Daily summary
Wednesday 26 September 2012

The final day of Growth Week 2012 saw three sessions from our research programme (Finance, Macroeconomics and State capabilities), four sessions from our country programme (Bangladesh, South Sudan, India-Central, Zambia) and a session on our newest engagement country, Myanmar. The third plenary session of Growth Week was on the subject of natural resources. Summaries of the plenary sessions and public lectures will be available separately.

Ideas for Growth session 8 - Finance

No summary is available for this session.

Ideas for Growth session 9 - Macroeconomics

The session was chaired by *Silvana Tenreyro (LSE; IGC)*, who gave the floor to *Jaume Ventura (CREI, Universidad Pompeu Fabra and Barcelona GSE)*. Jaume's presentation aimed at giving an overview of the interaction between two different ways of financing development in emerging countries: mobilizing domestic savings (financial reforms) and mobilizing foreign savings (financial or current account liberalization). The most important message of his research is that the success of financial liberalization depends on keeping domestic asset trade flowing, which in term depends on country characteristics and luck. With regard to the timing of such a policy, unless a country is very poor, policy-makers should wait until certain preconditions that stimulate domestic savers' optimism are met.

The session continued with a presentation by *Tony Venables (Oxford; IGC)* who presented his views on the optimal steps needed to make the most out of natural resource revenues, especially in low income countries, where the model of Permanent Income Hypothesis and the Norwegian model of managing revenues are not particularly suitable due to these economies' immediate development needs. Some of the most recurrent mistakes of resource rich economies are: relying on a boom-bust model of revenues and failing to save. Tony using resource revenues for current spending (consumption), capital spending (investment in the domestic economy) and foreign assets accumulation – with a combination that depends on the country's characteristics, such as the ability to absorb extra domestic spending, government's capacity for appraisal and implementation of projects, etc.

The last presenter was *Dave Donaldson (MIT)*, whose research tries to understand the impact of reductions in barriers to international trade for consumers in remote locations, by looking at barriers at the intra-national level. Looking at a carefully selected basket of goods in Ethiopia and Nigeria, Dave finds that marginal costs from distance are very high, although the pass-through of marginal costs to prices generally reduces mark-ups. Furthermore, less social surplus from trade is available to remote consumers. Lastly, remote markets seem to be less competitive than markets closer to the source of products. The dynamics of the session were enriched by the policy-makers' take on these issues, discussed by *Nii Sowa (IGC Ghana)* and *Hamza Malik (State Bank of Pakistan)*.

Ideas for Growth session 10 – State capabilities

Chaired by *Oriana Bandiera (LSE; IGC)*, the session on State Capabilities was opened by *Karthik Muralidharan (USCD)* who presented India-based research on the fiscal costs of weak governance. India has ~200 million school-age children, but on any given day 25% of teachers are absent. The government has increased school spending; this research uses panel data to ask to what extend these investments have improved education quality in rural India. Results indicate considerable improvement in school infrastructure & pupil-teacher ratios but much less progress in reducing teacher absence. A key research finding is that changes in teacher absence are more significantly correlated with outcomes (enrolment, attendance, test scores) than changes in infrastructure. Increasing governance through inspections to reduce teacher absence would, on the margin, save approximately 10 times the cost in terms of salary cost of teacher absence.

Eric Verhoogen (Columbia) presented research examining payroll tax compliance in Mexico. Difficulty in raising taxes from firms to fund public goods is a major growth constraint. Most research in this area examines the failure of firms to register, but this research examines the under-appreciated area of under-reporting of wages. Using a difference-in-difference method and using pension data, Verhoogen finds that substantial evasion exists. The implications are that the administrative costs of collecting taxes need to be taken into account in designing tax systems, and specifically, in low-enforcement settings, giving employees an incentive to monitor employers can be effective in improving compliance.

Dina Pomeranz (Harvard) presented further research on firms' tax compliance, focusing in this case on Latin America and using a method whereby firms are notified that the tax authority will cross-check tax declarations. A Chilean-based experiment tested whether increased tax enforcement has a smaller impact where self-enforcement is present and found a strong response to the message of increased audit probability, with a VAT paper trail acting as a substitute for increased audit risk. The receipt trail inherent to VAT has important self-enforcing properties. New research in Ecuador dives deeper into the micro-economics of tax evasion and asks about the ways in which firms can manipulate information. An initial conclusion is that a paper trail and third-party reporting are crucial tools for tax enforcement.

Discussant *Nasiruddin Ahmed (National Board of Revenue, Bangladesh)* noted that, as a policy-maker, the research presented was of direct interest, particularly the issue of voluntary tax compliance. Ahmed commented that informality is an important issue for Bangladesh, and informed the audience that Bangladesh has begun to implement some incentive-based tax systems which attempt to involve employees more directly and increase tax transparency.

Country session 9 - Bangladesh

Chaired by *Mushfiq Mobarak (Yale; IGC)*, the Bangladesh session started with *Mark Rosenzweig (Yale)* presenting his work on the hidden costs of arsenic contamination in rural areas of Bangladesh. He finds that young men with higher arsenic contamination have lower schooling attainment and are less likely to have skilled occupations. Reducing arsenic contamination to USA's average would enable Bangladesh to increase its productivity by as much as 9%. Elimination of arsenic contamination could also lead to a rise in per household benefits of $94 per year, which over 20 years would amount to $1000-$1400 (for discount rates up to 8%). This can provide a benchmark of investment that could be made on elimination of arsenic contamination in the country, and which could still be beneficial merely on economic grounds.

Kala Krishna (Penn State University) presented her on-going work on the possible impact of potential policy changes regarding the garment export sector of Bangladesh. She and her colleagues estimate that had the preferences for Bangladesh garment exporters been completely removed, it would not only risk the garments sector of Bangladesh, but would also lead to welfare loss of 481 million USD for the EU, and 69 million USD for the USA. Trade facilitation could thus aid not only a developing country, but would also ensure welfare gain for the country providing the facilitation.

Lack of supervisory skills is generally perceived as a bottleneck in increasing productivity in the large garments sector of Bangladesh. In an attempt to precisely comprehend the gains from possible training programmes, Christopher Woodruff, along with *Rocco MacChiavello* and *Andreas Menzel (University of Warwick)*, evaluate the impact of a supervisory training programme provided to female garment workers in Bangladesh. From this on-going study, they find that a few weeks of training provided can let the trainee operator outperform even the existing experienced supervisors. Also, at a more disaggregated level, female trainees tend to outperform male trainees, as well as the existing supervisors. The challenge, however, as identified by the discussant of the paper *Md. Ghulam Hussain (Secretary, Ministry of Commerce, Bangladesh)* remains in implementing such training programmes on a larger scale.

Nasiruddin Ahmed (Chairman, National Board of Revenue, Bangladesh), Shamsul Alam (Member, Planning Commission, Bangladesh) and *Riti Ibrahim (Secretary, Statistics Division, Ministry of Planning, Bangladesh)* also provided their comments as discussants in the session.

Country session 10 – South Sudan
This summary will be available shortly.

Country session 11 – India-Central
The India Central country session was chaired by *Anjan Mukherji (IGC India-Central)*. Three projects funded by the IGC India Central programme were presented, following which a policy roundtable discussion on the Public Distribution System (PDS) in India was held. The session also included a briefing on 'Ideas for India' by *Ashok Kotwal, Editor-in-Chief*.

Nidhiya Menon (Brandeis University) presented the findings of her project, which evaluates the infant and child health implications of exposure to fertilizer agrichemicals in water. She finds that a mother's exposure to agrichemicals in water in the month of conception increased likelihood of infant mortality and malnutrition. The research highlights the tension between increased use of fertilizers to improve agricultural yield and the subsequent negative child health effects, and points to possible ameliorative strategies including reliance on alternative farming techniques to increase yields, health interventions for exposed mothers and low birth weight babies, and so on. *P.P. Ghosh (Asian Development Research Institute)* commented that he found the magnitude of the effects alarming, and recommended that the authors consider redoing the study for individual states using the same methodology in order to better capture the regional variations.

Farzana Afridi (Indian Statistical Institute, Delhi Centre) presented results from her ongoing research which analyses whether female representation in local governments affects the implementation of the National Rural Employment Guarantee Act (NREGA) in India. She finds that female leaders may be more vulnerable to capture of power leading to governance failure and corruption, and that political and administrative experience is key to improving their performance. The findings imply that capacity building and institutional support are critical for effectiveness of affirmative action policies. Rajeev Malhotra (Ministry of Finance) noted that the conclusions are counter-intuitive and not something that policymakers would hope for. However, he noted that it is encouraging that there is evidence of learning by doing, and that capture of power can be avoided by policy programmes promoting capacity building and training for first time women leaders.

Nirupama Kulkarni (University of California, Berkeley) presented her research investigating whether government guarantees distort market competition during a financial crisis. Comparing public and private sector bank performance in India during the crisis period of 2007–09, the study finds that access to government guarantees provides stability, which results in crowding out of private sector during crisis periods. This is consistent with greater market discipline of private sector banks and lack thereof of state-owned banks. Moreover, the changes seem to be permanent and do not revert following the crisis. *Rajesh Chakrabarti (Indian School of Business)* said that he agrees with the basic premise of the paper that there is greater faith in public sector banks due to government guarantees, and this attracts deposits rather than efficiency. However, he questions the suitability of the paper's measure of systemic risk in the Indian context wherein a majority of the shareholding of the public sector banks remains with the government, and survival of the banks is not threatened in a crisis.

The session concluded with a roundtable discussion on the challenges associated with the Public Distribution System (PDS) in India. Ashok Kotwal opened the discussion by elaborating on some of the most common debates such as corruption in the PDS, the universalisation of food security through a right to food bill, cash transfers as an alternative to the PDS and so on, and invited the panelists to speak to these issues. Reetika Khera (IIT Delhi) presented evidence to suggest that there was a 'revival' of the PDS or a reduction in corruption and leakages resulting in an increase in coverage and that the 'hard sell' on cash transfers should be reconsidered based on the results of an all India survey that concludes that the willingness of households to accept cash is low in states such as Tamil Nadu where the PDS functions well. Bharat Ramaswami (ISI, Delhi) discussed the question of the fungibility of in-kind transfers and presented evidence to suggest that the PDS transfer should be equivalent to an income transfer, and thereby the question should be about the most effective mechanism for this subsidy or transfer. *T Nandakumar (National Disaster Management Authority)* suggested that policy makers might want to consider a hybrid model, as there is a large variation across states in grain production, procurement and the performance of the PDS and that states should be able to experiment and adopt the most appropriate mechanism.

Country session 12 - Zambia

Alan Hirsch (IGC-Zambia) chaired session 12 and introduced *Kayula Siame (Private Sector Development Reform Programme)* and *Kelsey Jack (Tufts University)*. The PSRP presentation highlighted the achievements and challenges of improving the business environment in Zambia. This was discussed by *Rosetta Mwape (Zambia Association of Manufacturers)*. With the key objective of reflecting the Zambian government's commitment to improving the business environment and to reduce the cost of doing business, the PSDRP has seen Zambia's ranking in ease of doing business improve and the creation of a credit guarantee scheme for Small to Medium Enterprises(SMEs) during its first five years of existence. The licensing processes of business has also drastically been improved, and coupled with the creation of a one stop border post the first of its kind in Southern Africa; there has been a drastic reduction in delays in customs clearance time. The main challenge of the programme has been its mainstreaming into all relevant government departments and inertia to change in the bureaucratic system. There are also concerns from the private sector on their inadequate representation in the reform programme. This has resulted into limited ownership thus affecting its implementation pace. Notwithstanding that, political commitment from the Ministry of Commerce has been immense which will see its sustainability.

Kelsey Jack presented research investigating the adoption of agro-forestry in Zambia in the context of the Reduced Emissions from Deforestation and Degradation Plus (REDD+) campaign. Discussed by *David Kashole (Zambian Ministry of Lands and Natural Resources)*, study presents the preliminary findings of the required incentives to encourage the adoption of agro-forestry by farmers in the Eastern Province of Zambia. The research found that both input costs and short term rewards (incentives) affect the participation of farmers into the programme. The adoption of REDD+ approaches that involve land use depend on getting the incentives to farmers' right. Further, cost effectiveness of the programme to adopt REDD+ approaches depends on both fixed and variable costs, and cannot avoid the legal issues of land tenure. Continued work from this study is expected to feed into the government's climate change policy.

Country session 13 - Myanmar
Robin Burgess (IGC) opened the Myanmar County Session, in which three delegates from the Centre for Economic and Social Development (CESD) at the Myanmar Development Resource Institute presented on pressing reform issues in the country. As IGC engagement in Myanmar is in its early stages, the session was used effectively to provide some information on the state of play in Myanmar and identify potential areas of work where research would be of particular use to policy-making efforts in the country.

Zaw Oo (CESD), provided a brief overview of the political and economic context, highlighting recent political reform initiatives from President Thein Sein, the political participation of Daw Aung San Suu Kyi, as well as the persistent challenge of negotiating peace with ethnic minority groups in the border states. Dr Oo suggested that fiscal management and structural transformation including broad based growth, rural development and a strengthened private sector were pressing issues and areas that provide an opportunity for collaboration with the IGC. He noted, however, that capacity in government, resource constraints and data quality remain significant challenges to evidence-based policy-making. In addition, issues of political economy are of critical importance and particular attention given to the sequencing and prioritization of reforms is needed.

Soe Nandar Linn (CESD), spoke about the sub-national budgeting process in Myanmar and highlighted initial successes in fiscal and monetary reform including recent reductions in the budget deficit, the exchange rate unification and improved public access to budgetary information. She emphasized the need for further progress in several areas including horizontal resource allocation rules and regulations governing transfers from central to state and regional governments, more systematic formulation of the sub-national fiscal plan, more equitable resource sharing and participatory planning for regional development. *Min Zar Ni Lin (CESD)* spoke about labor migration in Myanmar and the impact of remittances, which may be contributing to currency appreciation. He noted that remittances are transmitted through informal channels, and are a crucial source of income to many in Myanmar, particularly for emergency needs and as a safety net. However, he noted, families mainly rely on remittances for consumption rather than investments in, for example, agricultural production or education. Min Zar Ni Lin suggested that the impact of remittances on dependent families may in fact be to facilitate unproductive investments and irresponsible spending.