

Innovative and Inclusive Agricultural Financing



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February, 2026



RAISE-FS has played a significant role in enhancing access to finance to the agriculture sector in Ethiopia. This brief highlights the status of agricultural financing in Ethiopia and RAISE-FS's efforts in supporting agricultural advisory services in Ethiopia.

Improving access to agricultural finance

Access to formal finance for agriculture in Ethiopia is highly limited, particularly for farmers, women, and youth, with the poorest groups facing the most severe financial exclusion. Financial institutions perceive agriculture as a high-risk sector due to climate variability, pest outbreaks, and regional security concerns. Additionally, farmers and marginalized groups often lack collateral, financial literacy, savings habits, and credit history, further hindering their access to loans. The absence of policies mandating rural financing allocations and limited knowledge among financial institutions and insurers about agriculture exacerbate the issue. As a result, Ethiopian farmers rely heavily on personal savings, informal social networks, and formal credit sources like SACCOs, cooperatives, MFIs, and banks. To enhance the agri-finance system in Ethiopia, efforts must focus on reducing risks in agriculture while addressing financial institutions' perception that agriculture is inherently uncreditworthy.

Integrating financial products with technical support

Financial products development: cognizant of the agri-finance challenges, innovative financial products for improving farmers', youth and women access to finance have been developed. These include the following:

Innovation fund (IF): is a competition-based inclusive financing mechanism that promotes innovations that address agricultural sector challenges proposed by the private sector. Matching fund availed for innovative projects that address challenges in mechanization, poultry, aquaculture, legumes, spices, oilseeds, potato, and dairy production, marketing and value addition processes (Innovation Fund Manual).

Youth challenge fund: the challenge fund is provided to grant recipient selected competitively based on rules and procedures and shares risks with the grant provider. Challenge funds are important

sources of finance for women and youth involved in agriculture, waste management, soil fertility, processing, postharvest handling, tool and machinery development, and related businesses. They are usually supplemented with capacity building activities in business skills, mentorship and entrepreneurial skills.

Loan guarantee fund: is a financial product designed to support farmers, farmer organizations, entrepreneurs, and SMEs lacking hard collateral by guaranteeing bank loans or credit. This innovative and cost-effective solution addresses both input and marketing credit needs, as well as investment capital requirements. Its success relies on active stakeholder participation, capacity building, regular monitoring, and technical support. The fund has proven effective in significantly increasing the credit available to borrowers while encouraging financial institutions to take on greater risk.

Revolving fund: is a financial resource established by an organization and deposited with microfinance institutions to support smallholder farmers, women, and youth entrepreneurs in starting businesses such as livestock fattening, poultry farming, and developing nutritious food products. This fund is designed to be reused multiple times, benefiting the same or different users. Upon project completion, the fund is managed by local women and youth offices or job creation offices in coordination with microfinance institutions, ensuring proper circulation through approvals, technical support, and continuous monitoring and evaluation.

Lease financing: is a system where farmers can access agricultural machinery and processing equipment without needing additional collateral, as the equipment itself secures the debt. This approach enables farmers, including youth and women, to acquire productive assets and gradually repay the debt, fostering financial inclusion. Successful implementation requires strong coordination between equipment sellers, farmers, and leasing companies such as the Development Bank of Ethiopia, Ethio-lease, Kaza, and Waliya. Additionally, support in preparing necessary documents and facilitating connections between farmers and leasing companies is crucial for the process to function effectively.



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Warehouse receipts: Warehouse receipts serve as collateral to help farmers, women, and youth access finance or input credit. Issued by warehousing companies, these receipts confirm the deposit of goods, which are stored and managed on behalf of the depositors. This system prevents early sales at low prices, addresses storage shortages, and meets the urgent liquidity needs of farmers, women, and youth.

Agricultural value chain financing: supports parts of commodity chains, with organized women and youth groups offering services like ploughing, planting, weeding, pesticide application, harvesting, and threshing. They also provide cleaning services using locally made sieving machines at ECX centers in Adebay and Dansha. Additionally, women groups in Dansha and Tach Armachiho towns produce soya bean-based food for seasonal laborers migrating from highlands to lowlands for work.

Contract farming: facilitating discussions with processors (Selet Hulling, Dipassa) and soya bean exporters for sourcing the produce from farmers or their organizations and mediating and finalizing the contract farming agreements. The agreement improved input financing and assured market.

Developing risk mitigation strategies

In collaboration with financial institutions developed risk management mechanisms that are tailored to the clients, which included providing customized weather forecast information via mobile phones; technical backstopping, periodic release of funds after jointly monitoring activities and progress evaluation, and lobbying banks to incorporate crop insurance at an affordable premium price.

Technical support service provision

The RAISE-FS team has a well-accumulated experience in technically supporting farmers and their organizations, women and youth groups in:

- **Bankable business plan development:** experience in business plan development and support.

Key publications

- Impact of Liquidity Challenges on the Implementation of Guarantee Fund Scheme: Implication on access to finance for SMEs and farmer organizations
- Turning youth vision to action: Lessons from the Youth Challenge Fund in Ethiopian agriculture
- The Mystery of Soya Bean Marketing: the need for integrated measure.
- The Barren Soya Bean Marketing Agreement: actions for improvement. RAISE-FS issue brief # 02.

- **Agribusiness startups:** incubating entrepreneurs in poultry, aquaculture, oilseeds, legumes, spices and herbs production and processing; nutritious food and feed production, processing and marketing.
- **Internal capitalization:** membership mobilization and improving fee collection capacity, additional share selling, lobbying for increasing membership base, and in-kind contribution of labour time, wood, and other construction materials were mechanisms used for building stores and offices.
- **Building farmer-financial institute relationship:** qualified staff in lobbying and advocacy, organizing special field visits for FIs managers only and inviting them to participate in workshops, meetings, and field days increased their awareness in agri-financial challenges. Farmer-FIs face to face interaction helped bankers to learn their problems and mobilize deposits from the rural community.
- **Providing capacity building trainings:**
 - **Financial literacy:** training was delivered to the couples and family members to build their basic knowledge in cost and income recording and profit-loss calculation using simple formulas.
 - **Financial management:** to farmer organization leaders, staffs, and experts from cooperative promotion and agriculture offices.
 - **Entrepreneurship and business management:** for experts, youth, women and SMEs in entrepreneurship, agri-business, marketing intelligence, communication, and customer handling.
 - **Financial institute tailored trainings:** experience in organizing training sessions for bankers and MFIs in developing financial and crop specific agricultural insurance products.
 - **Market linkage:** Enabling women and youth to link with input (machines, seeds) and output (products) markets to use the mass media, exhibitions, and share market information.

The innovation, youth challenge, and guarantee funds enabled women and youth to turn their business ideas into practical ventures, promoting their participation in areas such as food and feed processing, machinery development, poultry and seed businesses, vermicomposting, waste management, and post-harvest loss reduction. These initiatives generated employment, boosted incomes, enhanced food and nutrition security, and supported environmental sustainability.

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