

Enhancing Access to Input Finance, Credit Systems, and Fiscal Risk Management

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This note, prepared for the Impact Program’s learning, provides a brief overview of the recent experiences from enhancing access to input finance in input subsidy programs in SSA. It includes practical information on what has worked and not worked, and how programs to enhance access to input finance should be designed and implemented that lead to lasting impact on the ground.

Context

Input subsidies have long been a cornerstone of agricultural policy in SSA and are designed to make essential agricultural inputs—such as fertilizers and seeds—more affordable and accessible for farmers, particularly smallholders. The goal is to boost productivity, improve food security, and support rural livelihoods. Across the six Impact Program countries—**Ghana, Kenya, Malawi, Senegal, Tanzania, and Zambia**—input subsidies total about US\$560 million annually, representing a significant portion of agricultural public spending.

Farmers face significant barriers accessing timely and affordable finance to purchase critical inputs due to lack of collateral, credit history, and required documentation, while financial institutions often lack sufficient knowledge of the agricultural sector, view agriculture as high-risk, and hesitate to offer tailored products. Limited rural banking infrastructure, high upfront input costs, and the lag between investment and harvest revenue create liquidity constraints that prevent farmers from investing in critical productivity-enhancing inputs at the right time, undermining the effectiveness of input subsidy schemes.

Given these challenges, reforming subsidy delivery with innovative input finance systems is essential to address farmers’ cash constraints and risks, enabling timely and affordable access to subsidized inputs. Well-designed input finance mechanisms—such as direct credit, supplier loans, digital platforms, risk-sharing models, and guarantee schemes—enhance subsidy access, efficiency and impact, leading to higher yields, increased incomes, and reduced poverty.

Enhancing Access to Input Finance

Input finance and subsidy schemes provide affordable credit and lower input costs, making productivity-enhancing inputs more accessible and encouraging their use. Together, these approaches help farmers overcome critical financial barriers, ensure consistent input availability, improve yields, and contribute to food security and economic growth.

Several mechanisms can deliver input finance within agricultural subsidy programs. These include **direct credit provision**, where governments or financial institutions provide loans to farmers for purchasing agricultural inputs, **supplier credit** extended by agro-dealers (often

supported by bank guarantees), and **e-voucher and digital platforms** that enable farmers to access subsidized inputs through accredited dealers with digital transaction tracking for improved transparency. **Risk-sharing consortia** bring together financial providers, input suppliers, off-takers, and producer organizations to collectively share financing risks, while **guarantee schemes** from governments or donors encourage banks to lend to farmers and agro-dealers by offering partial credit guarantees. Additionally, **warehouse receipt systems** allow farmers to use stored produce as collateral for input loans, improving liquidity and reducing risk for lenders, and **conditional subsidies** link financial support to farmers' adoption of specific practices or achievement of sustainability criteria.

Recent Experience and Lessons Learned

Recent experiences with input subsidy programs have underscored both the promise and complexity of improving access to finance for smallholder farmers. While digital innovation, risk-sharing partnerships, and market-smart approaches have delivered tangible gains in efficiency, inclusion, and productivity, persistent challenges remain—such as accurate targeting, last-mile delivery, and sustaining private sector engagement.

Kenya's use of mobile money platforms and e-voucher systems has transformed subsidy delivery, resulting in more transparent and efficient targeting of smallholders. By leveraging M-Pesa and digital farmer registries, Kenya has significantly increased account ownership, reduced leakages and improved financial inclusion for rural smallholders. However, challenges remain in ensuring digital literacy and infrastructure to reach all intended beneficiaries, particularly in remote areas.

Ghana has implemented risk-sharing consortium models, bringing together banks, input suppliers, off-takers, and farmer organizations to collectively share the risk of financing inputs. This approach has lowered collateral requirements and expanded credit access for smallholders, strengthening value chain linkages. Despite these successes, sustaining lender confidence and scaling such models beyond pilot phases remain ongoing challenges.

Rwanda, Tanzania, and Nigeria have adopted market-smart subsidy programs using targeted vouchers and matching grants. These initiatives are designed to avoid market distortion, crowd-in private input suppliers, and gradually transition toward commercial credit markets. The programs have resulted in higher yields and improved poverty outcomes in targeted regions.

India's Direct Benefit Transfer (DBT) initiative pays input subsidies—such as for fertilizers and seeds—directly into farmers' bank accounts, aiming to improve efficiency and transparency in subsidy delivery. This approach has boosted agricultural yields by 18% and farmer incomes by 16%, while significantly reducing leakages. Despite these gains, challenges persist with accurate beneficiary targeting, regional disparities, and last-mile delivery in remote areas, highlighting the need for robust systems to ensure inclusivity and reach.

Design and Implementation Considerations

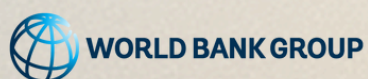
Key design features for enhancing access to input finance and credit systems include:

- **Digital farmer registries and e-voucher systems.** Use secure, up-to-date digital platforms for farmer identification and subsidy delivery to improve targeting, reduce leakages, and enhance transparency.
- **Timely and demand-driven input delivery.** Align input and credit disbursement with planting seasons and actual farmer demand, avoiding delays and inefficiencies caused by budget-driven or opaque government processes.
- **Establish risk-sharing partnerships and financial innovation.** Foster collaboration among banks, input suppliers, output buyers, and specialized financial entities (including non-bank institutions) to share credit risk and introduce instruments like guarantees, local currency hedging, and working capital loans.
- **Bundle services for farmers.** Offer integrated packages that combine input financing with crop insurance and advisory services to reduce risk exposure for farmers and financial institutions.
- **Design market-smart subsidies.** Structure subsidies to complement, not replace, private sector input supply chains—encouraging competition and sustainability rather than distorting markets.
- **Invest in farmer financial literacy and extension services.** Provide training on credit management, repayment, and digital tools, alongside agronomic advice, to improve adoption of improved inputs and responsible borrowing.
- **Implement real-time monitoring and clear reimbursement timelines.** Use digital tracking systems for voucher redemption and enforce predictable payment schedules to maintain trust among suppliers and financial institutions.

Access to input finance programs can face several challenges, including **high credit risk and lack of collateral** that make lenders reluctant to serve smallholders, while **low financial literacy and a digital divide** limit farmers' ability to use credit and e-voucher systems effectively. **Weak rural financial infrastructure** and **delayed government reimbursements** disrupt liquidity and trust among stakeholders. Initiatives also struggle with **targeting inefficiencies and leakages**, leading to exclusion of vulnerable farmers or elite capture. Additionally, **market distortion and sustainability concerns** arise when subsidies crowd out private suppliers, and **gender and youth exclusion** continues to restrict equitable access to finance.

Potential Impact and Next Steps

During the Impact Program's learning event, participants will explore practical approaches to enhancing access to input finance, credit systems, and fiscal risk management. The event will showcase successful models, lessons learned from SSA and beyond and provide actionable recommendations for designing and implementing effective input subsidy programs. Expected outcomes include a clear understanding of evidence-based input finance solutions, practical tools for design and implementation, strategies for stakeholder engagement, and concrete action plans for maximizing the impact of agricultural input subsidies.



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