

## **International Growth Week at LSE: daily briefing, Wednesday 21 September 2011**

Below is 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 new 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 (LSE):

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

### **FINDING 'BIG, FIXABLE PROBLEMS': THE KEY TO BUILDING ENTERPRISES AND CREATING JOBS IN AFRICA**

Large-scale, long-term job creation is essential for Africa's future. But while diagnosing the continent's wide range of economic ills is easy, what is really challenging is implementing solutions. Speaking at the IGC's Growth Week 2011, Professor John Sutton of the LSE emphasised the need to find and fix a small number of 'big, fixable problems'.

The best way to do that, he said, is to construct 'enterprise maps' of national economies – complete descriptions of their industrial structure and the existing capabilities of major firms. These can provide the low-level background knowledge for governments, local companies and overseas companies looking at opportunities for foreign direct investment.

Having worked on enterprise maps for a number of sub-Saharan African countries, Professor Sutton pointed to a number of big, fixable problems, including difficulties with transferring land rights; illegal exporting to get round protection of infant industries; and an absence of mid-level finance for midsize companies.

Professor Sutton mentioned industries that are seen almost everywhere in Africa – beer, cement, sugar – and the capabilities they require – selling to a 'safe' local market, high transport costs and the absence of an international supply chain with other firms whose quality standards domestic firms must meet.

He also described the most notable scarcity in African countries – not entrepreneurship, which is abundant, but a cadre of middle managers with the market intelligence and ability to run midsize companies effectively. Midsize diversified companies – capable of spotting domestic market opportunities, often through import substitution – are the ones most likely to generate much-needed jobs.

## **GROWTH IN PAKISTAN: THE NEED TO IMPROVE TAX COLLECTION**

The Achilles' heel of Pakistan's economy is the difficulty of increasing tax revenues as a proportion of GDP, according to Dr Rashid Amjad, vice chancellor of the Pakistan Institute of Development Economics, speaking at Growth Week 2011. Currently, tax revenue as a percentage of Pakistani GDP is low (9%) and declining.

Dr Amjad argued that Pakistani policy-makers need to make significant efforts to improve tax collection, so as to move from its current 'stop-go' economic cycle to a high and sustainable growth path. Just to absorb the country's growing labour force, it needs to grow at 6-7% a year, but at present any growth spurt of more than 5.5% ends in unsustainable fiscal deficits, balance of payments problems and 'stagflation'.

IGC researchers are working on how to improve Pakistan's 'state capabilities' in this area: how to design an effective tax system; and how to recruit, retain and motivate people in the public sector. Research by Henrik Kleven of the LSE focuses on behavioural responses to taxation in Pakistan, in particular the 'bunching' of tax payments at income levels just below 'notches' where tax rates jump higher.

Professor Ben Olken of MIT is working with the taxation department in Punjab to design appropriate compensation incentives for tax inspectors to deter corruption and encourage sufficient effort in tax collection. Historically the problems of corruption and low effort have been solved by 'high-powered' monetary incentives to tax collectors but this led to extortion and over-taxation.

## **WORLD BANK GRASS-ROOTS DEVELOPMENT PROJECT HAS NO CLEAR POSITIVE IMPACT: EVIDENCE FROM SIERRA LEONE AND LIBERIA**

The World Bank-sponsored GoBifo project in Sierra Leone, which emphasises local control over development decisions, has had no impact on social norms and institutions – areas that are considered vital for sustainable economic growth. In Liberia, however, a similar project has had a much more positive effect, resulting in 'stronger leadership' within the community and a greater ability to mobilise and support public initiatives.

That was one of the main outcomes from a lively and at times heated debate on the effectiveness of 'community-driven development' at Growth Week 2011. Despite the researchers' findings, Vijayendra Rao, a leading economist at the World Bank, praised the quality of the research and stressed its importance in understanding what he described as a necessarily 'slow process' of social change in the world's poorest communities.

According to the World Bank, community-driven development is 'an approach that gives control over planning decisions and investment resources to community groups and local governments'. The two studies followed villages in Sierra Leone

and Liberia for long periods. They compared villages that had implemented the community-driven development initiative with those that had not.

The study in Sierra Leone, led by Dr Rachel Glennerster, director of the Jameel Poverty Action Lab (J-PAL), followed villages that had taken part in the GoBifo project for four years and found that the initiative has so far not led to any increase in community participation in decision-making nor any change in the roles of women and young men – both stated aims of the projects.

But the study did find that community-driven development was helpful in establishing village-level projects and that these had played a part in increasing the number of new businesses and raising the overall level of trade and economic activity.

Dr Glennerster noted: 'In Sierra Leone, the extreme poverty, recent recovery from civil war and endemic struggles against corruption make these achievements no small feat.'

The World Bank and other donors dedicate large parts of their budgets to community-driven development projects – with Mr Rao estimating that over the last decade the World Bank has invested tens of billions of dollars in these schemes. Studies such as those discussed at the session were helping the World Bank and other donor organisations to gain a better understanding of the 'extraordinarily complex interventions' they were undertaking, he said.

But he added a call to all researchers present that they needed more first-hand understanding of what the problems are in these societies, saying: 'if you don't know what the societal failure is, how can you hope to fix it? For god's sake, we may be economists but why can't we bloody well talk to people?'

## **MOVING TANZANIA TOWARDS MIDDLE INCOME STATUS**

Agricultural productivity, urbanisation and availability of human capital for the manufacturing sector are the key challenges for Tanzania as it pursues its ambition of transforming into a lower middle-income country by 2025. That was the central message from Mujibu Moyo, the IGC's country economist for Tanzania, speaking at Growth Week 2011.

Tanzania will have to sustain a 5% per capita growth, starkly increase agricultural productivity and greatly expand its manufacturing sector if its economic transformation is to look similar to other middle-income countries, he noted. The IGC has worked with the Tanzanian President's Office Planning Commission on an analysis of what the country's economic structure would look like if it were to become a lower middle-income country.

Professor Sam Wangwe, director of the Research and Poverty Alleviation (REPOA) think tank in Tanzania, stressed the importance of having a well thought through vision document and outlined issues that may be of concern during the country's transition process.

He raised concerns about the lack of economic sectors to absorb surplus labour, contraction of the agricultural sector without any evidence of increased productivity and the recently realised growth without poverty reduction. In addition, he said that Tanzania will have to take advantage of its geographical location by acting as a transport corridor to surrounding landlocked countries.

## **AGRICULTURAL PRODUCTIVITY IN TANZANIA**

Understanding the role of agriculture in consumption growth and poverty reduction is crucial since 80% of Tanzanians depend on agriculture, said Martina Kirchebeger of Oxford University.

Her research has tried to understand whether yield output and consumption increases are a factor of productivity or agricultural area expansion. The studies find that at the national level, the adoption of improved farming techniques is low, hence the rise in productivity was not due to improved inputs. In addition, increases in consumption have been mainly due to occupational shifts away from the agricultural sector.

## **THE NEED FOR FISCAL CONSOLIDATION IN TANZANIA**

Professor Christopher Adam of Oxford University addressed the issue of fiscal space as Tanzania seeks to make the transition towards middle-income status. He said that with deteriorating external conditions in food and fuel prices, declining donor flows and flattening revenue mobilisation, the need for fiscal consolidation in Tanzania is crucial.

Growth in Tanzania's recurrent spending is worrisome when the spending is not productive and cannot be offset elsewhere by reductions in unproductive development goals. Considering this, one route to fiscal sustainability is through revenue mobilisation and improved expenditure efficiency rather than trying to achieve deficit reductions to the extent that donor engagement is influenced by concerns on fiscal performance.

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

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

## **PRIVATE TRAINING SCHOOLS INCREASE CHANCES FOR YOUNG AFRICANS TO ENTER THE JOB MARKET**

Private vocational schools in Kenya are more effective in helping students find a job than public schools despite having staff who, on average, are less educated. That is one of the conclusions of research by Professor Isaac Mbiti of Southern Methodist University.

Speaking at Growth Week 2011, Mbiti warned about excessive expectations from students about the returns from training programmes. Omotunde Johnson, the IGC's Sierra Leone country director, suggested that this is due to them including informal (black market) occupation on top of the formal one. He also added that, from his experience, public schools would have an advantage in providing access to the public sector, thanks to government-recognized certification.

Lack of information about the skills developed and an absence of policies supporting female employment (such as childcare) are the main factors hampering gains from vocational training in Kenya. Government support and involvement is fundamental to design effective policies to overcome information and price obstacle to skills acquisition through training programmes.

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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](mailto:mazida.khatun@theigc.org)

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