RESULTS FOR DEVELOPMENT

Remembering Our Future

Vinod Thomas

Results for Development Institute

Results for Development Institute (R4D) is a non-profit organization whose mission is to unlock solutions to tough development challenges that prevent people in low- and middle-income countries from realizing their full potential. Using multiple approaches in multiple sectors, including Global Education, Global Health, Governance and Market Dynamics, R4D supports the discovery and implementation of new ideas for reducing poverty and improving lives around the world.

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Foreword

Achievements and setbacks in development are reminiscent of the imagery Nelson Mandela once presented, "After climbing a great hill, one only finds that there are many more hills to climb." Despite all the progress, people worldwide face daunting challenges that prevent them from realizing their full potential. That puts a premium on efforts to unlock development solutions by improving understanding, promoting new ideas, and spreading good practices. At Results for Development Institute (R4D), we strive to put those considerations front and center, while learning deeply about development priorities across countries and the ingredients of development impact.

Vinod Thomas's writings—from which the pieces in this volume have been selected—reflect a similar perspective. Organized under the headings of Environment and Climate, Inclusion and Social Protection, Governance and Growth, they draw attention to angles that are pivotal in the search for solutions.

First, development efforts have local dimension and a global dimension. Solutions for climate change have an overriding global angle in the agreements that must underpin directions for a low carbon economy. But the actions have a strong and appealing local dimension. Reducing air pollution in the highly built up urban centers around the world would be a huge boon to the health of the local population while that also presents collateral benefits to the global climate.

Second, they call for a balance between selectivity and breadth. Our concerns are multiple, but it also does not help to spread the efforts thinly. So in addressing multiple concerns, we need to find synergies among them. Education and health can get short shrift in the drive for economic growth especially under severe fiscal constraints. But the payoffs to improving the productivity of investments in education and health might have the greatest payoffs precisely in this situation.

Third, there is considerable value in attending to the processes that are put in place to advance solutions. Even if more time consuming, the value of tapping multiple disciplines and consulting multiple stakeholders is substantial. Fostering greater participation in decision making, seeking transparency in the methods being followed and promoting stronger feedback loops are ways and means for improving the quality of public spending and services.

These and other key realizations are what emerge from the articles assembled here in this volume. Culled from three decades of development thinking, they give a valuable guide to what might and might not work and priorities for action going forward. The masterful breadth and depth of the author's experience and thinking come through with shining clarity. Results for Development Institute is pleased to highlight these learnings in this forum and promote a discussion on them among policymakers, practitioners and citizenry.

David de Ferranti
President
Results for Development Institute

Preface

The received wisdom is that beyond all else, economic essentials of fiscal stability, trade flows and investments drive economic growth. That point of view, rightly stressing the essentials of growth, deserves to be qualified, however. Emerging experiences suggest the centrality of three other themes, not only as desirable in themselves but as essential to continued growth. They are: a better environment, greater inclusion and improved governance.

This collection of articles (adapted slightly to fit the volume) communicates the ideas behind these themes. The pieces cover a broad range of media outlets and provide a cross section of work at the World Bank Group, at the Asian Development Bank and partner institutions. They encapsulate efforts to improve our response to the central challenge of sustaining development.

Consider the growing threat from environmental degradation. Action to combat it needs to be proactive, not reactive, in particular because the cost of prevention is far less than the cost of cure. Dealing with natural disasters mostly after calamity strikes is, nonetheless, still all too common, as made tragically clear in the aftermath of various events, be it the great Thailand floods in 2011, Hurricane Sandy in the US in 2012 or Typhoon Haiyan in the Philippines in 2013. In these and other instances, lives could have been saved and the extent of devastation averted with better proactive planning (see *Typhoon Haiyan Should Spur Climate Change Action*).

Rising economic inequities are another concern. Global poverty has fallen sharply, led by China and India, where strong growth lifted millions. At the same time, however, inequality has surged. Including more people of the lower income strata in the growth process would be a smart way to generate more growth. More investment in education, health, and social protection are key (see Reduce inequality to sustain economic growth).

No magic bullet can solve environmental problems or reduce economic inequality. But there is a common denominator to greater success in development—better governance. Frequently, solutions to environmental and social problems are widely known and the needed policy directions clear. Yet vested interests frequently block change, fueled by weak government and rampant corruption (see Asia’s transformation through better governance).

Environmental, social and institutional issues increasingly occupy center stage today and involve developing and developed nations alike. The opinion pieces in this volume reflect the changing understanding of environment, inclusion and governance over the years, and point to ways forward.

Vinod Thomas

SECTION ONE:

Message on Environment and Climate

As the costs of environmental degradation and climate change mount, the case for environment friendly growth and for shifting to low carbon, green growth is becoming clearer. The crucial question is whether timely action will follow.

For that, a major hurdle needs to be confronted, as the writings here argue. Environmental care and economic growth are no longer to be seen as inimical, rather, they are complementary. And what is more, without greater environmental care it will be hard to sustain growth in the future.

That is because the economic cost of climate change and natural calamities is far greater than that of action on climate change. For one thing, the earlier we address the health damage triggered by emissions and toxic fumes or preventive action on natural disasters, the better. Many of the cities around the world have airborne concentrations of particulate matter that exceed the World Health Organization's maximum guidelines.

For another, the worldwide energy needs of the world are projected to grow sharply. Developing Asia already accounts for one-third of the world's energy-related carbon emissions, and this is projected to rise to nearly a half by 2035. Unless the current trend in emissions is reversed, the prospects for sustaining economic growth will be diminished.

In all these instances, there are political and practical constraints holding back action. So, as the writings here suggest, it would be appealing to make the most of already available win-win interventions that promise environmental and economic benefits. Foremost among these are measures for achieving greater energy efficiency and abating sizeable energy losses.

In addition, there also need to be measures for green growth that incur costs but, on balance, benefit the economy. High on this list would be investments in technologies for a low-carbon path such as renewables, as well as forest protection and adopting carbon sequestration to capture and store emissions.

Andrew Steer
President and CEO, World Resources Institute

Global Accord on Climate Won't be Enough

Japan Times | 9 February 2015

A great deal hinges on a worldwide agreement to reduce carbon emissions at a summit in Paris this year. Some momentum is finally building for securing unified commitments from nearly 200 countries. But to avert a climate catastrophe in time, far more will be needed from countries, beyond what a multilateral agreement alone can bring.

This is because an agreement in Paris won't come into effect until 2020, and a multilateral deal is unlikely, on its own, to be enough. So a global stand must be bolstered by country initiatives, including greater energy efficiency and a switch to low carbon-energy use, to help address the socioeconomic effects of climate change that are already being felt.

This will make economic sense as the cost of climate-related hazards—floods, storms, droughts and heat waves—are on the rise. The monsoon floods that hit Thailand's industrial center in 2011 caused some $46 billion in economic losses. The destruction from Hurricane Sandy in 2012 was estimated at $68 billion.

Japan is also at the sharp end: A landslide last year from intense rain in Hiroshima claimed 74 lives, affected over 4,000 households, and caused severe damage. With such losses at stake, it will pay to invest in disaster resilience. Japan, among the top in country rankings for exposure to natural hazards, illustrates the payoffs to early warning systems and disaster mitigation.

A strengthened framework for disaster resilience is needed, and promoting this among United Nations member states is the goal of the Third World Conference for Disaster Risk Reduction in March in Sendai.

Unfortunately, many countries have been reluctant to act individually in the absence of similar moves by others, especially the top emitters, on fears that unilateral action will slow their economic growth. This concern is evident in the slowing, blocking or reversing of environmental regulations: For example, the United States' inflexibility in earlier climate negotiations, the opposition to carbon curbs of fossil fuel-dependent economies such as Russia, and Australia's reversal of a carbon tax.

Imagine, however, if climate-related disasters hurt nations in proportion to their emissions. Had this happened, individual country responses may even have been sufficient—and certainly swift, without the tortuous global climate negotiations we have seen in the past two decades.

Climate-related damages and the atmospheric emissions of countries are anything but proportional. Consider the Philippines, where I have lived for the past three years. The country is home to over 100 million people and is ranked at the top worldwide on measures of climate vulnerability. Yet it is responsible for only 0.3 percent of the emissions.

Ironically, the dicey position of the Philippines illustrates the case for proactive responses. At the United Nations climate summit in New York last September, the country's president, Benigno Aquino III, announced his government's intention not to wait for others to act, but to tackle the climate challenge "to the maximum with our limited resources" with programs to improve disaster resilience and encourage re-greening, including planting 1.5 billion trees by 2016.

The big emitters, too, are beginning to step up to the plate, albeit belatedly. US President Barack Obama's plan, announced last June, to reduce emissions from power plants to 30 percent below 2005's level by 2030 is the sort of action needed to embolden others to take unilateral steps.

Global trade blazed a similar trail on taking unilateral action. Developing economies in recent decades opened up international trade—by lowering quantitative restrictions on imports, for example—even when multilateral trade rounds were going nowhere. Economic gains to the reformers were substantial.

Regrettably, showing similar mettle in climate action without a global framework will not work. Unlike trade liberalization where markets for trade in goods and services existed, markets for carbon trading need to be encouraged and underpinned by universal agreements on emission targets and commitments.

This is the desired outcome of December's Paris summit. Some of the major economies have now started to show the way.

Last November, the United States and China, which together emit more than 40 percent of the world's carbon dioxide, agreed to cap their carbon emissions. And European Union leaders have agreed to cut carbon emissions by at least 40 percent by 2030.

True, these are pledges and not binding commitments. But they send a signal to all, amid a noticeable rise in climate-related floods and droughts in recent years and persuasive scientific evidence on global warming.

The crucial question is whether emerging country—actions by governments, businesses and households—are too little, too late. Changes on the needed scale can happen, but only if we realize that climate risks are local and imminent and that climate mitigation is in our own interest. ■

Typhoon Haiyan Should Spur Climate Change Action

The Guardian Environment Blog | 18 November 2013

The Philippines ranked third among countries hit most frequently by hazards of nature, yet that experience could prepare few for the fury of super typhoon Haiyan. Even more ominous than the untold death and destruction is the prospect that these "once-in-a-lifetime" floods, storms as well as droughts and heat waves are becoming routine.

The collective response still sees these events as one-off acts of nature, fostering a silence on their likely link to climate change. Meanwhile, mounting scientific evidence suggests their connection to acts of man. That is, the growing concentration of carbon emissions in the atmosphere is associated increasingly with weather extremes.

Intensity is one of three ingredients that can turn a natural hazard into a disaster. With a wind speed twice that of a jetliner at take-off, typhoon Haiyan is the strongest tropical storm in recorded history. The second factor is people's exposure to hazards, as demonstrated by the disproportionate impacts on vulnerable populations during Europe's increasingly deadly heatwaves. Third is the capacity to confront disasters: a 1970 cyclone in Bangladesh took 300,000 lives, yet with early warning and coastal management, the death toll of an even stronger cyclone in 2007 was 4,000.

With rising incomes, better communication, and technology, people's ability to withstand natural hazards has improved. At the same time, burgeoning populations are also increasingly locating in harm's way and becoming highly exposed to the risks. And most striking, the frequency of extreme hazards is increasing.

The response to disasters depends significantly on which view one holds. Are disasters purely acts of nature or acts of people as well? In the first, relief and rehabilitation take center stage. In the second, prevention assumes importance. Climate adaptation that relocates people out of harm's way is needed, for example, away from low-lying coastlines or flood-prone urban areas. Climate mitigation by way of shifting economies to a lower carbon path is another necessity. The crucial question is why, despite our scientific knowledge, climate action lags.

The main reason for the inaction is the fear that climate action would slow economic growth. Many still see climate investment as a cost to growth and are yet to recognize that lack of action is what would stall growth. Even when they detect a link, the impact of delay is seen to occur only in the distant future or to affect mostly others. But imagine if it were understood that climate inaction would actually worsen growth prospects for countries. The response to the increasing frequency of these extreme hazards would surely be urgent.

Ironically, the rising frequency might just spur needed action. Crises are known to spur change as the Great London Smog in 1952 led the United Kingdom to create the first Clean Air Act in 1956. A fire on Ohio's once polluted Cuyahoga River is credited for getting the environmental movement of the ground in the United States in the late 1960s. And the tragic mercury poisoning around the same time in Minamata, Japan provoked environmental legislation.

It is no longer far-fetched to think that a hurricane as destructive as Sandy in 2012, with estimated damage of $68 billion, could strike twice in the Atlantic hurricane season. Or that Southeast Asia could see two or three events of the magnitude of the severe flooding of 2011 monsoon season that cost 13 percent of Thailand's GDP and disrupted regional and global economic supply chains.

Such unfortunate prospects could indeed change the climate response. Economists could help hasten such a reaction by building into their calculus the role of natural assets and climate impacts in shaping lives and livelihoods. Factoring this realisation into the influential growth scenarios could make a big difference to policymaking.

Natural disasters illustrate tangibly just how much climate change can set back growth, stressing the economic imperative of preventive measures. One estimate of the cost of Haiyan is 5 percent of economic output in the Philippines.

Rather than viewing extreme floods, storms, droughts and heat waves as occasional disruptions, we need to see them as increasingly frequent occurrences, rooted partly in human action. Beyond relief and reconstruction, climate adaptation and mitigation are urgently called for. ■

A New Growth Paradigm

Philippine Daily Inquirer | 21 February 2013

The economy of the Philippines stands out for its relatively robust 6.6-percent growth in 2012 amid lackluster economic growth in most places around the world. The crucial question, however, is how the country can sustain this performance to generate far more jobs and reverse the rise in poverty seen in the past decade.

Domestic reforms are paramount to the Philippines' growth prospects, but cross-border factors matter, too, in our highly globalized world economy. Perhaps surprisingly for some, the danger of climate change arguably presents a greater threat than the current global economic malaise. If sustained growth is to take place, this challenge must be met. Specifically, we need to strengthen disaster resilience, care more for the urban environment, and confront climate change as part of the growth paradigm.

Climate-related disasters have crowded the headlines worldwide in recent years. East and Southeast Asia top the list of the regions affected. Floods and storms have cut significantly into annual growth rates in Australia, China, Indonesia, Korea, Thailand and Vietnam—a trend that is set to worsen. The Philippines, often the first major landfall for typhoons arising in the western Pacific, is among the most vulnerable.

Multiple factors, of course, explain these mounting disasters. First, many more people now live in harm's way, particularly in low-lying megacities like Manila. Second, soil erosion, deforestation, and just plain overcrowding leave people more vulnerable to natural hazards. And third, the hazards are growing more menacing.

Scientists are nevertheless cautious in linking any particular disaster to climate change, whether it is Typhoon "Pablo" in Mindanao or Hurricane "Sandy" on the US East Coast. In the same way, economists are reluctant to pin higher inflation in any given month on rising money supply. But, as with inflation, the broader associations are unmistakable.

For some, the front-and-center needs of the Filipino poor will apparently heighten a dilemma balanced on growth versus the environment. But the dilemma presents a false choice. Relying on a longstanding growth pattern that fuels economic momentum with environmental destruction will only aggravate climate change. And it is the poor who stand to lose most from the ravages of global warming.

So, as Einstein is said to have observed, we can't do the same things over and over again and expect different results. We must grow fast, but we also need to grow differently.

In essence, we need a new strategy that values all three forms of capital—physical, human and natural. Sound growth policies have long been understood as those that expand investments in physical and human capital. But unless we also invest in natural capital, all bets are off.

First, we should build disaster resilience into national growth strategies. Japan invests some 5 percent of national budget in this area: While paying a heavy price, it has avoided much worse economic damage and deaths from disasters because of this investment.

And high returns on such investment are evident even where the total spending is far less. In the Philippines, the effects of flooding in Manila after heavy monsoon rains in August 2012 contrasted strongly with the devastation in the city from Tropical Storm "Ondoy" in 2009.

The response to the most recent storm demonstrated the vast payoff from measures such as social media alerts, better relief operations, and early warning systems. It also highlighted the benefits of the hazard maps and upgraded rain and water-level monitoring systems promoted by Project NOAH (the Nationwide Operational Assessment of Hazards).

Second, planners need to raise the priority of urban management as a strategic thrust. The five cities considered most vulnerable to natural hazards are all in Asia: Dhaka, Manila, Bangkok, Yangon, and Jakarta. These urban centers are overcrowded and situated in ecologically fragile settings. The massive agglomeration notwithstanding, fewer than 50 percent of Asians live in cities, compared to 80 percent in Latin America. Further urbanization would seem inevitable. It is hard to overstate the high priority for careful physical planning, environmental care and judicious urban management.

Third, climate action needs to be part of the national plan. Economic growth will not be automatic if climate change is not dealt with. Adapting to the changing climate through better management of location decisions of people and businesses and protecting the natural environment assume urgency. But realistically, adaptation measures will not come nearly soon enough, so it is essential to mitigate climate change as well. No single country can make a difference in this respect. However, Asia, which is the most at risk, must be a powerful voice by switching to a low-carbon path and calling on others to do the same.

At the end of the day, we need to change our mindset on how growth is generated. Old-style growth at the expense of the environment will be self-defeating—a realization driven home by the stark reality of climate change. ■

Environmental Concern is not Anti-Growth

San Francisco Chronicle | 10 December 2012 (with Ramon Lopez)

The quandary with climate change is this: No issue presents as great a gulf between knowledge of what needs to be done and what is being done.

Meanwhile, carbon dioxide concentration in the atmosphere continues to tick up dangerously. To reverse this trend in time, we must confront three underlying forces driving the global warming debate: who cares, who counts and who pays.

First, our understanding about environmental ravages has to be matched by the public reaction to them. Many of societal transformations were rooted in attitudinal changes, for example, in promoting women's rights or ending slavery. Moreover, for politicians the rewards of climate mitigation accrue only after leaving office, unless there is a public outcry.

Often it takes a crisis to spur action. Recall how a fledging environmental movement was ignited—quite literally—by the Cuyahoga River fire in Cleveland in 1969. For global warming, we need an upwelling of realization that it is already threatening lives and livelihoods. Second, we need to correct the calculus that environmental protection hampers economic growth. Growth models are silent on subsidies purportedly used to speed growth—farm subsidies of some $150 billion a year and subsidies to fossil fuels of $650 billion a year worldwide—that encourage energy intensity, emissions and waste.

Cutting these subsidies would increase economic efficiency without perceptibly reducing immediate growth, and release resources for climate mitigation.

Third, debates over who pays for mitigation should not be allowed to block progress. For initiatives such as climate mitigation that benefit everyone, there is often the trepidation that some will grab a free ride. Moreover, because developed countries drove the buildup of greenhouse gases, developing countries that are now rapidly adding to it want the former to lead the fight.

Developed countries must indeed commit to deep emission cuts. Developing countries need to act too—in their self-interest—to avert a climatic catastrophe.

While the rationale for collective action is clear, resistance from special interests has to be dealt with. To surmount the political lobbying, the public needs to wake up and press for reforms.

The economics profession can be highly influential: Mainstream economics must reverse its advice as the drive for higher incomes can succeed only by including—not excluding—environmental care in growth policies. ■

Time to See Climate Action as Pro-Growth

The Straits Times | 23 April 2012 (with Manish Bapna)

China, South Korea, Russia, the United States and two dozen others face potential leadership transitions this year. The prospect for economic growth and prosperity is likely to be the central determinant of these events. Not on the agenda, however, is climate change. Yet, it should be—because our growing understanding of its science and economics warns us that people's welfare hinges on it.

Greenhouse gas emissions in the atmosphere continue to climb at alarming rates. Temperatures are breaking records around the globe. The just-released report from the Intergovernmental Panel on Climate Change makes a link between more intense rainfall and more extreme temperatures with man-made climate change.

The crucial question concerns the vast gap between the scientific knowledge and economic policies. Three matters of perception are of overriding importance.

First, economists and their clients must recognise that climate action is the means to sustaining growth. Steps to address rising sea levels, protect urban areas from flooding, and prevent declining farm yields due to changing trends, are ways of containing climate costs. By one estimate, the floods and landslides of 2010 cost China some US$18 billion.

Second, policymakers need to view climate impact as an immediate concern, not just a future one. Recent floods in Australia, China, Pakistan and Thailand, wildfires in Russia and severe droughts in China and the US show the devastation from extreme events.

Third, politicians and the public need to see that climate response is in the national interest, not only the global interest. Local benefits include reduced energy costs through efficiency gains in buildings and manufacturing, jobs in solar and wind industry, and less pollution from cleaner power plants. In the US, the country with the highest emissions per person, smarter buildings could save up to US$25 billion annually.

There are signs that the economic opportunities of tackling climate change are not being totally ignored. China, the country with the largest annual greenhouse gas emissions, envisages renewable energy accounting for at least 15 percent of energy consumption by 2020. Meanwhile, private investment in China's clean energy increased to over US$50 billion in 2010.

But can the worrisome trends in climate change be reversed in time? It can if economists and economic ministers see climate action as pro-growth and not antigrowth, the public recognises such action to be in support of their well-being, and political leaders take note and act with urgency. ■

Three Ideas that are Good for Both Economy and Environment

The Guardian | 6 January 2012 (with Manish Bapna)

As we enter a new year, the world continues to be in the grips of dual crises: a stubborn economic downturn with widespread job losses combined with accelerating global warming threatening vulnerable communities.

Many argue that dealing with climate change in the midst of an economic slump will hurt recovery efforts. The underlying reality, however, is quite the opposite. Not only can preparing for climate change offer opportunities for economic growth, it would be unwise to pursue one without the other.

Yet attempts to deal with the economic downturn and climate change have run into a seemingly intractable stalemate. This dynamic was clearly on display at the recent Durban climate talks, where economic anxiety rang through hallways. While the final outcome was significant, it was hindered by the weight of domestic economic and political conditions.

Breaking this stalemate requires hard evidence. Here we present specific examples of common sense policies that can promote growth and cut greenhouse gas emissions.

First, energy has a substantial influence on both the global economy and climate. Energy expenditure represents about 8 percent of GDP worldwide, while accounts for about 40 percent of global greenhouse gas emissions through its use in electricity, heating and industry. No solution to the climate crisis is possible without a fundamental shift to low-carbon energy.

Fortunately, governments can make huge gains through energy efficiency, which can both drive growth and make a significant dent in emissions, given the right drivers and incentives. China, for example, has employed investments, penalties, rewards and awareness-raising activities to slash energy use among its largest 1,000 companies. These actions prevented the release of 265 million metric tonnes of carbon dioxide between 2006 and 2009.

Phasing out fossil fuel subsidies, although politically challenging, would spur global clean energy development and generate growth. Countries spent a staggering $409 billion dollars on fossil fuel subsidies in 2010.

Second, forestry represents around 12 percent of global greenhouse gas emissions, while presenting another major economy-boosting opportunity. In the Amazon, for example, ranchers routinely fell a hectare of forest to create a pasture worth around $500, while releasing hundreds of tonnes of carbon dioxide into the atmosphere. One win-win solution is to prevent deforestation where the land is worth more with trees than without. At prices of $10 for every ton of unreleased emissions, those Amazonian groves could generate several times more from carbon markets than from pasture.

Another solution is to restore already degraded lands. Niger, one of the world's poorest nations, offers a prime example. Reform of land and tree tenure and a program to support regeneration of trees has benefitted 4.5 million people, increasing food production and farmers' incomes, as it creates new markets. Brazil, meanwhile, has about 300m hectares of degraded forest lands, with the potential to create agricultural jobs without clearing more virgin forest.

Third, transportation generates about 12 percent of global GHG emissions and represents an opportunity for a more sustainable and profitable path. Around the globe, car ownership is booming, along with an expanding middle class. This dynamic is creating more urban gridlock and deteriorating air quality, as well as increasing emissions. While an expanding auto industry can be part of a country's economic recovery, investments in cleaner public transport have been found to generate even greater economic returns.

In the United States, stimulus dollars spent on public transport yielded 70 more job hours than those spent on highways, according to Smart Growth America. Meanwhile in Mexico, the government is pursuing an innovative transportation approach with policies and investments to scale up bus rapid-transit networks across the country.

Moving away from traditional approaches of economic growth will not be easy. Even where energy reform, sustainable forestry, and investments in public transit can be shown to be beneficial, powerful special interests are blocking progress in many countries. To overcome these entrenched interests, countries—especially the world's leading greenhouse gas emitters—need to recognize that addressing climate change is in their national interest and will improve public well-being.

The world will, of necessity, eventually move to a low-carbon future. But it is the countries with the political courage to act boldly and urgently toward this future who will be best positioned to reap the rewards. ■

Horn of Africa: How Can the Region be Better Prepared for Recurrent Drought?

The Guardian | 11 August 2011

The Horn of Africa is facing a humanitarian catastrophe from the worst drought in 60 years. The UN estimates that more than 11 million people need urgent assistance to stay alive. The region has faced droughts every few years, and each time they have set back progress on reducing poverty, disrupted food production systems and jeopardised the lives of millions of people. The sharp rise in food prices this year makes the situation worse. The severity of the drought and its ominous link to climate change this time around deepen the concern over the current devastation.

Immediate relief and recovery is, of course, the urgent priority in a calamity. But the recurrent nature of the crisis, especially in the face of climate change, also highlights the need to build resilience—in two ways. First, by supporting the development of reliable early warning systems and of flexible social safety nets to protect the most vulnerable groups is one. Second, by strengthening agricultural and agribusiness systems by improving farmers' access to drought-resistant varieties of crops, improved rainwater-harvesting technologies and information from weather-forecasting systems, while continuing to increase investment in irrigation development is the other.

On social safety nets, it is important to look at the emerging work and lessons from Ethiopia's experience. Since the famine of 1984, Ethiopia had issued an appeal for humanitarian assistance every year. Following the drought in 2003, the government established the New Coalition for Food Security and sought a new approach to deal with food insecurity. The approach recognised that issuing annual emergency appeals was unsustainable and did not secure timely delivery of food to drought victims.

The Ethiopian government established the Productive Safety Net Program in 2005. PSNP, a collaborative effort between the Ethiopian government and development partners, aimed to provide transfers to people in chronically food-insecure areas and structured to prevent asset-depletion for households and create additional assets for communities. An impact evaluation in 2008, right after a significant drought, found that PSNP beneficiaries were more likely to be food secure, to borrow for productive purposes, to use improved agricultural technologies, and to operate non-farm-related business activities. PSNP also prevented beneficiary households from sliding deeper into poverty and selling household assets.

One of the strong points of PSNP has been its flexibility. Initially designed to address regular shocks in rural areas, the program expanded to create options for two different types of poor—those with the potential to move out of poverty and those who face chronic challenges. Another aspect of PSNP was setting up contingency funds that would allow the government to take swift action during food shortages. The drought risk financing (DRF) mechanism, which considers a rainfall-based index, allows scaling up of disbursements and providing rapid support to households. The DRF was activated in 2008 and in 2009 to respond to food-related shocks, and is scheduled to come into effect again in September to mitigate the effects of the current food shortages in the region.

As mounting water stresses and climate change are only likely to worsen, droughts are bound to increase. Thus, the recent stepped-up support for agricultural development by international donors in Africa is important, as it can contribute to building food security and resilience. The vast majority of people in the region depend on either livestock or farming, or a combination of the two. Support to increase farmers' access to improved water-harvesting technologies, drought-tolerant crop and fodder varieties, should help improve resilience. Increasing investments in new and old irrigation systems would also be critical for improving agricultural productivity and reducing food shortages overtime. The Juba and Shabelle river basins in Somalia, the country bearing the brunt of the current drought, have considerable potential for irrigation development, and several irrigation schemes have been developed in the past in these two major river basins. However, years of civil insecurity and unrest have led to the collapse of these schemes, which need urgent reinvestment from the international community.

Given the unfortunate recurrence of droughts in the Horn of Africa, there is urgency in investing and maintaining drought-resilient agriculture and agribusiness. Such investments can target drought-resistant crops, catalyse the use of rainwater-harvesting and water-conserving technologies, and improve irrigation systems. To strengthen further the resilience and preparedness of the region to droughts, social safety nets should factor the cyclical nature of natural disasters, and aim to protect the poorest and most vulnerable. Social safety nets must have flexibility to change, refocus and adapt to evolving country contexts and needs. ■

Facing the Floods of an Altered Climate

Philadelphia Inquirer | 17 May 2011

The dangerous surge of the Mississippi River is yet another reminder that the global incidence of floods is on the rise. What's more, the growing frequency and ferocity of such events suggest an ominous link with human-driven global warming. In the absence of timely action, uncommonly extreme weather will likely put all progress at risk.

Flooding and windstorms in particular are linked with climate change, and the number of disastrous floods and storms reported globally has tripled over the past three decades. Very heavy precipitation increased sharply in the last half-century across the globe and in the United States, especially the Northeast and Midwest.

Scientists have warned about the connections among extreme weather, global warming, and air pollution. New studies tie increases in atmospheric carbon dioxide emissions with higher sea-level temperatures and changes in precipitation, indicating that human-caused climate change doubles the risk of extreme floods.

In the wake of the recent tornadoes that tore into seven Southern states, President Obama said, "We can't control when or where a terrible storm may strike, but we can control how we respond to it." Indeed, the price of delayed response was brought home by Hurricane Katrina in 2005. But water-related calamities have increased to the extent that rapid relief efforts won't be enough.

We must also take steps to prevent and mitigate such disasters. First and foremost, that means slowing the pace of climate change. This will take time, but as President John F. Kennedy said 50 years ago, "We must think and act not only for the moment, but for our time."

The key is to reduce the amount of greenhouse gases being released, especially by shifting to a low-carbon economy. Energy prices must reflect the damage caused by emissions, especially in energy-intensive countries such as the United States. And promoting energy efficiency defers the need for more fossil-fuel plants, buying time for wind and solar power to become more competitive.

It's time to eliminate government subsidies that purportedly spur growth, including worldwide farm subsidies of $150 billion a year and fossil-fuel subsidies of $650 billion a year, which encourage energy intensity and emissions. Other steps can increase the uptake of greenhouse gases, including investment in protected forests, which are a bulwark against the deforestation that accounts for one-sixth of emissions.

Prevention also means environmental protection. Wetlands provide a buffer against flooding, but half of them worldwide—from Australia to the United States—have disappeared in the past century. Shrinking forests, meanwhile, have diminished protections against flooding and landslides. Examples of environmental solutions include the restoration of Vietnam's coastal wetlands to reduce erosion and the building of terraces in China's Loess Plateau to reduce flooding.

Housing policy is also part of the answer, and it can be a matter of life and death. People are increasingly living in harm's way, be it on riverbanks prone to flooding in the South and Midwest or on hillsides subject to mudslides in Rio de Janeiro. It pays to ensure that levees and floodgates work, relocate people from flood-prone properties, and encourage home construction using reinforced concrete, cinder block, or fired brick.

Finally, prevention entails continued investment in early-warning systems, which served Japan and the United States relatively well during recent disasters. Bangladesh, too, illustrates the value of preparedness.

No longer can we respond to hazards of nature with cleanup and reconstruction alone. Climate change has introduced an unnatural dimension that calls for more preventive measures. Difficult as it is to muster the political will to do so, we must invest in slowing climate change, protecting the environment, controlling development, and improving warning systems. Only then can we lessen the fury and devastation of these events. ■

Four Myths that Hold Back Progress in Fighting Climate Change

The Guardian | 2 December 2010 (with Kenneth Chomitz)

Last month the UN secretary-general presented options for raising $100 billion a year to promote development while fighting climate change. But for such funds to make a difference, we must get past a set of myths that prevent the efficient use of resources.

Myth No 1: Energy efficiency can't meet energy needs

Energy efficiency doesn't get enough respect. "You can't grow with energy efficiency," say fans of flashy new power plants, "and you can't provide energy access to the poor." Untrue, because people don't really care about energy, but rather about the light, heat, and transport that it animates. Energy efficiency can provide these services cheaper, faster, and with less environmental damage than new generation.

Indeed, we find that many kinds of energy efficiency offer economic returns that dwarf those of most other development projects. In Ethiopia, for instance, a $5 million scheme to distribute compact fluorescent light bulbs obviated the need to spend $100 million to lease and fuel diesel power plants. Vietnam, too, has met rapidly growing demand for energy in part through efficiency investments. Promoting energy efficiency right now helps defer the need to build long-lived fossil fuel plants, buying time for wind and solar power to become more cost-competitive.

Myth No 2: Protected areas don't help the environment

Protected areas now cover one quarter of the remaining tropical forest. They are intended as a bulwark against deforestation, which accounts for about one sixth of global greenhouse gas emissions. But some sceptics deride them as ineffective "paper parks', defenseless against large-scale loggers and developers. Others fear that protected areas impoverish forest dwellers.

But new research shows that strictly protected areas do discourage deforestation. Moreover, protected areas that allow sustainable use by local people are even more effective at reducing deforestation. Areas controlled by indigenous people are yet more effective, by a wide margin. And in Costa Rica and Thailand, protected areas are associated with reduced local poverty.

Myth No 3: Carbon markets will naturally promote renewable energy investments

Carbon markets are designed to reward investors for reducing greenhouse gases, nudging them away from fossil fuels and towards clean energy investments. Projects that generate energy from landfill gas, for instance, enjoy favorable incentives because methane reduction commands a high price.

But for many hydropower and wind facilities, prevailing prices of carbon have been too low to push investors' returns over a hurdle. And payments for carbon offsets do not address the investor's critical problem of up-front financing for these capital-intensive projects. The result is that carbon payments may end up providing mere icing, rather than leverage, for private capital.

Myth No 4: Technology transfer revolves around intellectual property rights

Developing countries need to acquire a wide range of technologies in order to realize their development ambitions without repeating the environmentally damaging mistakes of the developed countries. Much attention has been devoted to the role of intellectual property rights (such as patents) in helping and hindering technology transfer.

Rights aren't the only way to spread clean technology. There is tremendous scope for using pilot and demonstration projects to speed the diffusion of technical and institutional innovations. For instance, a World Bank/GEF demonstration project in Colombia convinced ranchers that retaining some tree cover in their pasture would increase profits, leading to enthusiastic scale-up of this innovation, which had the side benefits of conserving biodiversity and boosting carbon storage.

With atmospheric carbon dioxide concentrations ticking inexorably up, with billions of dollars at stake, we need to transcend these myths. ■

Water, Water . . . Anywhere?

The Baltimore Sun | *1 June 2010 (with Ronald S. Parker)*

The challenge of providing enough water safe for human consumption has grown drastically over the past two decades. Back in 1992, the Rio Earth Summit and the International Conference on Water and Environment in Dublin brought to the world's attention the scarcity of clean water and its vital link to environmental degradation. Countries responded mainly by building more infrastructure. Meanwhile, they continued to overlook the deteriorating state of the world's aquatic resources.

As a result, the nations of the world, including the United States, face a common menace that drives home the link between water and the environment. In December 2009, headlines reported that—in violation of existing legislation—some 50 million Americans had been provided with unsafe drinking water in the previous five years. Mundane as it might sound, improved data collection, better monitoring and public disclosure are what it takes to trigger action. Citizens are less willing to put up with water pollution if they can find out what toxins are making it through treatment plants into their water pipes.

Meanwhile, business and industry are creating new water-soluble pollutants faster than water authorities and under-resourced public utilities can improve treatment technology. Compounds in the reservoirs and the drinking water of many cities include soaps, deodorants, pharmaceuticals and pesticides. More effort is needed to keep these substances out of our water. We also need to give nature a chance—allowing water to flow through wetlands and marshes that can remove many pollutants. And better technologies need to be found for cleaning up waste water.

If the United States finds cleaning water and preserving aquatic environments a challenge, imagine how much more daunting they are for developing countries facing the same threats but with more limited resources.

In many developing countries, even where water is still plentiful, environmental destruction and pollution have made surface and ground water too expensive to use. In some others that enjoy a good supply of clean water, it is used inappropriately. Priorities can be so skewed that while cities remain desperate for water, farmers are irrigating fruits or cotton in the desert. Even less acceptable, in some places potable water is used to maintain gardens and golf courses for the wealthy while the urban poor are forced to pay dearly to buy drinking water by the bucket.

As the largest official financier of water investments, the World Bank has made numerous loans to developing countries for services ranging from irrigation and groundwater to hydropower and watershed management. Since 1992, the agency has worked to advance the Rio/Dublin agenda by bringing together water leaders to negotiate compromises that help ensure the availability of clean water for generations to come. Yet more needs to be done by the countries and external partners, especially in the water-stressed countries of Africa, the Middle East and South Asia.

There is always and everywhere a political issue to confront regarding water and the environment. When key players sit down to bargain about the allocation of water, no one is there to speak for the water needed to preserve the environment. More often than not, countries don't want to borrow to clean contaminated water or restore marshes and wetlands, even though these features protect the environment and represent the cheapest way to restore water quality. Politicians like ribbon-cutting opportunities; ceremonies for swamp preservation are rare.

The key is to raise the priority for the water-environment connection. Most countries need to address gaps in data and information that would allow them to see their water situation clearly. Pricing water in a way that reflects its cost also helps by promoting efficiency and reducing waste. Prices for water used in agriculture—by far the biggest user of water and a major consumer of chemicals that reach water sources—need to be set at levels that have a salutary effect on the water situation.

Improving the aquatic environment is a continuing challenge in the effort to address water stress all across the globe. To be successful, we must raise the priority for restoring degraded water resources, and in the meantime find better ways to cleanse dirty water, so that fish do not have to swim through Prozac (and worse) on their way to the dinner table. ■

Make Relief Networks “Disaster-Resilient”

Miami Herald | 30 March 2010

In late January, a catastrophic earthquake devastated Haiti, and as the world struggled to help, barely a month later a far stronger seismic event battered Chile. The unavoidable comparison between these events showed how greater prosperity and preparedness, especially attention to seismic-resistant construction, helped prevent massive casualty and economic paralysis in Chile.

But there was another immediate lesson, common to the two situations: It concerned the urgency to ensure functioning lifelines, notably potable water and first aid, during calamities. Their absence contributed in both to desperation and a breakdown in order.

Crucial as it is to build readiness over time, much can be achieved immediately by making vital installations, such as hospitals and emergency shelters, more disaster-resistant. These systems also need to be assured of uninterrupted power supply, a network of protected access routes, and secure provision of safe water and sanitation. In too many countries, facilities that are essential for an effective response are tied to networks that are almost guaranteed to fail.

In Haiti, Chile, and elsewhere before, potable water could not be provided to victims in reasonable time, and emergency medical facilities dropped off-line just when needed most. The ability to take early action in critical care also has a cascading impact on the whole recovery process. Had basic connectivity to emergency medical care and water, for example, continued in Haiti and Chile (or in other previous catastrophes), reconstruction would have been that much easier.

Also, rebuilding homes and neighborhoods requires the safe transportation and storage of building materials. Community groups need to work together in rebuilding homes and infrastructure. Once the use of force and firearms, looting and rioting begin, it is tough to restore the victims’ mutual trust, which is central to the renewal efforts.

Meanwhile, disasters are unmistakably on the rise, especially from floods and tropical storms, and their damages will only increase as population pressures mount. Prevention is more cost-effective than response alone, which is why Chile’s advantage from robust economic development and vigilance is of interest to all. We see hopeful signs elsewhere too.

While poor construction is a major reason why so many lives are lost in developing countries when disasters strike, experiences in Colombia and Turkey with earthquake-resistant building codes, enforcement of construction standards and oversight of materials procurement practices are likely to pay off in a major way. And everywhere, better land-use planning is proving to be essential to ensuring that people are not putting up their homes in harm’s way.

Some 50 developing countries face recurrent earthquakes, floods, hurricanes and droughts, yet many of them do not recognize that they will recur. International agencies do not acknowledge these risks as a systematic threat to their assistance. Among the countries who have borrowed from the World Bank for disasters, almost half do not even mention disasters in their development plans.

This must change. If we are ready to invest sizable funds to establish mechanisms to avert financial crises, we need to do the same with the escalating hazards of nature.

In a few months the world’s attention will no longer be fixed on natural disasters. Once the tragedy drops off newspapers’ front pages, international donors, like the countries, find it hard to stay engaged with prevention efforts.

The urgent lesson, especially in light of this sad reality, is that facilities vital to crisis response must be linked to networks that will not fail them. So when the earth shakes or the waters rise, critical networks can stay disaster-resilient—and victims do not need to turn on each other to survive. ■

Environmental Destruction that Chokes Growth

San Francisco Chronicle | 29 November 2007

Climate change is rooted in decades of environmental neglect, energy inefficiency and carbon-intensity in the drive for rapid growth. It hasn't helped that most policy leaders have wrongly viewed environmental protection, not environmental degradation, as the obstacle to growth. And yet, if growth is to be sustained, this thinking must change. Environmental safeguards need to be seen as an essential aid to growth.

As worldwide leaders meet in Bali next month to discuss the Earth's rising temperatures, they need to bring this perspective toward climate change as the central threat to our world's economic growth. Yet, remarkably, policies of these countries to deal with climate change are far from matching the scientific consensus on its dangers.

To be clear, sustained growth has been the most powerful means to reduce poverty, especially in Asia's experience. In China, growth averaged 10 percent yearly for the past 25 years, lifting some 400 million people out of poverty. Developing countries still have to grow a great deal, as their average income is still one-sixth that of rich nations.

But it's not just how much a country's economy grows. It is how.

In the past 100 years, the world economy expanded sevenfold. Meanwhile, the global population increased from 1.6 billion to 6.5 billion, the world lost half of its tropical forests, and carbon dioxide levels rose to 380 parts per million (from the pre-industrial 280 parts per million). The 1.33 degree Fahrenheit rise in temperatures in the past century is causing sea levels to rise, melting glaciers and destroying species.

Going forward, a change in global temperature that exceeds pre-industrial temperatures by 3.6 degrees Fahrenheit could produce massive climatic instability.

Some set aside these global risks as being distant. Often ignored, too, are immediate local effects. The losses in health and worker productivity from just particulate air pollution amount to 2 percent to 3 percent of GNP in Argentina, China, India, Turkey and elsewhere. In the Amazon, the relentless conversion of forest to farm and pasture is pushing up local temperatures, which is bad for crops and bad for people. According to recent evaluations, deforestation is compounding the damages of natural disasters, especially for the poorest.

Strikingly, when it comes to these losses, prevention is far cheaper than cure—whether it's curbing industrial pollution or reinforcement of structures in disaster-prone areas. Why then don't governments and businesses take protective measures?

One reason is that no country, rich or poor, has the economic motivation nor the political will to confront global problems alone. That's because only a part of the benefits accrue to those taking action, while others can grab a free ride. Moreover, even when the gains are local, they may only appear after politicians leave office. This split between what's good for society and what drives private interest only can be addressed if policy leaders, economists and businesses include the environment as integral to the growth agenda. The shift needs to be clear and bring concrete outcomes.

First, it must lead to deep cuts in carbon emissions. Measured per person, the United States, Japan and European nations contribute the most to global emissions. So they must lead the way. But in total amount, middle income countries—especially China, India, Brazil, Indonesia, Mexico and Russia—already account for half of the emissions. So they too must be part of the solution.

Second, developing countries need to reduce their deforestation, which accounts for a fifth of all greenhouse gas emissions, more than from all transportation. Opening markets to trade permits for emissions for avoiding deforestation would help. International financing for reducing deforestation could help, enabling the transfer of wealth to developing countries for conserving forests.

Third, the policy shift needs to stop encouraging the waste of natural resources. The world spends a quarter of a trillion dollars a year on energy subsidies, promoting energy waste and locking in polluting infrastructure for decades.

The growing awareness and assessment of environmental risks at the climate summit in Bali are timely. Yet the results will hinge on policy changes made by the national leaders. Unless they sharply raise the priority for environmental stewardship, the drive for economic growth alone will be mired in its own devastation. ■

Tiger, Tiger, Burning Out

Los Angeles Times | 27 September 2007

The magnificent tiger could, in the early part of this century, be extinct in the wild. That is the unthinkable yet undeniable situation facing the lord of the jungle. The only way to stave off such a disaster is for the two largest developing economies, China and India, to take urgent action to control the trade in tiger parts and to protect habitats.

Several subspecies of the tiger (Bali, Javan and Caspian) have become extinct in the last few decades, while others (South China, Indochinese) are critically endangered. The latest census confirms that the number of Bengal tigers in India—the single largest population—has dwindled by more than 50% in the last five years to fewer than 1,500 in the wild, which experts say could be the tipping point for extinction.

How has the tiger's fate come to this? The foremost reason is poaching to meet demand for tiger products used in traditional medicines in China and other parts of East Asia. The other crucial factor is the continuous loss of tiger habitat, which is down by about 40% across India in the last decade, along with which has disappeared much of its prey.

To make matters worse, there now is relentless pressure from tiger farmers in East Asia to legalize the trade in the bones, fur, paws, penis and teeth of their animals. On the surface, the case made for legalizing the sale of tiger parts is beguiling. By flooding the market with parts from farm-raised tigers, it's argued, prices will plummet, reducing the profitability of poaching. A cited analogy: People don't hunt wild turkeys for Thanksgiving when supermarkets overflow with farmed supplies.

But to reduce poaching, those who raise tigers in captivity would need to undercut the cost of supplying the parts from wild tigers. That's improbable. Poaching in India, by poisoning or with simple steel traps, costs less than $100 a tiger (plus transport and other costs). Raising one in captivity—even three or more to a cage—costs about $3,000.

Conservationists warn that legalizing the tiger trade would be the death knell for tigers in the wild. That's because it will always be cheaper to hunt tigers, and poaching will be less risky if poached parts can be easily laundered—that is, passed off as coming from captive-bred animals.

Without DNA analysis, even lion bones are indistinguishable from tiger's, and they too are sold on East Asia's black market. So India's poachers also now are hunting the last lions in Asia—about 350 in the Gir forest in the western state of Gujarat. In just two weeks in May, poachers killed a dozen lions.

India still offers the best hope for the tigers' future because it has the most tigers and a conservation infrastructure. In 1973, the Indian government initiated Project Tiger, designating protected areas and wildlife corridors. This led to a dramatic recovery—their numbers nearly tripled by the 1990s. But that commitment faltered, and the population collapsed again.

What now? It is essential to deal with poaching and the demand for tiger parts in traditional medicine immediately. The World Federation of Chinese Medicine Societies states that tiger parts are not necessary for traditional medicines, and alternatives are available and effective. So there are solid reasons to strongly enforce the international ban on the tiger trade, and for China to keep its 1993 domestic ban securely in place.

Vital too are investments in India to protect habitats. Tiger reserves and forests need an adequate number of field protection staff equipped with modern technology. Forest rangers, who confront dangers from poachers, also merit better pay and protection; today many of those jobs go unfilled.

Most important, the communities abutting tiger habitat, some of which are among the poorest in India, must have a stake in protecting tigers. The residents need to gain from conservation efforts and eco-tourism: There are very few places in the world where tourists can see wild tigers. Poachers could be given rewards for tracking and photographing the animals for monitoring. They might be given new avenues for livelihood: In the forest reserves of Periyar in India's southern state of Kerala, for example, former poachers now work as tourist guides.

The critical status of the tiger, a creature at the top of the animal kingdom, says a great deal about how little we value biodiversity in a global economy. China's and India's impressive 9% growth rates would be tarnished if, in the process, the planet should lose tigers and other wildlife for good.

As the symbol of countries, teams and corporations, the tiger has helped sell beer, sports goods and breakfast cereal. Now it could use some high-profile reciprocity. Support from private corporations—such as Exxon Mobil's Save the Tiger Fund—as well as the Asian business diaspora and international agencies could prove decisive. But the moment for action is now. Without immediate financial and political commitments, it will be too late to save this mesmerizing animal. ■

Rescuing the Amazon Forests

Project Syndicate | 16 December 2004

Developing countries are blessed with some of the world's most precious natural resources. But that blessing can also be a curse—and not just for oil-rich countries, with their distorted economies and politics.

Latin American countries in the Amazon region, for example, are home to what can rightly be considered the world's storehouse of biodiversity. Yet, when it comes to protecting this global treasure, these countries are expected to shoulder the burden by themselves.

Even with good intentions, these countries on their own are unlikely to ensure that the benefits of conserving the Amazon are realized, because private interests in deforestation—both legal and illegal—remain very strong. The prospect of quick gains from occupying publicly owned forestland induces private individuals to grab and clear as much of these areas as quickly as possible, without regard for the environmental and social impact of their behavior.

The need to supply fuel and open land during rapid economic development had a devastating effect on European and American forests. Brazil, too, has in recent decades depleted much of its forestland, only at faster rates.

Five hundred years ago, the Atlantic rainforest stretched nearly the entirety of Brazil's 8,500-kilometer coastline; today, less than 7% remains. More than 15% of the Brazilian Amazon has been deforested, most of it in the last 50 years. In 2003, the Brazilian Amazon lost 23,750 square kilometers of forest—an area nearly the size of Belgium.

The tragedy is that much of this deforestation has been entirely unnecessary from the standpoint of economic development. For example, since 1990 Brazil has increased grain production by 125%, with an increase of only 24% in cultivated area. But, at the same time, more than 16 million hectares of pastures and degraded land—an area half the size of Germany—have been abandoned in the Amazon alone, owing to poor agricultural practices and land use. With their rehabilitation, Brazil could expand agricultural production without further harm to the rainforest.

In this and other ways, the rainforest could be harnessed to finance development and generate growth in a socially inclusive and sustainable way. But to achieve this, the countries and the international community need to act.

Developing countries need to ensure reliable property rights and policy enforcement in order to generate the incentives needed to protect nature in the future. To its credit, the Brazilian government has revoked policies that had previously encouraged land clearing in the Amazon, and has mandated that 80% of privately owned forestland be used only for sustainable management of forest resources. Brazil has also developed a sophisticated system to track and record deforestation—though monitoring an area the size of Europe with scarce resources is by itself unlikely to lead to much compliance.

As a result, there needs to be far greater support from the international community for promising initiatives. Consider these examples:

- The partnership between the Brazilian Government, the World Wide Fund for Nature, the World Bank, and the international community has been the basis for the Amazon Region Protected Areas Program, which seeks to set aside 12% of the Amazon for conservation.
- The Pilot Program to Conserve the Brazilian Rainforests, funded by the Brazilian government and the G7 countries, has provided $420 million in the past decade for alternatives to deforestation. Where these programs have been implemented, little deforestation has occurred.
- The World Bank, through a recently approved $505 million loan, is supporting the inclusion of environmental issues and concerns across Brazil's government ministries.
- The Kyoto Protocol's Clean Development Mechanism allows for the trade of carbon credits for reforestation. This mechanism could help establish a system to pay for the maintenance of standing forests and support policies that comprehend the Amazon's global value. ■

SECTION TWO:

Message on Inclusion and Social Protection

Countries everywhere are increasingly interested in seeing more inclusive growth results from socioeconomic policies. Most see greater inclusion as a highly desirable outcome for the society. But some, as in the writings assembled here, go further. They also see greater inclusion as essential for sustaining growth itself.

An agenda for more inclusive growth would seem to have two parts. On the one side, there are policies that can help generate growth that increasingly include the lower income strata in the growth process. On the other, there are measures that help share growth more equitably. The two are inter linked.

The growth process can be more inclusive if disparities in education can be lowered. Not only are actions needed to improve access for the lower income strata to education, efforts also need to focus on improving quality and ensuring that labor-force skills are a match for labor market needs. Complementing these measures would be actions to ensure that labor intensity is not discouraged, for example, in high labor intensive areas such as agriculture or exports.

Greater inclusion also requires nations to do a better job of delivering social services. That often also requires governments to boost their fiscal space and their ability to finance services—by expanding the tax base, strengthening the formal (and therefore taxable) parts of the economy, improving tax administration and curtailing tax evasion.

More inclusion can also come from scaling up or replicating some of the promising approaches, while improving their efficiency. In Brazil, Mexico or the Philippines, conditional cash transfer schemes provide annual grants for poor families if they meet conditions linked to education and health. Others, including China or India, have minimum livelihood guarantee schemes or employment guarantee programs that merit strengthening and scaling up.

The search continues for complementary measures that can help growth translate into better living standards, especially for those at the lower income scales. The writings here highlight some of the promising avenues.

Gina Lagomarsino
Chief Operating Officer and Managing Director,
Results for Development Institute

Sustaining GDP Growth through Greater Inclusion

Bangkok Post | 3 May 2014

The time has come for government and economic leaders throughout Asia and the Pacific to push harder for more socially inclusive growth. Indeed, it has become imperative to sustaining the region's strong economic performance and restoring a healthy environment.

The Asian Development Bank's (ADB) 47th annual meeting getting under way this week in Astana, Kazakhstan—drawing government, private sector and non-government leaders from around the region—therefore presents a good opportunity for further mapping out the complex route to greater inclusion in the region's diverse economies.

The strains revealed by the recent global economic crisis or by frequent, devastating natural disasters in the region go to the heart of the need for greater inclusion. Whether ensuring that economic growth remains robust or keeping the vulnerable out of harm's way when calamity strikes, the task is made easier when lower-income groups participate in the growth process. This is because programs that increase inclusion help countries more fully tap the economic potential of all citizens, not only the well-off.

In turn, improving living standards help those more vulnerable to make better choices to avoid or better prepare for disasters. This is especially true of hazards associated with climate change, such as more frequent intense storms, which tend to have worse impact on lower-income groups.

To be sure, dramatic poverty reduction in Asia is rightly lauded. But several measures point to a lack of inclusion that would suggest considerable room for improvement, including still-wide or even widening inequality in some of the biggest economies and weak household consumption growth in several countries.

The well-known Gini index, for example, increased from 39 in the mid-1990s for all of developing Asia to 46 in the late 2000s (zero represents complete equality and 100 complete inequality). This largely reflects a rising figure in the largest economies, such as China, where the Gini rose from below 30 in the 1970s to over 47 in recent years. In Thailand, the Gini edged down slightly from about 43 in 2000 to about 39 in 2010.

Another measure of inclusion, household consumption, also reveals room for improvement. In the Philippines in 2003–2006, per capita consumption actually declined 0.15 percent for each 1 percent increase in per capita gross domestic product, as noted in a recent Independent Evaluation of ADB's support for inclusive growth. This improved in 2006–2009, when consumption growth was a modest 0.4 percent. Yet the corresponding figure for Vietnam was much stronger, at about 0.9 percent growth in 2004–2006.

What these and other figures tell us is that not everyone is benefitting sufficiently from rapid growth alone. And a big part of the problem is that lower-income groups frequently have much worse access to infrastructure and services, such as in education or in health, that could help improve their lot.

Fortunately, developing countries from around the region present a diverse set of programs with demonstrated success in addressing the issue. The Philippines, despite its slow progress in other areas, has nevertheless helped point the way to solutions that other countries might emulate using conditional-cash transfer programs tied to health and education services.

The country has also adapted lessons from other countries in the design of the ADB-supported community-driven development project known as the Comprehensive and Integrated Delivery of Social Services (Kalahi-CIDSS) to better target community needs. After being set up in 2002 to help rural municipalities to invest in public goods, it is expanding operations from 364 lower-income municipalities in 49 provinces to 900 in 63 provinces.

Another way to increase inclusion is to link traditional infrastructure projects with initiatives in the social sectors. Road projects, for example, can improve inclusion if they are linked with programs addressing education and health care in the same area. The Indonesia Rural Infrastructure Support Project stands out. It improved access to basic infrastructure and services for some two million people in 1,840 villages; road access to markets, water supply and irrigation facilities, supply of basic goods; and access to education and public services. Vietnam's growth process over the last decade, meanwhile, provides a good example of inclusive growth. Significant poverty reduction and equity in most opportunities has accompanied impressive economic growth.

This is surely rooted in the economy's capacity to generate opportunities for almost everyone over the last decade and the government's commitment to public spending on the social sectors. Education spending was a strong 16 percent of total state budget expenditures in 2012 and projected to increase to 18.4 percent in 2014; health rose from 6 percent in 2012 to a projected 6.4 percent in 2014.

The ADB, which hosts government and development leaders, brings a firm commitment to making economic growth more inclusive. The institution can underscore the urgency by helping countries identify innovative strategies and programs that are working and bringing them to the attention of a broader audience. ■

Reduce Inequality to Sustain Economic Growth

China Daily | 30 March 2014

Three decades of high economic growth in China have served to lift millions of people out of poverty. But, at the same time, the gap between the rich and the poor has widened sharply, threatening welfare, social stability, and growth itself. Tackling inequality, therefore, is rightly at the top of the country's policy agenda.

A natural policy response to the emerging inequality is to try to include all the people in the economic agenda, which, in turn, would expand the possibilities for growth. This greater inclusion would also strengthen the impact growth has on reducing poverty. In China, improving the relative standing of the poor, who need to boost basic consumption, would also aid the government's objective of increasing domestic demand.

China must also grapple with the great income divide separating richer urban areas from the rural. Income levels are also substantially higher in the eastern coastal regions compared with the western parts. Cost of living is typically lower in the rural and poorer areas but, even accounting for it, the real gaps are vast.

Inequality is partly rooted in economic globalization, over which an individual country has little control. For example, in the global setting we see rising returns on capital and an increasing premium paid for higher skills for some people, even in countries where low-skilled labor is abundant. Also, technological change has created winner-take-all contests for incomes. Reflecting these trends, the return on capital relative to labor in manufacturing output is estimated to have risen notably between the mid-1990s and the mid-2000s in China and India.

Meanwhile, countries can control other sources of inequality. One issue relates to disparities in education. In some Asian countries, school-age children from households in the poorest income quintile are three to five times more likely to be out of primary and secondary school as those in the richest quintile. Actions to improve access for the poor to education will help. Efforts also need to focus on improving quality and ensuring through education that labor-force skills are a better match for labor market needs.

Yet, government spending on education and health as a share of gross domestic product in Asia is generally lower than comparable regions, and relatively low in China compared with other upper-middle-income countries. Governments, by increasing spending on education, health, social protection and better pension schemes, could free funds among poorer households for greater consumption.

Another area ripe for improvement involves sectors with high labor intensity, such as agriculture. We have seen a secular decline in agricultural investments and productivity in most regions of the world, the negative impact of which was heightened in recent years with the rise in food prices. Countries and international financial institutions recognize the decline in agricultural investments that this has helped bring about should be reversed.

Improving agricultural productivity and efficiency cannot only help the rural poor by increasing their incomes, but also the urban poor by lowering food prices. The urban share of the population in China has surged, from less than 35 percent in 2000 to 50 percent in 2010. Greater attention to agriculture and rural development can improve the quality of urbanization.

Yet another consideration is that the State needs to deliver services better. China, India, Indonesia and the Philippines are working to improve organizational structures to provide better social services, while combating corruption. In doing so, they also need to ensure that they match the current trend for decentralization of public service provision with adequate fiscal resources, including for transfers to lower-level governments. In China, governments below the provincial level now account for more than half of public expenditure. Decentralization has left many poor villages unable to afford them.

Finally, governments need to boost fiscal space to promote greater inclusion, which would involve measures that expand the tax base, boost the formal sector of the economy, improve tax administration and curtail tax evasion. ■

Skirting the Middle-Income Trap

Daily Mirror | 17 September 2013

Just four years after the end of the 30-year civil conflict that had impeded developmental progress, Sri Lanka is focused on policies that could speed economic growth and steer around the middle-income trap, a predicament countries might face in moving from low to high income levels.

Per capita gross national income, by some estimates, could rise from $3,000 in 2012 to around $4,000 by 2016—which would move the country into the mid-range of middle-income (as measured by the so-called Atlas Method).
As with other countries in this range, such as China and Thailand, the question is: what is needed for a steady move into a higher income position?

In our changing world, the imperatives in this effort are not only to address economic and social impediments, but to increasingly confront environmental roadblocks as well.

Economics still clearly matter. Sri Lanka on average grew some 5 percent annually in the three decades of the civil conflict. GDP is forecast to grow 6.8 percent in 2013 on the back of a strong performance in the first quarter of the year, well above the 5.6 percent rate expected for all of South Asia for 2013. The challenges include the priority to carefully navigate the obstacles of national debt, budget deficit, and debt-servicing costs, alongside the trade deficit.

Furthermore, the social agenda looms large. Sri Lanka is a leader in many aspects of development in education and health, while the proportion of population living below the $1.25-a-day poverty line fell from some 15 percent in the early 1990s to an estimated 4 percent in 2010. At the same time, the proportion below $2 a day in 2010 was an estimated 24 percent. And inequality had risen between the two decades. The opportunity is in realising that the broader the economic participation of lower-income groups, the greater the chances of maintaining high growth.

It may be surprising to list the environment as a game changer. But that is the new reality. In particular, the country needs to continue to prepare for the effects of climate change by boosting resilience to the inevitable consequences of global warming, while implementing mitigation measures. These issues will feature strongly in discussions at the upcoming International Conference on Building Resilience in Ahungalla looking at the challenges of disaster risk.

Natural disasters in Asia and the Pacific in recent decades have been among the world's most damaging. According to a recent study of the Asian Development Bank, this is likely the result not only of the growing exposure of people to these calamities, but also of the rising frequency of intense climate-related hazards—floods, storms and droughts. The climate in the region has been changing while average temperatures have been higher and average temperature and rainfall have been both more variable and extreme.

Sri Lanka has faced its share of natural calamities, the deadliest being the 2004 Tsunami. In addition, severe drought in 2011–12 left many districts in the northeast and southwest of the country parched; reservoirs dwindled and people in hard-hit areas lacked safe drinking water.

According to the International Federation of the Red Cross, by October 2012, a second straight season of scanty rainfall had dried out several districts in these areas. Yet, as rains in November–December 2012 returned, they quickly turned to severe flooding.

Such events disproportionately affect the poor and exact crippling economic damage. Assessments of the effects of the combined drought-floods estimated that some 20 percent of the island's rice harvest was destroyed. Among about half-a-million people affected, the floods left many without easy access to food. Power generation, about one half of which comes from hydro-power plants, fell sharply at the height of the dry spell.

That economic trouble should arise out of environmental calamity should not be surprising; natural disasters play a visible role in hindering social and economic progress throughout Asia and the Pacific. With 25 percent of the world's gross domestic product, the region accounted for 38 percent of the economic losses due to natural disasters from 1980–2009. Unless governments, businesses and households better prepare for the increase in storms, floods and droughts, the economic consequences would likely worsen.

Sri Lanka's economic progress and social accomplishments made with limited resources are renowned. But as the country seeks a trajectory that avoids the middle-income trap, it would be increasingly necessary to blend economic and social measures with environmental action. ■

A Post-2015 Agenda for Asia

Korea Herald | 5 June 2013

With the Millennium Development Goals expiring in 2015, a global debate is underway for a new development agenda to replace them. For Asia, the agenda must in part tackle the unfinished task of poverty reduction under the MDGs—but also confront the newer challenges of income inequality and environmental destruction.

The latter issues are relevant for South Korea, even as it continues to help developing countries through its finance and development knowledge.

Asia did very well in the core MDG goal of reducing the number of people living in poverty by half. Yet, two-thirds of the world's poor still live in the region. And while basic health and education have improved in much of Asia, there are glaring gaps in lower-income countries, especially in reducing infant deaths and in improving maternal health. While these tasks should remain a priority, a post-2015 agenda must confront two crucial issues that have gained prominence since the United Nations announced the MDGs in 2000.

The first is inclusive growth—that is, forging socioeconomic policies benefiting all income strata of society. Inequality has been increasing across Asia over the past decade in countries that are home to 80 percent of the region's population. Among the reasons are inequalities in the provision of education, a rising premium on skills in job markets, and subsidies favoring the better-off rather than the poor.

Greater inclusion needs to be tailored to the realities of the demographic shifts sweeping the region. Among the issues are worrying rates of poverty among senior citizens in many countries. In South Korea too, old-age poverty and well-being in the context of an aging population are a banner issue.

The development community is paying attention to President Park Geun-hye's plan to extend the coverage and benefits of the basic old-age pension. That is because public spending on social protection in Asia is lower than in other regions except sub-Saharan Africa, and countries want to learn ways to shore up such support.

Second, environmental care is of great concern in Asia. The region has performed particularly poorly on reversing the trends of rising carbon emissions and the loss of forest cover. Closely related is a growing fear over the rising incidence of natural disasters, of which Asia is bearing the brunt. Last year's typhoon Sanba, the first time in 50 years that a fourth typhoon had struck the Korean Peninsula in a single year, is a case in point.

Sharply rising populations in several developing Asian countries have forced millions to live in low-lying, flood-prone coastal and urban areas that are highly vulnerable to natural hazards. Climate change appears to be aggravating the risk of floods, storms and droughts.

Switching to a low-carbon economy is a priority everywhere, and South Korea is at the frontier in generating green growth. But in the past two decades carbon emissions have doubled in South Korea, and in the People's Republic of China they have tripled. This is not surprising given Asia's rapid economic expansion, but it vividly underscores the trial ahead for a region that tops the world for carbon emission growth.

With the prospect of more natural hazards hitting the region, and particularly floods and storms, countries need to step up disaster risk reduction. It was heartening to read Seoul's position at the United Nations Global Platform on Disaster Risk Reduction. Government representatives from over 100 counties attended this forum in Geneva in May to discuss a new blueprint for global disaster risk reduction to replace the groundbreaking Hyogo Framework for Action. Like the MDGs, this expires in 2015.

Asia has been enormously successful in achieving fast economic growth. But continued progress calls for an integrated stance against rising natural and social vulnerabilities. That is why it is significant that South Korea's blueprint for a "Hyogo 2" framework—a nine-point action plan drawn up by a task force under the prime minister's office—emphasizes disaster risk reduction by sector ministries and social safety nets for vulnerable groups. ■

Faster Progress in Education and Health

Philippine Daily Inquirer | 22 May 2013

Economic growth is front-page news everywhere. But experience tells us that the link between income and human development is far from assured. Worldwide, countries with similar per capita incomes have had quite different achievements in basic education or basic health. In the 1990s, the Philippines and Sri Lanka had similar per capita incomes, yet the poverty rate in the Philippines was much higher then and has remained so.

So growth is necessary but not sufficient for advancing human development. Despite delivering strong growth, many countries in Asia and the Pacific have been unable to reach many of the targets for human development set in the Millennium Development Goals (MDGs), which were announced by the United Nations in 2000.

This raises a crucial question as the 2015 expiry of the MDGs approaches: How can human development match or exceed the expectations generated by rising per capita income? A good place to start is with greater attention to education and health.

As the fastest-growing region in the world, Asia and the Pacific more than tripled per capita incomes during the past two decades. This helped income poverty rates fall from 55 percent in the early 1990s to less than 25 percent by the late 2000s. Yet, the region has not achieved the MDGs of universal primary education. Progress on child and maternal health has been weak. And targets for carbon emissions and forest cover have suffered serious setbacks.

In the Philippines, the high 6.6-percent growth in gross domestic product (GDP) in 2012, achieved despite the global downturn, has given the country new confidence. The strong figure helped motivate the country's first investment-grade credit rating from international rating agencies and fueled a surging stock market. The country also has great strengths in the social arena—for example, a 95-percent literacy rate. And the participation of women in wage employment, in both chambers of Congress, and in senior management stands well above levels in Indonesia or Sri Lanka.

That said, economic growth in the Philippines has generally lagged behind its developing Asia neighbors during the past two decades. Economic gains have also not been widely shared, leaving unemployment high. And the poverty rate (by national estimates) has not declined in the past decade.

The Philippines is also beginning to lag in areas where it used to be a leader. Over the past two decades, for example, net primary school enrollment is estimated to have declined, making it the lowest among its neighbors. The country also has among the highest adolescent birth rates (at 53 per 1,000 women) and a large unmet need for family planning services.

The good news is that in the Philippines and elsewhere, investments can improve education and health. It pays to put a whole nation—not just the government—to work on human development.

First, governments can spend more, and more efficiently, on human development. Sri Lanka and the Philippines both spend roughly 1.5 percent of GDP on health, yet Sri Lanka has better results on maternal and under-five mortality. Observers attribute these outcomes in part to intensive and efficient use of personnel and facilities in a dense network of health facilities.

In the Philippines, there have been increases in budget spending on social sectors in recent years. The need for better targeting of the poor and preventing leakage, in which spending goes to unintended and better-off recipients, has long been identified as a challenge for the Philippines' poverty programs. So the early results of the conditional cash transfer program (with an allocation of P44 billion in 2013, up from P39 billion in 2012) are highly encouraging.

Second, while households spend a great deal on education and health, investments from the business community could play a much bigger role. Efforts by the Philippine business community need to be strengthened, including through public-private partnerships, in classroom building, provision of books and computer laboratories, education service contracting, scholarship grants, early childhood education, and teacher training. Collaboration between industry and academe in research and development could also be improved.

Third, the Philippines should tap and apply the resources of civil society in education and health. Decentralized administration, participation by a broader spectrum of society, and third-party monitoring are areas of strength for the Philippines. The "Textbook Count" is a good example: The program mobilizes citizens to monitor textbook procurement from bidding, through production, to delivery, significantly reducing textbook costs, losses, and delivery times.

A rising tide can lift all boats—imagery that underscores the potential value of economic growth for improving human development for all. But in the Philippines and elsewhere, more and better spending on education and health—by the government, the business community, and civil society—is urgently needed. ■

New Development Goals for the Planet of Earth

Jakarta Post | 21 September 2012 (with Manish Bapna)

Can extreme poverty be eliminated in the next 20 years? Indonesian President Susilo Bambang Yudhoyono may well be pondering this question as he and other heads of state gather in New York for the 67th session of the United Nations General Assembly.

Perhaps some would consider the question ill-timed given that much of the world remains mired in an economic slump. Yet eradicating poverty should be at the top of the General Assembly's agenda—for two compelling reasons.

First, this is a crucial chance to build on the progress in reducing poverty over the past two decades. With the UN-led Millennium Development Goals (MDGs) as a galvanizing force, the number of people living below US$1.25 a day fell from some 43 percent of the world population in 1990 to about 22 percent in 2008. In Indonesia, the number of citizens living on less than $1.25 per day fell from some 100 million to about 40 million in this period.

Second, a rethinking of global development in a way that reflects and responds to a world that has changed profoundly is urgently needed. With the world facing pressing environmental and social challenges, we must chart a new direction that addresses their root causes.

In response, UN Secretary General Ban Ki-moon recently established a high-level panel, led by President Susilo Bambang Yudhoyono, UK Prime Minister David Cameron and Liberian President Ellen Johnson Sirleaf, to produce recommendations for an updated global development agenda.

This new roadmap must tackle the changing nature of poverty and the large unfinished agenda before us. While the rate of poverty has been cut, some 1.3 billion people in the developing world continue to live below $1.25 a day. Many of them suffer the impacts of deepening environmental destruction, especially water scarcity, forest loss and climate change.

As governments survey this altered landscape, one question is whether to simply extend the targets and timeframes for the current MDGs, which are set to expire in 2015. That we think would be a mistake. Our changing world demands an approach that sees the connection between poverty and the environment and offers a chance to benefit all people—today and tomorrow.

The new course needs to build on the MDGs in the areas of sustainability, equality and universality:

First, it must target environmental and social sustainability. Economic growth has drawn upon the planet's resources at an unsustainable pace. Around 1.2 billion people live in water-scarce regions. And access to clean water and sanitation is a huge concern in many countries. In Indonesia, Health Minister Nafsiah Mboi noted in a recent speech that roughly half the population suffers from inadequate access to these services, in part reflecting significant access gaps between rural and urban areas.

More than 1 billion people, including many in Indonesia, depend on forests for survival. Yet high rates of deforestation, often fueled by industrial agriculture, threaten their livelihoods. And from India and Thailand to Russia and the United States, extreme weather and climate events have been playing havoc with people's lives. In these circumstances, we simply cannot tackle poverty unless the sustainability of resources is placed at the center of the agenda.

Second, it is time to signal greater equality as a global goal. Income inequality limits the extent of poverty reduction generated by economic growth, as demonstrated across much of Asia in recent years. Policies that widen the gulf between the rich and the poor, such as regressive taxes or subsidies, not only worsen poverty but also encourage social and political unrest, further hindering growth.

Conversely, the more equal a society, the greater the contribution of low-income citizens to growth and the broader the avenues for economic expansion.

Third, the new goals should embrace universality. The MDGs focus squarely on developing countries. Yet, emerging development challenges—such as climate change, public health and resource depletion—require global solutions involving developed and developing countries alike. Universal goals would also help allay developing countries' concerns that the burden to act will fall disproportionately or unfairly on them.

So, how do we make this happen? Heads of state at the Rio+20 summit made a start in addressing this broad, but essential agenda, agreeing to explore broader sustainable development goals as a vehicle that embeds sustainability, equity and universality in the fight against global poverty. But to succeed, the development agenda needs to go beyond government and aid agencies. It must engage the private sector and mobilize the global public.

The General Assembly and the newly appointed high-level panel, led by Indonesia's president and others, must take the next step in turning this promising concept into reality. ■

Making Growth More Inclusive

Business Times Singapore | 19 September 2012

After a remarkable run, Asian countries are finding it increasingly difficult to sustain past rates of economic growth. In the aftermath of the 2008-2009 global financial crisis, governments across the region have plenty to worry about: slowing growth in [People's Republic of] China and India, a debt crisis in the eurozone and tepid recovery in the United States.

This is not to say that all is gloomy. Indeed, the Asian Development Bank's (ADB) latest projections for the region's developing economies are for still healthy growth of 6.9 percent this year and 7.3 percent in 2013.

For the development community, success in sustaining strong growth will depend heavily on countries finding effective solutions to the rising inequalities in income and opportunity in many emerging economies in Asia and the Pacific.

To do so needs a smart economic choice. With support for livelihood and skills training and policies to develop a vibrant sector of small entrepreneurs, inclusive growth—economic growth that is widely shared—opens up new sources of prosperity and broadens the human resource base. This holds especially true for the lower-income levels of society.

Highly uneven growth across the region has increased inequality. Historically, income distribution in Latin America was far more skewed than in Asia. But the two regions have been converging, with Latin America's distribution—still noticeably more unequal than Asia's—nonetheless becoming more equal and Asia's less.

Despite strides in increasing the incomes of Asia's working poor over the past decade, rising populations are making it harder to sustain progress, with more than 850 million people in the region still living in extreme poverty—on less than US$1.25 a day.

But it is no longer enough to reduce poverty, because the growing inequality of economic opportunity can even make strong growth socially unsustainable. In other words, inclusive growth is key to sustainable growth. Yet, this is where countries in the region have lagged.

So given the resource constraints, what are the most effective ways to increase inclusion in the growth process? Asia's experience and evaluation of development interventions focus on three elements: entrepreneurship, innovation and governance.

First, creating an enabling environment for small entrepreneurs to prosper is fundamental for inclusive growth. But livelihood and skills training is not just about access; it must be relevant and calibrated to the needs of local markets and local employment situations.

In Cambodia, more than 80 percent of women are employed in the informal sector, but they have lacked access to business development services. In a government project supported by the ADB and other international donors, women's development centers are being set up offering livelihood training that varies from province to province to suit each area's circumstances.

Second, innovative approaches—and scaling up successful models—will be needed to foster greater inclusion. Of growing interest to development practitioners is how improving access to information for micro and small entrepreneurs can help make often fragile businesses less vulnerable to market constraints and other hindrances.

For example, some four million small farmers in India now benefit from access to free, real-time pricing and other key agriculture information after Indian conglomerate ITC in 2000 began setting up village Internet kiosks to improve the supply chain for its agribusiness exports.

ITC's so-called e-Choupal program gives farmers a chance to increase incomes by better aligning their production to market demands. The portal—and there are now several thousand of these kiosks—also enables farmers to cut out brokers and trade directly with ITC.

Third, good governance is vital for achieving better development results. Unfortunately, weak institutions in many emerging economies present an array of challenges on preventing precious resources for economic and social advancement from being wasted. Civil society organisations are playing an important role in helping prevent leakage and improving transparency, and particularly in the often murky domain of public procurement.

Take G-Watch, a Philippine group, which mobilized citizens to monitor the procurement process for school textbooks—a multimillion-dollar business—from bidding, production to delivery. According to a study, G-Watch's vigilance substantially reduced textbook costs and production times, and increased the delivery rate of textbooks to 95 percent, from 60 percent, saving US$3.6 million from books that did not disappear in transit.

Greater inclusion calls for innovative ways to make finance more accessible to lower income groups. Microfinance can be effective for delivering greater inclusion, and is now reaching over 200 million clients worldwide, according to a recent estimate.

But its success in reaching the poor (rather than the less poor) has been limited in the experience of the donor community's support for microfinance.

The findings of an independent evaluation department's 2012 study on ADB-supported microfinance operations between 2000 and 2010 provide fresh material on this widely debated and researched issue. The broad picture—based on six case study countries in Asia and the Pacific including Cambodia, Pakistan, Vietnam and the Philippines—shows that integrating microfinance in the formal financial system did not necessarily result in greater outreach to the poor.

Indeed, the penetration of microfinance among the poor remains low with fewer than 9 percent of users living below US$1.25 per day and fewer than 22 percent living below US$2 per day.

Better targeting with increased demand-side analysis and focus on intervention effectiveness need to go hand in hand for achieving greater economic inclusion for the poor using microfinance.

Greater inclusion therefore is both a social priority and a means to generating economic growth. But governments need to do some major work to develop the region's considerable untapped human capital among lower-income groups through market-relevant livelihood and skills training, and improving access to finance, especially for the poor.

A common denominator among investments for greater inclusion has been how innovation can access new markets and sources of growth to spur the process. Better governance in the organisations involved in productive activities and service provision is also vital for improving the results of inclusive growth efforts. ■

Tap the Potential of the Masses to Lift Growth

South China Morning Post | 29 November 2011

In the diverse forces driving social unrest around the world this year—the Arab Spring, the Occupy Wall Street protests and the growing concerns about inequalities across Asia—there is a valuable lesson that can no longer be dismissed.

Economic growth alone is not enough to resolve the problems of unemployment, discontent and exclusion. Countries and institutions, such as the Asian Development Bank (ADB), must seek ways to draw broad segments of people into economic activities—in other words, inclusive growth.

In the wake of growing economic hardships, however, it is tempting to think that the priority is to achieve just any type of growth, regardless of how it is generated or shared. That, though, would be a big mistake. In China, India and across Asia, rising inequalities are proving to be a destabilizing force.

There is also the fear that actions to reduce inequality will block growth itself. That is why it is important to see inclusive growth as an approach that initiates growth from the broadest possible spectrum of society.

The ADB's experience suggests a three-pronged emphasis in policies. First, investments need to help generate broad-based opportunities for people. Second, they must improve people's ability to participate in these opportunities. Third, they ought to build social safety nets to help mitigate the risks and vulnerabilities of uncertain markets and political landscapes.

Broader opportunities arise from capitalizing on key complementarities among different lines of investments. For example, when an institution finances a highway, it needs to envisage its connection to rural roads, and in turn to post-harvest infrastructure, education and health facilities.

Access to resources, particularly finance, is vital. Yet, this access for the poor is limited, possibly due to an excessive focus on private initiatives alone, rather than on supporting an adequate regulatory framework as well.

Strengthening people's ability to participate in growth, meanwhile, calls for changing market conditions that put the poor at a disadvantage. More investments in people and assets are needed, especially to enhance the capabilities of the poor.

Finally, better social safety nets are integral to bringing about more inclusive growth. While middle-income countries such as Brazil and China have made progress, there is the need for targeted social safety nets in other countries.

Such investments are valuable not only in sharing the benefits of growth; they are essential to ensuring that high growth can continue at all. ■

Global Crises, Social Safety Nets and the Poor

The Huffington Post | 14 July 2011

A striking difference between the recent financial, food, fuel and economic crises of previous decades is the attention some nations—Colombia, Georgia, Ethiopia, and Mexico among them—have been able to give this time around to the plight of the poor from the outset. The handle these countries had on helping protect the poor and vulnerable extended from social safety nets that were already in place before the crisis struck. Development organizations, especially the World Bank, financed some of these programs. Much of the Bank's support to social safety nets over the past decade, $11.5 billion worth, came during 2009-2010.

Such efforts were nevertheless insufficient to prevent about 64 million more people from slipping into poverty by the end of 2010 on account of the financial crisis, or to withstand the additional impacts of the food or fuel price hikes. In West Africa, Pakistan, Haiti, and several other places, devastation from natural disasters severely strained vulnerable segments of the population. But the recent experience with safety nets provides precious lessons going forward.

First, it pays to build safety net systems in relatively stable times so that the worst poverty impacts from unanticipated events can be cushioned. The recurring nature of financial, food and fuel crises, as well as climate-related disasters, makes clear the need for all nations to be prepared to protect against shocks with social safety nets. Prior preparation is important because during a crisis it is hard to initiate or even scale up social programs or modify target groups to respond adequately. Organizations like the World Bank are most effective when they engage consistently during stable times to help develop social safety net programs and to build sufficient flexibility into them.

Second, the coverage of these programs needs to be expanded to more countries. Thus far, middle-income countries such as Brazil and Mexico, which had built up institutional capacity in this respect, have been in the forefront. But low-income countries too need to give priority to such efforts with more support from development agencies. Of particular importance are efforts to strengthen the capacity in low-income countries to design flexible programs that consider the local context.

Ethiopia, a low-income country, set up a large public safety net program to handle chronic and repeated poverty due to predictable shocks, such as droughts. Over time it has built-in an automatic contingency mechanism that provides support in times of food insecurity. During the disastrous 2010 floods, Pakistan, a lower-middle-income country, was able to draw on the experiences of the 2005 earthquake and the 2007 national social protection strategy to create the Citizen's Damage Compensation program using the national database to identify beneficiaries and provide cash grants through debit cards from the private banking sector.

Third, it is key for these programs to reach the right beneficiaries, without corruption or leakage. In many programs when the poverty focus is mentioned, it is often in general terms of poverty reduction rather than as part of a time-bound objective directed toward a specific subset of the population. Countries and external financiers need to develop rigorous mechanisms that effectively identify the targeted beneficiaries and build strong results frameworks that focus on supporting the poor and the vulnerable.

The cost of well-targeted programs is usually a small share of GDP, typically below one percent. Yet for their sustainability, it is vital that they focus on the right results and ensure that they indeed reach the poor and vulnerable. ■

India's Poor a Matter of Concern

The Hindu | 29 April 2011

Food price hike

Can you begin by addressing the serious nature of the food price inflation that World Bank President Robert Zoellick spoke about this week—firstly, could you give us some background whether food shortage is due to production or distribution? Have some market players been hoarding cereals, and how serious is this crisis compared to what happened in 2008?

First of all the price level has hovered around what it was in 2008 and actually exceeded that, so the 2011 price increase is comparable to 2008, which makes it a very serious issue without question. There has been something like 36 percent rise over the last year and for grain export prices it has been even 70 percent in some instances. That is signalling a very serious situation on the pricing side.

India in particular is vulnerable because food price inflation has been high and it affects a large number of people with roughly 50 percent of consumer expenditure of the poor certainly going to food. So in that sense the first link is with poverty. One of the recent estimates is that since June of last year, probably about 44 million additional people have gone into poverty. This is in addition to the increase in poverty that was estimated, as a result of the economic crisis in the previous 18 months, so if the two are combined you are talking about 100 million or more additional people in poverty on a global scale.

The global poverty numbers had come down to less than a billion, but all of a sudden you are now back into the story of the bottom billion and more than a billion in poverty right now, if you take the definition of the poverty line as $1.25 [per day]. For the world this is a concern and for the World Bank Group, whose primary objective is to reduce poverty, its main goal is at risk. For India, which has the largest numbers—but not percentage—of poor (by one estimate it is 400 million), this is obviously a matter of great concern.

Let us go to the question of how we can break this down a bit. This time around, both demand and supply factors are present, in the sense that with steady increase in incomes over the last decade the demand for food and grains—both grain for consumption and for use as livestock feed—has been going up steadily. But that has been a contributor in a sense, to a systematic increase in price rather than a jump. More of a secular increase than a blip. So that does not explain the increases in price that we see today.

So we go to the supply factors. First, in the short term, indeed buffer stocks have come down. Where there were stocks importance could be attributed to holding and hoarding also, as factors. But there is a big factor that is truly additional to all of this, compared to anything we have seen before, and that is why the 2011 crisis is more of a concern than what we noticed in 2008 even. That factor is natural disasters and climate change.

There is no doubt that the heat waves in Europe and the Russian drought and the floods in Pakistan and the combination of floods and drought all across the world have had an effect on supply side constraints. [Especially] the big price increases for wheat rather than rice [suggest that] these have been affected by floods and drought more heavily.

For the moment I will just flag the links to climate change as a factor [in the food price crisis] and in the solutions that were discussed during the Spring Meetings, it was not just a matter of having better distribution only, but what could be, in addition, fundamental ways in which productivity can be increased and [how to] deal with the new constraints that are being placed on agricultural productivity by climate change.

As a footnote to that answer, could I ask you this—you specifically mentioned Pakistan and floods and I believe that the Bank was involved in some of the humanitarian, post-flood recovery financing. So we can understand the Bank's thinking on this subject better, how does the Bank decide between finance allocated for development needs versus emergency financing in such cases?

Absolutely, at one level the objective is people's well-being and so if development is really halted because of a natural disaster and emergency needs, then doing all you can to contribute to emergency relief is also related to development efforts. In that sense I would say that dealing with crisis is as developmental as anything else.

Now, what instruments can the World Bank use for that? That is where there is a difference. It is not set up to do the kinds of things that the United Nations emergency services can do, or what the Red Cross can do, and what various other intergovernmental agencies can do, in that this is a group that provides financing, knowledge and know-how. The instruments of support differ. Even with that distinction, more and more, with the food and energy crisis and with natural disasters, an emergency window was opened at the World Bank to help with that worldwide. [It comprised] an emergency effort to provide loans that would disburse quickly to help the situation was undertaken. This was done in the case of Haiti and many others including Turkey, Pakistan, India and Bangladesh. Thus there have been loans made for natural disasters, with the difference perhaps that it has not been just been about mopping up the floor but putting in systems to stop the leak, because it is not enough to just mop the floor when the tap is still running.

What can be done especially in countries where these disasters will strike again and again with the same frequency? Since you mentioned Pakistan, here the response had to include not just the reconstruction of structures but the reconstruction of livelihoods, because [the folds] hit their agricultural base. In the case of Haiti the big effort would have to be [towards] the reconstruction of structures and urban life, if you will. It very much differs between earthquakes and floods.

So the Bank is involved, but a little more in long-term recovery and prevention than in the immediate reconstruction only.

Jobless recovery

Moving to a similar theme that came up during the Spring Meetings, Dominique Strauss-Kahn, Managing Director of the International Monetary Fund [IMF], warned of a global economic recovery "without enough jobs" and also spoke of a lost generation of youth who could struggle in the job market. How do you see this playing out in the advanced economies worst hit by the downturn?

The crisis of 2008, as we all now recognise, originated in the industrial countries and that is where the recovery is also the weakest. The crisis hit the middle-income countries and low-income countries as well, eventually, but the recovery was fastest in Brazil, India and China.

In a way, today, the global growth rate is held up by the middle-income countries and the BRICs and the recovery elsewhere is proving to be essential because at the end of the day in a globalised setting the whole global economy needs to pick up. So one question is just about the recovery of growth in Organisation of Economic Cooperation and Development [OECD] countries but the other is about the nature of the recovery, because if it does not create more jobs, every country is concerned about its impact socially.

The uprisings and the unrest in the Middle East, for rightful reasons—including the clamour for greater participation—as well as reasons of deprivation—especially of the youth, who have got some skills but cannot find jobs—is a concern right across the regions of the world, and not just in the Middle East. In the Middle East several countries with 30 percent unemployment of the youth is a concern but the urban unemployment in many countries including India would also be something of concern.

Now, the OECD [countries'] recovery projections, its uncertainty [and] the inadequate corrections that have taken place following the crisis of 2008 are of concern on the financial side. The financial sector regulatory reforms have hardly kicked in—they have not really been implemented like we would have thought. Second, imbalances in the fiscal deficits on the side of the US and European countries and the surpluses in China and elsewhere have not been corrected. The hope that groups like the G-20, somehow by representing a large share of global GDP, might be an effective way to address these and climate change issues, [is misplaced as] the G-20 has hardly been effective organisational group to make tough decisions or directions on global governance which is needed.

What [Mr. Kahn] said by way of concern over the lack of recovery in OECD countries and particularly the lack of job creation, which then, through trade, also translates into difficulties for developing countries to keep going, [is that] in a setting where you have these three crises and you do not have a good enough governance mechanism to take them on, [that] leaves us with continuing concern that the outlook would be something to watch very carefully and deal with through more vigorous steps at the national level and then through international organisations.

This set of questions has dominated some of the discussions and they need more forthright attention.

In all the things you just mentioned there were two key aspects. One is stability, which the IMF deals with to a large extent. But the other is the question of jobs, for which as you said even a concern in countries like India, despite being a BRIC and leading on the growth front, there are concerns. Is the Bank in any way engaged actively with any job-creation agenda and a long-term sustainable growth process in developing countries?

Very much so. The question would be: do they add up to a strong enough response? Very much so also in the sense that education and its link to employment is the single biggest point to be addressed. There are educational investments and access to education has increased everywhere. But the quality of education and learning outcomes and its relation to jobs that are available domestically or abroad, that link is very weak.

So the World Bank's education strategy, which was recently approved at the Board, forcefully addresses this question of the relevance of education, the quality of education and the outcomes. In other words, what do they learn at all levels—primary, secondary and tertiary? That is the way in which the Bank's financing and its relationship with governments and countries is trying to influence the way that the educational system could be a little better geared to meeting job market gaps.

India's Poor a Matter of Concern (continued)

This is an issue in India and everywhere. Even in a country like [South] Korea, which is the highest in terms of achievements on education, when you ask them about the biggest constraints they have, they put education at number one. It is not like middle-income countries or high-income countries are any better. That is one way the Bank is influencing [job creation].

The second would be [promoting] labor intensive types of activities. Considerable investments from the World Bank go into rural areas. There, if you were only concerned with raising production there may be a set of policies that you would pursue. But World Bank financing is very much for small- and medium-sized industries, microfinance, with all its problems is still a very important source and agricultural livelihoods with a particular focus on the poorer segments. The growth in agriculture [should not be] prejudiced against labor use because you can imagine that you grow very fast and you need less people and they are unemployed. The World Bank's strategy is one that tries to promote labor-using ways of growing.

Third and finally, the International Finance Corporation, which is the private sector arm of the World Bank, has a number of innovative [approaches] that try to combine small-scale activities using a lot of labor in the private sector. Jain Irrigation in India is a nice example of combining knowledge, irrigation, education and the employment of a lot of people. These examples could be scaled up. The Bank is conscious of it but the real question is the scale of all this anywhere near what is needed in view of the big crisis that we mentioned at the beginning. The gaps are so large that we need to scale [these examples] up. ■

Fighting Poverty During the Crisis: Africa's Challenge

Sunday Standard | 4 February 2010 (with Marvin Taylor-Dormond)

The current economic crisis could push 90 million people more into extreme poverty worldwide by end of 2010. Some 2 million children could die in the next five years if the crisis persists.

In Sub-Saharan Africa, the global economic crisis could undermine recent progress through declines in commodity prices, tourism earnings, exports, remittances, and private capital flows.

Coming into the crisis, the region's GDP had been growing at over 5 percent a year since 2004. Greater investor interest in the region had contributed to this growth, with net FDI inflows increasing from $13 billion in 2004 to about $29 billion in 2007.

However, the global crisis has already made a heavy landfall in the region: growth is likely to fall to 1.7 percent in 2009. Thirteen countries could experience decline in per capita income of over 10 percent on average.

Unemployment could rise further in a number of countries. In South Africa, for example, unemployment has climbed from 23.6 percent in the second quarter to 24.5 percent in the third quarter of 2009 with the economy contracting by about 2 percent this year.

Dealing with the economic and human impacts of the crisis in Africa requires both re-invigorated financial flows and more effective use of funds. Similar volumes of spending in the past have produced vastly different development outcomes.

The World Bank Group's Independent Evaluation Group, based on reviews of countries, highlights factors driving the quantity and quality of the crisis response.

First, financial flows need to be adequate and timely, especially in the face of growing fiscal gaps, and well targeted. During the current crisis, official flows from multilateral sources have been at record levels in response to country needs.

At the same time, it is essential to recognize that sustained recovery depends not only on the volume of spending but also on its quality and how it's structured.

Currently, the World Bank Group is substantially increasing its financing for countries. . Globally, fiscal year 2009's commitments by the International Bank for Reconstruction and Development (lending to middle-income governments) tripled to $33 billion, and those of the International Development Association (lending to low-income governments) increased by 25 percent to $14 billion ($7 billion in Sub-Saharan Africa). The International Finance Corporation (the private sector arm) invested $10.5 billion in fiscal year 2009, focusing on strengthening the financial sector and facilitating trade. In Sub-Saharan Africa, IFC's investments reached a record $1.8 billion.

To sustain the economic revival, private capital flows must be re-invigorated. Private financial flows to developing countries fell from $1,200 billion in 2007 to $360 billion in 2009, and reversing this trend is fundamental. The poorer developing countries worldwide face a $12 billion financing gap this year and may not be able to cover even the most essential social spending.

Second, the macroeconomic implications of the crisis response, in particular the growing government deficits, need to be handled well. Fiscal deficits in 2009 are estimated to be nearly 7 percentage points of GDP higher than in 2007 in G-20 nations, and about 5 percentage points higher in G-20 emerging economies.

Meanwhile, the ratio of public debt-to-GDP in the G-20 could, by one estimate, rise by nearly 15 percentage points between these years. The biggest fiscal expansion is seen in high and middle income countries, but the need for careful management of fiscal policies applies just as much to low income countries as well.

Equally, to generate economic growth, the spending needs to be directed to high-productivity areas, such as projects in infrastructure or skills enhancement that have been seen to have produced higher payoffs, rather than to providing untargeted subsidies.

But even here, just any spending on infrastructure would not automatically generate growth. Only a few countries worldwide have, during the crisis, put in place the much-needed mechanisms for analyzing, tracking, evaluating project costs and benefits.

Third, considerations of poverty and unemployment are paramount. During past financial crises, poverty issues did not receive sufficient attention from the countries nor the financing sources.

Signals are that this time, social safety nets, such as conditional cash transfers, are better established and better protected, with support from official sources such as the World Bank Group. In view of the long-term damages

Fighting Poverty During the Crisis: Africa's Challenge (continued)

of crises for the poor, it is vital that the protection of vulnerable groups be confronted early on.

Finally, the rising pressures of the financial crisis should not dilute the attention to the environment and climate change. Their global impacts are especially severe in low income countries where the poor are the most vulnerable.

The fiscal stimulus presents a unique opportunity to shift to sustainable investments both in mitigating global warming and in adapting to the emerging changes.

Every crisis is unique, yet lessons from past crisis responses are informative. The speed and scale of response needs to be matched by careful attention to the quality of the interventions.

Together with improved coordination across organizations, the World Bank Group, drawing on these lessons, can be helpful to countries in Africa in mitigating the crisis impacts. ■

Distribution of Opportunities Key to Development

Inequality in Education: Comparative and International Perspectives | 2008 (with Yan Wang)

Poverty and inequality are multidimensional concepts, including aspects not only of income but also of education, health, and other social dimensions. There is a renewed concern over unequal opportunities and it is argued that the distribution of opportunities is key to development.

There are vast differences in opportunities available to each individual within and across countries. Inequalities in infant mortality rates, nutrition status, as well as access to education and school attainment are enormous due to race, caste, gender, location, and natural endowments. Moreover, existing institutions and policies seem to have created an inequality trap, reproducing and perpetuating the existing inequalities in outcomes. This inequality trap frustrates the poverty reduction efforts by reducing the poverty reduction impact of growth and becomes a source of crime and social instability.

The significance of human development has long been recognized, but it is the focus on its distribution, in addition to its average level, that is at issue. On the welfare side, education and good health improve people's capability to shape their lives—strengthening their functioning in society and contributing to their well-being directly. However, inequality starts at birth, as reflected in the infant mortality rates along with stunting and nutrition levels. Poor health can directly affect an individual's ability to attain education and obtain a job that boosts his or her earning potentials. Related and in addition to health gaps, the educational gaps are staggering between gender, race, and between the rich and the poor segments within a country and across countries.

With respect to income distribution, Brazil is among the ten most unequal countries in the world. This income inequality has frustrated the efforts to reduce poverty. For every one percentage of growth, poverty incidence is reduced by less than a percent, whereas in countries such as China and India, a similar percent increase in GDP growth would reduce poverty by 2 percent or more (depending on specific time period). Brazil's Gini coefficient of income inequality is about 0.59 compared with about 0.45 in China and about 0.38 in India. There is an 18 percentage-point difference in the income Gini coefficients between Brazil and the United States: 29 percent is accounted for by the large inequality in education, 32 percent by the wage differentials stemming from skill differences, and 39 percent by the more regressive nature of public transfers.

Brazil has made progress in the past two decades in improving equality of opportunities. Primary enrollments have risen rapidly, as have secondary enrollment rates. As a result, inequality has begun to fall among the younger generations. Continuing to push on this frontier would allow Brazil to share the benefit of growth more equally over time.

In discussions of economic growth, much attention has traditionally been given to the accumulation of physical and financial capital. But for poverty reduction, other key assets deserve greater attention—human (and social) capital as well as natural (and environmental) capital, as these are the primary assets possessed by the poor.

Physical capital contributes to welfare through economic growth. Human (and social) capital and natural (and environmental) capital not only contribute to growth; they are also direct components of welfare. Human capital and natural capital also help to increase the investment returns, thereby attracting more capital and making all investments more productive.

In many countries, there are market failures leading to an underinvestment of human capital and overexploitation of natural capital. Governments have failed to provide adequate basic health and education services as well as basic sanitation and water to the poor and disadvantaged.

To maximize welfare, a desirable growth pattern requires that the expansion of physical capital through time be accompanied by positive growth of human capital without worsening its distribution. This growth pattern is likely to diminish poverty and increase welfare as long as the level of environmental assets does not fall or falls at a sufficiently slow pace.

In India, despite progress in expanding primary and secondary enrollment in the recent years, more than 40 percent of the population (aged 15 and older) received no schooling in 2000. While this represents great progress compared with 40 years ago when 70 percent of the population had no schooling, 10 percent of the population received 32 percent of the total cumulated years of schooling in the whole country.

A distribution of education as skewed as that of India implies a huge social loss from the underutilization of potential human capital. Needless to say, human ability to absorb knowledge is different across individuals. However, inequality in education reflects not only uneven abilities but also uneven opportunities (i.e., access to schooling).

Distribution of Opportunities Key to Development (continued)

Assuming that ability or talent is normally distributed across population groups, production increases to its optimum when the dispersion of education matches the distribution of human ability. When the distribution of education is too skewed to match the distribution of ability, there is an absolute loss to the society of underdeveloped and underutilized talent. In this case, India would be better off to expand basic education massively, especially by improving access to education for the poor.

Country cases of Brazil, China, India, and Korea show that attention to the distribution of education and other social aspects is key to achieving a more equitable growth and large scale poverty reduction. On average, a one percentage point additional growth would lead to two percentage reduction in poverty, whereas in an unequal situation, the poverty reduction impact of growth would be much smaller. ■

Lesson from Brazil: Fast Progress in Health and Education

International Herald Tribune | *9 July 2002*

Experience tells us that there are few shortcuts in development, that it takes time to see results on the ground. Yet when Brazil, the second largest developing country after China in GNP, registers rapid social progress, we should take note. The just released Brazilian census reports that while 48 infants for every 1,000 births did not survive in 1990, the rate had fallen to 30 in 2000. And while only 80 of every 100 children started primary school in 1990, this rate had risen to 96 in 2000.

In the poorer northeast region, where average nominal incomes are only 30 percent of those in the southeast, the improvements are just as striking. Infant mortality came down from 73 for every 1,000 births to 44, while school enrollment rose from 75 to 91 percent.

Brazil's reduction of infant mortality by nearly 20 points in a decade is about the fastest among developing countries. Only Malaysia and Cuba had similarly high rates of improvement in the past decade, excluding city-states. Egypt and Peru also improved fast, but starting from a much worse situation. (Early gains are easier than later gains.)

While Brazil took 10 years to cut infant mortality by 20 points, high-income countries during earlier periods took 25 to 30 years. Argentina and Venezuela took 20 years, Chile 15.

Infant mortality and school enrollments respond faster than some other indicators, such as life expectancy or illiteracy rates. In Brazil during the last decade illiteracy fell from roughly 19 percent of the adult population to 13 percent, and life expectancy increased from 65 years to 68. Those are major gains for a 10-year period.

Infant mortality and school enrollment are important dimensions for the international community's Millennium Development Goals. What factors might lie behind Brazil's progress? Economic growth was very modest in Brazil, a little over 1 percent for GDP per capita a year in the last decade. During this time countries with similar income (upper-middle income countries) grew at about twice this rate. So, growth could not have been the major contributor to Brazil's social progress.

Another factor could be social policies, especially government expenditures in health and education. These appear to have had a clear impact.

Even more important, there was a significant shift to decentralization and targeted social programs. The greater participation of state and local governments in targeted social expenditures, the increased participation of local communities and the resulting efficiency gains seem to have been the biggest factors in Brazil's success.

To be sure, Brazil faces a large remaining agenda. Its inequality in money incomes is greater than those for most other middle-income countries. For a country with an income per capita of $4,000, the incidence of absolute poverty is relatively high—10 to 15 percent of the population.

Attention now has to shift to increasing the coverage of secondary education. The need to improve the quality of education and health care is great.

Yet the main point remains: Brazil was able to improve basic education and health dramatically within a decade through better social policies. Sooner or later this social progress should translate into less inequality in incomes.

Brazil improved basic education and health greatly in a period of low growth and fiscal tightening. This experience provides good lessons and hope for countries aiming at the same goal. ■

Why Quality Matters

The Economist | 5 October 2000

Last week's Economics Focus emphasized the centrality of growth in reducing poverty. We agree about that. But it is a big mistake to neglect, as you do, lessons on how to achieve more and better growth—growth that is sustained, and whose benefits flow to all.

In the past decade the number of poor people in the world (outside China) is estimated to have risen by more than 100 million. To reverse this trend, economic growth is crucial. If the economies of sub-Saharan Africa had grown as fast on a per capita basis as East Asia over the past three decades, living standards would have quintupled instead of barely standing still, and poverty would have fallen, not risen.

Experience in developing as well as industrial countries shows that it is not merely more growth but also better growth that determines how much welfare improves—and whose welfare. Countries with similar incomes and growth over the past three decades have achieved widely differing outcomes in education, health and environmental protection. The impact of growth on poverty has also varied enormously: in India, a given growth rate has cut poverty in some states by four or five times as much as in others.

These experiences demand that we seek answers beyond the "Washington consensus" that you referred to. You say that asking these questions blurs the message for the sake of political correctness. The truth is quite the opposite. Understanding the process of growth, including its social, environmental and institutional aspects, builds country ownership and improves development outcomes. Quantity versus quality is a false dichotomy. The two are jointly determined and their interaction is what decides whether the results will be good, bad or indifferent. Consider three examples.

First, severe inequalities in investment in education and health imply that millions of people lack opportunities to improve their lives. Educational differences in India are one reason why the impact of growth on poverty is five times greater in Kerala than in Bihar. International differences in educational opportunities within countries are enormous. According to a new survey of 85 countries, Poland, the United States, Canada and the Czech Republic provide the most equitable opportunities for schooling; at the other extreme, countries such as Egypt, India, Pakistan and Tunisia have educational inequalities that are four to five times greater. This is enormously costly in every sense.

Second, poor governance retards growth and particularly hurts the poor. Large-scale corruption allows domestic elites and some transnationals to steer policies and laws to their own advantage, at others' expense. New research suggests that strengthening the implementation of the rule of law or reducing corruption from the levels seen in countries such as Ukraine to the levels of countries such as Hungary is, over the long term, associated with a more than doubling of average incomes. Civil and political liberties and freedom of the press help to reduce corruption, improve the effectiveness of social spending and safety nets, and increase the productivity of investments.

Third, improving environmental quality and protecting natural resources spurs growth and welfare directly, especially for the poor. Dealing with pollution in cities, the depletion and deterioration of water supplies, or the destruction of forests and precious biodiversity is urgent and can make a big difference. Indonesia's forest fires, partly because of bad policy, caused at least $8 billion in direct losses in 1997-98, harming the poor, arguably, even more than did the financial crisis. Yet much of the cost of environmental degradation goes unaccounted for. Reported gross domestic saving in the developing countries is about 25 percent GDP and in the industrial countries about 21 percent. Corrected for the depletion of environmental capital, saving in both groups shrinks to an estimated 14 percent (down from 22 percent to minus 12 percent for Nigeria, from 25 percent to minus 2 percent for Russia).

Policy analysis and advice have often neglected these issues, as you did last week. As a result, they have been neglected in practice as well. A country's wealth includes not just physical capital but human, institutional and natural capital as well. The evidence shows systematic under-investment in human capital, inadequate attention to institutional capital, and over-exploitation of natural capital. Meanwhile, physical capital continues to be heavily subsidised. Agriculture, energy, road transport and water received gross subsidies of between $700 billion and $900 billion a year in the past decade, two-thirds of this in industrial countries (accounting for 3 percent of GDP) and one-third in developing countries (accounting for 5 percent of GDP).

Some worry that this broader agenda emphasizes lower and unfunded priorities. This is wrong. Avoiding special incentives for physical capital or improving property rights and the pricing of natural resources can generate resources for redressing social under-investment. Improving governance and reducing corruption are money-savers. Greater transparency and broader participation in decision-making improve public services. These aspects of "quality" are central to what the poor—and everybody else—value most in economic progress.

Some question whether this broader agenda is too ambitious. It should not be. The quality agenda is not a veiled demand for big government. Rather, it is an invitation to all parts of society, within market-friendly policy frameworks, to participate in development. This calls for strengthening government and non-government institutions alike.

None of us has the final word on what is the best way forward. We need to continue learning the lessons as they emerge. As part of its consultation processes, the World Bank is starting a worldwide electronic forum on the issue. ■

SECTION THREE:

Message on Governance and Growth

Global experience tells us that to generate economic growth benefiting a country's population, better governance is an imperative. We may not always see a simple positive relation between good governance and the rate of growth, but as the writings assembled here suggest, the relation between good governance and the quality and contribution of growth to well-being is compelling.

Governance has many dimensions, the control of corruption being a crucial and cross-cutting aspect. A center piece of the changes people want to see is better delivery of services. It is striking how varied the delivery of basic services is across countries, states or municipalities of similar incomes. That means improvements in this respect can be made. And these improvements are vital for achieving more socially inclusive and environmentally sustainable growth. Different levels of government, business and society make a difference to the quality of service provision.

Good governance is not the exclusive arena of governments, however. It calls for strong public-private partnerships and also the participation of the civil society. Information campaigns and outreach can help to raise awareness and build coalitions for change and also take on strongly vested interests. Nongovernment organizations often have the reach in these areas to monitor abuses, but they need to be heard at the right and in the right places. Improving the flow of information, achieving greater transparency of decisions and results and strengthening the voice of stakeholders help in the delivery of better services, especially the poor.

The multi-faceted problems we face today call for multi-faceted solutions. There is no silver bullet that can confront all the ills. Needed actions are also quite country specific and tailored to individual circumstances and conditions, That said, a factor cutting across needed actions in countries in quite different settings is the determination to bring about improved governance and take on corruption.

Ngozi Okonjo-Iweala
Finance Minister of Nigeria

The Real Purpose for Safeguard Reform at MDBs

Devex | 07 October 2014

Multilateral development banks use safeguards as conditions of their loans to deflect damages to communities and the environment that projects can cause, notably in transport, energy and urban services.

Without such mitigation, roads can harm habitats, dams displace communities and slum rebuilding hurt livelihoods. Two big shake-ups in development banking—a review of the World Bank's safeguards policy and the arrival of two new lenders—could affect the strength and effectiveness of these shields for communities and habitats.

The entry of the BRICS' New Development Bank and China's Asian Infrastructure Investment Bank, alongside multilateral development banks like the Asian Development Bank, heralds more financing for infrastructure in Asia. This will be good for the region's legendary economic growth, but it also raises the stakes for guaranteeing social and environmental defenses.

A common myth everywhere is that mitigating socio-ecological harm will detract from growth. The reality, however, is that lack of conservation will undermine growth, critically in the face of runaway climate change. The crucial question is how to drive faster growth in tandem with greater—not lesser—protection of people and the environment.

The basic rationale for safeguards is that public and private investors do not automatically mitigate the damages that spill over from their actions—be it water pollution from an industrial plant or displacement of homes from a hydropower facility. Safeguards help redress these collateral injuries, especially in mega-projects such as the Xiaolangdi dam on the Yellow River, which involved resettling some 180,000 people in China.

The gains from safeguards can be high, but evaluations show that key weaknesses must be fixed. So even before the entry of the new lenders, the stage was set for reforms. The World Bank, which last year committed $61 billion in new loans, equity investments and guarantees to over 100 countries, is considering changes to its requirements that feature areas of improvement and those that are risky and highly controversial.

Positive in this draft review is a proposal to strengthen the supervision of safeguards, which in the current system is inadequate. Also useful is a pitch to make a sharper distinction in loan requirements between project types: for example, the treatment of a new road compared to the rehabilitation of an existing one. A plan for the standards to cover labor and work conditions, health and safety as well as climate change, is a big step forward, but their weakening for biodiversity and habitats and some community aspects is deeply troubling.

The most contentious draft proposal, currently under review by the World Bank, concerns the shift to be made from achieving safeguard requirements at project approval to agreeing on a framework for fulfilling safeguard standards during project execution—with the responsibility for implementation on client countries. The nub is whether this flexibility in approach and self-assessment will be accompanied by enhanced oversight and accountability.

All should agree that the criteria for a new safeguards policy must be better social and environmental outcomes and greater efficiency in application. Three directions must be adopted to meet commitments by the leadership at multilateral development banks to avoid diluting safeguards:

- Establish whether safeguard systems used by countries are adequate to avert spillover damages from public and private investments. Right now, there are vast country differences in their readiness. So a new agenda should help fortify these systems before they are to be relied upon to implement the new approach.
- Standards set need to be matched by legally binding indicators for effects such as air pollution levels or the effect of resettlements that can be tracked and reported against. This seems to be the spirit of the World Bank's proposals, but for sensitive environmental and social issues that businesses do not naturally redress, the indicators must be mandatory in the projects' legal agreements.
- Progress in risk mitigation needs to be monitored, verified by an accredited third party and disclosed publicly. Such verification needs to apply not only to projects at the high end of social and environmental risks but also to all with substantial risks. These checks and balances might add to the cost of doing business, but not doing so will be far more costly for people and habitats.

The World Bank's procedures will influence other financiers. Even as the responsibility for implementing safeguards rests with the borrower, multilateral development banks must be accountable for robust checks on the projects they finance. Strengthening the implementation of risk mitigation, without weakening its preparation, could mean higher costs. But that will pay off handsomely by improving socio-environmental results, and enabling—not blocking—economic growth. ■

Asia's Transformation through Better Governance

Devex | 29 August 2014

Asia is by far and away the global top performer in the pace of economic growth, but it is becoming clear the region can no longer continue pursuing growth at any cost and postpone social inclusion and the environmental care. As we now know, everything won't come out in the wash. There is no universal strategy for pursuing a triple bottom line of high, socially inclusive and sustainable growth—but better governance is imperative.

Asia ranks low in some of the global measures of good governance. Southeast Asia fares poorly in control of corruption. In East Asia, the gaps are wide for voice and accountability, an indicator which captures perceptions of the extent to which citizens can participate in policy making processes and the accountability of governments. South Asia ranks low in political stability. Stakeholder surveys at the Asian Development Bank consistently rank poor governance and corruption as top threats to the region's development.

Ordinary citizens and civil society organizations, meanwhile, are becoming increasingly vocal in demanding better governance from their decision makers and public institutions. Here in the Philippines, of course, the alleged misuse by high-profile politicians of billions of pesos in state funds for development projects has caused a national furor.

Multilateral development banks play an important role in helping governments understand their governance needs. For some, the priority is to implement and enforce better governance and anticorruption measures. In others, the primacy is for more open and accountable government.

A message that development practitioners are keen to get across is that good governance is not the exclusive business of governments. Persuasive information campaigns are needed to counter public apathy and non-cooperation and—most important of all—the influence of powerful interests.

Consider for instance the emerging crisis of climate change. The elimination of fossil fuel subsidies has long been advocated to cut back on the use of high carbon energy and free up funding for income-generating green energy projects. However, the political will to implement these reforms is continually weakened by a strong oil industry and general resistance to high fuel prices.

Studies show good governance plays a critical role in promoting inclusive growth by ensuring that public services actually reach the poor and disadvantaged. Development practitioners know all too well the deleterious effects on health and education of, say, absenteeism of doctors and teachers, especially in remote rural areas. NGOs often have the reach in these areas to monitor abuses, but they need to be heard in the right places. Indeed, a key aspect of how state–citizen relations define the structure and process of governing a country includes the political space for citizens' voice and participation.

An example of how this works in the Philippines is KALAHI-CIDSS, a training project managed by the Department of Social Welfare and Development to directly involve communities in the poorest provinces in choosing the service delivery and poverty reduction programs best suited their needs. In doing so, community empowerment helps improve local governance. Contrary to the notion that the very poor have little interest in community affairs, this project demonstrates that given the opportunity they become strongly involved. An evaluation of the project found that it helped diversify sources of incomes, among other positive impacts. And since the program was started in 2003, community-driven development has become a national strategy in the national government's 2011-2016 development plan.

Better governance clearly has many dimensions, but a centerpiece of the changes people want to see is better service delivery. Improvements in this respect are vital for achieving more socially inclusive and environmentally sustainable growth. Different levels of government, business and society make a difference to the quality of service provision. At the grassroots level, developing mechanisms to improve information sharing, transparency, and civic participation, and harnessing information technology to do this, has the potential to improve the delivery of services especially to the poor.

Good governance may not be a panacea for all the ills we face. Also, for the urgent concerns of today, be it social exclusion or environmental destruction, we need policy actions and investments spanning multiple fronts. But a common denominator underpinning these actions is better governance and control of corruption. ■

Asia's Coming Shift

The International Economy | Summer 2013 (with Peter Petri)

After several decades of extraordinary economic growth, most Asian economies are now slowing. Asian growth is facing stiff headwinds in part from the slow recovery of the global economy. But some problems are home-grown: rising income disparities are weakening demand, environmental destruction is taking a toll, health costs are escalating, and governance failures are diverting resources from development.

Since the early 1990s, developing Asia has more than tripled living standards and has become a driver of global growth and prosperity. The region reduced extreme poverty—the percentage of people with incomes below $1.25 a day—from nearly 55 percent to just over 20 percent. Under some projections, Asia is seen to comprise one-half of the global output by mid-century.

Meanwhile, income inequality has worsened in countries accounting for 80 percent of region's population over the last decade. Developing Asia has become the world's leading emitter of greenhouse gases, accounting for 35 percent of global carbon dioxide emissions, twice its share of global GDP. Without sharp interventions, this share will rise to 44 percent by 2030. Asia has the world's worst urban air pollution, and environmental degradation is threatening its water, soil, biodiversity, and forests.

In many ways, the side effects of growth are becoming impediments to growth itself. While challenging, the implications are potentially positive—the result could be better approaches to growth that lead to more meaningful development. So in this time of creative stocktaking, we ask: What has worked among the region's strategies, and what needs fundamental change?

Common among the most successful Asian economies is a pragmatic, flexible pursuit of diverse policies that work—what might be labeled evidence-based policy. Details vary across the diverse economies, but the successful ones use a trial-and-error approach to identify robust growth policies—outward orientation, stable macroeconomics, and high savings and investments, often in human capital. Governments (but not always state enterprises) play a large role.

Some argue for continuing the same policies that generated rapid growth in the past. But the emerging evidence calls for new priorities to continue the progress. An important debate about these priorities is taking shape—from China (fairness and social security) and India (economic rights) to Malaysia (a new economic model) and Korea (the happiness era).

A new strategy is necessary not because Asia has followed failed policies in the past, but rather because Asia is developing with much greater momentum in a highly demanding global setting. New global environmental challenges, the communications revolution, and the scale of the Asian region itself make social and environmental constraints far more binding today than they were only decades ago.

The first step that many Asian countries are now considering is to shift development priorities toward a triple bottom line—a simultaneous focus on growth, social inclusion, and environmental sustainability. The shift cannot be confined to the introductory pages of national plans, but must be sustained and ambitious enough to yield tangible results.

The region is familiar with taking action under difficult odds. In the 1960s, a war-devastated Japan modernized its economy, developed export markets for increasingly sophisticated products, and sharply raised income levels. Later, Korea and eventually the rest of Southeast Asia and China followed this process.

A similar wave of learning followed the Asian financial crisis of 1997–98. Mechanisms were developed to manage bankruptcies and bank failures, to monitor financial markets, and to foster macroeconomic resilience. Exchange rates were allowed to settle at relatively favorable levels and foreign exchange reserves were built up to defend against currency runs.

The root of Asia's past successes was not luck or culture. Success emerged from adversity, failure, and hard experience. The list of prominent failures is long—from the Great Leap Forward in the People's Republic of China and the dominance of the License Raj in India to many missed opportunities in the Philippines (now among the fastest growing) and elsewhere. But the common denominator was learning to get things right.

The triple bottom line will require a similar era of innovation. It will not be easy to implement the broader priorities politically. Promoting accountability and transparency, and creating new feedback mechanisms between citizens and government, will be critical elements for getting that support.

Three approaches could make a difference. First, the toolkit of governance has to be updated to the requirements of changing priorities and the vast opportunities opened by the communications revolution. This involves fresh experiments

with accountability. Technology enables stronger, more distributed capabilities for monitoring policy results.

Second, persuasive evidence will be required to establish the benefits of the new strategy and to gain public acceptance. Evidence will be also critical for Asian governments to make informed policy choices among technically complicated alternatives. The feedback cycle between policies and the evaluation of results will have to be speeded up.

Third, international financial institutions will have to revitalize partnerships. They can provide financing to support the new directions. They can share knowledge to aid governments in countering vested interests, and champion regional and global perspectives.

Asia needs to confront the ill effects of growth and set development on a sustainable, resilient path. Emphatically, this does not mean abandoning growth. The threat of an economic slowdown in middle-income Asia is real, and accelerating growth in the poorest countries is urgent. Rather, it means that multiple goals will have to be addressed simultaneously.

Optimism on Asia's actions on the triple bottom line rests on the region's vaunted methods of pragmatic learning and innovation. But, as elsewhere, success will depend on the region's vision, good governance, and ability to take on special interests as well as international support. ■

Stakes are Higher than Ever for World in US Presidential Polls

Times of India | 6 November 2012

Having lived in the US for over three decades, I sense that the stakes are higher than ever for the people and the world in general. Here are three important Obama versus Romney policies that are most critical for the US and the world.

The first contrast is in how economic growth is envisaged. Obama economics sees government interventions that favour the middle- and lower-income people as pro-growth whereas Romney economics believes in giving breaks to the rich as best for growth. Here is why broad-based or inclusive growth is better. High-income countries such as the US or Germany never grow as fast as middle- and low-income countries such as China or India because when incomes are already high, the chances of raising them further are more limited than when there is a lot of catching up to do—provided your possibilities are not blocked. The US will not grow as fast as India, but its chances of growing are greater if it draws on the largest segments of society—by investing in their health, education and skills.

The second policy contrast is related to the first. The US is looking at a fiscal cliff with the national debt on a sharp climb. This is bad for the country and bad for the world. To reverse this trend, choices have to be made: raise taxes, cut expenditure, ensure faster growth. It is best from the point of view of ensuring growth to raise some taxes but not all, ie raise taxes for the top percentile but not for all; and to contain certain government expenditures—for example, military spending but not those on education and health. In other words, it is smart economics not to raise the tax rate on the middle-class but to raise it for the top percentile(s) as in Obama economics—it should not be the other way around.

Third, the US policy on energy has huge implications for the country and the world, although this issue has received scant attention in the politics of this election. Climate change is already playing havoc with people's lives and livelihood, not only in China, India and Asia but also in the US' own backyard. Floods and storms are unmistakably on the rise, the recent devastation in the American northeast from hurricane Sandy being the most recent reminder. The US is the world's largest emitter per person of greenhouse gases and the second largest (after China) of its total. Obama economics promises to invest in renewable sources of energy which will be crucial for the country's own energy independence and for providing global leadership for confronting climate change. Implementation is crucial, but the direction to be implemented cannot be in starker contrast. ■

The Quality of Spending

The Straits Times | 24 November 2009

Higher spending by governments worldwide has spurred the incipient global recovery. But the resulting rise in government debt, if not managed well, could turn into a new source of risk. The answer, however, is not to retract the fiscal stimulus prematurely as that could stall the fragile recovery.

Rather, the way forward is to recognise that sustained recovery relies not only on the amount of spending but also on its quality. While many developing nations entered the crisis with good fiscal balances, there is a premium now everywhere on ensuring that the money is spent well. Moreover, plans for fiscal spending must also confront the recent rise in unemployment and poverty and the growing danger of climate change.

These requirements suggest three priorities, especially for countries at the forefront of the fiscal expansion.

First, it is essential to manage the growing government deficits caused by the fiscal stimulus and the economic slowdown. Fiscal deficits this year as a percentage of gross domestic product are estimated to be nearly 7 percentage points higher than in 2007 in Group of 20 nations. Meanwhile, the ratio of public debt-to-GDP in the G-20 could, by one estimate, rise by nearly 15 percentage points between these years. A sharp fiscal adjustment and stronger growth will be needed in the near future to pay down the debt.

To generate economic growth, the stimulus spending needs to be directed to high-productivity areas. The Asian experience shows that channelling outlays to finish infrastructure projects has higher payoffs than providing untargeted subsidies, be it for energy or food. But even here, just any spending on infrastructure would not automatically generate growth. And only a few countries have, during the crisis response, put in place the much-needed mechanisms for analysing, tracking and evaluating project costs and benefits.

Second, financial flows need to be adequate and timely, especially in the face of growing fiscal gaps. The international financial institutions have augmented their official flows, especially to developing countries. The World Bank delivered a record US$60 billion (US$83 billion) worldwide this year, with Indonesia, Brazil, Mexico, India and China as the top recipients. The International Monetary Fund's support reached US$160 billion globally while the Asian, African, European and Inter-American development banks provided unprecedented volumes to their regions.

All this has helped, but to sustain the economic revival, private capital flows must also be reinvigorated. Private financial flows to developing countries dropped from US$1,200 billion in 2007 to US$360 billion this year. Reversing this trend is crucial. Even with the increase in official flows, the poorer developing countries face a US$12 billion financing gap this year, and may not be able to cover even the most essential social spending. And across the board, the extraordinary fiscal expansion needs to give way to an eventual pickup in private consumption and investment.

Third, with nearly 90 million more people pushed into poverty because of the crisis, effective social programs need to be protected. Some countries are shielding social spending and expanding safety nets. In Brazil, Colombia, Mexico and Turkey, where strong institutions are in place, conditional cash transfers are proving effective. China has combined labor market actions and safety nets to stabilise employment, while Indonesia has combined safety nets and livelihood approaches.

Unfortunately the financial crisis has diluted attention to climate change and the environment. Yet the fiscal stimulus presents a unique opportunity to shift to sustainable investments—as South Korea, Australia, China, Japan, Germany and the United States are doing to some degree. The World Bank has increased its support for renewable energy and spearheaded climate funds. The Copenhagen summit next month provides a chance to integrate climate change into the crisis response.

The current economic crisis has brought with it a record fiscal expansion worldwide and the largest increase in official flows to developing economies. The scale of this response obliges countries to ensure that the funds are put to effective use—not only to elicit good returns on the growing public spending, but also to avoid a future crisis. ■

Of a Crisis and an Opportunity

The Hindu | 6 January 2009

What is the extent of the current global economic slowdown?

This is about the biggest economic crisis the world has seen in 75 years. It has its roots in the United States' mortgage crisis and the financial meltdown, but it has quickly spread to other OECD countries and to emerging economies including the so-called BRICs [Brazil, Russia, India and China] and eventually to the low-income countries. As you look at the last quarter of 2008, the writing on the wall is clear. In the US it is likely that output in the fourth quarter over the third would have shrunk by at least 3 percent by some estimates. Large developing economies like China and India are not seeing a decline in output but they are experiencing a serious slowdown in their growth rate. It's the first time in memory that all global growth centers are deeply affected. So when you put all that together, 2008 will turn out to have a much smaller economic expansion than projected, and 2009 will perhaps see little growth in global output. But as is typical, developing countries as a group will grow faster than industrial countries that have reached high income levels, so China and India will have some growth—the question is, what it will be?

What kind of actions will ameliorate the impact of the crisis?

What is significant is that this is a financial crisis that turned into an economic crisis, which is developing into an employment crisis and could soon turn out to be a social and human crisis unless urgent action is taken. The action is not just to return India and others to a high growth path but is equally for them to take measures that will protect the vulnerable sections of society during the transition. And also to use this opportunity to inject those elements of social inclusion and employment generation that are desperately needed across the world. So when you think of actions, it's about opportunities on both the economic side and the social side.

Let me add a third area. Aside from the economic and social aspects there is a quiet crisis in the making which is a bit hidden right now because of the urgency of the financial crisis; but if allowed to brew, it could be the biggest danger. That crisis is global warming and climate change. The reason that I put this up there along with the other two is that today we have already reached a level of 385 parts per million of carbon concentration in the air. Even conservative experts say when it reaches 450 ppm, it could be a show-stopper. We already see the mounting devastation from climate-related natural disasters.

You said India and China could use some internal measures to stimulate the economy. India has been affected in this crisis, we have jobs cuts, there is a huge cut in exports but are we relatively better off?

On the financial side, the Reserve Bank of India has done a good job in matching risk management with fiduciary and regulatory actions; and the government in pursuing the opening of the economy and globalisation in a way that blends the market and the state in a more judicious way than some of the other economies. While the financial sector has strengths, it can go further in its capacity to provide for greater access to credit, including to the poor.

Having said that, when the global growth rate comes to a standstill, countries such as China and India will be affected by the slowdown in OECD imports or trade. Evidence is clear around the world, with shipyards with backup of goods that are not going anywhere, and trade expansion is coming to a halt this year. India is not immune to these developments. Different countries have different capacities to deal with this, but all need to act. Those countries with surpluses in their current account and fiscal account can use that surplus to expand investments. India, like others, needs a bold investment program—even as we note that an increase in spending will expand the deficit, whereas some others who have a surplus will just reduce the surplus.

So a combination of monetary and fiscal policies can help, plus domestic reforms of the productive sectors, reforms of the subsidy regime whether it is for energy, water or fertilizer and chemicals, much of these favouring the relatively rich. If these do not benefit the poor, then there is an opportunity to take action—the crisis might allow that opportunity to be captured. Also, the bureaucracy can be streamlined to make the domestic economy function much more effectively. Capitalising on these opportunities would help India to continue on a high growth trajectory.

What about room for internal maneuvering that may be available to India, and the safety nets to restore fiscal stability?

On the social side, employment generation is the key link. In India, nearly 60 percent of the people rely on agriculture and the rural economy. That side of the economy generates less than 20 percent of the income or output. Greater employment opportunity for this sizeable population in productive ways in rural areas and in the urban economy would clearly be a priority going forward. Here again the size and strength of the domestic economy provide advantages for investments in education and appropriate skill formation. With half the population under the age 25, there is also a huge upside for employment.

But when you have a financial crisis and the growth rate is down, all of those options have greater limits and that's why social safety nets or social programs to withstand the problems of the poor are a priority.

What does the crisis imply for growth vs equity in development?

India has been pursuing a high growth path, without which it's hard to achieve the key objectives. Equally, along with high growth the high rural population and the large numbers that are close to poverty call for inclusiveness as a deliberate part of the agenda. Only growth without inclusiveness, or just inclusiveness without growth, will not do the trick. That's why in looking at the current crisis all eyes are on the question of how long it would last, how much of an effect it has on growth rates. I would simply add along with the concerns about the growth rate, inclusiveness and sustainability, to come out of this in a way that augments India's long term competitiveness. If you go by the growth rates of the past five years before the crisis, and if India were to grow at 8 or 9 percent for quite some time, then by per capita measures India would reach high income status over a generation. The sheer size of the economy would put India in the top two or three countries, and so along with China, Brazil and Russia, India could be one of the six largest economies of the world.

But then there is a critical question—is the current financial setback a blip, or is it one that signals a deeper concern over the long haul? On the financial front many of the problems were created because of lack of oversight and supervision, spilled over from the industrial countries. There have been fairly sound policies in the Indian context in macroeconomics reforms. So one could imagine that within 18 months or two years, the financial problems would be dealt with and we come out of the crisis.

Alternatively, could this be a signal of an inflection or turning point on how much growth can be sustained on the planet with the old policies and inefficient resource use patterns? It's easy to focus entirely on the financial sector and also imagine that since misguided policies led to this situation, improved policies on that score will get you out of this and get us back to business as usual. But if you go back to business as usual, all bets are off. You need to put in place more inclusive and sustainable policies, recognising the triple danger. If we do, with new leadership in the US, and noting the enormous talent and potential of India, this could be an opportunity to turn this crisis around into a path in which projections like India's high income status could become real and meaningful. ■

Brazil's Agenda

From Inside Brazil: Development in a Land of Contrasts | 21 February 2006

Brazil's reform agenda includes actions to improve social inclusion and augment the contribution of all citizens. It offers possibilities for making the most of the country's conventional and unconventional strengths, for changing course from the recent past and proving predictions wrong. The question is how to set priorities and proceed with urgency. To some extent the components can be phased in over time, but remaining open to opportunity and seizing the moment is vital.

As we look across all the areas affecting performance, a clear theme emerges: the need to emphasize human capital and people's welfare. While a focus on progress toward quantitative targets, such as school enrollment, is important, just as critical is a focus on the attributes of investments in human capital.

Economic growth dominates discussions of development, as it should because of its pervasive benefits. But it is also important to focus on the broader aspects of welfare, including basic education, health, water, sanitation, shelter, and a clean environment. Even if the impacts of interventions along these dimensions are not immediately captured by poverty or income indicators, they contribute to real improvements in welfare and poverty and help to overcome the fatalistic belief that those who are born poor will remain poor.

Economic growth will not be sufficient to reduce poverty rapidly in one of the most unequal countries in the world. Actions need to build on the progress already made in strengthening human capital, especially among the poor. Demographic shifts bring new challenges, such as the rising incidence of urban poverty, calling for new approaches. A combination of growth and targeted income transfers is needed to make a significant impact on poverty.

The significance of the growth–poverty link goes even further. An inclusive approach that pays specific attention to poverty and welfare can contribute to faster growth and help to sustain it. For Brazil to achieve and maintain growth of, say, 7 percent, it will be essential to include a far larger share of the population in the production process. And in that way, effective social programs are not only good complements of growth, they are also contributors to growth.

In the end, better distribution is not only a desirable end in itself but also the means to more and better growth.

A second theme relates to physical capital and the need to achieve higher growth by improving productivity. The reform agenda needed to restore Brazil to a high-productivity growth track is by now quite well established. The agenda includes regulatory reform, labor market reform, and capital market reform to overcome the severe infrastructural bottlenecks, facilitate better use of human capital, and improve the use of natural capital. Some of these reforms are challenging to carry out, but real progress often requires some tough choices.

In the drive for growth, investments in capital should not be favored over investments in labor. That would only worsen income distribution, with little payoff in sustained growth. Also important is to avoid a bias against natural capital, which would impede progress toward sustainable growth. A relatively neutral stance toward all three forms of capital would enable Brazil to draw on its relative strengths while ensuring that growth is inclusive and sustainable.

Brazil's people may be its greatest strength, but much of that strength is still untapped. Investments in human capital, which lagged in previous decades, are recovering strongly. Further efforts in this direction are not only possible but also complementary to all other measures. It will be crucial to take proper advantage of the enormous energy of Brazil's large and growing youth population. Public–private partnerships and a stronger role for civil society could contribute to high yielding initiatives.

Priorities and successes are often measured by how much is spent or invested. Yet it is productivity gains, not spending itself, that result in large differences in performance.

A third theme concerns natural capital. Brazil needs to use its precious natural resources wisely while also protecting them as a source of sustainable growth. It is widely accepted that countries must invest in both physical capital and human capital to grow. It is becoming equally evident that countries also need to invest well in their natural capital to grow.

The wealth of its natural resources sets Brazil apart from other countries. They are the common patrimony of Brazil's people, making their preservation and prudent use prime considerations. Valued properly, they could be a strong force for sustainable growth with equity. Brazil will be that much richer if it succeeds in pursuing these goals successfully.

Sustainable use of natural resources would require great care in environmental management, with increasing attention to enforcement. Showing great promise are efforts to combine ecological and economic zoning with institutional strengthening.

Also promising are efforts to integrate environmental policies with overall reforms, making environmental measures proactive rather than remedial and mainstreaming them across sectors. Natural resource management also needs to rely more on economic incentives where possible (such as incentives to promote sustainable forest management), and less on costly, often unrealistic standards (such as for wastewater collection in urban areas).

Natural resource management assumes a special importance for poverty reduction and inclusive growth because these resources make up a large share of the assets of the rural poor, and environmental mismanagement harms both the rural and the urban poor.

Tying these three themes together to make it all happen are institutional connections. There are institutional gaps that need to be addressed: the high cost of doing business, weak coordination across sectors and tiers of government, and inadequate property rights in rural areas. Brazil can achieve its potential if it capitalizes on its institutional capabilities and turns the weaknesses around. Unleashing the power of the private sector is one step in that direction. Building on the decentralized municipalities is another. Drawing on the strength of civil society is a third.

Brazil's political system, administration, and financial institutions are relatively developed and democratic. The federal contract and decentralization, with a strong role for states and municipalities, are major assets in Brazil's efforts to fulfill the aspirations of its people.

However, the institutional structure and political processes also slow the pace of reform. While delays are sometimes a natural part of participatory and democratic processes, they also reflect the power of those who support the status quo.

A primary concern would be how political processes serve public welfare rather than vested interests. Reforms improving the rule of law, transparency, and recourse to legal and judicial processes are just some of the directions that might better align the use of public resources to public welfare rather than allowing capture by special interests.

Brazil is among the most decentralized of countries. The challenge is to take advantage of the strengths at each level of government and to ensure that the country's great institutions are a force for sustainable development. For Brazil, more than for most countries, there may be much value in better integrating federal, state, and municipal agencies.

These changes represent a shift in the nature of the reform agenda from a focus on quantity to a focus on quality. Both emphases are needed, and they complement each other. But increasingly, it is the quality of inputs and the quality of outputs that seem to matter.

All these many strands can be woven together into an approach that goes beyond business as usual and raises the bar for all Brazilians—with the promise of better outcomes. The task now is to integrate them into an interrelated, ambitious, and yet highly doable agenda.

This is an invitation to advance Brazil's future: to recognize distribution and inclusion as part of growth, to value natural resources, to emphasize nontraditional areas of trade and growth, and to blend political and economic reforms. Doing so could mean the difference between performance that is mediocre and that which is exceptional—and exceptional in a uniquely Brazilian way. ■

The Culture Myth

World Link | July/August 1993

Policy makers everywhere are scrutinising East Asia's experience, searching for the keys to its success. Increasingly, it is being suggested that "culture"—a term often used but little defined—gives East Asia its competitive edge.

And what an edge—the economies of East Asia have improved their living standards fourfold within the last generation while other regions have grown much more slowly and, in some cases, slid backwards. In no respect is the region's record more outstanding than in exports. The continuing improvement in both the quantity and quality of exports is well documented and by the end of the decade developing East Asia is likely to be the largest trading area outside the European Community. The so-called Chinese Economic Area is itself emerging as a new a growth pole for global trade and investment.

But what is this magic ingredient called culture? Does it really exist as a separate entity or is it merely a convenient term for other factors more difficult to define and too challenging to duplicate? How vital have attitudes, beliefs and heritage (if such are meant by culture) been to the region's remarkable performance? Have they been as important as the changes in policy and institutional frameworks? In short, can other countries and regions with different histories and values succeed in replicating East Asia's success? The implications of these questions are enormous, for if other developing regions were to achieve the same pace of progress as East Asia, world poverty could be reduced by two-thirds within a generation.

East Asia is known for its favorable business climate. The discipline of its workers is also legendary and is held up as a model, not just for other developing countries but for the wealthy nations of the industrialised world too. The region is famous for its ability to forge public-private accords—again, in stark contrast to other industrial and developing countries.

These features are often attributed to a distinct culture said to prevail in the region. The discipline of workers, for example, is said to derive from Confucian values. Other sociopolitical factors, such as the Japanese dominance for half a century in Korea and Taiwan, and the military or authoritarian nature of some governments, are also said to have contributed to a shared commitment to development.

Yet East Asia watchers did not rate the region's prospects 30 years ago, when these same attitudes were thought to be barriers to economic progress and social development. Hard work was not always discerned as an especially strong attribute in the region. Max Weber even identified the Protestant ethic as the force determining western success, and saw Confucianism as a constraint to development.

If innate cultural features were crucial to the success that followed, this misreading of the region's outlook would be puzzling. So would such apparent contradictions to the culture theory as the tremendous difference in performance between North Korea and South Korea, divided countries with the same culture, or in Myanmar and Thailand, with completely different policy and institutional frameworks.

Clearly there is more to the problem than culture. Indeed, the East Asian experience suggests the contribution of cultural changes to progress. If there is a distinctive feature of the East Asian success stories, it is the willingness to adapt to new circumstances—even by ditching old ways of doing things—to get ahead.

To promote a nurturing climate for enterprise, South Korea had to overcome the elements of Confucianism that downplayed business values. For the economies of Hong Kong, Korea, Singapore and Taiwan, the only abundant resource was labor. From this lack of natural resources emerged a sense of urgency about the need to ensure survival through economic success. And around that awareness, a nationwide drive for development coalesced.

Nor can one say that an inappropriate approach to exports condemns some countries to failure. It is often said that some societies lack a natural tendency to seek export markets, changing their attitudes only slowly. But dramatic turnarounds in export performance have been seen in response to changes in policies and institutions. The most striking illustration is of course the ascendancy of Japan. "Made in Japan," once a synonym for poor quality, is today a hallmark of excellence.

With stability and the right policy incentives, many other countries have gained or regained competitiveness. Some outcomes are surprising, if an unchanging comparative advantage really holds sway. Consider the rise as a world class exporter of Colombia or Holland in flowers or Brazil or Italy in shoes. And these are just a couple of the wide range of products and countries that dominate the export picture.

All successful East Asian economies shared certain favorable characteristics in their original policy and institutional frameworks. But none of them just inherited such superior policy frameworks en bloc. Policies varied widely across countries at different times, and countries benefited when their economic management changed to meet new demands.

Most important, the successful East Asian economies were open to new ideas, technology and export competition. Not all had open import regimes to begin with, but they

took great care to ensure through other policies that the anti-export bias inherent in such import protection would be attenuated.

The concern for export performance did not spring fully grown in all East Asian economies. Some realized its importance more slowly. Malaysia and Thailand had a high degree of import protection and barriers to investment two decades ago; today they have strongly outward-oriented trade and investment regimes and tremendous export success. The recent reforms in all these countries are intended to reduce import protection and ensure that their competitive edge remains keen.

Each of these countries emphasized macroeconomic stability and governments exercised a fiscal discipline that set an example for the private sector. Policy makers attached a high premium to fiscal management. At times, that concern translated into balanced budget laws, in Thailand, or into limits on external borrowing, in Indonesia. While East Asian economies did not entirely escape macroeconomic instability—Korea and Malaysia have run large deficits—any instability was swiftly addressed.

Economies in the region have also understood the importance of savings and investment. Again, savings and investment rates were no higher in East Asia than the average for developing countries a quarter of a century ago. Today these shares are roughly 50 percent higher than elsewhere. Equally important, the countries invested substantially and efficiently in people. Education and health standards are much better than elsewhere, and the challenge now is to sustain and build on these attainments.

The region had a better start in human resource development, but the rate of progress, be it in educational or health investments, was also greater. Indonesia had some of the worst social indicators three decades ago. But relatively better investment in human resources, along with economic growth in the same period, has seen Indonesia achieve what might be the fastest reduction in poverty ever seen.

The physical infrastructure gained from investments too. Equally important, the returns on these investments tended to be higher than in other regions. The region now, ironically, finds itself lagging in infrastructure as the surge in economic growth has caused bottlenecks in a range of key areas. Investing efficiently in infrastructure remains a priority.

Crucial as they are, good policies do not fully explain the outcomes around the world. Policy reforms in East Asian economies are known to have produced greater payoffs than similar reforms elsewhere. A certain degree of trade liberalisation in Malaysia or Thailand seems to have been accompanied by a stronger export expansion than in, say, Ghana or Sri Lanka. Similarly, policies generally viewed less favourably, such as trade interventions, did not have the dire consequences in Korea that such policy efforts produced elsewhere.

Policies are not made in a vacuum. Sociopolitical factors influence the design, execution, and effectiveness of policies. Reformers face political and social barriers to change, perhaps most potently the entrenched opposition from powerful interest groups which stand to suffer as a result of reforms. Often governments themselves are captured by such interests, turning them into predatory states.

How effectively the state manages to distance itself from the special interests and lead the process of economic change is as vital as good policy design. In this, East Asia's strong and visionary leadership in development policies was an asset. Leaders in Malaysia or Korea acted effectively in bringing various interest groups into a national drive for economic development. This success in developing a national consensus helped ensure that policies on paper were moved into actions in practice. Initial success in economic policies strengthened the consensus for economic development, creating a virtuous circle that sustains growth .

This strength of leadership is often perceived as a unique support for the political framework supporting East Asian development. From this perspective emerges the dubious belief that reform would be assured and more effective in the absence of political opposition. Persuasive examples of the good results of authoritarianism come from East Asia but a quick scan of the globe shows just as many strong leaders elsewhere who have plunged their countries into economic and social darkness. Clearly the link between development success and authoritarian rule is no more solid than that between development and culture.

In the absence of checks—including the discipline involved in competing on world markets—authoritarian leaders worldwide have ruined their economies more often than not. Experience of rapid development under authoritarianism provides few policy implications since there is no way of choosing development-minded autocrats over plunderers.

Even if there is growing concurrence around the world on sound policies for development, the question remains whether other countries can replicate the conditions that enabled East Asia to implement change so effectively. East Asia's experience suggests a role for leadership and consensus for reforms, in addition to the contribution of sound policies. And that brings up the question whether

The Culture Myth (continued)

people in the reforming country, be it India or Russia, can be induced to change their attitudes sufficiently to sustain reform and consolidate their gains.

There are no infallible answers to these questions. However, experience suggests that effective reform is possible in many different settings. Important features associated with such effectiveness—from consensus building to policy flexibility—can be replicated. East Asia itself experienced tremendous changes over the years in acquiring these attributes and transforming its economies.

It remains unclear whether others can or should try to emulate the type of interventions in trade and industry that seem to have worked in East Asian economies such as Korea's. The government's flexibility and pragmatism when it intervened to speed development, reduced the probability of continuing failed policies compared to worldwide experience. These are complex and fragile attributes, and no one can guarantee that a government will continue to exhibit them—or that they will emerge.

Another factor that seems to have been at work in East Asia has come to be called the regional contagion effect. The proximity to other successful countries provides a special advantage. In particular, Japan has played a strong, if quiet, leadership role in transferring technology and ideas around the region.

At first glance, regional contagion may seem another factor specific to East Asia, but once again such exclusivity may be overstated. With the revolution in communications, geographical proximity is losing some of its relevance, and other growth centers are likely to emerge. Increasingly, outward orientation and sound domestic policies are likely to ensure the sharing of technologies and ideas worldwide.

The effectiveness of East Asian policies and institutions helps explain the region's success. Attitudes and culture matter but experience shows that they can change. Depending how they are harnessed, cultural factors can be either a stumbling block or an asset. Policies and institutions in any country can be reformed to take advantage of favorable conditions or to overcome unfavorable ones.

East Asia's achievements have cast a glow over the region that often transforms every policy and initial condition into a positive contributor to success. This is misleading. Among the long list of East Asian features—be it strong leadership or government interventions—most can be found to have figured in other parts of the world too. Not all are likely to have been vital to success, and some may have been costly, even if overall success was achieved.

East Asia would do well to avoid complacency about its prospects based on a favorable association between the region's cultural traits and recent economic performance. Continued vigilance in adapting policies and institutions to future requirements will be the key to continued progress as well as confronting environmental and infrastructural problems.

The region's continued expansion and success depend as much on worldwide openness in trade and investment. East Asia is not likely to be able to rely on its own dynamism in view of the outward-oriented strategy of its growth pattern. The industrial countries must reverse recent trends in greater protectionism and trade frictions if global trade is to expand. And East Asia can gain much from providing strong leadership for an open global system. Growing links with East Asia based on openness offer unprecedented promise for both sides. ■

Lessons of Development

The World Bank Research Observer | July 1993 (with Lawrence H. Summers)

Development is the most pressing challenge facing the human race. Despite the enormous opportunities created by the advances in technology, more than 1 billion people, one-fifth of the world's population, live on less than US$1 a day, a standard of living that the United States and Europe attained two centuries ago.

A remarkable transformation in prevailing views about how governments can best promote economic development has occurred in recent years. Where it was once thought that government needed to occupy an economy's commanding heights by allocating credit, rationing foreign exchange, ensuring against dependence, and operating key industries, today it is widely accepted that government's responsibility for directing the production and distribution of goods and services should be much reduced and the private sector's role much enhanced. It is in those tasks for which markets prove inadequate or fail altogether-for example, investing in education, health, or physical infrastructure-that government has a central role.

For some time now, the advice of the Bretton Woods institutions (the World Bank and the International Monetary Fund) has reflected the view that economic progress is impeded by governments that seek to supplant, rather than support, markets. That view has recently been taken on board by policymakers in many parts of the world. Most publicized has been the collapse of communism in what was once the Soviet bloc. China, where one-fourth of the people in the developing world live, calls itself socialist, but the past decade has witnessed spectacular growth of the non-state sector and very substantial price liberalization. India, where one-fifth of the population of the developing world lives, is now undertaking a program of structural adjustment and liberalization that is mild by Eastern European standards but would have been unthinkable even two years ago. Chile and Mexico have demonstrated to other Latin American nations the benefits that liberalization can bring. And change is coming, albeit slowly, in Africa, as agricultural marketing boards are dismantled and investment licensing schemes are scaled back.

The Development Record

In thinking about development strategy, it is a mistake to lose sight of the enormous progress that has been made and continues to be made in the developing world. Tremendous social progress has also been achieved in the developing world. Infant mortality rates have been cut in half, total fertility rates have been lowered by 40 percent, and life expectancy has increased by nearly a decade, equivalent to twice the gain from eliminating both cancer and heart disease in the United States. Social advance has been most striking in East Asia region where estimated incidence of absolute poverty has fallen dramatically in the past three decades, from a third of the population in 1970 to a tenth in 1990.

Many people think of the 1980s as a "lost decade" for development. Indeed the economies of Latin America, the Middle East and North Africa, and Sub-Saharan Africa, where average incomes declined in real terms during the decade, did have a difficult time during the 1980s. But growth of income per capita weighted by population was slightly above the historic average during the decade. This reflects the acceleration of growth in India and China, where more than 2 billion people live: average incomes in China expanded at roughly 8 percent a year in the 1980s, while those in India increased by more than 3 percent a year.

Of course, this relatively favorable record conceals enormous variations in growth rates and poverty reduction across countries. Per capita incomes in some economies have doubled twice over since 1960 and are well on the way to a third doubling. But thirty-six nations with a combined population of nearly 500 million people have seen low or declining average incomes over the past twenty-five years. Poverty remains a formidable problem, and substantial economic progress has yet to touch millions of people. Before turning to the more detailed implications of this record of divergence for national policy, three broad facts of experience are worth emphasizing.

First, peace is prerequisite to successful development. Most of the economically successful countries have been able to enjoy sociopolitical stability. By contrast, most of the thirty-six countries that have lost ground over the past twenty-five years were involved in a substantial military conflict.

Second, nations shape their own destinies. Poor domestic policies, more than an unfavorable external environment, are usually to blame for development failures. By any measure more foreign assistance goes to Africa, where performance has been poor, than to parts of Asia, where it has been better. Net capital inflows over the past quarter of a century to the most successful area of the developing world, East Asia, were less than one percent of the region's gross domestic product. Moreover, East Asia has not had the benefit of natural resources to export. And countries such as the Korea and Indonesia, despite debt burdens similar to those of some of the highly indebted countries, have not experienced debt crises because they used the proceeds of borrowing to make investments yielding high returns.

Third, the proper blend of state and market in the economy is a decisive factor. A review of the record identifies some important characteristics of successful government

intervention. Most of these follow from the general principle of supporting, rather than supplanting, markets.

Market development itself requires government action. The socialist economies in transition, from Eastern Europe to East Asia, are finding out that the establishment of the rules of the game by the government is crucial to the success of market reforms. The need for government action goes further, its rationale resting on various notions of market failure.

Investment in human capital and physical infrastructure by the government are usually justified because of externalities or spillover effects in the consumption or production of both of these categories and the inadequate incentives for markets to take them into account. In the case of primary education, for example, there are consumption related spillovers. The benefits to literacy go well beyond the gains to the individuals becoming literate. In the case of physical infrastructure such as roads, there are production related externalities based on the need to make lumpy investments or to integrate the service in large networks. Negative spillovers, too, justify government intervention: environmental pollution and congestion are inadequately accounted for by the market.

The central issue, then, is one of the state and the market, but it is not a question of intervention versus laissez faire a popular dichotomy but a false one. It is rather a question of the proper division of responsibilities between the two and of efficiency in their respective functions.

What are the Uncertainties?

Across a wide spectrum of opinion there is agreement on the basic principles. Governments have done too much of the things they cannot do well-regulating markets and producing ordinary goods-and too little of the things they must do well-maintaining macroeconomic stability and making necessary public investments. Governments, in ways that will differ from country to country, need to do less of certain things and to do them better. But the agreement on these points leaves a great deal unresolved. There are questions about implementation and concerns about external constraints of various kinds.

First, the East Asian success stories remain open to differing. Government, at key stages in each of these countries' development, did seek to affect the allocation of resources across sectors through industrial, trade, and credit allocation policies. World Development Report 1991 noted some key conditions under which East Asian interventions were far more effective than similar actions in other parts of the world. Government interventions were disciplined by international competition. And they were flexible enough to be changed on the basis of the evidence about their effectiveness. As the success of Japan, Korea, and Taiwan continues, the position taken by some economists that they succeeded despite government efforts at channeling market forces is increasingly implausible. But there is still room for disagreement, and so for research on two questions: how important in explaining East Asian growth is the contribution of sector interventions relative to the contribution of overall macroeconomic stability, outward orientation, and investments in capital and people, and what is unique about these countries that enabled interventionist policies to succeed there when they have been so unsuccessful in the rest of the world?

Second, what is the best sequence and pace of reform? If the role of government that we have just described is agreed to be appropriate, there remains the question of how policies should be reformed. On the sequencing question, experience suggests that it is wrong to think of reform as a series of obstacles, each of which must be surmounted. Policy changes typically occur simultaneously or nearly simultaneously on many fronts. But as a general proposition it appears that macroeconomic stabilization is essential to reform and needs to come early, and that it is usually best to delay financial liberalization until macroeconomic stability has been put in place and the viability of enterprises has been restored. On the question of the pace of reform there is also room for disagreement. Where hyperinflation is rampant or looming, the case for urgent action is clear. But where the threat is not imminent, as in much of Africa, China, or India, the case for "big bang"-style reform is much weaker.

Third, what is the relationship between political and economic reform? An earlier view that democracy was antithetical to development and that the strong-arm state with a strong leader at the helm was essential has now been discredited. A number of studies have found no systematic relationship between liberties and rates of economic growth and evidence of a positive relationship between liberties and social performance. These findings are reassuring to friends of both economic and political freedom, but doubts remain. Most of the major development success stories-for example, Chile, China, Korea, or Singapore-had governments that were or are authoritarian in many respects. It is possible that democracy can foster growth by making it impossible for hopelessly incompetent and corrupt governments to remain in power, but one also has to wonder whether democracy can be inconsistent with outstanding performance.

Fourth, can adjustment to the "market-friendly" approach work in very low-income countries, especially in Africa? It is hard to answer this question in the absence of a

clearly specified alternative strategy. One of the hard lessons of the adjustment efforts of the past decade is that adjustment and reform take time to yield results. Government credibility, once lost, is restored only very slowly. And would-be investors, whether foreign or domestic, can always delay investment, waiting to see how things turn out before deciding whether to invest. Most of the success stories—Japan and Germany after World War II and Chile, Korea, and Mexico more recently—took time, and things often got worse before they got better. The process appears even more protracted in very low-income countries. It is no accident that programs put in place with the cooperation of the Bretton Woods institutions involve a higher ratio of adjustment to austerity than would have been the case a few years ago.

Fifth, will the external global economic conditions make export-led growth possible on a large scale over the next twenty-five years? Export-led strategies have not invariably been the most effective. Looking at the record of the period between the two world wars and of the immediate postwar period, it is not difficult to understand the appeal of import substitution notions. Brazil, with relatively closed markets, was about the fastest-growing country in the world from 1965 to 1980. The liberal advice that most developing countries receive must be based on one of two premises. One is that it will be widely ignored, so the adding-up problem—that is, the problem that increased exports from all will deny benefits to individual countries—will not arise, and those few countries that increase their export capacity will benefit. The other is that many countries will be able to increase exports greatly without depressing their terms of trade, either because industrial markets for domestic products will grow without protectionist policies being imposed, or because trade among developing countries will become more important in the future than it has been in the past.

Sixth, will natural environmental constraints hold back development or force a new paradigm based on notions of sustainability? Environmental concerns are very important and have been too little reflected for too long in policymaking in both developing and industrial countries. To a large extent environmental problem are a consequence of policies that are misguided on narrow economic grounds—subsidies to energy, failure to give farmers title to their land and adequate credit, public ownership of major industries, inefficient charging for water, and so forth. And where they are not, the difficulty is to do the right cost-benefit analysis and implement the most cost-effective policies for sustainable. Of particular importance are steps to eradicate the severe forms of environmental degradation, such as poor sanitation and water and air pollution that threaten human lives and well-being. The agenda for environmental reform is a large one. Accepting the challenge to accelerate development in an environmentally responsible manner will involve substantial shifts in policies and priorities and will require substantial investments. Failing to accept it will be far more costly.

Seventh, and finally, there is the ever present danger that some new problem will surface. The only real constant of experience is the unpredictability of the future. ■

Running Aid in Tandem with Reform

New York Times | 20 October 1991

Never in recent history have economic reforms been as widespread as today, and so it was for good reason that economic reform and foreign financing led the agenda in Bangkok last week at the annual meetings of the World Bank and the International Monetary Fund.

Economic changes are sweeping Eastern Europe and making inroads in the Soviet Union and many developing countries, from Pakistan to Vietnam, Peru to Morocco. Yet as demands intensify for industrial countries to finance these reforms, the availability of money remains tight.

A crucial question emerges: Are reforms and foreign financing complementary partners, strengthening each other—or substitutes for one another, with financing displacing reform?

The evidence is beginning to come in. Recent World Bank studies of 80 developing countries show that when reform is underway, supported by political leaders and citizens, foreign financing can improve economic performance. In Bangkok last week, those that considered extending financing—be it aid from industrial countries or non-concessional money from private sources—looked closely at economic changes underway in nations needing assistance. For the Soviet Union and others, the message was clear: foreign aid will materialize, to bear the greatest fruit, when reform efforts get underway.

Foreign financing, of course, can backfire. Aid and other types of financing by themselves do not insure that economic or market reforms will be carried out. The experience of Brazil, Argentina, Cote d'Ivoire and Tanzania prove that. And when aid programs are poorly designed, they allow recipients to postpone—or totally avoid—difficult policy changes, enabling them, say, to live beyond their means with little thought of change.

But the confluence of economic reform and foreign financing shows its most beneficial effects in countries like Chile, Mexico, Greece and Spain. Policy changes—such as industrial deregulation or trade liberalization—ultimately fostered better performance, even though they often initially prompted greater unemployment and higher prices. It was foreign financing—commercial money or official assistance—that cut the initial pain and contributed to long-term gains.

World Bank studies show that external assistance—for specific projects like roads and irrigation or for balance of payments—is far more effective where reform is underway. The economic benefits of sound investments in infrastructure are obvious, but these investments are also more productive when better economic policies are in effect. And evidence from Chile, Ghana, Korea and other nations suggests that aid targeted to balance-of-payments problems can stabilize the economy and spur growth—provided policy improvements are taking place.

The studies also show that market reforms were necessary—but not sufficient on their own—to bolster struggling economies. Eastern Europeans, for example, now see how important it is to develop market institutions and to build the confidence of private investors so price reforms succeed. It is critical for reform-minded nations to encourage private investment and establish legal and financial institutions.

Thus, comprehensive reforms—involving market incentives, investments and institutions—have large payoffs. But making these changes is easier said than done. In the end, the success of economic reform depended on whether a country treated the program as its own, rather than as a foreign imposition. This required consensus on the need for change and long-term commitment of the nation's leaders; quick results seldom occur because of the lags with which economies respond to policy changes. Look at Chile, Czechoslovakia, Mexico, New Zealand or Poland.

As reform-minded countries move toward market-friendly policies, with the state supporting, not supplanting, markets, this creates an unprecedented opportunity for foreign financing to be put to good use. Without financial support, they run the risk of a political backlash—and the unraveling of the reforms. ■

Development Means Hard Decisions

New York Times | 15 August 1991

In these frustrating times of "aid fatigue" it may not be fashionable to suggest that development is working. But consider the following: In the last 30 years infant mortality rates have been cut by half in the developing world; average life expectancy has risen by 10 to 15 years; and average incomes have doubled—indeed, average incomes have quintupled in some Third World countries.

But progress has not been uniform. In at least 20 countries, which together contain some 250 million people, living standards have fallen in the same period. And in 10 other countries, with a total population of 200 million, there has been little change in the standard of living.

Why these enormous divergences? What can be done to improve the pace and quality of development in a sustained manner?

This year's World Development Report, the annual assessment of global development published in July by the World Bank, draws on 40 years of the development experience of some 100 countries to suggest answers. It provides a backdrop for the United Nations Conference on the Environment and Development to be held in Rio de Janeiro next June.

A central explanation for success and failure in development lies in the mix of market competition and government intervention that countries have chosen to adopt. Failure to progress rapidly is often attributable to excessive government intervention, especially in areas—such as the production of steel and cement or the running of airlines and hotels—that are best left to private enterprise.

But the record also shows that in some areas, such as environmental protection, primary education and infrastructure development, inadequate or inefficient government intervention can assure failure. What is needed is a "market friendly" approach in which the state supports rather than supplants markets.

Thinking about development has changed greatly since World War II. India's first five-year plan captured the emphasis of the early 1950s in many developing countries: "The key to higher productivity . . . lies really in stepping up the rate of capital formation . . . Control and regulation of exports and imports . . . are necessary . . . A rapid expansion of economic and social responsibilities of the state will alone be capable of satisfying the legitimate expectations of the people."

Four decades later, the focus has changed. Consider a major policy speech by President Mikhail Gorbachev of the Soviet Union in 1989: "The market is not omnipotent, but mankind has not devised any more effective and democratic mechanism of economic management."

Also gaining acceptance is the view that getting the policy mix right means much more than getting the prices right. It pays to protect the environment, invest in infrastructure and relax institutional constraints. The competence of government in its areas of specialization, such as social services and environmental protection, is vital.

This emerging consensus, while remarkable, does not mean that there is a clear path toward reform. There are many obstacles. The industrial regulations that bedevil many countries—perhaps conceived with good intentions—have often made corruption endemic. Often in collusion with favored industrialists who benefit by protection, governments have ensured that much of the wealth is siphoned into unproductive activities. Reform requires patience and realism. Market reforms involve a painstaking process. Dramatic results cannot be expected overnight. The costs of transition need to be addressed. A lot of employment is contingent on the state's running of industries. Trimming this labor force could well cause fresh social strife.

Reforms also mean that governments have to start doing a better job in environmental protection, alleviation of poverty, management of targeted food programs, building of infrastructure, primary education and basic health care. And that requires the building of administrative, legal and technical capabilities.

Many Third World leaders are gloomy about the prospect of faster development resulting from their reforms. They are pessimistic about more investment and concessional aid from the industrialized countries. They complain that it is not easy to gain access to the latest, most efficient and competitive, environmentally sound technology.

The industrialized countries, as well as bilateral and multilateral aid agencies, should help increase the flow of capital and technology to the developing world. Greater access to Western markets could result in additional income for Third World countries of more than $50 billion—the equivalent of what these countries receive in foreign aid from donor countries in the OECD. Governments in the industrialized countries have a responsibility—if not to the developing world then to their own citizens—to grant the developing countries access to their markets.

Development Means Hard Decisions (continued)

The statistics in this year's World Development Report are troubling. More than a billion people, or a fifth of the world's population, live on the equivalent of less than a dollar a day—a standard of living achieved by the peoples of North America and Western Europe 200 years ago.

And each year, the developing countries add to their populations a total of more than 90 million people—an unprecedented expansion. Nearly 95 percent of the increase in the global population in the next 25 years will be in the Third World. Economic and population growth worldwide, in the absence of sound environmental policies, contribute to the process of environmental damage.

The 1990s provide challenges, but also great opportunities arising from dramatic progress in technology and the general health of the world economy. The time is ripe for action based on the broad convergence of views on a market-friendly strategy for development. Such action will require tough decisions to carry out reforms and a political commitment to global development on the part of developing and industrial countries alike. ■

The Path to Growth

The Economist | *13 July 1991*

Compared with earlier history, the developing countries have grown quickly over the past 40 years. The time it takes to double real incomes per head in the early stages of industrialisation has fallen dramatically. Britain needed roughly 60 years to do it after 1780, America nearly 50 years after 1840, and Japan about 35 years after 1885. Turkey achieved the same feat in 20 years after 1957, Brazil in 18 years after 1961, South Korea in 11 years after 1966, and China in ten years from 1977.

Despite the mood of "development pessimism" that has prevailed for much of the period since the second world war, history therefore shows that poor countries can indeed grow—and much faster than today's rich countries did at a comparable stage of development. The main reason is technological progress. Through trade, today's poor countries can import the means (goods, technology, ideas) to make their assets (labor and land) more productive.

But the figures also tell another story. Between 1950 and 1989 real incomes per head in Asia went up, on average, by 3.6 percent a year. During the same period in Latin America, they went up only one-third as fast, at 1.2 percent a year. Sub-Saharan Africa fared even worse: its real incomes went up by 0.8 percent each year (and during the past two decades actually fell). Within regions, there are even bigger disparities. Asia has South Korea and Taiwan at one extreme, India at the other. Latin America has Chile, and it also has Argentina.

The World Bank's new World Development Report argues that such disparities are caused, in the main, by economic policy. To put it bluntly, developing-country governments can choose whether their countries will prosper or stagnate. The past 40 years have not answered every question in development economics, but the evidence is now good enough to know which policies are likely to work and which are certain to fail.

Listen to prices

The new report combs through a vast amount of earlier research. But some of the most striking information is new—derived from a big study of the Bank's own operations as a lender to third-world countries.

The Bank's economists looked at 1,200 investment projects which had been supported over the past 20 years by either the Bank or its sister, the International Finance Corporation. The sample is broad as well as big: it includes private projects as well as public ones, and ranges across agriculture, industry and the parts of the economy that produce "nontradables" (infrastructure, utilities and so on).

As part of their normal process of appraisal. Bank analysts work out the economic rate of return on completed projects. For each borrower the Bank also keeps track of a variety of economic distortions in, for instance: trade (tariffs and non-tariff barriers such as import quotas), foreign exchange (the premium on black-market exchange rates), interest rates (whether positive or negative in real terms), and fiscal policy (the size of budget deficits).

The new study has put all this information together to see, on a project-by-project basis, what difference distortions caused by policy make to projects' rates of return. On every measure of distortion, projects yielded the highest returns where distortions were low and the lowest returns where distortions were high.

Take distortions in the foreign-exchange market. Where these were low (a black-market premium of less than 20 percent), economic rates of return averaged 18 percent; where they were high (a black-market premium of more than 200 percent), the average return was 8 percent. Overall, projects undertaken in a relatively undistorted regime had rates of return that were five percentage points higher than projects undertaken in a distorted regime. If this improvement in efficiency could be achieved for all investment across an economy, incomes per head would typically rise by more than an extra percentage point each year.

Increasing returns

That part of the report, in effect, finds new evidence for something the Bank has been telling governments for years: get prices right, mainly by intervening less. The result will be a more competitive domestic microeconomy with strong links to the outside world. Elsewhere, the new report is at pains to stress that government has a crucial positive role to play, too.

An efficient domestic economy needs investment in infrastructure. And if new investment opportunities are to be seized, people need to be healthy and educated, especially in basic skills—which calls for public spending. And macroeconomic policy needs to be a stabilising, not a destabilising, influence.

These four elements—a competitive microeconomy, a stable macroeconomy, global linkages and investment in people—feed on each other. For instance, a competitive microeconomy furthers educational progress because it raises the economic returns from extra years of schooling; equally, better education makes the economy more competitive by making workers more productive. There

are many more such virtuous links: good policy promotes good policy in all sorts of ways.

Another new piece of research gives an indication of how important such links might be. The Bank studied two different aspects of policy—price distortions (using the foreign-exchange premium as the measure) and education—then plotted the results against growth in aggregate GDP for 60 developing countries during 1965-87. The countries that scored badly on both aspects of policy grew at 3.1 percent a year. The countries that did well on one aspect of policy and badly on the other grew, in each case, by 3.8 percent a year. The countries that scored highly on both measures of policy grew by an impressive 5.5 percent a year.

So the reward for improving one aspect of policy was an extra 0.7 percentage points of growth, whereas the reward for improving two was an extra 2.4 percentage points. When you get different aspects of policy right, it seems, the whole is greater than the sum of the parts. ■

Challenge of Development

Financial Times | 8 July 1991

Markets plus education. These three words encapsulate the message of this year's World Development Report from the World Bank. Its theme is the challenge of economic development; its aim, to distil the lessons of 40 years. These years have seen heartening successes, notably in East Asia, and horrible failures, above all in sub-Saharan Africa. They have also been years of learning-by-doing, as a result of which thinking on development has undergone a sea change, towards acceptance of "market friendly" development policies.

"New ideas," states the report, "stress prices as signals, trade and competition as links to technological progress; and effective government as a scarce resource to be employed sparingly and only where most needed."

The report a recommended list of areas for government action is not undemanding: it should maintain law and order, provide public goods, invest in human capital, construct and maintain the physical infrastructure, and protect the environment. Meanwhile, it must—no small task this—control itself, for if markets fail, so too do governments.

Where governments get the combination of intervention with laissez faire right, the results can be startling. Countries with low levels of policy distortion and a high level of education registered growth of gross domestic product of 5.5 percent a year between 1965 and 1987; those with low distortion but a low education level managed only 3.8 percent, while those that combined high distortions with low education managed only 3.1 percent a year. Similarly rates of economic return on World Bank projects are at least one and a half times higher under undistorting economic policies than under distorting policies.

Huge difference

It is not just that there are right and wrong approaches to economic development, but that they make a huge difference. Between 1980 and 1989, within the same global economic environment, East Asian developing countries managed growth of GDP per head of 6.2 percent a year, while those in Latin America and the Caribbean experienced a dismal decline of 0.4 percent a year, and those of sub-Saharan Africa a still more dismal 1.2 percent a year. In 1960, Japan had a lower real income per head than Argentina or Mexico: the Republic of Korea a lower one than Zimbabwe, Ghana, or Sri Lanka.

What is to be done to ensure that good performance becomes the norm? On this, the report is to be commended for its robustness in criticizing governments for corruption, inefficiency and waste, the latter perfectly symbolized by the spending of $170 billion a year on defense, more than three times total aid transfers from rich countries.

Without competent and disinterested government, external assistance for development amounts to little more than pouring water on to the sand. The existence of such government must be an explicit condition for external support. But conditionality should not be overly intrusive. Experience does not demonstrate that democracy, however desirable in itself, is unambiguously good for economic growth.

Successful reform

From the analysis of the report's list of seven conditions for successful economic reform, two points emerge: first, there is no point in supporting a reform effort that is lacking in essential respects; second, a reform cannot simply be imposed from outside. The implication is that assistance should be selective. If a country does not show the commitment it taxes to do the job, it should be left to stew.

Yet industrial countries have more to do than preach at developing countries. For one thing, the debris of the debt crisis needs to be finally removed; for another, the collapse of private lending to most developing countries has increased the need for official flows.

But most important of all, the industrial countries must maintain an open, international economy, in their own interests as well as in that of developing countries.

No fewer than 45 countries have initiated unilateral trade liberalization since the start of the Uruguay Round. Yet this unique opportunity to create the global system of liberal trade that the industrial countries have been preaching for decades is on the verge of foundering.

And on what is it foundering? On the desire of the industrial countries—notably the European Community—to go on pouring tens of billions of dollars on farm programs that do not work. That this was not a focal issue in the recent meeting of the heads of government of the European Community is a scandal rivalling any of those documented in this year's World Development Report. ■

Policies for Economic Development

American Agricultural Economics Association | 1990 (with Stanley Fischer)

At the end of a decade in which many developing countries have seen economic regress rather than progress and in which the formerly socialist economies for the most part turned away from central planning toward a market-oriented approach, there appears to be more agreement on the policies needed to produce growth and economic development than at any time in the post-World War II period. It remains to be seen whether the moment is more than fleeting. But it is certainly a good time to attempt to set out a mainstream, pragmatic view of what those policies are and of the uncertainties that surround the basic market- and outward-oriented approach to development.

Getting the Macroeconomic Framework Right

Economic development is unlikely to occur unless policies produce a stable macroeconomic environment in which inflation remains reasonably low, the real exchange rate is competitive and stable, and foreign exchange and debt crises are avoided.

Tax rate and expenditure policies of government, including the composition of government spending, are the government's major microeconomic tools for affecting the allocation of resources. Beyond these microeconomic effects, fiscal policy is increasingly seen as the key to successful macroeconomic policy because, in its macro impacts, it has direct effects on the current allocation of resources, and because all methods of financing budget deficits have potentially adverse macroeconomic consequences when used to excess.

Given private saving, fiscal deficits displace private domestic investment or cause current account deficits. Thus, unless private saving responds fully to public sector deficits—and there is little reason to think it does—reduction of the fiscal deficit is likely to improve the current account and, perhaps after a period of adjustment, increase investment. Fiscal deficits can be financed by printing money, by running down foreign exchange reserves, and by borrowing, at home or abroad. Each of these methods of financing can be used on a small scale (and in the case of running down foreign exchange reserves, on a transitory basis), but each is likely to have seriously adverse consequences if used on a major scale. Printing (high-powered) money is inflationary; running down foreign exchange reserves leads to a foreign exchange crisis; domestic borrowing can lead to higher real interest rates and an unstable domestic fiscal situation; and excessive foreign borrowing can lead to an external debt crisis.

While the conclusion is that fiscal moderation is the key to macroeconomic stability, this does not mean a zero deficit is optimal; a country that is growing fast can afford to run a larger deficit than one that is growing slowly; a country with a higher saving rate can run a given deficit for longer than a country with a lower saving rate. Fiscal moderation must be judged by the projected path of the debt (the sum of internal and external debt) to GNP ratio, and of the inflation rate and external balance. On the whole, inadequate fiscal policies remain a central factor behind the macroeconomic instability and poor performance of many developing countries.

The second key to a sound macro framework is the exchange rate; it plays two roles in economic policy. First, the level of the real exchange rate is crucial to the development of the domestic economy: it establishes market incentives to export and the level of protection for domestic industries. Second, stability of the nominal exchange rate is one potential monetary anchor and a powerful anti-inflationary factor. When an economy operates with a fixed nominal exchange rate, the quantity of money becomes endogenous. This simplifies the job of the monetary authority; but, as experience shows, it frequently leads to a host of foreign exchange controls.

The two roles of the exchange rate sometimes clash: governments afraid of inflation hold the nominal exchange rate constant or devalue it too slowly, with the result that the domestic currency appreciates, and—with a lag—the current account goes into crisis. When the monetary anchor and trade incentive roles of the exchange rate conflict, the monetary anchor should be pulled up first and pressure, typically the budget. Intermediate steps, such as a crawling peg, in conjunction with appropriate fiscal policy can provide some monetary stability without tending to produce an overvalued currency.

Investment and saving ratios in rapidly growing economies are typically higher than those in stagnating economies. It is further clear that sustained growth will not resume in Sub-Saharan Africa and Latin America until investment ratios there rise significantly. The rise in the real interest rate in the 1980s reduces the possibilities of financing investment from abroad; economic growth in the 1990s will have to be largely domestically financed. The surest way to increase domestic saving is to increase government saving, i.e., to reduce the government budget deficit. The emphasis in the 1980s was on the importance of positive real interest rates for development. The emphasis is appropriate when the real interest rate is significantly negative, as it frequently is in high inflation economies: negative real interest rates appear to reduce saving and impair the efficiency of the financial system by reducing the share of saving that is intermediated through financial institutions. But once the real interest rate is positive, or nearly so, there is little empirical or theoretical reason to believe that further increases will increase saving.

Responding to shocks. Emphasis on the stability of the macroeconomic framework should not obscure the importance of the ability of the government to adjust macroeconomic policy quickly to external and internal shocks. Fiscal and monetary policy, and the exchange rate, may have to change rapidly when external conditions change; the more successful governments recognize change and respond to it. The need for flexibility is especially great for economies whose external earnings fluctuate a great deal, typically because they are dependent on earnings from one or a few primary commodities.

Sectoral Policies

Macroeconomic policies for stability and growth usually need to be underpinned by appropriate sectoral policies to obtain a satisfactory supply response. Sectoral policies include investment decisions, pricing and regulatory policies, and institutional development.

Investments in agriculture, industry, infrastructure, and human resources have long formed the core of development efforts. The traditional approach was to pursue development projects in these sectors with the aid of project analysis of benefits and costs. The effectiveness of the investments, however, depends on the policy environment affecting the sector and the degree of institutional development.

Although there is no universal prescription for sectoral priorities for development, development usually requires increases in agricultural productivity permitting an increasing share of the labor force to contribute to industrial production. Accordingly, development is usually accompanied by an increasing share of industry in output. Human resource development is both an independent goal of development and an essential instrument of economic progress.

Unprecedented rates of population growth in the post-World War II period have contributed to low or negative per capita income growth in much of Africa, Asia, and for some time in China and India. Despite significant political opposition within the United States, international agencies have sought to assist governments to reduce population growth. Success to date has been limited, but there have recently been encouraging signs from some African countries, where population growth rates appear to be turning down as a result of government educational programs and the provision of contraceptives. Reducing the rate of population growth remains a priority of development policy in many developing countries.

The emphasis on the centrality of sectoral and macroeconomic policies to the success of projects has strengthened in recent years, along with the recognition that policies are of independent importance to sectoral performance. Measures to bring domestic relative prices closer to international levels and to establish a relatively neutral macroeconomic framework are often essential to enhancing sectoral performance. In agriculture, for example, incentives were historically suppressed by agricultural taxes. Perhaps more important, macroeconomic policies resulting in overvalued exchange rates have translated into heavy (often unintended) taxation of that sector. Adjustment programs in the 1980s have therefore focused on both macroeconomic policies (exchange rate, import protection) and sectoral pricing policies (eliminating price controls on agricultural output, for example). Concurrently, many programs have also attempted to reduce the rather ineffective input subsidies in agriculture while improving the delivery of inputs and services.

The consensus is converging to the view that macroeconomic and sectoral pricing and regulatory policies should be relatively neutral, that governments should move away from interventions designed to favor particular industries, regions, or factors of production. However, moving toward neutrality may require active transitional government policies, for instance in restructuring public enterprises or the financial system (see also the next section). It also remains true that an active government investment program in the sectors, especially, physical infrastructure and human resource development and technology, is essential to development.

Integrating with the World Economy

The most successful performers of recent decades have been the newly industrializing economies, characterized by their relative openness and links with the world economy. To maintain these links, they have had to remain competitive in a rapidly changing world environment. Common to successful competition strategies is the reduction or elimination of discrimination against tradables—permitting exports and efficient import substitutes to be produced on a similar footing with nontradables.

However, such neutrality in the trade regime has been approached through different routes. Some successful reformers have substantially liberalized their trade restrictions (Chile, Mexico), others have intervened to offset existing biases against exports (Korea, Taiwan), and still others have done both (Indonesia, Turkey). Government controls have been especially prevalent in the area of capital flows in many

countries. Interventions to encourage new technologies and to industrialize have also paid off on occasion.

Developing countries are more open, and their trade regimes are more efficient than a decade ago. They have substantially reformed their exchange rate and export policies. They also have increased the efficiency of their import regimes by switching from quantitative restrictions to tariffs. But reductions in the levels of nominal and effective protection have been more limited than is generally believed.

Most countries that have implemented trade policy reforms have won long-term economic gains. The policy changes and additional financing under adjustment programs have both been associated with moderate improvements in output and export growth. However, supply response to changes in relative prices associated with the trade reforms has been limited in many countries. The main constraints on the supply response have been restrictive domestic regulations and inefficient public enterprise policies; growing protectionism in industrial countries; doubts about the permanence of the reforms; and inadequate institutions, infrastructure, entrepreneurial, and managerial capacity in the reforming country.

Sustainable Development

Two issues fall under this heading. The first is environmental sustainability, which has both a country-specific and global aspects. One fear is that in many countries development is taking place by exploiting and destroying much of the resource base, and that such development is accordingly not sustainable. The presumption is that two-way links exist between growth and the environment: certain growth policies are consistent with environmental protection, and environmental care in turn contributes to sustained growth. But knowledge of the tradeoffs between measured growth and environmental protection must increase. At the same time, simple steps to prevent environmental damage, such as environmental assessments for all projects, are already being implemented.

Global environmental issues pose more difficult problems. If global warming is taking place, it is largely the result of current and past economic activities of the now-industrialized countries. If measures are put in place to reduce global environmental damage, the issue of burden sharing between developing and industrialized countries—as well as among all countries—will pose major political difficulties.

A second sustainability issue is whether the adjustment programs of many countries are socially, politically, and economically sustainable. Adjustment is more likely to be socially sustainable if the poor are protected during the process of adjustment. Political sustainability may depend on how adjustment affects the segment of population with political clout. In general, adjustment is more likely to be sustainable the sooner it shows economic results. One reason to provide external financing during the adjustment process is temporarily to reduce the extent of cuts in expenditures and in imports that would otherwise have been necessary.

Poverty Alleviation

Although the purpose of economic development is to reduce poverty, poverty alleviation is a separate goal of policy in developing as well as industrialized economies. Specific policies, such as targeted food subsidy and health programs, can be used to protect the poor and reduce poverty, even during adjustment. Bolivia's experiment with the Emergency Social Fund and Ghana's Program of Actions to Mitigate the Social Cost of Adjustment are examples. These are temporary measures (three years in Bolivia and two in Ghana). More fundamentally, education and other social programs can be designed to reduce poverty, even though in many countries social spending helps mainly the middle and upper classes. More effective and better targeted public expenditures are needed. Sometimes it would help to correct mis-targeting of existing public social expenditures, for example, by reducing public funding of education and curative health care expenditures.

The Balance between Public and Private Sectors

The new consensus on development policy places greater stress than before on the central role of markets, and on the private sector (in some countries, the informal private sector) as the engine of growth. The role of the public sector is seen as the creation of a favorable enabling environment for economic activity. The enabling environment consists of the legal, institutional, and policy framework within which economic agents operate.

A government that creates a favorable enabling environment has a large role to play, for instance in ensuring the provision of infrastructure, including social services, such as poverty alleviation, basic education, and access to health care; public security; a stable macroeconomic framework; and an efficient fiscal and regulatory system.

The most difficult question about the role of the government is whether it should take an active part in promoting particular industries, that is, whether it should pursue an industrial policy. Some successful elements of an active policy are clear: export development and assistance in marketing, information, technology, and knowhow. Expanding manufactured exports requires sustained efforts on both macroeconomic and microeconomic levels. Japan, Korea, and Taiwan have paid attention to the many nonprice requirements of export development. For a period of time, they also pursued export development while maintaining a certain degree of import protection.

Outstanding Issues

General agreement on the policies needed to produce growth and economic development will remain only if the currently agreed upon policies produce growth and development. Seen in that light, the challenges, particularly from Africa and Latin America, and most recently from the reforming socialist economies, are formidable. In many cases, the problems are analytic, for instance, how to sequence the adjustment of a heavily distorted economy with macroeconomic and external imbalances to the market-oriented structure that its policy makers seek. In other cases, the problems are political: countries with infrastructure and analytic capacity lack the political ability to implement changes that are generally recognized to be desirable. This is not a problem only for developing countries. In other countries, inadequate human capital and institutional framework constrain development. It is essential to recognize that the problems of development differ from country to country, and that each country's policies have to fit its own structure while still recognizing the realities of the world economy in which it operates.

There are also deep questions about the role of external funding and the international development agencies. It is often argued that countries would have done better if left to their own devices and forced to confront their budget constraints earlier and harder. One can agree with this judgment for some countries, but not for most. Nonetheless, it is essential to recognize that an important goal of development is for countries to reach the stage at which they manage their own affairs. ■

Epilogue

The eight Millennium Development Goals (MDGs), adopted in 2000 and concluded in 2015, gave top billing to basic health, basic education, extreme hunger and poverty reduction. A great deal has been achieved in these respects across all regions of the world, but gaps still remain in human welfare. These gaps, however, are not strictly limited to the eight areas of the MDGs alone.

As the world has changed over the past decade, growing troubles in related areas have added new priorities and compounded the concerns over old ones. For example, growing income inequality threatens poverty reduction and social stability in numerous countries. Weak governance and corruption are problems across the board. Runaway climate change poses severe threats to our planet. These challenges complicate the efforts to maintain or deepen the progress on the basic eight areas of the MDGs.

The writings in this compilation from Results for Development Institute, covering three decades of development thinking, are timely. In many ways they anticipated the development efforts needed on generating greater inclusion, abating environmental destruction and dealing with weak governance. It is not too soon that today we circle back to these topics with urgency and resolve, as innovative solutions to address them will define success in all else.

The Sustainable Development Goals (SDGs), that are taking the place of the MDGs, provide the broader span of concerns that now define our way forward. But even as the range of goals has broadened, the roadblocks to getting results are all too familiar: insufficient knowledge in some respects, inadequate financing in others, weak capacity in numerous country contexts, and vested interests everywhere.

As we look for ways and means to overcome these obstacles, it will pay to bring together the most relevant experiences from all around the world. The old divisions between developed and developing countries have narrowed, as all have succumbed to rising inequality, the ravages of climate change and governance challenges. There are also great parallels in country experiences across regions which one can draw from.The premium in finding breakthroughs to solutions would have to be on innovation and risk taking. The past gives us much by way of what has worked and what has not, but the path ahead would invariably also need new departures and fresh starts. Technological progress comprises one of the ways of taking new directions, organizational reform is another, innovative financing and change in our mindsets are yet to be explored fully.

Where issues of social exclusion, environmental destruction, or corrupt practices look formidable obstacles to bettering human wellbeing, I find optimism in that human ingenuity will rise to the occasion just in time to find new ways forward.

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Vinod Thomas has led independent evaluation at multilateral development banks for a decade—currently as Director-General at the Asian Development Bank, and prior to that as Director-General and Senior Vice-President at the World Bank Group. In this capacity he has reported to the Board of Directors on the development effectiveness of the programs financed by these organizations.

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