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## WELCOME!



### **Stefan Dercon, new Chief Economist, DFID**

As some of you may know, I have recently taken up the post of Chief Economist in DFID. I am very excited to have this opportunity. Before I say anymore I would like to thank my predecessor Alan Winters for his contribution in boosting the role of economic insights in DFID's business. Like Alan, I have an academic background and I am very passionate about the role of research and evidence in development. So it gives me great pleasure to introduce the second edition of the e-newsletter of the DFID growth research and evidence programme.

This edition of the newsletter is dedicated to the theme of private sector development (PSD) in low income countries. We highlight some recent evidence on PSD from our research programme, and some of our new initiatives. We hope this will be useful to you.

The current government is extremely committed to promoting private sector development in developing countries. In October 2010, DFID's Secretary of State set out his vision of a world in which 'development is embedded through inclusive economic growth, where wealth creation is the route out of poverty and where the private sector is the catalyst.' This presents a huge

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challenge and a great opportunity to the research community. We always knew that economic growth is strongly associated with the development of the private sector. Furthermore, the inclusiveness of growth is strongly dependent on the labour demand pressures stemming from private sector growth. However, the drivers of private sector growth in productivity and labour demand, and the nature and effectiveness of complementary public sector policies and reforms remain poorly understood. There is also a sense of urgency to build up this evidence base now: despite many encouraging signs of growth in recent years, a likely global recession and possible global financial meltdown are bound to create serious pressures on private sector growth, and recent momentum may get lost. In the coming years, there is a big job for researchers and evidence to help, influence and harry policy-makers to ensure they do what is best to support private sector development.

Please email us if you want to subscribe to this e-newsletter, give feedback on it, or if you have any comments and ideas on what DFID is doing (or, indeed, could be doing!) in the field of growth research.

Best wishes,

Stefan

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## **DFID AND CEPR LAUNCH MAJOR NEW RESEARCH PROJECT ON GROWTH AND PRIVATE SECTOR DEVELOPMENT**

DFID has announced a new £15 million research project, Private Enterprise Development in low income countries (PEDL), in partnership with the London-based Centre for Economic Policy Research (CEPR).

PEDL research will deliver a significant new body of evidence on private enterprise development that will help shape policy-making in low income countries (LICs). It will help develop understanding of market dynamics and what determines entry of new firms and exit of weak ones, consider issues of job creation in LICs, and the role of export-oriented industries in driving growth.

Around 33 new long-term research projects will be funded under the project, through a fully open competitive process starting in January. This work will be supported by short term exploratory research grants, academic working papers, synthesis reports, policy briefs, discussions with policy makers and training events. A call for 'exploratory' research grants is already open.

An important gap that the programme seeks to address is



evidence that can be useful in supporting policy in countries emerging from violent conflict.

Professor Christopher Woodruff (University of Warwick and CEPR Research Fellow) has been appointed as the programme's Scientific Co-ordinator.

[Read more](#) about the new project and how to bid for grants.

## RECENT RESEARCH EVIDENCE ON PRIVATE SECTOR DEVELOPMENT

### Should Africa industrialize?

A recent working paper published by the DFID-supported UN University World Institute of Development Economics Research (WIDER) shows that between 1975 and 2005 the size, diversity and sophistication of industry in Africa have all declined. It suggests that an industrialization strategy containing two elements is needed: refocusing current investment climate reforms on infrastructure, skills, and regional integration; and an export push, developing industrial clusters, and attracting task-based production. Read the [full paper](#)

### State-business relations and economic growth in sub-Saharan Africa

The DFID-funded research programme on institutions, poverty and growth based at Manchester University has recently published a synthesis of work from four contrasting country studies in order to better understand the relationship between state-business relations and economic performance.

See: [State-Business Relations and Economic Growth in sub-Saharan Africa: A review of case studies in Ghana, Mauritius, South Africa and Zambia](#)

### When is capital enough to get female enterprises growing?

Standard models of investment predict that credit constrained firms should grow rapidly when given additional capital, and that how this capital is provided should not affect decisions to invest in the business or consume the capital. A World Bank-funded study randomly gave cash and in-kind grants to male- and female-owned microenterprises in urban Ghana. Their findings cast doubt on the ability of capital alone to stimulate the growth of female microenterprises. Access the full report [here](#).

### Women, business and the law

The World Bank and the International Finance Corporation (IFC) recently launched the second edition of **Women, Business and the Law 2012: removing barriers to economic inclusion**. It finds 103 out of 141



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economies studied still impose legal differences on the basis of gender in at least one of the report's key indicators: accessing institutions, using property, getting a job, providing incentives to work, building credit, and going to court. Access the full report [here](#)

### **A simple, effective savings account for farmers**

Farmers who were offered an innovative account - a savings account with a commitment feature, coupled with a regular savings account – increased their profits and savings over those with just a regular savings account during a field experiment in Malawi, according to a new [World Bank working paper](#).

### **Competition and innovation-driven inclusive growth**

A recent [World Bank Policy Research working paper](#) investigates the strength of innovation-driven employment growth, the role of competition in stimulating and facilitating it, and whether it is inclusive, in a sample of more than 26,000 manufacturing establishments across 71 countries.

### **Engendering trade**

Female empowerment is a source of comparative advantage when a country integrates into the world market, according to a new World Bank working paper. Countries in which women are empowered experience an expansion of industries that use female labour more intensively. Reciprocally, trade affects a society's attitude toward women's empowerment: the gender gap is smaller in Bangladesh and other countries that export goods requiring female labour. Thus, the road to gender equality in an increasingly integrated world market depends on a country's productive structure, as well as its exposure to global markets. Access the full paper [here](#).

### **Crime affects private investment in Nigeria**

A recent briefing paper published under the DFID-funded Improving Institutions for pro-poor Growth (iiG) programme at Oxford University looks at the consequences of crime in Lagos. While the majority of people interviewed reported that they are planning to make an investment to start a business next year, people whose households had been a victim of crime in the past two years, or who reported a lack of trust in the police were less likely to be planning such an investment. [Read more](#)

### **DCED's latest evidence on private sector development**

The Donor Committee on Enterprise Development (DCED) is a forum for donors and UN agencies to share practical knowledge on private sector development in developing countries. Click [here](#) to download its latest

research and evidence on private sector development.

### **Entrepreneurship, innovation and economic development**

UNU WIDER's recent book focuses on the entrepreneurship-innovation-development nexus. Cross-country and individual country experiences cover nations as diverse as Ethiopia, India, Turkey, Vietnam, and also examine lessons from advanced economies such as Finland. A key message is that entrepreneurial innovation, whether through small firms, large national firms, or multinational firms, is often vibrant in developing countries, but does not always realise its full potential. See more about the book [here](#).

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### **DFID GROWTH RESEARCH NEWS**

The **first call for small exploratory grants under the new DFID-CEPR Private Enterprise Development in LICs (PEDL) programme is now open**. Interested bidders should see [here](#)

The **first call for research grants under the DFID-IZA Growth and Labour Markets in Low Income Countries programme is now open**. [See details](#).

DFID has agreed a further two year phase of research with Oxford University's Centre for the Study of African Economies (CSAE) network of researchers. The programme will look at *how private sector activity and markets can assist growth and development in Africa*, and the institutional constraints affecting this. [See more details](#).

The first 18 research grants under the *DFID-ESRC Growth Programme (DEGP)* will be awarded in December, following an open international competition. Details will be published online at [the DEGP website](#)

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