2016 AFRICAN RURAL AND AGRICULTURAL CREDIT ASSOCIATION (AFRACA) INTERNATIONAL EXPOSURE VISIT TO KENYA ON MOBILE AND AGENCY BANKING

Opening Remarks by Dr. Patrick Njoroge
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As Prepared for Delivery

Good Morning!
It is my pleasure to officially open this knowledge exchange programme on Mobile Banking and Agency Banking in Kenya. Let me extend a warm welcome to you all to Kenya and in particular to the Kenya School of Monetary Studies (KSMS).

At the outset, I would like to commend AFRACA for its continued efforts towards improving the agricultural and rural financing environment in Africa. Forums such as these allow AFRACA members not only to learn from each other's experiences but also to challenge each other on possible policy solutions to increase agricultural and rural financing.

As you are aware, financial inclusion has recently assumed a central place in complementing financial regulators' mandates. In this regard, AFRACA's vision of *achieving a rural Africa where people have access to sustainable financial services for economic development* is very relevant to the financial inclusion objectives of AFRACA's members, and more generally, achieving the global goal of universal financial access by 2020.

The task before you is immense but will be rewarding. Four-fifths of the world's poor live in rural areas. In Africa, over 600 million people live in rural areas, and more than 70 percent of the continent's poor depend on agriculture for food and livelihood. Despite the high poverty levels in the continent, it is noteworthy that Africa has nearly half of the world's unused agricultural land. Even with this massive unrealized potential, agriculture and agribusiness still fuel the livelihoods of 70 percent of the population of Africa and contribute over 40 percent of the continent's GDP.

However, it is surprising that only about 10 percent of Africa's commercial bank lending goes to agriculture and agro-industries. More surprisingly, less than 5 percent, on average, of national budgets are allocated to the agricultural sector, a fraction of which makes its way into rural communities. It is also estimated that agricultural output in Africa could more than triple from USD280 billion to USD880 billion by 2030 if farmers were able to access the finance they need to expand both the quality and quantity of their produce.

Concerted efforts to agricultural and rural development must play a central role in fighting poverty. To this end, a multifaceted approach must be employed to capture the synergies between technologies (seeds, fertilizer, livestock breeds), institutional services (financial services and extension), human capital development (education, health), and infrastructure development (markets). In this regard, the provision of, and access to, financial services and products plays a critical role in expanding the income earning opportunities for rural populaces in order to promote development.

It is evident that Africa's rural populations are largely facing financial exclusion, a phenomenon that limits their ability to increase their own wealth and to contribute to the growth of the African agricultural sector as a whole. It is also clear that financial inclusion for rural areas and agriculture is critical to achieving sustainable and inclusive growth in Africa. In this regard, addressing the funding gap for rural areas and agriculture in Africa requires us to overcome barriers faced by traditional financial models such as affordability, availability, and accessibility which will tremendously reduce the rate of financial exclusion. That is why innovative channels for development like mobile financial services (MFS) and agency banking are important to us.

The potential of mobile phone technology to bridge the financial access barriers of distance and cost seems unparalleled in Africa. Africa over the last few years experienced the highest mobile phone penetration rates—with an average penetration rate of 76 percent in 2012. Mobile phones have gained widespread use, providing an effective and convenient communication channel. The rapid adoption of this technology has made Africa the second largest mobile phone market in the world and the rapid growth is expected to continue.

In Kenya, financial inclusion is entrenched in our development blueprint, Vision 2030, and is enshrined in the mandate of the Central Bank of Kenya (CBK). In fact the CBK has played a critical role in propelling financial inclusion through mobile phone financial services. Specifically, CBK supported the rollout of innovative products driven by mobile phone technological platforms using a test-and-learn approach that allowed innovations to take place while ensuring that **the necessary safeguards** are in place to mitigate the potential risks. This approach has allowed CBK to engage with both financial service providers and telecommunication providers as they seek to introduce in the market innovative solutions or products. This approach has yielded the following achievements:

a) **Increase in mobile phone participants in the financial system.** Mobile financial services has propelled the low-income and rural segments of the population who had limited formal financial services access into the formal financial system. The fraction of population that is financially excluded has declined from 38 percent in 2006 to 25 percent in 2013. More significantly, 2 in 3 Kenyans have access to formal financial services.

b) **Introduction of Agency Banking by both commercial banks and microfinance banks**. Agency banking was introduced with the aim of increasing the level of formal financial inclusion in un-served and underserved areas. This has led to over 36,000 approved bank agents facilitating over 221.6 million transactions valued at over USD11.7 billion as at December 2015, mainly leveraging on mobile phone technology.

c) **Evolution of the mobile phone money transfer system to include other services.** This includes: bill payments, savings/deposit mobilization, and credit application, all operated on the same platform with lower costs to the public.

d) **Adoption of mobile phone technology by other sub-sectors**. The attractive possibility of providing customers with more efficient services in a convenient manner has lead other financial institutions (e.g., pensions, insurance, and the capital markets) to adopt this technology. It is also clear that the information base relating to mobile phones would be of keen interest to credit reference bureaus and, the credit market more generally.

Finally, it is important to note that the development of the financial sector and, particularly the enhancement of financial inclusion, cannot be realized without collaborative efforts of both public and private sector players. AFRACA, has, and continues to play a crucial role in providing international events such as this one bringing together public and private sector players to catalyse interactions on how to leverage the successes and identify the pitfalls.

Having seen the diversity of activities in the agenda of your visit, I note that you will not only gain extensive knowledge on how Kenya has utilized both Mobile Financial Services and Agency Banking to enhance financial inclusion, but you will also be able to get first-hand experience, from your field visits, on how Kenya is promoting rural and agricultural finance. It is my expectation that this programme shall provide participants with key lessons on how to achieve a rural Africa where people have access to affordable financial services for economic development and thereby allow them to escape poverty.

Ladies and Gentlemen, it is now my pleasure and honour to declare the 2016 AFRACA Technical Cooperation among Countries Programme on Mobile Banking and Agency Banking officially open. I wish you all fruitful deliberations.

Thank you.