CEPREMAP

CENTRE POUR LA RECHERCHE ECONOMIQUE ET SES APPLICATIONS

Growth, Poverty, Reduction and Governance in Developing Countries: a Survey

Julia Cagé (1)

Version janvier 2009

Docweb no 0904

Julia Cagé (1) : Ecole normale Supérieure (Paris)

Growth, Poverty Reduction and Governance in Developing Countries: a Survey / J. Cagé. - **CEPREMAP**, janvier 2009. - Docweb no 0904

INTRODUCTION

According to the World Bank (World Bank, 2007), the aim of the Country Policy and Institutional Assessment (CPIA) is to assess "*how conducive* [a country's policy and institutional] *framework is to fostering poverty reduction, sustainable growth and the effective use of development assistance*."

We review the most recent (since 2000[1]) empirical and theoretical literature on the determinants of sustained growth, poverty reduction and the effective use of development assistance, distinguishing between policies/institutions versus outcomes, underlying the areas of agreement and discussing the current controversies. Drawing from this literature, we underline what are the current weaknesses of the CPIA. We emphasize especially the controversies on the association between the CPIA criteria and some determinants of sustained growth, poverty reduction and the effective use of development assistance. We then list the key determinants identified in the literature that have been left out by the CPIA.

Finally, after reviewing the literature, we conclude that, concerning the determinants of sustainable growth as well as poverty reduction and the effective use of development assistance, one of the most important points made in the literature is that "*there is not universal recipe*" (Barder and Birdsall, 2006). As a consequence, one of the main criticisms against the CPIA is that it "*relies too heavily on a uniform model of what works in development policy*" (Kanbur, 2005b).

1. THE DETERMINANTS OF SUSTAINED GROWTH

Sustainable growth is defined as the growth lasting more than two decades (the important point being long-run economic performance). According to the World Bank (World Bank, 2008), the later "*enables and is essential for things that people care about: poverty reduction, productive employment, education, health, and the opportunity to be creative*".

Studying the determinants of "sustainable growth" is not identical to studying the determinants of "growth". Indeed, igniting economic growth and sustaining it are somewhat different enterprises. The former generally requires a limited range of reforms that need not overly tax the institutional capacity of the economy. The latter requires constructing over the

[1] Even if we obviously sometimes refer to previous literature when it seems of particular relevance to us.

longer term a sound institutional underpinning to endow the economy with resilience to shocks and maintain productive dynamism (Rodrik, 2003).

In this review, we only deal with the determinants (ingredients) of "sustainable growth"[2]. This is why we emphasize particularly the role played by institutions since there is a consensus in the literature according to which "*in the long run, the main thing that ensures convergence with the living standards of advanced countries is the acquisition of high-quality institutions*" (Rodrik, 2003) (see also Easterly and Levine, 2003, who, finding evidence that macroeconomic policies do not help account for economic development after accounting for the impact of institutions, underline that it could be that episodes of bad policies are associated with a temporary decrease in income, which shows up in the growth rate over a limited period, but leave no long run impact on the income level)[3].

However, as we will see, this is obviously not to say that no policies other than institutions can have a long lasting effect on growth and thus can be considered as determinants of sustained growth.

The literature on the determinants of sustainable growth has evolved a lot during the last fifty years. In the 1950s and 1960s, it was widely argued that long-run economic performance depended on capital investment, and that raising savings through a "big push" (Rosenstein-Rodan, 1943) would launch countries into self-sustaining growth or "take-off" (Rostow, 1960). In the 1980s, the literature begins to emphasize the importance of a good economic policy environment (Williamson, 1990; World Bank, 1993), with the "Washington Consensus" view characterized by reduced tariffs, appropriate foreign exchange rates and low inflation. Then, in the 1990s, the literature emphasizes the fact that these policies would have only limited impact in the absence of more fundamental institutional reforms (World Bank, 1998). Finally today, there is a consensus around the idea that there is no single recipe and that we need to recognize country specificities, taking into account each country's development stage.[4] Of course, countries can learn from each other, but no simple recipe can be pulled off the shelf to stimulate growth. Each country needs to learn through trial and error what works for it (see e.g. Shangai, 2004).

---

[2] On the one hand, we do not limit ourselves to the standard determinants of growth in growth regressions, which are mainly financial development, black market premiums, real overvaluation, educational attainment, life expectancy, fertility and infrastructure (Easterly, 2001). We go beyond this analysis by extending these determinants to the ones of sustained growth But on the other hand, we limit this analysis by considering only, among these determinants, the ones that are crucial for sustained growth.

[3] Bruno and Easterly (1998) make this argument for inflation and output.

[4] The point of view of Rodrik and others seems to be accepted by the majority of the economists today (even if this consensus is obviously quite recent). Interestingly, in their recent book on growth, Aghion and Howitt (2009) reconcile new growth theory (that calls for better property right protection and higher education investment in all countries under all latitudes) with what they call the "Gerschenkron's views" (i.e. the idea that relatively backward economies could more rapidly catch up with more advanced countries by introducing .appropriate institutions that are growth-enhancing at an early stage of development but may cease to be so at a later stage), thereby addressing development economists' concern that growth theory can only deliver universal, one-size-fits-all policy prescriptions (legal reform to enforce property rights, investment climate favorable to entrepreneurship, education, macrostability,..) to maximize the growth prospects of a country or sector, and does not apprehend structural transformations in the process of convergence. More specifically, they analyze some general implications of the notion of "distance-dependent" appropriate institutions, by which they mean institutions that are growth-enhancing only for countries at a certain stage of technological development. In particular, they show how the failure to adapt institutions to technological development may generate non-convergence traps whereby a country's average productivity (or per-capita GDP) remains bounded away from frontier levels.

The new emphasis on country specificities is examined in a first part. However, the fact that there is no single recipe does not mean that the literature on sustained growth determinants is useless. "*What is needed is not less economics but more and better economics, to identify the exact set of policies and institutional changes needed to address binding constraints on growth, based on first principles in each instance*" (World Bank, 2005)[5]. Indeed, sustained growth depends on key functions that need to be fulfilled overtime: accumulation of physical and human capital, efficiency in the allocation of resources, adoption of technology, and the sharing of the benefits of growth. The 1990s have shown that to achieve rapid growth, countries do not need to get everything right but need to get the right things right.

In a second part, we review the literature dealing with the right things that need to be identified in order to devise a growth strategy, i.e. a coherent set of actions designed to initiate and sustain rapid growth (World Bank, 2005). Indeed, if it seems impossible to set similar priorities for policy makers in all developing countries, one can however identify the policies to which attention must be paid (which is done for example in World Bank, 2008). For example, no country has experienced rapid growth without minimal adherence to "higher-order principles of sound economic governance", like property rights, market-oriented incentives, sound money and fiscal solvency, even if these principles were often implemented via policy arrangements that are quite unconventional (Rodrik, 2003).

a) The Need to Recognize Country Specificities: Illustrations and Implications

There are many Different Recipes for Pasta[6]

It has long being emphasized in the literature that, as to growth strategies, some strategies seem to work for a while and then stall. For instance, the Brazilian import substitution policy yielded growth rates averaging 10 percent per year between 1968 and 1976 but was not sustainable, or at least not sustained (Hoof and Stiglitz, 2001).

It has similarly being emphasized that some strategies seem to work in some countries and not in others[7]. Indeed, "*there are clearly no surefire formulas for success; if there were, there would be more successes*" (Hoff and Stiglitz, 2001) [8]. In other words, growth-promoting policies tend to be context-specific: one has to take into account individual country experiences when analyzing the determinants of sustained growth. Indeed, neoclassical economic analysis is a lot more flexible than its practitioners in the policy domain have generally given it credit: first-order economic principles *"do not map into unique policy packages. Reformers have substantial room for creatively packaging these principles into institutional designs that are sensitive to local opportunities and constraints*" (Rodrik, 2003).

[5] Similarly, Rodrik (2003) emphasizes that "*the real lesson for architects of growth strategies is to take economics more seriously, not less seriously*".

[6] "*There are many different recipes for pasta. The precise ingredients and timing are different for each. But if you leave out the salt or boil it too long, the results are distinctly inferior.*" (World Bank, 2008).

[7] North (1994) underlines that "*economies that adopt the formal rules of another economy will have very different performance characteristics than the first economy because of different informal norms and enforcement. The implication is that transferring the formal political and economic rules of successful Western economies to the third-world and Eastern European economies is not a sufficient condition for good economic performance.*"

[8] Similarly, many of the world's leading macroeconomists (among whom are O. Blanchard, G. Calvo, S. Fischer, J. Frankel, P. Krugman, D. Rodrik, J. Sachs and J. Stiglitz) concluded in a conference called the Barcelona Development Agenda (2004) that "*there is no single set of policies that can be guaranteed to ignite sustained growth" "Effective institutional innovations are highly dependent on a country's history , culture and other specific circumstances. Encouraging developing nations to copy mechanically the institutions of rich countries (...) is not guaranteed to yield results, and can do more harm than good.*"

What was wrong, and never should have been part of economics, was the belief that the first principles of economics had to be implemented in a particular way (Rodrik, 2002).

This new emphasis on country specificities seems to be accepted today by development practitioners. For example, the World Bank (World Bank, 2005), drawing the lessons of the 1990s, underlines that "*there is no one right way to achieve development*" and that "*which options should be chosen depends on initial conditions, the quality of existing institutions, the history of policies, political economy factors, the external environment, and last but not least, the art of economic policy making*." In other words, one cannot translate general policy principles into a unique set of actions. Policies are conceived and implemented within a specific institutional, social, and historic context.

Similarly, the members of the Commission on Growth and Development (World Bank, 2008) note that their report does not provide policymakers with a formula to apply, because "*no generic formula exists*". Each country has specific characteristics and historical experiences that must be reflected in its growth strategy. Moreover, "*bad policies are often good policies applied for too long*".

Illustrations

The example of privatization. Privatization is not always appropriate and its suitability depends on the country's circumstances. A country can choose from a continuum of ownership and market structure reform options, but the choice should be based on many country- and industry-specific characteristics: size, level of development, institutional capacity, density of the rail network, condition of fixed rail facilities, strength of intermodal competition, and efficacy of public finances. The specifics of each country's situation should guide whether to include privatization in the reform strategy (World Bank, 2005).

The example of financial liberalization. There is now a consensus that countries should open up, removing capital controls, only in step with financial market maturity. Excessive speed introduces unnecessary risk and excessive slowness raises the cost of capital (World Bank, 2005).

China and the property rights (see Rodrik, 2003). Whereas there is a consensus today in the literature on the importance of the property rights as a determinant of sustained growth, China took a series of institutional innovations that departed significantly from Western norms but that in the end delivered the very same goals that the Western economist would have been hoping for private property rights. It did so in a peculiar fashion that, given the Chinese historical and political context, had numerous advantages.

Rather than privatizing land and industrial assets, the Chinese government implemented novel institutional arrangements such as the Household Responsibility System (under which land was "assigned" to individual households according to their size) and Township and Village Enterprises (TVEs). The TVEs were the growth engine of China until the mid-1990s (Qian, 2003), with their share in industrial value added rising to more than 50 percent by the early 1990s (Lin et al., 1996).

Implications: Identify Binding Constraints to Growth and Be Pragmatic

Acknowledging the fact that each country specificities must be reflected in its growth strategy implies that a coherent growth strategy has to set priorities, deciding where to devote

a government's energies and resources (World Bank, 2008). These choices are extremely important and should be country- and context-specific, responding to widely varying initial conditions. Policy recommendations has thus to be designed to fit specific institutional capabilities, rather than being the application of universal best practices (see e.g. World Bank, 2005).

Binding constraints to growth. Moreover, the obstacles to growth for each country must be identified prior to setting these priorities. Indeed, the binding constraints to growth vary widely depending on countries' initial conditions. This is why Hausmann, Rodrik and Velasco (2005) argue in favor of establishing "*growth diagnostics*" that should help target reform on the most binding constraints that impede growth.

Be pragmatic. Finally, the fact that there is no single recipe can be interpreted either "negatively" or "positively". The negative way is to emphasize the loss of confidence in the academic literature that researchers could identify policy actions that would raise growth (Easterly, 2008). The positive one is to say that governments should be pragmatic in their pursuit of the goal of high growth rates (World Bank, 2008).

Indeed, the impact of policy shifts and reforms being hard to predict accurately in developing countries, it is prudent for governments to pursue an experimental approach to the implementation of economic policy. In other words, "*policy making will need to be patient, pragmatic, and experimental*" (World Bank, 2008). The policy makers who succeeded in sustaining high growth were prepared to try, fail, and learn. Moreover, since a country's fortunes depend on stopping bad policies as implementing good ones, this implies that one important factor is the quality of debate. Indeed, successful countries owe a lot to an environment in which all ideas, good and bad, are exposed to review and vigorous debate. The policy-making process needs not to be confined to government circles.

b) The Ingredients of a Growth Strategy

We review here the determinants of sustainable growth that are underlined in the recent literature. We distinguish those around which there is a broad agreement from those which are still object of current controversies before focusing on the new proposals that have recently appeared in the literature.

i) The "Consensual" Ingredients for Sustained Growth

One can distinguish 5 consensual ingredients for sustained growth: institutions and good governance, human capital, productivity and technological innovation, inclusive growth and equality of opportunity, and getting the labor market right.

Institutions and Good Governance

Institutions are defined by North (1990) as the "*rules of the game*" that shape incentives and opportunities. In the recent literature (see below), the use of the term often includes focus on private property rights protection, operation of the rule of law and the extent of corruption[9]. It is one of the main consensual factors underlined in the literature on the determinants of sustained growth.

[9] Hall and Jones (1999) use the expression "*social infrastructure*" to design the collection of laws, institutions and government policies.

Indeed, a lot of sustained growth determinants are not enough without a good institutional environment. As underlined by the World Bank (World Bank, 2008), "*growth is about more than economics*". It also requires committed, credible, and capable governments. For example, the institutional context in which traditional macroeconomic policies are formulated is critical to an adequate resolution of the tradeoff between policy credibility and flexibility (World Bank, 2005). In the fiscal arena, an appropriate institutional setting should ensure at the same time transparency, sustainable solvency, flexibility, and a pro-growth structure of government budgets.

Similarly, finance depends on institutions (intermediaries, markets, and the informational, regulatory, legal and judicial framework) and not just on resource mobilization (World Bank, 2005). Indeed, resources need to be allocated to those that offer the best combination of return and risk, and this depends on the quality of institutions. Moreover, legal and regulatory changes that strengthen creditor rights, contract enforcement and accounting practices boost financial intermediary development with positive repercussion on economic growth (Levine, Loayza and Beck, 2000).

Likewise, good institutions are necessary to enjoy the positive growth effects of international financial integration. Indeed, Edwards (2001) shows that the IMF-restriction measure (which is a measure of the barriers to international capital flows) is negatively associated with growth in rich countries but positively associated with growth in poor countries.

Moreover, if it seems to be acknowledged in the literature that adequate institutions are necessary for macroeconomic stability or finance to have a positive impact on growth, some authors argue that they do not find any effect of macroeconomic policies on development once they control for institutions (Easterly and Levine, 2003). They also show that tropic, germs, and crops affect development through institutions, but do not affect country incomes directly other than through institutions. Indeed, they find a huge impact of institutions on economic growth. For example, they show that if Mexico exogenously improved its level of institutional development from about the mean sample to the level in the United-States, this would eliminate the huge GDP per capita gap between both countries. Similarly, Rodrik, Subramanian and Trebbi (2002), estimating the respective contributions of institutions, geography and trade in determining cross-country income levels, find that the quality of institutions "trumps" everything else.

Therefore, the literature increasingly emphasizes institutions as the fundamental determinant of development and hence of sustained economic growth (see e.g. Acemoglu, Johnson and Robinson, 2005[10], but also Mauro, 1995; Knack and Keefer, 1995; Wei, 1996, 2000; World Bank, 1997; Kaufmann 2003; Kaufmann, Kraay and Zoido-Lobaton, 1999; Kaufmann, Kraay and Mastruzzi, 2003). Developing countries often lack market and regulatory institutions, and an important part of development is precisely the creation of these institutionalized capabilities (World Bank, 2008). The underlying institutions that make mature markets work define property rights, enforce contracts, convey information, and bridge informational gaps between buyers and sellers[11]. Their quality is typically measured using survey-based perceptions of expropriation risk or the rule of law.[12] We can now have a

[10] In a previous seminal paper (Acemoglu, Johnson and Robinson, 2001), they estimate large effects of institutions on income per capita, exploiting differences in European mortality rates as an instrument for current institutions. They show that improving Nigeria's institutions to the level of Chile could, in the long run, lead to as much as a 7-fold increase in Nigeria's income (Chile being in practice over 11 times as rich as Nigeria).

[11] The CPIA deals with the security of property rights in the "Property Rights and Rule-Based Governance" criterion.

more precise look at these different elements often comprised under the general denomination "institutions".

The rule of law. Rigobon and Rodrik (2004) show that democracy and the rule of law[13] are both good for economic performance, but that the latter has a much stronger impact on incomes).

Government credibility, corruption and the quality of the bureaucracy.[14] Rajkumar and Swaroop (2002) find that child mortality rates and primary school attainment improve in response to increased public health and education spending only in countries with low corruption and high bureaucratic quality. Indeed, it seems to be acknowledged that if government is not the proximate cause of growth (that role falls to the private sector, to investment and entrepreneurship responding to price signals and market forces), stable, honest, and effective government is critical in the long run, that is to say for sustained growth (World Bank, 2008). On the one hand, the high-growth economies all relied on a functioning market system, which provided price signals, decentralize decision making, and incentives to supply whatever was in demand. But on the other hand, as the economy grows and develops, active and pragmatic governments have crucial roles to play. They must liberalize product markets, allowing new, more productive firms to enter and obsolete firms to exit; create room to maneuver in the labor market; resist calls to protect industries, firms, or jobs, but endeavor to protect people, for example establishing social safety nets.

Moreover, the emphasis put on the quality of institutions is often associated with the necessity to fight against corruption in order to improve public sector governance[15]. Indeed corruption, which is both a symptom and a cause of bad governance, discourages private investment (World Bank, 2005). This also raises the question of the security of the property rights. Indeed, uncertain property rights are sometimes presented as one syndrome of the high corruption symptom.

Security of the property rights. According to Rodrik, Subramanian and Trebbi (2002), "*the presence of clear property rights for investors is a key, if not the key, element in the*

---

[12]To take just a few examples, Mauro (1995) uses the indices proxying for corruption and various other institutional variables that are drawn from Business International (BI), a private firm that sells these indices typically to banks, multinational companies, and other international investors. The indices reflect the analysts' perspectives on risk and efficiency factors, and may be taken to represent investors' assessments of conditions in the country in question. He restricts his analysis to nine indicators of institutional efficiency: political change-institutional; political stability-social; probability of opposition group takeover; stability of labor; relationship with neighboring countries; terrorism; legal system, judiciary; bureaucracy and red tape; and corruption.

Knack and Keefer (1995) employ a composite measure of institutional quality, which is composed of rule of law, repudiation of contracts by governments, expropriation risk, quality of bureaucracy, and corruption in the government, using the ICRG.

Wei (2000) uses three measures of corruption, all of which are based on surveys of respondents: the first one was based on surveys conducted and organized during 1980-1983 by Business International (BI) (measure used by Mauro); the second measure was compiled by the ICRG (see Knack and Keefer, 1995); the third measure is compiled by Transparency International (TI). The TI index itself is an average of ten survey results on corruption over a number of years.

[13] They use the rule of law as a measure of economic institutions. In order to do so, they try several definitions: the rule of law measures from Political Risk Services (Knack and Keefer, 1995) that they average for the 1980s and the 1990s, and the rule of law indicator from Kaufmann et al. (2002).

[14] See the "Transparency, Accountability and Corruption in the Public Sector" CPIA criterion.

[15] On corruption, see e.g. Shleifer and Vishny (1993); Mauro (1995); Gupta, Davoodi and Alonso-Terme (1998); Chong and Calderon (2000); Azfar, Lee and Swamy (2001); Chetwynd, Chetwynd and Spector (2003); Mocan (2004); Alesina and Angeletos (2005); De la Croix and Delavallade (2006).

institutional environment that shapes economic performance." Indeed, a lot of cross-country studies (Knack and Keefer, 1995; Mauro, 1995; Hall and Jones, 1999; Rodrik, 1999; de Soto, 2000; Kerekes and Williamson, 2008) and a few micro studies (Besley, 1995; Mazingo, 1999; Johnson, McMillan and Woodruff, 2002) document this positive correlation between the security of the property rights and sustained growth.[16] When property rights are not well-defined individuals do not have the incentives to invest in capital, and assets cannot be used as collateral, hindering capital formation and economic growth. On the contrary, when investors believe that their property rights are protected, the economy ends up richer.

However, it is important to note that nothing is implied about the actual form that property rights should take. Rodrik, Subramanian and Trebbi (2002) underline that they cannot even necessarily deduce that enacting a private property rights regime would produce superior

[16] Various indicators of the security of property rights are used in these articles, the most used being the one of Knack and Keefer (1995). Rodrik, Subramanian and Trebbi (2002) use an institutional quality measure due to Kaufmann, Kraay, and Zoido-Lobaton (2002). This is a composite indicator of a number of elements that capture the protection afforded to property rights as well as the strength of the rule of law. This is a standardized measure that varies between -2.5 (weakest institutions) and 2.5 (strongest institutions). In their sample of 80 countries, the mean score is -0.25, with Zaire (score of -2.09) having the weakest institutions and Singapore (score of 1.85) the strongest.

Knack and Keefer (1995) use indicators provided by country risk evaluators to potential foreign investors (International Country Risk Guide (ICRG)). These indicators are based on underlying numerical evaluations relating to the rule of law, bureaucratic quality, corruption, expropriation risk, and governmental repudiation of contracts. It ranges from 0 to 10, with higher values indicating superior institutions.

Mauro (1995) underlines that "*low security of property rights over physical capital, profits, and patents may reduce incentives and opportunities to invest, innovate, and obtain foreign technology*", but since his article deals more specifically with corruption, he does not use a measure of property rights but a newly assembled data set, consisting of the Business International (BI) indices on corruption, red tape, and the efficiency of the judicial system for the period 1980-1983. The indices are based on standard questionnaires filled in by BI's correspondents stationed in about 70 countries.

Hall and Jones (1999) use an index of government antidiversion policies (GADP) created from data assembled by Political Risk Services. The ICRG of Political Risk Services rates 130 countries according to 24 categories. They follow Knack and Keefer (1995) in using the average of five of these categories for the years 1986-1995. Two of the categories relate to the government's role in protecting against private diversion: (i) law and order, and (ii) bureaucratic quality. Three categories relate to the government's possible role as a diverter: (i) corruption, (ii) risk of expropriation, and (iii) government repudiation of contracts. Their GADP variable is an equal-weighted average of these five variables, each of which has higher values for government with more effective policies for supporting production. Their index is measured on a scale from zero to one.

Rodrik (1999) uses a range of indicators to capture latent social conflicts and the quality of conflict-management institutions. As a proxy for conflict-management institutions, he uses the quality of governmental institutions from Knack and Keefer (1995) with the raw data coming from the ICRG.

Kerekes and Williamson (2008) use two international measures of property rights: the ICRG's average protection against risk of expropriation measure and the Heritage Foundation's Index of Private Property.

Besley (1995) investigates the link between investment and land rights using data from two regions of Ghana. Land rights are hard to codify with any precision. In his article, he focuses on transfer rights, which are decomposed into rights to sell, rent, bequeath, pledge, mortgage, and gift. Whether each field owned and operated by a household has any of these rights is measured in the data, along with whether exercising this right requires lineage approval. The survey asked each household to report its use and transfer rights on every field that it was operating at the time. Migot-Adholla and Place (1991) give a description of the data.

Johnson, McMillan and Woodruff (2002) surveyed private manufacturing firms in May and June of 1997 in Russia and Ukraine and from September to December of 1997 in Poland, Slovakia, and Romania. The survey was designed to find similar relatively small firms in comparable cities in all five countries. The sample includes about 300 manufacturing firms with between seven and 270 employees in each country. The entrepreneur's beliefs about the security of her property rights are indicated by responses to several survey questions. They asked entrepreneurs first whether firms in their industry make "extralegal payments" for government services, and second whether firms in their industry make "extralegal payments" for licenses. They also asked whether firms make payments for "protection" of their activities. They then construct a property-rights index, .a higher value of which represents less secure property rights.

results compared to alternative forms of property rights. One can illustrate this point by considering the experiences of China and Russia. China still retains a socialist legal system, while Russia has a regime of private property rights in place. Despite the absence of formal private property rights, Chinese entrepreneurs have felts sufficiently secure to make large investments, making that country the world's fastest growing economy over the last two decades. In Russia, by contrast, investors have felt insecure, and private investment has remained low. Credibly signaling that property rights will be protected is apparently more important than enacting them into law as a formal private property rights regime.

Human capital

After good institutions and governance, one of the major consensual determinants of sustained economic growth found in the literature is human capital (the CPIA deals with human capital in the "Building Human Resources" criterion). We focus on the two main components of human capital, i.e. education and health.

Education. Education is acknowledged to be essential for sustained economic growth. Every country that sustained high growth for long periods put substantial effort into schooling its citizens and deepening its human capital (World Bank, 2008). Indeed, a well-known and long-standing finding in the growth regression literature is the link between initial schooling (usually the primary enrollment rate) and subsequent growth rate, controlling for per capita income (Barro and Sala-i-Martin, 2003). Doppelhofer et al. (2004) find that initial primary enrollment is the single best performing variables in a Bayesian exercise to decide what variables belong in the growth regression (see also Hanushek and Kim, 2000; and Hanushek and Wöbmann, 2008).

Moreover, not just increased access to primary education, but improvements in secondary and tertiary education systems are important if differences between industrial and developing countries depend on differences in knowledge as much as on differences in capital, since it becomes then important to narrow the knowledge gap (World Bank, 1999; Aghion and Howitt, 2009). Vandenbussche, Aghion and Meghir (2006) model the link between the distance to frontier and the composition of education spending. Their theoretical and empirical analysis suggest that countries with productivities far from the technological frontier should put more emphasis on primary/secondary education, whereas countries that are close to the frontier should put more emphasis on tertiary education.

However, and this brings back us to the importance of the institutional context, even those who argue the most strongly for a positive effect of education on sustained growth concede that poor institutions and policies, as in Africa, prevent education from paying off (Hanushek and Wöbmann, 2008). This is why Easterly (2008) underlines that we are left with little reason from the aggregate empirical literature to believe that rising education in Africa has paid off in higher per capita income or growth. This is not to say that education is not a fundamental determinant of sustained growth, but that it has to be accompanied by good policies and institutions.

Finally, as to education – but we come back to this point from a more general point of view later – it seems important not to confuse policies with outcomes. Indeed, spending on education should not be confused with the ultimate objective of education, which is to impart knowledge, the ability to learn, and non cognitive skills such as curiosity, empathy, and sociability (World Bank, 2008). The same financial outlay can yield very different amounts of

learning. The problem is that while years of schooling is only an input to education, the output – knowledge, cognitive abilities, social and other non cognitive skills – is often not captured (Filmer, 1999). Similarly, empirical studies on the health sector show there is only a weak relationship between public expenditures on health and health outcomes (Filmer, Hammer and Pritchett, 2000).

Health. According to the report of the WHO's Commission on Macroeconomics and Health (2001), "*the linkages of health to (...) long-term economic growth are powerful, much stronger than is generally understood. The burden of disease in some low-income regions, especially sub-Saharan Africa, stands as a stark barrier to economic growth and therefore must be addressed frontally and centrally in any comprehensive development strategy"*. Indeed, health does affect economic performance in multiple ways (World Bank, 2008). First, it does so through a direct channel, which is that healthier people are better workers. Then, there are also a number of indirect channels. For example, improvements in health raise the incentive to acquire schooling. Indeed, improvements in health increases life expectancy and so the potential returns of schooling investment, since investments in schooling can be amortized over a longer working life (see e.g. Kalemli-Ozcan et al., 2000). Moreover, improvements in mortality (as measured by life expectancy) may also lead people to save for retirement, thus raising the levels of investment and physical capital per worker (Weil, 2005). Weil, using microeconomic estimates of the effect of health on individual outcomes to construct macroeconomic estimates of the proximate effect of health on GDP per capita, finds that eliminating health differences among countries would reduce the variance of log GDP per worker by 9.9 percent, and reduce the ratio of GDP per worker at the 90th percentile to GDP per worker at the 10th percentile from 20.5 to 17.9. However, while this effect is economically significant, it is also substantially smaller than estimates of the effect of health on economic growth that are derived from cross-country regressions. For example, Bloom, Canning and Sevilla (2004) estimate, using a panel of countries, that a one-year increase in life expectancy raises output by 4 percent (see also Jamison, Lau and Wang, 2004). Similarly, Sachs (2003), using a geographically based measure of "malaria ecology" to instruments for the current prevalence of the disease, finds that malaria has a large negative effect on the level of GDP per capita. Considering changes in the prevalence of both malaria and tuberculosis, Ashraf, Lester and Weil (2008) find that, for either of the diseases considered, even complete eradication has a relatively small impact on income per capita in either the short or the long run, not exceeding a few percentage points, but that these relatively small effects vary by disease. For example, in the short run, eradicating tuberculosis raises income per capita whereas eradicating malaria lowers it. The different effects on income of eradicating these diseases arise largely because tuberculosis strikes mostly prime-age workers, while malaria affects mainly young children. Finally, Haacker (2002) provides an analysis of the impact of HIV/AIDS on health sector, public education, the supply of labor and the returns to training in nine Southern African countries, and assesses the impact of HIV/AIDS on per capita income. Within an open-economy model and in the case of Zambia, he finds a medium-term decline in output per capita of 5.8 percent and a long-term decline in GDP per capita of 1.8 percent due to the impact of the HIV/AIDS epidemic[17].

[17] However, there is little evidence that HIV/AIDS has led to a substantial reduction in income per capita (Bloom and Mahal, 1997; Cuddington, 1993). In a simple economic model, if there is a fixed factor, such as land, then a reduction in the population may increase the income per capita of the survivors (Young, 2004). Of course, in a more complex economic model with economies of scale and agglomeration, a reduction in population can also decrease income per capita of survivors. Moreover, while HIV/AIDS does not seem to have reduced income per capita substantially so far, income per capita is not a welfare measure. A more comprehensive welfare measure that included the suffering and death of its victims would show a large welfare reduction in societies with HIV/AIDS (Jamison, Sachs and Wang, 2001; Crafts and Haacker, 2004). In addition to the direct welfare effect

Both the importance of education and health, i.e., more largely of human capital, raises the question of investment, and in particular of public investment. Moreover, apart from the direct role of human capital as a factor of production, education and human capital can serve as a complement to other factors such as physical capital and natural resources (see e.g. De Gregorio and Bravo-Ortega, 2002), determine the rate of technological innovations in countries that produce technology, and facilitate technological absorption in countries that imitate it (see e.g. Borensztein et al., 1998, and Olofsdotter, 1998).

Investment, Productivity and Technological Innovation

It is well acknowledged that strong, enduring growth requires high rates of investment (see e.g. World Bank, 2008; Aghion and Howitt, 2009[18]). Indeed, investment helps to increase productivity through technological innovation which is a major determinant of economic growth. This investment can be either private or public.

Private investment. Investment and technological innovation are the main drivers of growth in jobs and labor incomes. However, it is important to underline – and we are again back to the close linkage between institutions and the other determinants of sustained growth –, that fostering private investment requires reducing risk for private investors, through stable fiscal and monetary policy, stable investment regimes, sound financial systems, and a clear and transparent business environments. Moreover, it also involves ensuring the rule of law and taking measures to fight corruption (tackling business environments based on kickbacks, subsidies for large investors, special deals, and favored monopolies) (World Bank, 2001).

Furthermore, private investment has to be complemented by public investment to enhance competitiveness and create new market opportunities. Particularly important is complementary public investment in expanding infrastructure and communications and upgrading the skills of the labor force.

Public investment and infrastructure. No country has sustained rapid growth without also keeping up impressive rates of public investment, in infrastructure, education, and health (World Bank, 2008). We underlined above the importance of education and health, but infrastructure spending appears also today in the literature as a major determinant of sustained growth (see e.g. World Bank, 1994; Sachs, 2005, 2008; Collier, 2007). An important point is that governments should recognize that their own infrastructure investments (often proxied by the availability of phones, roads and electricity) are an indispensable complement to private efforts. Indeed, if they abrogate the public investment function, it will not be replaced by private providers. In fast-growing Asia, public investment in infrastructure accounts for 5-7

---

of lower health, resources devoted to preventing and treating HIV/AIDS will reduce consumption of other goods. Moreover, high rates of HIV/AIDS can have major effects on social relationships and institutions, the weakening of which may have large, long-run economic consequences (Haacker, 2004; Canning, 2006).

[18] Aghion and Howitt (2009) remind us in their book on the economics of growth that all of the basic paradigms of growth theory imply that economic growth depends on investment of one sort or another. According to neoclassical and AK theories what drives growth is investment in physical and human capital. According to product variety and Schumpeterian theories what matters is investment in technology, in the form of research. In the hybrid model, investment in capital and technology are both important.

To take no but one example, Jones, Manuelli and Stachetti (2001) show that macroeconomic volatility affect long-run growth through its effects on aggregate savings and investment (volatility could hurt growth by decreasing total investment).

percent of GDP or more. In China, Thailand and Vietnam, total infrastructure investment exceeds 7 percent of GDP. History suggests this is the right order of magnitude for high and sustained growth, although it is difficult to be precise. Moreover, the importance of investment as a determinant of sustained growth reminds us the joint importance of savings. Indeed, there is no case of a sustained high investment path not backed up by high domestic savings (World Bank, 2008).

Finally, public investment can be used as a tool in order to reduce inequality and increase equality of opportunity, which is another main determinant of sustained growth.

Inclusive Growth, Inequality, Redistribution and Equality of Opportunity

It is now acknowledged that to be sustained, growth has to be inclusive. Even the question of inequality does not longer appear to be very controversial, a new consensus having emerged according to which a better distribution of wealth increases sustained growth.

Inequality. Fifty years ago, increases in inequality were seen not only as a natural accompaniment of development (Kuznets, 1955) but as actually facilitating development (Lewis, 1954). Indeed, the conventional textbook approach is that inequality is good for incentives and therefore good for growth. Contrary to this view, it is largely recognized today that not only are such increases in inequality not necessary but that they may actually be detrimental to growth[19] (see e.g. Aghion, Caroli and Garcia-Penalosa, 1999; and Hoff and Stiglitz, 2001[20]). There are various channels through which such increases are detrimental to growth. First, inequality affects growth through market structures and microeconomic incentives (World Bank, 2005). It increases agency costs in credit and land rental markets. On the contrary, a better distribution of wealth reduces credit constraints, and broader availability of credit is found to have a significant and positive effect on growth rates (Aghion, Caroli, and Garcia Penalosa, 1999). If individuals are limited in their borrowing capacity, reallocating capital toward the poorest will increase aggregate productivity and so sustained growth. Second, they tend to lead to political regimes that restrict access to education and to markets. Third, they generate macroeconomic volatility, measured by the standard deviation of the annual rate of growth of GDP.[21] On the contrary, a better distribution of wealth will reduce instability at the individual level and hence at the aggregate level, and consequently will mitigate the impact of instability on aggregate growth (Aghion, Caroli, and Garcia Penalosa, 1999). Fourth, they exacerbate social conflicts. Finally, another channel through which inequality affects economic growth is fairness. Indeed, fairer societies offer their citizens more public goods, more social support, and more social capital. Hence they are more capable of sharing the costs and benefits of improving economic policies, and in turn facilitating consensus building and decision making (Deaton, 2003). Fairness also facilitates agreement

[19] Using a provocative title, Easterly (2005a) stretches to that "*inequality does cause underdevelopment*". Indeed, inequality has a great number of adverse efficiency consequences and is bad, not only in terms of social justice, but also of efficiency (Bardhan, 2000). For example, inequality quite often induces more political instability and, of course, things like crime and insecurity of property rights may in turn depress investment and productivity growth.

[20] Todaro (1997) also provides four arguments why greater equality in developing countries may in fact be a condition for self sustaining economic growth: (i) disaving and/or unproductive investment by the rich; (ii) lower levels of human capital held by the poor; (iii) demand pattern of the poor being more biased towards local goods; and (iv) political rejection by the masses.

[21] See for example Aghion, Caroli, and Garcia Penalosa (1999).

on the provision of public goods that have strong beneficial side effects on society, such as health services, water supply, or waste disposal.

However, when one considers lower inequality as potentially being a determinant of sustained growth, wealth (or asset) and income inequality must be distinguished. Indeed, only redistributing wealth and not redistributing incomes may produce favorable effects on economic efficiency and growth. Income transfers (if they are not lump-sum) would have exactly the opposite effect on growth. By lowering the expected return from acquiring physical and human capital, they might distort the economy and reduce saving and investment, and therefore the rate of growth. In order to be efficiency and growth-enhancing, redistribution should thus ideally be concerned with wealth rather than with current income or possibly consumption expenditures (Bourguignon, 2004)[22]. We thus mainly focus here on wealth inequality reduction and redistribution.

Banerjee and Newman (1993) show that the effects of an initial highly unequal wealth distribution can last forever and can permanently limit growth. Thus there is a growth pay-off of lower initial inequality. Indeed, cross-country studies show that countries with lower initial inequality, particularly low inequality in land, experience higher subsequent growth. (see e.g. Christiaensen, Demery and Paternostro, 2002). Moreover, micro panel studies show that households with few physical and human assets are often caught in a poverty trap that sharply reduce their chance of economic advancement and thus harm the overall economic performance of an economy (Christiaensen, Demery and Paternostro, 2002; Woolard and Klasen, 2005). The fact that Banerjee and Duflo (2003) reach a different conclusion – they show, using non-parametric methods on cross-country data, that the growth rate is an inverted U-shaped function of net changes in inequality, changes in inequality (in any direction) being associated with reduced growth in the next period – can be due to the fact that they look at income rather than at wealth inequality. However, they also find that there seems to be a negative relationship between growth rates and inequality lagged one period. Indeed, Deininger and Olinto (2000) find that asset inequality, but not income inequality, has a relatively great negative impact on growth. Similarly, Forbes (2000) finds an increase in a country's level of income inequality has a significant positive relationship with subsequent economic growth (see also Barro, 2000; Lundberg and Squire, 2003).

Redistribution and land ownership. Since there is a growth pay-off of lower initial inequality, this implies that redistribution enhances growth. Indeed, the literature has proposed several hypotheses which could explain why progressive redistribution may be growth-enhancing. First, credit market imperfections may explain that redistributing capital from capital rich enterprises or individuals to capital-poor and credit-constrained people increases efficiency, investment and growth. Second, political economy arguments have been proposed. Too much inequality in a redistributive democracy leads to more redistribution and less capital accumulation. Alternatively, too much inequality leads to collectively organized or individually-led violent redistribution. Others hypotheses (economies of scale in goods

[22] However, to the extent that beneficiaries may improve their standard of living, income transfers may contribute to the accumulation of human capital among them, for instance through better nutrition, and so lead to some particular wealth accumulation among poor people. Moreover, income transfers may affect the assets owned by poor people through insurance. Indeed, many economists now consider that in presence of a high macroeconomic volatility, targeted transfers can be useful instruments for "social protection". They also may contribute to pro-poor growth by avoiding disavings – for instance by taking children out of school – or helping credit-constrained poor people be productive workers or take up productive opportunities for self-employment (Ravallion, 2003).

markets[23], etc) have also been put forward in this literature (Bourguignon, 2004). Hoff and Stiglitz (2001) underline that perhaps the clearest illustration of the effect of wealth distribution on contracts is sharecropping, which is ubiquitous in developing countries. Sharecropping arises as a result of inequality in the distribution of landholdings and the absence of better ways to share risks, or the limited ability of the tenant to absorb losses. It creates a principal-agent problem between landlord and tenant that imposes potentially huge costs on the economy.[24] Banerjee et al. (2001) presents a theory of rent seeking within farmer cooperatives in which inequality of asset ownership affects relative control rights of different groups of members. The theory predicts that increased heterogeneity of landholdings in the local area causes increased inefficiency by inducing a lower input price and a lower level of installed crushing capacity.[25]

Empirically, one branch of the literature explores the relationship between the distribution of wealth and institutional development in New World economies beginning in the 1700s (see Engerman and Sokoloff 1997; Engerman, Haber and Sokoloff, 1999). These authors find that societies which began with greater inequality tended to place greater restrictions on access to primary schooling[26], access to land, the franchise[27], the right to vote in secret, the right to create a company, and the right to patent an invention and to protect that right in the courts. In Latin America these restrictions tended to perpetuate inequality and limit growth. Some illustrations of how inequality influences institutions and economic growth also come from India. Banerjee et al. (2001) confirm their predictions concerning the effect of the distribution of local landownership on sugarcane price, capacity levels, and participation rates of different classes of farmers by data from nearly 100 sugar cooperatives in the Indian state of Maharashtra over the period 1971-93. Agricultural tenancy reform in the Indian state of West Bengal provides the setting for another test. Indeed, in the state of West Bengal, tenancy reform in the late 1970s (the Operation Barga) increased the share of output that tenants could retain, strengthened tenancy rights, and then a sharp increase in yields ensued (Banerjee et al., 2001; Hoff, 2003). Banerjee, Gertler, and Ghatak (2002) find that this tenancy reform

---

[23] The economies of scale argument extends an argument developed in the 1970s. It is based on the presence of economies of scale in some consumption goods which could not be exploited if inequality reduced the demand for these goods (see e.g. Shleifer and Vishny, 1998).

[24] There is a principal-agent problem when a principal, who offers a contract to an agent, is facing asymmetries of information. In the case of sharecropping, the work effort of the risk-adverse tenant is not observable by the risk-neutral landlord (see e.g. Stiglitz, 1974). One of the main argument against sharecropping is that it results in too low a supply of labor, because workers equate their share of output times the (value of the) marginal productivity of labor to the marginal disutility of work, whereas Pareto optimality requires the (value of the) marginal productivity of labour be equal to the marginal disutility of work

[25] The intuition behind this prediction is as follows. They assume that there are disproportionate control rights within the cooperative wielded by wealthier members, and that transfers of rents to these wealthier members are achieved by depressing price paid for inputs supplied by members and diverting resulting retained earnings. Indeed, large farmers have the power to extract a part of the surplus that would have otherwise gone to the small farmers but cannot force the small farmers to pay them directly. So they use their power over the cooperative to depress the price of sugarcane below its efficient level. This generates retained earnings within the cooperative that they can siphon off. This generates implications for the relationship between the distribution of landholdings within the command area of the cooperative and the price it chooses to pay for sugarcane. If growers within the local region are relatively homogeneous, there is no scope for one group of farmers to exploit another. Hence in such cooperatives there is no underpricing of sugarcane, whereas underpricing of sugarcane is likely in a heterogeneous cooperative.

[26] Deininger and Olinto (2000) also show that asset inequality reduces the effectiveness of educational interventions.

[27] The franchise refers to the civil right to vote (a lot of countries took time before extending this franchise, i.e. relaxing the restrictions based e.g. on landholding or wealth).

program explains around 28 percent of the subsequent growth of agricultural productivity in the West Bengal.

Moreover, not only land reform increases productivity, but it also changes the political structure in the village, giving more voice to the poor and inducing them to get involved in local self-governing institutions and management of the local commons (Bardhan, 2000). In other words, land reform or similar asset redistributive reform make the poor themselves stakeholders in the system, so they take an interest in a system they were formerly excluded from. They take an interest in the local self-governing institutions, which is good for the delivery of public services and management of this local commons. This is of particular importance since that, in order to be sustained, growth has to be inclusive.

Equity and equality of opportunity. Finally, the stress is put today on equity and equality of opportunity rather than just on inequality. Indeed, there is now considerable evidence that equity is instrumental to the pursuit of long-term prosperity in aggregate terms for society as a whole (World Bank, 2006). The CPIA deals with social inclusion and equity in the "Equity of Public Resource Use" criterion. Moreover, growth strategies cannot succeed without a commitment to equality of opportunity, giving everyone a fair chance to enjoy the fruits of growth (World Bank, 2008). This brings us back to the questions we dealt with before, and in particular the one of education. Indeed, the education of girls provides one strong test of a government's commitment to equality of opportunity. Enabling women to move successfully through education to productive employment will have a very high payoff in terms of long-term growth and poverty reduction.

Getting the Labor Market Right

Getting the labor market right is vital to both the economics and politics of sustained growth (World Bank, 2008). Indeed, one important determinant of sustained growth is to guarantee labor (and by the way capital) mobility towards dynamic activities, while protecting people (not jobs),[28] since a country's comparative advantage will evolve over time (Ocampo, 2003). The ability of innovative activities to attract capital and labor is the pivotal element in their ability to operate as engines of growth. In any period of fast growth, capital, and especially, labor moves rapidly from sector to sector, industry to industry. This mobility of resources was a feature of all the 13 high-growth cases reported by the World Bank (World Bank, 2008). Whereas the central feature of pre-capitalist economies was the absence of a mobile labor force (as well as some restrictions on changes in land property and land use), the ways by which labor mobility was guaranteed was key to the transition to modern capitalist development, as well as an essential determinant of institutional development, as the economic history of Latin America indicates (Cardena, Ocampo and Thorp, 2000).

Moreover, as we will see later, this question of getting the labor market right is also of particular importance when one deals with the question of poverty reduction.

ii) The "Controversial" Ingredients for Sustained Growth

While there is sort of a consensus around the sustained growth determinants underlined in the previous part, there are still controversies on the association between certain policies and

[28] The CPIA deals with this necessity of protecting people in the "Social Protection and Labor" criterion, and with the labor mobility question in the "Business Regulatory Environment" criterion (*"employment law provides for flexibility in hiring and firing"*).

sustained growth. There are seven broad objects of controversy: democratization, macroeconomic stability, privatization, deregulation and decentralization, financial development, financial liberalization and financial integration, and opening up to international trade.

Democratization

Since we show above that there is a large consensus on the question of the quality of institutions and governance as being main determinants of sustained growth, one can think that there is such a similar consensus on democratization. However, this is not the case. Democratization does not ensure economic development (World Bank, 2005). Indeed, not only competitive elections have only a modest effect on the quality of government, but elected governments do not exhibit a systematic advantage in achieving economic development. A large literature finds no consistent, significant effect of elections on economic growth. For example, Przewroski et al. (2000) find no difference in growth rates between countries that have competitive elections and those that do not.

Macroeconomic Stability[29]

Macroeconomic stability is often identified to a set of macroeconomic policies that reduced vulnerabilities and hence the costs of shocks. The CPIA deals with this question of macroeconomic stability in its "Macroeconomic Management" criterion. One has to distinguish between, on the one hand, the macroeconomic policies, and on the other hand, the macroeconomic outcome variables. The macroeconomic outcome variables identified by the World Bank (World Bank, 2005) are the growth of real output, the rate of inflation and the current account deficit. As to the macroeconomic policies, the stress is put on fiscal (necessity to have a fiscal stance safely consistent with fiscal solvency and to reduce the recourse to external debt), monetary (necessity to keep inflation low and stable), and exchange rate (necessity to keep exchange rates much less volatile) policies.

If macroeconomic stability reduces vulnerability, the search for macroeconomic stability, narrowly defined, may in some case have actually been inimical to growth (World Bank, 2005), as illustrated below when considering the macroeconomic policies. Indeed, some countries pursued macro stability at the expense of growth-enhancing policies such as adequate provision of public goods, as well as of social investments that might have both increased the growth payoff and made stability more durable. This is why it is the object of current controversies.

Fiscal policies. There is a debate around the idea of fiscal consolidation because fiscal adjustment tends to have an anti-investment bias. On the one hand, low government burden does have a positive and robust relationship with growth (Loayza, Fajnzylber and Calderon, 2004). But on the other hand, more often than not, productive public expenditure, on items such as human capital formation and infrastructure, have been compressed in the process of fiscal adjustment (World Bank, 2005). Yet, to the extent that reduced investment lowers growth (as we underlined before) and hence future tax bases, such a bias can adversely affect

[29] Even if it deals with fluctuations, macroeconomic stability has to be included as a determinant of *sustained* growth. Indeed, stabilization policies not only affect cyclical fluctuations but also long-run growth (Loayza, Fajnzylber and Calderon, 2004). An argument can be made that cyclical and trend growth are interrelated processes (see Fatas, 2000a and 2000b), which implies that macroeconomic stabilization and crisis-related variables have an impact not only over short horizons but also on the long-run performance of the economy.

growth and even fiscal solvency itself. So, whereas the stress is always put on the necessity of avoiding fiscal deficit, a good fiscal policy would require to make it politically possible for a government to run fiscal surpluses during good times. For example, the World Bank (World Bank, 2005) calls for the development of budgetary institutions or the implementation of fiscal rules that force claimants on the government's resources to respect the government's intertemporal budget constraint, thus securing prudent fiscal responses to favorable shocks. Similarly, Perry (2002) praises for such a rule for Latin America countries, giving the example of the Chilean Copper Stabilization Fund. Yet, whereas the fiscal policy CPIA criterion underlines the necessity to ensure sustainability of public finances, it does not underline the necessity to make it politically possible for a government to run fiscal surpluses during good times, providing scope for automatic fiscal stabilizers to do their job. However, the fiscal policy CPIA criterion underlines the importance of fiscal flexibility ("*public expenditure/revenue can be adjusted to absorb shocks*") and so one can consider that it takes into account the criticism according to which fiscal policies can have an anti-investment bias.

Monetary policies and inflation outcome. An important macroeconomic outcome variable emphasized when one deals with the question of macroeconomic stability is the question of inflation performance. From a macroeconomic policies point of view, the necessity to have a monetary policy stance consistent with a low and stable rate of inflation is emphasized. However, preoccupation with reducing inflation quickly induced some countries to adopt exchange rate regimes that ultimately conflicted with the goal of outcomes-based stability (World Bank, 2005). Moreover, if very high inflation is clearly damaging to investment and growth, bringing inflation down is also very costly in terms of lost output and employment (World Bank, 2008).

Exchange rate policies. Exchange rate policies must lead to a robust exchange rate regime that avoids both systematic currency misalignment and excessive volatility in the real exchange rate. Indeed, maintaining competitive real exchange rates is central for both financial stability and growth. The overvaluation of the real exchange rate has a negative impact on economic growth that is likely to work through a combination of mechanisms. An overvalued exchange rate produces a misallocation of resources away from export-oriented sectors, not so much for commodities as for manufactured goods. Moreover, real exchange rate overvaluation generates a strong risk of balance-of-payments crises, which if severe are followed by a sharp and lasting decline of real economic activity (Loayza, Fajnzylber and Calderon, 2004).

Maintaining a competitive real exchange rate can best be achieved through flexible regimes that prevent real appreciation from running ahead of a country's productivity gains, and that are also more likely to discourage currency mismatches at the level of firms or banks, and to provide a more accurate picture of public indebtedness (World Bank, 2005).

Policies designed to reduce macroeconomic fragility. Finally, the stability agenda should encompass not just fiscal, monetary, and exchange rate policies, but also policies designed to reduce macroeconomic – especially financial – fragility (World Bank, 2005). These policies include policies directed toward the domestic financial system and toward the management of the country's capital account. Indeed, a sound financial system appears to be indispensable for macroeconomic stability. It is necessary to avoid macroeconomic vulnerability arising from the concentration of lending in highly risky activities or the emergence of balance sheet mismatches.

While macroeconomic stability may facilitate growth when other forces are driving the growth momentum, it is not enough to drive the growth process itself. In other words, there is little reason to expect a simple, direct association between macroeconomic stability and growth (World Bank, 2005).

However, if there is not such a direct link between macroeconomic stability and growth, there are important indirect links, since the efficiency of a lot of sustained growth determinants depends on macroeconomic stability. For example, successful financial liberalization and successful finance depend on macroeconomic stability (World Bank, 2005). Moreover, no economy can flourish in the midst of macroeconomic instability (World Bank, 2008). Indeed, macroeconomic volatility and unpredictability (for example wild fluctuations in the price level, the exchange rate, the interest rate, or the tax burden) damage private sector investment, and hence, sustained growth.

Privatization, Deregulation and Decentralization

The question of privatization and deregulation is still very controversial in the literature. The CPIA deals with privatization and regulation mainly in the "Business Regulatory Environment" criterion which "*assesses the extent to which the legal, regulatory, and policy environment helps or hinders private business in investing, creating jobs, and becoming more productive"*.

Privatization. On the one hand, there is some gain from privatization. Megginson and Netter (2001), in a careful literature review, conclude that privatization appears to improve performance measured in many different ways, in many different countries[30]. For example, La Porta and Lopez-de-Silanes (1999) find that the former Mexican state-owned enterprises they study rapidly close a large performance gap with industry-matched private firms that had existed prior to divestment. These firms go from being highly unprofitable before privatization to being very profitable thereafter. They attribute most of the performance improvement to productivity gains resulting from better incentives, with at most one-third on the improvement being attributable to lower employment costs.

Moreover, privatization could have a positive impact on sustained growth though the foreign direct investment channel. Hence, in the case of Latin America, one of the most and tangible effects of privatization has been increase foreign investment in the region (Lora, 1997). During the 1990s, foreign investment aimed at privatization has represented an average of 21 percent of direct foreign investment. Privatization has also led to other foreign investment aimed at capitalizing privatized companies or investing in complementary activities that privatization has made more attractive. It is estimated that for each dollar of direct foreign investment in privatization, 88 cents more has been received in foreign investment (Sader, 1993).

Furthermore, both case studies and rigorous micro studies show positive results from privatization of some utilities[31], even if experience varies greatly by sector. For example, the privatization of water services in Argentina was associated with a 5 to 7 percent drop in infant mortality in the country according to Galiani, Gertler and Schargrodsky (2005).

[30] "*Private ownership is associated with better firm-level performance than is continued state ownership*".

[31] According to Williamson (2004), privatization has succeeded in two dimensions: in raising efficiency and profitability of the privatized enterprises, and in increasing coverage and access to privatized utilities.

But on the other hand, there are still a lot of controversies. If in general, large benefits followed privatization, even though they differed across countries and stakeholders, there is also evidence that the benefits have been greater when privatization has been transparent and conducted fairly (see e.g. Megginson and Netter, 2001)[32]. Indeed, privatization is not always appropriate and its suitability depends on the country's circumstances. For example, it is not appropriate when the institutions that are vital to supporting the market are not yet developed, what can be illustrated by the Eastern Europe's transition – the "Property Rights and Rule-Based Governance" CPIA criterion underlines this necessity to "*facilitate private economic activity*" by an effective legal system and rule-based governance structure in which property and contract rights are reliably respected and enforced. In the Eastern Europe case, minority shareholders had few protections (whereas the "Business Regulatory Environment" CPIA criterion underlines the necessity to "*protect shareholders rights"*), and privatization sometimes resulted in the new owners stripping assets and spiriting them abroad rather than investing to improve their working[33]. As underlined by the World Bank (2005), there was a fundamental difference between selling state-owned firms in countries where markets function and supporting institutions exist and doing the same in countries where the state collectively owns all assets. Moreover, even when markets function, privatization is not always appropriate. This can be illustrated by the electricity example in Brazil. Brazil has a largely hydro-based power system and uncertain rainfall and multiuse dams preclude substantial gains from privatization, even of its nonhydro generators. Moreover, as to electricity, it has to be underlined that many developing countries are too small to benefit from competition in the power sector. Finally, because many things changed simultaneously, the benefits that followed privatization are not proof that privatization was their cause (World Bank, 2005).

Deregulation. There have been some examples of deregulation reforms in developing countries, such as India's deregulation of trucking in the 1980s, which was a big success (Williamson and Zagha, 2002). However, there are still controversies on this topic, but the literature seems to focus more today on other questions, like the one of decentralization.

Decentralization. Indeed, another object of controversies is the one of decentralization. If designed well, decentralization can move decision making closer to the people, enhance the efficiency and responsiveness of service delivery (Faguet, 1997; Bardhan and Mookherjee, 2000; Kahkonen and Lanyi, 2001) and support economic growth. But if designed inappropriately, or introduced without strong local participation and accountability, it can lead to macroeconomic instability, declining service levels (Martinez-Vazquez and Boex, 2001), heightened regional disparities or conflicts (Smoke, 2001), and increased corruption (Brueckner, 1999), and so reduce economic growth.

Financial Development[34]

Finance appears as a determinant of sustained growth in many research[35]. Indeed, a lot of articles have shown that an efficient domestic financial system is important for growth (World

[32] For examples of poorly designed privatization programs see Coffee (1999) who describes the Czech Republic's market collapse of 1997, and Samonis (2000) who describes the Lithuanian government's tortuous privatization of the Mazheikiu Nafta refinery in early 2000. Black et al. (2000) argue that a poorly designed privatization program is worse than none at all.

[33] La Porta et al. (2000) underline that investor protection turns out to be crucial because in many countries, expropriation of minority shareholders and creditors by the controlling shareholders is extensive.

[34] The CPIA deals with financial development in the "Financial Sector" criterion.

[35] For reviews of this literature, see Levine (1997, 2005).

Bank, 2005). For example, Levine, Loayza and Beck (2000) find that the exogenous components of financial intermediary development is positively associated with economic growth. Moreover, this impact is large: the estimated coefficients they find suggest that if Argentina had enjoyed the level of financial intermediary development of the average developing country during the 1960-1995 period, it would have experienced about one percentage point faster real per capita GDP growth per annum over this period. Similarly, Levine (2003), in a careful literature review, concludes that the consistency of existing empirical results across different data sets and statistical procedures suggests that finance plays an important role in the process of economic growth. First, countries with better-developed financial systems tend to grow faster. The levels of banking development and stock market liquidity each exert a positive influence on economic growth. Second, simultaneity bias does not seem to be the cause of this result. Third, better-functioning financial systems ease the external financing constraints that impede firm and industrial expansion. Thus, access to external capital is one channel through which financial development matters for growth because it allows financially constrained firms to expand. Krebs (2003) shows how imperfect sharing of idiosyncratic individual human-capital risk, due to the financial market incompleteness, can depress long-run growth[36]. Aghion, Howitt, and Mayer-Foulkes (2005) raise questions about whether the financial development affects steady-state growth, and instead find that finance influences the rate of convergence. Indeed, they show that lack of financial development accounts for the failure of some countries to converge to the growth rate of the global technology frontier.

However, considerable debate remains[37]. One of the reasons of the weakness of the link between financial development and sustained growth is that there is a key tradeoff between safe and sound finance (the stability of the financial system) on the one hand, and risk taking in the financial sector's intermediation between savers and investors on the other hand (World Bank, 2005). Indeed, a well-developed financial system can help an economy grow by mobilizing savings, allocating funds to investment, and redistributing risk, but the pattern of financial sector maturation varies considerably among countries. The crises of the 1990s have raised concerns about financial instability that can lead to poor growth. Indeed, the evidence reveals that financial opening preceded most crises (Williamson and Mahar, 1998; Kaminsky and Reinhart, 2001). Moreover, international markets are considered to be inherently unstable due to information asymmetries (Griffith-Jones, 2000). Progress will depend heavily on countries' success in building institutions, improving their informational and legal frameworks, and, ultimately, achieving more competitive political systems that will reduce the power of political-economic elites.

Another critical issue for the financial sector in its support of sustained growth is to improve access to finance, and in particular to increase small client's access to finance (if the financial system fails to reach large portions of the population, household savings will be stunted). It involves again the same tradeoff between making banks safe and sound and

[36] Since self-insurance is a very ineffective means to smooth consumption, the macroeconomic consequences of the financial market incompleteness are substantial. Indeed, in the Kreb (2003) model, individual households face a substantial amount of uninsurable labor income risk (because the insurance market is incomplete). And so they have to self-insure themselves, for example using precautionary saving if they are prudent. This is inefficient because households choose to save and not to invest in human capital (because of the risk) which has a negative impact on the long-term economic growth rate. And moreover, self-insurance is ineffective because in his model, Kreb allows for human capital shocks that amount to permanent labor income shocks: that is, in equilibrium the individual labor income process follows (approximately) a logarithmic random walk.

[37] As underlined by Levine (2003), "*Nobel Prize winners disagree about the impact of the financial sector on economic growth*".

making sure they continue to intermediate. Indeed, internal crises can result from imprudent banks, and this is why careful regulation and supervision are required to prevent banks from expanding credit too far.

However, the worst financial crises are often those that have an external dimension, involving foreign as well as domestic capital, which raises the question of financial liberalization.

Financial Liberalization and Financial Integration

The question of financial integration is still very controversial in the literature. Indeed, the literature has seen accumulation of substantial evidence showing that financial liberalization can yield a real social benefit in terms of an improved allocation of investment (Bekaert, Harvey and Lundblad, 2003; Caprio and Honohan, 2001; Rajan and Zingales, 2003) but at the same time, it can be dangerous. The series of crises that have engulfed so many developing countries are testimony of that (Williamson, 2004). Indeed, Edison, Levine, Ricci and Slok (2002), using a wide array of measures of international financial integration on 57 countries and an assortment of statistical methodologies, are unable to reject the null hypothesis that international financial integration does not accelerate economic growth even when controlling for particular economic, financial, institutional, and policy characteristics[38].

The question of financial liberalization includes in fact two different (even if closely linked) questions with which we deal in turn: the one of internal financial liberalization and the one of external financial liberalization.

Internal financial liberalization. The financial liberalization that took place in the developing countries in the 1980s and the 1990s was part of the general move toward giving markets a greater role in development (World Bank, 2005). The ones that are against financial liberalization underline that if the financial reforms produced some gains, their growth benefits in the 1990s were less than expected: "*contrary to expectations, financial liberalization did not add much to growth, and it appears to have augmented the number of crises.*" (World Bank, 2005). Moreover, these financial crises raised questions of whether financial liberalization was the wrong model, what has gone wrong, and the appropriate direction of future financial sector policy.

Indeed, it seems particularly important to take into account the fact that finance depends on institutions. We yet underlined that the financial sector's contribution to development depends not just on resource mobilization but also on attention to institutions: intermediaries, markets, and the informational, regulatory, legal and judicial framework. It is why while financial liberalization delivered in some aspects during the 1990s, its benefits are likely to lie in the future and to depend on further institutional reforms. The crises of the 1990s, and the limited contributions of liberalization to growth and access to finance, reflect to a large degree the continuation of the weak institutional framework related to the overhang of the old financial system, and, more fundamentally, the persistence of old political and economic power centers (World Bank, 2005). Moreover, successful financial liberalization depends also on macroeconomic stability.

[38] However, they underline that these results do not imply that openness is unassociated with economic success. Indeed, international financial integration is positively associated with real per capita GDP, educational attainment, banking sector development, stock market development, the law and order tradition of the country, and government integrity (low levels of corruption). Thus, successful countries are generally open economies.

The ones that argue in favor of financial liberalization as an important determinant of sustained growth underline that overtime, as institutions improve, equity markets do seem to contribute to economic growth (Levine and Zervos, 1998; Levine, 2003). An important element in equity market performance seems to be foreign investor participation (Bekaert, Harvey and Lundblad, 2003), what leads us to the question of the external financial liberalization.

External financial liberalization and international financial integration[39]. It is true that many developing economies with a high degree of financial integration have also experienced higher growth rates. It is also true that theoretical models have identified a number of channels[40] through which international financial integration can promote economic growth in developing countries. Moreover, there is evidence suggesting that external financial liberalization promotes growth (see e.g. Henry, 2000; Bekaert, Harvey and Lundblad, 2001, 2003; Bosworth and Collins, 2003; Levine, 2000). However, a systematic examination of the evidence suggests that it is difficult to establish a strong causal relationship. In other words, if financial integration has a positive effect on growth, there is still no clear and robust empirical proof that the effect is quantitatively important (Prasad, Rogoff, Wei and Kose, 2003). From an historical point of view, Bordo and Meissner (2007), exploring the association between economic growth and participation in the international capital market during the first area of globalization, find only mixed evidence of any association between economic growth and foreign capital inflows.

First, it is important to distinguish controls on capital outflows from controls on capital inflows (World Bank, 2005). Countries that restricted capital inflows performed better than those that did not. Chile, China and India all introduced controls on capital inflows that helped them maintain some degree of control over monetary policy and helped to mitigate upward pressure on the exchange rate. Though their banking systems were not without weaknesses, China and India avoided a financial crisis and also maintained strong growth. Their experience is consistent with the view of some economists (Williamson, 1995; Bhagwati, 1998; Feldstein, 2003) that the efficiency gains from liberalizing capital movements are small in relation to the risks this liberalization introduces. There is nonetheless an opposite view, holding that controls on capital movements are not only inefficient (Summers, 2000), but also difficult to implement in practice. In the case of Chile, some studies suggest that the controls were less effective than generally believed and that they did not succeed in increasing the average maturity of debt. Perhaps more important, there is no guarantee that capital controls will work in other nations as effectively as they did in Chile. The World Bank (World Bank, 2008) underlines that while economists would readily agree that financial openness is beneficial in the long run, they will also confess to considerable uncertainty and some disagreement about the timing and sequencing of moves to open up. Indeed, the World Bank (World Bank, 2005) underlines that "*for domestic financial systems that have not already been liberalized, the pace of liberalization should be modulated to reflect the quality of institutional framework governing the domestic financial sector*." Similarly, Prasad, Rogoff, Wei and Kose (2003) find that there is some evidence of a "threshold effect" in the relationship between financial globalization and economic growth: "*the beneficial effects of financial globalization are more likely to be detected when the developing countries have a*

[39] For an insightful review of the effects of the capital account liberalization, see Eichengreen (2001).

[40] These channels are both direct: augmentation of domestic savings, reduction in the cost of capital through better global allocation of risk, transfer of technological and managerial know-how, and stimulation of domestic financial sector development; and indirect: promotion of specialization, commitment to better economic policies, and signaling.

certain amount of absorptive capacity. Preliminary evidence also supports the view that, in addition to sound macroeconomic policies, improved governance and institutions have an important impact on a country's ability to attract less volatile capital inflows, and on its vulnerability to crises." Similarly, as to the opening of the capital account, it seems acknowledged today that it should be one of the last things done in a liberalization program. Indeed, one of several preconditions for this should be a liberalized and robust banking system able to intermediate a capital inflow efficiently to where the social return would be the highest (Williamson, 2004). Premature opening of the capital account poses serious risks when financial regulation and supervision are inadequate (see Ishii and Habermeier, 2002; and Bakker and Chapple, 2002)[41]. Hence, Klein and Olivei (2001), analyzing the effects of capital account liberalization on growth for a cross-section of countries over the period 1986-95, find that countries with open capital accounts experienced higher rates of economic growth, but that this positive effect appears to be significant only for industrial countries, not for developing ones. Similarly, Aghion et al. (2004) find that the impact of liberalization on the productivity of industries in India depends both on their distance to India's technological frontier and on the industrial relations climate in a state. The World Bank (World Bank, 2001) also underlines that "*the opening of the capital account has to be managed prudently – in step with domestic financial sector development – to reduce the risk of high volatility in capital flows."* Hence, one has to distinguish between the short- and the long-run effects of financial liberalization on capital markets (Kaminsky and Schmukler, 2003). If financial liberalization is followed by more pronounced boom-bust cycles in the short run, it leads to more stable markets in the long run and so has a positive impact on sustained growth. Indeed, if long-term direct investment can bring positive externalities, such as knowledge transfer, short-term flows can bring negative externalities, particularly volatility. That is why a lot of economists argue in favor to the openness at least to the FDI. Indeed, it has been strongly emphasized at least since the Asian crisis that the flow of FDI is much more stable than that of portfolio capital and certainly of bank loans (Williamson, 2004).

Foreign Direct Investment (FDI). While FDI seems to be positively associated with growth, there is no consensus on whether FDI is an important determinant of sustained growth, and in particular no consensus on the direction of causality (for example, Carkovic and Levine, 2002, failed to find a robust, independent effect of FDI on growth). Indeed, the cross-country evidence on the relationship between FDI and growth is mixed, but this is due in part to the fact that incoming FDI as a share of GDP is typically quite small (World Bank, 2005). Moreover, and this brings us back to the importance of having good institutions, FDI can only promote growth if the country has complementary institutions such as developed financial markets or is open to trade. Regardless of whether FDI independently contributes to growth, it is clear that policies and institutions that are important for growth would also be the ones that would attract FDI as well as enhance the impact of FDI on growth.

However, an important argument in favor of the promotion of FDI is that it is an important channel of technology transfers that lead to innovations (World Bank, 2008). And yet, as underlined before, innovations are one of the main determinants of sustained growth. This argument of technological innovation diffusion is also often used to argue in favor of the opening to international trade. Indeed, knowledge acquired from the global economy appears

[41] In the presence of weakly regulated banking systems and other distortions in domestic capital markets, inflows of foreign capital could exacerbate the existing inefficiencies. For example, if domestic financial institutions tend to channel capital to firms with excessive risks or weak fundamentals, financial integration could simply lead to an intensification of such flows. In turn, the effects of premature capital inflows on the balance sheets of the government and corporate sectors could have negative repercussions on the health of financial institutions in the event of adverse macroeconomic shocks (Prasad, Rogoff, Wei and Kose, 2003).

historically as the fundamental basis of economic catch-up and sustained growth (World Bank, 2008).

Opening up to international trade

Theoretically, the literature points out five channels though which trade affects economic growth: (i) it leads to higher specialization and, thus, gains in total factor productivity by allowing countries to exploit their areas of comparative advantage[42]; (ii) it expands potential markets, which allows domestic firms to take advantage of economies of scales and increase their productivity; (iii) it diffuses both technological innovations and improved managerial practices through stronger interactions with foreign firms and markets; (iv) freer trade tends to lessen anti-competitive practices of domestic firms; (v) trade liberalization reduces the incentives for firms to conduct rent-seeking activities that are mostly unproductive (see Lederman, 1996).

However, some economists have raised doubt about the fact that opening-up will lead to sustained growth. Others have underlined the fact that it is difficult to disentangle empirically the direct effect of trade from the ones of others determinants (indeed, Dollar and Kraay, 2003, argue that the cross-country variation in institutions, trade, and their geographical and historical determinants is not very informative about the partial effects of these variables on long-run growth). Whereas economists devoted renewed attention in the 1990s to more sophisticated cross-country econometric analyses relating various measures of openness to the growth rates of GDP or total factor productivity, finding a strong positive relationship between outward-looking policies and growth, in an important detailed review of the most influential of these studies[43] in which they focus on the effects of policy-induced trade barriers on growth rather than on the growth effects of more general measures of openness, Rodriguez and Rodrik (2001) express skepticism "*that there is a strong negative relationship in the data between trade barriers and economic growth, at least for levels of trade restrictions observed in practice*". Then they argue that the relation between openness and growth is still an open question. And indeed, there is still a lot of debates in the literature. On the one hand, Rigobon and Rodrik (2004) find that openness (measured as the ratio of trade to GDP) has a negative impact on income levels after they control for geography and institutions. On the other hand, Lee, Ricci and Rigobon (2004), applying the identification through heteroskedasticity methodology to estimate the effect of openness on growth while properly controlling for the effect of growth on openness, find that openness would have a positive effect on growth, although small. Similarly, Dollar and Kraay (2004) find that the evidence from individual cases and cross-country analysis supports the view that globalization leads to faster growth. As underlined by the World Bank (World Bank, 2005), "*trade is an opportunity, not a guarantee*." If trade protection is not good for economic growth, trade openness by itself is not sufficient for growth.

Many possible ways to open an economy. There are many possible ways to open an economy, which brings us back again to the importance of taking into account countries specificities[44]. Hence, if openness to trade has been a central element of all successful growth

---

[42] For example, Alcala and Ciccone (2004), using "real openness" (imports plus exports relative to purchasing power parity GDP) as their trade measure, show that international trade has an economically significant and statistically robust effect on productivity, and find also a significantly positive aggregate scale effect. They show that trade and scale affect productivity through the total factor productivity channel.

[43] Dollar (1992); Sachs and Warner (1995); Edwards (1998); Frankel and Romer (1999) and Dollar and Kraay (2001).

strategies (World Bank, 2005[45]), the challenge for policymakers is to identify which best suits their country's political economy, institutional constraints, and initial conditions.

For example, even if they acknowledge that trade protection per se is not good for economic growth, some authors advocate in favor of granting temporary modest levels of import protection to emerging industries where there is a demonstrated need (Williamson, 2004). Other authors have focused on choosing the right form of protection, advocating subsidies to the initial entrants rather than the use of import duties. Indeed, trade reforms are most likely to stimulate growth when they are part of a comprehensive strategy. Successful trade integration requires macroeconomic stability, supportive infrastructure and institutions (Baldwin, 2003[46]).

Finally, as to trade – but we come back to that point in more details later – the CPIA only emphasizes the necessity to remove trade restrictions (indeed, the criterion assessing how the policy framework fosters trade in goods seems entirely oriented towards imports, the stress being put on trade restrictiveness and customs/trade facilitation). However, all successful liberalizations either explicitly or implicitly promoted export growth (World Bank, 2005)[47], even if the question of export promotion is still object of controversies. To catch up with the advanced economies, not only countries will need to increase imports as a percentage of GDP, but exports should also increase. Indeed, the more a country earns from its exports, the more it can afford to benefit from imports, especially the equipment and machinery that embody new technologies (World Bank, 2008).

However, the debate is still open to determine what is the best way of promoting exports. Many of the high sustained growth economies tried a variety of policies to encourage investment in the export sectors in the early stages of their development. Indeed, they tried to promote specific industries or sectors through tax breaks, direct subsidies, import tariff exemptions, cheap credit, dedicated infrastructure, or the bundling of all of these in export zones. They also sometimes use the exchange rate as an "industrial" policy. Nonetheless, the significance of these policies is hard to prove. In other words, there is a consensus in the literature on the need to increase exports, but no consensus on what is the best way to do so, or on the significance of export promoting policies.

iii) The "New" Proposals for Sustained Growth

Finally, two "new" topics are taking more and more importance in the literature on the determinants of sustained growth: environment and empowerment.

---

[44] Baldwin (2003) underlines that the evidence that a general policy position of openness is preferable to long-run economic growth than an inward-looking policy stance should not be interpreted as implying that no government interventions, such as selective production subsidies or controls on short-term capital movements, are appropriate at certain stages of development.

[45] This point is also strongly underlined by the World Bank (World Bank, 2008) : "*during their periods of fast growth, the 13 successes stories economies all made the most of the global economy. This is their most important shared characteristic and the central lesson of this report*".

[46] "*Especially since the Bhagwati-Krueger and Papageourgiou-Michaely-Choksi country studies, economists have emphasized the need, as a minimum, for a stable and non-discriminatory exchange-rate system and the need for prudent monetary and fiscal policies and corruption-free administration of economic policies for trade liberalization to be effective in the long-run.*"

[47] This is also underlined by the World Bank (World Bank, 2008): "*all of the sustained, high-growth cases prospered by serving global markets. The crucial role of exports in their success is not much disputed*".

Environment

If it can be at a first glance surprising to consider environment as a growth determinant[48], it becomes more obvious if one reminds that we are dealing here not only with growth, but with sustained growth. And yet, to be sustained, growth has to be sustainable[49]. This is why it seems now accepted that growth strategies in developing countries should take account of the cost of pollution from the outset, even if they do not immediately adopt the toughest environmental standards upheld in rich countries (World Bank, 2008). One important point is that developing countries need to improve energy efficiency, import new technologies rapidly, and eliminate energy subsidies. Indeed, developing countries should plan the evolution of the economy with the environmental costs in mind, since early attention to environmental standards serves the interests of equity[50] as well as growth. Aghion and Howitt (2009) have shown for example how endogenous innovation and directed technical change make it possible to reconcile the sustained growth objective with the constraints imposed by exhaustible resources or the need to maintain the environment.

Empowerment

We deal more with this question in the next part on the determinants of poverty reduction, but the empowerment of the poor is sometimes presented today as an important determinant of sustained growth (see e.g. Stern, 2001)[51]. Studying the special case of the high degree of violence in Jamaica, Duncan-Waite and Woolcock (2008) argue for "empowering" Jamaican citizens themselves. According to them, broad-based citizen movements able to demand great openness, better organizational performance, and higher levels of accountability from their political leaders will be contributing to an on-going process of reform that the majority of Jamaican citizens can realistically own, identify with, and contribute to. These reforms would in turn lead to a higher rate of long-term growth.

This argument in favor of empowerment often goes hand-in-hand with the one in favor of ownership. Indeed, it is widely recognized today that successful policies need to have the country's "ownership" – not only the support of the government, but also a broad consensus within the population – to be effectively implemented (Hoff and Stiglitz, 2001). Policies imposed from the outside will be circumvented, may induce resentment, and will not withstand the vicissitude of the political process (see e.g. Bruno, 1996; Stiglitz, 1998).

[48] There is still a lot of controversies in the literature on whether environmental regulation can raise the growth rate. Bovenberg and Smulders (1995, 1996) and Hettich (1998) show how environmental tax can boost economic growth even in the long run in models with endogenous growth (their argument is that if pollution taxes are sub-optimally low then pollution is excessive and natural capital is then under-accumulated, which affects production). But Fullerton and Kim (2006) temper that optimist view and find that environmental tax can decrease the growth rate, even if it raises welfare.

[49] The sub-objective of the "Policies and Institutions for Environmental Sustainability" criterion is to "*foster the protection and sustainable use of natural resources and the management of pollution*".

[50] However, there is still a debate in the literature as to the equity question. Indeed, although in general low-income households appear to bear a disproportionate share of existing environmental risks, policies that reduce environmental risks are not necessarily progressive (Parry, Sigman, Walls and Williams, 2005). Fullerton (2008), studying the distributional effects of environmental policy, find that many effects of such policy are likely regressive. There is thus perhaps a possible opposition between the "Equity of Public Resource Use" criterion which argues in favor of progressive taxes, and the "Policies and Institutions for Environmental Sustainability" criterion. However, since the literature on the distributional effects of environmental policy is very new, it seems difficult to draw conclusions from it.

[51] The CPIA deals with empowerment in the "Social Protection and Labor" criterion, one of the areas of this criterion being "community driven initiatives" ("*encourage and support communities' own development initiatives or local accountability mechanisms*").

2) THE DETERMINANTS OF POVERTY REDUCTION

"Growth is, above all, the surest way to free a society from poverty" (World Bank, 2008).

The main determinant of poverty reduction appears to be growth (see e.g. Goldberg and Pavcnik, 2004). Indeed, in a very poor country, it is arithmetically impossible to reduce poverty without growth. As a consequence, all the determinants of sustained growth emphasized in the previous part can also be considered as determinants of poverty reduction through the growth channel[52]. When the only impact of these determinants on poverty reduction is through growth, we do not deal with them here, since we did so in the previous part. However, some of these determinants, for example trade, are thought to have a direct impact on poverty reduction. When this is the case, we analyze them. Moreover, they can sometimes have a negative impact on distribution while having a positive impact on growth, and so in this case the net effect on poverty reduction needs to be analyzed before one can conclude that such determinants reduce poverty. Indeed, if the answer to the question "is growth good for the poor" is clearly "yes" when one views growth in isolation, the net effect on poverty is no longer clear if growth is accompanied by increased inequality. One important question here is to determine how pro-poor growth is.

Indeed, poverty reduction can be decomposed into two parts: faster economic growth and change in the composition of income[53]. If a country is growing slowly or not at all, then measures that improve the distribution of income will reduce poverty. Besley and Burgess (2003) calculate that a one standard deviation reduction in inequality would reduce poverty by almost half in Latin America and by more than half in Sub-Saharan Africa

One important point when one deals with poverty reduction is to distinguish between absolute and relative poverty. Absolute poverty is defined in reference to a poverty line that has a fixed purchasing power determined so as to cover needs that are physically and socially essential. Setting absolute poverty reduction as the prime development goal is thus simply saying that a fundamental objective of development is to ensure that everybody does satisfy her basic needs. In a relative definition of poverty, the poverty line is defined not in terms of some well defined basic needs, but as a fixed proportion of the mean income of the population. Such a relative definition of poverty becomes in some sense independent of growth. The absolute level of income and therefore a large part of the development process does not matter anymore with such a definition. Only relative incomes, or pure distributional features matter. Fixing the poverty line relative to average income can show rising poverty

---

[52] For example, as to trade, Dollar and Kraay (2004) argue that since increased trade generally goes hand-in-hand with more rapid growth and no systematic change in household income distribution, then one can conclude that increased trade generally goes hand-in-hand with improvements in well-being of the poor. But doing so, they implicitly assume that the only channel through which trade affects poverty is growth.

[53] Kraay (2004) notes that "*growth plays a much larger role in poverty reduction during long growth spells than it does during short spells, where changes in measured distribution play a larger role*". Indeed, he distinguishes three potential sources of pro-poor growth: (i) a high rate of growth of average incomes; (b) a high sensitivity of poverty to growth in average incomes; and (iii) a poverty-reducing pattern of growth in relative incomes. He shows that roughly half of the variation in short-run changes in poverty can be explained by growth in average incomes. In the medium-to-long-run, between 66 and 90 percent of the variation in changes in poverty can be accounted for by growth in average incomes. Virtually all of the remainder is due to changes in relative incomes.

even when the standard of living of the poor have in fact risen (Bourguignon, 2004). This is why the larger part of the literature on poverty reduction deals essentially with absolute poverty. However, as we will see, some articles deal also with relative poverty.

Finally, a more and more influential new strand of the literature on poverty reduction emphasizes the fact that poverty is multidimensional. This implies to take into account different determinants of poverty reduction with which we deal in the last part.

a) <u>Growth and Pro-Poor Growth</u>

i) Growth

Growth has been the single most important factor in reducing poverty on a national scale. Empirically, if one considers the developing countries that have truly reduced poverty at scale (in particular China, Vietnam, Uganda and India), one realizes that in each case the acceleration of economic growth sustained for more than a decade was the driving force for poverty reduction (Shangai, 2004). Indeed, it is well established in the literature that on average, economic growth is associated with reduction in income poverty (Ames el al., 2000; Besley and Burgess, 2000; Ravallion, 2001; White and Anderson, 2001; Christiaensen, Demery and Paternostro, 2002; Besley and Burgess, 2003; Klasen, 2003).

In a seminal article, Dollar and Kraay (2002a) show that "*growth is good for the poor*". They argue that the poor gain proportionally from growth in the mean income (a result which has been underlined before by Roemer and Gugerty, 1997; and by Gallup et al., 1999). Indeed, they find that across countries average incomes of the poorest quintile moved almost one-for-one with average incomes overall. This is equivalent to saying that the share of the poorest quintile is uncorrelated with log GDP per capita.

However, there is still a debate on whether the poor benefit from economic growth (in other words, on whether the poor are sharing in the growth in average living standard). For example, Ravallion (2001) underlines that it does not follow from the results of Dollar and Kraay (2002a) that growth raises the incomes of the poor by about as much as it raises the incomes of everybody else. Indeed, finding that the share of income going to the poor does not change on average with growth does not mean that growth raises the incomes of the poor as much as for the rich. Whereas the incidence and depth of absolute poverty in developing countries tends to fall with growth, he finds that, looking behind averages, however, the experience is diverse. A one percent rate of growth in average household income or consumption will bring anything from a modest drop in the poverty rate of 0.6% to a more dramatic 3.5% annual decline. In other words, there is a huge heterogeneity in the gains to the poor from a given rate of growth, the sources of this heterogeneity being the differences in initial inequalities between countries, and between regions within countries, that create sizable differences in how much the poor share in aggregate growth or contraction.

The results of Dollar and Kraay have also been challenged recently by Foster and Svekely (2008) who ask again the question of whether economic growth tends to "*raise all boats*'' including incomes at the lower end of the distribution, or whether the main impact of economic expansion felt by the better-off, with little if any benefits "*trickling down*" to the poorer income groups. Using general means, they find that the growth elasticity of bottom

sensitive general means is positive, but significantly smaller than one. In other words, this suggests that the incomes of the poor do *not* grow one-for-one with increases in average income.

This conclusion has important implications for economic policy since, if economic growth typically leaves the poorer groups behind, pro-growth policies may have to be tempered by distributional considerations. There is thus a role for policies that take into account the distributional impact of economic growth (Ghura et al., 2002; Besley and Burgess, 2003). Growth that reduces inequality will have a larger impact on poverty. Indeed, there is a triple effect of reduced inequality on poverty: it appears to reduce poverty immediately, increases growth, and enhances the poverty impact of such growth (Klasen, 2003). Moreover, if economic growth raises the income of the poor by less than one-to-one, this implies that, for a given target of poverty reduction over a certain period of time, the economic growth rates required may exceed what can be reasonably expected (compared with what could be required if an increase in economic growth resulted in a one-to-one or higher increase in the income of the poor).

Hence, it seems necessary to take into account the importance of pro-poor growth and of its determinants. The question is thus to determine what are the specific drivers of growth that can directly benefit the poor. Indeed, some kinds of growth reduce poverty more effectively than others (World Bank, 2008).[54] Reforms that expand opportunities for households (e.g. reforms that expand access to credit for the poor, since even if the poor have access to investment opportunities, it is often difficult for them to exploit these opportunities because they do not have access to credit[55]), improve climate for doing business (and especially for investments and entrepreneurship, with more secure property rights and an appropriately structured deregulation[56]) and improve the accountability of elected officials (with in particular the role of mass media in acting as a check on the actions of politicians[57]) are important in this respect (Besley and Burgess, 2003).

It seems also necessary to accompany growth by investments in poor people through adequate and effective delivery of education, health and social infrastructure (Shangai, 2004).[58] In other words, growth is not enough: it is critical but not sufficient for the well being of poor people. Indeed, if one considers the developing countries that have truly reduced poverty at scale (China, Vietnam, Uganda and India), it appears that in each case there were not only deliberate institutional and policy reforms to stimulate growth, but also a conscious strategy to invest in building human capacity.

[54] "One reason for the interest in concepts of pro-poor growth has been the realization that some patters of growth (such as expansion of labor-intensive agriculture) could have a larger impact on the poor than do others (such as subsidies for capital-intensive industrialization), and even that some groups could lose in situations in which poverty was declining in aggregate." (Kanbur, 2001).

[55] See Banerjee and Newman (1993) and Aghion and Bolton (1997).

[56] See e.g. Djankov et al. (2002).

[57] To take no but one example, Besley and Burgess (2002) show that state governments in India are more responsive to falls in food production and crop flood damage via public food distribution and calamity relief expenditure where newspaper circulation is higher. The CPIA deals with this accountability question in the "Transparency, Accountability and Corruption in the Public Sector" criterion.

[58] This was presented as an important recommendation but without any empirical basis. Social infrastructure is used in the sense of Hall and Jones (1999), that is, the collection of laws, institutions, and government policies.

ii) Pro-Poor Growth

According to the DFID (2004), there are two main approaches to defining pro-poor growth, both requiring that 'the poor' be identified by specifying a poverty line, such as the international $1 a day line or a national poverty line: (i) the absolute definition of pro-poor growth considers only the incomes of poor people: how 'pro-poor' growth is should be judged by how fast on average the incomes of the poor are rising; (ii) the relative definition of pro-poor growth compares changes in the incomes of the poor with changes in the incomes of people who are not poor: growth is 'pro-poor' if the incomes of poor people grow faster than those of the population as a whole.

Hence, there is a broad debate between these two approaches. Kakwani and Pernia (2000) define pro-poor growth as the "*growth that enables the poor to actively participate in, and significantly benefit from, economic activity*." According to this view, growth is pro-poor if the accompanying change in income distribution by itself reduces poverty. However, this definition is rather restrictive, since it implies that, for example, China's very rapid growth and dramatic poverty reduction during the 1980s and 1990s was not pro-poor because the poor gained relatively less than the non poor (Kraay, 2004). A broader and more intuitive definition proposed by Ravallion and Chen (2003) is that growth is pro-poor if the poverty measure of interest falls.

Beyond this debate, the important point is to identify factors that can improve the impact of growth on poverty and influence the extent to which growth is poverty reducing or "pro-poor". Indeed, pro-poor growth is not an accidental by product of the growth process, and so conscious policies can help create it (Chhibber and Nayyar, 2007). We review here the different policies proposed in the literature.

The Importance of Agriculture

It is clear that pro-poor growth that directly reduces poverty must be in sectors where the poor are and use the factors of production they possess. And yet, not only the vast majority of the poor are in rural areas, but a majority depends directly or indirectly on agriculture for their livelihood, and the factor of production the poor possess and use most is labor, and sometimes land as well (see Alderman et al., 2000a; Ames et al., 2000; World Bank, 2000a; Ravallion and Datt, 2002; Eastwood and Lipton, 2001). Thus pro-poor growth must focus on rural areas, improve incomes in agriculture, and must make intensive use of labor (Klasen, 2003). Hence, in their review of the Asian experience, Rosegrant and Hazell (2000) conclude: "*the countries that have been most successful in attacking poverty have achieved rapid agricultural growth and broader economic growth that makes efficient use of labor and have invested in the human capital of the poor*." Indeed, Ravallion and Datt (2002) find that rural growth reduced poverty in both rural and urban areas, while urban growth only had some impact on urban poverty. Related analyses in Eastwood and Lipton (2001) confirm that both in country studies as well as in cross-country analyses, improvements in labor productivity in agriculture have been more pro-poor than improvements in non-agriculture. Irz et al. (2001) use a cross-country empirical estimation of the links between changes in agricultural yields per ha and the incidence of poverty. They find the elasticity to be around -0.9. These results imply that yield increases of 20 percent could lead to a reduction of at least 18 percent in the numbers of poor. As agricultural research has led to these types of gains in the past, and could no doubt continue to do this in future, the scope for poverty reductions and increased food security from enhanced investments is large (Ryan, 2002). As Irz et al. (2001) conclude: "*it is unlikely*

that there are many other development interventions capable of reducing the numbers in poverty so effectively" (on the importance of agricultural research as a determinant of poverty reduction, see also Hazell and Haddad, 2001[59]).

Beyond agriculture, it seems important that in order to be pro-poor growth has to target the most labor-intensive sectors.

[59] They identify seven ways through which agricultural research that leads to improved technologies can benefit the poor: (i) research can help poor farmers directly through increased own-farm production, providing more food and nutrients for their own consumption and increasing the output of marketed products for greater farm income; (ii) small farmers and landless laborers can gain greater agricultural employment opportunities and higher wages within the adopting regions; (iii) the poor can have opportunities to migrate to other agricultural regions; (iv) growth in the rural and urban nonfarm economy induced by more rapid agricultural growth can benefit a wide range of rural and urban poor people; (v) research can lead to lower food prices for all consumers, whether from rural or urban areas; (vi) research can lead to greater physical and economic access to crops that are high in nutrients and crucial to the well-being of the poor – particularly poor women; (vii) research can empower the poor by increasing their access to decision making processes, enhancing their capacity for collective action and reducing their vulnerability to economic shocks via asset accumulation.

Pro-Poor Growth and the Importance of Rural Agriculture. The Example of Zambia.

Zambia is one of the poorest countries in Sub-Saharan Africa. However, in the 1960s it was a middle-income country believed to have considerable growth potential. The key to understandings the country's economic history and its failure to develop lies in its natural resource endowments. Zambia is a land-abundant but sparsely-populated country in central Southern Africa. Agricultural potential is high due to considerable variation in rainfall patterns. However, like many other countries in the region, Zambia's economy has been dominated by the discovery, expansion, and eventual decline of the minerals sector. Cooper mining in particular has been central to the country's development for almost a century, and the concentration of investment in this sector has generated one of the most urbanized populations in Africa.

However, the performance of agriculture has been the fundamental determinant of poverty for a majority of the country's households in Zambia over the 1990s. Despite urbanization, more than two-thirds of the population lives in rural areas, with most of these households engaged in some form of crop production. Structural reforms incurred adjustment costs as rural farm households lost access to inputs and output support and shifted production away from maize. However, unlike the urban-based industrial sectors, agriculture has continued growing during the reform period. Furthermore, the removal of the anti-agricultural-export bias and the improved investment environment have stimulated cash crop exports and production.

However, two constraints have limited poor households' participation in this new agricultural growth. First, poor market access created by poor rural infrastructure has limited the ability of smallholders to produce cash crops, leading to a concentration of cash crop production within specific areas of the country. Inaccessible remote rural markets have also limited marketed non-cash-crop production. Around 40 percent of agricultural households are still engaged solely in subsistence agriculture. Secondly, low productivity limits the ability of farmers to respond to the news opportunities arising from structural reforms (UNDP, 2003). This is a result of a labor constraint that is worsened by poor farm capital and low-value inputs, and entrenched by inadequate access to credit. The latter is an economy-wide constraint resulting from the private sectors' inability or unwillingness to replace previous state involvement (Kahkonen and Leathers, 1999). Agricultural reforms during the 1990s have generally been pro-growth in as far as they have helped stimulate diversification away from maize production, and pro-poor in that they have created new opportunities for small and medium-scale farmers.

As to these opportunities, one can underline that indeed, as a result of structural adjustment, one of the most important change has been the substantial increase in the number of small-scale farmers as urban households migrated back into rural areas. Some migrating urban households, especially lower-educated households, undoubtedly carried their assets (and higher incomes) back into rural areas thereby reducing aggregate rural poverty.

As to maize production, it is necessary to underline that the removal of the maize-bias caused staples production to shift towards more drought-resilient food crops. This diversification towards areas of better comparative advantage caused poverty decline, especially in the northern provinces.

Finally, the greatest declines in the depth of poverty occurred in those areas where there has been foreign-investment in exportable cash-crops. However, cash-crop growth has benefited relatively few and mainly medium-scale households. Extending the benefits from both staples and cash-crop growth is constrained by poor market access and low farm productivity. Despite agriculture's strong performance, recently renewed mining export growth raises concerns about a possible tradeoff between copper-led growth and pro-poor agricultural growth. However, regardless of a resurgence of the mining sector, diversification away from copper remains essential since past dependence on copper has proven unsustainable for growth and inadequate for broad-based poverty reduction.

Source: Thurlow and Wobst (2004).

Targeting Growth in the Most Labor-Intensive Sectors

We underlined that the expansion of smallholder farming cuts poverty quickly, raising the incomes of rural cultivators and reducing the price of the poor's food bill. But growth in labor-intensive manufacturing also raises the incomes of the poor. On the contrary, the expansion of capital-intensive mining industries on the other hand can result in job-less growth, making little impression on poverty (World Bank, 2008). So in order to foster poverty reduction, one has to target growth in the most labor-intensive sectors such as the rural agriculture or the urban informal areas.

Financial Development

It seems accepted today that finance-intensive growth is pro-poor, and so one has to rely on financial development as a priority instrument for tackling poverty in developing economies – we come back to this point later. One contribution employing indirect but highly suggestive evidence suggesting a pro-poor dimension to finance-rich growth comes from Dehejia and Gatti (2002) who study child labor, well-known to be a correlate of poverty. Using a panel of countries at five or ten-year intervals, they find that the incidence of child labor seems to be affected on a cross-country basis by the degree of financial depth. That this might reflect the enhanced ability of deep financial sectors to insulate poor households from shocks is further suggested by the fact that the impact of national income volatility on child labor is insignificant if analysis is confined to countries with deep financial systems. Similarly, Honohan (2003), drawing on a cross-section of some 70-odd developing countries for which poverty data are available, show that financial (banking) depth is negatively associated with headcount poverty, even after taking account of mean income and inequality.

Inclusive Growth and Redistribution Policies

Finally, to be truly pro-poor and foster poverty reduction, growth has to be broad-based and inclusive (Shangai, 2004). Indeed, the reduction of absolute poverty necessarily calls for strongly country-specific combinations of growth and distribution policies (Bourguignon, 2004): in order to foster poverty reduction it is necessary to reduce inequality.

Indeed, there have been plenty of cases of rising inequality during spells of growth, and so there is ample evidence to support concerns that high or rising inequality is putting a break on the prospects for poverty reduction through growth (Ravallion, 2001). Differences in how much impact a given rate of growth has on poverty reflect in part initial inequalities in incomes. Hence, inequality is an impediment to pro-poor growth (the elasticity of poverty to growth declines appreciably as the extent of initial inequality rises[60]): it matters to the pace of poverty reduction that is achieved at any given rate of growth. Granted, even in the countries in which inequality is rising with growth in average living standards, poverty is falling on average. But it typically falls at a much slower rate than in countries experiencing more equitable growth. Ravallion (2001) finds that the median rate of decline in the proportion of

[60] Bourguignon (2004) argues that the growth elasticity of poverty is a function of the level of initial inequality, the change in the level of income inequality and the level of development of an economy (measured by the position of the poverty line relative to mean income).

the population living below $1 per day amongst countries with both rising average income and rising inequality was 1.3% per year. By contrast, the median rate of poverty reduction was seven times higher, at about 10% per year, amongst the countries that combined growth in average living standards and falling inequality. Similarly, Chhibber and Nayyar (2007) find that for a given rate of economic growth, higher initial income inequality results in a higher poverty headcount index. They underline that more pro-poor growth is possible by changing the initial level of inequality. Land reform in China, Korea and Japan helped generate more poverty reduction and subsequently helped generate more pro-poor growth.

Moreover, even when inequality is not rising, a high initial level of inequality can stifle prospects for pro-poor growth. In an economy where inequality is persistently low, one can expect that the poor will tend to obtain a higher share of the gains from growth than in an economy in which inequality is high. Ghura et al. (2002) note that lower levels of inequality are found to have a direct, beneficial impact on poverty reduction.

Redistribution and property rights. If it seems accepted that a lower level of inequality fosters poverty reduction, the question is then to determine how to implement inequality reduction. Finding feasible means of achieving redistribution must thus be a priority (Besley and Burgess, 2003). The potential via conventional tax and transfer systems is limited in low-income countries (Burgess and Stern, 1993). However, other measures such as strengthening property rights, increasing access to credit and improving the delivery of public services do hold real promises. In the case of India for example, Besley and Burgess (2000) show that land reforms, which enhanced security of tenure for poor farmers, had appreciable impacts on rural poverty, whereas attempts to redistribute land via the imposition of land ceilings were blocked and had no effect. Obtaining property rights over land in urban areas can also help poor households to gain access to credit, increase labor supply (through rural-urban migration as well as by providing incentives for poor households who obtain property rights to work) and improve productivity (Field, 2002; De Soto, 2000). Using the estimated coefficient Acemoglu, Johnson and Robinson (2001) obtained by examining the relationship between income per capita and security of property rights, Besley and Burgess (2003) find that an increase in protection of property rights[61] across the globe of half of one standard deviation would be sufficient to halve global poverty. Similarly, using the coefficient Hall and Jones (1999) obtained by estimated the association between social infrastructure and output per worker, they show that an increase in social infrastructure of two standard deviations would be sufficient to reduce global poverty in half.

Finally, when one considers the question of inclusive growth and inequality, it has to take into account not only “overall” inequality but also gender inequality (Klasen, 2003)[62]. Indeed, higher gender inequality appears to increase poverty and to reduce other welfare measures as women appear to allocate more resources to food, health care, and education of their children than men do and female literacy has been found to be one of the most important determinants of the effects of growth on income poverty (World Bank, 2001a; Datt and Ravallion, 2002). Moreover, gender inequality, particularly in education, access to technology, and likely also employment, reduces economic growth as it fails to make adequate use of female resources (Klasen and Lamanna, 2003; Klasen, 2002b; World Bank, 2001a; Knowles, Lorgelly and

[61] As measured by Acemoglu, Johnson and Robinson (2001) which is the protection against “risk of expropriation”index from Political Risk Services (AJR 2001 also confirm the robustness of their results using a measure of property rights from the Heritage Foundation. They also use the one in Hall and Jones (1999)—an index of government anti-diversion policies created from the ICRG database.

[62] “Gender Equality” is one of the CPIA criteria.

Owen, 2002; World Bank, 2000c). Thus reduced gender inequality would boost economic growth and boost the economic impact of growth on poverty reduction, i.e. it would generate more and more pro-poor growth. As estimated by Klasen (2002b), had Sub-Saharan Africa had East Asia's record in initial gender inequality in education and closed the gap at the same speed East Asia had, real per-capita annual growth between 1960 and 1992 would have been between 0.4 and 0.6 percent faster. In South Asia, where gender gaps are more pervasive and closed even slower, growth would have been 0.7-1.0 percent faster.

b) **The Super Pro-poor Policies**

In this part, we analyze the determinants that not only have an impact on poverty reduction through the growth channel, but that have also a direct impact. Ghura et al. (2002) call such policies (that is, "*policies that directly influence the income of the poor after accounting for the effect of growth*") "*super pro-poor*" policies. We identify five super pro-poor determinants: inflation and macroeconomic stability, educational achievement and human development, financial development, microfinance and the reduction of credit constraints, institutions and governance and physical capital.

Inflation and Macroeconomic Stability

In addition to the beneficial effects on growth, investment, and productivity (see, e.g., Easterly and Kraay, 1999; and Fischer, 1993), some studies have identified an adverse impact of inflation on the poor (e.g., Easterly and Fischer, 2001). Using survey data from a cross section of countries, Easterly and Fisher (2001) find that the poor are more likely than the rich to mention inflation as a top national concern. Furthermore, using pooled time-series and cross-country data, they find that direct measures of the well-being of the poor (e.g., the change in their share of national income and the real minimum wage) are negatively correlated with inflation. Some of the arguments that have been advanced include the fact that the rich are more likely to have access to financial hedging instruments that can be used to protect the real value of their wealth. Consistent with these evidences that inflation hurts the poor, Dollar and Kraay (2002a) find that stabilizing against inflation is associated with lower inequality. Similarly, Datt and Ravallion (2002), using panel data on poverty amongst Indian states, find that inflation matters to India's poor and attribute this effect to short-term adverse shocks on the real wage of unskilled labor. This argument of the real wage is also used by Epaulard (2003), whose argument is twofold: (i) first, the poor are affected by inflation through the decline in their real wages owing to the rigidity of nominal wages; (ii) second, because the poor have limited access to banking services, they cannot insulate their cash savings from inflation and thus suffer relatively more from inflation than the wealthier.

Estimating the direct effect of inflation on poverty after accounting for the effect of growth, Ghura et al. (2002) identify inflation as one of their super pro-poor conditions that are influenced by policy. However, Epaulard (2003) finds that empirical results on the potential remaining effect of inflation on poverty, once controlled for the direct effect of economic growth on poverty, are mixed. On the one hand, she shows that inflation has no impact on the poverty rate other than the one that runs through its negative impact on growth. On the other hand, she shows that very high inflation (above 80 percent) is associated with a higher elasticity of the poverty rate to economic downturn, but at lower inflation, there is no relationship between inflation and the elasticity of the poverty rate to growth or recession. Nor she did find any significant relationship between the elasticity of poverty to growth and inflation.

Beyond inflation, there is now a widespread consensus that macroeconomic stability is a prerequisite for pro-poor growth (e.g. Ames et al., 2000; Mkandawire and Soludo, 1999; World Bank, 2000a).

Educational Achievement and Human Development

Given conducive environment, the productivity of the labor supplied by the poor is an important determinant of their ability to benefit from the enhanced opportunities (Ghura et al., 2002). This is why, in order to foster poverty reduction, one needs to combine human resource development along with growth promoting policies to formulate an effective anti-poverty strategy. Dreze and Sen (2002) highlight the instrumental role of education in enabling people to make use of economic opportunities created by the growth process. Similarly, Chhibber and Nayyar (2007) show that improving literacy facilitates more pro-poor growth, because it increases the pool of people who can access better employment opportunities, and because it creates a larger pool of potential entrepreneurs who can set up business which uses modern technology.

Moreover, country studies reveal that poor educational outcomes reduce the poverty reducing impact of growth. For example, in a particular empirical study on Brazil, Menezes-Filho et al. (2004) highlight the importance of human capital in promoting pro-poor growth. However, in the same way as we underlined before the importance of gender inequality, not only one has to promote education in general, but the stress has to be put especially on the girls' education. Indeed, educating girls and integrating them into the labor force is one way to break an intergenerational cycle of poverty (World Bank, 2008).

Child labor[63]. Closely linked to the question of education, one important determinant of poverty reduction is the fight against child labor. Indeed, child labor may not only be associated with lower welfare for the working children, it may also lead to intergenerational transmission of poverty if it interferes with human capital accumulation. Indeed, it has been shown that child labor status has an effect on future adult income (see e.g. Ilahi et al., 2000; and Emerson and Souza, 2003), what generates a "child labor traps" (Edmonds, 2007). The most obvious mechanism explaining these traps is through child labor's impact on education: low educational attainment leads to lower income leads to lower educational investment in the next generation (Barham et al., 1995). In the literature, this question of child labor has especially being studied in the context of trade liberalization. For example, Edmonds and Pavcnik (2005) study the effect of trade liberalization on the incidence of child labor in rural Vietnam and find that on average, higher rice prices are associated with lower child labor. Similarly, Edmonds, Pavcnik and Topalova (2007) analyze the impact of trade liberalization in India in the early 1990s on human capital investment. They find that areas with more concentration of protected industries saw a lower increase in schooling and lower decline in child labor (see also Edmonds and Pavcnik, 2006a, 2006b; and Kruger, 2004, 2007).

Finally, investment in education can be used to attack poverty as a method of redistribution to the poor (Besley and Burgess, 2003).

[63] For a literature review on child labor, see Edmonds (2007).

Financial Development, Microfinance and the Reduction of Credit Constraints

We showed before that not only financial sector development helps reduce poverty by boosting overall economic growth (Dollar and Kraay, 2002a) but moreover that finance-intensive growth is pro-poor. What we want to underline here it that financial development may also benefit the poor directly by facilitating access to credit and improving risk sharing and resource allocation[64]. Indeed, Beck, Demirguc-Kunt and Levine (2004), who study whether financial development disproportionately raises the incomes of the poor and alleviates poverty, find that financial development reduces income inequality by disproportionately boosting the incomes of the poor. Countries with better-developed financial intermediaries experience faster declines in measures of both poverty and income inequality, a result that is robust when controlling for other country characteristics and potential reverse causality. More specifically, there are three key findings. First, even when controlling for real per capita GDP growth, financial development boosts the growth rate of the poorest quintile's income. This suggests that financial development reduces income inequality. Second, financial development induces a drop in the Gini coefficient measure of income inequality. This result further emphasizes that financial development reduces income inequality beyond the relationship between finance and aggregate growth. Third, financial development reduces the fraction of the population living on less than $1 a day (or $2 a day) and financial development lowers the poverty gap. Thus, they find that financial development reduces poverty by exerting a disproportionately positive effect on the poor.

This direct impact of financial development on poverty can be explained by the fact that financial development helps to reduce credit constraints. Indeed, imperfect credit markets lead economic growth to bypass many people living below the poverty line. In a part of the literature, this situation is referred to as '*multiple equilibrium chronic poverty traps*" (Carter, 2004), i.e. given their skills and circumstances, individuals have the potential to be non-poor but lack sufficient assets to craft a pathway out of poverty. In this context, it is worth noting that the emergence of microfinance as a source of credit is both efficient and equitable as it has enabled the poor to invest, thereby promoting growth and reducing poverty (Khandker, 2005).

Indeed, one has to look not only at "financial depth" but also at the way that formal credit institutions deliver credit. Burgess and Pande (2005), for example, evaluate the impact of a massive social banking experiment in India where licensing rules were used to force commercial banks to open over 30 000 branches in rural areas. They find that banking in rural India led to significant falls in rural poverty. They also find effects on nonagricultural output and employment, agricultural wages and on education, which helps them to understand how the arrival of banks in rural India enabled people to exit poverty.

Microfinance. Recognition of the imperfection of credit markets in rural financial markets has redirected policy in recent years towards the creation of microfinance programs and the improvements of savings institutions that are accessible to the poor (Morduch, 1999). Despite differences in methodology, impact assessments show that microfinance in general helps the poor, although all participants may not benefit equally. An early study of Grameen Bank noted its support for the poor, especially women, through employment and income generation and improvements in social indicators (Hossain, 1988). Some recent studies also

[64] Besley and Burgess (2003) underline that finding ways of expanding access to credit for the poor may both increase the elasticity between economic growth and the reduction of poverty and also act as a form of redistribution.

find beneficial aspects of microfinance operations in Bangladesh (for example, Hashemi and others, 1996). The most comprehensive impact studies of microfinance, a joint research project of the Bangladesh Institute of Development Studies (BIDS) and the World Bank find strong evidence that the programs help the poor through consumption smoothing and asset building (Khandker, 1998; Pitt and Khandker, 1998). The study finds that some 5 percent of borrowers may lift themselves out of poverty each year by borrowing from a microfinance program, if the estimated impacts on consumption continue over time (Khandker, 1998). More recently, Khandker (2005) examines the effects of microfinance on poverty reduction at both the participant and the aggregate levels using panel data from household surveys for 1991/92 and 1998/99 from Bangladesh. The results suggest that access to microfinance contributes to poverty reduction, especially for female participants, and to overall poverty reduction at the village level. Microfinance thus helps not only poor participants but also the local economy. Indeed, he finds that microfinance can account for some 40 percent of the overall reductions in moderate poverty in rural Bangladesh, the impact of microfinance being slightly higher for extreme poverty than for moderate poverty, at both the individual and the village level.

Institutions and Governance

Analytically, there are two main ways through which institutions – economic, political (good governance), cultural, social and legal (stable property rights) – can help create an environment that is conducive for poverty reduction. First, good institutions can facilitate cooperation between private economic agents. Second, good institutions can restrain predatory governments (Chhibber and Nayyar, 2007). Hence, institutions can affect the incomes of people by influencing the incentives that both private and public agents face while making decisions of production and regulation respectively. For instance, good institutions may help create and sustain a healthy investment climate that promotes investment, which, in turn, creates jobs and raises incomes of the poor. Indeed, Acemoglu, Johnson and Robinson (2001) provide evidence that increased protection of property rights could be expected to have a strong effect in reducing poverty.

Physical capital

Both public and private investment would be expected to influence the income of the poor. Public investment in basic infrastructure benefits the poor facilitating initial access to markets or to basic social services (see e.g. Loayza,1996; Calderon and Serven, 2003, 2004). To the extent that the productivity of private investment is enhanced, the impact on the poor would be further strengthened (Ghura et al., 2002).

c) The Trade Controversy

One of the main topic with which the poverty reduction determinants literature deals today is the trade question. Indeed, while there has been an important literature on the effects of trade on growth, the measure of the direct impact of trade on poverty reduction is quite a new topic, which is still very controversial. Moreover, it illustrates well one of the central point in the literature on poverty reduction: the importance of the complementary factors. This is why we dedicate here an entire section to the trade vs. poverty reduction question.

Since there are very good analytical arguments to suggest that trade may benefit the poor[65], there are equally plausible ones that support the view that trade may have an adverse effect on poverty. By implication, determining whether trade is (on net) "good" or "bad" for the poor is an empirical issue, not a matter of faith (Agenor, 2004). Indeed, there are various channels through which trade reforms can affect poverty, notably by influencing (1) the job opportunities and wages of the poor, (2) the prices that poor consumers pay for the goods that they buy, (3) government revenues and in turn social expenditures that particularly affect the poor, and (4) income instability as well as workers' chances of becoming poor (Winters et al., 2004)[66]. Moreover, even if aggregate poverty falls or remains constant, many households may move into or out of poverty as a result of trade liberalization. Does the empirical literature on this topic help us to conclude?

Winters et al. (2004), in a careful review of the empirical literature, conclude that the relationship between trade liberalization and poverty is inconclusive[67]. Similarly, Harrison (2006) underlines in her literature review that there is no evidence in the aggregate data that trade reforms are good or bad for the poor. Using country-level poverty headcounts and trade shares, Ravallion (2004b) reaches a similar conclusion and argues that there is no robust relationship between poverty and globalization in the aggregate data[68]. For example, using data from China, he finds no stable long-run relationship between trade volume and poverty in China. He claims that it is hard to even make the case from the available data that trade has helped the poor on balance. Similarly, considering the case study of cereal de-protection in Morocco, Ravallion and Loskin (2004) find, in the aggregate, a negligible impact of partial de-protection on the poverty rate.

Hence, not only the cross-countries literature seems to be inconclusive, but different case studies bring different conclusions. This is why policymakers need to be cautious about expecting large gains in poverty reduction from trade reforms (Harrison, 2006). Indeed, conventional poverty aggregates may hide much more than they reveal (Ravallion, 2004b). In order to clarify the debate, different kinds of analysis can be distinguished. First, one has to distinguish between, on the one hand, the partial equilibrium analysis, some analysis putting the emphasis on the labor market channel, whereas others put it on the consumption channel, and, on the other hand, the general equilibrium effects analysis. Secondly, the opening up to trade has two sides that can have different effects and need sometimes to be studied independently: exports and imports. Whereas there are still controversies on the effects of trade liberalization as regards imports, there is an agreement around the idea that impediments to exports from developing countries exacerbate poverty in those countries. Keeping in mind these two main differences, we review separately the main papers in the literature that find a positive impact of trade on poverty from those that find no or a negative impact. The goal of this review is to try to understand so far as possible where the differences in the results come from, and what it can learn to us on the determinants of poverty reduction.

---

[65] For example, it has been argued by a number of observers that China's greater openness to external trade since Deng Xiaoping's "Open-Door Policy" of the early 1980s was the key to the subsequent success against poverty (World Bank, 2002a; Dollar, 2004).

[66] Similarly, Goldberg and Pavcnik (2004) identify three main channels through which trade policy affects household welfare: the participation and earnings of household members in labor markets, household consumption, and household production.

[67] See also Goldberg and Pavcnik (2004) for a review of the literature.

[68] "*Each of the (rather different) empirical approaches used here casts doubt on any presumption that greater openness to external trade is the key to rapid poverty reduction. Equally will they cast doubt on any presumption that trade openness hurts more poor people than it helps.*"

The Opening Up to Trade Reduces Poverty

We first have a look at the partial equilibrium analysis on the effects of trade on poverty reduction. One of the important channel studied in these partial equilibrium analysis is the labor market channel. Indeed, one of the most famous theorems in international trade is the Stolper-Samuelson theorem, which in its simplest form suggests that the abundant factor should see an increase in its real income when a country opens up to trade. If the abundant factor in developing countries is unskilled labor, then this framework suggests that the poor (unskilled) in developing countries have the most to gain from trade.

From an empirical point of view, Attanasio, Goldberg and Pavcnik (2004) examine whether the increase in the probability of being unemployed was greater for workers in the manufacturing sector (where tariff cuts were the largest) than for workers with the same observable characteristics in non-traded-good sectors (such as wholesale and retail trade, restaurants, hotels, construction, etc.) in urban Colombia. They find that increases in the probability of unemployment before and after tariff reductions were not larger in manufacturing than in non traded sectors. However, this evidence is based on a very aggregate industry definition, while the information on unemployment is not directly linked to changes in trade policy. Moreover, no attempt is made to link changes in probability of unemployment to poverty.

Nicita (2004) attempts to estimate the impact of trade liberalization on poverty in Mexico. In order to do so, she constructs an estimate of how tariff reductions have affected household welfare. During the 1990s, she finds that tariff changes appeared to raise disposable income for all households, with richer households enjoying a 6% increase and poorer households enjoying a 2% increase. These income gains imply a 3% reduction in the number of households in poverty. However, by focusing on prices for final goods, the approach taken by Nicita (2004) ignores other impacts of globalization, such as increases in foreign investment or increased trade in intermediate inputs. The approach developed by Hanson (2005) does consider these other aspects of Mexico's economic opening. He examines how the distribution of income changed in Mexico during the country's decade of globalization in the 1990s. Taking the income distribution as the unit of analysis makes it possible to examine changes both in the nature of inequality – reflected in the shape of the redistribution – and in the level of income – reflected in the position of the distribution. She finds suggestive evidence that globalization has increased relative incomes in Mexican states that are more exposed to global markets.

Studying the example of Vietnam, Dollar and Kraay (2002b) show that this country experienced a large increase in per capita income and no significant change in inequality when it opened up. Thus the income of the poor has risen dramatically, and the number of Vietnamese living in absolute poverty dropped sharply from 75 percent of the population in 1988 to 37 percent in 1998. Of the poorest 5 percent of households in 1992, 98 were better off six years later.

However, all the preceding estimations are partial equilibrium estimations. To our knowledge, Porto (2006) is the only empirical study that has provided a general equilibrium analysis of the relationship between trade, liberalization and poverty, by simultaneously considering the labor market and consumption effects of trade liberalization. His framework incorporates household heterogeneity in a general equilibrium model of trade. He applies this approach to study the effect of Argentina's entrance to Mercosur on welfare of urban

Argentine households. He finds that Mercosur has pro-poor effects via the labor income channel that are consistent with the Stolper-Samuelson mechanism. The analysis thus suggests that Mercosur is associated with poverty declines in urban Argentina via the labor income channel. Regarding the consumption channel, he finds that the consumption effects have a pro-rich bias. Thus, abstracting from consumption channel overstates pro-poor bias of Mercosur via labor income. But the magnitude of the consumption effect is in general much smaller than the magnitude of labor income effects so the "negative" consumption effects are not large enough to offset the "positive" labor income effects.

Another interesting study by Porto (Porto, 2005) is devoted to the role played by the informal exports barriers to trade (like transport costs, cumbersome customs practices, costly regulations and bribes). Porto finds that such barriers have significant effects on poverty in Moldova. Indeed, he shows that improving export practices would reduce poverty from an initial headcount ratio of 48.3 percent to a poverty rate between 45.5 percent and 43.3 percent. This means that informal export barriers would be responsible for lifting between 100,000 and 180,000 Moldovan citizens out of poverty. With a population of 3.5 million, these are large effects.

The Opening Up to Trade Has No Impact or even a Negative Impact on Poverty

Goldberg and Pavcnik (2005) examine whether the Colombian trade reform can explain any of the Colombia's decline in urban poverty between 1984 and 1995. They rely on a partial equilibrium approach (the labor income channel) to identify short- and medium-run channels through which trade reform could affect poverty. Despite the chronological coincidence of the poverty reduction with the trade reforms over this period, they do not observe any evidence of a link between poverty and tariff reductions operating through the labor income channel. However, they cannot rule out the possibility that trade liberalization has contributed to the poverty reduction through general equilibrium effects, and in particular through its potential role in lowering the prices of goods consumed primarily by the poor.

Topalova (2005) uses the sharp trade liberalization in India in 1991, spurred to a large extent by external factors, to measure the causal impact of trade liberalization on poverty and inequality in districts in India. She finds that in rural districts where industries more exposed to liberalization were concentrated, poverty incidence and depth decreased by less as a result of trade liberalization (compared to a rural district experiencing no change in tariffs, a district experiencing the mean level of tariff changes saw a 2 percent increase in poverty incidence and a 0.6 percent increase in poverty depth), a setback of about 15 percent of India's progress in poverty reduction over the 1990s.

From a cross-country point of view, Epaulard (2003), studying the link between macroeconomic performance and the change in the poverty rate among 47 episodes of growth and 52 episodes of economic downturn in developing and transition economies, finds that trade openness does not impact directly the change in the poverty rate. However, she finds that it reduces the absolute value of the elasticity of poverty to economic downturn. In other words, the more open a country, the less any percentage point economic downturn will increase its poverty rate.

The Role of Complementary Factors and the Importance of Labor Mobility

If only one conclusion can be drawn from this controversial literature today, it is that, for trade to have a positive impact on poverty reduction, it needs to be associated, on the one hand, with complementary factors and, on the other hand, with labor mobility. Their absence in certain episodes of trade liberalization can help to understand why, whereas certain studies find a positive impact of trade liberalization on poverty reduction, other reach opposite conclusions. Indeed, as to exports for example, it has been shown that trade costs prevent the full realization of the gains from trade and these costs can also wither the poverty alleviation role of export opportunities. Yet, some of the costs associated with exports, and thus the impacts of trade on incomes and poverty, depend to a large extent on complementary domestic factors like improved infrastructure, adequate competition policies and, especially in Africa, enhanced access to credit, better education and health, and low marketing or intermediation costs. Indeed, the way in which trade affects poverty is often shaped by complementarities between export opportunities and domestic factors. For example, in the presence of export opportunities, the potential gains from exports may not be realizable if complementary domestic factors are unavailable. In turn, some domestic factors, like infrastructure, may become relatively ineffective in the absence of international markets.

This point can be illustrated by the study of Balat, Brambilla and Porto (2007), who explore the role of export costs in the process of poverty reduction in rural Africa using data from the Uganda National Household Survey. Their claim is that the marketing costs that emerge when the commercialization of export crops requires intermediaries can lead to lower participation into export cropping and, thus, to higher poverty. Indeed, they show that: i) farmers living in villages with fewer outlets for sales of agricultural exports are likely to be poorer than farmers residing in market-endowed villages; ii) market availability leads to increased household participation in export cropping (coffee, tea, cotton, fruits); iii) households engaged in export cropping are less likely to be poor than subsistence-based households. They conclude that the availability of markets for agricultural export crops help realize the gains from trade: lower export marketing costs induce export crop participation, which raises household income and decreases the likelihood of poverty, what indicates the presence of a poverty-reducing market access effect. This result uncovers the role of complementary factors and policies that provide market access and reduce marketing costs as key building blocks in the link between the gains from export opportunities and the poor. Policies that reduce trade costs and encourage marketing activities in rural areas may be useful to facilitate exports and reduce poverty. Examples include investments in human capital and infrastructure like roads, marketing information, policies to promote credit and technical assistance to farmers, policies to promote macroeconomic stability, and measures that promote the development of market arrangements such as FDI or out-grower schemes (see e.g. Harrison, 2006)[69].

Beyond these complementary factors that are often necessary for trade liberalization to have a positive impact on poverty reduction, one has also to take into account the important role played by labor mobility. For example, Topalova (2005) exhibits a negative impact of trade reforms on poverty in India, but his findings are related to the extremely limited mobility of labor across regions and industries in India. Indeed, Topalova (2004) who further

[69] Similarly, Freund and Bolaky (2004) show that trade reforms actually lead to income losses in highly regulated economies. Anderson (2003) emphasizes the importance of improvements in land tenure and more investment in the stocks of primary factors used in food production: agricultural research, rural human capital, and rural infrastructure (see also Otsuka, 2002). According to him, production could be boosted in many low-income countries simply by better clarifying and enforcing land rights, since they are a key source of collateral for securing loans for productive investments by farm households.

examines the mechanisms through which trade liberalization affected poverty and inequality, establishes that the lack of geographical mobility is combined with a lack of intersectoral mobility.

Similarly, the results of Goldberg and Pavcnik (2005) on the Colombian trade reforms also suggest the importance of labor market reforms for minimizing the adverse effects of trade reform on the poor. When trade reform is accompanied by labor market reforms which make it easier for firms to hire or fire and ease relocation for workers, the adverse impact of tariff reductions on poverty disappears.

Similarly, for the long term capital flows to have a positive impact on poverty reduction, they need to be accompanied by several complementary policies.

d) Long Term Capital Flows

In theory, openness to capital flows could alleviate poverty through several channels. If greater financial integration contributes to higher growth by expanding access to capital, expanding access to new technology, stimulating domestic financial sector development, reducing the cost of capital and alleviating domestic credit constraints, then such growth should reduce poverty. Access to international capital markets should also allow countries to smooth consumption shocks, reducing output or consumption volatility (Harrison, 2006). Moreover, while the volatility of bank borrowing and portfolio flows may be costly to the poor, many studies emphasize the benefits from FDI that are, as we underlined above, a less volatile source of capital than other types of inflows. Indeed, empirically, incoming FDI seems to be associated with a significant reduction in poverty.

However, as for trade, financial globalization must be approached with the right set of complementary policies, such as flexible exchange rates, macroeconomic stabilization policies, and the development of strong institutions in order to lead to poverty reduction. Moreover, and it reminds us the fact that there is no single recipe, the net outcome is often quite complex and almost always context-dependent, belying the glib pronouncements for or against globalization made in the opposing camps (Bardhan, 2000). In general, while globalization in the sense of opening to trade and long-term capital flows can constrain some policy options and wipe out some existing jobs and entrepreneurial opportunities for the poor and for small enterprises, in the medium to long run it need not make the poor much worse off, if appropriate domestic policies and institutions are in place and appropriate coordination among the involved parties can be organized.

e) Multidimensional Poverty

Notably following Sen's work on poverty and freedom (see e.g. Sen 1997, 1999), there have been an evolution in the literature in thinking about poverty beyond measures of physiological deprivation (an inability to meet basic material needs) to incorporate measures of social deprivation (poor access to the components of power such as decision making). For example, the World Bank World Development Report 2000/2001 emphasizes the fact that "*poverty is more than inadequate income or human development – it is also vulnerability and a lack of voice, power, and representation*". With this multidimensional view of poverty comes greater complexity in poverty reduction strategy, because more factors – such as social and cultural forces – need to be taken into account.

Empowerment

According to this multidimensional approach of poverty, the poor are the main actors in the fight against poverty and they must be brought center stage in designing, implementing, and monitoring antipoverty strategies. So their empowerment appears as an important determinant of poverty reduction (the World Bank World Development Report 2000/2001 underlines that facilitating the empowerment of poor people – by making state and social institutions more responsive to them – is key to reducing poverty)[70].

Beyond this empowerment of the poor, Klasen (2003) underlines the necessity to empower the 'pro-poor coalitions' (World Bank, 2000a). Indeed, he argues that it is likely to be more difficult to promote pro-poor growth in countries where there is high inequality and the poor are politically and economically marginalized. As a result, success in implementing pro-poor policies will depend greatly on the creation and strengthening of such 'pro-poor coalitions' which can involve parts of governments, NGOs, donors, and civil society. A free press, democratic institutions, and accountable governments will clearly help in strengthening such coalitions particularly in countries where the poor are the majority.

Equity

Consistent with the broadening of the notion of poverty, there is also now more focus on the deeper issue of equity (see e.g. World Bank, 2005). To achieve greater equity requires action by the state to support the buildup of human, land, and infrastructure assets that poor people own or to which they have access. Indeed, access to social and infrastructure services is key to the poor. It improves both their opportunities and their welfare

f) No Single Recipe

Finally, as for the determinants of sustained growth, it is underlined in the literature that there is no single recipe for poverty reduction. Indeed, there are no simple blueprints for success, and success and failure depend primarily on the government and the institutions in place. Hence, developing countries need to prepare their own mix of policies to reduce poverty, reflecting national priorities and local realities. Choices will depend on the economic, sociopolitical, structural, and cultural context of individual countries and individual communities (World Bank World Development Report 2000/2001).

This emphasis on country specificities shows the importance of opportunism and of learning. Indeed, if any effort to successfully ameliorate poverty must be comprehensive and encompass well-coordinated and integrated actions in many fronts, development initiatives need to be sequenced and moved forward opportunistically (Shangai, 2004). Hence, changing and adapting institutions is central to effective poverty reduction interventions and programs.

3) THE EFFECTIVE USE OF DEVELOPMENT ASSISTANCE

[70] Similarly, it has been argued in Shangai (2004), that empowerment and involvement of poor people is a prerequisite for effective results and for successful scaling up of programs. Programs conceived in a participatory manner that address the most pressing needs of large numbers of people generate great interest and support.

Contrary to sustained growth and poverty reduction, one of the difficulties with the "effective use of development assistance" is that it is not a concept clearly defined *per se* in the literature, and so it is first necessary to determine what is meant by this concept. Indeed, if a large strand on the aid literature deals with the question of "aid effectiveness" – trying to estimate for example what is the impact of aid on growth[71] –, there are few articles in the literature dealing with the following question: how to use aid effectively, or more precisely, what are the factors that can make the use of aid more effective? In other words, if we consider development assistance as a treatment given to poor countries in order to generate development, few articles in the literature focus on the determinants that could potentially made this treatment used in a more effective way – how to improve the effective use of development assistance? – whereas many articles have asked the aid effectiveness question: is aid effective? The literature deals with the question of how to spend aid effectively rather than with the question of how to make more effective the use of the aid that has yet been disbursed in recipient countries.

However, we use the few indirect references to the effective use of development assistance found in the literature to deduce from them what can be such factors. For example, the World Bank Task Force (World Bank, 2002b) underlines that "*aid does not work well because governments lack the capacity or inclination to use finance effectively for poverty reduction*". So we can emphasize the fact that in order for the use of development assistance to be effective, governments must have the capacity or inclination to use it effectively for poverty reduction. If such an approach let us obviously with too large an approach of the determinants of the effective use of development assistance, it has however the merit to point one the main factors underlined in the literature that is the importance of a strong governance. Two other factors often underlined are increased ownership and better aid practices. But saying that in order to have a more effective use of aid we need better aid practices sounds a little tautological.

Beyond these first three factors, one important point more and more often raised in the literature is the determination of the areas where aid could be more effective for recipient countries stuck in a poverty trap. Examples of such areas are investment on the social sectors, investments to raise agricultural productivity, investments in infrastructure – roads, power, ports and communication and industrial development policies to bolster private activities (UNDP, 2003).

a) Good Policies and Institutions

In a seminal though very controversial paper, Burnside and Dollar (2000) (and before them Collier and Dollar, 1999) show that aid raised growth only when the recipient countries have good policies – as measured by low inflation, low budget deficits, and high openness to trade – and so argue that we have to reallocate aid to countries with good policies. Even if these results have been recognized to be both weak and fragile from an econometric point of view – for example they fail some simple robustness checks such as introducing new data into the same specification (Easterly, Levine and Roodman, 2004) –, if it is true that aid is more efficient in countries with good policies, then in order to increase the effective use of

[71] There is a huge literature on this topic. See e.g. Cassen (1986), Boone (1995), Burnside and Dollar (2000), Dalgaard and Hansen (2000), Dalgaard, Hansen and Tarp (2003), Easterly, Levine and Roodman (2004), Hansen and Tarp (2007).

development assistance, one can think into increasing good policies. However, the aid effectiveness literature does not really make this link between the necessity of improving policies in recipient countries and the effective use of aid, and is more focused on the question of aid allocation, underlying the necessity to provide development assistance where it will do the most good, that is to say to countries that have demonstrated their ability to use assistance effectively, in order to make progress toward the development goals (see e.g. Devarajan, Miller and Swanson, 2002; OECD, 2005). In other words, it is focused of the efficient allocation of resources and not on the question of how to increase the efficiency of the use of resources once they have been allocated.

Beyond the importance of good policies, it is now underlined in the literature that institutions rather than policies are what fundamentally determine aid performance (OECD, 2005). If one considers that aid is more effective when directed at countries that exhibited a specific set of conditions that promote economic growth, since we underlined before that one the main determinants of economic growth is having good institutions, then institutions – and more largely a wider institutional and policy environment – appear as an important determinant of aid efficiency. Indeed, the recipient government leadership appears as an important determinant of aid effectiveness and can in fact also be considered as a determinant of the effective use of development assistance: the more you increase the government leadership, the more effective will be the use of aid. For example, Filmer, Hammer and Pritchett (2000) underline that one of the weak links that help to understand the disappointing experience as to the chain between government spending for services to improve health and actual improvements in health status, is the fact that institutional capacity is a vital ingredient in providing effective services. Indeed, when this capacity is inadequate, health spending, even on the right services, may lead to little actual provision of services.

The insistence on government leadership is often linked to the importance given to country ownership (see e.g. OECD, 2003). And in fact, beyond country ownership, the literature more and more emphasizes the importance of citizens ownership and wider participation in the aid process.

b) Increased Ownership and Sustainability

The literature emphasizes the fact that country ownership is an important way to make development assistance more effective (see e.g. World Bank World Development Report 2000/2001; Devarajan, Dollar and Holmgren, 2001; World Bank, 2004). This emphasis is often linked to a movement in favor of "capacity-building" that aims to create civil servants who had the capacity to spend money on the right things and implement things effectively. Yet political scientists specializing in analyzing African states see little sign of effect of these efforts at making civil servant perform better, even seeing some signs of decline (Moss et al. 2008). However today, the emphasis in the literature is more on citizens than on country ownership.

Indeed, participation of beneficiaries in the monitoring of public services is increasingly seen as a key to improving their efficiency (Banerjee et al., 2008) and so when these services are financed by aid – which is often the case –, increasing the participation can be considered as a way to make the use of aid more effective. For example, studying the case of the Indian

current government flagship program on universal primary education, Banerjee et al. (2008) find that citizens face substantial constrains in participating to improve the public education system, even when they care about education and are willing to do something to improve it. These results suggest that government bureaucracies may be ill equipped to improve the quality of public services and so that there is a lot of scope in order to improve citizens participation and indeed doing so the effective use of development assistance.

Hence, development projects funded by international organizations are increasingly required to include "beneficiary participation" components (on recent evaluations of participatory programs, see Kremer and Vermeersch, 2002; Olken, 2007; Banerjee and Duflo, 2006; Bjorkman andSvensson, 2006; and Duflo, Dupas and Kremer, 2007), such as the constitution of users' committees, parents-teachers associations, etc. For example, the World Bank's World Development Report "Making Services work for Poor People" describes a range of alternative institutional designs that enable beneficiaries to exercise better control over the quality of services that they are receiving (World Bank, 2004). Similarly, a lot of aid agencies now recommend that some institutionalized community participation should be part of all the government programs they fund. Governments also are increasingly beginning to count on "people's power" (and contributions) as a way to revitalize their struggling education and health sectors. Gugerty and Kremer (2000), using a prospective, randomized evaluation to examine a development program explicitly targeted at building social capital among rural women's groups in western Kenya, find that the program increases turnover among group members, entry into group membership and leadership by younger, more educated women, by women employed in the formal sector, and by men. Their analysis suggests that providing development assistance to indigenous community organizations of the disadvantaged may change the very characteristics of these organizations that made them attractive to outside funders. Similarly, Olken (2008), studying the impact of introducing more democracy into the aid process itself using the randomization methodology on a sample of Indonesian, finds that aid democracy did dramatically improve villagers' satisfaction with the projects and their willingness to contribute.

This new interest in beneficiary participation is more largely a manifestation of the move towards sustainability which stresses community mobilization, education, and cost-recovery (Kremer and Miguel, 2004). Indeed, advocates of sustainability emphasize the importance of local project "ownership", and promote public goods projects that only require start-up funding and can then continue without external support. For example, Population Services International (PSI), a leading social marketing non-profit organization with activities in more than 60 countries, argues that "*when products are given away free, the recipient often does not value them or even use them*" (PSI, 2006). For many aid organizations, charging at least something is a matter of principle. However, there are still debates to determine whether the efforts to promote sustainability are effective. For example, Kremer and Miguel (2004, 2007), examining evidence from randomized evaluations on strategies for combating intestinal worms in Kenya, find that this is not the case. Indeed, they find that take-up of the drug is highly sensitive to drug cost: a small increase in cost led to an 80 percent reduction in take-up (relative to free treatment). Similarly, Cohen and Dupas (2007) find that charging even a small fraction of the full cost for mosquito nets dramatically reduces take up (see also Hoffman, 2008). Other anecdotal evidence also suggests that financial sustainability has often been an illusion, and sometimes a costly one. Morduch (1999) argues that the pursuit of sustainability by microfinance organizations has led them to move away from serving the poor. Meuwissen (2002) argues that a health cost-recovery program in Niger led to unexpectedly large drops in health care utilization, and that the local health committees set up

by the program failed in most of their responsibilities (on health see also McPake, 1993; Mwabu et al., 1995; and for a survey of the evidence from recent randomized evaluations in developing countries on the impact of price on access to health and education, Kremer and Holla, 2008). In a large water project in Kenya, 43% of borehole wells were useless ten years after the shift from external donor support for water-well maintenance to the training of local maintenance committees (Miguel and Gugerty, 2005).

So it seems difficult to conclude that "cost-sharing" with the use of small fees is a good way to make development assistance more effective. Even the World Bank has started shifting away from its position in favor of sustainability under pressure from activists, and the WHO recently, and controversially, endorsed free distribution of mosquito nets (Sachs, 2005; WHO, 2007; Lancet, 2007). Hence, if donors are concerned that projects such as roads or wells will go awry without regular maintenance, they could endow funds earmarked for this purpose rather than counting on potentially illusory sustainability. Rather than pursue the illusion of sustainability, development organizations would be better off rigorously evaluating their projects, ultimately identifying a limited number with high social returns, and funding these interventions on an ongoing basis. This brings us to the question of the determination of the areas in which aid can be used more effectively. But before we examine another point often associated in the literature with ownership and sustainability, which is accountability.

c) Accountability and Transparency

What is clear is that a common characteristic of effective political institutions and good governance is accountability. Governments that are accountable to their citizens – and not only to donors – are thus more likely to make an effective use of development assistance (Barder and Birdsall, 2006). Indeed, a system which transfers accountability for use of aid resources within countries from donors to the country's government appears as a necessary condition for local institution building.

The need for more accountability comes hand-in-hand with a need for more transparency. Indeed, more transparency can help to reduce corruption and so make the use of development assistance more effective. For example, Olken (2007), using randomization, finds that official audits reduced corruption in Indonesian village road projects. When the villagers were told in advance that they would be subject to an audit by the central government audit agency, an estimate of "missing expenditures" decreased from 28 percent of expenditures to 19 percent. Similarly, other micro empirical studies, not using randomization, also shed light on the effectiveness of some kind of transparency or auditing. In a famous article, Reinikka and Svensson (2004) find from a tracking survey that only 13 percent of central government transfers to local primary schools in Uganda arrived at their destination (on the bad quality of service delivery in Uganda, see also Devarajan, Miller and Swanson, 2002). The Ugandan central government took the bold measure of publishing the intended transfers by school in the local newspapers where they could be monitored by parents and local officials. Reinikka and Svensson (2005) show that the newspaper campaign successfully increased the proportion of transfers that arrived at schools, and also increased enrollment and test scores of the students. Also possibly supportive of the monitoring and transparency approach to reducing corruption is the finding by Besley, Pande and Rao (2005) that higher education among the voter population is associated with less corruption, using a natural experiment of elections to village councils in South India.

This emphasis put on accountability has been accompanied by a recent push for more experimental evidence of the impact of social programs, as part of a general effort to improve the effectiveness of aid (see e.g. Duflo, Kremer and Glennerster, 2006).

d) What are the Areas in which Aid Can Be Used More Effectively?

Even if the debate is not yet closed in the literature, it seems that to be truly effective, development assistance has to be used in a "marginal" rather than in a "transformational" way (to use the terminology in Easterly, 2008[72]). It has to be mainly devoted to project-specific efforts, like addressing problems of illiteracy, disease, low agricultural productivity, and poor social and physical infrastructure. Indeed, a strand of the literature, focused particularly on randomized experiment, has found main aid project interventions to have positive benefits and to be cost-effective (see e.g. Banerjee, 2008, and Duflo and Kremer, 2008). They argue that for development assistance to be effectively used, it has to be spent on programs that have been shown to work in the context of randomized experiments. Hence, according to Easterly (2008), the marginal approach to fix one problem at a time or to assist individual Africans to get better health and education has a suggestive track record of success, as well as indications of future potential.

As to education, the randomization literature has found a number of aid interventions to be effective. To give a few examples, Kremer, Miguel and Thornton (2007) find that a merit scholarship for high school girls in Kenya seemed to induce greater study effort and increased the girls' test scores, and even had some externalities to boys' performance in the same classroom. Vermeersch (2003) found that a school meals program in pre-schools in Kenya raised attendance rates from 21 percent to 29 percent. Angrist et al. (2002) studied the effect of vouchers for private school distributed with a lottery in Colombia. The lottery winners had 0.12-0.16 additional years of schooling, test scores higher by 0.2 standard deviations, and higher secondary school completion (the latter confirmed in a follow-up study by Angrist, Bettinger and Kremer, 2006). More generally, as underlined by Kremer and Holla (2008), evidence is accumulating on the effectiveness of certain school inputs like extra teachers and textbooks (see e.g. Banerjee et al., 2005; Duflo, Dupas and Kremer, 2007; and Glewwe et al., 2007), and provider incentives (Glewwe et al., 2008; and Muralidharan and Sundaramanan, 2007), remedial education (Banerjee et al., 2007; Duflo et al., 2007; He et al., 2007), citizens' report cards, the hiring of contract teachers, or increased oversight of local school committees (Bjorkman and Svensson, 2007; and Duflo, Dupas and Kremer, 2007), school choice programs (Angrist et al., 2002, 2006; Bettinger et al., 2007).Similarly, as for education, randomized evaluations found positive impacts of a number of health interventions adopted by aid agencies or NGOs. First, many of the education interventions also had a health component. Gertler (2004) checked whether the PROGRESA cash-for-schooling program also had a major health impact. The Bobonis et al. (2006) study on anemia and school participation found that iron supplements and deworming drugs were effective in increasing children's weight-for-height and weight-for-age scores. Another area where randomized evaluations point to success is in preventing or treating infant diarrhea (Zwane and Kremer, 2007).

[72] He contrasts two views in the development economics debate. One view – the "transformational approach" – sees very rapid and comprehensive social change as possible, emanating from an elite of political leaders and outside experts who can start from a blank slate in achieving development. On the contrary, the other view – the "marginal" approach – sees only gradual social change as possible, emanating more from the emergent self-organizing order of many decentralized private entrepreneurs, creative inventers, and one-step-at-a-time political reformers, all constrained by existing traditions and social norms.

Closely related to the health question is the one of physical infrastructure, with in particular the need to provide water and sanitation infrastructure (other examples of provision of physical infrastructure are the road building and the expansion of the electric generating capacity, with a new emphasis on problems like inadequate maintenance rather than only on increasing the quantity of physical infrastructure[73]). Randomized experiments identify some smaller-scale programs that have strong effects on clean water provision. For example, Ashraf et al. (2007) find that water purification tablets in Zambia is an inexpensive way of avoiding water-borne illness. Kremer et al. (2008) show that investments in protecting naturally occurring springs from contamination led to dramatic improvements in water quality in rural Kenya.

Finally, as to agriculture, one problem that is being studied is the chronically low use of fertilizer by African farmers, compared to other regions. Duflo, Kremer, and Robinson (2007) test for behavioral explanations of low fertilizer use. They find what seems to be a savings commitment problem: farmers do not set aside money for fertilizer for the next season when they are flush with funds from the harvest in the current season. Selling a voucher earmarked for fertilizer purchases to the farmers right after the harvest seems to correct the problem. Duflo, Kremer and Robinson (2008) study another hypothesis, the one according to which the return to fertilizer on real world maize farms in Kenya is lower than the high returns on pilot farms, using randomized experiments of actual farms at different dosages of fertilizer. They found high returns also on real farms, concluding that too little or too much fertilizer makes the return unfavorable, but using just the right amount yields a large positive return. Finally, Conley and Udry (2007) document farmers learning how much fertilizer to apply from their successful neighbors in a new technology, pineapple growing, in Ghana. One could be tempted to conclude from this rapid review of the randomized evaluations literature that in order to increase the effectiveness of the use of development assistance, aid has to be devoted to the implementation of small interventions, notably in the agriculture, infrastructure, education and health areas. However, once again, such a conclusion seems to have more to do with the way aid is allocated by the donors than with the use that is made of aid once it has been allocated in recipient countries and the improvement of this use. Indeed, if aid is given in the form of aid programs, then the question is not worth asking since recipient countries do not chose the use they make of aid. But if aid is given for example under the form of general budget support, giving a certain liberty to the recipient in the way it wants to disburse aid, it seems contradictory to argue at the same time in favor of more country ownership and to defend the idea that in order to increase the effectiveness of the use of development assistance, aid has to fund such and such precise project, which reduces entirely the autonomy of the recipient.

e) <u>No Single Recipe</u>

Finally, as for sustained growth and poverty reduction, it has to be underlined as to the effective use of development assistance that the only generalization is that there is no universal recipe and outsiders are unlikely to help if they try to push institutional forms and norms that have worked for them in one place and time, as the solution for others at another place and time (Barder and Birdsall, 2006).

However, keeping in mind the fact that there is no single recipe, if one has to draw only one conclusion from this (no) literature on the determinants of the effective use of development, is that institutional capacity appears as a key necessity. Hence, as underlined by Herman (2004), there is a great sense among economists working on developing countries today that the

[73] See e.g. Zwane and Kremer (2007).

quality and robustness of domestic political and economic institutions matter greatly, both for the effectiveness of all types of policies and for the prospects for development itself. In this view, if societies get their institutions "right" and also adopt the "right" policies, they will create an "enabling environment" for development that will transform positive economic stimuli into long-lived, virtuous circles of development.

4) THE WEAKNESSES OF THE CPIA

After reviewing the literature on the determinants of sustained growth, poverty reduction and the effective use of development assistance, if one wants to resume in one formula what can be considered as the main weakness of the CPIA, it will be "too much single recipe, not enough country particularity". Moreover, not only the CPIA is sometimes relying too much on policies- rather than on outcomes-based criteria, but one can criticize it for specifying specific policies – for example specifying particular threshold of average tariff – rather than capacities. Beyond these first important remarks, we review here the key indicators that, while identified in the literature, have been left out by the CPIA, and then we underline the indicators that are taken into account by the CPIA while being still object of controversies in the literature on sustained growth, poverty reduction and the effective use of development assistance.

a) Too Much Single Recipe, Not Enough Country Particularity

One of the main criticism that is made in the literature against the CPIA – criticism that seems justified in the eyes of the importance put on country specificities in the literature on the determinants of sustained growth, poverty reduction and the effective use of development assistance –, is that the CPIA does not correspond to the empirical reality of development. Indeed, as underlined by the UNCTAD (2002), "*there is considerable institutional diversity even among industrial countries today. Imposing a common institutional standard on all countries, with widely varying conditions, is likely to be counterproductive… Experience show that attempts to superimpose such institutions on existing economic, social and political structures in developing countries may not only fail, but may also put considerable strains on their financial and human resources.*"

In other words, the CPIA relies too heavily on a uniform model of what works in development policy (Kanbur, 2005b). And yet, even if this model were valid "on average", the variations around the average make it an unreliable sole guide to the country-specific productivity of aid in achieving the final objectives of development. One of the main weaknesses of the CPIA is in fact that it is the same for every country. Indeed, the sixteen categories are the same for each country, the guidelines for what gets a high score in each category are the same for every country, and the weighting scheme across the sixteen scores is the same for every country. In other words, there is a perfect uniformity in country treatment that depends upon a common development outcomes model for all countries. And yet, as underlined in the literature review, there is today an important dissatisfaction with the estimation of a cross-country "average relationship" leading to "best practice" policy guidelines which are common to all countries. As noted by Kanbur (2005b), variations around the estimates of average relationships are not simply pure random variations, but reflect country specific factors that are not captured in uniform growth models. Similarly, Herman

(2004) underlines the low ability of the CPIA indicators to discriminate among countries or over time.

Moreover, not only the CPIA relies on a uniform model of what works in development policy, but it does so underlying very specific policies, which appears clearly if one considers the trade criteria. This is not to say that there are no broad determinants that can be accepted as being necessary for sustained growth or poverty reduction, and it is what we try to show in our literature review. Indeed, as underlined by Summers (2003), summarizing the recent growth evidence, the "*rate at which countries grow is substantially determined by three things: their ability to integrate with the global economy through trade and investment; their capacity to maintain sustainable government finances and sound money; and their ability to put in place an institutional environment in which contracts can be enforced and property rights can be established. I would challenge anyone to identify a country that has done all three of these things and has not grown at a substantial rate.*" But the important point is to note how these recommendations are couched not in terms of specific policies (maintain tariffs below *x* percent, raise the government primary surplus above *y* percent, privatize state enterprises, and so on), but in terms of "abilities" and "capacities" to get certain outcomes accomplished (Rodrik, 2003). And yet these "abilities" and "capacities" do not map neatly into the standard policy preferences, and can be generated in a variety of ways. Yet, at least two CPIA criteria – the Trade criterion and the "Quality of Budgetary and Financial Management" criterion – are much more detailed than whatever can be found in the literature, relying on too specific quantitative policies. Moreover, whereas the literature insists on the necessity to set priorities, the CPIA seems to put everything on the same plan.

b) **The Policies- vs. Outcomes-Based Criteria Debate**

The distinction policies- vs. outcomes-based criteria is of particular importance since outcomes are more difficult to monitor than policies and are invariably the result of a host of factors, not just policy choices (Beynon, 2001). For example, policymakers cannot simply will an increase in growth or a decrease in poverty, which are outcome variables, but have to select and implement policies that they hope will lead to these (or other) outcomes (Kanbur, 2005a). This is why the literature looks essentially at policies (or at institutions) rather than at outcomes. And it is why the CPIA is right for example when, as to trade, it looks at the tariff rates rather than at the trade ratio (imports plus exports divided by GDP) as it is done in one strand of the literature that looks at the link between growth and openness. Indeed, if the trade ratio is surely a reasonable measure of openness, it is not of itself a policy variable since it is in fact determined by a number of other variables in the economy, including "true" direct policy variables such as tariffs (Kanbur, 2005a)[74]. Saying that "participation in world trade is good for a country" is as meaningful as saying that "upgrading technological capabilities is good for growth" (and equally helpful to policy makers). The tools at the disposal of governments are tariff and non-tariff barriers, not import or export levels (Rodrik, 2000).

However, a few authors criticize the CPIA for being mainly policies-based. For example, a review by the Bretton Woods Project suggests that outcomes-based criteria, based on a government's ability to improve the lives of its citizens, should take precedence over policy criteria which act as a form of ex-ante conditionality. Similarly, Kanbur (2005b) deplores the fact that the CPIA does not contain any final outcome variables like poverty, extreme poverty,

[74] Similarly, Rodrik (2000) underlines the fact that combining a policy measure (like tariff averages) with an outcome (like import/GDP) measure is conceptually inappropriate, as policymakers do not directly control the level of trade.

girls' enrollment, maternal mortality rates, infant mortality rates etc. – however, his criticism is no longer entirely acceptable since indeed the CPIA includes some outcome variables like the female to male enrollment in secondary education to take no but one example. But the interesting point is that Kanbur (2005b) would like the CPIA to be based on outcomes rather than on policies because, according to him, the fact that it relies on policies mainly traduces the fact that, as we underlined in the preceding part, it has an implicit model of the development process which says that if the scores on the categories in the CPIA improve, then development outcomes will improve, or rather, the productivity of aid will improve. Hence, he argues that the evidentiary basis for imposing across countries this implicit common model of the development process that supposedly leads to improvement in final outcomes is weak. But if the average cross-country relationships that underlie the CPIA procedure cannot truly capture the cross country variations for example in the productivity of aid, what is the alternative? According to Kanbur (2005b), it is to take also into account the rate of improvement of the outcome variables[75].

However, even if we refute Kanbur's (2005b) criticism and accept the fact that the CPIA has to be based mainly on policy-based criteria – while however keeping in mind that it also includes some outcomes-based criteria –, the fact remains that, on the one hand, the CPIA relies on some indicators that are still object of controversies, and that, on the other hand, it has left out key indicators that have been identified in the literature.

c) The CPIA Relies on some Controversial Indicators

Contrary to what is often heard in the public opinion, the criteria on which the CPIA rely are for a very large majority of them considered as important determinants of sustained growth, poverty reduction and effective use of development assistance in the literature, and so are not object of current controversies. Hence, as to fiscal policy, to take no but one example, as we underlined before, whereas the idea of fiscal consolidation is still controversial in the literature because it can have an anti-investment bias, the CPIA prevents this criticism by precising that public expenditure and revenue can be adjusted to absorb shocks. Moreover, the CPIA criteria do not deal with controversial questions as the ones of privatization and deregulation.

Indeed, one of the few current controversies in the literature pertains to the association between trade criteria on the one hand, and sustained growth and poverty reduction on the other hand. Indeed, as to sustained growth, we underlined that if trade protection is not good for growth, trade by itself is not sufficient for growth and some economists are still raising doubt about the fact that more opening will lead to sustained growth. More importantly, some authors still argue that more trade openness can lead to an increase in poverty or at least underline the fact that the relationship between trade liberalization and poverty is inconclusive. But the fact is that, while the literature underlines the importance of complementary factors and policies for trade openness to have a positive impact on poverty reduction, the CPIA trade criterion does not made such an association. This is not to say that the CPIA ignores all these complementary factors – for example, it takes into account the necessity to improve infrastructures –, but that it treats these different factors independently whereas for trade – but it is also true for other determinants –, one has to deal with these factors jointly. Indeed, asking for a reduction in tariff rates in a country that does not have the adequate infrastructures or competition policies can just lead to an increase in the poverty rate in this country. Thus, country studies on India (Topalova, 2005) and Colombia (Goldberg and

[75] However, this proposal has been criticized, especially by Buiter (2007).

Pavcnik, 2005) suggest that trade reforms have been associated with an increase in poverty only in regions with inflexible labor laws. This is due to the fact that in such regions poor workers were not able to move out of contracting sectors and into expanding ones. Similarly, Welch, McMillan and Rodrik (2003) argue that the negative impacts of the liberalization of the cashew sector in Mozambique was mainly due to the structure of the internal markets[76]. Finally, as we underline above, the marketing costs that emerge when the commercialization of export crops requires intermediaries can lead to lower participation into export cropping and thus to higher poverty when no market for agricultural export crops is available (Balat, Brambilla and Porto, 2007). This leads us to the question of the indicators identified by the literature but left out in the CPIA.

[76] Indeed, the standard gains from the liberalization have to be set against the efficiency lost that have resulted from the idling of processing plants. In theory, the workers employed in these plants should have found alternative sources of employment after a reasonable time, perhaps suffering some wage losses in the process. In reality, a large number seems to have remained unemployed, perhaps because of the expectation that the liberalization would be eventually reversed. Moreover, there are complications that arise from imperfect market structures. Domestically, there are several layers of intermediaries that separate cashew farmers from the export trade, creating a situation analogous to double marginalization in the analysis of vertical relationships in industrial organization. The chief implication of this is that increases in export prices cannot be expected to be passed one-for-one on to the farmers. The pass-through coefficient is much smaller than unity, reducing the gains that accrue to the poorest households. In other words, traders capture much of the benefits from the liberalization. So the main failing of the cashew liberalization policy was that it did not send sufficiently credible signals about the pricing regime. The result was that farmers refused to plant trees, cashews processors refused to take this resources elsewhere, and urban workers refused to look for other jobs.

d) The Key Indicators Left Out by the CPIA

Obviously, as we underlined above, the key element – even if it cannot really be considered as an indicator – underlined in the literature and left out by the CPIA is the importance of taking into account countries specificities. In a certain way, this is related to our previous remark on the fact that the CPIA criteria does not enough emphasize the importance of the complementary factors. One of the main complementary factors ignored by the CPIA – even if references are made to labor market regulations on health and safety working conditions and hiring and firing – is the importance of labor mobility when it deals with trade. And yet, before addressing trade restrictions, it seems important to address labor mobility restrictions due to inflexible labor laws[77][78].

Similarly, no CPIA criterion deals with the importance of agriculture and the necessity to promote growth directly in the rural areas in order to foster poverty reduction. Neither does any criterion deal with the necessity for developing countries to invest in the agricultural research. More largely, whereas technological innovation, as underlined before, appears as a key determinant of sustained growth, no CPIA criterions deals with the importance of technological progress and productivity growth.

Finally, and this is linked to our preceding remark on agriculture but also to the inequality question, even if the CPIA refers to social inclusion and equity – insisting particularly as it is done in the literature on gender equality –, and deals indirectly with the redistribution question ("*incidence of major taxes (progressive or regressive) and their alignment with poverty reduction priorities*"), it does not underline the importance of land ownership redistribution. But we saw that redistribution of wealth, and especially of land, increases sustained growth, and that similarly redistribution of property rights fosters sustained growth. Moreover, this wealth question is essential since we underlined that if there is a positive relationship between *wealth* inequality reduction and sustained growth, this is no more the case when one considers the reduction of *income* inequalities.

5) CONCLUSION

[77] For example in India, the law labor mobility was partly due to inflexible labor laws (see e.g. Topalova, 2004). Hence, hiring and firing laws were quite rigid until the amendment of the Industrial Disputes Act in 2001. Datta Chaudhuri (1996) argues that the primary concern of the worker in the organized sector in India is job security. The Industrial Disputes Act (1947) required firms employing more than 100 workers to seek government permission for any retrenchment, and required giving notice to workers three months prior to any action. To close a plant, a company employing more than 100 workers needed to receive government permission; the government could deny permission for closure even if the company were losing money on the operation (Basu et al., 2000). It was virtually impossible to close an unprofitable factory if the owner was able to pay workers. Instead, the unit was declared sick, and continued to function on the basis of government subsidies (Datta Chaudhari, 1996). Businesses could potentially resort to contract workers, yet the Contract Labour Act put some restrictions on that practice as well. According to the Contract Labour Act, state governments may ban contract labor in any industry in any part of the state (Dollar et al., 2002). Though firms probably found alternative ways to gain some control over the allocation of manpower (such as subcontracting, etc.), in an interview of managers throughout India, Dollar et al. (2002) found that managers would lay-off 16-17 percent of their work force if given the chance. This estimate is nearly identical to an estimate of the share of redundant labor in manufacturing calculated by Agarwala and Khan. (2001).

[78] As we underlined before, the impact of trade on relative poverty in India was most pronounced in areas with inflexible labor laws, where labor mobility was hindered. It is why Topalova (2005) emphasizes that "*if some of the immobility of labor is institutionally driven, then complementary measures to trade opening, such as labor market reform, can ease the shock of liberalization and minimize its unequalizing effects.*"

Our conclusion can be summed up by three concepts: institutions, human development and country specificities. Indeed, if one wants to summarize the important literature on the determinants of sustained growth, poverty reduction and effective use of development assistance, these three factors appear to be the more important and the less controversial ones in the literature, that play moreover a role for the three objectives. The importance of institutions and human development has now long being recognized and both have a central place in the CPIA criterion. Obviously other factors reviewed above appear also as important determinants for these three objectives and are taken into account in the CPIA, even if we underlined some gaps. Moreover, the large majority of the CPIA criteria are accepted in the literature as being important determinants for one or more of the three objectives without any controversies. From this point of view, it thus seems that the CPIA criteria are relevant with respect to sustainable growth, poverty reduction, and the effective use of development assistance.

However, the CPIA has a major weakness that leads us to question the relevance of its criteria: not only it does not take into account country specificities, but it is made of very precise criteria that underline very specific policies, whereas it would be better to deal with capabilities or abilities at the country level, taking into account each country specificities and level of development. Moreover, it puts each specific policy on the same plan, whereas the literature underlines the necessity to establish country diagnostics and to set priorities.

BIBLIOGRAPHY

Acemoglu, D., S. Johnson, and J. A. Robinson (2001): "The Colonial Origins of Comparative Development: An Empirical Investigation", *American Economic Review*, 91(5), pp. 1369-1401.

________ (2005): "The Rise of Europe: Atlantic Trade, Institutional Change, and Economic Growth", *American Economic Review*, 95(3), pp. 546-579.

Agarwala, R., and Z. Khan (2001): "Labor Market and Social Insurance Policy in India: A Case of Losing on Both Competitiveness and Caring," International Bank for Reconstruction and Development/World Bank, Stock Number 37168.

Agenor, P.-R. (2004): "Does Globalization Hurt the Poor?," *International Economics and Economic Policy*, 1(1), pp. 21-51.

Aghion, P., and P. Bolton (1997): "A Trickle-Down Theory of Growth and Development with Debt Overhang," *Review of Economic Studies*, 64(2), pp. 151-172.

Aghion, P., R. Burgess, and F. Zilibotti (2004): "The Unequal Effects of Trade Liberalization: Theory and Evidence from India", 2004 Meeting Papers 40, Society for Economic Dynamics.

Aghion, P., E. Caroli, and C. Garcia-Penalosa (1999): "Inequality and Economic Growth: The Perspective of the New Growth Theories", *Journal of Economic Literature*, 37(4), pp. 1615-1660.

Aghion, P., and P. Howitt (2009): *The Economics of Growth*, Cambridge, Mass.: The MIT Press.

Aghion, P., P. Howitt, and D. Mayer-Foulkes (2005): "The Effect of Financial Development on Convergence: Theory and Evidence", *The Quarterly Journal of Economics*, 120(1), pp. 173-222.

Alcala, F., and A. Ciccone (2004): "Trade and Productivity", *The Quarterly Journal of Economics*, 119(2), pp. 613-646.

Alderman, H. et al. (2000): “Rural Poverty,” in World Bank: PRSP Sourcebook (version of August 29, 2000).

Alesina, A., and G.-M. Angeletos (2005): “Corruption, Inequality and Fairness," NBER Working Paper No. 11399.

Alkire, S., and J. Foster (2008): “Counting and Multidimensional Poverty Measurement”, OPHI Working Paper Series, Working Paper No. 7.

Ames, B., W. Brown, S. Devarajan, and A. Izquierdo (2000): “Macroeconomic Issues”, in World Bank: PRSP Sourcebook (version of September 21, 2000).

Anderson, K. (2003): “Trade Liberalization, Agriculture, and Poverty in Low-income Countries”, UNU/WIDER Discussion Paper No. 2003/25.

Angrist, J., E. Bettinger, and M. Kremer (2006): “Long-Term Educational Consequences of Secondary School Vouchers: Evidence from Administrative Records in Colombia”, *American Economic Review*, 96(3), pp. 847-862.

Angrist, J. D., E. Bettinger, E. Bloom, E. King, and M. Kremer (2002): “Vouchers for Private Schooling in Colombia: Evidence From a Randomized Natural Experiment”, *American Economic Review*, 92(5), pp. 1535-1558.

Ashraf, N., J. Berry, and J. M. Shapiro (2007): “Can Higher Prices Stimulate Product Use? Evidence from a Field Experiment in Zambia”, NBER Working Paper No. 13247.

Ashraf, Q. H., A. Lester, and D. N. Weil (2008): “When Does Improving Health Raise GDP?,” NBER Working Paper No. 14449.

Attanasio, O., P. Goldberg, and N. Pavcnik (2004): “Trade Reforms and Wage Inequality in Colombia”, *Journal of Development Economics*, 74(2), pp. 331-366.

Azfar, O., Y. Lee, and A. Swamy (2001): “The Causes and Consequences of Corruption”, *Annals of the American Academy of Political and Social Science*, 573, pp. 42-56.

Bakker, A., and B. Chapple (2002): “Advanced Country Experiences with Capital Account Liberalization”, IMF Occasional Paper No. 214.

Balat, J., I. Brambilla, and G. Porto (2007): “Realizing the Gains from Trade: Export Crops, Marketing Costs, and Poverty”, NBER Working Paper No. 13395.

Baldwin, R. E. (2003): “Openness and Growth: What’s the Empirical Relationship?”, NBER Working Paper No. 9578.

Banerjee, A. (2008): “Big Answers for Big Questions: The Presumption of Growth Policy”, prepared for the Brookings conference on “What Works in Development? Thinking Big and Thinking Small”.

Banerjee, A., R. Banerji, E. Duflo, R. Glennerster, and S. Khemani (2008): “Pitfalls of Participatory Programs: Evidence from a Randomized Evaluation in Education in India”, NBER Working Paper No. 14311.

Banerjee, A., S. Cole, E. Duflo, and L. Linden (2005): “Remedying Education Evidence from Two Randomized Experiments in India”, NBER Working Paper No. 11904.

________ (2007): “Remedying Education: Evidence from Two Randomized Experiments in India”, *Quarterly Journal of Economics*, 122(3), pp. 1235-1264.

Banerjee, A., and E. Duflo (2003): “Inequality and Growth: What Can the Data Say?”, *Journal of Economic Growth*, 8(3), pp. 267-299.

________ (2006): “Addressing Absence”, *Journal of Economic Perspectives*, 20(1), pp. 117-132.

Banerjee, A., P. J. Gertler, and M. Ghatak (2002): “Empowerment and Efficiency: Tenancy Reform in West Bengal”, *The Journal of Political Economy*, 110(2), pp. 239-280.

Banerjee, A., D. Mookherjee, K. Munshi, and D. Ray (2001): “Inequality, Control Rights, and Rent Seeking: Sugar Cooperatives in Maharashtra”, *The Journal of Political Economy*, 109(1), pp. 138-190.

Banerjee, A., and A. F. Newman (1993): “Occupational Choice and the Process of Development”, *The Journal of Political Economy*, 101(2), pp. 274-298.

Barcelona Development Agenda (2004): Forum Barcelona.

Barder, O., and N. Birdsall (2006): “Payments for Progress: A Hands-Off Approach to Foreign Aid”, Center for Global Development Working Paper No. 102.

Bardhan, P. (2000): “Social Justice in the Global Economy”, Ilo Social Policy lecture, University of the Western Cape, South Africa, 1-6 September 2000.

Barham, V., R. Boadway, M. Marchand, and P. Pestieau (1995): “Education and the Poverty Trap”, *European Economic Review*, 39, pp. 1257-1275.

Bardhan, P., and D. Mookherjee (2000): "Corruption and Decentralization of Infrastructure Delivery in Developing Countries", Center for International and Development Economics Research (CIDER) Working Paper No. C98-104.1.

Barro, R. J. (2000): "Inequality and growth in a panel of countries", *Journal of Economic Growth*, 5(1), pp. 5-32.

Barro, R., and X. Sala-i Martin (2003): *Economic Growth*, Cambridge, Mass.: The MIT Press.

Basu, K., G. Fields, and S. Debgupta (2000): "Alternative Labor Retrenchment Laws and their Effect on Wages and Employment: A Theoretical Investigation with Special Reference to Developing Countries", Cornell University mimeo.

Bekaert, G., C. R. Harvey, and C. T. Lundblad (2001): "Emerging Equity Markets and Economic Development", *Journal of Development Economics*, 66(2), pp. 465-504.

________ (2003): "Equity Market Liberalization in Emerging Markets", *Journal of Financial Research*, 26(3), pp. 275-299.

Beck, T., A. Demirguc-Kunt, and R. Levine (2004): "Finance, Inequality, and Poverty: Cross-Country Evidence", NBER Working Paper No. 10979.

Besley, T. (1995): "Property Rights and Investment Incentives: Theory and Evidence from Ghana", *The Journal of Political Economy*, 103(5), pp. 903-935.

Besley, T., and R. Burgess (2000): "Land Reform, Poverty Reduction, And Growth: Evidence From India", *Quarterly Journal of Economics*, 115(2), pp. 389-430.

________ (2002): "The Political Economy of Government Responsiveness: Theory and Evidence", *Quarterly Journal of Economics*, 117(4), pp. 1415-1451.

________ (2003): "Halving Global Poverty", *The Journal of Economic Perspectives*, 17(3), pp. 3-22.

Besley, T., R. Pande, and V. Rao (2005): "Political Selection and the Quality of Government: Evidence from South India", Yale University Economic Growth Center Discussion Paper No. 921.

Bettinger, E., M. Kremer, and J. Saavedra (2007): "Are Educational Vouchers Only Redistributive?", Mimeo.

Beynon, J. (2001): "Policy Implications for Aid Allocations of Recent Research on Aid Effectiveness and Selectivity", paper presented at the Joint Development Centre/DAC Experts

Seminar on “Aid Effectiveness, Selectivity and Poor Performers”, OECD, Paris, January 17, 2001.

Bhagwati, J. N. (1998): *A Stream of Windows. Unsettling Reflections on Trade, Immigration, and Democracy*, Cambridge, Mass.: The MIT Press.

Bjrkman, M., and J. Svensson (2006): “Power to the People: Evidence from a Randomized Experiment of a Citizen Report Card Project in Uganda”, Mimeo, IIES, Stockholm University.

Black, B., R. H. Kraakman, and A. Tarassova (2000): “Russian Privatization and Corporate Governance: What Went Wrong?”, *Stanford Law Review*, 52, pp. 1731-1808.

Bloom, D. E., and A. Mahal (1997): “Does the AIDS Epidemic Threaten Economic Growth?”, *Journal of Econometrics*, 77(1), pp. 105-124.

Bobonis, G. J., E. Miguel, and C. Puri-Sharma (2006): “Anemia and School Participation”, *Journal of Human Resources*, 41, pp. 692-721.

Bolaky, B., and C. L. Freund (2004): “Trade, Regulations, and Growth”, World Bank Policy Research Working Paper No. 3255.

Boone, P. (1995): “Politics and the Effectiveness of Foreign Aid,” NBER Working Paper No. 5308.

Bordo, M. D., and C. M. Meissner (2007): “Foreign Capital and Economic Growth in the First Era of Globalization”, NBER Working Paper No. 13577-5.

Borensztein, E., J. de Gregorio, and J. Lee (1998): “How Does Foreign Direct Investment Affect Growth”, *Journal of International Economics*, 45, pp. 115-135.

Bosworth, B. P., and S. Collins (2003): “The Empirics of Growth: An Update,” *Brookings Papers on Economic Activity 2*, pp. 113-206.

Bourguignon, F. (2004): “The Poverty-Growth-Inequality Triangle”, Paper prepared for a Conference on Poverty, Inequality and Growth, Agence Francaise de Développement / EU Development Network, Paris, November 13, 2003.

Bovenberg, A., and S. Smulders (1995): “Environmental Quality and Pollution-augmenting Technical Change in a Two-sector Endogenous Growth Model”, *Journal of Public Economics*, 57(3), pp. 369-391.

________ (1996): “Transitional Impacts of Environmental Policy in an Endogenous Growth Model”, *International Economic Review*, 37(4), pp. 861-893.

Brueckner, J. (1999): "Fiscal Decentralization in LDCs: The Effects of Local Corruption and Tax Evasion,.Department of Economics", University of Illinois at Urbana-Champaign, Policy Research Working Paper No. 2290.

Bruno, M. (1996): "Deep Crises and Reform: What Have We Learned?", Directions in Development Series, Washington, D.C.: World Bank.

Bruno, M., and W. Easterly (1998): "Inflation Crises and Long-Run Growth", *Journal of Monetary Economics*, 41(1), pp. 3-26.

Burgess, R., and R. Pande (2005): "Do Rural Banks Matter? Evidence from the Indian Social Banking Experiment", *American Economic Review*, 95(3), pp. 780-795.

Burgess, R., and N. Stern (1993): "Taxation and Development", *Journal of Economic Literature*, 31(2), pp. 762-830.

Burnside, C., and D. Dollar (2000): "Aid, Policies and Growth", *American Economic Review*, 90(4), pp. 847-868.

Calderon, C., and L. Serven (2003): "The Output Cost of Latin America's Infrastructure Gap," in *The Limits of Stabilization: Infrastructure, Public Deficits and Growth in Latin America*, ed. by W. Easterly and L. Serven, Stanford University Press, Palo Alto, CA and the World Bank, pp. 95-118.

________ (2004): "The Effects of Infrastructure Development on Growth and Income Distribution", World Bank, Policy Research Working Paper No. 3400.

Canning, D. (2006): "The Economics of HIV/AIDS in Low-Income Countries: The Case for Prevention", *Journal of Economic Perspectives*, 20(3), pp. 121-142.

Caprio, G., and P. Honohan (2001): *Finance for Growth: Policy Choices in a Volatile World*, World Bank Policy Research Report.

Cardenas, E., J. A. Ocampo, and R. Thorp (2000): *The Export Age: The Latin America Economies in the Late Nineteenth and Early Twentieth Centuries*, (Vol.1, *An Economic History of Twentieth Century Latin America*), New York: Palgrave Press.

Carkovic, M., and R. Levine (2002): "Does Foreign Direct Investment Accelerate Economic Growth?", University of Minessota Department of Finance Working Paper.

Carter, M. (2004): "Landownership Inequality and the Income Distribution Consequences of Economic Growth," in *Inequality, Growth and Poverty in an Era of Liberalization and Globalization*, ed. by G. Cornia.

Case, A., A. Fertig and C. Paxson (2005): "The Lasting Impact of Childhood Health and Circumstance," *Journal of Health Economics*, 24, pp. 365-389.

Cassen, R. (1986): *Does Aid Work?*, Oxford: Oxford University Press.

Chetwynd, E., F. Chetwynd, and B. Spector (2003): "Corruption and Poverty: A Review of Recent Literature", USAID Final Report.

Chhibber, A., and G. Nayyar (2007): "Pro-Poor Growth: Explaining the Cross-Country Variation in the Growth Elasticity of Poverty", BWPI Working Paper No. 14.

Chong, A., and C. Calderon (2000): "Institutional Quality and Income Distribution", *Economic Development and Cultural Change*, 48(4), pp. 761-786.

Christiaensen, L., L. Demery, and S. Paternostro (2002): "Growth, Distribution, and Poverty in Africa: Messages from the 1990s", World Bank Policy Research Working Paper No. 2810.

Coffee, J. (1999): "Privatization and Corporate Governance: The Lessons from Securities Market Failure", Columbia Law School Center for Law and Economic Studies Working Paper No. 158.

Cohen, J., and P. Dupas (2007): "Free Distribution or Cost-Sharing? Evidence from a Randomized Malaria Prevention Experiment", The Brookings Institution, Global Economy & Development Working Paper No. 11,.

Collier, P. (2007): *The Bottom Billion: Why the Poorest Countries are Failing and What Can Be Done About It*, New-York and Oxford: Oxford University Press.

Collier, P., and D. Dollar (1999): "Aid Allocation and Poverty Reduction", World Bank Policy Research Working Paper No. 2041.

Conley, T. G., and C. R. Udry (2007): "Learning About a New Technology: Pineapple in Ghana", Revision of Economic Growth Center Working Paper No. 817.

Crafts, N., and M. Haacker (2004): "Welfare Implications of HIV/AIDS", in *The Macroeconomics of HIV/AIDS*, ed. by M. Haacker, Washington D.C.: IMF.

Cuddington, J. T. (1993): "Modeling the Macroeconomic Effects of AIDS, with an Application to Tanzania", *World Bank Economic Review*, 7(2), pp. 173-189.

Currie, J. (2008): "Healthy, Wealthy and Wise: Socioeconomic Status, Poor Health in Childhood, and Human Capital Development", NBER Working Paper No. 13987.

Currie, J. and B. Madrian (1999): "Health, Health Insurance, and the Labor Market", in *Handbook of Labor Economics*, Vol. 3, ed. by O. Ashenfelter and D. Card. Amsterdam: North Holland.

Dalgaard, C.-J., and H. Hansen (2000): "On Aid, Growth, and Good Policies", CREDIT Research Paper No. 00/17.

Dalgaard, C.-J., H. Hansen, and F. Tarp (2003): "On the Empirics of Foreign Aid and Growth", EPRU Working Paper Series.
Datt, G., and M. Ravallion (1992): "Growth and Redistribution Component of Changes in Poverty Measures: A Decomposition with Applications to Brazil and India in the 1980s", *Journal of Development Economics*, 38, pp. 275-95.

Datta Chaudhuri, M. (1996): "Labor Markets as Social Institutions in India", Center for Institutional Reform and the Informal Sector, India Working Paper No. 10.

De Gregorio, J., and C. Bravo-Ortega (2002): "The Relative Richness of the Poor? Natural Resources, Human Capital and Economic Growth", Working Papers Central Bank of Chile No. 139.

De la Croix, D., and C. Delavallade (2006): "Growth, Public Investment and Corruption with Failing Institutions", CORE Discussion Paper No. 2006/101.

De Soto, H. (2000): *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*, New York: Random House.

Deaton, A. (2003): "Health, Inequality and Economic Development", *Journal of Economic Literature*, 41(1), pp. 113-158.

Dehejia, R., and R. Gatti (2002): "Child Labor: The Role of Income Variability and Access to Credit Across Countries", NBER Working Paper No. 9018.

Deininger, K., and P. Olinto (2000): "Asset Distribution, Inequality and Growth", World Bank Policy Research Working Paper No. 2375.

Deininger, K., and L. Squire (1996): "Measuring Income Inequality: A New Database", *World Bank Economic Review*, 10(3), pp. 565-91.

Devarajan, S., D. Dollar, and T. Holmgren (2001): "Aid and Reform in Africa. Lessons from Ten Case Studies", The World Bank.

Devarajan, S., M. J. Miller, and S. E. V. (2002): "Goals for Development. History, Prospects, and Costs", World Bank Policy Research Working Paper No. 2819.

DFID (2004): "What is Pro-Poor Growth and Why Do We Need to Know?", Pro-Poor Growth Briefing Note 1.

Djankov, S., R. La Porta, F. Lopez-de Silanes, and A. Shleifer (2001): "The Regulation of Entry", World Bank Policy Research Working Paper No. 2661.

_______ (2002): "The Regulation of Entry", *The Quarterly Journal of Economics*, 117(1), pp. 1-37.

Dollar, D. (1992): "Outward-Oriented Developing Economies Really Do Grow More Rapidly: Evidence from 95 LDCs, 1976-1985", *Economic Development and Cultural Change*, 40(3), pp. 523-544.

________ (2002): "Reform, Growth, and Poverty Reduction in Vietnam", World Bank Policy Research Working Paper No. 2837.

________ (2004): "Globalization, Poverty, and Inequality since 1980", World Bank Policy Research Working Paper No. 3333.

Dollar, D., G. Iarossi, and T. Mengistae (2002): "Investment Climate and Economic Performance: Some Firm Level Evidence from India", Center for Research on Economic Development and Policy Reform Working Paper No. 143.

Dollar, D., and A. Kraay (2001): "Trade, Growth, and Poverty", World Bank Policy Research Working Paper No. 2615.

________ (2002a): "Growth Is Good for the Poor", *Journal of Economic Growth*, 7(3), pp. 195-225.

________ (2002b): "Spreading the Wealth", *Foreign Affairs*, 81(1).

________ (2003): "Institutions, Trade, and Growth. Revisiting the Evidence", World Bank Policy Research Working Paper No. 3004.

________ (2004): "Trade, Growth and Poverty", *The Economic Journal*, 114, pp. 22.49.

Dollar, D., and J. Litvack (1998): "Macroeconomic Reform and Poverty Reduction in Vietnam". In Dollar, Glewwe, and Litvack (eds.) *Household Welfare and Vietnam's Transition*, Washington, D. C.: Regional and Sectoral Studies, World Bank.

Doppelhofer, G., R. Miller, and X. Sala-i Martin (2004): "Determinants of Long-Term Growth: A Bayesian Averaging of Classical Estimates (BACE) Approach", *American Economic Review*, 94(4), pp. 813-835.

Dreze, J., and A. Sen (2002): *India Development and Participation*, New Delhi: Oxford University Press.

Duclos, J., and Q. Wodon (2003): "Pro-Poor Growth", Washington, D. C.: World Bank, Unpublished Mimeographed.

Duflo, E., P. Dupas, and M. Kremer (2007): "Peer Effects, Pupil Teacher Ratios, and Teacher Incentives: Evidence from a Randomized Evaluation in Kenya", MIT Poverty Action Lab, Working paper.

Duflo, E., and M. Kremer (2008): "Use of Randomization in the Evaluation of Development Effectiveness", in *Reinventing Foreign Aid*, ed. by W. Easterly, Cambridge, Mass.: The MIT Press.

Duflo, E., M. Kremer, and R. Glennerster (2006): "Using Randomization in Development Economics Research: A Toolkit", MIT Department of Economics Working Paper No. 06-36.

Duflo, E., M. Kremer, and J. Robinson (2007): "Why Don't Farmers Use Fertilizer? Experimental Evidence from Kenya", MIT and Harvard, Working Paper.

______ (2008): "How High Are Rates of Return to Fertilizer? Evidence from Field Experiments in Kenya", *American Economic Review*, 98(2), pp. 482-488.
Duncan-Waite, I., and M. Woolcock (2008): "Arrested Development: The Political Origins and Socio-Economic Foundations of Common Violence in Jamaica", BWPI Working Paper No. 46.

Easterly, W. (2001): "The Lost Decades: Developing Countries' Stagnation in Spite of Policy Reform 1980-1998", *Journal of Economic Growth*, 6(2), pp. 135-257.

________ (2005): "Inequality Does Cause Underdevelopment", CGD Working Paper No. 1.

________ (2008): "Can the West Save Africa?", NBER Working Paper No. 14363.

Easterly, W., and S. Fischer (2001): "Inflation and the Poor", *Journal of Money, Credit and Banking*, 33(2), pp. 160-178.

Easterly, W., and A. Kraay (1999): "Small States, Small Problems?", World Bank Working Paper No. 2139.

Easterly, W., and R. Levine (2003): "Tropics, Germs, and Crops: How Endowments Influence Economic Development", *Journal of Monetary Economics*, 50(1), pp. 3-39.

Easterly, W., R. Levine, and D. Roodman (2004): "Aid, Policies, and Growth: Comment", *The American Economic Review*, 94(3), pp. 774-780.

Eastwood, R., and M. Lipton (2001): "Pro-Poor Growth and Pro-Growth Poverty Reduction: Meaning, Evidence, and Policy Implications", *Asian Development Review*, 19, pp. 1-37.

Edison, H. J., R. Levine, L. Ricci, and T. Slok (2002): "International Financial Integration and Economic Growth", NBER Working Paper No. 9164.

Edmonds, E., and N. Pavcnik (2005): "The Effect of Trade Liberalization on Child Labor", *Journal of International Economics*, 65(2), pp. 401-419.

________ (2006a): "International Trade and Child Labor: Cross-country Evidence", *Journal of International Economics*, 68, pp. 115-140.

________ (2006b): "Trade Liberalization and the Allocation of Labor Between Households and Markets in a Poor Country", *Journal of International Economics*, 69, pp. 272-295.

Edmonds, E., N. Pavcnik, and P. Topalova (2007): "Trade Adjustment and Human Capital Investments: Evidence from Indian Tariff Reform", NBER Working Paper No. 12884.

Edmonds, E. V. (2007): "Child Labor", NBER Working Paper No. 12926.

Edwards, S. (1998): "Openness, Productivity and Growth: What Do We Really Know?", *Economic Journal*, 108(2), pp. 383-398.

________ (2001): "Capital Mobility and Economic Performance: Are Emerging Economies Different?", NBER Working Paper No. 8076.

Eichengreen, B. (2001): "Capital Account Liberalization: What Do Cross Country Studies Tell Us?", *The World Bank Economic Review*, 15(3), pp. 341-365.

Emerson, P., and A. Souza (2003): "Is There a Child Labor Trap? Intergenerational Persistence of Child Labor in Brazil", *Economic Development and Cultural Change*, 51, pp. 375-398.

Engerman, S. L., and K. L. Sokoloff (1997): "Factor Endowments, Institutions, and Differential Paths of Growth Among New World Economies: A View from Economic Historians of the United States", in *How Latin America Fell Behind*, Stanford, Calif.: Stanford University Press.

Engerman, S. L., S. Haber, and K. L. Sokoloff (2000): "Inequality, Institutions, and Differential Paths of Growth Among New World Economies", in *Institutions, Contracts, and Organizations*, Cheltenham, U.K.: Edward Elgar.

Epaulard, A. (2003): "Macroeconomic Performance and Poverty Reduction," IMF Working Paper WP/03/72.

Faguet, J.-P. (1997): "Decentralization and Local Government Performance", Washington, D. C.: World Bank,

Fatas, A. (2000a): "Do Business Cycles Cast Long Shadows? Short-Run Persistence and Economic Growth", *Journal of Economic Growth*, 5(2), pp. 147-162.

________ (2000b): "Endogenous Growth and Stochastic Trends", *Journal of Monetary Economics*, 45(1), pp. 107-128.

Feldstein, M. (2003): "Monetary Policy in an Uncertain Environment", NBER Working Paper No. 9969.

Field, E. (2002): "Entitled to Work: Urban Property Rights and Labor Supply in Peru", Princeton University, Typescript.

Filmer, D. (1999): "The Structure of Social Disparities in Education: Gender and Wealth", World Bank Policy Research Working Paper No. 2268.

Filmer, D., J. S. Hammer, and L. H. Pritchett (2000): "Weak Links in the Chain: A Diagnosis of Health Policy in Poor Countries", *The World Bank Research Observer*, 15(2), pp. 199-224.

Fischer, S. (1993): "The Role of Macroeconomic Factors in Growth", *Journal of Monetary Economics*, 32, pp. 485-512.

Forbes, K. J. (2000): "A Reassessment of the Relationship between Inequality and Growth", *The American Economic Review*, 90(4), pp. 869-887.

Foster, J. E., and M. Székely (2008): "Is Economic Growth Good For the Poor? Tracking Low Incomes Using General Means", *International Economic Review*, 49(4), pp. 1143-1172.

Frankel, J. A., and D. Romer (1999): "Does Trade Causes Growth?", *American Economic Review*, 89(3), pp. 379-399.

Fullerton, D. (2008): "Distributional Effects of Environmental and Energy Policy: An Introduction", NBER Working Paper No. 14241.

Fullerton, D., and S.-R. Kim (2006): "Environmental Investment and Policy with Distortionary Taxes and Endogenous Growth", NBER Working Paper No. 12070.

Galiani, S., P. Gertler, and E. Schargrodsky (2005): “Water for Life: The Impact of the Privatization of Water Services on Child Mortality”, *Journal of Political Economy*, 113(1), pp. 83-120.

Gallup, J. L., S. Radelet, and A. Warner (1999): “Economic Growth and the Income of the Poor”, CAER II Discussion Paper No. 36, Harvard Institute for International Development.

Gertler, P. (2004): “Do Conditional Cash Transfers Improve Child Health? Evidence from PROGRESAs Control Randomized Experiment”, *American Economic Review Papers and Proceedings*, 94(2), pp. 336-341.

Ghura, D., C. A. Leite, and C. Tsangarides (2002): “Is Growth Enough? Macroeconomic Policy and Poverty Reduction”, IMF Working Paper WP/02/118.

Glewwe, P., A. Holla, and M. Kremer (2008): “Teacher Incentives in the Developing World”.

Glewwe, P., M. Kremer, and S. Moulin (2007): “Many Children Left Behind? Textbooks and Test Scores in Kenya”, NBER Working Paper No. 13300.

Goldberg, P. K., and N. Pavcnik (2004): “Trade, Inequality, and Poverty: What Do We Know? Evidence from Recent Trade Liberalization Episodes in Developing Countries”, NBER Working Paper No. 10593.

________ (2005): “The Effects of the Colombian Trade Liberalization on Urban Poverty,” NBER Working Paper No. 11081.

Griffith-Jones, S. (2000): “Proposals for a Better International Financial System”, *World Economics*, 1(2), pp. 111-133.

Grossman, M. (2000): “The Human Capital Model”, in *The Handbook of Health Economics*, ed. by A. Culyer and J. P. Newhouse. Amsterdam: North Holland.

Gugerty, M. K., and M. Kremer (2000): “Outside Funding of Community Organizations: Benefiting or Displacing the Poor?”, NBER Working Paper No. 7896.

Gupta, S., R. Davoodi, and R. Alonso Terme (1998): “Does Corruption Affect Income Equality and Poverty?”, IMF Working Paper 98/76.

Haacker, M. (2004): “HIV/AIDS: The Impact on the Social Fabric and the Economy”, in *The Macroeconomics of HIV/AIDS*, ed. by M. Haacker. Washington D.C.: IMF.

Hall, R. E., and C. I. Jones (1999): “Why Do Some Countries Produce So Much More Output Per Worker Than Others?”, *The Quarterly Journal of Economics*, 114(1), pp. 83-116.

Halsan, R., D. Mitra and K. V. Ramaswamy (2003): "Trade Reforms, Labor Regulations and Labor Demand Elasticities: Evidence from India", NBER Working Paper No. 9879.

Hanmer, L., and D. Booth (2001): "Pro-Poor Growth: Why Do We Need It?", London: ODI (Mimeographed).

Hansen, H., and F. Tarp (2007): "Aid and Growth Regressions", CREDIT Research Paper No. 00/7.

Hanson, G. H. (2005): "Globalization, Labor Income, and Poverty in Mexico", NBER Working Paper No. 11027.

Hanushek, E., and L. Woesmann (2008): "The Role of Cognitive Skills in Economic Development", *Journal of Economic Literature*, 46(3), pp. 607-668.

Hanushek, E. A., and D. D. Kimko (2000): "Schooling, Labor-Force Quality, and the Growth of Nations", *American Economic Review*, 90(5), pp. 1184-1208.

Harrison, A. (2006): "Globalization and Poverty", NBER Working Paper No. 12347.

Hashemi, S. M., S. R. Schuler, and A. P. Riley (1996): "Rural Credit Programs and Women's Empowerment in Bangladesh", *World Development*, 24(4), pp. 635-653.

Hausmann, R., D. Rodrik, and A. Velasco (2005): "Growth Diagnostics", Cambridge, Mass.: John F. Kennedy School of Government, Harvard University.

Hazell, P., and L. Haddad (2001): "Agricultural Research and Poverty Reduction", Food, Agriculture, and the Environment Discussion Paper 34.

He, F., L. Linden, and M. MacLeod (2007): "Helping Teach What Teachers Don't Know: An Assessment of the Pratham English Language Program", Mimeo.

Heckman, J. J. (2007): "The Technology and Neuroscience of Technology Formation," *Proceedings of the National Academy of Sciences*, 104(33), pp. 13250-13255.

Henry, P. B. (2000): "Do Stock Market Liberalizations Cause Investment Booms?", *Journal of Financial Economics*, 58(1-2), pp. 301-334.

Herman, B. (2004): "How Well Do Measurement of an Enabling Domestic Environment for Development Stand Up?", Draft, XVII Technical Group Meeting of the Group of 24, Geneva, March 8-9, 2004.

Hettich, F. (1998): "Growth Effects of a Revenue-neutral Environmental Tax Reform", *Journal of Economics*, 67(3), pp. 287-316.

Hoff, K. (2003): "Paths of Institutional Development: A View from Economic History", *The World Bank Research Observer*, 18(2), pp. 205-226.

Hoff, K., and J. Stiglitz (2001): "Modern Economic Theory and Development", in *Frontiers of Development Economics: The Future in Perspective*, New York: Oxford University Press.

Hoffman, V. (2008): "Psychology, Gender, and the Intrahousehold Allocation of Free and Purchased Mosquito Nets", Mimeo.

Honohan, P. (2004): "Financial Development, Growth and Poverty: How Close are the Links?", World Bank Policy Research Working Paper No. 3203.

Hossain, M. (1988): "Credit for Alleviation of Rural Poverty: The Grameen Bank in Bangladesh", International Food Policy Research Institute, Washington, D.C., Research Report 65.

Ilahi, N., P. Orazem, and G. Sedlack (2000): "The Implications of Child Labor for Adult Wages, Income and Poverty: Retrospective Evidence from Brazil", Manuscript (IMF).

Irz, X., L. Lin, C. Thirtle, and S. Wiggins (2001): "Agricultural Productivity Growth and Poverty Alleviation", *Development Policy Review*, 19(4), pp. 449-466.

Ishii, S., and K. Habermeier (2002): "Capital Account Liberalization and Financial Sector Stability", IMF Occasional Paper No. 211.

Jamison, D. T., J. D. Sachs, and J. Wang (2001): "The Effect of the AIDS Epidemic on Economic Welfare in Sub-Saharan Africa", World Health Organization Commission on Macroeconomics and Health, Working Group 1, Working Paper No. 13.

Johnson, S., J. McMillan, and C. Woodruff (2002): "Property Rights and Finance", *American Economic Review*, 92(5), pp. 1335-1356.

Jones, S., R. Riddell, and K. Kotoglou (2005): "Aid Allocation Criteria: Managing for Development Results and Difficult Partnerships", Senior Level Forum on Development Effectiveness in Fragile States, Report By Oxford Policy Management (OPM).

Kähkönen, S., and A. Lanyi (2001): "Decentralization and Governance: Does Decentralization Improve Public Service Delivery?", World Bank Prem Notes No. 55.

Kähkönen, S., and H. Leathers (1999): "Transaction Costs Analysis of Maize and Cotton Marketing in Zambia and Tanzania", IRIS Centre, University of Maryland, Technical Paper No. 105.

Kakwani, N., and E. Pernia (2000): "What is Pro-poor Growth?", *Asian Development Review,* 16(1), pp. 1-22.

Kalemli-Ozcan, S., H. Ryder, and D. Weil (2000): "Mortality Decline, Human Capital Investment and Economic Growth", *Journal of Development Economics*, 62, pp. 1-23.

Kaminsky, G. L., and C. M. Reinhart (2001): "Financial Markets in Times of Stress", NBER Working Paper No. 8569.

Kaminsky, G., and S. Schmukler (2003): "Short-Run Pain, Long-Run Gain: The Effects of Financial Liberalization", NBER Working Paper No. 9787.

Kanbur, R. (2001): "Economic Policy, Distribution and Poverty: The Nature of Disagreements", *World Development,* 29(6), pp. 1084-1094.

_______ (2005a): "Growth, Inequality and Poverty: Some Hard Questions", *Journal of International Affairs*, 58(2), pp. 223-232

_______ (2005b): "Reforming the Formula: A Modest Proposal for Introducing Development Outcomes in IDA Allocation Procedures", Paper for presentation at the AFD-EUDN conference, Paris, November 25-27, 2004.

Kaufmann, D. (2003): "Rethinking Governance: Empirical Lessons Challenge Orthodoxy", EconWPA Macroeconomics series No. 0308007.

Kaufmann, D., A. Kraay, and M. Mastruzzi (2003): "Government Matters III : Governance Indicators for 1996-2002", World Bank Policy Research Working Paper No. 3106.

Kaufmann, D., A. Kraay, and P. Zoido-Lobaton (1999): "Governance Matters", World Bank Policy Research Working Paper No. 2196.

_______ (2002): "Governance Matters II: Updated Indicators for 2000/01," World Bank Policy Research Department Working Paper No. 2772.

Kerekes, C. B., and W. C. R. (2008): "Unveiling de Soto's Mystery: Property Rights, Capital Formation, and Development", *Journal of Institutional Economics*, 4(3), pp. 299-325.

Khandker, S. R. (1998): *Fighting Poverty with Microcredit: Experience in Bangladesh,* New York: Oxford University Press.

________ (2005): "Microfinance and Poverty: Evidence Using Panel Data from Bangladesh", *The World Bank Economic Review*, 19(2), pp. 263-286.

Khandker, S. R., and M. M. Pitt (2003): "The Impact of Group-Based Credit on Poor Households: An Analysis of Panel Data from Bangladesh" World Bank.

Klasen, S. (2002): "Low Schooling for Girls, Slower Growth for All?", *World Bank Economic Review*, 16, pp. 345-373.

________ (2003): "In Search of the Holy Grail: How to Achieve Pro-Poor Growth?", Ibero-America Institute for Economic Research Discussion Paper No. 96.

Klasen, S., and F. Lamanna (2003): "The Impact of Gender Inequality in Education and Employment on Economic Growth: Updated Estimates", Mimeo.

Klein, M. W., and G. P. Olivei (2001): "Capital Account Liberalization, Financial Depth and Economic Growth", Manuscript Fletscher School of Law and Diplomacy.

Knack, S., and P. Keefer (1995): "Institutions and Economic Performance: Cross-Country Tests Using Alternative Institutional Measures", *Economics and Politics*, 7(3), pp. 207-227.

Knowles, S., P. Lorgelly, and D. Owen (2002): "Are Educational Gender Gaps a Brake on Economic Development: Some Cross-Country Empirical Evidence", *Oxford Economic Papers*, 54(1), pp. 118-149.

Kraay, A. (2003): "When is Growth Pro-poor? Cross-Country Evidence", Washington, D. C.: World Bank.
________ (2004): "When is Growth Pro-Poor? Cross-Country Evidence", IMF Working Paper WP/04/47.

Krebs, T. (2003): "Human Capital Risk and Economic Growth", *Quarterly Journal of Economics*, 118(2), pp. 709-744.

Kremer, M., and A. Holla (2008): "Pricing and Access: Lesson from Randomized Evaluations in Education and Health", CGD Working Paper No. 158.

Kremer, M., J. Leino, E. Miguel, and A. P. Zwane (2008): "Spring Cleaning: Rural Water Impacts, Valuation, and Institutions", Working Paper.

Kremer, M., and E. Miguel (2004): "The Illusion of Sustainability," NBER Working Paper No. 10324.

______ (2007): "The Illusion of Sustainability," *Quarterly Journal of Economics*, 112(3), pp. 1007-1065.

Kremer, M., E. Miguel, and R. Thornton (2007): "Incentives to Learn," Harvard mimeo.

Kremer, M., and C. Vermeersch (2002): "Food for Education: Evidence from a Randomized Evaluation", Mimeo Harvard University.

Kruger, D. (2004): "Child Labor and Schooling During a Coffee Sector Boom: Nicaragua 1993-1998", in *Trabajo Infantil: Teoria y Evidencia desde Latinoamerica*, ed. by L. F. Lopez Calva, Mexico, D.F.: Fondo de Cultura Economica de Mexico.

_______ (2007): "Coffee Production Effects on Child Labor and Schooling in Rural Brazil", *Journal of Development Economics*, 82, pp. 448-463.

Kuznets, S. (1955): "Economic Growth and Income Inequality", *American Economic Review*, 45(1), pp. 1-28.

La Porta, R., and F. Lopez-de Silanes (1999): "The Benefits of Privatization: Evidence from Mexico", *Quarterly Journal of Economics*, 114(4), pp. 1193-1242.

La Porta, R., F. Lopez-de Silanes, A. Shleifer, and R. Vishny (2000): "Investor Protection and Corporate Governance", *Journal of Financial Economics*, 58, pp. 3-27.

Lancet (2007): "Science at WHO and UNICEF: The Corrosion of Trust", *Lancet*, 370, p. 1007.

Lederman, D. (1996): "The Sources of Economic Growth: A Survey from a Latin America Perspective", World Bank, Office of the Chief Economist of Latin America and the Caribbean Region, Mimeographed.

Lee, H. Y., L. A. Ricci, and R. Rigobon (2004): "Once Again, Is Openness Good for Growth?", *Journal of Development Economics*, 75(2), pp. 451-472.

Levine, R. (1997): "Financial Development and Economic Growth: Views and Agenda", *Journal of Economic Literature*, 35(2), pp. 688-726.

________ (2000): "Bank Concentration: Chile and International Comparisons", Working Paper Central Bank of Chile No. 62.

________ (2003): "More on Finance and Growth: More Finance, More Growth?", The Federal Reserve Bank of St. Louis.

________ (2005): "Law, Endowments and Property Rights", *Journal of Economic Perspectives*, 19(3), pp. 61-88.

Levine, R., N. Loayza, and T. Beck (2000): "Financial Intermediation and Growth: Causality and Causes", *Journal of Monetary Economics*, 46, pp. 31-77.

Lewis, W. A. (1954): "Economic Development with Unlimited Supplies of Labour", *Manchester School of Economic and Social Sciences*, 22(2), pp. 139-191.

Lin, J. Y., F. Cai, and Z. Li (1996): *The China Miracle: Development Strategy and Economic Reform*, Shatin, NT, Hong Kong: The Chinese University Press.

Loayza, N. (1996): "The Economics of the Informal Sector: a Simple Model and Some Empirical Evidence from Latin America", *Carnegie-Rochester Conference Series on Public Policy*, 45(1), pp. 129-162.

Loayza, N., P. Fajnzylber, and C. Calderon (2004): "Economic Growth in Latin America and the Carribean: Stylized Facts, Explanations, and Forecasts", Central Bank of Chile Working Paper No. 265.

Lora, E. (1997): "A Decade of Structural Reforms in Latin America: What Has Been Reformed and How to Measure It", Inter-American Development Bank, Office of the Chief Economist, Working Paper Green Series No. 348.

Lundberg, M., and L. Squire (2003): "The Simultaneous Evolution of Growth and Inequality", *The Economic Journal*, 113, pp. 326-344.

McPake, B. (1993): "User Charges for Health Services in Developing Countries: A Review of the Economic Literature", *Social Science and Medicine*, 36(11), pp. 1397-1405.

Martinez-Vazquez, J., and J. Boex (2001): "Russia's Transition to a New Federalism", Washington, D.C.: World Bank Institute.

Mauro, P. (1995): "Corruption and Growth", *Quarterly Journal of Economics*, 110(3), pp. 681-712.

Mazingo, C. (1999): "Effects of Property Rights on Economic Activity: Lessons from the Stolypin Land Reform", Unpublished manuscript, Massachusetts Institute of Technology.

Megginson, W. L., and J. M. Netter (2001): "From State to Market: A Survey of Empirical Studies on Privatization", *Journal of Economic Literature*, 39(2), pp. 321-389.
Menezes-Filho, N., and L. Vasconcellos (2004): "Operationalising Pro-Poor Growth: A Case Study on Brazil", prepared as part of the Operationalizing Pro-Poor Growth research program.

Meuwissen, L. E. (2002): "Problems of Cost Recovery Implementation in District Health Care: A Case Study from Niger", *Health Policy and Planning*, XVII, pp. 304-313.

Migot-Adholla, S., P. Hazell, and F. Place (1991): "Indigenous Land Rights Systems in Sub-Saharan Africa: A Constraint on Productivity?", *World Bank Economic Review*, 5, pp. 155-175.

Miguel, E., and M. K. Gugerty (2005): "Ethnic Diversity, Social Sanctions, and Public Goods in Kenya", *Journal of Public Economics*, 89, pp. 2325-2368.

Mkandawire, T., and C. Soludo (1999): *Our Continent, Our Future*, Asmara: Africa World Press.

Mocan, N. (2004): "What Determines Corruption? International Evidence from Micro Data", NBER Working Paper No. 10460.

Morduch, J. (1999): "The Microfinance Promise", *Journal of Economic Literature*, 37(4), pp. 1569-1614.

Moss, T., G. Pettersson, and N. van de Walle (2008): "An Aid-Institutions Paradox? A Review Essay on Aid Dependency and State Building in Sub-Saharan Africa", in *Reinventing Foreign Aid*, ed. by W. Easterly, Cambridge, Mass.: The MIT Press.

Muralidharan, K., and V. Sundararaman (2007): "Teaching Incentives in Developing Countries: Experimental Evidence from India", Mimeo.

Mwabu, G., J. Mwanzia, and W. Liambila (1995): "User Charges in Government Health Facilities in Kenya: Effect on Attendance and Revenue", *Health Policy and Planning*, 10(2), pp. 164-170.

Nicita, A. (2004): "Who Benefited from Trade Liberalization in Mexico? Measuring the Effects on Household Welfare", World Bank Policy Research Paper No. 3265.

North, D. (1990): *Institutions, Institutional Change and Economic Performance*, New York: Cambridge University Press.

North, D. (1994): "Economic Performance Through Time", *The American Economic Review*, 84(3), pp. 359-368.

Ocampo, J. A. (2003): "Structural Dynamics and Economic Growth in Developing Countries".

OECD (2003): "Aid Effectiveness and Selectivity", *DAC Journal*, 4(3).

Olken, B. (2007): "Monitoring Corruption: Evidence from a Field Experiment in Indonesia", *Journal of Political Economy*, 115, pp. 200-249.

______ (2008): "Direct Democracy and Local Public Goods: Evidence from a Field Experiment in Indonesia", NBER Working Paper No. 14123.

Olofsdotter, K. (1998): “Foreign Direct Investment, Country Capabilities and Economic Growth”, *Weltwirtschaftliches Archiv*, 134(3), pp. 537-547.

Otsuka, K. (2002): “Poverty Reduction Issues: Village Economy Perspective”, *Asian Development Review*, 19(1), pp. 98-116.

Parry, I., H. Sigman, M. Walls, and R. Williams (2005): “The Incidence of Pollution Control Policies”, Rutgers University, Department of Economics, Departmental Working Papers No. 200504.

Perry, G. (2003): “Can Fiscal Rules Help Reduce Macroeconomic Volatility in the Latin America and the Carribean Region?”, World Bank Policy Research Working Paper 3080, Prepared for the IMF/World Bank Conference on Fiscal Rules and Institutions, Oaxaca, Mexico, February 2002.

Porto, G. G. (2005): “Informal Export Barriers and Poverty”, *Journal of International Economics*, 66, pp. 447-470.

______ (2006): “Using Survey Data to Assess the Distributional Effects of Trade Policy”, *Journal of International Economics*, 70, pp. 140-160.

Prasad, E., K. Rogoff, S.-J. Wei, and M. A. Kose (2003): “Effects of Financial Globalization on Developing Countries: Some Empirical Evidence”, IMF Occasional Paper No. 220..

Przeworski, A., M. E. Alvarez, J. A. Cheibub, and F. Limongi (2000): *Democracy and Development: Political Institutions and Well-Being In The World 1950-1990*, New York: Cambridge University Press.

PSI (2006): “What is Social Marketing?”.

Qian, Y. (2003): *In Search of Prosperity: Analytic Narratives of Economic Growthchap. How Reform Worked in China*, Princeton, NJ: Princeton University Press.

Rajan, R. G., and L. Zingales (2003): “The Great Reversals: the Politics of Financial Development in the Twentieth Century”, *Journal of Financial Economics*, 69(1), pp. 5.50.

Rajkumar, A. S., and V. Swaroop (2002): “Public Spending and Outcomes: Does Governance Matter?”, World Bank Policy Research Working Paper No. 2840.

Ravallion, M. (2001): “Growth, Inequality and Poverty: Looking Beyond Averages”, *World Development*, 29(11), pp. 1803-1815.

________ (2003): “Targeted Transfers in Poor Countries: Revisiting the Tradeoffs and Policy Options”, World Bank Policy Research Working Paper No. 3048.

________ (2004a): “Pro-poor Growth: A Primer”. Washington, D. C.: Development Research Group, The World Bank.

________ (2004b): “Looking beyond Averages in the Trade and Poverty Debate”, World Bank Policy Research Working Paper No. 3461.

Ravallion, M., and S. Chen (2003): “Measuring Pro-poor Growth”, *Economic Letters,* 78(1), pp. 93-99.

Ravallion, M., and G. Datt (2002): “Why Has Economic Growth Been More Pro-Poor in Some States of India than Others?”, *Journal of Development Economics*, 68, pp. 381-400.

Ravallion, M., and M. Lokshin (2004): “Gainers and Losers from Agricultural Trade Reform in Morocco”, World Bank Policy Research Working Paper No. 3368.

Reinikka, R., and J. Svensson (2004): “Local Capture: Evidence from a Central Government Transfer Program in Uganda”, *The Quarterly Journal of Economics*, 119, pp. 679-705.

_______ (2005): “Fighting Corruption to Improve Schooling: Evidence from a Newspaper Campaign in Uganda”, *Journal of European Economic Association*, 3, pp. 259-267.

Rigobon, R., and D. Rodrik (2004): “Rule of Law, Democracy, Openness, and Income: Estimating the Interrelationships”, NBER Working Paper 10750.

Rodriguez, F., and D. Rodrik (2001): “Trade Policy and Economic Growth: A Skeptic's Guide to the Cross-National Evidence”, in *Macroeconomics Annual 2000*, ed. by B. Bernanke, and K. S. Rogoff, Cambridge, Mass.: The MIT Press for NBER.

Rodrik, D. (1999): “Where Did All the Growth Go? External Shocks, Social Conflict and Growth Collapses”, *Journal of Economic Growth*, 4(4), pp. 385-412.

_______ (2000): “Comments on "Trade, Growth and Poverty" by D. Dollar and A. Kraay”.

________ (2002): “Trade Policy Reform as Institutional Reform” in *Development,Trade, and the WTO: A Handbook*, Washington, D.C.: World Bank.

________ (2003): “Growth Strategies”, NBER Working Paper No. 10050.

Rodrik, D., A. Subramanian, and F. Trebbi (2002): “Institutions Rule: The Primacy of Institutions over Integration and Geography in Economic Development”, IMF Working Paper WP/02/189.

Roemer, M., and M. Gugerty (1997): "Does Economic Growth Reduce Poverty?", Harvard Institute for International Development, CAER II Discussion Paper No. 4.

Rosegrant, M. W., and P. B. Hazell (2000): "Transforming the Rural Asian Economy: The Unfinished Revolution", in *Study of Rural Asia* (Vol. 1), Asian Development Bank, Copublished by the Oxford University Press.

Rosenstein-Rodan, P. N. (1943): "Problems of Industrialisation of Eastern and South-Eastern Europe", *The Economic Journal*, 53(210/211), pp. 202-211.

Rostow, W. W. (1960): *The Stages of Economic Growth: A Non-Communist Manifesto*, Cambridge: Cambridge University Press.

Ryan, J. (2002): "Agricultural Research and Poverty Alleviation: Some International Perspectives", Invited paper for the John L. Dillon AO Commemorative Day on 'Agricultural Research: Challenges and Economics in the New Millennium', The University of New England, Armidale NSW Australia, September 20, 2002.

Sachs, J. D. (2003): "Institutions Don't Rule: Direct Effects of Geography on Per Capita Income," NBER Working Paper No. 9490.

_______ (2005): *The End of Poverty: Economic Possibilities for Our Time*, Penguin USA: New York.

_______ (2008): *Common Wealth: Economics for a Crowded Planet*, Penguin USA: New York.

Sachs, J. D., and A. M. Warner (1995): "Economic Reform and the Process of Global Integration", Brookings papers on Economic Activity, 1, pp. 1-118.

Sader, F. (1993): "Privatizing Public Enterprises and Foreign Investment in Developing Countries, 1988-1993", Foreign Investment Advisory Service Occasional Paper 5, World Bank, Washington, D.C..

Samonis, V. (2000): "Mergers and Acquisitions in Transition Economies: 'Williams' Lithuania Deal Decomposed", Working paper, Center for European Integration Studies, Bonn, Germany.

Sen, A. (1997): *On Economic Inequality*, Oxford: Clarendon Press.

______ (1999): *Development as Freedom*, Oxford: Oxford University Press.

Shleifer, A., and R. W. Vishny (1993): "Corruption", *The Quarterly Journal of Economics*, 108(3), pp. 599-617.

_______ (1998): *The Grabbing Hand: Government Pathologies and their Cures*, Cambridge, Mass.: Harvard University Press.

Smith, J. P. (1999): "Healthy Bodies and Thick Wallets: The Dual Relation between Health and Economic Status," *Journal of Economic Perspectives*, 13(2), pp. 145-166.

________ (2007): "The Impact of Social Economic Status on Health over the Life Course," *Journal of Human Resources*, 42(4), pp. 739-764.

Smoke, P. (2001): "Fiscal Decentralization in Developing Countries: A Review of Current Concepts and Practice", Democracy, Governance and Human Rights Programme Paper No. 2., Geneva: UNRISD.

Stern, N. (2001): *A Strategy for Development*, Washington D.C.: The World Bank.

Stiglitz, J. (1998): "Reflections on the Theory and Practice of Reform", Paper presented to Stanford University, September 17.

Summers, L. (2000): "International Financial Crises: Causes, Prevention, and Cures", *American Economic Review*, 90(2), pp. 1-16.

________ (2003): "Godkin Lectures", Mimeo Harvard University.

Thurlow, J., and P. Wobst (2004): "A Country Case Study on Zambia", "Operationalising Pro-Poor Growth", A joint initiative of AFD, BMZ (GTZ, KfW Development Bank), DFID, and the World Bank.

Todaro, M. P. (1997): *Economic Development*, London: Longman.

Topalova, P. (2004): "Factor Immobility and Regional Effects of Trade Liberalization: Evidence from India", MIT mimeo.

_______ (2005): "Trade Liberalization, Poverty and Inequality: Evidence from Indian Districts", NBER Working Paper No. 11614.

UNCTAD (ed.) (2002): *Economic Development in Africa. From Adjustment to Poverty Reduction: What is New?*, United Nations, New York and Geneva.

UNDP (2003): *Zambia Human Development Report 2003*, New-York: United Nations.

Vandenbussche, J., P. Aghion, and C. Meghir (2006): "Growth, Distance to Frontier and Composition of Human Capital", *Journal of Economic Growth*, 11(2), pp. 97-127.

Vermeersch, C. (2003): “School Meals, Educational Achievement and School Competition: Evidence from a Randomized Evaluation”, University of Oxford.

Wei, S.-J. (1996): “Intra-National versus International Trade: How Stubborn are Nations in Global Integration?”, NBER Working Paper No. 5531.

________ (2000): “Natural Openness and Good Government”, NBER Working Paper No. 7765.

Welch, K., M. McMillan, and D. Rodrik (2003): “When Economic Reform Goes Wrong: Cashews in Mozambique”, Brookings Trade Forum 2003.

White, H., and E. Anderson (2001): “Growth versus Distribution: Does the Pattern of Growth Matter?”, Brighton: IDS (Mimeographed).

WHO (2007): “WHO Releases New Guidance on Insecticide-Treated Mosquito Nets”, World Health Organization News Release.

Williamson, J. (1990): “What Washington Means by Policy Reform”, in *Latin American Adjustment: How Much Has Happened?*, Washington D. C.: Institute for International Economics.

________ (1995): *What Role for Currency Boards?*, Washington D. C.: Institute for International Economics.

________ (2004): “The Washington Consensus as Policy Prescription for Development”, A lecture in the series "Practitioners of Development" delivered at the World Bank on January 13, 2004.

Williamson, J., and M. Mahar (1998): *A Survey of Financial Liberalization (Essays in International Economics)*, Princeton Essays in International Finance No. 211.

Williamson, J., and R. Zagha (2002): “From Slow Growth to Slow Reform”, Paper presented to the Third Annual Stanford Economic Conference on Indian Economic Reform.

Winters, L. A., N. McCulloch, and A. McKay (2004): “Trade Liberalization and Poverty: The Evidence so Far”, *Journal of Economic Literature*, 42(1), pp. 72-115.

Woolard, I., and S. Klasen (2005): “Determinants of Income Mobility and Household Poverty Dynamics in South Africa”, *The Journal of Development Studies*, 41(5), pp. 865-897.

World Bank (1993): *The East Asian Miracle: Economic Growth and Public Policy*, New York and Oxford: Oxford University Press for the World Bank.

_______ (1994): *World Development Report, 1994: Infrastructure for Development*, Washington, D.C., World Bank.

_______ (1997): *World Development Report, 1997: The State in a Changing World*, Washington, D.C., World Bank.

_______ (1998): *Beyond the Washington Consensus: Institutions Matter*, New York: Oxford University Press.

_______ (1999): *World Development Report 1998/99: Knowledge for Development.* New York: Oxford University Press.

_______ (2000a): *Can Africa Claim the 21st Century?* New York: Oxford University Press.

_______ (2000b): *World Development Report 2000/2001: Attacking Poverty*. New York: Oxford University Press.

________ (2001): *Engendering Development*. New York: Oxford University Press.

________ (2002a): *Globalization, Growth and Poverty*, World Bank, Washington DC.

________ (2002b): *World Bank Group Work in Low-Income Countries Under Stress: A Task Force Report.*

________ (2004a): *2003 Annual Review of Development Effectiveness. The Effectiveness of Bank Support for Policy Reform* .

________ (2004b): *World Development Report 2004: Making Services Work for Poor People*. New York, NY: Oxford University Press.

________ (2005): *Economic Growth in the 1990's. Learning from a Decade of Reform*, The International Bank for Reconstruction and Development/The World Bank.

________ (2006): *World Development Report*. New York: Oxford University Press.

________ (2007): "Country Policy and Institutional Assessment 2007: Assessment Questionnaire".

________ (2008), Commission On Growth and Development: "The Growth Report. Strategies for Sustained Growth and Inclusive Development", Discussion paper, The World Bank.

Young, A. (2004): "The Gift of the Dying: The Tragedy of AIDS and the Welfare of Future African Generations", NBER Working Paper No. 10991.

Zwane, A. P., and M. Kremer (2007): “What Works in Fighting Diarrheal Diseases in Developing Countries? A Critical Review”, NBER Working Paper No. 12987.

wb16703
C:\Documents and Settings\biblio\Bureau\mes_sites_tempo_clefusb\www\FEDERATION\wheberg\assoc\cepremap\depot\docweb\docweb0904\docweb0904_p3.doc