Njuguna Ndung'u: Growing agriculture through finance

Remarks by Prof Njuguna Ndung'u, Governor of the Central Bank of Kenya, at an Interactive Forum on "Growing Agriculture through Finance", at the Kenya School of Monetary Studies, Nairobi, 17 March 2010.

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Deputy Prime Minister & Minister for Finance, Hon. Uhuru Kenyatta;
Minister for Agriculture, Hon. William Ruto;
US Government Representative – Deputy Chief of Mission, Mr. Lee A Brudvig;
CEOs of Commercial Banks Present;
Resource Persons;
Distinguished Participants;
Ladies and Gentlemen:

It gives me great pleasure to be with you this morning, and to welcome you all as we deliberate and exchange views on this crucial matter of growing Agriculture through Finance.

The Agricultural sector is the livelihood of many in Kenya. The sector contributes directly about ***24% of GDP, 65% of the country's export earnings*** and employs about ***80% of Kenya's labour force***, directly and indirectly. But more important, food security is the most critical and cuts across all other developmental objectives. The policy paradigm that supports this sector is indeed the cornerstone of our development blueprint.

It is tempting to say that financing Agriculture will rely on the financial sector in totality. The subject is broader than this and this is what we want to generate via dialogue this morning.

But what is not in doubt in financing Agriculture is the presence of long-term funds as well as appropriate avenues to develop crop insurance.

Small-holder farmers have done well in increasing quality production and adoption of high yielding varieties, but have done poorly where they are not supported by cooperatives to market and create buffers for them. That is, they have been failed by lack of supporting agricultural infrastructure.

A policy to support Agricultural infrastructure should focus on:

– Financing production – crop insurance/crop finance

– Financing processing

– Investing in storage

– Investing in distribution and marketing networks

– Complemented with an appropriate credit policy.

In this way, the farmer can participate in the market fully. This is what will ensure food security and stability of domestic prices – food is now accounting for 36% of the Consumer Price Index (CPI) basket – an important tool to fight national inflation. To that extent, increased agricultural productivity, particularly in food helps reduce food inflationary pressure that also feeds to the national inflation. In addition, GDP growth in this country is determined by growth in this sector.

From the Central Bank side, our support in this initiative is important. The Central Bank of Kenya through its capacity building arm – ***the Kenya School of Monetary Studies (KSMS)*** intends to develop a certified agricultural finance program in collaboration with ***COMPETE – USAID***. This program will be suitable for agricultural officers as well as credit officers. This is important in developing the critical mass of human capital that fully understands agribusiness, such as agribusiness cycles, risk management practices, farm cash-flows and finance and insurance. This will support farmers and also develop a strong drive to lift the policy paradigm in this area. But the wider scope of monetary policy support is not in doubt.

Finally, Distinguished Guests, Ladies and Gentlemen, I would like to conclude my brief remarks by wishing all of you fruitful deliberations this morning.

Thank you very much for your kind attention.