

UNU Research and Publications Related to the Financial Crisis and Development

UNU-WIDER

WIDER Angle (UNU-WIDER Monthly Newsletter)

How Will the Financial Crisis Impact on the Developing World and What Can Be Done About It?

http://www.wider.unu.edu/publications/newsletter/articles/en_GB/13-02-2008-feature-article/

After the G-20 Summit: What Prospects for Global Development?

http://www.wider.unu.edu/publications/newsletter/articles/en_GB/09-04-09-g20/

Wealth Distribution, the Financial Crisis and Entrepreneurship

http://www.wider.unu.edu/publications/newsletter/articles/en_GB/10-03-2008-feature-article/

Working Papers

Discussion Papers

The Financial Crisis of 2008 and the Developing Countries

Following the financial crisis that broke in the US and other Western economies in late 2008, there is now serious concern about its impact on the developing countries. The world media almost daily reports scenarios of gloom and doom, with many predicting a deep global recession.

http://www.wider.unu.edu/publications/working-papers/discussion-papers/2009/en_GB/dp2009-01/

Understanding the African Growth Record: the Importance of Policy Syndromes and Governance

The current paper, first, finds that although the post-independence growth of African economies has fallen substantially below that of other regions, this comparative evidence is less than uniform across time and countries. Second, it uncovers total factor productivity as the primary culprit underlying the generally dismal growth record. Third, reflecting recent evidence, the paper finds that 'policy syndromes' represent a major culprit explaining the growth performance, with their absence accounting for nearly 3.0 percentage point rise in the annual per capita GDP growth via increases in TFP. Finally, the paper finds that governance exerts positive direct and indirect impacts on growth; the latter is via the potential ability of governance to achieve a syndrome-free regime.

http://www.wider.unu.edu/publications/working-papers/discussion-papers/2009/en_GB/dp2009-02/

Does Aid Mitigate External Shocks?

This paper investigates the role of aid in mitigating the adverse effects of commodity export price shocks on growth in commodity-dependent countries. Using a large cross-country dataset, we find that negative shocks matter for short-term growth, while the ex ante risk of shocks does not seem to matter. We also find that both the level of aid and the flexibility of the exchange rate substantially lower the adverse growth effect of shocks. While the mitigating effect of aid is significant in both countries with pegs and countries with floats, the effect seems to be smaller for the latter, suggesting that aid and exchange rate flexibility are partly substitutes. We investigate whether aid has historically been targeted at shock-prone countries, but find no evidence that this is the case. This suggests that donors could increase aid effectiveness by redirecting aid towards countries with a high incidence of commodity export price shocks.

http://www.wider.unu.edu/publications/working-papers/discussion-papers/2008/en_GB/dp2008-06/

Research Papers

Credit Constraints, Entrepreneurial Talent, and Economic Development

In this paper, we formalize the view that economic development requires high rates of productive entrepreneurship, and this requires an efficient matching between entrepreneurial talent and production technologies. We first explore the role of financial development in promoting such efficient allocation of talent, which results in higher production, job creation and social mobility. We then show

how different levels of financial development may endogenously arise in a setting in which financial constraints depend on individual incentives to misbehave, these incentives depend on how many jobs are available, and this in turn depends on the level of financial development. Such complementarity between labour market and financial market.

http://www.wider.unu.edu/publications/working-papers/research-papers/2009/en_GB/rp2009-20/

Aid, Volatility and Growth Again: When Aid Volatility Matters and When It Does Not

In previous papers we have argued that aid is likely to mitigate the negative effects of external shocks on economic growth (i.e., aid is more effective in countries that are more vulnerable to external shocks). Recently an important debate has emerged about the possible negative effects of aid volatility itself. However, the cushioning effect of aid may involve some volatility in aid flows, which then is not necessarily negative for growth. In this paper we examine to what extent the time profile of aid disbursements may contribute to an increase or a decrease of aid effectiveness. We first show that aid, even if volatile, is not clearly as procyclical as often argued, and, even if procyclical, is not necessarily destabilizing. We measure aid volatility by several methods and assess procyclicality of aid with respect to exports, thus departing from previous literature, which usually assesses procyclicality of aid with respect to national income or fiscal receipts. The stabilizing/destabilizing nature of aid is measured by the difference in the volatility of exports and the volatility of the aid plus exports flows. Then, in order to take into account the diversity of shocks to which aid can respond, we consider the effect of aid on income volatility and again find that aid is making growth more stable, while its volatility reduces this effect. Finally, we find evidence through growth regressions that the higher effectiveness of aid in vulnerable countries is to a large extent due to its stabilizing effect.

http://www.wider.unu.edu/publications/working-papers/research-papers/2008/en_GB/rp2008-78/

Can We Predict Vulnerability to Poverty?

There are alternative definitions of vulnerability to poverty. Most researchers prefer to define vulnerability as the probability of a household or individual falling into poverty in the future. Based on this definition and using household survey panel data from rural China, this paper attempt to assess the extent to which we can measure vulnerability to poverty. The assessment is based on comparisons between predicted vulnerability and actually observed poverty. We find that the precision of prediction, first, varies depending on the vulnerability line; our results suggest setting the line at 50 per cent in order to improve predictive power. Second, precision depends on how permanent income is estimated. Assuming log-normal distribution of income, it is preferable to use past weighted average income as an estimate of permanent income rather than using regressions to gauge permanent income. And third, prediction precision depends on the chosen poverty line. More accurate measurement of vulnerability to poverty is obtained with a higher poverty line of US\$2 instead of US\$1.

http://www.wider.unu.edu/publications/working-papers/research-papers/2008/en_GB/rp2008-82/

Economic Vulnerability and Resilience: Concepts and Measurements

In this paper, economic vulnerability is defined as the exposure of an economy to exogenous shocks, arising out of economic openness, while economic resilience is defined as the policy-induced ability of an economy to withstand or recover from the effects of such shocks. The paper briefly reviews the work already carried out on economic vulnerability and extends the research towards the development of a conceptual and methodological framework for the definition and measurement of economic resilience. Towards this end, the paper proposes an index of economic resilience gauging the adequacy of policy in four broad areas, namely macroeconomic stability, microeconomic market efficiency, good governance and social development. The analysis of economic resilience explains how small economies can attain a relatively high level of gross domestic product (GDP) per capita if they adopt appropriate policy stances. In other words, the relatively good economic performance of a number of small states is not because, but in spite of, their small size and inherent economic vulnerability. The results of this study can be used as a tool towards the formulation of policies aimed at overcoming the adverse consequences of economic vulnerability.

http://www.wider.unu.edu/publications/working-papers/research-papers/2008/en_GB/rp2008-55/

An Economic Vulnerability Index: Its Design and Use for International Development Policy

In response to the need expressed by the UN General Assembly, an economic vulnerability index (EVI) has been defined by the Committee for Development Policy. The present paper, which refers to this index, first examines how a structural economic vulnerability index can be designed for the low-income countries in particular. It recalls the conceptual and empirical grounds of the index, considers the structure of the present EVI, its sensitivity to methodological choices with respect to averaging, as well as related possible improvements, and briefly compares the levels and trends of EVI in various country groups, using a new database from a 'retrospective EVI'. The paper examines how EVI can be used for international development policy, underlining two main purposes: first—the purpose for which EVI was initially designed—is the identification of the least developed countries (LDCs) that are allowed to receive some preferential treatment in aid and trade matters. EVI, in addition to income per capita and human capital, is one of the three complementary criteria a country needs to meet in order to be perceived as a LDC, and consequently it cannot be the sole criterion for countries wishing to avoid exiting the LDC list. And second, EVI is to be used, in addition to other traditional measures, as a criterion for aid allocation between developing countries. We argue that such an inclusion is legitimate for both reasons of effectiveness and equity. The two purposes are presented as complementary.

http://www.wider.unu.edu/publications/working-papers/research-papers/2008/en_GB/rp2008-99/

What Lessons have been learnt since the East Asian Crisis in 1997/98? CIBS, Capital Flows, and Exchange Rates

This paper discusses the movement of capital flows to and from the exchange rate regimes and monetary policies of China, India, Brazil, and South Africa (CIBS). Furthermore, we compare the level of financial stability, and the composition and duration of capital flows of the countries on a policy level according to the ‘“third generation” crisis models’; following which the East Asian Crisis of 1997/98 linkages between the corporate and financial sectors, and foreign short-term debt are given further attention. The paper concludes by comparing all four countries and analysing possible risks in CIBS financial systems.

http://www.wider.unu.edu/publications/working-papers/research-papers/2008/en_GB/rp2008-73/

Policy Briefs

Linking Globalization to Poverty

While the economic opportunities offered by globalization can be large, a question is often raised as to whether the actual distribution of gains is fair, in particular, whether the poor benefit less than proportionately from globalization and could under some circumstances be hurt by it. This Policy Brief summarizes and examines the various channels and transmission mechanisms, such as greater openness to trade and foreign investment, economic growth, effects on income distribution, technology transfer and labour migration, through which the process of globalization affects different dimensions of poverty in the developing world.

http://www.wider.unu.edu/publications/policy-briefs/en_GB/unupb2-2007/

Research Projects

African Development: Myths and Realities

Existing research on Africa has produced a seemingly endless list of reasons why African growth and poverty reduction record has lagged behind that of other regions of the developing world. This project looks at the reasons put forward for Africa's disappointing development record, attempting to differentiate between myth and reality. It also seeks to determine the relative priorities that need to be given to factors that have in reality most contributed to this record, providing a blue print for public policy into the 21st Century.

http://www.wider.unu.edu/research/projects-by-theme/Africas-economic-development/en_GB/african-development/

Books and Journals

Development Aid: A Fresh Look

Development aid has become an increasingly hot topic in international research and policy circles, especially following inter alia the publication the World Bank's Assessing Aid and the adoption of the Millennium Development Goals. The latter require large increases in aid flows to halve world poverty and hunger by 2015. Donors are paying increased attention to how they allocate aid across countries. Known as 'aid selectivity', this task is one of the most disputed areas of development policy and research.

http://www.wider.unu.edu/publications/books-and-journals/2009/en_GB/dev-aid/

Development Finance in the Global Economy: The Road Ahead

This interesting, balanced and well-argued new book is a timely reminder of the risks and challenges of current financial arrangements. Abundant liquidity, cheap credit and high commodity prices may not last forever. The current reality of a high concentration of private financing in a handful of emerging economies and the often cumbersome process of foreign aid to low-income nations is far from optimal.

http://www.wider.unu.edu/publications/books-and-journals/2008/en_GB/dev-fin-in-global-economy/

Domestic Resource Mobilization and Financial Development

"Financial markets are changing in the developing world. This book offers an insightful resource for critical understanding of the state and evolution of these markets." — Stefan Dercon, University of Oxford

http://www.wider.unu.edu/publications/books-and-journals/2008/en_GB/dom-res-mob-mavrotas/

Financial Development, Institutions, Growth and Poverty Reduction

"The finance growth nexus was well established in the research literature during the 1990s. Research has since turned to a closer look at the transmission mechanism that explains how deepening financial institutions affect the economy. That research started with a closer look at institutions and studies of entrepreneurship and patterns of corporate finance. The influence of financial deepening on the experience of individuals, particularly the poor, was overlooked until now. This volume of essays brings our attention to the implications of the finance growth nexus on the distribution of income and the incidence of poverty. It opens important new doors for future research on the importance of financial institutional development." —Paul Wachtel, Stern School of Business, New York University

http://www.wider.unu.edu/publications/books-and-journals/2008/en_GB/fin-dev-inst-growth-guha-khasnabis-mavrotas/

UNU-IAS

Books

Developing Countries and the WTO

This book addresses the critical policy choices now facing developing countries with respect to trade policy. Experienced negotiators, scholars and trade officials from very different backgrounds offer policy prescriptions to secure a world trading system that will meet the needs of developing countries.

http://www.ias.unu.edu/sub_page.aspx?catID=97&ddlID=168

Reports and Policy Briefs

Environment for African Development: A Sustainable Future through Science and Technology

Currently, one of the most critical issues for Africa is food security. At the same time, environmental sustainability is being lost. In addition, human-induced climate change threatens agricultural productivity. This report provides an overview of some of the environmental issues facing Africa and examines the role of science and technology cooperation in meeting these challenges. An environmental performance country analysis is used to identify areas of best practice, as well as areas of action.

http://www.ias.unu.edu/sub_page.aspx?catID=111&ddlID=683

UNU-MERIT

Working Papers

Filippov, Sergey & Kálmán Kalotay, 2009, Foreign Direct Investment in Times of Global Economic Crisis: Spotlight on New Europe, UNU-MERIT Working Paper

<http://www.merit.unu.edu/publications/wppdf/2009/wp2009-021.pdf>

Narula, Rajneesh & John Dunning, 2009, Multinational enterprises, development and globalisation: Some clarifications and a research agenda, UNU-MERIT Working Paper

<http://www.merit.unu.edu/publications/wppdf/2009/wp2009-023.pdf>

UNU PRESS

The Business of Sustainable Development in Africa: Human Rights, Partnerships, Alternative Business Models

This book is on the role of business decision-makers in sustainable development. It is an important read for academics, managers, and all students of business with an interest in the human and humane face of modern commerce.

<http://www.unu.edu/unupress/2008/sustainableDevelopmentInAfrica.html>

UNU POLICY BRIEFS

Vulnerability in Developing Countries

The first Millennium Development Goal aims to halve the number of people in the world living in extreme poverty. In this research brief, emanating from the UNU-WIDER project on “Fragility and Development”, the premise is that we should also be concerned about households which are vulnerable to poverty.

<http://www.unu.edu/publications/briefs/policy-briefs/2008/rb02-08.pdf>

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While the economic opportunities offered by globalization can be large, a question is often raised as to whether the actual distribution of gains is fair, in particular, whether the poor benefit less than proportionately from globalization and could under some circumstances be hurt by it.

This Policy Brief summarizes and examines the various channels and transmission mechanisms, such as greater openness to trade and foreign investment, economic growth, effects on income distribution, technology transfer and labour migration, through which the process of globalization affects different dimensions of poverty in the developing world.

<http://www.unu.edu/publications/briefs/policy-briefs/2007/PB02-07.pdf>