

IN THE LAST EDITION OF THE NEWSLETTER we reported on the 25th anniversary conference of the Centre for the Study of African Economies (CSAE) held earlier this year. That conference was an opportunity to look back on the first 25 years of the Centre's work and to look forward. A central theme of the

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work at the Centre is connecting its work with policy issues that are of importance in the development debate. The research encompasses a need to understand the factors that underlie the dramatic improvement in Africa's overall economic performance in the last decade – in part undoubtedly the result of better macro-economic management – and how much effect these improvements have on the overriding objective of reducing poverty. In this edition of the newsletter, we report on activities of the Centre that are linked to both these macro-growth issues and the poverty debate.

In June the CSAE co-hosted with the African Development Bank and JP Morgan the fourth African Central Bank Governors' Roundtable, which reviewed the issues that arise as Africa's relative success enables greater access to international capital markets. The theme of the Roundtable was 'Beyond Aid: New Financing Options for Africa'.

The roles of social protection and structural

change in reducing poverty were the subject of two presentations made by CSAE researchers at the Annual Bank Conference on Development Economics (ABCDE) held in Paris between 30 May and 1 June 2011, and we report on them under the general heading 'Protecting the poor: which policies work best?'

The possible links between one aspect of social protection, namely social insurance, and labour markets were one of the themes at the Institute for the Study of Labor IZA/World Bank Conference held in Mexico City, where Centre research on informality and migration was presented.

An important aspect of the Centre's work is its DPhil training programme. Two DPhil candidates working at the Centre presented at the Singapore Economic Review Conference held in August this year. Their work investigates how success at the macro-level is related to the way that labour markets work and how firms grow.

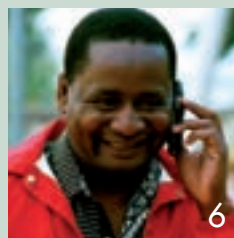
Finally, we would like to urge those interested in presenting papers on these issues to do so for the next CSAE conference, which will be held from 18 to 20 March next year. One of the sessions we are planning will seek to investigate further the connections between social protection, labour markets and informality.



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# The African Central Bank Governors' Roundtable, Oxford, 27–29 June 2011



The stock of mortgage finance in sub-Saharan Africa is 5 per cent of GDP, giving great scope for development.

Photo: World Bank  
Photographer: Curt Carnemark

IN JUNE, MORE THAN A DOZEN African Central Bank Governors and senior staff met in Oxford to discuss common challenges; this was the fourth such gathering, co-hosted by the CSAE, the African Development Bank and JP Morgan. They were joined by senior staff from the African Development Bank, the International Monetary Fund (IMF), the Bank of International Settlements and JP Morgan; academic staff from Oxford and San Diego; and a strong set of invited speakers, including Sir John Vickers (Chair of the Independent Commission on Banking), John Kay (journalist and author), Patrick Honohan (Governor of the Central Bank of Ireland) and Andres Velasco (former Finance Minister of Chile).

These are very significant times for African Central Banks; many African countries are moving from aid dependence towards new forms of domestic and international borrowing. Interest rates are low (to the point where the cost of borrowing by creditworthy African governments in essence consists entirely of a risk premium) and commodity prices are

strong – though neither of these factors can be relied on in the longer term. Reflecting the opportunities and risks involved, the theme of the Roundtable was 'Beyond Aid: New Financing Options for Africa', and the Roundtable concentrated on how countries can access capital markets and direct investment in a safe and sustainable way, and on the key roles of Central Banks in assuring this.

Like natural resource extraction, borrowing affects the national balance sheet; good use of borrowed funds was therefore seen as essential. The Roundtable considered commitment technologies that could support 'safe borrowing' – such as ring-fencing such funds for defined purposes, improving the quality of project selection and, for the resource-rich, taking considered decisions on what to invest locally and what to hold offshore.

Competent institutions are essential, and convincing political leaders of the need for rational prudence on

borrowing in the pursuit of growth-oriented policies is even more so.

The Roundtable paid particular attention to 'investing in investing' – that is, how to get the best value from investment (whether public or through arrangements involving the private sector), with a focus on economic infrastructure, where Africa's deficit is receiving particular attention. The African Development Bank had deliberately built a specialism in this area, and found strong market interest in project deals. There is much scope for innovative financing; for example, the infrastructure bonds issued by Kenya, which also help to ensure that money is used for its intended purpose. Financing needs to be balanced by policies designed to 'flatten the supply curve' for key physical inputs, such as cement and land.

The Roundtable discussed the question of whether risk mitigation should be built into debt structures (for example,



functioning housing system, the experience of other countries and what needed to be done to realise the potential in Africa.

Key requirements include macro-economic stability, a legal framework which enables property or land to be pledged, affordable finance and government policies which encourage lending on appropriate terms. Practical supporting tools include legislation, credit

bureaus and good public information on valuation. Commercial lenders need to appreciate that housing lending could be good business. Governors described initiatives already taken in some of their countries that have potential relevance elsewhere.

**There is much scope for innovative financing; for example, the infrastructure bonds issued by Kenya, which also help to ensure that money is used for its intended purpose.**

*Photo: iStock Photography*

by issuing bonds linked to the prices of major commodity exports from the borrowing country). The balance of argument was that it is more efficient to separate the two (for example, by issuing bonds with a straightforward coupon and taking other steps to address risks, such as building conservative calculations of commodity price movements into forward budget calculations), but that there is more scope to combine the two when dealing with multilateral agencies (for example, by borrowing in local currency).

The Roundtable noted that public-private partnerships had their uses, but always need to be critically assessed, and require both high levels of project finance expertise and a strong legal framework; it is also important to avoid monopolistic practices (for example,

when a mining company owns rail infrastructure).

The development by the IMF of a Public Investment Management Index was seen as an important element of a revamped approach to analysing public investment and debt sustainability that pays closer attention than before to the growth consequences of public investment and to the role of project appraisal, selection, implementation and evaluation.

Turning to domestic finance, the Roundtable noted the importance of the housing sector. In the UK, the stock of mortgage finance is 80 per cent of gross domestic product (GDP), whereas in sub-Saharan Africa (excluding South Africa) it is 5 per cent, giving great scope for development. The Roundtable considered the requirements for a

The Roundtable was structured to allow not only plenty of exchange between Governors but also exposure to some key actors and observers of the financial sector more broadly. Thus, Sir John Vickers briefed Governors on the current work of the UK Independent Banking Commission; John Kay gave an assessment of the strengths and weaknesses of the financial sector following the 2008/9 crisis; and Patrick Honohan, drawing on recent Irish experiences, spoke of some lessons for small African economies on monetary union and the effective management of global macro-economic volatility.

Once again, this year's Roundtable underlined the value of such informal gatherings of a key African policy community and of the value of offering practitioners relevant experience from elsewhere and current academic thinking.

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# Protecting the poor: which policies work best?

HOW BEST TO ASSIST THE POOR is probably the most important policy question that those interested in development need to answer. At one level it seems rather obvious how you help the poor – you give them more money. However, it is not quite as simple as that. First, if the policy is simply one of transfers then to give to some you need to take from others; those losing will not necessarily be happy with that arrangement. Second, even if we are prepared to ignore their unhappiness, there is the possibility that taxes implemented to finance the transfer may reduce incomes and thus make the pool available for transfers smaller. This is an area where economics and politics are inextricably linked to the formulation of policy. Broadly speaking, the 'Right' will see transfers as an expensive way of helping the (undeserving) poor, whereas the 'Left' will see a concern with the costs of taxation as a rationale for the rich to keep their (possibly unearned) wealth.

What are the benefits and costs of such transfers and are there alternatives to transfers to assist the poor? These questions were the focus of two papers presented at the ABCDE conference held in Paris in May 2011 by two researchers from

If policies can create jobs that offer higher incomes than the old ones, then poverty might be reduced without requiring additional taxes or complex transfer arrangements.

Photo: World Bank  
Photographers:  
right, Eric Miller  
far right, Arne Hoel



the Centre. In one session, Stefan Dercon looked at how social protection links to efficiency and growth. In another, Francis Teal presented a paper on the links between structural adjustment, employment creation and poverty reduction. At first sight, these appear rather distinct topics. However, employment creation can be seen not only as a possible alternative to helping the poor through transfers but also as one that has some distinct advantages.

Stefan Dercon asked in his paper whether social protection could contribute directly to economic growth and the improvement in the efficiency with which resources in the economy are used. In other words, he was asking whether we can go beyond thinking of protection policies as simply transfers from taxes and designing them so that they enhance the overall incomes of society. Many different policies come under the general heading of social protection. Stefan focused on three aspects of

social protection. The first was 'social insurance', offering protection against risk and adversity; the second was 'social assistance', offering payments and in-kind transfers to support the poor; and the third was 'inclusion', which can be defined as enabling the marginalised in society to access both social insurance and social assistance. Policies in the areas of both insurance and assistance have greatly expanded in importance within developing countries over the last decade.

There has been extensive work on whether insurance products can be designed for the poor to alleviate the risks they face. There have also been major social programmes of transfers to the poor, usually in the form of conditional-cash-transfer programmes. These work by making transfers conditional on some aspect of the household's behaviour; for example, that a child attends school some minimum amount of time. The logic of such programmes is that they can not only assist the poor in raising their



The revival of growth in Africa has not been linked to the creation of large numbers of better paid jobs for the relatively unskilled.

Photo: World Bank  
Photographer: Curt Carnemark

as a policy of 'social protection'. However, if the nature of the job growth is of jobs that offer higher incomes than the old ones, and these jobs are available to the unskilled, then quite clearly policies which can create such jobs can reduce poverty directly. Social protection does not necessarily require State intervention; rather, it requires an understanding of the processes of employment growth in poor countries.



This is a theme we hope to take up at the next CSAE conference, which is to be held in St Catherine's College on 18–20 March 2012.

living standards currently but also that, if they can overcome the problems that families face in enabling their children to go to school, they can improve the life chances of the children as well. If such policies do work then the notion that we need to choose between a 'Right' view that we should not tax and a 'Left' view that we should is misguided. Some taxes and some transfers can do more than simply transfer income – they can increase it. The policy problem is finding out which do what and by how much.

Francis Teal's paper was concerned with what appears, at first, to be a quite different issue. How does the process of structural change, by which is meant how far the importance of agriculture in an economy declines over time, link to poverty reduction?

The focus was on sub-Saharan Africa. In the paper it was argued that the recent dramatic improvements in African growth rates have been associated with some, but very modest, reductions in poverty rates. The growth has been associated with a decline in the share of agriculture in GDP but also with an accelerating decline in the share of manufacturing within industry. How might this link to the limited success in reducing poverty? One possibility is that the revival of growth in Africa has not been linked to the creation of large numbers of better paid jobs for the relatively unskilled, an aspect of China's economic growth that may well be critical to understanding its much more successful record of poverty reduction.

Job creation is not normally thought of

## TO FIND OUT MORE

### ABOUT THE RESEARCHERS

**Francis Teal** is the deputy director of the CSAE and his research concentrates on performance of labor markets, wage determination and firm growth in Africa.

**Stephen Dercon's** work focuses on the micro-level analysis of the dynamics of wealth and poverty, conceptually, theoretically and empirically.

### ABOUT THE RESEARCH

For more information: [http://siteresources.worldbank.org/EXTABCODE/Resources/7455676-1292528456380/7626791-1303141641402/7878676-1306270833789/Structural\\_Transformation-Teal.pdf](http://siteresources.worldbank.org/EXTABCODE/Resources/7455676-1292528456380/7626791-1303141641402/7878676-1306270833789/Structural_Transformation-Teal.pdf)

<http://siteresources.worldbank.org/EXTABCODE/Resources/7455676-1292528456380/7626791-1303141641402/7878676-1306270833789/Plenary-Session-4-Stefan-Dercon.pdf>

# Social protection for the informal sector: IZA/WB Conference 2011

THE IZA/WORLD BANK Conference 2011, held in Mexico City, focused on the theme of social insurance and labour markets. In particular, conference participants sought to analyse the need and the potential for extending social protection schemes to the increasing number of informal workers who characterise developing countries: these are workers whose economic activities do not follow formal regulations – they are largely unregistered with tax authorities and, consequently, they cannot benefit from the most common safety nets available in the event of adverse economic circumstances.

One keynote speaker at the conference was Santiago Levi – one of the fathers of Progresa, the groundbreaking Mexican conditional-cash-transfer programme. Professor Levi started with an assessment of the Mexican situation: in much of the developing world tax evasion is rampant (usually linked with firms not registering formally), there is a large discrepancy between workers in ‘formal’ and ‘informal’ enterprises with respect to access to social protection, and there is political desire to ensure universal access to basic health services but budgets are tight.

Outlining a model in which firms choose to become registered (which involves paying taxes and paying social security for workers), he showed that providing government-mandated healthcare only for workers in the formal sector drives up the cost of becoming registered and therefore increases tax evasion. By contrast, providing healthcare for free to *all* workers with just a simple requirement for the firm to register their employees would have two benefits: it would lead to universal coverage of the working population, driven by workers’ demand and by the low costs to the firm, and, second, since firms have to register their workers, it will be harder for them to evade taxes. While some of the critical assumptions of the model were debatable, such as whether firms might not just register workers and claim token profits, the speech highlighted that widespread labour market segregation into formality and informality has substantial costs, but well-designed policies can overcome them.

Two researchers from the CSAE presented their work at the IZA workshop: Paolo Falco on the topic of informal micro-enterprises in Africa and Christopher Ksoll on migration as a strategy to deal with food shortages in the absence of social protection.

Paolo Falco presented the results of his work on the profitability of household enterprises in Ghana. Small-scale informal family businesses remain a major source of employment throughout sub-Saharan Africa, and understanding their potential to grow is crucial for development policy. In particular, the magnitude of returns to investment in small-scale activities will determine how likely it is that informal entrepreneurs can *lift themselves out of poverty* when social protection schemes are lacking. Using new panel data gathered by the CSAE, the study documents high returns to investment as a *proportion* of the firms’ capital stock. However, given

the very small size of these firms, the absolute magnitude of realised profits is too small to expect substantial reinvestment and long-run expansion. The need to finance immediate consumption and the absence of effective saving mechanisms will contribute to the ‘dissipation’ of realised profits before they can be reinvested to stimulate growth.

Christopher Ksoll presented joint research with Jenny Aker and Michael Clemens on seasonal migration in Niger, a common phenomenon in the Sahel region. More than 40 per cent of households engage in seasonal migration to supplement their dire incomes and in response to famines, which occur about every five years – most recently in 2009. When formal social protection is non-existent or limited to emergency response, farmers engage in other strategies to deal with low incomes and emergencies, such as migration. Yet, the level of migrating is not yet at an ‘efficient’ level as it involves substantial costs. These costs can be reduced through a simple and cheap

## TO FIND OUT MORE

### ABOUT THE RESEARCHERS

**Christopher Ksoll** is a research officer at the Centre for the Study of African Economies at the University of Oxford. His research is funded under the research programme on ‘Transforming economic policies towards the poor’, funded by the Bill and Melinda Gates Foundation. His research interests cover topics in the micro-economics of development.

**Paolo Falco** is currently a DPhil student in Economics at Oxford University and a Jr Research Officer at CSAE. His DPhil work focuses on the relationship between risk-aversion and occupational outcomes in African labour markets and on the determinants of attitudes to risk.

### ABOUT THE RESEARCH

For more information: [http://www.iza.org/conference\\_files/worldb2011/aker\\_j6805.pdf](http://www.iza.org/conference_files/worldb2011/aker_j6805.pdf)

[http://www.iza.org/conference\\_files/worldb2011/falco\\_p6069.pdf](http://www.iza.org/conference_files/worldb2011/falco_p6069.pdf)

intervention, namely providing mobile phones. The researchers found that the provision of mobile phones increased migration substantially.

This suggests that costs of acquiring information on distant labour markets lead to suboptimal responses to economic shocks. When formal

social protection is limited, this reduces the welfare of these households substantially.

# Africa and Asia: labour markets and growth

The Singapore Economic Review Conference

IN EARLY AUGUST 2011, La-Bhus Fah Jirasavetakul and Christoph Lakner, two doctoral students at the CSAE, presented their research at the *Singapore Economic Review Conference*. The *Singapore Economic Review* is a leading Asian general economics journal housed at Nanyang Technological University in Singapore.

Fah's paper investigates the sources of the rapid economic growth that Thailand has experienced since the 1960s. In 1950, many African countries had higher per capita incomes than Thailand. In fact, the average income of sub-Saharan Africa in 1950 (weighted by population and excluding South Africa) was US\$794 (1990 Purchasing Power Parity, PPP). This number is taken from the historical statistics compiled by Angus Maddison (see [www.ggdc.net/Maddison](http://www.ggdc.net/Maddison)), and his data are designed so that comparisons can be made of incomes across countries using the 1990 US dollar as a benchmark. The comparable number for Thailand in 1950 was US\$817 (1990 PPP), virtually the same as that of sub-Saharan Africa. In 2006, the

average income in sub-Saharan Africa had increased by nearly 70 per cent to US\$1325 (1990 PPP), whereas that of Thailand had increased 10-fold to US\$8215 (1990 PPP). While the per capita income in Thailand had grown by 4.5 per cent per annum on average over this period, that of sub-Saharan Africa had grown by less than 1 per cent per annum, a more than fivefold difference in growth rates.

Fah's paper is innovative in providing a framework that links this macro-economic evidence to micro-level labour market data. At the micro-level, it is possible to ask what were the factors underlying these rapid growth rates? Is growth the result of shifts in workers across sectors or is it the result of underlying growth in productivity within sectors? How important are rises in education in explaining growth in earnings within sectors and movements across sectors? Although most models of development stress the importance of shifts in workers from agriculture to manufacturing as a key part of the growth process, Fah finds that underlying technological progress within the agricultural and service sectors are the major sources of individual income growth during this period. Human capital, too, plays an important role, and its importance relative to structural change and underlying technical progress is an issue that remains to be investigated.

One African country that was richer than Thailand in 1950 is Ghana, whose income then at US\$1122 (1990 PPP) was nearly 40 per cent higher than that of Thailand. Over this period, Ghana's performance was worse than the average achieved by

sub-Saharan Africa, seeing no significant long-run growth. What can explain this extraordinary difference in outcomes? Educational attainment is not very different between the two countries, but what has come to differ a lot is the industrial structure of the two countries. In Ghana small-scale economic activity in both rural and urban areas continues to dominate the economy. In his paper, Christoph investigates the relationship between enterprise size and earnings in urban Ghana. Similar to other studies in the literature, he found a strong positive relationship between firm size and wages even after controlling for many of the factors that might explain this relationship – that larger firms use more skilled workers or that the firms are located in sectors that demand a larger scale of operation. He also found that there is a strong correlation between the size of a self-employed enterprise and the earnings of its owner. Why might size and earnings be related and how might they explain some of the differences between Ghana and Thailand? One possibility is that the value of skills acquired through education and

*continued on the back page 8*

## TO FIND OUT MORE

### ABOUT THE RESEARCHERS

**La-Bhus Fah Jirasavetakul** is a DPhil candidate at the Centre for the Study of African Economies, University of Oxford. Her research interests are development economics, labour markets in developing countries, and applied micro-econometrics.

**Christoph Lakner** is a DPhil candidate at the Centre for the Study of African Economies, University of Oxford. He is interested in labour markets in low- and high-income countries.

training is related to the size of the enterprise in the economy. At the moment this is speculation, but research in this area linking labour data and firm data to issues of growth is a central part of the CSAE's on-going research agenda.

Most of the other presentations at the conference focused on Asia, and thus it offered a great opportunity to see the connections with the evidence from Africa. Two other papers also focused on the relationship between firm characteristics and earnings. Using industrial census data, Eric Ramstetter (Kyushu University) investigated whether foreign multinationals pay higher wages in Malaysia. Malaysia is a rapidly growing newly industrialised economy with a large proportion

of medium to large multinational enterprises and thus offers an interesting contrast to Ghana. He finds a substantial wage premium for multinationals and a significant positive wage effect of physical capital. Mans Söderbom and Qian Weng (University of Gothenburg) examined the determinants of changes in a firm's product mix. Changes in the product mix are an important indicator of whether a firm innovates. They found that productive firms are more likely to change their product mix. Interestingly, they found that managers with a minimum of a college education are more likely to change the product mix of their firms. China's stellar economic growth is at least in part explained by its ability to produce increasingly sophisticated products.

Danny Quah (LSE) delivered an interesting panel session that addressed the eastward movement of the centre of gravity of the world economy. The centre of gravity is defined as the mean location of GDP generated at different localities across the world. During the last thirty years we have seen a continuous eastward movement of this centre of gravity, even in the recent economic downturn. His paper thus offered an intuitive illustration of the economic rise of East Asia, which is also of increasing importance to African policy-makers. Given that Asian and African economies have seen such differences in economic performance during the last fifty years, comparative studies of these economies will offer valuable insights into the paths of economic development.

## CSAE Conference 2012

The Centre for the Study of African Economies Conference on Economic Development in Africa will be held at St Catherine's College, Oxford, 18-20 March 2012. This year's key note speaker will be Martin Ravallion, Director of the World Bank's

Development Research Group.

Papers addressing economic analysis of the broad issues relevant for economic development in Africa are invited. Papers on countries other than those in Africa are welcome,

providing they deal with issues central to African development.

If you are interested in presenting a paper, please upload an abstract by Thursday 1 December 2011 at <http://www.csaе.ox.ac.uk/conferences/>

## Working Papers

Available at: [www.csaе.ox.ac.uk/workingpapers/wps-list.html](http://www.csaе.ox.ac.uk/workingpapers/wps-list.html)

• **Social Protection, Efficiency and Growth** by Stefan Dercon. WPS/2011-17

• **Funeral Insurance** by Erlend Berg. WPS/2011-16

• **Is the Dragon Learning to Fly? An Analysis of the Chinese Patent Explosion** by Markus Eberhardt, Christian Helmers, Zhihong Yu. WPS/2011-15

• **Public Capital in Resource Rich Economies: Is there a Curse?** by Sambit Bhattacharyya and Paul Collier. WPS/2011-14

• **Conflict of Interest as a Barrier to Local Accountability** by Abigail Barr and Andrew Zeitlin. WPS/2011-13

• **Education, Preferences, and Household Welfare** by Marcel Fafchamps and Forhad Shilpi. WPS/2011-12

• **When is Capital Enough to get Female Microenterprises Growing? Evidence from a Randomized Experiment in Ghana** by Marcel Fafchamps, David McKenzie, Simon Quinn and Christopher Woodruff. WPS/2011-11

• **Are Girls the Fairer Sex in India? Revisiting Intra-Household Allocation of Education Expenditure** by Mehtabul Azam and Geeta Gandhi Kingdon. WPS/2011-10

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The CSAE carries out economic research with a particular focus on Africa. Its aim is to improve economic and social conditions in the poorest societies.

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