***Revised April 6, 2015***[***Rebel@robertebel.com***](mailto:Rebel@robertebel.com)

[gpeteri@lgidev.com](mailto:gpeteri@lgidev.com)

**Syllabus**

**Intergovernmental Relations and Local Government Finance**

**April 18 through 28, 2016**

***Professors Robert D. Ebel and* Gábor Péteri**

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| *Session, Date & Activity* | *Topic* | |
| ***Session 1***  *April 18, Monday*  *11.00-12.40* | ***Introduction: Purpose and Scope*** | |
| *Content and Objectives* | **Foundations of Intergovernmental Finance**. This course addresses two foundational topics of public finance. The first goes to the five essential questions facing any country that is engaged in the public sector reform: Which type of government, central and/or or subnational (e.g., local) should spend on *which functions* (allocation of expenditure responsibilities)? Which government should levy *which revenues* (allocation of revenue authority)? How will the intergovernmental fiscal imbalances be resolved when the case for decentralized spending is almost always greater than that for decentralized revenue generation *(intergovernmental grants*)? What is the subnational/local role in the timing of obtaining receipts for the long term financing of a society’s public infrastructure (*borrowing and debt*)? And, what type of capacity, including that of systems for both public and social accountability, does it take for a society to become intergovernmentally functional and sustainable?  The second topic goes to the question of results; that is, what is the payoff for getting these very difficult questions right? Does a well- designed and well implemented system of intergovernmental relations and government finance enhance or inhibit a nation’s macro-economic performance? Improve service delivery to citizens? Make the link between those who benefit from, and who pay for public services? Deliver on promises of accountability between the government and its citizens such that citizens can understand and control their governments? Lead or fail in promoting transparent and non-corrupt public financial institutions? Serve as a “glue” or a “solvent” for national cohesion for preventing conflict or addressing post-conflict? | |
| *Readings*  *All course readings are posted on CEU Moodle* | Legal and “Fiscal Architecture” Framework:   1. *Introduction to Intergovernmental Relations* (Ebel & Peteri) 2. *Understanding a Legal Framework: European Charter on Local Self Government* (Gerard Marcou) 3. Essay on *Fiscal Architecture: What Makes Fiscal Sense?*  (Ebel and Wallace) | |
| ***Session 2***  *April 18, Monday*  *1.30-3.10* | | ***Allocation of Expenditure Roles Among Governments: Expenditure Assignment and Service Delivery*** |
| *Content and Objectives* | | **Expenditure Assignment** requires one to apply an agreed upon set of criteria for determining which government provides which public services—and this is by no means a simple exercise. Then, once the sorting-out the expenditure roles (“competencies”) among different types of governments has been addressed, the next issue arises regarding how decentralized services are provided and managed. |
| *Readings* | | Required Readings:  1. Essay: *Intergovernmental Assignment of Expenditure Responsibility* (Ebel & Vaillancourt)  2. *Service Provision In A Decentralized Setting* (Peteri)  Further for background readings   1. Council of Europe/Davey (2011). Local Govt in 2011. Chapter 1 2. Council of Europe/Inter-Municipal Cooperation (2010) Chapter 1 3. Peteri (2012): Mind Your Own Business /Community Based Governance. Ch.1 |
|  | | Advanced Readings:  1 Survey of Outcomes/What are the Results of Decentralizing Governance?  Martinez-Vazquez, Lago-Penas, and Sacchi, *The Impact of Fiscal Decentralization: A Survey* (2015), Universida de Vigo (Vigo, Galicia, Spain)   1. Decentralization as a potential tool for addressing systemic issues of conflict and, thus, a path for post-conflict resolution and national cohesion.   Bird, Vaillancourt and Roy-Cesar (2010), *Is Decentralization “Glue or Solvent” for National Unity?* International Studies Program, Georgia State University   1. Review of decentralized government in the various regions of the world:   http://www.cities-localgovernments.org/gold/gold\_report\_2.asp This is the 2nd Global Report on Decentralization & Local Democracy (GOLD II 2010) report of United Cities and Local Government (Barcelona) |
| ***Session 3***  *April 20, Wednesday*  *1.30-3.10* | | ***The Allocation of Revenue Raising Responsibility and Authority by Type of Government, Central and Subnational*** | |
| *Content and Objectives* | | Presentation on the principles and practice of **Revenue Assignment**  among different types of governments: what (i) makes “fiscal sense” for use by a subnational (e.g., local) government and (ii) are the criteria to be applied in selecting one type of tax (or non-tax) revenue over another? | |
| *Readings* | | Required readings:   1. Principles of *Revenue Assignment, Mobilization and Administration (Ebel and Peteri notes)* 2. *Sequencing Revenue Assignment* (Ebel & Weist) | |

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| ***Session 4***  *April 20, Wednesday*  *3.30-5.10* | ***Post-Socialist Urban Development – What did EU Membership and Financing Bring?***  *Ivan Tosics, Metropolitan Research Institute, Hungary* | |
| *Content and Objectives* | European Union cohesion policy, primarily the influence of EU funding on urban development. Practical examples of the URBACT programme and insights about EU policy design with cases from the new member states. Click on: http://urbact.eu/ | |
| *Readings* | Required Reading  Tosics, I. (forthcoming 2016 ): Integrated territorial investment. A missed opportunity? To be published in: Berkowitz.P- Bachtler. J.-Muravska, T. –Hardy. S.(editors): European Cohesion Policy. Routledge, Regions and Cities book series  Background reading  Tosics, I. 2010. „[The approach of Budapest to the European Union: The Europeanization of a post-socialist city](http://mri.hu/wp-content/uploads/2012/07/The-approach-of-Budapest-to-the-European-Union-The-Europeanization-of-a-post-socialist-city.pdf).” Hamedinger, A. és Wolffhardt, A. eds. The Europeanization of Cities – Policies, Urban Change & Urban Networks. 127-144. Amsterdam: Techne Press. | |
| ***Session 5***  *April 25, Monday*  *11.00-12.40* | ***Key Forms of Local Revenue Generation***  ***Property Tax Policy and User Charges*** |
| *New Content and Objectives* | **Property taxation:** rationale and issues of the real estate taxation: defining the tax base, exemptions, valuation, setting tax rates, central vs. local tax assignment, building and managing the cadastre, and billing and collection  **Non -Tax Revenue/User charges**. User charges generate revenues as well as enhance service efficiency and public accountability. Two key (and closely related) design issues that arise with the application of charges and fees are that of (i) determining the extent to which the charge can (or should) cover the full costs of a public service (cost recovery) and (ii) creating the “right” set of proper incentives faced by service providers and the customers alike. |
| *Reading* | Required Readings:  Ebel, Robert. *Property Taxation: Implementation in a Global Perspective* (2016 notes prepared for CEU Class discussion)  *Taxation of Real Property In Developing and Post-Socialist Countries??*  Péteri, Gábor: *Charging Local Government Services in Hungary* |

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| ***Session 6***  *April 25, Monday*  *1:30—3.10* | | ***Theory and Practice of Intergovernmental Transfers*** |
| *New Content and Objectives* | | **Intergovernmental Transfers.** Once one has sorted out sort out expenditure responsibilities and revenue authority between central and subnational (e.g., local) governments. Two types of fiscal imbalances will occur The first is a vertical imbalance between expenditure and revenues among different types of government. The second is a horizontal imbalance that occurs when the differences in expenditure needs and revenue-generating ability vary across similar types of subnational governments, as some jurisdictions are more tax base rich and/or less need impacted than in others. Thus the case is made for intergovernmental transfers from “higher” to “lower” tiers of government.  Note: Session 6 sets the stage for an Session 7 spreadsheet exercise |
| *Reading* | | Required reading: CEU notes on Moodle. Essay on *Intergovernmental Grants* (Ebel and Peteri) |
| ***Session 7***  *April 26, Tuesday*  *9:.00—10.40* | ***Exercise:******Excel Sheet*** *--****Constructing an Equalization Grant*** (Peteri) | |
| ***Session 8***  *April 26, Tuesday*  *11.00-12.40* | ***Subnational Government Borrowing, Debt Management*** | |
| *Exercise*  *Content and Objectives* | Borrowing & Debt Management. Subnational borrowing has emerged as one of the thorniest issues for intergovernmental (decentralized) systems. In principle, not only should subnational governments be able to borrow, but, indeed, if a nation is develop the physical infrastructure required for sustainable long term growth and development, they must become creditworthy enough to engage (in perhaps significant) borrowing. This, in turn, the taking on, and management of, long term debt. This session will examine the question of “why borrow” and then explore the organizational an institutional arrangements to make this is all work in a manner that promotes both economic efficiency and equity. Hungary’s experience with (some) problems subnational default will be examined. | |
| *Readings* | Required readings  Ebel, Robert, Abha Prasad, & Sayyora Umarova: Subnational Government Borrowing and Debt Management (World Bank, draft of forthcoming Working Paper, 2016)  Jokay-Szepesi-Szetana: *Municipal Bankruptcy Framework and Debt Management Experiences, 1996-2000*  *Barati-Stec, Izabella ,* Destined to be defaulted : Local Insolvency and Bailout in Post-transition  *Hungary, International Journal of Finance and Banking, 2014*  Background readings:  Canuto-Liu: Until Debt do Us Part. Subnational Debt, Insolvency and Markets. (Chapter 1. An Overview) <http://hdl.handle.net/10986/12597>  Liu-Peteri: The Global Financial Crisis and Subnational Finance. The Experience of Hungary | |

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| ***Session 9***  *April 27, Wednesday*  *9.00—10.40* | ***Sector Illustration of Decentralized Service Delivery: Public Education***  ***Visiting Lecture Prof. Peter Rado*** |
| *Content and Objectives* | As a merit-based public service, primary and secondary education is jointly provided by central and local governments. Following the country specific historical traditions diverse forms of service assignment and complex intergovernmental fiscal relations have been developed in the field of public education. The actual scope of decentralization in this sector is defined not only by the devolution of competencies, but it us also influenced by control mechanisms and financing arrangements. The focus of this session is on finance with special attention paid to contrasting input based techniques to that of output based schemes. With a focus on European practice, the methods of intergovernmental transfers in support of public education will be presented. |
| *Readings* | Required reading: Bird, Richard: *Financing Decentralized Education*  Background Reading: Rado, Péter Decentralizing Public Education (Chapter 9. and 10., Book:  http://www.cep.edu.rs/public/Rado\_Decentralizing\_Education\_final\_WEB.pdf |
| ***Session 10***  *April 27, Wednesday*  *1.30-3.10* | ***Beyond Assignment: Accountability*** |
| *Content and Objectives* | Accountability is defined by the overall governance framework. The pillars of national integrity system influence the governments’ obligation to inform citizens of “their” public finances. Laws and regulations, independent public organizations, civic groups and the media determine the actual level of accountability. Accountability is exercised through political, administrative, financial and social mechanisms. The methods of revenue sharing and transfer design influence the balance between local discretion for improved service efficiency, on one hand and control for effective national fiscal policies and financial management practices, on the other. Accountability in intergovernmental fiscal relations depends on the (i) predictability in planning the total allocated amount; (ii) proper incentives and objectivity of the allocation rules and (iii) transparency of the methods followed in the daily allocation practice. |
| *Readings* | Required readings  Serdar Yilmaz, Yakup Beris, and Rodrigo Serrano-Berthet: *Local Government Discretion and Accountability: A Diagnostic World Bank Working Paper 113. (*WPS 113)  Recommended readings  Transparency and Accountability Initiative: Open Government Guide  Gabor Peteri (Editor): Finding the Money. Public Accountability and Service Efficiency through Fiscal Transparency. OSI/LGI, Budapest.  Davey, Ken: Making Government Accountable. Local Government Audit in Post-communist Countries.  http://www.pefa.org/ |

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| ***Session 11***  *April 28, Thursday,*  *9.00—10.40* | ***Financing and Management of Local Utility Services*** |
| *Content and Objectives* | **Trends in Urban Service Management and Financing**. Basic urban services, such as water provision, sewage treatment and solid waste management are typically local government functions. The ultimate local responsibility for these core services is exercised through various public and private service delivery arrangements by using mixed forms of financing, such as transfers, user charges and loans. Since the early 1980s the institutional forms of service provision were driven by the theory and practice of New Public Management, which promoted various forms of private sector participation. However, the recent regulatory changes on the “services of general economic interest” in Europe and the financial consequences of the economic crisis led to new service and funding patterns. This session will highlight the new trends in urban service management and financing. |
| *Readings* | Required reading:  Wollmann, Hellmut-Marcou, Gerard: *The Provision of Public Services in Europe. Between State, Local Government and Market*  Background Reading :  WDR, 2004: Making Services Work for the Poor. (World Bank World Development Report) <http://hdl.handle.net/10986/5986>  Horvath and Peteri: Navigation to the market: regulation and competition in local utilities in Central and Eastern Europe  http://pdc.ceu.hu/archive/00006991  Péteri, Gábor: Fiscal Relations Between Municipal Companies and Local Governments (manuscript)  Martin Pigeon, David A. McDonald, Olivier Hoedeman and Satoko Kishimoto (Editors): *Remunicipalisation: Putting Water Back into Public Hands*  https://www.tni.org/files/download/remunicipalisation\_book\_final\_for\_web\_0.pdf |

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| ***Session 12***  *April 28, Thursday*  *11.00-12.40* | 1. Review of the course 2. Student-Led Discussion of “Take Away” Lessons |
| ***May 15, 2016*** | Briefing Notes Due |

Assignment due May 15, 2016. Prepare a *Briefing Note* to profile a country (or some other type of government or intergovernmental entity) on intergovernmental and Local Government Finance policy profile and practice. The scope and content of this report will be further discussed during the first class meeting.