**Financing Development in Mexico**

IR 322 USC/Mexico

**Maymester 2019: May 13-June 14, 2019**

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**Scope and Objectives**

There can be no economic development without growth, and there can be no growth without investment. Since most investment requires financing, finance is essential to development, a fact that can easily be overlooked in discussions of poverty and development. Analyses that look at the role of finance in development tend to emphasize traditional sources of capital, such as foreign direct investment, portfolio investment, development aid, and lending from official development banks. While these are important sources of development finance, this class will emphasize three less traditional means for financing development: microloans, impact investing and venture capital. And it will do this by focusing specifically on Mexico, an emerging market country characterized by a dual economy where persistent poverty creates opportunities for micro credits and social impact lending even as modern sectors employing cutting edge technology create opportunities for venture capital.

The course will unfold in three phases. The first lays the groundwork for analyzing development finance in Mexico, looking at the operation of markets, the nature of poverty and the challenge of development, and the specific context of development in Mexico. The second phase focuses briefly on traditional mechanisms for financing development before turning to a deeper dive into the less traditional sources of capital that are the focus of this course. In the third phase of the course, students will undertake primary research in Mexico City and Puebla focused on microloans, impact investing and venture capital.

The objectives of the course are three-fold. First, students will learn about theories of development and development finance and apply them to a real world example through both classroom learning and field research. As part of their field research, students will learn how to do interview-style research – how to craft questions for different interviewees, how to conduct the interview, and how to write up the findings. And throughout the course, students will hone their analytic thinking and writing skills.

**Course Requirements**

A **working ability with Spanish** is highly recommended for this course. Although most academics and high-level politicians speak English, the recipients of micro loans do not. While we will provide translators, the capacity of students to carry out research in Mexico will be enhanced by a working knowledge of Spanish.

For the first 2 weeks, class will meet for nine three-hour class sessions. The **readings and lectures** that form the foundation of this classroom portion of the course are essential to successful completion of field research portion of the class. Students are thus required to complete all assigned readings prior to class, to attend all class sessions, and to actively participate in all class discussions. Students are also required to participate in ALL the meetings and class discussions during the research portion of the course. Students will take a **mid-term examination** during the classroom portion of the course.

During the primary research portion of the course, students must develop **an interview plan and specific questions i**n advance of their Mexico-based interview research. The interview plan must explain what information students would like to uncover through their interviews and why (how this information will help them better understand the logic of financing development in Mexico), and it must be accompanied by a list of questions students would like to ask during the interviews.

Students must also write up a **summary of each day’s interviews**. These summaries should be about 400 words and should include consideration of how the content of the interviews illuminated material learned in the classroom portion of the course. These summaries should be written daily, and they must be posted to each student’s blog on the Blackboard webpage for our course by the end of the day each Tuesday and Friday during our stay in Mexico.

On the second to last day in Mexico, students will **present the preliminary conclusions** from their interview research to a panel of 2-3 professors from the Center for Economics Research and Teaching (CIDE) in Mexico City. This activity requires students to synthesize the information from both the classroom and primary research portions of the course into a preliminary argument about the different tools that are currently used in Mexico to finance development. The feedback from the professors will provide a final research element of the Mexico-based portion of the course.

At the conclusion of the course, students should have a solid understanding of the role of various forms of finance in Mexican development today. Based on this understanding, they will write a concise yet clear **2500 word essay** analyzing the strengths and shortcomings of microfinance, impact investing, or venture capital in Mexico. This will be due a week on June 14.

**Grading**

Mid-term exam (May 17) 30%

Interview Plan/Questions 10%

Interview Summaries 10%

Oral Presentation (June 6) 10%

Final paper (June 14) 40%

**Late Assignments**

All deadlines in this class are firm, and there will be *strict penalties for late assignments*. Assignments will be downgraded 1/3 of a grade if they are more than 5 minutes late; another 1/3 of a grade if they are more than an hour late, and another 1/3 of a grade if they are not in the instructor’s inbox by 8am the next day. They will then be graded down 1/3 of a grade for every additional day they are late. However, it is ALWAYS better to turn in an assignment late, even very late, than not at all.

**Book Recommended for Purchase**

Roderic Ai Camp, *Mexico: What Everyone Needs to Know,* Oxford, 2011.

**Statement on Academic Conduct and Support Systems**

Academic Conduct Plagiarism – **presenting someone else’s ideas as your own, either verbatim or recast in your own words – is a serious academic offense with serious consequences**. Please familiarize yourself with the discussion of plagiarism in SCampus in Section 11, Behavior Violating University Standards [https://scampus.usc.edu/1100-behavior- violating-university-standards-and-appropriate-sanctions/](https://scampus.usc.edu/1100-behavior-%20violating-university-standards-and-appropriate-sanctions/). Other forms of academic dishonesty are equally unacceptable. See additional information in SCampus and university policies on scientific misconduct, <http://policy.usc.edu/scientific-misconduct/>.

**Discrimination, sexual assault, and harassment are not tolerated by the university**. You are encouraged to report any incidents to the Office of Equity and Diversity <http://equity.usc.edu/> or to the Department of Public Safety <http://capsnet.usc.edu/department/department-public-safety/online-forms/contact-us>. This is important for the safety whole USC community. Another member of the university community – such as a friend, classmate, advisor, or faculty member – can help initiate the report, or can initiate the report on behalf of another person. The Center for Women and Men <http://www.usc.edu/student-affairs/cwm/> provides 24/7 confidential support, and the sexual assault resource center webpage sarc@usc.edu describes reporting options and other resources.

Support Systems: A number of USC’s schools provide support for students who need **help with scholarly writing**. Check with your advisor or program staff to find out more. Students whose primary language is not English should check with the American Language Institute <http://dornsife.usc.edu/ali>, which sponsors courses and workshops specifically for international graduate students. The Office of Disability Services and Programs <http://sait.usc.edu/academicsupport/centerprograms/dsp/home_index.html> provides certification for students with disabilities and helps arrange the relevant accommodations. If an officially declared emergency makes travel to campus infeasible, USC Emergency Information <http://emergency.usc.edu/> will provide safety and other updates, including ways in which instruction will be continued by means of blackboard, teleconferencing, and other technology.

**Course Topics, Readings, and Activities: USC**

**May 13: Introductions, Course Overview & What is the Market?**

Charles Wolf, Jr. *Markets or Governments*, 2nd ed., MIT Press, 1993: pp. 1-13. (Bb)

“Can Markets be too Free?”, *The Economist*, 2 January 2017. <http://www.economist.com/blogs/economist-explains/2017/01/economist-explains>

Andrea Seebrook, “On Capitol Hill, Rand's 'Atlas' Can't Be Shrugged Off”, NPR, 14 November 2011. <http://www.npr.org/2011/11/14/142245517/on-capitol-hill-rands-atlas-cant-be-shrugged-off>

# Tamara Keith, “Austrian School Economist Hayek Finds New Fans”, NPR, 15 November 2011. <http://www.npr.org/2011/11/15/142307737/austrian-school-economist-hayek-finds-new-fans>

# David Welna, “Keynes’ Consuming Ideas on Economic Intervention”, NPR, 16 November 2011. <http://www.npr.org/2011/11/16/142348310/keynes-consuming-ideas-on-economic-intervention>

**May 14: Poverty, Growth and Development**

What is Development?

Patrice Franco, *The Puzzle of Latin American Economic Development*, 4th ed., 2019: pp. 1-23, “Development in Latin America: Conceptualizing Economic Change in the Region”. (Bb)

Joseph E. Stiglitz and Lyn Squire, “International Development: Is it Possible?” *Foreign Policy* (Spring 1998), pp. 138-151.

How do nations develop? Drivers of Growth and Development

Dani Rodrik, *One Economics, Many Recipes*, Princeton University Press: 2007, “Introduction”, pp. 1-6. (Bb)

What causes poverty? How might it be mitigated?

William Easterly, *The White Man’s Burden*, Penguin Books, 2006: pp3-30 & 367-384. (Bb)

Vlog Brothers, “Is Poverty Necessary? Looking back at the Millennium development Goals”. 22 September 2015. <https://www.youtube.com/watch?v=n5DZF7YvwwM>

Santiago Levy, “Poverty in Latin America: Where do we come from, where are we going?”, Brookings Institution, 10 May 2016. <https://www.brookings.edu/opinions/poverty-in-latin-america-where-do-we-come-from-where-are-we-going/>

“What happens when you just give money to poor people?”, *Planet Money Podcast*, Episode 494 (November 8, 2013). <http://www.npr.org/sections/money/2013/11/08/243967328/episode-494-what-happens-when-you-just-give-money-to-poor-people>

**May 15: Mexico and the Challenge of Development (1)**

Roderic Ai Camp, *Mexico: What Everyone Needs to Know,* Oxford, 2011, chapters 1-9.

**May 16: Mexico and the Challenge of Development (2)**

Roderic Ai Camp, *Mexico: What Everyone Needs to Know,* Oxford, 2011, chapters 10-12.

Stephen Haber, et al., *Mexico Since 1980*, New York, Cambridge University Press, 2008: chapters 1 & 7. (Bb)

**May 17: Midterm Exam**

**May 20: Financing Development: Banking and Venture Capital**

Problems with Traditional Banking in Mexico

Stephen Haber, et al., *Mexico Since 1980*, New York, Cambridge University Press, 2008: chap. 4 (skim pages 100-116). (Bb)

Private Equity and Venture Capital

John Freear and Jeffrey E. Sohl, “Angels on Angles and Venture Capital: Financing Entrepreneurial Ventures”, in Sammis B. White and Zenia Z. Kotval, eds., *Financing Economic Development in the 21st Century*, 2013: pp. 224-244. (Bb)

Anthony Ulloa, “Mexican Venture Capital”, March 2018, pp. 1-24. (Bb)

AMEXCAP, “VC Overview 2018. Venture Capital Industry”. (Bb)

**May 21: Financing Development: Social Innovation and Impact Investing**

“What is a Social Enterprise?”<https://youtu.be/kBhwDjoWEcg>

Rebecca Harding, “Social Enterprise:  The New Economic Engine?”, in *Business Strategy Review* 15:4 (2004): 39-43.

James Phills Jr., Kriss Deiglmeier, and Dale Miller, “ Rediscovering Social Innovation”, in *Stanford Social Innovation Review*, Fall 2008:  34-43.

JP Dallmann, “Impact Investing, Just A Trend Or The Best Strategy To Help Save Our World?”

<https://www.forbes.com/sites/jpdallmann/2018/12/31/impact-investing-just-a-trend-or-the-best-strategy-to-help-save-our-world/#381bcfab75d1>  Watch video, DO NOT READ ARTICLE.

Antony Bugg-Levine and Jed Emerson, “Impact Investing:  Transforming How We Make Money while Making a Difference”, *Innovations* 6:3 (2011):  9-18. (Bb)

Grant Trahant, “30 Social Impact Investing Ventures Changing the World through Finance”. <https://www.causeartist.com/changing-the-world-through-social-impact-investing/> Review to get a feeling for the kinds of projects being promoted through impact investing, especially those in developing countries. Skim to get a feel for the different kinds of impact investors operating today, and read the description of Adobe Capital.

**May 22: Financing Development: Micro-Finance**

*Economist,* Survey: Microfinance “The Hidden Wealth of the Poor” (3 Nov 2005).

<https://www.economist.com/special-report/2005/11/03/the-hidden-wealth-of-the-poor>

<https://www.economist.com/special-report/2005/11/03/micro-no-more>

Cull, Robert, Asli Demirgüç-Kunt, and Jonathan Morduch. “Microfinance Meets the Market.” *Journal of Economic Perspectives* 23.1 (2009): 167-192.

Shivani Siroya, “A smart loan for people with no credit history (yet)”, TED talk, February 2016.

<https://www.ted.com/talks/shivani_siroya_a_smart_loan_for_people_with_no_credit_history_yet?language=en#t-456905>

# Susan Adams, How Tala Mobile Is Using Phone Data To Revolutionize Microfinance, Forbes 29 August 2016.

<https://www.forbes.com/sites/forbestreptalks/2016/08/29/how-tala-mobile-is-using-phone-data-to-revolutionize-microfinance/#6529bb7a2a9f>

*The Economist*, “Banking in Mexico: A Light in the Darkness” (25 June 2015).

https://www.economist.com/finance-and-economics/2015/06/25/a-light-in-the-darkness

David Roodman, *Due Diligence: An Impertinent Inquiry into Microfinance*, Washington, Center for Global Development, 2012: chapter 1. (Bb)

**May 23: prepare interview questions, & travel logistics**

**Course Activities: Mexico City**

**May 25: Travel to Mexico City**

Evening: Condesa

**May 26: Touring and Settling into Mexico City**

Morning: Zocalo

Lunch: Majestic

Afternoon: Interview plan and questions for Mexico interviews due to professor.

Meet with professor to discuss activities for the week.

**May 27: Start-ups and Venture Capital**

Morning: Vincent Sparza, Director, Endeavor Mexico

Afternoon: AMEXCAP

Dinner: Georgina Scarlata, Economics Section, U.S. Embassy

**May 28: Impact Investing and Microlending**

Morning: New Ventures Capital

Casa Azul (time permitting)

Lunch: Coyocan

Afternoon: Compartamos

**May 29: Venture Capital**

Morning: Angel Ventures

Lunch: Polanco

Afternoon: Free

**May 30: TBD**

Morning: Salauno and Prison Art

Afternoon: Alejandro Poire, Tec de Monterrey

Dinner: Viridiana Rios, Harvard and Mexico Institute

**May 31: TBD**

Morning: Someone Somewhere

Early Afternoon: Hola Code

Late Afternoon: Free

**June 1: Touring**

Morning: Teotihuacan

Afternoon: Basilica

**June 2: Tepotzlan**

**June 3: Microlending**

Morning: Free

Afternoon: Pro Mujer

**June 4: Microlending**

Morning: ProMujer Site Visit

**June 5: Puebla**

**June 6:**

Morning: Free

Afternoon: Starr Class to CIDE. Presentation of findings

Suro Class to Mexico MediaLab

**June 7: TBD**