

ROLE OF GOVERNMENT IN RURAL AND AGRI-FINANCE:

BUILDING A MARKET-BASED SYSTEM
TO SUPPORT SUSTAINABLE GROWTH



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1. EXECUTIVE SUMMARY



Policy makers increasingly recognize food systems as critical for achieving a range of development goals. Beyond agricultural growth, productivity, and food security, food systems can promote inclusivity, social protection, resilience, environmental sustainability, nutrition, and health outcomes. Realizing the full potential of the agricultural sector to address these complex and interrelated agendas requires a fit-for-purpose agri-finance market.

In the early stages of agri-finance market development, country governments typically play a lead role in financing the agricultural sector through subsidy programs, state banks, and direct provision of retail credit. However, state-driven credit is often allocated based on political influence with predictable results: uneven distribution and low repayment rates. Even when done well, governments can only extend so much agri-finance before running into natural fiscal limits. As a result, as agricultural and financial markets mature, countries naturally transition to more market-based financing approaches. To enable the transition to market-led systems, governments must become regulators and market catalysts for private sector financial service providers. The progression from a government-directed system to a commercially focused one happens in different ways in different countries as has been documented in [previous ISF research](#).

Regardless of a country's starting point, the evidence in this briefing note supports the universal pursuit of distinct, pluralistic, market-based agri-finance systems.

- **Distinct:** The agri-finance sector has different requirements and potential for impact than the broader financial sector, necessitating dedicated policies and regulations.

- **Pluralistic:** The diverse funding needs of agricultural actors requires an equally wide set of financial service providers. This diversity in providers ensures provision of financial products across crops, stages of production, types of financing, and ticket size.
- **Market based:** Through transparent regulation and minimal political interference, competition will drive greater innovation for agri-finance products. This market-based approach still needs government involvement to ensure fair competition, protect consumer and environmental welfare, and finance public goods.

But how do governments build distinct, pluralistic, market-based agri-finance systems to help achieve ambitious development agendas?

Particularly when the risk-adjusted returns to agricultural lending are significantly lower than in other sectors, or simply compared to Government bonds. This briefing note presents a framework for how macro-level foundations and meso-level building blocks enable market development before exploring the effectiveness of different market-catalyzing approaches, typically applied at the micro level. While approaches to agri-market development should be specific to each country's context, this document proposes some universal principles and approaches for how to build market-based, agri-finance systems over time.

At the macro level, the most important step a country's government can take is to articulate a distinct agenda that addresses the unique needs of its agri-finance market. Implementing this agenda with appropriate oversight and coordination ensures collaboration and accountability across the multiple agencies enacting policy. This enables the government to address the challenges of agri-finance market development. However, few examples of such

a coordinated approach are found in practice, with responsibility for agri-finance typically fragmented across multiple government agencies and institutions.

Meso-level building blocks, such as regulations of financial service providers or the implementation of public financial infrastructure, are crucial in overcoming the market failures that constrain the supply of finance to specific segments. These meso-level building blocks are often not geared towards agri-finance or agriculture specifically, which results in: a lack of fit-for-purpose agri-finance offerings from financial service providers; overly conservative risk mitigation regulations; and inadequately designed infrastructure, such as credit bureaus or data hubs, which is not suited for the needs of agri-finance. To establish effective agri-finance markets, governments need to implement meso-level actions that adapt regulatory foundations to cater to the unique requirements of the sector.

At the micro level, many segments of agri-finance in emerging markets are not commercially viable and require some form of market intervention to catalyze lending. Governments have limited options to do so. They can: directly mandate lending; offset the cost or risk of lending through targeted subsidies; create positive incentives for private sector involvement; or directly facilitate lending. Choosing which approach to take, where to intervene in the agri-finance market, and how to structure that intervention is highly dependent on country context, but policymakers navigating these decisions in countries at an earlier stage of development can draw from the global experience-base over the past few decades.

The literature on micro-level approaches across Africa, Asia, and Latin America has significant gaps, limiting its utility to guide decision making.

No sources have systematically cataloged, profiled, or gathered information about these approaches; there is disparity in volume and detail of evidence for individual interventions; and there is limited understanding of how contextual factors contribute to an intervention's effectiveness. In the absence of a clear evidence base, this briefing note makes a first attempt to organize and interpret the existing evidence. This provides a starting point for better decision making today and a foundation for future evidence building efforts.

Recognizing the complexity involved in the development of agricultural finance markets and the lack of a sizable evidence base, **this research advocates for three shifts in the way governments develop pluralistic agri-finance markets:**

- 1) Establish the foundations of agri-finance as a distinct, pluralistic market-based agenda, regardless of the starting point; and
- 2) Develop a more strategic approach to market building around an integrated view of macro-, meso- and micro-level action; and
- 3) Segment the market clearly and implement evidence-based micro-level interventions to achieve specific outcomes in agricultural markets.

2. THE CASE FOR BUILDING TOWARDS A DISTINCT, PLURALISTIC, MARKET BASED AGRI-FINANCE SYSTEM



For most of the 20th century, national governments were the central providers of agricultural capital through the retail distribution of finance. However, as economies have diversified, governments in advanced economies with developed agricultural sectors have taken on a different role.

Past ISF research has characterized this progression from Government-led, to bank-led, to market-based through a series of case studies of developed and developing countries around the world. **This economic progression—from a government-directed system to one more oriented to the private sector—is typical as agricultural and financial markets evolve to support broader developments in food systems.**¹ While the specific structure of the agri-finance system in each country is unique, the movement towards a more market-based system over time, as agricultural markets grow, is consistent. This briefing note uses a standard set of agriculture, agri-finance and enabling environment indicators to provide a high-level starting point to consider differences across countries. It should be noted that the number and quality of standardized indicators that are available to compare these dimensions of the agri-finance market are limited and will likely trigger several questions that can only be answered through more deeply understanding the local context. Even with these limitations, we believe that establishing a starting point for considering each country is useful.

For example, the Uganda snapshot below illustrates how different agri-finance market dimensions are reflected in underlying metrics and regional comparisons. While Uganda’s agricultural productivity is low, many

measures of its agri-finance market maturity are high relative to both regional peers and global benchmarks. The maturity of the agri-finance market reflects recent developments, including: government initiatives to provide reasonably priced finance to smallholder farmers and small and medium-sized enterprises (SMEs) through subsidized capital for commercial banks and microfinance institutions (MFIs);² the presence of a national association representing financial technology firms;³ and a legal framework for the use of warehouse receipts.⁴ Meanwhile, a below-average score for “financial enablers” indicates lower levels of maturity in the broader financial systems, while a below-average score in “climate risk assessment” reflects how initiatives in the recently launched national adaptation plan have yet to be implemented.⁵

As is referenced above, these measures will never capture the inherent complexity of the agri-finance market and will inevitably lead to more questions. For example, if such a high percentage of bank loans are going to agriculture in Uganda how does the total amount of bank lending compare on a GDP basis with other countries? Combined with some of the other tools presented in this Briefing Note it is hoped that some of these benchmarks can start to drive a more nuanced discussion around agri-finance in, and between, countries.

Regardless of each country’s starting point and the current state of its market, this research advocates for governments to pursue an agri-finance system that is: distinct, pluralistic, and market-based.

1 ISF 2014 *The Role of Government in Developing Agricultural Finance, and ISF 2020 Role of Government in Rural and Agri-Finance*

2 AGRA 2020 AGRA influencing changes in the Agricultural Finance Landscape of Uganda

3 Financial Technology Service Providers' Association (FITSPA)

4 Katunze et al 2017 Uganda Warehousing Receipt System: Improving Market Competitiveness and Service Delivery

5 <https://www.unep.org/gan/news/press-release/uganda-tackle-climate-crisis-national-adaptation-plan>

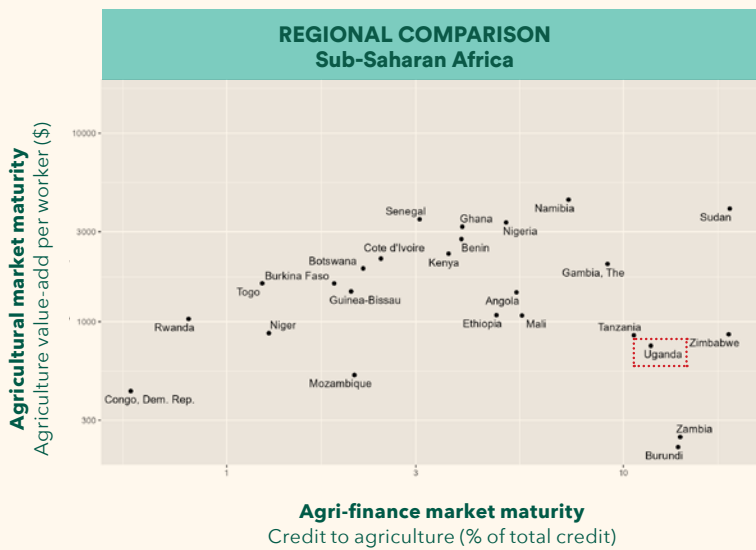
FIGURE 1

Agri-finance maturity stage assessment

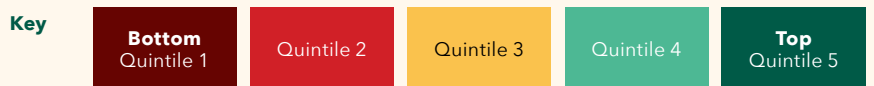


Uganda Ecosystem Maturity Dashboard

| OVERVIEW | |
|-------------------------------|---|
| GDP, GDP per capita, GDP rank | \$48,769m, \$1,002, rank 91 (2023, World Bank) |
| Region, Sub-region | Sub-Saharan Africa, East African Community |
| Food system type | Informal and expanding (2021, Food systems dashboard) |



| AREA | METRIC | VALUE | BENCHMARKS | |
|------------------------------|---|-------|------------|--------|
| | | | Regional | Global |
| Agricultural market maturity | Agricultural productivity Agriculture value-add per worker (\$, WB) | \$754 | 2 | 1 |
| | Size of agriculture sector Agriculture, forestry and fishing value add (% of GDP, WB) | 24% | 4 | 5 |
| Agri-finance market maturity | Public spend on agriculture Agriculture orientation index (gov't ag spend / ag value add, FAO) | 0.1 | 3 | 2 |
| | Bank loans to agriculture Credit to agriculture (% of total credit, FAO) | 12% | 5 | 5 |
| | Alternative credit maturity Credit flows by fintech and big tech companies (% of GDP, WB) | 0.9% | 4 | 4 |
| | Finance accessibility Accessing finance score (0-100, WB) | 80 | 5 | 5 |
| Enabling environment | Agribusiness enablers Enabling business of agriculture score (0-100, WB) | 52 | 5 | 3 |
| | Financial enablers Financial development index (0-100, IMF) | 10 | 2 | 1 |
| | Public sector management CPIA public sector management score (0-100, WB) | 59 | 5 | NA |
| | Public sector digitisation e-Government development index (0-100, UN) | 45 | 4 | 2 |
| | Climate risk assessment Sustainability and adaptation score (0-100, ND-GAIN) | 38 | 3 | 1 |



The argument for a DISTINCT agri-finance agenda

Treating agri-finance as a distinct agenda is the most important first step a government must take to strengthen an agri-finance system. This enables governments to coordinate across all agencies impacting the agricultural space to implement policies and regulations.⁶

Several characteristics of agricultural markets distinguish them from other sectors, necessitating a distinct approach:

- The seasonality of production and fragmentation in supply chains mean that there is a significant diversity of actors with unique financing requirements.
- Agriculture faces high systemic risks. In addition to the risks inherent to farming—including production challenges, price fluctuations, and difficulties of farm management—there is significant uncertainty created by low-probability events with potentially devastating effects, such as extreme weather including floods, droughts and pest or disease outbreaks.
- A high level of geographic dispersion, underdeveloped physical infrastructure, and seasonal cycles require unique spatial and temporal considerations. Meanwhile, a lack of formalization in the sector and the prevalence of small-scale actors contribute to a persistent lack of reliable data about agriculture and agri-finance.
- Political sensitivity in the sector is high due to its importance in poverty reduction, food security, economic development and the large percentage of the population that is reliant on agriculture for their livelihoods. Combined with exposure to external factors, such as international trade policies or the potential for patronage, the sector is particularly prone to politically influenced intervention.

The financial markets that serve other parts of an economy (mining, manufacturing, etc) often fail to address these intricacies. A unique approach is needed to balance the risk appetite and return requirements of financial institutions with the needs and capacity of agricultural sector borrowers.

Policies affecting agricultural and rural finance belong to several different policy-making areas, including agriculture, finance, commerce, energy, infrastructure, water and trade. However, since no single entity is accountable for the overall agenda, it is often not prioritized by any of these entities, making it a policy orphan. As a result, agencies do not build technical capacity to recognize and address the unique challenges of the agri-finance market. It is impossible to formulate and implement mutually supportive policies across policy-making areas in the absence of a coordinating body of some kind to prioritize agri-finance market development.

The argument for promoting a PLURALISTIC agri-finance government agenda, regardless of the starting point

A pluralistic agri-finance system is characterized by a wide variety of financial service providers, not just regulated commercial banks. This diversity ensures a range of capital products are available and tailored to financial needs across agricultural market segments. Past ISF *State of the Sector reports* have cataloged the breadth and diversity of funding needs for commercial producers, smallholder farmers, and agri-SMEs in terms of commerciality, risk, and desired impact.⁷ Purely government-led or bank-based finance systems will always fall short of serving this diversity of requirements, particularly as agricultural markets develop over time.

The argument for building towards a MARKET-BASED agri-finance system with the right safeguards, regardless of the starting point

In addition to struggling with providing adequately *diverse* funding, government- and narrow, bank-based systems will always fall short of the *quantum* of financing needed across the agri-finance sector. As economies grow and markets mature, government-led financing reaches the its capacity limits, and the government's continued presence may actually inhibit the entry of the private sector. To enable the transition to market-led systems, the government must shift from direct service provision

⁶ Aceli Africa 2022 *The Effect of Central Bank Policies on Lending to Agricultural SMEs in East Africa*

⁷ ISF 2019 *Pathways to Prosperity*



to being an enabler, using regulation and facilitation of incentives to unlock private sector lending. For example, in the United States where farm debt alone is worth around USD 518 billion, the private sector deploys most of the capital (63%). Government actions, including loan guarantees, subsidized insurance, and disaster relief, play a key role in mitigating risk exposure for lenders.

While bank-based financial systems may mobilize more capital than government-led ones overall, an over-reliance on commercial financing can also result in less capital being mobilized to certain high-risk, low-return sectors than under a government-based model.⁸ And yet these segments of the market often generate outsized social, economic, and environmental benefits in the public good. As a result, there will always likely be a role for smart government subsidies in parts of the agri-finance market.

The development of vibrant and diverse agri-finance markets takes time as lending channels evolve alongside diversifying borrower segments. Early implementation of key enablers will accelerate market development over time. For example, data collection to inform financial decision-making and modeling requires extensive longitudinal datasets;⁹ establishing granular, standardized data collection mechanisms early will catalyze development during later stages. It is also critical to build the capacity of policymakers and financial institutions so that they can leverage that data and identify which evidence-based interventions will best serve the agri-finance sector in their context. Donors can play a key role in enabling these early actions, especially through capacity building initiatives, supporting public-private dialogue, and providing research and data to enable evidence-based policy making.

8 Beck et al 2013 *Is Small Beautiful? Financial Structure, Size and Access to Finance*

9 IFC 2011 *Scaling up Access to Finance for Agricultural SMEs*

Anchoring agri-finance market growth in a holistic development strategy will guide the design of appropriate regulations, incentives, and controls. Such a holistic development strategy advances a range of agendas, including:

- **Improved agricultural productivity and food security.** This is typically planned for in agricultural development plans and funded through fiscal budgets and official development assistance (e.g., the Comprehensive African Agricultural Development Programme).
- **Greater inclusivity and social protection of marginalized groups** in rural, arid and semi-arid areas. This is typically advocated for by civil society organizations, planned for by governments, and funded through a variety of mechanisms, including government budget allocations and concessional finance from international financial institutions.
- **Stronger nutrition and health outcomes in rural areas**, that includes consumption of healthy, safe, affordable foods by all. This is often initiated and funded by international development agencies and implemented through national and provincial governments.
- **Greater resilience to extreme weather and environmental sustainability.** This is typically driven by commitments to reducing emissions (e.g., nationally determined contributions¹⁰), planned for by governments in national strategies, and funded by a combination of fiscal budgets, debt, or grants from international financial institutions and climate funds.¹¹

Aligning agri-finance markets with social and environmental objectives will require safeguards and targeted subsidies alongside private sector finance. Safeguards ensure fair competition while protecting social and environmental priorities related to labor conditions, consumer health, deforestation, and more. Long-term, targeted subsidies serve development objectives that cannot be achieved through market forces alone, such as supporting strategically important agri-SMEs, establishing social safety nets for marginalized communities, or protecting key environmental assets.

Despite the clear evidence of the importance of developing this type of agri-finance system, the question remains: How do governments practically build pluralistic, market-based agri-finance systems that deliver on national outcomes that matter?

This briefing note adds to the established body of literature on the role of government in agri-finance to:

1. Formalize a framework to understand which actions are most important for strategically building a market-based agri-finance system at the macro, meso, and micro levels;
2. Consider how macro- and meso-level building blocks enable or hamper market development at the micro level;
3. Catalog the range of market-building tools and approaches governments apply to activate lending at the micro level, including analysis of how these interventions are typically implemented; and
4. Reflect on practical actions governments can take to support the development of a market-based system.

Regardless of the starting point and the current state of the market, this research advocates for Governments to pursue a distinct, pluralistic, market-based agri-finance system.

¹⁰ <https://unfccc.int/process-and-meetings/the-paris-agreement/nationally-determined-contributions-ndcs>

¹¹ <http://ccafs.cgiar.org/funding-climate-change-and-sustainable-agriculture>



3. SETTING A FOUNDATION FOR A PLURALISTIC, MARKET-BASED AGRI-FINANCE SYSTEM



Governments committed to a thriving, pluralistic agri-finance market should look to adopt a three-level action framework (as shown in Figure 2) to guide effective market development. This section explores the

macro and meso levels of the framework and their associated actions. Section 4 explores the role of micro-level actions in catalyzing markets.

FIGURE 2

AGRI-FINANCE MATURITY SCORECARD

| MACRO LEVEL: Set strategic, market-based foundations for the development of agri-finance | | |
|---|--------------------|--|
| Strategy | | Agri-finance is established as an independent agenda within a market-based policy agenda |
| Institutions | | Agri-finance agenda has a distinct national “institutional home” with clear links to national plans across the government |
| Resourcing | | Agri-finance agenda is adequately resourced to deliver against objectives across the government |
| MESO LEVEL: Establish key building blocks to enable market-based development of agri-finance | | |
| Regulation & oversight | Supply-side | <i>FSP registration and licensing:</i> Regulations governing registration and licensing of agriculture-oriented FSPs <i>Agri-finance instruments:</i> Regulations enabling specific financial instruments <i>Prudential requirements:</i> Regulations affecting FSP leverage levels and safeguards |
| | Demand-side | <i>Collateral:</i> Regulations on use of collateral in agri-finance |
| | Enablers | <i>Consumer protection:</i> Data privacy and cyber protection laws <i>Reporting and data sharing:</i> Sharing of the risk of agriculture investments |
| Public good financial infrastructure | | <i>Registries:</i> Personal data enabling FSP risk assessment and decision making <i>Payments:</i> Digital payments infrastructure |
| Enabling digital infrastructure | | <i>ID:</i> National identification services <i>Data:</i> National agricultural data hubs <i>Markets:</i> Digital markets infrastructure to support agricultural trade |
| MICRO LEVEL: Implement specific tools to catalyse market lending and strategically active market segments | | |
| Directly mandating actions for the private sector | | Interest rate caps Bank lending mandates Loan forgiveness programmes |
| Establishing risk and cost-reduction mechanisms | | Partial credit guarantees Reinsurance pools Government-subsidized credit Government-subsidized insurance premiums Matching grants Funds and refinance facilities Dedicated facilities for catastrophes |
| Creating market incentives for agri-finance | | Differential taxation |
| Directly participating in agri-finance markets as a provider | | Finance through state banks State-owned insurance provision State-sponsored business development services & technical assistance |

3.1 Macro foundations

Actions at the macro level create the strategic foundation for developing an agenda that addresses the distinct needs of an agri-finance market serving a complex food system:

- Situated within the broader financial system while directly addressing the unique requirements and dynamics of the agricultural market.¹²
- Operated out of a high-level *institutional home*, which has a clear mandate to implement the agri-finance agenda and strong ability to coordinate across central banks, regulatory bodies, government ministries, and other relevant stakeholders.
- *Resourced* in a multi-faceted way—drawing on renewed support from the international donor community for agri-finance—to overcome the fiscal limitations of the government.¹³ Policymakers also need to leverage public funding to crowd in private investment through a range of financial instruments, such as green bonds.^{14 15}

While there are major advantages to establishing this macro foundation, the responsibility for agri-finance is often fragmented between public agricultural banks and government ministries, each of which have divergent interests and perspectives.¹⁶ The result is a lack of focus on the complexity of challenges in the agri-finance sector and on the integrative policy responses needed. The Tracking Financial Flows to Food Systems Initiative (3FS) has demonstrated this fragmentation across a range of countries. Results of this mapping in Kenya, for example, revealed that over 20 government agencies are involved in agricultural finance, but the country has no centralized agency or strategy.¹⁷ Despite the majority of Kenya's population being employed in agriculture, finance flows remain low (3.6% of total credit in 2020)¹⁸ indicating the limited impact these efforts are having in the absence of a coordinating agenda.

The few countries surfaced by this research that have established a dedicated entity with a mandate to define macro-level agri-finance policies and strategies include the Philippines (Department of Agriculture: Agricultural Credit Policy Council) and Bangladesh (Central Bank: Agricultural Credit Department).¹⁹ While their approaches differ, these countries offer rare examples to learn from in terms of their institutional settings.

- In the case of the Philippines, the Agricultural Credit Policy Council (ACPC) was created in 1986, bringing together representatives of diverse government bodies including the Central Bank, Department of Agriculture, and National Economic and Development Authority to facilitate a coordinated approach in shaping policies that increase and sustain the flow of financing to fisheries and the agricultural sector. Implementation of programs is carried out by associated agencies, such as the Land Bank of the Philippines (credit) and the Philippine Crop Insurance Corporation (insurance).
- In contrast, Bangladesh's Agricultural Credit Department (ACD), part of the Central Bank, plays an active role in implementation, providing refinancing, guarantees, and other products to financial institutions. The Agricultural Credit Department also plays a role in policy formulation and the collection and sharing of data with other ministries.

With such a limited set of examples to learn from it is difficult to clearly establish how governments should approach the macro-level establishment of the agri-finance agenda and the required coordination across government. However, whether the institutional approach is a new council (as in the case of the Philippines) or a centralized unit in the Central Bank (as in the case of Bangladesh) the mandate should be one of agenda-ownership, coordination and strategy. As more governments implement approaches to coordinate their agri-finance strategies, future research should document best practices and relevant contextual factors.

12 MF4WA 2014 Agricultural Finance Policy Coordination in Africa

13 <https://www.worldbank.org/en/news/press-release/2024/10/23/world-bank-group-announces-strategic-pivot-in-agribusiness-doubles-financial-commitment>

14 IFC 2011 Scaling Up Access to Finance for Agricultural SMEs Policy Review and Recommendations

15 INFF Facility 2024 Making Finance Work for People and Finance

16 MF4WA 2014 Agricultural Finance Policy Coordination in Africa

17 3FS 2024 Kenya Domestic Financing to Food Systems

18 Central Bank of Kenya 2020 Bank Supervision Annual Report

19 <https://www.bb.org.bd/en/index.php/about/deptdtl/3>

3.2 Meso-level building blocks

Actions at the meso level create a set of enablers that can drive product diversity and capital allocation while making lending less risky and costly. Based on the enablers listed in the framework above, this section reflects on three types of meso-level approaches that are key to creating a foundation for a pluralistic, market-based agri-finance market.

Approach 1: Adapting regulatory foundations of the financial system to cater to the unique requirements of agricultural finance.

Capital supply-side regulations determine which financial service providers can be active, which segments they can serve, and which products they can provide. This strongly influences the mix of providers and products available in the market. Typically, these regulations, designed for the mainstream financial market, do not account for the specific concerns of agri-finance institutions.

Regulating institutions: This dynamic shows up regularly in terms of: minimum size requirements of financial institutions, which can limit the entry of new lenders in agriculture; member liability rules for financial cooperatives; and licenses, which restrict MFIs to specific segments, services or geographies. Government regulations should allow for private financial service providers to target a wider range of market segments to support increased competition both between private providers and with state-owned enterprises.²⁰ For example, in 2024, the Egyptian Financial Regulatory Authority issued a new license which allows the provision of credit in ticket sizes and distribution channels tailored to the requirements of SMEs. This allowed for financial products that bridge the gap between MFIs and commercial banks.²¹ Within months, the non-bank financial services provider EFG Finance had acquired this new license and is now launching a subsidiary focused on SME finance.

Regulating products: Expanding the legal, regulatory, and institutional infrastructure to allow for products such as warehouse receipts, factoring, and leasing is critical to increasing the range of fit-for-purpose financial products in the market. There are a number of examples of where this has been done. The Ghana Commodity Exchange has worked with the Securities and Exchange Commission to establish a warehouse receipts system to enhance access to finance for farmers and traders. This system has seen uptake mainly from maize farmers who are leveraging certified warehouses to access finance and maximize the price they receive for their crops. In Zambia, legislation introduced in 2017 allows banks to engage in secured lending practices using off-take guarantees as collateral.²² This has enabled the emergence of tripartite financing agreements between traders, farmers, and banks. One such agreement enables the Palabana Dairy Cooperative Society to access loans from local bank Zanaco as Parmalat provides a guaranteed market for the cooperative's milk and pays directly into the cooperative's account at Zanaco.

Approach 2: Unlocking capital through appropriate risk recognition and management requirements.

Tailoring prudential requirements: IFRS 9 and Capital Adequacy Ratios (CARs) often deter financial institutions from lending in high-risk sectors, such as agriculture, as they would require setting aside significant amounts of capital as reserves to cover these loans.²³ While CAR requirements are based on international frameworks, national governments often apply them more conservatively than required and could relax them (or counter-balance them with incentives) to better reflect actual risk. For example, efforts to manage inflation and reduce budget deficits have led East African countries to impose CAR requirements significantly higher (10–15%) than the Basel III requirements (8.5%). Rwanda has experienced the impacts of such policies: In a comparison of four East African countries, it had both the highest CAR requirements (15%) and the lowest allocation of commercial lending to agriculture (2%).²⁴

20 World Bank 2018 Future of Food: Maximising Finance for Development in Agricultural Value Chains

21 [Egypt's EFG Finance is launching a new subsidiary to finance SMEs](#)

22 https://bowmanslaw.com/wp-content/uploads/2023/06/Africa-Guide-Financing-Transactions_2023-03-Zambia-full.pdf

23 Aceli Africa 2022 The Effects of Central Bank Policies on Lending to Agri-SMEs in East Africa

24 Aceli Africa 2022 The Effects of Central Bank Policies on Lending to Agri-SMEs in East Africa

Adapting collateral requirements: Collateral requirements tend to be prohibitively high and restrictive for agri-SMEs and smallholder farmers. Central bank policies mean lenders often require collateral coverage of at least 125% in their formal policies – and often as high as 150-200% in practice – in the form of fixed assets for agricultural loans.²⁵ Further, commercial bank collateral policies typically require formal land titles, which is an impediment in many rural areas with informal land title traditions. Legislation should allow for a wider range of movable and immovable collateral types, such as warehouse receipts, equipment, and leasing arrangements, and be supported by efficient collateral registries to enable wider lending.²⁶ Reforms in the OHADA²⁷ Uniform Act on Secured Transactions allowed for the use of a wider range of assets as collateral in 17 African countries. This led to significant increases in private sector domestic credit in the majority of countries studied. In Burkina Faso, for example, domestic credit to the private sector was 894 million USD more during 2011–2015 than it would have been without the reform.²⁸

Loan provisioning: Additional reforms to loan provisioning should better align regulations with the unique features of agricultural loans. This could include adapting provisioning requirements, which were designed for other sectors and unnecessarily add to the cost of agri-lending without being predictive of loan defaults.²⁹ For example, delays in payments of agri-loans may be related to seasonal harvest fluctuations, which do not necessarily indicate an underlying weakness of the borrower.

Loan classifications: To better reflect the diversity of activity within the agricultural sector, more granular and standardized loan classifications are needed. These enable financial institutions and governments to form a more nuanced understanding of the financing available to—and the level of risk associated with—particular segments.³⁰

Insights from sector-level reporting can then be applied to help governments develop targeted micro-level interventions and ensure prudential requirements that are relevant to agri-finance. Establishing this transparency in the sector is currently inhibited by the lack of a standardized loan classification that captures information about the types of agricultural clients, specific value chain segments and commercial activities funded, and inconsistencies in reporting by financial institutions.³¹

As an example of what could be achieved with standardized loan classifications and reporting, Aceli Africa has been gathering data over the past five years using a standardized methodology for 40 lenders in five countries in East & Southern.³² This publicly available analysis is leading to an increased understanding of the challenges of financing agri-SMEs, including the identification of financing gaps. Understanding how loans perform and impact can be achieved across agri-SME segments and how to assess and achieve ‘value for money’ can inform which policies are most effective in stimulating a vibrant agri-SME sector.³³

Approach 3: Stimulating innovation with the right safeguards through creating enabling policies and infrastructure. Governments are uniquely positioned to invest in infrastructure that helps overcome challenges related to the high operational costs associated with serving a widely dispersed, largely informal sector.

Regulatory sandboxes: Policy and regulation should also include safe environments, such as regulatory sandboxes, for testing innovative products and services.³⁴ In Kenya, the SACCO Societies Regulatory Authority works closely with cooperatives to address emerging demand for new forms of credit, such as asset and receipt financing, through a rapid approval process. By standardizing the process and directly training

25 IFC 2011 Scaling Up Access to Finance for Agriculture

26 IFC 2011 Scaling Up Access to Finance for Agriculture

27 Organization for the Harmonization of Business Law in Africa

28 IFC 2018 An Impact Assessment of OHADA Reforms

29 MFW4A 2012 Policy Brief on Agricultural Finance in Africa

30 Moving Frontiers 2024 Designing a taxonomy for Agricultural Credit Classification (unpublished)

31 Moving Frontiers 2024 Designing a taxonomy for Agricultural Credit Classification (unpublished)

32 Aceli benchmarking report 2024

33 Aceli Africa 2024 Learning report: Year 3. Unlocking Finance for African Agriculture

34 World Bank 2017 MSME Finance Gap

SACCOs, the Authority has reduced approval times for new products to one month, allowing financial cooperatives to evolve alongside their customers.

Digital public infrastructure (DPI): DPI is increasingly recognized as a key enabler of financial service innovation.³⁵ Through the core elements of digital identity, digital payments infrastructure, and data-sharing mechanisms, DPI addresses information asymmetries. This enables financial institutions to better assess risk and inform decisions. Due to the level of personal data required for the delivery of financial services, it is vital to have clear regulations ensuring data privacy.

Consumer protection: Consumer protection is required so financial services do not lead to the over-indebtedness of customers, especially in cases where limited financial literacy makes them more vulnerable to products with potentially exploitative terms or features. India, which has seen rapid progress in financial inclusion, partially driven by advances in digital financial services, recently updated its consumer protection act to include new forms of products and services. The revised regulations include online transactions and e-commerce, as well as provisions that hold service providers accountable for product liability and unfair contracts. Consumer disputes are resolved through a three-tier judicial system operating at the district, state, and national levels to provide an accessible and efficient platform.³⁶

35 UNDP 2023 The Human and Economic Impact of Digital Public Infrastructure

36 <https://lawcrust.com/consumer-protection-laws-india/>





4. CATALYZING AGRI-FINANCE MARKETS: MICRO-LEVEL GOVERNMENT ACTIONS THAT CAN STIMULATE LENDING



Many segments of agri-finance in emerging markets are less commercial than alternative asset classes, requiring some form of market intervention to activate lending. A recent analysis of bank portfolios in East Africa conducted by Aceli Africa and Dalberg Advisors found that lending to agri-SMEs by commercial banks yielded a profit before tax of 3.1%, compared to government bond yields of 11-26%, and overall profitability levels in other sectors of 32-44%. This represents a quantified opportunity cost of 29-41% for banks choosing to deploy capital to agri-SMEs, something lenders across the globe have been asserting for decades.³⁷

In this context, Government actions at the micro level can activate lending in specific segments of the market by changing the business case for private sector participation.

They can do this by:

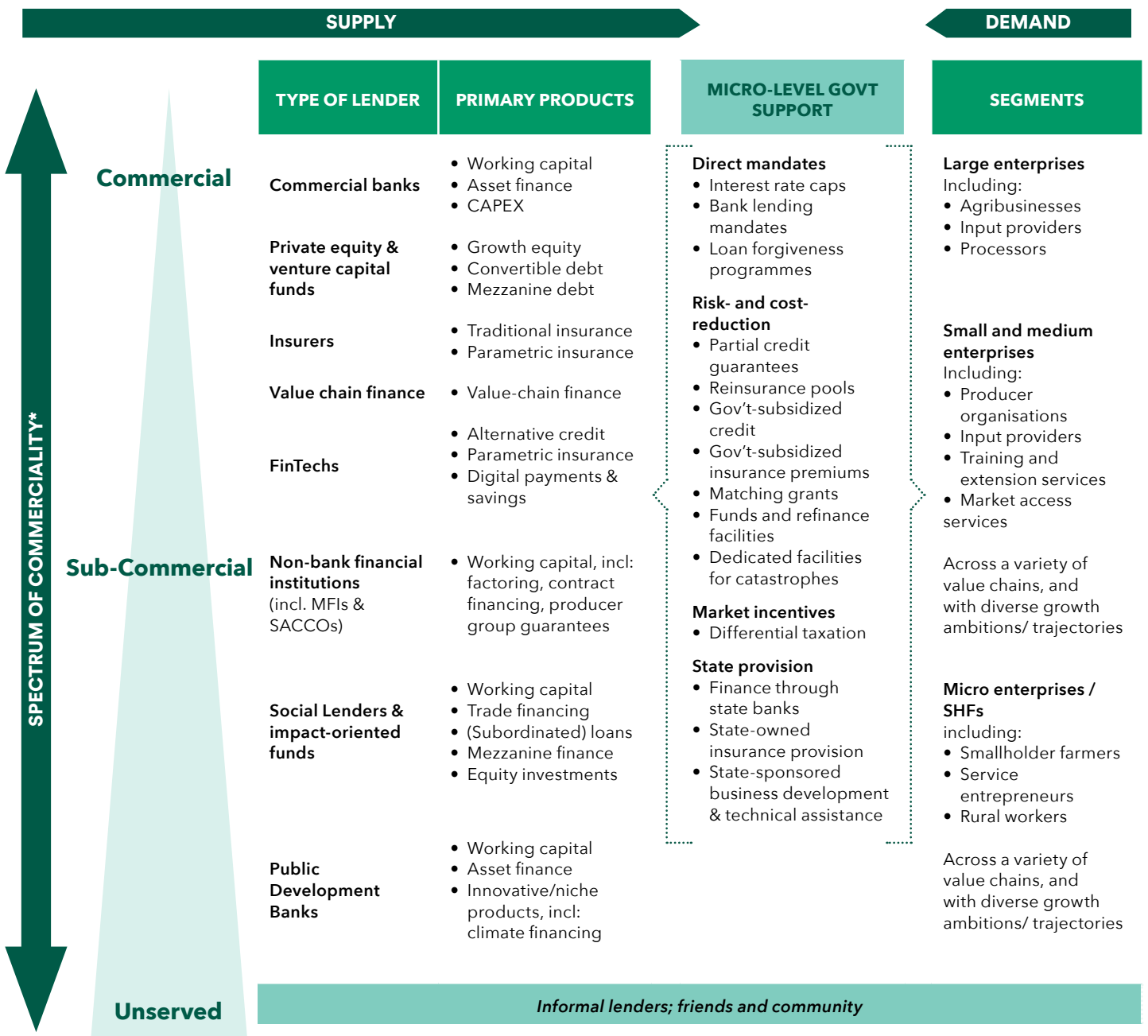
1. Directly mandating lending;
2. Offsetting the cost or risk of lending;
3. Creating positive incentives to increase revenues and defray transaction costs; or
4. Directly providing financial services.

Choosing which intervention to implement and how to structure it depends on each country's context, including the motivations of supply-side lenders and needs of demand-side borrowers. Figure 3 illustrates the diversity of actors active in the agri-finance market and outlines the different tools and approaches that can be used by governments to activate lending in different parts of the market.

³⁷ Aceli Africa 2023 Benchmarking report: Profitability of Agricultural SME Lending in East Africa

FIGURE 3

Market clearing model for agri-finance



*Lending channels are arranged on a general spectrum of commerciality. Individual institutions or portfolios may have different underlying orientations

4.1 The state of evidence and documentation of micro-level interventions to inform government action

Past ISF research reviewed how governments build agri-finance markets, but stopped short of systematically establishing a set of primary intervention options at the micro level and assessing those options.³⁸ In order to bring more evidence and learning to the questions of how governments can best stimulate agri-finance lending at the micro level, this section draws on a structured profiling and review of the most common actions across Africa, Asia, and Latin America. Through this review a few things became clear:

First, no existing sources were found that systematically gathered, cataloged, or profiled information about the range of options available to governments to support agri-finance market development. In over 90 documents reviewed, the vast majority were related to a single approach or were contextual analyses of policy implementation that did not have a comparative element.³⁹ This lack of aggregation or comparison makes it difficult for governments to weigh different perspectives when designing policy and strategy.

Second, across the sources reviewed, there was wide variation in both the volume of evidence and level of detail available for individual interventions. Studies on interest rate caps, for example, provided detailed evidence of post-implementation impacts,⁴⁰ while studies of other interventions, such as subsidized credit and interest rates, provided more generalized⁴¹ or historical learnings⁴² with less specific links to types of impact.

Third, literature was also limited in the degree to which it examined the contribution of unique contextual factors on the efficacy of an intervention. Where it did, research was not consistent across examples or interventions, making it difficult to derive causation around what does or does not work in specific contexts.

These findings are perhaps unsurprising given the level of complexity and contextual specificity for the goals, design, and application of these government interventions. However, even with these limitations, the systematic profiling and evidence assessment conducted through this research breaks new ground, providing a consolidated view to inform future learning while also having practical implications for how governments can develop agri-finance markets. Reflecting on this profiling and review:

- **The existing evidence base does not (yet) support conclusions around:**
 - *Clear statements of the efficacy and impact of individual government interventions on relevant outcomes or*
 - *The ideal application context for specific interventions.*
- **However, it does support conclusions around:**
 - *Where tools and approaches have been used most extensively to activate different channels of agri-finance, and in what ways;*
 - *The common range of impacts for individual interventions, including examples of where different impacts have been realized; and*
 - *Best practices for the design and implementation of individual interventions.*

In the following section, we present lessons learned, illustrating them with relevant examples from the evidence base.

38 ISF, 2020 Role of Government in Rural and Agri-Finance, 2020

39 MFW4A 2012 Policy Brief on Agricultural Finance in Africa

40 World Bank 2018 The impact of interest rate caps on the financial sector: evidence from commercial banks in Kenya

41 IMF 2019 Earmarked Credit and Public Banks

42 World Bank 1997 Credit Policies: Lessons from East Asia

4.2 The evidence around frequency of use and effectiveness of different tools and approaches

While it remains almost impossible to identify causal effects of micro-level interventions, the literature identifies a range of potential outcomes related to each intervention type and documents how frequently they are applied. These are captured in Annex II for each micro-level intervention alongside considerations and best practices to encourage positive long-term impacts.

Directly mandating lending: Historical evidence shows that mandated actions are rarely effective at achieving their policy objectives and sometimes damage agri-finance markets. For example, Kenya imposed an interest rate cap across sectors in 2016 as an effort to control prohibitively high interest rates and increase credit flows to SMEs across all sectors. The cap was implemented as a standalone measure without complementary regulations to address the underlying factors causing these high rates. The cap unintentionally reduced growth in credit flows to the private sector from 13.6% to 3.8%, leading to a withdrawal of the measure in 2019. This example highlights how caps can discourage lenders from making small loans or force financial institutions to lend at non-viable rates.⁴³

Similarly, while lending mandates may drive capital to targeted sectors, this finance is typically mobilized to larger, less risky segments. For example, India's priority sector lending program used loan mandates to drive more lending to the agricultural sector, however, it was not able to reach the small and marginal farmers that account for up to 85% of land holdings as it did not address the fundamental challenges these groups face in accessing formal finance such as financial literacy and informal land titling.⁴⁴

Offsetting the cost or risk of lending: Well-designed, partial credit guarantee schemes have shown links to increased lending to underserved segments—such as agri-SMEs, women and youth—providing financial additionality by increasing the availability of credit or reducing its costs.⁴⁵ For example, Since 2018, the 10-year partnership between USAID and Rabo Foundation (Rabobank's social fund) in collaboration with Ananya Finance for Inclusive Growth and the Samunnati Financial Intermediation and Private Services, sought to provide up to USD 15.3M in local financing to small and medium private enterprises engaged in sustainable and low emission land use in India.⁴⁶ This climate-smart agriculture supported by the Government of India to ensure a flourishing agricultural sector and healthy forests. The guarantees were found to be effective, as they provided the necessary room for financial institutions to offer credit to previously underserved groups, allowing the smallholder farmers to adopt new methods like agroforestry by accessing necessary inputs and acquiring relevant equipment.

However, poorly designed guarantees can also increase the moral hazard for clients and lenders, reducing the client's willingness to repay the loan and the lenders' incentives to conduct rigorous due diligence of clients. This can lead to higher default rates under guarantee schemes, and increasing costs to the guarantee provider. With the potential for both positive and negative effects, the evidence around guarantees in agriculture would be useful, particularly given the frequency of their application. However, the 2021 FAO impact evaluation⁴⁷ of credit guarantee schemes in agriculture noted that at the time of writing there had never been rigorous randomized controlled trials conducted. In the absence of this evidence, learnings across sectors have focused more on design principles and approaches that need to be carefully considered in each application (e.g. see recent Shell Foundation design guidance [here](#)).⁴⁸

43 World Bank 2018 The impact of interest rate caps on the financial sector: evidence from commercial banks in Kenya

44 Nathan Associates 2014 Re-Prioritizing Priority Sector Lending In India

45 OECD 2017 Evaluating Publicly Supported Credit Guarantee Programmes for SMEs

46 <https://shellfoundation.org/wp-content/uploads/2025/02/250220-Improving-the-Effectiveness-of-Guarantees-Final-Report.pdf>

47 <https://rfilec.org/wp-content/uploads/2021/12/Impact-evaluation-of-credit-guarantee-schemes-in-agriculture.pdf>

48 FAO 2021 Impact evaluation of credit guarantee schemes in agriculture

Dedicated funds and refinancing facilities for catastrophes benefit a wide range of finance providers and their clients by quickly restarting economic activities after a natural disaster and eventually rebuilding the sector. These programs, which mandate public and private banks to forgive certain loans, create additional uncertainties for financial institutions—even if these amounts are reimbursed—and tend to weaken repayment culture. As such, the effects of these tools on the agri-finance market can be mixed, creating a need for careful design and implementation.

Creating positive incentives: Tax incentives that involve reductions or exemptions from ordinary taxation can be used to stimulate lending. For example, in Brazil agricultural letters of credit are exempt from interest income tax allowing banks to attract funds at more favorable rates.⁴⁹ However, in most developing countries structural issues, including access to land, infrastructure and concessional loans are more relevant to investment decisions than tax incentives limiting their application.

Directly providing financial services: There is a renewed recognition of the value of state financial institutions that have a clear mandate, are well managed, and are linked to a broader sector development strategy. State-run retail banks can play an important role in providing ground-level infrastructure, developing credit histories of previously unbanked clients, and pioneering innovative lending approaches and delivery channels to foster digitization. Wholesale state banks oftentimes extend concessional financing to retail banking entities serving smallholder farmers (including MFIs and SACCOs), provide partial credit guarantees, and issue green and blue bonds to increase funding for environmentally positive investments.

In recent years, some countries have engaged in the establishment of “green investment banks” (GIBs), which facilitate private investment in domestic, low-carbon, environmentally resilient infrastructure. While initially focused on the energy sector, GIBs are expected to play an important role in agriculture given the sector is both an important contributor of greenhouse gas emissions and among those most affected by extreme weather events.

Although relatively few studies have rigorously examined the impacts of **technical assistance and business development services**, the evidence available indicates it increases rural lending by financial institutions and improves access to finance for agri-SMEs. The research also suggests it is a tool frequently deployed by governments to improve creditworthiness of businesses. A study of 15 business development service providers in Africa showed their services enabled SMEs to raise additional capital at a ratio of \$12 of capital for every \$1 spent on business development services.⁵⁰ Even without a control group this evidence indicates that business development services can directly unlock access to capital.

49 IMF 2019 Earmarked credit and public banks

50 ISF 2023 Effectiveness & Efficiency of Business Development Services for Agri-SMEs

The rise of blended finance as a new approach

Blended finance, which combines concessional funding from governments or development partners with commercial financing, can increase the amount of capital available for agri-finance. Blended finance approaches improve the profitability of agri-finance and mitigate real or perceived risks that would have otherwise hindered private sector investment. Despite increased use of these approaches to unlock funding for agriculture, the sector continues to underperform in terms of total blended finance transaction volume. Just 8% of total blended finance volumes tracked through Convergence related to agriculture, well below the energy sector, which accounts for 48% of the blended finance volumes.⁵¹ A few notable examples of blended finance in agri-finance include:

- **Ghana.** The Ghana Incentive-Based Risk-Sharing System for Agricultural Lending provides concessional funding in combination with technical assistance facilities for financial institutions and borrowers. This approach has reduced interest rates from a baseline of 35% to 22% while materially increasing capital flows and financial inclusion through an expanded network of participating financial institutions.

- **Mexico.** The Family Farming Financing Program in Mexico leverages a government guarantee scheme to stimulate commercial loans from cooperatives to family farmers with supportive technical assistance from the Mexican Agriculture Development Bank.⁵²
- **Rwanda.** Ireme Invest⁵³ is a green investment facility that channels private investment to agricultural projects focused on climate adaptation or mitigation. It combines financing from various capital mobilizers to provide credit, guarantees, grants, and technical assistance to SMEs and start-ups.

To effectively incorporate blended finance into agri-finance strategies, governments should: foster strategic partnerships, including with local financial institutions and multilateral development banks; enhance data transparency around blended transactions; and continue to build learning related to the effectiveness of blended structures in specific segments. Taken together, these measures will mainstream and standardize successful approaches.

51 Convergence 2024 State of Blended Finance

52 OECD 2021 Making Blended Finance Work for Agri-SMEs

53 <https://iremeinvest.rw/>

4.3 Best practice design principles and learnings

While intervention strategies and implementation will vary according to country context, the literature revealed a few shared design principles.

Implementing micro-level actions with **complementary meso-level foundations** is often critical to their short-term effectiveness and long-term impact. For example, regulations recognizing the use of *partial credit guarantees* as collateral improve the intervention's effectiveness in the short term while loosened prudential requirements will enable long-term sustainability and an eventual phase out of the scheme. Similarly, targeting agri-SMEs and smallholder farmers with *subsidized credit* is limited in effectiveness if it does not utilize the full spectrum of potential lenders, products, and services. Measures such as expanding the licensing of MFIs to increase their loan sizes to serve SMEs can bridge the lending gap for this group. Similarly, warehouse receipt financing or leasing can expand potential lending channels to underserved groups, but these forms of financing often lack the necessary enabling frameworks. *Agricultural insurance* requires extensive data and financial infrastructure to implement effectively. Without granular data on weather patterns and agricultural productivity, accurate modelling is challenging and can result in programs that expose governments to significant risk or limit their effectiveness in market building.

Similarly, combinations of micro-level actions are often needed in order to maximize the intended impact. *Technical assistance* to lenders or borrowers is often implemented to complement other interventions. This increases lenders' understanding of the targeted

segments while building borrowers' business skills and financial literacy to increase their bankability. *State-owned insurance* provision is often supported by subsidies to reduce the cost of insurance while coverage mandates ensure uptake (see box). *Partial credit guarantees and matching grants* are often implemented jointly to enable sustainable business relationships; partial credit guarantees mitigate risk for lenders while matching grants provide direct support for business development. This approach has been implemented extensively across Europe and Central Asia in World Bank initiatives and has been recently extended to India.⁵⁴

Tools must also be carefully designed to **encourage participation while incentivizing positive outcomes**. In some cases, this may mean instruments need to be responsive to changes in the market to ensure that they remain effective for their intended purpose. For example, *interest rate caps* have only been shown to be effective when set at a level that enables lenders to maintain attractive margins while reducing costs to borrowers. In contrast with the unsuccessful approach in Kenya described above, dynamic recalibration of caps in India resulted in partner financial institutions increasing their lending to targeted segments while pursuing internal efficiencies. *Partial credit guarantees* need to balance the attractiveness of the model with ensuring appropriate risk sharing between the guarantor, lender, and borrower. The Vietnamese Credit Guarantee Scheme underwent significant reforms in 2010 to create a more balanced credit risk and collateral sharing system with commercial banks. Effectively designed partial credit guarantees maintain incentives for due diligence by the loan provider while avoiding moral hazard for the borrower.

54 World Bank 2019 How Can Matching Grants in Agriculture Facilitate Access to Finance?

55 World Bank 2018 Interest rate caps: the theory and the practice

56 Asian Development Bank (ADB) 2022 Financing Small and Medium-sized Enterprises in Asia and the Pacific Credit Guarantee Schemes

The importance of complementary insurance markets

Agri-insurance markets are highly complementary to agri-finance markets through their role in de-risking rural economies and creating resilience, as documented in [previous ISF research](#).⁵⁷ In this briefing note, we present insurance as a micro-level approach to supporting private sector lending through regional risk pools, government reinsurance, insurance subsidy, and direct provision. In reality, insurance markets are often seen as distinct from finance with a unique ecosystem of players (e.g., insurers, reinsurers, brokers) and different regulatory oversight. Yet, in many ways, the foundations (data, regulation, digital enablers, distribution channels) and beneficiaries are the same and the products themselves are highly complementary. Governments seeking to build a pluralistic, market-based agri-finance system should consider how these two markets can be integrated or aligned.



4.4 Institutionalizing and implementing micro-level action

In terms of best practices in the implementation of government approaches at the micro level, several common themes emerged in the literature that were relevant across intervention types.

The **quality of intervention implementation** is a key driver of success. This includes efficient processes for application and disbursement, careful selection of partner financial intermediaries, and continuous monitoring and revision of the intervention. *Subsidized or state-provided insurance and reinsurance pools* are interventions that, if poorly executed, can create significant risk exposure for implementing governments and hinder commercial insurance market development. The complexity of risk modeling means that considerable expertise and data are required in the design and implementation of these programs. Where interventions require financial institutions to claim for reimbursement (e.g., *interest rate subsidies*), inefficient or unclear claims

settlement processes can deter financial institutions from participating. In India, the Credit Guarantee Fund Trust for Micro and Small Enterprises had a slow and complicated claim settlement process. The relatively low success rate (approximately 50%) and long settlement period (more than six months), deterred financial institutions from participating in the scheme.⁵⁸

Once interventions have been designed, ensuring their **independence from political influence** during implementation reduces risks that allocated funds will be diverted or that interventions will be modified for political purposes. Solutions include: creating independent management and governance structures; establishing clear and objective selection criteria for partners and beneficiaries, including open applications; and recruiting industry experts, not politicians, to serve on governing bodies. In Kenya, concessional funding from KfW, the German development bank, is provided through the Kenyan government to two private banks that were recruited through a competitive process and provide the credit to a highly targeted market segment.⁵⁹

57 ISF 2020 Protecting Growing Prosperity: Agricultural insurance in the developing world

58 IFAD 2014 Lessons Learned: Loan Guarantee Funds

59 AFD 2015 Agricultural Credit: Assessing the Use of Interest Rate Subsidies



Funds and refinance facilities for disaster relief must be carefully designed to ensure optimal channels for delivering fast, well-targeted relief support to households and businesses affected by natural disasters.

Interventions should **increase the capacity of financial institutions** to address targeted segments commercially in the long run. This requires implementing actions through, or in partnership with, existing financial institutions. This can be achieved by incentivizing financial institutions to increase their exposure to previously unserved market segments through initiatives such as *interest rate subsidies*, which decrease loan

profitability requirements. By increasing the volume of lending enough, financial institutions can achieve economies of scale in these segments that ensure long-term sustainability. Similarly, *insurance subsidies* can act as an incentive for private commercial companies to enter the insurance market, leading to increased competition and product innovation. *Matching grant programs* can foster linkages with the financial sector by either mandating that a part of the grant be banked with a local financial institution—as was done in a matching grant project in India⁶⁰—or requiring a portion of commercial credit to be used as part of the matching criteria.

60 World Bank 2019 How Can Matching Grants in Agriculture Facilitate Access to Finance?

5. PRACTICAL ACTIONS THAT GOVERNMENTS CAN TAKE TO BUILD MARKET-BASED AGRI-FINANCE SYSTEMS OVER TIME



This research advocates for three shifts in the way governments develop pluralistic, market-based agri-finance markets.

1. Establish the foundations of agri-finance as a distinct, pluralistic market-based agenda, regardless of the starting point. Agricultural markets have unique needs and dynamics that must be addressed through a distinct agri-finance agenda with a dedicated institutional home. A pluralistic, market-based system that integrates economic, social, and environmental outcomes is the most effective way to overcome the limitations of narrow government- or bank-led systems to achieve development objectives.

2. Develop a more strategic approach to market building centered on an integrated view of macro-, meso- and micro-level action. A market-based agri-finance system is inherently complex, with myriad public and private actors pursuing different objectives. A cross-cutting approach that coordinates the many institutions converging on the rural sector establishes a firm foundation for long-term, sustainable agri-finance market development. Governments would benefit from implementing co-development approaches alongside key private sector actors, including industry associations, large financial service providers, and agri-corporates. Regular, structured dialogues and industry roundtables help prioritize private sector needs while integrating social and environmental concerns to create shared policy solutions.

3. Segment the market clearly and draw on evidence around best practices for each segment when attempting to achieve outcomes in agri-finance markets at the micro level. Certain market segments will require some form of government

intervention to catalyze lending. These interventions are most effective when they are clearly targeted and draw on available evidence in design and implementation.

Practically Applying This Research

As part of understanding the current state of the agri-finance market, this research presents a series of tools and diagnostics in Annex 1 that enable comparisons of market maturity across countries, rapid assessments of macro-level foundations and meso-level building blocks, and a mapping of finance supply and related micro-level actions. It is envisaged that these tools could be used to conduct a baseline evaluation of key areas in agri-finance systems and encourage conversations about what would need to change from a strategy and policy perspective for a country to build a pluralistic, market-based agri-finance system.

Based on this research and the tools referenced, we propose a four-stage “Framework for government action,” represented in Figure 4.

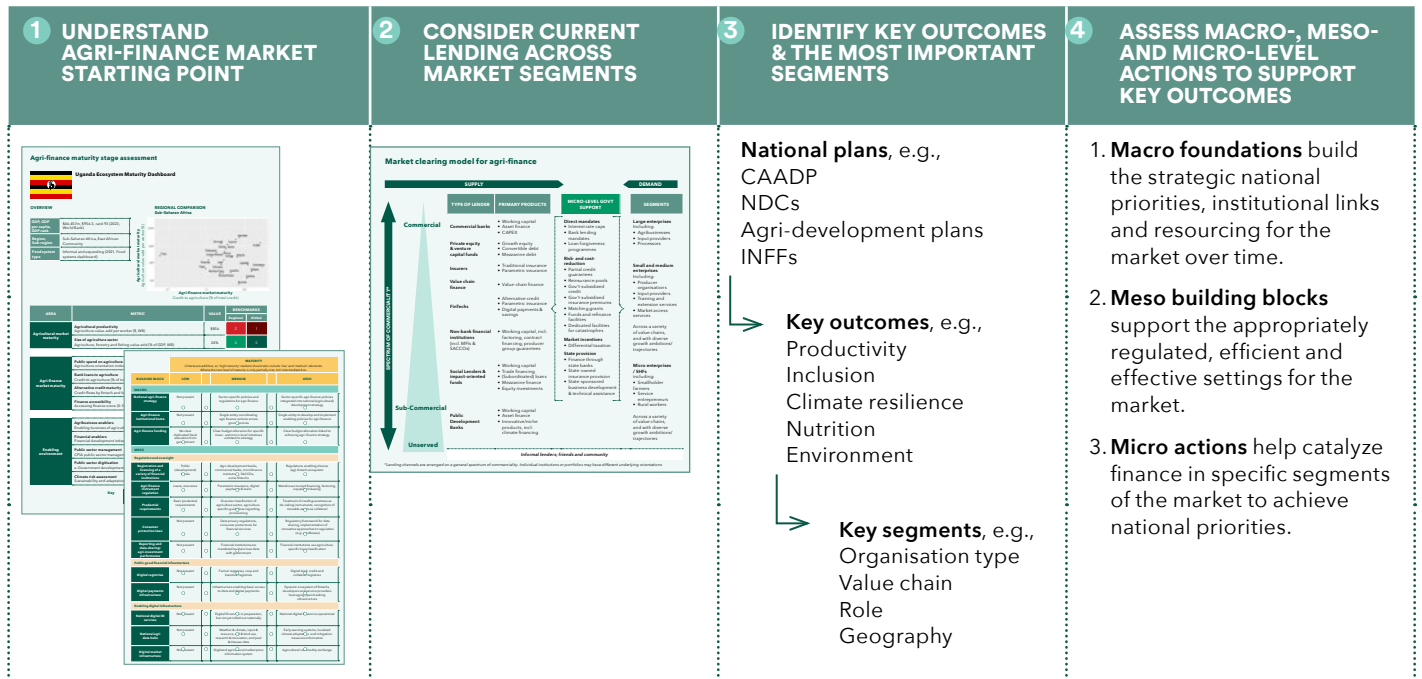
1. *Understand the starting point of the agri-finance market in a particular country*

The “maturity stage assessment” (Annex 1a) draws on a set of publicly available indicators to illustrate the maturity of a country’s agri-finance markets and its enablers. Global and regional benchmarks allow for identifying areas of overperformance and underperformance. The “agri-finance scorecard” (Annex 1b) allows for a rapid assessment of current government initiatives across the macro and meso levels using maturity scales for each of the building blocks. Micro-level actions can be assessed using a profiling framework, which provides a basic characterization of each action.



FIGURE 4

FRAMEWORK FOR GOVERNMENT ACTION



2. Consider the state of current market lending in the economy across different segments

The micro-level “market clearing model” (Annex 1c) provides a framework for mapping finance flows between lending channels and segments of the agricultural sector to gain a high-level view of financing activity. It also integrates micro-level actions from annex 1b to show how these actions may be influencing market activity. While determining the effectiveness of micro-level actions requires a depth of research that can’t be reached in a rapid assessment, this approach can guide entry points for further research.

3. Consider which are the most important outcomes in national plans and which segments are most important for delivering against those priorities

To determine priority development outcomes where these have not been explicitly formulated, the user should review relevant policy documents that outline agriculture, agri-finance, and rural development plans. From these, the user can distill specific livelihood, resilience, and

inclusiveness outcomes that are important for the country, and which can be addressed through agri-finance. Once identified, the user should consider which agricultural segments are most important for delivering these outcomes, which will support initial thinking around how to target relevant interventions.

4. Assess what combination of macro-, meso- and micro-level actions will support desired outcomes through a sustainable agri-finance market over time

As described in this report, actions are ideally implemented as an integrated strategy where:

- Macro foundations build the strategic national priorities, institutional links, and resourcing for the market over time;
- Meso building blocks support the appropriately regulated, efficient, and effective settings for the market; and
- Micro actions catalyze finance in specific segments of the market to achieve national priorities.

Future research

Looking ahead, this research has revealed areas for additional investigation.

- Existing and potential **governance models for the design and implementation of agri-finance strategies**, depending on a country's institutional setup, should be explored. As noted, having a distinct, centralized governance body is a key contributor to agri-finance success, but there are not many existing models. Research should explore which actors are best placed to lead and participate in these initiatives—considering both public and private stakeholders—and how the governance body would be funded.
- Further research should be pursued around the most **effective approaches to facilitate public-private dialogue** to enable effective policy making for the development of agri-finance markets. This can draw on initiatives in agricultural development and adjacent sectors, leveraging best practices around convening of forums for dialogue, engagement of industry bodies, and creation of regulatory sandboxes.
- Greater knowledge is needed on the **effectiveness of regulations affecting the supply of financial services**, including: relaxing legal limitations on social lenders and non-bank financial institutions; increasing the types of licensed financial services which financial institutions can provide; and expanding the types of collateral that can be accepted. This research will inform where and how to implement such reforms.
- More should be learned about **how to improve the amount and quality of data available to governments** regarding agricultural finance. One example of a relevant initiative is the Agri-SME Evidence Fund, managed by the International Growth Centre in collaboration with Aceli, which is generating evidence on agri-SME finance. Ideally, data collected would begin to include mandated reporting by financial service providers on agricultural loans based on more granular loan classifications.
- More research around the **blended finance and pay-for-performance approaches** being used by governments to stimulate private sector investment in agri-finance could inform deployment of these approaches in the future.



About ISF Advisors

ISF Advisors is the leading strategic and financial advisory group committed to mobilizing capital for a more sustainable, equitable, and productive global food system. Building on a decade of industry research, the ISF Advisors team combines experience from top-tier strategy, investment banking, and corporate finance firms to help the public and private sector develop more practical, profitable, and sustainable financial solutions. This combination of expertise allows us to analyze problems with a systems lens and structure investment solutions that mobilize different forms of investment and philanthropic capital.



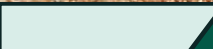
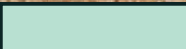
About Aceli Africa

Aceli Africa is a market catalyst to increase lending to agricultural SMEs so they can realize their growth and impact potential on farmer and worker livelihoods, regional food security, and sustainable environmental practices. Drawing upon new data from 45 lenders on the economics of financing agricultural SMEs, Aceli Africa offers financial incentives to lenders and technical assistance to SMEs to mobilize \$1.5 billion in private sector lending and improve livelihoods for 4 million farmers and workers by 2030.



Authorship

ISF Advisors produced this research in partnership with Aceli Africa. This research was led by Matt Shakhovskoy and Jan Priebe (ISF Advisors) with senior advisory support from Juan Buchenau. Brian Milder (Aceli), Sharon Mosin (Aceli), Freddy Bob-Jones (Aceli), Clara Colina (ISF Advisors) and Dan Zook (ISF Advisors) provided valuable advisory and editorial support, with design and publishing support provided by Meredith Dodds (GDI) and Rehema Kahurananga (Aceli).



6. ANNEX I: INTEGRATED AGRI-FINANCE MARKET DASHBOARDS

- a. Quick **maturity stage assessment** that compares countries at the highest level based on their stage of agri-finance ecosystem maturity using publicly available data

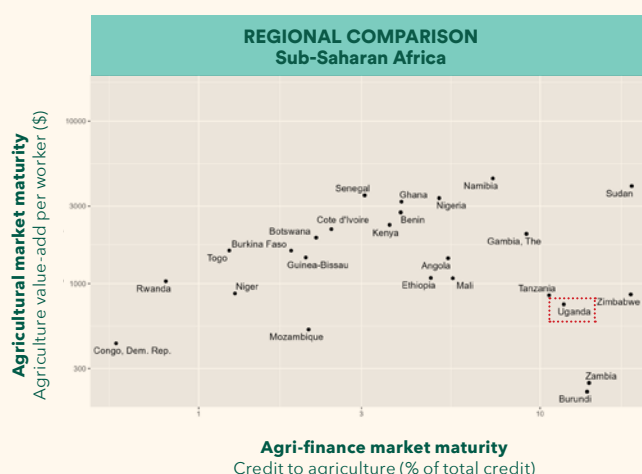
1

Maturity stage assessment



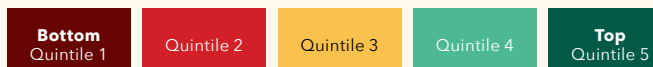
Uganda Ecosystem Maturity Dashboard

| OVERVIEW | |
|-------------------------------|---|
| GDP, GDP per capita, GDP rank | \$48,769m, \$1,002, rank 91 (2023, World Bank) |
| Region, Sub-region | Sub-Saharan Africa, East African Community |
| Food system type | Informal and expanding (2021, Food systems dashboard) |



| AREA | METRIC | VALUE | BENCHMARKS | |
|------------------------------|--|-------|------------|--------|
| | | | Regional | Global |
| Agricultural market maturity | Agricultural productivity Agriculture value-add per worker (\$, WB) | \$754 | 2 | 1 |
| | Size of agriculture sector Agriculture, forestry and fishing value add (% of GDP, WB) | 24% | 4 | 5 |
| Agri-finance market maturity | Public spend on agriculture Agriculture orientation index (gov't ag spend / ag value add, FAO) | 0.1 | 3 | 2 |
| | Bank loans to agriculture Credit to agriculture (% of total credit, FAO) | 12% | 5 | 5 |
| | Alternative credit maturity Credit flows by fintech and big tech companies (% of GDP, WB) | 0.9% | 4 | 4 |
| | Finance accessibility Accessing finance score (0-100, WB) | 80 | 5 | 5 |
| Enabling environment | Agribusiness enablers Enabling business of agriculture score (0-100, WB) | 52 | 5 | 3 |
| | Financial enablers Financial development index (0-100, IMF) | 10 | 2 | 1 |
| | Public sector management CPIA public sector management score (0-100, WB) | 59 | 5 | NA |
| | Public sector digitisation e-Government development index (0-100, UN) | 45 | 4 | 2 |
| | Climate risk assessment Sustainability and adaptation score (0-100, ND-GAIN) | 38 | 3 | 1 |

Key



Maturity stage assessment

| Metric | Agricultural market maturity | | | | Agri-finance market maturity | | | | Enabling environment | | | |
|---------------------------------------|---|---|---|---|--|--|--|--|---|---|---|--|
| | Agricultural productivity | Size of agriculture sector | Public spend on agriculture | Bank loans to agriculture | Alternative credit maturity | Finance accessibility | Agribusiness enablers | Financial enablers | Public sector management | Public sector digitisation | Climate risk assessment | |
| Indicator | Agriculture value-added per worker (\$, WB) | Agriculture forestry and fishing value added (% of GDP, WB) | Agriculture index (govt. ag. spend / ag value add, FAO) | Credit to agriculture (% of total credit, FAO) | Credit flows by fintech and big tech companies (% of GDP, WB) | Accessing finance score (0-100, WB) | Enabling business score (0-100, WB) | Financial development index (0-100, IMF) | CPIA public sector management score (0-100, WB) | e-Government development index (0-100, UN) | Sustainability and adaptation score (0-100, ND-GAIN) | |
| Description | Measure of labor productivity; value added per unit of input. Value added denotes the net output of a sector after adding up all outputs and subtracting intermediate inputs. | The net output of a sector after adding up all outputs and subtracting intermediate inputs. | Agriculture Share of Government Expenditures, divided by the Agriculture Share of GDP, where Agriculture refers to the agriculture, forestry, fishing and hunting sector. | Amount of loans provided by the private/commercial banking sector to producers in agriculture, forestry, fishing and hunting sector, including household producers, cooperatives, and agro-businesses | Measures new lending provided by fintech and big tech companies over a calendar year, normalised by nominal GDP. | Measures laws and regulations on the use of warehouse receipts as collateral to obtain credit as well as key aspects related to financial inclusion. | Assess whether governments make it easier or harder for farmers to operate their businesses: identifies regulatory obstacles to integration and entrepreneurship in agriculture. | Measures how developed financial institutions and financial services are in terms of depth, access and efficiency. | Measures property rights and rule-based governance, quality of budgetary and financial management, efficiency of revenue mobilization, quality of public administration, and transparency, and corruption in the public sector. | A composite measure of three important dimensions of e-government: provision of online services, telecommunication connectivity and human capacity. | Summarizes a country's vulnerability to climate change and other global challenges in combination with its readiness to improve resilience. | |
| SAMPLE SIZE: | | | | | | | | | | | | |
| Total | 158 | 172 | 135 | 110 | 84 | 101 | 101 | 183 | 74 | 193 | 185 | |
| East Asia & Pacific | 19 | 22 | 18 | 14 | 15 | 12 | 12 | 29 | 14 | 30 | 30 | |
| Europe & Central Asia | 45 | 51 | 43 | 27 | 25 | 34 | 34 | 47 | 4 | 52 | 47 | |
| Latin America & Caribbean | 26 | 31 | 23 | 25 | 12 | 14 | 14 | 33 | 8 | 33 | 32 | |
| Middle East & North Africa | 16 | 16 | 12 | 9 | 7 | 5 | 5 | 19 | 2 | 20 | 20 | |
| North America | 1 | 0 | 2 | 2 | 2 | 2 | 2 | 2 | 0 | 2 | 2 | |
| South Asia | 7 | 7 | 6 | 7 | 3 | 6 | 6 | 7 | 7 | 8 | 8 | |
| Sub-Saharan Africa | 44 | 45 | 31 | 26 | 20 | 28 | 28 | 46 | 39 | 48 | 46 | |

b. **Integrated agri-finance scorecard** of government approaches to agri-finance market development, which defines key foundations, building blocks and tools.

2

Agri-Finance scorecard | Macro & Meso

| | | MATURITY <i>Criteria are additive, so 'high maturity' markets should also include 'low' and 'medium' elements. Where the next level of maturity is only partially met, tick intermediate box.</i> | | | | | |
|--|---|---|--|-----------------------|-----------------------|--|--|
| BUILDING BLOCK | LOW | | MEDIUM | | | HIGH | |
| MACRO | | | | | | | |
| National agri-finance strategy | Not present <input type="radio"/> | <input type="radio"/> | Sector-specific policies and regulations for agri-finance <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | Sector-specific agri-finance policies integrated into national (agricultural) development strategy <input type="radio"/> | |
| Agri-finance institutional home | Not present <input type="radio"/> | <input type="radio"/> | Single entity coordinating agri-finance actions across govt agencies <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | Single entity to develop and implement enabling policies for agri-finance <input type="radio"/> | |
| Agri-finance funding | No clear dedicated fiscal allocation from government <input type="radio"/> | <input type="radio"/> | Clear budget allocation for specific meso- and micro-level initiatives unlinked to strategy <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | Clear budget allocation linked to achieving agri-finance strategy <input type="radio"/> | |
| MESO | | | | | | | |
| Regulation and oversight | | | | | | | |
| Registration and licensing of a variety of financial institutions | Public (development) banks <input type="radio"/> | <input type="radio"/> | Agri-development banks, commercial banks, microfinance institutions, SACCOs, some fintechs <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | Regulations enabling diverse (ag)-fintech ecosystem <input type="radio"/> | |
| Agri-finance instrument regulation | Loans, insurance <input type="radio"/> | <input type="radio"/> | Parametric insurance, digital payments & loans <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | Warehouse receipt financing, factoring, equipment leasing <input type="radio"/> | |
| Prudential requirements | Basic prudential requirements <input type="radio"/> | <input type="radio"/> | Granular classification of agriculture sector, agriculture-specific guidelines regarding provisioning <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | Treatment of credit guarantees as de-risking instruments, recognition of movable assets as collateral <input type="radio"/> | |
| Consumer protection laws | Not present <input type="radio"/> | <input type="radio"/> | Data privacy regulations, consumer protections for financial services <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | Regulatory framework for data sharing, implementation of innovative approaches to regulation (e.g. sandboxes) <input type="radio"/> | |
| Reporting and data-sharing: agri-investment performance | Not present <input type="radio"/> | <input type="radio"/> | Financial institutions are mandated to share loan data with government <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | Financial institutions use agriculture-specific loan classification <input type="radio"/> | |
| Public good financial infrastructure | | | | | | | |
| Digital registries | Not present <input type="radio"/> | <input type="radio"/> | Farmer registries, crop and livestock registries <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | Digital land, credit and collateral registries <input type="radio"/> | |
| Digital payments infrastructure | Not present <input type="radio"/> | <input type="radio"/> | Infrastructure enabling basic access to data and digital payments <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | Dynamic ecosystem of fintechs, developers and service providers leveraging open banking infrastructure <input type="radio"/> | |
| Enabling digital infrastructure | | | | | | | |
| National digital ID services | Not present <input type="radio"/> | <input type="radio"/> | Digital ID service in preparation, but not yet rolled out nationally <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | National digital ID service operational <input type="radio"/> | |
| National agri data hubs | Not present <input type="radio"/> | <input type="radio"/> | Weather & climate, input & resource, soil & land use, research & innovation, and pest & disease data <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | Early warning systems, localized climate adaptation- and mitigation- measures information <input type="radio"/> | |
| Digital market infrastructure | Not present <input type="radio"/> | <input type="radio"/> | Digitized agricultural market price information system <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | Agricultural commodity exchange <input type="radio"/> | |

2

Agri-Finance scorecard | Micro level

| MICRO LEVEL | PROFILE OF MICRO-LEVEL TOOLS AND APPROACHES | | | | |
|--|--|---|--|---|--|
| | EXISTS IN MARKET | TARGET LENDING CHANNELS | TARGET MARKET SEGMENTS | TERM (YEARS OF OPERATION) | HEADLINE GOAL |
| DIRECTLY MANDATING ACTIONS FOR THE PRIVATE SECTOR | | | | | |
| Interest rate caps | Indicate whether intervention is currently active (Yes/No) | Indicate which lending channels are impacted by intervention Includes: <ul style="list-style-type: none"> Commercial Banks Private equity & venture capital funds Insurers Value chain finance Fintechs Non-bank financial institutions (incl. MFIs & SACCOs) Social Lenders & impact-oriented funds Public development banks | Indicate which segments of the market are targeted Size <ul style="list-style-type: none"> Large Medium Small Micro / Smallholder Value-chain <ul style="list-style-type: none"> Crop (specify) Livestock (specify) Role <ul style="list-style-type: none"> Production Value addition Services Geography <ul style="list-style-type: none"> Specify | Indicate key components of intervention, including (where relevant): Term: years of operation Size: estimated budget for intervention Design, including: size of subsidy / level of caps or mandated lending / elements of technical assistance / mandate for financial institutions | Describe purpose and rationale of intervention as provided by initiators |
| Bank lending mandates | | | | | |
| Loan forgiveness programs | | | | | |
| ESTABLISHING RISK AND COST-REDUCTION MECHANISMS | | | | | |
| Partial credit guarantees | | | | | |
| Reinsurance pools | | | | | |
| Gov't-subsidized credit | | | | | |
| Gov't-subsidized insurance premiums | | | | | |
| Matching grants | | | | | |
| Funds and refinance facilities | | | | | |
| Dedicated facilities for catastrophes | | | | | |
| CREATING MARKET INCENTIVES FOR AGRI-FINANCE | | | | | |
| Differential taxation | | | | | |
| DIRECTLY PARTICIPATING IN AGRI-FINANCE MARKETS AS A PROVIDER | | | | | |
| Finance through state banks | | | | | |
| State-owned insurance provision | | | | | |
| State-sponsored business development services & technical assistance | | | | | |

- c. **Market clearing model**, which shows where and how finance is flowing between segments of lenders and segments of borrowers. This is based on metrics indicating the type, level, orientation and diversity of finance in a given market.

3

Market Clearing Model | Focus on supply indicators

| SUPPLY OF FINANCE | | | | | | |
|--|---|---|---|--|---|---|
| | TYPE OF LENDER | EST VOLUME OF FINANCE | # OF INSTITUTIONS | PRODUCTS | SEGMENTS SERVED | GOV'T SUPPORT (MESO, MICRO) |
| <p>Commercial</p> <p>Sub-Commercial</p> <p>Unserviced</p> <p>SPECTRUM OF COMMERCIALITY*</p> | Commercial Banks | Estimated volume of finance provided by lender category | Estimated number of financial institutions active in each lender category | Types of products provided by each lender category | Market segments served by each lender category | Active government initiatives targeting lender category Refer to dashboard 2 for meso- and micro-level actions |
| | Private equity & venture capital funds | | | | | |
| | Insurers | | | <ul style="list-style-type: none"> Loans Insurance Asset finance Warehouse receipt financing | <ul style="list-style-type: none"> Size Large Medium Small Micro / SHF | |
| | Value chain finance | | | <ul style="list-style-type: none"> Crop receipts Factoring Other | <ul style="list-style-type: none"> Value-chain Crop (specify) Livestock (specify) | |
| | Fintechs | | | | <ul style="list-style-type: none"> Role Production Value-addition Services | |
| | Non-bank financial institutions (incl. MFIs & SACCOs) | | | | <ul style="list-style-type: none"> Geography Specify | |
| | Social Lenders & impact-oriented funds | | | | | |
| | Public development banks | | | | | |
| | <i>Informal lenders; friends and community</i> | | | | | |

*Lending channels are arranged on a general spectrum of commerciality. Individual institutions or portfolios may have different underlying orientations

7. ANNEX II: TAXONOMY OF MICRO-LEVEL GOVERNMENT TOOLS AND APPROACHES

| TOOL | DESCRIPTION [FREQUENCY OF USE, CHANNELS TARGETED] | POTENTIAL IMPACT | KEY CONSIDERATIONS & BEST PRACTICES | EXAMPLES |
|--|---|--|---|---|
| DIRECTLY MANDATING ACTIONS FOR THE PRIVATE SECTOR | | | | |
| Interest rate caps | <p>Interest rate caps are government-imposed limits on the maximum interest rates that lenders can charge borrowers.</p> <p><i>Frequency: +++</i> <i>Channels: commercial banks, state banks, MFIs, SACCOs</i></p> | <ul style="list-style-type: none"> + May increase lending to prioritized sectors + Force banks to reduce operational costs and increase efficiency - Likely to reduce overall lending to prioritized sectors - Likely to shift lending to larger, less risky borrowers - May lead to increases in non-interest fees and cross selling to increase bank income | <p>To prevent the market distortions and unintended impacts commonly associated with interest rate caps, implementers can:</p> <ul style="list-style-type: none"> • Determine cap levels in consultation with FSP partners to incentivize efficiency while maintaining profitability • Implement caps that dynamically track market developments, (e.g. base rate or cost of funds) • Closely monitor lending under interest rate caps to identify and correct market distortions early • Combine interest rate caps with interest rate subsidies to prevent financial exclusion of smaller, more risky segments | <p>Kenya: Implementation of cap in August 2016.</p> <p>Zambia: Implementation of cap in January 2013, reversal in November 2015.</p> <p>India: Fixed cap set in December 2011, replaced with flexible system in 2014.</p> <p>Chile: gradual reduction in rates from 2013.</p> |
| Bank lending mandates / loan quotas | <p>Bank lending mandates require commercial banks to lend a certain portion of their portfolio to specific sectors.</p> <p><i>Frequency: ++</i> <i>Channels: Commercial banks, state banks</i></p> | <ul style="list-style-type: none"> + May increase lending to prioritized sectors - Increased lending typically targets larger, less risky enterprises - Banks may increase their lending to existing customers, leading to over-indebtedness risk - May discourage entry of foreign banks as they face higher costs of lending to agriculture - Reduces asset quality in banking system due to increased ratio of non-performing loans | <p>While there is little evidence for the positive impacts of lending mandates on agri-finance markets, several measures may facilitate positive impact:</p> <ul style="list-style-type: none"> • Lending mandates are implemented with mutually reinforcing government economic plans • Lending mandates complement existing private business and private financing structures • Lending mandates facilitate detailed appraisal of financed firms and projects to prevent high loan losses • Lending mandates are combined with technical assistance (supply and demand side), credit guarantees and/or subsidized credit to prevent exclusion of smaller, more risky segments | <p>Brazil: Lending mandates to sectors including agriculture, housing, and infrastructure.</p> <p>Philippines: Mandated bank lending to SMEs.</p> <p>India: Lending mandates to priority sectors & segments including agriculture, SMEs, and export-oriented industries.</p> |
| (Partial) loan forgiveness programs | <p>Loan forgiveness programs are government-sponsored and enforced programs that aim to reduce the level of debt borne by farmer-borrowers.</p> <p><i>Frequency: +</i> <i>Channels: Commercial & state banks, MFIs and SACCOs</i></p> | <ul style="list-style-type: none"> + Loan forgiveness programs provide financial relief, allowing SHF to invest in farming practices without the burden of debt + Loan forgiveness can potentially help address social inequities by supporting smallholder and marginalized farmers who are often the most indebted and vulnerable + Can improve financial stability of financial institutions by enabling them to write off bad debt and access refinancing - Risk of moral hazard where farmers take on excessive debt or default with the expectation loans will be forgiven - Farmers may become dependent on government support, reducing incentives for managing finances and mitigating risk - These programs can place significant fiscal burden on governments | <p>Approaches to mitigate the most significant negative impacts of loan forgiveness programs can include:</p> <ul style="list-style-type: none"> • Evaluating the financial impact on both the lending institutions and farmers to ensure it doesn't jeopardize financial stability • Designing the program so that it provides incentives to recover at least part of the loan • Ensure transparency and accountability in the administration of the program through a clear communication of the terms and conditions as well as a robust monitoring and evaluation framework • Coordinate the program with other agricultural support programs and relevant stakeholders to maximize its effectiveness | <p>Peru: Peru has used diverse loan forgiveness programs to support farmers recovering from natural catastrophes and to allow public agricultural banks to offload bad debt.</p> <p>India: In 2008, the government of India enacted one of the largest borrower bailout programs, (partially) cancelling debts for up to 60m rural households</p> |

| TOOL | DESCRIPTION [FREQUENCY OF USE, CHANNELS TARGETED] | POTENTIAL IMPACT | KEY CONSIDERATIONS & BEST PRACTICES | EXAMPLES |
|--|--|---|--|--|
| ESTABLISHING RISK AND COST-REDUCTION MECHANISMS | | | | |
| Partial credit guarantees (PCGs) | <p><i>A credit guarantee is a risk mitigation instrument where a guarantor agrees to partially compensate lenders if borrowers' default. It acts as a substitute for collateral required from borrowers.</i></p> <p><i>Frequency: ++</i></p> <p><i>Channels: Commercial banks, state banks, MFIs, SACCOs</i></p> | <ul style="list-style-type: none"> + De-risking financing can increase lending to the prioritized sectors + Can reduce cost of borrowing, making credit more attractive to borrowers + Leverages concessional capital to attract private lenders to underserved sectors + Can encourage lending to new segments, such as women and youth + Can enable borrowers to establish financial records to obtain credit from other lenders - Introduces risk of moral hazard on part of lender - May introduce concentration risk if guarantees are narrowly targeted and/or FIs focus lending on existing borrowers | <p>PCGs have a variety of positive impacts on agri-finance market development when implemented effectively in the appropriate context:</p> <ul style="list-style-type: none"> • PCGs are most effective to address information asymmetries or lack of collateral • They should ideally be implemented with complementary actions focused on growth and financial inclusion • PCGs are effective counter-cyclical tools to stimulate lending during increased credit market tightness • PCGs should be targeted to balance market distortions and concentration risk • PCGs should ensure appropriate risk is carried between the guarantor, lender and borrower to maintain incentives for due diligence and prevent moral hazard • Claim settlement processes should be clear and efficient | <p>Ghana: Bank of Ghana's "Ghana Incentive-Based Risk-Sharing System for Agricultural Lending" (GIRSAL) Project, est. 2019.</p> <p>Nigeria: Central Bank of Nigeria's "Nigeria Incentive-based Risk Sharing System for Agricultural Lending" (NIRSAL), est. 2013.</p> <p>Malaysia: Malaysia has been issuing credit guarantees to SMEs through the Credit Guarantee Corporation Malaysia Berhad (CGC) since 1972.</p> |
| Reinsurance pools | <p>Governments may act as reinsurers or provide reinsurance support to help manage the systemic risks often associated with agricultural insurance.</p> <p><i>Frequency: +</i></p> <p><i>Channels: Insurance companies, state insurers</i></p> | <ul style="list-style-type: none"> + Government reinsurance support, especially for catastrophic risk layers, can crowd in private insurance and reinsurance + By removing tail-end risk from the insurance market, private insurers can offer coverage at lower costs + In high-income countries public reinsurance is associated with higher agricultural insurance penetration - May cause excessive exposure and potential liability for extreme losses for governments | <p>In order to maximize positive impacts, while minimizing risk of the scheme, implementers should:</p> <ul style="list-style-type: none"> • Conduct thorough risk assessments—bringing on board experts where necessary—in order to avoid excessive exposure • Increase sustainability of the scheme by investing in improved data collection and developing local expertise in risk assessment • Focus on extreme or catastrophic loss layers that private reinsurers may be unwilling or unable to fully cover • Integrate reinsurance with other risk management tools including insurance subsidies, disaster relief and income compensations to ensure complementarity and value for money • Reduce risk through complementary real sector programs | <p>Mexico: Agroasamex, a public sector parastatal agricultural reinsurer.</p> <p>Turkey: Milli Re, a government-owned provider of agricultural reinsurance.</p> <p>Brazil: Instituto Nacional de Resseguro do Brasil, a government-owned provider of agricultural reinsurance.</p> <p>India: National Agricultural Investment Scheme (NAIS), providing stop-loss protection by the government.</p> |

| TOOL | DESCRIPTION [FREQUENCY OF USE, CHANNELS TARGETED] | POTENTIAL IMPACT | KEY CONSIDERATIONS & BEST PRACTICES | EXAMPLES |
|--|--|--|---|--|
| ESTABLISHING RISK AND COST-REDUCTION MECHANISMS (CONTINUED) | | | | |
| Government-subsidized credit/loans | <p>Subsidized credit is a form of financial support where loans are provided at below-market interest rates through financial intermediaries to specific target groups. This is enabled through interest-rate subsidies or the provision of concessional capital for onlending.</p> <p><i>Frequency: ++</i> <i>Channels: Commercial banks, state banks, MFIs, SACCOs</i></p> | <ul style="list-style-type: none"> + interest rate subsidies can be very scalable as they require relatively little capital and leverage existing financial institutions + Can have market building effects by enabling entry to unserved segments + Can reduce dependence on informal credit sources and promote financial inclusion - Interest rate subsidies can distort markets, pricing those unable to access subsidies out of the market - Increases in demand may cause FIs to ration credit, favoring larger, less risky borrowers - Subsidization can be very expensive and difficult to control | <p>Measures and contexts can reduce market distortions and increase positive impacts.</p> <ul style="list-style-type: none"> • Subsidized credit programs must be implemented within a well-regulated and functioning financial sector that can pass on concessional capital in a targeted and efficient manner • Governments should ensure partner FIs can make independent lending decisions and prevent state interference beyond providing lending criteria • Implementation must be monitored continuously, facilitated by granular loan classifications and reporting mandates • Subsidized capital should be part of an integrated strategy for agri-finance development that will lead to lower requirements for subsidies in the long term | <p>Ghana: Interest rate subsidy (IRS) is a government program that provides a 50% subsidy on interest charges for loans to agribusinesses in select value chains.</p> <p>India: Interest relief is offered on crop loans availed under the Kisan Credit Card (KCC) scheme.</p> <p>Tanzania: Concessional liquidity is provided in its smallholder credit guarantee scheme (SCGS) to mandate partners to reduce interest rates to smallholder farmers.</p> |
| Government-subsidized insurance | <p>Government-subsidized insurance refers to a system where the government provides financial support to reduce the cost of insurance premiums for policyholders.</p> <p><i>Frequency: +</i> <i>Channels: Commercial and state insurance companies</i></p> | <ul style="list-style-type: none"> + Subsidies make insurance more affordable for farmers leading to higher uptake rates + By reducing lender risk, insurance can unlock access to credit for previously underserved market segments + Subsidies can incentivize private companies to enter the market, potentially increasing competition and innovation - Subsidies can distort price signals, providing inappropriate incentives to invest in excessively risky farming activities - Premium subsidies tend to be untargeted, leading to inefficiencies in funding allocation | <p>Measures to counter risk of market distortion, moral hazard and inefficient resource allocation include:</p> <ul style="list-style-type: none"> • Targeting insurance to de-risk commercial credit provision • Designing subsidy programs with a clear-phase out strategy, or establishing PPPs enabling government oversight, help prevent long-term reliance on subsidy • Providing capacity building and risk mitigation tools (e.g., early warnings) to farmers can prevent excessive risk taking • Using evaluations of risk exposure and risk appetite to determine premiums and coverage improve allocation • Ensuring sufficient funds and/or reinsurance are in place to cover residual risk | <p>China: Agricultural insurance premium subsidies account for 74% of total premiums and cover over 270 varieties of insurance.</p> <p>Zambia: The Farmer Input Supply Program bundles insurance with subsidized inputs, and covers all 10 provinces.</p> <p>India: The government of India agricultural insurance program covers loss due to climatic and biological factors to maintain a farmer's credit eligibility.</p> |
| Matching grants | <p>Matching grants are one-off, non-reimbursable transfers to beneficiaries that require the recipient contribute for the same specific purpose.</p> <p><i>Frequency: ++</i> <i>Channels: Commercial banks, state banks, MFIs, SACCOs</i></p> | <p><i>Evidence for impact typically focuses on productivity & profitability, rarely including access to finance.</i></p> <ul style="list-style-type: none"> + Matching grants can increase access to finance when they are designed to include financial institutions | <p>Several approaches allow governments to leverage matching grants to address structural constraints to accessing finance:</p> <ul style="list-style-type: none"> • Matching grants should be designed to include financial institutions, for example by including a commercial loan or savings as part of the matching requirement • Combining matching grants with partial credit guarantees, subsidized credit or technical assistance can enable lenders to meet requirements of a commercial loan component of the matching capital | <p>India: Chhattisgarh District Rural Poverty project mandated that beneficiaries deposited part of grant in a savings account.</p> <p>Burundi: SME Launchpad project reintegrates SMEs, which have lost access to finance due to external factors such as price fluctuations or economic crises, into the financial sector.</p> |

| TOOL | DESCRIPTION [FREQUENCY OF USE, CHANNELS TARGETED] | POTENTIAL IMPACT | KEY CONSIDERATIONS & BEST PRACTICES | EXAMPLES |
|--|--|---|--|---|
| ESTABLISHING RISK AND COST-REDUCTION MECHANISMS (CONTINUED) | | | | |
| Funds and refinance facilities | <p>Funds and refinancing facilities provide resources to finance working capital or investments by farms and MSMEs, typically targeted at specific value chains, parts of the value chains, and target groups.</p> <p><i>Frequency: +++</i></p> <p><i>Channels: Commercial & state banks, AgFintechs, MFIs and SACCOs</i></p> | <ul style="list-style-type: none"> + Ability to attract private resources, especially when implementing blended approaches + Enhanced capacity of FSPs to provide long-term loans + Typically, lower financing costs for FSPs + Typically include mechanisms to reduce risk of lending by FSPs - Questionable sustainability in cases where interest rate caps are imposed - Potential misallocation of funds as borrowers may be incentivized to invest in commercially non-viable undertakings - Poorly designed funding facilities can have significant distortionary effects | <p>Since financing facilities typically provide resources at below-market rates, measure should be taken to counter market distortions and improve sustainability.</p> <ul style="list-style-type: none"> • Subsidization should be justified and temporary in nature to prevent limiting commercial financing • Funds and facilities should ensure that intermediaries are able to cover operational and risk-related costs through an adequate interest rate spread • Similarly, transaction costs of participating financial intermediaries related to selecting and monitoring beneficiaries should be limited • Capacity building should be implemented to improve the capacity of participating financial intermediaries | <p>Uganda: The Agriculture Credit Facility, is a government-backed refinancing mechanism to increase the availability of long-term credit in the local currency.</p> <p>Paraguay: The Social Trust Fund is a blended finance initiative to connect investors with smallholder farmers, providing direct inputs rather than loans.</p> |
| Dedicated facilities for catastrophes | <p>Dedicated funds and facilities for catastrophes are disaster risk finance instruments (DRFI) (also called pre-arranged financing for disasters), which are mostly supported by international development financing.</p> <p><i>Frequency: +</i></p> <p><i>Channels: Commercial & state banks, private capital, impact investors, AgFintechs, private & state insurers, MFIs and SACCOs</i></p> | <ul style="list-style-type: none"> + DRFIs reduce the risk of defaults to financial institutions by enabling recovery and continued operation of farmers + DRFIs reduce the fiscal burden to governments from natural catastrophes, and increase macro-economic stability by reducing risk to the sector - Impact on financial institutions is limited due to focus on poorer farmers that don't access formal finance - Over-reliance on DRFI payouts can discourage farmers from investing in other risk mitigation strategies - Complexity of implementation and premium costs can challenge government resources | <p>Several measures can improve the effectiveness of DRFIs, while mitigating risks to governments and market distortions:</p> <ul style="list-style-type: none"> • Balancing affordability and comprehensive coverage are essential to the success and uptake of DRF programs • Sustainability of DRFI facilities relies on adequate budget allocations, and suitable risk-pricing models • The design of preparedness measures for fast and effective disbursements is crucial. This includes identifying potential beneficiaries and payment amounts in advance, developing clear and transparent criteria for triggering payouts, establishing efficient claims processing systems and ensuring prompt disbursement | <p>Mexico: CADENA program introduced macro-level catastrophe weather index insurance for subsistence farmers.</p> <p>Ethiopia: Under the Satellite Index Insurance for Pastoralists in Ethiopia initiative the regional government purchases a single policy on behalf of large number of vulnerable pastoralists.</p> |
| CREATING MARKET INCENTIVES FOR AGRI-LENDING | | | | |
| Differential taxation | <p>Tax incentives involve reductions or exemptions from ordinary taxation obligations, typically implemented to attract foreign direct investment or attract capital to financial instruments that serve as pools for onlending to priority sectors.</p> <p><i>Frequency: +</i></p> <p><i>Channels: Commercial banks, private capital, impact investors, state banks</i></p> | <ul style="list-style-type: none"> - In developing countries structural issues, including access to land, infrastructure, and concessional loans are more relevant to an investment decision than tax incentives - Tax incentives are even less relevant for investors operating in the informal economy - Large scale investors can often find ways to benefit from incentives not meant for them - Tax incentives can result in significant lost tax revenues | <p>There is serious doubt about the effectiveness of tax incentives in developing countries given their high cost in terms of lost revenue and low benefits in terms of increased investment.</p> | <p>Brazil: Savings instruments and real estate and agriculture letters of credit are exempt from tax.</p> |

| TOOL | DESCRIPTION [FREQUENCY OF USE, CHANNELS TARGETED] | POTENTIAL IMPACT | KEY CONSIDERATIONS & BEST PRACTICES | EXAMPLES |
|---|--|--|--|--|
| DIRECTLY PARTICIPATING IN AGRI-FINANCE MARKETS AS A PROVIDER | | | | |
| State-owned financial institutions (first- and second-tier entities) | <p>State financial institutions are wholly, or majority, owned by governments that have a policy mandate to serve specific segments of the population or economy with financial services.</p> <p><i>Frequency: +++</i> <i>Channels: State banks</i></p> | <ul style="list-style-type: none"> + Crowd in private capital by creating SHF/SME credit histories and extending branch networks to private FSPs + Pioneer innovative lending approaches that can be taken over by private FSPs + Increase capacity of private FSPs + Enable structural investments by providing long-term funding to private FSPs - May crowd out private investment - Can negatively impact repayment morale | <p>State FIs can expand availability of financial services if well managed, including:</p> <ul style="list-style-type: none"> • Exclusively run to fulfil well-defined policy mandate • Independent board of agricultural and financial experts • Adequate resources to cover gap between development mandate and financial sustainability • Focus on supporting private FSPs through capacity building, sharing infrastructure and provision of micro-level tools and incentives | <p>Niger: Establishment of Banque Agricole du Niger (BAGRI).</p> <p>Mexico: Innovation from Banco de México in the form of Agriculture-Related Trust Funds (FIRA).</p> <p>Mongolia: Reform of AgBank (Khan Bank).</p> |
| State-owned insurance provision | <p>Agricultural insurance is provided through state-owned entities or agencies</p> <p><i>Frequency: +</i> <i>Channels: State insurers</i></p> | <p><i>Very little data is available specifically on state-owned insurance provision. However, as public insurance provision is typically paired with (heavy) subsidies, the impacts discussed under insurance subsidies are also relevant here. In addition:</i></p> <ul style="list-style-type: none"> - State insurance providers typically have higher producer loss ratios than subsidized and unsubsidized private sector providers, due to a combination of a mandate to provide low rates to farmers along with high actuarial and operational costs - Unlike subsidies, state provision doesn't stimulate private sector provision due to a lack of engagement with commercial providers | <p>Similar considerations as for subsidized insurance provision to counter risk and ensure efficient resource allocation, specifically:</p> <ul style="list-style-type: none"> • Targeting insurance to de-risk commercial credit provision • The provision of capacity building and risk mitigation tools (e.g., early warnings) to farmers can prevent excessive risk taking • Using evaluations of risk exposure and appetite to determine premiums and coverage improve allocation • Ensuring sufficient funds and/or reinsurance are in place to cover residual risk | <p>Philippines: Provision of crop and livestock insurance, through state-owned Philippines Crop Insurance Corporation.</p> <p>Peru: Provision of catastrophic agricultural insurance to small producers in poorer and climatically vulnerable regions through Seguro Agrícola Catastrófico (SAC).</p> |
| DIRECTLY PARTICIPATING IN AGRI-FINANCE MARKETS AS A PROVIDER | | | | |
| Business development / technical assistance | <p>Business development and technical assistance services are aimed at rural lenders and financial institutions to address information and knowledge constraints related to agricultural and rural lending.</p> <p><i>Frequency: +++</i> <i>Channels: Commercial & state banks, private capital, impact investors, AgFintechs, Value chain actors, private & state insurers, MFIs and SACCOs</i></p> | <p><i>Very little evidence is available regarding the impact of BDS services to financial institutions or lenders given the wide variety of approaches and contexts of application and the limited opportunities of BDS providers to assess the results of their services.</i></p> <ul style="list-style-type: none"> + Technical assistance can help agri-SMEs access loans and improve the terms under which these are offered + Business development services can improve the revenue and profitability of agri-SMEs, indicating increased bankability | <p>Approaches to improve effectiveness of business development and technical assistance include:</p> <ul style="list-style-type: none"> • Using group-based delivery models to improve value-for-money • Charging beneficiaries for services to increase active participation; innovative structuring (e.g., in-kind, memberships) can make fees more acceptable • Granular segmentation, considering readiness for growth and governance capacity, to improve targeting and tailoring of services • Working through local providers, which are typically more cost-effective than global providers and enhance long-term impact | <p>Mexico: Jalisco Fund for Business Development (FOJAL) was launched to create, grow, consolidate, and scale up micro, small, and medium-sized enterprises.</p> <p>Niger: World Bank- and government-initiated Smart Villages for Rural Growth and Financial Inclusion Project increase (digital) financial literacy through business development services.</p> |



