

# AGRICULTURAL CREDIT'S ROLE IN OVERCOMING BARRIERS TO SUSTAINABLE INTENSIFICATION OF BEEF AND DAIRY PRODUCTION IN COLOMBIA

Manuel F. Díaz, Angie Hurtado, Karen Enciso, Natalia Triana, Stefan Burkart.

International Center for Tropical Agriculture (CIAT), Tropical Forages Program, Cali, Colombia. CONTACT: [m.f.diaz@cgiar.org](mailto:m.f.diaz@cgiar.org)

## Introduction

- » Access to credit is considered as key to transforming subsistence smallholders into market-oriented producers.
- » Although there is evidence on the role of agricultural credit in overcoming poverty and increase productivity in Colombia, only 38% of farmers have access to development credit.
- » Because of limited funding and extension services, the beef and dairy (B&D) sector also shows limited innovation capacity.

## Objective

To analyze the credit system for the B&D sector in Colombia from a historical perspective, identifying bottlenecks and opportunities for the establishment of sustainable B&D production through credit.

## Methodology

- » Analysis of credit behavior: Data collection from Finagro (Fund for Financing the Agricultural Sector), DANE (National Statistics Department) and ICA (Colombian Agricultural Institute).
- » Analysis of institutional changes 1990-2020: Literature review and interviews with stakeholders (e.g. policy makers, researches).

## Results

- » In accordance with its importance for the rural areas, the B&D sector is the one that most demands development credits (except supporting services).
- » Sustainable intensification of B&D production through credit is still limited: Credit is mainly used for buying animals and machinery and not for investments in sustainable technologies (e.g., silvopastoral systems, pasture renovation, protein banks).
- » The Colombian credit system works imperfectly: credit rationing is associated with asymmetric information, adverse selection, moral hazard, interference of political dynamics, among others.
- » Substitute credits (deviation of credit towards other value chain links with less risk) are increasing considerably (Figure 1).
- » Companies (located near to urban centers) are concentrating the majority of funds (Figure 2), generating asymmetries and inequalities, not only within the value chain but between the rural and urban population.
- » The number of B&D producers with access to credit increased considerably from 2006 to 2019, but significant amounts of funds are being concentrated with a small group of large-scale producers (Figure 3).

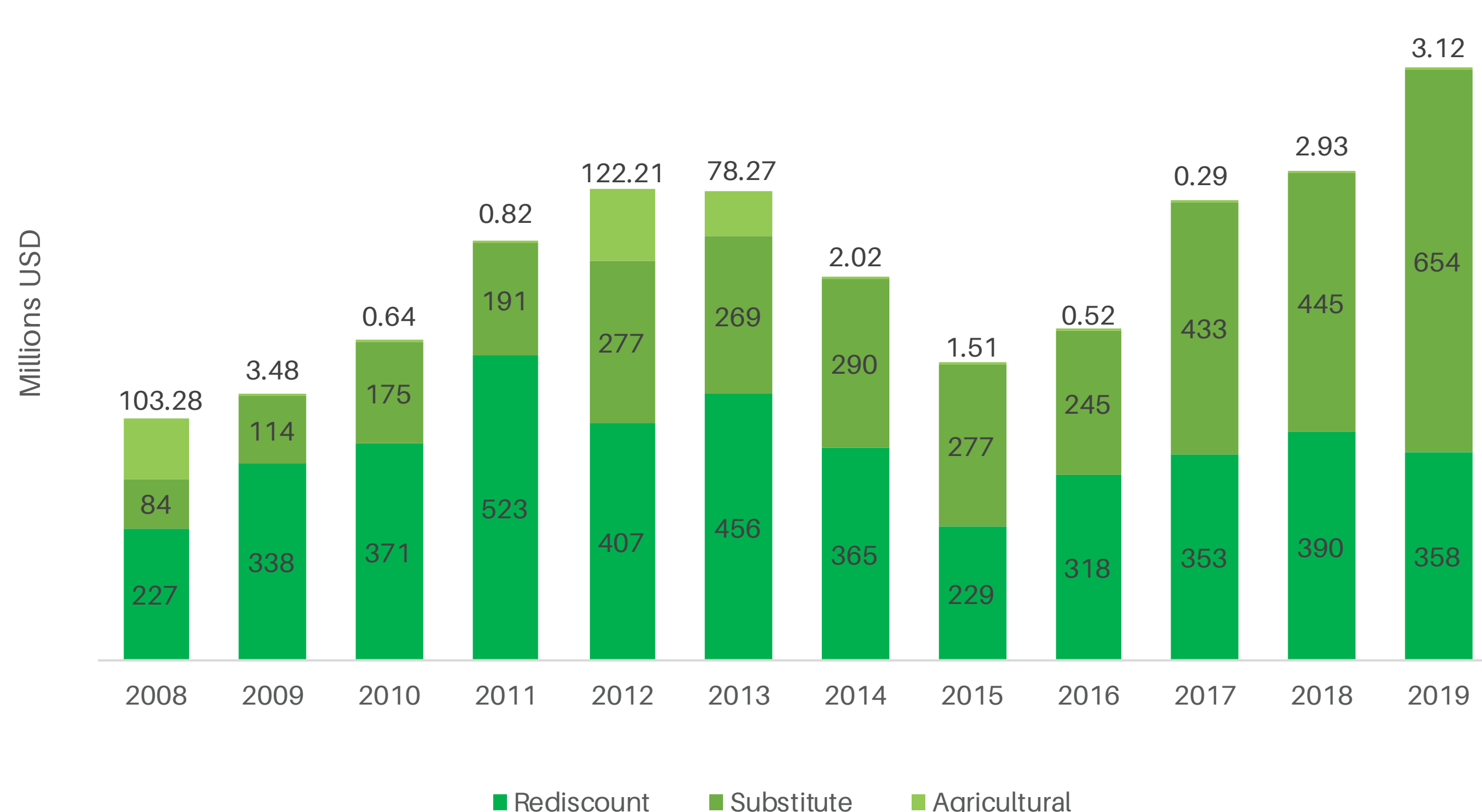


Figure 1. The development of substitute credit volumes in Colombia (2008-2019).

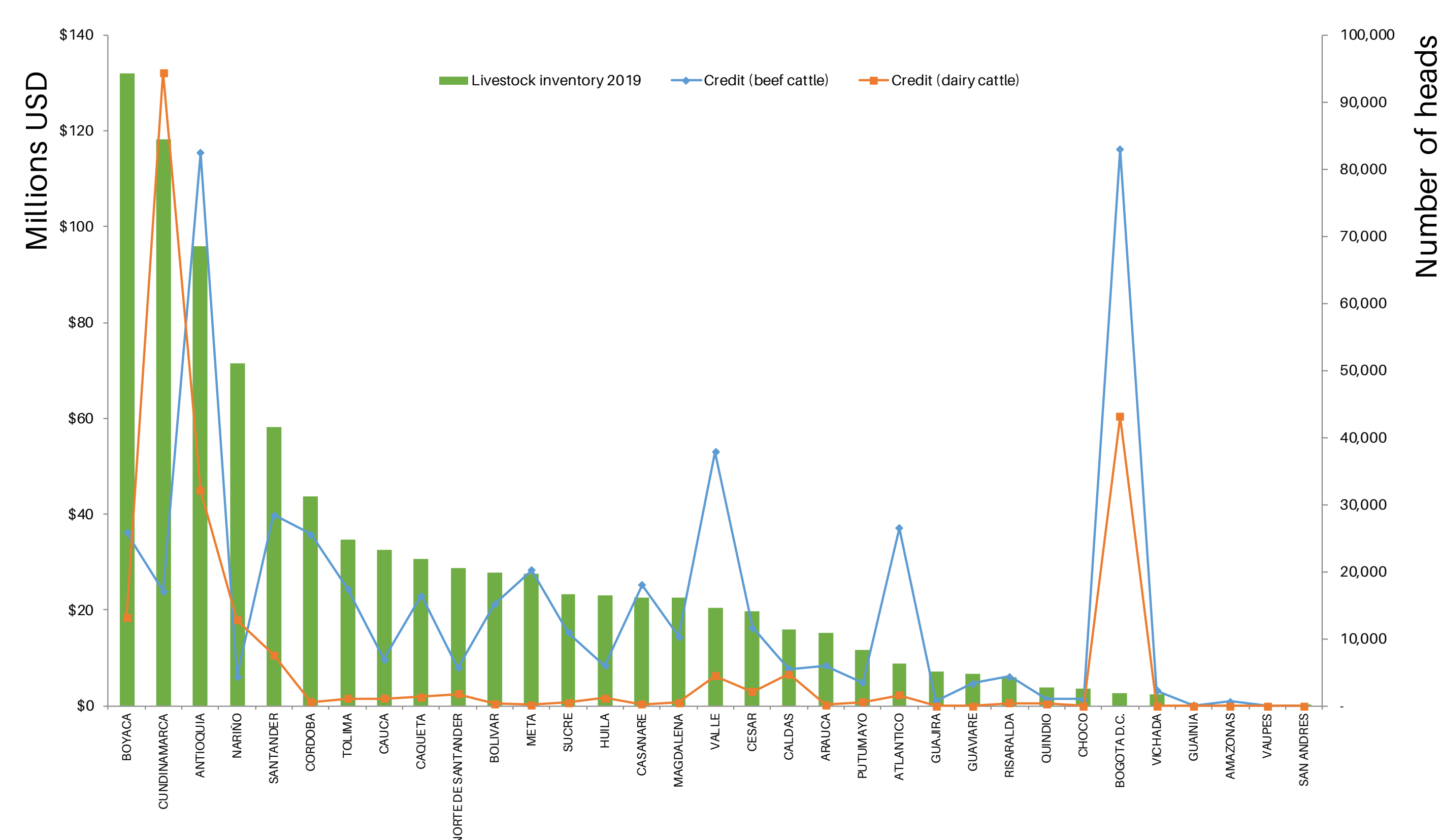


Figure 2. Credit for the B&D sector according to livestock inventory at departmental level (2019).

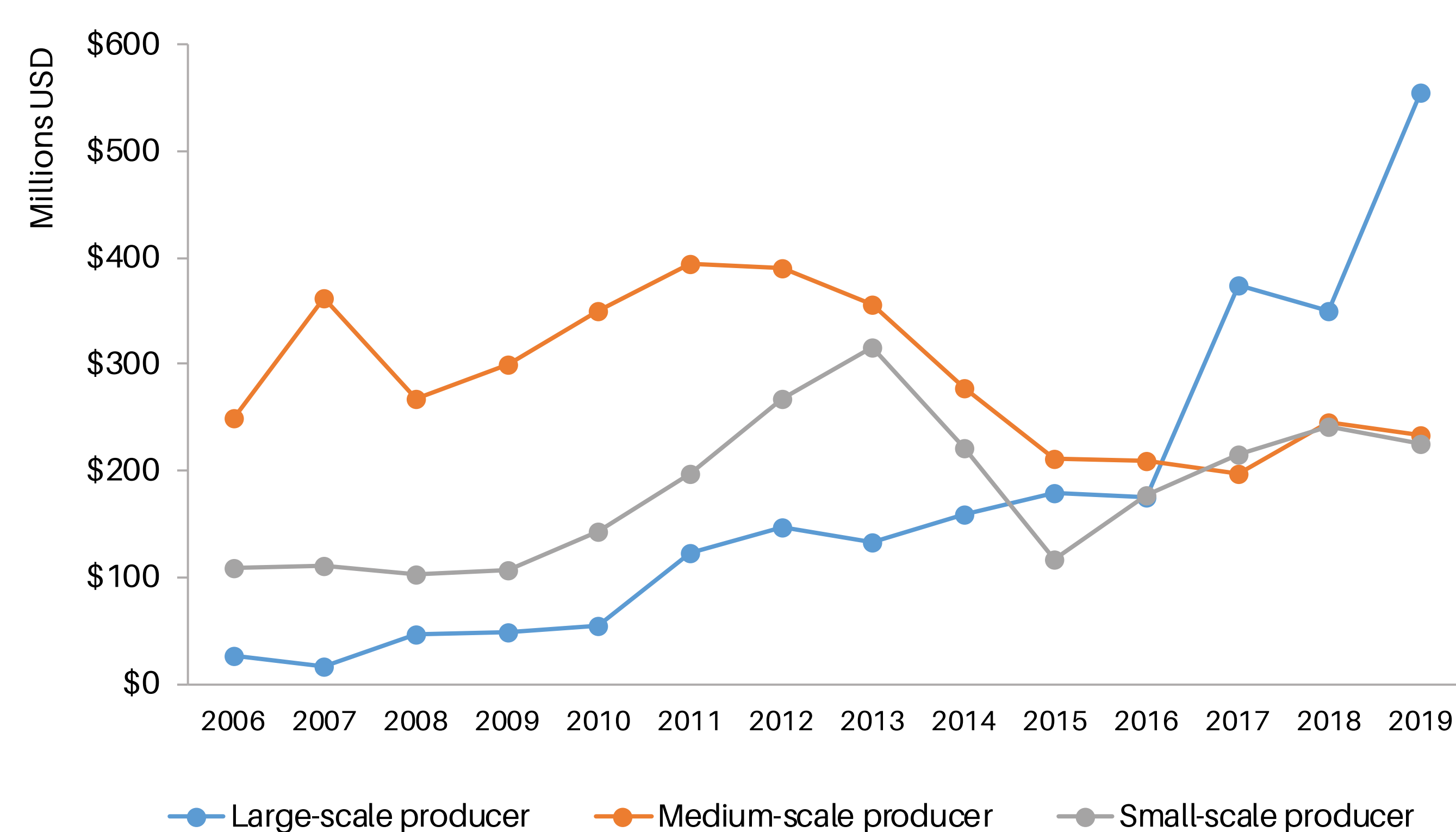


Figure 3. Evolution of total credit volume for the B&D sector according to farm size (2006-2019).

## Conclusions

- » Credit for the B&D sector can be a useful tool to promote innovation, and should be combined with other political and economic strategies such as extension services.
- » Since the 1990s, the infrastructure of the Colombian credit system has been limited, underlying the need for modernization reforms, which happened only to a limited extent, leading to critical junctures that emphasized inequalities between the rural and urban population. To mitigate this, a reorientation of substitute credits, which promote inequalities in loan granting, is required.
- » The state involvement has sought risk aversion mitigation of private banks. This can be reduced better when efforts are being joined and cooperation is being promoted: informal loans and excessive interest rates can be confronted by supporting microfinance institutions in the livestock territories, due to their capacity for reaching low-income farmers rapidly and reducing information asymmetries.
- » State presence creates other difficulties: even when public banking promotes greater access, financing decisions begin to interact with political activity reducing the positive social impact of state intervention.

## References

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## Acknowledgements

This work was conducted as part of the CGIAR Research Program on Livestock, and is supported by contributors to the CGIAR Trust Fund. CGIAR is a global research partnership for a food-secure future. Its science is carried out by 15 Research Centers in close collaboration with hundreds of partners across the globe.