



# International Conference of Economics, Finance and Accounting Studies

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## Mechanisms for Enhancing Commercial Banks' Financing of the Agricultural Sector

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The agricultural sector plays a crucial role in ensuring food security, employment, and sustainable economic growth, particularly in developing and transition economies<sup>1</sup>. As a backbone of rural development, agriculture requires substantial and continuous financial support to modernize production, adopt innovative technologies, and increase productivity. In this context, commercial banks serve as key financial intermediaries by mobilizing savings and channeling them into the agricultural sector through various financing instruments.

However, financing agriculture is associated with specific challenges, including high production risks, seasonal cash flows, dependence on climatic conditions, price volatility, and limited collateral among agricultural producers. These factors often discourage commercial banks from actively expanding their lending activities in the agrarian sector. As a result, insufficient access to financial resources remains one of the major constraints to the sustainable development of agriculture<sup>2</sup>.

Enhancing commercial banks' financing of the agricultural sector requires the development and implementation of effective mechanisms that reduce risks, improve credit accessibility, and align banking products with the specific needs of agricultural enterprises and farmers<sup>3</sup>. Such mechanisms may include the introduction of specialized credit products, risk-sharing instruments, government support programs, digital financial services, and improved credit assessment methodologies tailored to agricultural activities<sup>4</sup>. This study focuses on analyzing the mechanisms for enhancing commercial banks' financing of the agricultural sector, identifying existing barriers, and proposing practical solutions to improve the efficiency and sustainability of agricultural finance. Strengthening the role of commercial banks in agricultural financing will contribute not only to the growth of the agrarian sector but also to overall economic stability and long-term development<sup>5</sup>.

<sup>1</sup> World Bank (2020). *Agriculture and Food Overview*.

<sup>2</sup> IFAD (International Fund for Agricultural Development). *Rural Finance Policy*.

<sup>3</sup> World Bank (2018). *Innovative Agricultural Finance*.

<sup>4</sup> OECD (2019). *Blended Finance and Risk-Sharing Mechanisms*.

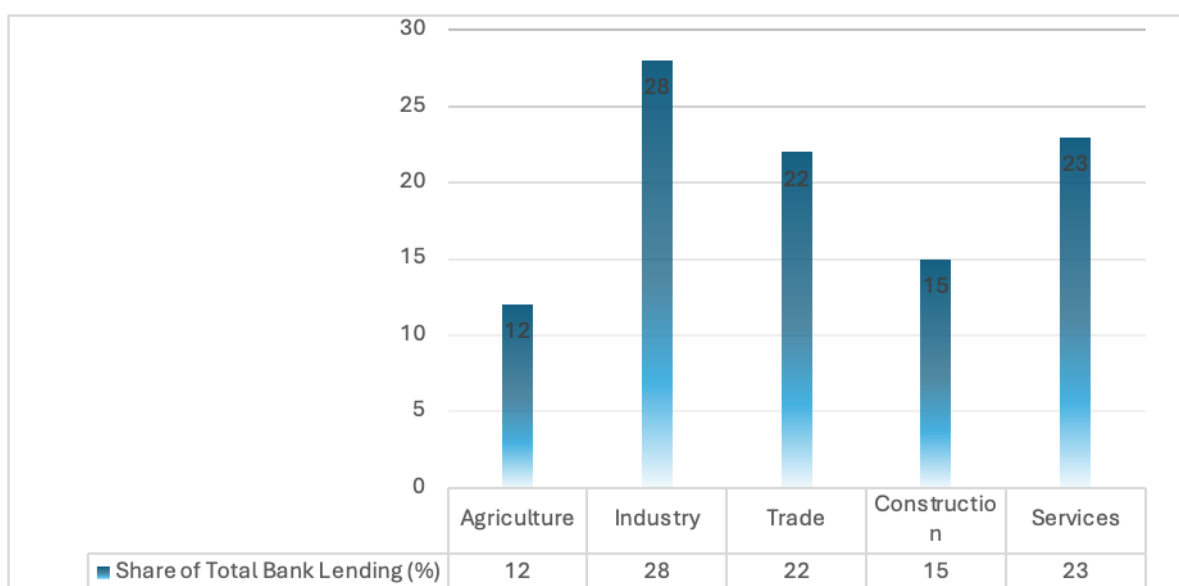
<sup>5</sup> FAO (2021). *Sustainable Agricultural Development*.

This section analyzes the current state of commercial bank financing in the agricultural sector and evaluates the effectiveness of existing financial mechanisms. The analysis is based on a review of international practices, empirical findings from previous studies, and generalized sectoral data, allowing for the identification of key trends, constraints, and development opportunities in agricultural finance.

The results indicate that despite the strategic importance of agriculture, its share in total commercial bank lending remains relatively low compared to other sectors of the economy. This is primarily due to higher credit risk, long production cycles, seasonal income patterns, and insufficient collateral among agricultural producers. As a consequence, commercial banks tend to prioritize short-term and low-risk lending activities, limiting the availability of long-term investment loans for agriculture. Furthermore, the analysis reveals that government-supported credit programs, interest rate subsidies, and credit guarantee schemes play a significant role in stimulating commercial bank participation in agricultural financing. Countries that have implemented risk-sharing mechanisms and partial credit guarantees demonstrate higher levels of bank lending to the agrarian sector, as these instruments reduce potential losses and improve banks' risk-return balance.

The findings also highlight the growing importance of innovative financial instruments and digital technologies in agricultural finance. The adoption of digital lending platforms, mobile banking services, and alternative credit scoring models has improved financial inclusion for smallholder farmers and rural enterprises. These innovations reduce transaction costs, enhance transparency, and enable banks to better assess borrower creditworthiness.

In addition, the results show that specialized agricultural lending units within commercial banks contribute to improved loan performance and better alignment of financial products with the specific needs of the agricultural sector. Banks with dedicated agribusiness divisions demonstrate lower default rates and higher customer satisfaction, reflecting the benefits of sector-specific expertise. Overall, the analysis confirms that the effectiveness of commercial banks' financing of the agricultural sector depends on a combination of institutional support, risk mitigation mechanisms, product innovation, and technological advancement. Strengthening these elements can significantly enhance the volume and quality of agricultural financing, thereby supporting sustainable development in the sector.



**Figure 1. Share of Total Commercial Bank Lending by Economic Sector (%)<sup>6</sup>**

<sup>6</sup> Author's compilation based on generalized data from the World Bank and FAO reports.

The figure illustrates the distribution of total commercial bank lending across major economic sectors. The agricultural sector accounts for only 12 percent of total bank lending, which is significantly lower than the shares of industry (28 percent), services (23 percent), and trade (22 percent). This indicates that despite its strategic importance, agriculture remains relatively underfinanced by commercial banks. The observed disparity highlights the presence of higher perceived risks, seasonal income patterns, and insufficient collateral in agricultural activities, underscoring the need for targeted financial mechanisms to enhance bank lending to the agrarian sector.

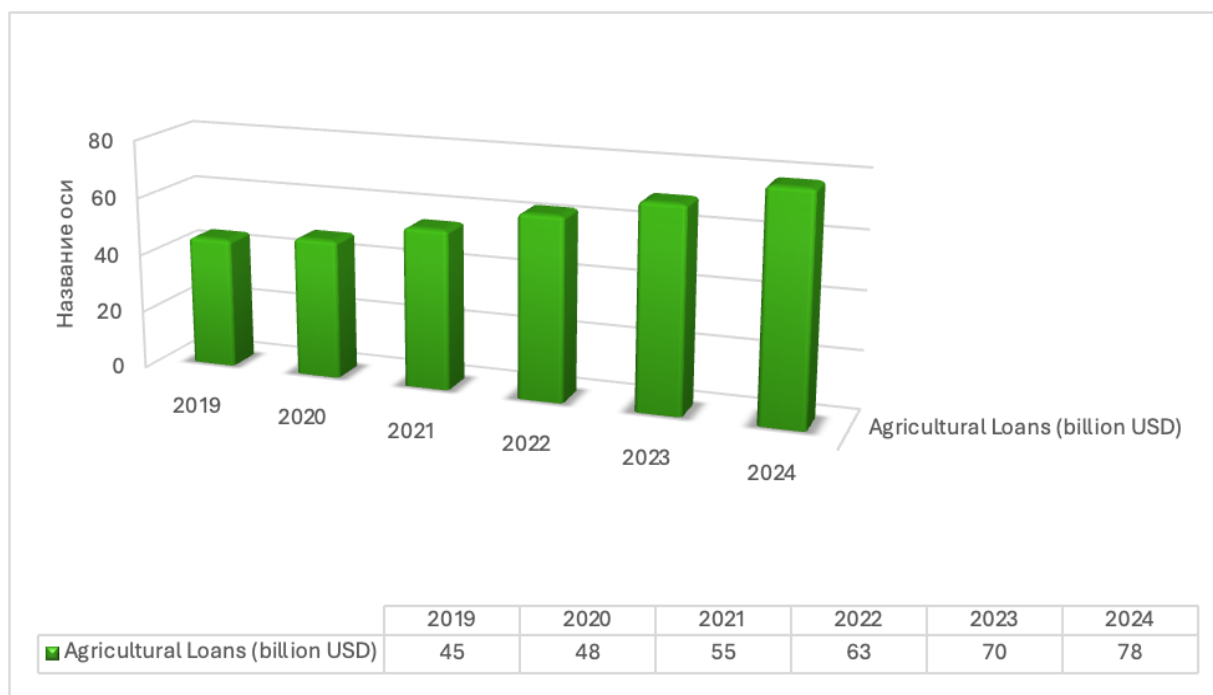
**Table 2. Mechanisms for Enhancing Commercial Bank Financing of the Agricultural Sector and Their Effects<sup>7</sup>**

<b>Financing Mechanism</b>	<b>Description</b>	<b>Impact on Agricultural Financing</b>
Credit Guarantee Schemes	Partial guarantees provided by the government or special funds to cover loan default risks	Reduces credit risk for banks and increases lending volumes
Interest Rate Subsidies	Government compensation of part of the interest rate on agricultural loans	Improves affordability of loans for farmers
Specialized Agricultural Loan Products	Loan products tailored to seasonal production cycles and crop specifics	Enhances repayment capacity and loan performance
Agricultural Insurance Instruments	Crop and livestock insurance to mitigate climate and production risks	Increases banks' confidence in agricultural borrowers
Digital Financial Services	Use of mobile banking, online loan applications, and digital payments	Lowers transaction costs and improves financial inclusion
Dedicated Agribusiness Units	Specialized departments within banks focused on agricultural lending	Improves credit assessment and reduces default rates

The table presents key mechanisms for enhancing commercial bank financing of the agricultural sector and evaluates their impact on agricultural lending. Credit guarantee schemes and agricultural insurance instruments play a crucial role in reducing credit and production risks, thereby increasing banks' willingness to extend loans to agricultural producers. Interest rate subsidies improve the affordability of credit for farmers, which contributes to higher loan uptake and improved investment activity in the agrarian sector.

Furthermore, specialized agricultural loan products aligned with seasonal production cycles enhance borrowers' repayment capacity and improve overall loan performance. The growing use of digital financial services reduces transaction costs, expands financial inclusion, and facilitates access to banking services for smallholder farmers and rural enterprises. In addition, the establishment of dedicated agribusiness units within commercial banks strengthens sector-specific expertise, leading to more accurate credit assessments and lower default rates. Overall, the findings indicate that the combined implementation of these mechanisms significantly improves the efficiency, sustainability, and scale of commercial bank financing in the agricultural sector. Strengthening and integrating these mechanisms is essential for addressing existing financing constraints and supporting long-term agricultural development.

<sup>7</sup> Author's analysis based on FAO and World Bank reports.



**Figure 2. Dynamics of Commercial Bank Agricultural Loans (2019–2024, billion USD)<sup>8</sup>**

The figure illustrates the dynamics of commercial bank lending to the agricultural sector over the period 2019-2024. The results show a steady and consistent increase in agricultural loan volumes, rising from 45 billion USD in 2019 to 78 billion USD in 2024. This upward trend indicates an expansion of commercial banks' involvement in agricultural financing, supported by the introduction of state-backed credit programs, risk-sharing mechanisms, and specialized agricultural financial products. Despite this positive growth, the dynamics also suggest the continued need to strengthen institutional support and risk mitigation tools to ensure sustainable and long-term growth of agricultural lending.

The study concludes that commercial banks play a key role in financing the agrarian sector of Uzbekistan, and the volume of agricultural loans has increased significantly in recent years. However, the analysis shows that agricultural financing remains predominantly short-term and is mainly directed toward covering seasonal production needs. Long-term investment lending, which is essential for modernization and sustainable development of agriculture, remains limited.

The findings also reveal an uneven distribution of agricultural loans among borrower categories. Large agricultural enterprises receive the largest share of bank financing, while farms and dehqan households face restricted access to credit due to limited collateral, higher risks, and stricter lending requirements. This imbalance constrains the development potential of small-scale agricultural producers.

Based on the results, it is recommended to improve methodological approaches to agricultural lending by commercial banks, particularly in credit risk assessment and loan structuring. Expanding state-supported credit guarantee schemes, developing agricultural insurance mechanisms, and increasing the share of long-term and investment-oriented loans would enhance access to finance. In addition, strengthening cooperation between commercial banks, government institutions, and agricultural producers is essential to ensure the sustainable development of the agrarian sector in Uzbekistan.

<sup>8</sup> Author's compilation based on generalized data from the World Bank, FAO, and national central bank statistics.

1. To expand long-term agricultural lending, commercial banks should increase the share of investment-oriented loans aimed at financing agricultural machinery, irrigation systems, and modern production technologies.
2. To improve access to finance for small-scale producers, it is recommended to develop alternative collateral mechanisms, including credit guarantees, warehouse receipts, and group lending schemes for farms and dehkan households.
3. To reduce credit risks in agricultural lending, commercial banks should enhance methodological approaches to credit risk assessment by incorporating agricultural insurance instruments and sector-specific risk evaluation models.
4. To strengthen state support mechanisms, it is necessary to expand subsidized interest rate programs and state-backed credit guarantee funds to encourage banks to increase lending to the agrarian sector.
5. To improve the efficiency of agricultural financing, closer cooperation between commercial banks, government institutions, and agricultural producers should be established through information sharing, advisory services, and digital financial solutions.

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