

Financial sector development and growth Research call launch meeting summary - 25 May 2015

The launch for the third call of the DFID-ESRC Growth Research Programme (DEGRP) took place at ODI, London on 25 May. Launched in 2011, DEGRP is a £20.9 million programme that aims to generate world-class cutting-edge research on issues relating to economic growth in LICs, with large potential for impact on policy and practice. This is the third call for research under DEGRP and focuses specifically on the role that international finance, institutions and technology play in the growth agenda of international development. The event included presentations from DFID's Growth Team and the Economic Social Research Council (ESRC) on the scope and objectives of the research call as well as insights from current DEGRP Grant holders.

The event was chaired by **Dr Dirk Willem te Velde**, DEGRP Research Leader, Senior Research Fellow and Head of the International Economic Development Group, ODI. DEGRP has funded eight grants so far on finance. More information on these projects can be [found here](#). He also highlighted a DEGRP report [on finance for development](#), by Professor Thorsten Beck.

John Piper, Senior Economist, Growth Team, [DFID](#) outlined that it is an important area of research and a great opportunity to influence policy making in DFID, particularly in Low Income Countries (LICs). DFID are particularly interested in low and middle income country transitions and in financial sector development. He highlighted three broad areas of interest; international capital flows – private and public, institutional framework that support inclusive financial development, and new technologies.

Craig Bardsley, Head of International Development and **Petya Kangalova**, Research Portfolio Manager, [ESRC](#), gave an overview on ESRC's role for DEGRP and outlined how to apply for the research call. Please visit the [ESRC website](#) for more detailed information.

The submission deadline for the call is 4pm (BST) on 2 July 2015

There will also be an ESRC webinar held on the 10 June for potential applicants to provide further guidance on the call and the application process. [Click here for details on how to register your place](#).

DEGRP's focus on the financial sector and growth

The second part of the meeting focused on three existing DEGRP grant holders, researching financial sector development and growth:

Professor Stephany Griffith-Jones, DEGRP call 1 grant holder and Financial Markets Programme Director, Initiative for Policy Dialogue, Columbia University and ODI Research Associate. Professor Griffith-Jones has examined quantity cost and maturity and the need for deeper financial systems in LICs. Through research it has been identified that the spread between deposits and lending rates are very high and don't seem to fall over time. Possible causes could include:

- risk - greater spreads could be because of greater risks;
- profitability - return on equity is far higher in LICs than in MICs. Profitability has gone up considerably;
- technological improvements;
- maturity of loans - a key issue for funding.

The research has highlighted the benefits of diversified financial systems (large and small/sectoral/domestic and foreign etc.) which can reduce systemic risk. Professor Griffith-Jones ended by highlighting the challenges of regulation and warning LICs in Africa to not become complacent despite the lack of financial crisis there.

Dr Svetlana Andrianova, DEGRP call 1 grant holder and Reader in Economics, University of Leicester. Dr Andrianova's project, 'Politics, finance and growth' looks at the linkages between 3 areas in Sub-Saharan Africa; causes of under development, an examination of the finance-growth nexus and an examination of the relationship between financial development and poverty in LICs. She highlighted some important outputs from the project:

- [Why Do African Banks Lend So Little?](#)
- [Ethnic Fractionalization, Governance and Loan Defaults in Africa](#)
- A new dataset of financial fragility nearly five times as large as previous datasets will become available. It offers data from 124 countries from 1998-2012 (including 48 African countries) and eight different measures of financial fragility.

Dr Emily Jones, DEGRP grant holder from call 2 and Deputy Director, Global Economic Governance Programme, University College, Oxford. The project which only started 6 weeks ago, is looking at LICs navigating the global banking standards and whether the banking standards are appropriate for LICs, with the Basel standards being very complex and designed with advanced economies in mind, such as that of the UK. Some important points included:

- The importance of political economy. This project probes the political economy of banking regulations.
- The levels of Basel regulations taken on by countries, of which there is high variation and potential reasons for adoption / non-adoption of the standards. Five working hypotheses are being tested; institutional fit, powerful interest groups, signaling, diffusion through expert networks and coercion.

The presentations were followed by a Question and Answer session from the floor and from online participants. A video of the event is available on the [ODI event page](#).

Links

[Event video and speaker presentations](#)

[#finance4dev](#) on Twitter

Visit [ESRC's website](#) for full details about the research call.