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FUNDERS

CSAE RESEARCH IS FUNDED by the Economic and Social Research Council (ESRC); the Department for International Development (DFID); the World Bank; the International Growth Centre (IGC); and the Bill and Melinda Gates Foundation.

The ESRC funds research and training in social and economic issues. It is an independent organisation, established by Royal Charter, but receives most of its funding through the Department for Business, Innovation and Skills.

DFID is the part of the UK government that manages Britain’s aid to poor countries and works to get rid of extreme poverty. It is DFID’s job to make sure UK aid works its hardest to help the world’s poor.

The World Bank is a vital source of financial and technical assistance to developing countries around the world. Its mission is to fight poverty with passion and professionalism for lasting results and to help people help themselves and their environment.

The IGC promotes sustainable growth in developing countries by providing demand-led policy advice based on frontier research. The IGC is directed and organised from hubs at the LSE and Oxford and comprises country offices across the developing world. The IGC was initiated and funded by UK aid from DFID.

Bill and Melinda Gates Foundation
Bill and Melinda Gates’ belief that every life has equal value is at the core of their work at the foundation. They follow 15 guiding principles, which help define their approach to their philanthropic work, and employ an outstanding leadership team to direct their strategies and grant making.
LAST YEAR THE CSAE CELEBRATED ITS FIRST 25 YEARS with a conference that brought together nearly 400 researchers, policy makers and others interested in the future of Africa. Papers at the conference noted the enormous changes in Africa in the last 25 years. One aspect of the transformation of African economies in which I believe the CSAE has played an important part is the growth of expertise within Africa to tackle challenges. A feature of the conference was the high quality of work now being done on a huge range of issues relevant to Africa; work on education, macroeconomic policy, the problems of agricultural transformation, labour markets and migration. Whereas 25 years ago Africa was not seen as an area where frontier economic research was being done, that has now changed completely and we are proud of the role the CSAE has played in bringing together research and researchers from Africa, Europe and North America.

While the successes are evident, the challenges that remain are equally so. Growth has been translated into poverty reduction in several countries but it is too little and too slow for the people, particularly the young people, of Africa. In the initial panel session I suggested that a framework for Africa’s future agenda must include jobs and justice. The need for both has been at the core of the Arab spring and it is clear if African governments fail to address both jobs and justice that the revolutions will spread south.

How are jobs to be created, where and what policies matter? We are launching a programme of work on the potential for mass housing to generate employment, as well as decent homes. How can justice, so conspicuously absent in the history of the exploitation of Africa’s natural resources, be met? These are pressing questions which our work is seeking to address. We have received generous support, notably from the Bill and Melinda Gates Foundation, which has enabled the Centre to increase its policy outreach and impact on both issues of employment and natural resource polices. These are also key areas in this year’s conference and, as we begin our next 25 years, we look forward to being part of an African-led solution to the questions that the continent still needs to answer.

PAUL COLLIER
Climate change is likely to affect different parts of the world in markedly different ways. Some currently cold areas, such as northern Eurasia, will become more liveable. Other areas will become less liveable: they will become too hot, too dry and more exposed to climatic extremes. The areas facing the most severe prospects of climatic deterioration already happen to be among the poorest in the world. Thus, if climate change escalates into having major effects it will threaten the livelihoods of millions of people who are already very poor. One aspect of recent globalisation is that poor people have become increasingly likely to migrate internationally. Potentially, climate change might further fuel this migration.

However, the extent to which it does so depends not only upon how future climate change affects livelihoods, but upon what determines migration. To take a simple hypothetical benchmark case, if migration were driven only by relative incomes and climate change led to a uniform proportionate reduction in incomes across the globe, migration would be unaffected. Even if climate change affects the poorest areas most severely, the consequences for migration are dependent upon whether push or pull factors predominate in driving migration. If it is predominantly the push of poverty, then emigration from these areas will increase. If, however, migration is driven predominantly by the pull of prosperity in richer countries, then climate change might have little effect on migration.

Our research has investigated the determinants of recent international migration so that the likely influence of climate change can be assessed. International migration can be studied in several different ways: by case studies, through analytic theory, by natural experiments and from the analysis of global data sets. Our research has focused upon the quantitative analysis of
migration and has used two data sets. The first is a global data set of the migrant stocks in 2000. The second is more limited in scope – being confined to the migrant stocks in the member countries of the Organisation for Economic Co-operation and Development (OECD); however, we have data for 1990, as well as 2000, for these countries.

The data show that about half of the emigrants from poor- and middle-income countries go to other poor- and middle-income countries (shown in blue in Figure 1). Migration to neighbouring countries is of particular importance: 31% go to poor- and middle-income neighbours and about 10% go to high-income neighbours; about 40% of migrants settle in a high-income country that is not a neighbour.

Our aim is to build an empirical model of international migration data and we are agnostic in our choice of empirical models. Our modelling strategy aims to capture as many push and pull factors of migration as possible. We include economic, political, historical and geographical information for the countries of origin, as well as for the destination countries.

Unsurprisingly, our results suggest that people move from lower-income countries to higher-income countries. Migration is more responsive to incomes in countries of destination than to incomes in countries of origin. However, in selecting their country of destination, migrants are strongly influenced by the cost of migration and their ability to finance it. Emigrants from the poorest countries tend to go to neighbouring countries, whereas emigrants from more prosperous developing countries tend to go to OECD. Hence, an intensification of poverty in countries of origin would increase migration to other developing countries, whereas rising prosperity would increase migration to the OECD. While we find economic variables to be powerful in the explanation of migration, political factors appear to be less significant. In addition, our results from the OECD model suggest that an existing diaspora is a strong determinant in attracting more immigrants. The accumulation of a diaspora over time changes migration decisions because a diaspora lowers the cost of migration. This powerfully increases overall migration so that the effects of all other influences on migration become progressively amplified over time. Furthermore, it changes the composition of migration, with distance becoming less of an impediment, so that gradually the OECD becomes more exposed to immigration from the poorest countries. With the withering of the investment effect, an intensification of poverty increases migration from the poorest countries rather than decreasing it.

We then introduce data on climate change into
these core models of migration. Previous studies of the impact of climate change on migration have been based on country and regional studies, rather than using global data. In our global migration model we find some evidence that climate volatility increases migration. This is not confirmed in our OECD model. This suggests that increasing volatility might induce people to move from a poor country to a neighbouring poor country, but not to an OECD country. In the OECD model we find some weak evidence that floods and droughts increase migration to OECD countries. A possible interpretation is that extreme climate events are more likely to push people into the more radical decision to move to an OECD country.

The analysis of climate change is predominantly about the future; direct inferences from the past have only limited applicability. Owing to data restrictions we had to focus our analysis on the 1990s. Two qualifications to direct inference are apparent. The first is that by 2012 the diaspora has accumulated to be much larger than it was in 1990; hence, if our hypothesised effects of the diaspora are genuine, the change in the composition of migration will have already occurred. The bifurcation of migration by the poor to developing countries and of the prosperous to OECD countries may have already ended. The second qualification is that the climate change likely over coming decades is an order of magnitude larger than that of the 1990s.

ONGOING RESEARCH

The research team is currently working on extending the global migration analysis using a new World Bank data set.

- **Migration and Global Environmental Change.** DR10: Quantitative analysis of determinants of international migration. Background paper for the Foresight Committee, UK Government Office of Science

That young people want jobs and that there are no jobs for them are central political issues in most countries in both the developed and less developed world today. Unemployment rates for young people are usually higher than for older age groups. However, the aftermath of the 2008 financial crisis has raised unemployment rates in many developed countries so that the problem of unemployment, while seen to be acute for the young, is certainly not confined to them. The Arab revolutions, which began in February 2011, are seen to have the dissatisfaction of young people with their employment opportunities at their core.

This is the background to the planned World Development Report for 2013 which will focus on what is coming to be termed ‘the jobs agenda’. Key questions for this agenda are: Why is the lack of jobs concentrated among the young? How can we create more jobs? And, if we can answer those questions, what sort of jobs do we wish to create, both for the young and others who are not so young?

The CSAE research programme which the Bill and Melinda Gates Foundation is funding, has these employment issues as one of its key research priorities. The ‘jobs agenda’, which flows from the Arab Spring – clearly the most important political development in that region for half a century – is one driven by the concern of urban-based youth. Our objectives in CSAE research are both to address those concerns and put them into a wider context. Many young, urban people lack jobs, but they are not nearly as poor as those who have jobs in rural areas in much of sub-Saharan Africa. Jobs are clearly important, but so are the incomes from the jobs people do have. Why are the incomes available from rural-based jobs so low? Answering that question is central to the policy agenda to alleviate poverty among the poorest.

Understanding why rural incomes are so low is complex. Some reasons are given below.

- There is a low level of education in rural areas which, in turn, is because of the fact that relatively more highly educated people are more likely to move from rural to urban areas.
- Low productivity of the farms on which farmers work.
- Access to credit and the skills to use more sophisticated technologies are limited.
- The scale of operations is small and that can both raise cost – buying in smaller amounts is more expensive – and limit the efficiency with which the farm can be operated. Farmers can also be highly taxed – Ghanaian cocoa farmers are an example.
- Infrastructure can be very poor so there are high costs in getting goods to markets.
- Farmers may be risk aversive so they adopt less risky technologies that have lower returns.

Not all these factors will matter for all rural producers and many will matter in most places.

So why are there plenty of low-paid jobs in agriculture and so few urban-based jobs for young people in particular? Again, we would argue the answer is complex. Economies in the last 30 years have become increasingly open to trade – a process usually summarised as increasing globalisation. That has meant that jobs, and the skills needed to get the jobs, are closely linked to how successful an economy is in exporting. While urban-based export jobs are available in both services – tourism, information technology, finance – and in manufacturing, broadly it is those economies that have managed a large growth in manufacturing exports which have seen, by far, the biggest expansion of jobs among the
relatively low skilled. While tourism is a partial exception, most service-based exports require education beyond the basics of junior secondary school. This has meant that for economies where exports have been concentrated in services the demand has been for relatively skilled labour – India being the most important example of this process. If export success is limited then a pattern emerges in which jobs are seen to be both limited and more and more education is required to get them. It is this lack of jobs, combined with a soaring demand for education, that underpins the extent of dissent among the young in urban Africa. Many see the problem as being denied the education they need to get a job.

Most of the urban jobs that do get created in poor countries are in very small firms and the number and type of jobs will depend on the investment decisions of such small firms. The degree of complementarity between skilled labour and capital varies with the size of the enterprise. This fact can explain why small firms (and farms) are good at creating jobs for unskilled labour and why the size of an enterprise is such an important aspect of the determinants of earnings from employment.

THE SUPPLY OF EDUCATED LABOUR AND ITS PRICE

The most striking fact about recent labour market developments is that as the supply of educated labour has increased, its price has not fallen but may well have increased in many countries for those in employment. This is not a new fact. It was first noted in the USA where the expansion of college education led to an increase in the return to that particular type of education. What can explain such a fact? How can it be true that as we educate more young people the price that their skills command can increase? How can this be true when young people feel there are no jobs for their skills?
One model which can explain this outcome is due to Daron Acemoglu at the Massachusetts Institute of Technology (MIT). He has built a model which suggests that when the supply of skills increases the incentive of firms to create more skilled jobs also increases. Why? The intuition of the model is that if both the productivity differential between skilled and unskilled workers and the share of the workforce that is skilled is sufficiently low then firms will not have an incentive to create high quality jobs. However, as both dimensions of skills increase firms may find it more profitable to create higher quality jobs and the economy will flip to a new equilibrium with two classes of firm. In other words, in moving between equilibria the wages of skilled workers will rise, those of unskilled workers will fall and unemployment will increase. This model is of relevance to any attempt to understand how expanding education may link to the process of firm formation. It describes a process where job creation is hijacked by the skilled.

Is a similar process to this at work in urban Africa, but at a much lower level of skills than those that characterise the markets of developed countries? While the evidence we have been collecting is currently fragmentary, the position in urban labour markets in Africa appears to be one where the supply of job opportunities has been rising. What we remain very uncertain about at the moment is whether or not this rise in jobs is associated with higher incomes or not, and of their skill composition. These are important issues which are the focus of current research.

**JOBS ACROSS THE SIZE SPECTRUM OF ENTERPRISES AND SKILLS**

What determines the types of jobs that get created in sub-Saharan Africa? How skilled are they? How do the skills get created and how valuable are they? How many among the urban young do not have any jobs? How do the job opportunities in urban areas link to those in rural ones? These are the questions on which our research is currently focusing.

Which factors has our research identified as potentially important? The first is the outside options open to the worker; the second is the degree of access to capital. If the outside options are relatively high the result will be high levels of open unemployment; if they are very low then there will be a surge in low-paid, unskilled jobs. If capital markets are fractured so that the price of capital is highly heterogeneous, the result will be a wide range of small-scale enterprises, with some self-employment and some being firms of very small scale. These firms, while small, will have very different capital labour ratios reflecting the heterogeneity in the capital market. Size will be highly correlated with earnings partly because the relatively skilled end up working in larger, more capital-intensive enterprises; partly because enterprise size may be correlated with unobservables; and partly because as small-scale enterprises expand, the income of the owner will include an increasing proportion of income from capital.

While the notion that large firms use skills more intensively may be true in most cases, it is not clear that it applies to all. In particular, there are some activities that are skill intensive which have traditionally been carried out in smaller-scale enterprises – lawyers and accountants for example – and activities in which new technology may be making it possible for enterprises to be efficient at a small scale.

**CREATING HIGHER INCOME JOBS FOR THE UNSKILLED: HOW CAN IT BE DONE?**

What is meant by ‘skills’ is a relative concept. Broadly, in an African context, very low skills – a primary education or less – will mean that the job is in a rural area. ‘Unskilled’ jobs in urban areas will mean junior-to-senior secondary education. ‘Skilled’ jobs will refer to those with post-secondary education for whom employment will be primarily in the urban formal sector. While these ‘skilled’ workers will be poorly paid relative to those with similar education levels in developed countries, they will be very well paid relative to unskilled workers in Africa.
Addressing the poverty issue through this job focus means that the incomes from very unskilled jobs in rural areas and the lower end of the skill spectrum in urban areas need to be increased. One of the distinctive features of our work in this area is that we not only focus on whether the individual has a job but on the income from that job. Why do we wish to argue that is important? If the framework set out above is accepted then there is a major dilemma for policy in that the processes that create jobs for the skilled may be very different from those that create jobs for the unskilled. In poor countries, better paying jobs for the unskilled require a scaling up in the size of enterprises. While larger firms create far fewer jobs per unit of capital than small ones, they can create far more jobs, as the costs of capital are lower for them and they are much less constrained in how much they can invest. However, insofar as these jobs are concentrated in larger enterprises at present, this constitutes an increase in the demand for more, rather than less, skilled labour.

To be successful at addressing the low skill employment problem it is, in part, necessary to ensure that size and skills become less closely correlated and, in part, that low income individuals have access to better skills. Larger, lower skill enterprises are a key part of a successful employment generation programme, as is an understanding of how to create better skills more cheaply.

Postconflict livelihoods in Northern Uganda’ examines changes in the labour market behaviour of previously displaced individuals in northern Uganda. The data collection extended an existing panel dataset of households who, in 2005, were living in 32 internally displaced person (IDP) camps in two districts in northern Uganda. Therefore, we currently have information from households while they were displaced, as well as recall data from before displacement, during the transition home and post-resettlement.

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The ‘Great Moderation’, a term coined by Stock and Watson (2002) for an almost universal global decline in inflation, and in inflation and output volatility in the two decades to 2007 relative to preceding decades, heralded a new research focus on the evolution of the inflation process. Understanding the influences on prices, especially of commodity prices and exchange rates where the pass-through of each to prices seems to have fallen in industrialised countries since the late 1980s, is of great interest to monetary policy makers, not least in inflation targeting countries. Accordingly, a burgeoning research topic for emerging markets and developing countries is measuring the extent of exchange rate pass-through (ERPT) to aggregate import and consumer price indices and its possible decline in recent years.

Emerging market countries comprise the largest set of countries which have adopted inflation targeting or more credible monetary policy regimes in the last two decades. Amongst African countries, the key exemplar is South Africa which has been targeting inflation since 2000 and presiding over a sustained fall in inflation from double-digit levels for most of the 1990s to below 4% by 2011. South Africa has experienced structural changes in recent decades, enhancing the importance of the exchange rates to prices link [details in Aron and Muellbauer, 2009]. Understanding how import prices adjust to exchange rates helps anticipate inflation effects and monetary policy responses. Further, with volatile food and energy prices so important in the inflation process in South Africa and other African countries, supplementing analysis at the aggregate (Aron and Muellbauer, 2009; Aron et al., 2012) and sector levels (Aron and Muellbauer, 2012) with micro-level investigations should advance the understanding of these and other underlying drivers of inflation.

Exchange rate pass-through refers to the degree to which a country’s prices change in response to a change in its exchange rate. The original definition of ERPT referred to the percentage change in import prices in response to a 1% change in the exchange rate (now called Stage 1 pass-through). This definition has been extended to address the effect of exchange rate movements on producer or consumer prices (overall pass-through). The effect of a change in import prices on producer or consumer prices is known as Stage 2 pass-through. Typically, the sensitivity to the exchange rate will decline down the price distribution chain, from import prices through to producer prices and finally to consumer prices. ERPT to prices is incomplete if exchange rate changes elicit less than equi-proportionate changes in prices. Pass-through to prices can be asymmetric when exchange rate depreciation elicits a price response of a different magnitude to an appreciation or when smaller changes elicit a different proportionate response from larger changes.

There has been little focus on pass-through to import prices in South Africa and, while a sizeable international literature examines ERPT to disaggregated import prices, very few micro-studies focus on consumer prices.

In two related papers, we examine monthly ERPT to the aggregate import prices index in South Africa in the period 1980–2009 (Aron et al., 2012b) and ERPT to South African consumer prices during the period 2002–7 using a unique dataset of highly disaggregated data at the

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"South Africa, a key exemplar in adopting inflation targeting measures to sustain a fall in inflation."
Both papers adopt an empirical approach that allows pass-through to be calculated over various horizons, improving on earlier studies by including controls for both domestic and foreign costs, and institutional breaks. The time dimension is critical: very long run or ‘equilibrium’ measures differ from estimates of pass-through within a shorter period of one or two years, considered most relevant for monetary policy.

In the macro-analysis, various short-run pass-through estimates are calculated simply, without recourse to a full structural model, yet without neglecting the long-run relationships between prices or the effects of previous import price changes. Pass-through is incomplete at about 50% within a year and 30% in six months, averaging over the sample. A Johansen analysis of a co-integrated system using impulse response functions broadly supports these short-run results, but as it includes feedback effects, it implies a long-run pass-through for exchange rate shocks of about 55% (compared with single equation estimates of around 75%). Shifts in pass-through with trade and capital account liberalisation in the 1990s are explored; there is evidence of slower pass-through under inflation targeting when account is taken of temporary shifts to foreign currency invoicing or increased hedging after large exchange rate shocks in the period. Pass-through is found to decline with recent exchange rate volatility and there is evidence for asymmetry with greater pass-through occurring for small appreciations.

The micro-analysis explores ERPT into micro-prices and key sub-categories of consumption goods and services underlying the aggregate consumer price index (CPI). It draws some aggregate implications about pass-through using actual weights from the CPI basket. The unique data set of micro-consumer price data includes over 1000 product groups (with over 2.5 million price observations), covering almost 63% by index weight of prices in South Africa’s CPI (see Creamer and Rankin, 2008). Overall pass-through to the CPI is estimated at about 30% after two years, but is higher for food at 46% after two years. One innovation was to study switches between import and export parity pricing for maize, which is an important ingredient in cornmeal, and an input into the production of meat, milk, cheese and eggs, and fats and oils.
maize, which is an important ingredient in cereals, and an input into the production of meat, milk, cheese and eggs, and fats and oils. These were found to be significant for 5 out of 10 food sub-components.

There is support for the micro-approach. When heterogeneity between different food groups is ignored and a common set of variables used for each item of food, the estimate of overall food pass-through drops to 25% and overall pass-through for the CPI basket falls from 30% to 21%. Food is both heterogeneous and has a large CPI weight so that further disaggregation of this component proved worthwhile. This suggests that in future work, other broad groups with significant weights, particularly transport goods, should be decomposed into sub-components. The use of micro-data has thrown new light on both the heterogeneity and overall magnitude of ERPT in South Africa.

ONGOING RESEARCH

Continuing work with the South African Reserve Bank explores pass-through to the aggregate CPI from 1980 to 2011. Ongoing work with micro-data will extend the consumer prices analysis and explore pass-through using producer price data with a similar approach, differentiating ERPT by high inflation/low inflation episodes, institutional regime breaks, frequency of price adjustment and size of retailer. Potential asymmetries in pass-through will be tested for, as in our work on the import price index.

We will analyse pricing behaviour for consumer and producer micro-prices and the determinants of pricing frequency, the magnitude of price changes and the duration of prices, differentiating by the above distinctions. Different theories of price stickiness have distinct implications for the properties of the distribution of price changes, and the characteristics of these distributions will be explored.

REFERENCES:


This project builds on previous work in Sri Lanka by Chris Woodruff of Warwick University; David McKenzie, World Bank; and Suresh de Mel, University of Peradeniya, who found that giving grants or loans did not increase the profitability of female entrepreneurs. Clearly, such a result is a challenge for those who see microfinance interventions as being of particular importance for helping women. The essence of this project was to see how an intervention similar to that carried out in Sri Lanka affected microenterprises in Ghana.

In 2009, we gave cash and in-kind materials to micro enterprises in Accra and Tema in a manner that allowed us to assess the consequences in a rigorous manner by means of a randomised controlled trial [this ensured that the enterprises who received a grant could be compared with those who did not]. We wished to learn what effect such grants would have upon enterprise performance. This is important for improving understanding of the kinds of constraints that such enterprises face, for example in terms of present bias or pressure from sharing norms within the community, and, as a consequence, it is important for improving the design of microfinance products.

Our findings are summarised in CSAE Working Paper WPS/2011-11 ‘When is capital enough to get female microenterprises growing? Evidence from a randomized experiment in Ghana’. In short, we found that: (i) for microenterprises operated by women, there were significant differences between the effects of the cash and the in-kind grants, but there were no such differences for men; and (ii) the in-kind grants had large and significant effects upon the ‘high profit’ microenterprises operated by women. Critically, we found no evidence that the effects of such grants declined over time; the effect of the grants was noticeable a year later, in early 2010. We therefore intend to return to Ghana to sample the same microenterprises again (in early 2012). We are interested to learn whether the grants have had lasting effects upon enterprise performance.

The results from this follow-up survey are likely to be useful for two related reasons. First, from a theoretical perspective, they will shed light on ongoing debates about whether microenterprises in developing countries face ‘poverty traps’: spirals of poverty that may be broken by large positive shocks (but not by small incremental advances). Second, the results may improve understanding of the potential consequences of microfinance: for measuring whether microfinance truly can, as its proponents claim, operate as an engine for long-term economic empowerment.
A BUSINESS IDEAS COMPETITION FOR ASPIRING ENTREPRENEURS IN ETHIOPIA, TANZANIA AND ZAMBIA

In mid 2011, we ran a ‘business ideas competition’ for aspiring entrepreneurs in Ethiopia, Tanzania and Zambia. Such competitions are a growing phenomenon in sub-Saharan Africa, where they are increasingly viewed as providing valuable opportunities for young entrepreneurs to develop their ideas and to receive seed funding to start new projects. Our competition required aspiring entrepreneurs to present proposals to judging panels formed by experienced local business managers. The business managers then conferred, recorded their scores and each judging panel awarded a prize of US$1000 to the business idea that it preferred. (Broadly, the competition structure was analogous to the popular BBC television programme ‘Dragon’s Den’.)

We hope that this competition will allow us to answer several questions of pressing policy relevance.

1. How do experienced African firm managers assess the ideas of aspiring young entrepreneurs?

   The assessments of experienced firm managers are critical for determining the success or failure of new business ideas: the support of such managers is important, for example for generating seed funding and for creating employment opportunities for talented, aspiring entrepreneurs. The business ideas competition allows us to learn how different firm managers respond to different business ideas, presented by different aspiring entrepreneurs. For example, do firm managers prefer bold innovations in new areas, or incremental proposals in well-established fields? Are managers willing to support ideas with a long or uncertain gestation period, or do they prefer ideas with a more imminent payoff? Does the gender of the firm manager–or of the applicant–matter for the manager’s assessment? These are all important questions for understanding the opportunities and limitations that aspiring entrepreneurs face in sub-Saharan Africa.

2. How do networks between African firm managers affect their firms’ performance?

   Successful business networking is an important part of being a successful entrepreneur. But how exactly can a firm’s networks help to improve its performance? Networks may help a firm in many different ways, for example by improving the diffusion of business information, by encouraging the adoption of new management practices and technologies, and...
through the creation of joint business ventures. Business networks are likely to be particularly important in developing economies, where they may provide a valuable alternative to costly market-based transactions.

The effects of such networks are difficult to measure. Successful entrepreneurs are generally better at networking than less successful entrepreneurs; therefore, successful firms have larger networks even though those networks may add little to firm performance. In the business ideas competition, however, the judging panels were constructed randomly—the firm’s network was augmented by random chance, rather than by the choice of the firm manager. We can therefore measure the consequences of firm networks by comparing the performance of different firms whose managers were assigned to different judging panels.

3. Can large and directed investments help African business ideas to grow?

A growing body of research seeks to measure the consequences of capital shocks for the productivity of small firms in developing economies; this work, for example, includes the research in Ghana outlined earlier. This research is useful for improving understanding of the constraints faced by such micro-enterprises and for improving the design of microfinance products. However, that research has less to say about the value of capital investments for developing new business ideas.

Unlike the research on capital shocks for microenterprises, our business competition involved much larger grants (US$1000) directed at the development of new ideas. We intend to track the progress of the entrepreneurs who applied to our competition; we are particularly interested in comparing the outcomes of the competition winners with those who narrowly missed out. In this way, we will be able to measure whether the grants have encouraged the formation of new enterprises and allowed the development of new business ideas.

TAX REGISTRATION AND FIRM PERFORMANCE IN TANZANIA

How should small manufacturing enterprises be regulated in sub-Saharan Africa? Views differ on this important question. On the one hand, there is a view that small enterprises should be free from government regulation: government regulation is seen as imposing unnecessary costs on business that may impair the long-term development of the manufacturing sector. On the other hand, taxation and regulation may have important benefits, for example by allowing small firms to contract with the public sector and by ensuring a ‘level playing field’ between manufacturing firms of different sizes.

The Tanzanian government has recently engaged in an important campaign requiring even small firms to register for a Tax Identification Number. This registration campaign predominantly occurred in late 2010 and early 2011—between two rounds of a survey that we are conducting of Tanzanian manufacturing firms. We therefore hope to use our survey data in order to measure the consequences of tax registration for firm performance by comparing the performance of firms that registered between survey waves to the performance of firms that did not. We hope that our results can help to inform an important and growing policy debate.

The business ideas competition allows us to measure the value of small-scale venture capital for supporting new business ideas in Africa.
The iiG (Improving Institutions for Pro-Poor Growth) research programme is a network of independent organisations in seven countries engaged in collaborative research on the role of institutions in sustaining pro-poor growth. Several iiG projects, summarised below, look at how to improve the quality of key public services which may be viewed as precursors of economic growth. Further details of the research programme are available at www.iig.ox.ac.uk.

FOUNDATIONS OF GROWTH

The institutional view of development is that the right conditions need to be in place for economic growth to happen. Growth may be a function of investment, but investing in a hostile institutional environment is akin to growing crops on a glacier: seeds, fertiliser, labour and other investments are wasted unless the environment is conducive to growth.

Health and education play a dual role here. They are arguably the main inputs into the production of human capital, which, in turn, is typically regarded as one of the most important drivers of growth. But, together with legal services, they can also be seen as forming part of the institutional ‘soil’: investment opportunities will be severely limited unless there is a supply of skilled and healthy labour. Similarly, investment depends on contract enforcement, which, in turn, is a function of the legal system. And a functioning insurance market allows households and firms to invest in profitable but risky activities. Arguably, the two most important risks faced by the world’s poor are health and agricultural risks.

Within public services, there is an increasing realisation that quality matters. A high primary enrolment rate is no good if children leave school without being able to read. A fine-meshed network of primary health centres is wasted if health staff are never present to attend to patients. A judicial system is of no use unless it can be relied upon to resolve disputes. And a well-designed public insurance scheme is to no avail if nobody knows about it.

EDUCATION

Many developing countries have invested heavily in primary schooling. In an attempt to meet the Millennium Development Goal of achieving universal primary education, free primary education for all pupils was implemented in Kenya in 1997 and in Uganda in 2003.

In Uganda, the number of teachers doubled and 88,000 classrooms were added between 1996 and 2003, but the quality of education in Ugandan primary schools remained low. In one iiG project, researchers asked whether parent-
teacher associations could be used to improve the quality. A number of schools were randomly divided into two treatment groups and a control group. In both treatment groups, School Management Committees – the local organisations that allow parents, teachers and other community members to express their opinion about school performance – were trained how to use scorecards to help them monitor schools. In one group these scorecards were designed by central organisations, including non-governmental organisations (NGOs) and education authorities, while in the other they were designed by committee participants themselves. No scorecard was introduced in the control group.

The criteria selected by the local committees for inclusion in scorecards were different from those decided upon centrally. In particular, the locally designed scorecards paid little explicit attention to teacher absence, although underlying issues such as staff housing were frequently selected. Also, the importance of parent contributions to learning appeared high on the list of criteria in the locally designed scorecards, reflecting the need for parent–teacher participation and co-ordination.

Monitoring using community-designed scorecards made both students and teachers significantly less likely to be absent from the classroom (by 9% and 13% respectively) at the time of surprise visits by survey teams. There was also a significant increase in children’s literacy and numeracy test scores. Pupil scores on national exams improved by 19% of a standard deviation – enough to move the median student from the 50th to the 57.5th percentile. These improvements were achieved at relatively low cost and were not detected in schools that used centrally designed scorecards. These results highlight the central importance of participatory approaches when formulating community monitoring schemes.

An iiG project based in Kenya looked at the effects of abolishing all school fees in state primary schools in 2003. The study found that more of the poorest children attended school after the reform. At the same time, the number of children attending private schools nearly tripled. Moreover, overall enrolment in state schools fell somewhat and so did average exam results in state schools. The researchers argue that the influx of poor children into state schools may have driven many better-off parents to opt for private education. The changing composition of state primary schools pupils may explain the decline in exam results.

There are policy lessons to be learned from this research. In order to improve the returns to investment in human capital, governments should promote low-cost community monitoring of schools, allowing priorities to be chosen locally by consensus. Removing primary school fees may succeed in attracting more pupils from poorer backgrounds to the educational system, but may also engender an increase in private education and an increased risk of a multi-tier primary education system.
LEGAL SERVICES

In Liberia, iiG researchers looked at the interaction of formal and informal legal traditions. As in many developing countries, the Liberian formal judiciary has limited reach and is widely perceived as inefficient and slow. In contrast, the traditional system is both accessible and culturally acceptable, but operates under patriarchal and communal norms rather than the notions of individual rights enshrined in Liberian statutory law. In particular, the traditional system, based on the authority of local chiefs and village elders, employs trial by ordeal and local laws that run contrary to generally accepted notions of women’s rights and the rights of vulnerable groups. In spite of this, the researchers present evidence that the customary system is generally preferred by most Liberians. They also show that plaintiffs tend to choose the system which may be seen as being more sympathetic to them: men and people from majority ethnic groups prefer the traditional system, whereas women and minority groups tend to take their grievances to the formal judiciary.

INSURANCE

Risk plays a large part in the lives of poor people. A negative health shock or a failed crop can have disastrous consequences. Past research has shown that although informal insurance systems are prevalent, many poor households remain inadequately insured. Poor risk-coping mechanisms are also related to growth: if the poor cannot cope with risk they may prefer safe, low-return investment opportunities over riskier, high-return options, hurting economic performance in the aggregate.

Perhaps the most important risk facing households in developing countries is the risk of a negative health shock. Accidents and illnesses are not only associated with direct treatment expenses. If the affected individual is a productive member of the household it also entails a potentially catastrophic loss of income or home production. Finally, children may drop out of school, either because they are ill, because the family can no longer afford the school fees and other expenses, or because they are needed at home to tend to the sick. Earlier research has indicated that a negative health shock may be the most common direct cause of descent into poverty.

The importance of health risks are emphasised by iiG research from India. The researchers find that poor households are more likely to report going hungry after an incident involving hospitalisation. Poor households are also more likely than their richer counterparts to be in debt following a hospitalisation episode.

Given this, it is surprising that health
insurance is not more widespread in developing countries. iiG research on tea growers in Kenya suggests that one reason for this may be a lack of trust in the insurer. A belief that the insurer may not honour a claim when it matters the most may arise from a fear of unscrupulous behaviour by the insurer or service providers. The researchers point to the need for improved regulation to ensure that insurance companies can be trusted to pay valid claims.

iiG research from India highlights that this is not an exclusively African phenomenon. A new, high-profile, subsidised health insurance scheme for the poor was recently launched by the Indian government. The scheme is run as public-private partnership in which the premium is largely paid by the government, whereas the insurance is provided by private providers. Treatment is available at a network of both government and private hospitals.

Looking at two districts in the southern state of Kerala, the researchers found that take-up in the first year of operation was remarkably high. Still, a survey of participating hospitals revealed that six months into the first policy period only a small minority of hospitals were ready to receive patients. Again, thoughtful regulation may provide a solution. It is striking that in this case the incentive of the insurance company was to enrol as many households as possible so as to receive the premium from the government (revenue), but not to facilitate utilisation as this represents the cost side. Requiring a first check-up at a hospital before releasing the subsidy associated with a beneficiary household might trigger a big shift in behaviour on the part of the insurer.

In a randomised controlled trial, iiG researchers found that employing a local woman as an ‘information-spreading agent’ in her village significantly increased the level of knowledge about the insurance scheme among eligible households. Moreover, the more they knew about the scheme, the more likely households were to sign up for the scheme. This shows that information costs can be a major stumbling block in the provision of public services, particularly in an environment with widespread illiteracy.

Furthermore, agents who were paid on a performance basis were more effective in spreading awareness than agents receiving a fixed salary. Some of the agents were randomly allocated to receive a salary partly determined by the average performance on a knowledge test about the insurance scheme which was fielded to a random sample of households in each village. The average knowledge test score in these villages was significantly higher than in the villages where the agents were paid a fixed wage. This aligns with earlier work showing that teacher absenteeism responds to incentives in the payment they receive. However, it was also found that agents performed better vis-à-vis households who were similar to themselves in terms of social characteristics. This highlights that social background is also an important consideration in spreading awareness about public services.
RESEARCH COMPLETED IN 2011

CHRISTOPHER ADAM

JOURNAL ARTICLES


BOOK CHAPTERS


BOOK

REPORT

Email: christopher.adam@economics.ox.ac.uk

JANINE ARON

JOURNAL ARTICLES


BOOK CHAPTER

ERLEND BERG

JOURNAL ARTICLE

SAMBIT BHATTACHARYYA

JOURNAL ARTICLES


BOOK CHAPTER

BOOK

Email: sambit.bhattacharyya@economics.ox.ac.uk
Website: http://users.ox.ac.uk/~econ0295/
PAUL COLLIER

JOURNAL ARTICLES


BOOK CHAPTERS


BOOKS


REPORT

Email: paul.collier@economics.ox.ac.uk
Website: http://users.ox.ac.uk/~econpco/

STEFAN DERCON

JOURNAL ARTICLES


Email: stefan.dercon@economics.ox.ac.uk
Website: http://www.economics.ox.ac.uk/members/stefan.dercon/

Marcel Fafchamps

Journal Articles


Fafchamps M. (2011) Randomised controlled trials or structural models (or both...or neither...)? Journal of African Economies 20: 596–9.


Book Chapters


Email: marcel.fafchamps@economics.ox.ac.uk
Website: http://www.economics.ox.ac.uk/members/marcel.fafchamps/homepage/
ANKE HOEFFLER

JOURNAL ARTICLES


BOOK CHAPTERS


REPORTS


Email: anke.hoeffler@economics.ox.ac.uk
JOHN KNIGHT

JOURNAL ARTICLES


BOOK CHAPTER


BOOK


Email: john.knight@economics.ox.ac.uk

BOOK CHAPTER


BOOK


Email: john.knight@economics.ox.ac.uk
FRANCIS TEAL

JOURNAL ARTICLES


BOOK CHAPTER

Email: francis.teal@economics.ox.ac.uk

ANDREW ZEITLIN

JOURNAL ARTICLE

Email: andrew.zeitlin@economics.ox.ac.uk
CSAE STUDENTS
MELTEM ARAN
MEASURING TREATMENT EFFECTS IN POVERTY ALLEVIATION PROGRAMMES: THREE ESSAYS USING DATA FROM TURKEY
Meltem Aran is a development economist, with a particular focus on poverty and distributional impact of social policies. She focuses on impact evaluations of public programmes and uses applied microeconometric techniques to identify treatment effects in analyses using household- or provider-level datasets. One of the chapters in her thesis is an impact evaluation of the Green Card (Yeşil Kart) non-contributory health insurance programme for the poor in Turkey, where she considers the expansion and targeting effectiveness of the Green Card programme and looks at the protective impact of the Green Card on healthcare utilisation of the poor during the recent financial crisis. Another chapter relates to the welfare impact of the 2008–9 economic crisis on Turkish households, looking at changes in income, consumption and the utilisation of health and education services. Most recently, she has been working on an impact evaluation of the Özyegin Rural Development Program, fielded in eastern Turkey using a controlled experimental design.

Email: meltem.aran@economics.ox.ac.uk

MATEJ BAJGAR
FIRM-LEVEL EXPORT ENTRY IN DEVELOPING COUNTRIES
In his DPhil research, Matej Bajgar studies the determinants of successful exporting among firms based in developing countries. Specifically, he examines the role played by entrepreneurs and managers with significant previous experience of working or studying abroad.

Email: matej.bajgar@economics.ox.ac.uk

PATRICK BARRON
WHAT CAUSES PEACE TO CONSOLIDATE? UNDERSTANDING POST-CONFLICT VIOLENCE IN INDONESIA
This thesis builds a theory on why violent conflict re-emerges in some areas that previously experienced large-scale violence and not in others, and what causes different forms of conflict to emerge (or not). A mixed-method research design is employed allowing for an assessment of the causes of subnational variation in post-war violence within Indonesia. A new, large dataset of over 100,000 violent conflict events in Indonesia from 1998 to 2009, constructed for this project allows for the tracing of the evolution of the incidence of violence, impacts and forms. Three provinces that experienced different types of large-scale violence (civil war, interreligious extended violence and ethnic riots) will be selected for in-depth study; within each, three districts, exhibiting different levels and forms of post-war violence, will be chosen. The comparative analyses will tease out provincial and local causal factors leading to divergence in post-war violence.

Email: patrick.barron@nuffield.ox.ac.uk
RULOF BURGER

ESTIMATING THE RETURNS TO EDUCATION FOR SOUTH AFRICAN WORKERS SINCE POLITICAL TRANSITION
This dissertation investigates the effect of education on the productivity of South African workers. A variety of econometric techniques are used in order to address the biases that can plague the Mincerian returns, including the use of panel data, instrumental variable and structural modelling techniques.

Email: rulof@sun.ac.za

BET CAEYERS

TARGETING EFFECTIVENESS OF COMMUNITY-DRIVEN DEVELOPMENT PROJECTS: EVIDENCE FROM ETHIOPIA AND TANZANIA
In my thesis, I study the role of social networks in the effectiveness of community-driven development projects. In one case study I investigate whether households’ social networks and political connections matter for access to decentralised food aid in rural Ethiopia. In another case study I look at the role neighbours play, through their access to information and political connectedness, in the inclusion of vulnerable households in a community-driven development project in Tanzania.

PUBLICATIONS


Email: bet.caeyers@economics.ox.ac.uk

ANTONIO CARIA

SOCIAL NETWORKS AND LEARNING IN DEVELOPING COUNTRIES
My work attempts to understand the implications of social interaction among agents in developing countries. I am particularly interested in labour market outcomes and in peer learning. With regard to the former, I am setting up a laboratory experiment in Ethiopia where participants are randomly assigned social ties and are then engaged in a job search game. A number of treatments will enable me to test existing theories about information sharing, the correlation of employment outcomes across connected agents and the emergence of unemployment duration dependence. Dyadic data from the same site will also be used to explore real outcomes and provide external validity to the laboratory findings. With regard to the latter topic, I am using dyadic data from cocoa farmers in Ghana to understand the formation of the social links through which farmers learn about each other’s experiments with new technologies. Insights on both labour market peer effects and learning networks can provide fresh explanations on the persistence of poverty and inspire new designs for social protection policies.

Email: stefano.caria@economics.ox.ac.uk
JACOBUS CILLIERS

ESSAYS ON THE POLITICAL ECONOMY OF CONFLICT
My research is on the political economy of violence in sub-Saharan Africa. In a theoretical paper, I model coercive labour markets in warlord economies, such as in the Kivu provinces in the Democratic Republic of Congo. I aim to understand how armed groups’ strategic use of violence depends on the natural resource endowment of a country. In an empirical paper, I look at post-conflict recovery of war-affected communities in Sierra Leone. I use behavioural games to measure how variation in exposure to violence impacts pro-social behaviour.

Email: jacobus.cilliers@economics.ox.ac.uk

MATTHEW COLLIN

ESSAYS ON INTRAHOUSEHOLD ALLOCATION, ETHNICITY AND LAND TENURE
For one of my papers, I consider the size and duration of birth order effects on a variety of child outcomes in the Philippines, and consider how well these results match up with the prevailing theories of birth order and intra-household allocation. I also work on an innovative land rights project based in a Tanzanian slum, where, for my second paper, I am investigating the relationship between ethnic ‘enclaves’, households living close to other households from a similar tribal background, and the demand for formal land tenure. Finally, as part of the same land rights project, I am looking at the impact of gender-specific vouchers on the decision to co-title land in both a husband’s and wife’s name.

Email: matthew.collin@economics.ox.ac.uk
Website: http://matthewcollin.com/

PAOLO FALCO

OCCUPATIONAL CHOICES AND THEIR OUTCOMES IN AFRICAN LABOUR MARKETS
My doctoral research focuses on the occupational choices faced by workers in sub-Saharan Africa and on the monetary and non-monetary returns to their decisions. In particular, by means of matched data from panel surveys and behavioural experiments, I have investigated the relationship between workers’ risk-aversion and their sector allocation. I have also explored the determinants of income in the growing informal economy and I have studied the role of vulnerability to poverty in determining workers’ well-being.

Email: paolo.falco@economics.ox.ac.uk
Website: https://sites.google.com/site/paolofalco/
SIMON FRANKLIN

ENABLED TO WORK: THE IMPACT OF HOUSING SUBSIDIES ON SLUM DWELLERS IN SOUTH AFRICA

My MPhil thesis looked at the impacts of housing on the urban poor in South Africa by evaluating the government’s housing programme. I attempt to identify impacts of receiving government housing on household location, living conditions and labour market activity by using panel data and a natural experiment in the placement of government housing projects. I find positive impacts on female labour supply and earnings, as well as feelings of well-being and security. I also explore some of the spatial issues of housing and relocation, and find no significant impact on household location from receiving government housing.

Email: simon.franklin@economics.ox.ac.uk

LA-BHUS FAH JIRASAVETAKUL

ESSAYS IN LABOUR ECONOMICS: THAILAND’S LABOUR MARKET ADJUSTMENT AND INDUSTRIALISATION PROCESS

My thesis investigates alternative reasons for the fast per capita income growth observed in Thailand during the industrialisation process (the late 20th century) using labour market and firm-level datasets. The first chapter focuses on the labour supply side and the sectoral earnings model analysis based on the data from the National Labour Force Survey; the second explores the impacts of the educational reform in Thailand on income and structural change using the regression discontinuity framework; and the third is aimed at studying the evolution of the labour demand and the sectoral migration pattern using the National Industrial Survey and Census.

Email: la-bhus.jirasavetakul@economics.ox.ac.uk
Website: http://www.economics.ox.ac.uk/index.php/staff/jirasavetakul/

JAN JOZWIK

ESSAYS ON TECHNOLOGY ADOPTION IN DEVELOPING COUNTRIES

The main objective of my doctoral thesis is to study the factors limiting the adoption of yield-improving agricultural technologies in sub-Saharan Africa. Using field and laboratory experimental data on cocoa farmers in Ghana, I investigate whether providing yield-improving inputs on credit or under an insurance scheme can lead to higher and sustained adoption of technology.

Email: jan.jozwik@economics.ox.ac.uk
GAUTAM KALANI

COPING WITH RISK IN POOR RURAL ECONOMIES
Risk is an inescapable fact of life in every country, but it is more prevalent—and a graver threat—in poor rural regions than in developed economies. In the first chapter of my thesis, I analyse data from rural Pakistan to identify the impact of different risks on households in this region and explore the different informal mechanisms used by households to cope with these risks. In future chapters, I plan to analyse risk aversion and the take-up of micro-insurance using data from experimental games conducted in rural Ethiopia.

Email: gautam.kalani@economics.ox.ac.uk
Website: http://oxford.academia.edu/GautamKalani

NAUREEN KARACHIWALLA

ESSAYS IN EDUCATION INCENTIVES
My thesis will study the economics of the education sector, with a particular focus on the incentives faced by teachers and the leadership of school principals. Two papers will look at how the extremely sophisticated promotion system in Gansu province in China affects teacher effort. A third paper will use the same data to focus on the effects of principals’ leadership on both teacher effort and student outcomes. It will also attempt to link teacher effort and student outcomes, thus drawing together the three papers.

Email: naureen.karachiwalla@economics.ox.ac.uk

MARTINA KIRCHBERGER

SOURCES OF RISK IN DEVELOPING ECONOMIES
My thesis investigates the economic consequences of three particular types of risks: (i) environmental risk; (ii) socio-economic risk; and (iii) political risk. The first chapter focuses on the effect of environmental risks on labour markets, with an application to earthquakes in Indonesia. My second chapter focuses on child labour and its effect on intra-household allocation. The third chapter is joint work with Paul Collier and Måns Söderbom and studies the link between political risk and the evolution of costs in the construction sector.

Email: martina.kirchberger@economics.ox.ac.uk

CHRISTOPH LAKNER

REAL WAGES AND MOBILITY IN LOW- AND HIGH-INCOME COUNTRIES
Christoph is a DPhil candidate in Economics at the University of Oxford. His thesis investigates the relationship between firm size and wages controlling for time-invariant unobservables and sample selectivity in matched firm worker data from Ghana. In addition, he is interested in studying the development of inequality and mobility in Germany over recent decades.

Email: christoph.lakner@economics.ox.ac.uk
Website: http://www.economics.ox.ac.uk/index.php/staff/lakner/
MATT LOWE

THE DETERMINANTS OF PRODUCTIVE PUBLIC INVESTMENT

How can developing economies scale up public investment effectively? My work aims to address this question at different levels. An ongoing paper aims to measure the cross-country marginal product of capital separately for the public and private sector, with subsequent implications for the optimality of public capital stocks. Further work will explore the issues behind poor absorptive capacity at the sectoral level; the determinants of low public investment efficiency within and across countries; and the welfare effects of transportation infrastructure at the subnational level.

Email: matt.lowe@nuffield.ox.ac.uk

OSWALDO MOLINA-CAMPODONICO

ESSAYS ON THE IMPACT OF PROPERTY RIGHTS ON POOR HOUSEHOLDS’ DECISIONS

My research focuses on how property rights can affect the welfare of poor households in developing countries. In particular, I examine the impact of a large-scale Peruvian titling programme on housing investment in urban slums. Also, I investigate the determinants of the registration of plot transactions and evaluate the impact of a modification in the registration process on the registration rate as a result of a change in legislation. At the moment, I am also involved in the analysis of the relationship between tenure security and economic preferences of slum dwellers by exploiting a natural experiment.

Email: oswaldo.molinacampodonico@economics.ox.ac.uk

KATE ORKIN

‘MAKING THE GRADE’: EFFECTS OF HOME FACTORS AND SCHOOL REFORMS ON CHILDREN’S SCHOOLING ACHIEVEMENT IN ETHIOPIA

My dissertation examines how sickness and involvement in work affect schooling participation. I also examine the effects of three education policy initiatives on participation and achievement: prohibitions on grade repetition; full-day (rather than half-day) schooling; and mother-tongue instruction.

PUBLICATIONS


Email: kate.orkin@qeh.ox.ac.uk
Website: http://oxford.academia.edu/KateOrkin
BILAL SIDDIQI

ESSAYS IN LAW, INSTITUTIONS AND CONFLICT
My doctoral research explores the relationship between micro-institutions, conflict, and economic development. My job market paper examines the long-run impacts of micro-institutions in Pakistan and finds strong, and robustly negative, impacts of initial political and economic inequality on literacy and public provision over a century later. The rest of my thesis focuses on law and conflict in Liberia, where I am conducting a randomised, controlled trial of a mobile, rural, paralegal clinic that provides pro bono legal services to the poor, seeking to strengthen existing justice delivery mechanisms and reduce the incidence of conflict.

Email: bilal.siddiqi@economics.ox.ac.uk
Website: http://bilalsiddiqi.com

ABHIJEET SINGH

EMPIRICAL ESSAYS IN DEVELOPMENT ECONOMICS
My specific research areas of interest are education, child nutrition and public provision of primary services. I have also worked on issues of gender bias and agricultural investments.

Email: abhiijeet.singh@economics.ox.ac.uk
Website: http://www.younglives.org.uk/who-we-are/young-lives-people-individual-biographies/abhijeetsingh

RICHARD STANLEY

WAR, PEACE, AND CHILD SURVIVAL IN AFRICA: A MIXED METHODOLOGICAL APPROACH
My research examines aid allocation to countries experiencing war and the effectiveness of aid in ameliorating the consequences of war. I employ a new data source using micro-data from 194 Demographic and Health Surveys representing 5 million children in 77 countries. Humanitarian aid is often scaled-up dramatically in difficult contexts, as would be expected. However, neither health aid nor humanitarian assistance have strong impacts on infant survival. I further examine aid effectiveness using data collected during a year of field research in Sierra Leone.

Email: richard.stanley@politics.ox.ac.uk
GERHARD TOEWS

ESSAYS IN RESOURCE ECONOMICS
In my first paper I attempt to explain the labour conflicts accompanying the recent oil boom in Kazakhstan. My results seem to suggest that income increased and income inequality decreased in the oil-rich regions during the oil boom. At the same time, local satisfaction with incomes decreased owing to inflated expectations, creating a rational for regional collectivisation and triggering labour conflicts. In my second paper I am working to identify the determinants of a change in primary energy mix consumption as an economy undergoes structural transformations.

Email: gerhard.toews@economics.ox.ac.uk

ANA VAZ

INTERPERSONAL INFLUENCE AND NETWORK EFFECTS: EXPERIMENTAL EVIDENCE FROM MOZAMBIQUE
My research focuses on the role of network effects in expanding the reach of voter education campaigns. Using data from a field experiment conducted in Mozambique during the 2009 general election, I am working to estimate the effects of interpersonal influence within the household, and the reinforcement and diffusion network effects at the village level.

Email: ana.vaz@economics.ox.ac.uk

JAN VON DER GOLTZ

ESSAYS IN DEVELOPMENT AND ENVIRONMENTAL ECONOMICS
My research explores the impacts of climate and weather volatility on welfare in low-income countries. It seeks to enhance the measurement of extreme weather events and to propose ways to explicitly treat the role of information.

Email: jan.vondergoltz@qeh.ox.ac.uk
KATE VYBORNÝ

CHALLENGES TO GOVERNMENT REDISTRIBUTION IN PAKISTAN
Kate’s research examines the impact and unintended consequences of various forms of government redistribution, and what we can learn for improving their effectiveness in developing countries. Her work uses data from Pakistan to explore this issue in three specific cases: (1) testing whether, and how, social networks and patronage affect who receives government transfers and services; (2) using a natural experiment to test whether community-targeted public cash transfers cause private donors to reduce their support, reducing the effectiveness of the cash transfer programme; (3) testing the political determinants of the geographic distribution of the public procurement of wheat in Punjab, Pakistan.

Email: kvyborny@gmail.com  
Website: https://sites.google.com/site/kvyborny/

SÉBASTIEN E. J. WALKER

ESSAYS IN DEVELOPMENT MACROECONOMICS
Sébastien Walker is writing a doctoral thesis on aspects of macroeconomics in countries of the East African Community (EAC) under the supervision of Dr Christopher S. Adam. The first of three chapters is concerned with the bank lending channel of monetary policy transmission in EAC countries.

Email: sebastien.walker@economics.ox.ac.uk  
Website: http://www.csae.ox.ac.uk/members/biogs/walker.html

CHRISTIAN WESTERLIND WIGSTROM

REGIONAL INTEGRATION ORGANISATIONS IN AFRICA: FAILED OR MISUNDERSTOOD?
For 50 years African leaders have enthusiastically built regional integration organisations. Yet, history shows that few of these organisations have achieved what they set out to do. By introducing the idea of variable levels of accountability, my thesis tries to shed light on this failure.

Email: christian.westerlindwigstrom@merton.ox.ac.uk
DANIEL CLARKE

INSURANCE DESIGN FOR DEVELOPING COUNTRIES
Over the last ten years there has been renewed interest in providing agricultural insurance in developing countries. However, voluntary demand for unsubsidised insurance products has been low, particularly from the poorest farmers. My thesis uses economic theory, a laboratory experiment conducted with Ethiopian farmers and data from a portfolio of weather-indexed insurance products to argue that some of the indexed insurance products that have been sold to poor farmers have been poor products and that the low observed demand may be higher, not lower, than ‘rational’ demand. In my final chapter I present a vision of insurance design for the poor in which high quality indices which accurately capture aggregate shocks are combined with local informal mutual insurance which offer protection against idiosyncratic shocks.

PAOLO DE RENZIO

The quality of governance and institutions is increasingly seen as a fundamental factor in shaping the development prospects of poor countries. As a consequence, donor agencies have increasingly allocated resources to providing technical assistance for improving governance standards in such countries, with mixed results. My thesis investigates the domestic and external factors affecting the outcomes of reforms aimed at improving the quality of government budget institutions across a sample of 16 aid-dependent countries. It provides a new definition of the quality of budget institutions and develops an analytical framework that identifies the key factors at play in the political economy of budget reforms.

The analysis starts with a medium-N ‘pattern finding’ approach, based on a new dataset that tracks changes in the quality of budget institutions over the period 2001 to 2007. This is followed by a small-N ‘process tracing’ approach, with in-depth case studies of Mozambique and Burkina Faso (with additional evidence from Tanzania), looking at both overall reform trajectories and four specific budget reform areas. The results show that among domestic factors, economic and political stability are preconditions for successful budget reforms. A minimum degree of government leadership and commitment to reform are also very important factors in shaping budget reform outcomes, alongside the centralisation of budget institutions. Surprisingly, among external factors, the level of technical assistance and the use of so-called programme-aid modalities were less important than the overall fragmentation of aid flows and the ways in which technical assistance is delivered in influencing budget reform outcomes. Therefore, donors’ hopes of ‘buying’ better budget governance are more likely to be enhanced not by additional resources, but by better behaviour. Moreover, such strategy is likely to work only in countries with enough capacity and interest in reforms.
ANDREW KERR

HUMAN CAPITAL, INFORMALITY AND LABOUR MARKET OUTCOMES IN SUB-SAHARAN AFRICA

My thesis focused on labour markets in sub-Saharan Africa. In the first paper I explored the impact of unions and the public sector on wage-setting in South Africa, finding that the public sector is significantly overpaid compared with other types of employment, and that unions do not raise wages as much as previous estimates had suggested. In the second paper I studied the returns to education in Tanzania, using an education reform to get around the usual endogeneity of education problem. My best estimates suggest the returns to education may actually be concave, contrary to much recent research. In the final paper I developed a matching model of the Tanzanian urban labour market, focusing on important differences between wage and self-employment.

YUYA KUDO

ESSAYS ON RURAL-TO-URBAN MIGRATION AND URBAN INDUSTRIAL PERFORMANCE IN SUB-SAHARAN AFRICA

This thesis consists of three independent, but thematically related, papers exploring the income determination process in African labour markets from spatial and sectoral perspectives. Using long-run household panel data from rural Tanzania, chapter 2 investigates the extent to which education can explain migrants’ income and consumption gains. We expect that the higher return to schooling at the destination primarily drives migrants’ gains, suggesting that those who cannot afford the cost of schooling cannot reap the benefits of migration. We find that education plays a role, but it does not appear to be a major factor in limiting internal migration as a source of raising income and consumption.

By exploiting data drawn from urban household panel surveys in Ghana and Tanzania, chapter 3 investigates how rural-to-urban migrants’ earnings compare with those of natives in urban labour markets. The chapter attempts to identify the growth of migrants’ earnings at the destination (assimilation), making a distinction between wage-dependent and self-employed migrants. We find that wage-dependent migrants would achieve higher lifetime earnings if they entered a self-employed sector upon their arrival, conditional on individuals’ attributes and the varying returns to those attributes across urban residents. The evidence points towards the importance of capital constraints in a decision to start a business.

Using firm-level data from manufacturing and retailing from the Enterprise Surveys conducted in seven sub-Saharan African countries, chapter 4 attempts to improve understanding of enterprise performance in urban Africa by investigating three aspects of firms’ productive structure: technology; total factor productivity (TFP); and firm size. We find that the technology is similar between sectors, that retailing firms are smaller and less capital intensive but not, on average, ones with lower TFP, and that TFP differences are primarily within sectors. All these findings may point towards the importance of factor prices in characterising the industrial structure in urban Africa.
My thesis tackles issues related to regional integration, trade costs and aid, with empirical work related to the East African Community (EAC). A theoretical part explores linkages between aid and regional trade and the importance of regional infrastructure in a unified macroeconomic framework. A computable general equilibrium model applies the theoretical model to the EAC. The empirical part of the thesis gauges the importance of border effects in Eastern Africa. Using a unique database on consumer prices in 39 cities from four EAC countries, I link price movements to distance and exchange rates across the region, showing the importance of borders, but also of internal barriers to trade, such as distance.
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Posy Bidwell  Trinity College, Dublin, November 2010–April 2012
Margarita Comola  PSE, December 2011
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