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Intergovernmental Fiscal Relations and Local Financial Management *(in co-operation with the Local Government and Public Service Reform Initiative of the Open Society Institute, Budapest and the World Bank Institute, Washington)*

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Serdar Yilmaz is a Public Sector Specialist at the World Bank Institute (WBI). Serdar coordinates curriculum development activities of the WBI's Intergovernmental Fiscal Relations and Local Financial Management Program. In addition to his managerial assignments, he does research and scholarly work on issues related to public finance and intergovernmental fiscal design in developing countries. His research interest areas are analysis of decision making in the public sector, analysis of intergovernmental policies in developing countries, and the role infrastructure service provision in regional development patterns. He has participated in many learning activities of the WBI and his research has appeared in academic journals and books edited by leading academics in the field. Serdar holds a Ph.D. degree in Public Policy from George Mason University.

Jozsef Hegedus is Head of the Metropolitan Research Institute. He was trained as an economist and holds a Ph.D. in sociology. He has ten years experience in Hungarian local government reforms, especially financial issues such as grant allocation, budgeting process, designing equalisation grants, analysing effects of local tax, local government capital budgeting, etc. As a project manager he has been lately involved in research on local government finance in Budapest, and in the preparation of the Budapest Program for 1996-2000. He led a team at MRI in co-operation with the Urban Institute, Washington to develop a training course for local government financial experts on program budgeting and related financial issues, and took part in the SNDP (Sub-National Development Program of World Bank, USAID and Know How Fund in Hungary). He was co-author of the study "Local Management in Hungary: Fiscal and Structural Adjustment at the Local Level in the Context of Economic Transition."

Adrian Ionescu is the Program Director for the Local Government and Public Service Reform Initiative (LGI) at the Open Society Institute in Budapest, Hungary. In addition to managing LGI, he is responsible for the "Subnational Governmental Finance, Fiscal Decentralization and Budgeting" program to generate and disseminate knowledge and best practices in CEE and fSU. Before joining the program in Budapest, Adrian worked as Project Manager for the Soros Foundation, and previously as a Research Officer for the Ministry of Public Works and Regional Planning in Romania. He holds a certificate from Harvard University, a MBA from Universite du Quebec a Montreal and a M.Sc. in Engineering from the Polytechnic University of Bucharest.

Course objectives

The objectives of the course are to (i) provide participants with the analytical framework for understanding intergovernmental fiscal economics and various modules of the central-subnational (e.g., local) relationship, (ii) enhance participants' capacity for successful implementation of public sector resource management reform by analysing mechanisms for the transfer of resources among governments and identifying ways to address the issue of regional disparities and local resource mobilisation, (iii) and increase participants' understanding in the issues of fast restructuring public economy in countries of transition, (iv) enhance the participants' capacity to understand and use the practical simulation methods on public finance issues (transfers, local taxes).

Course level, target audience

The course has been designed for the practitioners, researchers/academics and trainers in the area of public finance related to local government issues and intergovernmental fiscal relations. Applicants are expected to have a basic knowledge of computer and software usage, e.g. Ms Excel. During the course one day will be dedicated to simple simulations using Ms Excel.

Syllabus:

I. Fiscal decentralization

The purpose of this introduction is two-fold: provide a course overview and lay out some key questions to be examined in subsequent presentations and discussions. The module begins with a discussion of the concept (e.g., distinguishing fiscal from other forms of decentralization and pointing out the variants fiscal may take), and then proceeds to ask several critical questions: Why/why not decentralize? What are the benefits and risks? How does one measure and monitor? And, what are the basic approaches and instruments of a fiscal decentralization and local financial management policy?

II. The assignment of expenditure responsibilities

Discussions proceeds from the overview of decentralization practice to the "practice" of sorting out fiscal roles and responsibilities and the operations of a multi-tier government. To stress the axiom that finance follows function, the first such topic is that of assignment of expenditures--the theory and practice of the dividing line between private and public sector activities, principles to guide expenditure assignment, and the problems that may result from failure of clarity and stability in the assignment process. Then, specific policy choices are discussed: operating vs. capital spending, (and borrowing) responsibilities, need for an appropriate regulatory framework, and the role of privatization of public services.

III. The tax assignment problem: conceptual and administrative considerations in achieving subnational fiscal autonomy

Narrowing the Scope of Inquiry: Musgrave's Three-Function Framework; Realizing the Political Benefits of Tax Assignment; Constraints on Tax Assignment; Conceptual Arguments; Alternative Methods of Revenue Assignment; Administrative Considerations; Vertical Imbalance and Horizontal Disparities; Concluding Remarks: Tax Competition Revisited

IV. The intergovernmental systems and grant structure

Recognizing that a multiplicity of governments and government functions raises questions regarding macroeconomic control by a central government, the module begins by drawing on the discussion of previous modules as a way of introducing the conventional scope of inquiry (macro, redistribution, allocation) and its limitations as it may apply to different systems, and proceeds to examine intergovernmental theory and practice. The module also discusses the objectives of an intergovernmental grant system: correcting or adjusting for vertical imbalance, horizontal imbalance, and externalities, coordinating central and subnational spending; and providing incentives for certain forms of local behavior (tax effort, inter-governmental cooperation, structure of government).

V. Framework for enhancing local government creditworthiness, municipal credit markets

Framework for International Local Creditworthiness; General Features, and Issues Underlying the Development, of Municipal Credit Markets; Analytical Parameters of Fixed Income Securities; "Structured" Financing in Municipal Credit Markets; Legal and Regulatory Framework; Local Government Institutional Capacity; Infrastructure Financing and Access to Private Capital Markets; Market-based Financial Intermediaries for Local Investments; Links to Capital Market Development Issues; Credit Ratings; Municipal Bond Markets Experience Of The USA; Municipal Bond Markets Prospects for Developing Countries

VI. Own source revenues: Property Tax, User Charges

Increased importance of the property tax in the OECD countries; Advantages of a property tax; The property tax as a local tax; Basing the property tax on market values; Taxing both land and

buildings or taxing land alone; Administration of the property tax; **Exercise:** designing property tax (simulation). Concept of user fee finance; Design options for user charges; Implementation: metering, collection, enforcement, billing; Case study.

VII. Local Government Budgets

Budget purpose; Types of budgets; Budgeting and Accounting; Stages of the budget process; Capital Budgeting; Evaluation of performance.

VIII. Sector approach: housing

Role of the state in housing in the pre-transition and after the transition; Different privatization strategies: alternative service delivery (municipal, non-profit and private); Central and local housing programs: structure of grants and subsidies (housing allowances, vouchers, construction subsidies, etc.), combining central and local programs; Private and public partnership in housing development at local level; Local Housing Funds: revenues and expenditures, operational issues; Issues of regulation: rent control (central and local solution), building regulations, land development, arrears; Issues of externalities: grant "leakage"; Local housing indicators; **Exercise:** designing a housing program grant (simulation)

IX. Sector approach: social policy

Basic issue of social policy in transition; Problem of the "agency" or "choice" model; Interaction between the sectors: health care, housing, public services and social; Financing institutions and benefit programs; Local social policy and central programs; Financing institutions providing social care; Grant structure: role of matching grants in social services, **Exercise:** Designing local social program

Distance Learning

The course organisers will send out distance learning materials at the end of April and will involve participants in a pre-course distance learning project. These materials will cover an overview of issues of financial decentralisation as well as those of revenue and expenditure assignments. Course tutors will keep contact with participants sending out and discussing assignments via email. They will also establish email discussion forums among prospective participants so that they can exchange information and views prior to course start.

N.B. More details (detailed C.V's, updated course description, syllabus, reading list, etc.) will be found later at the CEU SUN web-site <<http://www.ceu.hu/sun/sunindx.html>>

Assignments and assessment:

The participants will be selected on the basis of the SUN application and completion of a Distance Learning (DL) assignment. Each participant is expected to prepare a presentation on the fiscal decentralization issues of her/his country and on the issues of one public sector. These papers will be presented during the course.

The participants will be evaluated according to their attendance and contribution to class discussions and workshop exercises.

Teaching methods:

The course aims to achieve the right mix of exercises, lectures, and interactive learning methods. This includes the dissemination of materials prior to the course presentation (paper and/or electronically) and supplementing the content with simulations, case studies and interactive discussions. Preceding the course the students will receive a distance learning package covering "Concepts of Decentralization" and "Expenditure and Revenue Assignment". Teaching of the DL stage will be conducted via email discussion, guided reading, and a series of exercises via email. It is expected that students will continue to receive support after the course using Internet and Email.

For more detailed biographies, updated course description, syllabus, reading lists please check

<http://www.ceu.hu/sun/sunindx.html>

Non-discrimination policy statement

Central European University does not discriminate on the basis of – including, but not limited to – race, color, national and ethnic origin, religion, gender or sexual orientation in administering its educational policies, admissions policies, scholarship and loan programs, and athletic and other school-administered programs.