

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Agricultural Credit in Peru

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Agricultural Situation

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Report Highlights:

This report provides information on the agricultural credit situation in Peru, particularly for small and medium sized producers. Financing is a limiting factor for most agricultural producers in Peru. Many producers do not qualify for commercial credit and must turn to more expensive providers. Nonetheless, a wide range of credit programs are available to farmers in Peru.

Executive Summary:

Obtaining financing is a limiting factor for many agricultural producers in Peru. However, there are alternatives for producers of all sizes to obtain agricultural credit through commercial and public sector banking institutions. The United States has an interest in promoting affordable financing alternatives for small and medium size producers in order to build agricultural capacity and connect small and medium size producers to the U.S. financial, food and farm sector. This report serves as a starting point to understanding the agricultural credit market in Peru, particularly for small and medium sized producers.

General Information:

Obtaining financing is a limiting factor for most agricultural producers in Peru. However, there are alternatives for producers of all sizes to access agricultural credit through commercial and public sector banking institutions. The U.S. has an interest in promoting affordable financing alternatives for small and medium size producers in order to build agricultural capacity and connect small and medium size producers to the U.S. financial, farm and food sector.

Agriculture represents only 7% of Peru's GDP but accounts for 25% of employment (Central Intelligence Agency). The agriculture sector in Peru is an engine of growth, averaging an 8% annual growth rate. The national government considers agriculture key for economic diversification and development and has prioritized connecting small and medium sized producers to the global market.

Demand for Credit

Agrobanco, Peru's national agricultural credit bank, estimates that there is a financing gap of approximately \$5 billion (16 billion Nuevo Soles), most which is needed to increase market access for small and medium size producers. Out of the 2.2 million registered agricultural producers in Peru, only 45% of agricultural producers have the ability to get to market.

The official demand for credit is unknown as many producers do not bother to seek credit. According to the 2012 Peru National Agricultural Census, 35.5% of producers state they do not seek credit because they do not need it. However, 28.5% of those surveyed cited high interest rates as the primary factor for not seeking credit, followed by the inability to provide a credit guarantee or collateral (17.1%). Most farmers that apply for agricultural credit do receive it; out of the 206,000 that applied in 2012, approximately 90% received some form of agricultural credit. Those who did not receive credit were cited to have lack of collateral, poor credit history, or no title to property. Farmers from the coastal region receive the most credit (37.9%), followed by the highlands (36.9%), and the jungle (25.2%).

Agricultural credit is primarily used to cover operating costs. Seventy-four percent of credit goes to production supplies while an additional 10% goes to cover labor costs and other purchases. AgroBanco notes that 21% of their agriculture loans go to labor costs. Only 17.3% of credit is used on investment goods such as capital-intensive equipment and tools. The remaining 7% is used for marketing and commercialization of crops.

Producer Characteristics

Agriculture takes place in three geographical areas of the country: coastal, highland, and jungle. The most intensive agriculture occurs in the coastal region and is comprised of two types: medium and

large-scale production of exportable crops (mangos, asparagus, grapes), and small-scale production for the local market (sugar, rice, cotton). Products in the highland region are produced for the local market. As highland production encompasses mostly subsistence farming, the size of the producing unit is a limiting factor for economic development. Small farmers in the jungle region grow exported coffee but most crops grown are for local consumption. This area has the largest potential for development but lacks critical infrastructure.

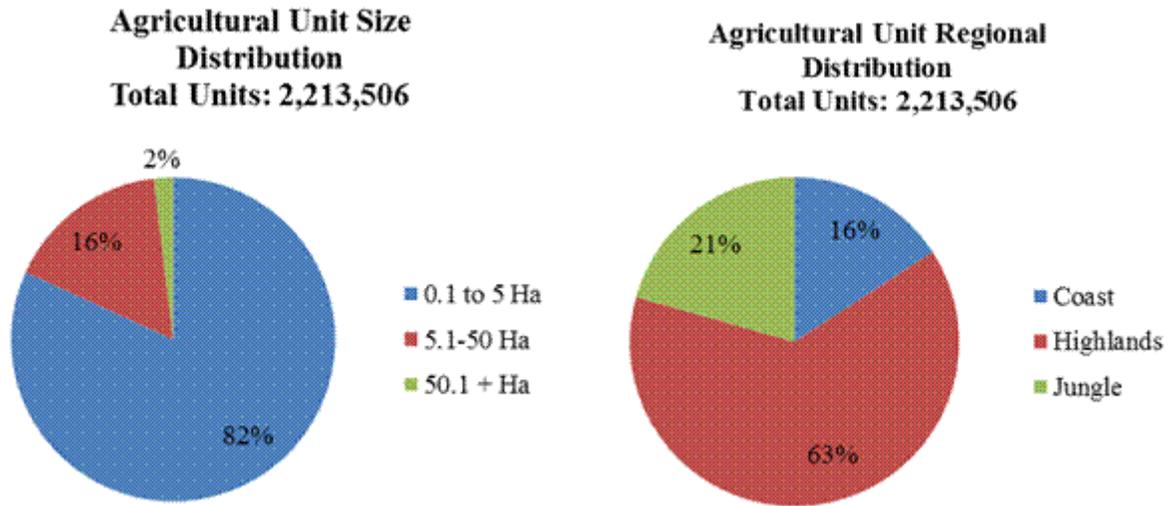
Eighty percent of agricultural producers in Peru work on 5 hectares of land or less. In 1968, during the land reform process, large producing units were divided among the workers to create micro-farming. As a result, for the past four decades Peruvian farmland has been redistributed to the point where most of it cannot be managed efficiently. Much of the time, producers cannot provide sufficient land collateral to qualify for a normal loan.



Source: Central Intelligence Agency

Over half of small producers are located in the jungle and highland regions where there is strong demand for agricultural credit programs. Due to their small size and inefficiencies, these producers are also most likely to be denied. Eighty-three percent of the 20,000 producers that unsuccessfully applied for credit are in the highland and jungle regions respectively. Provinces that are particularly affected by the lack of credit include Ayacucho, Cajamarca, Cusco, Huánuco, La Libertad, and Puno. The top reason for not achieving credit in these regions was the lack of credit guarantees. Those who do receive credit tend to prioritize different expenditures. While producers in the highlands tend to invest capital intensive equipment, producers in the jungle are more likely to prioritize basic tools. In contrast, receivers of credit on the coast are more likely to use their credit on operating costs because they are

able to use other, more affordable means to finance capital equipment.



2012: Peru National Institute of Statistics and Information

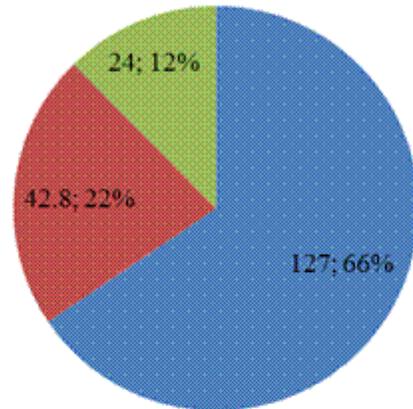
Suppliers of Credit

Agrobanco reports that as of April 2015, financial institutions have granted approximately 330,016 credits totaling approximately \$2.5 million (8.128 million Nuevo Soles). Since 2002, credit programs have expanded 908%, higher than any other production sector in the economy. Despite the explosive increase in credit, it is estimated that agricultural finance only reaches 8% of the total 2.2 billion registered agricultural producers. Agrobanco has stated that current credit programs barely cover the operating needs of the sector. Overall, agricultural credit makes up a fraction of total awarded credit. The Peruvian Superintendent of Banking and Insurance notes that 2-3% of awarded credit is given to agribusiness annually.

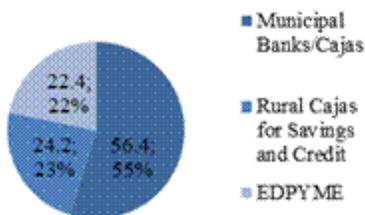
International financial institutions supply 63% of agricultural credit, followed by commercial banks at 19%, and Peru's national agriculture bank, Agrobanco, at 18%. These sources can be further subdivided into local and rural banks, government supervised development specialist (EDPYME), non-governmental organizations, non-financial institutions, and informal outlets.

Sources of Finance Thousands of Credits

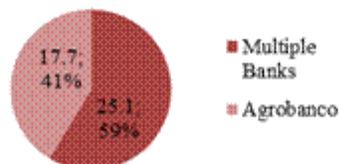
■ Financial Institutions ■ National Banks ■ Others



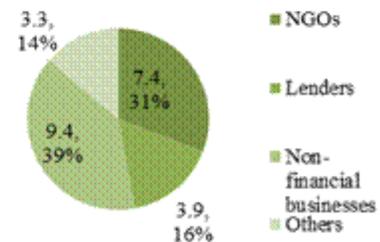
Financial Institutions



National Banks



Other Sources of Finance



2012: Peru National Institute for Statistics and Information

Commercial Credit Terms

Credit terms vary based on the size and type of business. The Superintendent of Banking and Insurance cites 2015 market interest rates to be 21.02% and 34.57% for small businesses and microenterprises respectively. These rates can go down to between 11 and 15% if the loan is taken out in a foreign currency. On average, banks charge 15 to 18% interest on short-term (less than one year) loans. Most banks limit their portfolio to medium or large farmers on the coast. Small farmers, who do not have access to bank credit, have to pay even higher interests rates with supporting collateral. Outstanding formal bank credit for agriculture is around \$400 million of which 50 percent is used to finance rice and

cotton. Informal financing (mills, wholesalers, distributors) add up to \$200 million.

Specialized Credit Programs

AgroBanco

[AgroBanco](#) is the Peruvian government's bank for agriculture and specializes in distributing credit to smaller and poorer producers. As of April 2015, AgroBanco awarded over 330,000 agricultural credits worth approximately 2.5 million dollars to Peruvian producers around the country. The institution alone supplies 17.7% of Peru's agricultural loans, the majority of which goes to farmers in zones of extreme poverty in the highlands and jungle. Guarantee requirements are more relaxed than in the private sector with 61% of loans granted to farmers who do not have land titles or collateral. The funds are intended for investment, capitalization, and commercialization of small enterprises. The average interest rates are 14% for microenterprises and 16.5% for larger operations.

Contractors for Small and Microenterprise Development (EDPYMES)

The Peru Banking and Insurance Superintendent oversee a series of eleven credit providers that specialize in small and microenterprises, collectively known as [EDPYMES](#). The entity's goal is to provide financing options for local businesses that qualify as small or microenterprises. Credit providers under EDPYME are their own entities but work with joint credit programs. Their agricultural-focused [SoliAgro](#) program can cover up to 80% of a given project or up to \$30,000. Interest rates are higher than market rates (anywhere between 20 to 130%) and greatly depending on the entity. These providers supply 22% of total agricultural credit from private sector financial institutions.

Ministry of Agriculture

The Peruvian Ministry of Agriculture (MINAGRI) provides several financing programs for small and medium sized producers including AgroIdeas and AgroRural.

[AgroIdeas](#) is a non-reimbursable fund for agricultural competitiveness. The cost-sharing program is intended to generate competitive and sustainable development of small and medium sized agricultural producers through encouraging partnerships, corporate governance, and environmental standards. Grants distributed by the fund do not need to be repaid but need to be exclusively allocated to formalizing the business, operating costs, and improving production technology. Grants vary between 30% to 70% of costs depending on allocated purpose and year of implementation. All grants taper off after three years of use.

[AgroRural](#) connects small producers to credit and insurance providers. They provide also provide specialized technical assistance and information on how to access markets, improve productivity, and enforce management practices. AgroRural covers 1,000 rural districts around Peru.

USDA's Credit Programs

The USDA extends credit guarantees under the Commodity Credit Corporation (CCC) Export Credit Guarantee Program (GSM). Currently \$400 million is allocated for U.S. exporters seeking to enter the Latin American market. Under the program, USDA guarantees agricultural export credit from select Peruvian banks including BCP, Scotiabank, and Banco de Comercio. Credit is extended with the purpose of increasing exports of U.S. agricultural commodities through expanding access to trade finance, improving facilities and infrastructure, and assist developing countries in meeting their food

and fiber needs. The guarantee can cover terms up to 18 months. The CCC selects agricultural products and commodities according to market potential and eligibility, particularly high value products.