BUILDING A CLIMATE FOR INVESTMENT, GROWTH, AND POVERTY REDUCTION IN INDIA

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It is a great pleasure to be here at the EXIM Bank of India to deliver the Annual Commencement Day lecture. EXIM has long played a key role in India's ever-expanding presence on the world stage and surely has a major and growing agenda. India is a country whose progress I have followed for a long time and to which I am deeply committed. As a researcher, I lived and worked in the small Uttar Pradesh village of Palanpur during much of the agricultural year of 1974/75, and I have been able to return there in the last 25 years on many occasions. Seeing Palanpur grow and change has taught me much of what I know of development. The key drivers of its growth - which has been noticeable, if slow and haphazard - have been off-farm employment in small and medium-sized firms and agricultural productivity. But I have also been studying in the 1980s and 1990s economic policymaking at the central and state levels. In the process, I have formed a great admiration for Indian entrepreneurship across the board.

India's experience in many ways has embodied and driven change in development thinking as a whole. India's agenda has shifted from relatively statist and planned to more liberal and open. As with other developing countries, India has generated positive results from its reforms. Indeed the main theme of my talk will be that through building on this progress and deepening these reforms, India now has a great opportunity to accelerate growth and poverty reduction. The reform agenda that I am going to focus on today can be brought together under the rubric of improving the investment climate. Now that macro and trade reforms have been carried out (or are underway) and have borne fruit, the main question I hope we can discuss today is the following: what other changes at a more institutional and micro level are needed to create a fertile climate for investment, productivity growth, and job creation? I am optimistic that India is making and will make a clear and constructive answer to this question. But in posing it this way, I want to be very clear on two points. First, I am speaking of the climate for both rural and urban productivity and investment. Indeed, rural entrepreneurship is key to overcoming poverty in India. Second, the fight against poverty cannot be waged through the investment climate alone. We must also work to empower poor people and invest in them to ensure that they are able to be fully involved in both the process of and rewards to growth. Whilst I shall have something to say on this today, the empowerment story must be the subject of another lecture.

In trying to answer our question, I shall make four broad points:

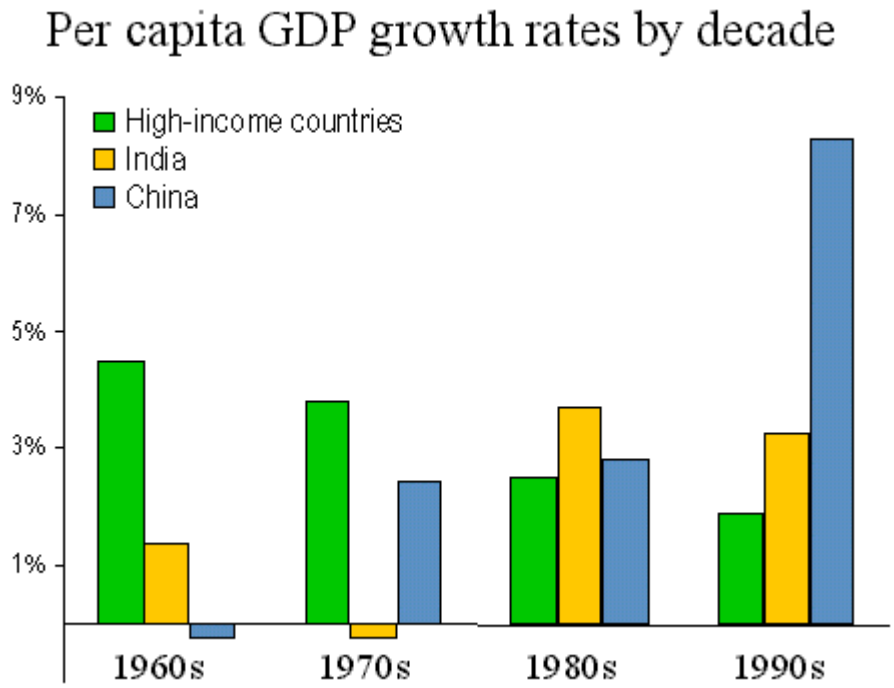
- First, globalization has created great opportunities for India, which it is embracing only in part.
- Second, to reap greater benefits from globalization, the central challenge lies in improving the investment climate - that is, in providing sound regulation of industry, overcoming bureaucratic delay and inefficiency, fighting corruption, and improving the quality of infrastructure.
- Third, while it is clear that the investment climate is important for large formal sector firms, it is just as important - if not more so - for small and medium firms, the informal sector, agricultural productivity and the generation of off-farm employment. For these reasons, the investment climate is itself a key issue for poverty reduction.

- Fourth, there are large variations across Indian states in the quality of the investment climate and the strength of reforms; the states with a positive climate are growing and reducing poverty more rapidly. The challenge to lagging states is to learn from their experience.

1. Globalization and the developing countries

I am going to say only a few words about my first point, because it is the least controversial, I think. What I mean by globalization is the growing economic integration among nations, reflected in larger flows of trade, services, foreign investment, people, and information. We should also note that these same processes can also bring crime, conflict, disease and instability. But it is pointless to think that these integrative forces can be reversed. The challenge is to make the most of them while mitigating the risks. The sources of this integration lie in part in technological innovations. But it has also been driven by the clear policy choice of many developing countries to participate more in the global economy by lowering trade and investment barriers.

The two largest countries in the world, India and China, are the most striking and important examples of this shift in policy to become more open. In India's case, the early five-year plans were very much focused on state-led and inward-oriented development. But what India and other developing countries have found is that while the state-led model can generate fairly high investment rates and capital accumulation, in no case has it been successful in stimulating the sustained productivity growth that is the hallmark of long-run economic development in the most advanced economies. One thing that has constantly reminded me of this on many visits to India was the fact that the ever-present Ambassador was the same model of car, the Morris Oxford, that I knew as a child in the UK in the 1950s. China had closed its face to the outside world even more emphatically than India in the three decades from 1950. Through high investment in education and physical capital, it managed to grow more rapidly than India, despite suffering the traumas of the Great Leap Forward and famine in the years around 1960 and the Cultural Revolution of the late 1960s and early 1970s.



Both China and India, each in its own way, drew their conclusions from the experience of the three decades from 1950. And the single most important development in the world economy in the past 20 years is the shift of India and China to more outward-oriented development strategies and the freeing of entrepreneurial spirits. Both economies have found that significant and positive results have flowed from reform. India's growth rate

of per capita income rose from 0% in the 1970s to almost 4% in the 1980s and 1990s, while China's per capita income growth rate accelerated from near 0% in the 1960s to almost 3% in the 1970s and 1980s and then 8% in the 1990s. This trend is all the more remarkable because what happened to the growth rate of the high-income countries as a group has been exactly the opposite: their growth slowed from 4.5% in the 1960s to 3.4% in the 1970s, to 2.5% in the 1980s, and to 1.9% in the 1990s.[1] Thus, from 1960 to 1980, India and China were falling further and further behind the advanced economies, whereas since 1980 they have begun to catch up.

Now, while India has done fairly well with its reform program, one point that is striking is that India has attracted so little foreign investment. Benefits can come from many types of integration - from expanded trade and greater internet use, for example. But one important vehicle for these benefits is direct foreign investment. Both the macro and the micro evidence suggest that this is an important conduit for new technology, as well as for management experience and access to markets. Indeed it was foreign investment from Suzuki that finally brought a new car model to India, and it quickly became the largest-selling model.

Foreign investment has been going primarily to the large, reforming economies. In 1998, China received 5% of GDP in FDI, Brazil 4%, Mexico 2.5%. But India got less than half of 1%.[2] So, while China's GDP is twice that of India, it received 20 times as much FDI.[3]

This and other evidence suggests that India is not benefiting as much from globalization as it could, which leads me to my second point.

2. What makes for a good investment climate?

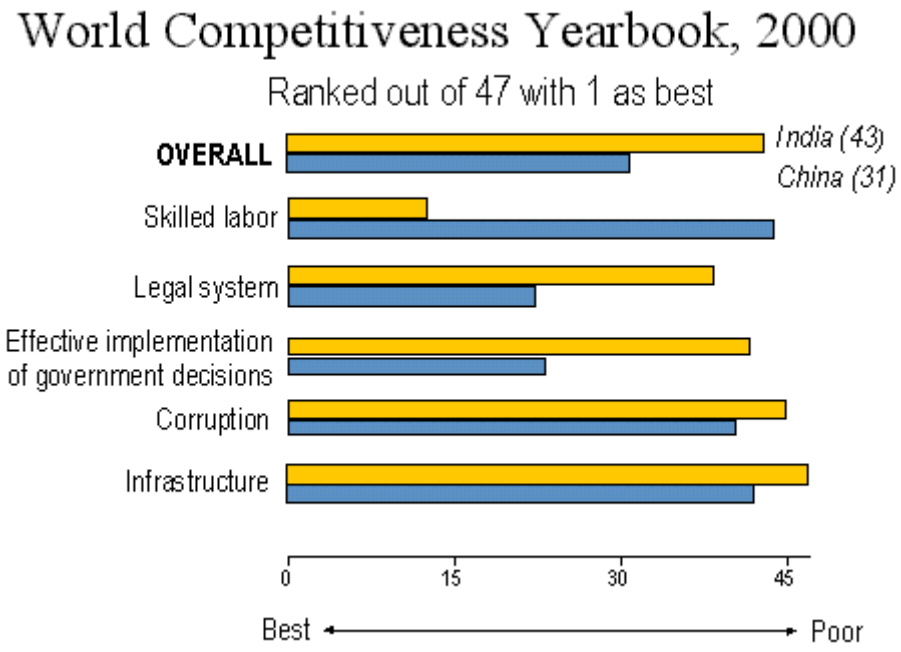
The quantity and quality of investment in India or any other developing country depends on the returns that investors expect and the uncertainties around those returns. It is useful to think of three broad and interrelated components that shape these expectations.

First, there are more macro or country-level issues concerning economic and political stability and nationwide policy toward foreign trade and investment. Here, India looks good; in fact, it is these macro-level reforms that have spurred the high growth of the 1990s. Relative macroeconomic and political stability, trade liberalization plus further commitments within the WTO - these comprise one crucial set of ingredients to spur investment and productivity growth.

But creating a good climate for investment involves two other factors as well: the institutions of economic governance and basic infrastructure (power, transport, telecommunications). It is common for developing countries to start with the macro reforms, which often produce good results compared to past performance. However, if one does not move ahead on the institutional and infrastructure agenda, the growth generated by macro reform is likely to peter out. I think that it is now broadly recognized within India that she has reached a crucial point where the challenge is to move forward on the institutional and infrastructure agenda.

It is instructive to look at The Competitiveness Yearbook to put India in an international context on these matters.[4] This Yearbook ranks 47 countries - basically the OECD plus emerging market economies - on a range of factors, with rank1 given to the top performer. Out of the 47 countries, India ranks 43rd overall, while China receives a ranking of 31. While India scores very well on such measures as the supply of its skilled workers (ranked 12th), those areas identified as particularly important for reform are key elements of a good investment climate: curbing corruption (ranked 45th), improving the effective implementation of government policies (ranked 42nd) and infrastructure (ranked 47th). These figures are based on the opinions of 3000

executives, and the foreign investment numbers cited earlier indicate that businesses are acting on these perceptions.



Let me take the institutional questions first. Obviously all states need to regulate firms in some ways, for example on fire, safety, pollution and monopolistic practices; this happens in every market economy. The issues are the extent and nature of regulation, its efficiency and transparency, and the corruption associated with it. The evidence shows great variation across developing countries. To take one example: we find in the World Business Environment Survey, which covered a large range of countries, that managers report spending about 5% of their time dealing with government officials in Latin American countries and about twice that amount in the transitional economies of Eastern Europe, many of which are well known for bureaucracy and corruption.[5] In India, the average reported in the survey was 16% of management time. Those who have worked in India know that it can be very difficult to get things done. Bureaucratic harassment can be an art form, a special consumption good that too many bureaucrats enjoy - money does not have to change hands for them get the psychic fulfillment of ritual humiliation.

There are two other related areas of regulation that I want to single out: those concerning the exit or bankruptcy of firms, and those concerning the redundancy of labor. The bankruptcy and liquidation procedures in India are notoriously cumbersome, with recent estimates showing that over 60% of liquidation cases before the High Courts have been in process for more than 10 years.[6] The burden on SMEs regarding labor redundancies has been recognized and is addressed in the new budget, with proposals that the ceiling be raised to 1000 employees (from 100) for the size of firms that are not required to seek government permission to retrench workers. These areas of regulation are of great importance since much of the productivity growth that comes from a more open and competitive economy arises from the movement of capital and labor from less productive activities to more productive ones. If regulations make it difficult for labor and capital to adjust, then much of the potential benefit of openness is lost.

Let me give you a concrete example. A recent study of the Indian machine tool industry by Professor John Sutton of the London School of Economics found that some Indian firms were very competitive in the production of CNC [computer-numerically controlled] lathes.[7] He compared the Indian firms to best practice in

Taiwan and Japan. What he found was that the real productivity of the best Indian firms had improved in the face of new international competition. And that productivity was now close to the level in Taiwan, whose firms are leaders in the world market for this product. Since the wages for the skilled labor used in this field are six times higher in Taiwan, the best Indian firms are very competitive domestically and internationally. However, Sutton also found huge variation in productivity among Indian producers - much more so than among Taiwanese firms.

This is a common feature of heavily regulated, closed economies - large productivity differences among firms producing the same thing. With a more open strategy, what we would expect to happen in this industry is some shake-out, with more successful firms expanding, perhaps taking over some competitors; and probably some firms going out of business. I recognize that there are real social costs involved in these adjustments and that it is important to have good social protection policies to help workers in particular adjust. But the key word here is adjustment. If regulations make it difficult for firms to adjust their labor force or enter or exit when necessary, then the benefits from globalization will be severely limited. Sutton also notes that since the opening of the machine tool industry to greater foreign competition, it is a new firm that is the top Indian performer and that is growing most rapidly.

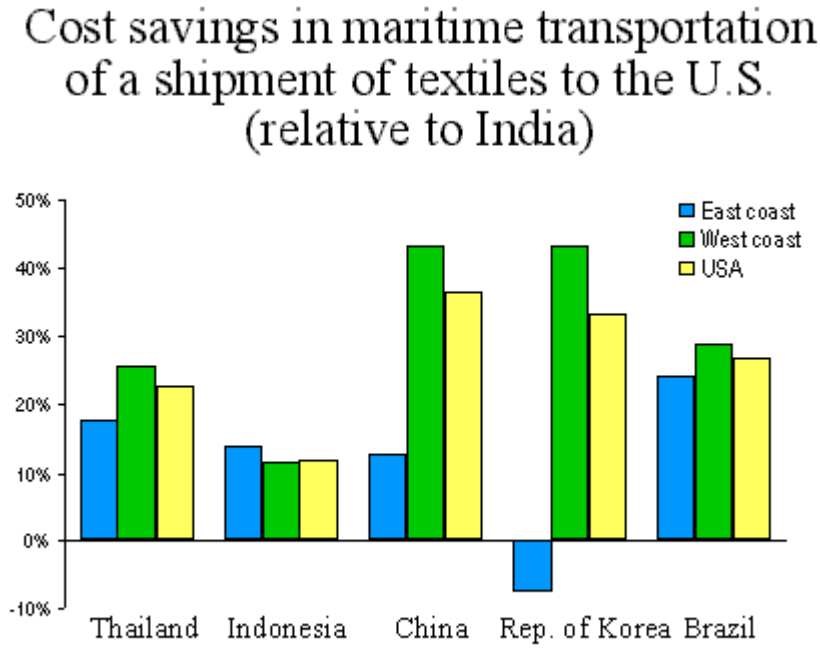
The heavy regulation of labor relations and of entry and exit of firms not only makes it difficult for existing Indian firms to compete. These regulations must be one of the prime reasons why India has seen so much less foreign investment than other large reforming economies. A striking example is given by the procedural hurdles faced by prospective foreign investors. The Confederation of Indian Industry reports that a typical power project needs to obtain 43 clearances at the central government level and 57 at the state level. For mining projects the numbers are 37 and 47.[8] One result is that the cumulative rate of approved foreign investments that were actually realized between 1991 and 1999 was only 25%.[9] But let me be clear. I am not arguing for special privileges for foreign investment. The priority is to generate productivity and investment that will be required for sustained growth. These will be driven first and foremost by Indian firms. What is good for Indian enterprises is good also for foreign investment. Foreign investors need no special privileges and there is no need to offer them. It is the investment climate that counts.

Infrastructure is the third broad investment climate issue. The problems with the power supply are well known. Whilst this problem is a deterrent for the big investors, many of them would expect to have their own generator anyway. The unreliable power supply is a particular burden on small and medium enterprises. One of our important projects in the research department of the World Bank has been to work with the Confederation of Indian Industries on a survey of 1,000 manufacturing and software firms in ten Indian states.[10] We have conducted similar surveys on the investment climate in other countries as well. India is fairly remarkable in that most small and medium enterprises that we surveyed have their own power generator. This is much less common in economies such as Thailand or Korea.[11] To have a vibrant SME sector, you have to have a functioning public power grid. One of the positive things about large-scale foreign investment is that many multinational firms like to develop a set of local parts suppliers, and this is a great stimulus to the SME sector. But if basic economic infrastructure is poor, you will get less foreign investment and less spillover benefit from the investment you may attract.

One other infrastructure issue I want to raise is the operation of seaports. Here you have the intersection of the two areas that I highlighted: governance and infrastructure. Governance is important because international trade has to pass through customs. We have found in our surveys that the average time to clear goods from customs reported by Indian firms is about twice as high as in emerging countries like Korea or Thailand, and

3-4 times as high as in Singapore or the most efficient OECD countries. Furthermore, there is a lot of variation in how long it takes. For any firm this delay, and the variation in it, impose a large tax-like cost. You need larger inventories to protect against these delays, and holding inventories costs money.

Aside from customs clearance, there is also the issue of how well ports operate. Inefficient ports add to transport costs, which make countries less competitive. Sending the same shipment of textiles to the US from India will cost on average 20% more than from nearby Thailand and 35% more than from China.[12]



3. The Investment Climate and Poverty Reduction

My third point is that the investment climate plays a crucial role in poverty reduction. When developing countries improve their investment climates, the poor benefit from these gains. How do they gain?

First, some members of poor households obtain employment from formal sector firms that expand in a good investment climate. The poor are more likely to be employed in small and medium formal sector firms than in the very largest ones, which are able to select the most educated and skilled workers. My own experience of studying economic diversification in the village of Palanpur, Uttar Pradesh, has indicated that employment in small and medium sized firms is occasionally within the reach of even the very poor in rural areas, although it must be recognized that the more educated and well-connected are often advantaged in such employment. Given adequate transport infrastructure (in the Palanpur example a railway link between Palanpur and the nearby towns of Moradabad and Chandausi), employment in bakeries, metal-polishing shops, textile mills, and other factories, is not only possible, but highly valued by farm households seeking to balance their portfolio of activities.[13] I already noted that the problems of bureaucracy, corruption, and poor infrastructure take their largest toll on this SME sector. Large firms are often able to find ways around bureaucratic and public infrastructure problems, while small firms have fewer options. We found in our survey with the CII that the impact of a poor investment climate on firm productivity was greater for SMEs, than for large firms.

Second, a positive investment climate has benefits for the informal sectors, which is where the poor often have the best chance of finding employment. Formal-sector employment creates new demand for informal-sector expansion as well as for more farm output at better prices. Increases in agricultural productivity and

farm income, in turn, generate further off-farm employment opportunities. Off-farm employment is crucial in combating rural poverty. Let us look at some of the evidence on these points from India:

Research carried out in the World Bank's research department, in collaboration with the National Council for Applied Economic Research (NCAER) in Delhi, shows that in 1994 roughly a third of household income in rural areas accrued from non-farm sources.[14] This average for India masks considerable variation across states, a point to which I will return below. These incomes come from a variety of sectors, including commerce, manufacturing and services. They stem from regular and part-time wage employment, as well as own enterprise activities. Evidence from village studies documents that rural households value such non-farm incomes highly, not only because they contribute significantly to overall income levels, but also because they can reduce the exposure of households to potentially devastating income fluctuations associated with harvest variability.

The relationship between the non-farm sector and agriculture has been a longstanding subject of attention in India. As far back as the early 1970s, John Mellor described the many forward and backward linkages between these two sectors, and argued that they could combine to create a "virtuous" circle of rural development and poverty reduction. Empirical research provides ample evidence of the ways in which agricultural intensification stimulates demand for non-farm production and distribution of agricultural inputs and services such as chemical fertilizers, seeds, and the repair of farm implements. Growth of agriculture also increases employment in agro-processing activities, and, of course, rising farm incomes increase demand for consumer goods and services that are often produced locally. Equally important are the linkages that flow from the non-farm economy to agriculture. Rising non-farm incomes are associated with increased demand for, and prices of, cash crops such as fruit and vegetables. In addition, to the extent that the non-farm sector can provide farm households with a stable source of income, farmers move closer to crop choices that maximize expected profit rather than minimize risk. Arriving at a quantitative assessment of these different linkages is not straightforward, but the evidence suggests they may be large. For example, one estimate made by the International Food Policy Research Institute (IFPRI) for North Arcot district in Tamil Nadu during the 1980s suggests that an increase in agriculture value added of Rs 100 results in nearly Rs 90 additional value added in non-farm goods and services.[15]

Although there is evidence that even the poor sometimes do find employment in the non-farm economy, they more typically lack the assets, particularly the education levels, necessary to gain access to such jobs. The World Bank/NCAER study referred to earlier indicates that the poor also often face additional barriers, associated with low social status and low wealth.[16] These findings resonate with my observations for Palanpur, where access to regular non-farm employment depends critically on a network of contacts who can provide information about vacancies and who may be able to furnish references. It is generally the higher-status households who have access to such networks. In addition, villagers in Palanpur are often required to pay bribes to gain access to the more attractive non-farm jobs. As a result the poor are generally confined to casual employment in unskilled non-farm activities, or engage in residual, last-resort, self-employment activities. This emphasizes the point I made at the outset: improving the investment climate is crucial to poverty reduction, but it is far from the whole story. We also have to empower and invest in poor people if they are to play a full part in the growth process and overcome poverty.[17]

Research undertaken in the World Bank by Martin Ravallion and Gaurav Datt illustrates how these mechanisms fit into an aggregate picture of economic performance across Indian states.[18] They show that in the period from 1960 to 1994 the pace of poverty reduction varied widely across Indian states. The

contribution to poverty reduction of farm productivity and development spending did not typically vary much across states, but the impact of non-farm growth did vary markedly. Those states with initially higher farm productivity, a smaller gap between rural and urban living standards, and better education levels experienced growth that was clearly more pro-poor. Basic education was especially important in explaining why non-farm growth had more impact on poverty in some states than in others. The sectoral composition of growth (notably how much comes from agriculture) is key, especially in states with low human resource development. Let me reiterate: the investment climate (stability and openness, governance, infrastructure) is as important to those investing in their farms and agricultural activities as it is to those investing elsewhere.

An important lesson that emerges from these findings is that public investments and policies should be geared toward lowering, or removing altogether, the barriers to entry of poor people into non-farm employment. Evidence from developing countries around the world suggests that reductions in rural income inequality are greatest when the poor have the capacity - as a result of adequate education, access to infrastructure services, freedom from discrimination, and so on - to participate fully in the opportunities that the non-farm sector offers.

It is of some comfort to note, however, that even when the poor do not yet enjoy strong access to non-farm employment opportunities, expansion of the non-farm sector can still contribute to poverty reduction. As shown in the World Bank/NCAER study, growth in non-farm employment is often associated with rising agricultural wage rates. The study indicates that this effect is particularly strong in the construction sector, where increases in construction employment lead to a tightening of the agricultural labor market, resulting in higher agricultural wages. A well-known stylized fact about rural poverty in India is that agricultural laborers are highly represented among the rural poor in most parts of the country. With more than 250 million people still employed in agriculture, representing over two-thirds of India's entire labor force, it is clear that an expanding non-farm sector that exerts upward pressure on agricultural wages can play a crucial role in aggregate poverty reduction, even via this indirect route.[19]

In India expansion of the non-farm sector has been steady, with non-farm employment shares rising from around 19% in the 1970s to around 24% in 1997.[20] In Palanpur I have witnessed this process first-hand. While the village economy remains primarily oriented around agriculture, employment in regular and semi-regular non-farm jobs has increased dramatically both in numbers and in range of activities since the 1950s, resulting in a contribution to village income (depending on the quality of the harvest) of more than one third.[21]

This expansion of non-farm employment in India is welcome, but is slower and more uneven than might be hoped. In China, non-farm enterprises have grown at a rapid rate after liberalization policies were introduced in the late 1970s and early 1980s, first in agriculture and then elsewhere. China's annual rate of growth of off-farm employment has been 12 percent, compared to the 2 percent observed in India. To a considerable extent India's slower progress in this regard can be attributed to the development strategy it has pursued. A large share of total non-farm investment in India has been directed at public works projects, especially during the 1980s. These public works projects often combine the provision of infrastructure with a safety net for the poor in the form of employment provision. Their importance in mitigating poverty has been widely noted. However, sustaining these expenditures during the 1990s has been difficult, in the face of fiscal constraints, and this has resulted in a slowdown of public investment-induced poverty reduction in recent years. Public works projects have also played a role in China, and what has been particularly noteworthy is the extent to which such infrastructure provision has been accompanied by a pro-rural-industry investment climate which has made possible a major expansion of rural non-farm employment. Today, an estimated 31% of the rural

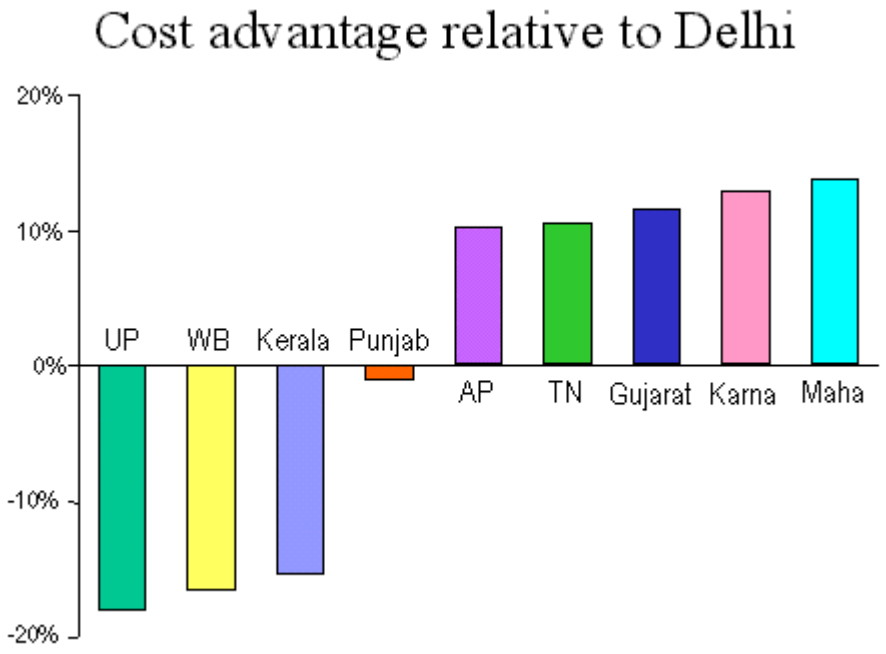
labor force in China is employed in rural industry, compared to 18% in India.[22] Rural enterprises in China have been both a major engine of economic growth and a potent force for rural poverty reduction during the past two decades.

Great potential thus exists in India for investment-climate improvements that can translate into further progress in poverty reduction. An expansion of both formal and informal non-farm employment, particularly in rural areas and in the small urban centers that service them, provides highly sought-after employment to the poor. Such an expansion can also tighten labor markets in general, allowing even those who remain employed in agriculture to benefit. The injection of non-farm incomes into rural areas will also boost agriculture and kick off further rounds of linkages. To the extent that the improved investment climate is accompanied by policies to improve the capacity of the poor to participate in the non-farm sector, there are grounds for expecting India's performance in poverty reduction to at least match that of China.

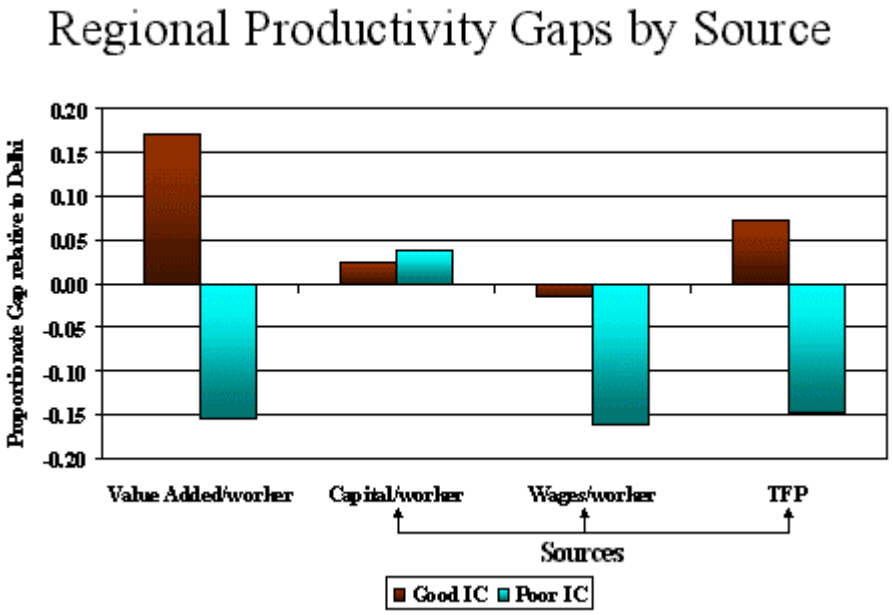
4. The Investment Climate Varies Across Indian States

The last point that I want to take up is that the investment climate varies quite substantially across Indian states. India's national level reform is yielding its greatest benefits in states that are complementing that reform with improvements in the investment climate at the micro level.

Gaining insights into the impact of the differences in the investment climate across states was a key motivation in undertaking the 1,000 firm survey with CII. The survey covers ten states across India. One question we asked was for entrepreneurs to identify the best-climate states and to estimate the cost saving from operating in these locations relative to the worst-climate states. I recognize that this is subjective, but it is a starting point for looking at differences in the investment climate. First, we found fairly consistent views. Delhi was roughly in the middle, so it is a useful reference point. The entrepreneurs found Maharashtra, AP, Karnataka, Gujarat, and Tamil Nadu to be better places to produce than Delhi; Punjab, Kerala, UP, and West Bengal were perceived to be worse. Second, the estimated cost difference between the best and the worst was about 30%, which is a very large cost hurdle for the poor-policy states to overcome in trying to attract investment.[23]



A second important finding was that the objective data on productivity match these subjective views quite well: entrepreneurs - even of small firms - are pretty well informed about variations in problems and bottlenecks. So, in the same sector and controlling for size, we find firms in the good-climate states to have about 30% more value added per worker than do firms in poor-climate states. One point that I find very interesting here is that capital per worker is actually somewhat higher in the poor-climate states. This makes sense to me, because if you operate in these environments you are, for example, more likely to need your own generator, a large capital outlay.



The good-climate states have higher wages, a finding that we are going to examine more closely. Perhaps this reflects the use of higher-quality labor (that is, more educated or more experienced), as better workers migrate to the good production locations; perhaps it reflects that the same skills are paid more in good-climate states, which would indicate that some of the productivity gain from the better climate passes through to the workers. Probably both of these explanations are relevant. CII and the World Bank are going to produce a comprehensive report on the investment climate based on this survey and other information. I am just giving you a preview of some interesting results. The full study should be available within a few months.

Firms in the good-climate states have higher total factor productivity, which is basically a measure of how well capital and labor are being combined to produce value. More importantly, we can trace these productivity differences back to specific problems in the investment climate. Some of the poor-climate states have particularly acute problems with the public power grid. As a reflection of this, in UP 98% of the firms we surveyed had their own generators, and collectively they got only 50% of their power from the public grid. In Maharashtra, on the other hand, only 44% of firms had their own generators, and collectively they got 90% of their power from the public grid. I want to emphasize again what a burden an uncertain power supply imposes on a small firm, for which own-power-generation is extremely expensive and capital-intensive.

The regulatory burden of government also varies by state. The number of times per year that firms are visited by government officials is more than twice as high in the poor-climate states than in the good-climate states.

Naturally, these differences translate into differences in the rates of investment and growth across states. For our sample of firms, the average real growth rate of sales for the past five years was 9% per annum in the good-climate states, compared with only 2% in the poor-climate ones. The aggregate growth figures for these states are quite consistent with this pattern.

Let me close by linking my last two points: the investment climate varies across Indian states, and better investment climates lead to more rapid poverty reduction.[24] The combination of open policies at the national

level and good governance and infrastructure at the micro level have delivered on the poverty reduction agenda in the 1990s: the available data suggest that the good-climate states as a group reduced poverty at considerably faster rates than the poor-climate states.

5. Conclusions

When I give a talk that focuses on the investment climate, there is a danger that I will be misperceived as a champion of big business and misunderstood as arguing that this investment climate agenda is all that is needed for poverty reduction. I am not saying that. There is an equally important agenda around the issues of educating and empowering poor people, especially in rural areas, and assisting them to participate in the market economy. I have written and spoken extensively on that agenda and will have much to say about it going forward. Indeed, it was a central argument in our World Development Report last year on Attacking Poverty.

That agenda of empowerment and education will have much greater impact if it takes place simultaneously with the kinds of reforms of the investment climate that I have outlined here today. By the same token, the investment climate reforms will be much more effective if the population is rapidly becoming more educated, more empowered, and more able to participate in the market economy.

I think that there is a tendency in some quarters to think of the investment climate agenda as being about growth, and the empowerment/education/rural development agenda as being about distribution and poverty reduction. The former is taken as structural, and the latter as social. That is the wrong way to think about how these two agendas interact. Improving the investment climate is as much about poverty reduction as is any action directly aimed at poverty. In many real-world cases, improving the investment climate will be the single most important thing that can be done to alleviate mass poverty.

At the same time, enabling poor people to gain education and assisting them to find the assets and tools to participate in the market economy is not just about poverty reduction; it too is a crucial underpinning of growth for the whole economy. Rapid success in poverty reduction requires real progress on both the investment climate and the empowerment of poor people. I believe that India is making such progress and that if she continues to move forward, the next two decades will see great strides in poverty reduction. This would be a wonderful prize.

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