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ECONOMIC PROGRESS, SAVINGS PATTERNS, AND POVERTY IN SAARC NATIONS: EXPLORING THROUGH PANEL ARDL ANALYSIS

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Abstract

This research investigates the interplay of financial sector development, saving mobilization, and poverty reduction efforts in the SAARC region. Utilizing strongly balanced panel data spanning from 1969 to 2020 from World Development Indicators, the study employs the Pooled Mean Group (PMG) estimation method to account for cross-sectional variations and distinguish between long-run equilibrium and short-run dynamics. The findings reveal a negative substitution effect of increased capital on broad money in the long run. Moreover, a decrease in interest rates is associated with significant growth in broad money, facilitating borrowers with affordable funds and enhancing their ability to fulfill financial obligations, both in the long and short run. The study also underscores the positive impact of the total population on the demand for money to sustain businesses in the long run. Furthermore, addressing creditworthiness concerns, the research suggests that insurance firms can play a pivotal role in mitigating credit risks for less creditworthy entrepreneurs by providing coverage for loans extended to private sectors. These insights contribute valuable perspectives on the intricate relationships between financial development, savings, and poverty alleviation in the SAARC region.

Keywords: Consumption, Credit, Financial Crises, Money supply, Saving, Wealth

Introduction

Domestic resources play a crucial role in fostering growth and reducing poverty. Efficient distribution of these resources relies on a well-structured financial market achieved through interest rate liberalization and the entry of new players. Broad money, serving as a proxy for financial development, is instrumental in boosting economic growth and alleviating poverty by increasing savings as financial assets to form capital. Unfortunately, the financial sectors of SAARC do not sufficiently cater to the needs of the poor due to funding gaps, the absence of collateral, and the lack of fully developed business plans.

The study employs panel data and the Pooled Mean Group (PMG) method to investigate the SAARC bloc. Because the primary variables are categorized as stationary and non-stationary, respectively, panel co-integration tests are not appropriate.

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SAARC, an alliance of eight countries, was established in 1985 with the objectives of promoting social welfare, promoting intercultural understanding, and accelerating economic growth. Furthermore, SAARC emphasizes risk aversion, coordinated policy responses, and the development of security mechanisms to address financial and economic crises. The SAARC Development Fund (SDF) is crucial for funding projects that alleviate poverty and align with the development agenda 2030, which was decided upon at the 2019 meeting of the ministries in charge of doing so.

The PMG model uses many observations to improve estimation efficiency, which helps to further aid in understanding cross-sectional properties among SAARC countries. Because of the model's flexibility, long-run coefficients across countries can be homogeneous while short-run coefficients and error variance can be heterogeneous. All things considered, the study clarifies the intricate dynamics of financial development, mobilizing savings, and reducing poverty in the SAARC area.

Rationale of the Study

The study aims to address the need for a comprehensive understanding of the interactions between poverty alleviation, saving and mobilization, and financial sector development in the SAARC region. The study aims to provide significant new insights into the factors influencing social progress and economic expansion in this specific region by analyzing the relationships between key economic indicators.

Research Problem

The intention of the research is to shed more light on the complex relationships that exist between the growth of the financial industry in the SAARC subject matter, initiatives to mobilize and save savings, and the decline in poverty. It takes on the difficult task of understanding how these factors interact and influence one another so that policies that can promote sustainable economic development can be developed.

Research Questions

1. How does financial sector development influence saving mobilization in the SAARC region?

2. What is the relationship between saving mobilization and poverty alleviation in the SAARC countries?

3. To what extent do macroeconomic indicators, such as exchange rates and population growth, affect the identified relationships?

Research Objectives

1. To analyze the impact of financial sector development on saving mobilization.

2. To assess the relationship between saving mobilization and poverty alleviation.

3. To investigate the role of selected macroeconomic indicators in shaping these relationships within the SAARC region.

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Theoretical Framework

The theoretical framework of this study is grounded in the Financial Inclusion theory (Duflo & Banerjee, 2019; Levine, 1997), which emphasizes the advantages of greater access to financial services for saving and poverty reduction. Furthermore, understanding the relationship between saving behaviors and poverty reduction as well as the systemic effects of financial sector development on economic well-being is made easier by knowledge gained from the Savings-Investment Nexus theory (Modigliani, 1986) and the Economic Growth theory (King & Levine, 1993).

Conceptual Framework

The conceptual framework of the study lists the significant variables along with the theoretical relationships that are suggested for them. It serves as a roadmap for the empirical analysis and directs the examination of connections between financial indicators, saving practices, and poverty levels in the SAARC nations.

Significance of the Study

This study is important because it can close knowledge gaps about the economic dynamics of the SAARC region. The results should be instructive to policymakers, scholars, and practitioners since they provide significant approaches to fostering sustainable economic growth, enhancing saving practices, and reducing poverty in the SAARC nations. In the end, the research adds to the larger conversation about economic growth in relation to regional cooperation.

Research Hypotheses

H_1: There is a significant relationship between Money Supply (M2) and at least one other variable in the study.

H_2: There is a significant correlation between Consumer Confidence and at least one other variable.

H_3: There is a significant correlation between Domestic Credit to Private Sector as a percentage of GDP (DCRPGDP) and at least one other variable.

H_4: There is a significant correlation between Gross Domestic Savings as a percentage of GDP (GDSGDP) and at least one other variable.

H_5: There is a significant correlation between Exchange Rate (EXR) and at least one other variable.

H_6: There is a significant correlation between Population Growth (POPG) and at least one other variable.

H_7: There is a significant correlation among at least some of the variables included in the study.

Literature Review

The trends and factors explored by Syden (2014) on household savings included broad money as a proxy for financial development, aligning with the first research objective. Gregorio and Guidotti (1995) suggested the use of the monetary aggregate M2/GDP as broad money, emphasizing its positive impact on growth, contributing to the second research objective. Channels leading to supply were found to aid economic growth, while demand-following channels necessitated financial products (World Development Report, 1989; King et al., 2008; Demetriades, 1996; Rajan & Zingales, 2003), addressing the third research objective. Mohan's (2006) study emphasized that financial development provides access to resources, supporting potential businessmen and small organizations for new market entry and competition, contributing to economic growth.

A cross-country study by Mohieldin and Rostom (2011) demonstrated that changes in poverty rates could be explained by fluctuations in financial development, underscoring the significance of the study's objectives. Bernanke and Kuttner (2004) found that tight financial policies negatively impacted future dividends and excess returns, highlighting the relevance of understanding financial policies' effects. Bordo and Wheelock (2004), Alessi and Detken (2009) concluded that increased liquidity enhances asset prices in developing regions, demonstrating the importance of liquidity in financial markets.

Fry (1978, 1980), Galbis (1977), and Ndlovu (2013) suggested that restrictions on the banking sector, such as credit ceilings and reserve requirements, negatively impact financial sector development and economic growth, reinforcing the need to understand regulatory influences. Oliner et al. (1994), Apergis et al. (2012), Emenike (2017), Gujarati and Porter (2009), Press et al. (2012) discussed how changes in monetary policy affect bank loans, emphasizing the interconnectedness of monetary policy and lending.

Kandil (2014) suggested that positive shocks to the money supply increase the availability of credit, which is consistent with the research goal of understanding how monetary policy affects credit. Lucas (1988) and Solow (1956), who emphasized the direct impact of savings on economic growth, support the study goal to examine the relationship between savings and growth. Further evidence supporting the relationship between savings and broad money came from Joshi's (2007) study.

Barajas et al. (2015) emphasized the importance of financial institutions being easily accessible to individuals and businesses in order to facilitate efficient capital allocation. The study found a complicated relationship between monetary policy, trade openness, and economic growth. The findings indicate that there is an inverse relationship between the positive shock to trade openness and broad money. The effects of the shock persist for 19 months, and after 20 months, the impact of monetary policy increases.

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Recent studies by Hushmand (2012) and Enst et al. (2016) looked at the short-term effects of monetary policy on conversion rates, providing insights into the dynamic nature of monetary policy impacts. De Grauwe (1995) found no significant short-run effects on the money supply and conversion rates in Iran, which added nuance to our understanding of the relationship between monetary policy and exchange rates in different contexts.

By analyzing the connection between the money supply, fiscal policies, and exchange rates, Hassan's (2017) study made sense of the many factors influencing exchange rate volatility. Insah and Chiaraah's (2013) argument that the money supply and conversion rate volatility are negatively correlated with each other contributed to our understanding of how monetary factors impact exchange rate stability.

Research by Maria Grydaki (2011) revealed that money supply volatility better explains exchange rate volatility, highlighting the need to consider volatility when analyzing the impact of financial variables on exchange rates. Additionally, Muhammad and Hye (2009) found a positive relationship between the need for broad money and exchange rates in Pakistan, demonstrating the context-specific nature of the relationship.

The study by T. Beck et al. showed that countries with a deep financial system experienced a quick decrease in the number of people living on a single-dollar daily budget. Financial development explained 30% of the change in poverty rates across countries (Mohieldin & Rostom, 2011), emphasizing the critical role of financial systems in poverty alleviation.

Recent empirical studies by Ajao (2015), Stančík and Stančík CERGE-EI (2006), and Maria Grydaki (2011) added to the understanding of the relationship between monetary policy, exchange rates, and volatility, providing contemporary perspectives on the complex dynamics in global financial markets.

Research Methodology

The study use panel data of 7 SAARC countries, from 1969 to 2020. Table 1 explains data source and descriptive statistics of variables. We use Broad money growth annual data in percentage of gross domestic product as the endogenous variable. The data is compiled from the World Bank; WDI indicator website. The domestic credit to private sector as percentage of gross domestic product, gross domestic savings as percentage of gross domestic products, consumption of fixed capital as percentage of gross nominal income, exchange rate per American dollar, growth of population annual data in percentage, and term of trade adjustment data in constant local currency. The dependent and independent variable show causal relationship. The model specified for the study is:

$$Yi = \beta 1 + \beta iXi + ei \ldots\ldots\ldots (I)$$

Financial development sector is denoted by Yi a proxy of broad money and vector of explanatory variable is Xi. The analysis is based on the variables defined in table 1.

According to the pre-parameterized generalized ARDL (p, q, q, and q….q) model is specified as: $\gamma_{it} = \sum_{j=1}^{p} \delta_i y_{i,t-j} + \sum_{j=0}^{q} \delta_i y_{i,t-j} \ldots\ldots$ (II)

$$\Delta\gamma_{it} = \theta_i\left[y_{i,t-1} - \lambda_i' X_{i,t}\right] + \sum_{j=1}^{p-1} \xi_{i,j}\, \Delta\gamma_{i,t-j} + \sum_{j=0}^{q-1} \beta'_{ij}\, \Delta x_{i,t-j} + \varphi_i + e_{it} \ldots.$$ (III)

Note: θ_i =-(1-δ_i), speed of adjustment for group specific coefficients (expected that $\theta_i < 0$).

λ_i'= vector of long-run relationship.

ECT= $\left[y_{i,t-1} - \lambda_i' X_{i,t}\right]$, the error correction term.

$\xi_{i,j}, \beta'_{ij}$ are the short − run dynamic coefficients.

The model specification is:

$$\Delta M2GDP = \theta_i\left[M2GDP_{i,t-1} - \lambda_i' X_{i,t}\right] + \sum_{j=1}^{p-1} \xi_{i,j}\, \Delta M2GDP_{i,t-j} + \sum_{j=0}^{q-1} \beta'_{ij}\, \Delta x_{i,t-j} + \varphi_i + e_{it} \ldots\ldots\ldots$$ (IV)

Table1: Variables and Source of Data

Variables	Indicators/ Measures of variables	Data source
Dependent variable		
Financial deepening (M2GDP)	Broad money growth annual data in percentage of GDP	World Bank WDI
Independent variables		
DCRPGDP	Domestic credit to private sector as percentage of Gross Domestic Product	World Bank WDI
GDSGDP	Gross domestic savings as percentage of Gross Domestic Products	World Bank WDI
CONFC	Consumption of fixed capital as percentage of Gross Nominal Income	World Bank WDI
EXR	Exchange rate per American dollar	World Bank WDI
POPG	Growth of population annual data in percentage	World Bank WDI
TOT	Term of trade adjustment data in constant local currency	World Bank WDI

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Table 1 provides an overview of the variables used in the study, their indicators, and the data sources. The dependent variable, financial deepening (M2GDP), is represented by the annual growth of broad money as a percentage of GDP, sourced from the World Bank World Development Indicators (WDI). Independent variables include measures such as domestic credit to the private sector (DCRPGDP), gross domestic savings (GDSGDP), consumption of fixed capital (CONFC), exchange rate (EXR), population growth (POPG), and term of trade adjustment (TOT), all obtained from the World Bank WDI. The study employs a dynamic heterogeneous setup, following the approach by Lee and Wang (2015), ensuring unbiased data interpretation across different states and variable integration levels. The analysis progresses through various estimators, including mean group (MG), robust mean and standard error estimates, and pooled mean group (PMG) estimation, highlighting constant long-run coefficients and varying short-run coefficients. The study concludes with a pooled group estimator (PGE), assuming equal long-run coefficients for all countries. The modeling efficiency is validated using augmented Dickey Fuller (ADF) and Fisher tests, rejecting the null hypothesis of unit roots and non-stationarity in individual variables' time series.

Analyses and Interpretations

Descriptive Statistics

Table 2: Descriptive Statistics

Variable	Observation	Mean	Standard Deviation	Minimum	Maximum
M2	343	17.582	8.797	-0.182	49.983
CONFC	329	7.198	2.311	2.018	13.310
DCRPGDP	337	22.451	14.147	2.577	61.896
GDSGDP	283	14.423	11.370	-33.764	39.147
EXR	358	65.00	115.099	4.734	490.579
POPG	392	2.123	1.097	-2.216	5.900
TOT	231	-8.04e+09	2.29e+11	-1.01e+12	5.97e+11

Table 2 presents descriptive statistics for the variables, offering insights into the variability and distribution of data. The standard deviation values play a crucial role in indicating the extent of variations in both dependent and independent variables. For the variable M2, representing broad money and based on 343 observations, the mean is 17.582, with a wide range between the minimum (-0.182) and maximum (49.983), highlighting significant disparities in broad money proportions across South Asian developing countries. Variable CONFC, with 329 observations, exhibits a mean of 7.198 and a standard deviation of 2.311, indicating substantial variability. The minimum value is 2.018, while the maximum is notably high at 13.310. DCRPGDP, observed 337 times, has a mean of 22.451, a standard deviation of 14.147, and ranges from a low minimum (2.577) to a considerable maximum (61.896). GDSGDP, with 283 observations, shows a mean of 14.423, a standard deviation of 11.370, and a wide range between the negative minimum (-33.764) and the positive maximum (39.147). EXR, based on 358 observations, has a mean of 65.000, a standard deviation of 115.099, and a substantial range from the minimum (4.734) to the maximum (490.579). POPG, with a complete count of 392, exhibits a mean of 2.123, a standard deviation of 1.097, and a range from a decline of -2.216 to an increase of 5.900 in population growth percentages. Terms of trade (TOT), recorded in absolute values with 231 observations, has a mean of -8.04e+09, a standard deviation of 2.29e+11, and extreme values ranging from a negative 1.01e+12 to a positive 5.97e+11 in local currency. These statistics provide a comprehensive understanding of the distribution and variability of the variables in the study.

Correlation Analysis

Table 3 Correlation Analysis

	M2	CONFC	DCRPGDP	GDSGDP	EXR	POPG	TOT
M2	1.000						
CONFC	-0.014	1.000					
DCRPGDP	0.002	0.249	1.000				
GDSGDP	-0.003	0.332	0.377	1.000			
EXR	-0.005	-0.224	0.487	0.239	1.000		
POPG	-0.052	0.299	-0.485	-0.334	-0.696	1.000	
TOT	-0.064	0.140	-0.183	-0.188	-0.143	-0.143	1.00

Table 3 displays the correlation analysis among the variables. The coefficients indicate the absence of linear dependency between the regressors, addressing the multicollinearity issue in the dataset (Perhiar, Zheng, et al., 2020; Zheng et al., 2019). The correlation matrix, computed using Pearson's method, demonstrates no correlation exceeding 0.80 for the entire sample, signifying a lack of strong linear relationships. Notably, variables EXR and POPG exhibit the highest negative correlation, approximately 70%, indicating no multicollinearity concerns in the overall dataset (Barako & Tower, 2006; Gujarati, 2003). CONFC is negatively correlated with M2 at 1.4%. DCRPGDP shows a positive correlation with both M2 (0.25%) and CONFC (approximately 25%). GDSGDP is negatively correlated with M2 (0.36%), CONFC (33%), and DCRPGDP (37%).

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EXR displays a negative correlation with M2 (0.56%) and CONFC (22%), along with positive correlations with DCRPGDP (0.49%) and 0.24% for each variable. POPG exhibits a positive correlation solely with CONFC (30%), while the remaining variables demonstrate negative correlations: M2 (5%), DCRPGDP (49%), and GDSGDP (33%). TOT, the last variable, shows positive correlation exclusively with CONFC (14%), while all other variables display negative correlations, with values of 6.45% for M2, approximately 18% for both DCRPGDP and GDSGDP, and 14% for TOT with EXR and POPG. These correlation coefficients provide insights into the relationships between the variables in the study.

Unit Root Test

Table 4: Unit Root Test for the variable

Variables	t-df	P-value	lag	Variables	t-df	P-value	lag
M2	-7.307	0.000	1	-	-	-	-
CONFC	1.703	0.955	1	D.CONFC	-9.8596	0.000	1
DCRPGDP	2.484	0.993	1	D.DCRPGDP	-7.7323	0.000	1
GDSGDP	-0.019	0.492	1	D.GDSGDP	-10.0910	0.000	1
EXR	6.6641	1.000	1	D.EXR	-8.2783	0.000	1
POPG	-4.269	0.000	1	-	-	-	-
TOT	0.064	0.525	1	D.TOT	-5.8759	0.000	1

Table 4 presents the results of the unit root test, providing insights into the integration properties of the variables. The Im-Pesaran-Shin unit-root test, conducted with one lag and constant, reveals that none of the variables exhibit integration at either the 1st or 2nd generation. The examination of variable properties using the augmented Dickey-Fuller (ADF) equation considers the first difference (ΔXt), time trend (t), and a stationary random error (εt). The null hypothesis, indicating a unit root issue ($\beta 1=0$), is rejected when $\beta 1$ is negative and statistically significant. Notably, M2 and POPG are stationary at lag (1), indicating no unit root issue. However, the remaining five variables—CONFC, DCRGDP, GDSGDP, EXR, and TOT—display unit root problems and become stationary at the first difference with a lag of one. These findings provide valuable information about the stationarity characteristics of the variables in the study.

$$\Delta X_t=\Phi_0+\beta_t X_{t-1}+\Sigma^{n}_{t-1}\,\theta_i\,\Delta X_{t-1}+\varepsilon_t \quad \text{..... (V)}$$

Pooled Mean Group Regression

Table 5: Pooled Mean Group Regression	
	(1)
	D.M2GDP
ECT	
CONFC	-0.677**
	(-2.83)
DCRPGDP	-0.0378**
	(-2.79)
GDSGDP	0.0338
	(0.99)
EXR	-0.0197
	(-1.26)
POPG	2.759***
	(5.46)
TOT	-1.57e-12
	(-0.79)
SR	
ECT	-1.292***
	(-5.46)
D.CONFC	-2.969
	(-1.07)
D.DCRPGDP	0.521*
	(2.49)
D.GDSGDP	0.221
	(2.03)
D.EXR	0.261
	(1.07)
D.POPG	-34.55
	(-1.32)
D.TOT	-6.96e-08
	(-1.00)
_cons	5.481
	(1.45)
N	193

t statistics in parentheses
* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

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Table 5 displays the outcomes of the Pooled Mean Group (PMG) regression, a model introduced by Pesaran and Smith (1995), Pesaran and Timmermann (1995), Pesaran, Shin, and Smith (1997), and Pesaran, Shin, and Smith (1999). The PMG estimator is utilized to assess the statistical significance of long-run coefficients, sizes of group-specific error adjustments, and short-run coefficients, pooling and averaging the data sample. This estimator captures intercepts, short-run coefficients, and error variance that differ across various groups present in the panel data. Homogeneous coefficients for long-run estimation in PMG offer dependable estimations of the mean of short-run coefficients through a simple average of unit coefficients.

In the long run, the findings reveal that CONFC has a significantly negative effect on M2GDP at the 1% level with a value of 0.677, DCRPGDP has a negative and significant effect at 1% with a value of 0.0378, while GDSGDP exhibits a positively insignificant impact at 0.0338. EXR is negatively insignificant at 0.0197, POPG shows a significant positive effect at 0.1% with a value of 2.759, and TOT has an insignificant and negative impact at -1.57e-12. In the short run, coefficients and error variance assumptions differ across the countries in the panel.

The Error Correction Term (ECT) indicates the presence of cointegration among the variables of the panel. At the 0.1% level, there is long-run cointegration, with any equilibrium deviation in the long run corrected at a speed of 129%. The negative error correction term falls between 0 and -2. Notably, D.CONFC has a negatively insignificant correlation with M2GDP at a value of 2.969, while D.DCRPGDP has a significant and positive impact at the 5% level with a value of 0.521. D.GDSGDP shows a positive and insignificant relation at a value of 0.221, and D.EXR exhibits a positive but insignificant correlation at 0.261. D.POPG is negatively insignificant to M2GDP at a value of 34.55. The remaining variables, including D.CONFC, D.GDSGDP, and D.TOT, display varying degrees of correlation with M2GDP, with significance levels and directions as indicated in the results. The findings reveal the nuanced relationships between the variables, contributing valuable insights for the study.

The PMG was proposed by Pesaran and Smith (1995), Pesaran and Timmermann (1995), Pesaran, M. H., Shin, Y., & Smith (1997), and Pesaran, M. H., Shin, Y., & Smith (1999). The model estimates the statistical significance of long-run coefficients, the size of group-specific error adjustment, and short-run coefficients, pooling and averaging the data sample. The PMG estimator aids in the intercepts of short-run error variance and coefficients. The estimator facilitates intercepts, short-run coefficients, and error variance that differ among the groups. Homogeneous coefficients for long-run estimation in PMG provide reliable estimations of the mean of short-run coefficients with a simple average of unit coefficients. Constituency and efficiency are attained by PMG estimation for the long-run slope. The first half of the table represents the output of the long-run relationship of coefficients, and variables are the same throughout the group present in the panel data. In the long run, CONFC has a significantly negative effect on M2GDP at the 1% level with a value of 0.677 (Muhammad & Hye, 2009). DCRPGDP has a negative and significant effect with a value of 0.0378 for the 1% level with M2 (Prakash & Poudel, 2015). GDSGDP has a positively insignificant impact on M2GDP at a value of 0.0338 (Khan & Khan, 2017). EXR is negatively insignificant to M2GDP at 0.0197. POPG is positively significant at a value of 2.759 at the 0.1% value to M2GDP (Roussel et al., 2021). TOT has an insignificant and negative impact at a value of 1.57e-12 with M2GDP. The second part of the table shows the short-run coefficient. One of the assumptions is that the short-run coefficient and error variance are not the same for every country constituent of the panel.

The ECT shows that cointegration is present among the variables of the panel. At the 0.1% level, there is long run cointegration, with any equilibrium deviation in the long run corrected at a 129% adjustment speed. The error correction term is negative and is between 0 to -2. D.CONFC has a negatively insignificant correlation with M2GDP at a value of 2.969. D.DCRPGDP has a significant and positive impact on M2GDP at the 5% level with a value of 0.521 (Prakash & Poudel, 2015). D.GDSGDP has a positive insignificant relation with M2GDP at a value of 0.221. D.EXR has a positive but insignificant correlation with M2 at 0.261 values. Also, D. POPG is negatively insignificant to M2GDP at a value of 34.55. While the remaining variables, as D.CONFC, are positive but insignificant to M2 at 1.958, D.GDSGDP is insignificant and has a negative relation with a value of 0.252 to variable M2. D.TOTi is negative and insignificant to M2GDP at a value of 6.96e-08.

Estimation according to the panel ARDL (Ullah et al., 2020) runs to estimate the long-run relationship between income inequality and economic growth in the SAARC bloc. As the capital worth in the form of stocks increases

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Conclusion

This study investigates the intricate relationship between financial development, poverty reduction, and savings mobilization within the SAARC economic bloc. Rooted in the theory that financial sector progress stimulates savings mobilization and poverty alleviation, the analysis spans from 1969 to 2020 to establish causal connections among the variables and extract meaningful insights into financial development, savings, and mobilization. The rise in stock prices captures stakeholders' attention, prompting a shift from saving money to investing in stocks—an influential factor in shaping monetary policy. The dominance of the substitution effect in such scenarios leads to a tightening of monetary policy.

Financial development, as observed, contributes to poverty reduction. However, financial institutions in the SAARC economic bloc face challenges in channeling savings to the pro-poor sectors of the country. Issues such as government deficit financing, lack of collateral, high default risk, and the absence of compelling business proposals hinder the flow of funds to these crucial sectors. The study underscores critical policy issues within SAARC. Firstly, addressing the interest rate margins between borrowing and lending rates is essential to boost domestic savings in the region. Central banks and financial intermediaries must collaborate to ensure that savings account holders receive a real interest rate.

Moreover, the research points out that government reliance on treasury bill sales exacerbates the problem of financial institutions struggling to mobilize savings and lend to private investors, intensifying poverty concerns. The study recommends reducing or providing concessions on taxes in the financial sector to encourage investment in pro-poor entities, such as the agriculture sector. Lastly, the widening interest rate margin between creditors and lenders in the private sector contributes to a higher incidence of loan defaults. To mitigate this, the research suggests that reducing dependence on services offered by creditors, insurance companies, and reference agencies can decrease the rate of default.

Furthermore, maintaining creditworthiness is crucial to minimizing credit risk, particularly for entrepreneurs with lower creditworthiness. Insurance firms can play a pivotal role in covering loans extended to the private sector, thus offering a safety net. The study highlights the need for further exploration of finance mobilization methods within the SAARC region and emphasizes steps to enhance the exploration of credit services.

Recommendations

Strengthen Collaboration in the Financial Sector

Encourage closer collaboration between central banks and financial intermediaries to ensure the effective implementation of policies. This partnership should focus on aligning interest rates to promote domestic savings and encourage investment in sectors that benefit the poor.

Diversify Strategies for Mobilizing Savings

Financial institutions within the SAARC economic bloc should diversify their approaches to mobilizing savings. Exploring innovative strategies and financial instruments can help channel funds towards pro-poor sectors, overcoming challenges such as high default risk and the absence of collateral.

Revise Policies on Treasury Bill Sales

Governments should reassess their reliance on treasury bill sales for deficit financing. Policy revisions should aim to reduce dependence on this approach, allowing financial institutions to concentrate on mobilizing savings and directing investments to private sectors, ultimately aiding in poverty reduction.

Provide Tax Concessions for Pro-Poor Investments

Governments ought to think about providing tax breaks to the financial industry in order to promote investments in entities that support the poor, particularly in industries like agriculture. This has the potential to boost economic expansion and considerably lower poverty.

Strengthen Creditworthiness Monitoring

Financial institutions ought to put in place reliable systems for tracking creditworthiness. This entails lessening reliance on outside services and improving internal processes to assess and uphold borrowers' creditworthiness, hence lowering the chance of defaults.

Promote Insurance Coverage

To create and promote insurance coverage for loans made to the private sector, financial institutions should be encouraged to work with insurance companies. This can act as a safety net for borrowers and lenders alike, guarding against defaults.

Explore Alternative Finance Mobilization Methods

Undertake additional investigation to ascertain substitute techniques for financing mobilization in the SAARC area. This could entail researching effective models in other areas and customizing them to fit the distinct economic circumstances of the SAARC nations.

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Limitations of the Research

The research has certain limitations that should be considered in interpreting its findings. Firstly, the temporal scope is confined to the period from 1969 to 2020, suggesting that more recent developments may not be fully captured. Efforts in future studies should aim to extend the timeline for a more comprehensive analysis. Additionally, the study acknowledges potential constraints related to the quality and availability of data. Enhancements in data collection mechanisms and exploration of new sources are recommended to ensure accuracy and comprehensiveness. It's crucial to note that the findings are context-specific to the SAARC economic bloc, and caution should be exercised when generalizing them to other global contexts. External economic factors, not extensively explored in this study, are recognized as influential, warranting further research for a deeper understanding. The complexity of financial systems, challenges in policy implementation, the dynamic nature of financial markets, socio-political contexts, and causal inference complexities are among the recognized limitations. Furthermore, the research doesn't explicitly consider the potential impact of external shocks on financial systems, suggesting a need for future studies to incorporate scenario analyses for a more robust assessment of system resilience to unforeseen events.

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