2017 African Caucus

"Economic Transformation and Job Creation: A Focus on Agriculture"

Financing for Agriculture—Bolstering Financial Deepening and Inclusion

CONCEPT NOTE

Background

Fostering financial deepening and inclusion is critical to help unleash opportunities for private investments with a view towards the fortification of the value chain in the agro-processing sector.

Most of the two billion people worldwide who currently lack access to basic financial services are African. Some African countries have made great strides in recent years extending access to financial services notably by increasing the share of the population with a bank account. Also, in a few countries, mobile banking is complementing, or even exceeding traditional banking services. Technological advances such as mobile banking have tangibly contributed to increased access to financial services, particularly by lowering costs and extending services into areas where banks may not have branches. Nonetheless, there remains significant room for improvement. Only one in three adults in Sub-Saharan Africa has access to banking services, and too many small businesses have no recourse to loans. The continent's efforts to achieve development is weighted down by financial exclusion and its people are missing much of the benefits of financial inclusion.

Benefits of Financial Development and Inclusion

Financial inclusion is closely intertwined with the process of financial sector development. The propagation of financial products (savings, payment processing, credit, and insurance) can fuel investments, create jobs and stimulate growth. The rapid expansion of the middle classes in emerging markets and developing countries over the past two decades has been accompanied by a proliferation of financial services and a deepening of financial markets.

Extending access to financial services in rural areas is known to lead to more affordable products: financial intermediaries mobilize additional savings and make credit more readily available to households and businesses, the populations build savings to smooth out consumption and invest in the future including through more purchases in education and health services. It also enables businesses to borrow, invest, expand, create jobs and reduce poverty including by bringing labor and companies into the mainstream economy from the informal sector. Increased financial services can also increase government revenues. Fostering financial development and inclusion is an opportune channel to sustain or reinvigorate growth, particularly in the current global environment. Recent IMF research finds that greater financial inclusion can yield a 2 to 3- percentage point gain in economic growth.

There are many success stories of financial inclusion across the globe. In Asia, countries like China, India and Indonesia are pursuing paths that have rapidly brought millions into the financial mainstream. In Latin America, Brazil and Chile are considered best practices in household inclusion through social transfers to poor households via the financial system. On the continent, the achievements of Kenya and Tanzania in advancing mobile banking can provide a useful model for other countries.

Challenges of Financial Deepening

Deepening financial inclusion is often associated with concerns about financial sector stability with the fear that it may increase creditors' risk of extending credit to unproductive projects or unfit borrowers as well as expose ill-informed borrowers to higher risks of debt distress. However, greater financial access need not lead to instability if safeguarded by adequate regulation and supervision. Training for agriculture entrepreneurs in business planning, record-keeping, budgeting and management may also contribute to maximize the odds of perennial businesses.

Central banks inevitably play a crucial role in creating the enabling environment for financial access while safeguarding financial stability and preventing other disturbing risks. Governments have a responsibility to adopt laws and regulations that encourage both financial sector development and inclusion. A key issue in several African Countries is also the adoption of laws that allow entry into the industry for institutions offering Sharia-compliant financial products.

Expectations

- The high-level seminar on "Financing for Agriculture—Bolstering Financial Deepening and Inclusion" is an opportunity to hear first-hand information about the successes in financial inclusion of some sub-Saharan African countries through financial deepening and mobile banking. Lessons about financial inclusion and job creation from other parts of the world is also to be discussed including ways to channel social transfers through the financial system, and schemes to allow farmers access funds to develop and expand businesses. Other relevant questions expected to be discussed include the following: How new digital platforms help spread financial inclusion? What technology should be developed in the financial services to reduce transaction costs while being accessible to the largest population, including illiterate customers?

- Discussants will also help understand how the private sector can tap demand for financial services and examine successful business models in the agriculture sector.

- The seminar will also discuss how regulatory and supervisory frameworks can best support and promote financial inclusion in a manner that is consistent with preserving financial stability. Participants will, among other issues, discuss existing optimal frameworks as well as the recent initiatives of the G20 and the Basel Committee on Banking Supervision to guide regulation and supervision of institutions relevant for financial inclusion. In particular, specific regulations required by technological innovations like mobile banking. and regulations for institutions offering Sharia-compliant financial products will be discussed. The objective is to offer practical information on the roles that central banks, supervisors and other government agencies should play in preserving financial stability while promoting financial sector development and inclusion and enabling a level playing field for competition. Potential challenges encountered by regulators and supervisors, including data and information gaps, would also be highlighted.