

**Topics in International Affairs – PUBPOL 537 A - Syllabus<sup>1</sup>**  
**Development Practice: Financial Inclusion and Poverty Reduction**  
**Evans School of Public Policy and Governance – Autumn 2016**  
**Tuesdays 5:00 – 7:50 PM, SAV 132**

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Office hours (tentative): Tuesdays 1:00 – 3:00 PM, and by appointment

Course site: <https://canvas.uw.edu/1070588>

**Summary Description and Objectives**

“Applied development economics” or “development practice” could be defined as the use of development economics theory, empirical evidence and other lessons from development interventions to improve upon those interventions in terms of the degree to which their goals are achieved. From the multiple possible “development goals” we choose poverty reduction as the focus of this course, and take a critical look at the development experience fighting poverty over the last decade.

The course aims at providing a solid analytical base for students to conduct and/or evaluate development interventions, especially those using financial services as intended poverty reduction tools. With this overall purpose, the main objectives of the course are:

- a. To familiarize the students with recent literature and debates on the relationship between finance and development, and finance and poverty reduction.
- b. To review the notion of “financial inclusion” and its relationship with the many areas usually summarized under the heading of “microfinance.”
- c. To get students familiar with the rationale for financial (policy) interventions and the role of the state, as well as with the particular issues associated with evaluating the effectiveness of these interventions.

The course begins reviewing poverty measurement, and the relationships between poverty, inequality and economic growth. It then focuses on “micro” level topics prevalent in development practice.

**Student preparation**

Students are expected to have an intermediate-level background in economics – PBAF 516/517 or equivalent (as determined by instructor) - and/or finance. PBAF 533 – Economics of International Development – and PBAF 531 – Development Management – will be useful but are not required.

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<sup>1</sup> Version as of September 15, 2016. Please be aware that a course syllabus may be modified during the quarter at the discretion of the professor. Any subsequent changes will be communicated when made.

## Readings and Class Materials

Selected chapters of the texts listed below will be required readings. Other readings may be assigned as relevant to the different topics. Additional optional references are provided as appropriate. **ALL READINGS PROVIDED IN CANVAS** (files or web links)

Armendáriz, Beatriz, and Jonathan Morduch. 2010. *The Economics of Microfinance*. Cambridge, MA: MIT Press.

Banerjee, Abhijit V., and Esther Duflo. 2011. *Poor Economics. A Radical Rethinking of the Way to Fight Global Poverty*. New York, NY: PublicAffairs.

Collins, Daryl, Jonathan Morduch, Stuart Rutherford, and Orlanda Ruthven. 2009. *Portfolios of the Poor: How the World's Poor Live on \$2 a Day*. Princeton, NJ: Princeton University Press.

World Bank. 2008. *Finance for All? Policies and Pitfalls in Expanding Access*. Washington DC. Available for download at: [http://siteresources.worldbank.org/INTFINFORALL/Resources/4099583-1194373512632/FFA\\_book.pdf](http://siteresources.worldbank.org/INTFINFORALL/Resources/4099583-1194373512632/FFA_book.pdf)

Other book sources (not required):

Ledgerwood, Joanna, Julie Earne, and Candace Nelson. 2013. *The New Microfinance Handbook: A Financial Market Systems Perspective*. The World Bank. Entire book available for download at <https://openknowledge.worldbank.org/handle/10986/12272>

## Course Requirements

Requirement	Due dates	Weight in final grade
Classroom participation	All sessions	15%
Reading journal	All sessions	10%
Assignment 1	week 4 – Friday October 28 <sup>th</sup>	25%
Assignment 2	week 8 – Monday November 28 <sup>th</sup>	25%
Take-home Exam (handed out week 9)	week 10 – Friday December 9 <sup>th</sup>	25%

**Classroom participation** is expected at all times. At least one half of each session will be devoted to discussion of readings or cases among students. Grading:

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- 0 Absent w/o notice or excuse
  - 1 In late/left early
  - 2 Active/excused absence
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**Reading journals** consist of 1-3 paragraph summary for each required reading. No specific style needed; they are intended as study and class discussion aides. They will be due in Canvas by 5 PM the day of each class session (Tuesdays). Dropbox closes on Wednesday each time. Grading:

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- 0 Did not submit or highly unsatisfactory

- 1 Late/satisfactory; On time/unsatisfactory
  - 2 On time/satisfactory; Late/very good
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**Assignments** consist of brief papers on a course topic of your choice, using class readings and additional sources. One of the assignments may be a critical review of a recent publication or report also using class materials and additional references. Papers are intended to be analytic/critical rather than purely descriptive.<sup>2</sup> You may show numbers and figures but don't forget to comment, question and (especially) critique. A list of suggested topics will be provided early in the quarter.

Working in 2-person teams for assignments is encouraged but not required. Brief presentations to the class of completed assignments will be scheduled after the first due date. Grading: 4.0 scale.

Basic parameters for the papers are:

- Maximum 3 pages single spaced (4 pages if 2 authors); tables and figures may be included in an Annex, not counted towards the page limit.
- A half-page Abstract (counted towards the page limit) precedes the main text.
- Contents and style appropriate for an audience of peers.
- Complete citations at end of paper; links to sources are fine, and required when citations are not part of the course reading list.

**The take-home exam** will consist of 2 essay questions, to be chosen from a set of 3. The questions will present a real or hypothetical development finance policy situation for which the essay will propose and justify a solution (or a few well-reasoned solution options), based on knowledge acquired in class or researched elsewhere. There will be limits on length of answers. Grading will take into account clarity of approach, rationale for solution(s), and additional information that might be needed to arrive at conclusions. Grading: 4.0 scale.

**Evans School Policy on Academic Integrity, and Community Conversation Norms.** Please note that all students are bound by these policies and norms. You are encouraged to familiarize yourself with these (if you are not already familiar), using the following links:

**Policy on Academic Integrity:** <http://evans.uw.edu/myevans/students/student-handbooks>  
**Community Conversation Norms:** <http://evans.uw.edu/myevans/community-conversation-norms>

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<sup>2</sup> "Analytic" does not necessarily involve quantitative analysis.

## **Class Description**

### ***Introduction***

- Finance and development – theory and evidence
- Definition and measurement of poverty and inequality – global and regional facts; defining target groups
- Development institution and organizations – landscape and approaches.

### ***Financial inclusion and microfinance***

- What is financial inclusion? Access *versus* uptake and usage.
- Main features, potential and limitations of financial inclusion as a factor in poverty reduction
- The poor and their portfolios, assets, liabilities, cash flows
- Savings and asset accumulation
- Risk mitigation – insurance
- Credit – the role of information asymmetries
- Formal and informal markets for financial services
- The critical role of transaction costs in determining access and usage
- Electronic delivery – cards and devices, mobile phones.

### ***The role of the state and policy interventions***

- Safety nets, Government to People (G2P) transfers and Conditional Cash Transfers (CCTs).
- Interaction with provision of health and education services (CCTs). Potential for financial inclusion outcomes of G2Ps and CCTs.
- Market-friendly interventions and Public-Private Partnerships.

### ***Issues in evaluating financial interventions***

- Outputs, Outcomes and Impacts – a refresh.
- The supply side: outreach and sustainability.
- Impact on the ground: correlation versus causation, the fungibility of finance and how it affects impact assessment.

### ***Gender and intra-household economics and finance***

- Does gender matter in households' efficient use of resources?
- Gender as a factor in the efficacy and impact of development interventions.

### ***Agricultural and rural finance***

- The particular features of rural and agricultural markets – risks and risk management, transaction costs, market structures
- Linking financial services with value chains.

## Schedule and Readings

### Week 1 – October 4<sup>th</sup>

#### **Introduction (1)**

- Finance and development – theory and evidence

#### **Required readings**

World Bank. *Finance for All?*

- Overview and Summary, pages 1 – 3 (we'll cover the rest in depth later on);
- Chapter 1.

Beck, Thorsten, Ross Levine, and Norman Loayza. 2000. "Finance and the Sources of Growth." *Journal of Financial Economics* 58 (1): 261-300. Rather technical, but you can skip the methodology and focus on sections 1 and 4.

Supplemental readings:

Demirguc-Kunt, Asli, Erik Feyen,, and Ross Levine. 2001. "The Evolving Importance of Banks and Securities Markets." Policy Research Working Paper 5805, World Bank, Washington DC. Essence in Introduction and Conclusions. ([Catalyst](#))

### Week 2 – October 11<sup>th</sup>

#### **Introduction (2)**

- Definition and measurement of poverty and inequality – global and regional facts; defining target groups
- Development institutions and organizations – landscape and approaches.

#### **Required readings**

Chen, Shahoua, and Martin Ravallion. 2007. "Absolute Poverty Measures for the Developing World, 1981-2004." Policy Research Working Paper 4211, World Bank, Washington, DC.

Banerjee and Duflo

- Chapter 1: "Think Again, Again." Includes a good discussion on the diverse positions with respect to aid among economists (Sachs against Easterly).
- Chapter 2: A Billion Hungry People?

Supplemental readings:

Ravallion, Martin. 2012. "Benchmarking Global Poverty Reduction." Policy Research Working Paper 6205, World Bank, Washington, DC.

### Week 3 – October 18<sup>th</sup>

#### **Financial inclusion and microfinance (1)**

- What is financial inclusion? Access *versus* uptake and usage.
- Main features, potential and limitations of financial inclusion as a factor in poverty reduction

## Required readings

World Bank. Financial Inclusion. Global Financial Development Report, 2014

- Overview and Chapter 1 (pages 1 – 50)

Armendáriz and Morduch. Chapter 1: Rethinking Banking.

Demirguc-Kunt, A., L. Klapper, D. Singer, and P. Van Oudheusden. 2015. *The Global Findex Database 2014: Measuring Financial Inclusion around the World*. Policy Research Working Paper 7255. World Bank. Washington, DC.

- Abstract
- Overview, pages 1 - 9
- Accounts, pages 10 - 27

Supplemental (optional) readings:

Morduch, Jonathan. 1999. "The Microfinance Promise." *Journal of Economic Literature* 37(4): 1569-1614.

## Week 4 – October 25<sup>th</sup>

### ***Financial inclusion and microfinance (2)***

- The poor and their portfolios: assets, liabilities, cash flows
- Savings and asset accumulation

## Required readings

Collins, Darryl et al.

- Chapter 1: Portfolios of the Poor.
- Chapter 4: Building Blocks.

Armendáriz and Morduch. Chapter 6: Savings and Insurance – stop right before 6.8 "Microinsurance."

Banerjee and Duflo. Chapter 8: "Saving Brick by Brick."

**NOTE: – Assignment 1 due in dropbox Friday October 28<sup>th</sup>**

## Week 5 – November 1<sup>st</sup>

### ***Financial inclusion and microfinance (3)***

- Risk mitigation – insurance
- Credit – the role of information asymmetries

## Required readings

Collins, Darryl et al. Chapter 3 : Dealing with Risk.

Armendáriz and Morduch.

- Chapter 2: Why Intervene in Credit Markets?

- Chapter 6: Savings and Insurance – section 6.8 “Microinsurance.”

### **Week 6 – November 8<sup>th</sup>**

#### ***Financial inclusion and microfinance (4)***

- Electronic delivery – cards and devices, mobile-phone banking
  - **Guest lecturer: TBD**

#### **Required readings**

McKay, Claudia, and Mark Pickens. 2010. “Branchless Banking 2010: Who’s Served, At What Price? What’s Next? CGAP. Washington, DC.

Chen, Gregory, and Xavier Faz. 2015 “The Potential of Digital Data: How Far Can It Advance Financial Inclusion? CGAP. Washington, DC.

Supplemental (optional) readings:

Foreign Affairs. 2016. “African Farmers in the Digital Age.” Special Issue by K. Annan, Sir G. Conway, and S. Dryden. Three articles, pages 90 – 109.

GSMA. The Mobile Economy 2014. Chapter 1, pages 8 – 20.

### **Week 7 – November 15<sup>th</sup>**

#### ***The role of the state and policy interventions***

- Safety nets, Government to People (G2P) transfers and Conditional Cash Transfers (CCTs).
- Interaction with provision of health and education services (CCTs). Potential for financial inclusion outcomes of G2Ps and CCTs.
- Market-friendly interventions and Public-Private Partnerships.

#### **Required readings**

Holmes, Jamie, and Jamie M. Zimmerman. 2012. “The G2P Opportunity.” New America Foundation.

Pickens, Mark, David Porteous, and Sarah Rotman. 2009. “Banking the Poor via G2P Payments.” CGAP/DFID.

De la Torre, Augusto, Juan Carlos Gozzi, and Sergio Schmukler. 2007. “Innovative Experiences in Access to Finance: Market Friendly Roles for the Visible Hand?” Policy Research Working Paper 4326, World Bank, Washington, DC.

### **Week 8 – November 22<sup>nd</sup>**

#### ***Issues in evaluating financial interventions***

- Outputs, Outcomes and Impacts – a refresh.
- The supply side: outreach and sustainability.
- Impact on the ground: correlation versus causation, the fungibility of finance and how it affects impact assessment.

## Required readings

Chen, Shaohua, Ren Mu, and Martin Ravallion. 2009. Are There Lasting Impacts of Aid to Poor Areas? , <http://dx.doi.org/10.1016/j.jpubeco.2008.10.010>.

Crepon, B., F. Devoto, E. Duflo, and W. Pariente (2011). Impact of microcredit in rural areas of Morocco: Evidence from a Randomized Evaluation. Working Paper.

Supplemental (optional) readings:

Adams, Dale W, and Robert C. Vogel. 2013. "Through the Thicket of Credit Impact Assessments." In *Microfinance in Developing Countries: Issues, Policies and Performance Evaluation*. Edited by J. Gueyie and others. London: Palgrave Macmillan, pp. 36-61.

## NOTE: Assignment 2 due in dropbox Monday November 28<sup>th</sup>

### Week 9 – November 29<sup>th</sup>

#### Guest lecturer/panelist Dana Boggess, Agricultural Development and Finance

##### *Agricultural and rural finance*

- The particular features of rural and agricultural markets – risks and risk management, transaction costs, market structures
- Linking financial services with agriculture value chains.
- The financial diaries applied to smallholder farmers and their households.
- The "One Acre Fund" project – an integrated model to support smallholders.

## Required readings

Anderson, Jamie, and Wahija Ahmed. 2016. "The Smallholder Diaries: Building the Evidence Base with Farming Families in Mozambique, Tanzania and Pakistan." *CGAP Perspectives 2*.

Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ). 2011. *Agricultural Finance – Trends, Issues and Challenges*. GIZ, Eschborn.

Supplemental (optional) readings:

Cuevas, Carlos E., and Jaime Anderson. 2016. "Understanding Demand, Driving Innovation: Smallholder Households and Financial Services." CGAP Working Paper.

### Week 10 – December 6<sup>th</sup>

##### *Gender and intra-household economics and finance*

- Does gender matter in households' efficient use of resources?
- Gender as a factor in the efficacy and impact of development interventions.

## Required readings

Duflo, Esther. 2012. "Women Empowerment and Economic Development." *Journal of Economic Literature* 50 (4): 1051 – 1079.



Allen, Treb, Beatriz Armendariz, Dean Karlan, and Sendhil Mullainathan. 2010. "Inviting Husbands in Women-only Solidarity Groups: Evidence from Southern Mexico." Innovations for Poverty Action.

Supplemental (optional) readings:

Gneezy, Uri, Kenneth L. Leonard, and John A. List. 2008. "Gender Differences in Competition: Evidence from a Matrilineal and a Patriarchal Society." National Bureau of Economic Research, Working Paper 13727.

Fletschner, C. Leigh Anderson, and Alison Cullen. 2010. "Are Women as Likely to Take Risks and Compete? Behavioural Findings from Central Vietnam." *The Journal of Development Studies*, 46:8, 1459 – 1479.

**FINAL EXAM due in dropbox Friday December 9<sup>th</sup>.**