



Economic Growth and the Common Good: Effective and Innovative Approaches to Economic Growth and Development

**Conference, 23 Sept. 2009
Senate, The Hague, Netherlands**



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INTRODUCTION

On Wednesday 23 September 2009 the Dutch Senate hosts the final conference of the 2008-2009 lecture series on 'Economic Growth and the Common Good: Effective and Innovative Approaches to Economic Growth and Development'. The conference is organised by the Society for International Development (SID) Netherlands, in collaboration with the Dutch public-private development bank (FMO) and the Round Table of Worldconnectors (RTW). There are eminent speakers on the bill, who give their views on economic growth in general, and financing for development in particular. This report provides a summary of the presentations and discussions.

OPENING SESSION

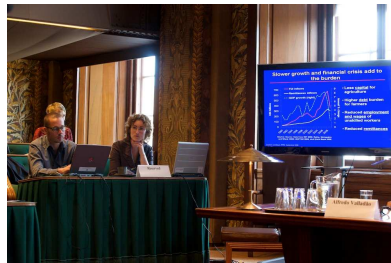
Jos van Gennip (the President of SID Netherlands) invites **Jan Kees de Jager** (the Dutch State Secretary for Finance) to open the conference. De Jager emphasises that the Dutch government believes in international collaboration, particularly in these times of crisis. According to him, the crisis offers opportunities, as long as countries do not turn to protectionism, as they did during the 1930s. In this light, the role of international institutions like IMF, the World Bank and the G20 should not be underestimated. De Jager also stresses the need for financial services in developing countries, where many entrepreneurs currently lack access to credit, which limits the growth potential. The development of micro-credit schemes is a promising strategy to increase access to credit in developing countries. The danger, however, is that the current crisis will put an end to micro-credit projects, and therefore the Netherlands will remain strongly committed to supporting such projects in developing countries.

After this introduction speech, Professor **Hans Franken** (Vice-chair of the Committee on Foreign Affairs) welcomes all participants on behalf of the Senate. Then Professor **Jan Willem Gunning**, from the Amsterdam Institute of International Development (AIID) takes the floor to announce the awards for the best MS thesis and the best PhD thesis in the field of International Development. 'Food aid in Zimbabwe: is it pro child growth?' by Mark Kattenberg receives the prize for best MS thesis. 'The rules of the game and the game of the rules: normalisation and resistance in Andean water control' by Rutger Boelens receives the prize for best PhD thesis.

PANEL 1: DIVERSE APPROACHES TO ECONOMIC GROWTH AND DEVELOPMENT

The first panel of the day focuses on diverse approaches to economic growth and development. **Sylvia Borren** (co-chair of the Round Table of Worldconnectors) moderates this session.

The first of four speakers in this panel is **Shenggen Fan** from the International Food Policy Research Institute (IFPRI). He stresses that there is a strong negative correlation between economic growth and hunger, i.e., under-nourishment will decrease with increasing GDP. According to Fan, economic growth in developing countries is best achieved through agricultural growth. Investments in agriculture (directly, through extension services and indirectly, through infrastructural investments) are crucial for poverty reduction. Furthermore, investments in agricultural research are crucial, as these will have a strong positive effect on agricultural growth. Although Fan argues that economic growth will lead to less hunger, he also shows that economic growth and pre-school malnutrition are *not* correlated. This emphasises the need for targeted programs aimed at preschoolers. In addition to such nutrition interventions, Fan argues for pro-poor social protection. This means support for stronger social safety nets, such as health services, pensions, social assistance and ensuring minimum incomes. The development of effective social protection programs will require a strong tax base, information provision, broad-based political and stakeholder support and public-private partnerships.



The second speaker, Professor **Benno Ndulu** from the Bank of Tanzania, continues with a presentation on the consequences of the crisis for Africa's development. It goes without saying that African economies have become increasingly dependent on global developments. In the current situation, nation-states can no longer operate in isolation, and the influence of multinationals has grown. African countries, in particular, are tied to the rest of the world, as most of them produce primary commodities for export, while importing consumer goods for domestic production. Also, most African countries depend to a certain extent on Foreign Direct Investments (FDI) and Official Development Assistance (ODA). Ndulu stresses that 'globalisation' has been good for Africa, with many African countries growing rapidly over the last decade. However, it is clear that the current crisis is having negative effects, not only on FDI and ODA flows, but also on the demand for primary commodities, the access to credit, and the costs of financing. There is

a risk that this will set back the progress made in the last decade. In the short term, efforts are needed to endure the storm, for example by protecting jobs in exporting sectors, ensuring food security, continuing health programs, sustaining macro stability, and protecting the banking system from client distress. However, Africa's possibilities will in long run depend on the global response to the current crisis and therefore protectionism should at all times be prevented. Ndulu further calls on the global community to: (i) commit to an early conclusion of an ambitious and development-oriented Doha Round; (ii) increase the financing of BWIs and regional development banks; and (iii) increase support to the Aid for Trade Initiative. According to Ndulu, Africa's priority is to build resilience, which implies the diversification of the national economies (reducing dependence on primary commodities), diversification of sources of foreign savings, reduction of aid dependence, and more effective regional integration to enhance the connectedness of the national economies. Lastly, Ndulu stresses once more that 'de-globalisation' is no option for Africa, but that the terms of engagement for African countries would need to be revised.

Third on this panel is **Alfredo Valladão** from Brazil, Professor at the Institut d'études politiques de Paris. According to Valladão we should keep in mind that the last 50 years have witnessed the fastest global economic growth ever. Global consumption and Foreign Direct Investments have boomed, stimulated by cheap credit and innovations in the IT and transportation sector. As a result, many people were lifted out of poverty and equality increased. In other words, we should not throw the baby with the bathwater, and we should definitely not go back to 'independence'. Valladão argues that the current crisis is a confidence crisis: *"The crisis started with a lack of confidence that growth can go on, considering the limited availability of natural resources. These doubts migrated from the natural resources to the financial system, and then to the production system."* The solution is to opt for continued growth, but using fewer natural resources – labelled the 'ecological economy' by some. The current crisis caused a 20% drop in consumption and production and according to Valladão, the ecological economy is about getting back that 20% in a more sustainable way. This will require technological innovations. Moreover, there should be a transfer of technologies from rich to poor countries to bridge the gap between the two. The ecological economy is possible, but there are conditions. First, all forms of protectionism – including 'green protectionism' and 'reversed protectionism' (through export taxes on commodities) – should be prevented. Second, we should ensure that credit is available, especially for developing countries. Related to this, we should keep in mind that remittances are an important source of finance for development. Third, we need to find an alternative for the 'American consumption locomotive'. We need to find ways to make other people consume, which implies the 'democratisation of credit', particularly in developing countries. This, in its turn, implies democratisation of power. Fourth, there is a need for global consensus. The G20 is not enough. Valladão stresses the urgent need to give more voice to more players. Moreover, these new players cannot just criticise – they will also have to make their hands dirty. *"When you're on the table you have the responsibility to help cook the meal."*



The final speaker of the first panel is **Jan Willem Blankert**, special adviser for ASEAN at the European Commission. He claims that, from the Asian perspective, things are not that bad, as many Asian countries are already showing signs of recovery. ASEAN has chosen for regional integration, not only between the ASEAN countries, but also with Australia, China and Japan. Blankert's main message is: "*Keep your trade channels open.*" He agrees with the previous speakers that de-globalisation is definitely not the way forward. In recent years, we have seen increased levels of distrust and nationalism in many countries, including the Netherlands. This imposes a real risk that countries will resort to protectionism, which would be a disaster, because borders lead to costs. Blankert continues arguing that the Netherlands, and other developed countries, still can and should do a lot more to open their borders. He refers to a report of the World Economic Forum which listed countries in terms of accessibility of their markets, i.e., how easy is it to sell your product in that particular country. The resulting list (comprising 121 countries) is remarkable, to say the least. El Salvador, Singapore and Chilli score best, while Syria is last on the list. The US has the 49th position. Strikingly, the Netherlands and Germany take the 89th and 90th position, respectively. "*We still have a long way to go to open our markets to other countries.*"



After the four speakers, Sylvia Borren opens the floor for questions and comments from the audience. The **discussion** focuses first on Valladão's statement that global economic growth has led to more equality. This, according to several people in the audience, seems a rather bold claim. They argue that inequality now has different dimensions, such as increasing differences between skilled and unskilled labour. Both Valladão and Ndulu maintain, however, that globalisation has led to more equality between people. As example, they point to the recent phenomenon of highly skilled Indian labourers migrating back to India.

The question is raised whether there is tension between economic growth and resilience. Ndulu argues that, in the short term, there is indeed a trade-off between building a resilient economy and fast economic growth. However, taking the long-term perspective, Ndulu stresses that resilience is needed to facilitate and sustain growth.

The four speakers all seem to agree that agricultural growth is key for poverty alleviation, but how to achieve that? According to Ndulu and Valladão, agricultural growth is best achieved through the 'agribusiness' model. In this model, businesses work with small holders in so-called outgrower schemes. According to Ndulu, such schemes will enable small holders to earn more and will provide them with access to extension services, credit and mechanisation through the company. Valladão adds that, through this model, small farmers are linked to medium and large-scale businesses, which on their turn are linked to the global market.

Valladão is confronted with the question why the 'ecological economy' would only apply to the 20% of production and consumption that was lost in the last crisis. He replies that this 20% provides the opportunity to try out new techniques. Furthermore, he claims, "...we have to start somewhere". Then there is some discussion on how to stimulate an ecological economy. What is the role of the market and what is the role of governance? Both Blankert and Valladão argue that the solution lies primarily in the development and implementation of green technological innovations. Valladão stresses that there is no such thing as a global government, which means that the options to regulate production and consumption at a global level are limited. According to him, we should not try to enforce global regulations upon countries. Instead, we should stimulate technological solutions. "*The closer we get to the catastrophe, the more effort will be spent on technologies. But we can not enforce anything.*"

Some people in the audience express their worries regarding the political reality, as politicians are thinking in terms of four years, while solutions for global problems demand a long-term perspective. Is there a need for more drastic and radical steps? In their reaction, the panel members point out that, although national political realities are often not conducive to long-term solutions, there are global governance structures and platforms that do operate with a long-term time frame, such as the climate and biodiversity conventions.

Sylvia Borren wraps up the discussion by summarising that there is general agreement on the need to: (i) invest in agriculture and social safety nets; (ii) strive for regional integration; and (iii) prevent protectionism. But, she notes that there is still an urgent need to discuss the terms of engagement for developing countries.

PANEL 2: INNOVATIVE APPROACHES TO FINANCE FOR DEVELOPMENT

Herman Wijffels (former CEO of Rabobank, former Executive Director at the World Bank, and co-chair of the Round Table of Worldconnectors) moderates Panel 2 on innovative approaches to finance for development. First, **Nanno Kleiterp** (CEO of the Dutch public-private development bank FMO) introduces the theme. At the macro level, Kleiterp argues, we learned that markets are not perfect and we have to find ways to deal with these imperfections. Here both governments and the financial sector itself play a role. At the level of the banking sector, more attention should go to providing access to credit for entrepreneurs in developing countries, as entrepreneurs can be agents of change. Likewise, banks have the opportunity to become agents of change. However, still too few banks have walked the talk. Banks should integrate sustainability in their business through: (i) the design of financial services (e.g., linking the price of a loan to achievements on certain pre-set conditions); (ii) the selection of clients (e.g., selecting clients on conditions of sustainability); and (iii) financing sustainable services and innovations. Lastly, Kleiterp argues that development banks can be important agents of change and that they should get more support from governments.



The second speaker is **Trevor Andrew Manuel**, Minister and Chairman of the National Planning Commission of South Africa. According to him, we need to understand the current crisis in order to understand the possibilities for the future. For example: is this a crisis of capitalism, or is it in the nature of the beast? The crisis has made us remember that financial systems do not stop at borders. Furthermore, it makes us see that we should never believe that the financial economy can exist separately from the real economy. We will have to adjust to the fact that, from now on, the costs of capital will be higher. And, there is an urgent need for new checks and balances, including regulations against excesses. Financial institutions will need to prevent greed, as this has been the cause of the crisis. It is, however, worrying that at Wall Street they already seem to be singing “happy days are here again”. As a second major point, Manuel emphasises the need for a commitment to finance development. In this regard, we need to remember that financing for development can never be compulsory. Financing for development will therefore have to create benefits for both developed and developing countries. Still, as financial institutions will not regulate themselves, there is a need for governance. In this light, the existing international institutions will need to be reformed. This means, amongst others, a better representation of developing countries in the IMF, as they are the users. Also, there

is a need to critically assess issues of equity, for example regarding the fact that wealthy countries are borrowing so much money that in the end there is nothing left for the poor countries. Finally, Manuel argues, there is an urgent need to improve the capability of governments in developing countries. Capable states are essential for development as they provide the basic services. Summarising: regulation in the financial sector, reforms in global governance and capable states are the necessary conditions to make financing for development possible.

The third speaker is **Peter Blom**. Blom is the CEO of Triodos Bank, which was recently declared the most sustainable bank in the world by the Financial Times. He argues that the financial crisis provides an opportunity for the banking sector to realign with the needs of society, i.e. to re-establish the relation between the financial sector and the real economy. We are now at an important crossroads – either we change the way we do business, or we accept that crises are part of the deal and continue business as usual. Many bankers seem to opt for the latter, which, according to Blom, is extremely worrying. There are several changes needed. For example, bankers need to start taking their professional ethics and their responsibility seriously. The ethic code established by Dutch bankers is an important step forward. Blom also argues for an education system that uses a more holistic approach, emphasising the interdependencies. Banks would have to move from a shareholder-based system to a stakeholder-based system. Although this will reduce profits (probably by 5 to 7 percent), it will be more stable. According to Blom there is a need to distinguish between basic/retail banking and the more risky investment banking. Basic/retail banking should either be local (for example in a cooperative model) or have a sectoral focus. Banks should not be too big, but will need to align with each other. Blom then continues explaining the way Triodos puts these ideas to practice. Triodos tries to combine agendas (e.g., the poverty and climate agenda) while aiming for full transparency, and using sustainability as a starting point. When someone comes to Triodos for a loan, the bank will first assess whether the activity that needs financing will contribute to sustainability – even before assessing whether the activity is bankable. Triodos also created a global alliance of ‘banking on value’. The alliance now has 11 banks. They are very different banks, but they all share the same values, and together they serve about 10 million people. Regarding the future, Blom predicts that large financial institutions will have a tough time, and that there will be more smaller banks. He compares it with a shift from a monoculture to more biodiversity, which creates fertility. Blom predicts that the top-down approach (based on international agreements) will be increasingly difficult and that bottom-up initiatives will grow in importance. *“The number of social enterprises will grow, and they will help to shape a different sort of capitalism, which will include aspects of ecology and equity. Banks will play an important role, as they can make money a tool for change. Banks can help people to direct their money, in order to change the world.”*



The last speaker on panel two is **Vineet Rai** from India – founder of Aavishkaar India Micro Venture Capital Fund and director of Intellectap. Rai explains how at a certain point he realised there are two Indias. One urban India with educated people who profit from the global economy (the IT revolution in particular), and one rural India, where people are not educated and do not profit from the rapid changes in the world. According to Rai there are three key elements of more inclusive growth. First, there is access to credit. Micro-credit, though it is far from perfect, is an instrument that we should use to make credit accessible to the poor. Second, there is talent. The biggest talents tend to work for multinationals, while NGO's (who are dealing with the immensely complex issue of poverty alleviation) do not seem to be very successful in attracting these people. To change this, we will have to create and emphasise the non-commercial incentives. We can, for example, challenge people to *“use their talents to be a leader in a company that makes a difference, instead of being an analyst in some big multinational”*. Third, we have to see social problems as opportunities for social enterprises. Indeed, not all social problems can be solved with a business approach, but many can! Social enterprises, however, will require some patience, as they seldom deliver quick returns. Rai rounds off his talk by saying: *“Capitalism has taught us how to create wealth, but it didn't teach us how to redistribute wealth. We therefore need to think of a new form of capitalism that ensures the distribution of wealth. Business and greed will need to be decoupled. It might be a good idea to include greed courses in our business schools.”*

Reflecting, **Herman Wijffels** notes that none of the three speakers differentiated between finance in general and finance for developing countries. Apparently, the panellists think we should embark on a new way of development in both developing and developed countries, and that banks should play a key role as an instrument to realise the ambitions of society. Provided certain conditions are in place, banks can be agents of change. Wijffels then opens the floor for **discussion**.

Does a global economy, with trans-national value chains, not need global banks? That was one of the questions posed in reaction to Peter Blom's plea for local banks. Blom explains that, in addition to local banks, he also argues for sectoral banks, which are likely to be trans-national. He continues that the value of banks is not only in the delivery

of credit, but also in delivering know-how. Banks that are connected neither to the local economy nor to the sector, will not be able to provide this type of added value. Although there is a need for international banks, we should not go back to the situation of before the crisis, in which global institutions created a virtual market for financial packages without a connection to the real economy.

Then there is some discussion on the role of small and medium scale enterprises (SMEs) and their need for financing. It seems the financial sector is currently divided in large-scale financing institutions and micro-credit schemes – neither of which provides loans to SMEs. Does this mean there is a missing middle? What can be done to serve the needs of SMEs? According to Manuel, governments would have to put in place guarantees for banks to finance SMEs. Kleiterp adds that international banks are reducing their activities in developing countries, which creates more space for local banks to finance SMEs.

The extent to which ODA can leverage private capital flows is also a topic of debate. Most ODA money does currently not go through banks, while banks can finance development activities with good recovery rates. The panellists seem to agree that it is worthwhile to channel more ODA through development banks, as they can use the same money multiple times.



Throughout the discussion, Trevor Andrew Manuel stresses the need for regulation and supervision. Regulation is crucial, because “micro-rationalism” (decision-making at the level of the individual bankers, e.g. the individuals creating the risky mortgage packages) is not the same as “macro rationalism” (the public good). Financial institutions should be obliged to keep some of the risks in their books. Herman Mulder notes that the risk of regulation lies in the possibility that the regulated sector offloads risky packages to the unregulated sector.

Risk, and the perception of risk, are discussed in some more detail. Sylvia Borren points out that development banks are reluctant to provide loans to small-scale starting enterprises in developing countries because of the assumption that these are risky undertakings. In the Netherlands, however, there are many services in place for starting

enterprises, which effectively reduce the risks of financing. She asks whether this kind of thinking can also be applied in the developing world. Related to risk, Wijffels argues that we have to completely turn around our way of thinking. Until now, investments in developing countries and investments in sustainability were seen as high-risk activities. In the future, this will be the opposite. The risk will be in the developed countries, because they will have sluggish or stagnating growth, being stuck with old and polluting technology. Developing countries, on the other hand, will be growing. They will jump to the next generation of technologies, which are less risky.

Wijffels also gives his view on the future of the World Bank, which should make a bigger effort to crowd-in private capital to finance developments in developing countries, for example through consortiums financing investments in infrastructure. Kleiterp agrees and argues that the importance of such arrangements will grow in the future, as there is growing interest in 'social investments'.

CLOSING SESSION

As the last speaker, Dr. **Alison Evans** (director of the Overseas Development Institute - ODI) provides her summary of the discussions, while adding her own ideas and reflections. The crisis started in the financial sector, but moved on to the real economy. Now, the initial panic is over, at least for the time being. But, where are we in the recovery? Should we be optimistic or pessimistic? Opinions differ greatly. The world today is not only faced with the financial crisis, but also with other crises, most notably the climate crisis. What would have happened if we had been focusing our discussion today on the climate crisis? Would it have resulted in more radical standpoints? Would we have concluded a paradigm shift is needed? Evans notes that she heard many different opinions among the panellists and the audience on how big of a 'game-changer' this crisis really is. And she adds: *"How much of games-changer do we want it to be?"*

In the morning session, the panellists seemed to agree that the financial sector has to change its business. The panellists also agreed that the welfare of developing and developed countries are interdependent, and that this interdependence is crucial for the recovery. Interesting issues came to the fore, such as the need to 'democratise credit', how to balance access to capital and regulation, and the need for collective action. A lot of emphasis was put on technology. Several speakers mentioned that the last decades have witnessed significant growth in developing countries and that we should be careful not to throw the baby with the bathwater. The message seems to be that we need to build on the systems that brought progress, while changing the terms of engagement for developing countries. Everyone agrees that there is a need for resilient development. For resilience, investing in social security is important. This includes protective measures for the poor and vulnerable, as this is an investment in future growth. We also heard that access to finance is a crucial issue. The question is where to start? Should we focus on the financial sector? Or, should we start somewhere else – for example with property rights, the building of capable states; or regional integration. Strikingly, none of the speakers talked about a 'paradigm shift', while according to Evans, a paradigm shift is exactly what is needed.

The afternoon session focused more explicitly on the possibilities within the financial sector to promote sustainable development. According to Trevor Andrew Manuel, the

financial sector will not regulate itself. He therefore underlined the need for regulation and supervision. He proposed a ‘middle ground’ between the market and state regulation. Several other recommendations emerged from the afternoon session. Manuel stressed the need to reform the architecture of global governance and to support capable states. Blom argued there is an important role for value-driven financial institutions. Finally, Rai emphasised that we should use the strength of businesses and apply the talents of the business community to address social challenges. Evans is pleased to note that ODA has not dominated this afternoon discussion, as is often the case with discussions regarding financing for development she reminds us however that we should not forget about the need to improve the quality of ODA as a tool for financing development

Evans finishes with three ‘bullet points’: (i) the panic is over, but we still have a long way to go – we should think in terms of resilient and shockproof development, which may imply trade-offs; (ii) we need sort out global decision making issues; and (iii) resilient development asks for diversification and integration.

After the summary and reflections by Dr. Alison Evans, **Jos van Gennip** takes the floor to thank the speakers, the Senate, the audience and the supporting staff. He closes the day with the following message: *“Quoting our Minister of State Ruud Lubbers ‘When there is no vision there is bewilderment’. In order to overcome the dilemma of short-term versus long-term objectives we need to develop a vision, and therefore analysis, reflection and debate are essential.”*

The organisers would like to extend special thanks to the Dutch Senate for hosting the conference and their hospitality.

