

The Role of Finance in Fostering Development of Rural Areas

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Presentation outline

1. Timmer's transformation
2. International literature findings
3. Rural households, poverty, risk
4. The institutional pyramid
5. Weak links, and what can be done about them
6. What ADB is doing
7. Innovations to watch

Timmer's structural transformation...

- Out of village agriculture...
- Into city industry and services....
- People move up; and
- Rural-urban income inequality emerges, both in incomes and financial flows.

The literature finds ...

- Financial markets critical
- Rural finance is vital
- Lack of rural credit limits innovation
- Inequality increases when rural financial services are limited

Rural population and poverty

- 4.1 billion; rural 3.5 billion
- 25% under poverty line, but poor are predominantly rural
- Urban incomes much higher, and growing 2-3x faster than rural incomes

Rural households and risk (1)

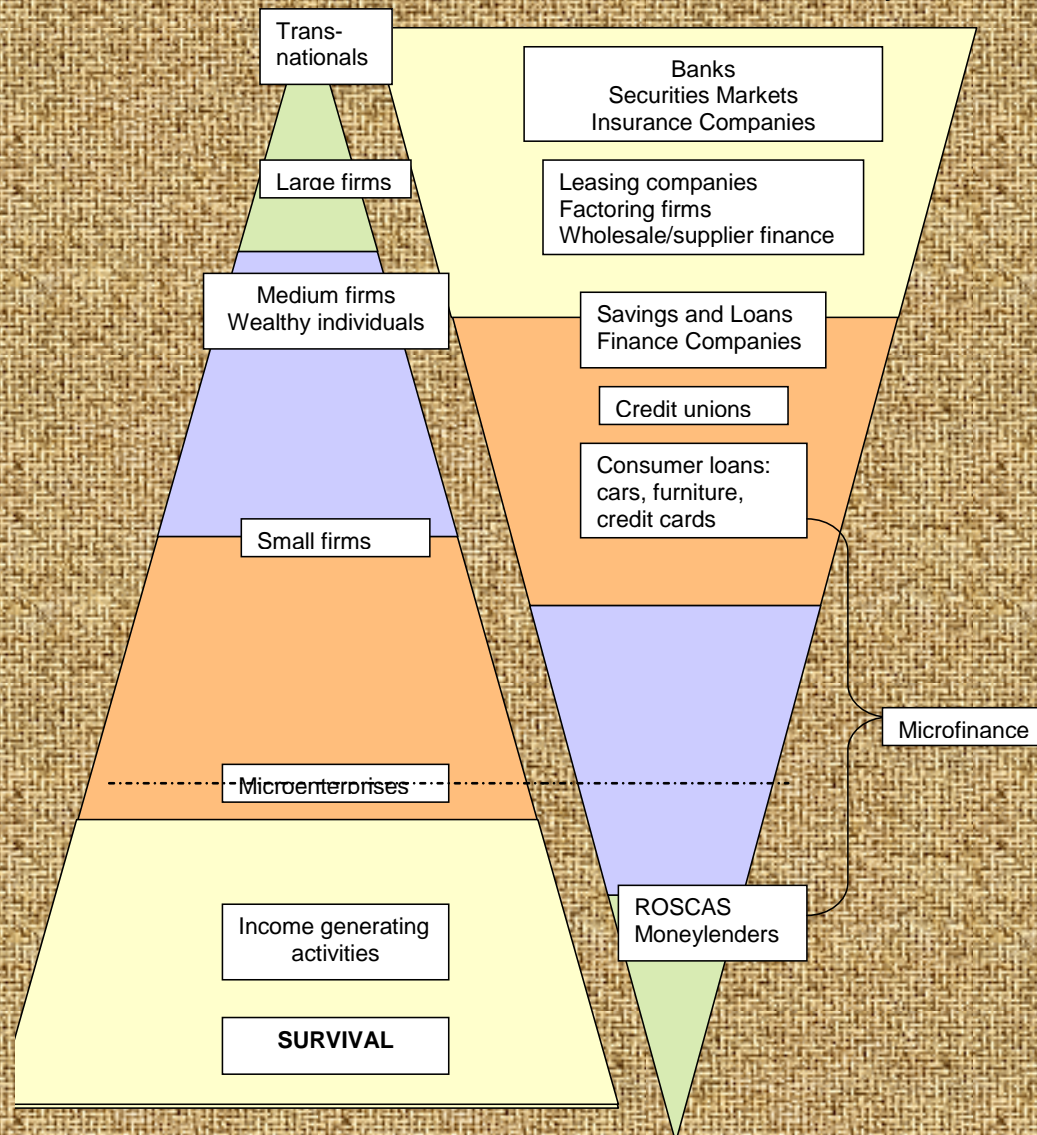
- Rural poor manage risk differently
- Nature is unpredictable
- People manage time differently
- Risks managed by savings, remittances, social networks, pensions

Rural households and risk (2)

- Households can least afford losses and info flows are weak -- conservative about borrowing, new options
- Need: remittances, medium and long-term loans, microinsurance, savings, pension services; timing important

Who needs financial services, and who delivers?

Financial Sector Institutions, by Volume of Funds



Why finance is the weak link to rural development...

- Resisting market-based rural finance
- Poor costing, pricing, products
- Not dealing in full with NPLs
- Missing out on savings
- Ignoring rural business

And the results are...

- Unnecessary institutional limitations
- Product innovations not emerging
- Interest rate restrictions
- Disclosure and transparency
- Better understanding of risk

What can be done to improve rural finance...

- Expand products
- Deepen institutional options
- Lower costs for rural products
- Improve information to potential clients
- Improve credit information on clients -- credit bureaus

What ADB is doing

- Projects and technical assistance
- Microfinance, mobile phone banking, data monitoring, and microinsurance
- Long-term finance for environmental and infrastructure improvements

Three innovations to watch...

- Mobile phone banking – and other services
- Insurance products
- Value chain linkages

Thank You!

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