

Fireside Chat: Development Traps in a World in Transition

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Kristina Maslauskaite

It's a great pleasure to be here, and thank you so much for having us. And thank you, Andres, for taking the time to come and meet the sector. I think it was quite an eye-opening lecture for all of us. My role today is to ask questions, which should come easy to me since I was your student 15 years ago. And I want to connect the title of our conference, The Purpose of Microfinance, to what you have walked us through in your lecture and to see how very practically we can construct solutions that can address all these different problems that you have emphasized. So the diagnostic was quite rich, and I think we all understood where the problem lies. It was quite gloomy as well, to be honest. But in addition to that, in addition to all these structural issues, we have all these megatrends that are also shaping how the development pathways proceed. And just to bring all of the debate a bit closer to the ground, this morning, I had the privilege with FedInvest to visit a group of Albanian beekeepers who live in underserved rural areas, have difficulties to access markets, to sell their produce. But in addition to that, they are affected by geopolitics, by energy crisis, by all these things, as well as the climate change. As the climate is getting hotter here in Albania, the diseases are shifting, the calendars are changing, and so all these things just add to their difficulties in living in these development traps. So in your view, how do these sort of microenterprises, farmers, informal enterprises survive and live in these trapped regions? And what is the difference between being in a trapped region and being in a region that is better off?

Prof. Andrés Rodríguez-Pose

Well, let me start by I think you have two parts. Thank you very much for the question, Christina. Two parts in the question that I think are relevant. The first one is, to what extent is microfinance these days relevant? And then the second part, which is, yeah, and does it work differently in different places depending on whether they are more or less dynamic, more or less trapped? Let me start by the I know that microfinance has come under a lot of scrutiny in recent years because, well, if you give money to the people you went to see this morning, you get funding to beekeepers, and they manage to repay their loans later on, but then they ask for the same sort of loan the year after, and it goes year after year. Is that in the end just a process of inclusivity for people that are at the margins, or is it something better? My suggestion here is that this question should be addressed in a way that is, what is the alternative? Yes, it would be good if the beekeepers move up the production chain and do other things. But the alternative to not doing anything is that these people would not be able to pursue their dreams, would not be able to pursue their problems, would not be able to

fight for their capacity, and they would end up in being subsidized in a sort of social policy, and there's nothing wrong with social policy, but without the capacity to actually try to deliver something. The good thing about microfinance, even if it doesn't lead to any sort of improvement, even, is that on the one hand, it does allow people to pursue their projects, to fight for their future, and it gives people a sense of purpose. It gives them the dignity of a job, which is something that you cannot achieve by just being subsidized and staying in your house in Leeds, staring at the wall. So in that situation, microfinance actually works. And on top, it produces a social policy, if it works to do that, that is far more efficient than a social policy that involves your subsidies because these are people. What is the rate of defaults of the microfinance activities that you find?

Kristina Maslauskaite

Depending where you look at. It could be anywhere from 1% to 15%.

Prof. Andrés Rodríguez-Pose

But the average, 1% is.

Kristina Maslauskaite

In the region, it's very low, let's say, very low.

Prof. Andrés Rodríguez-Pose

So if they all repay their loans, it's the government that doesn't have to pay. They're paying themselves. But the thing is that this is not a social policy in any way. Many of these beekeepers would not just improve the quality of their honey. They would also make sure that the honey is produced more because they will have the training to avoid the illnesses that are related to bees. They might be able and be taught and pursue possibilities to commercialize well beyond the borders of Albania. They might diversify it into related products: candles, wax, moving forward beauty products, and they might grow into the next hub of beauty products related to bees in not just Albania or the southeast of Europe or Europe, but possibly in the world. Who knows? And we have seen it. And in that case, you're producing economic development. So in the worst-case scenario, this is a win-win. In the best-case scenario, it's a massive boost for economic development.

Kristina Maslauskaite

So this is a very positive message for all of us. And just to complement a bit your response, what we believe in, and Jaime is here to confirm, is that microfinance and microcredit is not the same, as was mentioned by the vice governor. We want to complement microcredit with trainings, with business development services, with these activities to allow these people to progress further. And microfinance institutions, many of them, are uniquely positioned to know the needs, the knowledge gaps, and to deliver them. And this is what we have witnessed today with the beekeepers in Albania. So indeed, this is an important message to pass to the sector.

Prof. Andrés Rodríguez-Pose

This is related to your second question before because do you operate in the same environments? Of course, it's much more difficult to operate in a place where you have a development trap than in a place that's thriving. Microfinance and microcredits can actually work very well without any sort of support in areas where you have the right institutions, the right training, the right skills, the right capacity to actually network. In other places, microfinance works much better when it's accompanied by other measures. Just giving a credit to an entrepreneur that hasn't got the capacity to do any sort of accounting would not work if it doesn't come with the right training. Just giving someone access, for example, to AI would not work if it doesn't come with some sort of minimal level of training to say, "How can you make the best use of AI to transform your business?" And that's where microfinance complements and becomes an essential tool for any sort of economic development and the development of new activities and making sure that new ideas and projects are actually delivered in reality.

Kristina Maslauskaitė

Right, right. And it's interesting that you mentioned institutions. And a few years back, we have done together some research on how institutional quality shapes the outcomes of levels of access to credit, basically, of these microenterprises. Could you tell us a bit more about these findings and how this relates to your research on development traps?

Prof. Andrés Rodríguez-Pose

Yes. I think it's important to highlight the role of institutions. Many places that fall into development traps is not because they don't have potential, but because that potential is actually in a situation that cannot be used because the institutional conditions are weak. And when I talk about institution, it would be the formal institutions like the rule of law or, for example, the protection of private property, but it's also the informal institutions. The level of trust that you have in the system, the level of corruption that you have, whether you think that your decision-makers are working for the common good or they're working for their own private interests, and that is something that, in some cases, can create significant barriers for economic development. So that's why financing is not the only solution. Financing is essential for economic development, but it needs to come hand in hand with other sorts of transformations. And improving the trust that your would-be entrepreneurs have in the system, that they would be supported, that they will be helped in case of need, but that they can also have the environment in which they would be able to thrive, to develop their own ideas without significant burdens, significant problems, or perhaps the emergence of, let's say, organized criminality, as we see in some parts of the world, this is something that is going to encourage and is going to create economic development. And this is something that I'm really proud of because the European Union, after much of the research that was done by others and myself, went with a cohesion policy, which is the largest policy in development policy in the world, since 2014 has introduced the idea of capacity building and institution building as an essential part of the policy.

Kristina Maslauskaite

Right. So if we linger on a bit more on this institutional capacity building, you have been advising lots of international organizations. You just mentioned the cohesion policy and all the work you have done there, but also governments, as you shared the example of Kazakhstan. Have you witnessed in the past decades of this work that the policymakers are actually taking these considerations into account? And is there progress? Are the institutions getting better?

Prof. Andrés Rodríguez-Pose

Well, the more I work with policymakers around the world, the more I appreciate the role of policymakers. Policymakers, they represent, they got a mandate, they know what they're doing. Of course, you have, like in all walks of life, different types of policymakers, but most of them are genuinely interested in making an improvement in the quality of life of the citizens and finding the right solutions. So they listen. And very often, they listen to what is being done. They have different advisors. They have different sources of information. And when they find that the solution can work, it can act. I'm going to give you two examples from outside Europe. I was involved now quite a few years ago in Colombia with the OECD. And in Colombia, they had a massive problem in the level of taxation of natural resources and the problems of imbalances it was creating and the lack of opportunities for regions of Colombia with lack of natural resources. So what we proposed was a formula to actually use the benefits that we're generating from the levies on mining and oil production in a way that was more equally distributed across the country. And not only that led to a significant increase in economic activity, it also pacified problems of, on the one hand, too much corruption in areas that were awash with resources and relatively little corruption. And more recently, I've been working for quite a few years, as I mentioned, in Kazakhstan. The whole idea of now Kazakhstan is considering fiscal decentralization as a way to stimulate economic development and especially to tap on the latent talent and potential that is across the whole of the country, which is not being used because most investment is stuck in both Astana and in Almaty, which are respectively the capital and the largest and most dynamic city.

Kristina Maslauskaite

Right, right. So I would like to touch upon two of the megatrends. And of course, there are many of the things that are going on in the world and shaping our lives every day, but I think the trendiest topics are now AI and geopolitics, those that are the headlines of each newspaper. But before that, I would like to invite the audience to think about their questions. Once we're done with these two, maybe you could jump in and ask anything that sprung to mind while Andreas was presenting. So in terms of AI, Andreas, you have been doing research in the past year or two on the role of AI and regional development. And this is quite an innovative work. Could you share with us a bit of the conclusions, a bit of a sense of how AI will shape these places that are trapped? What are the opportunities that can be harnessed from these developments, and what are the main risks for the regions?

Prof. Andrés Rodríguez-Pose

Well, AI has arrived. Now we all know what AI is, how it's transforming our daily lives, and

it's here to stay. So we need to deal with it. It cannot be ignored. And I've been working into how does AI affect economic development, and where do we benefit? But of course, AI is many things. And you can be a generator of AI. You can generate new activities and new developments, or you can be an adopter of AI. And where are the generators? In very few places. There are very few people and in very few places. AI at the level of the world is concentrated in, I would say, two places, which is the Silicon Valley or the San Francisco Bay Area, where you have OpenAI and Anthropic, and then it's in Hangzhou in China, where you have DeepSeek. And that's about it. These are the players.

Kristina Maslauskaite

Just to intervene, in your article, you mentioned that only 2% of all AI patents are actually filed in Europe, 2%. So this was a shocking statistic for me.

Prof. Andrés Rodríguez-Pose

Well, the shocking statistic is Europe, in terms of publications and research, does the same amount of research on AI as the United States. But then it produces less than four patents per million inhabitants in comparison to 116 in Korea and 47 in the United States. And then this represents 2% of all patenting in the world. So we are massively behind, not just Europe, but the rest of the world. And more importantly, it's where this generation is happening. Most of the biggest concentration is in the south of the Netherlands, in a place called Velhoven, which is ASML. And even there is small, then it's Paris, and then it's Munich. I don't have the figures for Albania, but there's no patenting in Greece. There's no patenting in Bulgaria. There's no patenting in Romania. There's virtually no patenting in the Baltic countries. There's virtually no patenting in the Nordics. So when you have that sort of situation, you have a dilemma. So you invest where? Yes, Europe needs that, but that means Paris is going to get all the benefits, and the rest of Europe is going to get nothing. But in Europe, like in China, when I did the research, what you have is a lot of places are actually very good at adopting AI. And we have jumped from 8% of our firms using AI in 2023 to now 20% of European firms using AI in 2025. The calculation is that that's going to double by 2027, in which we'll have almost 50% of the firms. And the good news is that the returns, in terms of economic growth, productivity, and innovation of adopting AI, seem to be far greater across the board than generating AI. And where does that happen? Not necessarily at the top end, already the innovators and the ones that are generating more employment because their AI crowds out other sort of, but where it becomes complementary. In places like Albania, in places like the south of Spain, in places like Armenia or Georgia, they cannot aspire to be at the forefront of generating AI, but they can make a significant transformation by using AI.

Kristina Maslauskaite

And do you have disaggregated data? I wonder, by the size of enterprise in terms of AI adoption, I would imagine that the microenterprises would be less capable to adopt, or is it not necessarily the case?

Prof. Andrés Rodríguez-Pose

They are less capable, but they are growing very fast. And one of the things is that they are

teaching by preaching. The microenterprises that are adopting AI seem to be the fastest growing right now. So it's something that is going to be unavoidable.

Kristina Maslauskaite

So this is, again, the role where microfinance institutions can have. So again, we may come back to the trainings and all the advice that could be provided to the microentrepreneurs. This is another way, I guess, I suppose, that you would be advising us to pursue.

Prof. Andrés Rodríguez-Pose

I think it's a way that you need to go. It's an essential way. But as I said during my intervention, one thing is just giving funding to have access to AI, which, by the way, has a relatively low barrier to entry. And another thing is saying you get the funding, but on top of that, you get the right training, you get the right capacity, and you get the plan, or you help develop a plan that is adapted to your business so that your business can thrive. In those situations, the use of new technologies is going to help making your beekeepers not coming back next year to ask to give them exactly the same sort of microcredit they got this year. They will be coming back to ask you to give them a completely different microcredit to expand their business because they are now thriving.

Kristina Maslauskaite

Okay. So maybe let's take some questions from the audience before going to geopolitics. Could Andreas please elaborate on the economic impact of loans for supporting families' education, health, and home improvement? So if we speak about non-business microcredit, but more about house improvements or consumption or health education and so on, because obviously, microfinance is not only for business purposes. It could be for many other objectives.

Prof. Andrés Rodríguez-Pose

Well, thank you very much for the question. Do you know who made the question?

Kristina Maslauskaite

Anonymous.

Prof. Andrés Rodríguez-Pose

Anonymous? So fine. Thanks for the question. I'll skip the part on the housing because it's beyond my area of expertise, but I'm going to focus on the education and health, which are two fundamental determinants of economic development. Which are the societies that actually grow the most, that create more opportunities? Are those that make the most of education and health? So getting funding to make sure that people get the right training, get the right skills, get skills that very often are matched to their dreams and their projects is going to allow opportunity to emerge, to be better identified, and to thrive. The same happens with health. So yes, I think this is something that can be done, but it also needs to be followed up because very often, investment in health and education finds barriers that are beyond just the funding. So financing is important, but when you invest in, let's say, a lot of education but

without the right institutions, then it might not lead to the best outcomes. What we're finding, and we have found for the last four decades, is that people in the south of Italy have got a higher level, on average, of education than the people in the north of Italy. But the problem is that that talent and that capacity doesn't find any sort of outlet in the labor market or doesn't find the opportunities to generate the sort of firms because the institutional conditions are simply not there. In the center and north of Italy, you might not have the same high level, although it's quite high, of education. But what you have is the opportunities to pursue your talent and to pursue your ideas. And also, when you have a higher level of education, you have the right health. Then you can actually develop more and create the sort of enterprises that will thrive and develop.

Kristina Maslauskaite

And the audience is asking, have you studied Norway in terms of development traps, a country where oil has made everyone rich? What does it do to the country then?

Prof. Andrés Rodríguez-Pose

Well, I happen to have a part-time chair in Norway, and I've done a lot of research on Norway. Yes, Norway has been made rich to a certain extent and possibly to a large extent by oil, but it also made rich places like Qatar and the United Arab Emirates and Saudi Arabia. And despite huge reserves, it didn't make rich places like Venezuela, or it hasn't made rich places like Gabon or Equatorial Guinea or Nigeria. So yes. And the advantage of Norway is that because they have the strong institutions and they have used their resources through a national investment fund wisely, they have been able to put the seeds of support for a national strategy of development that involves a lot of other sectors at the high end of the technology, but also at the long end. Who would say that Norway is not just a world leader in areas like biotechnology more than nanotechnology, which is a high-tech area, but also in areas like canning, so the production of fish and putting fish into a can? And there is an indication of a country that has known how to diversify, use existing talent, use education, and use the right amount of finance to mobilize all its potential, making sure that it is no longer dependent on oil, but it has a massive diversity of economic activity to promote other sectors that have become dynamic. And one thing we have to remember, which I haven't said, Norway does not generate a lot of AI since we were talking about that. But Norway is the leader in the whole of Europe in adoption of AI, and it's among the leaders of the world behind some countries in East Asia. And with that, it is still encouraging further to make sure that it's not just going to be dynamic, but it's going to remain dynamic even when the oil production is depleted.

Kristina Maslauskaite

Since you mentioned oil and the Middle East, what is the role of geopolitics and conflict that we are dealing with nowadays on a monthly basis, new crises erupting? What does it mean for the regions that are trapped and for the regions that are well off? Is there a difference, and what are the actual repercussions of that?

Prof. Andrés Rodríguez-Pose

Well, the repercussions vary enormously. There are repercussions for the whole of Europe, but not all places are affected in the same way. When you are a dynamic area that has industries that export, that can compete in markets, they have got leverage. And even if there's a, like now, a hike in the price of oil, or there's a threat that there are going to be increasing tariffs, you can adapt, and you can find new markets. If you have got a weak industrial base, you are less dynamic, and you haven't got the skills, your firms are weak, you're going to suffer the consequences, and you have no leverage. You have no capacity to actually fight. And then the entrapment becomes bigger. This is where the entrapment becomes not just a temporary situation like in many parts of the United States, but where it becomes chronic, where your lack of dynamism, whether you are in northern France or in Wallonia, or you are in inland Croatia, or you're in some parts of Thrace in Greece, or you are in West Virginia, or you are in the northern highlands, mountains of Thailand, or in the central lowlands, this is where it becomes entrenched, and you're going to have much greater consequences. So that's why we cannot wait for places where they have Latin potential, where the potential is untapped, for it to remain untapped. The earlier you invest, the earlier you design strategies, the earlier you encourage that talent to actually emerge, the less likely you are going to have problems in the future, and the more likely you're going to have a more thriving, dynamic society, country, and people that, in the end, can pursue their objectives and fulfill their dreams.

Kristina Maslauskaitė

Maybe just to finish off, because we are sitting here in between people and their drinks.

Prof. Andrés Rodríguez-Pose

Yes.

Kristina Maslauskaitė

Based on all your vast experience advising governments, international organizations, are you hopeful that these trapped regions' potential can be unleashed? Do you believe that this can really happen, or are we all doomed?

Prof. Andrés Rodríguez-Pose

All right. This is an interesting question because I've been talking about the rise of anti-system voting, economic decline, and the consequences of economic decline for the best of 20 years. My discourse has caught a lot of attention in the last 10 years, especially since the Brexit vote, the first election of Donald Trump. And you accuse me of being pessimistic at the beginning. I will hold no grudge against you. But in the 10 years I've been talking about this, not in my wildest dreams, I would have imagined that we would be in this situation. The situation is worse than what I was saying it was. So the situation is difficult. But am I hopeful? Yes, because we can change the situation. If we do the things that are right, if we have the right strategies, if we help mobilize potential, this is where we can make a difference. But the difference is not going to come by having a top-down solution and an agreement between Donald Trump and Xi Jinping. It's not going to come, certainly not, from having an agreement

between Donald Trump and Vladimir Putin. It's going to come from all of us, from making sure that we can fulfill our potential and we can actually play to the best of our talents. But that cannot be done by individuals on their own. This is where all the intermediaries, from your microfinance institutions to your banks to your universities to your, let's say, teachers to your hospitals to your courts to the police, to all the organizations and the way we structure everything, work together in the same direction. And it can be done. There are plenty of examples across the world of places where the quality of life has improved. Just to give you an idea, over the last quarter of a century, more people in the world have escaped out of poverty than in the whole history of humanity before. The only problem is that most of those people are in Asia. It's good for them. It's fantastic, but it's not that they're not elsewhere, fundamentally in China, in Southeast Asia, and along the Silk Road, including places like Kazakhstan. For many other parts of the world, that's not the case. Many parts of Africa, 650 million, in Africa, in Latin America, fundamentally live in places that are poorer than they were a quarter of a century ago. There are many places in the world that showed that this can be done with the right. Let's try to follow by example, adapt our policies to what's happening everywhere, and make sure that wherever there's talent, wherever there's potential that is untapped, we put all the tools in place so that it works, and then we can have a much better and a brighter future for not just the few, but for all.

Kristina Maslauskaitė

Thank you, Andreas. I think we can finish with this hopeful message. The key takeaways are that the situation is difficult. The megatrends are shaping that situation in ways that cannot necessarily always be forecasted or predicted with precision. But we have a role to play, and we have a lot of opportunities to use to make as much as possible of these challenges going forward. And we hope to spend these two days discussing the ways of making that happen. And I think this is a great inspiration and a great diagnostic that will help us move forward with our discussions going forward. And the places that don't matter, that you call places that don't matter, matter for us. So thank you very much.

Thank you so much.

Prof. Andrés Rodríguez-Pose

Thank you.