Mr. Leonce Kone, AFRACA Chairman;
Prof. Benno Ndulu, Governor of BoT;
Ms. Mary Nandazi, AFRACA Secretary General;
Mr. Edmund Mkwawa, Managing Director of Dar es Salaam Community Bank;
Distinguished Guests;
Ladies and Gentlemen.

I most sincerely thank the Organizers for the opportunity to officiate the 16th African Rural and Agricultural Credit Association (AFRACA) General Assembly. For me, this is a great honour to give opening remarks to a meeting that is addressing one of the most critical issues that the world is currently concerned with. Speaking of rural and agricultural issues, what immediately comes into mind is the lives of more than 75 percent of the African Population.

At the outset, let me take this opportunity to welcome you all to Tanzania and to our Commercial City of Dar-es-Salaam. I wish to extend a special welcome to all our Guests and Participants from outside the Country. I hope your stay here will be enjoyable. To make your visit memorable, I encourage you to visit some of our Tourist sites such as Zanzibar and Bagamoyo in one of these days that you will be in Tanzania.

Mr. Chairman,

Let me at the beginning underscore that poverty in Africa is predominantly rural. On the one hand, statistics indicate that more than 70 per cent of the poor people in Africa live in rural areas
and depend on agriculture for food and livelihood. In Sub-Saharan Africa, more than 218 million people live in extreme poverty and are engaged in rural agricultural activities.

On the other hand, African Countries’ budget and External Development Assistance to Agricultural Sector has constantly been decreasing. The decline in aid and public expenditure in Agriculture is seen by many as a paradoxical neglect of a Sector central to economic growth, sustainable development and poverty eradication. It is irrefutable that Agriculture in many Developing Countries, especially, Sub-Saharan Africa is still a key to development. It is however disturbing, despite the fact that Agriculture is the heart of livelihood in many African Countries, Aid to this Sector has stagnated or declined since the early 1980s. The Organisation for Economic Co-operation and Development (OECD) Statistics indicate that Official Development Assistance (ODA) to the Sector decreased in real terms by nearly half between 1980 and 2005, despite an increase of 250 percent in total ODA commitments over the same period. The share of ODA to Agriculture fell from about 17 percent in the early 1980s to as low as 3 percent in 2005. Thus, financing Agriculture is a quagmire. I am of the view that the major challenges confronting the African Continent today are directly related to the underdevelopment of the Rural and Agricultural Sectors. These are challenges that have gathered us here today. In spite of these challenges, I get consolation when I see a diverse range of Participants from outside and within Tanzania who are going to share experiences and lesson learnt on innovations in addressing Rural Finance challenges in Africa. This is a challenge we must all face with irrevocable determination. A determination to win and to win is to develop Agriculture by establishing predictable mechanisms for financing this Sector.

Mr. Chairman,

The AFRACA Secretariat deserves to be congratulated for the timely organisation of this Meeting. We are meeting at the time when the whole World is passing a testing moment of financial crisis coupled with escalating food and fuel prices and scarcity.

Mr. Chairman,

Rural areas in all of our Countries are immersed in a process of structural changes. Rural Finance in particular, which encompasses Agricultural financing, has been recognized as an important element and a catalyst for Rural Development. However, Agriculture is increasingly losing its deserved attention in many of our Developing Countries despite being the leading Economic Sector, in terms of exports, domestic consumption, industrial inputs and the major employer in the rural economy. As we all know, Financial Services are important to all rural groups regardless of their variant economic activities. We all know that, access to financial services assists households to build a culture of savings, maintaining food security and smoothening consumption pattern, safeguarding and enhancing labour productivity, improve product and financial markets operations; and thus accelerate Rural Development.

It is my belief that, this Assembly will provide an opportunity for Policy Makers; Private Sector Business and Community Development Partners to network with their peers, make new
connections, discuss their experiences, exchange best practices, innovations and the challenges faced in providing financial services to Rural Population in our Countries.

**Innovations and Rural Financing**

**Mr. Chairman,**

Innovations in addressing Rural Finance challenges in Africa is a complex issue which require the right mix of policies, strategies, technology, institutional arrangements, products design, systems development as well as innovative incentives from Donor Community. However, the main challenge is to foster these innovations in Rural Areas in order to make Financial Service more accessible to poor members of the society, particularly in the Rural Areas.

In light of this, the emergence of innovations in Microfinance Markets has created the possibility of reaching poor households that have not yet benefited from Microfinance Programs before. Innovative products and services could thus increase overall impact of microfinance on poverty reduction. But, the challenge to the Microfinance Institutions is to find ways to increase access to Financial Services to significant number of poor and Micro-entrepreneurs without destabilizing fragile financial markets or compromising the development of viable Financial Institutions. Policy Makers and Governments should, therefore, provide an appropriate policy and regulatory frameworks for Microfinance Institutions and ensure proper functioning and competitive markets, which is the essence of emerging innovations in our continent.

**Mr. Chairman,**

Apart from innovations being important means to address Rural Finance challenges, still the existing structural problems remain to be a bottleneck within which innovations should emerge and be developed. These include:

i. A lower spatial population density, compared to urban areas, and therefore higher transaction costs;
   ii. Informal credit markets continues to be gap filing in providing financial services to small scale borrowers;

   iii. Agriculture still remains to be the main economic activities in our Countries with low productivity due to low level of technology, high risks of seasonality due to weather variants and market fluctuations etc;

   iv. Lower level of human capital in terms of appropriate technology to design financial products and services that meet the needs of rural economy, in this case agriculture;
v. Poor physical and financial infrastructure and long distances from markets, limit economic opportunities of the Rural Population; and

vi. Low financial literacy that impedes integration of financial system into economic activities.

Rural Financing
Mr. Chairman,

Development of Rural Finance also depends on various factors that cut across different Sectors. This can be seen from different Policies and Strategies of these Sectors. To address these challenges, for example in the case of Tanzania, the Government formulated the Agricultural Sector Development Strategy (2001) and the Rural Development Policy (2003) as an integral part of the overall Policy Framework for Rural Finance. The Rural Development Policy sees the need to diversify the structure of the economy with a view to reduce dependence on Agriculture. Other Policies and Strategies relevant to Rural Financial Services include; National Microfinance Policy (2000), which covers the provision of Financial Services to households, small-scale farmers and micro enterprises in Urban and Rural Areas. Small and Medium Enterprises Policy (2002), Agriculture Sector Development Programme (2005) and Co-operative Development Policy (2002), repositioned the Government’s commitment to support Co-operatives by creating a conducive environment for their development as competitive entities. Others include Co-operative Reform and Modernization Programme (2005), National Livestock Policy (2006) and National Economic Empowerment Policy (2004). Efforts are underway to implement the Tanzania Rural Financial Services Strategy (2008) which considers innovations to be critical in enhancing provision of broader and deeper Financial Services in the Rural Areas.

Innovations in Financial Services
Mr. Chairman,

Having in mind that this Assembly is discussing challenges faced by our Countries in Rural Financing, experiences in our Countries have shown that access to sustainable Financial Services has proved to be a catalyst for improving poor peoples’ income and their living standard. Therefore, innovations can create additional value to peoples’ life if can reduce households’ and enterprises’ transaction costs to accessing Financial Services. It is unfortunate that so far, many Financial Institutions have limited their services to urban and peri-urban areas due to lack of Financial Services and products that could suit the needs of the Rural Population.

Mr. Chairman,

Introduction of innovations is a hard work. It requires careful research, intimate knowledge about current conditions, competitive alternative and client’s preference. Pre-condition for successful introduction of innovations is institutional commitment based on clearly defined expectations about the expected gains, costs and outreach. I know innovations are costly. Innovations take time and sometimes do fail. But I believe experience sharing though this Assembly will give every one of us lessons and options to ensure that innovations become a success tool to address the challenges of rural finance.
Mr. Chairman,

Rural people still need a wide range of Financial Services such as credit, savings, cash transfers and insurance. They look upon Local Financial Institutions, Policy Makers, Governments, Development Partners and Service Providers to play their roles in ensuring that Financial Services are accessible and affordable to the Rural Population. Therefore, the 16th AFRACA General Assembly has become a challenge to all of us in terms of responding to rural peoples’ expectations. The most important question to ask ourselves is that what type of innovations, policies and strategies can lead us to achieve this objective? Generally, I think properly designed innovations; well-defined strategies; policies; and good infrastructure, among others, would increase access to Financial Services in the Rural Areas, and therefore, accelerate rural development in our Countries. I here wish to call to your attention to two key areas in our Countries that are demanding innovations, namely Agricultural Finance and Micro – Housing Finance.

Agricultural Financing
Mr. Chairman,

In the case of Agricultural Finance we should ask ourselves what Microfinance could offer in the Rural Areas to fill the gap that Commercial Mainstream Banks fail to deliver. African Agriculture, which employs as high as 80 percent of population across African Countries, suffers from low productivity, low mechanization, poor agro-processing for value addition and irrigated land.

For example, Tanzania with a potential of 29.4 Million Hactres for Irrigation Farming, only about 290,000 Hactres is under Irrigation which is barely 1 percent of the fertile land capable of being irrigated. This clearly underscores the importance of Finance Facilities for Agricultural Development. While urban based Banks perceive such investment as risky, costly to supervise as they are widely dispersed in Rural Areas, the Sector suffers from vagaries of weather. Some innovations could be adopted for more localized Microfinance Institutions such as Savings and Credit Co-operatives (SACCOs) and possibly also with the provision of partial guarantees. The role of Microfinance in the Agricultural Sector could focus on assisting Farmers to procure low cost Farming equipments, e.g. power tillers, simple irrigation pumps and Agro-processing equipment to add value to crops, fruits and vegetables. Also the Banks could facilitate the provision of Agricultural inputs such as fertilizers, improved seeds and pesticides. It is my hope that such needs I have mentioned will be covered in concrete and practical terms in your deliberations.

Housing Financing
Mr. Chairman,

Access to Housing Finance in Africa is another daunting challenge. Throughout Africa, incomes are such low that the majority cannot afford to build or buy the descent houses. Researches
indicate that in Sub-Saharan Africa only less than 17 percent of its population, under the current financial systems are eligible for Housing Finance or some form of Mortgage Finance where available. Housing Microfinance has a role to play in funding low cost housing, where the traditional forms of lending have not worked. Innovations to diversify products that are provided by Microfinance Institutions to cover Housing Finance is therefore the type of innovations AFRACA should look into seriously. For economic and social development, a house is the biggest asset all of us here can own. It is generally agreeable that the majority of our population (urban & rural) would like to build descent houses hence the importance of Housing Finance. Experience from Tanzania shows that, the majority of poor Tanzanians need descent houses. This could be similar to many Third World Countries. The demand among the poor are too high while Financial Resources are very limited. In this case, the majority of poor people will continue to live in dilapidated houses if the Country’s Financial Institutions will not revise loan conditions. I hope the Financial Institutions will take the challenge seriously in order to help the poor people of our Countries to have descent houses.

Rural Development

Mr. Chairman,

In order to accelerate Rural Development process in our economies, I think we also need to address key principle areas such as the following:

i. Create a framework for a stable enabling environment, which includes the policy, legal and regulatory issues that will allow innovative financial institutions to develop and operate effectively and efficiently in Rural Areas;

ii. Institution building though exposure to and training in best practices. Banks and Microfinance Institutions need to expand their outreach and develop sustainable operations along with performance based operations;

iii. Encourage innovative of new products such as Lease Finance, Contract Farming, Warehouse Receipts, Mobile Banking, Insurance and downscaling of Commercial Banks. Also improve on systems, procedures and process of delivering Financial Services in order to create additional value and expand the frontiers of financial services to groups previously without access.

Mr. Chairman,

What is encouraging is that, the Rural Population has demonstrated tremendous capacity to use their limited access to financial services to improve their lives. What they need is to be more empowered. This can be done through:

Firstly: Creating stable macroeconomic within which the Financial Sector should be established and grow;

Secondly: Developing sound, innovative, autonomous and responsive financial intermediaries that operate very closely to the target groups, in this case, Rural Population. To increase their
capacity, these Institutions should be able to mobilize savings from their members or be transformed to Microfinance Companies (MFCs) or Financial Co-operatives (FICOS) and mobilize deposits from the public. They should also liaise with external bodies such as Government Agencies, International Agencies and Development Partners to obtain financial and technical assistance. They should also provide other formal products and lending techniques targeted to the poor in the Rural Areas; and generate and manage a set of information system for record keeping, monitoring and evaluation.

Global trade and Financial Systems

Mr. Chairman,

Before concluding my remarks, permit me to quick touch on international conducive environment for rural and agricultural sector to prosper in the Developing Countries. The global environment, strategies and policies have always been, are and will continue to be unfavourable for Developing Countries to be able to use agriculture as its sector of competitive advantage. Developed Countries continue to provide heavy subsidies and other protection policies to their farmers, which erode fair competition at the global market. The global financial and trading systems are discriminatory, unfair and unpredictable for developing countries to accrue its benefits. While Developed Countries are doing this, at the same time they continue to create policies that deter Developing Countries from applying subsidies to their farmers. The World Trade Organisation (WTO) which is supposed to create a fair playing ground for trade among Nations has turned to be a club of the few rich developed countries. The Fourth WTO Ministerial Conference in Doha, Qatar, in 2001, adopted a Ministerial Declaration that provided the mandate for negotiations on a range of issues. The negotiations included many issues but central to developing countries was the issues of agriculture which provides livelihood to more than 80 percent of the total population in developing countries. Paragraph 13 of the Declaration, among other things, unequivocally states that and I quote:

“Building on the work carried out to date and without prejudging the outcome of the negotiations we commit ourselves to comprehensive negotiations aimed at: substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support. We agree that special and differential treatment for developing countries shall be an integral part of all elements of the negotiations and shall be embodied in the schedules of concessions and commitments and as appropriate in the rules and disciplines to be negotiated, so as to be operationally effective and to enable developing countries to effectively take account of their development needs, including food security and rural development”.

Since 2001, there has not been a break through in the negotiation, particularly on agriculture. Several collapses of negotiations on such key issues have been mainly due to the developed countries. This is serious set back to the development of developing countries. It is in this regard, I am of the opinion that the strength of developing countries lies on our numbers. We should continue to stand together to ensure that agriculture remains central in the negotiations of the Doha Development Round.

Mr. Chairman,
Allow me to conclude my Opening Remarks by underscoring the following:

· Microfinance Institution has a major role to accelerate Rural Development process in most African economies especially through supporting Agriculture, Education, Small Scale Industries and Housing Sector;

· Microfinance Institutions has a major role to play and contribute to poverty alleviation and economic growth, not only to Rural Areas, but also to the Nations as a whole;

· Rural areas need innovative strategies and approaches of the 21 Century, which I am confident this august Meeting of AFRACA will deliberate;

· Developing Countries should tirelessly continue to call on the reform of International Financial and Trade Institutions. The establishment of fair, inclusive non-discriminatory and predictable International Financial and Trade systems is key for Developing Countries to realise the potentials of Rural and Agricultural Sector Development; and

· I am looking forward to receiving the deliberations of this Assembly and its recommendations which will be an important input to make us more innovative in developing and implementing policies, strategies and programmes to address the Rural Finance challenges. I, therefore, wish the participants very fruitful deliberations.

**Mr. Chairman, Distinguished Participants, Ladies and Gentlemen,**

I wish again to thank the Organizers for inviting me to officiate the 16th AFRACA General Assembly. May I also express my deep gratitude to AFRACA for supporting our efforts for making finance work for rural Africa.

With these remarks, I now declare the 16th African Rural and Agricultural Credit Association General Assembly officially opened.

**THANK YOU FOR YOUR ATTENTION**

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**Innovations and Rural Financing**

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Rural Financing
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Development of Rural Finance also depends on various factors that cut across different Sectors. This can be seen from different Policies and Strategies of these Sectors. To address these challenges, for example in the case of Tanzania, the Government formulated the Agricultural Sector Development Strategy (2001) and the Rural Development Policy (2003) as an integral part of the overall Policy Framework for Rural Finance. The Rural Development Policy sees the need to diversify the structure of the economy with a view to reduce dependence on Agriculture. Other Policies and Strategies relevant to Rural Financial Services include; National Microfinance Policy (2000), which covers the provision of Financial Services to households, small-scale farmers and micro enterprises in Urban and Rural Areas. Small and Medium Enterprises Policy (2002), Agriculture Sector Development Programme (2005) and Co-operative Development Policy (2002), repositioned the Government’s commitment to support Co-operatives by creating a conducive environment for their development as competitive entities. Others include Co-operative Reform and Modernization Programme (2005), National Livestock Policy (2006) and National Economic Empowerment Policy (2004). Efforts are underway to implement the Tanzania Rural Financial Services Strategy (2008) which considers innovations to be critical in enhancing provision of broader and deeper Financial Services in the Rural Areas.

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**Global trade and Financial Systems**

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“Building on the work carried out to date and without prejudging the outcome of the negotiations we commit ourselves to comprehensive negotiations aimed at: substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support. We agree that special and differential treatment for developing countries shall be an integral part of all elements of the negotiations and shall be embodied in the schedules of concessions and commitments and as appropriate in the rules and disciplines to be negotiated, so as to be operationally effective and to enable developing countries to effectively take account of their development needs, including food security and rural development”.
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· Developing Countries should tirelessly continue to call on the reform of International Financial and Trade Institutions. The establishment of fair, inclusive non-discriminatory and predictable International Financial and Trade systems is key for Developing Countries to realise the potentials of Rural and Agricultural Sector Development; and

· I am looking forward to receiving the deliberations of this Assembly and its recommendations which will be an important input to make us more innovative in developing and implementing policies, strategies and programmes to address the Rural Finance challenges. I, therefore, wish the participants very fruitful deliberations.

Mr. Chairman, Distinguished Participants, Ladies and Gentlemen,

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