



How can finance drive climate-resilient agriculture?



As climate change intensifies, droughts increasingly destabilise the financial systems of agriculture-dependent countries across the Global South. This creates ripple effects on global food security and economic stability.

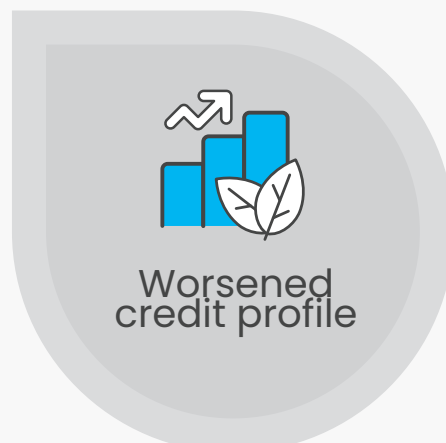
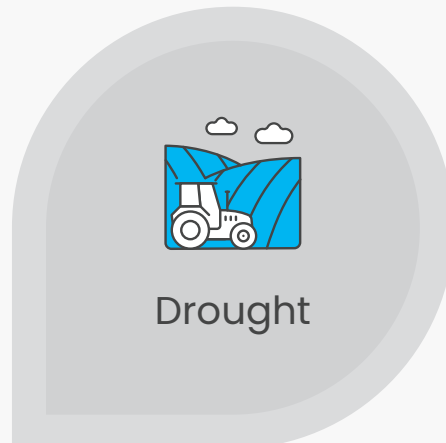
How do droughts linked to worsening climate change disrupt economic stability?

We analysed the effects of drought-related agricultural loss on Paraguay's financial system by examining precipitation deficits, changes in credit portfolios, and agricultural GDP. A Structural Vector Autoregressive (SVAR) model and impulse-response functions were employed to explore how the impact of climate shocks spread across the economy. The country's recent struggles with prolonged drought illustrate the need for an equitable global financial system that enhances the resilience of interconnected economies.

Findings show that:

1

Droughts increase the risk of loan defaults and reduce the value of assets linked to farming. This severely **affects the financial systems** of agriculture-dependent countries.



2

A drought shock can translate to increases in modified credits of more than



USD 500 million

after 3 years, as in the case of Paraguay.

3

The **Central Bank** can play a crucial role in maintaining price stability, protecting the financial system, and **ensuring farmers** can manage their loans without defaulting.

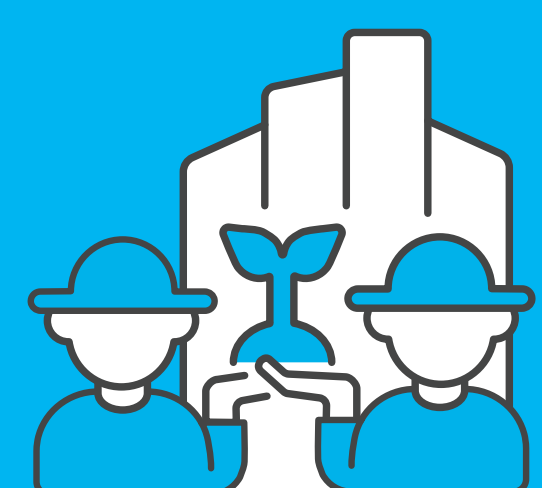
To build a global financial system that works for all, governments must:

- **Recognise the macro-financial effects of climate change.** Global South governments should lead in strengthening national coordination and international capacity-sharing to build climate-resilient macroeconomic policies.
- **De-risk and upscale private investment in agriculture.** In countries with fully privatised agricultural insurance, public subsidies can incentivise investment and help mitigate climate risks for small-scale farmers.
- **Incentivise public-private partnerships in climate-focused research and development (R&D).** Increased global investment is needed to develop drought-resistant crops and pastures, and to provide technical assistance to farmers in agriculture-dependent countries.
- **Look out for good practices.** Consider the Paraguayan Central Bank's flexible credit measures as a model to strengthen agricultural resilience during extreme weather events.

According to Meza and other authors in 2020, around

1.4 billion people

–18% of the global population–work in agriculture, shouldering the main **economic effects of climate change.**



Authors

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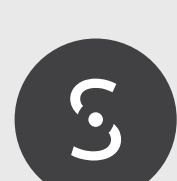
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