

Shamshad Akhtar: Inclusiveness, growth and gender equity

Speech by Dr Shamshad Akhtar, Governor of the State Bank of Pakistan, at the World Economic Forum, Davos, 24 January 2008.

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1. Growing theoretical and empirical evidence across the world has now confirmed that “*policy-inclusiveness*” is a prerequisite for benefits of economic growth and development to trickle down smoothly and speedily to the marginalized and vulnerable segment of population. Global and regional efforts launched over the last decade or so have paid off. World has made decent inroads in reducing level of poverty and financial exclusion, tracking and monitoring global and regional poverty and its dimensions and developing better understanding of the nexus and transmission mechanism of inclusiveness, growth and gender equity.

2. In my remarks I propose to lay out the size and dimension of the exclusion with focus on women and make the point that gender inequalities exacerbate exclusion of large segment and level of exclusion aggravates gender inequity itself.

3. To address “exclusion” there is need to nurture policy inclusiveness, ensuring robust campaign of financial inclusion to broaden access to finance, while launching supportive development strategies and programs that enhance the viability and sustainability of the financial services provided to the vulnerable groups.

Size and dimension of exclusion

4. With better global monitoring mechanisms it is now well established that “women are poorer and disadvantaged relative to men”, as:

- Nearly 70%¹ of the one billion of world’s poor living on less than \$1 a day are women and half a billion live in Asia. This number goes up to 1.4 billion if one applies \$2 a day definition for poverty;
- Women make up 65% of the world’s illiterate²; and
- Women get paid less and hold less than 6% of senior management positions³ etc.

5. Feminization of poverty is overwhelming and perennial gender inequality results in “inequality trap” which ends up reproducing other types of inequalities. This statement of the World Bank’s *Global Monitoring Report, 2007* captures well the qualitative dimension, complexity and enormity of problem and the associated challenges of tackling gender inequalities which have trapped women in poverty.

6. Notwithstanding, significant reduction in poverty incidence in recent years, albeit at different pace across the world, is impressive. Population growth and economic cyclical factors however add annually to the ranks of poor. In Asia, poverty incidence fell from 27% in 1990 to 20% by 2006 accompanied by improvements in attainment of MDGs. Pace of poverty reduction has been steeper in East Asia relative to South Asia⁴ with former lifting

¹ The estimate of poor women is based on UNDP Human Development Report 1995 which stated, “poverty has a woman’s face – of 1.3 billion people in poverty 70% are women.” This ratio of poor women is most widely quoted even presently.

² Global Call for Action “Stand up & speak out: 70% poor are women” 2007.

³ Ibid.

⁴ The World Bank, *Global Monitoring Report, 2007*.

around 630 million people from extreme poverty in under a quarter of a century. This has lowered the region's share in the total poverty from 58% in 1981 to just 9% in 2004. In South Asia poverty fell from 52% in 1981 to 32% in 2004, but absolute numbers of poor remain large. Several factors have contributed to improvements in these indicators ranging from higher economic growth and liberalization to concrete affirmative and targeted anti-poverty programs.

Nexus between inclusiveness, growth and gender equity

7. There is now a broad consensus emerging in development literature that women being a large proportion of population and labor force, if appropriately nurtured, through development and finance inclusive policies would have more distinct impact on economic growth and reduce poverty.

8. Recent evidence of few key reports including the World Bank's *Global Monitoring Report, 2007* and *Access for All, 2007* and the World Economic Forum, *Gender Report, 2007* brings out with greater clarity and distinctly the nexus between inclusiveness, growth and poverty reduction.

- **First**, evidence confirms that there is a positive correlation between country's gender gap ranking and their per capita income as well as competitiveness ranking. Consequently, it is found that countries with low per capita incomes and ranking inadvertently have high gender gaps.
- **Second**, impact of growth on poverty on women's uplift varies depending on the level of incomes of countries as well as the quality of economic growth and its transmission mechanism which in turn, among others, influences income distribution. *The Global Monitoring Report, 2007* found that in 19 low income countries, 1 percent of GDP growth was associated with a 1.3 percent fall in the rate of extreme poverty and a 0.9 percent fall in the \$2-a-day poverty rate. However, for middle-income countries the impact of GDP per capita growth on poverty is less and in some countries average poverty did not decline despite increase in economic growth.
- **Third**, although faster economic development and poverty reduction spurs gender equality the relationship is marred by issues of simultaneity and difficulties in comprehending the causality of relationship. On one hand economic growth and poverty reduction initiatives help to improve sex-specific Human Development Indices and augment gender empowerment. On the other hand, efforts to promote gender equality by way of education and enhanced women's participation in labor force, credit etc. results in higher contribution of this segment of population to economic growth and poverty reduction. Recent studies using cross-country regressions found that female education has a larger impact on growth than male education. Furthermore, evidence indicates that the direct and indirect effects of gender inequality in educational attainment accounted for 38 percent of the 2.5 percentage point gap in growth rates between South Asia and East Asia.

9. It is now well established that proper delivery of microfinance to women helps reduce poverty and social indicators, while promoting economic growth. Women's empowerment through proper access to credit further facilitates attainment of a set of MDGs and gender equality through: (i) poverty reduction, (ii) universal primary education, (iii) reduction in under 5 mortality, (iv) improved maternal health, and (v) lowering of HIV/AIDS incidence.

10. While these relationship and linkages have been found to exist, the twist and turns in causality and simultaneity, the social beliefs and practices and complexities of delivery of service have deterred achieving effective results for gender balance. A prerequisite for attainment of gender equality and its sustainability it is important to provide women equal

access to “opportunities” backed by proper rights, voice and access to human and productive resources with the objective of augmenting their economic empowerment.

Financial and development inclusive policies

11. Global microfinance campaign and initiatives have helped in extending the finance to poor. This has played a significant role in changing lives of poor through economic empowerment. In Asia, the number of microfinance beneficiaries has now reached 113 million 74% of which are poorest and 65% women. Including families of the beneficiary clients, the overall impact of microfinance is close to 465 million⁵. Number of microfinance beneficiary in Asia is the largest constituting 85% of the total recorded microfinance clients world-wide.

12. Microfinance link with gender equity is now evolving in a number of countries. For instance: In Bangladesh Grameen Bank and ASA report that 97% and 78% of its total 12 million clients, respectively are women. In Mexico, 98% of the 765,362 clients of Banco Compartamos’s are women. In Indonesia, Bank Rakyat Indonesia reports 50% of its client are women. This ratio is 70% in Afghanistan and 50% in Pakistan. Most microfinance institutions (MFIs)/Microfinance banks (MFBs) report a high return on equity and assets and recovery rate is by and large over 90%.

13. Global and regional challenges of reducing poverty and MDGs are daunting but attainable provided there is more accelerated, aggressive, brutal and frontal attack through well coordinated and cohesive economic and social policies as dealing with “poverty” is complex given its dimensions and multiple causative factors.

14. Recognizing this dilemma, the evolution of financial inclusion that aims to broaden and deepen access to development finance for all, of which microfinance is a subset, is timely. Ultimately it is a well functioning and efficient financial market which can deal more holistically with provision of financial services to the economy and population. However, emphasis on building financial inclusive system is an integral and core pillar of financial sector reforms. This has emerged in direct recognition that growth and development of finance does not alone address question of “access.”

15. Direct intervention to build financially inclusive system is critical as one recognizes fully (i) financial markets failures and imperfections such as information asymmetries, lack of sensitivity to gender and redistributive dimensions of resources and wealth and high transaction costs etc.; (ii) high price and non-price barriers such as lack of credit history and collateral and connection; and (iii) other constraints such as lack of literacy and entrepreneurial skills, etc.

16. Over the years, there has been substantive development in the architecture and thinking on financial inclusion. While there is no “one-size fits all” strategy or approach but it is important to recognize few core or necessary conditions aside from host of other sufficient conditions that are needed to maximize the benefits derived from a well designed financial inclusion strategy. At the outset, it is critical to understand the size and dimension of financial exclusion.

17. Drawing from this broad framework, State Bank of Pakistan (SBP) has launched a Financial Inclusion Program with the assistance of DFID. As a precursor to this Program, SBP has already formulated a microfinance strategy which aims to enhance the outreach of microfinance industry to 3 million by 2001 though efforts are underway to fast track this and to reach 10 million in next few years. In conjunction with this, SBP is working with the industry to enhance outreach by proper exploitation of the avenues available for promoting

⁵ State of the Microcredit Summit Campaign Report 2007.

credit for Small and Medium Enterprises and agriculture and rural finance. While financial penetration ratio is quite low in Pakistan, the growth in outreach has improved: for instance: (i) number of microfinance beneficiaries have tripled to 1.5 million over the last two years, (ii) number of agriculture borrowers increased to 2 million by the end of this fiscal year, with agriculture credit rising from just over Rs50 billion in FY03 to almost Rs200 billion in FY07; and (iii) number of small and medium enterprise borrowers rose from 91,663 in Dec 2003 to nearly 190,000 in Dec 2007.

18. Through this forum, I would like to invite other stakeholders including Standard Chartered Bank (SCB) to join us and DFID – together to further augment the financial inclusion program. Pakistan has laid sound financial sector legal, policy, regulatory and supervisory framework and has now an elaborate banking and microfinance industry infrastructure which, if effectively, nurtured and exploited can pave way for better results in extending outreach.