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A Strategy for Development (2001) World Bank Annual Conference on Development Economics

F .O. Odoko*

The issue of development continues to attract a lot of attention. This is in spite of the enormous amount of resources that has been devoted to it. This is justifiably so as over 1.2 billion people live on less than $1.00 a day. Stern, (2000/ 2001), details a strategy for development that draws on several perspectives. He puts forward two pillars as the basis for this strategy: building an investment climate that facilitates investment and growth and empowering poor people to participate in that growth. He surmises that both elements are crucial for fighting poverty.

Stern defines investment climate as the policy, institutional and behavioural environment both present and expected that influences the risks and returns associated with investment. In other words, investment climate focuses on questions of institutions, governance, policies, stability, and infrastructure that affect not just the level of capital investment but also the productivity of the existing investments and the willingness to make productive investment for the longer term. Considered in that light, he grouped the factors affecting investment climate into three segments:

- Macroeconomic stability and openness
- Governance and strong institutions
- The quality of infrastructure.

With regard to macroeconomic stability and openness, he notes the efforts of developing countries in controlling inflation and lowering trade barriers, which he believes will generate growth. On good governance, he argues that corruption must be tackled head-on. He made the important point that corrupt practices may have their peculiar colourations in different countries and therefore may require different anti-corruption policies. On the issue of institutional development, he states that fair, competitive and stable markets will not arise spontaneously; they require supporting institutions to administer and enforce property rights, legal codes, economic regulations and taxation of individuals and companies. He further noted that laws can be changed overnight, but the bigger challenge is to establish

*Mr. Odoko is an Assistant Director of Research, Central Bank of Nigeria, Abuja.

reasonable and responsible behavior that is consistent with a well functioning market economy. Changing behavioural habits takes understanding, positive examples, leadership, and time. The quality of infrastructure is critical to investment. This is because investors both foreign and domestic look to the quality of the power, transport, communications, and even financial infrastructure as an important complement to investment.

The second pillar of Stern's strategy for Development is empowerment. According to him, empowerment focuses on such questions as to how health and education services and social inclusion can enable poor people to take part in growth and development. The aim is to enhance the ability of people to shape their own lives.

He states further that three types of investment are of particular importance in empowering the poor people: investment in education, in social protection, and in participatory process and social and economic inclusion.

COMMENTS

Stern's paper is an important contribution to the debate on development and brings to it refreshing insights into what must be done to accelerate development. He made several noteworthy points with which I agree. As expected there are others, which can only evoke the sharpest disagreement. I expatiate on them below:

1. Changing the investment climate takes time; it is not a stroke of the pen reform like eliminating a tax or fee. Often, the expectations of both the governed and some donors in terms of the time frame in which changes must occur are too high. The consequence is that policies are sometimes reversed before they fully work themselves out.

2. A favourable investment climate can generate strong growth, and where there is growth poverty reduction is likely. But that should not be taken for granted, because not all growth is equally pro-poor. In the past it was felt that growth whenever it takes place would trickle down. However, experience shows that unless deliberate efforts are made to incorporate policies that favour the poor growth will inevitably lead to greater inequality.

3. A major item on the research agenda must be to expand the effort to understand and to the extent possible, quantify the different elements of the investment climate. Surveys of firms should stand next to surveys of households as a centrepiece of micro economic research and statistics in developing countries.

4. Social protection enables people to adjust to new conditions and to bounce back from economic shocks. And we should see it as much more than a short - term palliative. It is an essential underpinning of a market economy, one that helps it to function well and to involve poor people in the opportunities that it creates. This point is often lost on many leaders in developing countries. The social safety net is not necessarily spreading the largesse. Rather, it cushions the effects of both external and domestic shocks. A reduction in the pervasive waste that is so evident in many developing countries will go a long way in funding the financial implications.

5. Greater investments in women's education yield a healthier, more literate, more productive, and better-governed society in the long run. In other words, the education of women and girls is an investment with outstanding returns.

6. Today's research underpins tomorrow's crucial decisions. This is a critical observation. Developing countries should devote more resources to research! A wholesale transfer of research results from the developed countries without taking into consideration the peculiar circumstances of the developing countries will only lead to frustration.

7. Donors should concentrate their investment on countries and programs that are generating the changes that overcome poverty. "..Country ownership does not imply automatic support for whatever is proposed. If we are serious about poverty reduction, we must concentrate our investments on the countries and programs that are generating the changes that can overcome poverty." The argument appears strong on efficiency grounds but falls flat on its face using equity consideration. While it may be good to reward successful behaviour the unintended effect will be to worsen regional inequality and the position of the poor that attracted international financial assistance in the first place.

As experience in several emerging countries with significant record of sustained growth shows, massive investment in education and other social services was largely responsible for their achievement. Yet, money alone will not do the magic. There must be commitment to quality through constant monitoring and evaluation. Also, there is need to create incentive for private sector participation. In all this, the involvement of the donor community is important. It needs be emphasized that donor support should be in amounts that can be reasonably expected to achieve the purposes.