

Chapter 3

COMPARATIVE ANALYSIS OF THE FOUR CASE STUDIES: BACKGROUND INFORMATION

In the NENA Region, guarantee funds are not widespread, particularly as far as the agricultural sector is concerned. However, some interesting experiences have been found in the four countries analysed in this study, namely Egypt, Jordan, Morocco and Tunisia. Not all the cases relate to rural or agricultural loans and not all of them can be considered fully successful or effective. However, analysing them is useful to highlight advantages and weaknesses, possibility of improvement and of transfer of the experience to other countries, also keeping in mind the best practices suggested and the other experiences mentioned in the preceding chapters.

Besides recognising that possible good ideas coming from non-agricultural guarantee funds may be applicable to the agricultural sector, non-agricultural guarantee funds have been analysed also because the idea is to think of a system that would benefit not only agricultural producers but also rural areas in general. In fact, it is nowadays recognised that, with specific reference to countries where rural areas represent a large proportion, talking about agricultural loans would be too restrictive, as many other activities, whether directly related to agriculture or not, can contribute to develop the economy and, therefore, also the agricultural operators.

The presentation of the four cases is structured in a comparative way: the background material, provided by the Consultants indicated in the introduction, has been organised to highlight major similarities or differences among the systems and draw some conclusions on the mentioned issues. Full comparison is not possible in all cases as data are not always homogeneous due to the different data sources, but major findings are comparable.

The data in the boxes shown in the following paragraphs and in chapter 4 referring to Egypt and Jordan are taken and summarised from the following report:

- Amr A.G. Hassanein, Nagla Bahr, *Review of the Operation and the Agricultural Applicability of Credit Guarantee Companies in Egypt and Jordan*, FINBI, Cairo, December 1999.

Data for Morocco and Tunisia are taken, summarised, and translated from French, from:

- Philippe Collet, *Rapport de la mission d'étude de terrain, accomplie au Maroc par Philippe Collet, expert de la CICA, du 24 septembre au 2 octobre 1999*, Paris, November 1999.

- Philippe Collet, *Rapport de la mission d'étude de terrain, accomplie en Tunisie par Philippe Collet, expert de la CICA, du 13 au 18 septembre 1999*, Paris, November 1999.

The method of quotation for the information in the boxes is the following:

- if the source of the information is not indicated, it means that it is taken from the above mentioned reports (where sources of qualitative and quantitative data are indicated);

- only the information that has been taken from documents other than the two reports has its source quoted in the boxes.

What follows is a description of the main characteristics of the countries, with special reference to the agricultural sector and the supply of financial services to it.

3.1. THE AGRICULTURAL SECTOR

The four countries, despite belonging to the same geographical and climatic area, present both similarities and differences in the structure of their agricultural sector. The role of agriculture in the economy is important for three of these countries (16 to 20 per cent of GDP) and the sector absorbs a large proportion of the population. Only Jordan seems to be less involved in agriculture. This difference, as well as minor differences among the other three countries, may depend on several factors, such as the countries' total arable land and the possibility to introduce technology in cultivation. From the first point of view, for instance, Jordan suffered a marked reduction in its total cultivated area following the loss of the West Bank in 1967¹; Morocco, too, given its highly diversified physical landscape with plains and mountains, has a relatively limited arable surface as compared to Egypt or Tunisia.

MAIN QUANTITATIVE DATA, PRODUCTS, PRODUCTIVITY

EGYPT

The agricultural sector in Egypt is a cornerstone of the economy. It occupies over 38 per cent of the country's working population, accounts for 20 per cent of GDP and contributes 20 per cent of the country's exports.

Soils are fertile, almost all land is double-cropped and, with irrigation, yields are among the highest in the world for most crops.

JORDAN

The agricultural sector in Jordan accounted for almost 5 per cent of the country's GDP in 1998. The majority of agricultural activities in Jordan concentrates in livestock raising, particularly sheep and goat rearing, that contributes more than 40 per cent to agricultural GDP, the other important contributor being agricultural exports that averaged JD300 mln. in 1998.

The rich valley of the Jordan enjoys a subtropical climate and highly

¹ Shalabi (1998).

fertile soil, allowing for year-round cultivation. Jordan exports several types of vegetables and fruits to the Gulf States and European countries. However, Jordan's agriculture faced different crises in 1998 mostly related to the lack of sufficient water and to unexpected waves of heat and cold that resulted in a decline in its contribution to GDP by almost 0.5 per cent. The agricultural products that had increased by almost 13 per cent in 1997 decreased by almost 9 per cent in 1998. This affected agricultural exports that declined by almost 8 per cent from 1997 and amounted to only JD133 mln. in 1998 as compared to JD145 mln. in 1997.

MOROCCO

The population in Morocco amounts to 28 mln. people, 50 per cent of whom living in rural areas; despite migrations to towns, the rural population is constantly increasing. 80 per cent of rural families base their economy on agriculture. The cultivated land in Morocco, however, only represents 12 per cent of total land. Given the predominance of cereals with their production variability, the contribution of agriculture to GDP is also variable, on average about 17 per cent (a 40 per cent increase/decrease in agricultural production affects GDP by 8-10 per cent).

The cultivated land is allocated as follows: 60 per cent to cereal growing, 7 per cent to fruit crops, 7 per cent to miscellaneous products, 21 per cent is left fallow and 8 per cent is occupied by forests.

TUNISIA

On the total surface of 16.4 million hectares, arable land is 4.8 mln. hectares with 400,000 hectares of irrigated land, 376,000 agricultural enterprises operating in 1999 in Tunisia. Agriculture accounts for 16 per cent of GDP and occupies 22 per cent of the working population. It also plays an important role in exports where it accounts for 12 per cent of the total. The main productions are cereals, fruits, vegetables, livestock and fishery. Important export products are olive oil, fishing products, fruits.

As to the contribution of technology to the growth of agricultural production, it seems that water supply is one of the most constraining factors. Some of the productions in the four countries do not require high water supply (for instance citrus fruit or olive) but for cereal crops water is very impor-

tant. Therefore, in all countries some measures are taken either to promote irrigation or to limit the damages produced by droughts, as it emerges from the table below.

SOME POLICIES FOR THE AGRICULTURAL SECTOR

EGYPT

Following decades of heavy state intervention, the government has embarked on a programme of economic reforms including liberalisation of prices, input supply and marketing providing the basis for market-based growth in the sector, and the initial response has been favourable. Strategic national goals cover the food gap and self-sufficiency to expand foreign exchange earnings through agricultural exports; this is meant to be achieved by reclaiming new land and expanding the infrastructure associated with it as well as by improving the efficiency of the production components, also through credit facilities.

Agricultural co-operatives, which are more than 4200, are important in this context at the grass-root, village level. They provide services to farmers and non-farmers, such as design of crop rotations, marketing, transportation, and equipment and machinery rentals. They fall under the authority of the Ministry of Agriculture and Land Reclamation and are supervised by the General Agricultural Co-operative Organisation (GACO). The Government is considering their privatisation.

JORDAN

The agricultural activities of the Jordan Valley are constrained by the limited water supply for irrigation. Therefore, numerous projects in the valley focus on the improvement of the irrigation system efficiency and the re-use of treated wastewater.

MOROCCO

Public planning in Morocco is based on five-year plans. In the latest one (1999-2003), for the first time, a specific provision states that agricultural and rural development policies should be integrated. Another important innovation is the accent now put on regional development and a certain decentralisation of the development policies.

Among major priorities, irrigation continues to play an important role. Irrigated land increased from 890,000 to 910,800 hectares in 1993-1996, and soared to 1,003,700 hectares in the year 1996-97. The new plan sets even more ambitious targets.

Another priority is the promotion of agricultural investments, also through agricultural credit.

TUNISIA

One of the priorities of the Government is food self-sufficiency. The coverage ratio of the food balance increased from 50 per cent in 1987 to 83 per cent in 1997. Some products, viz. cereals, milk, meat, eggs, fishing products, potatoes and tomatoes, are considered a priority for the country and are also favoured by the credit policies of the intervening bank, the BNA.

The 9th development plan allocates 16 per cent of resources to agricultural investment.

In 1982, APIA, an agency for the promotion of agricultural investments, was created, its priority support going to subsidised credit. In 1987 the Government suspended any intervention in the form of public loans and disengaged from direct intervention; instead, it introduced a system of contributions and fiscal advantages for the agricultural sector (in 1993, the system was extended to all economic sectors).

Even if a certain percentage of cultivated land is irrigated, droughts remain a problem for Tunisian farmers and the Government wants to intervene in this field. Another area of Government intervention is the promotion of young people's settlement in agriculture, in order to reduce the urbanisation phenomenon.

Farmers are represented by UTAP, a professional organisation grouping several federations organised by branches.

Irrigation appears to be a priority in these countries but, more generally, the promotion of agriculture is pursued by all means, such as specific laws to encourage investment and facilitating farmers' access to banking services.

Another important feature is the current tendency of Governments to give up heavy controls on quantities and prices and implement decentralised development policies, also through parallel channels such as co-operatives and NGOs.

3.2. THE STRUCTURE OF THE FINANCIAL SYSTEM IN THE FOUR COUNTRIES

The four countries present quite developed and diversi-

fied financial systems where a wide typology of institutions operate and serve the various sectors of the economy, with special emphasis on the manufacturing and service sectors. This diversification is, in some cases, the result of structural adjustment policies adopted by the countries.

The overall generalised tendency to widen the range of operation of different categories of banks is also affecting these countries where, however, some specialised financial institutions still exist ².

THE STRUCTURE OF THE FINANCIAL SYSTEM

EGYPT

The Egyptian banking system is composed of an important number of banks of different typology, size, institutional objective, and nationality. In 1998 the total credit granted by banks to the private sector was LE17.2 bln. (both local and foreign currencies), with a 19.5 per cent growth rate during 97/98. Commercial banks covered almost 75 per cent, investment banks 10.3 per cent and specialised banks 13.9 per cent. Most of these loans went to the private sector (54.7 per cent); the manufacturing sector obtained almost 36 per cent of total lending, followed by the trade sector with 35 per cent, and the service sector with 25 per cent.

JORDAN

The financial market of Jordan is quite articulated and comprises three national banks, some foreign banks, some specialised credit institutions, among which the Agricultural Credit Corporation, non-bank financial institutions, commercial and savings corporations and the Amman Financial Market ³.

In reviewing the credit status in Jordan, it emerges that the main areas that attract credit are construction which, in 1998, received JD791 mln., followed by manufacturing that received JD702 mln. (with an increase by almost 19 per cent as compared to the previous year).

² In order to allow comparisons of the data given in the tables, the approximate exchange rates, at the time of the research, were the following: 1 US\$ = 3.43 LE; 1 US\$ = 0.705 JD; 1 US\$ = 10.03 DH; 1 US\$ = 1.27 DT (as of January 26, 2000; Source: Yahoo Italia: it.finance.yahoo.com)

³ Shalabi (1998).

MOROCCO

Between 1983 and 1993, Morocco went through a structural adjustment programme, which also affected the banking system. The 1993 bank law introduced the model of universal banking and defined the structure of the monetary authorities. The current financial system is composed of financial intermediaries of different types: private banks, public or semi-public banks, off-shore banks, and a number of non-bank financial intermediaries, such as consumer credit houses, pawn brokers, mortgage loans houses.

TUNISIA

Tunisia has a quite rich typology of banks and other financial institutions, some of which completely private and some of a public nature, where the Government has a stake ensuring control (at least 30 to 50 per cent). Precisely, there are 13 commercial banks, 8 offshore banks, 8 development banks and 2 investment banks. The structure is going to change according to the restructuring promoted by a joint loan of the World Bank, the European Union and the African Development Bank (US\$374 mln.) for the modernisation, restructuring and opening of the local financial system. In particular, clear-cut distinction between bank categories should disappear.

3.3. AGRICULTURE AND THE FINANCIAL SERVICES

The presence of specialised institution is still important for the agricultural sector. In fact, despite the widening of the typology of financial intermediaries, and the possibility for commercial banks to operate in the agricultural sector, in all the four countries, rural or agricultural credit appears to be delegated to some specialised financial institutions and the share of agricultural credit over total credit is quite small (4 to 14 per cent).

The reluctance of commercial banks to lend to the rural sector is common to many other countries all over the world: rural customers are considered a high risk sector and banks feel they do not have the right tools to estimate this risk by applying usual evaluation criteria (such as the analysis of the balance sheet and other financial data, which are seldom available for rural producers). Therefore, banks think that special-

ised institutions can better handle this higher credit risk, due to their special nature ⁴. This attitude of banks, even if stemming probably from a prudential policy, might imply a loss of market opportunities for them as they also give up the potential business represented by the farmers that are bankable and may only have difficulties in producing the traditional information upon which banks make their decisions. A new interest for the agricultural sector by commercial banks is growing in some countries but does not appear to be important in the sample analysed. In fact, agricultural specialised financial institutions cover the largest share (or the entirety) of the market.

AGRICULTURE AND FINANCIAL SERVICES

EGYPT

The agricultural credit market in Egypt could easily be described as a large, dynamic and active market as it can absorb different forms of credits and involve different actors. It varies from the very small loans of few hundreds pounds to large loans of millions of pounds, financing both basic agriculture regular and seasonal operating costs and crop production and large activities such as land reclamation and irrigation projects. However, the volume of agriculture credit accounted for only 4.2 per cent of total credit in 1998 with no significant increase from the year before. Banks are reluctant to get involved in the agricultural sector as they consider it a high-risk sector, in addition to their belief that specialised agricultural banks are in a better position to serve this sector due to their special structure.

The government of Egypt has been providing heavily subsidised credit to farmers for decades. This policy has been used as partial compensation for urban biased strategies. The effects of these subsidies have tended to create excess demand for credit and to become distorted, with wealthy and larger scale farmers as the main beneficiaries. Therefore, cheap credit policies have seriously restricted the contribution of financial markets to development. The bank most involved in agricultural credit is PBDAC, which covers 92 per cent of the market. Besides specialised institutions, consideration

⁴ This attitude has emerged clearly, for instance, from the interviews held by the Consultants in the Egypt and Tunisia cases.

should also be given to organisations that have direct contacts with the rural people through their outreach approach such as NGOs, co-operatives, and extension agents.

JORDAN

The agricultural credit in Jordan goes back to the times of the Ottoman Government, when the Ottoman Agricultural Bank was established with 3 branches in different areas of the country and a Head Office in Damascus. Afterwards, these branches became independent and were attached to the Agricultural Bank of Jordan in 1922. In 1953 the Government allocated an annual fund of JD50,000 to the bank for further supporting the agricultural sector.

In 1952, the Agricultural Credit Project was established to provide agricultural credit to residents of front-line villages to exploit available land after Israeli occupation; loans reached JD1.5 million by year 1959, which contributed to the completion of a number of agricultural projects. In 1952, in its attempts to support this sector, the Government established the Co-operative Construction Department to grant loans to rural credit societies. In 1959, the Government decided to merge these three organisations (the Agriculture Bank, the Agricultural Credit Project, and the Co-operative Construction Department) into one under the name of Agricultural Credit Corporation (ACC).

In 1998, the agricultural sector received JD115 millions, i.e. 15 to 16 per cent of what goes to the construction and manufacturing industries respectively. However, it should be noted that the Government is trying to support the agricultural sector through different forms of assistance. In 1998, the Central Bank deposited JD10 million at ACC to assist the sector in solving its problems and credit granted to this sector increased by more than 24 per cent from the previous year to enable farmers to overcome weather problems.

MOROCCO

Before independence, the agricultural credit system introduced in Morocco did not satisfy the expectations of the rural population for several reasons, among which: the limited territorial coverage of bank branches, the high concentration of activities in the most productive areas, a preference expressed by banks for modern rather than the traditional farming adopted by local population⁵. After independence, the financial system

⁵ Al-Tazi (1997).

was completely re-organised and, together with the establishment of other institutions supporting different sectors of the economy, the CNCA, Caisse Nationale de Crédit Agricole, was also created (1961). Currently, CNCA covers 80 per cent of Morocco's agricultural credit market. However, credit to the agricultural sector currently accounts for less than 14 per cent of total credit to the economy.

TUNISIA

In Tunisia, as in many other countries, the large majority of agricultural producers are small units. While for large producers access to bank loans is not a problem, the Tunisian financial system is not very much involved with small units. The Government launched special programmes for these segments either through the BNA (Banque Nationale Agricole) or directly on public budget funds (Fonds Spécial de Développement de l'Agriculture, Fonds de Développement Rural Intégré) and through specialised institutions for micro-entrepreneurs (Banque Tunisienne de Solidarité). Despite this, the impact on the agricultural sector is not satisfactory, also due to the basic constraining factors of agricultural development, such as the lack of infrastructures and the dependence on weather conditions ⁶.

The main financing body for the rural areas remains the BNA, covering around 70 per cent of the market share for rural loans.

Governments have usually promoted the creation of specialised financial institutions as they found it easier to implement their development strategies through these, often public, intermediaries. In the past, Government intervention has often meant imposing specific criteria on credit quantities and prices, such as fixing credit ceilings or floors and subsidising interest rates. These measures have not proved very effective to promote access to rural credit and have had seriously negative impacts on the financial institutions concerned ⁷. In fact, the countries under consideration are somehow liberalising this market to different extents, in the sense that they are reducing Government intervention in credit allocation, even

⁶ Ben Othman (1999).

⁷ On this aspect, see, among others, Masini (1987 and 1989) and Viganò (1998).

through specialised agricultural credit institutions. The case of Egypt is an example of this process.

The following table summarises the main institutions offering rural/agricultural credit in the four countries:

MAIN INSTITUTIONS PROVIDING AGRICULTURAL CREDIT

EGYPT

- Principal Bank for Development and Agricultural Credit (PBDAC)
- Social Fund for Development (SFD)
- National Bank for Development (NBD).

JORDAN

- Agricultural Credit Corporation (ACC)

MOROCCO

- Caisse Nationale de Crédit Agricole (CNCA)

TUNISIA

- Banque Nationale Agricole (BNA)
-

The limited diversification of supply appears from the table. Egypt alone has three major institutions involved in rural/agricultural credit but even in this case, the largest share of credit is offered by one of them. In principle, a limited offer of financial services reduces the choice opportunity for potential customers thus reducing their possibility to find the best contracts. The rationale of this statement, however, depends on the typology and the conditions applied on the services of existing institutions. The following paragraphs present some basic observations on the banks and other intermediaries operating in agricultural credit in the four countries ⁸.

⁸ In the original study, the presentation on these financial intermediaries is wider and completed with quantitative data. For the purpose of this publication, it was judged that a summary of their characteristics could be sufficient to prepare

The case of Egypt is particularly interesting as it is the most diversified, even if the PBDAC covers 92 per cent of agricultural lending. The latter offers the typical lending contracts of agricultural banks and is characterised by a large network and a wide labour force basis, which contribute to the institution substantial outreach performance, coupled with a high repayment rate. These two features indicate a certain degree of success of this bank. However, it appears that the bank suffers from some of the typical problems of public development banks, i.e. burdensome procedures and public influence in the decision-making process that introduce elements of distortion in credit allocation.

The Social Fund for Development is a relatively recent institution with a special focus on small and micro entrepreneurs; it offers different types of support, among which financing loans to entrepreneurs at their first contact with banks. The two programmes related to lending also concern the agricultural sector, as farmers and agro-industry account for 34 to 53 per cent of SFD portfolio. Unfortunately, SFD is experiencing high rates of defaults. The typical shortcomings of public and subsidised institutions are all there: public interference and the distortion effects of subsidies lower the banks' and the customers' perception of contract obligations. As a result, few banks have been encouraged to lend to SFD beneficiaries through this programme.

A relatively successful institution in Egypt is the National Bank for Development, established with a specific focus on SMEs and micro entrepreneurs, also in the agricultural sector. Apparently, its market-based orientation (market interest

the ground to discuss about guarantee funds in the Countries analysed. The perspective of the analysis is the institutional supply of financial services, with a lower emphasis on the institutions' ability to perform this task without jeopardizing their financial equilibrium. This would imply ad hoc evaluation of each institution and would go beyond the purpose of this study. The sources of information of this paragraph are the Consultants' country reports.

rates), its large number of credit officers and the specific conditions required (as compulsory savings before obtaining credit or graduate lending schemes), which also resulted in high repayment rates, are the corner stones of its success.

The Jordanian Agricultural Credit Corporation is the sole provider of agricultural credit in Jordan. It offers all typical agricultural credit loans on short-term and medium to long-term maturity; it has also designed some programmes specifically oriented to development objectives. Despite its wide offer and large coverage of the country, which contribute to assuring a widespread outreach, its performance is affected by problem loans. Also in this case, public intervention and the burden of implementing public development policies through the Corporation are among the main determinants of this critical problem.

The Caisse Nationale de Crédit Agricole of Morocco is another public development bank. In the past, it specialised in the agricultural sector while now it performs all banking functions, including deposit mobilisation, and has a more diversified portfolio. Also in this case, the Government used CNCA to implement its development policies for the agricultural sector through CNCA. But the methods of intervention are now changing and CNCA is gradually becoming a more independent institution. The bank has suffered heavy loan losses but its restructuring process is proving to be quite successful. There is now a common fear that by becoming more efficient the bank may ration out marginal farmers.

In Tunisia, the Banque Nationale Agricole offers agricultural credit in different forms, even if it has a diversified portfolio. The bank's capital is partly private, the bank collects private savings and Government intervention in credit allocations has reduced over time. However, the granting procedures are still quite regulated and, besides granting credit, the bank is also the distribution channel of state subsidies.

After the heavy default ratio experienced in the past, BNA is becoming more restrictive in its granting policy.

From the analysis, some major conclusions can be drawn as to rural producers' access to credit:

- credit supply is still quite limited;
- public specialised banks are the prevailing source of funds;
- while some of the banks are undergoing restructuring processes, they are still suffering from the consequences of their dependence on public directives in their management and by the distorted image transmitted to borrowers when disbursing public subsidies together with credit;
- despite their objectives, and even if their lending performance has not always been satisfactory, they are apparently strict on collateral requirements;
- only in few cases efforts are being made to soften the burden of collateral for the customer (for instance, a land title substitute in BNA of Tunisia or a group mutual guarantee in CNCA of Morocco);
- however, few innovative mechanisms in loan analysis and granting seem to have been introduced. Where alternative ways of support, such as SFD, have been implemented, they still show some weaknesses.

In this context, it is worth analysing whether there may be a specific role for guarantee funds. On one side, the prevailing public development policies of easy access to credit have proved ineffective and in most cases have had an adverse impact on farmers' access to credit. On the other side, even development banks, on average, have been unable to find alternative, innovative ways of approaching the agricultural sector, which remains marginalised.

The intervention of guarantee funds may soften the burden of collateral requirements and help banks — development or commercial, public or private — get a better insight into this sector. However, the problems of the agricultural sector

may not be confined to the collateral requirement issue and rather be related to the more basic issue of profitability that no guarantee intervention can solve. This is an aspect that will be highlighted in the following chapter.