



PARLIAMENTARY NETWORK ON THE WORLD BANK
Research Summaries

**Annual Bank Conference on Development Economics (ABCDE) 2010:
Development Challenges in a Post-Crisis World**

31 May-2 June 2010

Orientation

The Parliamentary Network on the World Bank (PN o WB) from May 31 to June 2 participated in the Annual Bank Conference on Development Economics (ABCDE) 2010, which was co-sponsored by the World Bank and the Swedish Government. The aim of the three-day conference – which is the largest gathering of World Bank economists, researchers, academics, government representatives and non-governmental organizations (NGOs) – is to strengthen links between researchers and policy makers, with the ultimate goal of increasing evidence-based policy making. The event focused on development challenges in a post-crisis world and featured seven Nobel prize-winning economists. Topics included reforming aid allocation, making aid more effective, the political economy of fragile states, globalization and its impact on developing economies, and the economics of climate change.

Research summaries and discussion highlights by topic

TOPIC 1: Post-crisis debates on development strategy

- Professor Abhijit Banerjee of MIT stressed the point that microcredit is not a development cure-all. According to Professor Banerjee, microfinance allows the poor to start businesses; however, these businesses often stay small, family-only affairs. Their aim is not job creation but rather providing household budget support. Therefore, microcredit has a significant but small effect and will not spur much growth and job creation. Professor Banerjee recommends that economic development policy should focus on helping small and medium firms become large, as opposed to focusing on tiny firms.

TOPIC 2: Making aid more effective: Taking a political economy approach to reforming the aid business

- Professor Steven Friedman from the Centre for the Study of Democracy at the University of Johannesburg stated that the Poverty Reduction Strategy Paper (PRSP) process is “blind to power relationships and realities.” This amounts to a

tremendous handicap when seeking to make aid more effective. He asks why we do not spend the same amount of time and energy looking at the way we consult with people and communities as we do on other topics such as development financing and climate change.

- Ms. Naomi Ngwira, formerly of the Ministry of Finance in Malawi, explained quite plainly that “If you want to stay in power as an African politician, China is your friend, not the World Bank,” explaining that multilateral development banks are the “turtles” of the aid world as each project must be negotiated separately and receive approval from Washington. DfID and Norad are the “cheetahs” of the aid world because they are able to approve and release project funds quickly owing to the decision-making power of their country offices. Ms. Ngwira considers the Global Fund for AIDS, TB and Malaria (GFATM) to be the chameleon of the aid world as their priorities are constantly changing. Ms. Ngwira stressed the absolute importance of reforming the international trade regime -- which will help to end aid dependence as countries become able to stand on their own economic feet – and ending the “Washington Consensus,” a one-size-fits-all set of economic reforms and trade liberalization policies that constituted the "standard" reform package promoted for crisis-wracked developing countries by Washington, D.C.-based institutions such as the International Monetary Fund (IMF), World Bank, and the US Treasury Department .

TOPIC 3: Weak states, strong states and development

- Mr. Torsten Persson of the Institute for International Economic Studies (IIES), Sweden, introduced the notion of two kinds of developing states: “common interest” states and “redistributive” states. Common interest states are those whose leaders use state revenue and international aid to improve domestic public services and who generally reinvest these revenues for the common good of the population. Redistributive states are those whose leaders are concerned with redistributing state assets, income, earning and aid among a select group of people, thus greatly increasing the wealth gap between the poorest and the richest. According to Persson, increasing aid to common interest states can positively affect state building. However, increasing aid to redistributive states will not only harm state building efforts, but could also lead to repression and internal conflict. In addition, Persson suggests that post-conflict settlement may reduce the future chances of internal conflict, but only if these settlements are credible.

TOPIC 4: The political economy of fragile states

- Mr. Stephen Ndegwa, Senior Public Sector Governance Specialist at the World Bank, reiterated the importance of a government’s legitimacy and ability to reinforce the social contract.
- Professor James Fearon of Stanford University stated that key to preventing conflict and promoting economic development is improving political institutions and governance. However, this can pose a tremendous challenge in developing country settings as required policy changes “tend not to survive the rule of the leader,” meaning that good development policy can be skewed and twisted by a leader and his/her party as they seek re-election/elongated rule. More research needs to be

done to examine what types of development programs and policies are more sensitive to/appropriate for fragile states.

- Mr. Alan Gelb from the Center for Global Development hypothesized that we will see an increasing number of countries with good economic management policies on their books, but bad governance. He also warned of the dangers of post-conflict leadership entrenchment.
- Ms. Louise Anten of the Netherlands Institute of International Relations, stated that international aid is not enough to prevent a return to conflict and that improving governance in fragile states requires integrated policy for development, governance and security. Holding fair and free elections is not an exit strategy, she cautioned, as conflict often increases after elections. Ms. Anten stressed the need for more research on what kinds of governance systems work best in fragile states (presidential? parliamentary?).

TOPIC 5: Environmental commons and the green economy

- According to Professor Thomas Sterner from the University of Gothenburg, Sweden, to ensure a market-based solution to green growth, global fuel prices will need to rise 9% per year.
- Professor Ramon Lopez of the University of Maryland stated that collective community action amounts to little when populations are faced with powerful external forces. Market forces and prices have failed to take into account environmental externalities, according to Professor Lopez, who added that “green costs” have been reflected in ways other than market price, such as conflict. In addition, he explained that rich countries have not become cleaner; rather they have become better at dumping and disposing elsewhere. Although production has become greener in developed countries, consumption remains “dirty.”

TOPIC 6: New ways of measuring welfare

- Four panelists suggested that instead of concentrating so heavily on economic and financial welfare measurements, perhaps the time has come to take into account subjective well-being when measuring welfare differences within and between countries.

ACADEMIC DEBATE: Development challenges in a post-crisis world

- Professor Robert Solow, a Nobel prize-winning economist from MIT, predicts that the world will see contraction in global trade in the coming years especially if the U.S. seeks to meaningfully reduce its current account deficit. In addition, Dr. Solow expects that we’ll see reduced capital flow from rich to poor countries; however, there may be an increase in investments to developing countries with visibly improved governance. In addition, Professor Solow warned against buying into the rhetoric of the political right, which is that equity will harm growth.
- Professor Eric Maskin, from the Institute for Advanced Study at Princeton University, stated that inequality has increased as a result of globalization because the skilled and educated are more mobile, while the uneducated and poor are stuck and worse off. Globalisation has essentially widened the standard-of-living gap within countries. According to Maskin, the current question is how to help the poor given the process and effects of globalization.

- Professor Banerjee of MIT said that the model of the state as a service delivery mechanism for the poor has, on the whole, been a disaster. “We’re sold on the idea that somehow we have the power to control growth,” he added. According to Professor Banerjee, the word “growth” has been used as a code word for a certain set of economic policies, largely by politicians on the political right. We must “rescue” this work back from the political right and bring it back to the more balanced meaning in which “equity” is not counter-growth. He also stressed the importance of domestic tax levies as a funding source in developing countries.
- Professor James Mirrlees of Cambridge University suggested that higher global food prices could be a good thing for the poor as it would encourage production, especially by such giants as China and India, who would produce and export more should food prices rise. According to Professor Mirrlees, the global food market is severely skewed owing to the myriad of protectionist subsidies and trade imbalances as well as food aid, which in some cases encourages countries not to produce food. He also highlighted the key issue of how to provide people at the bottom of the pyramid with the skills they need to participate in the global market.

Implications for PNoWB

The key to evidence-based policy making is bridging the gap between researchers and policy makers –most importantly parliamentarians. Making this connection has proven to be one of the most challenging aspects of development in general. By attending and reporting on events such as ABCDE -- where leading researchers in development economics present their work and discuss their findings with the wider development community -- PNoWB in effect acts as a bridge between the research community and the wider community of development practitioners, and most importantly, elected law makers.

PNoWB, more so than other development organizations, is well placed to act as a conduit between the research community and the policy-making community as our Network consists of over 1200 parliamentarians from more than 100 countries. As PNoWB seeks to expand its capacity to play such a role, conferences such as ABCDE are an excellent opportunity to report on the latest research in development economics and build relationships with research institutions and leading economists.

Linking researchers to policy makers and development practitioners has long been on the wish-list of many development actors, including partner governments, funding institutions and donor countries, researchers, academics and international bodies. PNoWB has a unique opportunity to offer its self as a natural, pre-existing link that needs simply to be “switched on.” This should be a focus and strength to be built on in the future.

Follow-up

PNoWB Secretariat will reach out to each of the contacts made during the three-day event to determine if there is potential for future collaboration (contacts detailed in following section). In addition, all contacts will be added to the Network’s database and will receive

regular updates. PNoWB will also consider including an 'evidence-based policy making: bringing researchers and policy makers together' session at the Network's 2010 Annual Conference in Brussels, Belgium.

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