EVIDENCE SUMMIT ON BROAD-BASED GROWTH

EVENT BRIEF

DECEMBER 9-10, 2010

WASHINGTON, DC

February 2011

This document was produced for review by the United States Agency for International Development. The Evidence Summit Brief was prepared by The QED Group LLC for the KDMD Project (Contract #EEM-C-00-08-00004-00).

Table of Contents

Poverty and Growth

Aart Kraay (World Bank)

Aart Kraay noted three potential "sources" of pro-poor growth: (1) Fast growth in average incomes, (2) high sensitivity of poverty to growth, and (3) changes in relative incomes. Using a counterfactual econometric analytical technique known as the Datt-Ravallion decomposition, Kraay assessed the relative contribution of each of these to poverty reduction, and found that the first two categories accounting for the majority of poverty reduction. Using the "headcount" measure of poverty (# of people in poverty), these two categories explained 97% of variance in poverty rates. Other measures of poverty also yielded high numbers (> 65%). Kraay noted the need to clearly define "broad-based growth" – growth that reduces poverty? Raises all incomes equally?

David Sahn (Cornell University)

David Sahn took issue with the narrow focus on incomes, arguing that health indicators (in particular, life expectancy) provided a more direct and less methodologically challenging way to measure individual well-being. Noted that recent studies have basically demonstrated the Kuznets hypothesis (that growth necessarily brings about inequality) to be false. He focused on the "poverty hampers growth" side of the equation, pointing out pathways such as reduced productivity, stunting, and the 'demographic dividend.' He pointed to the famous "Preston Curve" and argued that significant increases in life expectancy have been achieved not exclusively due to growth per se, but through better health delivery systems, improved technology, etc.

Martin Ravallion (World Bank)

Martin Ravallion stressed the importance of distinguishing between relative poverty and absolute poverty. Ravallion, too, highlighted evidence that refuted the Kuznets model of growth, noting that growth and relative inequality are not correlated. Growth and absolute poverty, on the other hand, are indeed inversely correlated. Intellectual debates over growth and poverty, said Ravallion, don't stem from divergent data but from divergent concepts of poverty. Economic growth is typically pro-poor, in absolute terms, although there is significant variation from country to country. Ravallion argued that initial distribution patterns matter most for how 'pro-poor' growth will be: with an annual growth rate of 2%, a low inequality country (Gini = .3), would halve poverty in 11 years, as compared with 35 years for a high inequality country (Gini = .6). So what about this initial distribution matters most? Ravallion argues that high initial poverty rates themselves are the component of that initial distribution that impedes growth, citing the fact that poorer countries (at any growth rate) tend to experience lower proportional effects on their poverty measures than do less poor countries. Thus does poverty itself hamper growth. Ravallion briefly commented on various theories of how this pathway operates – market failures, distortionary redistributive policies, public good underprovision, lasting productivity effects. Ravallion stated his preference for "equality of opportunity" as a way of understanding why inequality remains significant.

Evidence from Country Experience

Milo Vandemoortele and Henri Leturque (Overseas Development Institute)

Milo Vandemoortele and HenriLeturque examined the "success stories" of Vietnam, Ghana, Mauritius, and Malawi, noting four common characteristics that underpinned both economic growth and poverty reduction in each:

1) *Policy coherence and continuity*
    - **Mauritius**: Concerted 'nation building' strategy, strategic partnerships and power sharing between large ethnic groups
    - **Vietnam**: Development focus by political party leadership led to 'doimoi' policies
    - **Malawi**: Formerly disjointed policies are changing due to national ownership
2) *Equitable investment in human capital*
    - **Mauritius**: Post-independence, country continued to invest in social services
    - **Vietnam**: Initial equitable investments in 1980s created an educated labor force
    - **Malawi**: Not great yet
3) *Macroeconomic stability*
    - **Malawi**: focused on fiscal discipline. Two-way causality between macroeconomic stability (i.e. inflation) and agricultural productivity
4) *Pragmatic and sequenced liberalization*
    - **Vietnam and Mauritius** combined orthodox and heterodox liberalization with strong government intervention

In Ghana, underused land and labor have 'put back to work' via a suite of economic incentives. Since 1982, the agricultural sector has experienced an average growth rate of 5.1%. Agricultural growth can disproportionately reduce poverty, due to increased farmer incomes, rural employment, rural non-farm economic benefits, and lower food prices. Increased cocoa productivity has been largely due to greater land use as opposed to increased productivity. Investments in key public goods (i.e. rural roads, port facilities, public sanitation) were critical for gains in the agricultural sector.

Key lessons from Ghana:

1) *Not about improving yields/productivities but by reallocating cheap resources like land*
2) *Political leadership*
3) *Role of aid supporting local/national initiatives*
4) *Sequencing*

Steve Radelet (US Department of State)

Steve Radelet called the last several decades "the most rapid period of growth and poverty reduction in history." Noted the disputes around the causal direction of growth and poverty. Articulated six characteristics of growing economies:

1) *Economic and political stability*
    - High inflation and conflict hamper growth.
2) *Investments in health and education*
    - Establishing causal direction between growth and human capital investments econometrically is not a good use of time, since they are mutually reinforcing.
3) *Governance and institutions*
    - We know these are important (i.e. rule of law, low corruption, regulatory quality, political stability, government effectiveness, voice and accountability), but democracy per se is an open question, based on mixed historical record.
4) *Favorable environment for private enterprise development (i.e. agriculture and trade policies, business laws and policies, infrastructure (including power and rural roads))*
    - Need to invest in agricultural productivity to ensure growth. Trade and growth are positively correlated, but unclear what policy levers to pull (tariff reductions not always followed by increased growth).
5) *Geography*

- Central to diagnostics. Tropics tend to be poorer, with slower growth, as do deserts and countries with little access to markets (i.e. remote islands and landlocked countries). Even Botswana, which is landlocked, has experienced higher growth than the norm in Africa thanks in part to South African Customs Union.

6) *Technology*
   - Cell phone penetration, internet. Allows people to gather market information, engage in mobile banking, pay remittances. Communications technology offers a partial solution to geographical isolation.

Radelet emphasized the need to tailor approaches by country, or else risk a long list of potential interventions. But we don't need to get everything right all at once to achieve growth -instead identify top constraints to growth.

Kunal Sen (Institute of Development Policy and Management, Univ. of Manchester)

Kunal Sen delved into the history of India's recent economic growth spurt. Economic growth in India started around 1979, but has really accelerated in the last decade. Market reforms were only part of the growth story; the state also played a significant role. Pragmatic policy sequencing was absolutely essential to India's transition to economic growth in India. But unlike the rest of Asia, India did not experience a transition from increased agricultural productivity to a "pull" of labor from farms to manufacturing sectors. Why? Trade policy has been protective of capital intensive production, barriers to formalization (i.e.finance). Growth has been poverty reducing, but not for the very poor. Growth has not had significant impacts on human capital acquisition or on inequality. Sen characterized India's growth pattern as "more like Brazil's than China's."

Agriculture and Broad-Based Growth

Thomas Jayne(Michigan State University)

Thomas Jayne emphasized the severity of the concentration of cereals markets across Sub-Saharan Africa, noting maize in Malawi as a striking example. He noted that broad-based growth has been correlated with equitable distribution of resources, agricultural growth (for agrarian economies), and investments in goods that most people can take advantage of (i.e. seed varieties, extension services, infrastructure). He highlighted the similarities of findings of both IFPRI and The Economist Intelligence Unit, both of which found that some factors (notably policy, roads, and extension services) made much more significant contributions to agricultural growth than did others (i.e. subsidies, irrigation). But most government budgets don't reflect those priorities. Jayne emphasized the role of asset constraints in successfully implementing FTF, noting the severity of inequalities in land holdings as a major constraint to surplus production. Jayne noted **three major pathways** to address these constraints:

1) *Strategies that can greatly raise the productivity of 1-hectare farms*
2) *Strategies that shift focus from low-value to high-value crops*
3) *Strategies that expand the rural poor's access to land.*
    - This last point was a major focus; Jayne advocated expanding into unused government-owned land (which he argued will soon be sold off anyway).

He identified **five priorities** for FTF:

1) *Projects to improve the "enabling environment" (which in some cases is so bad as to prevent any progress in agricultural growth)*
2) *Projects to improve public resources (i.e. infrastructure, seeds, and extension services)*
3) *Training programs that reach women (including marketing training)*
4) *Programs that address smallholder land constraints (see above)*
5) *Investments in locally-managed agricultural policy institutes*

Jayne argued that very high increases in productivity would be necessary to make the common "postage stamp-sized" farms viable.

Clemens Breisinger (IFPRI)

Clemens Breisinger examined evidence from Ghana, Yemen, and Ethiopia to draw conclusions about the relative prominence of agriculture as a driver of broad-based growth. For Ghana, the agricultural sector had a major impact on many non-agricultural forward-linking sectors (in part because many 'manufacturing' industries actually entail food processing). Agricultural growth in Ghana was stronger, however, when other sectors also grew rapidly. In Ethiopia, linkage effects with agriculture were quite strong. Breisinger argued that agricultural growth is the most poverty-reducing of all sectors, and that cereals-based agricultural growth is foremost among them in poverty reduction. In practice, this is hard to measure, since many of the poor are so poor than even increases in income leave them "poor" by the headcount measure of poverty. Export-led growth, on the other hand, increases labor demand, though the size of the sector is relatively small. It is best to avoid focusing on a small number of staples or livestock products, to avoid market flooding.

EDUCATION AND BROAD-BASED GROWTH

Lant Pritchett (Harvard)

Lant Pritchett argued that "nearly every element of the conventional wisdom about education's role in growth is wrong." Argued that simply expanding schooling isn't enough, since "you can't create growth just by having a greater supply of educated people." Pritchett pointed to some cross-country regressions that demonstrated the lack of explanatory power of education - there is very little variation in growth rate of schooling capital (a composite indicator) across countries, despite very large differences in rates of growth of capital per worker. He pointed out that growth is episodic, whereas education is generational ('you can't explain a spiky thing with a smooth thing'). He also made a point of debunking the myth that 'business-as-usual' education policies (notably, choices of expenditures) have causal links with student achievement. Few education interventions tested shows real effectiveness – both impacts and scopes are very small. Additionally, while in theory access to education can reduce inequalities, in practice education only reinforces them by disproportionately educating the elite. In practice, current evidence isn't even being applied by actors. Pritchett argued that governments and donors tend to be successful when they do logistics (implementation- intensive, but easy). We almost always fail to achieve 'hard' goals (implementation intensive, control/motivation of agents hard), and 'wicked hard' goals (implementation intensive, motivation hard, need continuous innovation):

1) ***Easy (policy)*** *- Setting targets*
2) ***Easy (logistics)*** *–Building schools*
3) ***Hard (people problems)*** *– Classroom teaching*
4) ***Wicked hard (system failures)*** *– Improving scaled pedagogy*

We can't pretend the problem is a policy/logistics issue ('easy') when it is really a motivation/incentive/systems problem ('hard'/'wicked hard') for which there is no evident solution.

Elizabeth King (World Bank)

Elizabeth King took an opposing viewpoint, arguing that wealth and economic growth are dependent in part on having an educated workforce. King noted that worldwide, some 25% of firms said that "skills levels" were a major constraint to productivity. She also cited research demonstrating that countries with higher female education attainment cope better with extreme weather events and experience reduced child morality. She noted increases in net enrollment and completion rates and growing demand for secondary and tertiary education in developing countries. Citing Pritchett, King admitted that there exist lingering "education puzzles" - Skills are wasted on non-productive activities (if there are no jobs, skills don't matter), schooling so poor that it isn't creating human capital, and expanded schooling in many countries that haven't seen commensurate growth. Why this failing? Because education investments accrue disproportionately to the rich, urban and male, and because enrollment (not learning) is the primary indicator of interest. In practice, the poor and disadvantaged populations may need to be targeted early on. Special efforts should be made to link education with productive employment sectors. And incentivizing teacher performance must become a priority, along with other locally-owned management tools. World Bank will start focusing more heavily on the "hard" problems.

Social Protection and Broad-Based Growth

Laura Rawlings and Hassan Zaman (World Bank)

Laura Rawlings and Hassan Zamaneach gave a presentation on the role of social protection in contributing to broad-based growth. Rawlings' presentation focused on prevention (from external shocks), protection (from destitution and human capital loss), and promotion (of opportunities and livelihoods). Rawlings noted that there is no longer a perceived trade-off between equity and efficiency, and that growth and social protection actually reinforce one another. Zaman explained results from a World Bank cross-country regression analysis: spending on social safety nets itself contributes to growth. Safety net spending only creates a "drag on growth" at much higher expenditure levels than most countries are currently.

Michael Carter (UC Davis)

Michael Carter examined and compared social protection interventions that relied upon cash transfers and those that relied upon asset transfers. Carter argued that the "asset vs. cash transfer" debate is one the donor community should be having, especially since the randomized evaluation of Mexico's Progressa Conditional Cash Transfer (CCT) program has brought CCTs into the limelight. Carter examined evidence from South Africa's Child Support Grant Transfer Program (a non-conditional means-tested cash transfer program). The program had some demonstrated impacts on child height gain, at a benefit cost ratio of 1.6-2.3. Carter contrasted these findings with those from the Land Redistribution for Agricultural Development (LRAD) program, in which a state-assisted market mechanism provided land grants in South Africa. The upfront costs of this program were 5 times higher than the cash transfer program, but the calculated economic benefits were 15 times greater. Carter advocated for a greater reliance on cost-benefit analysis in making intervention-level decisions.

Financial Services and Broad-Based Growth

David Roodman (Center for Global Development)

David Roodman explored the question "does microfinance work?" Much of the debate over the effectiveness of microfinance interventions has focused on one famous World Bank study by Pitts and Khandker, which demonstrated poverty reduction from microfinance programs, especially those that targeted women. Since then, members of the research community have questioned the methods of that study and tried to replicate it. Roodman argued that the Pitts and Khandker study cannot be replicated, and that it relied upon inaccurate assumptions. He noted the methodological difficulties associated with trying to establish a counterfactual impact evaluation of microfinance programs. Roodman cited a study by Karlan and Zinman that found that:

1) *Borrowing households tend to use microcredit to pay for education, not hire more labor*
2) *Men and higher-income groups (i.e. not the typical 'target groups' for microcredit programs) experienced the greatest treatment effect*
3) *Microfinance was essentially used as a risk management tool by many groups*

A Banjeree and Duflo study found heterogeneous effects from a randomized evaluation of microcredit interventions. However, Roodman noted that while effects on poverty and income are mixed, microcredit schemes do provide some freedom and choices to individuals and households, which has intrinsic benefit. He also argued that microsavings is a promising option that has been evaluated and appears to be effective. Finally, he argued for the need for a "credit bureau" for microcreditors, as well as microdeposit insurance for microsavings programs.

Kate McKee (Consultative Group to Assist the Poor)

Kate McKee framed her remarks as "3 myths, 3 mysteries, and 3 modest proposals for USAID":

Three Myths

Myth 1: The myth that microloans allows people to start businesses and thus get out of poverty. Microcredit puts people into debt. But it also provides options, and most people would rather have the choice than not. Consumption smoothing may be one unintended benefit of microcredit programs.

Myth 2: The "no tradeoffs" myth that microcredit programs can serve the very poor without any cost to profitability.

Myth 3: The "enabling environment" myth that poverty reduction will necessarily follow from a good enabling environment. This does happen, but not always.

Three Mysteries

Mystery 1: How do poverty economies really work?

Mystery 2: How to drive demand for microfinance and insurance services?

Mystery 3: If people have access to mobile banking, will they keep doing it?

Three Modest Proposals

Modest proposal 1: Work on in-country policies on financial inclusion.

Modest proposal 2: Look into consumer protection regulation.

Modest proposal 3: Seek cross-fertilization between financial markets and host country "real" markets.

WOMEN AND BROAD-BASED GROWTH

Rekha Mehra (International Center for Research on Women)

Rekha Mehra explored the contribution (both existing and potential) of women to the growth process, and advocated for a more broad 'mainstreaming' of women-focused development practice, especially for FTF. Mehra cited studies demonstrating that women's participation in the labor force drives economic growth, that missed income opportunities for women severely hampers growth, and that women are more likely to reinvest their resources in household-level human capital than men (90% vs. 40%). While women's participation in the labor force has been growing, it has mostly been in the agricultural and informal sectors. Women are more limited than men in their access to financial services, skills training, market access, and work opportunities. Possible remedies include resource access, legal and policy tools, and graduating to the formal economy. Mehra advocated a focus on poor women in agriculture, since women are vital to food security but suffer from unequal access to resources. Noted that evidence on microcredit's effects on poverty is mixed, but there is a need for other microfinancial services (i.e. savings, agricultural credit, insurance).

NATURAL RESOURCES, CLIMATE CHANGE, AND BROAD-BASED GROWTH

David Wheeler (Center for Global Development)

Mr. Wheeler argued that 'traditional' economic analyses overlook natural resources as a source of both income and wealth in developing countries (cited World Bank study estimating the economic value of all natural resources in developing countries at $29 trillion). Advocated for more widespread adoption of 'green accounting' that credits natural resource conservation and debits externalities (like pollution). Wheeler pointed out that climate change is coming on much more strongly (and with more climate variability) than was previously thought. Severe weather, desertification, and sea level changes will result in heavy losses in agricultural productivity, with vulnerability most extreme in Africa (although country-level degree of vulnerability depends on the particular driver of climate change). Wheeler highlighted the concept of 'additionality' – an 'extra' set of resources (i.e. on top of normal development budgets) may come out of Cancun to address climate change adaptation and mitigation. One possible distributive channel might be to compensate people for resource conservation (effectively subsidizing 'good behavior' like resource preservation as opposed to the politically unviable tax on 'bad behavior' like carbon emissions). If so, it will be important to decide who to pay, how to manage that process, and how to protect the owners of resources. Unsustainable natural resource consumption (i.e. deforestation in Indonesia) exemplifies the extent of a problem that is massive, local, and decentralized. Making information public (i.e. posting publicly who is polluting) can have a tremendous incentive effect. At present, many developing countries are paying out of pocket for promising green technologies, especially clean energy – Africa is a potential 'solar powerhouse.' Investments in adaptation should be made based on the criteria of (1) vulnerability, (2) physical impacts, and (3) project or program-level absorptive capacity.

Diane Russell (USAID)

Diane Russell emphasized the growth opportunities that natural resources provide through tourism, agriculture, and exports. Like Wheeler, she also noted the severity of the decline in natural capital (water, land, soil fertility, fisheries, etc.) across the developing world, and noted that these resources are typically undervalued in traditional economic accounting systems. Cited a statistic that 35%-60% of all household income derives from natural products. She also cited a meta-review of evidence on the effect of various biodiversity mechanisms on poverty reduction; eco-tourism and fisheries have the strongest impacts. Russell emphasized the importance of spillover effects as an explanation for the importance of fisheries, and noted that USAID spends relatively little on them. She also emphasized the need to integrate natural resource conservation strategies into USAID's economic growth portfolios, as well as the Feed The Future initiative.

The *Evidence Summit on Broad-Based Growth Event Brief* was prepared by Jonathan Shepard (USAID).

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