Financial Sector Reforms and Pro-Poor Growth: Case Study of Pakistan

ISHRAT HUSAIN

Presidential Address at the Annual General Meeting of the Institute of Bankers Pakistan held at Karachi on February 21, 2004

Introduction

The attributes of a well functioning financial system are quite well known by now. Such a system is necessary for enhancing the efficiency of intermediation, which is achieved by reducing information, transaction, and monitoring costs; for promoting productive investment by identifying and funding good business opportunities; for mobilizing domestic savings; for monitoring the performance of businesses; for enabling the trading, hedging, and diversification of risk; and for facilitating the exchange of goods and services. These functions result in allocation of resources to the most efficient, resulting in a more rapid accumulation of physical and human capital, and faster technological progress, which in turn lead to higher economic growth. A large body of recent theoretical and empirical research has also confirmed the view that development of financial markets and institutions is crucial for economic growth. Empirical studies[1] show that 'financial intermediaries exert a large positive impact on factor productivity growth, which feeds through to overall GDP.' The effect of financial development on growth is positive and the size of the effect varies with different indicators of financial development. These findings also suggest that legal and accounting reforms that strengthen creditor rights, contract enforcement and accounting practices can help boost financial development and accelerate economic growth.

It has been amply demonstrated that government-imposed restrictions and price distortions on the financial sector can be a major hindrance to the development of the financial sector. In developing countries, examples of such policies commonly referred to as 'financial repression' include high inflation taxation, high required reserves ratios, subsidized or directed credit, collusive contracts between public enterprises and banks, credit rationing, and ceilings on deposit and loan interest rates (or rates of return). The financial repression argument shows that excessive government intervention can lead to a segmented credit market in which favoured borrowers obtain directed credit at subsidized rates of interest, while less privileged borrowers are forced to seek credit in high cost informal markets. Thus, policies of financial repression undermine economic growth. Financial sector reforms that remove these distortions and minimize financial repression

[1] See Thorsten et al. (2000a) & Khan and Senhadji (2000).

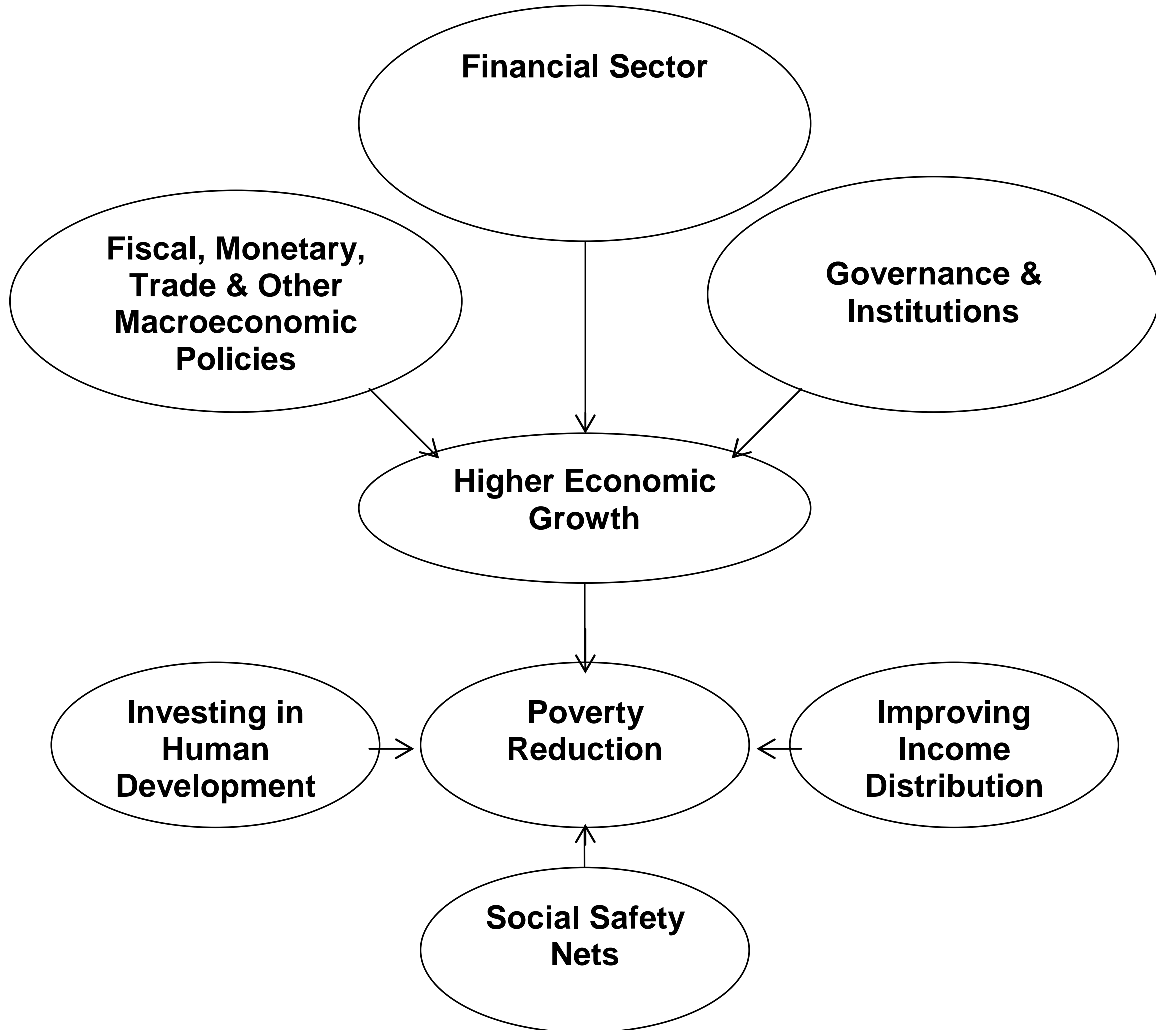
in an economy are thus the key to harness the virtuous attributes of financial sector for promoting economic growth.

While financial sector development leads to higher growth, economic growth in turn is a necessary condition for a sustained reduction in poverty. Pakistan had witnessed significant poverty reduction from around 40 per cent to 18 per cent in the 1980s when GDP growth rate was averaging 6 percent, but in the 1990s when the growth rate had slowed down to under 4 percent, there was a resurgence of poverty to over 36 percent. A recent study[2] based on observations from 80 countries from over 4 decades finds a roughly one to one relationship between overall growth in per capita GDP and the percentage change in the incomes of the poorest 20 percent of the population. Although growth is necessary for poverty reduction, the extent of poverty reduction resulting from a given rate of economic growth is influenced by the institutional structure, policy environment that exists in a particular country, investment in human development, improving income distribution and social safety nets. A schematic diagram of the linkage between financial sector and poverty reduction is presented in Chart I.

[2] Dollar and Kraay (2000)

Chart I

<u>A schematic diagram of linkage between Financial Sector and Poverty Reduction</u>



An overview of the financial sectors reforms, which have been undertaken in Pakistan since the late 90s for overhauling the previously repressed financial system and to make it more attuned to the developmental needs of the country is documented elsewhere[3] and need not be elaborated here.

The question that I wish to address is: How do these reforms affect the goal of achieving higher economic growth that is tilted in favour of poor and middle class of the society. Improving income distribution is an essential component of poverty reduction strategy and we will explore as to how these reforms will improve income distribution.

Impact of reforms on improving income distribution

Financial sector development can lead to improved income distribution only when the less privileged segments of society are able to get access to credit, which they were denied previously. The financial sector reforms that were initiated in the late 90s were intended to lead to financial deepening and better access to credit for previously marginalized borrowers and savers. In the context of poverty alleviation, several sectors were identified where a need was felt for the financial sector to channel higher amount of credit, in order to generate employment opportunities.

The broad thrust of the reforms undertaken so far had the following consequences:

a) Promoting market based competition

The rapid transformation of a predominantly nationalized state owned banking system into a private sector owned and managed system has brought about fundamental changes in the ground rules governing the allocation of credit. The approval and disbursement of loan based purely on political considerations has given way to rigorous credit and risk appraisal and improved the quality of new loans. Market based determination of lending and deposit rates in place of the arbitrarily administered rates has spurred prudent risk management by banks themselves. High Minimum Capital Requirements have helped in weeding out weak institutions leading to mergers, acquisitions and consolidation. Stringent

[3] I. Husain (2003)

enforcement of good governance code has forced changes in ownership and management of banks operated by individuals and groups who did not fulfil the fit and proper criterion. Encouragement in direction of adopting technology platforms for banking services have improved the service provided to the consumers. All these reforms have resulted in fierce but healthy competition in the financial sector.

b) Reducing cost of borrowing

In Pakistan, nationalized commercial banks were quite contented by charging their private sector borrowers around 20-21 percent lending rates because they had a large captive client i.e., the Government. As fiscal deficits averaged 7 percent of GDP, the appetite of the Government for bank borrowing was voracious, with the private sector handed out residual amounts at high real interest rates. Macro economic reforms and the consequential stability achieved during the last four years has reduced fiscal deficits to 4 percent and the losses of many state owned corporations have turned into profits. Thus, the demand for bank credit by the public sector has been drastically lowered, freeing up ample resources for the private sector. Fiscal consolidation, healthy competition in the financial sector, reduction in corporate tax rates and excess liquidity created by diversion of workers' remittances through the banking channels have brought about a drastic reduction in average lending rates to 5 percent. The burden of non-performing loans outstanding on the balance sheets of the nationalized commercial banks has also been eased through a variety of measures. The spreads have, therefore, become lower. Such unprecedented decline in the borrowing costs has stimulated private sector credit flows in 2003/04 escalating to 5 percent of GDP from 2 to 3 percent.

c) Broad basing access to Credit

The growth of financing to sectors that mainly cater to middle and lower income class such as agriculture, SMEs were handicapped as the mode of their financing was restricted to specialized institutions with limited outreach. Until 1999-2000, although the commercial banks were given mandatory targets for agriculture

credit, they were quite happy in paying penalties to the SBP for not fulfilling the targets. Only ADBP and provincial cooperative banks were the main conduits for credit to 60 percent of the population that was dependent on agriculture. In the year 2000, the agricultural credit scheme was completely revamped to provide incentives to the commercial banks and the results have been spectacular. By 2003-04, the commercial banks have overtaken the ADBP and cooperative banks in disbursing loans to small and middle class farmers.

Similarly, only SME Bank was assigned the responsibility for providing credit to small and medium entrepreneurs. As the forces of competition have squeezed margins on lending to large borrowers, the commercial banks have started shifting their attention to SME sector. The new Prudential Regulations will also help in expansion of credit to this sector.

Agriculture and SMEs account for 85-90 percent of employment in this country. Broad basing access to these two sectors by commercial banks will naturally generate economic activity and employment for lower and middle income class.

d) Enabling regulatory environment

The major regulatory restrictions in provision of large volumes of credit to these sectors were the various restrictions imposed by the SBP on mortgage financing and consumer durable financing e.g. uniform Prudential Regulations were equally applicable to the Corporate and SMEs without taking into account the different characteristics of these two sectors and there was absence of a proper framework for micro finance institutions. During the last three years, most of these constraints have been removed. Banks and financial institutions are encouraged and enabled to move into mortgage and consumer financing. A separate set of Prudential Regulations was formulated for SMEs, Consumer & Corporate sectors and put in place since Jan 1, 2004. Due to the peculiar nature of agriculture production cycle, a new set of regulations is under consideration for agriculture. Licensing and prudential norms for micro finance institutions have been designed with particular emphasis on facilitating growth of these institutions and expanding their outreach to the poor and vulnerable segments of the population.

Outcome of reforms

Agriculture

Agriculture is by far the most important sector for Pakistan's economy. The forward and backward linkages to the rest of the domestic economy, to the international trade and with poverty alleviation are very strong. Thus credit to this sector can play a critical role in stimulating growth, productivity and employment with favorable impact on poverty alleviation. Historically, the only channels for credit to agriculture were Agriculture Development Bank of Pakistan (ADBP) and Provincial Cooperative Banks. They had been provided a special line of credit for agriculture by SBP at a subsidized rate of 6 percent, which it lent to farmers at the rate of 14 percent thus earning differential of 8 percent. There has been gross misuse of this subsidized financing with the result that the loan portfolio of ADBP and three Provincial Cooperative Banks got full of stuck-up and non-performing loans. Provincial Cooperative Banks in Sindh, NWFP and Balochistan have ceased their operations. Recently, the lending rate to ADBP (Now restructured as ZTBL) and Punjab Cooperative Bank have been aligned with the T-bill rate but in effect agriculture credit still receives a preferential rate compared to other sectors. But this rate does not get transmitted to the end-use borrowers.

Due to inefficiencies, high administrative costs and provisioning of bad debts, the end-use funding cost to farmers remained quite high despite the lower interest rate credit provided to ADBP and Cooperative Banks. The ADBP has recently been restructured as the Zarai Taraqiati Bank Limited (ZTBL). A new Board of Directors consisting of private sector representatives well versed in farming from all the four provinces has been formed and empowered to carry out the badly needed reforms.

Commodity financing which was so far the exclusive domain of the public sector has been opened up to the private sector. The same rate of financing – 12 percent p.a. – which is available to the public sector is also allowed to the private sector despite the higher risk inherent in the latter mode.

Table 1: Credit to Agriculture Sector, disbursements (Rs. in billion)

	FY 00	FY 01	FY 02	FY 03	July-Dec FY 04	Annual growth rate (FY 00-03)
ZTBL	24.4	27.6	29.1	29.3	13.4	6.4
Commercial banks	9.3	12.1	17.5	22.7	15.1	34.8
New private CBs	-	-	0.6	1.4	1.3	133.3
Cooperatives	6	5.1	5.3	5.5	3.0	-2.4
Total	**39.7**	**44.8**	**52.5**	**58.9**	**32.8**	**14.1**

Source: Agriculture Credit Department, SBP

Agricultural credit shows an increasing trend in the post reform period (Table 1), it increased from Rs. 39.7 billion in 1999-2000 to Rs. 58.9 billion in 2002-2003 – an average annual increase of 14.1 per cent over the past 4 years. It can be observed that the disbursement of credit to the agricultural sector by the commercial banks has already exceeded the lending by the ZTBL in the first half of FY04. The new private commercial banks have also entered this field by starting lending to agriculture in 2001-02. However, as they have started from almost scratch, their share in total credit is so far very small, although growing rapidly.

The increase in agricultural credit has been accompanied by a greater outreach of the farming community to agricultural credit (Table 2). The number of borrowers served by commercial banks and ZTBL has risen by almost one quarter in the last 4 years. But even after including the cooperative bank borrowers, the number is hardly one million. As the number of farms in Pakistan is 6.62 million, bank credit covers only 15 percent of the farming community. The challenge for the commercial banks is, therefore, to extend the coverage to 50 percent or more than 3 million borrowers in the next 5 years.

Table 2: Total number of borrowers of agricultural credit (Excluding Cooperatives)

	FY 00	FY 01	FY 02	FY 03	% Increase (FY 00-03)
ZTBL	374,243	427,124	462,639	458,238	22.4
Commercial banks	290,572	309,022	353,610	345,731	19.0
New private CBs	-	-	4,751	10,765	-
Total	**664,815**	**736,146**	**821,000**	**814,737**	**22.5**

Source: Agriculture Credit Department, SBP

A majority of farming sector in Pakistan is composed of small and subsistence level holdings. Figures from FY 00 to FY 02 for subsistence farmers and small non-farming sector show increase in credit disbursement to both categories (Table 3). In FY 00, subsistence farmers received Rs. 25.5 billion, which had increased to Rs. 34 billion by FY 02. Similarly, disbursements to the small non-farm sector have gone up from Rs. 1.5 billion to Rs.2 billion in the same period. The data shows that more than two-third of the agricultural credit is actually delivered to subsistence and small farmers.

Table 3: Disbursements to Farm and Non Farm Sectors (Rs. in billion)

	FY 00		FY 01		FY 02	
	Farm Sector	**Non Farm**	**Farm Sector**	**Non Farm**	**Farm Sector**	**Non Farm**
	Subsistence	Small	Subsistence	Small	Subsistence	Small
ZTBL	12.8	1.4	15.1	1.7	17.4	1.6
Commercial banks	6.8	0.1	8.5	0.7	11.5	0.5
New private CBs	-	-	-	-	-	-
FBC/ PPCB[3]	5.9	0.00	4.8	0.00	5.127.54	0.00
Total	**25.5**	**1.5**	**28.4**	**2.4**	**34.0**	**2.1**

Source: Agriculture Credit Department, SBP

As a further incentive to channel credit to small and subsistence farmers and in view of the cyclical nature of agriculture production, the SBP has allowed them the facility of revolving credit, which means even if farmers are unable to adjust their previous loans fully, they can still avail fresh credit. Earlier, banks were only allowed to sanction credit to farmers, who repaid their previous loans fully and on time. The limit on credit against personal securities has also been raised from Rs. 50,000 to Rs. 100,000. This should help those farmers with limited access to collateral.

.

Although credit disbursement to the agricultural sector has gone up in the past 4 years, we still are not fully satisfied with access to credit by the rural communities for all their needs – farming and non-farming. cooperative banks have ceased to be an effective instrument. The SBP is considering other measures, which can accelerate credit to the small and subsistence farmers. For example, Post offices can be used as an outpost for both mobilization of savings and disbursement of credit in rural areas. Some private banks are examining the possibility of issuing agriculture credit cards whereby the borrowers can purchase their inputs up to their credit limit.

To create awareness about the various facilities, products and services available, the SBP has proactively launched a series of training workshops for the bankers and farmers in the main agriculture areas of the country. These workshops will raise farmers' awareness and thus stimulate demand for bank credit and at the same time upgrade the capacity of the bankers engaged in agricultural loan approval process.

Small and Medium Enterprises

There exists strong evidence that SME expansion boosts employment more than large firm growth because SMEs are more labor intensive. In Pakistan, it is estimated that the SME sector contributes around 40 percent to the GDP and 25 to 30 percent of employment. A sensibly designed SME support programme is likely to create more jobs in the economy and generate income. From this perspective, providing credit to SMEs is an attractive tool for small and middle class.

Since there is risk aversion by banks towards extending credit to small and medium enterprises (SMEs), credit constraints had limited the expansion of these businesses in Pakistan. Realizing the large potential for growth and employment opportunities offered by the SME sector, a Small and Medium Enterprise (SME) Bank was established in the public sector in January 2002. This bank, just like Khushali Bank for microfinance sector, is intended to act as a prototype for other SME banks in the private sector. Just one bank cannot simply cover the whole vista of SME financing within the country. We conceive SME Bank as taking the lead in developing a portfolio approach or program lending tools

where standardized credit scoring methodology is used for each sub-sector rather than the current method of scrutiny and appraisal of each individual proposal. The present methods and documentation are onerous for small entrepreneurs and relatively costly for the banks. SME Bank has to experiment and come up with the standardized set of easy to fill but fully informational documentation, specification of risk parameters, credit appraisal and delivery techniques and new and innovative products and services which are in heavy demand by the SMEs. These business models, products, services, techniques developed by SME Bank can then be applied and replicated by other banks planning to enter this particular market segment. The externalities in form of the spill over effect from a public good i.e. SME Bank will thus benefit the private providers of credit.

We have enforced a new set of Prudential Regulations specific to the SME sector, which will now be widely disseminated. We have set up a Credit Information Bureau with the assistance of the World Bank to assemble the data and current status of small borrowers. The information flows to the banks based on this source have improved their credit risk appraisal capacity and ultimately reduced the non-performing loans in their portfolio. Information available on SME financing indicates a modest growth in credit to the SME sector, although a significant increase has been recorded for the last quarter (Table 4). The number of borrowers has, however, significantly risen during the last one year, i.e. by almost 50 percent. This trend shows that the banks and DFIs are beginning to penetrate this particular sector. It is envisaged that the commercial banks will play an important role in providing credit to the SME sector in the coming years.

Table 4: Outstanding position of SME financing and number of borrowers

Rs. in billion

	Dec-02	Mar-03	Jun-03	Sep-03	Dec 03
1. SME Financing by banks/ DFIs	170.0	162.2	146.2	160.1	201.9
No. of SME borrowers[2]	120,081	132,594	143,429	153,064	180,168
2. SME Financing by Leasing/ Modarabas	1.6	1.9	2.2	1.8	1.7
No. of SME borrowers	1,433	1,596	2,073	1,849	1,642
3. Total SME Financing (1+2)	**171.5**	**164.0**	**148.3**	**161.7**	**203.5**

Source: Banking Supervision Department, SBP; Leasing/ Modaraba Associations of Pakistan

The SBP is working with SMEDA, SME Bank and commercial banks on dissemination of new Prudential Regulations and technique of credit appraisal, delivery and documentation for SMEs. We hope that this will result in larger flows of credit to SMEs while minimizing the risks of non-recovery.

Leasing Companies and Modarbas are also the right vehicles for delivery of credit to this sector. Unfortunately, they have limited their activities so far to large urban areas and have not opened up their doors for business in those cities and towns where the clusters of SMEs do exist. As they face tough competition from banks in leasing business, it is expected that they would diversify both in product lines as well as in geographical coverage.

Micro finance

In recent years, micro finance has been promoted as a means of directly linking finance with poverty reduction. The government is experimenting with a variety of institutional models for delivery mechanisms and outreach to the poor. For example, we have a wholesale organization such as Pakistan Poverty Alleviation Fund (PPAF), which is successfully disbursing a $ 100 million line of credit provided by the World Bank. We have Khushali Bank, which is a retail bank and has already reached out to 100,000 customers (Table 5). Then there is First Micro Finance Bank established in the private sector, which is expanding its branch network throughout the country. We have integrated programme vehicles such as the National Rural Support Programme (NRSP), Punjab Rural Support Programme (PRSP) etc., which combine micro credit with other services. There are several single product micro finance NGOs such as Kashf Foundation in Lahore. Two commercial banks are also providing lines of credit for micro finance. Leasing companies have also begun to take some interest and two of them are already engaged in the sector. In addition, there are several self-standing donor supported projects delivering micro finance.

State Bank is also making serious efforts to expand the outreach of micro finance services to the poor segments of the population. Currently, the State Bank is responsible for

regulating the 2 microfinance banks working in the country, the Khushali Bank and the First Microfinance Bank. Moreover, it is engaged in collaborative effort with civil society institutions, especially involving large NGOs and RSPs in providing complementary services, such as social intermediation and capacity building. The regulatory regime adopted by the SBP for microfinance sector is that of a facilitator, guide and problem solver. We do not prescribe for Micro Finance Institutions (MFIs) the same onerous regulations, which prevail for other financial institutions. We have a light regulatory oversight and are learning together with the practitioners and adapting ourselves to the changing circumstances. We have a Consultative Group drawn from the representatives of stakeholders, who guide us in the development of our regulations and prudential norms.

A peculiar feature of the micro finance sector development is that as the poor segments of the population are much more prone and vulnerable to shocks, they need to be protected. Thus, a bad harvest or drought or strikes in the cities or violence completely wipe out the earning capacity of the poor and disable them from repaying their credit obligations on time. As labor is their only asset and the returns on labor are disrupted for no fault of theirs, a risk mitigation mechanism had to be created to insulate the poor borrowers from these unforeseen hazards. The State Bank of Pakistan, under its Microfinance Sector Development Programme (MSDP), recognized the need to enhance social capital and risk mitigation as a necessary safety net for the poor. A Risk Mitigation and Deposit Protection Fund has been created to provide protection to the MFIs borrowers and depositors. They can seek recourse to this Fund under adverse circumstances beyond their control.

Table 5 : Quarterly data on micro credit (Khushhali Bank & The First MicroFinance Bank Ltd)

		(Rupees in millions)			
	Sep-02	Dec-02	Mar-03	June-03	September-03
Advances-net of provision	Amount	Amount	Amount	Amount	
KB	413.79	475.48	565.77	662.22	778.86
FMFBL	4.38	17.61	31.01	49.78	58.21
Total advances	**418.17**	**493.09**	**596.78**	**712.01**	**837.06**
% Change		**17.92**	**21.03**	**19.31**	**17.56**
No. of Borrowers					
KB	45930	56324	69584	83109	100228
FMFBL	169	713	1657	2608	3112
Total (No. of Borrowers)	**46099**	**57037**	**71241**	**85717**	**103340**
% Change		**23.73**	**24.90**	**20.32**	**20.56**
No. of New Borrowers during the quarter					
KB	16827	10394	13260	13525	17119
FMFBL	101	544	944	951	504
Total (New Borrowers during the quarter)	**16928**	**10938**	**14204**	**14476**	**17623**
% Change		**-35.39**	**29.86**	**1.91**	**21.74**
Average loan size - Rs					
KB	10786.20	8795.72	8471.39	8300.10	8183.61
FMFBL	25662.72	24697.05	20304.77	19406.06	16263.17
No. of Branches					
KB	27	31	31	35	35
FMFBL	3	8	9	10	11
Total (No. of Branches)	30	39	40	45	46

Source: Banking Supervision Department, SBP

Women Banking

As Pakistan suffers from larger gender disparities than other comparable developing countries, a specialized bank has been established to take care of the financing needs of women entrepreneurs. The First Women's Bank is the main conduit of credit to SMEs and micro finance for women. S0 far, the bank has advanced Rs. 7.1 billion to its customers and has established 38 branches throughout the country. The bank realized that to meet its full potential it has to provide a full range of services, including business advisory support and capacity building, and it has embarked upon this path.

Consumer Financing

The commercial banks have started consumer financing on an appreciable scale only during the last one year. The beneficiaries of this sector are mostly the middle-income group borrowers and the most common types of financing have been auto financing and credit cards. Lately, mortgage financing and consumer durables have begun to attract increased attention and the demand is picking up. This can be seen from Table 6, which shows that

Table 6: Consumer financing and number of borrowers

	Dec 02	Mar 03	Jun 03	Sep 03	Dec 03
Amount outstanding (Rs., billions)	**22.6**	**26.5**	**45.0**	**63.6**	**65.3**
Credit Cards	6.1	6.0	6.7	8.0	8.9
House Loans	1.9	2.1	3.85	8.0	4.3
Auto Loans	8.3	10.5	15.8	19.4	20.1
Others	6.3	7.9	18.7	28.4	32.0
No. of borrowers	**405,988**	**459,971**	**525,255**	**620,354**	**719,474**

Source: Banking Supervision Department, SBP

the amount outstanding has jumped almost three-fold between Dec. 2002 and Dec. 2003 and the number of borrowers has increased by 77 percent. Auto loans and credit cards together account for over 44 percent of total consumer financing.

The recent tax and fiscal incentives in the Budget-2003 and the regulatory changes introduced by the State Bank during the last one year should provide an impetus to mortgage financing. To help the banks overcome the mismatch between their assets and liabilities for mortgage sub-sector, the Government has introduced 15 and 20 year Pakistan Investment Bonds (PIBs). These bonds should act as the benchmark for issuance of longer duration bonds by the banks and financial institutions to fund their housing financing demand.

It is obvious that consumer financing has very wide scope for expansion as it accounts for less than 10 percent of all outstanding loans and advances of the banking sector. As the banks gear themselves with skilled manpower, technology and processes and controls, the rate of disbursement is likely to accelerate.

Islamic Banking

Pakistan has introduced Islamic banking system to operate in parallel with the conventional banking providing a choice to the consumers. A large number of Pakistanis have remained withdrawn from commercial banking because of their strong belief against riba-based banking. These individuals and firms – mainly middle and low class - will have the opportunity to invest in trade and businesses by availing of loans from Islamic banks and thus expand economic activity and employment. A full -fledged Islamic bank has already opened the doors for business and several banks have branches exclusively dedicated to Islamic banking products and services.

The State Bank of Pakistan has set up a full- fledged Islamic Banking Department and a Shariah Advisory Board to help it in the promotion of Islamic banking in the country.

Challenges Ahead

Pakistan's financial sector has to scale up its activities in catering to the needs of the middle and poor income groups. The broad direction in which the sector should move is:

- The client base has to expand from 2 million to at least 5 million borrowers in the next five years.
- New products have to be introduced particularly for consumer, SME and agriculture financing.
- Loans for education and health, both at the individual level as well as for providers of services, have to be stepped up.
- Infrastructure loans to District and Union Council levels will fill in the community needs at the grassroots level
- Leasing and modaraba companies have to extend their geographical coverage to rural and peri-urban areas
- Widespread use of electronic and mobile banking channels will reduce the transaction costs while extending the outreach to a large segment of population.

Conclusion

The impact of financial sector reforms implemented in Pakistan during the past five years has begun to show some positive results for pro-poor growth. It is estimated that approximately 2 million borrowers have benefited during the last few years. Although it is still a long way to go, the liberalization of financial sector, privatization of banks, promotion of healthy competition, reduction in cost of borrowing, broadening access to credit and easing regulatory constraints have together created a favorable environment in which the poor and middle class have a better chance of receiving credit from formal institutions.

References

Berger, Allen N., Iftekhar Hasan and Leora F. Klapper (2003) "Further Evidence on the Link between Finance and Growth: An International Analysis of Community Banking and Economic Performance" World Bank Working Paper 3105, July 24, 2003.

Creane, Susan; Rishi Goyal, A. Mushfiq Mobarak and Randa Sab (2003) "Financial Development in the Middle East and North Africa", IMF.

Husain, Ishrat (2003) "Financial Sector Reforms in Pakistan", SBP website

Khan, Mohsin S. & Abdelhak S. Senhadji (2000) "Financial Development and Economic Growth: An Overview" IMF Working Paper 209, IMF Institute.

Kirkpatrick, Colin (2000) "Financial Development, Economic Growth and Poverty Reduction". The Pakistan Development Review Vol. 39, Part 4 (Winter 2000): 363-388.

Thorsten Beck, Ross Levine, and Norman V. Loayza (2000a). "Finance and the Sources of Growth" Journal of Financial Economic*s*, Vol. 58, n1-2, (Oct-Nov 2000): 261-300.

Thorsten Beck, Ross Levine, and Norman V. Loayza (2000b) "Financial Intermediation and Growth: Causality and Causes". Published in Journal of Monetary Economics.

Thorsten Beck, Asli Demirgüç-Kunt, and Ross Levine (2003) "Small and Medium Enterprises, Growth, and Poverty: Cross-Country Evidence" World Bank Policy Research Working Paper 3178, December 2003.