

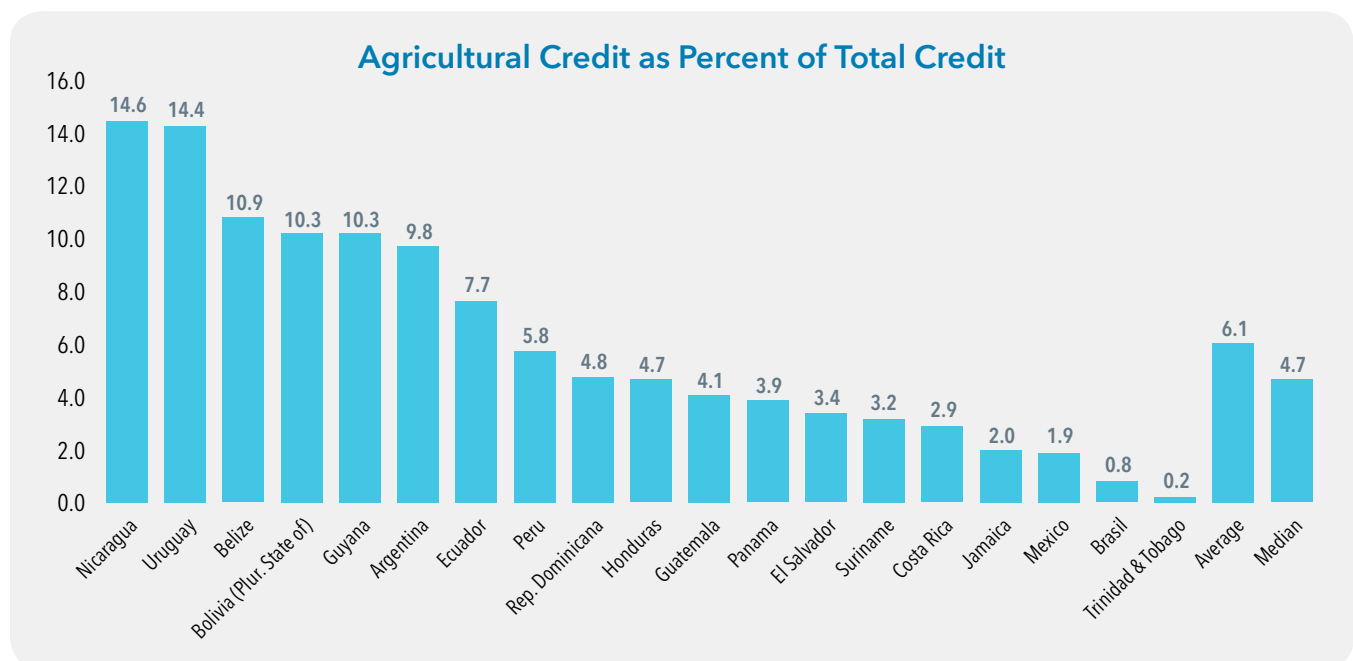
Public Policies and Financial Markets for Rural Development and the Agrifood System in Latin America and the Caribbean

Achieving the multiple Sustainable Development Goals (SDGs) related to rural and agri-food system transformation will require greater financial inclusion. What public policy and institutional reforms in banking and financial systems are needed in Latin America and the Caribbean (LAC) to support financial inclusion and make progress on the SDGs?

The SDGs highlight the role of financial inclusion in reducing hunger and poverty, increasing gender equality, and building sustainable agri-food systems. Increasing financial inclusion and facilitating investment in rural areas and agrifood systems will require political, institutional, and technological innovations. Rural financial markets and banking institutions can play a critical role in linking savings and investment throughout an economy, and can contribute to financial aggregates and macro-financial stability.

Given the importance of investing in agri-food systems, how can we mobilize financial resources to support investments in sustainable technologies, innovations, and food systems at a scale that will generate significant global impact? In particular, what is the role of financial markets, especially rural ones, in such investments?

Some international efforts are underway to improve the financial inclusion of rural enterprises, but currently, the levels of financing and public expenditure on agriculture in LAC are low. The inadequacy of agricultural financing is reflected in the relatively low share of agricultural credit in the total credit of most LAC countries.



To bring agricultural producers and other rural actors into the financial system and facilitate the use of credit, changes are needed to overcome the existing barriers to participation. These barriers include risks that affect whole communities (known as covariant risks), such as climate, prices, and pests, the dispersion of rural populations, the small scale of much rural production, and the lack of real guarantees (collateral). Other problems include the limited supply of long-term credit, the failure of traditional financing to work with the cycles of agricultural activity, excessive

requirements for obtaining credit, and the lack of data on profitability and risks related to agricultural activity.

To address these obstacles, we must design public banks for the rural and agri-food sector that are complementary to the private system, address market failures, help improve public policies, provide transparent financing and incentives for good management, and are subject to adequate regulation and supervision. Public sector policies must focus on an adequate macroeconomic framework, prudent regulatory approaches that balance risk considerations with space for innovation, and the provision of supporting services and infrastructure.

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Only 30 percent of the rural population in LAC uses financial services, such as savings and loans, and these services are largely provided outside the formal financial sector, often by agricultural and nonagricultural enterprises and informal loan providers (FAO and Academia de Centroamérica 2016).

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Restructure agri-food systems to achieve the SDGs

Achieving the Sustainable Development Goals on health, environment, sustainability, and employment will require a restructuring of rural finance to support transformative investment in the agri-food system. Complementary changes are needed to promote financial inclusion of rural stakeholders, articulate rural financial markets with the broader economy, and ensure public policies and institutions support inclusion of rural enterprises.

Rural Financial Markets

To integrate rural financial markets, broaden financial systems, and improve financial inclusion:

- Address obstacles to credit such as small scale of production and climate risks
- Improve credit options, reduce bureaucracy, and improve data to increase use of financial products and services
- Promote comprehensive management of financing in agricultural value chains
- Articulate rural finance with urban finance

Financing for sustainable, inclusive agri-food systems

Public Policy and Institutions

To ensure public policies and institutions support rural financial markets:

- Promote macroeconomic stability and regulatory frameworks for rural financial systems
- Maximize the potential of all types of financial institutions to improve rural services
- Design efficient systems for delivery of financial products and services for agri-food systems
- Provide support services such as infrastructure and extension to improve value chain efficiency



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For more details, see ECLAC (Economic Commission for Latin America and the Caribbean) / FAO (Food and Agriculture Organization of the United Nations) / IICA (Inter-American Institute for Cooperation on Agriculture (IICA). 2019. *The Outlook for Agriculture and Rural Development in the Americas: A Perspective on Latin America and the Caribbean 2019-2020*. San Jose, Costa Rica.

INTERNATIONAL FOOD POLICY RESEARCH INSTITUTE

A world free of hunger and malnutrition

1201 Eye Street, NW, Washington, DC 20005 USA

T. +1-202-862-5600 | F. +1-202-862-5606 | Email: ifpri@cgiar.org | www.ifpri.org | www.ifpri.info

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