

Media Coverage

Lahore School of Economics – Microfinance

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J. WALTER THOMPSON WORLDWIDE

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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European Union, which already hinted that the traditional models of running the world as well as financial systems were no longer valid.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)

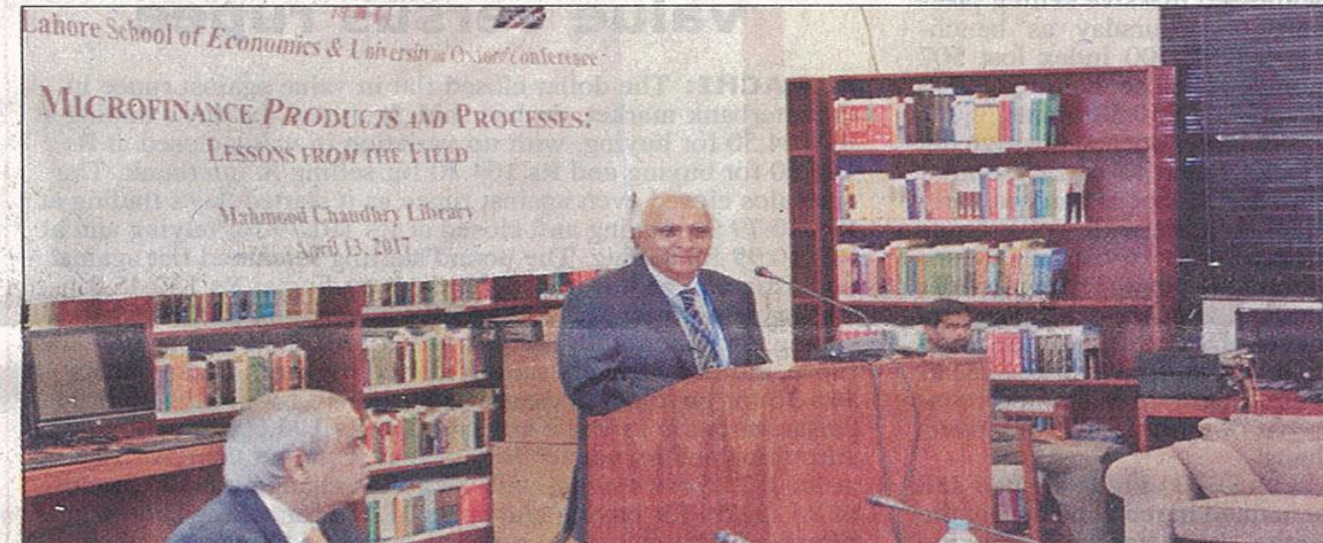
presented the study on 'Adverse Selection in Low-Income Health Insurance Markets: Evidence from a Large-Scale RCT in Pakistan'.

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.



Call for adopting innovative strategies to boost growth

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