

International Growth Week at LSE: daily briefing, Tuesday 20 September 2011

Here's an outline of the latest discussions at Growth Week, which brings together top policy-makers and researchers from Africa and South Asia with Western experts to debate the latest ideas for stimulating economic growth in developing countries.

This week's event is organized by the International Growth Centre (IGC) at the London School of Economics:

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

JOB CREATION AND CULTURAL CHANGE IN 'FRAGILE STATES'

One of the best ways to address political disorder in the world's 'fragile states' would be to make a substantial effort to address unemployment among young men. According to Professor Paul Collier of Oxford University, speaking at Growth Week 2011, the most feasible strategy for generating jobs for young men without many skills would be to focus on the construction sector through a mass house-building programme.

Professor Collier noted that the main economic activity of cities like Sheffield, Chicago and Melbourne in their early days was building themselves through just such a programme. In today's developing countries, house-building is constrained by three impediments: a lack of affordable finance to buy housing; an absence of legal rights so that houses cannot function as collateral; and the high cost of housing because of excessively tight planning restrictions.

Professor Collier also emphasized the need for cultural change in fragile states in four dimensions:

- * Shifting people's thinking about the economy from being a 'zero-sum' game (where one person's gain is another person's loss) to being a 'positive-sum' game.
- * Shifting people's identity from the local to the national – 'forging the nation'.
- * Shifting people's thinking about the sources of power in society from being sustained by fear to being sustained by legitimacy.
- * And shifting people's thinking from personalized loyalties to institutions and rules.

Finally, Professor Collier called for leadership in fragile states. He argued that personal responsibility may be less important than people who shape the culture, who understand the need to create jobs, to end the 'predatory state, to

get the public sector to work effectively and to coordinate across the many policies need to build an effective state.

BUILDING EFFECTIVE STATES – LESSONS FROM BIHAR'S TRANSFORMATION

Fighting crime so people have faith in the legal system; building roads; tackling corruption; tax reform; distributing free medicines to hospitals; and encouraging girls to stay in school by giving them bicycle. These are some of the key reforms that have helped to shift Bihar from a failed state to an effective state, according to Sushil Kumar Modi, deputy chief minister of the Indian state, speaking at Growth Week 2011.

Mr Modi, the principal architect of financial reform in Bihar, which has a population of more than 100 million people, outlined the key elements of the current Bihari government's policy since it came to power six years ago. He emphasized the visionary leadership of chief minister Nitish Kumar and his commitment to 'meeting the people'. He added:

'Bihar is poised to become a major agricultural economic powerhouse. We are on the path of development, making Bihar an effective state.

'If Bihar can be changed, anywhere can be changed. And if India is to become a superpower, Bihar must be strong!'

HIGH-GROWTH FIRMS IN AFRICA AND ASIA

Business plan competitions are an increasingly popular way of identifying potentially high-growth entrepreneurs in developing countries. According to research by Professor Christopher Woodruff of the University of Warwick, presented at the IGC's Growth Week 2011, the panels who judge these competitions are able to identify faster growing firms.

Dr Ishrat Husain, director of Pakistan's biggest business school, the Institute of Business Administration, agreed on the value of business plan competitions – but not so much for identifying high-growth potential firms as for discovering new ideas and thinking about ways to commercializing them most effectively.

WORLD FOOD PRICES PLAY DOMINANT ROLE IN ETHIOPIAN INFLATION

World food prices have a surprisingly strong influence on inflation in Ethiopia, according to research by Professor Dick Durevall of the University of Gothenburg. Ethiopia was considered a closed economy and world food price inflation was not previously believed to have an impact on local food prices. But the country experienced unexpectedly high food price inflation along with the rest of the world in 2008.

Professor Christopher Adam of Oxford University (and lead academic in the IGC's Tanzania programme) questioned to what extent the apparent world food price inflation is actually a fuel price rise. As the latest inflation figures in Ethiopia are approaching 40%, it is an imperative for policy-makers and researchers to look beyond the real economy sectors and examine more closely the macroeconomy.

ETHIOPIA IMPLEMENTS ORTHODOX MACRO POLICIES IN ITS FIVE-YEAR GROWTH AND TRANSFORMATION PLAN

One of the main objectives of Ethiopia's 2010/11-2014/15 Growth and Transformation Plan is to achieve an average real GDP growth rate of 11.2%, said Ato Yohannes Ayalew Birru, vice governor of the National Bank of Ethiopia, speaking at the International Growth Centre's Growth Week 2011.

In the monetary policy pillar of the financial plan, Ethiopia's objective is to contain inflation within 6-9.5%. This will be a considerable challenge given current inflation levels of near 40%. The vice governor said that imported inflation, stemming mainly from exports of agricultural products and imports of fuel, is a key part of the issue.

Another notable feature of Ethiopia's programme is to increase access to finance from 20% to 67% of the population. This effort will be spearheaded by the National Bank. Professor Chris Adam of Oxford University (and lead academic in the IGC's Tanzania programme) questioned this feature of the programme, saying that using National Bank financing to increase access to finance takes away from the National Bank's objective of reducing inflation.

ETHIOPIA'S 'GREEN REVOLUTION'

Ethiopia experienced annual grain production increases of 6.29% between 1999 and 2009, according to research on the country's crop yields over the last decade by Professor Douglas Gollin of Williams College. This is much higher than India's rate of 4% during its own green revolution.

But the source of increase production is puzzling. Ethiopia experienced increased production for all crops, without a significant new technology being introduced. During its own green revolution, India introduced improved seeds in select crops, which greatly increased yields on those crops.

As Ethiopia embarks on an ambitious plan for growth with aims to increase crop yields further, it will be important to understand how the growth seen over the last decade came about.

ETHIOPIA'S EXTENSION PROGRAMME LESS EFFECTIVE THAN LOCAL ADOPTION BY NEIGHBOURS IN SPREADING PRACTICE OF IMPROVED SEED USE

In the last decade, Ethiopia has embarked on a massive extension programme for its agricultural sector and has expanded the number of its extension workers from 15,000 to 70,000. But according to research by Professor Pramila Krishnan of Cambridge University, neighbours' adoption of improved seed varieties is far more important than extension visits by workers from Ethiopia's Extension Directorate.

As Ethiopia currently spends 1% of GDP on extension services alone, Professor Krishnan's research results may yet persuade the Ethiopian government to change its extension policies.

The IGC has an active programme of research and policy advice in Ethiopia, more details of which are available here:

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

UNDER-INVESTMENT IN AGRICULTURE: EVIDENCE FROM GHANA

Even cash grants and rainfall insurance are insufficient to encourage farmers in Ghana to invest in new technologies to improve agricultural productivity. Research by Robert Osei of the University of Ghana suggests that 'risk aversion' – the fear of investing and not reaping higher yields – is more the cause of under-investment in agriculture than 'credit constraints' – the lack of funds for investment.

ENDS

For more information about Growth Week and to download the full agenda, visit: <https://registration.livegroup.co.uk/igc2011/>

To request interviews with any speakers, please contact Mazida Khatun at mazida.khatun@theigc.org

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 Department for International Development.