

Research Monitor

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The Global Development Network is an international network of research and policy institutes dedicated to producing high-quality research for the purposes of development. This newsletter highlights research output generated by the Network, recent key events and initiatives.

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The First Anniversary of the Global Development Network in New Delhi, India



P. Chidambaram, Minister of Finance, India, delivers the keynote address at a function to mark one-year of GDN's relocation to New Delhi

Targeted Interventions to Reduce Poverty

I am very happy to greet GDN on the completion of nearly one year since it's relocated from Washington DC to New Delhi. GDN's unique approach of harnessing the indigenous knowledge of local researchers from the developing world and using their insights and inputs to influence development policies is commendable. We are happy to have GDN with us and I am confident that the relocation of GDN will bring it closer to its core constituency which is the developing world and India will remain committed to a proactive agenda for economic reforms.

Our goal of course is poverty reduction, raising India's level of economic growth to that of a middle income country in the medium term and in the long term, becoming part of the developed world. There are three distinct strands in our efforts towards abolishing poverty. The first is to attain a higher rate of economic growth. We believe we can sustain a growth rate of 8%. That requires constant effort, constant vigil and more reforms. Our aim is to raise the rate of growth to at least 10%. The second strand is higher levels of investment in human development. Even while poverty has reduced in India and more and more people are enjoying the fruits of prosperity, there remains the sad fact that millions of people are living in extremely poor conditions, conditions which are an affront to human dignity.

The indices of human development are still very poor in many areas - child mortality, MMR and a host of other indices still make for very sad reading. The third strand of our strategy is through targeted intervention in the form of specific poverty alleviation programs, the most recent intervention of this kind being the National Rural Employment Guarantee Act. There

is of course a great deal of controversy about the success of these targeted intervention programs and I think it is necessary for us from time to time to closely evaluate the success of these programs. But these are the three strands, the three arms or three instruments from which we intend to fight poverty.

Since reforms began, poverty has reduced. The results of the latest NSSO, large sample survey conducted last year indicate that the rate of reduction of poverty was perhaps less than what was assumed earlier. Now that's not good news. Massive outlays of expenditure should have brought a greater rate of reduction. That has not happened. We are now in the process of examining why the rate of reduction has been slower and how to accelerate the rate of reduction of poverty. There are some other areas of concern - despite significant reduction in the poverty ratio even though the rate has been slower than assumed, the absolute number of poor continues to be very large. Over 260 million poor, perhaps the number is closer to 300 million, live in extreme poverty.

There are also inter state or inter regional differences. The southern, western states and the northern states seem to have done better. The central Indian states seem to have done poorly. The four states of Uttar Pradesh, Bihar, Madhya Pradesh and Orissa account for about 40% of the total population but for over 50% of the people below the poverty line. It needs to be mentioned that India is one of the very few countries which has identified different poverty lines at the sub national level, essentially to reflect the differences in the cost of living in different states of the country. Applying a uniform poverty line for the country as a whole would distort measurement by underestimating poverty levels in the urban areas and overestimating such levels in the rural areas. But this has policy implications and respective strategies for intervention. In this sense I ask you to consider whether the US 1\$ a day poverty line being used for the MDG's tends to significantly distort measurement of poverty in India, overstatement in some cases and understatement in other cases.

"GDN's unique approach of harnessing the indigenous knowledge of local researchers from the developing world and using their insights and inputs to influence development policies is commendable. (The Network) has important inputs to provide towards designing poverty alleviation strategies not only in India but across the world"

As I said a little while earlier, the launching of the National Rural Employment Guarantee Scheme in February 2006 constitutes the most significant state intervention for poverty alleviation in recent times and certainly the most significant step taken by this government in poverty alleviation. But only 200 districts are covered. It is hoped that all the districts in the country will be covered within a span of five years. Initial reports on implementation of the scheme are indeed encouraging but it's too early to come to any definitive conclusion.

I am sure that GDN in the future will have important inputs to provide towards designing poverty alleviation strategies not only in India but in all developing countries. I am happy to note that besides India, five other countries namely Colombia, Egypt, Italy, Senegal and Sri Lanka have signed the International Organization agreement so far. India and Sri Lanka ratified the agreement. I am confident that more countries will sign the agreement and more will ratify it. I wish GDN all the best and that GDN can count on the total support of the government of India in its work in developing countries.

*P. Chidambaram, Finance Minister,
India was speaking on the occasion
of the first anniversary of GDN's
relocation to New Delhi; June 2006*



Lyn Squire, President, GDN, presents the Finance Minister with a copy of the latest GDN publication, "Understanding Market Reforms"



Ernesto Zedillo, Chair of GDN addresses the gathering



Members of the GDN Board of Directors listen in

The Impact of Rich Countries' Policies on Poverty

Trade, Migration and Capital Flows

The influence of developed nations' policies on poorer countries has grown with the significant reduction in global trade and migration barriers coupled with the constantly rising volumes of capital flows to developing countries. In response to these changes, GDN devoted its fourth Global Research Project to studying "The Impact of Rich Countries' Policies on Poverty: Perspectives from the Developing World." This project uses three crucial policy areas - trade, migration and capital flows (aid and FDI) as single policy interventions as well as their joint impact to analyze the effects of OECD policies on poverty at the household level in developing countries. The project comprises of 30 country studies from across the developing and transition world. The research is organized around selected OECD policies. Research at the country level has been in progress for the last two years. The project will culminate with presentations of the final reports during GDN's Eighth Annual Global Development Conference in Beijing, January 2007.

The Impact of Technical Barriers to Trade on Argentine Exports and Labor Markets

Gabriel Sanchez¹, Maria Laura Alzua² and Ines Butler³

Developing countries and export led growth

Export led growth is critical to job creation and poverty alleviation, particularly in developing countries. Developing economies need to make efforts to achieve those benefits, regardless of the adjustment costs associated with the move towards liberalization which may in the medium term harm poorer actors⁴. However, the capability of developing countries to engage in international trade is conditioned by rich country policies.

Trade barriers arise from direct interventions in the price determination process, either through the application of tariffs, quotas, subsidies to exports, or through the application of standards and regulations. As tariff and quota barriers to trade in agricultural products, food, and manufactured goods continue to decline with the proliferation of multilateral trade agreements, public debate regarding the

impact of product and process standards and technical regulations is increasing. Standards and regulations have become a more common, though subtler, form of protection. Standards and technical regulations, be it for products, labor, or the environment, are applied for a variety of reasons – to mitigate health and environmental risks, prevent deceptive practices, and to reduce transaction costs in business by providing common reference points for notions of “quality”, “safety”, “authenticity”, “good practice”, and “sustainability”.

Segmented markets in the developing world

Standards in rich countries, regardless of their reasonability, may impose barriers to entry into industrialized countries' markets that in turn generates a segmentation of production between exporting and non-exporting firms. It has been documented that exporting firms have higher productivity and thus pay

higher wages⁵. These firms also tend to display higher quality standards. In general, only the most productive firms in a developing country such as Argentina, enter the export market to industrialized countries. They produce better quality goods for export than their counterparts supply to domestic markets with lower quality requirements. Segmentation can occur even within a same firm, having products of varying qualities. This segmentation in production has significant effects on the labor markets because workers employed in exporting firms get higher wages. In such a scenario, more stringent standards imposed by developed countries are likely to exacerbate the segmentation in production and affect the labor market by leading to greater wage inequality and employment problems if the size of the exporting sector is reduced. Additionally, compliance with standards is likely to be skill-intensive, thus leading to a bigger skill premium. This study appraises the extent to which standards and technical

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⁴ It is often mentioned in the literature that trade liberalization may increase unemployment and worsen income distribution in the short term, since some firms with low productivity may close down or take time to reconvert as a result of higher competition.

⁵ In the case of Argentina, average wages in exporting industries are 18% higher than in the non-exporting sector. Moreover, standards estimation of Mincer equations show that returns to schooling and experience are much higher in the exporting than in the non-exporting sector. Finally, labor informality rates (which bear a high correlation with poverty through lower wages) are higher in the non-exporting sector.

regulations imposed by the United States and the European Union may result in (i) bigger segmentation of production and lower export shares, with a directly negative effect on employment (ii) an increase of intra and inter firm wage inequality in the case of Argentina.

The road to achieving standards

Achieving a higher quality in employment and the goods that a country produces is key to achieve higher competitiveness, differentiating products and diversifying export destinations to sophisticated markets such as the EU and US. After the 2001 crisis, most private investment in Argentina has been directed towards expanding production for the

Such costs include ISO type environmental and product certifications, and the cost of investing in quality development. As observed from the table, such costs are far from negligible and they are proportionally higher to the size and scale of the firm.

Theoretical model

We developed a simple model of perfectly segmented markets and monopoly over each variety of goods. There is no capital and production uses two types of skills - high and low - in order to appraise the effects of a change in standards on employment, skill ratio and average wages. In the model, both market and production are segmented.

the average wage.

The model used has testable implications, and was tested using the National Survey on Firms' Innovation and Technological Behavior, a survey developed by the National Institute of Statistics and Censuses for the 1992-1996 and 1998-2001 periods. It collects samples of more than 1600 industries representing over 50% of the Argentine universe of firms. While the main objective of this database is to gather information about innovation and technological behavior of Argentine firms, it also has abundant information regarding the characteristics of firms (ownership, export shares and destination, employment structure, factor intensity, etc.). Regarding standards, the surveyed firms define the name, year and cost of the different certifications attained.

Table 1

Industry	Incremental costs relative to sale price
Chemical (granulated enzymes)	0%
Metals (aluminum and steel)	0 - 4.20%
Car parts (shock-absorbers & valves)	0 - 4.66%
Electrical machinery (digital scales & fitness equipment)	4.30 - 8.33%
Dairy products	1.77 - 3.19%
Shoes & Footwear	10.73%
Processed foods (juices & canned products)	2.44%
Oil refining	2.50%

Source: IERAL - Unido Survey

domestic market rather than improving quality. The amount of investment directed towards improving product quality reduced from 43.6% in 2001 to 17.9% in 2004⁶. This lower investment in quality is consistent with the fact that although exports of manufacturing products are showing a more dynamic behavior than before the crisis, the countries of destination of such exports generally demand lower quality than the EU and US.

Any increase in standard stringency, as has been happening in developed countries in recent years, may have the short run effect of discouraging the already sluggish behavior of Argentine exports to the EU and US. The incremental cost to Argentine firms of complying with specific standards to export to US and EU is assessed in Table 1.

Firms must produce products of higher quality – or efficiency units- in order to sell them to industrialized countries. Goods of higher quality are more skill intensive than goods produced for the domestic market or other foreign destinations. More stringent standards and regulations (which we proxied by an increase in efficiency units) raise average costs of production and prices in goods sold to industrialized countries. As prices increase, because of higher costs, quantities exported to such destinations fall. Export shares to industrialized countries fall. The implications for total employment are ambiguous, because while higher skill is demanded to produce a higher quality goods, this is reduced as exports to industrialized countries decline. However, as quality is skill intensive, the skill ratio increases as also

The increase in standards stringency has a negative effect on export shares. More stringent standards appear to reduce firms' export shares (to the US and EU) by 36 basic points. Another variable negatively effecting export shares is the average industry costs of standard compliance. An increase in the industry costs of compliance reduces export shares of the firms belonging to industries that export to the US and EU. In terms of labor demand, three different specifications for the dependent variables were estimated - number of employees and two specifications for the ratio of white collar employees to total workers. The change in standard stringency has no effects on the total number of employees, but a positive effect on white collar/blue collar employment ratio in the exporting firms is observed. In particular, for the firms exporting to the US and EU, more stringent standards appear to have increased their share of technical personnel by 48 basic points.

The impact on wages was also estimated. To measure the effect of standard stringency on wages, wages per employee was taken as the dependent variable wages per employee. While the ideal dependent

⁶ Source: INDEC, National Institute of Statistics and Censuses

variable would be wages for each category of workers (white and blue collar), there is no such information and therefore, average wages was used instead. The overall effect of standard stringency on average wages is negative. This is consistent with a reduction in exports and net producer prices that are passed on to workers.

Conclusions

More stringent standards do appear to have a negative impact on exports to the

EU and US. An increase in standard stringency reduces export shares of already exporting firms. Conditional on reducing export shares, the firms which export, increase their demand for more skilled workers, especially in industries with a higher cost of compliance. Moreover, average wage per employee is reduced. The facts that demand for skilled labor increases while average wages are reduced deserve further examination. Our results represent a contribution to existing empirical research about the effects of standards on trade. However, more

work on firm level micro data is needed in order to measure the effect of standards on trade, employment and wages in order to be able to formulate policy recommendations. For the specific case of Argentina, the gap between wages, returns to schooling and informality between workers in the exporting and non exporting sector is widening. Facilitating the compliance with standards of Argentine firms should be a top priority in the agenda.

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The Impact of Reforming the Common Agriculture Policy under the Doha Development Agenda, on Poverty in Tunisia

Mohamed Abdelbasset Chemingui

Motivations and objectives

Agricultural trade between Tunisia and the European Union (EU) has been governed by the partnership agreement signed in 1995 and entered into effect in 1998. This agreement excludes agricultural trade. Both parties agreed that further liberalization of agricultural trade will be achieved according to the progress of the multilateral negotiations within the framework of the World Trade Organization (WTO), particularly under the Doha Development Agenda (DDA). Since the first co-operation agreement signed by Tunisia and the EU in 1976, Tunisian agricultural exports have benefited from a preferential access to the European market. This agreement has been amended many times.

The last agreement entered into effect in 2001, stipulated that Tunisian imports of European agricultural products do not benefit from any privilege as compared to the rest of the world. In 2001, Tunisia offered the EU an important share of the preferential tariff quotas, set for some products under the Tunisian commitment to the GATT agreement. Any improvement in the access of Tunisian agricultural products to European markets could be only accomplished through a reform of the Common Agriculture Policy (CAP) governing the European agricultural trade policy.

Any reform to the most distorting pillars of the CAP, export subsidies and direct support, should have an important impact on the international market for

agricultural products since the support provided under these two pillars led to a decrease in the world prices of the major agricultural products structurally imported by Tunisia. Low world food prices has two effects on a country like Tunisia. First, the country benefited from import prices much lower than the real cost, allowing it to reduce its food bill. Second, given that Tunisia subsidizes food consumption for a large proportion of its population, the low level of agricultural import prices has allowed Tunisia to avoid rocketing food subsidy costs.

Such a situation is no longer sustainable given the exorbitant cost of the support policy to the agricultural sector in rich countries. The recent expansion of the EU provides challenges to CAP because

of the importance of agriculture in the economies of most of the new member-states. Consequently, CAPs reform is imminent and will affect the Tunisian economy both directly and indirectly. Changing trade preferences in favor of other member-states of the EU will also affect Tunisian agricultural exports to the European market. Welfare levels of the Tunisian population also stand likely to be affected by reforms. Changes in production prices and conditions of access will affect both farmers and consumers. In a country characterized by high thresholds of poverty and where agriculture plays a crucial role in the regional economy, such changes are likely to have a significant effect on poverty in the country.

This study analyzes these concerns through estimating the impact of plausible scenarios of CAP reform on poverty in Tunisia taking into account the last European proposal of reform submitted to the WTO. While the analysis presented in this note is limited to the national level, the research report extends the analysis to the regional level. A dynamic computable general equilibrium (CGE) model is used for the assessment of these reforms based on the results of the most recent global analysis assessing their effects on world prices of agricultural products and preferences addressed to Tunisian exports. New vectors of world prices and foreign demands are imposed on the Tunisian economy in order to estimate their relative impacts on overall economic performance and poverty change.

Reform of the common agricultural policy

The last EU proposal to the WTO is considered to provide the framework for any future reform of the CAP. The Agreement proposes a three-pronged package of reform:

***Market access** - Highest EU agricultural tariffs are to be cut by 60%, average agricultural tariffs by 46%, and maximum agricultural tariffs will be

fixed at 100%.

***Domestic support** - 70% reduction in trade distorting agricultural subsidies.

***Export support** - Total elimination of all agricultural export support by 2013.

The CAP reform proposal will have multiple affects on EU trade relationships and traditional trade partners like Tunisia. There is a risk of erosion of preferential schemes for some products. Tangermann (1996) provides an estimation of loss in margin of preferences for Tunisia on the European market in the event of the implementation of another multilateral agreement. The estimation shows that the erosion of margin of preferences will reduce the preference that Tunisia is enjoying, by 9%.

Impact of CAP reform on poverty in Tunisia

A dynamic CGE model is used to analyze the effects of CAP reform under the DDA on poverty in Tunisia. Its main advantage lies in the possibility of combining detailed and consistent databases with a theoretically sound framework, and the ability to capture feedback effects and market interdependencies that may either mute

or accentuate first-order effects. The model used here is based on a detailed social accounting matrix for the Tunisian economy for the year 2001. After calibrating the baseline scenario, a number of alternative trade scenarios linked to the reform of the CAP are implemented. World price changes used in these simulations are drawn from the most relevant literature on assessing DDA agreement on agriculture. This includes studies using global CGE models: Polaski (2006) and Bouet et al(2006); partial equilibrium analysis: FAPRI (2002), USDA (2001), and OECD (2005).

- ✎ CAP-BO: Changes in world import prices according to the IFPRI study
- ✎ CAP-PO: Changes in world import prices according to the CARNEGI study
- ✎ CAP-PE: Changes in world import prices according to partial equilibrium analysis
- ✎ CAP-PR: Loss of preferences of Tunisian products on the European market
- ✎ CAP-PP: Changes of world import prices according to partial equilibrium analysis combined with loss of preferences on the European market

Macroeconomic effects of rising import prices of agricultural goods are relatively negligible. Aggregate exports

Table 2: Indirect compensation by household and simulation (deviations from the base value in 2015)

	BASE	CAP-BO	CAP-PO	CAP-PE	CAP-PR	CAP-PP
Decile1	1.012	0.0%	0.0%	0.9%	-1.9%	-0.9%
Decile2	1.367	-0.1%	-0.1%	0.0%	-1.4%	-1.3%
Decile3	1.654	-0.2%	-0.1%	-0.4%	-1.0%	-1.4%
Decile4	2.051	-0.2%	-0.1%	-0.7%	-0.8%	-1.5%
Decile5	2.238	-0.4%	-0.3%	-1.6%	-0.1%	-1.7%
Decile6	2.879	-0.4%	-0.3%	-1.8%	-0.1%	-1.8%
Decile7	3.351	-0.4%	-0.3%	-2.0%	0.1%	-1.9%
Decile8	4.121	-0.4%	-0.3%	-1.9%	0.1%	-1.8%
Decile9	5.791	-0.4%	-0.3%	-1.6%	0.1%	-1.6%
Decile10	11.015	-0.3%	-0.2%	-1.4%	0.0%	-1.4%

Source: Simulation results

do not change in all simulations. However, imports change by 0.1 percentage point for three simulations and by 0.2 percentage point in the remaining scenarios. The results show a relative decline in the total absorption. This is expected given the relatively low contribution of the agricultural sector in the Tunisian economy.

The impact of shocks on sectoral production and trade is most visible for cereals such as wheat, forages, and food processing industries. The domestic producer prices of imported products increase as result of the rise registered in the world market. These higher producer prices imply an improvement in the profitability of these activities and some substitution towards other crops. Because of the relatively inelastic supply of cereals and limited productive resources, even a higher production prices cause only no more than 1% of production increase compared to the baseline scenario. This is achieved where producer prices of imported products increase and volume of exports goes down as result of loss in preferences on the European market.

The impact on household welfare depends on the size and the share of total expenditure on agricultural and food products and the importance of incomes generated from agricultural activities. The greater the income generated by the household, the greater will be the effect of changes in world prices and preferences on welfare levels. The first indicator of welfare change is the indirect compensation, which measures the income needed at base prices to generate same welfare levels, as at the base year. Table 2 shows that the first two simulations generate very small changes in this indicator compared to the situation that will prevail during the baseline scenario.

Given the low level of increase of import prices of agricultural products, which is manifested by an improvement of the profitability of agricultural activities on one hand and an increase of consumption prices on the other, the overall effect

on households is slightly positive. This can be explained by the fact that the various household categories need less income than in the baseline to generate the same level of welfare as in the base year. Even with the third scenario, which considers a more important increase in world import prices for agricultural products, the overall effect on household welfare is still very limited. This can be explained by the symmetric repartition of agricultural income, mainly capital and land income, among all categories of households in the country. However, the indirect compensation is slightly positive for the poor households and negative for the richest households. This is explained by the fact that the poor households benefited from an increase in real wages and in a reduction in unemployment among workers in the agricultural sector while the richest households do not profit from wage increase as most of them are not working in the agricultural sector.

Conclusion

At the macroeconomic level, the results of the world price changes do not appear to have a large impact due to the relatively small contribution of the agriculture sector in the economy. While it is evident that world price changes can have significant effects on poverty among producers of specific crops, our results show a relatively moderate effect on welfare levels for the different categories of households. This is the direct effect of the relatively small number of producers of each crop within the national population in general and within each decile more specifically. This result is also explained by the relatively small proportion of income spent on each crop by consuming households among the different deciles. However, loss in preferences impacted more negatively, producers and positively consumers, in Tunisia as result of decrease of export prices.

Tunisian national Mohamed A. Chemingui holds a Ph.D in Applied Economics. His research interests are in the areas of international trade, labor markets, and poverty reduction.



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Analyzing Social Opposition to Reforms in the Indian Power Sector

V. Santhakumar

V. Santhakumar was awarded the GDN Prize for Outstanding Research on Development (2003-04) for his proposal on analyzing, the process of social opposition to reforms in the Indian power sector. Santhakumar presented his final findings at a panel discussion in New Delhi earlier this year.

The initiation of “institutional reforms” in the generation of electricity in several developing countries since the 1990s has included attempts to bring in private firms in certain activities in the provision of these services. Efforts were made to restructure the government-owned utilities involved in the distribution of services such as electricity. These have taken several forms including the unbundling of the utilities into separate entities for generation, transmission and distribution; converting these unbundled entities into registered companies initially with government ownership; and/or privatization of these companies; rationalization of tariffs for these services and handing over the task of fixing tariffs to independent regulators.

However all or some dimensions of these reforms (especially tariff reform and privatization) encounter stiff opposition in many societies in different parts of the world at both the proposal and implementation stage. In democratic societies, it is not infrequent to see the voting out of governments, which have gone ahead with such reforms and this makes successive governments or other political forces in these regions, reluctant to undertake reforms. Thus social opposition is a major stumbling block to reforms.

Need to study social opposition

The need to understand the rationale behind such wider social opposition to reforms becomes especially necessary given that systematic empirical evidence on the determinants of social support or opposition to reform is scarce (Fidrmuc and Noury 2002¹). Which are the groups, social and economic which oppose reforms? Why do individual people oppose reform? A context to study these questions is provided by India which has not experienced any notable improvements in the quality and availability of power supply despite the implementation of economic reforms.

It is widely held that in India, industrial and commercial consumers support and demand reforms (including

privatization) in India, and the average tariff paid by them are higher than the average cost of supply. Hence, they see themselves as bearing the cost of inefficiency of the utilities and the burden of subsidy provided to domestic and agricultural consumers. There is also a general perception that farmers who receive electricity free of cost in certain parts of India oppose reforms. There remains however, very little known on the position of households in general or more specifically domestic consumers. These perceptions become particularly important given that state governments in India are often unwilling to implement power sector reforms due to opposition from significant sections of electorate. There are two specific strategies of reform considered here: (1) The idea of privatizing electricity utilities (2) The possibility of enhancing tariffs to provide better quality supply. How people from different socio-economic groups respond to these reforms and whether there is any relationship between their responses and the functioning of the electricity sector in a given context. Specific attention needs to be paid to the link between opposition to privatization and tariff reform, and the quality of supply prevailing within a state.

Framework and method of study

The study was based on a primary survey covering 7000 households in 14 states across India. The survey was designed with the intention of getting a representative sample of connected households in each state. 1500 unconnected households were also surveyed all over these states. The survey data is analysed descriptively and through logistic regression methods in which response to reform (example, the response to privatization proposal as “Yes”, “No”, “Indifferent” or “Ignorant” to make a comment on privatization) is taken as dependent variable, and independent variables included tariff range, durations of power cuts, irrigation connections, years of schooling and quality of housing.

¹ Fidrmuc, J. and A.G. Noury (2002) ‘Interest Groups, Stakeholders and the Distribution of Benefits and Costs of Reform’, memo, prepared for the GDN Global Research Project on ‘Understanding Reform’.

Key findings

Some of the key findings of the study include:

Education and household assets

The response of the household to privatization becomes more vocal as the level of education rises. On the basis of data on household assets such as roofing materials, regression results indicate that those who stay in better quality houses are 1.5 times more likely to say “yes” to privatization than those staying in poor quality ones.

Electricity connections

Thirty-five percent households in India remain without electricity connections. More than two-thirds of unconnected households in six states (and more than four-fifth in five states) expressed “don’t know” as their response to privatization. The percentage of unconnected households saying “no” to privatization is much lower than among connected households. Nearly 90% of unconnected households in all states are either indifferent to or uninterested in privatization.

Tariff rates

In Kerala, Tamil Nadu, Andhra Pradesh, Orissa and Bihar, more than 70% of the households pay less than Rs. 2.50 (about 50 cents) per unit, where as in Gujarat, Haryana, Rajasthan, Maharashtra, Punjab and West Bengal more than 60% of the consumers pay greater than Rs. 2.50. Those who pay above the cost of supply are 1.5 times more likely to support privatization than saying “no” compared to those paying lower tariff. People paying higher tariff are three times more likely to be indifferent.

Quality of electricity

The quality of electricity varies across different states. While those who encounter long duration power cuts (more than 45 minutes daily) are moderately more likely to say ‘yes’ to privatization, this is not significant. They are however, significantly more likely to be indifferent.

Commercial households

Households owning trade/commercial establishments pay an electricity tariff higher than the average cost of supply in most states. Thus a household owning such an establishment is likely to respond to proposals of privatization differently from others. Only those having such a connection are more (1.6 times) likely to be indifferent than saying no, compared to those who do not have such connection. Agricultural consumers receive a larger subsidy built into their very low (sometimes zero) tariff. However our exercise indicates that irrigation connection does not influence significantly the likelihood of expressing any opinion on privatization as evident



A panel hears Santhakumar’s findings at a workshop in New Delhi, India

from the regression exercise. It shows that urban households are slightly less likely to support privatization than the rural ones. Those who are willing to pay more are much more likely to say ‘yes’ to privatization. Thus the lack of social support for privatization should not be interpreted as a readiness to take efforts to make state-owned utilities more viable and efficient (if making them financially viable is also a part of making them efficient.) This indicates that the separation of efficiency reform and tariff reforms is not feasible. For example, citizens may not support independent regulation despite the efforts of the regulator to improve efficiency of the utility, if such regulation enhances tariff or reduces cross subsidy.

Conclusion

What can policymakers do to reduce social opposition in the “anti-reform states”? A substantial proportion of subsidy goes to the non-poor sections of society. For example, the upper 20% of income earning households in Kerala take about 25% of the subsidy. Releasing these groups from the subsidy net will not only enhance the financial viability of the utility but also increase the support base for privatization. There needs to be an improvement in governance of the provision of basic services such as electricity. Governance remains primarily with state governments. As the majority get subsidy and they perceive immediate

losses in the event of reform, these get blocked. If the governance of electricity sector is with a body elected by its stakeholders (i.e., not only households but also industrial firms) with a voting power based on the amount of consumption (like the Water Boards in the Netherlands), then those paying a tariff near or higher than the average cost of supply would be able to have a decisive influence, creating a facilitating environment for reforms.

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Bridging Research and Policy

As a global undertaking, the “Bridging Research and Policy” project provides an unprecedented account of the gaps in knowledge provision and utilization in diverse national settings and sectors: healthcare, education, forestry, energy, to name but a few. Conducted by developing and transition country specialists, BRP studies produced rich data and analysis concerning the impact of policy research on decision-making in countries with fragile political structures and institutional environment. Of special note are the following factors that inhibit effective “bridging” in a “Southern” context:

- Insufficiently developed policymaking processes that provide only limited space for knowledge utilization;
- Weakness of independent media, specialized policy networks and advocacy coalitions that offer few channels for research-to-policy communication;
- Deficient management practices, human capital and financial constraints that negatively affect the capacity of policy research institutes to produce credible, timely and operational evidence to meet local demand;
- Poorly coordinated and shifting donor priorities that fail to produce proper incentives for institutional development and research capacity building in strategically important policy areas.

The two studies presented in this section are quite different in scope and approach. Stephen Karekezi and his colleagues analyze the energy policy formulation process in five East African nations. According to them, driven by nature and external factors, the energy policymaking process is best characterized as a stop-go process, creating adverse long-term incentives for research capacity building in the sector.

Conversely, the country study of India by Tarun Das, compares two distinct policy areas - external sector liberalization and labor regulation - in a single national setting. The study highlights the role of organized interests in blocking policy innovation in spite of overwhelming research evidence and generally open policymaking and culture in India.

- Eric Livny, Project Coordinator and Director,
Economics Education Research Consortium (EERC), Moscow, Russia

Influencing Policy in the African Energy Sector

Stephen Karekezi, Bereket Kebede, John Kimani and Nicholas Owino

In this study, AFREPREN/FWD¹ examined the research-policy link in the energy sectors of five Eastern and Southern Africa countries - Botswana, Kenya, Tanzania, Uganda and Zimbabwe. The study focused on the preparation of the national energy policy documents in the five countries with the central objective of assessing the impact of research on energy policy and proposing options for enhancing its impact. The study identified researches that had significantly influenced policy, specifically, the national energy policy documents. Thereafter, the characteristics of influential research were examined to establish the critical features that made them potent in influencing policy.

Key findings

The importance of technical detail

It is worth noting that, in several cases, regardless of the nature, influential research had a significant level of technical detail. This is probably because most of the energy experts involved in the policymaking process have technical academic backgrounds (mainly engineering), and hence value highly technical reports. This characteristic makes influential researches in the energy sector somewhat unique compared to those in other sectors such as agriculture, health, water, etc. The importance of technical expertise was demonstrated

¹ AFREPREN/FWD – an NGO based in Nairobi, Kenya, brings together the regional program of the African Energy Policy Research Network (AFREPREN) and the Foundation for Woodstove Dissemination (FWD)

by the fact that research organizations specializing mainly in energy were more influential than those involved in a wider range of sectors.

Political contexts

The restructuring of government ministries in all the study countries stimulated the development of a comprehensive energy policy. In most countries, the establishment of independent ministries of energy or departments of energy within broader ministries was a catalyst for the preparation of energy policy documents. The policy formulation processes in the study countries exhibit many similarities among which, the initial stage where the agenda is determined was, in most cases, firmly controlled by the government in all the study countries. Due to the difficulties of influencing the policy process at later stages when it is at the cabinet level or when it is being discussed inside parliament, the importance of the first stage cannot be exaggerated.

The energy policy formulation in all the study countries took an inordinately long time; this is confirmed by both the timeline analysis as well as the opinion of the majority of the surveyed policymakers and researchers. This long drawn process appears to have had a negative impact on the research-policy link because on the one hand, the absence of a strong epistemic community makes it difficult to keep researchers interested for long periods of time and, on the other hand, many issues are overtaken by other political events.

Government participation

Findings of the study indicate that all the influential researches involved policy makers. Almost all the researchers identified as influential had been commissioned by the government or involved significant participation of the government irrespective of their nature (i.e. whether macroeconomic energy demand forecast, macroeconomic impact of investment or micro-household data survey and analysis).

Other contexts – internal and external

In addition to the structural adjustment

programs other exogenous contextual factors – internal as well external – have also influenced the energy policy process. Changes in politics, macro-economy, world oil prices, internal shocks like drought and regional initiatives such as NEPAD have influenced policy formulation. Botswana's case appears to be unique as policies for the energy sector development are an integral part of the macro-economic policy making process. Consequently, the energy sector has successfully attracted a significant national budgetary allocation. In addition, the policy making process appears to be a continuous development that has greatly benefited from the country's good governance and political stability.

Recommendations

Based on in-depth analysis of the data, some of the key policy-related recommendations relevant for researchers and policymakers in Africa arising from the study included:

Specialize

Specialization of the research/consultancy organizations in energy related issues is an important factor that can determine the extent to which research influences policy. This comes up repeatedly in the study countries. All influential institutions that were identified have specialized in energy issues.

Adapt to the advent of a more competitive political system

As indicated above, most of the research input in the energy policy formulation happens at the initial stage. As political systems become more competitive – a trend observed in many developing countries – both researchers and policymakers should be open and ready to contest policy issues at different stages. For example, more debate and discussions should be encouraged when the policy document is being considered by the cabinet or parliament.

Adapt to the short-term continued dominance of energy policy formulation by the government

In the long run, researchers should attempt to influence policy formulation at different stages. In the short run, the dominance of the government in initiating the policy process is expected to continue. Policymakers should increase consultations with researchers and stakeholders at this stage and researchers should exert as much influence as possible during this early stage.

Take networking potential into account when appointing personnel

Many cases in the AFREPREN/FWD study highlight the importance of personal networks between policymakers and researchers in strengthening the research-policy links. In many instances, the appointment of individuals that were active in energy research projects to important policy making posts have improved the chance of using research results in policy.

Adapt to the high turnover of manpower

The ministries of energy in the study countries experienced high turnover of personnel; the effect of this is compounded by the lengthy policy process. Discontinuities associated with this high turnover are inimical to the research-policy link. The provision of better incentives and work environment can decrease this turnover. In some cases, this high turnover can also be used to strengthen the research-policy link. For example, in many instances, personnel that left the ministries started working in academic/research institutions. Former employees of the ministries can use their networks with their former colleagues to strengthen this link – as actually happened in some of the cases covered by the AFREPREN/FWD study.

AFREPREN/ FWD based in Nairobi, Kenya brings together over 200 African researchers and policymakers with long-term interest in energy research and the attendant policymaking process .

Bridging Research and Policy- a Case Study of India

Tarun Das

This study of India critically appraises the research-policy-implementation linkages in the external sector and labor market reforms initiated since 1991. Linkages between research and policy-implementation are very complex in a democratic set-up like India, and the political institutional context is the most important factor determining the scope and extent of such linkages.

Reforms in the external sector were most comprehensive and met with less political resistance as the working class was not affected adversely by policies that included liberalization of exchange control regime, foreign investment and technology transfer, removal of trade licenses and quantitative restrictions and reduction of import duties. The progress in privatization and labor reforms was slow primarily because of political economy constraints.

Research methodology

Research methodology involves a combination of desk study and surveys. The study applied both forward looking approaches (focusing on individual pieces of research to examine if it had any material impact or influence on policymaking and why some recommendations were accepted and others not) and backward-looking approaches (identifying researches that led to a particular policy change.) The basic data and information on the explanatory variables (viz. the context, evidence, links and external influence etc.) were collected on the basis of desk studies, sample surveys and interviews.

Impact of research on policymaking

Results of the application of forward looking approaches in both sectors reveals that while the impact on policy formulation was medium to major, the extent of implementation was partial, and the lag between research and policy

planning and between policy and implementation was very long. It is interesting to note that when we analyzed results of channels for linkages, research cited in official documents was observed to be non-significant (lowest 20 per cent), policy briefs included in a background note had marginal impact (21 to 50 per cent) while experts invited to express opinion before a committee or to be included in a task force or to conduct independent research were observed to be most preferred channels (51 to 80 per cent).

Differences between researchers and policymakers

A detailed survey of distinguished economists and policymakers revealed that while there existed continual dialogue and interaction among policymakers and researchers, researchers felt that government

advisers lacked specialization and were guided by vested interests and directives from their political bosses. On the other hand, policymakers felt that researchers were too theoretical in their analysis, ignored the political economy, operational and financial constraints, and were ignorant of international best practices.

The majority of researchers working in private research institutes felt that there were systematic problems in the way government approaches research as many policymakers are not in the habit of reading research papers, and the policymaking process is not transparent enough to ensure public debate on many issues. The ability of bureaucrats to understand quantitative research was also thought to be limited. Government advisers accused researchers from private institutes of producing mainly theoretical and philosophical studies without much operational and practical

Table 3: Classification of articles published in the 'Indian Journal of Labour Economics' by quality, relevance and type of research

Volume (No.) / Year	No. of articles	Quality of research*			Relevance of research**			Type of research***				Papers Having Policy suggestions
		ES	RA	IE	TM	TP	OP	BR	PO	OR	EV	
Vol.40 (1) 1997	12	2	9	1	2	10	0	2	7	0	3	1
Vol.40 (2) 1997	13	7	4	2	5	7	1	2	7	0	4	4
Vol.40 (3) 1997	11	2	9	0	2	9	0	1	9	0	1	3
Vol.40 (4) 1997	24	8	15	1	10	14	0	5	12	3	4	9
Vol.41 (3) 1998	10	5	4	1	5	5	0	4	6	0	0	1
Vol.41 (4) 1998	36	23	12	1	23	13	0	0	23	9	4	14
Vol.42 (1) 1999	7	1	6	0	1	6	0	0	6	1	0	3
Vol.42 (2) 1999	10	7	3	0	6	4	0	6	2	1	1	2
Vol.42 (3) 1999	9	0	9	0	0	9	0	0	5	0	4	8
Vol.42 (4) 1999	22	4	18	0	6	16	0	1	16	3	2	5
Vol.44 (1) 2001	6	1	4	1	1	5	0	1	3	0	2	0
Total	160	60	93	7	61	98	1	22	96	17	25	50

Notes: Figures in cells indicate number of articles.

*Quality of research is categorized as ES (Econometric or statistical analysis), RA (Review and Analysis) and IE (International Evidence).

** Relevance of research is grouped as TM (timely), TP (topical) and OP (operational).

*** Type of research is categorized as BR (Basic Research), PO (Policy Oriented), OR (Operational Research) and EV (Evaluation of policies).

relevance and convincing arguments. However, they agreed with researchers that there existed legal, constitutional and institutional problems in implementing policies, particularly in labor market regulation and privatization.

Measures to enhance policy-research inter-linkages

Researchers and policymakers were requested to highlight five important measures for bridging research and policy and to grade these on a scale of 1 to 5. As judged by average grade, setting up working groups comprising all stakeholders, having regular consultations, organizing workshops, appointing researchers as consultants to the government and commissioning policy-oriented research were considered to be the most important channels for bridging research and policy. Other effective measures included allowing government officials to join research institutes for a specified period on sabbatical leave or to proceed on study leave or to join a refreshers course. Setting up in-house research institutes by government departments was not considered to be an effective instrument for linking research and policy.

Relevant factors

The study highlights the following factors as being relevant for effectively bridging research and policy:

- (a) Research on topical issues is more appealing to policymakers.
- (b) Researches that use extensive comparative data on international best practices are more useful.
- (c) Quantitative analysis of an economic issue with alternative remedial measures is more acceptable to the policymakers.
- (d) Involvement of researchers in the policymaking process from the very beginning encourages policy-oriented research and visa versa.
- (e) Continuous feedback between research and policy not only improves

quality of research and openness and transparency in policymaking, but also build ownership of both research and policy. In the case of labor reforms in India, research and policy have moved back and forth many times due to socio-political constraints. In some cases, links have not ultimately led to concrete policies, but this has been able to remove distrust among various stakeholders such as employers, employees, trade unions, government officers and researchers.

(f) Continuous feedback loops between research, policy, implementation and monitoring have also led to setting up or strengthening the existing think-tanks and intermediaries e.g. industry, trade, researchers and workers associations.

(g) Institutional credibility and reputation of a research institute is important. This allows for the sustained impact on policy making.

(h) Research institutions with close links to policymaking institutions due to funding arrangements, have a major impact on the policymaking process and uptake of research.

(i) Efforts should be made to formalize the informal links between researchers and policymakers.

(j) Qualifications and experience of policymakers influences their ability to be suitably equipped to understand research findings.

(k) The involvement of individual experts is also equally important in strengthening the policy-research nexus. The system of appointing experts as consultants for a specified

period or as policy advisers on permanent basis has helped in bridging research and policy and encouraging research in new fields.

(l) Creation of working groups/ expert or specialized groups is useful but care should be taken in selecting members of expert groups so that members with diverse ideologies are represented.

(m) Multilateral and bilateral donors have supported activities and research to a great extent leading to the uptake of their research input. These donors must enhance their grants to research institutions for policy-oriented studies.

(n) As political context is the most important factor influencing uptake of research for policy planning, both researchers and policymakers should conduct more studies to educate politicians and other stakeholders about the scope, direction and favorable impact of reforms and international best practices.

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Explaining Growth: A Comprehensive Assessment of Growth Across Regions

A GDN Global Research Project

The Global Research Project “Explaining Growth” is an attempt to compile the most comprehensive assessment of growth in developing and transition countries. The focus on growth does not imply the old mistake of seeing economic wealth as the ultimate measure of well being. Rather, the project initiated in 2000, takes the view that growth provides the opportunity to use resources well—while stagnation or deterioration robs countries of the power to act. The project also recognizes that there are many paths toward growth, some leading to dead-ends and others ever onwards to sustainable prosperity for all. A thorough understanding of the history of growth points the way forward.

Designed in two phases, the first phase sought to review and discover broad similarities and comparable experiences in each of six regions spanning the developing world—East Asia, South Asia, Latin America and the Caribbean, Eastern Europe and Former Soviet Union, Middle East and North Africa, and Sub-Saharan Africa. These reviews provided the framework for the second phase of the project, in-depth country case studies of growth. Regional reviews at the first stage encompassed four themes.

The first focused on **sources and determinants of aggregate growth** and sought to deliver to country case study authors a summary of cross-country growth analysis. The second turned to the **role of markets in influencing economic growth**. Authors explored the functioning of key markets—especially those for labor and capital—and assessed the extent to which they have hampered or contributed to growth performance.

The third examined the performance of **microeconomic agents in the growth process**. It focused particularly on households and enterprises, and covered such issues as household saving and spending on education, and firm and farm investment and productivity growth. The fourth looked at the **political economy of growth**. Certain policies undoubtedly constitute an important source of variation in growth experiences. The papers on the political economy of growth investigated why countries pursued the particular policies that they did, sometimes even in the face of evidence of their failure.

With the objective of providing a framework for the country studies, the regional thematic research drew heavily on the existing empirical literature to support findings and, depending on data, used a long historical perspective of 30 to 50 years to inform a close look at more recent events and prospects for the future. A considerable effort went into interpretation, providing vehicles that help the country authors to explain growth in the context of specific countries by pointing to areas warranting additional work, as well as indicating countries that in some respect present a unique issue or problem that warrants separate analysis.

Over forty authors drawn from all six regions participated in Phase I of the project. The authors worked together and with eminent economists as resource persons designated to provide technical assistance to the researchers.¹ The final step for the thematic papers took place in June 2000 in Prague when the International Economic Association undertook an independent review of the thematic papers prior to publication.

Explaining economic performance: at the country level

Phase II of the project turned from broad regional themes to the in-depth analysis of the particular experiences of over 70 countries. Given the four themes of the regional reviews, the authors of the country studies explored how each theme played out over a nation’s history. Thus, the authors substantiated general conclusions with real instances, while adding a necessary degree of nuance. In some cases, authors explored circumstances that led to experiences substantially different from prevailing regional events.

The authors divided the years from approximately 1950-2000 into different periods, each of which is distinguished by an important turning point in the country’s growth history. (Note that for the transition countries of the former Soviet Bloc, the emphasis was on the post-1990 period.) For example, a major policy shift or large natural resource discovery may have set a country off on to a different growth pattern, both quantitatively and qualitatively. For each period, the authors presented the initial conditions, including the institutional and policy heritage and political interest groups.

They then undertook an analysis of: the behaviour of agents and their behaviour with respect to any exogenous or endogenous shocks; the interaction between the behavior of agents and policy and institutional changes; the growth outcome of each period and any important changes in institutions, policies, and political interest groups; and any important changes in other indicators of development, such as

¹ Among the resource persons are Angus Deaton of Princeton University, Robert Solow of MIT, and Joseph Stiglitz, former chief economist of the World Bank, now at Columbia University.

poverty, income distribution, health, education, and the environment.

Authors then outlined the main conclusions of the results of the period analysis, emphasizing the factors of production that were most important for explaining aggregate growth, and the policies and institutions that helped or hindered the accumulation or efficient use of these factors of production. Future prospects for aggregate growth in the country and policy and institutional recommendations are also discussed. Finally, authors attempted to explain how their results shed light on the issues highlighted in the thematic overview studies. Regional publications of the country studies are currently available for the CIS countries, Latin America and the Caribbean and South Asia. Further publications on South Asia, Sub-Saharan Africa, and the Middle East and North Africa are expected in late 2006 or early 2007.

From the conclusions of the 76 country studies and the regional studies will emerge a new synthesis that revisits and deepens the comparative assessment of growth begun by the thematic papers. Such a synthesis—scheduled for completion at the end of 2006—will greatly enrich an already comprehensive global account of economic growth.

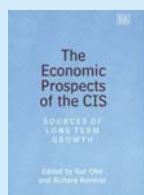
Publications

The high quality of research generated through this project resulted in many publications which have become an excellent source of information on growth and are useful for policymakers, researchers, and the general reader interested in growth theory and development.



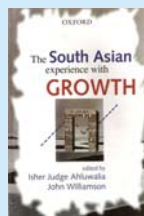
Explaining Growth: A Global Research Project

Gary McMahon and Lyn Squire (eds.)
Palgrave Macmillan in association with the
International Economic Association: Basingstoke,
Hampshire (2003)



The Economic Prospects of the CIS: Sources of Long Term Growth

Gur Ofer, Richard W. T. Pomfret (eds.)
Edward Elgar: Cheltenham, UK (2004)



The South Asian Experience with Growth

Isher Ahluwalia & John Williamson (eds.)
Oxford University Press, India (2003)



Sources of Growth in Latin America: What is Missing?

Eduardo Fernández-Arias, Rodolfo Manuelli,
Juan S. Blyde (eds.) Inter American Bank (2006)

FORTHCOMING

Explaining Growth in the Middle East

Jeffrey B. Nugent, Hashem Pesaran (eds.)
Amsterdam: Elsevier, Contributions to Economic Analysis Series

GDN Special Events



Dhananjayan Srikantharajah, IPPR - UK, makes a presentation during a roundtable discussion "People Moving: Jobs Moving: The Impact of Migration from India to the UK"

February 2006; New Delhi, India



Lyn Squire, President, GDN, leads a discussion at the one-day workshop "Understanding Social Opposition to Power Sector Reforms in India"

March 2006, New Delhi, India



The first meeting of the GDN Board of Directors at our new secretariat in New Delhi, India

June 20 - 21, 2006

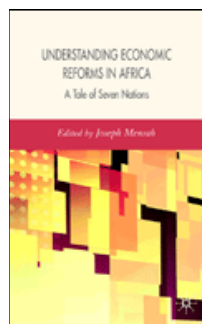


Group activity in progress at the "Knowledge Management Capacity for African Research Institutes and Networks: East Africa Workshop", Kampala, Uganda

June 5 - 7, 2006

From the GDN Library - A Focus on Reform

RECENT PUBLICATION



Understanding Economic Reforms in Africa: A Tale of Seven Nations

Joseph Mensah (ed.)

Palgrave Macmillan: Basingstoke, Hampshire

This book examines the impetuses for, and the features and outcomes of, economic reforms in Africa, using the case studies of seven countries, including Burundi, Ghana, Kenya, Morocco, Tanzania, Uganda and Zimbabwe. The case studies in this book address three main issues: (a) Why do countries embark on economic reforms? (b) What are the features of the reforms undertaken in the various African countries? (c) How well did the reforms perform? The book is based on the premise that a proper understanding of economic reforms is served by focusing on how the key variables play out in specific historical, geopolitical and socio-economic contexts.

FORTHCOMING



Understanding Market Reforms Volume Two: Motivation, Implementation and Sustainability

Jose Maria Fanelli, Gary McMahon (eds.)

Palgrave Macmillan: Basingstoke, Hampshire

During the last 25 years there has been a widespread move toward more market-oriented policies and institutions across the developing and former socialist countries, usually in the context of more politically open societies. The most remarkable fact of this movement is that while policies have often been quite similar, results have been very different. Thirty-one country studies, relying heavily on a political economy analysis, were undertaken to try to understand these divergent results. This book presents the findings of these studies, synthesized on a regional and global basis.

Understanding Market Reform in Latin America: Similar Reforms, Diverse Constituencies, Varied Results

Jose Maria Fanelli(ed.)

Palgrave Macmillan: Basingstoke, Hampshire

Latin America has gone through a period of intense market reforms in the last twenty-five years. In contrast to the initial enthusiasm in the eighties and early nineties, a vivid debate currently exists as to whether market reforms have been instrumental in fostering development and whether reforms should be deepened or reversed. This debate has an importance that goes far beyond academic circles to the extent that the arguments and conclusions will undoubtedly influence future development strategies to be adopted not only in Latin America but also in other developing regions.

“Research Monitor” is a contributory bi-annual publication of the Global Development Network, New Delhi, India. If you are interested in receiving further information on GDN funded research, publications and events at the Network, please contact Nandita Surendran, Communications Officer at feedback@gdnet.org



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