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Improving Rural and Agricultural Financial Inclusion: *The Contributions of AFRACA*

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Executive Summary

1. The imperative need to deepen the level of funding to the rural & agricultural sectors and a key objective of Afraca is premised on the crucial role that agriculture plays in the development of any nation.

2. Agriculture occupies a top position in the national economies as the sector serves as the key driver of growth, wealth/job creation, food security and poverty reduction.

3. It is the leading economic activity in Sub-Saharan Africa as it contributes 30–50 percent of GDP and employs over 70 percent of the population.

4. Agriculture presents both a vital development pathway for Africa, and a commercial opportunity for pioneering financial institutions.

5. According to the African Development Bank (Strategy 2010), when agriculture stimulates growth in Africa, the growth is twice as effective in reducing poverty as growth based in other sectors.

6. Increased agricultural growth, particularly in the smallholder sector, can enhance rural incomes and food supplies and stimulate broad-based economic growth through linkages with the non-agricultural sector. Sadly performance has not risen in line with the potential. Agricultural GDP per farmer has risen by less than one percent in Africa over the last two decades (African Development Bank Group 2010).

7. Access to financial services for all types of producers and agribusinesses is seen as key to unlocking Africa's agricultural growth potential.

8. However, investment in agriculture has been low, with only one percent of commercial lending in Africa going to agriculture in 2010 (World Bank, 2011).

9. Reasons for the lack of access to finance in rural areas and in the agricultural value chains are numerous and include; policy related constraints, political-will, weak private sector participation, primary production, post harvest technology, slow and uneven entry of financial institutions to provide financial services to agricultural and rural activities, whose operations and risk profile is frequently not fully understood.

Despite these difficulties, formal rural and agricultural finance has been making advances in the continent, with innovative financial services and improved risk management tools on both the client and institution sides. The most promising approaches include flexible/demand driven credit products, value-chain finance, mobile/agent banking, insurance products, promotion of financial literacy and the use of new technologies.

Understanding how best to support financial inclusion is an imperative for government's non-governmental organizations and development practitioners worldwide.