



# **SYNTHESIS REPORT** **AGRICULTURAL FINANCE POLICY** **COORDINATION IN AFRICA**

LESSONS FROM BURKINA FASO, ETHIOPIA, GHANA, MOROCCO AND ZAMBIA



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## ABBREVIATIONS

<b>ADA</b>	Agriculture Development Agency (Morocco)
<b>AFRACA</b>	African Rural and Agricultural Credit Association
<b>AFSWG</b>	Agricultural Finance Stakeholder Working Group
<b>ATA</b>	Agricultural Transformation Agency (Ethiopia)
<b>BMZ</b>	Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (Germany)
<b>CAADP</b>	Comprehensive Africa Agriculture Development Programme
<b>COCOBOD</b>	Ghana Cocoa Board
<b>FASDEP II</b>	Food and Agriculture Sector Development Policy II (Ghana)
<b>FDA</b>	Fonds de Développement Agricole (Morocco)
<b>FISP</b>	Farmer Input Support Programme (Zambia)
<b>FRA</b>	Food Reserve Agency (Zambia)
<b>GCAM</b>	Groupe Crédit Agricole du Maroc (Morocco)
<b>GIZ</b>	Deutsche Gesellschaft für Internationale Zusammenarbeit
<b>GTP</b>	Growth and Transformation Plan (Ethiopia)
<b>IFAD</b>	International Fund for Agricultural Development
<b>MAL</b>	Ministry of Agriculture and Livestock (Zambia)
<b>MAPM</b>	Ministère de l'Agriculture et de la Pêche Maritime (Morocco)
<b>MFW4A</b>	Making Finance Work for Africa
<b>NAIP</b>	National Agriculture Investment Plan (Zambia)
<b>NAP</b>	National Agricultural Policy (Zambia)
<b>NEPAD</b>	New Partnership for Africa's Development
<b>NGO</b>	Non-governmental organization
<b>PMV</b>	Plan Maroc Vert (Morocco)
<b>PNSR</b>	Programme National du Secteur Rural (Burkina Faso)
<b>RFPS</b>	Rural Finance Policy and Strategy (Zambia)
<b>RFS</b>	Rural Finance Strategy (Ethiopia)
<b>SME</b>	Small and Medium Enterprise
<b>SNMF</b>	Stratégie Nationale de Microfinance (Burkina Faso)
<b>SP/CPSA</b>	Secrétariat Permanent de Coordination des Politiques Sectorielles Agricoles (Burkina Faso)
<b>WRS</b>	Warehouse Receipt System



## **EXECUTIVE SUMMARY**

To address the challenge of establishing and coordinating agricultural finance policy, Making Finance Work for Africa (MFW4A) organized in June 2011 the “Zipping Finance and Farming in Africa: Harnessing the Continent’s Potential” conference, where agreement was reached on a common set of policy principles to improve agricultural finance on the continent, the Kampala Principles. Another major outcome of the conference was the creation of the MFW4A Agricultural Finance Stakeholder Working Group (AFSWG).

A set of five country case studies, underlying this synthesis report, was commissioned to advance the work of the AFSWG’s Institutional Development Focus Group. The overarching objectives of this case study work were to enable country-level stakeholders to strengthen policy and its coordination and to provide the relevant background and orientation to the AFSWG for its planned advocacy/implementation phase.

While none of the five countries can be considered a model of implementation of Kampala Principle 1 (as no country has established a single entity as an advocate for a self-standing agricultural finance policy), all five country cases are instructive of in-country realities of policy formulation and coordination.

### **Key findings and lessons from the five case studies**

- Across the case-study countries, constraints to access to agricultural finance are similar: higher risk; high costs; overly interventionist government policies; the lack of conducive legal and regulatory frameworks; land tenure regimes; and limited financial infrastructure. These challenges indicate similar policy priorities across the countries.
- Well-articulated policy documents for overall agricultural sector development are found in all countries. Often these policy documents have been developed within the Comprehensive Africa Agriculture Development Programme (CAADP) process.
- Agricultural finance is indeed a policy orphan; this status is reinforced by the lack of coordination efforts to conceptualize and implement agricultural finance policy.
- The approach taken is generally one of “funding agriculture” rather than a sustainable financial systems approach to agricultural finance.
- There are substantial differences in how coordination takes place and which actors are involved. There are lessons to be learned from the strengths of the CAADP process, given its established framework and high-level political support at the country level.
- Largely absent from coordination efforts are central banks and other financial sector regulatory and supervisory authorities. Their engagement in policy formulation and coordination is a prerequisite for a balanced agricultural finance policy.
- Innovation is coming primarily from the private sector, as is value chain development; coordination on agricultural finance policy with the private sector is therefore extremely important. This is lacking.
- Overall, specialized agencies were found to be the most proactive in the role of coordination of agricultural policy. However, these agencies place little, if any, emphasis, on agricultural finance policy.
- Capacity building in agricultural finance to improve the ability to formulate and implement policy recommendations may be required.

## Recommendations

### *For governments and other country-level stakeholders*

- | Identify the leadership that is required to be able to bring both agricultural and financial perspectives into the policy framework; identify an entity with an important role in agricultural finance to act as policy champion.
- | Bring together stakeholders to look at the agricultural finance policy landscape, based on an analysis of constraints, and at the areas for change (policy priorities) based on a financial systems development approach.
- | Identify priority areas for policy change, tackling issues such as the identification of priorities of an agricultural finance policy, government roles, subsidies, legal and regulatory frameworks, financial infrastructure, and the security of land tenure.
- | Ensure that the designated coordination body has the necessary knowledge of key issues and of sound practices in agricultural finance.
- | Bring in finance ministries, central banks and regulatory bodies into policy formulation.
- | Conduct more investigation of value chains, its actors and the required policy coordination. The identification of opportunities for innovation should feed into policy change processes.

- | Increase understanding of the constraints faced by private-sector financial institutions.
- | Where CAADP is implemented at the national level, work to bring in the development of an agricultural finance policy as an objective.

### *For the AFSWG*

- | Scope out models for strong and dedicated institutional advocacy for developing cohesive agricultural finance policy frameworks that respect a financial systems approach.
- | Determine how to systematically integrate agricultural finance policy objectives into CAADP processes; determine the success factors of the CAADP processes that are applicable to agricultural finance policy dialogue and policy formulation.
- | With the support of development partners, provide capacity building, including for policy and advocacy work.
- | Seek examples of policy coordination mechanisms; encourage countries to share experiences and learn from each other.
- | Provide support to facilitate, but not to lead in the place of national stakeholders, policy change analysis and processes.



## INTRODUCTION

Agriculture forms the backbone of many African countries' economies. It has the potential to boost economic transformation and lead growth and development for the continent. Better access to finance — be it for the smallholder producer, the commercial farmer, the processor, the trader, or the exporter — has been identified as vital to unlocking the agriculture sector's productive potential.

Despite recognition of the challenges of access to finance for the agricultural sector, agricultural finance has been termed a “policy orphan”, given the rarity of policy frameworks dedicated to agricultural finance and the lack of coordination among stakeholders, with often fragmented policies falling into a void among government ministries and regulatory and supervisory authorities, or even undermining one another. This lack of coordination in turn inhibits the strengthening of coherent, sustainable and socially responsible agricultural finance policies and supportive underlying legal and regulatory systems.<sup>1</sup>

To address the challenge of establishing and coordinating agricultural finance policy, Making Finance Work for Africa (MFW4A)<sup>2</sup> organized the “Zipping Finance and Farming in Africa: Harnessing the Continent's Potential” conference in Kampala, Uganda in June 2011 to engage a dialogue among representatives from policy making bodies, private sector, academia and development partners to agree on a common set of policy principles to improve agricultural finance on the continent: the *Kampala Principles*.<sup>3</sup>

In addition to the Kampala Principles, a major outcome of the Zipping Finance conference was the creation of the Agricultural Finance Stakeholder Working Group (AFSWG) under the joint umbrella of MFW4A and

the African Rural and Agricultural Credit Association (AFRACA). An explicit objective of the AFSWG is to support the implementation of the “Kampala Principles.” The work of the AFSWG's Institutional Development Focus Group is centred on promoting coherent and comprehensive agricultural finance policy development and policy coordination as well as the development of and support for a strategy for implementing Kampala Principle 1.

Kampala Principle 1, the cornerstone of this study, underlines the importance of coordination to strengthen agricultural finance policy.

***Kampala Principle 1: Address Agricultural Finance policy strengthening through establishing a specific high-level coordination body and by recognizing a single entity as the advocate for Agricultural Finance.***

The set of case studies underlying this policy brief was commissioned by MFW4A supported by GIZ on behalf of BMZ to advance the work of the AFSWG's Institutional Development Focus Group, exploring the agricultural finance policy environment and its drivers.

### Objectives of the study

The overarching objectives of the five country case-studies work, undertaken for the AFSWG, are to enable country-level stakeholders to take well-informed decisions and action, to strengthen policy and its coordination through either existing or new agricultural finance policy coordinating bodies, and to provide the relevant background and orientation to the AFSWG for the advocacy/implementation phase envisaged in its scope of work.

1 MFW4A/AU/GIZ/BMZ. 2012. “Policy Brief on Agricultural Finance in Africa.” Page 8, and GPF/IFC. 2011. “Scaling Up Access to Finance for Agricultural SMEs: Policy Review and Recommendations.” Page 22.

2 The Making Finance Work for Africa Partnership is an initiative to support the development of African Financial Sectors. The partnership provides a platform for African governments, the private sector, and development partners to coordinate financial sector development interventions across the continent, avoiding duplication and maximizing developmental impact.

3 See Annex I: Kampala Principles.

The country case studies, prepared by A2F Consulting, were designed to assess the extent of policy coordination in each of the five countries selected (Burkina Faso, Ethiopia, Ghana, Morocco and Zambia), to identify the responsible body in each country, to compare the existing policy coordination situation in the five study countries and to offer recommendations for policy makers and the AFSWG. The criteria for country selection included regional distribution and anglophone and francophone representation. This synthesis report pulls together the main takeaways from the unpublished individual country reports and situates them in the context of nine key elements of sound agricultural finance policy.

### Study methodology

The study methodology included a mapping of the layout of the current agricultural and financial policy environment in the five countries selected, as well as of the institutional set-up for policy coordination. The

research methodology consisted of on-site, individual, semi-structured interviews with industry practitioners, policymakers and various stakeholders, combined with a review of existing policy documents and secondary research. Governance, scope, inclusiveness and quality of coordination overall, along with the coherence and degree of intra-governmental and non-governmental coordination, were the criteria used to shape the evaluation of the current coordination structure. Crosscutting lessons were also drawn from the case studies. Insights from this work shaped the recommendations for AFSWG and for governments to increase effectiveness of agricultural finance policy and its coordination.

Figure 1 on page 21 sketches out policy frameworks, schematizes the nature of policy coordination and identifies leadership. Additionally, recommendations are derived for steps required to strengthen agricultural finance policy and its coordination, with the recognition that policy, practice and their coordination reinforce one another.



## THE CHALLENGE OF AGRICULTURAL FINANCE

Agriculture forms the backbone of many economies across the African continent. The sector is vital to ensuring food security, and contributes significantly to employment and income. In fact, in 2012 agriculture accounted for 39 % of employment in Ghana and 72.2 % in Zambia; in Ethiopia roughly 85 % of the population is dependent in some way upon farming activity. Likewise, in Burkina Faso 45 % of household income is generated through the agricultural sector.

### What is agricultural finance?

This study adopts the definition of **agricultural finance** used in the MFW4A “Policy Brief on Agricultural Finance in Africa” (MFW4A/AU/GIZ/BMZ, 2012): financial services, including savings, transfers, insurance and loans, potentially needed by the agricultural sector, meaning on-farm production and farm-related value chain activities including input supply, processing, wholesaling, and marketing. Most of these activities are conducted in rural areas, but large processing facilities and agribusinesses, as well as largely subsistence-level smallholders, are also located in urban and peri-urban areas. It includes agricultural value chain finance: financial services, products and support services, flowing either to individual actors or through a value chain, or both, to address the needs and constraints of those involved in that chain, be it a need to access finance, secure sales, procure products, reduce risk and/or improve efficiency within the chain.<sup>4</sup>

In contrast to agricultural finance, **funding agriculture** focuses on the flow of funds to the sector via government programs, and also via those funded directly by development partners (e.g. for technical assistance projects, subsidy schemes, specialized project-based funds). They do not always place due

consideration on building financial systems with a vision of serving the agricultural sector sustainably. More often in the past than now, funding agriculture involved directed lending and the creation of state-owned financial institutions focusing on the agricultural sector, which were in many cases unviable. In recent years, there has been less direct engagement in agricultural finance, with the exception of a renewed emphasis on subsidies, including input subsidies. A project-based approach does not always take a longer-term view of financial systems development. The distinction between “agricultural finance” and “funding agriculture” is an important one in the context of the analysis of the case-study countries.

### Why is agricultural finance important?

Access to financial services for all types of agricultural producers and agribusinesses is key to unleashing Africa’s agricultural potential and facilitating the growth of the sector. The access to appropriate financial services—credit, savings, payments and insurance products—is central and needed to improve the sector’s productivity; savings, payments and insurance are very important by themselves and can also provide opportunities to improve the viability of agricultural credit products.

### Why is agricultural finance not delivering? Shortcomings, constraints

Access to agricultural finance continues to be a challenge in all five countries studied. There are a number of explanations for the low access to financial services for the agricultural sector. Engaging with the sector is a challenge for financial institutions, which are often unable to adequately conceptualize and assess

<sup>4</sup> Rural finance is a different concept from agricultural finance as it focuses on the provision of financial services in rural areas, both for agricultural as well as non-agricultural activities. Rural households and enterprises typically obtain part of their income from a wide range of non-farming activities. These are typically year-round activities as opposed to farming, which is seasonal in nature due to crop cycles, climatic conditions, etc. Similarly, agricultural finance policy may involve elements that are not directly related to activities in rural areas such as establishing a commodities exchange, developing insurance products along the agriculture value chain, etc.

risk and therefore are unable, or reluctant, to develop sustainable financial products for actors in agricultural value chains. Consequently, agricultural clients, notably smallholders, lack access to adequate financial services and therefore face severe growth constraints.<sup>5</sup>

The reasons why agricultural finance has not been able to meet the needs and expectations of clients, in terms of both sustainable access and suitability of financial products and services, are multiple. Similar constraints are prevalent across African countries:

- Financial institutions** are reluctant to lend to the agricultural sector, given low returns in relation to risk; this reluctance is based to a large degree on the **real (and perceived) high risks**. These risks, apparent in all five case-study countries in varying degrees, include: (a) risks common to other financial market segments (not only to agricultural finance), such as principal credit risk; (b) risks (often covariant) specific to agricultural production (such as normal weather patterns, climatic catastrophes and climate change, pests, diseases, seasonality and market and price risks); and (c) political risks (excessive degree of government intervention and interference). All five countries reported the problem of unfavourable risk assessments, with climatic conditions noted especially in the cases of Burkina Faso and Morocco. While government intervention (and intensity of intervention) took on various forms in the case-study countries, none of them displayed evident political interference in agricultural finance.
- Agricultural finance market development is hindered by **cost structures on both the demand and supply sides** that make it difficult to offer agricultural credit at prices within the means of producers while providing adequate returns for lenders. Cost structures, and therefore cost structure constraints, are distinctly different between high-value, export-oriented agriculture and smallholder subsistence agriculture. In value chains such as cocoa in Ghana and cotton in Burkina Faso, value chain participants are in a position
- to take on debt, and financial institutions, such as Ecobank in Burkina Faso and Zanaco in Zambia, find interest in lending. Smallholder production in all five countries reflects cost structures that make the sustainable delivery of financial services a seemingly intractable problem, while at the same time smallholder farmers are in a difficult position to take on debt. (They are more able, however, to benefit from other financial services.)
- State-owned agricultural banks and government financing schemes** have a poor track record in terms of sustainability and risk allocating credit in such a way that many clients are excluded; in addition, they risk crowding out private sector financial intermediaries. In Morocco, the government intervenes heavily via subsidized interest rates offered by the Groupe Crédit Agricole du Maroc (GCAM), the unique conduit of government subsidies; while this scheme allows greater outreach to the agricultural sector, it essentially precludes the entry of private sector financial institutions into this market segment. In Zambia, the government has supported access to inputs through the Farmer Input Support Programme (FISP), which absorbs over 50 % of the total annual agricultural budget; reviews of this high-cost program suggest that benefits do not reach the most needy smallholders, the program crowds out the private sector, and there are leakages of inputs onto commercial markets.
- Legal and regulatory frameworks** do not take adequately into account the specificity of agriculture finance, resulting in overregulation and inflexibility and an unwillingness to entertain innovative product ideas. Contract enforcement is, for example, weak. In Burkina Faso and in Zambia, despite the fact that a regulatory framework for a warehouse receipt financing system has been developed, the legislation still awaits signature into law.
- Farmers, notably smallholders, lack **collateral**. They are unable to meet high collateral requirements,

5 It is important to keep in mind that the agricultural sectors are segmented into export (cash) commodities and domestic crops, with the former typically experiencing a higher degree of access to financial services. Smallholder farmers, the majority of producers in each country face far greater constraints than large producers and agribusinesses.

in particular when fixed assets are required, as in the cases of Ethiopia and Zambia (usually 100 % collateral, in the form of fixed assets with ownership titles). Systems are required whereby Secured land tenure can provide collateral for agricultural inputs, improvements, innovations, and expansion.

- I Producers and other value-chain participants find the range of **appropriate agricultural financial instruments** to be limited. What they require are short term credit/working capital; term credit (for fixed asset or land acquisition, leasing, inventory build-up); deposit and transfer services including domestic payment services and remittances (for cash flow management, risk mitigation, investment and asset-building); and insurance products, in all cases respecting the business models (including seasonality) and risk profiles of agriculture value chains. While much hope is placed on innovation as the key to more sustainable agricultural finance, innovation in financial products and in their delivery is slow to take hold. Financial institutions lack reliable data and specialized knowledge about agricultural production, marketing and agribusiness.

This last constraint was cited in the cases of Burkina Faso, Ghana, and Zambia.

- I **Financial infrastructure** is weak (credit bureaus, collateral registries, payment systems), although progress is being made on this front. Collateral registries are present only in Ghana and Zambia; the collateral registry in Zambia is to be operational in 2014.
- I On the demand side, the limited **financial literacy** of clients, noted in the case of Ethiopia but certainly prevalent elsewhere, reduces both the demand and the effective use of financial services.

Fostering the development of a financial system able to support the expansion of agricultural finance services and able to meet the needs of the wide variety of actors demanding such services requires a dedicated policy response. This policy response needs to address constraints and to frame market-based incentives to increase financial intermediation in favour of agriculture, while at the same time ensuring the soundness of financial systems.





## COMPONENTS OF AGRICULTURAL FINANCE POLICY:

### Case Study Experience

*Agricultural finance is a policy orphan – too often responsibility for policies impacting agricultural finance falls into a void among several government ministries, such as finance, agriculture, planning trade and commerce. Different government bodies often have divergent interests and perspectives concerning agricultural finance. Accordingly, the subject area is frequently pushed to the side and neglected, inhibiting a coordinated legal environment that promotes the cohesive development of strong, sustainable and socially responsible agricultural finance policies and supportive underlying legal and regulatory systems. (IFC. 2011. p. 22)*

An effective policy framework is the foundation for the creation of a conducive environment for financial institutions to develop and offer appropriate financial products for agricultural sector clients. A coordinating body plays a fundamental role in policy formulation and implementation by bringing together the relevant actors and interests within a holistic approach, so that policy is supported and sustained by all involved.

agricultural investment programs have received considerable attention under the Comprehensive Africa Agriculture Development Programme (CAADP) process. CAADP is an important reference point for participating countries positioning agriculture in the context of their strategic priorities, as the CAADP process is increasingly becoming an umbrella for overall agricultural development policy, including agricultural finance policy (see Box 1).

#### Box 1 Comprehensive African Agricultural Development Program (CAADP)

##### Putting into place and implementing national agricultural investment plans

A fundamentally important initiative in positioning agriculture in the context of Africa's strategic priorities is the African Union/NEPAD's Comprehensive Africa Agricultural Development Programme (CAADP), which aims to support African countries in reaching a higher path of economic growth through agriculture-led development. Most CAADP compacts and investment plans address only superficially the topic of agricultural finance. However, some CAADP processes have placed increasing attention on the policy environment, including agricultural finance policy reforms.

The five countries have each developed different policy frameworks, with varying degrees of explicit focus on agricultural finance within the agricultural development policy framework and varying stances on the role of government in promoting agricultural finance. In none of the case study countries an explicit agricultural finance policy exists. In all cases, however, an ensemble of policy measures constitutes a de facto agricultural finance policy.

Whereas developing agricultural finance policies has not garnered a lot of attention among policy makers,

##### Components of agricultural finance policy: a set of nine policy reference points

A conducive agricultural finance policy framework has elements of agriculture, with its specificities as a sector, and elements of finance, with its specific challenges faced in responding to the needs of the agricultural sector; such a framework intersects agricultural development and financial systems development policies. The "Policy Brief on Agricultural Finance in Africa" outlines nine policy reference points (see Box 2).

### Box 2 Nine reference points for conducive agricultural finance policy

1. Adopt a strategy of strong policy advocacy in favour of expanding agricultural finance, anchored with a strong and dedicated institutional advocate.
2. Eliminate counterproductive political interference in agricultural finance markets by ensuring that the appropriate role of government is well defined and respected.
3. Take a “smart subsidies” approach by providing only subsidies that support the expansion of agricultural finance without undesirable market distortion.
4. Foster a conducive legal and regulatory environment that takes into consideration the specificity of agricultural finance, removing barriers to financing agriculture and allowing for innovation.
5. Address weaknesses in state-owned agricultural development banks by ensuring sound governance and management.
6. Support the development of financial infrastructure as a public good.
7. Develop more permanent forms of land ownership and tenure, through both legal and consensual approaches, to increase security of ownership and of rights to the use of land.
8. Close the information gap between agriculture and finance through knowledge generation and management.
9. Foster a new dialogue among the financial sector, the agricultural sector and policy makers.

Underpinning recommendations to support the creation of such an environment should be an essential understanding of the roles of government that are appropriate and helpful to promote, protect and, in exceptional circumstances, provide financial services, as well as an understanding of the roles often played by government that may hinder the expansion of agricultural finance.

Agricultural finance policy in the five case-study countries is derived from one, and usually more, agricultural development policy documents. The following documents provide the basic source material for examining the elements of agricultural finance policy in the subsequent chapters:

- | **In Burkina Faso**, two reference documents refer to agricultural finance: the 2012 Programme Nationale du Secteur Rural (PNSR), developed through the CAADP process, and the Stratégie Nationale de Microfinance (SNMF). The PNSR is designed to harmonize incentives and agricultural sector planning, including mobilizing

funding. Both recognize the need to improve agricultural finance. The PNSR includes support for access to finance via the financial system with the development of new financial products adapted to the needs of farmers. However, support for financing for the agricultural sector is done primarily via projects, with government and donor support channelled through input subsidy programs.

- | Agriculture is one of seven pillars of the national development agenda in **Ethiopia**, the Growth and Transformation Plan (GTP). The agriculture pillar of the GTP, with its fourteen objectives, takes an approach of production and productivity increases with a shift to high-value export crop production. It does not address agricultural finance as a policy issue, nor does it consider value chain issues. The Agricultural Transformation Agency (ATA) works by engaging a range of stakeholders in problem solving and in providing implementation support to other governmental bodies, including the Ministry of Agriculture and public, private and non-governmental

partners. ATA intervenes in the agricultural sector system areas (such as, seeds and input & output markets) and value chains (such as wheat, maize and barley, and pulses and oilseeds). Since agricultural finance is one of the major bottlenecks in agricultural systems development, it is also ATA's mandate to develop and support financial instruments for smallholder farmers. Currently, ATA is active in supporting the implementation of the Government of Ethiopia's Rural Finance Strategy, a three-year program, which started with the planting season in April 2014. In addition, ATA plans to develop a Credit Risk Guarantee Facility for the purpose of enabling financial institutions to avail credit to players along the agriculture value chain for a number of needs, including production, transportation and marketing.

- I** In the case of **Ghana**, the overall financial liberalization sets the tone for agricultural finance policy, which is more laissez-faire than in the other four countries. Agriculture policy currently falls under the second Food and Agriculture Sector Development Policy (FASDEP II), whose programs correspond to the CAADP pillars. While the overall policy environment is broadly conducive to agricultural finance, there is no explicit agricultural policy tackling issues of direct relevance to finance.
- I** The 2009 Plan Maroc Vert (PMV) constitutes the **Moroccan** government's agricultural policy, with the goal of making agriculture an important driver of economic growth by 2020. The two pillars of the PMV cover (1) high-productivity modern agriculture; and (2) support for traditional agriculture. Both pillars focus on a process of value creation driven by the voluntary aggregation of farmers and farmers associations around private investors, traders and/or entrepreneurs (contract farming model), with primarily private sector financing within the first pillar and public financing within the second. In this ambitious program, there is no reference to access-to-finance policy elements.
- I** The National Agricultural Policy (NAP) was established in **Zambia** in 2004 to enhance the competitiveness of agricultural sector. It includes "agricultural credit and finance" as a component,

whose objectives cover the creation of a conducive policy environment, access to a fund via financial institutions and non-governmental organizations (NGOs), savings promotion, group lending and private-public sector partnerships. The National Agricultural Investment Programme (NAIP), developed in Zambia under the CAADP process, covers public sector investment. Both include interventions in rural finance.

A separate Rural Finance Policy and Strategy (RFPS), developed in the context of an International Fund for Agricultural Development (IFAD) project, falls under the Ministry of Finance. Two significant Government programs intervene in the staple crop market in Zambia: the Food Reserve Agency (FRA) and the Farmer Input Support Program (FISP), with the latter absorbing a large part of the government budget for agriculture.

While positioning and priorities in agricultural finance policy have varied over time, as indicated above with reference to the five case-study countries, the accumulation of international experience to date suggests that sound-practice agricultural finance policy (represented in varying degrees in the case-study countries), integrates the following key dimensions outlined above in Box 2:

### **1. Strong policy advocacy in favour of expanding agricultural finance, anchored with a strong and dedicated institutional advocate.**

Responsibilities for agricultural finance policy often fall among several public sector entities (ministries of finance, agriculture, trade, other ministries, and the central Bank). Across Africa, very few countries have a strong advocate for agricultural finance; the experience of the five countries is indicative. This leads to a lack of focus on the challenges, the complex interrelationship of the issues, and the required policy responses. This results in a fragmentation of efforts (and uncertainty) in a critically important policy area. Policy interventions initiated by one agency often undermine those initiated by other agencies or are rendered ineffective by the lack of important complementary measures.

There is high value in having a coherent and balanced strategy, with an agricultural finance policy leader overseeing its development and implementation. Policy champions are well placed to promote a better understanding of agricultural finance paradigms and to encourage the adoption of the most effective policy measures, without excessive government intervention and interference. Experience in all five countries indicates that the agricultural finance policy frameworks, de facto rather than explicit in all cases, fall primarily within agricultural policy, with the result that agricultural finance policy does not take fully into account the elements of a financial systems approach. All countries appear to lack an advocate who ensures the integration of the agriculture and the finance dimensions of agricultural finance policy.

Policy advocacy in favour of agricultural finance should be well aligned with the path of overall financial sector development. The set of policies should also fit in well with a general agricultural development policy. In all the case study countries, the de facto agricultural finance policy is rather linked to agricultural sector policy than to financial sector policy. In no case-study country is there a strong policy advocate for agricultural finance.

## **2. An appropriate, well-defined and respected role of government, within a clear vision for the role of government in agricultural finance**

Awareness of the positive impact of a sound agricultural finance policy needs to be increased, and the value of taking a longer-term view of building agricultural finance systems articulating macro, meso and micro policy dimensions needs to be better understood. There is a need to deepen the understanding of the roles of government that are appropriate and helpful to promote, protect and, exceptionally, provide financial services and the roles of government that hinder the expansion of agricultural finance. In the case-study countries, with the exception of Ghana, governments play an active role in funding agriculture.

Two, sometimes controversial, issues with regard to government intervention can be disincentives to longer-term financial systems development:

1. The use of subsidies, particularly input subsidies treated below, is an important issue for the case-study countries. In Morocco, agricultural finance comes principally from government programs, within an approach of subsidized credit programs via the Groupe Crédit Agricole du Maroc (GCAM).
2. Interest rate ceilings discourage lenders from making small loans, thereby limiting outreach if financial institutions choose not to lend. Financial institutions may as well be weakened if they are forced to lend at non-viable rates. This issue is pertinent only in the case of Zambia where interest rate ceiling for banks and microfinance institutions were put into place in January 2013; the use of fees to circumvent the caps has led to a less transparent interest rate structure.

## **3. Taking a “smart subsidies” approach that supports the expansion of agricultural finance without undesirable market distortion**

Government and development partners’ subsidies to farmers and other value chain participants can be justified market interventions, when appropriately formulated and when serving economically and ecologically justified development objectives, such as the reduction of climate-damaging emissions or the development of sustainable financial institutions and financial infrastructure (e.g. training institutions, regulatory authorities, credit information systems) as well as in the case of introducing innovative financial services. The subsidy of risk mitigation mechanisms as financial instruments can also be justified market interventions. However, caution is required since subsidy programs often put in place the wrong incentives and are difficult to dismantle.

A “smart subsidies” approach focuses on carefully designed interventions that minimize distortions, mistargeting and inefficiencies, while maximizing social benefits. Smart subsidies are: (1) transparent; (2) rules-bound and (3) limited and time-bound with clearly upfront defined exit strategies.

While looking at subsidies, a distinction should be made between interest rate subsidies for financing fixed

assets, which could be “smart” in cases where they are related to strategic objectives such as food security and import reduction, and for financing working capital, which is seen as more problematic, especially if interest rate subsidies are passed on to clients in the form of lower interest rates.

The issue of recurrent input subsidies is very pertinent in the case-study countries and is therefore singled out here. Input subsidy programs, largely eliminated in the 1980s and early 1990s, are again very prevalent in Africa. This revival is based on the notion that such programs can be effective smart subsidies. However, recent case study work, including a Zambia case study, has shown that familiar old problems are arising in the wave of new input subsidy programs: poor targeting, crowding out of private sector, and costs in relation to benefits (Jayne and Rashid. 2013). Now considered to be not so easily dismissed (and not only in Africa), careful design and implementation of input subsidies is called for

in order to make such programs truly provide smart subsidies, rather than simply dismantling them. Ghana and Ethiopia have taken a more cautious approach to subsidies.

- In Ethiopia, the government funds credit-based input subsidy programs are run by the Agricultural Transformation Agency (ATA). In terms of subsidized loan funds for investment, the Development Bank of Ethiopia has made available loans for investing in agricultural endeavours engaged in export.
- In Ghana, the government is reported to be hesitant to get involved in subsidies. One constructive example of the use of subsidies to support innovation is premium subsidies under the Ghana Agricultural Insurance Program, which is a risk management tool to counter the adverse effects of climate change and other risks to agricultural production.

### Box 3 Evolution of thinking on input subsidy programs<sup>6</sup>

Input subsidy programs are an important component of support for agriculture in four out of the five case study countries, the most prevalent being support for agricultural credit, justified by the difficulties of financial institutions in serving the agriculture sector sustainably. Direct forms of subsidies to financial institutions include interest rate subsidies on their borrowing, either passed on in the form of “cheap” credit to end-borrowers or used to build the financial institution. Agricultural credit subsidies may include risk mitigation mechanisms, such as credit guarantees and insurance. Other forms of input subsidies may include direct payments to farmers and other value chain operators.

With regard to interest rate subsidies in particular, following the poor experiences over many years with top-down government supported input subsidy programs using interest rate subsidies, current views on best practice converge on the appropriateness of interest rate subsidies only if they are temporary, provide the right incentives and are “smart.” The lending rate to the final borrower should be market-based, thereby covering the cost of funds, cost of provisioning for risk and transaction costs. Such subsidies may be useful in the introduction of new financial products to finance agricultural inputs, if time-bound and decreasing over time. Credit guarantee schemes need to be examined in terms of additionality and sustainability.

A recent analysis of agricultural input programs in Sub-Saharan Africa (Jayne and Rashid. 2013) raised concerns that these programs do not effectively target and reach smallholders, have high operating costs, and are susceptible to corruption. While the welfare effects of these subsidies are termed as “nebulous,” the programs are often a highly visible means of showing support to the agriculture sector and they are a quick way to improve crop production, as opposed to investing in programs with longer-term benefits. Given that such subsidy programs are in fact prevalent, and viewed as here to stay, greater attention is now focused on designing smarter subsidies, assessing various factors such as the final beneficiaries, the impacts of the subsidies on country-wide fertilizer usage, the effects of fertilizer usage on crop production, and how subsidies affect food prices and poverty rates.

6 Please note that this report defines input subsidies as subsidies on inputs (such as fertilizer, seed, and equipment) as well as subsidies in the form of interest rate subsidies.

#### 4. A conducive legal and regulatory environment that takes into consideration the specificity of agricultural finance

The legal and regulatory environment impacting agricultural finance encompasses prudential and non-prudential regulations for credit and savings services, insurance and payments regulation, as well as a range of other legal and regulatory parameters, including financial consumer protection.

Financial sector regulators and supervisors need to be as rigorous with regard to agricultural financial services as with other segments of the financial sector, i.e. in terms of risk weighting of agricultural loan portfolios and imposing liquidity requirements. However, banking regulations may unnecessarily impede agricultural lending to smallholder farmers in particular and may impede innovation overall. Over-regulation (loan collateral requirements and overly strict provisioning requirements, liquidity requirements, and branching regulations) may stem from lack of knowledge on the part of regulators and supervisors on the operations (actual risks and potential risks) of agricultural finance.

Notably in light of the risks (often covariant) specific to agricultural production, producers and other value-chain participants require better risk mitigation mechanisms. The regulatory framework for insurance is therefore important for the agricultural sector. However, there is little evidence in case study countries of progress in developing a conducive framework for agricultural insurance.

Other legal and regulatory parameters, such as those that impact (a) land tenure, land rights and land registries; (b) collateral registry, (c) contracts/contract enforcement (important for value chain finance) and (d) warehouse receipt financing systems are also critically important.

Examples of more (and less) conducive legal and regulatory measures were highlighted in the case studies:

- Progress is underway in **Burkina Faso** in developing supportive legislation: a “code d’investissement agricole”, in preparation, to provide an improved environment for private investment in agriculture;

the Loi d’orientation de l’Agriculture, in preparation, whose Chapter 8 addresses the government support for the range of financial institutions engaged in agriculture (without further information on the nature of the proposed support to mutualistic structures and on the creation of a fund to finance inputs); and the preparation by 2016 of a Politique Nationale de Gestion des Risques Agricoles.

- While interest rate caps for lending were lifted in 2011, **Ethiopia’s** financial sector is considered to be highly regulated; this regulation affects agricultural lending. Two regulatory requirements are judged to be a deterrent to expanding agricultural finance: the requirement for private banks to invest an amount equivalent to 27% of each new loan disbursement in treasury bills; and the minimum deposit interest rate, viewed as an implicit tax on lending, which may contribute to structural liquidity shortages in lending activities.
- Government, the private sector, and donors worked together to put into place **Ghana’s** warehouse receipt legislation in 2012. The early 2013 issuance of the first grain warehouse receipts for Ghanaian grain farmers and traders aimed to ease the process of receiving a loan, storing crops and increasing revenue from sales. The government had put into place a legal framework around which an efficient and secure warehouse receipt system (WRS) could develop. The Ghana Grains Council has developed its own set of rules and regulations to control for the functioning of the system and the proper conduct of members using the receipts.

#### 5. Sound governance and management in state-owned agricultural development banks

In response to negative experiences with once dominant government-owned or government-managed banks in Africa, donors and governments moved away from retail lending in agriculture. In light of the inability of other financial service providers to fill the gap, the question of state-owned banks has been revisited. A more optimistic, yet cautious, view has emerged about the possibility of successfully reforming, and even introducing,

state-owned agricultural development banks. The state-owned banks story has played out differently in the five countries. Two countries have privatized their state-owned banks (Burkina Faso and Zambia); three case-study countries (Ethiopia, Ghana and Morocco) maintain state-owned agricultural development banks, with varying impact on agricultural finance.

- | The evolution of the state-owned agriculture bank in **Burkina Faso** is striking: the state-owned Caisse Nationale de Crédit Agricole was restructured into the Banque agricole et commerciale du Burkina Faso; it diversified its portfolio beyond agriculture in 1996. In 2009, it was bought out by Ecobank, the largest bank in Burkina Faso, which continues to play a lead role in agricultural finance (with 80 % of its agricultural finance going to cotton), working to expand outreach to smallholders.
  - | **Zambia** is another case of the privatization of its state-owned bank. Zanaco, established in 1969 as a state-owned bank, was privatized in 2007 through the sale of shares to Rabobank. Among its current shareholders are the government in a minority position and an investment subsidiary of the Zambia National Farmers Union. It also seeks to lend across the agricultural sector.
  - | There is strong state involvement in the financial sector in **Ethiopia** via three state-owned banks.
- | The Development Bank of Ethiopia (DBE) provides subsidized loans for agricultural exports, which are considered by the private sector to be a disincentive to its engagement in this area because of the lower cost loans provided by the DBE.
  - | The Agricultural Development Bank of **Ghana**, owned by the Ministry of Finance, which holds the majority, and the Bank of Ghana, is one of the few government public agricultural finance institutions remaining from the era of government intervention. Only 29% of its portfolio is in agriculture (now second to services); it has high arrears and poor repayment rates.
  - | With the government considered the driver of agricultural value chains in **Morocco**, the government intervenes primarily via subsidized interest rates for the Groupe Crédit Agricole du Maroc (GCAM), a state-owned universal bank, whose three subsidiaries cover three agricultural sector segments. With the funding sourced from the Fonds de Développement Agricole (FDA), GCAM funds via contrats-programmes, including contracts with the private sector. The GCAM is in a privileged position, offering lower interest rates due to subsidies and serving as a vehicle for grant disbursements. This has resulted in a crowding-out effect on private sector financial institutions operating in the agricultural sector.



## 6. Development of financial infrastructure as a public good

Financial infrastructure comprises the set of market institutions, networks and shared physical infrastructure that enable the effective operation of financial intermediaries, including meso-level structures such as credit bureaus, payment systems, collateral registries, credit rating systems, as well as training institutes, auditing services and IT service providers. In most African countries, such meso-level institutions are only beginning to be developed. The existing financial infrastructure serves primarily large commercial financial institutions.

Progress has been made however in a number of case-study countries: private credit bureaus in Ghana, Ethiopia, Morocco and Zambia; and collateral registries in Ghana (established in 2012 under the Borrowers and Lenders Act) and in Zambia (currently in development). A credit registry was created in Morocco in 2009, leading to improved credit risk management and a reduction in non-performing loans.

## 7. More permanent forms of land tenure, to increase security of ownership and of rights to the use of land

Land tenure, whether under traditional or private ownership is an important issue for farmers for two fundamental reasons: (1) for investment security and the ability to show repayment capacity and (2) as collateral. In Burkina Faso, the “Loi de reorganisation agraire et foncière,” passed in 2009, reorganizes state and private land tenure, expanding private ownership and leasing. In Morocco, the private management of public and collective lands and the acceleration of land titling are integrated into the Plan Maroc Vert (PMV).

With the objective of more secure forms on tenure in mind, one must take into consideration the fact that widespread private land ownership, based on market forces, is not likely to take hold in the context of traditional systems. Secured land is what is needed to encourage and to provide collateral for agricultural inputs, improvements, innovations, and expansion.

## 8. Closing the information gap between agriculture and finance through knowledge generation and management

For financial institutions, a willingness to lend depends on having sufficient information to evaluate the borrower’s reliability, capacity to repay and intention to use the borrowed funds wisely. Knowledge generation, from a financial services provider’s perspective, includes information on improved financial products and delivery systems, including access to innovation, and on improved risk management and on clients.

For farmers, market data as well as financial mechanisms and marketing channels are required to be able to sell their production under the best possible conditions, ensuring income and the ability to repay loans and maintain access to financial services. Knowledge management also includes improving financial literacy. For policy makers, more information is required to understand the challenges, realities and opportunities of agricultural finance in order to develop the most effective policy measures and to evaluate the results of their implementation.

Overall, there is a need to expand and improve the collection of data and information, and the dissemination of knowledge, including on client risk profiles; to collect data and information allowing for banks to better assess risk and to collect market data. There is a need to improve even basic data collection such as the share of agricultural credit in the portfolios of financial institutions.

## 9. Fostering a new dialogue among the financial sector, the agricultural sector and policy makers

The gap between the supply and demand for financial services will remain large as long as concerted efforts are not made to create a policy environment that will help increase access to appropriate financial products at lower costs to clients and raise returns for financial institutions. Closing the knowledge gap in the interest of better policy solutions requires communication,

transparency and increased understanding among stakeholders. This dialogue is part of the coordination process.

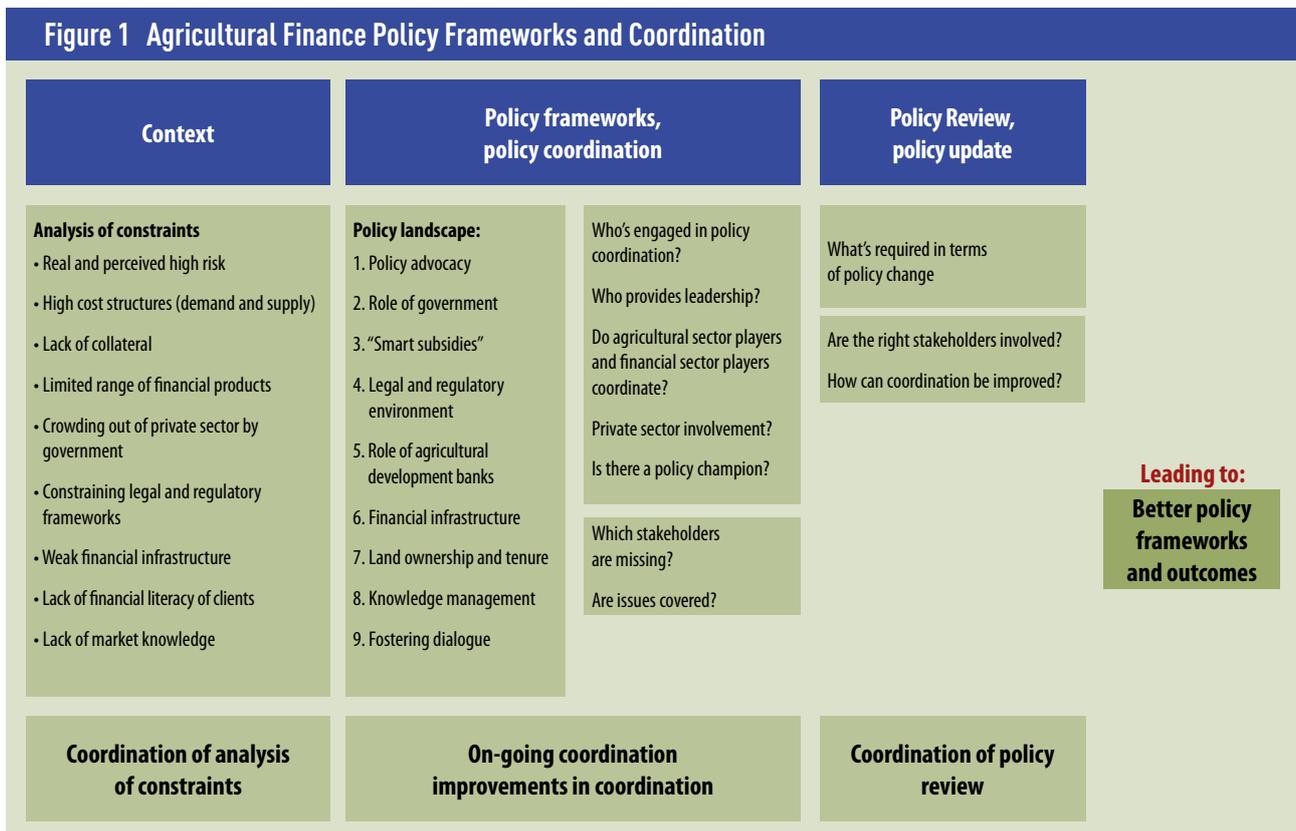
Across the case study countries, agriculture-focused ministries, and their technical agencies, have almost exclusively the lead in what constitutes de facto agricultural finance policy. Ministries of finance and central banks play less direct roles, although ministries of finance are most often in the lead when it comes to budgetary issues. Private sector stakeholders play a limited role in coordination processes, but they can—and should—be active in the policy dialogue and advocacy arena.

Noteworthy in the four case-study countries engaged in the CAADP process is the extent to which the CAADP process has provided the opportunity for dialogue at the country level, with mechanisms established to shepherd the CAADP implementation process. Zambia has built access to finance into the set of objectives of its National Agriculture Plan, established under the CAADP process; the CAADP stocktaking exercise in Ghana has called for

increased private sector funding of agriculture; and the Programme National du Secteur Rural in Burkina Faso provides a single framework for rural sector planning. It is fortuitous that agricultural finance is now receiving increased attention within CAADP processes, as CAADP enters a new phase of supporting countries in the implementation of their respective investment plans. While established with a mission of ramping up investment in agriculture, CAADP offers a transformational platform to translate agricultural finance policy dialogue into policy action at the country level.

The interdependence between policy and policy coordination is sketched out in the following section. In contrast to the CAADP processes and agricultural investment programs in Morocco, there is little evidence of strengthening agricultural finance policy through policy advocacy and strong leadership.

Figure 1 offers a framework to analyse policy components, bodies responsible, and arrangements. The framework is the basis for the subsequent synthesis of country information.





## AGRICULTURAL FINANCE POLICY COORDINATION AT THE COUNTRY LEVEL

*Coordination of policies intersecting both the financial and agriculture sectors is critical to facilitating access to finance for farmers and agricultural SMEs. The appointment of a single coordinating body as advocate for agricultural finance can optimize policies that target farming as an economic enterprise to promote agricultural development through finance and investment. This high-level body can also reconcile and harmonize policies focused on objectives related to rural development, social support and food security that are aligned with, but not necessarily the same as, policies supporting agricultural finance. Coordination is often necessary between the ministry of finance, the ministry of agriculture, the central bank and the ministry of trade and commerce. (IFC. 2011. p. 20)*

### Policy positioning

In each of the five case study countries, an explicit, coherent agricultural finance policy, clearly articulated in relation to agriculture policy and financial sector policy, is absent. If even this fragmented policy is to succeed, coordination becomes all the more important. However, in the case study countries, the absence of explicit agricultural finance policy at the intersection of financial and agricultural sector goes hand in hand with a lack of coordination of policy elements.

### Roles of stakeholders and actors: who are the drivers of change?

Government ministries generally oversee agricultural finance policy. While finance ministries may play a high-level oversight role (notably in terms of fiduciary responsibility for funding), in most cases, the ministry of agriculture is the lead agency in terms of technical oversight, consistent with the close association in many countries between agricultural finance policy and agricultural development policy. Yet, it is recognized that an overall financial systems approach, rather than a funding agriculture approach, is called for. This suggests the need for greater involvement on the part of finance ministries and central banks. Furthermore, the role of the

private sector in the offer of agricultural finance services (and in the use of these services) and in the establishment of value chains calls for a significant role for the private sector in policy development and coordination.

Respecting both the “agriculture” and the “finance” in agricultural finance policy calls for conceptualizing and developing a policy framework that stands on both of these pillars, ensuring that agricultural finance policy is not only an afterthought to agricultural development policy, and delinked from financial systems development considerations. Agricultural finance policy should be part also of financial sector policy that takes into account the specificity of agriculture within a financial systems approach.

Among the case-study countries, there are substantial differences in how coordination takes place and which actors are involved. Across all countries, the ministries of agriculture and of finance were the most highly involved in the design and coordination of existing national and agricultural development strategies. The agency that takes the lead in policy development and coordination varies as well as the degree of coordination. What is clearly observed is that in four of the five case-study countries the CAADP process serves to delineate coordination, with the process under the Plan Maroc Vert leading also to tighter coordination.

- | In **Burkina Faso**, the coordination of the two policy initiatives touching upon agricultural finance (the Programme National du Secteur Rural (PNSR) and the Stratégie Nationale de Microfinance (SNMF)) is covered by the Secrétariat Permanent/ Coordination des Politiques Sectorielles Agricoles (SP/CPSR). Created in 2001, this body played a central role in developing the PNSR. The PNSR falls under the technical oversight of four ministries and the financial oversight of the Ministry of Economy and Finance. The SNMF also has its own coordination committee, falling under the oversight of Ministry of Economy and Finance and BCEAO. Coordination around agricultural development policy, framed explicitly as one component of the PNSR and assured by the SP/CPSR, is viewed as relatively successful, despite a lack of capacity within the SP/CPSR.<sup>7</sup>
  - | The Ministry of Finance and Economic Development in **Ethiopia** has the lead in national development policy creation under the country's Growth and Transformation Plan. Agricultural policy coordination falls under the Ministry of Agriculture, which is advised by the Agricultural Transformation Agency (ATA), is modelled after similar public sector agencies in Asia. Currently, one of the major focus areas of ATA is the implementation of the Rural Finance Strategy (RFS). The establishment of a credit guarantee facility is expected to be the next focus area. The ATA, conceived as a problem-solving agency, addresses bottlenecks and serves as a think tank, while also supporting implementation. The agency is governed by a council under the Office of the Prime Minister. There is no clear leadership for agricultural finance policy; however, the ATA has taken a lead in supporting the implementation of RFS, which was developed by the Prime Minister Office. Development partners programs are well coordinated via working groups, without an explicit focus on agricultural finance; there is poor articulation with government.
  - | In **Ghana**, coordination of overall agricultural policy is covered by the Ministry of Food and Agriculture
- and other ministries, within the CAADP process. Representatives of the financial sector have participated regularly in CAADP Country Team meetings and in commodity-specific public-private value-chain dialogues. With limited coordination with respect to agricultural finance, there is no main body to spearhead efforts to improve agricultural finance. While this could be considered consistent with Ghana's relatively hands off approach to funding agriculture, it can be argued that a less interventionist policy does not mean that effective coordination is unnecessary. The case of the passage of warehouse receipt system (WRS) legislation is one initiative where private sector stakeholders, via the Ghana Grains Council, coordinated successfully with government.
- | In **Morocco**, the Ministère de l'Agriculture et de la Pêche Maritime (MAPM) is the principal actor in the Plan Maroc Vert (PMV), with the Agence de Développement Agricole (ADA) serving as the implementing agency for the PMV. The public sector entities concerned with the PMV (MAPM, Ministère de l'Economie et des Finances and others) are reported to be in constant contact. The private sector has been involved in neither policy development nor coordination efforts; however, financing arrangements between the public and private sectors are contractualised in "contracts-programmes", vehicles for financing.
  - | The Ministry of Finance in **Zambia** leads in government policy design, including agriculture, mainly due to its lead in budgetary issues. At the sector level, the Ministry of Agriculture and Livestock (MAL) drives the National Agricultural Policy and the National Agricultural Investment Plan, whereas the Ministry of Finance drives the Rural Finance Policy and Strategy. The CAADP process led to the establishment of an inter-ministerial committee, comprised of the ministries of agriculture, foreign affairs, finance, and commerce, as well as the Common Market for Eastern and Southern Africa, with the MAL's Department of Policy and Planning in the lead.

<sup>7</sup> The cotton sector falls under the Ministry of Commerce, given that it is considered an important economic sector.

#### Box 4 Two Stakeholder Processes in Zambia

##### The preparation of the National Agricultural Investment Plan (NAIP) and the Rural Finance Policy and Strategy (RFPS)

The NAIP has been designed on strong and elaborate stakeholder consultative process at national, provincial, district and community levels. NAIP implementation will be led by the private sector, with government through Ministry of Agriculture and Livestock (MAL), focusing on the provision of an enabling environment that facilitates and promotes private sector led agricultural growth.

The Rural Finance Policy and Strategy (RFPS) in Zambia is the result of a four-year process under the auspices of a "Policy Advisory Committee" chaired by the Ministry of Finance (playing the critical role of champion), with representatives from the Bank of Zambia, the Zambia National Farmers Union, the Ministry of Agriculture and Livestock, the Ministry of Commerce, Trade and Industry, the Ministry of Community Development Mother and Child Health, Association of Microfinance Institutions of Zambia and the Bankers Association of Zambia, with the engagement of IFAD. This process included a stakeholder scoping study and associated workshop, a study on gaps and challenges, a study tour, and the preparation and review of the Rural Finance Policy and Strategy. This process has served to establish a more efficient policy and institutional framework for rural finance in Zambia with a standing advisory committee. In addition, the government has approved the recommendation in the RFPS to establish a Rural Finance Unit in the Ministry of Finance to coordinate policy matters on rural finance and industrialisation.

The two processes were independently carried out of each other, but with the involvement of relevant stakeholders. What is common to both is that the roles of each stakeholder are clearly spelled out with the government's role being to create an enabling, policy and institutional environment. The establishment of the Rural Finance Unit in the Ministry of Finance is a deliberate step to introduce a policy coordination unit in rural finance that includes agricultural finance.

#### The Role of the Private Sector

In terms of the delivery of financial products and services, the private sector (including commercial agricultural entities, financial institutions) is expected to be the driver of innovation and change; it is already the driver of value chain development. This justifies its full inclusion in coordination frameworks and processes. There is however little evidence of this. In the cases of Burkina Faso (cotton) and Ghana (cocoa; see Box 5), these main agricultural sub-sectors are organized independently, falling respectively under the oversight of the Ministry of Commerce and the Ministry of Economic and Finance; coordination takes place, given the preponderant role of these two crops in each country case.

In other countries, there is no evidence of concerted structured policy coordination with the private sector. In Ethiopia, the development of value chains suggests a place for greater private sector engagement in policy dialogue (with less intervention and control by the government). In the case of Zambia, coordination with private sector

takes place essentially via the Zambia National Farmers Union, which is active in advocacy efforts. Zanaco (the only Zambian bank to provide funding across entire agricultural value chain and to the lower end of market) is reported to have an "open line" to government.

Where it exists, coordination with the private sector appears to be issue specific, such as the constellation of stakeholders working together to establish the legal framework for the WRS in Ghana. All in all, given that the private sector plays a key role in the supply of financial services, in inputs and in innovation, the absence of greater coordination between the public sector and the private sector around agricultural finance policy issues is a missed opportunity.

#### Coordination: What has worked? Where are the gaps?

Case-study evidence indicates that coordination is largely focused around agriculture rather than

### Box 5 Ghana cocoa value chain coordination

The cocoa sector is distinct from other agricultural sub-sectors in Ghana, and has different dynamics, with the Ghana Cocoa Board (COCOBOD) as the dominant player. The Ministry of Economy and Finance, rather than the Ministry of Agriculture, ensures government oversight. Private sector companies are active in finance along the value chain: domestic banks, input suppliers, and licensed buyer companies, international players, which also provide finance. Despite the strong presence of the cocoa board and the relatively strong farmers' organization in the cocoa sub-sector, there appear to be no initiatives to examine the policy elements that dis-incentivize or incentivize access to finance along the value chain.

agricultural finance. Available information is insufficient to determine the extent to which the public-sector coordinating bodies identified in the case studies consider agricultural finance within their mandates and devote time accordingly. There is evidence of strong donor coordination only in the case of Ethiopia, but with no focus on agricultural finance and insufficient contact with government authorities; this is consistent with the reported inadequate leadership on the part of the government coordinating body. The one example of a government-based coordination effort is in the case of Zambia, around the development of the Rural Finance Policy and Strategy, which despite strong leadership has not yet enough of a track record from which to draw lessons. In Ghana, there is a joint agricultural donor working group.

The principle gap is that there is a lack of coordination efforts between agriculture and finance, as existing coordination arrangements center around agricultural development; while this is understandable given that these are the only coordinating mechanisms, it reduces, even eliminates, the likelihood of an examination of agricultural finance policy issues and will tend to reinforce the “funding agriculture” approach.

All in all, policy coordination needs to be reinforced in two ways: balancing more evenly the “agriculture” and “finance” dimensions of the policy, lining up public-sector stakeholders accordingly, and bringing in private sector to a much greater extent.

Within the existing set-ups, there is no evidence of strong policy champions, given the lack of focus on agricultural finance policy itself and the capacity challenges of existing coordination bodies.

### Links between policy frameworks and policy coordination models

There is little evidence of the mutual reinforcement of policy and its coordination. The basic requirement for such a “virtuous circle” of sound policy and its coordination is the existence of (1) a clear and sound policy and (2) an empowered coordinating body. This is not the case in any of the case-study countries. What has transpired is rather a link between greater government role in agricultural-sector interventions and greater coordination; at least around the agricultural sector as a whole. In fact, a less interventionist policy framework should not mean that there is less coordination.



Figure 2 lines up the case-study countries along axes of more or less government intervention in agricultural finance and tighter or less tight coordination.

Coordination approaches do vary in function of the agricultural development policy stance, within which agricultural finance policy is minimally incorporated in various ways. With well-defined and coordinated national agricultural development strategies, **Morocco** and **Ethiopia** have similar policy coordination approaches, with relatively stronger coordination entities. There is a strong degree of state involvement in agricultural sector, including in funding agriculture, and public bodies are aligned on that front, based in ministries of agriculture. Morocco, with its Plan Maroc Vert (PMV), takes a comprehensive approach to agricultural policy. In both Ethiopia and Morocco, private sector involvement in policy coordination is minimal.

In contrast, **Ghana** pursues a less interventionist approach to agricultural finance with minimal public involvement. The agriculture sector coordination that does exist takes

place within the CAADP process; in fact, the second Food and Agriculture Sector Development Policy (FASDEP II) states that “financial services are outside the control of Ministry of Food and Agriculture, yet lack of access to financing is a major constraint to the growth of the agriculture sector.” A more active coordination effort, including with the private sector, is called for, even if the government takes a less interventionist approach.

**Burkina Faso** and **Zambia** fall in between these two distinct approaches, with varying levels of government policy ownership and private sector involvement in the coordination process. In **Burkina Faso**, coordination and alignment of rural actors are at the heart of policy making in general and the PNSR in particular, which was clearly designed in the spirit of rationalization and harmonization of interventions in the agricultural sector. In **Zambia**, while the National Agricultural Policy (NAP), driven by the Ministry of Agriculture, sets the basic framework for the agricultural sector development, it is reported however that the Ministry of Finance, the private sector and the financial system, as well as the donor community were not fully involved in its development.

Figure 2 Approaches to Government Engagement and to Policy Coordination

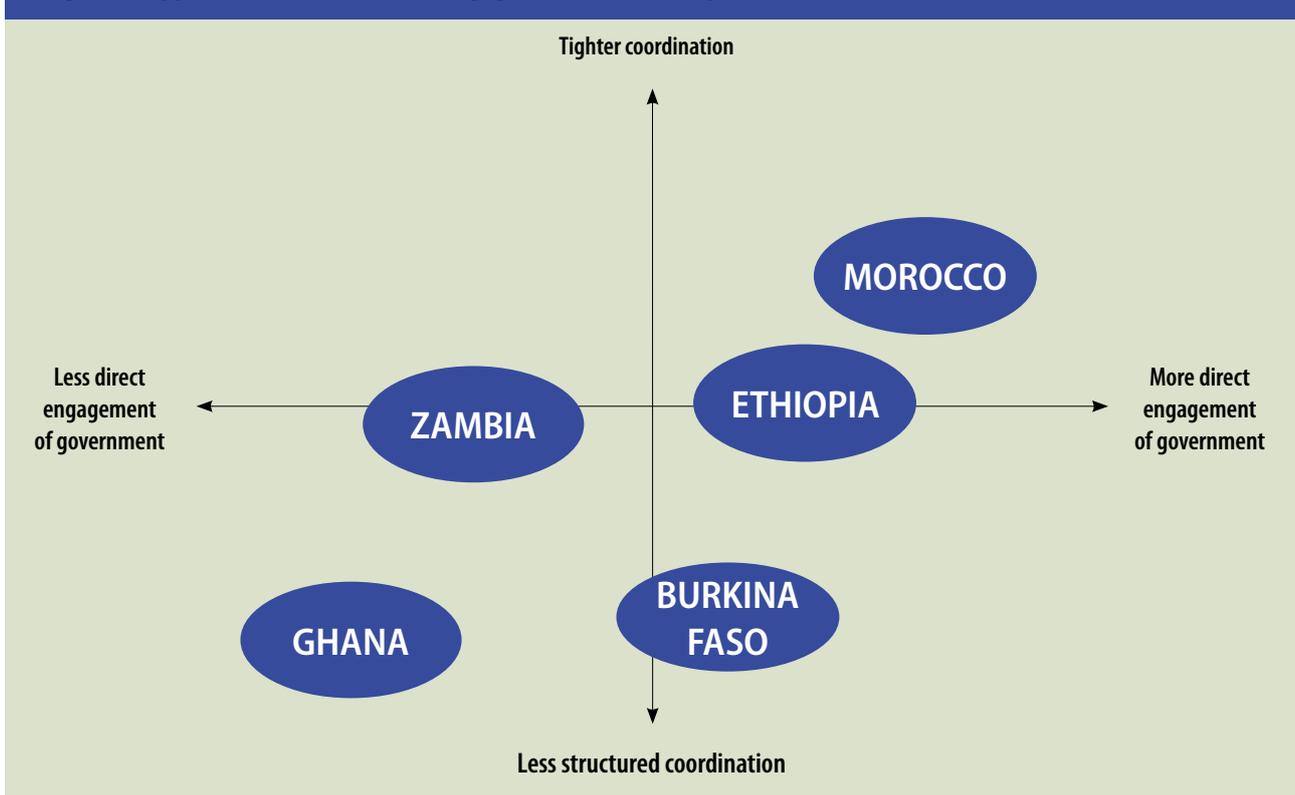


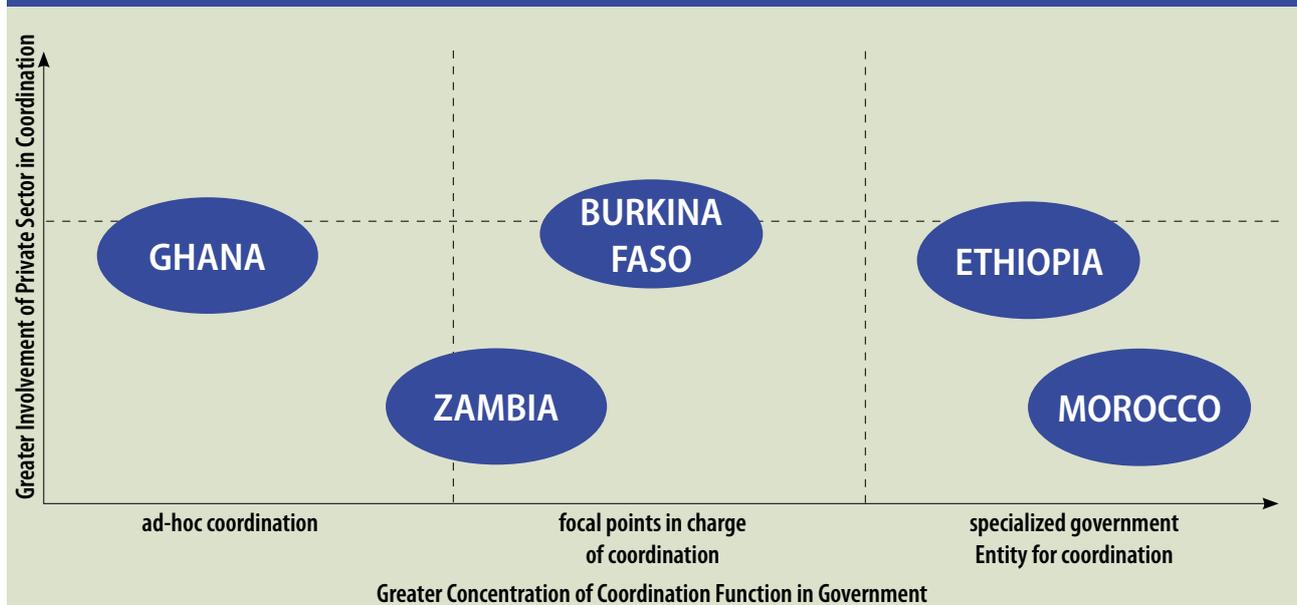
Figure 3 maps the study countries according to the prevailing institutional arrangements for agricultural policy coordination, and agricultural finance policy to the extent it exists. The mapping is indicative and focuses on the main institutional arrangement for coordination in each country.

In **Ghana**, at the upper left in Figure 3, there is a *laissez-faire* strategy and coordination is primarily ad-hoc in nature, aside from that of the CAADP process, with no explicit institutional structure. In **Zambia**, there is also no institutionalized or structured coordination within the public sector or between the public sector and

other stakeholders. With the exception of the IFAD-led Rural Finance Policy and Strategy (RFPS), key policy documents are developed with limited coordination among stakeholders.

Such ad-hoc coordination is to be found in each of the study country. However, **Morocco, Ethiopia and Burkina Faso**, more to the right in Figure 2, have specialized arrangements as main coordination vehicles, which are described in greater detail in the boxes below. Such specialized agencies were found to be the most effective in their coordination role.

Figure 3 Institutional Set-Up for Policy Coordination; Public and Private Sector Engagement



### Box 6 The Agricultural Transformation Agency (Ethiopia)

The Agricultural Transformation Agency (ATA) is an autonomous state entity designed to coordinate and support the implementation of initiatives to address agricultural sector challenges. It was established following a two-year, in-depth study of the Ethiopian agricultural sector conducted by the Bill and Melinda Gates Foundation.

ATA's primary goal is to promote the sustainable transformation of the Ethiopian agricultural sector by supporting existing structures across sectors to address systemic bottlenecks. It has no explicit mandate for, or attention to, agricultural finance, although it has an agricultural finance section. It is, however, the best positioned entity to promote agricultural sector coordination.

Across its past and current programs, ATA engages public, private and non-governmental stakeholders to support strategic planning, manage and strengthen implementation capacity and test innovative models in the agricultural sector. ATA's activities are aligned with a current national development plan, the Growth and Transformation Plan, for a coherent national development strategy.

### Box 7 The Agricultural Development Agency (Morocco)

The Moroccan Agriculture Development Agency (ADA) is under the direct guidance of the Ministry of Agriculture and Fisheries (MAPM). It plays a key role in coordinating agricultural policy. This setup results in very good coordination of agricultural policy since representatives of the Ministries of Agriculture, Economy and Finance, Interior, Foreign Trade and Industry are part of its Board of Directors and work together.

Through ADA, MAPM coordinates the provision of farmland together with the Ministry of Interior. MAPM also oversees the allocation of financial aid, which the Fonds de Développement Agricole (FDA) grants together with various ministries, government institutions, donors, professional associations and private actors. Through Groupe Crédit Agricole du Maroc (GCAM), MAPM provides loans at subsidized interest rates to farmers and the FDA distributes its aid and grants. Here too, there is no mandate for agricultural finance policy coordination.

### Box 8 The Permanent Coordinating Secretariat for Agricultural Sector Policies (Burkina Faso)

The Permanent Coordinating Secretariat for Agricultural Sector Policies (SP/CPSA) is responsible for coordinating, monitoring and evaluating the implementation of the National Program for the Rural Sector (Programme National du Secteur Rural (PNSR)) in collaboration with the Departments of Studies and Planning (DEP) of each Ministry, together with the Program Supervisors responsible for the implementation of sub-programs. It is located within the Ministry of Agriculture.

The private sector is involved in the consultation for the formulation of policies throughout the entire process. Professional associations of banks and other financial institutions, producer organizations and agribusiness, together with representatives of relevant ministries, donors and civil society (NGOs), are all involved in the process of steering and management of PNSR, in particular in the Orientation and Steering Committee and the Inter-Ministerial Technical Committee. The SP/CPSA is universally recognized as a leading organization in the consultation process on rural and agricultural policies.

The ability to implement policies is another important aspect of institutionalization; capacity in this area often appears to be a bottleneck. In **Zambia**, at the time of this report, the key policy documents (the National Agricultural Policy and the CAADP-related National Agricultural Investment Plan) were finalized, but not yet implemented. In **Burkina Faso**, the government has developed a comprehensive policy document (PNSR) aiming to centralize and align the various initiatives and projects in agriculture. Yet, joint interventions remain the exception and each sponsor conducts its own sector development projects with different methods of implementation. Interestingly, such implementation problems were non-existent in **Morocco** and **Ethiopia**,

which rely primarily on public entities to implement their respective policies.

All five countries have room for fundamental improvement in agricultural finance policy and its coordination. Greater alignment with the Kampala Principles would require: first of all, make an agricultural finance policy more explicit, by either establishing an explicit agricultural finance policy, or by carving out the elements of de facto policy; ensure that there is broader representation - notably of the central banks and regulators, and the private sector, including NGOs, and donors - in policy formation and coordination; build up agricultural finance expertise on the policy level; and finally, establish or empower a coordinating body with a mandate to lead the most concerned stakeholders.



## CONCLUSIONS AND RECOMMENDATIONS

The case-study countries reflect a variety of agricultural finance-related policy frameworks and a variety of coordination modalities, without policies dedicated specifically to agricultural finance. While none of the countries can be considered a model of implementation of Kampala Principle 1 (as no country has established a single entity as an advocate for agricultural finance policy), all are instructive of in-country realities of policy formulation and coordination. On the basis of the findings and lessons from the five case studies, a set of recommendations follows.

### Key findings and lessons from the five case studies

- I Across the case-study countries, constraints to the access to agricultural finance are similar:** higher risk in the agricultural context; high costs to both financial service providers and their clients; overly interventionist government policies that crowd out the private sector involvement required for longer-term financial systems development; the lack of conducive legal and regulatory frameworks, including regulatory space for innovation; land tenure regimes that limit the capacity to use land for loan collateral; and the limited financial infrastructure.
- I Existing elements of agricultural finance policy reveal similar policy challenges and weaknesses across the countries, identified as priority:** policy advocacy; crafting smart input subsidies; advancement of a legal and regulatory framework conducive to innovation in agricultural financial products and their delivery; financial infrastructure; advancing land tenure reform; and knowledge generation and sparking new dialogue among the financial sector, the agricultural sector, and policy makers.
- I The agricultural sector as a whole is well served in terms of policy documents.** Well-articulated policy documents for overall agricultural sector development are found in all countries. Often these policy documents have been developed within the CAADP process, although Morocco, not an African Union member state, has developed its own very comprehensive agricultural policy. These policies are designed to boost agricultural development, thereby contributing to the countries' overall economic growth.
- I Agricultural finance is indeed a policy orphan; this status is reinforced by the lack of coordination efforts to conceptualize and implement agricultural finance policy.** In none of the countries is there a clearly defined agricultural finance policy that takes a comprehensive look at the requirements for sound policy. Agricultural finance policies are not explicit: policy elements, which exist across more than one policy document, constitute de facto agricultural finance strategy.
- I In all countries, agriculture is the anchor point for elements of agricultural finance policies, such as they exist.** The approach taken is one of "funding agriculture" rather than a sustainable financial systems approach to agricultural finance. Agricultural finance policy does not stand on the two legs of "agriculture" and "finance" in any of the five countries.
- I There are substantial differences in how coordination takes place and which actors are involved.** Agricultural finance considerations are marginal. In the case study countries, the ministries of agriculture are in the lead when it comes to coordinating bodies for agricultural policy, which incorporates some elements of agricultural finance policy. Ministries of finance are key stakeholders, but only in the case of rural finance policy in Zambia is there a coordinating body lodged in a ministry of finance.
- I There are lessons to be learned from the strengths of the CAADP process,** given its established framework and high-level political support at the country level, as well as the broad and inclusive consultations in developing CAADP Compacts/ Investment Plans and structured stocktaking of

implementation. In the absence of a dedicated agricultural finance policy and associated coordination mechanism, the mainstreaming of agricultural finance systems reform into CAADP processes of agricultural finance as a policy priority is welcome.

- I **Largely absent from coordination efforts are central banks and other financial sector regulatory and supervisory authorities.** Their engagement in policy formulation and coordination is a prerequisite for a balanced agricultural finance policy.
- I **There is a lack of public-private dialogue and cooperation around agricultural finance systems and agricultural finance policy design.** Private sector stakeholders are important as value chain operators, as financiers and as a source of innovation. None of the study countries, however, was found to have a policy in place that considered what is needed to encourage innovation in agricultural finance. Innovation is coming primarily from the private sector, as is value chain development. Coordination on policy with the private sector is therefore extremely important. The current ad hoc coordination with the private sector identified in the case studies underline the value of coordination in specific segments.
- I **Overall, specialized agencies were found to be the most proactive in their coordination role,** provided that they consult and take into account the interests of all stakeholders. However, these agencies place little, if any, emphasis on agricultural finance policy.
- I **In some cases, capacity-building in agricultural finance to improve the ability to formulate and implement policy recommendations may be required,** to build awareness of the importance of a financial systems approach to agricultural finance policy and to reinforce policy making.
- I **Different sets of stakeholders (smallholders and commercial farmers; upstream and downstream value chain operators; cash-crop framers and staple-crop farmers; permanently vulnerable farmers) face different constraints and require different financial projects.** Promoting these different groups requires

different policy responses and forms of coordination. With strong players and advocates, coordination along prominent value chains such as cocoa and cotton has been more successful.

## Recommendations

Lessons from the case-study country experience, backed up by an understanding of sound practice for building sustainable financial systems serving the agricultural sector, suggest a number of recommendations for governments and other country-level stakeholders and for the AFSWG.

### For governments and other country-level stakeholders

- I Identify the stakeholders at the outset that are important for driving policy change and the leadership that is required to be able to bring both agriculture and financial perspectives into the policy framework; identify an entity with an important role in agricultural finance to act as policy champion. In some cases, this champion could be a public agency with a clear mandate to lead policy initiatives and with support within the government; in other cases, a lighter approach could be more effective, via a committee with representatives of leading players.
- I Whatever the nature of the coordination structure, bring together stakeholders to look at the agricultural finance policy landscape, based on an analysis of constraints, and at the areas for change (policy priorities) based on a financial systems development approach.
- I In relation to the nine agricultural finance policy reference points, identify priority areas, tackling issues such as the following six issues, identified on the basis of the case-study country experience:
  - A. Identify, clarify, and confirm the priorities of the agricultural (finance) policy (usually derived from existing policy documents), e.g. security of domestic food production/self-sufficiency;

import substitution, market development, export orientation, social objectives (poverty reduction), environmental aspects, all in relation to target groups;

- B. Clarify government roles (fostering sustainable financial systems and funding agriculture, each as appropriate);
  - C. Consider subsidies carefully, notably input subsidies; pay particular attention to the challenging area of interest rate subsidies; introduce subsidies only if they are temporary, provide the right incentives and are “smart”;
  - D. Review legal and regulatory frameworks for banks and nonbanks (including their political mandate), identifying proportionate legal and regulatory reforms conducive to innovation;
  - E. Recognize the value of improved financial infrastructure (credit registries, warehouse receipt systems) and invest accordingly; and
  - F. Improve the security of land tenure, to encourage and to provide collateral for agricultural inputs, improvements, innovations, and expansion.
- I. Ensure that the designated coordination body has the necessary knowledge of key issues and of sound practices in agricultural finance to perform this role effectively. Otherwise, it should be outsourced to a capable agency.
  - I. Bring in finance ministries, central banks and regulatory bodies (banking, insurance, and also telecommunications) into policy formulation so that the constellation of coordinating bodies reflects the range of issues involved in agricultural finance policy development and coordination.
  - I. Conduct more investigation of value chains, actors and the required policy coordination. The identification of opportunities for innovation in financial products and services, and their delivery, should be fed into policy change processes, so as to take advantage of new developments into policy change.

- I. Work to increase understanding of the constraints faced by private-sector financial institutions and to be in a position to offer perspectives on policy changes needed.

- I. Where CAADP is implemented at the national level, work to bring in the development of an agricultural finance policy as an objective, while insisting - for sustainability reasons - upon a financial systems approach rather than a funding agriculture approach.

### For the AFSWG

- I. Determine better models, by deriving experience from other countries, of how to bring together stakeholders at the country level, such that the “agriculture” and the “finance” dimensions of agricultural finance policy are appropriately treated. Scope out models for strong and dedicated institutional advocacy for developing cohesive agricultural finance policy frameworks that respect a financial systems approach.
- I. Determine how to systematically integrate agricultural finance policy objectives into CAADP processes; determine the success factors of the CAADP processes that are applicable to agricultural finance policy dialogue and policy formulation.
- I. With the support of development partners, provide capacity building, including for policy analysis (constraints, policy formulation) and the advocacy work; this calls for closer cooperation between AFSWG and the MFW4A Donor Working Group on Agricultural and Rural Finance.
- I. Seek examples of policy coordination mechanisms, including examples from outside the agricultural sector that inspire the establishment of stronger policy coordination processes. Encourage countries to share experiences and learn from each other.
- I. Provide support to facilitate, but not to lead in the place of national stakeholders, policy change analysis and processes.



## **ANNEX I – KAMPALA PRINCIPLES**

*Ziping Finance and Farming in Africa: Harnessing the Continent's Potential, Kampala 29-30 June 2011*

### **Kampala Principles**

Financial inclusion is a key to achieving MDGs and to Africa's development. The MFW4A Conference held in Uganda in June 2011 recognised that while agricultural finance is a part of the overall financial system of a country, the financial services needs of Agriculture Sectors in Africa are pressing, and demand special attention. The Principles set out below are intended to suggest actions to give effect to this objective.

1. Address Agricultural Finance policy strengthening through establishing a specific high-level coordination body and by recognising a single entity as the advocate for Agricultural Finance.
2. Strengthen farmers' organizations so that the production end of agricultural value chains becomes an effective influence on agricultural finance policy making.
3. Focus public sector policy on a value chain/ commodity approach, with clustering of smaller farmers to facilitate economies of scale in input purchase, value addition, marketing and advisory services.
4. Ensure legislation is in place and is implemented to foster innovation and to remove barriers to financing the business of agriculture, through measures such as, but not limited to: asset-backed products, warehouse receipts, contract farming, credit reference bureaux (and better client identification), consolidation of small but viable rural financial institutions and other support to the informal financial sector.
5. In accordance with CAADP Principles, and in encouragement of private sector investment, increase public sector expenditure in areas such as, but not limited to: crop and livestock research and extension, water for irrigated crop production and livestock farming, infrastructure for crop insurance, rural energy supply, communications and roads.
6. Support transformation of the agricultural sector through encouragement of longer term productivity-enhancing, on-farm investments such as water supply/irrigation, fencing and farm buildings, through consensual approaches to land tenure issues.
7. Enable financial institutions to meet the demand for longer term financing by developing financial markets so that lenders can gain access to the term liabilities required.
8. Encourage the commercialisation of agriculture and of farming as a business, whether by consolidation of small holdings or through involvement of the private sector (domestic and foreign); in both cases ensure that social, cultural and environmental concerns are met and, in the latter case, that appropriate controls are in place to prevent undesirable exploitation.
9. Develop and implement concrete actions to improve financial literacy, consumer protection and farmer business education, with a special focus on gender and youth issues.
10. Drive research, training and dissemination of knowledge to foster private sector investment in developing and marketing added-value agricultural products and services.
11. Ensure a sustainable flow of information is available in areas such as, but not limited to: markets, output prices, costs of inputs and cost and conditions of financial products and services.



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## **SYNTHESIS REPORT**

### AGRICULTURAL FINANCE POLICY COORDINATION IN AFRICA LESSONS FROM BURKINA FASO, ETHIOPIA, GHANA, MOROCCO AND ZAMBIA

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## **Making Finance Work for Africa**

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