

**COURSE ON
INTERGOVERNMENTAL
FISCAL RELATIONS AND
LOCAL FINANCIAL
MANAGEMENT**

APRIL 11-14, 2000

Prepared for

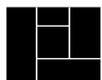


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COURSE ON INTERGOVERNMENTAL FISCAL RELATIONS AND LOCAL FINANCIAL MANAGEMENT

PROPOSED SESSION FORMAT¹

SESSION OBJECTIVES

The session objectives should describe what course participants will be able to say or do better/differently at the end of the session than they could before. The objectives will therefore specify what knowledge and skills participants will gain. The objectives and session content need to be aligned so that participants have an opportunity not only to listen to a presentation but will also work with the subject matter during the session. Given WBI and USAID interest in Level 2 Evaluation (Level of participant knowledge and skill acquisition) consider how to assess what participants will have learned at the end of the session or at some point in the course.

Session Example

Fiscal Decentralization and Local Autonomy: European Perspective

3 hour Session (including 15 minute break)

Examples of objectives:

- 1. List the basic guidelines for fiscal decentralization and local financial management policy.*
- 2. Identify the benefits and risks of fiscal decentralization.*
- 3. Use methods for measuring and monitoring effective fiscal decentralization.*

DESCRIPTION OF CONTENT

The content description will outline both what a presentation will cover and the structured activities that will help participants interact with the subject matter. These structured activities include individual and small group work to prepare responses to questions and/or to work through exercises that help participants deepen their knowledge and skills related to the subject matter. At the end of the session, include questions to verify, inventory and share what participants have learned, either for discussion or for entry into a journal or learning log that each person will keep. The timing for each part of the session is also included.

¹ The examples are based on a brief reading of the course content by a non-expert in the subject matter. They are intended for discussion purposes and not to suggest final wording for the specific session.

Presentation (45 minutes: 30 min. lecture + 15 min. discussion)

Example of themes:

- Rethinking central and local government roles in the transition from centralized/socialist systems to market economies.
- Political factors which affect and influence choices and decisions for fiscal decentralization.
- Basic guidelines for fiscal decentralization and local financial management policy.
- Measuring and monitoring effective fiscal decentralization.

BREAK (15 minutes)

Structured Activity (90 minutes: 60 min. small group work + 30 min. debriefing)

Small Group Work on the benefits and risks of fiscal decentralization.

Discussion questions:

1. Discuss what has worked well and what problems you have experienced in your respective countries with fiscal decentralization.
2. Develop a list of what you see as the 2-3 key benefits and 2-3 biggest risks of fiscal decentralization.
3. Identify what you feel are the most appropriate ways to monitor effective decentralization.

Large Group debriefing: facilitated discussion of responses to question 2.

Conclusions (30 minutes: 10 min. individual task + 20 min. debriefing/discussion)

Individual Task

Write down in your journal/learning log your answer to the following questions:

- What do you feel are the most important guidelines for fiscal decentralization and local financial management policy?
- What do you see as methods for measuring and monitoring effective fiscal decentralization that would work in your country?
- What are some possible applications of this session content for policy makers in your country?

Large Group debriefing: facilitated discussion, writing down key conclusions on flipchart.



PROPOSED FORMAT FOR PRESENTATION NOTES, HANDOUTS, OVERHEAD SLIDES OR POWER POINT SLIDES²

In the course binder

- Presentation notes
- Supporting documents, preferably not exceeding 5 pages in length
- Case Study material
- Tasks for Structured Activities
- Journal/Learning Log questions (could be at the end of the binder)

Guidelines for slides

- Slides contain material that adds value to the presentation: illustrations, graphs, key themes. Maximum of 5 lines of text per slide. Try to limit slides to no more than 10 per presentation.
- *All documents need to be in Word97 or Power Point 97*

² These are some preliminary ideas. We need to discuss these further.



(Day 4 / Morning Session)

SESSION 9

EXERCISE: ESTIMATE CREDITWORTHINESS AND DEBT CARRYING CAPACITY OF LOCAL GOVERNMENTS

3 ½ hour session (including one 15 minute break)

SESSION OBJECTIVES

- By the end of the session participants will be able to:
- Explain key concepts of creditworthiness analysis.
- Integrate analytical techniques and procedures when determining creditworthiness and debt affordability of local governments, including:
 - Main principles to re-organize local government budget and financial data to determine local financial condition.
 - Methods for preparing forecasts of municipal budget condition and establishing a financial strategy that will link financial policies with the capital investment plan.
- Identify policies and foundations of a local credit system.

INTRODUCTORY QUESTIONS

Note: These questions relate to the material of the two presentations and will underlie some of the work and issues to be addressed in the Structured activity (Questions 1 and 2) and in the Concluding Group Discussion (Question 3).

1. How is local government budget and financial data organized in your country? Is there a distinction between an operating budget and a capital budget?
2. What are special characteristics of local government budget and financial data that you will need to take account when working on creditworthiness issues and estimating debt carrying capacity?
3. How is borrowing treated by the accounting rules? Is a distinction made for borrowing for capital investment compared to borrowing for cash flow purposes?

DESCRIPTION OF CONTENT

Presentation of the first stage in preparing a creditworthiness analysis
(30 minutes)

Using the first part of the Romania presentation model, this session will describe the first steps in approaching a creditworthiness analysis:

- Reorganize the data
- Calculate net operating results
- Identify trends in current revenues
- Identify trends in current expenditures
- Current vs. constant data

Structured activity (45 minutes)

N.B. In order to carry out this structured activity, participants will be requested to bring examples of planned and actual budgets (two consecutive years) of 1 or 2 local governments in their country.

Work groups will be organized by country.

- Based on the guidelines of the presentation, with the examples of the budgets they have brought with them, participants should try to identify / re-organize local government data into recurring revenues, operating expenditures, capital revenues, capital expenditures. They should identify subcategories of recurring revenues. They should understand how to calculate the net operating result.
- Work groups should identify specific issues that may make interpretation of results difficult: what changes have been made in the revenues given to local governments, in the way these revenues are distributed / calculated / shared? Have the expenditure responsibilities of the local sector changed, in what sense, and for what types of activities?

Break (15 minutes)

Reporting (by country team) (45 minutes)

A representative of each country team will have 5 minutes to make a presentation of the response to question 2, about specific country issues they will face in preparing creditworthiness analysis. Country team reporting will be followed by 10 minutes of discussion / questions.



Presentation (30 minutes)

Using the second part of the Romania presentation model, this session will discuss the next steps in approaching a creditworthiness analysis:

- Presentation of the foundation for making forecasts / preparing a financial strategy
- Economic / policy forecast
- Local government financial policy for revenues / expenditures
- Interaction of financial policies and the capital investment plan
- Adjusting the scenarios

Conclusions: Individual Task + Group Discussion (45 minutes)

During the concluding session, key creditworthiness ratios and indicators 3 Northern Tier and 3 Balkan countries will be projected on the screen and included in the handouts.

Individual Task (15 minutes)

Write down in your journal / learning log your answer to the following questions:

- The ability of local governments to borrow implies that they have a certain amount of financial capacity to direct toward investment / loan repayment. How does the financial capacity of local governments in your country compare to this conclusion? Is there a difference among types of local governments?
- What are some local government finance and policy issues that your country may need to address to build the foundations of a local credit system?
- Are there other ways investment projects can be carried out without drawing directly or indirectly on the financial capacity of the local government?

Group Discussion (30 minutes)

Large group debriefing: facilitated discussion, writing down key conclusions on flipchart

FYI: Description of session in current version of the Agenda:

This exercise would use the simplified creditworthiness model prepared by UI and used in the training workshops in Romania in 1998. The discussion could highlight / present indicators of some of the differences in creditworthiness of local governments in the Northern Tier (Czech Republic, Poland, Hungary) and the Balkan countries, and discuss the steps Balkan countries (Romania, Bulgaria) will need to take to build the foundations of a local credit system.

J. Pigey, with preparation input from F. Conway.

**INTERGOVERNMENTAL FISCAL RELATIONS
AND LOCAL FINANCIAL MANAGEMENT
BALKAN COUNTRIES
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COURSE AGENDA

Issues to make sure are included in modules:

- Impact of EU accession requirements / single currency requirements (public sector deficit and debt limits).
- Council of Europe requirements on local government decentralization and autonomy, as defined in the European Charter for Local Self-Government, which has been signed and ratified by most (if not all) of the countries attending the course.
- Integration of theory and practice in the Balkans.
- Mini-exercises to relate sessions to participants' own national situation.

DAY 1

Session 1 (WBI)

Fiscal Decentralization and Local Autonomy: European Perspective

Include theoretical issues that were part of Roy Bahl's presentation: Why/why not decentralization? What are benefits / risks? How do you measure / monitor? Make reference to Western European experience.

Address issue that all countries in the region are faced with the transition from centralized / socialist systems to market economies and have to re-think functions of local level, development / reform of the public administration etc. Highlight political factors which affect and influence choices and decisions, e.g., macro-economic situation, political process of transition, stability issues, size of country, ethnic relations.

Session 2 (WBI)

Assignment of Functions: Expenditures and Assignment between Different Levels of Local Government

Theory and practice of dividing line between private and public sector activities [interesting issue in context of Central Europe: what do you do with entities / enterprises that are running auxiliary activities, based on the socialist model, such as kindergartens, hothouses, bakeries, etc.], principles to guide expenditure assignment, problems that

may result from failure of clarity and stability in the assignment process; this module should also address specific questions related to EU accession: the creation of regions is on the radar screen of nearly every country, given the role expected to be played by EU structural funds.

This session should be followed by a brief exercise which allows participants to relate information from sessions 1 and 2 to their own national situation.

Session 3 (WBI) **Intergovernmental Organization and Structure**

Analysis related to the issues of the structure of intermediate levels of local government, through a panel including Poland, Spain and Ireland.

The case of Poland is useful, as the reform of the levels of local government was debated for several years. In 1999, a new three-tier system was introduced, including regions, counties and gminas (cities, towns, and villages).

The experts will discuss how the distribution of the roles and functions among the different local government levels in their respective countries were addressed, problems that have arisen. The presentations will address issues such as (but not limited to):

- How political issues have influenced choices.
- How the choices of the changes in the roles of intermediate levels of government were made, given preceding experiences, and how the new levels improved the situation, addressed problems that had arisen.
- Role of the highest intermediate level in promoting / using EU regional development funds and role in EU accession.
- The need for institutions to bridge the gap between central and local government, how this has been addressed, if at all.

This Session could be organized as a panel, moderated by _____ (to be chosen by WBI)

Poland (UI will try to identify an appropriate speaker)
Spain
Ireland

DAY 2



Session 4 (WBI)

Revenue Assignment and Local Revenues

Conventional issues and framework should be addressed (macro, redistribution, allocation); what are competing policy goals (accountability, tax competition); conceptual criteria for judging revenue assignments and how they apply to various types of taxes; alternative tools for assignment (independent legislation, surcharges, central administration and local rate setting); administrative considerations.

Session 5 (WBI)

Intergovernmental Grants

Objectives of an intergovernmental grant system, such as adjusting for vertical imbalance, horizontal imbalance, providing incentives for certain forms of local behavior (tax effort, intergovernmental cooperation, structure of government).

This session should be followed by a brief exercise which allows participants to relate information from sessions 4 and 5 to their own national situation.

Session 6 (The Urban Institute)

Comparative view of Central European experience of Expenditure and Revenue Assignment

A panel will compare / discuss for a Northern Tier (Hungary), a Balkan (Bosnia) and a Western European (Switzerland) country, how the issues of expenditure and revenue assignments have been addressed. The moderator will present the experience of other countries (such as Czech Republic, Romania, Albania, Macedonia). The panelists (and moderator) will address, through specific questions to be put to them, issues such as (but not limited to):

- How the annual budget process has annually revised both revenue and expenditure assignments, not in the context of the overall local government system, but based on the overall fiscal position of the central government.
- How have the fiscal restrictions and changes limited local capacity to finance investments, with budget systems focused on financing the basic operating tasks, especially in social protection and education functions.
- Extent of local autonomy for own revenue raising.
- Other problems that have arisen, especially when there is no clarity / stability in the process.

What do these experiences say for the other Balkan countries in light of the IMF stabilization programs and fiscal pressures on the central budget? How can a stable system of expenditure and revenue assignments be designed and maintained in the context of fiscal adjustment policies?

This Session could be organized as a panel, moderated by F. Conway, with panelists representing the experiences of 1 Northern Tier country, 1 Balkan country, 1 Western Europe country:

*Hungary (József Hegedüs, Metropolitan Research Institute)
Bosnia (Professor Sead Kreso, University of Economics, Sarajevo)
Switzerland (Bernard Dafflon, University of Fribourg)*

Note for UI – WB or Council of Europe finances non-US presenters. However, we need to be able to contact them and provide the list of specific questions / issues each of the panelists will have to address in the panel. Idea is to avoid free-form presentations, and keep panel to set rules / framework.

DAY 3

Session 7 (WBI) Alternative Forms of Service Delivery

This session should include issues which have been facing E. Europe countries: how to transform formerly state-owned / municipal-owned enterprises, establishing a new role of service regulation as opposed to service provision, the issues of the transfer / responsibility for assets, as well as the base core of issues of contracting out, franchising, etc. The session should include an analysis of the legal and regulatory framework, economic conditions, and institutional framework need to make alternative forms of service delivery operational.

Session 7a (WBI) Country case study by a local presenter on Alternative Forms of Service Delivery

*Czech Republic (UI will try to identify an appropriate speaker)
Hungary (Gábor Péteri)*



Session 8 (The Urban Institute)

Infrastructure Finance and the Role of Debt, Borrowing and Creditworthiness

This session will combine elements of two existing modules 1. User charges and financing infrastructure; and 2. Debt, borrowing and creditworthiness, and establish the link between the role of user charges (how/why of user fee finance, implementation issues, experience—user charges often not sufficient to cover service and needed investments) and the role of borrowing by local governments, how they select among financing options, the forms of debt that can be used by subnational governments, issues of credit analysis, etc. A third part of this presentation will briefly describe the experience of the Czech Republic.

Joint Presentation – J. Pigey / Brad Johnson (Duane, Morris & Heckscher)

DAY 4

Session 9 (The Urban Institute)

Exercise: In the development of credit markets to ensure local infrastructure finance, how do you estimate creditworthiness and debt carrying capacity of local governments?

This exercise would use the simplified creditworthiness model prepared by UI and used in the training workshops in Timisoara and Pitesti in 1998. The discussion could highlight / present indicators of some of the differences in creditworthiness of local governments in the Northern Tier (Czech Republic, Poland, Hungary) and the Balkan countries, and discuss the steps Balkan countries (Romania, Bulgaria) will need to take to build the foundations of a local credit system.

J. Pigey, with preparation input from F. Conway.

Session 10 (TRG)

Training Applications Session

How do you take the material from this course, and present it for different audiences? How do you target the audience, choose the right material for the right audience, repackage the course material, develop case materials, etc.? Attention will be paid to the following:

1. What are the different potential uses of the material (engaging senior government officials, assessment of policy options rooted in basic principles, use of policy analysis, understanding of relevant comparative experience, senior level academic courses).

2. How to target and select the audience.
3. How to adapt the course material for the purpose and audience: how to expand, condense and adapt materials.
4. How to develop country-specific materials.
5. Elements of design and delivery of effective training.

This session will be supplemented by a written document which can serve as reference guidelines.