

## **External Development Financing**

IBUS 275-10

(September 1 – December 8, 2004)

FALL 2004

**Prerequisites** IBUS 271 or permission of the instructor.

**Venue:** Room 410, Government Hall (710 21st St, NW, Washington, DC 20052)

**Day/Time:** Wednesdays, 3:30-6:00pm **Instructor:** Prof. Mehdi Al-Bazzaz

**Coordinates:** Tel: (703) 768-6925 Mobile: (703) 303-4586 Email: [mbazzaz@gwu.edu](mailto:mbazzaz@gwu.edu)

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**Office Hours:** Wednesday-Thursday 10:30-12:00 (Lisner Hall 230), and by appointment.

### **COURSE DESCRIPTION**

*The course examines the rationale and instruments of external development financing, the role of official and private capital flows, and the intertwined interests and changing policies of multilateral and bilateral institutions in response to shifting development paradigms. Among the issues addressed are the effectiveness of development assistance, debt burden and debt relief, capital flows, and sustainable level of indebtedness. Participants are also introduced to World Bank approach to investment lending, international project finance, and the important role of foreign direct investment in growth and development. Microenterprise lending and other innovations in the financing of development are also explored. The course ends with a critical look at the future of development finance, technical assistance, the role of institutions, and prospects for building indigenous capacity for sustained development.*

### **COURSE MATERIAL**

**REQUIRED** -World Bank, Global Development Finance 2004: Harnessing Cyclical Gains for Development, Analysis and Summary Tables (Volume I), April 2004.

**REFERENCE** -OECD, Development Cooperation: 2003 Report, Paris, 2004.

**OTHER** -Articles, selected chapters, and notes.

Use the Internet for World Bank material – [www.worldbank.org](http://www.worldbank.org); IFC – [www.ifc.org](http://www.ifc.org); ADB – [www.adb.org](http://www.adb.org); AFDB – [www.afdb.org](http://www.afdb.org); EBRD – [www.ebrd.org](http://www.ebrd.org); IADB – [www.iadb.org](http://www.iadb.org); and OECD-DAC -- [www.oecd.org](http://www.oecd.org). Also visit the World Bank Information Shop for publications on development issues – [www.worldbank.org/infoshop](http://www.worldbank.org/infoshop)

### **METHODOLOGY**

*Combination of class interaction, term paper work and presentations. The rationale for and trends in external development financing are reviewed and methods and practices are critically analyzed and debated. Policies and priorities of international institutions and other entities are then illustrated and amplified through term-paper findings and the presentation of country examples. Participation and class contribution are very important elements in assessing student's performance.*

**ASSIGNMENTS**

Course assignments are made of two parts (a) class interaction-prepare to discuss issues and questions raised in each session; and (b) term paper-timely completion of your term paper and presentation of findings to the whole class. Term paper topics are selected in consultation with the instructor, to research and analyze a question of external development finance. A purely descriptive or historical paper is not acceptable. The paper should be substantive and concise not exceeding 10 double-spaced pages, except for notes and bibliography; computer font is not to be smaller than 10 points and one inch margins are required. You are also required to submit beforehand a term-paper outline, including a tentative bibliography.

**Grading Rules**

Mid-term exam - 30%

Participation/Presentation - 30%

Final exam – 40%

**Critical Dates**

Term paper outline – October 6, 2004

Mid-term examination – October 13, 2004

Final examination – December 15, 2004

**Course Outline****Session 1 – External Development Financing: Overview****(September 1, 2004)**

Rationale for external borrowing; International financial system and development finance; institutional arrangements for channeling finance to developing countries; Evolution of institutional arrangements.

**Session 2 – Capital Flows and Development Finance: Trends, Sources & Rationale****(September 8, 2004)**

Trends in capital flows to developing countries; private capital flow; official development financing: channels, trends; rationale for official transfers; official development assistance and foreign aid; decline in official development assistance: who is to blame?

**Session 3 – Multilateral and Regional Development Finance Institutions****(September 15, 2004)**

**The World Bank Group:** The World Bank: purpose, membership, lending and borrowing; International Center for Settlement of Investment Disputes (ICSID); International Development Association (IDA); Global Environment Facility (GEF); International Finance Corporation (IFC); Multilateral Investment Guarantee Agency (MIGA).

**Regional, Sub-Regional and National Development Banks:** European Bank for Reconstruction and Development (EBRD); Inter-American Development Bank (IADB); African Development Bank (AFDB); Asian Development Bank (ADB); Development Finance Corporations: brief history, debacle and lessons learned.

**The International Monetary Fund:** What is the IMF? and what is not? origin, membership, and voting power; governance and country representation; code of conduct and member obligations; consultations and surveillance; conditionality, lending mechanisms; sources of finance; why monitor payment policies of member countries? criticism of the IMF and challenges ahead.

**Sessions 4-6 – Development Paradigms, Lessons of Experience**  
**(September 22 & 29 and October 6, 2004)**

Development paradigms: a historical perspective; changing development goals and strategies; Documentaries on lessons learnt: *The Commanding Heights: the Battle for the World Economy*; and *Korea's Development Experience*.

**Midterm Exam, October 13, 2004**

**Session 7 – Foreign Direct Investment**  
**(October 20, 2004)**

Private capital flows; foreign direct investment : trends and destinations; equity-related finance for development : risks and rewards; role of country policies; factors in capital flows.

**Session 8 – Investment Lending and Nature of International Development Projects**  
**(October 27, 2004)**

Lending instruments; lending by sector; investment lending: modernization agenda; processing and the project cycle; World Bank and borrower responsibilities; what works, what doesn't, and where to get help.

**Session 9 – Foreign Debt and Management of Capital Flows**  
**(November 3, 2004)**

The emergence of the debt crisis; debt relief: the early years, 1987-94; relief from multilateral creditors: the Highly Indebted Poor Countries Initiative (HIPC); debt relief initiatives: how effective are they? Managing foreign capital inflows: what and why? maintaining a sustainable level of indebtedness; managing the composition and structure of Capital flows; market access, regulating foreign capital inflows; capital inflows: lessons learned.

**Session 10 – Institutions, Capacity Building, and Sustainable Development**  
**(November 10, 2004)**

Technical assistance: an overview; development capacity and role of institutions; empirical findings; international financial institutions and capacity building; development and government capacity constraints; why the limited capacity for policy analysis? Institutionalizing process of policy analysis, application, and adjustment.

**Session 11-13 – Term Paper Presentations**  
**(November 17 - December 1, 2004)**

**Thanksgiving, Nov 25-26, 2004**

**Session 14 – Future of Development Assistance and Development Finance: Conclusions**  
**(December 8, 2004)**

International development goals: new orientations; Enhancing capacity and quality of basic education; rethinking new development strategy and development agenda.

**Final Exam, December 15, 2004**