

Designing Credit Guarantees for Agricultural Finance

From financing constraints to effective risk-sharing

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Rabo Partnerships

Unlocking finance for agriculture

Rabo Partnerships: a dedicated entity of Rabobank



Cornerstone to the cooperative mission

Rabo Partnerships' achievements are part of Rabobank's overarching mission of **Growing A Better World Together**.



Rabo Partnerships' vision

We offer solutions and capital (equity) to partners in emerging markets to increase access to **inclusive financial services for rural livelihoods** and support transparent, inclusive **Food & Agri value chains** at scale.



Growing presence and impact

Steadily driving impact and return in emerging markets, we have expanded our activities from Eastern Europe to Africa, Asia and Latin America in the past 35 years.

One of our current programs, funded by IFAD:

Inclusive Financial Ecosystem for Food Systems Transformation

- **Objective:** Strengthening the capacities of National Development Banks (NDBs) to provide effective financial services that meet the specific needs of small-scale farmers.
- **Approach:** Systematize best practices in rural finance, fostering alliances with other actors in the Inclusive Financial Ecosystem (IFE) and piloting the development of innovative and/or effective financial solutions in selected countries.

Begin with the market challenge

Playbook to move from challenges to solutions

Offset

0. Clarity and agreement on addressable market.

Stage 1: What to offer?

1. What challenges of small-scale farmers are to be addressed?
2. What instruments most effectively address the challenges?

Stage 2: How to offer?

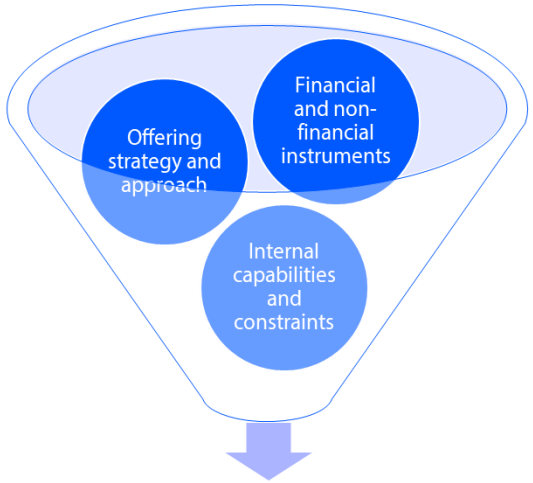
3. What are the most effective distribution channels and strategies?

Stage 3: Which capabilities needed to implement the instrument?

4. What are the relevant organisational enablers and limitations?

Stage 4: Implement, monitor, and adjust

5. Integrate in PDCA cycle.



Tailormade support for small-scale farmers in a selected market.

A guarantee cannot compensate for every constraint.

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Challenges of small-scale farmers

And what credit guarantees can (not) solve

	Social- and institutional hurdles	Infrastructure- and market access imperfections	Environmental- and climate change	Knowledge- and technology gaps	Limited access to finance
Can the challenge be solved by credit guarantees?					

Choose the right risk-sharing structure

First-loss guarantee

- The guarantor absorbs the initial tranche of portfolio losses.
- Most appropriate when entering a new or particularly risky segment.
- Creates strong protection for the lender, but also the greatest moral-hazard risk.
- E.g. 10-30% first-loss range.

Pari passu guarantee

- Every loss is shared proportionally between guarantor and lender.
- Preserves the lender's skin in the game.
- More suitable where the lender already understands the segment and the objective is scaling rather than initial experimentation.
- E.g. 50/50 arrangement.

Portfolio guarantee

- Covers an agreed portion of losses across an eligible portfolio, rather than requiring an individual approval for every loan.
- Reduces administrative costs and can support lending at scale.
- E.g. 30-50% portfolio coverage.

FIRA
FIDEICOMISOS INSTITUIDOS EN RELACION CON LA AGRICULTURA

PROEM

BDP SAM
Banco de Desarrollo Productivo

Fondo de Afianzamiento

FMO
Entrepreneurial Development Bank

NASIRA

The six terms to settle before signing

Target segment and additionality	Coverage and loss-sharing	Pricing	Eligibility and origination responsibilities	Claims and recoveries	Monitoring
• Target borrower • Value chains • Geographies • Loan purposes • Loan size and tenor • Excluded activities	• Coverage rate • First-loss vs pari passu • Portfolio cap • Concentration limits	• Guarantee fee • Who pays the fee? • Conditions for fee adjustment	• Automatic inclusion vs prior approval • Eligibility rules and documentation • Credit assessment and underwriting standards • ESG eligibility requirements	• Definition of default • Claim timing and documentation • Conditions before payout • Payout timeline • Responsibility for recoveries • Audit and clawback provisions	• Utilisation • Financial performance • Additionality • Reach • Impact

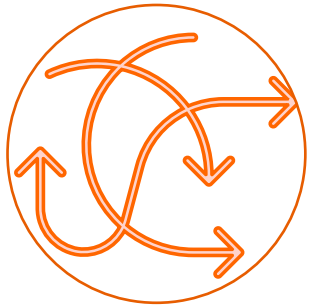
What can go wrong?



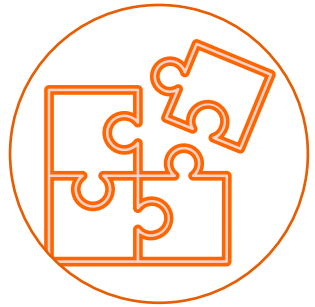
Excessive coverage



The guarantee reaches existing clients instead of new segments



Complexity prevents utilisation



The guarantee is offered in isolation

Practical design checklist

Challenge	What financing barrier are we solving?
Behaviour	What should the lender do differently?
Structure	Which coverage, pricing, risk-sharing mechanism, and additional services produce that change?
Controls	How will eligibility, claims, recoveries, and moral hazard be managed?
Impact	How will we know the guarantee generated additional lending and better farmer outcomes?



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