

# **Enabling Growth and Promoting Equity in the Global Financial Crisis**

**Prospectus**

**Kate Bird  
Kate Higgins**

**Conference hosted by the  
Growth and Equity Programme  
Overseas Development Institute**

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## 1. Introduction

The purpose of this paper is to set the agenda for the conference 'Enabling Growth and Promoting Equity in the Global Financial Crisis', to be hosted by the Growth and Equity Programme at the Overseas Development Institute (ODI) on the 12<sup>th</sup> and 13<sup>th</sup> of February 2009. The Growth and Equity Programme (ODI) (<http://www.odi.org.uk/programmes/growth-equity>) works to close the gap between two major but often divergent themes in development thinking: growth and poverty reduction. The programme works through multi-disciplinary, evidence-based and policy-focused research to inform donors and policy makers on the challenges inherent in working effectively at the growth-equity interface.

The purpose of this conference is to draw together development policy makers, practitioners and researchers to discuss how to **enable growth and promote equity during, and following, the global financial crisis**. Through short presentations, fresh empirical evidence from a range of methodological and disciplinary perspectives will be presented around three key themes: inclusive growth; exclusion, discrimination and exploitation; and risk and vulnerability. These will be followed by ample time for a structured, open and rigorous debate on policy and programmatic priorities to: support inclusive growth; reduce exclusion, discrimination and exploitation; and manage risk and vulnerability.

The principal aim of the conference will be to answer this question:

**What should governments prioritise (and how should the international development community support these priorities) to enable growth and promote equity during, and following, the global financial crisis?**

We hope that by the end of the conference, we will have made progress towards answering this question, giving participants clarity on policy and programmatic priorities for enabling economic growth **and** equity.

## 2. Why growth and equity?

For the Growth and Equity Programme at ODI, economic growth is not an end in itself. Economic growth is a *means* to an end; the end of which involves enhanced well-being, particularly of poor people, and greater equity within societies. We have chosen to work at the nexus between growth and equity and to explore and understand the inextricable linkages between the two phenomena.

Economic growth and improved equity are – on their own - necessary but not sufficient for sustained national development. Where policies and programmes effectively deliver both, the conditions are set for both short- and long-term improvements in efficiency across the national economy and in well-being for all social groups. For example, improved access to good quality education can improve the chances that young people from poor parts of a country can negotiate better conditions when they migrate for work, giving them and their families the chance to exit poverty and also (plausibly) increasing the contribution that they make to economic growth. On the other hand, having well functioning produce markets can provide poor producers with greater opportunities, enabling them to accumulate and invest, keeping their children in school and building for the future.

We recognise a certain circularity in some of these arguments (i.e. education leads to wealth creation and wealth creation leads to education) but it is these very interactions – between the economic and social spheres - that the Growth and Equity Programme seeks to understand. Through multidisciplinary research and analysis, we aim to develop clarity

around these interactions in order to provide advice on prioritisation and sequencing of economic and social policies to achieve sustainable and more equitable development progress.

### **3. Key issues for discussion and debate**

The current financial crisis is generating precarious situations for poor people in the South. Decreasing capital flows, remittances, foreign investment, government aid and falling demand for goods and services are expected to affect developing economies. These macro-economic shocks impact on, and are impacted by, poverty through a wide range of transmission channels, including taxes and transfers, prices, assets, investment, employment and access to goods and services. Ensuring equity across these channels can trigger a virtuous cycle - driving inclusive growth, enhancing resilience and addressing exclusion - where every one benefits. Hence, the question at hand: how to enable growth and promote equity during, and following, the global financial crisis?

Key themes for this conference are: inclusive growth; exclusion, discrimination and exploitation; and risk and vulnerability. These themes encompass a broad agenda that allows for the holistic exploration of issues at the nexus between the growth and equity debates and policy. The conference will seek to identify conclusions from discussion around these key themes which will contribute to practical policy and programmatic responses to the current global financial crisis. The challenge will be to keep equity on the agenda while governments and the international development community struggle to restart, or maintain, growth.

#### **Inclusive growth**

There has been much debate about the links between economic growth and poverty and social outcomes. There has been an engaged debate about labelling (pro-poor, broad-based, inclusive) and about definitions (absolute or relative improvements in income for the poor). Interesting conceptual work has refined our notions of the pace and pattern of growth required to benefit poor people. Empirical evidence has been amassed and the implications debated. However, practitioners in the international development community and Southern governments still struggle to identify the most effective policy tools for supporting inclusive growth. There are uncertainties about how best to deal with the challenges implicit in efficiency - equity trade-offs and how to best sequence policies and programmes to ensure that growth processes are inclusive and benefit the poor.

These challenges are suddenly even more acute in the context of a global financial crisis and recession. What should governments in the South do if they wish not only to prevent negative or 'slowed-down' growth, but also identify ways of doing so that are sustainable and deliver benefits to the poor?

Given this, under this theme, priority questions for the inclusive growth panel of this conference will be:

1. What is likely to happen to the interaction between growth and equity in the context of the current financial crisis?
2. What policies should be prioritised to enable equitable and inclusive growth?
3. Sequencing and trade-offs are implicit in this prioritisation. What are they? And are they politically feasible?

## **Exclusion, discrimination and exploitation**

Exclusion, discrimination and exploitation are of intrinsic concern in development. For example, exploitation often involves significant human rights violations that should be abhorred. Exclusion, discrimination and exploitation are also of instrumental concern to growth. They are associated with inequality in human capital formation and can block people contributing to the economy through enterprise creation and employment. Inequality is also associated, in some places, with governance and institutional failures and elevated levels of crime and insecurity.

Understanding the processes by which people are excluded, discriminated against or exploited in key markets and services is crucial if governments and other actors are to create the conditions for inclusive growth. The conference will explore this, reflecting on the implications of the global financial crisis. It will examine the approaches and policies required to incorporate people who have been excluded, discriminated against or exploited, as well as look at the terms upon which inclusion occurs. We will argue that there is more to inclusive growth than 'inclusion'; we should be concerned with the manner in which the poorest and most vulnerable engage in and benefit from the services and markets that they can access.

Under this theme, the conference will explore the following questions:

1. How are people excluded, discriminated against and exploited in key markets and services?
2. How can policies make access to key markets and services equitable?
3. What are the implications of the financial crisis for exclusion, discrimination and exploitation in key markets and services?

## **Risk and vulnerability**

Risk and vulnerability both affect and are intrinsically linked to growth and equity processes and debates. Risks, or the chance of a shock (negative event) taking place, may be higher in certain countries or environments or in certain sectors. The exposure to shocks and stresses (including those related to financial or produce markets, livelihoods, health, conflict and climatic variability and change) compromises people's ability to retain and build assets, maintain well-being, engage in markets and take advantage of opportunities. Shocks, fear of shocks and both *ex ante* and *ex post* coping responses<sup>1</sup> can seriously impinge on entrepreneurial behaviour, the productivity and profitability of enterprises, asset holdings (including social and human assets) and the quality of people's lives.

Vulnerability is the degree to which an individual, household or enterprise is in danger of being negatively affected if a shock takes place. Vulnerability is influenced by, amongst other things, stores of value (e.g. asset holdings) and the ability of an individual or household to convert those into flows of goods and services to maintain consumption. Both vulnerability and an inability to participate in growth processes tend to be intensified where risk-spreading is limited and households draw down on their asset bases through the adoption of (adverse) coping strategies.

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<sup>1</sup> Sub-optimal investment by a farmer or entrepreneur is an example of an *ex ante* response, others are the avoidance of specialisation and the diversion of resources into insurance or quasi-insurance investments. Examples of *ex post* response include shedding workers, removing children from school, selling assets, reducing food intake.

The current financial crisis is putting whole economies around the world under pressure. The structure of those economies and how effectively signals are transmitted through an economy (for example through reduced demand for labour), and between individual countries and the global financial and trading system, will influence the magnitude and distribution of impact. The crisis is likely to generate widespread livelihood shocks; second round effects could deepen these impacts, damaging income and employment opportunities as well impacting on general well-being. Households will seek to protect assets and well-being; safety nets, social networks and social protection can play an important complementary role by reducing people's need to adopt 'adverse coping mechanisms' that can generate irreversible damage to productivity and well-being, for example through the sale of productive assets and reduced investments in human capital. However, as the global financial crisis generates negative impacts throughout economies and drives some households deeper into poverty, reduced aid flows, the reduced value of governments' foreign exchange holdings and fiscal tightening will challenge Southern governments' ability to respond to the crisis. Difficult decisions will have to be made.

Under this theme, the conference will explore the following questions:

1. How do risk, vulnerability and coping affect poor people's ability and capacities to engage in growth processes?
2. What do we know about the impact of the global financial crisis on the South?
3. What are the likely short, medium and long term implications of the global financial crisis for inclusive growth and equity in the South?