

## Zahid Husain Memorial Lecture

# Best way to use finance is to promote well-being of the poor :Prof. Banerjee

Dr. Abhijit Vinayak Banerjee, Professor of Economics at Massachusetts Institute of Technology (MIT) has said the best way to use finance is to promote the well-being of the poor and to find ways to lend more effectively to small and medium firms that have a chance to grow fast.

Delivering a lecture on “Micro-Credit and Financing of Small Business”, at a local hotel in Karachi today, Prof. Banerjee said that financial access is more important for helping the poor manage poverty better, than in making them rich. ‘Micro-credit has caused reduction in interest rates by 30% to 60% and increased the level of savings among the poor, thereby leading to the reduction in poverty’, he observed.

The lecture, organized by the State Bank of Pakistan, was the 18<sup>th</sup> such event held as a part of Zahid Husain Memorial Lecture series instituted in 1973 in the name of its first Governor, Mr. Zahid Husain.

Prof. Banerjee laid emphasis on the significance of financial access to the poor. He argued that big banks disburse loans on the basis of collateral involving a plethora of formalities which, on the one hand, depresses the volume of credit available to the poor and, on the other, limits the number of borrowers.

Highlighting the importance of ‘transactions costs’, he observed that high cost leads to push up the interest rate for small borrowers which, in turn, increases their probability to default and, ultimately, creates a “vicious circle.”

While sharing the experience of different countries, he informed the audience that the micro-credit has augmented the business expansion in developing countries. Referring to India, South Africa, Kenya and Sri Lanka, he said that microfinance has increased financial access to bank branches for the poor, which has resulted in higher level of investment as well as saving rates.

Citing the example of Kenya, he pointed out that access to saving accounts doubled the capital invested in business whereas an experimental study in Sri Lanka and India, found borrowers to spend a major part of their borrowing to the durables. While explaining the problems faced by borrowers, he was of the view that rigidity of microcredit was the key factor behind the low investment.

Referring to the recent developments in phone banking, commitment products, relaxation of Know Your Customer (KYC), for Small & Medium Enterprise (SME) financing, he observed that these efforts have been helpful in reduction of overall poverty level in the above mentioned countries.

Mr. Justice (Retired) Nasir Aslam Zahid, the son of (late) Mr. Zahid Husain, the first Governor of the State Bank of Pakistan who presided over the function, recounted the numerous achievements of his

father and said that Mr. Zahid Husain's contributions not only extended to the development and strengthening of Pakistan's central bank but also to the establishment of National Bank of Pakistan and a few other insurance companies.

Mr. Justice (Retired) Nasir Aslam said that the State Bank was inaugurated in a record time of less than three months and the endeavours of the founding members have set an example of conviction and will power, on which the State Bank and all those involved in the economic domain of the nation can forever look back upon with great pride and inspiration.

"I express my gratitude and appreciation and that of our family towards the State Bank of Pakistan for honouring the memory of my father and for keeping alive the commemoration of his many contributions to the State Bank of Pakistan during its infant years," he added.

While introducing the Guest Speaker, the State Bank Governor, Mr. Yaseen Anwar recounted numerous achievements of Prof. Banerjee and said that Prof. Banerjee's general research areas include economic development, information theory, theory of income distribution, and macroeconomics. 'As you know, an economist's calibre – 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,' he said, adding that the important lesson from this volume of research is that it has focused on real world issues with real world solutions.

SBP Governor said that Prof. Banerjee's latest research is based on studying economic interventions on the basis of 'randomized controlled trials.' 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. Mr. Anwar added: '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 said and added that Professor Banerjee has also been a recipient of the Infosys Prize 2009 in Social Sciences and Economics.

Lauding the services of (late) Mr. Zahid Husain, the SBP Governor said that 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,' Mr. Anwar added.

Mr. Anwar said, '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 1<sup>st</sup> 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,' he added.

He said that Mr. Zahid Husain anticipated the prevailing as well as future economic problems for Pakistan and the importance of economists for their resolution. Accordingly, Mr. Zahid Husain made efforts to equip the Bank with the adequate expertise so as to effectively manage the economic development of the country, he said and added: 'his efforts, in this regard, bore fruit and he was able to recruit a stellar group of economists at the State Bank of Pakistan.'

'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,' Mr. Anwar added.

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