IGC International Growth Centre

Houghton Street
London WC2A 2AE
United Kingdom

T: +44 (0)20 7955 6988
E: mail@theigc.org
www.theigc.org

South Asia Growth Conference

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Session 3: Macroeconomics and finance
Dipak Dasgupta (*Ministry of Finance, GoI*) opened the first session of the second day of the IGC South Asia Growth Conference 2013 by explaining that economic and financial policy decisions are more of an art than a science, and they are made in a complicated context.

The first presenter, Mushfiq Mobarak (*Yale and IGC-Bangladesh*), examined informal insurance mechanisms and the quandary where people that the most need formal insurance, do not choose to buy it. His research in India shows that the type of informal insurance offered by a caste network – against aggregate or idiosyncratic risks – determines the demand for formal insurance. He also explained that offers of formal rainfall insurance can increase risk-taking, and potentially growth-enhancing, behaviour by farmers. Finally, he highlighted the importance of offering rainfall insurance to landless farm labourers, whose livelihoods are very weather-dependent, in addition to landed farm owners. Arvinder S Sachdeva (*Ministry of Finance, GoI*) praised this work as being one of the very few studies examining the micro-foundations of insurance markets, and explicitly using aspects of caste. He questioned the barriers being faced by farmers—such as credit constraints and trust—and the replicability of these insurance contracts in other States, particularly where there are high levels of poverty and a high proportion of Scheduled Castes/Tribes. Other comments referred to the behavioural effects of serial correlation in rainfall, and the level of subsidy in this project preventing break-even outcomes.

The second presenter, Pronab Sen, (*IGC India-Central*), discussed the incorporation of the Indian financial sector into the planning models of the Government of India, focussing on the relationship between savings and investments. He proposed that the increasing segmentation of the financial sector has some important effects on the macroeconomy. The main takeaway is that if the system is investment constrained (rather than savings constrained) opening up the capital account is more desirable than the Keynesian cure of increasing deficit financed public investment. Arvinder S Sachdeva (*Ministry of Finance, GoI*) agreed that all these issues remain relevant in policy-making today. He clarified definitions around intra-sectoral mobility, and questioned whether the propositions would change given that a high proportion of savings are in the form of physical—rather than financial—savings, or if the assumption of no asymmetric information was relaxed, or if the current account is partly, or fully, opened.

After a lively discussion between the audience and the authors, on issues like the potential endogeneity in the caste risk-sharing network, the treatment of assets like gold, the price adjustment mechanism in Sen's model etc., the Chair closed the session by highlighting how improved understanding of insurance and financial markets continues to be relevant and papers such as these are extremely helpful in this.

Session 4: Firms and investment
Chaired by Rakesh Sarwal (*Planning Commission*), session 4 focused on the role of firms and investment in the growth process. Nirvikar Singh (*University of California, Santa Cruz*) presented research arguing that foreign investors do not destabilise the local Indian stock market and instead can bring additional capital into the economy during boom times. Singh also suggested that there is no evidence for foreign portfolio investors bringing crises with them into the local Indian stock market. While they can exacerbate extreme movements in stock price returns, they can also help to stabilise prices and bring capital to the market.

The second presenter, Ila Patnaik (*National Institute for Public Finance and Policy*), presented her research findings about the investment technology of foreign institutional investors (FIIs) and domestic institutional investors (DIIs) in India. As part of her research, she compared stock selection patterns of FIIs and DIIs and found surprisingly large differences. Among others, FIIs appear to select firms do not have a large promoter ownership, are young and have small physical assets; the pattern for DIIs is the opposite. The most interesting, and perhaps most surprising result is that FIIs seem to be much less successful than DIIs at selecting stock yielding a high market return. Overall, high FII investment is a relatively poor predictor of growth, which implies that tweaks and improvements to the organisation of the investment regime in India might be warranted.

Anupam Khanna (*Chief Economist and Director-General Policy Outreach at NASSCOM*) presented his policy perspective on both research papers, raising questions about the concentration and benefits of FDI. He also stressed the importance of taking a look at the FDI impact of average firms, as well as the growth impact of investors that do not fall under the FII and DII categories.

Session 5: Health

The afternoon session on health was chaired by Rakesh Sarwal (*Planning Commission*) with the first presentation from Chander Kumar Singh (*TERI*) and Prabhat Barnwal (*Columbia University*) examining the business of reducing the arsenic poisoning of millions across rural India. The research suggests that a semi-commercial approach to testing can reduce arsenic poisoning. After delivering a public-health message describing the risks of high-arsenic groundwater, field staff offered testing at a fixed price to each household. They found that the proportion of households buying a test gradually declined as the price increased from Rs10 to Rs50. The researchers found that if the test was priced at Rs20, more than two-thirds of villages were willing to pay for the test. This would be sufficient to cover the costs (salary and transportation) of a tester with secondary education, assuming they conducted 10-20 tests per day. The policy perspective was provided by Sheela Prasad (*Ministry of Health and Family Welfare*) who said that this study was very timely, especially considering 34% of the wells in the study had arsenic levels above 50 micrograms per litre (10 is the recommended maximum). She argued that awareness needed to be generated about the negative health implications of arsenic in well water, and that a graded fee structure may be necessary so that households paid more according to their wealth. Finally, she recommended that supply-side issues also needed to be addressed so that disadvantaged groups have access to clean water.

Nidhiya Menon (*Brandeis University*) discussed the seasonal effects of water quality on infant and child health, focusing on the impact of fertiliser use as part of the green revolution. A dramatic explosion in the use of fertiliser in India from the 1960s led to children being exposed, both in utero and after birth to fertilisers, as women themselves are continually exposed due to their work at the forefront of farming activities. Her research has found that the presence of agrichemicals in water in the month of conception significantly increases infant and neo-natal mortality. In addition, exposure to agrichemicals in the month of conception has significantly negative impacts on height-for-age and weight-for-age at age five. It is noteworthy that month of conception exposure to agrichemicals in water has effects on both short and long-term outcomes. Her findings highlight the tension between greater use of fertiliser to improve yields and the negative health impacts of such use. Sheela Prasad (*Ministry of Health and Family Welfare*) noted the policy relevance of this research, particularly given that India's 12th Five Year Plan contains the goal to reduce the current rate of infant mortality (44 children per 1000 live births) to only 25 deaths per 1000 live births.

Session 6: Governance

Dilip Mookherjee (*IGC India-Central*) chaired the sixth and last session, which explored new perspectives and policies relative to governance issues. Mushfiq Mobarak (*Yale and IGC-*

Bangladesh) used a recent study on a sanitation programme in Bangladesh to address an extremely debated question: Does development aid undermine political accountability? Empirical evidence shows that voters respond to exogenous shocks, such as unexpected climatic episodes, by rewarding or punishing politicians that happen to be in charge. From this perspective, foreign aid represents an exogenous positive shock to the livelihood of the targeted population, from which politicians might earn underserved consensus. An international debate hence flourished on whether aid might ultimately lead to decrease in policymakers' effort and accountability. Mobarak questioned this theory of "irrational voting behaviour" by assuming and providing evidences of political endogenous responses to shocks. In the context of the Bengali intervention, politicians reacted to the programme by increasing their presence in targeted villages. This renewed effort reduced the distance between governing institutions and constituencies, leading to a more active dialogue on village specific needs. In addition, when direct intervention is replaced with information programmes, citizens' political satisfaction decreases, with significant improvements in terms of accountability.

The second speaker, Adnan Khan (*LSE and IGC*), extended the debate on governance by presenting preliminary results on a four year research project in Punjab, Pakistan. The programme aimed at providing different types of performance-based incentives to local tax offices, gauging the impact on tax assessment and collection. The well-designed scheme attracted several questions from the audience as the debate could be extended to a wide range of civil servants. The success of the project encouraged the Pakistani Government to extend the scheme over the entire Punjab region and for an additional year, where new sets of incentives will be tested. In particular, the authors designed a more cost-effective incentive based on relocation and posting preferences. Additionally, the programme will include incentives towards tax payers' satisfaction in order to improve willingness to comply, interaction with institutions and accountability.

The discussions that followed the two presentations were enriched by comments from Amitabh Behar (National Foundation for India). Bridging the gap between the two papers, Behar explored the distinctions between political and administrative accountability, stressing the need for more subsidiarity in the deployment of aid flows and further decentralisation. The debate then extended to the topic of civil servants' intrinsic motivation and communities' ethical-fabric, with the audience providing comments on self-selection into the public administration, cost effectiveness of incentive schemes and issues related to the scaling up of programmes.

The conference was closed by Dilip Mookherjee (*IGC India-Central*) who thanked all the participants for attending and for their active engagement in the discussions.