

Building resilient agricultural finance and insurance markets in Ethiopia: **the Rural Finance Service Unit (RFSU)**

Consultation Paper, June 2025



Building resilient and inclusive agricultural finance and insurance markets require new thinking and collaborative action. The Ethiopian Ministry of Agriculture and the United Nations Development Programme (UNDP) invite feedback and comments on all matters in this consultation paper.

Comments are most helpful if they:

- Indicate the specific area to which the comment relates
- Contain a clear rationale
- Describe any alternatives the Government of Ethiopia and partners should consider
- Recommend partnership opportunities and ways to leverage resources to accelerate innovations at scale.

This consultation paper has been prepared under the framework of the Financial Resilience in Agriculture Initiative, funded by the Gates Foundation. It is intended to engage stakeholders across Ethiopia and beyond who are committed to building resilient and inclusive agricultural finance and insurance markets. Rather than presenting a fixed rationale, theory of change or set of functions for the Unit, the paper serves as an open invitation for partners to co-create and shape these elements together.

Read, comment, join us.

Team in Ethiopia

Getachew Mekonin, Head of the Rural Finance Service Unit, Ministry of Agriculture:
getachew.mekonen@moa.gov.et, gechomek@gmail.com

Bitseat Debrework Zelleke, National Project Coordinator, UNDP Ethiopia:
bitseat.debrework.zelleke@undp.org

Global team

Edgar Aguilar, Value Chain Resilience Specialist,
UNDP Insurance and Risk Finance Facility:
edgar.aguilar@undp.org

Enock Sing'oei, Agricultural Insurance Specialist,
UNDP Insurance and Risk Finance Facility:
enock.singoei@undp.org

The issue

Agriculture is a key pillar of the Ethiopian economy: it contributes 32 percent of the country's GDP, employs 64 percent of the workforce and accounts for 79 percent of exports.¹ Yet the sector faces significant challenges. It is heavily reliant on rain-fed agriculture and highly vulnerable to climate-related shocks, such as droughts, floods and erratic rainfall, pests and diseases, and price volatility. Smallholder farmers and pastoralists are the main actors in the sector, but their crucial contribution to Ethiopia's economy and food security is threatened by the obstacles they confront.

Despite the sector's vital role in the economy, agriculture is critically underfinanced, with limited access to appropriate financial and insurance services. Where such services do exist, they often lack market-led, inclusive solutions that enable Financial Service Providers (FSPs) to build sustainable, long-term business models.

In agricultural finance, for example, in 2023–2024, **credit flows to agriculture represented 8 percent of loans disbursed by banks and 18 percent of loans outstanding from microfinance institutions.**² Access to credit is constrained by a shortage of loanable funds and stringent collateral requirements, which exclude many smallholder farmers. Financial institutions often perceive agriculture as high-risk due to climate volatility and market fluctuations, resulting in a general reluctance to lend. Access is further limited by high transaction costs, the absence of tailored, affordable loan products and insufficient capacity to design products that match farmers' cash flow cycles.

Similarly, access to agricultural insurance is extremely limited. **In Ethiopia, insurance penetration is below 0.4 percent,**³ compared to just 3 percent across sub-Saharan Africa⁴ and around 7.4 percent globally.⁵ Uptake among smallholders remains low, largely due to limited awareness and trust. At the same time, insurers face high operational costs, data limitations and challenges in risk pricing and management. The absence of reliable historical yield and weather data hampers accurate risk assessment, while fragmented landholdings and crop diversity add administrative complexity. Poor rural infrastructure and a lack of trusted intermediaries further constrain distribution and outreach.

The Government places high importance on the role of agricultural finance and insurance as key enablers for transforming the agriculture sector. Although various policies and national strategies,⁶ led by different institutions, **clearly articulate what is needed**, the how remains undefined.

As all the above demonstrates, the market faces significant systemic barriers: low access to financial and insurance services, limited viable business models for financial service providers and insurers, fragmented public and private initiatives and limited government support. The lack of a dedicated policy framework, constrained public budgets and uncoordinated stakeholder efforts continue to fuel the agricultural financing gap, which ultimately undermines food security, poverty reduction and rural development goals.

- 1 African Development Bank, Country Focus Report 2024: Ethiopia. Driving Ethiopia's Transformation: The Reform of the Global Financial Architecture (Abidjan, 2024). Available at https://vcda.afdb.org/en/system/files/report/ethiopia_final_2024.pdf.
- 2 National Bank of Ethiopia, National Agricultural Finance Implementation Roadmap (NAFIR) 2025–30 (Addis Ababa, 2025). Available at https://nbe.gov.et/wp-content/uploads/2025/05/NAFIR_2025-30_Draft.pdf.
- 3 GSMA, The State of the Industry Report on Mobile Money 2025 (London, 2025). Available at https://www.gsma.com/sotir/wp-content/uploads/2025/04/The-State-of-the-Industry-Report-2025_English.pdf.
- 4 International Insurance Society, "Leveraging emerging trends to drive life insurance penetration in Africa", 3 October 2024. Available at https://www.internationalinsurance.org/leaders_of_tomorrow_leveraging_emerging_trends_to_drive_life_insurance_penetration_in_africa.
- 5 Allianz, "Allianz Global Insurance Report 2025: Rising demand for protection" (Munich, 2025). Available at <https://www.allianz.com/content/dam/onemarketing/azcom/Allianz.com/economic-research/publications/specials/en/2025/may/2025-05-27-global-insurance-report.pdf>.
- 6 Ten-Year Agricultural Sector Perspective Plan, Digital Agriculture Roadmap 2032, National Agricultural Investment Plan, Homegrown Economic Reform Agenda 2.0, Ten-Year Development Plan, and the revised Rural and Agriculture Development policy 2024.

The solution: the Rural Finance Service Unit

To address systemic barriers in agricultural finance and insurance markets, the Ministry of Agriculture has announced the establishment of the Rural Finance Service Unit (RFSU).

Globally, resilient and inclusive agricultural finance and insurance markets are underpinned by strong government leadership. Governments play a critical role in setting a clear vision aligned with national priorities, creating an enabling environment for collaboration with financial service providers and insurers, and coordinating public and private initiatives to ensure long-term sustainability and impact.

To effectively play this role, governments require a dedicated institutional home for agricultural finance and insurance efforts. While countries vary in where this anchor is placed (see Box 1), Ethiopia has now established the RFSU to serve

as that institutional home. With a mandate from the Ministry of Agriculture under Proclamation No. 1263/2021, **the Unit is positioned to influence the agricultural finance and insurance markets from the demand side**, ensuring the needs and realities of the agriculture sector and its diverse actors, including smallholder farmers, pastoralists, agri-SMEs and agribusinesses are met, while also enabling the supply side to deliver appropriate solutions through sustainable business models.

RFSU has been established with technical and financial support from UNDP and the Japan International Cooperation Agency (JICA), along with ad hoc technical assistance from the World Food Programme (WFP), the African Development Bank (AfDB) and the International Fund for Agriculture Development (IFAD).

Box 1: Government leadership in agricultural finance and insurance – Global cases

Colombia – FINAGRO

Established under the leadership of the Ministry of Agriculture and Rural Development, Finagro is considered a second-floor development finance institution that channels subsidized credit, guarantees and incentives to agriculture. Finagro works with commercial banks to reduce lending risk and expand credit access for rural actors. It also supports the integration of agricultural insurance by co-financing premium subsidies and encouraging bundling credit with insurance, especially against weather-related risks, to increase financial resilience among producers.

India – NABARD

The Reserve Bank of India and the Ministry of Finance jointly led the creation of the National Bank for Agriculture and Rural Development (NABARD). NABARD functions as an apex development bank, providing refinancing, policy guidance and capacity-building to rural financial institutions. It plays a central role in scaling agricultural credit and insurance solutions, such as weather-index insurance and infrastructure financing.

Nigeria – ACGS & NIRSAL

The Central Bank of Nigeria (CBN), in collaboration with the Federal Ministry of Agriculture and Rural Development, initiated the Agricultural Credit Guarantee Scheme (ACGS) and, later, the Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL). These institutions aim to de-risk agricultural lending through credit guarantees, agriculture insurance, technical assistance and the promotion of commercially viable agribusiness models.

Theory of change

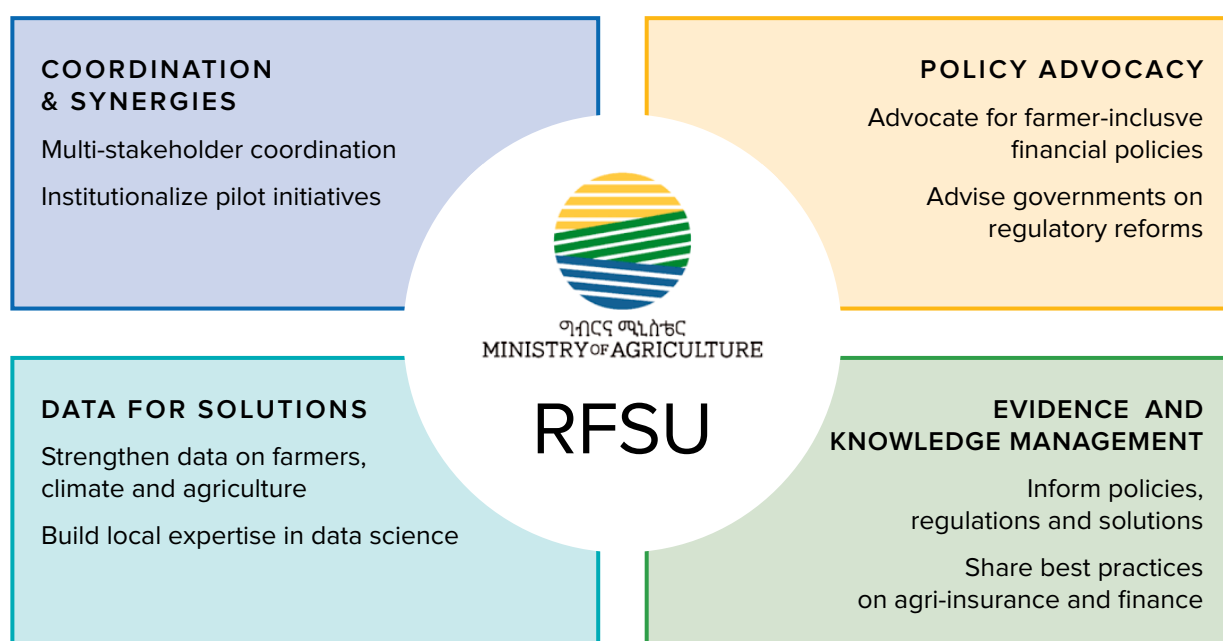
RFSU is designed to define and strengthen the Government's role in building a resilient and inclusive agricultural finance and insurance market

– aiming to close the financial gap and support the broader transformation of the agricultural sector. With leadership from government, resilient and inclusive markets can increase equitable access to financial and insurance services, while also enabling financial service providers and insurers to develop sustainable, long-term business models. Government plays a key role in ensuring that the needs of the agriculture sector are met with appropriate services, while also creating incentives and enabling conditions for the supply side to develop market-led solutions.

Core functions of the Rural Finance Service Unit

To address systemic barriers, in particular fragmentation and the need for greater coherence in the government's role, the Unit seeks to **coordinate** public and private stakeholders and efforts, **advocate** for market reforms (within and beyond the scope of the Ministry of Agriculture), **champion** public infrastructure for farmer data and **generate actionable evidence** from market-led initiatives.

Figure 1: Champion the use of data for solutions



1. COORDINATION AND SYNERGIES

RFSU will coordinate at four levels: i) within the Ministry of Agriculture, aligning efforts across units and divisions; ii) across government entities, engaging ministries and national institutions like the Ministry of Finance and the National Bank of Ethiopia; iii) with market players, including public and private financial service providers and insurers; and iv) development partners like JICA, WFP, IFAD, etc. This coordination role will enable RFSU to monitor market trends and challenges, raise strategic issues for advocacy and inform relevant policies and programmes to influence resource allocation and delivery models.

2. POLICY ADVOCACY

RFSU will promote market reforms through evidence-based policy recommendations. It will collaborate with key institutions such as the Ministry of Finance and the National Bank of Ethiopia to co-design regulatory frameworks and market incentives. The aim is to ensure that financial service providers and insurers are both enabled and incentivized to deliver appropriate, market-led solutions grounded in sustainable business models.

3. DATA FOR SOLUTIONS

RFSU will lead the analysis of farmer data to generate insights into their financial and insurance needs. By building and managing public data infrastructure, the Unit will support the development of demand-driven products and services that reflect the realities of Ethiopia's agricultural landscape in order to better serve smallholder farmers, pastoralists, agri-SMEs and agrobusinesses.

4. EVIDENCE AND KNOWLEDGE MANAGEMENT

The Unit will document lessons learned from pilots and innovations led by public and private stakeholders, both domestically and globally. These insights will inform policy, programme design, capacity-building programmes and the Unit's advocacy efforts. RFSU will also monitor and assess the impact of market-led solutions to strengthen the case for adoption and scale-up.

About UNDP's Financial Resilience in Agriculture Initiative

The Financial Resilience in Agriculture Initiative (FRA) is a project of UNDP's Insurance and Risk Finance Facility implemented in partnership with the Gates Foundation. Working with public and private partners in Bangladesh, Ethiopia, India, Uganda and the United Republic of Tanzania, UNDP is bolstering the financial resilience and adaptation capacities of smallholder farmers against climate-related adversities through the design and implementation of innovative agricultural insurance programmes, anchored within a broader development agenda.

The FRA Community of Practice (CoP) is a government-led platform of policymakers, central banks, insurance regulators and development partners from the Global South and North. Following the inaugural 2024 FRA CoP in India, Ethiopia has hosted the 2025 global gathering, convening leaders from 25+ countries to share knowledge, shape policy innovations, and explore ways to make agricultural insurance a key part of national financial and development systems.



United Nations Development Programme

One United Nations Plaza
New York, NY 10017

www.undp.org

© UNDP 2025

