



## Credit to agriculture

October 2018

### Highlights

- Globally, total commercial credit to agriculture increased from 2.4% in 2016 to 2.9% in 2017, though still lower than the contribution of agriculture to GDP.
- The agriculture sector in nearly half of the countries received less than 3.5 % of total credit.
- During the last decade, the share of agriculture in total credit supply has slightly increased from 2.2% in 2006 to 2.9% in 2017.
- The share of agriculture in total credit decreased in Latin America from 3.5% in 2007 to 2.1% in 2017. However, it rose in Asia and the Pacific, Africa and Europe, driven in part by the policy responses to the food price crisis of 2007-08.
- The Agriculture Orientation Index for Credit of developed countries is generally higher than that of developing countries, perhaps due to large organized farming in developed countries against preponderance of smallholder farms in developing countries.

*\* The term "agriculture" includes forestry, and fishing and aquaculture, as per ISIC Rev. 4, A\_01-03.*

### Global Overview

Globally, the total credit to agriculture disbursed by commercial banks operating in the countries increased from 2.4% in 2016 to 2.9% in 2017. Given that the agriculture sector globally contributed over 4% of Gross Domestic Product (GDP), it appears that agricultural producers face a negative bias in access to credit

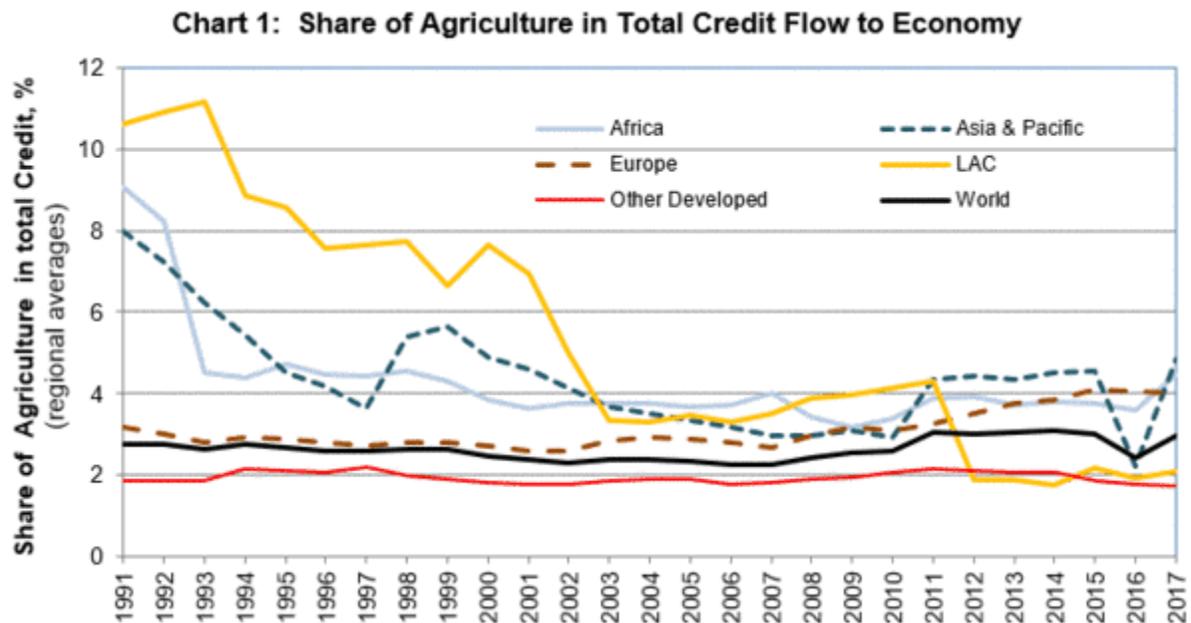
Access to formal credit is critical for farmers for purchasing inputs, such as seeds, fertilizer, plant protection materials, animal feed etc. In the absence of personal savings, borrowing from informal sources like moneylenders, relatives and friends may involve unduly high interest rates and unfavourable conditions, which may make many agricultural operations uneconomical. The lack of access to reasonable credit is particularly problematic for farmers who face a time lag between expenditure on crops cultivation and/or raising of livestock, and realization of revenues from sale of their products.

### Regional Overview

During the nineties, Latin America was providing highest percentage of credit to agriculture among the regions but it declined from over 10 percent in 1991 to little over 4 percent during 2011. This sharp decline was also visible in Asia and Africa during this period. Traditionally, the share of credit supply to agriculture has been relatively low, 3 –4% of

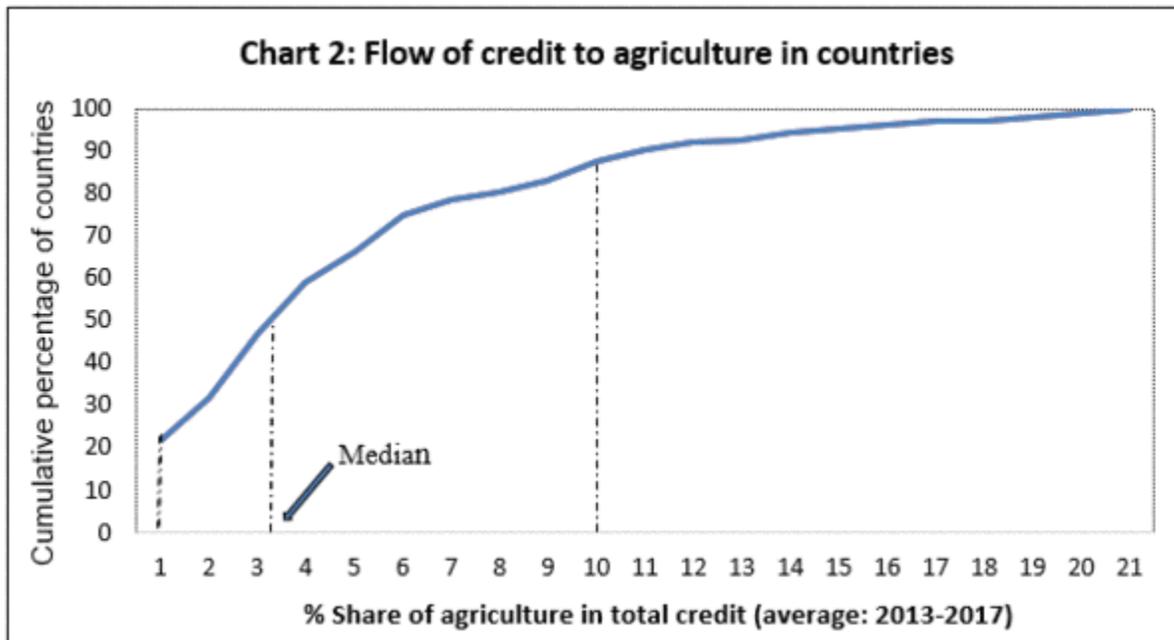
total credit, in European and other developed countries. Since these countries account for bulk of the global credit flows, the global percentage of credit to agriculture is quite low despite higher shares of agriculture in Latin America, Asia and Africa.

From 2003 onwards, the agriculture sector in most regions received between 2 to 4% of total credit. Following the food price crisis of 2007-08 and the increased policy attention to food security and agriculture, most regions witnessed a slow revival of credit to agriculture, with higher growths observed in Asia and the Pacific and Africa regions. [Chart 1].

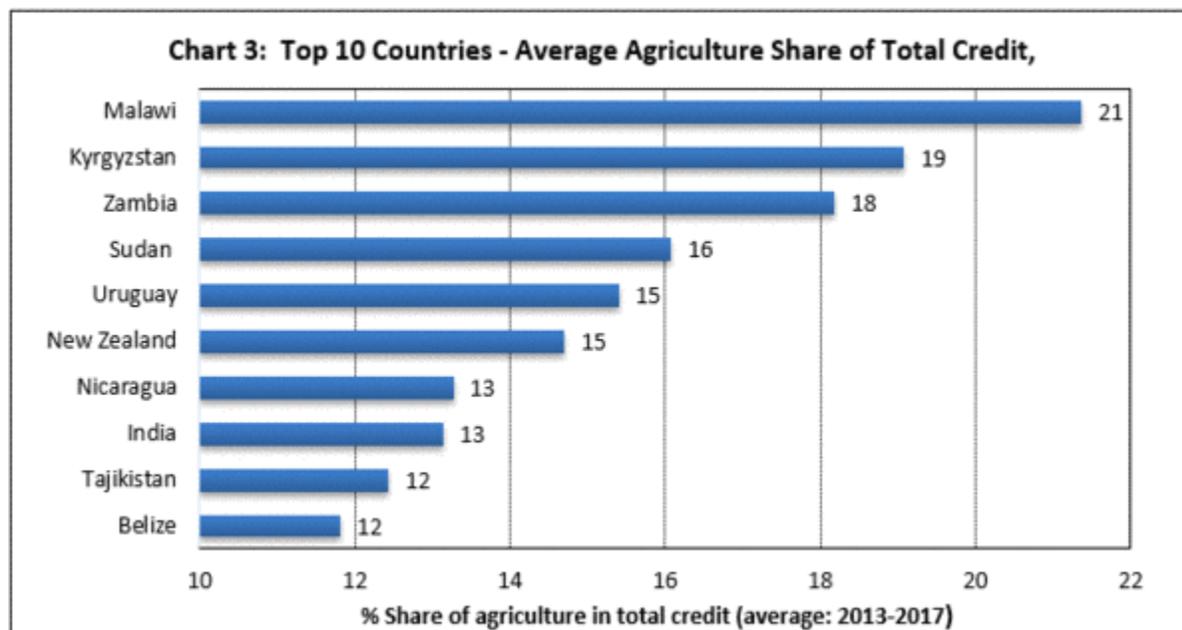


### Countries

Highest level of credit to given to agriculture in any country was 21% of total credit, irrespective of its share in the GDP. Countries having less than 10% flow of credit to agriculture constituted nearly 88% of the reporting countries. In nearly half of the countries in the world, agriculture receives less than 3.2 % of total credit flows in the economy, with nearly 25 countries receiving below 1% of formal credit disbursements. [Chart 2].



In the recent five years, 2013-2017, the top 10 countries with highest share of agriculture in total credit included three Asian, three African, three Latin American and one Oceania country. Malawi led with agriculture receiving 21.4% of total credit, followed by Kyrgyzstan (19.1%) and Zambia (18.2%). [Chart 3].



### Agriculture Orientation Index for Credit

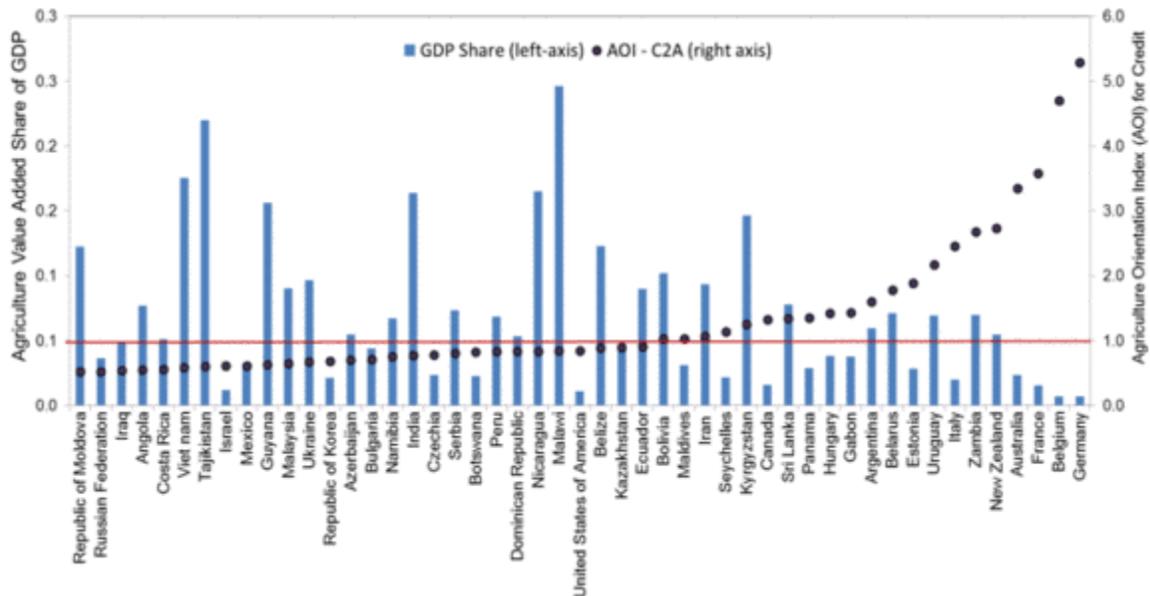
The Agriculture Orientation Index (AOI) for credit normalizes the share of credit to agriculture (C2A share) by taking into account the economic contribution of the sector (ratio of the C2A share over the Agriculture share in GDP). As such, it can provide a more accurate indication of the relative importance commercial banks place on financing agriculture sector. An AOI less than 1 indicates that the agriculture sector receives a credit share less

than its contribution to the economy, while an AOI greater than 1 indicates a credit share to the agriculture sector greater than its economic contribution.

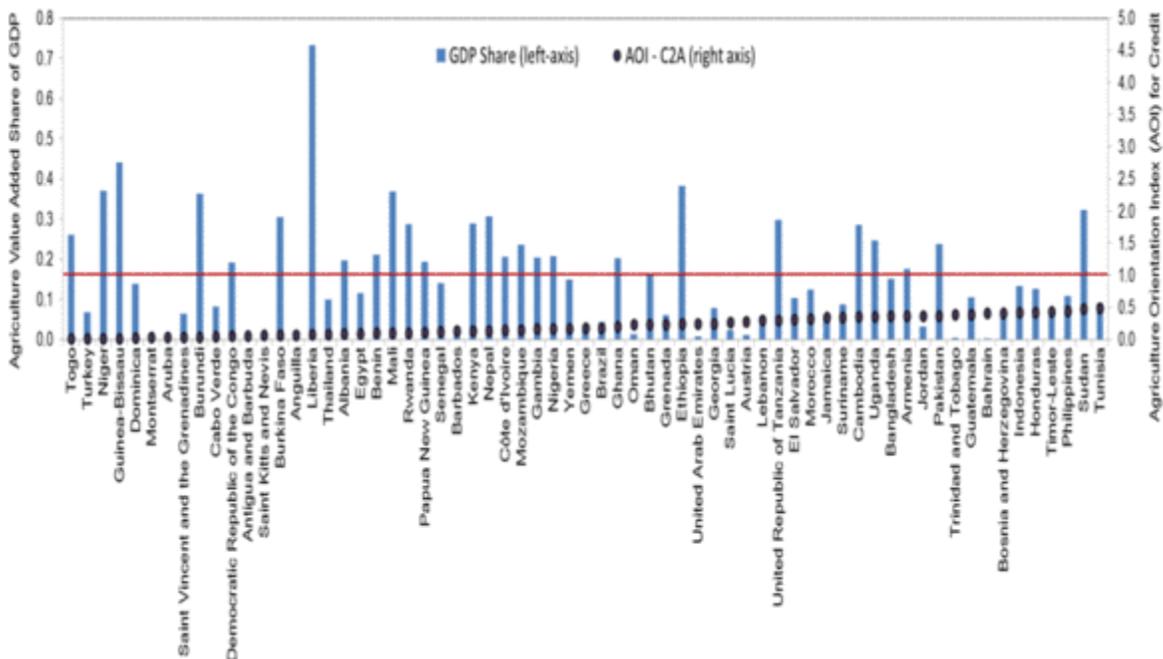
Among developed countries for which C2A data was obtained, ten had an AOI over 1. This group was led by Germany (5.3), followed by Belgium (4.7), France (3.6), Australia (3.3), New Zealand (2.7), Italy (2.5) and Estonia (1.9). This implies, for example, that agricultural producers in Germany received 5.3 times as much credit relative to their economic contribution, as did producers in other sectors. In general, developed countries tend to have a higher AOI than developing countries. This may be due to the fact that agriculture is dominated by large producers; more commercial production; existence of agribusinesses; higher degrees of mechanization and greater capacity to provide collateral. On the other extreme Greece and Austria had the lowest AOIs, 0.2 and 0.3 respectively. These were the only two developed countries with an AOI below 0.5. [Chart 4.a & Chart 4.b]

Among developing countries, the AOI was particularly low for many sub-Saharan African countries, starting with Togo (0.01%), Niger (0.02%) and Guinea-Bissau (0.02%). This may be explained by a larger prevalence of small agricultural producers with little or no capacity to provide collateral to access loans from formal financial sector. [Chart 4.b].

**Chart 4.a: Agriculture Orientation Index for Credit vs. Agriculture Share of GDP (average: 2012-2016) for countries with AOI ≥ 0.5**



**Chart 4.b: Agriculture Orientation Index for Credit vs. Agriculture Share of GDP (average: 2012-2016) for countries with AOI < 0.5**



### Country coverage

The results to date reflect the fact that not all countries collect, compile and publish easily accessible data on credit to agriculture. As C2A data was compiled from official statistics published in central banks websites, data coverage can vary by year and country.

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