# IGC Research Priorities

The mission of the International Growth Centre (IGC) is to promote sustainable growth in developing countries by providing demand-led policy advice based on frontier research. The IGC Research Programme was conceived to help generate a richer understanding of the process of economic growth and the policy and institutional interventions that support it and, in doing so, promote continued development and economic growth in developing countries.

Over the past five years, the Programme has commissioned roughly 200 high quality studies through six calls for proposals, encouraged entry of top researchers, and made significant progress towards integrating researchers with policymakers in IGC partner countries. The Research Programme is guided by the core belief that effective policy impact requires long-term country engagement with policy stakeholders whilst leveraging a pool of quality academic expertise and in-country knowledge.

The IGC Research Programme believes there are four overarching themes which encapsulate the key ingredients for economic growth: **(i) state effectiveness; (ii) firm capabilities; (iii) cities; and (iv) energy**.

The IGC has recently produced a set of evidence papers within these four themes of strategic focus that compile current evidence in these areas. Potential applicants are strongly advised to go through these papers, for addressing the gaps in knowledge on growth policies identified in these papers. Each paper is posted on the IGC website, under its relevant research theme page.

## Research Themes

**State Effectiveness**

It seems clear that the public sector in a sizeable number of developing countries fails to provide some, if not most, of the critical public goods firms need to grow. In many countries, the public sector has limited capacity to raise revenues, appears to do so in a very distortionary manner, and fails to spend what it does collect effectively, leading to failure to deliver necessary public goods. This weakness might have a variety of causes, from weak political institutions to pervasive conflict.

There are two proximate reasons why certain states may not deliver public goods. First, it may not be able or willing to deliver the goods. Second, the state simply may not have the resources to deliver the necessary public goods, for example, due to widespread tax evasion or an excessively narrow tax base.

Under the state effectiveness theme, the IGC Research Programme focuses on two questions:

1. What mechanisms improve the capacity for the public sector to deliver the public goods necessary for firms to grow?
2. What policies help to improve the broader social tensions and political institutions that manifest themselves in the nature of the public sector?

This requires an examination of not only public organization and public finance, but also of governance and political economy. The first question thus looks at how to develop the administrative capacity of the state to deliver public goods. The second and related question connects to improving the ability of the state to raise resources.

**Firm Capabilities**

Sustainable increases in income are not feasible without similar increases in productivity. Understanding productivity improvements is thus at the heart of increasing incomes and driving economic growth. It is clear that prosperity depends upon the underlying productivity of all firms in the economy. This raises three important questions:

1. What are the key proximate determinants of firm productivity?
2. Where does the productive capacity of firms come from?
3. What are the barriers that prevent resources from moving from unproductive firms and sectors to areas of higher productivity?

The research agenda of the Firm Capabilities theme is focused on these questions.

Development of data on firms and markets and research on measurement methodologies are key. In addition to aggregate measurement, we also need to develop new methodological approaches to measure productivity at the firm level. At the same time that we deepen our understanding of the proximate determinants of firm productivity, we also need to understand the sources of these differences.

From research funded by the IGC in Phase I, we know that the magnitude of internal trade barriers has a potential effect on the growth of firms. However, it seems likely that if access to input and output markets is critical for modern industrial firms, costs which make it more difficult for firms to access these networks will affect their incentives to invest in firm productivity. Another force that is likely important in shaping firm productivity is market competition. Comprehensive studies of productivity dynamics in low-income countries are therefore welcomed.

If markets do not exert the same pressure on firms to improve productivity, the next question is why is this so? The structure of the market for inputs and outputs may also play an important role in addition to its incentive effects on productivity. There is also evidence that the clustering of firms, particularly in industrial sectors, produces positive externalities that are important for capturing local spillovers and fostering industrial development.

The last pillar of the research on firm capabilities encompasses understanding the importance of and barriers to effective resource allocation. Key to understanding the importance of the reallocation of resources from informal to formal firms in manufacturing, from non-exporters to exporters, from small family owned farms to large corporate farms, and from agriculture to industry.

**Cities**

In developed countries, the bulk of economic wealth is generated by people and firms operating within a small number of cities (Overman and Venables, 2008). As a result, many governments attempt to influence this process via policies that affect the location of economic activities. The IGC Research Programme's cities theme focuses on the following two questions:

1. Why does location matter for a country's growth?
2. What might be optimal location-specific policies?

A long-standing question in urban economics is looking at what causes economic activity in developed countries to be so geographically concentrated. Why do firms choose to operate in locations where the cost of doing business is among the highest in the country? And why do people choose to live in regions where the cost of living is among the highest? Firms must choose to locate in cities, despite the higher costs, because the nature of cities is fundamental to their productivity.

However, there are many reasons why firms may not grow in dysfunctional cities. For example, the housing market illustrates the type of forces operating in cities which might be important. When we look at the housing market in such cities, a first order fact is the predominance of slums and informal housing. High housing costs may act as significant disincentives to the expansion required for the firm-level productivity growth. Critical ingredients of an efficient housing market are missing in poor countries. The same missing pieces are likely to affect the provision of other public goods which may be just as important for firms' growth and productivity. In addition, they can negatively affect the establishment of firms producing the intermediate goods necessary for growth in the first place.

This raises difficult questions about the optimal structure of local governments. This also raises additional important questions about how to structure regional development policies. We want to understand the extent to which the existing spatial distribution of economic activity in a given country should be modified to maximize agglomeration economies.

**Energy**

It is nearly impossible to overstate the role of access to reliable energy as a determinant of growth. Access to reliable power not only allows firms to grow in scale and productivity, but also internal and external trade to expand and agglomeration to proceed in the form of towns and cities. It also enables small manufacturing and service enterprises to take root and transforms agriculture from subsistence farming into large-scale commercial enterprises.

With the large and important roles that the reliability and expansion of energy usage will play in the growth trajectory of developing countries in the coming decades, energy is one of IGC Research Programme's core themes. The research that the IGC will undertake in this area can be boiled down to three key 'broad-stroke' questions:

1. How can access to electricity be improved in areas already served by the grid and also in rural unconnected areas in a sustainable manner to enable increases in productivity?
2. How can investments in energy efficiency promote economic growth?
3. How can the external costs associated with rising energy consumption be minimized?