

**Remarks by the Governor, State Bank of Pakistan**  
**20<sup>th</sup> Zahid Husain Memorial Lecture**  
**19<sup>th</sup> January, 2015**  
**Islamabad, Pakistan**

Bismillah Rehman -Rahim

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

1. Thank you all for joining me for the 20<sup>th</sup> Zahid Husain Memorial Lecture – one of the flagship events of the State Bank of Pakistan. We organize these lectures to pay tribute to Mr. Zahid Husain – the first Governor of the State Bank of Pakistan. Moreover, these memorial lectures offer the opportunity to discuss some of the most important and pressing economic issues of our times. Zahid Husain Lecture series was started in 1975 at the occasion of the silver jubilee of the State Bank of Pakistan. Following the spirit associated with this tradition, we are pleased to have you all here for today’s lecture discussing a new approach to ‘Agricultural Lending’. This area remains, and will continue to be a focal point for State Bank of Pakistan’s vision for economic development; a point I want to touch upon later.
2. Since 1975, we have heard from 19 different intellectuals about their views on the workings of the regional and global economy – and we have consistently had our beliefs challenged. In our last Memorial Lecture in June,

2013, Ha Joon Chang questioned the wisdom of Neo-Liberal economic policies and invited us reconsider the role of the government. Before that, we also had the pleasure of listening to Abhijit Banerjee who invited us to re-evaluate the role of microfinance, and asked us to “think of financial access as a way of helping the poor manage poverty better rather than making them rich per se.” We may disagree with some of the arguments, but we always stood in admiration of their out-of-the-box/maverick thinking, their dedication for understanding economic interactions, and above all, their humility.

3. Before I go any further and to build upon what has already been said by Justice (Retired) Nasir Aslam Zahid, I would first like to briefly touch upon Mr. Zahid Husain’s contribution for this nation. As we are all aware, this country faced incredible challenges immediately after independence. During such testing times, Mr. Zahid Husain stood amongst the dedicated lieutenants of the Quaid-e-Azam, Muhammad Ali Jinnah.
4. Mr. Zahid Husain’s contributions to the nation have been unparalleled. Such was the strength and caliber of his character that Mr. Zahid Husain quite capably took on multiple challenges. This is evident from the fact that he was Pakistan’s first High Commissioner to India, the first Chairman of Taxation Inquiry Committee, first

Chairman of the Planning Commission Board, and the author of the first Five-year Plan for Pakistan. We, at the State Bank of Pakistan, feel honored to have him as our first Governor, and hope that we can carry his legacy forward with same lofty ideals that he embodied.

Ladies and Gentleman

5. This is precisely the kind of leadership that commands respect and builds an incredibly solid foundation for any institution. Often, we take for granted what have been passed onto us by our predecessors. However, today, at the State Bank of Pakistan we stand to remember our history and cherish it with due respect.
6. Before I introduce our esteemed Lecturer, allow me to also say a few words about our Chief Guest, Justice (Retired) Nasir Aslam Zahid – son of Mr. Zahid Husain. I am extremely thankful that he has always been very generous and kind for accepting our invitation to grace this occasion as Chief Guest. Following in his father's footsteps, he has been a giant in the field of public service, having served as the Chief Justice of the Sindh High Court, a judge of the Federal Shariah Court and the Supreme Court of Pakistan. Like his father, he is also a man of lofty ideals, commanding respect both within and outside the judiciary.
7. Now, finally let me introduce our distinguished guest speaker, Prof. Dilip Mookherjee. Prof. Dilip is

associated with Boston University, U.S.A. where he has been serving as a professor of economics and Director of the Institute for Economic Development. He is also Lead Academic of the India Central Program of the International Growth Centre located at the London School of Economics. He is a Fellow of the Econometric Society, and has been recipient of a Guggenheim Fellowship and the Mahalanobis Memorial Medal of the Indian Econometric Society. Prof. Dilip Mookherjee did his MSc. Econometrics and Mathematical Economics, and Ph.D in Economics from London School of Economics in 1980 and 1982 respectively.

8. Prof. Dilip is an academic par excellence, having devoted his life to understanding the problems that surround developing economies. This is reflected in Prof Dilip's academic and research interests, which include Economic Development, Inequality and Contract Theory. The focus of his research work is institutional reforms, land reforms, with notable research work on 'agent-based agriculture Lending' and 'tax enforcement and public administration' reforms. In addition to this, a great chunk of his notable research work devoted to the role of inequality in developing economies. He also brings with him a vast experience working in India on these important issues.

9. I would particularly mention here a few research projects, which bespeak for the contribution Prof. Dilip has rendered to the field of economic development. For instance, the project on effectiveness of new forms of microfinance and provision of price information to farmers; land acquisition for industrialization and compensation of displaced farmers; effects of reforms in bankruptcy and contract enforcement laws on credit markets; land reforms; deforestation; government accountability; decentralisation; trade middlemen and effects of globalisation; and theories of education, inequality and development.
10. Apart from his published research in leading journals, he has also authored numerous articles and books. His most recent monograph is "*The Crisis in Government Accountability: Governance Reforms and Indian Economic Performance*". I would specially refer to his articles on "*Financial inclusion for agricultural growth: An alternative approach*"; and various other articles on land reforms in India. His ideas, expressed in these articles, provoke new thinking and offer invaluable guidelines both for the policy makers and for the practitioners.
11. I strongly believe that his research interests and vast experience makes him one of the most relevant scholars with the most relevant ideas for developing markets like Pakistan and hence for today's lecture.

12. I would now like to avail this opportunity to thank Prof. Dilip Mookherjee, on behalf of this forum, for taking the time out from his very busy schedule to fly from India and on his way to Boston to join us here in Pakistan today as we honor the memory of one of the country's finest civil servants, and his immortal contributions to the development of the State Bank of Pakistan.
13. I would also like to thank you all for participating in today's lecture, which, I am certain, will be keeping in tune with the past lectures, challenging your beliefs, encouraging you to think beyond your comfort zones, and hopefully engaging you in some lively and constructive debate.
14. Now let me touch upon Agriculture here. It currently accounts for one-fourth of our GDP, but it continues to employ a staggering two-fifths of our workforce. However, taking historical lenses, we find that total advances to the agriculture sector as percentage of GDP and relative to private sector business have been falling. The very same lenses show that this trend is the result of many confounding factors such as Banking Reform, growth in the informal lending and ill-targeted interventions.
15. However, keeping in view this historical path, I am not going to shy away from highlighting the reasons why such trend continues to persist. Indeed, basic credit

market frictions remain a hurdle, our lending processes have become cumbersome partly because of us, the Central Bank; partly because of how commercial banks approach the business of agricultural lending; and partly because of the way our economy is structured making it easy for financial intermediaries not to take risks and yet remain profitable. Also, the short horizon of our thinking has also become hurdle in this context.

16. Ladies and gentleman! This trend and mindset has to be demolished. And we are trying to do just that! Let me share an example with you.
17. Various departments at SBP including the Development Finance and the Policy Development Groups are working in unison to bring fresh thinking. One example of such fresh thinking is the Value-Chain guidelines published six months ago. A successful example of an application of these guidelines is the Matiari project. In this project, representatives from a leading commercial bank, the industry and the central bank worked together to bring credit to farmers in a profitable way. It has managed to give out non-micro loans, bypass collateral, reduce rates and full recovery.
18. Although, the report of this project is available to you here today I give you better than that. I have representatives of our partner bank, Matiari sugar Mill and SBP to talk to you about their experience. I have a

guest lecturer to tell us what the outside world has been doing in a similar fashion.

19. Thank you very much and now let me invite Prof. Dilip Mookherjee to share his thoughts with us on the topic and how he can help us bring about the change we want.