Development Banking in the Productive Transformation of the Agricultural Sector

The use of strategic information on value chains, segments, and financing gaps, within the framework of a productive intelligence approach, can strengthen the design and targeting of Development Banking products for the agricultural sector in Latin America and the Caribbean (LAC). From this perspective, it is shown how credit, guarantees, and other specialized instruments can be better aligned with activities that have greater potential for productivity, value added, and territorial development.



From the Latin American structuralist tradition, it was argued that economic development could not be sustained indefinitely on the basis of primary specialization, but rather required productive diversification and the strengthening of domestic technological capabilities (Prebisch, 1950). This idea remains relevant in a context shaped by the reconfiguration of global value chains, the transition toward low-carbon economies, and the need for greater productive resilience in the face of external shocks. In this context, agriculture once again takes on a central role—not as a residual sector, but as a starting point for driving productive transformation, agro-industrial linkages, territorial innovation, and value-added generation (Salazar-Xirinachs and Llinás, 2023; Grynspan, 2023).

Structural constraints in the agricultural and livestock sector are reflected in high levels of productive heterogeneity, informality, and a low density of business support services.

In this framework, productive intelligence emerges as a useful approach for guiding development policies by enabling the identification of diversification opportunities, the coordination of public and private actors, and the design of instruments to overcome structural bottlenecks in strategic sectors of the economy.

This summary of a broader study outlines the main productive and financial gaps in agricultural systems in Latin America and the Caribbean (LAC), examines the role of productive intelligence in identifying opportunities for diversification and upgrading within agro-industrial value chains, and explores how development banking can apply this approach to channel investment toward activities with greater potential for value-added generation, resilience, and territorial development.

PRODUCTIVE AND FINANCIAL GAPS IN AGRICULTURE

Structural constraints in the agricultural and livestock sector are reflected in high levels of productive heterogeneity, informality, and a low density of business support services. At the territorial level, distance to markets, high logistics costs, and limited supporting infrastructure increase post-harvest losses and reduce producers' competitiveness. At the enterprise level, small productive units predominate, with limited investment capacity and low levels of financial inclusion, which hinders the adoption of innovation, compliance with quality standards, and the consolidation of stable commercial relationships with buyers.

In the financial market, these conditions often translate into a perception of higher risk, which restricts access to credit and increases the cost of financing. Financial intermediaries face high origination and monitoring costs, information asymmetries, and limitations in terms of collateral. As a result, a significant share of productive investment relies on informal sources, own resources, or commercial arrangements under less favorable conditions, affecting productivity and the capacity to adapt to climate risks. These constraints are reflected in a set of specific frictions that affect financing in the rural sector (Table No. 1).

Table n.º 1. Main Frictions in Rural Credit for Agri-SMEs and Family Farming

Friction	Effect on Financing
Origination and monitoring costs	Reduces the supply of credit and increases effective interest rates
Incomplete information on income and risks	Increases credit rationing and requires higher collateral
Insufficient or non-enforceable collateral	Limits loan maturities and amounts, restricting long-term investment
Climate and sanitary risk	Increases the risk premium and fosters cycles of underinvestment
Low levels of formalization and management capacity	Hinders credit assessment and compliance with requirements

Prepared in-house

PRODUCTIVE INTELLIGENCE AND DEVELOPMENT BANKING IN AGRICULTURAL TRANSFORMATION

Overcoming the structural constraints of the agricultural sector requires not only expanding financing, but also enhancing the capacity to identify activities with potential for productive transformation. Productive intelligence is an analytical approach that helps guide public policies and investment strategies toward agro-industrial sectors or value chains with greater potential to generate value added, employment, and economic diversification.

Inspired by the theory of economic complexity (Hausmann and Hidalgo, 2009), productive intelligence uses economic information and analytical tools to identify existing productive capabilities and project diversification pathways. In the agricultural domain, it makes it possible to identify crops or productive chains that can evolve toward activities with greater technological content, agro-industrial integration, or improved market opportunities.

Tools such as the Economic Complexity Index, cluster analysis, and sectoral capability maps make it possible to prioritize sectors in which investment, financing, and innovation policies can generate higher returns in terms of economic transformation. An applied example is the Economic-Productive Complexity Map developed by the Banco de Desarrollo Productivo of Bolivia, which facilitates the diagnosis of territorial productive capabilities and the identification of sectors with scaling potential.

Development Banking can use productive intelligence to direct financing toward activities with greater transformation potential. Through instruments such as long-term financing, risk mitigation mechanisms, blended finance, and second-tier lending schemes, resources can be channeled toward agro-industrial value chains with a greater capacity to generate value added, strengthen productive

resilience, and promote territorial development.

PRIORITY INSTRUMENTS AND LINES OF INTERVENTION

Once the agro-industrial activities and value chains with the greatest transformation potential have been identified through productive intelligence tools, the effectiveness of Development Banking depends on its ability to structure a portfolio of financial instruments aligned with both the structural constraints of the territory and the productive profile of the beneficiaries. These instruments should be aimed not only at expanding access to credit, but also at promoting processes of productive modernization, technological innovation, and agro-industrial integration.

Based on the analysis of experiences and financial products compiled by ALIDE, it is possible to identify a set of mechanisms used by development banks to address these needs. These instruments make it possible to channel resources toward prioritized sectors, reduce barriers to credit access, and strengthen the integration of producers, agri-SMEs, and agro-industries within value chains with a greater capacity to generate value added (Table No. 2).

Among the most relevant instruments are medium- and long-term investment credit for productive modernization, modern irrigation systems, post-harvest infrastructure, and renewable energy, as well as seasonal working capital financing with repayment schemes aligned with the agricultural cycle or with contracts within agro-industrial value chains. Similarly, guarantee systems for agri-SMEs help expand access to financing and reduce the collateral constraints faced by producers and rural enterprises.

Table n.º 2.
Development Banking Instruments for Agricultural Productive Transformation

Instrumento	Objetivo	Mecanismo de impacto
Productive investment credit	Modernize agricultural and agro-industrial production	Finances modern irrigation systems, mechanization, post-harvest infrastructure, and productive technologies that increase productivity and value added
Portfolio guarantees	Expand access to financing	Reduces expected losses for financial intermediaries and enables longer maturities, larger loan amounts, and broader credit coverage
Blended finance	Mobilize private capital	Improves the risk-return profile of agricultural projects and covers origination, innovation, and technical assistance costs
Value chain finance (factoring, purchase agreements)	Strengthen agro-industrial integration	Enhances liquidity for producers and agri-SMEs linked to value chains and reduces commercialization risk
Green credit and climate finance	Promote sustainability and resilience	Encourages investment in water-use efficiency, renewable energy, regenerative agriculture, and emissions reduction
Parametric agricultural insurance	Reduce climate risks	Provides rapid payouts in response to extreme climate events, stabilizing income and repayment capacity
Second-tier financing and operator networks	Expand territorial coverage	Channels financing through local financial intermediaries, cooperatives, and specialized operators
Enabling infrastructure	Increase systemic productivity	Finances storage, logistics, irrigation, and productive services that reduce post-harvest losses and commercialization costs

Source: Categorization of financial products presented in the ALIDE Awards and review of instruments used by development finance institutions. Prepared in-house.



Additionally, mechanisms such as factoring or invoice discounting improve liquidity and formalization within agro-industrial value chains, facilitating integration among producers, processors, and distributors.

Development Banking can also promote innovation and productive sustainability through financing for technologies such as precision agriculture, digital traceability, and efficient water management, as well as green credit lines aimed at strengthening climate resilience. In this framework, Development Banking not only provides financing, but also acts as a catalyst for strategic investments by mobilizing public and private capital toward sectors with greater potential for productive transformation.

CONCLUSIONS AND LESSONS FOR PUBLIC POLICY

Productive and financial gaps in the agricultural sector in LAC stem from structural issues such as productive heterogeneity, infrastructure limitations, high logistics costs, and restricted access to formal financing. These conditions particularly affect family farming and rural agri-SMEs, reducing their capacity for investment, innovation, and integration with more dynamic markets.

In this context, public policies can benefit from approaches that combine productive financing with instruments aimed at reducing frictions in rural credit, including high origination and monitoring costs, information asymmetries, collateral constraints, and exposure to climate risks. This requires financial mechanisms tailored to the sector, as well as stronger coordination among financial institutions, productive actors, and territorial development policies.



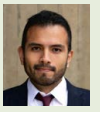
The productive intelligence approach provides a useful tool for guiding these interventions by enabling the identification of agro-industrial value chains with potential for diversification, greater value added, and improved market integration opportunities. In this framework, Development Banking can play a key role through instruments such as productive investment credit, guarantees, value chain finance, agricultural insurance, and climate finance.

Overall, the alignment of productive intelligence, appropriate financial instruments, and territorial development policies can strengthen the role of agriculture as a platform for productive transformation, particularly when integration is promoted among primary production, agro-industry, technological innovation, and value chains[1].

With instruments such as long-term financing, risk mitigation mechanisms, blended finance, and second-tier schemes, they can channel resources toward agro-industrial value chains with greater capacity to generate added value, strengthen productive resilience, and promote territorial development.



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1. This article presents a synthesis of the main arguments from a broader research study that will be published in other academic outlets in the near future.
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