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### **Zahid Hussain Memorial lecture: Innovative ways to encourage financial inclusion of rural poor urged**

Major goal of policy makers in developing countries is to develop innovative ways to encourage financial inclusion of the rural poor. Enabling poor farmers to diversify into high value cash crops is one of the best ways to achieve this goal, but farmers lack collateral. This was stated by Mr. Dilip Mookherjee, Professor of Economics, Boston University, U.S.A. at Zahid Hussain Memorial Lecture organized by the State Bank of Pakistan at Islamabad.

The lecture was attended by high level government officials, federal ministers besides faculty members of various universities and bankers. In his lecture, Prof. Mookherjee expounded a new approach towards financing of smallholder agriculture in developing countries

Mr. Mookherjee added that existing microfinance products play only a limited role in financing cultivation by poor farmers. “Indeed, most microfinance include high frequency repayment, loan officials actively discourage risk taking, and group-members that share loan repayment liability exert peer pressure,” he said adding, ”Interest rates charged by most microfinance institutions often exceed interest rates charged by informal lenders, which in turn are too high to allow poor farmers to profitably grow cash crops.”

In this context, he particularly emphasized the role of ‘Trader Agent Intermediated Lending (TRAIL)’ approach for financing the agriculture sector. Prof. Mookherjee shared that TRAIL approach yielded better results as compared to Group-Based Lending in terms of loan take-off preferences, timely repayment, impact on production and profit of the small farmers. In light of his experience, Prof. Mookherjee suggested that “TRAIL is thus an innovative financial product with potentially large development impacts, at lower costs for the lender”. He recommended this approach as a viable (business) model of financial inclusion that can help policy makers and practitioner to expand food production and manage poverty in developing countries. In this context, he highlighted the pilot TRAIL run by the State Bank of Pakistan and called for collaboration.

Earlier, while introducing the Guest Speaker, Governor Sate Bank of Pakistan, Mr. Ashraf Wathra, said that Prof. Mookherjee is an academic par excellence, having devoted his life to understanding the problems that surround developing economies. He recounted numerous achievements of Prof. Mookherjee and admired the relevance of his research in the context of developing economies.

Governor SBP reiterated the role of agriculture sector and its contribution to national economy. He discussed the hurdles to an efficient agriculture financing and the weakness of the system, especially



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the banking sector. However, he showed strong resolve to change the mindset towards agriculture credit. Mr. Wathra highlighted the efforts of the SBP in this regard. He cited the example of the 'Value Chain Guidelines' issued by SBP last year and the successful application of these guidelines in the shape of a research project conducted by Research Department, SBP in collaboration with a well known sugar mill in Matiari and a local bank.

Justice (Retired) Nasir Aslam Zahid, the son of (late) Zahid Husain, the first Governor of the State Bank of Pakistan presided over the event. He highlighted the achievements and lofty principles of his father. Mr Zahid also presented his view on the agriculture sector and thanked the Governor and all officers of SBP for their unremitting respect for his father.