Key findings

Successes, Failures and Challenges of bringing PDBs to the forefront of a sustainable agricultural adaptation and transition

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Finance in Common

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Achieving financial inclusion in rural areas in low-income (LICs) and lower-middle income countries (LMICs) is critical to reducing poverty and delivering SDGs by 2030. Latest estimates of unmet financing needs of small farmers exceed $170 billion per year across Asia, Sub-Saharan Africa (SSA) and Latin America. This financing gap would be even larger without the current level of financing provided by public development banks (PDBs). The broad question our paper departs from is whether more PDB finance is the way to go in LICs and LMICs to transform the agricultural sectors towards the SDGs.

Objectives and research questions

Our objective is to inform the debate on the strength and weaknesses of PDBs in their channelling funding towards the agricultural sector in developing countries. The research questions we address are the following:

i. How big are agri operations in PDBs loan portfolios?
ii. How risky is agri-lending for PDBs?
iii. Are there government incentives or constraints in place to increase the amount and/or ratio of agricultural loans by PDBs? And if so, how do they perform?
iv. How much development impact justifies the cost of agri-lending by PDBs?

Methods

We have investigated the modus operandi and development performance and costs of key public development banks (PDBs) in 3 Sub-Saharan African countries, namely Kenya, Namibia and Nigeria. The choice of these 3 countries was made on the basis of i) the geographic representativeness across Sub-Saharan Africa (West/East/South), ii) the presence of both a general (multi-sector) PDB and an Agri PDB in each country, iii) the aggregate weight in terms of financing and farm sector size vis-à-vis SSA at large, and iv) access to data and information sources by the team members. We end up with a group of 8 PDBs, out of which 3 have an explicit mandate to finance the agricultural sector.

We organize the main findings of the country case studies along the following two lines.

1) **A series of descriptive variables of PDBs, informing the magnitude and depth of agri-lending**. We have focused on the portfolio size, the share of agricultural loans in the total loan book, the sources of funding, the agri clientele, the investment strategy (direct vs indirect), and the existence or not of mandatory agri targets or quotas. Where data were missing or were qualitative by nature, we have tried to complete them with information obtained during face-to-face interviews.

2) **PDBs performance**. We have documented the performance of the PDBs, recalling first what these PDBs retain as performance criteria, then qualifying, mostly through interviews, the salient achievements as well as success and failure factors. The ratio of non-performing loans (NPL) has been used as a proxy of the cost of financial inclusion. This choice of course is debatable, yet it gives a rough estimate of the cost incurred to reach farmers and agri-businesses which are beyond the scope of commercial banks' loan portfolio.

Results

Our case studies show that increasing the agri loan portfolio of existing PDBs can be a way to increase financial inclusion, yet this move for bigger PDBs (either bigger agri PDBs or bigger agri portfolio among generic PDBs) remains difficult to argue for in a context where basic data on financial performance and development impact return are not systematically published.

The high level of non-performing loans compared to other banks operating in the same countries or region strongly suggests that replicating or increasing the size of existing PDBs would generate considerable budget cost if this move is not accompanied with a reform of the incentive system operating within the banks. This incentives system seems to give too little weight to the quality and performance of the loans.

Another condition worth contemplating to make the case for stronger PDBs is that complementary agricultural policies are likely to be critical factors in the financial and development performance of PDBs.

Recommendations

Our first recommendation would be to drastically improve the availability and transparency of data informing the financial and development performance of generic and agri-PDBs. This is true for both financial statements and development reports – and the situation is worse for the latter.

Our second recommendation would be to streamline and spur research on agri financing in SSA so as to obviate some of the short-term weaknesses of PDBs information system. Research focusing on development impact and costs of PDBs can and should be deployed at a much larger scale than our modest pilot represents.

It is only when the transparency and data problems are solved, and the incentive structure tweaked in such a way that debt default becomes the exception and not the rule, that national PDBs could become a critical actor in filling the investment gap in the agricultural sector as is the case in some upper-middle income countries.

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