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Scoring Poverty Reduction in Brazil, China, and India

Lessons from a comparative assessment of countries' progress against poverty

Brazil, China, and India have embarked on programs of market-oriented economic reforms. China was the first; 25 years of a control economy left large potential for gains from reform by the time that process started in the late 1970s. Brazil and India followed in earnest in the early to mid-1990s. All three countries have also seen progress against poverty in their reform periods. China has clearly seen the most rapid progress overall. More surprisingly, Brazil is ahead of India in the proportionate rate of poverty reduction.

History is important in understanding the differences among these three countries in their progress against poverty. China's fast pace of poverty reduction reflects both growth-promoting policies—to undo the damage left by past policy failures—and the advantageous initial conditions left by the pre-reform regime—notably the relatively low inequality in access to productive inputs (land and human capital). That low inequality meant that the poor were able to share more fully in the gains from growth.

By contrast, Brazil's prereform regime was one of high inequality, with distortions that probably kept inequality high. Brazil's historically high inequality has clearly been a constraint on progress against poverty. High inequality meant that a low share of the gains from growth went to the poor. And the high inequality may well have retarded growth, which was low over

most of the period, though picking up in the reform period.

Nonetheless, Brazil has been doing well against poverty in its reform period, by combining greater macroeconomic stability with more effective and pro-poor social policies. While Brazil's macroeconomic instability of the past was rather extreme, the experiences of all three countries confirm the importance of keeping inflation under control; periods of higher inflation brought slower progress against poverty in all three countries. Without substantially higher growth rates, however, it will be very difficult for Brazil to achieve China's success against poverty.

Rising inequality in China since the late 1980s has attenuated the gains to the poor from growth and threatens the growth process. Indeed, without more effective efforts at redistribution, China is well on the way to becoming a high-inequality country. In addressing its new inequality problem, China can learn from Brazil. Combining China's growth-promoting policies with Brazil's social policies would surely be a good formula for any country.

In all three countries the sectoral pattern of growth mattered for poverty reduction, independent of the overall rate of growth. In China growth in the output of the primary sector (mainly agriculture) was the chief driving force in poverty reduction, while in Brazil and India the tertiary (services) sector was more important. The secondary (industrial) sector played a less important direct role in all three countries

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FOCUS

Agricultural Price Policy: Revisiting Krueger, Schiff, and Valdés

Two alternative interpretations of history have very different implications for future agricultural trade reform

Two decades ago a major World Bank study of distortions to agricultural incentives in 18 developing countries was published by Anne O. Krueger, Maurice Schiff, and Alberto Valdés (*The Political Economy of Agricultural Pricing Policy*, 3 vols., Baltimore: Johns Hopkins University Press, 1991). That K/S/V study, which covered 1960–84, found that policies in most of those developing countries were harming their farmers—either directly, through such things as taxes on agricultural exports, or indirectly, through manufacturing protection and exchange rate overvaluation.

Revisiting this issue, a new World Bank study provides indicators for a much larger sample—more than 40 developing countries (plus all high-income countries and key European transition economies)—for as many years as possible since 1955. A comparison of the results of the two studies reveals that if Krueger, Schiff, and Valdés had included the same broader range of countries and covered products as the new study, they would not have altered their key conclusions. But they would have been able to stress the policy implications even more forcefully, because the estimated magnitudes of the antiagricultural and antitrade bias indicators would have been about two-thirds larger. The difference is due mainly to the inclusion of China and India but also to the inclusion of far more Sub-Saharan African countries and far more livestock products.

Since the mid-1980s many developing countries have undertaken a great deal of policy reform and opened to trade. The new study estimates that the intersectoral bias against agriculture and the antitrade bias have been reduced substantially—and more so, and at a faster pace, for the full

sample of developing countries than for the smaller K/S/V sample. High-income countries have also undertaken some agricultural policy reforms since the late 1980s, reversing their protection growth of the previous three decades. The world is estimated to have moved nearly three-fifths of the way toward global free trade in goods over the quarter century since the mid-1980s.

Developing countries have benefited proportionately more (relative to GDP) than high-income economies from those trade-related policy reforms, and they would gain nearly twice as much as those richer economies by completing that reform process—with 72 percent of those prospective gains to developing countries coming from agricultural and food policy reform. In the developing-country group, net farm income (agricultural value added) is estimated to have been 5 percent higher in 2004 than it would have been without the reforms since the mid-1980s. And if policies remaining in 2004 were removed, that net farm income would rise by another 6 percent (far more than the proportional gain to nonagricultural households). These findings suggest that such reforms could further alleviate global inequality and poverty, since three-quarters of the world's extreme poor are in farm households in developing countries.

If the trade reform processes of the past quarter century were to continue, this could suggest that the period on which K/S/V focused, from the early 1960s to the mid-1980s, was an aberrant period of welfare-reducing policy divergence and that the reforms since the 1980s are the result of learning from the differing growth experiences of more and less open developing economies.

An alternative interpretation of history is that it is the most recent 25-year period of policy changes that is aberrant. The policy changes of developing countries, in this alternative view, might simply involve their following

the example of higher-income countries in moving from anti- to pro-farmer policies as they develop. Supporters of that view could point to another finding of the new World Bank study, showing that import-competing farmers in developing countries are being increasingly protected over time. Moreover, there are few signs of a slowdown in that upward trend in the World Trade Organization's ongoing Doha Round of multilateral trade negotiations, suggesting that developing-country governments want to keep open their options to increase agricultural assistance in the future, particularly through import restrictions.

These two alternative interpretations of history have profoundly different implications for the future. The first suggests that the Doha Round is likely to conclude with substantial cuts to agricultural tariff and subsidy bindings that lock in recent reforms. The second suggests that the Doha Round will struggle to reach an ambitious reform outcome in agriculture.

Kym Anderson. 2010. "Krueger/Schiff/Valdés Revisited: Agricultural Price and Trade Policy Reform in Developing Countries since 1960." Policy Research Working Paper 5165, World Bank, Washington, DC. (Also forthcoming in *Applied Economic Perspectives and Policy*.)
For more resources, visit the study's Web site (<http://www.worldbank.org/agdistortions>).

Making Sense of Innovative Finance for Development

Innovations show more promise in delivering financial solutions tailored to country and global challenges than in mobilizing additional financing from new sources

A decade ago, development partners embarked on a search for innovative sources of official development assistance (ODA) to help finance achievement of the Millennium Development Goals. Sovereign and private donors championed a variety of initiatives: France proposed global solidarity levies, the United Kingdom advocated frontloading future aid commitments, and others, including private foundations, argued for results-based financing. Development banks issued new bonds linking resource mobilization to development objectives—for example, debt offerings with climate-related themes. And developing countries sought not only more financial flows but better financial solutions—for example, through partnerships that mobilize private finance for public service delivery, mechanisms to promote carbon trading, and risk reduction to promote private entry into markets. A new paper by Girishankar offers a framework for making sense of this mix of innovations and takes stock of the international landscape of innovative development finance.

Four types of innovative mechanisms make up this landscape. *Private* mechanisms involve private-to-private flows in the market and civil society. *Solidarity* mechanisms support sovereign-to-sovereign transfers and form the backbone of multilateral and bilateral ODA and other official flows. *Public-private partnership* (PPP) mechanisms leverage or mobilize private finance in support of public service delivery and other public functions. *Catalytic* mechanisms provide public support for creating and developing private markets. The paper focuses on

solidarity, partnership, and catalytic mechanisms, all of which either mobilize or deploy official flows, using a range of cash and derivative instruments (figure 1).

What makes these development finance mechanisms innovative is not necessarily their intrinsic financial novelty. Instead, innovative fund-raising comprises solidarity, partnership, and catalytic mechanisms that depart from traditional approaches to mobilizing official flows—that is, through budget outlays from established sovereign donors or through bonds issued by development banks to exclusively achieve funding objectives. Similarly, innovative financial solutions are those that break with traditional means of delivering official flows—that is, through grants and loans.

Using these definitions, the paper finds that fund-raising innovations generated an estimated \$57.1 billion in official flows, or at least 4.5 percent of total gross ODA and international financial institution bond proceeds, in 2000–08. Most of these efforts involved new debt offerings by development banks (such as bonds issued in developing-country currencies or targeting sustainable investors). Alternative sources of concessional flows, including solidarity levies and contributions from emerging donors, totaled at least \$11.7 billion, or 1.3 percent of gross ODA, in 2000–08. Carbon finance and frontloading of ODA for global programs, while modest in volume, also grew.

Innovative financial solutions used an estimated \$52.7 billion in official flows, or 5.7 percent of the total to developing countries, in 2000–08. The largest share involved catalytic mechanisms to promote private investment in the financial, private insurance, and productive sectors at

the country level (using partial credit guarantees, local currency lending using derivatives, and insurance pools) and advance market commitment and copayment schemes to strengthen the market for vaccines and essential drugs at the global level. A second major share involved PPPs that leveraged private flows to support infrastructure and social service delivery using risk management instruments (such as partial risk and political risk guarantees) and output-based aid schemes. This group also included sovereign catastrophe risk management and debt swaps funded by private donors. Innovative solidarity efforts comprised debt buydowns by bilateral donors and countercyclical loans that adjust terms and conditions in response to shocks.

Three key messages emerge for developing countries and their partners. First, innovations that deliver financial solutions tailored to country and global challenges have thus far played a more significant role than those seeking to exploit alternative sources of ODA. Development partners can build on their track record of delivering innovative financial solutions by expanding the use of catalytic and PPP mechanisms, particularly in lower-income countries; promoting the use of a broader range of risk management products and packaging these with traditional loans and grants; and mainstreaming the use of global market-making mechanisms (such as advance market commitments) across sectors.

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Figure 1. Innovative Mechanisms of Development Finance

		Uses	
		Public	Private
Sources	Leveraging private finance	Public-private partnerships Private finance for public service delivery and other public functions	Pure private Private initiative in the market and in civil society
	Mobilizing public support	Solidarity Public-to-public transfers using concessional flows (official development assistance)	Catalytic Public support for creating and developing markets or for promoting private entry into existing markets

Trade in Health Services

Developing countries can benefit from trade in health services, as exporters or as importers—but also face risks

Health tourism grew at a phenomenal rate in the past decade, with clinics serving foreign clientele springing up across the world. Clinics in over 35 countries serve more than a million medical tourists annually, and demand for these services continues to grow. In 2007 an estimated 750,000 Americans sought health care abroad, and annual growth rates are projected to reach 100 percent.

Developing countries are expected to benefit most from the trade. In 2008, 1.2 million non-U.S. residents sought care in Thailand, 450,000 in India, 410,000 in Singapore, and 300,000 in Malaysia. Moreover, prospects for South-South trade are strong: Libyans represent more than 80 percent of foreign medical patients in Tunisia, and more than 80 percent of Omani patients abroad were treated in India.

A recent paper by Cattaneo summarizes existing research on trade in health services to describe potential benefits and risks of the trade. The author presents these separately for four types of trading arrangements, both in countries that export these services and in countries that import them.

First, health services are delivered across borders without the patient or the provider moving. This type of trade can benefit importing countries by alleviating human resource and infrastructure constraints, particularly in remote, underserved areas. It can benefit exporting countries by increasing domestic health revenues and profitability of health investments. But this mode of delivery is not yet cost-efficient, mostly for technological reasons, and it creates new challenges for regulators.

Second, the consumer moves across borders to access a service provider abroad. This type of trade can also ease human resource and infrastructure constraints in importing countries. But because

it could become a costly substitute for badly needed domestic reforms, this trade should be phased out as domestic capacity expands. In Oman, for example, government-sponsored medical travel, estimated to cost \$3 million in 2001–03, was supplemented by domestic reforms aimed at limiting imports. The reforms halved the number of Omanis seeking treatment abroad between 1990 and 2006.

This type of trade can benefit exporters of services by creating more opportunities at home for health care personnel and thus a disincentive to migrate. It may also help improve the services available locally. In Morocco, for example, health tourism resulted in a greater supply of health services available to both foreigners and locals. But exporters also face the risk of ending up with a health care system dedicated entirely to foreign patients. In Thailand it is estimated that an additional 100,000 foreign patients seeking medical treatment could lead to an internal brain drain of 240–700 doctors, posing a significant challenge to achieving universal and equitable access to health care.

Third, a foreign-operated medical facility is established on consumer territory. For importers, such foreign investment could bring new resources to the domestic health system and foster competition among service providers, improving quality and lowering prices. But foreign establishments may target only foreign clients or rich domestic ones and divert scarce human resources, reinforcing inequality in access to health care.

Fourth, foreign health professionals are allowed to practice (temporarily) on consumer territory. This type of trade could ease shortages of health personnel in importing countries, reduce the cost of medical education and training, and provide access to specialists not available locally. But foreign health workers could be perceived as a threat by local employees.

For exporting countries, exports could be an important source of income, such as the remittances sent home by Filipino nurses. The health

system would benefit indirectly as the movement abroad exposes providers to training and new technologies. But while brain circulation should be encouraged, brain drain could adversely affect local public health. Adequately regulated trade with incentives to return to the home country could prevent this.

The study also outlines strategies combining domestic reforms and trade negotiations to foster trade in the health sector:

- Assessing and fixing fundamentals using SWOT analysis (evaluating strengths, weaknesses, opportunities, and threats) as a diagnostic and planning tool.
- Improving domestic regulation and removing unnecessary obstacles to trade. While strict regulation of the health sector is necessary—for example, to avoid malpractice—regulation should be minimally restrictive and should contribute to the desired policy objectives.
- Identifying high-potential markets and export niches using knowledge of foreign markets, health care needs, health care supply, and insurance coverage.
- Reforming the institutional framework to promote trade, with state involvement supporting the design and implementation of coherent sectoral export promotion strategies.
- Using public and private international cooperation to promote trade through bilateral, regional, or multilateral initiatives. These could include social security conventions and the General Agreement on Trade in Services, which allows the anchoring of commitments to domestic reforms in the international system, buffering governments from interest group pressures.

Olivier Cattaneo. 2009. "Trade in Health Services: What's in It for Developing Countries?" Policy Research Working Paper 5115, World Bank, Washington, DC.

Can Climate Change Actions Avoid Harm to Manufacturing?

Even modest mitigation efforts would hurt industry in countries with high carbon intensity. Are there policy solutions?

As governments worldwide start to recognize the urgent need for actions in response to climate change, opportunities for cooperative reductions in greenhouse gas emissions and their potential impact have received growing scrutiny. But research on mitigation actions and their costs has remained focused on aggregate output and neglected the structural implications of such actions.

A recent paper by Mattoo, Subramanian, van der Mensbrugghe, and He seeks to add to this body of research. The authors measure the potential impact of a set of cooperative policy actions on both manufacturing output and exports, in aggregate and in selected sectors. The first policy scenario they consider assumes a reduction in emissions alone, with high-income countries reducing emissions by 30 percent relative to 2005 levels, and developing countries cutting back by 30 percent relative to business-as-usual levels, by 2020. The authors then consider a scenario that combines emissions reductions with trading of emissions rights in an international market, and a third scenario that also includes public and private transfers necessary to compensate for welfare losses that occur in poor countries as a result of mitigation actions.

The study finds that in a number of countries with currently high levels of carbon intensity, including China, India, and a few in Europe and Central Asia and in the Middle East and North Africa, emissions reductions alone would lead to serious declines in manufacturing output and exports. Manufacturing exports would fall by 4.5 percent in China and 7.3 percent in India, and manufacturing output by 2.9 percent in China and 3.7 percent in India. Not surprisingly, manufacturing would suffer the most as a result of increases in the price of carbon following the cuts in emissions, since it is

the most carbon-intensive sector after the energy sector itself.

In a subset of these countries the introduction of emissions trading and transfers offsetting welfare losses would exacerbate the decline. In China and India, for example, manufacturing output would decline by 6–7 percent and manufacturing exports by 9–11 percent. While transfers would alleviate welfare declines experienced under the no-trading scenario, they would tend to magnify the negative impact through Dutch-disease-type mechanisms and hurt exports more than output.

In Sub-Saharan Africa the manufacturing sector would expand under the no-trading scenario, but the authors warn that large public transfers to the region could lead to a 4 percent decline in manufacturing exports. In countries with low levels of carbon intensity, such as Brazil and other Latin American countries, manufacturing would be minimally affected by the mitigation actions considered.

The adverse effects of emissions reductions and emissions rights trading would not be restricted to energy-intensive manufacturing sectors. Indeed, countries such as China and India would experience adverse effects even in manufacturing sectors such as clothing, electronics, and transport equipment. Output would decline by 5 percent in China and 3.3 percent in India, and exports by approximately 7 percent in both countries. For other countries, such as Brazil and those in East Asia and Sub-Saharan Africa, the impact would be relatively modest. Notably, Dutch-disease-type effects induced by transfers would remain strong in China, India, and Sub-Saharan Africa, with declines in exports ranging from 2.4 percent to 5.2 percent.

The findings suggest that the policy options for mitigation action available to countries will vary. Countries at low levels of carbon intensity will face little tension between the two externalities of carbon and growth, because mitigation actions in these countries would

have a limited impact on manufacturing. In Sub-Saharan Africa greater transfers may have an adverse effect, but this could be remedied by diversion of resources into well-planned investments that enhance productivity in manufacturing and reduce trade costs.

In high-carbon-intensity countries, however, where manufacturing exports and output would be significantly affected, policy options would depend on whether the long-run growth externality resides outside energy-intensive manufacturing sectors or within such sectors. In addition, the first-best policy option of taxing the carbon externality, and addressing the growth externality through a combination of either production or export subsidies, may not be feasible because of World Trade Organization regulations as well as challenges associated with industrial policies and “picking winners.”

The authors point to a silver lining, however: the carbon and growth externalities do not necessarily translate into irreconcilable policy objectives. They argue that if the future growth potential of these high-carbon-intensity countries lies in non-energy-intensive sectors and green technologies, the externalities could be mutually reinforcing given the right policy environment. Is it then possible to devise a hedging strategy that creates incentives for technological innovation and adoption in green sectors without hurting the existing manufacturing sector? Only further research will tell.

Aaditya Mattoo, Arvind Subramanian, Dominique van der Mensbrugghe, and Jianwu He. 2009. “Can Global De-Carbonization Inhibit Developing Country Industrialization?” Policy Research Working Paper 5121, World Bank, Washington, DC.

Too Poor to Grow

Higher poverty leads to slower growth by deterring investment

A rapidly growing theoretical literature has suggested a variety of mechanisms through which poverty may deter growth and generate self-perpetuating poverty traps. But a basic implication of the theoretical models—that countries suffering from higher levels of poverty should grow more slowly—has remained untested. Instead, the empirical literature has focused on the poverty-reducing effects of growth or the consequences of inequality for growth. A recent paper by Lopez and Servén attempts to bridge this gap by offering a first empirical assessment of the impact of poverty on growth.

The paper's strategy involves estimating a growth equation with poverty added to an otherwise standard set of growth determinants. The framework is very close to that used in recent empirical work studying the effects of inequality on growth. It retains inequality as a control variable, but shifts the emphasis from inequality to poverty. The data used consist of an unbalanced panel of nonoverlapping five-year periods spanning the years 1960–2000 for 85 countries.

The results reveal a consistently negative impact of poverty on growth, a result that is both economically and statistically significant: a 10 percentage point increase in the poverty headcount rate is estimated to reduce

annual per capita growth by approximately 1 percentage point. The sign, significance, and magnitude of the poverty effect all remain essentially unchanged even after controlling for the level of inequality. The finding suggests that policies aimed at promoting growth could increase their payoffs if they exerted an independent, direct impact on poverty.

The finding that poverty has a negative impact on growth survives a variety of robustness checks, including using alternative poverty lines, alternative poverty measures, alternative sets of control variables in the regression, alternative sets of instruments in the estimation, and alternative estimation methods as well as allowing for nonlinear effects of inequality on growth.

Through what mechanism does poverty adversely affect growth? In the theoretical model presented in the study, poverty affects growth through its negative impact on investment, which in turn results from the absence of well-developed capital markets. The study also explores this hypothesized relationship empirically. As an illustration, in figures 1a and 1b countries are ranked by per capita income in the 1990s and ordered in 10 groups of 10. For each country group the poverty

headcount, and gross fixed capital formation relative to GDP, are then plotted against its income rank. Together, the figures suggest a close association between poverty and investment. Headcount poverty falls dramatically between the first and fourth groups, then declines much more modestly. Similarly, investment increases from

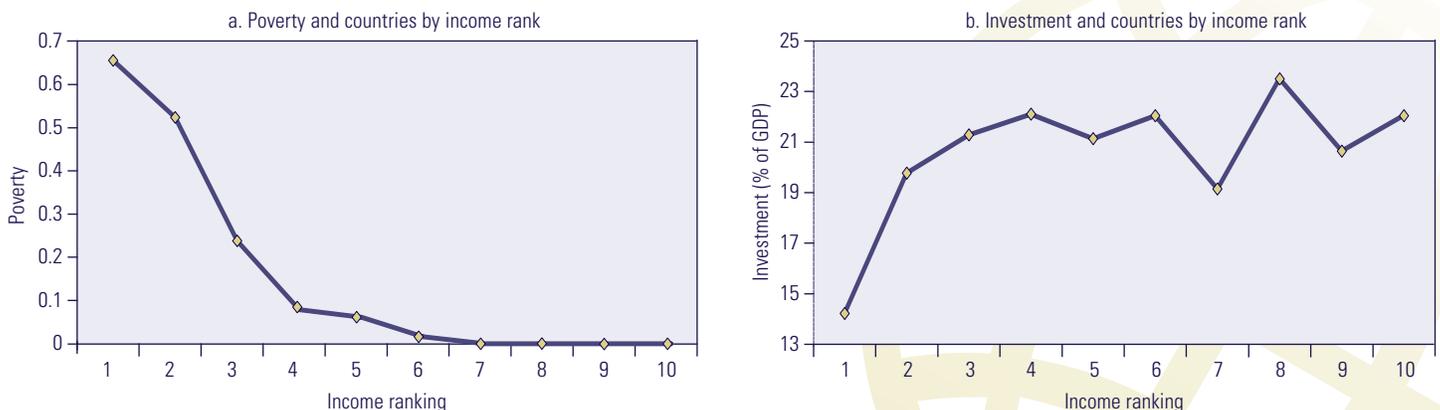
14 percent of GDP to 22 percent between the first and fourth groups, then remains virtually constant between the fourth and tenth ones.

Formally testing this relationship in a regression framework, the authors find that poverty deters investment, especially where financial development is limited. While this result is sensitive to how the poverty line is defined, it appears consistent with stylized theoretical models in which financial market imperfections prevent the poor from taking advantage of investment opportunities.

Policies to promote growth could have bigger payoffs if they exerted an independent, direct impact on poverty

Humberto Lopez and Luis Servén. 2009. "Too Poor to Grow." Policy Research Working Paper 5012, World Bank, Washington, DC.

Figure 1. Relationship between Headcount Poverty and Investment



Can Informal Finance Substitute for Formal Finance?

Contrary to earlier findings in China, finance from informal channels is not associated with faster growth for firms

A large literature in law and finance has shown that development of formal financial institutions is associated with faster growth and better resource allocation. This literature has also recognized the complementary role played by informal financial systems, especially in developing economies. Informal financing typically consists of small, unsecured, short-term loans restricted to rural areas, agricultural contracts, households, individuals, or small entrepreneurial ventures and helps in servicing the lower end of the market. There is a direct parallel even in developed markets such as the United States: angel finance, in which high-net-worth individuals—“angel investors”—provide initial funding to young firms with modest capital needs until they are able to receive more formal venture capital financing. According to this view, however, informal financial systems cannot substitute for formal ones because their monitoring and enforcement mechanisms are ill equipped for scaling up and meeting the needs of the higher end of the market.

But an important branch of the literature often mentions China as a counterexample to the findings in the finance and growth literature and its focus on formal systems. It is true that China is one of the fastest growing economies in the world despite weaknesses in its formal banking system. The fast growth of Chinese private sector firms is taken as evidence that what supports China’s growth is alternative financing and governance mechanisms.

In recent research Ayyagari, Demirgüç-Kunt, and Maksimovic use detailed, firm-level survey data from the World Bank Investment Climate Surveys on 2,400 firms in China to investigate which of the two views is consistent with the operation of

the informal financial sector in that country. Is the informal financial sector associated with high growth and profit reinvestment, and does it serve as a substitute for the formal financial system? Or does the informal sector primarily serve the lower end of the market?

The authors find that in China the use of bank financing by private firms is comparable to that in other developing countries. The breakdown of nonbank financing sources shows greater differences. Compared with firms in other countries, those in the study’s sample rely on a large informal sector and alternative financing channels. These other financing sources could well be the large underground lending in China.

But the authors find that it is financing from formal bank sources that is positively associated with firm growth and reinvestment. Contrary to earlier findings, fund-raising from informal channels is not associated with faster firm growth. To the extent that there are measurable benefits of informal financing, they arise only when retained earnings are classified as informal financing, as in some earlier studies.

While the authors find that the majority of firms that receive bank loans grow faster as a result, they find a subpopulation of firms that do not. Firms reporting that government help was instrumental in obtaining a bank loan do not show faster growth, higher reinvestment, or greater productivity, unlike firms getting bank loans without government help. But these results do not make China an exception to the growth and finance literature. They are consistent with previous work showing the disadvantages of state-owned banking.

Overall, the results suggest that even in fast-growing economies where the formal financial system serves only a small part of the private sector because of a poorly developed financial and legal system, external finance from the formal financial system is associated with faster growth and higher profit

reinvestment rates for the firms that receive it. The authors find no evidence that alternative financing channels are associated with higher growth. Their findings suggest that reputation- and relationship-based informal financing and governance mechanisms are likely to play a limited role in supporting the growth of private sector firms and unlikely to substitute for formal mechanisms. These findings confirm the important role of formal finance in the development process and underline the importance of focusing on financial sector reforms.

Meghana Ayyagari, Aslı Demirgüç-Kunt, and Vojislav Maksimovic. Forthcoming. “Formal versus Informal Finance: Evidence from China.” *Review of Financial Studies*.

Making Sense of Innovative Finance for Development

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Second, fund-raising innovations should be viewed as a complement to—rather than as a substitute for—traditional efforts to mobilize official flows, particularly ODA. Budget outlays from established sovereign donors remain the only significant source of additional ODA. Global PPP initiatives to pool sovereign and private donations or frontload ODA can broaden the base of support for development but should be used selectively. They may compete with country-based modalities for scarce ODA (such as the International Development Association) and may also contribute to aid proliferation and fragmentation.

Third, innovations need to be tested and evaluated to determine their value added. While some innovations show promise, the jury is still out on others. More in-depth evaluation will be needed to determine the net benefits of fund-raising efforts and financial solutions.

Navin Girishankar. 2009. “Innovating Development Finance: From Financing Sources to Financial Solutions.” *Policy Research Working Paper 5111*, World Bank, Washington, DC.

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(though there may well have been indirect effects through growth in the other two sectors). Because different types of policies are needed to foster growth in different sectors, the sectoral priorities of policy makers—which have varied over time within as well as among the countries—have also mattered for progress against poverty.

Brazil (since the mid-1990s) and India (going back to the 1970s) have clearly been more aggressive than China in their efforts to attack poverty through direct interventions, such as using conditional or unconditional transfers. This may not be too surprising, since Brazil clearly has greater capacity for attacking poverty through redistribution than either China or India. But countries such as China and India can learn from Brazil's success in addressing the continuing problem of high inequality. Indeed, China appears to be well on the way to having a capacity for redistribution similar to Brazil's. All three countries need to invest more in rigorous impact evaluations of their future social policies.

Looking forward, India's success in delivering better health and education to its poor must surely be seen as the key factor in ensuring more rapid poverty reduction—by allowing the poor to participate more fully in the opportunities unleashed by India's

more robust growth process. Just as Brazil has begun to seriously tackle its high income inequality, India needs to more vigorously address its own inequalities, particularly in human development.

One way to summarize this comparative assessment is to imagine a simple scorecard for the two key dimensions of effective country performance against poverty: pro-poor growth and pro-poor social policies. In the reform periods China clearly scores well on the pro-poor growth side of the card, but Brazil and India do not—in Brazil's case for lack of growth and in India's case for lack of poverty-reducing growth. Brazil scores well on the social policies side, but China and India do not. In China progress in implementing new social policies more relevant to the new market economy has been slow (despite historical advantages in this area, inherited from the past regime). In India the bigger problem has been the extent to which nonpoor groups have captured the many existing policies.

Martin Ravallion. 2009. "A Comparative Perspective on Poverty Reduction in Brazil, China and India." *Policy Research Working Paper 5080*, World Bank, Washington, DC.

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