

International Growth Week at LSE: daily briefing, Thursday 22 September 2011

Growth Week came to an end yesterday evening with a plenary session on cities and economic development. Below is a summary of the discussion along with other research findings presented at the conference, which brought together top policy-makers and researchers from Africa and South Asia with Western experts to debate new ideas for stimulating economic growth in developing countries.

This week's event was organized by the International Growth Centre (IGC) at the London School of Economics (LSE). More information, including further summaries of research findings and policy discussions are available here:

<http://www.theigc.org/>
<http://www.theigc.org/events/growth-week-2011>

CITIES AND ECONOMIC DEVELOPMENT: STORIES FROM BRAZIL AND INDIA

Cities are the most productive and most innovative parts of developing countries, but the emerging economies of Africa, Asia and Latin American also face many challenges of concentrated poverty and a lack of public services in their urban areas.

At the final session of Growth Week 2011, Professor Tony Venables of Oxford University, Sergio Cabral, the governor of the State of Rio De Janeiro, and NK Singh, Member of the Indian Parliament discussed some of these challenges with Professor Enrico Moretti of the University of California at Berkeley.

Professor Venables noted that cities ideally provide two things of fundamental importance. First, a 'ladder' for individuals, families and successive generations to get themselves out of poverty through education and into the workforce – what he called 'the slum as a transition process'. And second, the productive side of economy – places where firms want to invest and create jobs.

But it is by no means automatic that cities meet those objectives. It requires vision, planning, coordination and significant investments in infrastructure. Professor Venables concluded that economic research can do much more to help understand what makes some cities generate high productivity and better lives for their inhabitants.

Governor Cabral said that Rio has faced several challenges in recent years, from boosting growth to exploiting natural resources and reducing inequality and social conflict. He explained that good management was key to the success of the city. New effective management practices were introduced in a wide range of public services and within the administration to ensure better service delivery and increased transparency.

A large number of programmes were introduced by the state government in

education, health, transport and housing. These programmes were financed partly through the revenues from natural resource extraction and partly through federal funds, which the state was able to attract thanks to well-conceived action plans.

Mr Singh is from rural Bihar but he was quick to note the significance of cities as engines of national economic growth. In 2001, 285 million people lived in the urban areas of India, now there are 400 million and the expectation is that there will be 600 million in 10 years time. The country has one sixth of the world's population, but only a twentieth of its land, so vertical development on the one hand and social inclusion on the other will be essential if Indian cities are to be at the core of future economic development.

SAVING LIVES THROUGH MARKETING NEW STOVES

Pollution produced by burning bio-fuels such as grass is one of the main sources of death among children and women in developing countries like Bangladesh, more dangerous than tuberculosis and other diseases combined. According to Professor Mushfiq Mobarak of Yale University, many of these deaths could be prevented by the use of new stoves, but men, who typically control the household finances, are reluctant to invest in them.

Professor Mobarak is exploring ways to use social networks to encourage the use of less polluting household technologies in Bangladesh. He notes that tradition, finances and a lack of proper information all play a role in the failure to adopt potentially life-saving equipment. Poor people employ whatever they have available as fuel, which results in high levels of pollution ingested by children and women within the house.

ENVIRONMENTAL AUDIT: HOW TO MAKE A REAL DIFFERENCE TO INDUSTRIAL EMISSIONS

Changing the framework for private environmental auditing makes an enormous difference to industrial pollution, according to research by Professor Michael Greenstone of MIT. In research with the Pollution Control Board in Gujarat, India's most industrialized Indian state, he finds that switching from a system where individual firms pay their own environmental auditors to a centrally administered system is highly effective.

Under the old system, auditors used to charge less to win over clients and therefore competition levels were quite high, but this also led to a lack of funds to perform the appropriate controls that were originally planned.

HOW GHANA CAN BEST USE THE REVENUES FROM RECENT OIL DISCOVERIES

Repaying foreign borrowing is a key way to use the revenues from the Jubilee oil field recently discovered in Ghana, according to Professor Rick van der Ploeg of Oxford University, speaking at Growth Week 2011. This will help reduce the spread and the risk of lower creditworthiness due to resource-driven conflict, and allow investment in essential infrastructure.

Professor van der Ploeg noted that excessive flows of money in the domestic economy would increase the risk of 'Dutch disease', where the tradable sector becomes less competitive because of exchange rate appreciation. He therefore suggested the creation of a liquidity fund to cushion the shock of volatility of oil prices, and a parking fund invested in foreign funds temporarily to allow a decrease of the interest rate spread and increase the share of domestic capital.

Moses Asaga, chairman of the energy commission of Ghana, explained how the country's government has signed a contract with the Chinese for the construction of \$3 billion worth of infrastructure in the country using future flows as collateral. They also have put up a plan to build gas production capacity in Ghana to support energy supply in the long term.

Mr Asaga highlighted how in Ghana (in contrast with Nigeria), the government is putting in place a set of contracts with local small and medium-sized enterprises linked to the supply chain of the oil extraction industry.

In Nigeria negotiation of contracts with suppliers and local communities go to the Nigeria national petroleum corporation, which is a commercial entity but also deals with regulation at local level. Ghana wants to unbundle this so that such contracts will have to go to parliament. This should avoid Nigeria's problems of transparency and accountability.

It is widely agreed that national petroleum revenues must be capitalized so as to raise the amount of capital in the country, mainly infrastructure. This is the biggest difference with Norway, which does not need to support and boost economic growth to achieve a successful transition from a low to middle income economy.

Asked how it was possible to have such an allocation of revenues given the shorter time-horizon of politicians, Mr Asaga explained that a general consensus between civil society and the government, together with an efficient political system where the opposition is able to contest government decisions, were key factors in ensuring that funds were directed towards social infrastructure.

INCLUSIVE GROWTH IN INDIA

There is considerable evidence that growth in India has been inclusive, according to Dr Surjit Bhalla, chairman of Oxus Investments, speaking at Growth Week 2011. He claimed that there has been a fantastic growth in incomes among the bottom half of the population.

In particular, he pointed to the fact that girls have caught up with boys in access to education and it makes no difference which economic group they come from. He also noted that the poor and the rich in India have both been consuming and earning more over the last decade, and this has come at the expense of the middle.

SIERRA LEONE: HUGE LEAPS FORWARD IN REFORMING THE BUSINESS CLIMATE

Sierra Leone has moved 25 places up the World Bank's 'ease of doing business' rankings since 2007, according to Richard Konteh, the country's minister for trade and industry speaking at Growth Week 2011. This dramatic rise has enabled Sierra Leone to become the most business friendly environment in the Mano River Union and the reform package that created it drew special praise from President Obama on the floor of the United Nations.

The minister added that the government would continue to reform the nation's business environment, seeking to support investment and firm development in Sierra Leone and make a real difference to employment and incomes.

Sheku Sesay, Sierra Leone's central bank governor, explained the vital role that the financial sector in Sierra Leone plays in facilitating and promoting trade and investment in the country. He explained how problems with the financial system had acted as a constraint in the past but that reforms are advancing the financial system and helping to encourage development to move away from what is now primarily a cash economy.

One area in dire need of improvement is the interest rate on bank loans, currently between 24 and 31%. Governor Sesay hopes that the reforms being implemented will encourage more savings and deposits in banks, to help lower interest rates on loans.

MOZAMBIQUE: THE NEED TO BOOST AGRICULTURAL PRODUCTIVITY

Mozambique has huge potential for agricultural activity, but is lagging behind many countries with respect to agricultural productivity. The government has asked the IGC to advise on policy interventions that can successfully address the weak performance in the agriculture sector. Among the findings:

- * Lack of appropriate access to credit by farmers prevents the emergence of strong medium-sized farmers.
- * Because agricultural activity is risky, the government can share the risk with commercial banks so that access to credit by farmers is augmented.
- * Past policy interventions to address the agro-credit problem failed because interventions targeted a broad group of farmers, rather than targeting the most sustainable ones.
- * The IGC plan proposes credit risk sharing by the government and interventions

targeted at medium-sized farmers. This could result in large productivity gains in the Mozambique's agricultural sector.

Another agriculture-related IGC project in Mozambique is looking at the extent to which urban migrant remittances contribute to finance agricultural production among rural farmers. It finds that:

- * Remittances can provide an alternative financing mechanism for the development of the agricultural sector – rural farmers who receive remittances could allocate them to investment in agriculture rather than in household consumption.

- * To the extent that rural farmers allocate more remittances to investment, urban migrants may have incentives to remit more.

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For more information about Growth Week and to download the full agenda, visit:

<http://www.theigc.org/>

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The International Growth Centre is a joint initiative with LSE and Oxford University with offices across the developing world. It is funded by the UK's Department for International Development.