Keynote speech introducing the session “Two worlds no longer apart – rural and local development for growth in harmony”

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Ladies and Gentlemen, I am delighted indeed to address this important event on a hot topic "Two worlds no longer apart – rural and local development for growth in harmony".

Let me structure my thoughts by using the metaphor from a film industry "trailer". I will highlight five sub-topics just to tease your interest and the discussion of this plenary session. Each of the topics easily fills a full movie, or a lecture of its own, but this is not what I want to do.

What I intend to achieve, however, is to slightly influence our understanding of GROWTH. For instance, I want us to appreciate Bhutan’s strategy for Gross National Happiness formulated in 2008, for the next 20 years, and particularly one of the four pillars of the strategy that is...

"Sustainable & equitable socio-economic development" – Not growth!

Dear delegates of the World Congress of Savings and Retail Banks. The focus of the congress is on "Making globalisation inclusive for all". This theme gives me the opportunity to refer to the mandate of my own organisation. IFAD as a specialized UN agency and IFI fully subscribes to the need to ensure that its development assistance is anchored within the broader 2030 Agenda and the SDGs.

IFAD’s Strategic Framework 2016–2025 clearly articulates the role the Fund can play in contributing to the 2030 Agenda – particularly SDG1 (No Poverty) and SDG2 (Zero Hunger).

How does the Sustainability Agenda relate to the Financial Inclusion Agenda? In terms of the financial inclusion agenda, this means we measure to what extent our investments are attributable to the following targets:

- all men and women, particularly the poor and vulnerable, have access to financial services (SDG1 target);

- secure and equal access to financial services as a means to double agricultural productivity and incomes of small-scale food producers (SDG2 target).

We actually claim that inclusive rural financial services directly and indirectly support seven SDGs: besides 1. on poverty alleviation, and 2. on food security, improved nutrition and sustainable agriculture, also 3. good health and well-being, 5. gender equality, 8. inclusive economic development, 9. industrialisation, value chains and markets, 10. inequality reduction among countries and remittances flows.
The unique global think tank in the financial inclusion space, The Consultative Group to Assist the Poor (CGAP) goes even further. While the SDGs do not identify financial inclusion as an independent objective, they acknowledge it as foundational to achieving no less than 11 of the 17 SDGs, in accordance with the measurement indicators to track progress on the SDGs.

Let us zoom into the question why financial inclusion matters to achieve "sustainable & equitable socio-economic development": Climate change, inequality, poverty, landlessness, refugees, nationalism or isolationism are pressing global priorities or issues taking the headline focus in our partner countries. They affect rural poor people in developing countries the most! This is where financial inclusion takes center stage and financial service providers play a main role (back to the film metaphor).

Numerous studies have demonstrated that access to bank accounts and payment services have a measurable impact on poverty by improving the ability of poor people to draw on wide social networks in times of trouble, significantly improving their resilience to shocks, and reducing the risk of falling deeper into poverty.

As financial services respond to technological change, the need to continue to build and synthesize the evidence on the impact that new solutions have on poor people will remain a priority for us.

**Corporate strategies and innovations**

At this week’s Paris Peace Forum – 100 years after the end of the First WW –, some sixty global leaders consider the crucial role that increased investment in rural areas of developing countries can play in addressing the root causes of conflicts! For instance, the 2017 and 2018 editions of The State of Food Security and Nutrition in the World (SOFI) reports underscore how food insecurity and competition for dwindling natural resources can become one of the triggers for instability, particularly in contexts marked by fragile institutions and climate–related events. Peace, stability and harmony are not possible when people are hungry, poor and left behind. Therefore, it is urgent to increase financing for long-term development that results in the economic and social transformation of rural areas. Again, as one of our strategies, we focus on rural and local institutions to sustain these development efforts. Investments for us mean to crowd-in domestic financial institutions and to enhance local financial intermediation.

Partner country programmes focus on testing innovative models to improve competitiveness, inclusion and resilience of agri-food value chains of relevance for poor and vulnerable households. IFAD is committed to support smallholder farmers
and MSMEs while the demand for rural goods and agricultural commodities is growing rapidly. Enterprises that operate efficiently, sourcing sufficient quality raw materials, applying modern technology and complying with recognized product standards have extensive potential to create income opportunities for smallholder farmers and other disadvantaged groups in rural communities.

Our strategy to promote farming as a business is well-aligned to support investments in renewable energy given that low electrification and energy access constrain both agricultural production, post-harvest processing and marketing of agricultural products. The added value can come from avoiding GHG emissions and low emission or emission free energy. As a result, the role of energy in value-addition processes and storage are critical for farmers, MSMEs and other actors along the value chain. The potential to secure substantial increases in production capacities and income savings are huge and yet this side of the financial market – access to finance for RET – remains largely untapped.

Furthermore, IFAD’s new directions in development finance cover innovations such as:
- exploring Distributed Ledger Technology (“Blockchain”) applications to agricultural value chains and value chain financing in Bangladesh and Kenya
- establishing crowd-funding and payments on digital platforms, and use of mobile phone apps providing farm-relevant information in the Philippines
- addressing the demographics of the farmers shift to a younger generation who are more digitally proficient, e.g. looking at FinTech options for rural youth in Indonesia
- rolling out remote sensing based weather and agricultural risk insurance models in China, India, etc.
- launching its first impact investment fund, the Agri-Business Capital (ABC) Fund for smallholder and youth inclusive VCs and financial intermediation, primarily in ACP countries as from 2019 onwards
- developing financial combi-products for remittances and migrants’ investments, e.g. in Nepal

... but this is not the full screenplay yet.

**Going back to the roots into the future**

IFAD has a long history in promoting a wide range of financial institutions, models and delivery channels (1 of 6 guiding principles of the corporate rural finance policy). My hypothesis is that there was and there is and there will always be a compelling story to tell about community-owned financial organizations of different typology and across the continents. Among the many million IFAD targeted beneficiaries, who actively save money and receive loans as working capital and for investments, the
large majority is member or owner of a local, village-based and community-owned financial organization.

Through the ongoing R&D project together with APRACA "Reaching Rural Households and Communities by Advancing Inclusive Financial Practices" in six countries, about half of the identified best practices are those of Rural Commercial Banks, Rural Community Banks, Rural Savings and Credit Cooperatives both of conventional as well as Sharia-compliant banking. We have clear evidence of impact in terms of outreach and financial deepening through the system of communal-type of FSPs in rural areas.

I strongly believe that we are still in tune with the times, but to maintain and to foster the financial and economic viability of community owed FSPs and to sustain a robust system in developing and emerging economies, we need to add a new chapter: Moving subsequently from cash-based to digital financial transactions – not exclusively but as an option for customers to choose.

Communal retail FSPs very often face a shortage of liquidity or even liquidity crunch. Reasons vary and are context specific. However, linkage banking approaches as we know them for the last 3 decades are still valid and through innovative technology solutions a second generation of intelligent linkage models could lead the way into the next decade as "linkage banking 4.0".

**Systemic approach and integrated thinking**

You heard me saying earlier that there is not a specific SDG dedicated to financial inclusion, but there are several financial inclusion indicators to track progress. The risk is seeing finance just as an enabler to achieve the Agenda 2030 SDGs that we go back to the times when there was a purely instrumental view of finance, targeted, subsidised credits and public development finance institutions to serve particular development programmes and objectives.

I believe there is still a role for financial system development as an area of development in its own right even in the context of the sustainability agenda. And we should keep funding programmes that strengthen the financial system in itself and as a backbone of the economy.

To quote CGAP here: "We need a strong ecosystem in which responsible providers operate in a space that is appropriately regulated and conducive to the kind of innovation that needs to happen. In many countries this is still far from reality and especially in the more challenging conflict or post conflict countries, where some of us operate, this is by no means a given. Making sure there is an enabling environment and healthy ecosystem remains a core task of financial sector development. One of
the challenges is that FSD requires a long-term view and it's not easy to show quick results at client-level."

I tend to say "complex problems require complex solutions, rather than simplistic answers". For a long time any form of integrated approach to rural and local development was out of favour. However, when we are aiming at sustainable & equitable socio-economic development, integrated thinking is imperative! In brief, there is a need to bundle services (financial and non-financial) and to address the need for education, market-oriented qualification and training, institutional capacities, etc. to reach at rural and local socio-economic development!

**Results and the way forward**

If we refer to the 2017 Global Findex database that reflects the continued evolution of financial inclusion in more than 140 economies we learn about the different successes, challenges and opportunities when it comes to financial inclusion. Numerous studies demonstrate the impact of country advances on significant priorities such as reducing poverty, hunger, education, health and gender equality. Definitely, recent progress has been driven by digital technology, payment systems, government policies, regulatory frameworks and supervisory systems and a new generation of financial services accessible through mobile phones and the internet. Also, advances have been made in helping women gain access to financial services.

And still, there is a disconnect between the supply of financial services and poor people's financial needs and lives in the real economy, particularly in the rural sector. For all savings and retail banks it should be imperative while aiming to contribute to rural and economic development for growth in harmony to ensure that their market-oriented financial products and services enable rural people's inclusion to:

1. Improve their well-being and enable access to essential services such as health, water, energy – we need to focus on people that continue to be more socially and economically excluded, such as women and migrants in certain environments;

2. Better support their livelihoods – we need to understand better what people do for a living and how these incomes can lead to improved asset accumulation – and we need to keep in mind that poorest people live off the rural and informal economy;

3. Adapt and build resilience – we need to add to our agenda how we enable access to (dual vocational) education, skills training, and retooling; and enhance social protection distribution, including financial graduation of those at the base of the pyramid.