

[MAP](#)

3rd CALL FOR PROPOSALS

***NEW INSTRUMENTS AND METHODOLOGIES
IN AGRICULTURAL FINANCE***

There is increasing evidence of the importance of managing financial risks in agriculture as a basis for sustainable economic and social development. For example, excessive price volatility directly impacts the quality of life of many smallholders with important implications for the efficiency of agricultural value chains. Agricultural prices movements can also adversely affect government finances. In the case of commodity importing countries, the food security implications of sound risk management is of utmost importance.

Limiting the use of sound risk management instruments in agriculture are the market failures, inadequate institutional arrangements, and information gaps that impede private institutions from providing appropriate financial services. Public policy interventions are needed to overcome the lack of familiarity of commodity producers and processors with price risk management products and to build the appropriate legal and institutional frameworks that allow the use of commodity markets. Public sector institutions, agencies and development banks play a key role in this arena, as do private commercial banks, commodity brokers, exchanges and a host of other actors.

The MAP's 3rd call for proposals on NEW INSTRUMENTS AND METHODOLOGIES IN AGRICULTURAL FINANCE will finance activities and research projects aimed to develop or assess new financial instruments and methodologies for managing agricultural price volatility. For this Call for Proposals, the MAP especially encourages financial and agricultural ministries and public and rural banks to present their proposals and project ideas.

Proposals received by the MAP will be examined with the following criteria: a project's technical innovativeness; executing agency operational capacity; overall team quality; and capacity to evaluate the project and quantitatively document its results. As well, those proposals that are selected will be required to have the no objection of a host country government agency or public institution.

The MAP strongly encourages projects that introduce an impact evaluation component that identifies new evidence on *what* is working and *how* and *why* it worked.

The MAP has two types of grants: Activity grants and Research Grants.

Activity Grants (Euro 100,000)

Proposals should be for activities that fund specific interventions aimed at improving financial risk management in the agricultural sector. These may include activities related to the following topics (other related topics can also be presented):

Institutions and instruments to reduce price volatility: Arrangements that reduce price risks and improve financial access range from sophisticated institutions like exchanges that establish spot and futures markets for commodities to warehouse systems that allow inventory financing. Financial instruments also include futures and options that are used to hedge the price of certain agricultural products (ie. establishing floors and ceiling on certain commodities). Public policies and private actors have a role to devise financial mechanisms and strategies to identify these institutional arrangements and design and deploy appropriate financial instruments.

Public financial management strategies to deal with agricultural price volatility: Commodities price volatility has a strong impact on the public sector revenues and public policies to promote agricultural production. Excessive volatility of fiscal revenues linked to commodity prices can be managed with policies, financial strategies and rules that reduce the impact on fiscal accounts of commodity prices booms and busts. Particular importance will be given to programs for food importing economies, and policies that encourage increased investment in smallholder agriculture.

Design and implementation of credit portfolio management techniques in rural and public banks: Agricultural lending portfolios have intrinsic characteristics that require new portfolio analysis and stress tests methodologies that provide public and rural banks or agricultural cooperatives with timely information on their risk and a basis for estimating capital requirements. Ideally, these new tools should be related to the design of new financial products directed at hedging the agricultural portfolios or the design of different insurance mechanisms.

Research Grants (Euro 20,000)

Proposals will be considered for studies on the topics stated above. These studies should be empirically based cases or comparative studies that use relevant data sources to produce high-quality research findings.

The research activities will favor studies based on firm-level data, portfolio data, surveys or similar data sources. The studies can address a variety of topics such as, applied research to estimate the fiscal impacts of price volatility; new statistical techniques that estimate the factors that influence agricultural price volatility; new techniques to estimate the loss given default probability of agricultural loan portfolios; among others.