



Growth Research News May 2013



Welcome!

This edition of *Growth Research News* constitutes an overview of DFID's growing portfolio of activities in growth research. It is aimed at policy makers, donor partners, researchers and others with an interest in growth in Low Income Countries.

The term "growth research" is very broad. However, there is a clear boundary on DFID's growth research interests within this area. The big question is why are some countries persistently up to 100 times poorer than the leading economies of the world? We want to see substantial growth in low income countries (LICs), sufficient enough to transform them into middle income countries (MICs). We are interested primarily in the growth which sustains a transition away from low income status. We are also interested in who benefits from growth.

Our work on growth research is organised against three over-arching themes:

- Capital, Labour, Gender, Innovation
- Firms, Cities, Political Economy
- Other themes: Macroeconomics, Agriculture, Data, generic programmes and capacity building of economic researchers

More information on our programmes in these areas is set out below.

We want to hear from **policy makers** working in and on developing countries. We warmly welcome your comments and feedback, particularly if you are looking for evidence in a particular field or if you have suggestions for us to work in areas that may currently be under-researched. Please contact us [via email](#) or via [our new Twitter account](#). There is also a rich resource of outputs on [DFID's R4D website](#).

For **researchers** looking for information on DFID's current growth research portfolio this is summarized below and there is much online information also available:

- [DFID's R4D website](#) has data about all our research projects, and a monthly news bulletin with call announcements for our projects.
- There is also a [page](#) on the UK Government's website which provides more information about the research we fund and how you can bid for grants.
- We have also started [our new Twitter account](#) at which you can follow latest news on our research including call announcements.
- You can also access our partners' websites through the many hyperlinks in this e-newsletter.

If you are a **DFID staff member**, we want to hear from you about the needs for evidence in developing countries. You may want to consider becoming a Link Adviser to feed into a particular research programme. You can also use the same research outputs and evidence products available to other decision makers.

Best wishes,

Stefan Dercon
DFID Chief Economist

DFID Growth Research main activities



Credit: DFID Staff/Malawi

Capital, Labour, Innovation, Gender

Capital: Through the [DFID-ESRC Growth Programme](#), also with the [International Growth Centre](#), the [World Bank](#) and others, we investigate why the financial sector mobilizes capital for investment in some countries so much more than in others. We are also developing a significant new research programme on fixed capital (infrastructure) and growth. This research is partly

around the economics of transport infrastructure investments, how to prioritize infrastructure investments, and identify what technologies work best?

Labour markets: Permanent transition from LIC status nearly always involves major changes in people's work. Through a [a programme with the Institute for the Study of Labour \(IZA\)](#) we look at multiple aspects of labour supply and demand, labour market institutions and skills.

Gender: Two significant new programmes are approved – the [World Bank's Africa Gender Innovation Lab](#), focusing on impact assessment of interventions to increase women's economic opportunities, and Women's Economic Empowerment and Growth in LICs in partnership with IDRC and The Hewlett Foundation which is firmly anchored in labour markets. We also mainstream gender across our portfolio. We also support [World Bank research on how regulations and laws affect women's economic opportunities](#).

Innovation: A window of the [DFID-ESRC Growth Programme](#) focuses on innovation in production in LICs – does it happen in firms, sectors, cities etc.?, how does it happen and what impedes it? Our [Innovation Country Case Studies](#), making use of business survey data, also look at the determinants of innovation in businesses and are now underway in a new programme with Tilburg University (Netherlands).



Credit: Duncan Katuramu

Firms, Cities and Political Economy

Firms: Permanent transition from LIC status nearly always involves new types of firms in new industries. Our [Private Enterprise Development in LICs \(PEDL\)](#) project with [CEPR](#) and also the [IGC](#) research programme both look at the investment climate for business, aspects of the way firms grow and become productive and what can be done to encourage this.

Cities: Farms are firms, but often fast, sustained growth is centred on cities where many firms and people develop skills and networks necessary to increase productivity and enter the global economy. Some big poor cities manage this, others don't, so the team is developing an urban programme to look at the crucial differences.

Political Economy: In any city, the environment for firms reflects the interaction of political and economic power in a country. Many economists and historians think this is the main reason that countries diverge or stay very different. We are developing a major programme on institutions and growth which will look at the features of political economy most likely to trap countries in low income status and the political-economic pathways by which countries can emerge from that. This builds on the on-going [Improving Institutions for pro-poor Growth](#) project (Oxford University).

Despite a plethora of research on China and other large emerging economies, comparatively little is understood about the relevance of their models for Africa and indeed the "footprint" of these countries in Africa. Our new programme looks at these issues, starting in Brazil in a new programme led by Manchester University, and moving on to China in 2013/14.



Credit: Sarah MacGregor

Other Themes

Macro-economic management: Macro-management usually responds primarily to short-run conditions. However, the macro-management "regime" may have much longer-run consequences, and so choices about that regime can be strategic. We investigate this in a [programme with the IMF](#).

Agriculture: The [DFID-ESRC Growth Programme](#) explores the constraints to agricultural growth and links to the rest of the economy.

Data: In LICs the data is often absent or unreliable. DFID fund programmes with the World Bank to improve the quality and consistency of agricultural productivity data and [firm-level data on productivity and innovation](#). We also support the World Bank/IFC [Women, Business and the Law](#) database.

Poverty: DFID's interest in growth is that it is the primary route to poverty reduction in poor countries. There are problems with the way poverty is measured, making progress hard to track and hard to compare across countries. We work with the World Bank to improve poverty measurement in readiness for the post-2015 agenda. We also fund a [project with FAO](#) assessing the economic impacts of cash transfers on households and local economies in rural Africa.

Capacity Building: DFID have two programmes ([African Economic Research Consortium](#) and [PEP PAGE](#)) dedicated to improving the capacity of researchers in developing countries which in so-doing should also provide some unusual research and in the long run develop the demand for research in LICs.

Broad Programmes: With the World Bank's [Knowledge for Change Program \(KCP\)](#), [UNU WIDER](#) and now [the IGC](#), we fund broad programmes of research on growth in the developing world.

Selection of DFID's latest evidence on growth in LIC'S

Our e-newsletter is usually themed but here we are including a variety of recent research outputs to give a flavour of the range of the programme. **NB** decision makers should avoid using single pieces of research in isolation. The findings of these papers are not necessarily the views of DFID.



Big picture pieces

Aid, Growth and Jobs, Gary Fields, UNU WIDER working paper 2012/86: One of the most pressing goals of development aid is the alleviation of poverty. The author suggests that one key way in which poverty reduction can be achieved is by helping the

poor to earn more in the labour market. He argues that this method of poverty reduction is underemphasized and outlines a number of policy options: promoting economic growth, international trade, stimulating private sector growth, generating more paid employment, and increasing self-employment earnings.

Can Africa Industrialise?, John Page, Journal of African Economies, Vol. 21, AERC Supplement 2: Africa needs structural change to sustain growth. Industry with and without smokestacks is key, but Africa has de-industrialised since the 1970s. Can

Africa industrialise? Rising costs and domestic demand in Asia offer an opportunity. However, trade in tasks, firm capabilities and agglomeration will drive industrial location choices. Strategies to deal with these drivers of change are needed. Investment climate reforms should focus less on regulation and more on the gaps in infrastructure and skills. Policies to push exports, build firm capabilities and support agglomerations are also needed. Success will depend crucially on new donor attitudes and how policy is implemented.



Lessons from the Financial Crisis

Basel Core Principles and Bank Soundness: Does Compliance Matter?, Asli Demirguc-Kunt and Enrica Detragiache, *Journal of Financial Stability* 7(4):179-190: This study investigates whether the standards recommended by the Basel Committee on Banking Supervision enhanced stability. The study found no evidence of a robust statistical relationship linking better compliance with BCPs and improved bank soundness, so raises

questions regarding the emphasis on BCPs as the key to effective supervision and the wisdom of carrying out costly compliance reviews.

Bank Capital: Lessons from the Financial Crisis. Asli Demirguc-Kunt, Enrica Detragiache and Ouarda Merrouche. *World Bank Policy Research Working Paper 5473*. Forthcoming in the *Journal of Money, Credit and Banking*: This study finds that better capitalized banks experienced a smaller decline in their equity value during the crisis. However, the effect is large and robust only for the larger banks. This study endorses the need for countries to monitor banks' leverage ratios and to improve the quality of capital.

Rethinking the role of the state in Finance: the Global Financial Development Report. World Bank, 2013.: The Global Financial Development Report (2013) is a new flagship publication looking to bridge the research policy space. DFID funded some of the work for Chapter 2: The State as Regulator and Supervisor.

Monetary Policy in Low Income Countries in the Face of the Global Crisis: The Case of Zambia. Baldini et al, *IMF Working Paper 12.94*.: This paper analyzes the impact of the financial crisis on Zambia and the role of the monetary policy response. The authors view the crisis as a combination of three related shocks: a worsening in the terms of the trade, an increase in the country's risk premium, and a decrease in the risk appetite of local banks.

Do we need big banks and do we need banking competition?

Do we need big banks? Evidence on performance, strategy, and market. Asli Demirguc-Kunt and Harry Huizinga, *World Bank Policy Research Working Paper 5576* (2011): This study analyses the notion that some banks may be too big to be bailed out (even bigger than "too big to fail"?). The results of the analysis suggest that some

systemically important banks can increase their value by downsizing or splitting up, as they have become too big to save.

How Bank Competition Affects Firms' Access to Finance. Love et al, World Bank Policy Research Paper 6163 (2012); This research paper combines multi-year, firm-level surveys with country-level panel data for 53 countries. The authors explore the impact of bank competition on firms' access to finance. They find that low competition, as measured by generally high values of profitability, does diminish firms' access to finance, and researchers think this is a more reliable result than that using bank concentration measures. In addition, they find that the impact of competition on access to finance depends on the environment that banks operate in.



A different investment climate for women?

Mapping the Legal Gender Gap in Accessing Business Environment Institutions. Amin et al. Women, Business and the Law Policy Note, 2013: This policy note highlights which regions most restrict women's legal capacity to access institutions and function independently in the business environment. It examines ten activities to see whether they can be conducted in the same way by men and women e.g. getting a job and registering a business. The note uses data from the DFID-supported World Bank/IFC Women, Business and the Law database.

See also the blog: [when business gets personal](#).

Data from the DFID-supported World Bank/IFC Women, Business and the Law database, was used to inform the flagship World Development Report 2012 on Gender Equality and Development.

The database captures indicators based on laws and regulations affecting women's prospects as entrepreneurs and employees: using property, building credit, accessing institutions, getting a job and going to court. This data can be used to inform research and policy discussions on how to improve women's economic opportunities and outcomes.

Empowering adolescent girls

Empowering adolescent girls - evidence from a randomized control trial in Uganda. Bandiera et al, 2012; Under the DFID-funded Improving Institutions for Pro-poor Growth programme, this evaluation tracked 4,800 girls aged 14-20 years to examine the impacts of adolescent development clubs providing life-skills and vocational skills

training on health and economic outcomes of girls. The findings suggest that *combining* interventions to address the inter-linked health and economic issues faced by girls might be more effective among adolescent girls than single-pronged interventions.

Will Cities Drive African Development?

Can Cities or Towns Drive African Development? Economy-wide Analysis for Ethiopia and Uganda. Paul Dorosh and James Thurlow, UNU WIDER Working Paper 2012/50:

This paper develops dynamic economy-wide models for Ethiopia and Uganda that capture both traditional aspects of the debate (growth linkages and foreign trade) and benefits from urbanisation (internal migration and agglomeration effects). Simulations suggest that urban agglomeration is an important source of long-term growth and structural transformation, and does have the potential to “drive” African Development - but that investing in cities does not greatly reduce national poverty over the short-term. Therefore researchers argue for a balanced approach.

Natural Resources and Public Investment



Credit: Serge Wicief

Public Investment in Resource Abundant Developing Countries, Berg et al, IMF Working Paper WP/12/274, 2012: Natural resource revenues provide a valuable source to finance public investment in developing countries, which frequently face borrowing constraints and tax revenue mobilization problems.

This paper develops a dynamic stochastic small open economy model to analyze the macroeconomic effects of investing natural resource revenues. Using the model, country applications show how combining public investment with a resource fund can help address the macroeconomic problems associated with both exhaustibility and volatility. The applications also demonstrate how the model can be used to determine the appropriate magnitude of the investment scaling-up and the adequate size of a stabilization fund (buffer).

What is the right level of public investment?

Public Investment, Growth, and Debt Sustainability: Putting Together the Pieces. Buffie et al, IMF Working Paper 12/144, 2012:

This paper develops a model to study the macroeconomic effects of public investment surges in low-income countries. Well-executed high-yielding public investment programs can substantially raise output and consumption and be self-financing in the long run. However, even if the long run looks good, transition problems can be formidable when concessional financing does not cover the full cost of the investment program.

How do we think about the impact of social protection?

The DFID-supported Protection to Production (PtoP) project is a multi-country evaluation of the economic impacts of cash transfers in sub-Saharan Africa. The

project is a collaborative effort between FAO, UNICEF and the governments of Ethiopia, Ghana, Kenya, Lesotho, Malawi, Zambia and Zimbabwe.

The project has so far published four methodological guideline papers on researching the economic impacts of cash transfers:

- [A Methodology for Local Economy-wide Impact Evaluation \(LEWIE\) of Cash Transfers](#)
- [A Qualitative Research Guide of Economic Impacts of Cash Transfer Programmes of Sub-Saharan Africa](#)
- [An analytical framework for evaluating the productive impact of cash transfer programmes on household behaviour](#)
- [Methodologies to analyze the local economy impact of SCTs](#)

DFID GROWTH RESEARCH NEWS

DFID, IDRC and the Hewlett Foundation have agreed a major new partnership to research issues relating to Women's Economic Empowerment and Growth in LICs. DFID's contribution will be £7 million. More details, including potential bidding opportunities, will be available soon via the [IDRC website](#).



The 2nd call for proposals under the [DFID-ESRC Growth Programme](#) has now closed, with 150 outline bids received.



The 2nd round of grants under the **DFID-IZA Growth and Labour Markets** programme have now been agreed. Details will be announced via the [project website](#).



The 2nd round of grants under the **DFID-CEPR Private Enterprise Development in LICs (PEDL)** programme have now been agreed. Details will be announced via the [project website](#).

The latest call for small exploratory research grants under PEDL runs to 31 May. See [here](#) for details. PEDL is also running a new Special Call aimed at PhD students based in any country. The deadline for this call is 1 July 2013, with results expected to be published in the Autumn. See [here](#) for details.



The **PEP PAGE general meeting and grant selection** took place in Cape Town in May 2013. See [here](#) for details.

AERC has appointed a new Executive Director, Professor Lemma Senbet, currently the William E. Mayer Chair Professor of Finance and Director of the Center for Financial Policy at the University of Maryland. See [here](#) for details.



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