



Daily summary
Tuesday 25 September 2012

The second day of Growth Week 2012 saw three sessions from our research programme (Governance, accountability and political economy; Human capital; and Firm capabilities), five sessions from our country programme (Sierra Leone, India-Bihar, Tanzania, Mozambique, Uganda), and a joint session on managing the coming natural resources boom in East Africa involving our Mozambique, Tanzania and Uganda programmes. The plenary session on ‘Trade, firms and products in the development process’ was followed by the second public lecture on ‘Policy challenges for growth in Africa and South Asia’ with speakers including Dr Abdul Hafiz Shaikh (Finance Minister, Pakistan). Summaries of the plenaries and the public lectures will be available separately.

Many more delegates arrived on day two, and again, our film crew was kept busy hearing new and interesting ‘Ideas for Growth’. If you haven’t shared your ideas make sure you use day three to head over to the filming area to participate.

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Ideas for Growth session 5 – Governance, accountability and political economy

The session was chaired by *Gerard Padro i Miquel (LSE; IGC)* and organized around research on understanding and improving electoral accountability. The first speaker, *Macartan Humphreys (Columbia)*, presented a case study on citizen empowerment and political accountability in Uganda. The main purpose of the study was to understand how accountability and transparency affect voters’ decisions and alters politicians’ behaviour, once the latter are aware that their performance is being scrutinized prior to elections. The results of the intervention suggest that peoples’ election was largely independent of the score a politician got, whereas the peer assessment of politicians was very predictive of whether they were getting elected. Furthermore, people who thought that their representatives were good but their performance scores turned out to be low reported a downward adjustment in their assessment.

The second speaker, *Pedro Vicente (Universidade Nova de Lisboa)* presented research on how an NGO-conducted campaign against electoral violence can help undermine violence, drawing on a case study of Nigeria. The main results include: the anti-violence campaign increased the sense of security of the general population; the campaign increased empowerment to counteract electoral violence; the

campaign increased voter turnout by 7-11 percentage points, and; it decreased the intensity of violence as reported by journalists.

The session followed with *Michael Callen's (UCSD/UCLA)* evidence from a field experiment in Afghanistan on institutional corruption and electoral fraud. His research showed that a lack of constraints on election officials may be a serious obstacle to free and fair elections; political connections facilitate access to impunity, and; there is strong evidence that suggests that reducing fraud increases popular support. The discussions were enriched by a more practical perspective given by *Barbara Smith (Carter Center)* and *Miriam Golden (UCLA)*. They suggested that working with domestic observers, although underfunded is of paramount importance in reducing fraud. Furthermore, they expressed concerns stemming from the field that even if electoral violence and fraud are effectively eliminated, political corruption may continue to distort outcomes and accountability.

Ideas for Growth session 6 – Human capital

Chaired by *Imran Rasul (UCL; IGC)*, the Human capital session began with *Orzaio Attanasio (UCL)* presenting on a randomized early-childhood home-visiting intervention in Colombia. The study found that while provision of micronutrient supplements had no impact on measures of child development, a curriculum of stimulation designed to promote child development did have a significant impact on cognitive development. The results are suggestive that the mechanism of impact may be increased parental investment. It is also important to note that reliance in this intervention on local resources and existing infrastructure (including on women from the communities to conduct home visits) kept intervention costs low and contributed to community ownership of the program. Key for policy is evidence that if interventions improve human capital accumulation early in life this will not only raise human capital levels but also better enable individuals to exploit opportunities for further human capital accumulation later in life. Thus investments in human capital over the lifecycle are complementary and investments early on can have very high returns. However, when children accumulate early human capital deficits, these lags may be very difficult to reverse.

Tessa Bold (Goethe University Frankfurt; IGC) presented on experimental evidence of scaling up education reforms in Kenya. Specifically, Bold noted that while Randomized Control Trials from Western Kenya suggest that contract teachers may be a viable strategy for improving education outcomes, in a scaled up contract teacher intervention spanning the eight regions in Kenya, the Ministry of Education was unable to produce similar success. The intervention in fact compared the performance of student outcomes in schools where contract teachers were managed by an NGO with performance in schools where the Ministry of Education was charged with implementing the contract teacher program. While students in schools under the stead of the NGO did see an improvement in test scores, the impact of contract teachers administered by the Ministry of Education was essentially zero. These results are consistent with a line of criticism that questions the external validity of randomized control trials and suggests that large scale policy reforms may provoke hostile reactions from groups whose rents are threatened. A key implication is that institutions matter and that there needs to be more attention paid to experimental settings.

Finally, *Karthik Muralidharan (UCSD)* presented work on performance pay for teachers. Muralidharan discussed results from a 5 year long experimental evaluation of both group and individual teacher performance pay in a large representative sample of schools in the Indian state of Andhra Pradesh. The study found that students in schools under the individual teacher incentive program did significantly

better than students in control schools throughout the duration of the program, and even in subjects for which there were no teacher incentives. These improvements in student outcomes were broad based and the intervention is cost effective when compared to reducing class size. However, when incentives were taken away, the effect in the year of discontinuation on student performance is basically zero, indicating a return to business as usual. The study suggests that compensation reforms have the potential to drive improvements in public sector productivity.

Ideas for Growth session 7 – Firm capabilities

Chaired by *Chris Woodruff (University of Warwick; IGC)*, the well-attended session on Firm Capabilities was opened by *Margaret McMillan (Tufts)* who presented research on the impact of China on the Ethiopian leather industry, which has significant untapped potential as it is currently inefficient with outdated technology. Foreign investment is increasing. Key research questions were how active Chinese investment is in the leather value chain, and whether foreign firms are operating in isolation or if they are integrating with Ethiopian firms and people. Using survey methodology the research showed technology transfer, networking, and training occurring between Ethiopian and foreign firms.

Jonas Hjort (Columbia) presented on the topic of ethnic division and production in firms in Kenya. Research on the effect of ethnic heterogeneity in the private sector in developing countries is largely absent, so this research addresses whether ethnic discrimination distorts supply chains. Results suggest that teams made up of multiple ethnicities have lower output, with conflict increasing taste-based discrimination, and thus also increasing the difference in output between homogeneous and mixed ethnicity teams. Introducing team pay structures may help to reduce this gap. His research suggests that a non-taste-based explanation for lower output in mixed teams is unlikely and that taste-based discrimination responds to the macro-level political environment.

Oriana Bandiera (LSE) presented research on how CEOs use their time in India. The research sampled 364 CEOs of listed Indian manufacturing firms, and by collecting time use data found that the average CEO works 39hrs/ week, with the majority of time spent in in-person meetings. Firms' productivity is higher when CEOs work longer hours but not all CEOs' time is equally productive. Bandiera focused on the differences between domestically-oriented family firms and those which are multinationals or export-oriented, and showed that style differences in working practices may impact productivity.

Discussant *Mulu Gebreyesus Gebreyohannes (United Nations University)* highlighted the practical policy concerns for the role of FDI in Ethiopia. He queried the overall benefit of FDI to Ethiopia, but suggested that perhaps it's too early to make definitive conclusions. Discussant *Naved Hamid (Lahore School of Economics; IGC)* highlighted the interesting result from Hjort's research that people are willing to discriminate even when it's of an economic cost to themselves. Lower productivity and lower growth are possible consequences of ethnic conflict, and the micro focus of Hjort's research is an important area to examine. He also noted the interesting point of the difference between CEO behaviour in domestic versus export-oriented firms.

Country session 5 – Sierra Leone

Chaired by *Omotunde Johnson (IGC)*, the Sierra Leone session featured *Sylvester Gasopan Goba (Deputy Minister of Tourism and Culture of Sierra Leone)*, and *Cecil Williams (General Manager of the Hotel and Tourist Board of Sierra Leone)*. They presented their views and the country's challenges on developing tourism as a high-yield avenue of export diversification and key to the development of post-war Sierra

Leone. The presenters focused on the diversity of tourism possibilities in Sierra Leone and the main struggles to development of the sector. Among the binding constraints to realizing high returns from this promising sector are i) lack of coordination among different Government Agencies, ii) a very low marketing budget, iii) lack of human and institutional capacity, iv) limited government support, v) poor infrastructure, and vi) obsolete regulatory framework. Looking forward, the Hotel and Tourist Board, coupled with the Ministry of Tourism and Culture, see their role as facilitating coordination between the government and private sector in carrying through both practical and strategic reformations of the sector. The main issues to be addressed in this direction include providing access to tourism financing to the private sector, improving accessibility to tourism (mainly infrastructure) and diversify the tourism sector itself into including cultural tourism and active tourism.

Country session 6 – India-Bihar

The first half of the India Bihar session was chaired by *Anjan Mukherji (NIPFP)*. The session opened with a presentation by *Karthik Muralidharan (UCSD)* who presented the findings of his joint research with *Nishith Prakash (University of Connecticut)* on the impact of Bihar's flagship Cycling to School programme. He finds that the programme increased girls enrollment in secondary schools by 5 percentage points and had a greater impact for girls who lived further away from school. He highlights that the programme reduced gender gap by about 25 per cent and that it was at least as cost effective as other comparable programmes. *Sushanta Mallick (Queen Mary University of London)* stated that not only is Bihar's credit deposit (CD) ratio significantly lower than the national average but also stagnant over the last few years. The stagnation in CD ratio is a clear indication of low level of financial intermediation which appears to be due to historical non-performing assets driving down the appetite of the financial intermediaries to give loans. He concluded that the positive link between finance and development is evident only in the context of agriculture and that measures such as the Kisan Credit Card and branch bank expansion at the district level tend to have a positive effect on per capita income in Bihar.

The second half was chaired by *Robin Burgess (LSE and IGC)* who gave a brief introduction for the policy round table on 'Constraints to Industrial Development in Bihar'. *T. Nandkumar (National Disaster Management Authority of India)* said that the preconditions to industrial development are good governance and infrastructure. He highlighted that possible areas of investments are sugarcane, corn and power industry. *R.K. Khandelwal (Government of Bihar)* agreed with Mr Nandkumar regarding the constraints to industrialization. He highlighted that the present government has tackled some of these constraints through tax incentives, single window clearance among other initiatives. *Shaibal Gupta (IGC and ADRI)* said that the resurrection of Bihar is only a recent phenomenon and that Bihar was a non-functional state for a very long time. He pointed out that there is need to encourage local entrepreneurs, increase productivity of agriculture, update land records and carry out land reforms to push industrial development in Bihar. *Maitreesh Ghatak (LSE and IGC)* argued that Bihar cannot jump agriculture transformation since that is a precondition for industrial development, which in turn needs land reforms. *Prabhat P. Ghosh (ADRI)* said that Bihar should focus on small and micro industries as this is where Bihar's comparative advantage lies.

Country session 7 - Tanzania

Chaired by Country Director *John Page (IGC Tanzania)* and Resident Director *Charles Mutalemwa (IGC Tanzania)*, the Tanzania country session focused on was opened by *Stefan Dercon (DFID; Oxford)* who gave an opening presentation on global food price increases and associated consequences, noting the

sharp increases of 2008 and the resulting impact on poverty. Dercon discussed the measurement of these poverty increases by various organizations, but mentioned that the numbers may not take into consideration the responses by individual people as well as governments to food price increases. He also noted that some may be applying what is happening in local markets and attributing this to global prices/markets rather than local economic conditions. It thus may be quite important to be suspicious about the aggregate data and look closely at the local data. Better methods are also needed to assess what is going on. Following Dercon's presentation, *Christopher Adam (Oxford; IGC)* presented on fiscal and monetary policy responses to global food price shocks with regard to recent Tanzanian experiences. As part of the IGC-Tanzania country programme, Adam and his colleagues are examining to what extent well-designed fiscal and trade policies can benefit monetary policy. Traditionally, central banks work on the assumption that optimal monetary policy ignores food prices, as these are determined on the global market. Central banks instead target the price rigidities in the non-food sector. However, Adam and his colleagues are examining to what extent food and energy prices are spilling over to inflation, particularly as food and beverages comprise 51% of the consumption basket in Tanzania. Adam mentioned that at present in Tanzania, monetary policy remains relatively conventional, with the Bank still focused on core inflation, though there are possibly high costs to this, which is not yet clear.

Following these presentations, *Pantaleo Kessy (Bank of Tanzania; IGC)* and His Excellency, the Former President of Zanzibar, *Amani Karume*, provided their comments as discussants. Kessy mentioned that the way the Bank responds to rising food prices is influenced by the mandate of all central banks, that is, to produce low inflation. The Bank also must manage pressure from both the public and politicians to act. This is hardest in the case of supply side shocks, which are most difficult to manage. The Bank tries to manage expectations and to disentangle second round effects of supply shocks (which can be influenced by expectations) from direct shocks.

Former President Karume mentioned that politicians in Tanzania refrain from meddling with the Central Bank, as it is an independent entity, but he acknowledged that politicians are indeed very concerned about stabilization of food prices. In order to control food prices locally, Karume noted that the government in Zanzibar works closely with private importers to reduce taxes by the amount necessary to ensure that a given staple commodity is both stable and affordable. He acknowledged that such intervention is not sustainable in the long-run, as it results in lost revenue that could have been used for development programmes. He welcomed the inputs from researchers to alternative ways to stabilize food prices in the future.

Country session 8 - Mozambique

This summary will be available shortly.

Country session 9 - Uganda

The session was chaired by *Tessa Bold (University of Frankfurt; IGC Uganda)*, lead academic for IGC Uganda. Tessa highlighted the themes and on-going and prospective projects of the newly launched IGC country programme in Uganda.

Andrew Zeitlin (Oxford) opened the session focusing on community-based monitoring of public services as a possible solution to accountability problems when state oversight is limited. Combining field and lab experiment in 100 primary schools, the results show substantial impacts of participatory monitoring has a positive impact on pupil test scores as well as significantly decreases pupil and teacher

absenteeism, while the standard community-based monitoring, without the participatory design, has small and insignificant effects. The results have implications for the design of community-based monitoring policies, and help to explain their variable effectiveness across contexts.

David Yanagizawa-Drott (Harvard) then presented an investigation of the mechanisms that determine the prevalence of fake antimalarial drugs in local markets, their effects, and potential interventions to combat the problem. Using samples from a large set of local markets in Uganda the authors find that 37% of the local outlets sell fake antimalarial drugs. A market-level experiment revealed evidence that an intervention to introduce authentic drugs reduced prevalence of fake drugs by half. The study also provides suggestive evidence that misconceptions about malaria lead consumers to overestimate drug quality, and that opportunistic drug shops exploit these misconceptions.

Joint country session – Mozambique, Tanzania and Uganda

The session was chaired by *John Page (Brookings Institute)* and was opened by *Tony Venables (Oxford)*. Venables drew from international experiences to identify the points and issues to be thought at this particular point in time. He stressed the critical importance to manage expectations of both citizens and governments in these countries. Governments will in addition need to anticipate and prepare for a large demand shock and associated boom as foreign investment flies in. *Mark Henstridge (Oxford Policy Management)* highlighted the fact that the resource scene is changing and the importance to put a realistic scale on the energy discoveries and on the boom that will be associated. Two different perspectives are to be considered the firms' and government'. Complex sets of decisions on both side will lead relatively long time horizon.

Louis Kasakende (Bank of Uganda) emphasized the importance of understanding the difference between proven reserves and what is commercially recoverable (with an estimate of 35% of the Ugandan reserves). Critical decisions are to be made on both infrastructures –build a refinery or a pipeline- and macro-economic management – deal with the volatility in international prices, ensure the management of increased governmental expenditures and avoid a Dutch disease syndrome.

Claudio Frischtak (IGC) presented the Mozambique case. Resource discoveries of both coal and natural gas are of significant amount and Mozambique could become a new energy hub. Claudio emphasized the non-trivial issue of managing rising expectations and increasing asset prices in the short term in the absence of perceived life improvements for citizens. In addition, Mozambique will have to prepare for a wise use of these new resources on both and internal and external markets.