Policy Brief RFI 1.0

Public Development Banks Driving Rural Financial Inclusion

Agri-PDB Platform
Agricultural Public Development Bank Coalition

Executive Summary

Agricultural Public Development Banks[a] (PDBs) play a critical role in advancing Rural Financial Inclusion (RFI). However, expanding access to finance in rural areas remains challenging. Both financial institutions (supply side) and rural clients (demand side) face structural barriers, including the perceived high risk and low profitability of agricultural lending, information asymmetries, high transaction costs, limited financial and digital capabilities, and policy interventions that can distort credit allocation. Despite these challenges, strengthening rural financial inclusion is essential to building more resilient agricultural systems. Many PDBs have already developed innovative approaches to overcome these barriers. With a focus on the supply side, this policy brief explores why rural financial inclusion matters, the main constraints that hinder its expansion, and the strategies and financial instruments that PDBs are using to improve access to finance for rural populations.

The analysis highlights three key findings. First, despite significant progress, rural populations continue to face major barriers to accessing and using formal financial services. Second, these barriers stem from structural market failures, including high perceived agricultural risk, information asymmetries and high transaction costs. Third, what make PDB to be well positioned to address these challenges by combining financial and non-financial instruments to expand rural financial inclusion.

To accelerate RFI, the brief recommends three priorities. First, strengthen the enabling environment through better digital infrastructure, regulatory frameworks and financial information systems. Second, expand risk-sharing instruments, such as credit guarantees, agricultural insurance and blended finance, to encourage greater investment in rural areas. Third, strengthen technical assistance, financial literacy and peer-to-peer knowledge exchange to build institutional capacity and promote the replication of successful rural finance solutions.

QUESTIONS DRIVING THIS BRIEF

01
Why does rural financial exclusion persist?

02
What structural barriers constrain rural finance?

03
How can PDBs help close these gaps?

From
DIAGNOSIS

INSTRUMENTS

POLICY ACTION

Framing the Problem: Rural Financial Exclusion

Rural Financial Inclusion

Financial inclusion is a multi-faceted concept. Following the Independent Evaluation Group[1], it refers to "expanding access to and use of financial services, including among low-income households, microenterprises, women, and other traditionally excluded groups". The International Fund for Agricultural Development (IFAD) refers to Rural Financial Inclusion (RFI) as to "Inclusive Rural Finance" (IRF), which targets rural populations, organizations, and businesses ensuring financial services are accessible, useful, and affordable while being explicitly embedded in strategies that promote sustainable livelihoods, resilience, and climate adaptation[2]. This brief adopts the IFAD definition to refer to RFI. Financial inclusion can generate positive effects both at a microeconomic and a macroeconomic level[3]. Cross-country studies generally associate greater financial inclusion with higher economic growth and lower poverty, while its relationship with income inequality appears more heterogeneous and dependent on country-specific institutional and economic conditions (Sahay et al., 2015; Park & Mercado, 2018; Omar & Inaba, 2020).

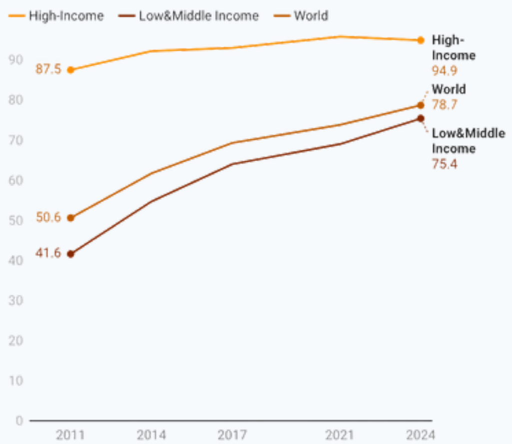
At the individual and household level, notwithstanding mixed evidence[4], FI can address the "consumption smoothing problem," allowing rural households to maintain their standard of living during periods of income failure and have safety nets against future crises and shocks, particularly those reliant on seasonal agriculture, through credit, insurance and savings [5,6,7]. Koomson et al. (2023) provide evidence from Ghana on the relationship between financial inclusion and food security[8]. Their findings indicate that financial inclusion is associated with lower levels of food insecurity, particularly among rural households. Similarly, Baborska et al. (2018), examining rural populations across several low- and middle-income countries, found that access to specific financial services can improve food-security outcomes[9]. In particular, the use of savings accounts was associated with a reduction of approximately 4.4 to 5.5 percentage points in the probability of experiencing food insecurity.

The current State of Financial Inclusion

Evidence from the 2025 Global Findex Database[10] (Klapper et al., 2025) reveals that, despite significant global progress, powerfully driven by mobile technology, the current landscape of RFI is defined by persistent and deep divides.

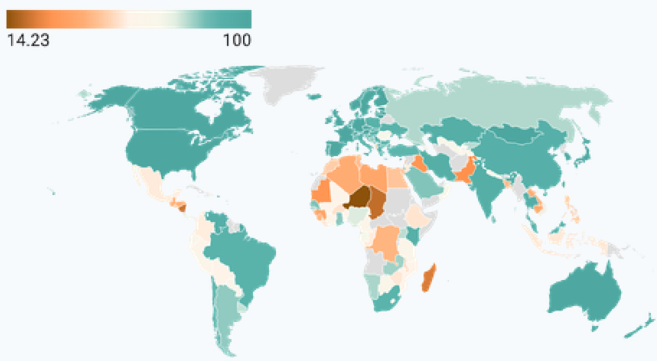
*" Account ownership is rising fastest in low- and middle-income economies.
However, progress remains highly uneven across countries. "*

Figure 1 : Global Trends in Account Ownership



Source : Global Findex Database, 2025

Figure 2 : Account Ownership vary around the world



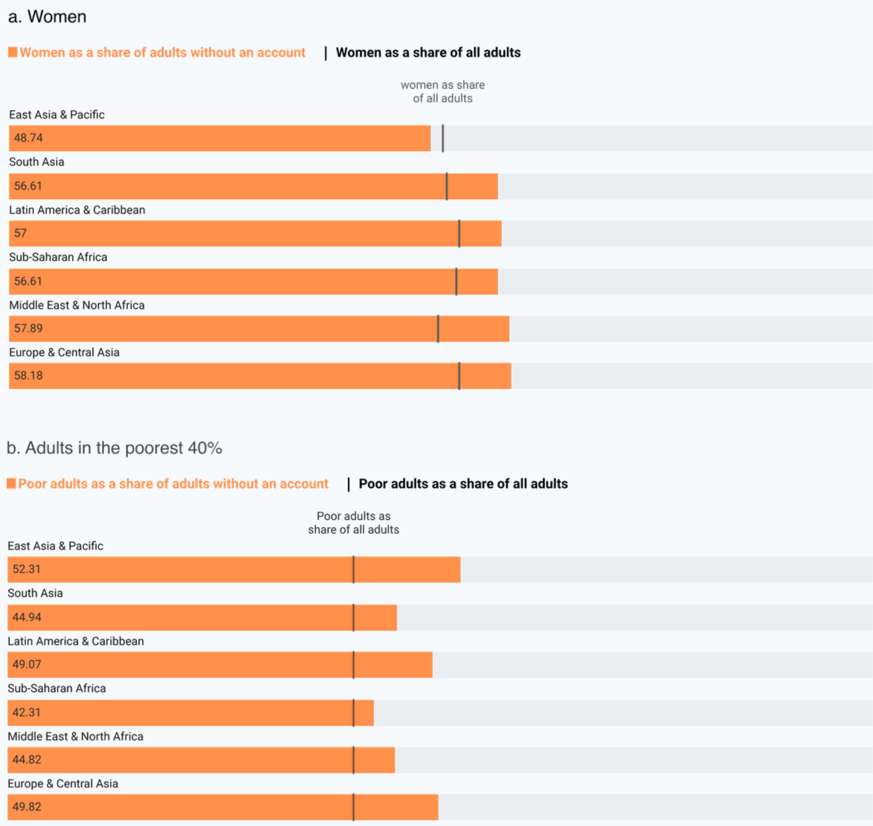
Source : Global Findex Database, 2025

Ownership rates differ remarkably across countries in different income groups, spanning from 15% in Niger to universal in high-income countries like Canada. And, despite low- and middle- income countries experiencing the fastest growth rates among adults over the last 10 years, eight countries in this income group account for more than half of adults without formal financial accounts. Account ownership differs significantly also across countries within the same income group. Considering for instance low-income, in 2024 the share of ownership ranged from 15% in Niger to 73% in Uganda.

Who is left behind?

Vulnerable populations disproportionately represent the 1.3 billion adults unbanked and excluded from formal financial systems. Positively, despite remaining consistent, gender and income gaps in account ownership in low- and middle- income countries have narrowed between 2011 and 2024.

Figure 3 : **Adults without accounts in low- and middle-income economies are disproportionally women and adults**

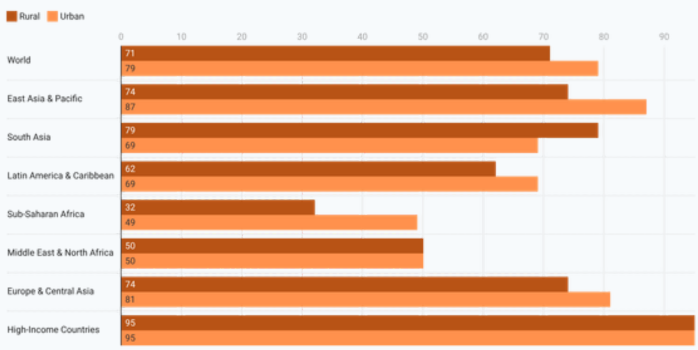


Source : Global Findex Database, 2025

The urban-rural gap remains stark

,as 79% of urban adults have accounts at a bank or similar financial institution with respect to only 71% of rural residents. Disparities are most acute in low- and middle-income economies and Sub-Saharan Africa (SSA), where the gap reaches 17 percentage points, with only 52% of rural adults owning a formal account. Moreover, significant gaps are also observed for access to formal loans (from financial institutions or via mobile money accounts) and savings.

Figure 4 : **Adults with a formal account**



Source : Global Findex Database, 2025

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1 Independent Evaluation Group. (2023). Financial inclusion: Lessons from World Bank Group experience (fiscal years 2014–2022). World Bank Group. https://ieg.worldbankgroup.org/evaluations/financial-inclusion

2 International Fund for Agricultural Development. (2021). Inclusive rural finance policy. https://www.ifad.org/en/w/corporate-documents/policies/rural-finance-policy

For agricultural PDBs, these findings imply that expanding RFI requires more than increasing the overall volume of credit. Persistent urban–rural gaps point to supply-side constraints in the ability of financial institutions to reach dispersed rural clients, particularly smallholder farmers and rural enterprises. Agri PDBs can therefore play an important role by strengthening the channels through which finance reaches rural areas, for example, by working through local financial institutions and other rural intermediaries, supporting digital delivery models, and investing in complementary infrastructure and institutional capacity. At the same time, the continued constraints related to connectivity, digital access and capabilities mean that digitalization should not be treated as a stand-alone solution.

Out of the 79% of the world's adults who had financial accounts in 2024, more than half hold a digital account
(i.e., usable via phone or payment card), and 86% of adults own a mobile phone worldwide (Box 1).

Box 1 : Turning Online the Last Mile

Digitalization has emerged as the primary catalyst for the ongoing evolution of the global financial landscape, with surges in connectivity worldwide. This digital foundation is revolutionizing how financial services are delivered to "last mile" rural clients, favoring rural financial inclusion by overcoming the need for expensive physical branch networks, boosting account ownership and formal saving and digital payments, and enabling non-financial digital activities.
Hence, the global mobile money revolution is a dominant force in rural finance. By 2024, mobile money account ownership reached 40% of adults in SSA, 37% in Latin America and the Caribbean, and 22% in South Asia, from 13%, 15% and 10% respectively. However, a significant urban-rural divide persists, as millions in rural areas still lack smartphones, high-quality broadband, and the digital literacy required to navigate digital systems safely[12,13].
Consequently, the potential of digitalization to foster a fully inclusive financial ecosystem depends on infrastructure and capability rural development.

Financial Access Barriers

The systemic failure of RFI stems from a complex interplay of perceived risks, information asymmetries, and high operational constraints affecting both the demand and supply sides in rural financial markets [13,14]. This policy brief focuses specifically on the supply-side constraints, examining how financial institutions perceive and respond to these structural barriers.

From the demand point of view,
adults without accounts identify lack of money as the main barrier to owning a formal account.

Figure 5 : Lack of money is the main barrier to account ownership for most adults without accounts

Adults without an account citing a given barrier as a reason for having no account at a bank or similar financial institution (%), 2024

low high

	Not enough money	Financial Institution too far	Fees for financial services too high	Lack of necessary documentation	Family member already has one	Lack of trust in institutions
East Asia & Pacific	58	35	32	35	38	17
South Asia	68	27	34	23	32	18
Latin America & Caribbean	33	42	53	30	38	35
Middle East & North Africa	55	12	22	11	23	22
Europe & Central Asia	39	18	22	14	47	19

Source : Global Findex Database, 2025

From the supply point of view,

- The agricultural sector is seen as a high-risk and low-profit segment, as lenders perceive credit risk, production risk, market risk, and price risk[11,12]. Furthermore, even when credit is available, borrowers may exhibit "risk rationing", where they avoid formal loans out of fear of losing their only productive assets in the event of unpredictable shocks[14]. As a result, formal financial institutions deem smallholders riskier than they are and end up neglecting them[11].
- Profound information asymmetries lead to adverse selection and moral hazard[15].
- The geography of rural areas often translates into prohibitive transaction costs: establishing physical branch networks to reach "last mile" clients is expensive for financial actors[11,5], distance and transportation issues remain ultimate obstacles for borrowers, as does the administrative burden of preparing complex loan applications and the requirement to "pay at hand" when receiving disbursements[16].
- Political interference in lending decisions can also distort credit allocation and compromise portfolio quality, particularly through debt-waiver programs[10,16], interest rate caps and government-mandated margins[5,12], and subsidized lending[11].

How PDBs Support RFI

Institutional Nature of PDBs

Government ownership & public mandate

Directing resources to agriculture, underserved sectors and small-scale farmers

Long-term, patient capital

Leveraging stable resources and government guarantees to provide finance aligned with production cycles and farmers' needs

National strategies & territorial presence

Aligning resources with country-led priorities and reaching marginalized groups

Counter-cyclical role

Absorbing and reshaping risk while ensuring credit flows to rural actors

Financial and non-financial toolbox:

- **Concessional and blended finance**.

PDBs use concessional finance to provide loans on terms more favorable than commercial markets, including seasonal loans aligned with crop cycles and longer-term investment loans supporting productivity improvements. They also use blended finance structures that combine public or concessional resources with commercial capital to reduce risk, encourage private-sector participation, and mobilize long-term investment for sustainable agriculture.

- **Risk-sharing and agricultural insurance**.

Credit and portfolio guarantees help lower barriers for commercial lenders by covering part of the losses associated with individual borrowers or defined pools of agricultural loans. Agricultural insurance provides complementary protection against climate and production shocks through indemnity-based, parametric, or yield-based products, which can also be bundled with other financial and non-financial services.

- **Digital finance and capacity building**.

Digital identity, biometric verification, digital loan-origination platforms, and alternative credit-scoring models enable PDBs and partner institutions to reach rural clients more efficiently and assess farmers who lack traditional collateral or formal credit histories. These tools can be complemented by technical assistance, capacity building, and financial literacy programs that strengthen borrowers' bankability and financial institutions' ability to serve agricultural clients.

- **Value-chain finance**.

PDBs can leverage relationships among farmers, input suppliers, aggregators, processors, and off-takers to facilitate access to finance and reduce transaction risks across agricultural value chains. Instruments such as warehouse receipt financing and input credit facilities can help producers manage irregular cash flows, meet working-capital needs, and integrate more effectively into formal markets.

3 Agri-PDB Platform. (2025b). Why and how public development banks (PDB) can help rural financial inclusion and how to do it: Concept note. agripdb-masque-factsheet-concept-note-rfi-en.pdf
4 Duvendack, M., & Mader, P. (2019). Impact of financial inclusion in low- and middle-income countries: A systematic review of reviews (3ie Systematic Review 42). International Initiative for Impact Evaluation (3ie).
5International Fund for Agricultural Development. (2025). Partnering with public development banks and local financial institutions to maximize the impact of IFAD's operations (EB 2025/144/R.11).

RFI barriers and Solutions by PDBs

RFI AND PDBs: Barriers and Solutions

Challenge	PDBs Instruments and Strategies	Examples (Case Studies)
• **Agriculture is viewed as a high-risk and low-profit segment (credit risk, production risk, marketing risk, and price risk).**	• Credit guarantees & portfolio guarantees to de-risk lending and crowd in private finance. • Blended finance structures to improve risk-return profiles and attract private capital. • Long-term and patient capital aligned with agricultural cycles (seasonal and investment loans). • Agricultural insurance (e.g., weather-index or parametric insurance) to hedge production risk and improve borrower creditworthiness.	• **BNDES (Brazil)**, through its ABC Program, offers long-term, low-interest investment credit for low-carbon technologies, allowing farmers to access patient capital private banks typically avoid[11]. • **FINAGRO (Colombia)** has expanded insurance access through incentives, increasing beneficiaries from fewer than 30,000 in 2020 to nearly 100,000 in 2024, with 99% being smallholders. It has also introduced parametric insurance, which provides significantly broader coverage, reaching up to five times that of traditional products[11].
• **Information asymmetries (adverse selection and moral hazard, technical knowledge barriers).**	• Alternative credit scoring models (cash-flow based, digital data) to replace collateral-based lending. • Digital identity systems & biometric verification to improve borrower identification and transparency. • Data-driven approaches & value-chain integration to reduce information gaps between lenders and borrowers. • Technical assistance to financial intermediaries (risk assessment, agricultural lending methodologies).	• **PKSF (Bangladesh)** employs Geographic Information Systems to ensure financing is used for crops most likely to succeed in a given region[11]. • The **Agricultural Finance Corporation (Kenya)** overcomes collateral-based lending through the Warehouse Receipt System, allowing farmers to use warehouse receipts as collateral after storing their produce in accredited warehouses[19].
• **Geography of rural areas (high transaction costs, distance and transportation issues,administrative burdens).**	• Digital finance infrastructure to reach "last mile" clients without costly branch networks. • Mobile-based banking and digital payments systems to lower transaction costs. • Value-chain financing mechanisms (e.g., warehouse receipt systems) to embed finance within market structures.	• **NABARD (India)** streamlines loan applications via digital land records and biometric identity verification, reducing the turnaround time for agricultural loans from several weeks to just five minutes[11]. • **BRI (Indonesia)** operates a "branchless" approach with local merchant agents to extend banking services to dwellers in rural remote areas, reducing distance and time barriers to formal finance[3].
• **Political Interference (debt-waiver programs, interest rate caps, government-mandated, and subsidized lending).**	• Institutional alignment with national strategies while maintaining operational and financial discipline. • Structured concessional finance (not distortive subsidies) to target real constraints. • Blended finance frameworks to reduce reliance on politically driven subsidies.	• **Banrural (Guatemala)**, formerly state-owned (BANDESA), presents private sector participation and diversified capital structure, to ensure financial discipline and business-oriented management while maintaining a social mission, turning it into a profitable and self-sustaining rural bank[3]. • **FIRA (Mexico),** as trust fund under the supervision of the Central Bank, has high autonomy ensuring that credit decisions remain based on sound banking practices rather than political motives[12].
• **Demographic factors and social dynamics (educational attainment, digital literacy, and lack of trust in institutions).**	• Financial literacy and capacity-building programs for rural populations. • Technical assistance bundled with finance (business skills, agronomic training). • Targeted financial products (e.g., gender-focused lending, tailored products for smallholders).	• **COFIDE (Peru)** supports savings groups which combine financial education with community-based business support[3]. • **The Land Bank (Philippines)** requires smallholders to complete training in financial literacy and business planning to access working capital loans[12]. • **Aseguradora Rural (Guatemala - under Banrural)** offers credit products at lower interest rates bundled with insurance, with a strong focus on inclusion. Women represent 63% of beneficiaries, while agricultural enterprises account for 54% (targeting even more pronounced in the institution's parametric insurance products, where participation reaches up to 86% for women and 97% for agricultural clients)[17].

The Agri-PDB Platform and RFI

The Agri-PDB Platform is a strategic collaborative hub designed to empower PDBs in their role as vital "SDG enablers" within rural systems.

RFI in practice

The Rural Financial Inclusion Working Group[2] has held sessions to exchange practical strategies on RFI. Key focus areas include examining the role of agricultural insurance enhancing productivity when bundled with credit. Online sessions have also covered topics such as agricultural credit guarantee mechanisms and the role of Fintech in helping PDBs reach the "last mile" client

The Agri-PDB Platform promotes peer-to-peer exchange on practical solutions that strengthen RFI[20]. One example is the **peer-to-peer exchange between FIRA Mexico and FINAGRO Colombia** on agricultural risk-management tools, particularly FIRA's Minimum Agricultural Risk Matrix. This tool helps link credit, guarantees, and agricultural insurance by identifying the minimum risks that should be covered for different productive activities. Its development and updating are supported by a multidisciplinary group that brings together public institutions, insurers, banking representatives and other sector stakeholders. Through the exchange, FINAGRO was able to better understand the methodology, governance arrangements and operational use of the matrix, generating practical lessons for the development of its own agricultural risk-management framework, in compliance with the Colombia regulator's requirements.

Upcoming learning events will explore additional tools that can help public development banks advance responsible finance. These sessions will cover de-risking instruments, including guarantees and blended finance mechanisms, as well as further exchanges on agricultural insurance. We encourage The Platform members to participate actively, share their experiences, and help shape the discussion around practical solutions that can be adapted and applied across institutions.

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Policy Recommendations

Enabling Conditions

1. Strengthen the foundations of rural financial ecosystems
Rural financial inclusion cannot be achieved by financial institutions alone. Governments, regulators, and development partners should strengthen the regulatory, digital, and data infrastructure that enables rural finance, including digital public infrastructure, interoperable payment systems, digital identification, and credit information systems. Strengthening these foundations can reduce transaction costs, improve market transparency, eventually favouring PDBs to expand the reach of financial services in underserved rural areas.

2. Mobilize greater investment into rural finance through risk-sharing approaches
The persistent perception of agriculture as a high-risk sector remains a major barrier to rural lending and private investments. Governments, donors, and PDBs should expand risk-sharing mechanisms, including credit guarantees, agricultural insurance, and blended finance structures, to improve the risk-return profile of rural investments. These approaches can help crowd in private capital while strengthening the resilience of rural households and enterprises.

Actions for Public Development Banks

3. Expand capacity-building and partnership-based approaches
Access to finance alone is often insufficient to achieve lasting inclusion.
PDBs should continue combining financial services with technical assistance, financial literacy, and capacity-building activities for both clients and financial intermediaries.
They should also strengthen partnerships with local financial institutions, agribusinesses, cooperatives, and development actors to improve outreach and service delivery.

4. Strengthen institutional innovation and adaptive capacity for rural finance.
PDBs should regularly assess the constraints limiting RFI in their operating environment and use these diagnostics to identify opportunities for innovation and adapt their financial and non-financial services.
Continuous learning, piloting of new approaches, and participation in peer-learning initiatives can help institutions identify successful models, adapt them to local contexts, and scale effective solutions. Notably, should improve their capacity not only to expand the volume of rural finance, but also help channel investment toward more resilient, diversified, and climate-adaptive production systems.

5. Strengthen governance and operational effectiveness.
Strong governance is essential to ensure the long-term sustainability of rural finance initiatives. PDBs should maintain sound risk-management practices, promote transparency and accountability, and seek governance arrangements that balance operational autonomy with alignment to national development priorities.

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