Dear Reader

2011 IS THE 25TH ANNIVERSARY YEAR of the Centre for the Study of African Economies (CSAE) at Oxford University. Our annual conference, which was held in March 2011, brought together both academics and policymakers concerned with Africa. One innovation this year was the streaming of some of the sessions live on the internet, which allowed more than double those attending the CSAE conference to look in on the conference. This is something we hope to extend for next year.

One of these sessions was a debate on how to correctly assess the success of one of the largest projects aiming to achieve the Millennium Development Goals (MDGs): the Millennium Villages Project. A summary of the issues under discussion is featured on page 2. You can also watch the video of the debate between the CEO of Millennium Promise, John McArthur, and his critic Gabriel Demombynes, Senior Economist at the World Bank, on http://www.csae.ox.ac.uk/conferences/2011-EdiA/video.html.

Poverty reduction is one of the key goals of the MDGs, so measuring poverty and its reduction is a key feature of work for many involved in developing countries. The rather clear-cut news is that poverty rates in Africa are at last falling. This good news needs to be qualified, as our note on page 3 shows, but this improvement is clearly something to celebrate.

How should policies for poverty reduction be evaluated? This question was at the heart of the disagreements as to how the Millennium Villages Project should be assessed. The other key debate at the CSAE conference focused on exactly this question. One approach that is widely advocated is to use randomised controlled trials (RCTs). Their advocates argue that they are informative and deliver evidence-based policy-making. Their critics see them as of marginal value to the most important questions that development economists need to address. The alternatives to RCTs are outlined on page 4, and you can view the debate on http://www.csae.ox.ac.uk/conferences/2011-EdiA/video.html.

An anniversary is also a reason to look to the future and envisage what the goals should be as we work towards the next anniversary. We asked some well-known commentators on African affairs for their views on what research should cover in the future. You will find their thoughts in the 2011 Research Summary, which is enclosed in this mailing and which is also available at http://www.csae.ox.ac.uk/ressummy/default.html. The 2011 Research Summary also contains some reflections from former CSAE students on their current activities and their views on how research can help overcome some of the challenges faced by Africa.

Do enjoy your reading and viewing.

The Editor, Karin Loudon
WHAT ARE THE BEST WAYS TO judge whether aid is effective? The CSAE hosted a debate between John McArthur, CEO of Millennium Promise, and Gabriel Demombynes, Senior Economist at the World Bank, on the effectiveness of one very high-profile aid project, the Millennium Villages Project (MVP). This debate formed part of the CSAE’s 25th anniversary conference held in March 2011. As the MVP has a high profile and the debate is very relevant to future policy-making, we summarise the points on which there seemed to be agreement and the points on which disagreement remained. The background papers are available on the CSAE’s website at http://www.csae.ox.ac.uk/conferences/2011-Edition/paperlist.htm (search by author).

The MVP is an ambitious attempt to show how the Millennium Development Goals (MDGs) can be met within the confines of the budgets for aid agreed at the 2005 G8 Summit in Gleneagles and at the 2005 UN World Summit in New York. It operates in a diversity of agro-ecological zones, representing a range of challenges to income, food production, disease ecology, infrastructure and health system development. First initiated in Kenya and Ethiopia in 2005 and then launched at scale in 2006, the MVP currently reaches approximately half a million people across 12 sites in 10 countries. The MVP is a partnership of the Earth Institute at Columbia University and Millennium Promise, an international non-governmental organisation.

Gabriel Demombynes argued that a rigorous and persuasive evaluation must give careful attention to the question of the counterfactual, i.e. what would have happened in the absence of the intervention. Before and after made no sense in environments where some changes were occurring in all parts of the country – mobile phones were an example where before and after comparisons gave no useful information on the impact of the interventions.

John McArthur agreed that evaluating the MVP against counterfactuals was critical for the success of the MVP to be assessed and agreed that before and after comparisons do not amount to rigorous evaluation. He indicated that any attempts to describe the MVP’s Harvests of Development progress report as an evaluation report are inaccurate, and that the project’s published evaluation protocols are the appropriate basis for discussing the merits of forthcoming evaluation reports.

While both authors concurred that evaluating the MVP was critical for its success to be assessed, and there was agreement that before and after comparisons were not adequate for a rigorous evaluation, there was disagreement as to the most productive form of evaluation.

John McArthur argued that there were several relevant methods of evaluation and that seeking to define the relevant counterfactual as one emerging from a randomised trial (or its equivalent) was not appropriate in the case of the MVP. This was because the objective was not to show whether individual
indicators, rather than the long list of objectives and indicators described in various project documents. John McArthur disagreed with the argument that these goals, which are the MDGs, are too ambitious to measure against. He asserted that the world has agreed to the goals many times, so it is a task for professionals in public institutions to determine how to measure against them.

Gabriel Demombynes argued that issues of external validity were vital so that there could be buy-in for the reforms and assessment of whether scaling them up was desirable. John McArthur agreed with this point, but stressed the practical implementation bottlenecks of system execution and finance, rather than external validation, since the donor community, the World Bank and others have not yet identified or implemented an alternative model to help large rural populations achieve the agreed MDG policy targets, now a decade after the targets were established.

The debate raised two very important issues. The first is a very general one: namely how development policy needs to be evaluated. The second – a more focused question – is how aid can best support internationally agreed policy goals to improve the livelihoods of the very poor in Africa. The first was the subject of another panel at the conference, and the debates there are reviewed in the next section. The second is clearly of enormous importance for any agency interested in the effects of its aid. The implication for policy-makers is clear. It is necessary to think hard about what aid is designed to do. It is agreed that its use needs to be evaluated and, although this is not agreed, there may be more than one way of doing that. It does seem clear that in the long run public support for aid will depend on the ability of policy-makers to demonstrate its success.

It is clear that, on its current scale, the MVP cannot have more than a modest impact at an economy-wide level. However, its advocates see it as a model for a sustained assault on the problem of poverty in rural Africa. Its critics see it as an untested experiment, the effectiveness of which is yet to be determined.

We hope that the debate at the conference did advance understanding of the two sides of the debate, and we intend that the issues raised in it will be pursued further at our next conference, which will be held on 18–20 March 2012.
A KEY CHALLENGE FOR THOSE working in development is assessing whether a particular policy has worked. Currently, one of the particularly popular methods for trying to assess the success of a policy is the randomised controlled trial (RCT). However, RCTs come with constraints, just as do other evaluation methods. Three leading academics on different evaluation methodologies gave an overview of alternative evaluation methods at the CSAE 25th anniversary conference: Glenn Harrison of Georgia State University, David McKenzie of the World Bank and Leonard Wantchekon of New York University. Their papers from the panel are due to appear in a special issue of the Journal of African Economies.

Given the importance of evaluation to policy-making, we have summarised the differences between RCTs and structural models below. After doing so, we set out why understanding the differences between them is important for evaluating key aspects of development policy.

What is a randomised controlled trial?

RCTs have been widely used in some areas for a long time, medicine and horticulture are two examples. The idea underlying them is very simple. You want to know whether some variable of interest – in medicine it would be a drug, in economics it would be some policy, say subsidising education for poor people – has an ‘impact’. To assess the impact you need to know, or be able to infer, what would have been the outcome without the treatment – this is termed the counter-factual. Now, a problem arises because it is not possible to observe treatment and non-treatment for the same person. We cannot, at least yet, create parallel universes in which, for example, people are both treated and not treated. The best we can do is to compare those who are treated with those who are not treated but who are, otherwise, as comparable as possible. One way that can be used to ensure that the treated and the not treated are comparable is to make access to the treatment the result of chance, essentially by making whether or not a person is treated the result of a lottery – that is why they are called randomised controlled trials. The result, if the trial has been successfully set up, is that the only difference between those who are treated and those who are not treated can be assumed to be the result of the treatment.

In recent years many economists have come to see RCTs as a way of providing much clearer cut evidence on what works and what does not than traditional econometric methods. The strong point for the advocates of RCTs is the minimal assumptions needed to determine the impact. Armed with dice you can find out whether a policy works, a remarkable economy of effort for those who have suffered through a course in statistical methods.

Problems with implementing RCTs

As David McKenzie was at pains to point out in his presentation, life is not quite so simple. One problem to which he drew attention is that if there is a lot of variation in the data – what economists term heterogeneity – then it may be necessary to have very large samples before it is possible to know whether the policy of interest has had an impact. The reason again is simple. If large differences in outcomes can arise because of chance, large samples are needed to be sure that any difference between the treatment and the control is not due to chance.

There are more fundamental problems, which Glenn Harrison pointed out. First, many policies of interest cannot be set up as RCTs. We cannot randomise a reform of the tax system or a tariff reform or an exchange rate change. Equally fundamental, even when an RCT can give us information on the impact of a treatment, this is very much the first, not the last, step necessary to informing policy. We need to know whether the impact is sufficiently large for the benefits to outweigh the costs, and we need to be able to make very different policies comparable by having some means...
that allows us to add up very different benefits.

These are not new problems in development economics, and the critics of RCTs would argue that their advocates have exaggerated their potential benefits and that their narrow focus on a concern of whether or not there is an impact has distracted attention from ensuring that the intervention is linked to an economically interesting question.

**Structural models**

The term structural model refers to very different modelling exercises. As Glenn Harrison outlined in his presentation, what they have in common is making explicit and often quite detailed assumptions about the underlying mechanisms of how an economy works. These assumptions can include those about the technology in the economy and the preferences that consumers hold. An RCT focuses on a very small change, whereas the structural model seeks to explain how all things in the economy are linked. While the critics of RCTs object to their irrelevance for most economic questions of interest, the critics of structural models object to their strong, and often untested, assumptions. Leonard Wantchekon, in his presentation at the panel, gave an example of how the two approaches can be used to complement each other.

**Implications for policy design**

Recently, the Public Accounts Committee of the House of Commons issued the following comment on the Department for International Development’s policy towards funding primary education in poor countries:

‘We universally support the case for aid to primary education and welcome the significant progress in enrolment, particularly for girls. We heard testimony of good work being done, but it is unacceptable to rely largely on selective examples and anecdotes to imply overall performance.’

While this criticism was directed at one part of the UK aid budget, the advocates of RCTs would see the problem as being much more general. Without much more rigorous evaluation of outcomes, aid policy will remain largely in the dark as to whether its effects are positive or negative, or indeed whether there are any effects at all. The advocates of structural modelling would probably not disagree but would see this as far from the most important problem that evaluating investment in education faces. Without some knowledge of how expanding primary education affects incomes and employment outcomes, which given their economy-wide effects are not amenable to analysis by RCTs, the opening statement by the MPs that they welcome the expansion of primary education is not based on any knowledge of what the consequences of such expansion might be.

**TO FIND OUT MORE**

**ABOUT THE RESEARCH**

Watch the video of their presentations at: http://www.csae.ox.ac.uk/conferences/2011-EdiA/video.html

**ABOUT THE RESEARCHERS**

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How fast has poverty been falling in Africa?

MANY PAPERS AT THE CSAE conference tackled the wider question as to whether, and by how much, poverty in Africa has fallen. The measurement of poverty is among the most important and time-intensive activities of those who work on data from developing countries. The reason for this is obvious. The first of the Millennium Development Goals (MDGs) is the halving of poverty by 2015.

How to assess whether, and by how much, poverty has fallen are both complex questions. Broadly, two approaches have been adopted to answer this question and they can give very different answers as to the extent of poverty reduction. The first reflects a large intellectual effort by macro-development economists which has focused on analysing the links between growth and inequality. There is a broad consensus that the two are not closely related, which would seem to imply that poverty reduction should be quite closely linked to growth.

The second approach uses household surveys. While there are some differences across the various reports of these surveys, they all use consumption – either per capita or per adult equivalent.

As data from the PENN world tables suggest a marked change in Africa’s pattern of growth since the mid-1990s, the macro-approach implies substantial poverty reduction. This is the logic of a paper by Maxim Pinkovskiy and Xavier Sala-i-Martín, whose analysis shows that Africa is well on the way to meeting the MDGs of reducing poverty by half. Figure 1, taken from the paper, shows the clear link between the gross domestic product (GDP) data and poverty reduction.

Figure 1 – $1/day poverty and growth in sub-Saharan Africa: 1970–2006

Photos: World Bank Photographers: left, Scott Wallace; right, Curt Carnemark.
Since the early 1990s when, on their measure, poverty peaked at some 43 per cent of Africa’s population there has been a 10 percentage points fall in the period to 2007. As Figure 1 shows very clearly, this turn around appears to reflect closely the reversal of the previous downwards trend in Africa’s GDP.

Is that view consistent with the survey-based micro-approach?

In Figure 2 we present the data that can be obtained from the World Bank website using PovCal, which extracts basic information on the levels of poverty based on the household survey data. Figure 2a compares poverty levels in 1993 with those in 2001 using 13 African countries. The 13 African countries together constitute 52% of the total population of sub-Saharan Africa. Figure 2b comprises poverty levels in 2001 and 2009 in 20 countries.

Figure 2 – Percentages of population below poverty lines $1.25 and $2.50 (weighted by population)

A note on the countries in Figure 2

All four comparisons include Burundi, Cote d’Ivoire, Ghana, Kenya, Madagascar, Mali, Nigeria, Senegal, South Africa, Tanzania, Uganda and Zambia, with a total population of 348 million or 52 per cent of the total population of sub-Saharan Africa. The 2009 versus 2001 comparison also includes Burkina Faso, Cameroon, Ethiopia, Gambia, Malawi, Mozambique, Rwanda and Seychelles, which gives a total population of 481 million or 72 per cent of the total population of sub-Saharan Africa.

The 2001 versus 1993 comparison also includes Mauritania, which gives a total population of 351 million or 52 per cent of the total population of sub-Saharan Africa.
with coverage of 72 per cent of the population.

In comparing the survey-based data with the GDP data it is clear that they tell a very different story over the period from 1993 to 2001. The GDP data show a reduction in poverty of 5 percentage points, whereas the survey-based data actually show an increase in the headcount poverty rate of 5 percentage points, from 49 to 54 percentage points. However, from 2001 to 2009, both household survey data and GDP data tell the same story as far as the direction is concerned. The survey-based data show a fall in the $1.25 poverty rate of 3 percentage points from 50 to 47. This is broadly consistent with the picture based on GDP data in Figure 1.

An important respect in which the two sources of data differ across the whole period is in the level of poverty. The macro-data give a figure of about 33 percentage points in 2006; the survey-based data give a figure of 47 percentage points in 2009.

Why do the approaches produce different results?

There are several possible reasons why the two approaches can lead to very different views as to both the level of poverty and how it has been changing. The macro-approach has the problem that it is measuring and modelling national income at the aggregate level. There are many problems with doing this within a country, particularly if the country is very poor, as much economic activity occurs in small-scale informal markets, which is very difficult for national account statisticians to measure.

There are even greater problems with rendering these numbers comparable across countries. This is the objective of the PENN world tables, and these form the basis for the Maxim Pinkovskiy and Xavier Sala-i-Martin analysis. There are at least two reasons why the internationally comparable income numbers from the PENN project can be very different from the consumption numbers that emerge from the household surveys. The first is that consumption and income within a country may move quite differently. One of the reasons countries are slow growing is that the rates of returns on the investment in the economy are low. In the short term, this higher investment can be seen as higher national incomes, but if the returns are low then there may be no long-run gains in consumption and it is increases in consumption that underlie the measurement of poverty based on household surveys.

A second reason why national income and consumption measures may diverge is the importance of primary commodities in the exports of many poor developing countries, particularly in Africa. The consequences of these booms depend very much on the nature of the product. If it is an agricultural product in which incomes accrue to small-scale farmers the results will be very different from an oil boom in which the government captures much of the gain from the increases in income.

For both these reasons, incomes may diverge from consumption, so the premise of the macro-approach — that income gains are reflected in consumption — is likely to be far from generally valid.

Where do we stand?

The very positive news from both sources of data is that from 2001 the poverty rates in Africa have started to fall. This good news needs to be treated with caution. First, as Martin Ravallion has pointed out in his comment on the macro-data, falling rates of poverty are consistent with rising numbers of the poor with rapid population growth. Second, we need to understand the sources of the differences in the data. If the survey data are correct then by past standards rapid growth in Africa is translating into rather modest rates of poverty reduction. Third, and most important, knowing what has happened is only the first step — we need to know why. We hope to turn to that question in our next newsletter.
Books


This book aims to understand the differences in economic progress between countries and continents, and to provide policies that can influence incentives and institutions in the future.

CSAE in the media

★★ Vanguard Media quotes CSAE research ahead of the Presidential elections in Nigeria (researchers Måns Söderbom and Francis Teal).

★★ The Vancouver Sun quotes CSAE Director on uprisings – North Africa doesn’t have to follow Russia’s footsteps.
http://www.vancouversun.com/business/North-Africa-doesn’t-have-follow-Russia-footsteps/4481518/story.html

★★ Media coverage following the launch of the book Kenya: Policies for Prosperity.
AllAfrica Global Media Political Wrangles Cloud Growth Prospects
http://allAfrica.com/stories/201102100263.html

Daily Nation Low investment slows job

Kenya Broadcasting Corporation Kenya on the path of transformation, says Kibakis.
http://www.kbc.co.ke/news.asp?rid=68837

★★ Time magazine features results from CSAE research in Mozambique on how to improve elections.
http://www.time.com/time/world/article/0,8599,200012165,00.html

The Decan Herald BPL insurance scheme not on in 80 pc hospitals.
http://www.deccanherald.com/content/121308/bplinsurance-schemenot80.html

The Hindu Hospitals unable to treat patients under insurance scheme.

Qatar Tribune RSBY-named hospitals ignore patients in Karnataka.
http://www.qatartribune.com/data/20101219/content.asp?section=india2_1

★★ Foreign Policy magazine lists CSAE Director Paul Collier as 29th in the list of top global thinkers.
http://www.foreignpolicy.com/articles/2010/11/29/the_fp_top_100_global_thinkers?page=0,28

★★ CSAE Director Paul Collier on how the EU should adapt its approach to aid.
http://www.platform.youngreporters.net/post/short-interview-with_prof._paul_collier_author_of_the_bottom_billion_about

★★ CSAE Director Paul Collier calls for international rules to govern resource extraction.

★★ CSAE Director Paul Collier discusses on BBC Worldservice how to give incentives to Ivorian Coast military to remove Laurent Gbagbo. Collier also discusses Cote d’Ivoire’s elections and democracy in Africa on Al Jazeera.
http://www.bbc.co.uk/iplayer/episode/p00d00hw/Business_Daily_Ivory_Coast_sanctions/

★★ CSAE Director Paul Collier in Nigerian newspaper on how to increase growth in Nigeria and prevent social unrest.

★★ CSAE Director Paul Collier on the need for good governance in order to be successful in development.

Hospitals unable to treat patients in Karnataka.

CSAE research on Kenyan education.


This book addresses the key issues that will face economic policymakers regarding Kenya in the coming years.

The Huffington Post

CSAE Director Paul Collier on the case for GM crops and the end of subsidies for biofuels.
http://english.aljazeera.net/programmes/p00d00hw/Business_Daily_Ivory_Coast_sanctions/

The Independent

Article Storehouse

The Australian

The Daily Nation
http://www.nation.co.ke/oped/Opinion/-/440808/1079432/-/nu4dg0z/-/

GhanaWeb

CSAE Director Paul Collier quoted on ideas to give legitimate governments international support against coups.
http://www.the-diplomat.com/2010/12/08/asia-gets-tough-on-graffiti-kids-off/
Working Papers

Available at: www.csae.ox.ac.uk/workingpapers/wps-list.html

- Growth, Inequality, and Poverty Reduction in Developing Countries: Recent Global Evidence by Augustin Kwasi Fosu. WPS/2011-07.
- Intra-household Efficiency: An Experimental Study from Ethiopia by Bereket Kebede, Marcela Tarazona, Alistair Munro and Arjan Verschoor. WPS/2011-01.
- Heterogeneous Returns and the Persistence of Agricultural Technology Adoption by Andrew Zeitlin, Stefano Caria, Richman Dzene, Petr Janský, Emmanuel Opoku and Francis Teal. WPS/2010-37.
- Microfinance and Gender Empowerment by Thi Minh-Phuong Ngo and Zaki Wahhaj. WPS/2010-34.
- Gender, Social Norms and Household Production in Burkina Faso by Harounan Kanzianga and Zaki Wahhaj. WPS/2010-33.
- Aggregation versus Heterogeneity in Cross-country Growth Empirics by Markus Eberhardt and Francis Teal. WPS/2010-32.
- The Impact of North–South and South–South Trade Agreements on Bilateral Trade by Alberto Behar and Laia Cirera i Civillé. WPS/2010-30.
- Trade Liberalisation, Skill-biased Technical Change and Wages in Developing Countries: A Model with Heterogeneous Firms by Mauro Caselli. WPS/2010-27.

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