

Course Syllabus

Institut des Études Politiques Saint Germain en Laye

DISTRIBUTIVE JUSTICE, POVERTY, AND THE GLOBAL FINANCIAL SYSTEM

Academic year 2021-2022

Professor: Thierry Senechal, tsenechal@sloan.mit.edu

Teaching Assistant: Georges Laimé

Lectures: Mondays, 15.00-18.00

Office Hours: By appointment

I. COURSE OBJECTIVES

This course is mandatory for a Master's in Politics and International Cooperation. It prepares students to meet the growing demand for professionals who understand and can integrate the fundamentals of sustainable finance into the investment decision-making process. The course is designed to foster reflection, debate, and decision-making across the lines of sustainable finance in times of uncertainties and financial constraints. As opposed to the typical academic setting in which theories are presented—usually, one at a time—this course will be integrative, showing how a variety of conceptual prisms are needed to interpret real, sustainable finance challenges and build skills to use specific applications and financial instruments, ranging from guarantees and blending to equity and green bonds.

II. COURSE REQUIREMENTS AND GRADE DISTRIBUTION

The course is taught in a reasonably non-technical manner. It builds on previous core courses, especially in international macroeconomics, cooperation, and public management. No exemption can be granted for not taking this course as it is part of the core curriculum.

There are three ways to demonstrate mastery of the course material: 1°) Participating in class discussion, 2°) the memo write-ups, and 3°) participating in the end-of-term Policy Analysis Exercise.

Class Participation (30% of Grade)

We aspire to engage and high-quality class discussions. The conversation will be engaging if participants are willing to take risky or unpopular points of view; participate in debates and role plays; use logic, precision, and evidence in arguments, apply course materials appropriately; and are constructively critical. Everyone must be both present and prepared for each class. Participation is subjective. So, please be aware of the very high weight it has on your grade and talk to us to be sure you have feedback on how you are doing.

The memo write-ups (50% of Grade)

You will be expected to draft several short policy memos (in the group) related to a specific case study during the term. The memo will be two pages at maximum. Specific instructions

will be provided to you on how to craft such a memo. Once your memos are drafted, your recommendations will be debated in class.

Policy Analysis Exercise (20% of Grade)

The Policy Analysis Exercise is the culmination of your experience in this class. You examine and develop solutions for a public policy issue for this assignment. Done by all students in groups, this concentrated and integrative end-of-semester exercise—usually around 15-20 pages or 5,000 words—allows you to integrate the technical skills and specialized knowledge you have gained from the course on a concrete problem.

ADDENDUM:

Addendum 1: It is impossible to teach a course examining international cooperation that does not regularly touch upon issues that will be challenging for some students. Part of our task is to learn how to discuss these topics productively. A non-negotiable norm will be to create a safe space to tackle these matters. Safe, however, does not mean avoiding difficult, troubling, upsetting, unsettling, and sometimes emotionally charged topics. Great care will be taken to confront these issues responsibly.

Addendum 2: This course assumes all students understand and comply with the code of academic integrity. Students should re-familiarize themselves with all material on academic integrity and referencing. Guidelines are provided at: <https://thierrysenechal.com/student-ressources>.

Addendum 3: A student needing academic adjustments or accommodations must speak with the professor at the beginning of the course. Failure to do so may result in the inability to respond promptly.

III. SCHEDULE AND READINGS

The readings will be sent electronically before class. Readings with (*) are required.

Class 1:

Existential Threats, Global Shifts, Tipping Points in Sustainable Finance

(Monday 11 October, 15.00-18.00)

We review the evidence on the magnitude and causes of inequality and discuss the causes and consequences of volatility and crises in the developing world. The emphasis is to inform the discussion on development policy, poverty alleviation, social justice, quality of life, and human dignity. We examine how to fairly distribute the benefits and burdens of international cooperation, especially the role of development financial institutions in alleviating poverty. We confront not just a debate on priorities (such as which comes first, political or economic rights?), but fundamental disagreements about the role of international aid and institutions for the most vulnerable countries.

Case study: Debt Relief for Poor Nations

* Debt Relief for Poor Nations: The Battle in Congress (HKS Case 1613.0)

Required Reading/Video:

- Video, Bono at Harvard Commencement, 2001
(www.youtube.com/watch?v=XDdJE5rx4EA)
- Abhijit Banerjee and Esther Duflo, “Think Again, Again”, *Poor Economics, Public Affairs*, 2011, pp. 1-18
- How to Help Poor Countries, Nancy Birdsall, Dani Rodrik, and Arvind Subramanian, *Foreign Affairs*, Volume 84, N° 4, July-August 2005
- Daniel Miller, “Sachs, Easterly and the Banality of the Aid Effectiveness Debate: Time to Move On”, in *Mapping Politics*, Volume 3, 2010-2011, pp. 72-86
- Humanity’s most existential risks are getting worse. Here’s a primary reason why (<https://www.weforum.org/agenda/2018/01/humanity-s-most-existential-risks-are-getting-worse-heres-why/>)

Further Suggested Reading:

- De-centring the ‘White Gaze’ of Development, Robtel Neajai Pailey, 2019
- Thomas Pogge & Mitu Sengupta, *Rethinking the Post-2015 Development Agenda: Eight Ways to End Poverty Now*, in *Global Justice: Theory Practice Rhetoric*, 2014

Class 2:

Principles of Distributive Justice and Sustainable Finance

(Monday 18 October, 15.00-18.00)

We provide the necessary background to distributive justice as used in this course. It becomes evident that sustainable finance cannot address all challenges, such as climate change, pandemics, and human development. Therefore, we must make some choices and carefully allocate limited financial resources. We examine principal theories of ethics and how they apply to sustainable finance. We pose the following question: Can we agree on principles and parameters to propose a framework to help respond to practical, sustainable finance issues, choose between values, weigh priorities, and respond to tradeoffs?

Case study:

- * UNRWA and the Palestinian refugee crisis: Renewing the mandate or pulling funding?

Required Reading/Video:

- The Ones Who Walked Away from Omelas”, Ursula K. Le Guin
- “Mr. Order Meets Mr. Chaos” (6 pages), Robert Wright, *Foreign Policy*, May/June 2001 (Finding greys in a world of black and white)
- Mathias Risse, “Do We Owe the Global Poor Assistance or Rectification?” *Ethics and International Affairs* 19:1, Spring 2005

Further Suggested Reading:

- “Ethical Theory”, in *Ethics in Practice: An Anthology*, Wiley Blackwell, 2014, pp. 23-70
- What’s Fair? Legitimacy and Distributive Justice in the Global Economy, Joseph P. Joyce, 2007
- Stanley Hoffmann, *Problems of Distributive Justice*, in *Duties Beyond Borders*, Syracuse University Press, 1981, pp. 141-180

Class 3:

Is the Global Financial Architecture for Development Fit to Reduce Inequalities?

(Monday 25 October, 15.00-18.00)

We discuss the ongoing (timid?) reforms of the international financial system and its implications for development. We argue that the development of financial architecture plays an influential global role but is also complex, composed of a multiplicity of global and regional actors and national levels. We point out several overlaps, gaps, and inefficiencies and discuss possible solutions and recommendations. By the end of session 3, you should be familiar with the international financial system and the role of international development finance institutions.

Case study: Goodbye IMF Conditions, Hello Chinese Capital: Zambia's Copper Industry and Africa's Break with Its Colonial Past (HBS Case 9-717-034)

Required Reading:

- International Financial Institutions as Agents of Neoliberalism, Sarah Babb and Alexander Kentikelenis, 2018
- From Billions to Trillions: Transforming Development Finance (read pages 1-5), April 2015
- Stichelmans, Tiago. How International Financial Institutions and Donors Influence Economic Policies in Developing Countries, Eurodad Discussion Paper, September 2016
- Banking on the Belt and Road: Insights from a new global dataset of 13,427 Chinese development projects. AidData, William & Mary, 2021.

Further Suggested Reading:

- Financing for Sustainable Development Report 2019 (read Overview and Key Messages)
- Independent Task Force Report No. 79, China's Belt and Road, Implications for the United States, Council on Foreign Relations, 2021
- Give Today's Children a Chance, Christine Lagarde and Vitor Gaspar, IMF, 2018 (<https://blogs.imf.org/2018/09/24/give-todays-children-a-chance/>)

Class 4:

Overview of Sustainable Finance Instruments and Tools

(Monday 8 November 2021, 15.00-18.00)

In this session, we describe a range of financial instruments increasingly used by public development finance providers to mobilize resources for investment in developing countries. It focuses on the functioning of pooling mechanisms, guarantees, and equity investments and their potential to mobilize private investment in critical sectors such as infrastructure.

Case study: Making Impact Investing Markets: IFC (HBS Case 221061-PDF-ENG)

End-of-term project: The topic will be provided to students.

Required Reading:

- Innovative Development Finance Toolbox, Anja-Nadine König, Chris Club and Andrew Apampa, KfW, October 2020
- The State of Blended Finance, Convergence, 2020
- Debt-for-SDGs swaps in indebted countries: The right instrument to meet the funding gap?
A review of past implementation and challenges lying ahead, European Commission and Lazard, September 2021

Further Suggested Reading:

- An Overview of Innovative Financial Instruments Used to Raise Funds for International Development, KfW, 2012
- Using financial instruments to mobilize private investment for development, Mirabile, Sangaré and Schmerler, OECD.
- Financial Instruments for Private Sector Development A Resource Guide, DFID, 2014.
- USAID resources: A case study on financing the costs of building a mini-grid - See <https://www.usaid.gov/energy/mini-grids/financing/instruments>

Session 5:**Strengthening the European Financial Architecture for Development**

(Monday 22 November 2021, 15.00-18.00)

In this session, we specifically discuss the role of the European financial architecture for development. We show that it plays an increasingly important role in support of the external policy objectives of the European Union (EU) by complementing traditional development cooperation tools and leveraging substantial resources for external investments. Nevertheless, there have been calls for reform or rationalization of the existing institutional and operational framework to ensure that it is fully commensurate to the current investment challenges in Sub-Saharan Africa (SSA) and the EU's Neighborhood that it delivers impact efficiently and effectively. We discuss these challenges and the consequences of the ongoing Covid-19 crisis, the sanitary and socio-economic impacts already significantly affecting vulnerable countries.

Case study: Creating a new Climate and Sustainable Finance Development Bank for Europe

Visionary speech exercise

Required Reading:

- Europe in the World, The future of the European financial architecture for development, An independent report by the High-Level Group of Wise Persons on the European financial architecture for development, 2019
- The new European consensus on development 'our world, our dignity, our future', 2017
- Communication from the Commission to the European Parliament, the European Council, the Council and the European Investment Bank (COM(2018) 644, 12.09.2018), Towards a more efficient financial architecture for investment outside the European Union: https://ec.europa.eu/commission/sites/beta-political/files/soteu2018-investment-outside-eu-communication-644_en_0.pdf

Further Suggested Reading:

- EIB strengthens global development focus and backs EUR 4.8 billion new financing for energy, transport, COVID vaccines and business investment, 16 September 2021, <https://www.eib.org/en/press/all/2021-304-eib-strengthens-global-development-focus-and-backs-eur-4-8-billion-new-financing-for-energy-transport-covid-vaccines-and-business-investment>
- A Globally Connected Europe, EU Council Conclusions, 12 July 2021, <https://data.consilium.europa.eu/doc/document/ST-10629-2021-INIT/en/pdf>
- Regulation (EU) 2017/1601 of the European Parliament and of the Council of 26 September 2017 establishing the European Fund for Sustainable Development (EFSD),

the EFSD Guarantee and the EFSD Guarantee Fund: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32017R1601&from=EN>

- European Commission Staff Working Paper, Investing in Sustainable Development - The EU at the forefront in implementing the Addis Ababa Action Agenda, 23 April 2018: https://ec.europa.eu/europeaid/sites/devco/files/report-investing-sustainable-dev-20180423_en.pdf
- Strategic Evaluation on Blending (2007–2014), December 2016: https://ec.europa.eu/europeaid/evaluation-blending_en

Session 6:

How Good are International Financial Institutions in Measuring Results and Impacts?

(Monday 29 November 2021, 15.00-18.00)

We discuss the performance of DFIs/IFIs in delivering development impacts. First, we outline approaches to measure results and impacts. We argue that providing a coherent framework for strategic planning and management based on learning and accountability is crucial. We introduce the key performance concepts and tools used in different public settings, including monitoring and evaluation and using indicators and indices.

Case study: The World Bank's Doing Business scandal

Required Reading:

- Reimagining the Balanced Scorecard for the ESG Era, Robert S. Kaplan and David McMillan, 2021.
- ESG Impact is Hard to Measure – But it is not Impossible, Jennifer Howard-Grenville, 2021.
- RESG Metric: Reshaping Capitalism, George Serafeim, Jody Grewal, 2019.
- Results-Based Leadership, Dave Ulrich, Jack Zenger, Norman Smallwood, Harvard Business School Press, 1999 (Chapters 7 and 8)
- Development Effectiveness Scorecard 2020, ADB.

Further Suggested Reading:

- Using the Balanced Scorecard as a Strategic Management System, Robert S. Kaplan and David P. Norton, 2007
- Results Framework quick guide 2011, ADB.
- Managing for Development Results, ADB, Reference Number: SES: REG 2011-27, Special Evaluation Study, October 2011
- Handbook on Constructing Composite Indicators: Methodology and User Guide. OECD, 2008

Session 7:

In Search for Alternative Innovative Financial Tools for Creating Shared Values

(Monday 6 December 2021, 15.00-18.00)

The current financial model for development is under siege. In recent years, the private sector and foundations/philanthropic institutions have increasingly been considered prominent actors in dealing with social, environmental, and economic problems. The business has begun to embrace corporate responsibility. Slowly (but surely?), the corporation's purpose is being

redefined as creating shared value, not just profit per se. We review the current thinking on innovative financing for development and discuss initiatives that aim to raise new funds for development or optimize the use of traditional funding sources.

Case study: Nestle creating shared value strategy (HBS Case 9-716-422)

Required Reading:

- Creating Shared Value, How to reinvent capitalism—and unleash a wave of innovation and growth, Michael E. Porter and Mark R. Kramer, 2017
- The Investor Revolution, Robert G. Eccles, Harvard Business School and Svetlana Klimenko, World Bank Group (See <https://hbr.org/2019/05/the-investor-revolution>)

Further Suggested Reading:

- Banking on Shared Value, How Banks Profit by Rethinking Their Purpose
- Innovative financing for development, UN, 2009
- Finance for Impact Guide on Financial Instruments for Development, 2021.

Session 8:

Policy Analysis Exercise

(Monday 14 December 2021, 16.00-19.00)

In this session, students in their assigned groups participate in the final Policy Analysis Exercise (the topic will be provided in Session 4).

Required Reading:

- Rudyard Kipling, If (1 page)