



LEADING ISSUES IN GLOBAL DEVELOPMENT FINANCE

PPOL 829 (MODULE)

SPRING 2007 (March 19-April 30)

Mondays 3.15-5.15pm

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Course Description: This module will examine the leading issues related to capital flows between the developed and developing worlds. It will cover the various types of official and private finance as well as the institutions and policies designed to manage and promote these flows. It begins by considering development assistance from both the recipient and donor perspectives, as well as the changing roles of the IMF and the multilateral development banks. In the second half, it explores the key issues in debt, private investment and the financial sector.

Requirements: One paper, 12-15 pages, double-spaced, due no later than April 23, on a topic of your choice. Topics and preliminary bibliographies must be approved prior to beginning work and must be submitted by April 2 via e-mail.

This is a seminar-style course; active participation is essential and reflected in grade weighting. Your grade is based on your paper (33%), your class presentation (33%), and your participation in class discussions (33%).

Readings: The required books are:

John Taylor, *Global Financial Warriors: The Untold Story of International Finance in the Post-9/11 World*, WW Norton, 2007.

Todd Moss, *African Development: Making sense of the issues and actors*, Lynne Rienner Publishers, 2007

The remaining required readings are available on the web, as are most of the suggested ones.

Class 1 (3/19): Introduction to Global Development Finance: Where is the money?

This session will focus on the overall global flows of capital going to low-income countries. Where they are coming from? Where are they going? What are the different types of capital flows and their characteristics? This talk would lay the groundwork for all the other lectures.

Required:

Global Development Finance 2006: The Development Potential of Surging Capital Flows, World Bank (May 2006), Overview available:
http://siteresources.worldbank.org/INTGDF2006/Resources/GDF06_overview.pdf

Class 2 (3/26): Official Development Assistance: The Donor Perspective

This session will primarily focus on the donor side of the ODA equation. Who are the primary donors and why? What are the key drivers in different donors' levels and conditions of financing?

Required:

Moss, Chapter 8
Debt, AIDS, Trade, Africa, "The DATA Report 2006," (July 2006)
<http://www.thedatareport.org/>
Charles Kenny, "What is Effective Aid? How would Donors allocate It?" World Bank Policy Research Working Paper 4006 (September 2006).
OECD data release on ODA flows <http://www.oecd.org/dataoecd/52/18/37790990.pdf>

Suggested:

David Dollar and Victoria Levin, "The Increasing Selectivity of Foreign Aid, 1984-2002," World Bank Policy Research Working Paper 3299, (May 2004).
Andrew Rogerson, "The International Aid System 2005-2010: Forces For and Against Change," Overseas Development Institute, ODI Working Paper 235, 2004.
Tim Harford and Michael Klein, "The Market for Aid" (summary briefing available: <http://rru.worldbank.org/PublicPolicyJournal>)

Class 3 (4/2): Official Development Assistance: From the Recipient View:

This session will look at how ODA is actually spent and coordinated on the ground. It will highlight the realities that many country face in trying to vie for and coordinate significant donor funding.

Required:

Nancy Birdsall, Seven Deadly Sins: Reflections on Donor Failings, CGD Working Paper Number 50 (2004), <http://www.cgdev.org/content/publications/detail/2737>
Paul Mosley, "How to Confront the World Bank and Get Away with it: A Case Study of Kenya" in Chris Milner and A.J. Rayner (eds.), *Policy Adjustment in Africa*, MacMillan (1992).

Suggested:

William Easterly, "The Cartel of Good Intentions: Markets vs. Bureaucracy in Foreign Aid," CGD Working Paper 4 (2002)
<http://www.cgdev.org/content/publications/detail/2786>
"Special issue: Aid and Development" Finance & Development (September 2005),
<http://www.imf.org/external/pubs/ft/fandd/2005/09/index.htm>
Peter Heller, "Pity the Finance Minister: Issues in Managing a Substantial Scaling Up of Aid Flows," IMF Working Paper, (September 2005)
www.imf.org/external/pubs/ft/wp/2005/wp05180.pdf

*** No class April 9th ***

Class 4 (4/16): The International Financial Institutions

This session will look at the role of the IMF, World Bank and regional banks in development finance. What is the IMF and what does it do? What about the multilateral development banks? How do they raise funds? How do they allocate it? How are their roles changing? What are some of the current proposals on the table for reform?

Required:

Taylor, Chapters on IMF and World Bank, plus "Loan Rangers," Wall Street Journal (19 April 2006) http://siepr.stanford.edu/siepr_news/taylor_article.pdf
Glance through any recent "IMF Staff Country Report" for a country. Try to interpret the jargon: what does the Fund think are the country's key challenges?
IDA-14 replenishment agreement,
http://siteresources.worldbank.org/IDA/Resources/14th_Replenishment_Final.pdf

Suggested:

Ted Truman, Reforming the IMF for the 21st Century, Introduction and Summary, IIE, (30 pp), available:
http://www.iie.com/publications/chapters_preview/3870/01iie3870.pdf
Jessica Einhorn, "The World Bank's Mission Creep," *Foreign Affairs* (September 2001).
Sebastian Mallaby, "Saving the World Bank," *Foreign Affairs* (May/June 2005).
"Building Africa's Development Bank: Six Recommendations for the AfDB and its Shareholders," Center for Global Development (September 2006)
<http://www.cgdev.org/content/publications/detail/10033>

Can Africa Claim the 21st Century? World Bank (2000), Executive summary

Class 5 (4/23): Debt and debt relief

This session will examine the debt problem for many countries, the various debt relief programs that have been enacted, and the effects of such initiatives.

Required:

Moss, Chapter 8

Ben Leo, Seth Searls, and Lukas Kohler, "Achieving Debt Sustainability in Low-Income Countries: Past Practices, Outstanding Risks, and Possible Approaches," US Treasury Occasional Paper No. 5 (September 2006).

http://www.ustreas.gov/offices/international-affairs/occasional-paper-series/112706_OccasionalPaper5.pdf

William Easterly, "How did Heavily Indebted Poor Countries Become Heavily Indebted? Reviewing Two Decades of Debt Relief," *World Development* (October 2002),

<http://www.nyu.edu/fas/institute/dri/Easterly/File/World.pdf>

Suggested:

Todd Moss, "The G8's Multilateral Debt Relief Initiative and Poverty Reduction in Sub-Saharan Africa," *African Affairs*, Vol. 105, No. 419, April 2006. (Updated version on <http://www.cgdev.org/content/publications/detail/7912>)

Nicolas Chauvin and Aart Kraay "What Has 100 Billion Dollars Worth of Debt Relief Done for Low-Income Countries?" World Bank, 2005.

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=818504

Class 6 (4/30): Private finance I: FDI and portfolio flows

This session will examine the trends and current debates surrounding in foreign direct investment and portfolio flows (bonds and local equity markets). Where are private capital flows going and why? When is FDI thought most developmentally friendly? What is the role of local stock markets?

Required:

Moss, Chapter 13

Commission on Capital Flows to Africa, report, June 2003,

www.petersoninstitute.org/publications/papers/africa-report.pdf

Linda Goldberg, "Financial Sector FDI and Host Countries: New and Old Lessons," New York Federal Reserve, (2004)

<http://www.newyorkfed.org/research/epr/forthcoming/0701gold.pdf>

Suggested:

Theodore Moran, *Harnessing Foreign Direct Investment for Development*, CGD, 2006

Todd Moss, Vijaya Ramachandran and Scott Standley, "Why Doesn't Africa Get More Equity Investment? Frontier Stock Markets, Firm Size and Asset Allocations of Global Emerging Market Funds," CGD Working Paper 112 (February 2007)

<http://www.cgdev.org/content/publications/detail/12773>

IMF, "Development of Corporate Bond Markets in Emerging Market Countries," Chapter 4 in *Global Financial Stability Report* (September 2005)

<http://www.imf.org/External/Pubs/FT/GFSR/2005/02/pdf/chp4.pdf>

IMF, "Institutional Investors in Emerging Markets," Chapter 4 in *Global Financial Stability Report* (April 2004)

<http://www.imf.org/External/Pubs/FT/GFSR/2004/01/pdf/chp4.pdf>

Class 7 (date TBD): Private finance II: private equity, SME banking, and microfinance

This session will look at the various kinds of banking and financial facilities in low-income countries, plus other kinds of finance such as private equity. What role does the formal banking sector, both local and international, play in promoting development? What is SME finance? Where does microcredit fit into the development picture?

Required:

Roger Leeds and Julie Sunderland, "Private Equity Investing in Emerging Markets," *Journal of Applied Corporate Finance*, (Spring 2003) http://www.sais-jhu.edu/centers/bizgovcenter/pdfs/journal_of_acf_final_5102.pdf

Allen Berger and Gregory Udell, "A More Complete Conceptual Framework for SME Finance," World Bank, (2004)

http://www.worldbank.org/research/projects/sme/Financing_Framework_berger_udell.pdf

Connie Bruck, "Millions for Millions," *New Yorker* (October 30, 2006)

Suggested:

Thorsten Beck and Asli Demirguc-Kunt, "SMEs, growth, and poverty," World Bank (2004). 4-page brief

David Roodman and Uzma Qureshi, "Microfinance as Business," Working Paper 101, Center for Global Development (November 2006).

John Hawkins and Dubravko Mihaljek, "The banking industry in the emerging market economies: competition, consolidation and systemic stability: an overview," Bank of International Settlements papers, (2001) <http://www.bis.org/publ/bispap04a.pdf>