Financing for Agriculture – Role of Public Private Partnerships

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Background

- Access to finance is critical for growth of agriculture sector
- Financial institutions reluctant to accept the risks prevalent in the agricultural sector
- Governments making efforts to attract investment for agriculture

Challenges

- Financial sector is not sophisticated
- Higher transaction costs in rural areas compared to urban areas
- Risk factors inherent in agriculture inhibit financial institutions from lending
- Lack of records and statistics undermines opportunities for profitable investment

Who needs finance?

- Farmers and small agricultural entrepreneurs
- Actors along the value chain
- Rural infrastructure
- Research and development

What instruments are available?

- Direct Finance
- Value-Chain Finance
- Infrastructure Finance
- Finance for Research and Development

Who finances agriculture?

- Farmers and small entrepreneurs
- Cooperatives and credit unions
- Local commercial banks, branches of foreign banks and insurance companies
- National and local government, development banks and donors

Why public private partnerships in agriculture?

- Growing budgetary constraints
- Developing competitive agriculture is costly
- Increasing private sector awareness of benefits of linking investments to social objectives
- Increasing private sector interest in reaching the base of pyramid
- PPP modality provides option to modernize agriculture and revitalize rural economies

Where public private partnerships might work?

- Developing a competitive value chain
- Farm to market connectivity
- Wholesale markets
- Water for irrigation
- Insurance
- Agriculture research and innovation

Lessons learnt so far

- PPPs can bridge large gap exists between available FDI and financeable

- Inclusive business models (IBMs) not easily served by PPPs, as they are not ‘market-ready’

- Reaching scale remains a challenge for most IBMs

- Supporting ecosystems are critical to the success of IBMs

- Partnerships are most effective when used to promote whole value chains or systems

- Interventions should include a “blend” of mechanisms, for example both technical assistance and grants, to be most effective

- All PPPs inherently do not benefit the poor,
nor do they integrate them into their solutions

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