Development lessons: a dialogue on development policy and poverty reduction issues

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A re-examination of the growth experience is important because we need more satisfactory growth performance than we had in the 1990s to attain the MDGs. I am going to talk about some work done by a team at the World Bank that looked at lessons we can learn from the growth experience of the 1990s. We began in the early 1990s thinking about growth as involving common principles and common paths. To summarise, what we have learnt is that while there are common principles, there are multiple paths, and there needs to be much greater emphasis on sequencing.

We wanted to look at the growth experience of the 1990s because we had a sense that there had been much higher variance in the growth experience than there had been in the policy approaches that were used. There were lots of surprises, some like China and India were pleasant surprises, there were also unpleasant surprises where countries like Bolivia seemed to have followed the Washington Consensus approach but had made very little sustained progress in growth.

The intention originally was to do this internally but as we went along we decided to share it more widely. With the focus on shared growth, and the relationship between poverty reduction, equity and growth, we looked at the experience in three different ways:

- An analysis of macro-economic, trade and financial sector policies
- A series of lectures by development practitioners involved in implementing policies reflecting on what they would have done differently
- Reflections on their experience by past World Bank Country Directors.

We put all these inputs on the web for comments and reactions.

One of the surprises in looking at experiences of different countries was that there was no single path. In Latin America and Africa countries on average did not do well on growth although there were exceptions like Botswana, and Mozambique to some extent. In Latin America reforms were deeply and persistently implemented but growth was erratic.

We asked ourselves what lessons we could draw from this experience? We had approached countries with a mindset that if they followed the kind of policies we were recommending on macro-economic reform, trade liberalisation and financial sector reform any country could expect to grow at 5-7% a year. Why did the experience not bear this out? In some cases countries needed more reform, or reform had more lags than expected, or errors were made – the most infamous being the premature liberalisation of capital accounts in some countries with weak financial sectors. In other countries weak regulatory capacity meant that privatisation simply substituted private for public monopolies. And finally in many cases the initial conditions and the external shocks were very different and therefore the policy recommendations should not have been expected to yield uniform results.

We have to be much more realistic about what is possible in different circumstances. We need to realise that while there are important common principles, there are multiple paths that countries ought to think about using. More broadly, we found that successful countries tended to approach the principles of the Washington Consensus in a very selective way. For example it was always important in China to identify the binding constraints at any point in time and focus on those. Initially it was agriculture, now the country faces major challenges in the banking sector and pension schemes, and is also working on state enterprises and export processing zones.

The next point is the centrality of institutions. The one specific point is that you cannot do away with state discretion. Successful growth needs state discretion alongside a strong market. State discretion should be recognised as a scarce commodity to be allocated with care. In East Asia governments were able to pull back when there was evidence of failure in particular sectors, whereas African countries were not able to do this because of vested interests.

Given how different results have been from what was anticipated, we in the World Bank need to be more modest and temper our expertise with humility.

There are three lessons that we drew from our twelve invited speakers.
- The importance of multiple paths specific to particular country situations
- A strong emphasis on ensuring that the benefits of growth are shared
- The need to focus sequentially on binding constraints.

The list from the country directors was quite similar.
- Country specificity
- Selectivity
- Sensitivity to institutional dimensions, realism and modesty in approach.

We come away recognising that successful growth experiences come from country specific strategies and not from universal policy packages. They involve a great deal of experimentation, and recognition that countries cannot deal with all of their issues at the same time. Sequencing is vital and has to be drawn from country strengths, particularly on the institutional side.

The Bank is drawing out the operational implications of this analysis for its work. On the analytical side work has to be less ambitious in coverage and more in depth making greater use of sample surveys and qualitative surveys.

There are important implications for country lending in the sense that policy matrices need to be more modest and realistic, and need to take account of sequencing. Country experiences need to be drawn on much more deeply to promote sharing of experiences and learning across countries.

John Page

What is pro-poor growth? Must it be growth that is biased in favour of the poor or is it growth that benefits the poor? This raises questions for public policy of whether to go for faster growth or for growth that favours the poor above those who are better off. Is an average growth rate of 6% where the poorest quintile experience growth of 4% better than average growth of 2% where the poorest quintile experience growth of 4%? As a public policy maker I would want to opt for the first although it would not meet the strict definition of pro-poor growth. However, this option opens the door to very low progress for the poor and raises the problem of how much growth should benefit the poor?

Why should growth and distribution matter at all? The answer is based on three simple but statistically robust assertions.

- Growth is good for the poor – on average and over time growth results in the reduction of poverty.
- Economic growth does not on average, across countries, over time, of itself change income distribution
- Developing countries are not growing. Over the last forty years growth has not been robust or persistent in developing countries and especially in Africa.

In the African context this raises the question should we focus on growth and hope that something happens, or should we continue to feel that how that process happens and who benefits is relevant?

This brings us to the second set of issues, which is why bother with distribution if growth is so important?

Again there are three robust statistical assertions.
- On average over time covers a multitude of regional patterns that vary substantially across the world. It is true that the growth of the poor tracks the average growth over time in all regions but it does so in very different ways. From a very pro-poor experience in South Asia and the Middle East to a very non pro-poor experience in Asia in the last ten years and in other parts of the developing world like Latin America before that. The interesting question for policy analysts is why?
- Secondly, time periods matter a lot. If one plots the rate of growth of each decile or quintile we find that within the same ten year period there can be a period when growth is highly pro-poor and a period when it is highly anti-poor, while over the whole ten year period it can turn out to be one or the other depending on the weight of the specific periods. The result is that surveys based on specific intervals can yield different results to measurements over longer periods. The conclusion that I came to is that you need to be concerned about both growth and distribution, particularly in Africa. Tracking the rate of change of the mean and comparing it with the rate of change of the bottom quintile over the last twenty years in Africa we found that there were three distinct episodes. From the early 1980s to the mid 1990s the contraction experiences across Africa was more sever for the lowest quintile than it was on average. The recovery form about 1995 to 200 favoured the poor and since then the variable economic performance across the continent has shifted back and forth for the poor. Country patterns are vastly different.
- Finally, average Gini coefficients for those African countries where information is available has remained the same through the 1990s, but country by country they have changed considerably.

The view that on average there is no real link over time between economic processes and inequality does not hold once you look at detailed information. To me this means that the definitional debates are not really productive although they may be interesting. What we really need to think about in Africa is a shared growth strategy. The principles are quite simple.
- Over the long run growth has to benefit the poor.
- Governments have to play an activist role and seek out policies that will ensure that no one gets left behind. This is not an egalitarian statement, the rising tide does not have to lift all ships at the same time, but everyone has to feel that they are benefiting.
- This means that attention has to be given to the distributional consequences of growth oriented policy. For example, the argument goes that trade is good for growth, growth is good for the poor therefore trade is good for the poor. But this does not necessarily hold when you put it in a specific country context. Trade policy can have vastly different outcomes. We have to understand the implications.

There are three issues that I suggest Africa needs to look at, understanding that Africa is not a country:
- Natural resource revenues and rents have to be well managed. In the next fifteen years we will see countries increasingly supplying world markets with oil, minerals, fish and other natural resource based products. The management of the rents on those products has not been particularly good. To take one example the rising world oil price will bring a huge windfall to oil producing countries in Africa. This has to be managed or it will be a lost opportunity for shared growth. For example in Indonesia and Malaysia the income from mineral exports has been shared across income divides but in Nigeria it has largely benefited the wealthy.
- Secondly, an export push in agriculture. Rapid growth in China and other Asian countries suggests that there will be a rapid growth in markets for non-food agricultural products and the poverty impact of non-food agricultural production is much greater than that of food production. But Africa does not have a good record in managing access to export markets. Case studies in Ghana and Senegal suggest that as farmers succeed in export agriculture the productivity of non-export agriculture also increases because

the institutions that support export success become accessible to all farmers. Better extension and better roads are part of that story. Market access is vital and this includes addressing international duties on agricultural commodities and products.

- Finally it is time for the continent to get serious about regional integration. If you look at the overlapping trade groupings you see that they have focused on deals to facilitate trade in products but have only touched very lightly on questions of trade and transport logistics. If you consider that to cross a border in Africa to trade can involve a journey of 1 000 miles as opposed to 100 miles in Europe you can see the magnitude of the problem. Solid regional agreements are essential for an export push in agriculture.

There is a real strategy issue that has to be addressed in bringing the distribution issue to growth focused public policy.

Pundy Pillay

It is encouraging to see the Bank moving towards a comprehensive development framework and taking the issue of distribution seriously. In the past income disparities have not been an explicit objective and distribution issues were seen as potential causes of fiscal instability. The change is very encouraging, particularly in the light of what has been said about shared growth and country specific strategies rather than applying universal policies.

Secondly, I would like to raise the relationship between growth, poverty and inequality and the issue of distribution as a cause or consequence of economic growth. This is where the concept of shared growth is particularly fascinating. There has been excellent work in the Bank and outside it showing that low inequality countries are more effective at reducing poverty than high inequality countries. But the discourse and the policy advice given by the multilateral institutions to developing countries have yet to give inequality the relevance it deserves. In addition to the acknowledged benefits of social cohesion and better governance that go with greater equality there is convincing evidence that the more egalitarian a society is the better its growth potential. Tackling inequality is critical in many of the African countries.

The third point I would like to raise is the complementarity between external polices and domestic development strategies. Many policy makers see globalisation as a blue print for development and as a substitute for domestic development strategies rather than as a complement to them.

However, it is clear from the presentation that while trade may bring growth the outcomes are not necessarily equitably distributed. In fact integration in the international economy can have bad effects for low income countries. Many commentators have shown that the benefits of trade liberalisation can be unevenly distributed and it would be interesting to hear how these issues fit into the Banks development framework.

The fourth issue concerns sovereignty in policy making. The budgets of many poor African countries depend on donor funding for development expenditure with the result that priorities can be driven by donors rather than by governments. The role of the IMF has been particularly damaging, emasculating the ministry of finance in many African countries and taking over economic policy development, in this way seriously undermining the sovereignty of these nations.

The IMF is playing an anti-developmental role in many developing countries because of its unwillingness to recognise the need to follow macroeconomic reforms with second generation reforms. The Bank is unwilling to criticise the IMF or ask the tough questions about the role it is playing, which seems to be more harmful than helpful.

The last point is about governance. The multi-lateral institutions rightly raise the question of governance and its importance for development but again one needs to ask the tough questions of the international community around issues of governance. In its recent World Development Report the Bank focuses on improving the investment climate in developing countries but it does not raise the issue of illegal funds that leave African countries. Corruption is seen as a Third World issue that does not involve the First World. The amount of illegal money flowing from the developing world to banks in the developed world is estimated at around $10 billion annually, roughly ten times the amount of aid flowing to developing countries. This is another example of the kind of tough question that is not being asked. The result is that policy prescriptions internalise development issues and do not address all the complexities.

Discussion

Theme: Growth and equity

- The relationship between a shared growth perspective and pro-poor growth is confusing. Would it be correct to say that countries need to focus on both growth and energetic social action?

Every successful growth experience has had active government involvement. This has taken very different forms. To determine how this should happen we need to look at the situation in different countries rather than provide policy prescriptions. Institutional capacities play a very important role but we need to remember that institutions can be reformed.

How do we come to grips with the relationship between inequality and growth, and how to kick start growth? We have to be clearer on the distributional implications of the policies we advocate are and secondly we need an activist public position on how people will benefit from growth. We have to work on growth and redistribution at the same time. But the approaches will be quite different in different areas.

Shared growth and equity issues do tend to slip off the agenda. The World Bank's next development report will focus on equity issues and will deal with issues like land reform.

It is obvious that the state enterprises should move out of areas like manufacturing in most cases but when it comes to regulation and social safety building state capacity is a big issue that needs lots of work.

- Where do distributional issues fit in?

There is always a corruptor and corruptee. The issue concerns both developed and developing countries. Making information on deposits more transparent is the domain of the Bank for International Settlements rather than the World Bank. We are emphasising the issue of transparency in our dealings with countries. For example the revenues generated by the gas pipeline in Chad are being published.

In Nigeria there is also a big push to make this kind of information transparent. Nigeria is getting a windfall from oil prices and there is a commitment to deploy the surplus in a transparent way.

In a joint analysis with Transparency International on corruption and governance shows that only a small number of countries are making progress. The distinguishing characteristic in the countries that are making progress seems to be domestic demand for transparency through civil society or the media. It is very important to have pressure from inside the country.

- Does the experience in Chad mean that the Bank will push for similar policies on natural resource rents in other countries getting income from oil?

Chad could be an example for the future in the area of revenue management but the jury is still out.

In dealing with corrupt government the Bank has stopped lending until a strategy could be worked out that makes for transparency and improved governance. It is clear that disengaging completely does not help.

- To what extent can the Bank get involved with political issues and dealing with natural resource rents given that it works with elites?

There are mixed feelings in Africa about the Chad model. This raises the question of how deeply we get involved in telling elites what to do. There are a couple of ways that we can play a constructive role. We can work on international initiatives for greater transparency, putting pressure on the corruptors and informing people what the rents are. We can also help countries to put in place fiscal rule to benchmark the prices of natural resources and deal with the question of saving for future resources in the case of depleting resources. We can give technical advice on things like stabilisation funds.

Next step has to do with engaging with elites, which we are doing in any case around things like the medium term expenditure framework. You can have a system that is completely transparent. Where it is clear where the money is going, but the public expenditure management resulted in it all being spent on the wrong things. This problem is far more acute in societies where taxation is not the main source of income and accountability is not such as big issue as a result.

Theme: Trade and exports

- In dealing with the question of an export push for agriculture you mentioned the trade barriers in Asia but not the subsidies in developed countries.

I did not mean to exclude the developed world on the question of agricultural subsidies, but if the big growth market is in Asia then countries should look there.

- The advantages of export oriented growth are not convincing. Ugandan coffee exports were pro-poor but the farmers who focused on one or two cash crops are now at a loss. In contrast in areas where there was no infrastructure farmers who stuck to food crops are still able to get to markets. Pro-poor strategies need to look at local markets, the benefits of export markets are not so clear.

I am open to persuasion on exports. We recognise the need to focus on non-export agriculture. Africa has seen under investment in many areas of agriculture, which is why it is important to identify the binding constraint in a particular situation and act on that first. Non-traditional exports seem to offer an opportunity to bring investment into the sector and to use technological inputs to kick start the modern sector of the economy.

The relationship between globalisation and domestic strategies, between trade and growth is ambiguous. It depends on the situation in a particular country.

Research shows that you can use the natural resource base to get onto a growth path but you need to go beyond agriculture to include things like education and technological innovation.

On the issue of coffee production in Uganda our research shows that policy choices and shocks have roughly equal impacts on the volatility of growth. Low income countries like Uganda have limited resources to deal with shocks and we need international instruments to assist them to deal with shocks.

Theme: Debt

- How does the reassessment play into expectations from debt relief? Recently there have been announcements of 100% forgiveness of debts because HIPC is not achieving results.

We have not really dealt with the issue of debt but the Bank has been looking at how international agencies work with low income countries to assist them to reach the MDGs without creating new debt?

We have found that the probability of debt distress is highly dependent on the initial debt stock, the policies and institutions of the country and on its vulnerability to shocks. HIPC has tried to deal with the initial debt stock but debt distress can still show up because of bad policies or shocks. The upshot was to show that there is no chance of countries reaching the MDGs without a much higher proportion of grants. The big issue in the HIPC countries was not so much that there was excessive borrowing as that growth did not materialise.

By focusing on growth in the way we have been talking about and by capping debt and increasing grant funding we should be able to avoid debt distress in future.

Theme: Regional groupings

- Can you give us any advice on how to go about rationalising regional groupings?

Regional trading agreements have to establish natural economic groupings that make sense. Some hard research will be needed to get thinking on this issue going. The dynamic of the discussion has to shift to take more account of non trade aspects. Regional groupings will help to make things more competitive and will create larger domestic markets, but it also raises questions about who gets the industry? Why should I open up my market if it is going to another country? The dynamic has to be how to use the regional arrangements to get more from the rest of the world. That is more about things like customs facilitation, trade and transport logistics, and regional projects. This can help to define the areas. Then you have to look at things like rules of origin to simplify trading arrangements. It will only succeed if there is agreement that the purpose is to raise common prosperity rather than to get best deal for your own country. This means that trade policy cannot be left to trade ministers, senior political leaders have to get involved and it has to start with logistics and projects. Another important area that needs attention is migration. This is a major way in which people try to fight poverty.

Institution building can take a long time but the EU experience has shown that open regionalism can help. There has been a lot of institution building in countries that want to get into the EU.

Theme: Multi-lateral institutions

- Moves towards privatisation in countries with high levels of inequality can make access to basic services more difficult. The role of the IMF is more critical for many of these issues than that of the World Bank. Does this thinking have any implications for their role?

The World Bank has shared these findings with the IMF. The analysis has helped them to change their mind and we want to continue the dialogue and look at the poverty impact of major policy issues. On macroeconomic issues, which is their area, there has been a lot of learning in the IMF. This is evident in their work on PRSPs. The most recent progress report on PRSPs talks about the need to look at alternative macroeconomic policies and their implications.

- What are the policy implications of multiple paths to growth for international agencies? Ravi Kanbur has argued for defining assistance on the basis of outcomes rather than policies.

We have worked with Ravi Kanbur and recognise a need for the international community to focus on outcomes. It is hard to do so because we lack good intermediate indicators. This is a challenge for the international community. It is clear that successful outcomes depend far more on the country itself than on what the funder contributes.

The concern about an approach based on outcomes is that the outcome becomes the allocation mechanism. This raises the dilemma of what to do where the outcomes are not good but there has been a lot of effort. This is especially relevant because good outcomes can be due as much to luck as to good policy.

Closing remarks by Pundy Pillay

We have to take this work seriously. It has to result in some real soul searching at the World Bank and IMF when the first government comes to us and says that it is not going to do what we advise and we have said that they have the right to do that. Both institutions will have to ask if the strategy makes sense, if there are shared objectives and a coherent model. If there are things that we don't agree with we have to work through them and not just turn our backs. So far we have not had to deal with this type of situation with the PRSPs because there has not been a really radical approach – perhaps because countries fear that they will not get the funding.