

Existing Problems in the System of Financing the Agricultural Sector by Commercial Banks

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Abstract: This paper examines the existing problems in the system of financing the agricultural sector by commercial banks. The agricultural sector plays a crucial role in ensuring food security and sustainable economic development; however, its financing remains limited due to a number of structural and institutional challenges. These problems include high credit risks, seasonal production cycles, insufficient collateral, low profitability, and limited access to long-term financial resources. In addition, weaknesses in financial infrastructure and the lack of specialized banking products for agriculture further constrain effective lending. The study analyzes these issues and highlights the need for improving credit mechanisms, enhancing state support, and developing innovative financial instruments to increase the accessibility and efficiency of agricultural financing.

Key words: agricultural sector, commercial banks, agricultural financing, credit risk, financial constraints, rural development, lending mechanisms, state support.



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Introduction

The agricultural sector is one of the key drivers of economic growth, food security, and social stability in many countries¹. Its sustainable development largely depends on the availability of financial resources, particularly credit provided by commercial banks. Effective financing of agriculture enables farmers and agribusinesses to adopt modern technologies, increase productivity, and ensure stable production². However, despite its strategic importance, the agricultural sector often faces significant difficulties in accessing adequate financial support from the banking system³. Commercial banks tend to view agricultural lending as high-risk due to

¹ World Bank (2021). World Bank. *Agriculture, forestry, and fishing, value added (% of GDP)*.

² FAO (2021). Food and Agriculture Organization of the United Nations. *The State of Food and Agriculture 2021: Making agrifood systems more resilient to shocks and stresses*. Rome: FAO.

³ IFAD (2019). International Fund for Agricultural Development. *Rural Development Report 2019: Creating opportunities for rural youth*. Rome: IFAD.

factors such as seasonal production cycles, dependence on climatic conditions, price volatility, and limited collateral⁴. As a result, the volume of credit allocated to the agricultural sector remains insufficient, especially for small and medium-sized agricultural producers. These challenges reduce investment activity in agriculture and hinder its long-term development.

In this context, identifying and analyzing the existing problems in the system of financing the agricultural sector by commercial banks is of great importance. Understanding these issues can contribute to the development of more effective financial mechanisms, improvement of credit policies, and strengthening of cooperation between the state, financial institutions, and agricultural producers.

Literature analysis

The issue of financing the agricultural sector by commercial banks has been widely discussed in the economic literature. International organizations and researchers emphasize that access to financial resources is a key factor for sustainable agricultural development and rural growth. According to the World Bank (2021), agriculture remains one of the most credit-constrained sectors due to high production risks and income volatility⁵. Limited access to formal financial services particularly affects small and medium-sized agricultural producers.

FAO (2021) highlights that effective agricultural financing contributes to increased productivity, adoption of modern technologies, and improved food security⁶. However, the organization notes that traditional banking models often fail to address the specific needs of the agricultural sector, such as seasonal cash flows and long investment cycles. As a result, many farmers rely on informal sources of financing, which are usually costly and unreliable.

Studies by IFAD (2019) focus on the structural barriers to agricultural finance, including insufficient collateral, weak financial infrastructure in rural areas, and low financial literacy among farmers⁷. IFAD emphasizes the importance of developing inclusive financial systems and strengthening state support mechanisms to reduce risks for commercial banks and expand access to credit. OECD (2018) analyzes the role of risk management tools and policy interventions in improving agricultural financing⁸. The organization argues that government guarantees, insurance schemes, and subsidized credit programs can significantly encourage commercial banks to increase lending to the agricultural sector. Overall, the reviewed literature suggests that addressing existing financial constraints requires a comprehensive approach involving financial institutions, government policies, and innovative financial instruments.

The issues of financing the agricultural sector through commercial banks have also been widely studied by Uzbek scholars. Their research mainly focuses on improving credit mechanisms, reducing financial risks in agriculture, and increasing the accessibility of bank loans for agricultural producers.

Shokhodjaeva (2022) emphasizes that state regulation plays a crucial role in the development of agricultural lending in Uzbekistan⁹. According to the author, preferential credit programs, interest rate subsidies, and state guarantees significantly contribute to reducing credit risks faced by

⁴ OECD (2018). Organisation for Economic Co-operation and Development. *Financing Agriculture and Food: Access to credit and risk management*. Paris: OECD Publishing.

⁵ World Bank. *World Development Report 2021: Data for Better Lives*.

⁶ Food and Agriculture Organization of the United Nations. *The State of Food and Agriculture 2021: Making Agrifood Systems More Resilient to Shocks and Stresses*. Rome: FAO.

⁷ International Fund for Agricultural Development. *Rural Development Report 2019: Creating Opportunities for Rural Youth*. Rome: IFAD.

⁸ OECD (2018). Organisation for Economic Co-operation and Development. *Financing Agriculture and Food: Access to Credit and Risk Management*. Paris: OECD Publishing.

⁹ Shokhodjaeva, 2022

commercial banks. However, the study notes that inefficiencies in policy implementation and limited monitoring mechanisms reduce the overall effectiveness of these measures. Rakhimov (2021) analyzes the role of commercial banks in financing agricultural enterprises and highlights that insufficient collateral and unstable farm incomes remain major obstacles to expanding agricultural credit¹⁰. The author argues that the introduction of alternative collateral instruments and improved risk assessment systems could enhance banks' willingness to lend to the agricultural sector.

Khalmirzaeva (2011) examines the development of the agricultural financial market in Uzbekistan and points out that small and medium-sized farms experience limited access to formal financial services¹¹. The study concludes that strengthening rural financial infrastructure and developing specialized agricultural banking products are essential for sustainable rural development. Bozorov (2024) focuses on project-based financing and notes that long-term investment projects in agriculture are constrained by limited long-term funding sources within the banking system¹². The author suggests that cooperation between commercial banks, the government, and international financial institutions could improve the availability of investment resources for the agricultural sector. Overall, the literature by Uzbek scholars indicates that although significant reforms have been implemented to support agricultural financing, persistent structural problems continue to limit the effectiveness of commercial bank lending. Addressing these challenges requires a comprehensive approach that combines institutional reforms, state support, and financial innovation.

Research methodology

This study uses a mixed-method approach based on qualitative and quantitative analysis. Secondary data from the World Bank, FAO, IFAD, OECD, and national statistical sources are analyzed using descriptive and comparative methods. Literature review and analytical techniques are applied to identify key problems and draw conclusions on agricultural financing by commercial banks.

Analysis and results

The analysis shows that financing of the agricultural sector by commercial banks remains limited due to high credit risks and structural constraints. Agricultural lending is affected by seasonal income patterns, dependence on climatic conditions, and price volatility, which reduce the willingness of banks to expand credit portfolios. As a result, the share of agricultural loans in total bank lending remains relatively low. The results indicate that small and medium-sized agricultural producers face the greatest difficulties in accessing bank credit. Insufficient collateral, high interest rates, and short loan maturities limit their ability to finance production and investment activities. In addition, the lack of specialized agricultural loan products further constrains effective financing.

The findings also reveal that government support measures, such as subsidized interest rates and credit guarantees, play an important role in improving access to agricultural finance. However, these mechanisms are not always sufficient to fully mitigate risks faced by commercial banks. Overall, the results suggest that enhancing risk management tools, developing tailored financial products, and strengthening cooperation between banks and public institutions are essential for improving agricultural financing.

¹⁰ Rakhimov, 2021

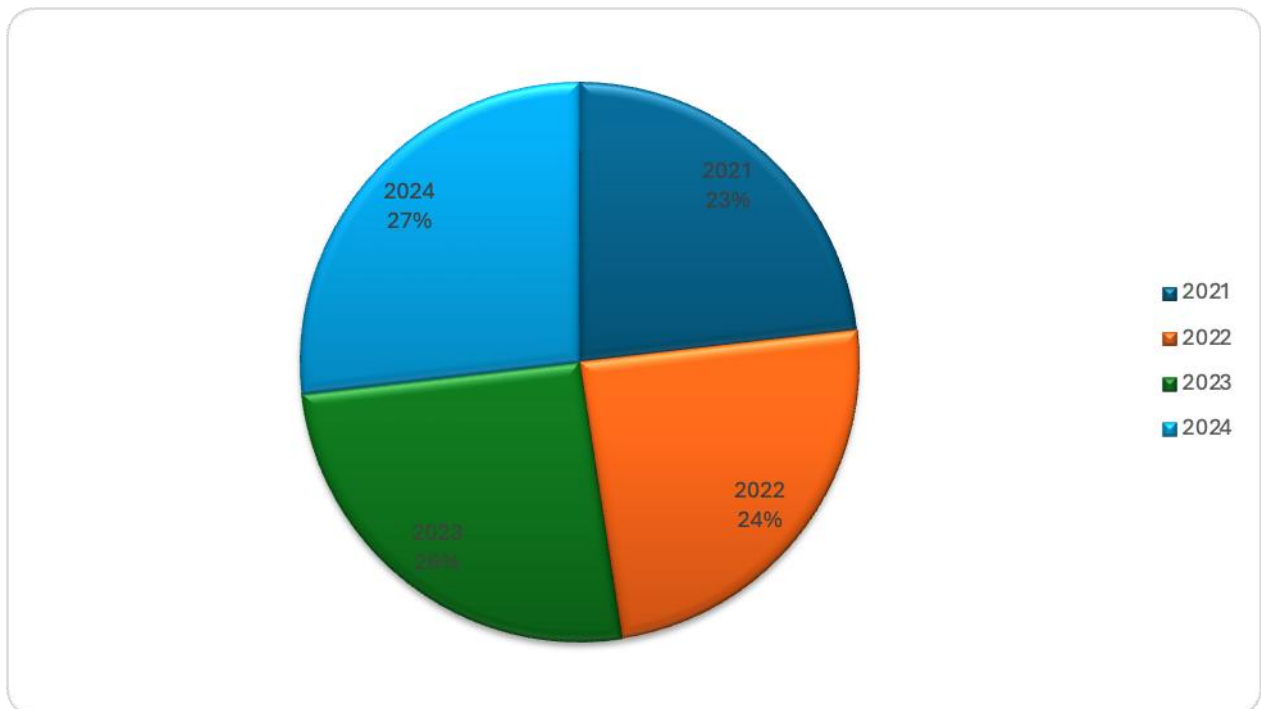
¹¹ Khalmirzaeva, 2011

¹² Bozorov, 2024

Table 1. Main Problems in Financing the Agricultural Sector by Commercial Banks¹³

No.	Identified Problems	Description
1	High credit risk	Dependence on climate conditions and price volatility
2	Insufficient collateral	Limited assets acceptable for bank guarantees
3	Seasonal income	Irregular cash flows in agricultural production
4	High interest rates	Increased cost of borrowing for farmers
5	Short loan maturity	Inadequate time for investment return

The identified problems reflect the structural and financial constraints of agricultural lending, which are mainly associated with high production risks, seasonal income patterns, insufficient collateral, and limited access to long-term financial resources. These factors reduce the willingness of commercial banks to expand agricultural lending and limit farmers' access to credit. The table is compiled based on the analysis of international studies and reports.

**Figure 1. Comparative Distribution of Agricultural Loans by Years in Uzbekistan (2021–2024)¹⁴**

The figure illustrates the proportional distribution of agricultural loans by years from 2021 to 2024. The results show a gradual increase in the share of agricultural loans over the period, with the highest share observed in 2024. This trend indicates a relative expansion of agricultural financing in absolute terms; however, when compared with total bank lending growth, the agricultural sector still maintains a limited share, reflecting persistent structural and financial constraints.

¹³ FAO (2021), World Bank (2021), IFAD (2019), OECD (2018).

¹⁴ Central Bank of the Republic of Uzbekistan (2024). *Information on commercial bank loans by economic sectors*.

Table 2. Effects of Government Support Measures on Agricultural Financing¹⁵

Support Measure	Impact on Agricultural Financing
Interest rate subsidies	Reduces borrowing costs for farmers
Credit guarantees	Lowers credit risk for commercial banks
Preferential loan programs	Improves access to finance for small farms
State-backed insurance schemes	Enhances risk management in agriculture

Government support measures play a significant role in improving access to finance in the agricultural sector. Instruments such as interest rate subsidies, credit guarantees, preferential loan programs, and state-backed insurance schemes help reduce financial risks and borrowing costs for farmers. These measures increase the willingness of commercial banks to lend to agricultural producers and contribute to the stability and sustainability of agricultural financing.

Table 3. Main Constraints Faced by Agricultural Producers in Accessing Bank Credit (Uzbekistan)¹⁶

Constraint	Impact on Farmers
Insufficient collateral	Limits loan approval, especially for small farms
High interest rates	Increases financial burden
Short loan maturity	Inadequate for long-term agricultural investments
Seasonal income	Causes repayment difficulties
Limited financial literacy	Reduces effective use of credit resources

The listed constraints represent the main financial and institutional challenges faced by agricultural producers in accessing bank credit. Insufficient collateral and high interest rates significantly reduce loan approval rates, particularly for small farms. Short loan maturities and seasonal income patterns create repayment difficulties, while limited financial literacy weakens farmers' ability to effectively manage borrowed funds. Together, these factors limit investment capacity and slow the sustainable development of the agricultural sector.

Table 4. Agricultural Lending by Commercial Banks in Uzbekistan (2024)¹⁷

Indicator	Value (11/1/2024)
Total loans of commercial banks (billion UZS)	521 025
Agricultural loans (billion UZS)	51 387
Share of agriculture in total loans (%)	10

The data indicate that as of November 1, 2024, the share of agricultural loans in the total loan portfolio of commercial banks remains relatively low, amounting to only 10 percent. This figure demonstrates that, despite the strategic importance of the agricultural sector for food security, employment, and rural development, it continues to receive a limited portion of bank financing. While the absolute volume of agricultural lending has increased in recent years, this growth has not been sufficient to match the rapid expansion of total bank lending.

This situation reflects the cautious lending behavior of commercial banks toward the agricultural sector. High exposure to production risks, such as climate variability and natural disasters, combined with price volatility in agricultural markets, significantly increases credit risk. In addition, limited availability of acceptable collateral, particularly among small and medium-sized

¹⁵ Source: Compiled by the author based on FAO (2021), World Bank (2021), IFAD (2019), and OECD (2018).

¹⁶ Source: Compiled by the author based on FAO (2021), World Bank (2021), IFAD (2019), and OECD (2018).

¹⁷ Central Bank of the Republic of Uzbekistan (2024). Information on commercial bank loans by economic sectors.

farms, further restricts access to bank loans. The seasonal nature of agricultural income also creates mismatches between loan repayment schedules and farmers' cash flows, increasing the probability of loan defaults.

Moreover, relatively high interest rates and the limited supply of long-term credit resources reduce the attractiveness of bank financing for agricultural producers. As a result, many farmers rely on informal or non-bank sources of financing, which are often more expensive and less reliable. Overall, the low share of agricultural loans in total bank lending highlights the need for improved risk management mechanisms, expanded state support measures, and the development of specialized financial products to enhance the role of commercial banks in financing the agricultural sector.

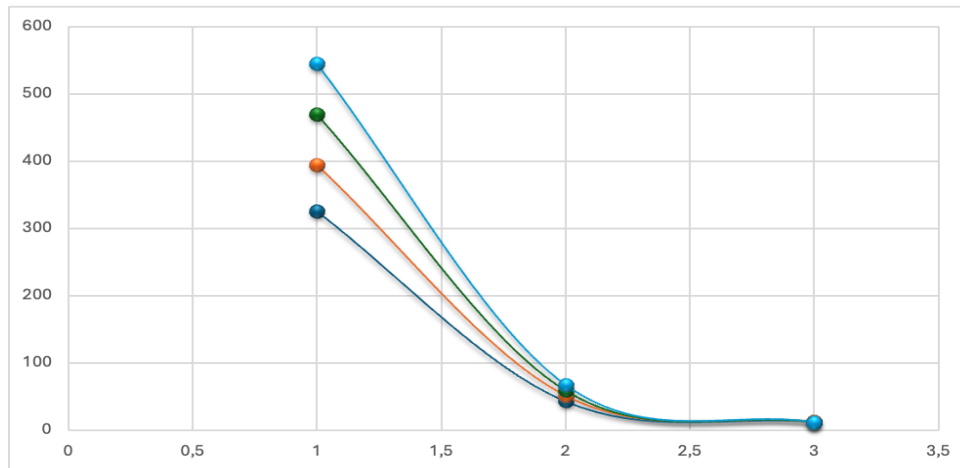


Figure 2. Trends in Total Bank Loans and Agricultural Loans in Uzbekistan (2021–2024)¹⁸

The figure illustrates the comparative dynamics of total bank loans and agricultural loans in Uzbekistan over the period 2021–2024. The sharp difference between total lending volumes and agricultural credit indicates that, despite overall growth in bank lending, the agricultural sector continues to receive a relatively limited share of financial resources. This trend reflects higher credit risks, seasonal income patterns, and stricter lending requirements in agricultural financing.



Figure 3. Comparative Analysis of Total Bank Loans and Agricultural Loans in Uzbekistan (2021–2024)¹⁹

¹⁸ Central Bank of the Republic of Uzbekistan (2024). *Information on commercial bank loans by economic sectors.*

¹⁹ Central Bank of the Republic of Uzbekistan (2024). *Information on commercial bank loans by economic sectors.*

The figure compares total bank loans, agricultural loans, and the share of agriculture in total lending in Uzbekistan during 2021–2024. The results show a steady increase in total bank lending and agricultural loans in absolute terms. However, the share of agriculture in total loans has gradually declined, indicating that agricultural financing has not kept pace with the overall growth of the banking sector. This trend reflects the persistent challenges of agricultural lending, including high risks, limited collateral, and seasonal income patterns.

Conclusions and suggestions

Based on the analysis and results, it can be concluded that financing of the agricultural sector by commercial banks in Uzbekistan has increased in absolute terms during 2021–2024; however, its share in total bank lending remains relatively low. This indicates that the growth of agricultural credit has not kept pace with the overall expansion of the banking sector. High credit risks, seasonal income patterns, insufficient collateral, and relatively high interest rates continue to limit access to bank financing, especially for small and medium-sized agricultural producers.

The findings also show that government support measures, such as interest rate subsidies, credit guarantees, and preferential lending programs, play an important role in mitigating risks and improving access to agricultural finance. Nevertheless, these mechanisms are not sufficient to fully address existing structural constraints. Limited availability of long-term credit resources and weak risk management tools remain key challenges in agricultural lending.

1. Develop specialized agricultural loan products. Commercial banks should introduce loan products tailored to the specific needs of the agricultural sector, including flexible repayment schedules that take into account seasonal production and income cycles.
2. Expand state-backed credit guarantee mechanisms. The coverage and effectiveness of government credit guarantees should be increased to reduce credit risks for commercial banks and improve farmers' access to bank loans.
3. Strengthen agricultural insurance systems. The development of state-supported agricultural insurance schemes would help mitigate climate and production risks, making agricultural lending more attractive for commercial banks.
4. Increase access to long-term financing. Commercial banks should expand long-term credit resources for agricultural investments, particularly for modernization, infrastructure development, and technological upgrades.
5. Improve financial literacy and rural financial infrastructure. Training programs and advisory services should be enhanced to improve farmers' financial literacy, while strengthening rural banking infrastructure would support more efficient and inclusive agricultural financing.

SOURCE AND USED LITERATURE LIST

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