



## Financing needs in agriculture and agri-food sectors in Portugal

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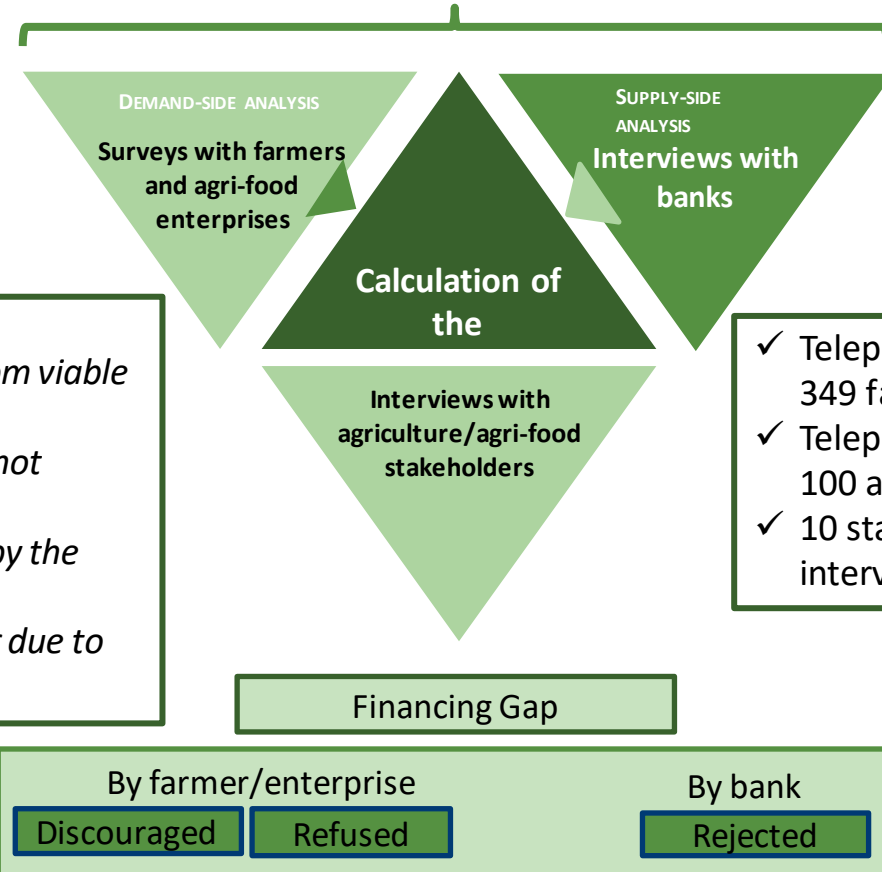
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# Methodology



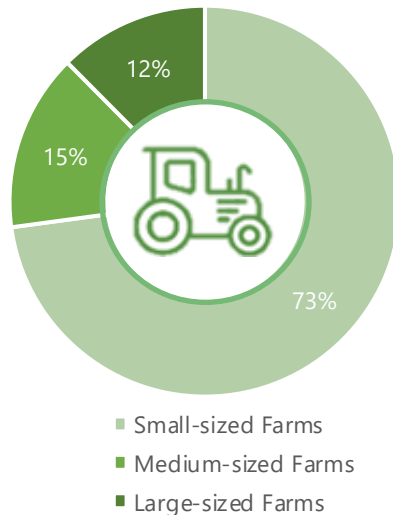
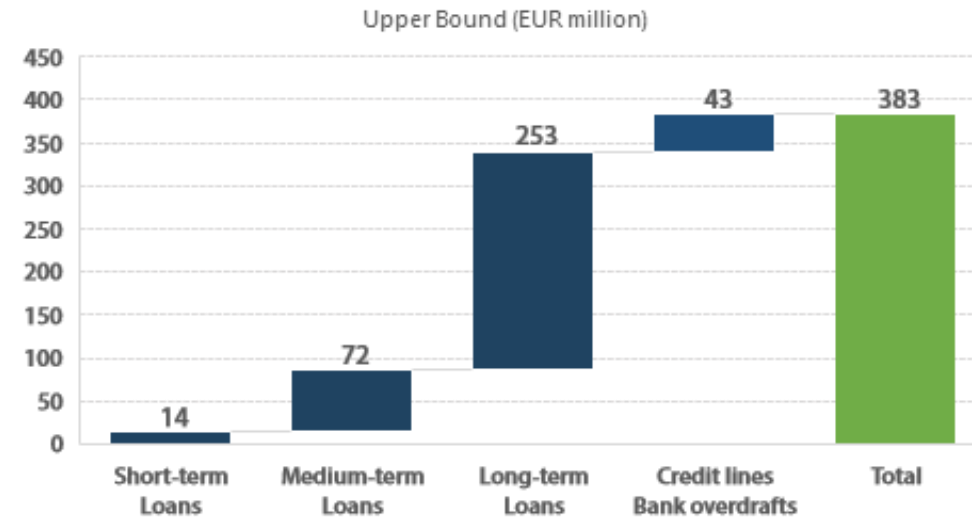
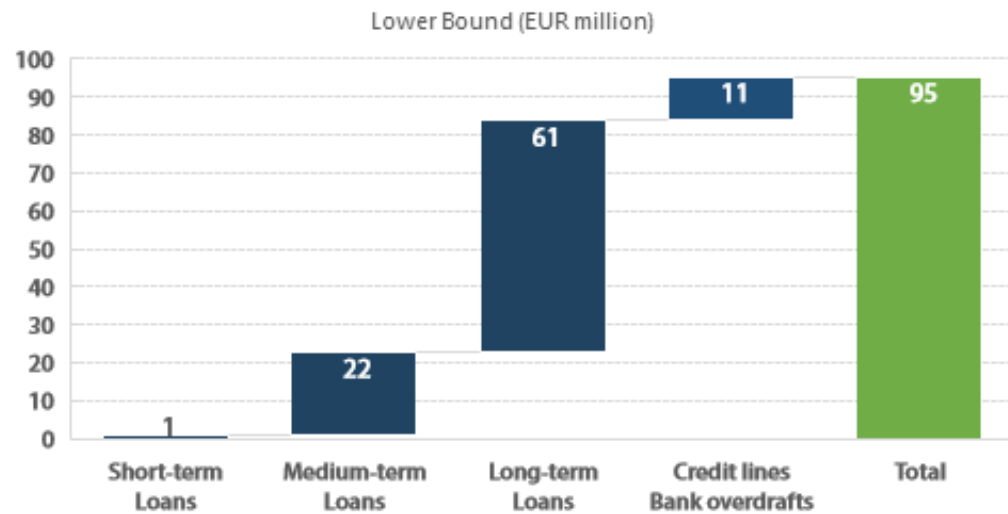
## Financing GAP

*Unmet financing demand, from viable enterprises:*

- ✓ (i) lending applied for but not obtained
- ✓ (ii) lending offers refused by the potential borrower
- ✓ (iii) lending not applied for due to expected rejection

- ✓ Telephone (CATI) survey 349 farmers
- ✓ Telephone (CATI) survey 100 agri-food enterprises
- ✓ 10 stakeholders interviewed

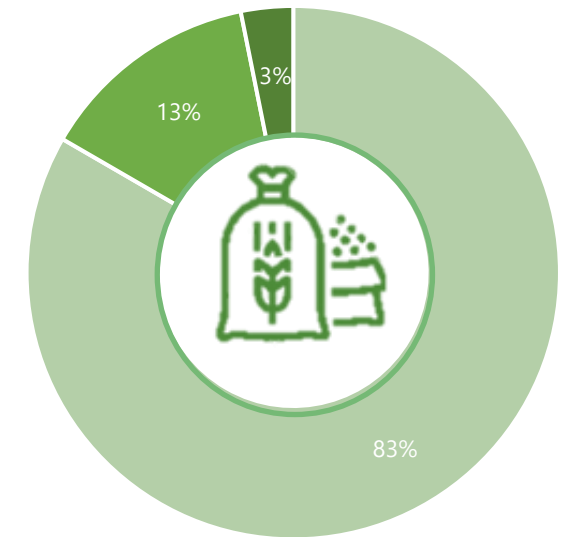
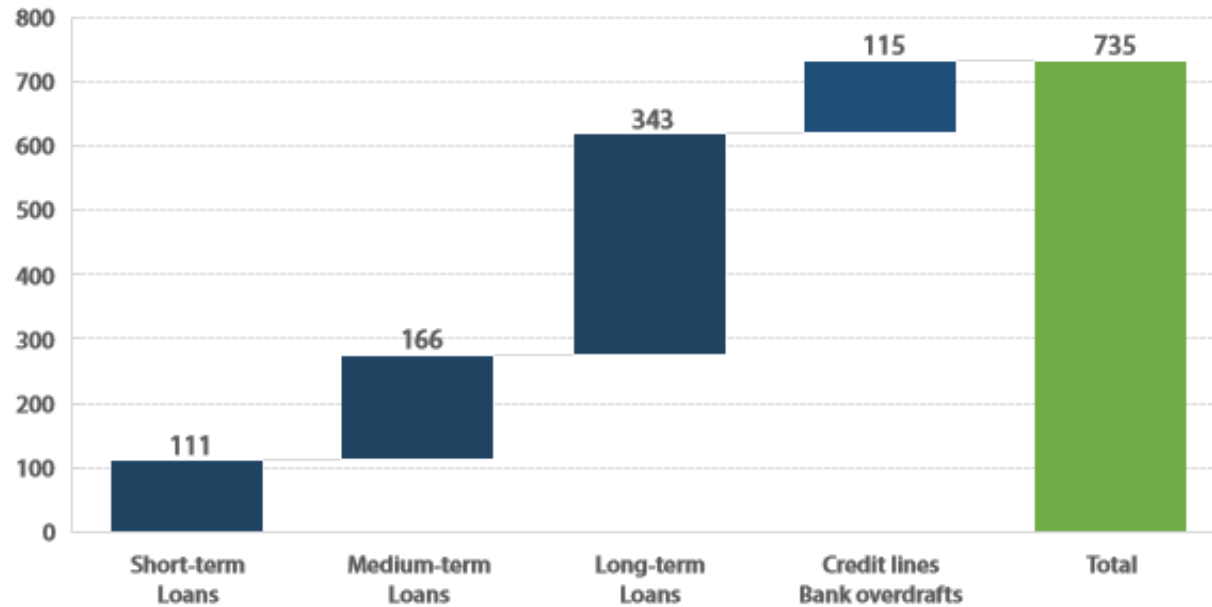
# Financing gap – Portuguese agriculture sector



## Key results:

- Financing gap estimated at EUR 95-383 million
- About 85% of the gap is due to constrained access to medium- and long-term loans
- More than 70% of the gap affects small-sized farmers
- The estimated financing gap for young farmers is about EUR 56 million

# Financing gap – Portuguese agri-food sector



## Key results:

- Financing gap estimated at EUR 734 million
- 47% of the gap is due to constrained access to long-term loans
- 83% of the gap affects small-sized enterprises

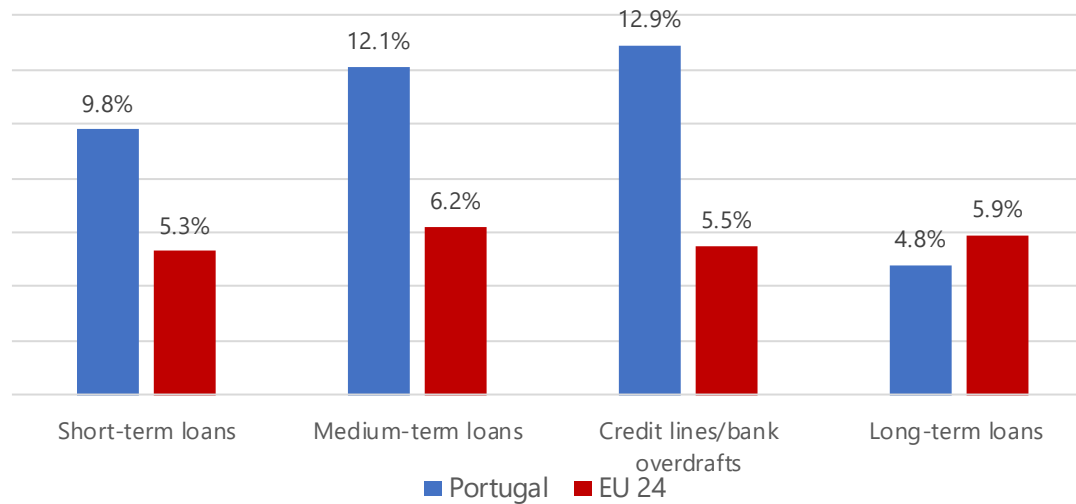
■ Small-sized enterprises ■ Medium-sized enterprises

■ Large-sized enterprises

# Demand for finance



## ✓ Financial products applied for in 2017



Almost 35% of the Portuguese farmers demanded finance in 2017 compared to 30% for the EU 24

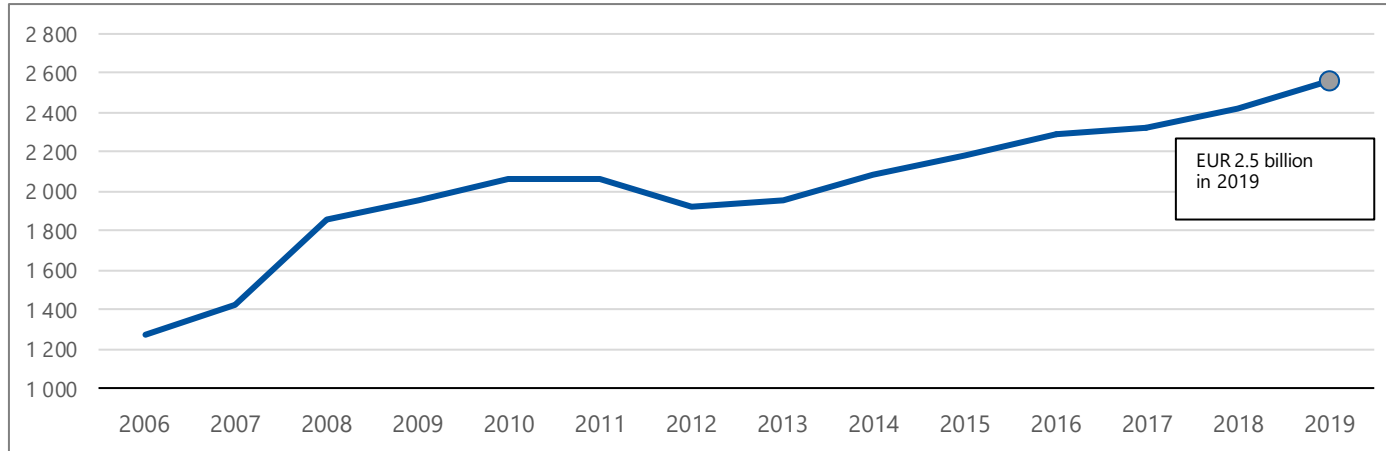
## Main drivers:

- (i) expansion of production to capture new market shares, made possible by increased access to water through public irrigation investments;
- (ii) investments in order to adapt products to new markets;
- (iii) investments in improved competitiveness and cost efficiency of the production;
- (iv) investments in land, particularly associated with increased water availability.



# Access to finance

## ✓ Outstanding loan volume to the Portuguese agriculture sector, 2006-2019



Source: Banca Portugal, 2019 for outstanding loans, own calculations for new loans.

- Credit supply to the agriculture sector is growing – banks interest in the sector is growing
- Loan approval rates are higher for Portugal than the EU 24 average for all financing products
- The rejection rate of bank loan applications for the agriculture and agri-food sector was approximately 4% according to data provided by banks: young farmers and new entrants face more difficulties
- Between 5-6% of Portuguese farmers were discouraged from applying for loans due to the fear of being rejected (EU 24 average 9-10%)



# Main gap drivers

High investment risk associated with the agriculture sector



- Activities not covered by insurances (risks related to fires, pests etc), and volatile prices

Lack of collateral



- Small-sized farms with limited assets
- Young farmers & new entrants
- Banks give strong importance to the availability of guarantees

Lack of credit history



- Young farmers & new entrants
- Lack of business history and experience
- Small-sized farms lack accountancy records

Lack of financial knowledge



- Both a problem of lack of general financial knowledge and of business management

# Recommendations



1 The guarantee instrument is expected to contribute to reducing the financing gap. An assessment of the impact will be possible only after some years of implementation

2 Consider opportunity offered by the new CAP framework to design more targeted support packages for young farmers and small-sized enterprises:

- Combination of FIs and grant support
- Possibility to finance purchase of land

3 A pilot risk-sharing loan instrument to provide targeted support to young farmers and small-sized enterprises could be considered.

4 **Technical support** to develop business plans and improve financial management of farmers.





**Thank you!**

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