PADM-GP 2245: Financing Local Governments in Developing Countries

Fall 2021

Instructor Information
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Course Information
- Class Time: Tuesdays, 9/7 – 12/14, 6:45-8:25 p.m.
- Class Location: Tisch LC-3

Course Description
Many developing countries have been significantly reforming the scope and organization of the public sector in recent years and attention has only increased as countries have faced fiscal challenges, climate change, and the COVID-19 pandemic. 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 covered include understanding broader national fiscal reform processes; determining an appropriate division of fiscal responsibilities among levels of government; evaluating major mechanisms for subnational government revenue mobilization; and, assessing the prospects and options for pursuing pragmatic and productive 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 participants with key public finance issues and challenges in developing countries with an emphasis on the subnational level;
2. To enable participants 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 participants to the practice of fiscal decentralization and local government finance reform in developing countries.
Course Format

The class meets weekly. The format blends lecture, discussion, and in-class participatory assignments, with occasional guest speakers. Class participation is encouraged and expected.

Requirements

The grade will be based on the following requirements:

- Policy Analysis Assignment 1 (15%)
- Mid-term Examination (25%)
- Policy Analysis Assignment 2 (20%)
- Class Participation (10%)
- Final Examination or Individual Term Paper (30%)

Policy Analysis Assignment 1:

The policy analysis assignment involves an assessment of a fiscal system of up to six pages. It may be done by a small team—we will discuss in class.

Midterm Exam:

The midterm exam (take-home) consists of short answer questions with some choice provided. More information will be provided in class in advance of the exam date.

Policy Analysis Assignment 2:

The policy analysis assignment involves an evaluation of a particular aspect of an intergovernmental fiscal system (choices allow each class member to focus on a topic of interest to them). Each individual produces an analytical policy memo of up to six pages.

Class Participation:

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

Please note that the attendance requirement is subject to the NYU Policy on Religious Holidays, which states that members of any religious group may, without penalty, absent themselves from classes when required in compliance with their religious obligations. Please notify me in advance of religious holidays so that we can plan to deal with any material you might miss.

Final Examination or Individual Term Paper:

The final assignment offers a choice of a final exam (take-home) or a term paper. The final exam provides a choice of essay questions that focus on synthesis of concepts and applications covered in the class. The term paper (up to ten pages) may be on (a) any course topic on which you
would like to do additional work; or (b) 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.

**Academic Integrity and Grading Policy**

The course will abide by the NYU Wagner School policy guidelines on academic integrity and grading. It is each student’s responsibility to become familiar with these policies. All Wagner students have already read and signed the [Wagner Academic Oath](https://wagner.nyu.edu/portal/students/policies/code) and are expected to pursue and meet the highest standards of academic excellence and integrity. Plagiarism of any form will not be tolerated and students in this class are expected to report violations to me. If any student in this class is unsure about what is expected of you and how to abide by the academic code, you should consult with me. Please see the NYU Wagner Student Portal for detailed information on the academic code and grading policy.

- [Academic Code](https://wagner.nyu.edu/portal/students/policies/code)
- [Grading](https://wagner.nyu.edu/portal/students/policies/grading)

**Henry and Lucy Moses Center for Students with Disabilities at NYU**

Academic accommodations are available for students with disabilities. Please visit the [Moses Center for Students with Disabilities (CSD) website](https://wagner.nyu.edu/portal/students/policies/code) and click on the Reasonable Accommodations and How to Register tab or call or email CSD at (212-998-4980 or mosescsd@nyu.edu) for information. Students who are requesting academic accommodations are strongly advised to reach out to the Moses Center as early as possible in the semester for assistance.

**Required Readings**

We will read selected chapters from a textbook: R. Bahl, J. Linn and D. Wetzel, eds. *Financing Metropolitan Governments in Developing Countries* (Cambridge, MA: Lincoln Institute Press, 2013). This book is available in electronic form from the NYU library or can be purchased or downloaded as a PDF for free from the Lincoln Institute of Land Policy website: [Financing-Metropolitan-Governments-in-Developing-Countries](https://wagner.nyu.edu/portal/students/policies/code)

Readings are divided into **primary** and **supplementary**. All primary readings not from the textbook are available on Brightspace in the appropriate subsection under the **Course Readings** tab. You will see there is a great deal of reading listed because the course seeks to expose you to a range of the vast literature on this topic, but you need not read everything with the same level of care. Primary readings are generally listed in order of priority—the most fundamental readings are marked with a star (★). In some cases, only one or two readings are essential, with others, for example, focused on how a finance instrument is managed in a particular county. In such cases, you can read one more carefully and skim others. **Guidance about the most important readings will be given in advance of each class.**
In addition, although each reading is included because it makes a unique contribution, some readings are partly redundant (i.e. more advanced readings and empirical papers often spend time reviewing basic principles covered in earlier readings) and thus can be read more rapidly once you have read others. In addition, a few readings involve sophisticated econometrics—you are not expected to follow technical details, only to take note of basic findings and implications.

The reading list also provides supplementary readings—some are older foundational papers and others are more recent treatments of major topics. Those with an interest in particular issues, methods, regions or countries can consult these additional readings. Some supplementary readings—many of the papers and articles, but mostly not books and larger volumes—are posted on Brightspace, but you will have to find others you are interested in—most books and journals listed are available in Bobst Library or online.

Several overview volumes that do not include required readings are posted in the General Background Readings and Reference Materials folder under Course Readings on Brightspace. These only provided for you to consult if you wish to do so. These include:

- R. Bahl and R. Bird, *Fiscal Decentralization and Local Finance in Developing Countries: Development from Below* (Cheltenham, UK: Edward Elgar, 2018). This is the most recent volume from two of the leading scholars and practitioners of fiscal decentralization, but only the introductory chapter is posted because it is the only part of the volume that is open access.
- *The Challenge of Local Government Financing in Developing Countries* (Nairobi: UN Habitat, 2015). This includes a set of papers focused on subnational revenues and issues related to the environments in which they are managed.
- *Local Government Finances: The Challenges of the 21st Century*. Global Observatory on Local Democracy and Decentralization—GOLD II. (Barcelona: United Cities and Local Governments, 2010). This is an overview of local government finance issues and reform directions, and it is particularly useful for those who have regional interests because it is one of the few publications that offers individual chapters on different regions of the world.
- *Subnational Governments Around the World: Structure and Finance*. (Barcelona: United Cities and Local Governments and Paris: OECD, 2016). This provides a more synthetic overview of subnational governments globally. Although there are likely nontrivial issues with the data, it demonstrates the great diversity of intergovernmental systems, usefully compares different types of systems around the world, and provides some snapshots of the systems in selected countries.

A number of additional volumes with relevance for fiscal decentralization and decentralization more generally are listed at the end of the syllabus.
I. Economic and Fiscal Reform in Developing Countries

September 7: Fiscal Policy, Public Expenditures and Development
September 14: Tax Reform in Developing Countries

II. Theories and Models of Multi-level Government Finance

September 21: An Overview of Fiscal Federalism
   (Policy Analysis Assignment 1 Distributed)
September 28: Fiscal Federalism in Practice and Relevance for Developing Countries
October 5: Expenditure and Revenue Assignment in Developing Countries
   (Policy Analysis Assignment 1 Due)

III. Subnational Government Own-Source Revenues

October 19: Property Taxation (No class October 12, which runs on a Monday schedule)
October 26: Other Local Own-Source Revenues
November 2: User Charges
   (Midterm Exam Distributed)

IV. Intergovernmental Fiscal Transfers, Subnational Borrowing and Privatization

November 9: Intergovernmental Transfers
   (Midterm Exam Due; Policy Assignment 2 Distributed)
November 16: Subnational Borrowing
November 23: Privatization/Public Private Partnerships
   (Policy Assignment 2 Due; Final Exam Distributed)

V. Prospects and Strategies for Fiscal Decentralization

November 30: Linking Intergovernmental Fiscal Reform Components
December 7-14: Strategically Implementing Decentralization and Intergovernmental Reform

December 21: Take-home Final Exam or Final Paper: due by 5 pm.
PADM-GP 2245 Reading List: Fall 2021

Priority primary readings are signified by a star ★ and are available on Brightspace or in Bahl, Linn and Wetzel (2013). Many optional supplementary readings are available on Brightspace.

I. Economic and Fiscal Reform in Developing Countries (September 7-14)

A. Fiscal Policy, Public Expenditures and Development (September 7)

Primary Readings


Supplementary Readings

B. Tax Reform (September 14)

Primary Readings:


Supplementary Readings

II. Theories and Models of Multi-Level Government Finance (September 21-October 5)

A. Overview of Fiscal Federalism (September 21)

Primary Readings


Supplementary Reading


B. Fiscal Federalism in Practice & Relevance for Developing Countries (September 28)

Primary Readings


**Supplementary Readings**

C. Expenditure and Revenue Assignment in Developing Countries (October 5)

Primary Readings


Supplementary Readings


III. Subnational Government Own-Source Revenues (October 19-November 2)

A. Property Taxation (October 19)

Primary Readings


• “The Time May Be Right for Land-Value Taxes.” The Economist, August 9, 2018.

Supplementary Readings


• 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 (October 26)

Primary Readings


Supplementary Readings


C. User Charges (November 2)

Primary Readings

Supplementary Readings


IV. Intergovernmental Transfers, Borrowing and Privatization (November 9-23)

A. Intergovernmental Transfers (November 9)

Primary Readings

Supplementary Readings


B. Subnational Government Borrowing (November 16)

Primary Readings

Supplementary Readings


C. Privatization/Public-Private Partnerships (November 23)

Primary Readings

Supplementary Readings

- S. Hall. Why Public-Private Partnerships Don't Work. (Greenwich, UK: Public Service International Research Unit, University of Greenwich, 2015).

V. Prospects and Strategies for Fiscal Decentralization (November 30-December 14)

A. Linking Components of Intergovernmental Fiscal Reform (November 30)

Primary Readings

B. Strategically Implementing Decentralization and Intergovernmental Reform (December 7-14)

Primary Readings


Supplementary Readings


**Selected Volumes of Relevance for Fiscal Decentralization**

- J. Martinez-Vazquez and F. Vaillancourt. eds., Decentralization In Developing Countries: Global Perspectives on the Obstacles to Fiscal Devolution. (Cheltenham, UK: Edward Elgar, 2011).