RURAL FINANCING FOR ECONOMIC DEVELOPMENT IN AFRICA: CONTEXT AND REALITY

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Abstract: The rural home is the center of extreme poverty in Africa. Thus, increasing access to finance is not only a prerequisite for enhancing economic transformation but provide opportunity for agricultural development and financial inclusion of the poor. Base on the identifies constrained to rural financing, this study recommends that improving financial literacy and creating access to financial resource is crucial for realising the potential of rural farmer in other to contribute effectively to economic development in Africa

JEL classification: B21, D02, D04, R51

Key words: Village bank, financing, rural poor, Africa.

1. INTRODUCTION

In 1960s and 1970s, a multilateral and bilateral donor project in the rural sector was directed to promote agricultural development in the rural area (World Bank, 2003). Although these interventions was effective in the short run but in the long run the donor where unable to continue the effort due to high cost of the project. In 1975 World Conference organized by the United Nation anchored by the Food and Agricultural Organisation (FAO). The organization requested for a rural financial market that will transform the life of the rural Africa where everyone access to sustainable financial services that support economic development along with social and environmental balance is recognised.

In 1977, the Rural and agricultural Credit Association (AFRACA) was created in response to the request made by World Conference in 1975. To further enhance the commitment the Food and Agricultural Organisation, it established a Regional Agricultural Credit Association (RACA) to promote cooperation and facilitate exchange of expertise in the field of rural finance. In 1990, World Bank (including International Bank for Reconstruction and Development, (IBRD) and International Development Association (IDA) restate their commitment to rural development but shifted strategy to financial market through resources mobilization and intermediate savings to make finance more widely accessible to farmer. In 1997 working paper titled Rural Development from Action to Vision, World Bank designed a new strategy to rural finance by suggesting that credit to compensate for urban bias rural development. The World Bank further stress that credit subsides and financial services does not trickle down to the rural poor (World Bank, 2003).

In 2008 working paper titled Rural Finance in Nigeria: Integrating New Approach, the World Bank acknowledges that there is a legacy of financial unsustainability and operational inefficiency of most government in rural financing program for farmers. The World Bank queried the activities of the current Agricultural banks and their in ability to provide credit access to the rural poor. Similarly, 2016 paper titled Village Banking, Felline and Macarena claimed that 65% of the rural communities are underserved by financial providers. The Global findex (2014) equally confirmed that 62% of the adult population had account without access to credit in a formal financial institution.in 2009 papers titled Developing the Rural Economy through Financial Inclusion : The Role of Access to Finance, the International Labour Organisation, (ILO) confirmed that people living in rural area need access to financial services for a range of productive (asset building, working capital) and productive (mitigating risk exposure, purchase stock). The study further asserted that formal financial institution (e.g. commercial bank, rural or agricultural development bank) have avoid or failed to offer sustainable services in rural area.

Obviously, the mission of rural financing is tedious since 2/3 of Africa growing population depend on the agricultural sector and the sector contribute 35% of GDP as well as employed more than 62% of the workforce in Africa. While, the focus of this study is to examine the extent to financial access become crucial for the poor who provide livelihood for the entire population of Africa. This study queries the present financing disparities in rural-urban population and argues that poor financing of the rural poor have severe implication on economic growth agenda in Africa. In addition, this study is wakeup calls to African Central Banks to modernized and integrate financial market in the rural area to avoid the risk of financial exposure and policy somersaults in Africa.

2. Objectives

The study identifies the drivers of rural financing in Africa, describes the prospects and challenges and provides strategies for integrating financial services for their development.

3. Methodology

The present study is a quantitative analysis combine with brief statistical analysis as such a secondary data is used to explore the theoretical arguments regarding the needs to integrate rural financing to enhance economic development in Africa.

4. Rural Financing: Myth or Reality

4.1 Rural Financing in Context

Rural financing is a microcredit methodology that seeks to facilitate financial services locally rather than more centralized formal banking system. Rural financing also include rural financial inclusion, rural credit, rural banking or village banking. it can be seen as the business of accepting money deposit and giving out advance as well as improving the livelihood of the rural poor. Rural financing can be realize in two ways (a) integrating financial market to the rural area; (b) creating specialized bank to cater for the needs of the rural poor. Thus, rural financing is tailored to the need of subsistence farming aim at improving the welfare of farmers and enhancing agricultural productivity through community based banking system that provide idle funds to develop and modernized and raise the standard of ruralites. while, the objectives of rural financing includes: s(i) mobilizing rural savings for the insurance of credit to the rural operators, farmers and business; (ii) extending banking services and habits to rural areas; (iii) enhancing development of rural areas and stimulating growth of agricultural growth.

Problems of Rural financing in Africa

(a) Shortage of Manpower

There is a general inadequacy of personnel in the banking industry, hence extension of banking services to the rural areas become difficulty when you weigh the cost with the benefits.

(b) Dearth of Infrastructure in the Rural Areas

Most of the rural areas have poor infrastructure resulting from government inadequacy to cater for their needs. This make it unattractive for majority of the deposit money banks to invest in rural areas. in particular, lack of access to good road and poor telecommunication network as well as poor power supply are major constraint to their development.

(c) Security of Life and Staffs

The rural areas lack modern security facilities which are needed for to protect the assets and life of staffs which make it difficult to consider its investment in Africa.

(d) Literacy Rate

Low level of education and lack of essential requirement for bank documentation which are need to open a formal account and create avenue for credit facilities are major constraint coupled with poor communication and accommodation issues.

A descriptive analysis of indicators of rural financing presented by Shobande and Lanre (2018) shows below the mean and standard deviation of this Africa financial service system.

Table 1. Descriptive Statistics

	Details	Unit of measurement	Mean	Std. Dev.	Min	Max
GDPPC	Gross domestic product per capita	current US$	1725.124	2028.140	210.4742	10062.91
ATMs	Automated teller machines (ATMs)	per 100,000 adults	8.563865	13.05436	0.030552	54.41506
CBB	Commercial bank branches	per 100,000 adults	9.810374	27.89203	0.395034	253.1915
DCB	Depositors with commercial banks	per 1,000 adults	269.2155	365.6546	1.146184	1713.740
EPE	Enrolment in primary	both sexes (number)	3117080.	3281456.	67745.00	14532477

	education,					
GEE	Government expenditure on education	Total (% of GDP)	5.017638	2.367809	1.099720	14.79096
FININDEX	Financial inclusion index	per 1,000 adults	-0.03037	1.694343	-1.13181	8.672883
HCINDEX	Human capital index	Total (% of GDP)	0.074426	1.249322	-3.14324	4.055280

Note: GDPPC is used a proxy for economic growth. ATMs, CBB and DCB are components used to proxy financial inclusion. EPE and GEE are components used to proxy human capital. FININDEX denotes single index for financial inclusion exhibiting a joint of effects of ATMs, CBB and DCB. HCINDEX denotes single index for human capital unveiling a combined effect of EPE and GEE. Indexes are calculated using the principal component analysis (PCA) proposed by Karl (1901).
Source: Shobande and Lanre (2018).

The above table 1 shows that the Africa financial inclusion index which indicate that the average of -0.030. suggesting the rate at which financial inclusion reduce yearly is about 30% yearly. Possibly, the number of commercial banks and literacy might have lead to this unimpressive performance of financial inclusion coupled with the rate of per capita income of these group of people.

4.2 Reality of Rural Financing in Africa

Undoubtedly, effort has been made to study the impact of rural financing on African development and strategies have been formulated to enhance their access to credit and improve the livelihood of the rural poor. while, it appear that this strategies are not properly executed which reflect the commitment of the government and Africa Central banks to rescue the rural segment of the region by breaking the barriers affecting integrating the financial services to their needs. In 2003, a review of the capacity of financial institutions and their ability to provide specialized service by integrating the various products to the rural sector show that inability of the rural poor to meet essential requirement of modernize banking criteria are major factor affecting their integration in Africa (World Bank, 2003).

Evidence provided by Shobande and Lanre (2018) shows that rural financing have been constrained by a number of risk associated with poverty reduction which have severe implication in monetary policy formation in Africa. Also, a similar study by Honohan and Beck (2007) shows that attempts to realize rural financing in Africa might expose the financial system to internal shocks, since crops failure might lead to volatility in the agricultural sector which has implication on food price and can results to inflationary pressure.

In Kenya, Lemba (2014) examine the impact of village banking on dry land rural household poverty alleviation with special focus on access to credit and development of small and medium size business. the author suggests that integrating strategies for crop insurance schemes is necessary to mitigate volatility in agricultural productivity among poor farmers.

Mashingo and Kabir (2018) examine village banking in the context of financial strategy of providing credit access to facilitate poverty reduction and agricultural growth. Mashingo and Kabir further queries the extents of the present financial inclusion campaign to banked the unbanked and provides credit to farmers. The authors recommend support for inclusion of integrated banking in the rural Africa.

A cursory look at the reviewed above shows that the theoretical foundation of rural financing identifies five major constraint which includes: financial services, income growth, financial literacy coupled with complex uncertainty variables. While, access to financial resource is a key identify by majority of these studies as a setback to rural development, this study argues that exposure to risk, literacy rate and mindset are critical factors to be considered in formulating strategies for the these rural poor.

5. Conclusions

This study examines the effects of rural financing on Africa's development using qualitative approach along with descriptive analysis. the study identifies the drivers of rural financing and justify the need to integrate village banking in Africa to enhance rural financial inclusion while given priority to bank proximity and consideration to documentations and formal credit to enhance sustainable development in Africa.

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