

### **Development Policy Seminar Series**

“Desirable financial sector in developing countries, especially LICs,  
to serve the real economy, and not undermine it”  
presented by Prof. Stephany Griffith-Jones

The recent crises challenged previous conventional wisdom that increasing size and deepening of the financial sector is always socially optimal; there is growing consensus and evidence that largest may not be best. At the same time, financial systems in LICs are incomplete, and do not satisfy the needs of the real economy, nor give sufficient access to large parts of households and companies. The key research policy question is how large should the financial sector in LICs be and how fast should it grow, given the lessons of history and the growth needs of LICs? Much of systemic risk is built up either when financial systems are too large in proportion to the real economy or grow too fast, or both. Recent experience and empirical research shows clearly that the structure of finance matters, (see for example IMF2012), both for crisis avoidance as well as for having a financial sector that finances growth promoting and welfare enhancing activities. In the case of LICs, what kind of structure of the financial sector would maximize positive effects on inclusive and sustainable growth? The challenge is not just about ensuring that savings are channelled to efficient investment in key sectors contributing to growth, but that credit is granted at reasonable cost (the latter a particularly important problem in LICs). Finally, what are the financial regulatory implications for LICs of the two above challenges, especially in the light of major regulatory changes made linked to recent financial crises. This is particularly important, as LICs are not represented in the international bodies designing financial regulatory reform. How can financial regulation in LICs avoid build-up of systemic risk, whilst still encouraging lending essential for inclusive growth.

**Stephany Griffith-Jones** is an economist specializing in international finance and development, with emphasis on reform of the international financial system. She is currently Financial Markets Director at the Initiative for Policy Dialogue, based at Columbia University in New York and Associate Fellow at the Overseas Development Institute. Previously she was Professorial Fellow at the Institute of Development Studies at Sussex University. She has held the position of Deputy Director of International Finance at the Commonwealth Secretariat and has worked at the United Nations Department of Economic and Social Affairs and in the United Nations Economic Commission for Latin America and the Caribbean. She started her career in 1970 at the Central Bank of Chile and has worked at Barclays Bank International in the UK. She has acted as senior consultant to governments in Eastern Europe and Latin America and to many international agencies, including the World Bank, the Inter-American Development Bank, the European Commission, UNICEF, UNDP and UNCTAD. She was also a member of the Warwick Commission on international financial reform and has published over 20 books and written many scholarly and journalistic articles. Her latest book, edited jointly with José Antonio Ocampo and Joseph Stiglitz, *Time for the Visible Hand, Lessons from the 2008 crisis*, was published in 2010.