

Media Coverage

Lahore School of Economics – Microfinance

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J. WALTER THOMPSON **WORLDWIDE**

Press Clipping

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LSE hosts international conference

'Microfinance Products and Processes: Lessons from the Field'

Staff Report

LAHORE: The second international conference, jointly organised by the Lahore School of Economics (LSE) and the University of Oxford, was held at Main Burki Campus of the LSE on Thursday.

The theme of the conference was 'Microfinance Products and Processes: Lessons from the Field'. The daylong event was devoted to discussions on the cutting-edge research in the microfinance sector. The conference brought together speakers from microfinance institutions, researchers and other stakeholders from Pakistan and abroad to discuss main findings of the rigorous research of microfinance products and the key lessons of this research on the socio-economic welfare of Pakistan.

The conference started with the welcome remarks by LSE Rector Dr Shahid Amjad Chaudhry. He mentioned that the issues the conference aimed to address were very important and must be explored in detail. He said that the global economic landscape was witnessing tectonic shifts in major economic powers of the world, including the United States and European Union, which already hinted that the traditional models of running the world as well as financial systems were no longer valid. "In particular, innovative strategies to boost growth in microfinance are very important for the well being of people in the country."

He stressed the importance of active contributions by both academicians and policymakers to provide fresh and innovative perspectives on microfinance products and processes.

The keynote lecture was delivered by National Rural Support Programme Chief Executive Officer Rashid Bajwa. Sharing over 25 years of experience in the microfinance sector, Rashid Bajwa mentioned that 20 years back the field was restricted to social mobilisation and community development. "The pendulum swing of perspectives in the field started with the inception of Pakistan Poverty Alleviation Fund (PPAF) in 1997. A key element of PPAF was to formalise

access to microfinance in the country by providing technical assistance, grants and subsidised capital."

He contented that the microfinance sector had gone through steady changes over the years, "yet we are still lagging behind"; only 13 percent of the adults in Pakistan had access to a formal account, which was much lower than 31 percent in Bangladesh, 53 percent in India and 83 percent in Sri Lanka. "The standard microcredit model, with high interest rates and immediate repayment, seems unable to generate enterprise growth."

He pointed out that our knowledge on microfinance products and processes like credit, savings and micro health insurance was still very parochial and that more research was needed in these areas.

He shared that despite these challenges, the microfinance sector had gone through tremendous growth over the past five years, emerging as a commercially and financially viable model, with three main players dominant in the industry; NGO microfinance institutions (MFIs), MFI banks and provincial governments (which have emerged as wholesalers of microfinance in the industry).

He further discussed that increasingly microfinance initiatives were taking centre stage in policymaking circles.

He acknowledged partnership of NRSP with various academic institutions like the LSE, University of Mannheim and the University of Oxford. He argued that these partnerships had allowed NRSP to test new

innovations in the microfinance sector.

Rashid Bajwa chaired the first session of the conference titled 'Comparing the Demand for Microcredit and Microsavings'.

In this session, Uzma Afzal (PhD candidate, University of Nottingham and assistant professor, LSE) and Simon Quinn (associate professor of economics and deputy director of the Centre for the Study of African Economies, University of Oxford) presented the study titled 'Two sides of the Rupee? Evidence from framed field experiment'.

In this study, using a framed field experiment among women in rural Pakistan, the authors proposed that saving and borrowing among microfinance clients were substitutes, satisfying the same underlying demand for a regular deposit schedule and a lump-sum withdrawal.

The study found high demand for both credit and saving, with the same individuals often accepting both a credit contract and a saving contract over the three experiment waves. Hence, the results implied that the distinction between microlending and microsavings was largely illusory; participants valued a mechanism for regular deposits and lump-sum payments, whether that was structured as a credit or debt contract.

Dr Azam Chaudhry chaired the second session of the conference titled 'Testing Product Innovations'.

The first presenter in this session, Andreas Landmann (Postdoctoral Research Fellow, The Paris School of Economics)

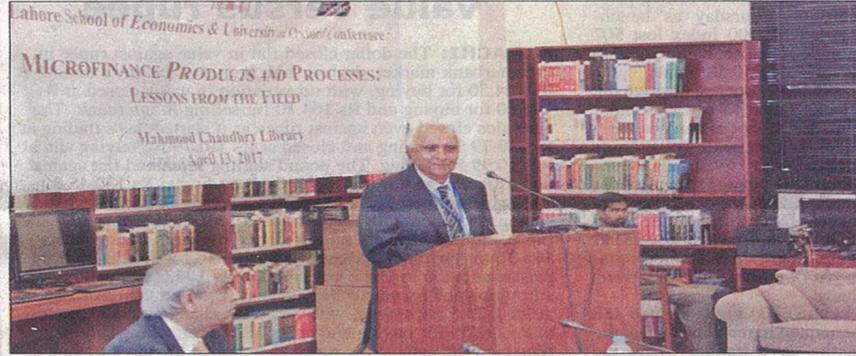
presented the study on 'Adverse Selection in Low-Income Health Insurance Markets: Evidence from a Large-Scale RCT in Pakistan'.

The study provided robust evidence on adverse selection in low-income health insurance markets from a randomised control trial in rural Pakistan. The study suggested that there would be substantial adverse selection if health insurance coverage were individually assigned.

"In particular, adverse selection becomes worse with higher premium prices, creating a trade-off between cost recovery and the quality of the insurance pool. In contrast, adverse selection virtually disappears when bundling insurance policies at the household or higher levels."

The second study in this session titled 'Microequity for Microenterprises: Lessons from Pakistan' was presented by Muhammad Meki (PhD candidate, University of Oxford). The study focused on developing alternative financial instruments for microentrepreneurs, in the form of microequity that can stimulate demand for entrepreneurship and foster wider economic and employment growth in Pakistan and beyond.

He study suggested that relative to debt-based financing, microequity investors might be willing to take higher risks in favour of higher potential returns on their investments. In line with this, microequity investments were more likely to produce firm growth since equity investments were focused on long-term returns and acted as implicit insurance to entrepreneurs, it stated.



Microfinance sector

Call for adopting innovative strategies to boost growth

HASSAN ABBAS
LAHORE: Rector, Lahore School of Economics Dr Shahid Amjad Chaudhry on Thursday called for adopting innovative strategies to boost growth in microfinance sector for the well being of people.

He was addressing the second International Conference, jointly organized by Lahore School of Economics (LSE) and University of Oxford.

The theme of the Conference was "Microfinance Products and Processes: Lessons from the Field." The one-day event was devoted to discussions on the cutting-edge research in the microfinance sector.

The conference brought together speakers from microfinance institutions, researchers and other stakeholders from Pakistan and outside of Pakistan to discuss main findings of the rigorous research of microfinance products and the key lessons of this research on the socio-economic welfare of Pakistan.

Dr. Shahid Amjad Chaudhry said that both academicians and policy makers should provide fresh and innovative perspectives on microfinance products and processes.

He said that global economic landscape is witnessing tectonic shifts in major economic powers of the world including the United States and European Union that already hints that the traditional models of running the world as well as financial systems are no longer valid.

Chief Executive Officer, National Rural Support Program Rashid Bajwa while sharing his 25 years of experience in the microfinance sector, Bajwa said that twenty years back the field was restricted to social mobilization and community development. The pendulum swing of perspectives in the field started with the inception of Pakistan Poverty Alleviation Fund (PPAF) in 1997. A key element of PPAF was to formalize access to microfinance in the country by providing technical assistance, grants and subsidized capital.

He also said that the microfinance sector has gone through steady changes over the years,

yet we are still lagging behind; only 13 percent of the adults in Pakistan have access to a formal account, which is much lower than 31 percent in Bangladesh, 53 percent in India and 83 percent in Sri Lanka.

The standard microcredit model, with high interest rates and immediate repayment, seems unable to generate enterprise growth. He pointed out that our knowledge on microfinance products and processes like credit, savings and micro health insurance is still very parochial and that more research is needed in these areas.

He said that in spite of these challenges, the microfinance sector has gone through tremendous growth over the past 5 years, emerging as a commercially and financially viable model with three main players dominant in the industry; NGO Microfinance Institutions (MFIs), MFI Banks and provincial governments (which have emerged as wholesalers of microfinance in the industry). He further discussed that microfinance initiatives are increasingly taking center stage in policy-making circles.

He predicted that country might see merger of financial institutions in the future, and the government must clarify the core business of microfinance institutions.

Chairman, Pakistan Microfinance Investment Company Zubyr Soomro's talk centered around four main points where microfinance sector stands today, where the sector is looking to go as per the 2020 plan, issues resulting from it, and areas in which PMIC may require support from the research community.

Akbar Zaidi, Member of Board of Directors, Pakistan Micro finance Network highlighted some caveats related to research in the microfinance sector. He identified three main issues including dearth of academic researchers on the supply side who specialize in microfinance within the country, excess protection of the microfinance sector and lack of willingness on part of donors and funders to finance a substantive and comprehensive study

which quantifies the impact of microfinance across various economic and social dimensions.

Chief Operating Officer, Kashf Foundation Kamran Azim discussed the current state of microfinance sector in Pakistan.

Uzma Afzal PhD candidate, University of Nottingham and Simon Quinn Associate Professor of Economics and Deputy Director of the Centre for the Study of African Economies, University of Oxford presented the study titled, "Two sides of the Rupee? Evidence from framed field experiment." In this study, using a framed field experiment among women in rural Pakistan, the authors proposed that saving and borrowing among microfinance clients are substitutes, satisfying the same underlying demand for a regular deposit schedule and a lump-sum withdrawal.

The study found high demand for both credit and saving, with the same individuals often accepting both a credit contract and a saving contract over the three experiment waves. Hence, the results implied that the distinction between micro-lending and micro-saving is largely illusory; participants value a mechanism for regular deposits and lump-sum payments, whether that is structured as a credit or debt contract.

Postdoctoral Research Fellow, The Paris School of Economics Andreas Landmann presented the study on "Adverse Selection in Low-Income Health Insurance Markets: Evidence from a Large-Scale RCT in Pakistan."

The study provided robust evidence on adverse selection in low-income health insurance markets from a randomized control trial in rural Pakistan. The study suggested that there would be substantial adverse selection if health insurance coverage were individually assigned.

The key implication of the study was that the insurers should abstain from offering individual policies to avoid adverse selection, which should allow them to focus on simple and comprehensive

products for the low-income market.

The study titled "Micro equity for Microenterprises: Lessons from Pakistan" presented by Muhammad Meki PhD candidate, University of Oxford focused on developing alternative financial instruments for micro entrepreneurs, in the form of micro equity that can stimulate demand for entrepreneurship and foster wider economic and employment growth in Pakistan and beyond. The study suggested that relative to debt-based financing, micro equity investors might be willing to take higher risks in favour of higher potential returns to their investments.

Ali Cheema Board Member, CERP; Senior Research Fellow, IDEAS and Lead Academic, Pakistan Team, IGC discussed the preferences that influence consumer demand and the impact that microfinance products can have on the socio-economic welfare.

The conference was concluded with the second panel discussion on "Impact and Future Directions" where panelists Ali Akbar Head Research and Operations, Pakistan Micro finance Network, Shahzad Akram Chief Credit Officer, Akhuwat, Shawn Cole Professor, Harvard Business School and Ali Khizar Consultant, Asian Development Bank and Business Recorder provided a comprehensive summary of the key messages, which emerged during the conference.

They mentioned that the conference has come up with several policy relevant ideas that can help policymakers to devise measures for propelling the microfinance sector in the country onto a higher growth trajectory through modern technology.

The panel discussion was concluded on the final points on future directions of the sector, in a broader range of products including insurance, health and education. The organizers thanked the participants for their valuable contributions, which have enlightened the academic community as well as policy practitioners in the area.

Thanks