New York University
Robert F. Wagner Graduate School of Public Service

Financing Local Governments in Developing Countries
Spring Term 2014

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Spring 2014  gundula.loffler@nyu.edu
Friday (2/7, 2/21, 3/7, 3/28, 4/11, 4/25)  Office Hours: By Appointment
11:00 a.m. – 3:00 p.m.
25 West 4th Street, Room C-8

Description:

Many developing countries have been significantly reforming the scope and organization of the public sector in recent years. This course critically examines the changing structures and operations of government fiscal systems in developing countries, with particular emphasis on the growing trend to strengthen subnational levels. Major topics include: understanding broader national fiscal reform processes; determining an appropriate division of fiscal responsibilities among levels of government; evaluating major mechanisms for decentralized government revenue mobilization; and, assessing prospects and options for pursuing decentralization and intergovernmental fiscal reform. The course focuses on economic analysis, but attention is also given to political, institutional and cultural considerations that are critical for effective policy design and implementation.

Main Learning Objectives:

1) To familiarize students with key public finance issues and challenges in developing countries with an emphasis on the subnational level;
2) To enable students to apply basic public finance principles for analysis of fiscal decentralization and local government finance in developing countries with diverse political, institutional, and cultural contexts; and
3) To expose students to the practice of fiscal decentralization and local government finance reform in developing countries.

Format:

The class will meet on six Fridays (February 7 and 21; March 7 and 28, and April 11 and 25) from 11 a.m. until 3 p.m. There will be a break during the class. The format will blend lecture, discussion and in-class participatory assignments. Class participation is encouraged and expected.
Requirements:

The grade will be based on the following requirements:

Team Policy Analysis Assignment (20%)
Mid-term Exam (20%)
Individual Policy Analysis Assignment (20%)
Class Participation (10%)
Final Exam or Individual Term Paper (30%)

The team policy analysis assignment (due March 3 by 5 p.m.) involves an evaluation of a public sector fiscal systems conducted by teams of 2-3 students. Each team produces an analytical policy memo of up to eight pages (double-spaced).

The midterm exam (take-home) (due March 14 by 5 p.m.) consists of short answer questions with some choice provided. More information will be provided in class in advance of the exam date.

The individual policy analysis assignment (due April 7 by 5 p.m.) involves an evaluation of a particular aspect of an intergovernmental fiscal system (some choices will be given). Each individual produces an analytical policy memo of up to five pages (double spaced).

Active class participation consists of coming to class prepared to engage in a reflective discussion and being able to ask good questions. There will be two or three ungraded in-class exercises and your participation in these exercises will also contribute to your class participation grade.

For the final assignment (due May 9 by 5 p.m.), students may choose to take a final exam or write a term paper. The final exam (take-home) requires students to answer from a choice of essay questions that focus on the synthesis of concepts and applications covered in the class. The term paper may be on the intergovernmental fiscal system or some aspect of it in one or more countries. Paper topics must be cleared in advance with the instructor.

More details on each assignment will be provided as per the course schedule.

Readings:

For part of the class we use selected chapters from a textbook: R. Bahl and J. Linn, Urban Public Finance in Developing Countries (Oxford University Press, 1992). This volume covers basic principles well, but it is not up to date empirically so there are additional assigned readings. Unfortunately this version of the book is out of print (the authors just published a new version, but made considerable changes to the structure and content of the text, which makes it not readily adaptable to the course). The book we will be using in class
is on reserve at Bobst Library. Students who wish to have their own copy can sometimes find it for sale online or may be able to get a copy from a Wagner student who has taken this course in the past.

**All required readings (except for the pieces from Bahl and Linn) are available on the NYU Classes course site in the appropriate subsection under the Resources tab.**

The reading list also provides supplementary readings—some are older publications and others go into more detail on course topics. These can be consulted for those with an interest in particular issues. Many of these can be found in books and journals available in Bobst Library or online.

We also use selected material on a few topics from: R. Bahl and P. Smoke, eds., *Restructuring Local Government Finance in Developing Countries: Lessons from South Africa* (Cheltenham: Edward Elgar Publishing, 2003). This volume covers most aspects of the intergovernmental fiscal system in one country, so we use various chapters to illustrate the elements of the system and how they work together in this case, updated for more recent developments as applicable. The manuscript is posted in the General folder under Resources on the NYU Classes course site.

**Please note that there is a great deal of reading for this course. Some required readings are more important than others, and they are generally listed in order of importance for the material to be covered in class.** In addition, although each reading is included because it makes important points, some of the readings are partly redundant and can be read more rapidly once you have read others. Guidance about the most important readings and which to skim will be given in advance of each class.

The professional training volume J. Litvack and J. Seddon, eds. *Decentralization Briefing Notes* (World Bank Institute, 2000), is a good resource for students of applied public finance in developing countries. There are no readings from it required for this course and the empirical references are out of date, but you may find its concise summaries of decentralization-related principles we cover during semester useful. It is posted in the General folder under Resources on the NYU Classes site for this course.
Financing Local Governments in Developing Countries

Outline and Reading List¹

I. Fiscal Reform in Developing Countries (February 7)

A. Fiscal Policy and Development


**V. Tanzi, “Globalization and the Need for Fiscal Reform in Developing Countries,” Institute for the Integration of Latin America and the Caribbean Papers No. 6 (Washington, DC: InterAmerican Development Bank, 2004).


Supplementary


¹ Required readings are marked as follows: "**" indicates available in the text (Bahl and Linn); "***" indicates availability on NYU Courses. Unmarked readings are supplementary for those who wish to pursue the topic further.


B. Tax Reform


**R. Bird, “The BBLR Approach to Tax Reform in Emerging Countries.” International Studies Program Working Papers No. 08-06. (Atlanta, GA: Andrew Young School of Policy Studies, Georgia State University, 2008).


Supplementary


C. The Fiscal Crisis and Local Governments


Supplementary


II. Theories and Models of Multi-level Government Finance (February 21)

A. Overview of Fiscal Federalism


**Supplementary**


**B. Applications in Developing Countries**

*R. Bahl and J. Linn, Urban Public Finance in Developing Countries (Oxford University Press, 1998), Chapters 1 and 2; skim chapters 3 and 12.


Supplementary


C. Expenditure and Revenue Assignment in Developing Countries


Supplementary


III. Sub-national Government Own-Source Revenues (March 7)

A. Property Taxation

*Bahl and Linn, Chapter 4, skim Chapters 5-6.


Supplementary

R. Bahl and Sally Wallace, “Reforming the Property Tax in Developing Countries: A New Approach.” International Studies Program Working Papers No. 08-19. (Atlanta, GA: Andrew Young School of Policy Studies, Georgia State University, 2008).


B. Other Subnational Revenues

*Bahl and Linn, Chapters 7-8


Supplementary

J. F. Due, Indirect Taxation in Developing Countries (Baltimore, MD: The Johns Hopkins University Press, 1988), Chapters 4, 5 and 8.


C. User Charges

*Bahl and Linn, Chapter 9, skim Chapters 10-11.


Supplementary


IV. Intergovernmental Transfers (March 28)

*Bahl and Linn, Chapter 13.


Supplementary


V. Subnational Government Borrowing and Privatization (April 11)

A. Subnational Government Borrowing

**M. Friere and J. Petersen, eds., Subnational Capital Markets in Developing Countries: From Theory to Practice (Oxford University Press, 2004), Chapters 1,13.


Supplementary


**B. Privatization of Local Public Services**


Supplementary


VI. Prospects and Strategies for Fiscal Decentralization (April 25)

A. Linking Components of Intergovernmental Fiscal Reform


**P. Smoke, R. Bahl, et. al., “Integrating Fiscal Decentralization Reforms and the Challenge of Implementation,” in Bahl and Smoke (2003).**

B. Strategically Implementing Broader Intergovernmental Reform


Supplementary


P. Bardhan and D. Mookherjee, eds., Decentralization and Local Governance in Developing Countries (Cambridge, MA: MIT Press, 2006).


I. Economic and Fiscal Reform in Developing Countries (February 7)

Topic 1: Fiscal Policy and Development
Topic 2: Tax Reform
Topic 3: The Fiscal Crisis and Local Governments

II. Theories and Models of Multi-level Government Finance (February 21)
   *(Team Policy Analysis Assignment distributed; Due March 3 by 5 p.m.)*

Topic 4: An Overview of Fiscal Federalism
Topic 5: Relevance of Fiscal Federalism for Developing Countries
Topic 6: Expenditure and Revenue Assignment in Developing Countries

III. Sub-national Government Own-Source Revenues (March 7)
   *(Mid-Term Exam distributed; Due March 14 by 5 p.m.)*

Topic 7: Property Taxation
Topic 8: Other Local Own-Source Revenues
Topic 9: Local Government User Charges

IV. Intergovernmental Transfers (March 28)
   *(Individual Policy Assignment distributed; Due April 7 by 5 p.m.)*

Topic 10: Intergovernmental Transfers

V. Subnational Government Borrowing and Privatization (April 11)

Topic 11: Subnational Borrowing
Topic 12: Privatization of Local Public Services

VI. Prospects and Strategies for Fiscal Decentralization (April 25)
   *(Final Exam Distributed; Due May 9 by 5 p.m.)*

Topic 13: Linking Components of Intergovernmental Fiscal Reform
Topic 14: Strategically Implementing Decentralization and Intergovernmental Reform

*Take-Home Final Exam or Final Paper: due Friday May 9 by 5 p.m.*