Executive Board
144th Session
Rome, 14–15 May 2025

Partnering with public development banks and local financial institutions to maximize the impact of IFAD's operations

Document: EB 2025/144/R.11

Agenda: 4

Date: 24 April 2025

Distribution: Public

Original: English

FOR: REVIEW

Action: The Executive Board is invited to review the content of this document.

Technical questions:

Pieternel Boogaard
Managing Director
Office of Technical Delivery
e-mail: p.boogaard@ifad.org

Nigel Brett
Director
Sustainable Production, Markets and Institutions Division
e-mail: n.brett@ifad.org

Partnering with public development banks and local financial institutions to maximize the impact of IFAD's operations

I. Introduction

1. IFAD recognizes the growing role of **public development banks** (PDBs[1]) in supporting its development objectives.[2] Since the 2007–2008 global financial crisis, PDBs have evolved, playing an increasingly important role in addressing market failures and mobilizing private sector financing.[3] Their engagement with global actors has expanded, notably through mechanisms such as the IFAD-hosted Agricultural Public Development Bank (Agri-PDB) Platform under the Finance in Common initiative. At the same time, their involvement in IFAD's programme of work (PoW) has become more sophisticated, shifting from receiving basic financial support to engaging in more integrated collaborations involving diversified financial instruments and policy engagement. IFAD's work with PDBs is primarily implemented through its PoW and guided by its Inclusive Rural Finance Policy. IFAD's current and forward-looking corporate strategies emphasize the role of access to finance for smallholders in driving rural transformation.[4]

2. Given these different areas of engagement, IFAD seeks to adopt a strategic view of PDBs and the extent to which they can leverage the impact of IFAD investments. The underlying question explored in this paper is how IFAD can work with PDBs to unlock more financing for rural development. This includes looking at the most effective models and instruments for impact, the best mechanisms for IFAD to support PDBs, and ways to engage PDBs more in IFAD thematic areas. It reviews IFAD's current engagement and recent studies, draws on lessons from the Agri-PDB Platform and other development actors, and provides recommendations. It reflects work and consultations with several IFAD experts.

3. **Evolution.** There has been a constant evolution in the role of PDBs over the last century. It started with the creation of a large number of these institutions in the 1940s and 1950s as a mechanism to direct public investment into strategic parts of the economy, particularly industrialization and agriculture. By the 1980s and 1990s, a reassessment of many PDBs, particularly in developing countries, viewed them as not only failing to meet their policy objectives, but also generating substantial fiscal losses, as many of them required recurrent recapitalizations. In the last two decades, PDBs have been revamped, with line ministries, financial regulators and a new generation of managers, to build solid institutions with a strong focus on addressing market failures and inequalities, and crowding in private sector investment while ensuring the financial sustainability of their operations. Notwithstanding these developments, PDBs remain a heterogeneous community in terms of capabilities – financial and non-financial – as well as institutional set-up and governance. Attention to the role of PDBs in development has also been somewhat cyclical over the years.

II. Context

4. **Why PDBs matter to IFAD.** PDBs account for almost two thirds of global formal agriculture financing.[5] One of their critical roles is to enable sustainable rural

---

[1] See annex I for the definitions and characteristics of PDBs used in this paper.
[2] See, for example, IFAD's press release of 4 September 2023.
[3] Note that PDBs in G20 countries have an outsized contribution to total numbers.
[4] See the business model and financial framework of the Thirteenth Replenishment of IFAD's Resources, and IFAD's Private Sector Operational Strategy 2025–2030.
[5] This is an aggregate estimate that masks significant variation within a community that includes institutions with a wide range of measures and degrees of capitalization. Source: IFAD. 2021. IFAD and partners to announce upcoming coalition to support public development banks' financing of sustainable and equitable food systems.

financial markets, as they generally have a public mission focused on development, by providing longer-term concessional funding. PDBs also allocate domestic and private resources, help to shape policies, and drive systemic change – a particularly important function given the evolving international development landscape. Given IFAD's leadership in rural development and finance, PDBs hold great potential to contribute substantially to closing financing gaps by complementing the roles of other financial institutions and helping to leverage public investment to reach smallholders and rural populations. Engagement with PDBs can take the form of cofinancing or concurrent activities, contributing to mobilization, and financing investments that benefit IFAD's target group.[6] The size and role of PDBs mean they can be critical to IFAD's ability to reach its targets on rural outreach, among others.

5. **Some characteristics of PDBs:** There were 522 PDBs globally in 2022, across 154 economies. Together, they held US$23.2 trillion in assets and were responsible for 10 to 12 per cent of global financing.[7] Most PDBs are multisectoral in scope, and include agriculture, (rural) energy and infrastructure, and small and medium-sized enterprise (SME) development sectors, with current annual investment approaching US$1.4 trillion. Research confirms that, operationally, PDBs' activities reflect their social and development mission.

6. **Segmentation.** PDBs differ substantially in mission, model, size and level of complexity. For the purpose of this paper, the population of PDBs will be segmented along these parameters, allowing the recommendations to take these differences into account. There are broadly two types of operational models for PDBs: tier 1, which involves direct lending to end-users, and tier 2, which provides wholesale lending to local financial institutions. PDBs can also be differentiated by mission: agri-PDBs, which dedicate part or all of their portfolio to agricultural development, and general PDBs, which focus on broader economic growth, often with an emphasis on infrastructure. Finally, PDBs can be categorized by size into three groups: micro banks (almost always tier 1), small banks, and larger banks.

7. **Development impact.** Given their social mandate and size, PDBs are highly relevant actors for supporting growth, impact and rural transformation. Data on their performance confirm that they provide longer-term loans and are more impact-oriented than commercial banks. There are, however, several factors that limit their impact and effectiveness.[8]

8. **Key areas of demand from PDBs.** A survey conducted by the Agri-PDB Platform revealed that member PDBs identified their most pressing needs as technical assistance and funding. Many require technical assistance to enhance their institutional capabilities (e.g. risk management, governance, innovative financing strategies), or for sectoral technical assistance to help to build bankable pipelines. They also seek resources for environment-related investments to address gaps in sustainable and resilient food systems. Furthermore, PDBs often depend on government and donor funding for long-term viability and require improved mechanisms to mobilize private sector investment.[9] Strengthened partnerships with global and regional institutions, peer-to-peer exchanges and improved tools for monitoring development impact are also critical areas of demand.

[6] For an overview of PDBs' and IFAD's experience, see Ruotsi, Jorma. 2021. *IFAD and PDBs: Global Experience and Way Forward*. Draft report of the Sustainable Production, Markets and Institutions Division.
[7] G20 countries – especially China – have an outsized influence; approximately 80 per cent of financing is provided by these PDBs.
[8] See annex I.
[9] The issue of the capacity of PDBs to mobilize more private sector investment has been discussed in detail during ongoing Financing for Development events, and will feature prominently in the Fourth International Conference on Financing for Development, to be held in Seville from 30 June 30 to 3 July 2025.

III. IFAD engagements with PDBs[10]

9. In general, PDBs without a clear mandate or a specific focus on agriculture face difficulties in entering operations that reach and service smallholder farmers. These banks are often more focused on financing infrastructure projects.

10. Most projects with PDBs that started with weak institutional and organizational capacity have encountered implementation problems at some point. Some of these can be addressed through capacity-building, but issues such as political influence are harder to resolve through staff training alone. As a general rule of thumb, the larger the PDB and the more advanced a country's economy, the more advanced the bank's internal capacity.

11. Lines of credit are IFAD's most commonly used financial instrument with PDBs. The effectiveness of these lines, and the responsiveness of recipient PDBs, have varied with size. Where PDBs are larger and better managed, it becomes more difficult for IFAD to introduce conditions or impose reporting requirements, as the credit lines represent a proportionally smaller share of the PDB's balance sheet.[11] Increasingly, credit lines – particularly those financed through higher-cost Borrowed Resource Access Mechanism (BRAM) resources – become unprofitable, especially when operating under government-mandated margins or interest rate caps.[12]

12. More complex risk management instruments, such as partial credit guarantees or risk-sharing schemes, have shown promise, but do not yet feature prominently in IFAD's portfolio. Experiences in Kenya and Ethiopia, and more recently in Brazil with the Brazilian Development Bank (BNDES), have been positive, and may point to opportunities for replication. It should be noted that in all cases, these instruments were implemented with larger, well-established PDBs possessing significant internal expertise and strong financial capabilities. BNDES represents a special case, as it was the first PDB with which IFAD was able to engage with directly[13] and successfully mobilize cofinancing from other funding sources, including the Green Climate Fund (GCF).

13. Previous analytical work has highlighted the more positive experiences generated by tier 2 models, where PDBs on-lend to local financial institutions (also referred to as wholesale lending).[14] IFAD's experience supports this finding; most projects working with tier 2 PDBs have reported positive results in terms of outreach and disbursement/utilization rates (e.g. Bangladesh, Ethiopia and India).

14. It is difficult to draw any firm conclusions about the impact of technical assistance or capacity-building in PDB engagements. Capacity-building has not always resolved internal capacity issues within PDBs and has often not seen the ex post skills assessments needed to determine its effectiveness. Studies tend to highlight the importance of capacity-building, although this is not always supported by rigorous evidence.[15] Supporting tier 1 PDBs in expanding their outreach remains a difficult task, even when both financing and technical assistance are provided.[16] Tier 2 PDBs providing capacity-building to their local financial institution partners have

[10] Annex II provides an overview and more detailed description of relevant past projects in IFAD's programme of loans and grants.
[11] Several examples, particularly in the Asia and Pacific portfolio, support this observation.
[12] It should be noted that any financial instrument will face limitations if the business model of the PDB is not adapted to the target segment. This is why it is important to link financial instruments with technical assistance – the latter aiming to help to adjust the business model to the specificities of the intended project participants.
[13] IFAD amended its articles of agreement to facilitate direct transactions with the BNDES.
[14] See, among others, Ruotsi, Jorma (2021). *IFAD and PDBs: Global Experience and Way Forward*. Draft report of the Sustainable Production, Markets and Institutions Division. While direct lending (tier 1 model) can be more challenging for PDBs due to the cost and effort involved in establishing new delivery channels, wholesale lending (tier 2) delegates the outreach function to local financial institutions – or, in some cases, large cooperatives – that already have the capacity to reach clients through established channels.
[15] See, for example, Ruotsi, Jorma (2021). *IFAD and PDBs: Global Experience and Way Forward*. Draft report of the Sustainable Production, Markets and Institutions Division; Vigano, Laura (2021). The role of finance and public development banks in promoting sustainable agriculture around the world.
[16] As with any bank, remote outreach involving small ticket sizes puts pressure on margins, which disincentivizes banks.

generally completed the planned training, but often lack robust evaluation of the impact on partner institutions' skills and performance.[17] Despite these shortcomings, technical assistance remains a key requirement to optimize outreach and improve the performance of PDBs, given their various organizational and functional constraints.

15. IFAD's experience in supporting PDBs to focus more on sustainability is still in its infancy.[18] PDBs have shown interest in these topics, not least because of the (often subsidized) funding available to support these efforts. In IFAD's portfolio, environmental reporting is becoming an area of increasing focus for capital providers. A growing number of PDBs are also becoming accredited entities for climate funds (e.g. GCF), which may further encourage a stronger focus on sustainability.[19]

16. In its PoW, IFAD's value as a partner for PDBs is generally more focused on innovation, improvement and impact than on volume. Through its banking expertise, it can help to address operational weaknesses and strengthen PDBs' business models – including financial products, risk management and partnership development – to address the needs of IFAD's target groups. Its targeting approach can support PDBs in reaching new project participants, while its networks can facilitate access to new sources of funding.

17. The Agri-PDB Platform, established in 2021 and hosted by IFAD, brings together 139 PDBs and 8 regional networks from 96 countries to enhance investments in sustainable agriculture and rural development. Focused on three key pillars – knowledge-sharing, capacity-building, and advocacy for green, inclusive food systems – the platform conducts activities such as peer-to-peer exchanges, training on innovative tools like the Adaptation, Biodiversity and Carbon Mapping Tool (ABC-Map), and global webinars.[20]

Box 1
Agri-PDB Platform: Mapping the needs of Malawi's public development bank

The Agri-PDB Platform collaborated with the Malawi Agriculture and Industrial Investment Corporation (MAIIC) under the European Union-funded Investing in Livelihood Resilience and Soil Health in African, Caribbean and Pacific Countries programme to integrate agroecological solutions into the bank's operations.

Through this intervention, MAIIC will enhance the financial ecosystem supporting sustainable agricultural transformation, streamline decision-making processes, and ensure that nature-based solutions are taken into account when providing credit to farmers and small businesses. Participants in this initial mapping mission included the United Nations Development Programme, the German Agency for International Cooperation, the World Bank Group, and the IFAD Country Offices and European Union delegations to Malawi. The team also developed an action plan to ensure that the needs of MAIIC were met. The mission was successful in providing a way forward for advancing agroecology financing in Malawi.

18. The platform also plays a critical advocacy role for sustainable food systems at global forums such as COP29, the Finance in Common Summit, and in this year's preparations for the Fourth International Conference on Financing for Development, positioning PDBs as key drivers of rural development and sustainability goals. By hosting the platform, IFAD not only provides a valuable public good to the

[17] Based on IFAD's field experience, technical assistance is more effective when it is embedded in the PDB's overall strategy (approved by senior leadership) and leads to changes to the business model and profitability, as reflected in the business plan. Financial interventions not accompanied by technical assistance have a lower chance of resulting in meaningful change.
[18] A current project in Mexico, the Balsas Basin – Reducing Climate Vulnerability and Emissions through Sustainable Livelihoods is ongoing and is proceeding satisfactorily (see annex II).
[19] One of the central conclusions of the G20 Finance in Common event in 2024 was a joint call to facilitate access for least developed countries – particularly small countries that are more vulnerable to climate variability – to the various instruments of international climate funds.
[20] In 2024, the platform renewed its dialogue, especially with national development banks, and welcomed new members from various regions, expanding its impact and reach. Notable partnerships include a EUR 2.3 million contribution from the European Commission for agroecological projects, and planned support from Agence française de développement (AFD) (EUR 1 million) and IFAD (US$1 million), highlighting a strong commitment to promoting sustainable practices in agriculture.

development finance community, but also facilitates poverty-reducing investments.[21]

IV. Lessons and observations

19. Various development agencies have worked extensively with PDBs. The Agence Française de Développement has collaborated actively with PDBs to advance rural development, yielding several key conclusions and lessons. It is also a key partner in the Agri-PDB Platform. Strategic partnerships are crucial for achieving impact: combining the strengths and knowledge of the various actors in this field usually provides valuable insights.[22]

20. Other prominent players emphasize the use of rigorous evaluation mechanisms to inform successful development strategies. They also underscore the significance of private capital in rural development initiatives, noting that projects which leverage private sector involvement often demonstrate higher success rates.[23]

21. **Potential of the tier 2 model.** Research on the role of PDBs and banks using screening technologies to make credit decisions concluded that, in the presence of costly screening, credit tends to be underprovided. This is due to the inability of banks to capture the full benefits of the projects they finance. [24] The study suggests that PDBs may help to address these inefficiencies by lending to commercial banks at subsidized rates or by providing credit guarantees, which aligns with IFAD's observation that tier 2 models tend to generate better results.

V. Potential ways forward for IFAD

22. This section outlines some potential ways forward for IFAD in its engagements with PDBs. These suggestions are particularly relevant for IFAD's programme of loans and grants, where virtually all PDG-related engagements take place. The general design approach should align with existing IFAD policies and guidelines, particularly the Inclusive Rural Finance Policy and its associated guidelines.[25]

23. As a starting point, IFAD's focus should be on an analysis of where impact may be improved or strengthened. In countries with significant policy constraints affecting PDB operations, these should be included in project design. The current reach and impact of the PDB(s) should be reviewed, and any gaps understood. The segmentation approach used in this paper should be applied to understand the model, mission, historical performance and level of maturity of the PDB, particularly in relation to the factors limiting impact mentioned earlier.[26]

24. From a mission perspective, it is generally most appropriate for IFAD to engage with agri-PDBs. Collaboration with general PDBs could focus on partnering on investments in areas such as infrastructure or SME-lending. Where general PDBs have a strategic interest in developing agri-lending, IFAD can provide key expertise in areas such as strategy, value proposition, internal capacity development and financial product design.

---

[21] See also the discussion on global public goods by the G20 Development Working Group. This stewardship role also strengthens opportunities for cofinancing with PDBs and amplifies IFAD's position as a trusted partner at global, regional and country levels. Building on this momentum, IFAD plans to present a proposal to the Finance in Common Secretariat to showcase the outcomes of the Agri-PDB Platform, such as training and peer-to-peer exchanges – to further solidify the platform's visibility and impact at the next summit.

[22] AFD's collaboration with institutions such as the World Bank has demonstrated that combining resources and expertise can significantly bolster rural development initiatives. AFD's development of an exhaustive database on PDBs has provided valuable insights into the global landscape of these institutions.

[23] See also KfW Development Bank's 17th Evaluation Report.

[24] See Eslava, Marcela and Javier Freixas. 2016. *Public Development Banks and Credit Market Imperfections*. World Bank.

[25] If some or all of these suggested recommendations are to be incorporated into a strategy or guidance document, they would fall under IFAD's rural finance domain.

[26] Annex III provides a more detailed description of the recommendations by segment. To reduce word count, these have been excluded from the main text. Annex I outlines the key factors limiting PDB impact and effectiveness.

25. For all agri-PDB segments – micro, small and larger – the identification and planning of engagements could begin with the specific needs and demands of PDBs, to better address operational weaknesses and bottlenecks. IFAD could develop a list of proven approaches and interventions that can be matched to the needs identified by individual PDBs. Given the stronger results observed with tier 2 PDBs, IFAD's focus should be on working with these institutions to improve outreach and impact.

26. For micro PDBs (usually tier 1), it would be useful to establish a set of minimum requirements for financial support. Where these requirements are not met, IFAD could refrain from financial engagement and instead focus on providing technical assistance to strengthen the PDB.

27. In particular, for micro and smaller PDBs, technical assistance should accompany any financial engagement to optimize the chances of achieving an impact. In the case of tier 2 PDBs, this could include bringing together related local financial institutions to coordinate efforts and share knowledge.

28. For small and larger PDBs, there should be greater emphasis on risk mitigation instruments, to better leverage their balance sheets and increase cofinancing. IFAD could play a more active role in supporting PDBs in fundraising from other sources; the increasing availability of climate resilience funding, in particular, holds promise.

29. With larger PDBs, there is scope to develop innovative or more complex instruments that help to leverage their balance sheets and attract more private sector financing.[27] IFAD could act as a broker, either by facilitating technology-based solutions (e.g. portfolio monitoring), or by bringing together financial partners as an "assembler of finance".

30. Internally, it is important for IFAD to have solid and relevant expertise to offer. In some areas, IFAD has a long track record; in others, it has been building capacity more recently. If some or all of the recommendations in this section are incorporated into the Inclusive Rural Finance Policy and related guidelines, this will require additional resources and need to be accompanied by clear action points to ensure that IFAD is ready and able to deliver the types of support and expertise proposed.

31. The Agri-PDB Platform can continue to serve as a mechanism for bringing together different players, including PDBs, asset managers and private sector investors, and act as a focal point for the sharing of specialized knowledge and the identification of internal capacity gaps mentioned under the previous point.

VI. Questions for discussion

32. From their work with PDBs, which experiences and lessons learned would Member States highlight as relevant examples to help to inform how IFAD optimizes its engagement?

33. How could IFAD place greater emphasis on mobilizing private capital for PDBs? Are there additional opportunities linked to IFAD's ability to engage directly with PDBs, for example, through developing standards or using its networks to facilitate access to new sources of finance?

34. What other instruments or forms of assistance could IFAD provide to strengthen its engagement with the PDB community to support investments in rural transformation?

[27] Alignment with the recently updated Private Sector Operational Strategy 2025–2030, and forthcoming rural transformation financing facility is essential.

Definitions and characteristics of public development banks

1. Public development banks (PDBs) are a heterogeneous group of institutions. According to the definition offered on the Finance in Common website, PDBs share four key features: (i) independent legal status and financial autonomy; (ii) controlled or supported by central or local governments; (iii) execution of a public mandate, addressing market inconsistencies; and (iv) no engagement in commercial banking, individual bank accounts or consumer credit. Another important distinction concerns operational reach. Three types of PDBs can be identified:

   (i) **Global PDBs** – multilateral development banks (e.g. the World Bank) or bilateral development finance institutions with a global mandate (e.g. Agence française de développement [AFD], KfW Development Bank);

   (ii) **Regional PDBs** – such as the African Development Bank, the Asian Development Bank, the Inter-American Development Bank and the Islamic Development Bank;

   (iii) **National development banks** – typically based in IFAD member countries, with a primary focus on domestic investment.

2. For the purposes of this paper, we focus on the third category (national development banks), as these are the banks IFAD engages with directly to generate impact on the ground.

3. Previous research on PDBs has highlighted the important role of wholesale lending, whereby PDBs provide credit to smaller, local financial institutions. Based on that observation, this paper will consider the role of local financial institutions insofar as they work together with PDBs.

4. Among the PDB members of the IFAD-hosted Agricultural Public Development Bank (Agri-PDB) Platform, 35 per cent of their portfolio is targeted at agriculture. Another estimate, derived from forthcoming research carried out for IFAD, identifies PDB financing as the third largest source of funding for rural transformation, amounting to US$160 billion in 2022, roughly the same size as official development assistance, international financial institutions and the microfinance sector put together. Furthermore, research by AFD highlights the critical role of PDBs in financing sustainable agricultural systems, noting that 66 per cent of the world's agricultural funding comes from public banks.

5. PDBs provide longer-tenor loans, reinvest a greater share of their profits (96 per cent for PDBs versus 70 per cent for commercial banks), maintain lower debt-to-equity ratios (71 per cent versus 87 per cent), and tend to operate with lower profit margins and higher non-performing loan ratios than commercial banks.[28]

6. The segmentation used in this paper follows the criteria and groupings developed by the Agri-PDB Platform, 2023. The original classification includes five categories based on total assets:

   (i) Micro (<US$500 million, 37 per cent of the PDB population of 449);

   (ii) Small (US$500 million–US$20 billion, 47 per cent);

   (iii) Medium (US$20 billion–US$100 billion, 10 per cent);

   (iv) Large (US$100 billion–US$500 billion, 4 per cent); and

[28] Most of the data referenced here is drawn from Xu et al. (2021). What are Public Development Banks and Development Financing Institutions? – Qualification Criteria, Stylized Facts and Development Trends. China Economic Quarterly International, volume I, issue 4: 271-294.

(v) Mega (>US$500 billion, 2 per cent).

7. Given the relatively low share (and high total assets) of medium, large and mega PDBs, these have been grouped together as "larger" for the purposes of this paper, representing 16 per cent of the population. It is also worth noting that agri-PDBs tend to be smaller than general PDBs and are therefore over-represented in the micro and small segments. The mega category has an outsized share of asset holdings (65 per cent). It is important to note that any individual PDB may display characteristics of several segments. Therefore, when designing interventions, it remains important to customize the approach based on the actual context and complexity of the PDB in question.

8. There are several factors that limit PDBs' impact and effectiveness. First, PDBs with a more general development mission may – much like commercial banks – lack sufficient incentives to reach underserved rural segments. Second, government ownership may lead to interference in governance or credit decisions. Third, taking on higher, or ill-advised, risks may lead to poor performance and a subsequent need for public sector support. Fourth, smaller PDBs in particular may struggle to build the distribution and outreach networks necessary to effectively reach rural target populations. Fifth, concessional capital can run the risk of crowding out commercial or private sector finance, leading to a misallocation of scarce resources. And sixth, many countries have developed specific policies or regulations concerning PDBs; where these limit operational flexibility, they often have an outsized effect on performance and financial sustainability.

9. Some of the observations made in the previous section were analysed in earlier IFAD studies. The table below presents the key findings of a 2021 study.

Box 1

Key findings from the 2021 programme of work PDB retrospective by the Sustainable Production, Markets and Institutions Division[29]

- Credit line-based lending, supported by technical assistance, has been the clearly dominant partnership modality;
- The wholesale lending approach (tier 2) through microfinance institutions and credit cooperatives, among others, is overwhelmingly more effective as an inclusion tool than direct lending to end-borrowers by PDBs (tier 1);
- Non-financial support services, especially capacity-building, are critically important but largely dependent on donor financing;
- Many national PDBs face skill gaps in general banking, risk management, and particularly in innovative finance methods. These gaps remain a serious challenge for success, growth and sustainability;
- The capacity of national PDBs to raise international and private sector funding varies significantly across countries. Many PDBs still rely heavily on direct government transfers to sustain their operations;
- Climate resilience investments are rare in projects between IFAD and national PDBs;
- Very few of the reviewed PDBs have internal capacity or systems in place for development impact assessment.

Note: Based on a non-exhaustive review of approximately 15 IFAD projects.

[29] Ruotsi, Jorma. 2021. *IFAD and PDBs: Global Experience and Way Forward*. Draft report of PMI.

Detailed overview of IFAD projects with public development banks

1. Two early IFAD interventions in Southern Africa with national public development banks (PDBs) illustrate the complexities of implementing such initiatives. The first, the Agricultural Marketing and Credit Project (1980–1988) in Lesotho, partnered with the Lesotho Agricultural Development Bank (LADB) to provide credit to smallholders through direct lending. IFAD financed a credit line, supported the expansion of LADB's branch network, and trained its staff to position LADB as the key provider of agricultural credit. The second, the Rural Finance Support Programme (2003–2013) in Mozambique, involved the Fundo de Apoio à Reabilitação da Economia (FARE), a government fund under the Ministry of Agriculture and Rural Development. FARE was tasked with issuing credit lines to rural microfinance institutions (MFIs) and providing grant support for their expansion, as part of the programme's Innovation and Outreach Facility.

2. Both projects faced challenges related to institutional capacity. In Lesotho, LADB struggled with low outreach, high transaction costs, and poor loan recovery. The lack of separate accounts for IFAD funds and weaknesses in risk management further affected performance. LADB's financial decline and eventual insolvency in the 1990s reflected the cumulative impact of such challenges. In Mozambique, FARE faced difficulties related to staff capacity, operational systems and controls. Due to shortcomings in screening MFIs effectively, FARE also faced contract suspensions, unusually high non-performance rates, and eventual funding suspensions by IFAD and the African Development Bank.

3. In East Africa, IFAD-supported interventions yielded more positive results. Between 2010 and 2019, the Kenyan Programme for Rural Outreach of Financial Innovations and Technologies (PROFIT) fostered a transformative partnership between IFAD, the Agricultural Finance Corporation (AFC), and the Government of Kenya. By implementing a risk-sharing facility through the national treasury, PROFIT enabled AFC to provide US$23.7 million in loans to rural smallholders and micro, small and medium-sized enterprises (MSMEs), achieving a leverage ratio of 6.4 and exceeding outreach targets by 57 per cent. Technical assistance from the Alliance for a Green Revolution in Africa helped AFC to develop innovative financial products, enhancing access for women, youth and cooperatives. The programme's success contributed to the establishment of the national Credit Guarantee Scheme for MSMEs and plans for a Green Financing Facility under the Rural Kenya Financial Inclusion Facility project.

4. In Ethiopia, the Rural Financial Intermediation Programme (RUFIP) spans three phases, from 2003 to the present, and has been a cornerstone of IFAD's rural finance investments. Managed by the Development Bank of Ethiopia, the programme has focused on building capacity within MFIs and rural savings and credit cooperatives (RUSACCOs), while providing significant lines of credit. RUFIP I (2003–2011) successfully utilized its US$88.73 million budget, surpassing outreach targets and cultivating a savings culture among rural communities.
RUFIP II (2011–2020) expanded with a US$248 million budget, fully utilizing its credit line, but facing criticism for prioritizing large MFIs over smaller RUSACCOs. RUFIP III, launched in 2020 with a US$305.7 million budget, adopts a more diversified approach, including credit guarantees, leasing and value chain financing. Altogether, the programme aims to reach 13.5 million clients, with a strong emphasis on financial inclusion for rural poor people. While the cumulative US$650 million investment has delivered significant gains, lessons from earlier phases highlight the need for balanced targeting and improved monitoring systems.

5. In Viet Nam, IFAD's efforts to improve rural financial services initially focused on provincial credit lines through state-owned development banks, including the

Vietnam Bank for Social Policies and, later, the Vietnam Bank for Agriculture and Rural Development (VBARD). While these initiatives achieved some success, such as reaching poor and near-poor borrowers in specific provinces, persistent challenges emerged. VBARD's reluctance to lend to smallholders and informal groups, combined with unprofitable onlending margins due to government-set interest rates, hindered the effectiveness of these credit lines. As a result, IFAD shifted its focus in the late 2000s to establishing provincial MFIs, such as the Women's Development Funds, which effectively reached low-income rural women through community-based savings and credit groups. More recently, with Viet Nam's reduced reliance on international financing and a growing focus on environmental initiatives, IFAD's country strategic opportunities programme 2019–2025 proposes a national financial inclusion strategy to support climate resilience financing operations. This initiative could involve a progressive PDB or commercial bank as the host institution for wholesale lending and capacity-building.[30]

6. In India, two contrasting experiences further confirm the variability of PDB engagement – even within a single country. The National Microfinance Support Programme (NMSP, 2000–2009) demonstrated the strong role of PDBs in IFAD-supported financial sector initiatives. The Small Industries Development Bank of India (SIDBI), a key player in microfinance development, implemented NMSP with a US$22.2 million IFAD loan. Leveraging IFAD's funding, along with counterpart funding from SIDBI and a Department for International Development (DFID) grant, the project efficiently met its major targets, disbursing 100 per cent of IFAD's loan and 96 per cent of DFID's grant. It was praised for triggering substantial financial flows from formal institutions to MFIs. By the programme's conclusion, SIDBI had supported over 11 million low-income clients through 130 MFIs, establishing NMSP as one of IFAD's most globally leveraged projects. This success underscored the potential for replicating the NMSP model with SIDBI as a central partner.

7. Following the end of the NMSP, India's microfinance sector encountered a range of challenges, including issues related to client protection and regulatory frameworks, culminating in a sector-wide crisis in 2010. The Women's Empowerment and Livelihoods Programme in the Mid-Gangetic Plains (WELP, 2006–2015), implemented by the National Bank for Agriculture and Rural Development (NABARD), provides a relevant illustration. WELP aimed to empower women through self-help groups and financial literacy training, but faced delays due to capacity constraints among the initial implementing agencies and NABARD's slow pace of engagement. By the programme's midterm, underperformance and limited fund utilization prompted its premature termination in 2015. Since WELP, IFAD has reduced its reliance on PDBs in India, instead favouring community-based financial models as a more effective means of connecting rural populations with financial services.

8. In Bangladesh, IFAD has collaborated extensively with the state-owned Palli Karma-Sahayak Foundation (PKSF) to implement large-scale microfinance initiatives as part of its US$2.5 billion investment portfolio, of which US$970 million has been contributed by IFAD. Established in 1990, PKSF has become a cornerstone of rural development in Bangladesh, offering not only wholesale lending through its network of 278 partner MFIs and 11,100 branches, but also capacity-building, technology transfer, microinsurance and value chain development. Evaluations by the Independent Office of Evaluation of IFAD have highlighted PKSF's effectiveness in addressing the needs of rural poor people, including ultra-poor people and low-income women, while fostering sustainable growth in Bangladesh's microfinance sector. By 2015, PKSF-led initiatives had reached 600,000 households

[30] In fact, several current and upcoming projects in Viet Nam aim to engage PDBs to finance agroforestry and climate-adaptive investments.

and microentrepreneurs, with a strong emphasis on innovative product diversification and capacity-building for long-term sector sustainability.

9. The Balsas Basin – Reducing Climate Vulnerability and Emissions through Sustainable Livelihoods project in Mexico provides an opportunity for IFAD to collaborate with a progressive PDB to advance green financing. Aimed at enhancing climate resilience, productivity and livelihoods in the Balsas Basin, the project's components include strengthening climate governance, investing in resilient ecosystems and value chains, and developing climate information and monitoring systems. The key partner, the Mexican Trust Fund for Agribusiness and Fisheries (FIRA), Mexico's largest agricultural financier, has established itself as a leader in this area through its comprehensive environmental, social and governance framework and issuance of green bonds certified by the Climate Bonds Initiative, which have financed over US$400 million in agricultural, forestry and solar projects since 2018. Progress on the project, launched in 2022, has been rated satisfactory. In 2024, IFAD sponsored a study for FIRA to analyse the potential and barriers for smallholders to access carbon credit markets, and the role a PDB such as FIRA could play in supporting them. The recommendations of the study are currently being implemented by FIRA, broadening its range of technical assistance and financial instruments available to rural organizations.

10. In 2024, IFAD engaged directly with Brazil's largest development bank, the Brazilian Development Bank (BNDES) – the second-largest development bank globally – on a project to promote climate resilience in four states in the north-east of the country. This US$253 million, eight-year project (a blended loan and grant) is unique in that the financial and legal relationship is directly between IFAD and BNDES, rather than channelled through the national or subnational government – IFAD's normal modus operandi. The operation is backed by a sovereign guarantee from the federal government. The legal and operational preparations required to enable this arrangement were extremely complex and extensive. Under this, BNDES acts as a channel to provide sub-loans to four state governments in local currency. BNDES assumes the currency risk and the responsibility for repaying the IFAD loan, as well as managing the sub-loan arrangements. The state governments establish project management units and use the financing to provide the resources in the form of grants to their target groups. While some of the reasons for engaging a national development bank were specific to Brazil, others included BNDES's ability to mobilize cofinancing – US$73 million from BNDES compared to US$65 million from IFAD – and the opportunity to help focus BNDES more on specific social and environmental themes (the loan and grant were cofinanced by the Green Climate Fund [GCF]). The success of this operation led BNDES to request an additional US$35 million from IFAD to include the remaining five north-east states. BNDES committed to match the GCF loan and grant conditions with a further US$100 million, ensuring that all participating states would have access to the same terms and conditions.

11. Other recent engagements with PDBs have confirmed the variation in results and performance across the spectrum. The Sustainable Agriculture Investments and Livelihoods Project in Egypt partnered with four national development banks to lend directly to project participants, but faced challenges with disbursement rates, due mostly to difficulties in outreach. By contrast, two projects in Jordan – the Small Ruminants Investment and Graduating Households in Transition Project, and the Rural Economic Growth and Employment Project – were more successful in terms of disbursement. The Value Chains for Inclusive Transformation of Agriculture Programme in Nepal experienced more limited outreach, which led to a restructuring of the partnership with the national development bank (Agricultural Development Bank Limited). The Inclusive Green Financing Initiative (IGREENFIN) investments – projects with national development banks across the Sahel, funded by the GCF – experienced various delays and operational challenges.

12. Recently, IFAD awarded a global grant to promote an Inclusive Financial Ecosystem for Food Systems Transformation. The US$1.5 million grant, awarded to Rabo Partnerships, covers two years, and focuses on nine pre-selected countries from the Latin America and the Caribbean and the Asia and the Pacific regions.[31] The programme targets, among others, PDBs, and aims to generate insights and practical guidance to develop innovative financial solutions tailored to support small-scale farmers and enhance their financial inclusion.

[31] Bangladesh, Plurinational State of Bolivia, Colombia, Ecuador, India, Mexico, Pakistan, Philippines and Viet Nam.

Segmentation matrix of public development banks (PBDs)

	Micro Agri-PDBs	Small Agri-PDBs	Larger Agri-PDBs	General PDBs
Assets (USD)	Less than US$500m	US$500m–US$20bn	Over US$20bn	n.a.
PDB characteristics	Limited capacity Small balance sheets Weak institutional capacity Tier 1 (direct lending)	Moderate capacity Pockets of skill gaps Limited by funding Tier 1 and 2	High internal capacity Complex structures Advanced internal systems Mostly tier 2	Broad focus on economic growth Investments in infrastructure
Best engagement modality	Capacity-building to address skill gaps Move towards meeting minimum financing requirements Support for organizational development and internal systems	Develop blended finance mechanisms and explore risk-sharing options Link medium PDBs with global development finance sources Wholesale lending should be to expand outreach preferred Support rural microfinance institutions (MFIs)/savings and credit cooperative organizations (SACCOs) network development for better outreach	Avoid lines of credit and focus on innovative financial instruments (e.g. bonds, securitization) Promote climate finance and leverage private investments Support PDBs in structuring joint public-private investments	Leverage expertise for strategic cofinancing Focus on developing financial products for agri-rural and climate finance Provide expertise for agricultural small and medium-sized enterprise (agri-SME) projects Assist PDBs in accessing climate funds (e.g. Green Climate Fund [GCF])
IFAD's role	Capacity-builder, system set-up, provider of finance (including lines of credit)	Risk manager, finance facilitator, value chain finance expert	Innovator in new financial instruments, climate expert, mobilizer of private investments	Strategic partner, cofinancer, expertise provider in rural development, inclusion and climate

General PDBs

1. Where PDBs have a strategic focus on agriculture, deeper engagement on reaching target project participants can be pursued. Where the PDB is more general in nature, it may still serve as a cofinancing partner (e.g. infrastructure or agri-SME lending).

2. Where general PDBs are strategically interested in developing an agrifood or rural climate dimension within their portfolios, IFAD can provide key expertise on strategy, value proposition, internal capabilities and the design of appropriate financial products.

Micro agri-PDBs

3. Micro agri-PDBs are more likely to engage in direct lending (tier 1) and may have limited internal capacity and outreach. IFAD could focus on capacity-building to develop skills and, where relevant, support the establishment of the required systems and reporting mechanisms to help to attract further funding.

4. It is recommended that a set of minimum requirements be established for micro agri-PDBs prior to any financial engagement. Once these are met, IFAD can engage through lines of credit, where such financing would significantly increase the bank's ability to lend to target groups. Shifting partially to a wholesale lending model could be promoted where relevant. For more advanced micro agri-PDBs, IFAD can also provide support in raising additional funds for these banks.

Small agri-PDBs

5. For small tier 1 agri-PDBs that still face skill gaps, IFAD can continue to provide staff capacity-building, particularly in more advanced areas of banking. IFAD could aim to shift away from credit lines to risk management instruments (such as

guarantees or risk-sharing mechanisms), to allow for more cofinancing from the PDB. In more mature domestic markets, structuring blended finance solutions to crowd in private investors is also recommended.

6. **Value chain finance.** IFAD can support the development of various forms of value chain finance – ranging from direct financing of agricultural value chains to providing SME or smallholder finance through anchor firms or producers' organizations. It can also help to develop or promote instruments such as warehouse receipt financing or factoring/receivable finance, where relevant and aligned with demand. These approaches can also be applied to larger PDBs, where appropriate.

7. With small tier 2 agri-PDBs, IFAD can support programmes aimed at building the capabilities of local MFIs, SACCOs, and, in some cases, producers' cooperatives, in addition to the relevant intervention components mentioned above.

8. IFAD can use its knowledge of global development funding sources to connect PDBs with relevant financing opportunities. For more mature banks, IFAD can support the issuance of social, sustainability or climate resilience bonds, and explore new grant sources aligned with these themes (e.g. through GCF).

Larger agri-PDBs

9. Larger agri-PDBs are more likely to be tier 2 institutions. Lines of credit, if necessary, should be carefully contemplated and designed to ensure appropriate reporting and utilization.[32] Engagements with larger PDBs can be framed around new or developing areas of interest (e.g. climate finance), using IFAD's expertise in application processes and reporting requirements for new sources of finance.

10. IFAD can apply more complex or innovative financial instruments, leveraging PDB lending in all but exceptional cases, either through blended finance or risk-sharing across a broader portfolio. This may include supporting the issuance or structuring of new instruments, such as themed bonds, joint public-private investments with differentiated debt, or securitization. The focus of these instruments would be to mobilize private investment.

Overall

11. Across its portfolio, IFAD can play a brokering role in partnerships, especially cross-national partnerships, whether focused on new technology or direct financial relationships between players. Technology can support PDBs in critical areas, such as portfolio monitoring and performance tracking (already used by the majority of PDBs in the Agricultural Public Development Bank Platform). Brokering financial partnerships can also cement IFAD's role as an assembler of finance, even when it does not hold a direct financial stake.

12. Climate resilience funding is identified by PDBs themselves as the largest funding gap. This points both to the PDBs' identification of demand for this type of finance at the retail level, and thus the need for additional funding, as well as to the evolving strategy of PDBs to incorporate environment and climate mainstreaming themes into their operations. IFAD can play a key role in this process, building on its expertise in this area, to support PDBs in dedicating an increasing share of their portfolios to relevant social, environmental and climate issues.

[32] Lines of credit do not take advantage of the key strength of larger PDBs – a strong balance sheet that can be used for lending – which is a significant disadvantage when designing for leverage or cofinancing.