in the public sector's management of the resources that are already available. In this view, public service delivery can only improve and inclusive development can only be achieved (i) when front-line public servants within the local public sector are given the necessary resources, discretion, and incentives to do their jobs well; and (ii) when they are held accountable for their performance.

Figure 1: The size of the local public sector in selected countries



A paradigm shift in the development community is opening the door for the local public sector

In contrast to the important role played by the local public sector in improving public services and in achieving inclusive and sustainable development, for years, many national poverty reduction and economic development strategies have virtually ignored the role of local governments and other local-level institutions. Similarly, many traditional development approaches to improving public service delivery outcomes have failed to address the systemic obstacles to effective service delivery at the local level, often focusing on more centralized, top-down interventions, or bypassing the (local) public sector altogether by relying on NGOs to deliver services.

Recent shifts in the thinking of the global development community seem to acknowledge the shortcomings of top-down projectized development assistance. Instead, many development agencies are positioning themselves to pursue more transformative and sustainable development approaches. In the process, development agencies are recognizing that centralized service delivery and development interventions are often inefficient: whereas central line ministries often have an overhead rate of 70%, local governments typically only spend 20% of their resources on administrative overhead, allowing them to use up to 80% of their resources on direct service provision.

Within this context, *USAID Forward* is transforming the way USAID approaches development, aiming to improve development results by building local sustainability and partnerships; by fostering innovation; and by strengthening the capacity of the public sector and the development community to deliver results. This repositioning of the U.S. development strategy offers a unique opportunity to achieve transformative development by unlocking the potential of the local public sector across a range of key public services, including health and agriculture, but also education, water supply, infrastructure and urban services.

The local public sector's role in service delivery and the development: the current state of knowledge

Despite clear indications that an effective local public sector is a critical ingredient in delivering

effective public services, little is known about the role of the local public sector in achieving sustainable and inclusive development. The Local Public Sector Initiative (LPSI) was launched by the Urban Institute in December 2010 to start filling this knowledge gap.

As a first step to a better understanding the nature and the role of the local public sector, LPSI—through a research partnership with USAID—developed a set of standardized metrics that for the first time allows us to measure key institutional and fiscal features of the local public sector across countries.

Preliminary results from the initial application of the LPSI methodology to a dozen countries is revealing huge variations in the relative size of local public sector expenditures in different countries (figure 1). The application of LPSI's methodology is further uncovering considerable variations in the governance structures, functional responsibilities, discretion, and accountability mechanisms faced by local officials in different countries.

Although the Local Public Sector Initiative's findings are only at an early stage, the Initiative has important implications for *USAID Forward* and the broader U.S. development assistance strategy. After all, the development prescription for a country that spends only 20% of its resources on front-line services is very different from the way forward for a country that already spends 50% of its public finances at the local level.

Expanding our understanding of the role of local public sector

A first implication from LPSI's initial results is that a greater investment in understanding the local public sector is warranted.

During the pilot phase of the Local Public Sector Initiative, 12 LPS Country Profiles were prepared. Now that the methodology has been tested and proven its relevance, the stage is set for the preparation of a large number of LPS Country Profiles across different regions, in order to allow for a comparative analysis of local public sector characteristics.

In supporting the preparation of Country Profiles, LPSI will seek to prioritize the preparation of

Country Profiles for countries in regions of interest for USAID and the rest of the development community, including Sub-Saharan Africa, the Middle East and North Africa, and other fragile and post-conflict states where effective service delivery and state legitimacy depend on an effective local public sector.

Of course, it is insufficient to only prepare Country Profiles without looking at the linkages between the local public sector and key indicators of public sector performance and development effectiveness. Indeed, during its second phase, the Local Public Sector Initiative aims to pursue a robust research agenda on the role of the local public sector.

Some of this research has already started. For instance, with support from the German agency for development cooperation (GIZ), LPSI is now engaged in a study to explore the impact of local public sector finances and governance on the attainment of the Millennium Development Goals in the health and education sectors.

Informing USAID's support to strengthening public service delivery: analyzing and resolving the binding constraints to effective local services

The local public sector plays an important role across key service delivery areas and initiatives that form the core of USAID's development agenda, such as global health and agriculture. As such, a deeper understanding of the local public sector should also directly inform USAID's strategic approach within the context of *USAID Forward*.

First, in order for USAID to work in a transformative manner, USAID's country assistance strategies and project designs should be informed by a careful analysis of the binding constraints to effective local service delivery in the relevant sectors. After all, it is only possible to design effective development interventions when you understand the binding constraints faced in the delivery of key public services. Building on its Country Profile methodology, LPSI is seeking support to develop a *Handbook on the Assessment of Constraints to Public Service Delivery*, which would provide critical guidance in identifying sector-specific constraints in successful service delivery within the local public sector for health services, agricultural extension, and other public services.

Second, as USAID aims to improve development results by building sustainable local partnerships, local governments are an important group of potential local partner organizations that should be considered by the Agency. In fact, USAID already relies on elected local governments as implementing partners in some countries—such as Uganda—where local governments already have a degree of legitimacy and accountability. Other USAID missions should similarly consider the extent to which local governments—in addition to central government counterparts—could form effective partners in addressing the U.S. government's development objectives. Of course, this first requires a careful assessment of the local governance and financing framework as well as an assessment of service delivery effectiveness and constraints.

Creating demand from below to transform the public sector

Finally, a better understanding of the role of the local public sector is not just an issue for international development agencies or for central governments to consider. Local-level actors themselves can benefit greatly from a better understanding of the organizational structures, institutions and financing mechanisms used within their own countries. As such, there is a need to expose and capacitate local stakeholders—both from within the local government community, as well as from the local research community—to LPSI's research methodology.

In fact, empowering local stakeholders to lead the preparation of a country's Local Public Sector Country Profile—or the development of LPS Service Delivery Constraints Assessment—can create strong demand from below to transform the local public sector by strengthening the local public sector and by removing constraints to the effective of local public sector institutions.

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