

Yaseen Anwar: Micro-credit and the financing of small businesses

Introductory remarks by Mr Yaseen Anwar, Governor of the State Bank of Pakistan, on the occasion of the 18th Zahid Husain Memorial Lecture, Karachi, 22 December 2011.

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Honorable Chief Guest, learned Guest Speaker, distinguished guests, ladies and gentlemen!

1. It is my honor to offer these introductory remarks on the occasion of the Zahid Husain Memorial Lecture. These lectures, as you know, are organized as our tribute to Mr. Zahid Husain – the first Governor of the State Bank of Pakistan. Before introducing our Chief Guest and Lecturer for the day, I would like to briefly dwell upon the personality that was, and the splendid role played by, Mr. Zahid Husain. You may have heard on this topic earlier but it is always heartening to recall stories of success, particularly those that tell of victories achieved while overcoming daunting problems and of the hardships of passing through difficult paths.

2. A close aide of Quaid-e-Azam Muhammad Ali Jinnah, Mr. Zahid Husain was a man who possessed abundant amounts of talent and repute. His illustrious career started from British India and culminated in Pakistan, by serving the country at the highest levels of its hierarchy. He taught at Aligarh Muslim University, he was Pakistan's first High Commissioner to India, the first Chairman of Taxation Inquiry Committee, and the first Chairman of the Planning Commission Board, thereby authoring the first Five-year Plan for Pakistan.

3. Another feather in his cap was his appointment as the first Governor of the State Bank of Pakistan, which was formally declared open by Quaid-e-Azam Muhammad Ali Jinnah on 1st July, 1948. As the skipper of the country's Central Bank, which was described by Quaid-e-Azam as the symbol of the country's financial sovereignty, Mr. Zahid Husain aptly displayed his potential as an economic administrator.

4. In addition, he anticipated the prevailing as well as future economic problems for Pakistan and the importance of economists for their resolution. Accordingly, he made efforts to equip the Bank with the adequate expertise so as to effectively manage the economic development of the country. His efforts, in this regard, bore fruit and he was able to recruit a stellar group of economists at State Bank of Pakistan.

5. It is a testament to Mr. Zahid Husain's ability to recognize and recruit talent that many of these economists served the nation as key policymakers and also displayed their brilliance at international financial institutions. One of these economists was Dr. Mahbub ul Haq whose work and achievements are exemplary. Besides being an excellent economist, he has been described as "the most articulate and persuasive spokesman" for the developing world. He is famous for his pioneering work in Human Development Theory, for the invention of Human Development Index, for the creation of Human Development Report, and for the establishment of Human Development Centre in Pakistan. He served as Pakistan's Minister of Finance, Planning and Commerce during 1982–88, besides serving as the Director of Policy Planning at the World Bank and Special Advisor to the United Nations. The respect that he commanded at the international level could be gauged when Mr. Kofi Annan, the then Secretary General of the U.N., said of his demise that "Mahbub ul Haq's untimely death is a loss to the world ...".

6. There are other professionals too who started out under the patronage of Mr. Zahid Husain and reached respectable positions in international financial institutions such as Dr. Pervez Hasan, etc. It is a matter of pride for me that the example set by the first Governor of SBP has been followed by his successors. A number of SBP economists have served the IMF and reached its highest echelons. One such economist was Dr. Muhammad Yaqub, who spearheaded the Central Bank during one of the most challenging times in the country's

history and Mr. Muhammad Ashraf Janjua, who was a former Deputy Governor of the State Bank of Pakistan. This is in addition to a considerable number of non-economist professionals from the State Bank of Pakistan who have served their respective professions on the national as well as on the international stage.

7. Those of us witnessing Pakistan's current progress may find it hard to imagine the challenging times that the country bore shortly after its birth and through its infancy stages. Without quoting specific examples here, it is suffice to say that those were really very testing times. Although resources available to the nation then were quite low, the courage and passions of our founding fathers pulled the country through. They devoted their body, soul and personal resources, in entirety, during the journey from scratch to sky-scraper. Mr. Zahid Husain was amongst those great personalities.

8. He never hesitated in accepting the challenging tasks and, in the same spirit, led the Central Bank successfully in those testing periods of our country's history. The nation also recognized his commendable efforts and has tried to repay her debt to him for the meritorious services rendered for the country. Accordingly, on the occasion of the Silver Jubilee of State Bank of Pakistan in 1973, it was decided to institute an annual series of lectures and to name the series in commemoration of Mr. Zahid Husain.

9. Since then, we have organized 17 lectures in the series and invited eminent economists and financial experts from around the globe as Guest Speakers. The latest one took place in the year 2010 wherein Mr. Kent Mathews, Sir Julian Hodge Professor of Banking and Finance, Cardiff Business School, United Kingdom shared his thoughts with the audience on "Banking Efficiency in Emerging Market Economies". These lectures provided an excellent opportunity for the participants to share ideas on issues of topical importance.

10. Before moving forward, I would like to express my sincere gratitude to Justice (Retired) Nasir Aslam Zahid – the son of Mr. Zahid Husain – for his attendance. He scarcely needs an introduction. He is one of the most prominent personalities of the country – not only due to his status and accomplishments in the judiciary but also for his postretirement service to the nation. He served all of the judiciary's vital organs – he was the Chief Justice of Sindh High Court, then a judge of the Federal Shariah Court, before finally serving the Supreme Court of Pakistan. He enjoys an untarnished reputation within and outside the judicial circle. Even after retirement, he has continued serving the nation with his involvement in human rights issues and education. He is currently the Dean, Faculty of Legal Studies and the Head of the Hamdard School of Law at the Hamdard University, Karachi. I am thankful that he has very kindly accepted our invitation and spared the time to grace the occasion with his presence today.

11. Now, before introducing our speaker for the day, allow me to humbly add a few words about the role played by State Bank of Pakistan with regard to today's subject – "Micro-Credit and Financing of Small Business". First, our own research department has been engaged in documenting, through national surveys, the workings of the product, labor and credit markets of the informal sector – with a particular focus on the manufacturing sector. The results of these surveys have started to trickle down. Secondly, you may remember that the 5th Pakistan Microfinance Country Forum was recently held in Karachi on 2nd December, 2011. Some details concerning the issue were given in my Inaugural Address at that Forum. Since there has been hardly any change in factual position since then, I would like to avoid repetition as much as possible and limit myself to a few words about the developmental role of State Bank of Pakistan.

12. As you are aware, Central Banks of developing countries are supposed to perform both traditional as well as developmental functions, in order to achieve macroeconomic goals; and SBP is no exception. The nontraditional or promotional functions, performed by the State Bank, include the development of financial frameworks, the institutionalization of savings and investment, the provision of training facilities to bankers, and the provision of credit to priority sectors. In this regard, SBP has always endeavored to meet the genuine

credit needs of different sectors of the economy, thereby serving as a catalyst to the process of economic development. As I have mentioned earlier in my speeches, efforts to bring Microfinance into the mainstream formal financial system started in 2000 & 2001 in the aftermath of the promulgation of the Microfinance Ordinance and, since then, we have witnessed the establishment of new microfinance banks, the transformations of large microfinance institutions, the diversification of funding sources, the development of inclusive financial services, the emergence of alternative delivery channels, and the piloting of “Microfinance – Credit Information Bureau” (MCIB). Against this backdrop, a Small & Medium Enterprise (SME) Finance Department was established in State Bank of Pakistan in July 2008 to focus on providing an enabling regulatory framework for SMEs, assessing their credit needs, capacity development of Banks and DFIs and for building awareness through seminars and conferences, along with the promotion of financial services for export-led industrial growth.

13. Regarding the regulatory approach of SBP, I would like to quote short excerpts here from my speech at the Pakistan Microfinance Country Forum: “In developing regulations for microfinance, the State Bank has pursued a bottom-up approach, along with use of strong analytical and problem solving skills and industry consultation. Since the inception of microfinance banking in Pakistan, our goal has been to determine the proportionality of a regulation before it is put in place. Hence, the regulatory approach has remained gradual and in line with the evolution of the sector...” “In the new Microfinance Strategic framework 2011–15, SBP has laid out a detailed strategy to promote sustainable growth of the sector. The strategy’s effectiveness and success hinges on growth dynamism fundamentally coming from microfinance operators themselves. The role of SBP is to develop the banking infrastructure, to encourage the use of successful global practices, and to provide the regulatory and supervisory mechanism that enable MFBs to develop viable business models”.

14. We shall soon have the pleasure of hearing our distinguished speaker, Professor Banerjee’s, thoughts on this subject. I am sure his lecture today will introduce us with something special on the topic, not only because of his extensive research on the subject but also because of candidness of his approach. Perhaps, not many of us will have witnessed this openness and honesty of thoughts earlier – the kind that is evident from the last sentence of the concluding chapter of his most recent book titled “Poor Economics”. Let me quote that very sentence for you: “At least we can stop pretending that there is some solution at hand and instead join hands with millions of well-intentioned people across the world – elected officials and bureaucrats, teachers and NGO workers, academics and entrepreneurs – in the quest for the many ideas, big and small, that will eventually take us to that world where no one has to live on 99 cents per day”.

15. Now let’s turn to our guest speaker himself. Ladies and gentlemen, we are honoured to have with us, Dr. Abhijit Vinayak Banerjee, the Ford Foundation International Professor of Economics at the Massachusetts Institute of Technology, USA. His teaching and research have won him accolades the world over and he stands as a giant in his profession. Just to introduce him to our guests here, Dr. Banerjee has attended the University of Calcutta, Jawaharlal Nehru University and Harvard University, successfully earning his Ph.D from the latter.

16. During 1988 to 1992, he taught as an Assistant Professor of Economics at Princeton University. He moved to Harvard University in 1992 as Assistant Professor of Economics, before joining the M.I.T. in 1993 as Pentti J.K. Kouri Career Development Associate Professor of Economics. He became Associate Professor of Economics in 1994 and then Professor of Economics in 1996. He is the co-founder of Abdul Latif Jameel Poverty Action Lab (J-PAL) at M.I.T, which runs field experiments aimed at measuring different ways to save the world. In 2009, J-PAL won the BBVA Foundation “Frontier of Knowledge” Award in the development cooperation category.

17. Professor Banerjee's general research areas include economic development, information theory, theory of income distribution, and macroeconomics.

18. As you know, an economist's caliber – particularly an academic one's – is primarily judged by the quality of his publications; and to date Dr Banerjee has published no less than 60 papers in the world's leading economic journals. The important lesson from this volume of research is that it has focused on real world issues with real world solutions. His latest research is based on studying economic interventions on the basis of "randomized controlled trials." The idea is simple enough – to compare groups of people with and without policy intervention over a period of time; akin to the trials of new drugs.

19. In addition to his scholarly work, he has authored three books, including his recent one called "Poor Economics", which has received the attention of scholars across the globe. And this is not the all; he is an ex-president of the Bureau for the Research in the Economic Analysis of Development, a Research Associate of the NBER, a CEPR research fellow, an International Research Fellow of the Kiel Institute, a fellow of the American Academy of Arts and Sciences and the Econometric Society and has been a Guggenheim Fellow and an Alfred P. Sloan Fellow. He has also been a recipient of the Infosys Prize 2009 in Social Sciences and Economics.

20. Dr. Banerjee and his colleagues at J-PAL have worked with a global network of researchers to conduct experiments in the poorest places of the world and have derived conclusions that are believed to have challenged economists' and policy makers' thoughts about impoverished areas. Their findings have concluded beyond broad generalizations to show that the poor do not always act in ways that conform to the views and programs of well-meaning relief agencies, revealing a portrait of poverty as complex as the movements of financial markets.

21. Professor Banerjee will be delivering his lecture today on the topic of "Micro-Credit and Financing of Small Business". Needless to emphasize that it is an important topic, particularly when seen in the backdrop of the challenges faced by the poor in gaining access to formal financial services. Although much has been done in this regard, the stage of absolute resolution has yet to be reached.

22. Here, we should not forget to mention the names of Dr. Akhtar Hameed Khan in Pakistan and Professor Muhammad Yunus in Bangladesh for their pioneering work in the subject area – providing a substantial source of assistance to the poor community – and their efforts for the alleviation of poverty and increases in the standard of living.

23. I would like to avail this opportunity to thank Dr. Banerjee on behalf of this forum for taking out the time from his extremely busy schedule and taking the trouble to fly from USA to join us here in Pakistan.

24. Before I conclude my remarks, I would also like to thank you all for joining us here and for participating in today's knowledge-sharing event. I am sure that Professor Banerjee's lecture today will be of immense utility for the audience, since it will enlighten us with the latest thoughts, developments and trends regarding the subject.

25. It gives me immense pleasure to introduce and invite Professor Banerjee.