247
1953-7
C.2 300.1
6/9/53 Box 60

P. Fankhauser: June 1953.

CREDIT FACILITIES OF EGYPTIAN FARMERS

	Page No.
The General Credit Situation	1
The Agricultural Credit and Cooperative Bank	1
Principal Functions	2
Capital Structure and Organization	2
Types of Loans Made	3
Loan Terms	3
Lending Procedures	4
Service Facilities	5
Source of Loan Funds	5
Volume of Business	5
Activities in Beheira and Fayoum	6
The Agricultural Mortgage Bank	7
Summary and Recommendations	7

EG-315

Credit Facilities of Egyptian Farmers.

The General Credit Situation.

A paper "The Agricultural Credit System in Egypt" presented at the International Conference on Agriculture and Cooperative Credit held at Berkeley, California, in 1952, contains the following comments regarding the principal features of the credit situation as it affects Egyptian agriculture.

> "Credit is obtained from money lenders, various business enterprises, government agencies and private institutions. The majority of the credit institutions are financed and operated by foreigners. Egyptian credit institutions are only two in number. One was established in 1931 and is half owned by the government. The other is entirely owned by the government and was established in 1941. Private or cooperative institutions which are wholly owned by Egyptians do not exist. On the whole the resources of credit are inadequate and not suited to the needs of Egyptian agriculture."

> "The users of credit are mostly big landowners who own relatively large sized holdings that they can offer as security. Landless agricultural groups cannot therefore borrow from the credit banks. Small farm owners who constitute the majority of land owners, do not benefit from the existing credit system since the loans that they can obtain on the basis of their small holdings are too small to be useful. Besides most of the existing credit institutions do not deal with small owners or tenants. Thus, they are left to rely heavily on unorganized sources of credit, such as money lenders. The evils of money lenders are undebatable."

The situations described above have long been recognized by Egyptians interested in the welfare of the farmers and numerous attempts have been made through government action to correct them. In fact the first cooperative society organized at the time of the financial crisis of 1907, was the Cooperative Financing Company. Twenty years later the first banking arrangements were made by the government for giving financial assistance to cooperative societies in the making of loans to their members. This was done by depositing funds with the Bank of Egypt for use in making loans to cooperative societies. The greatest amount thus made available was L.E. 350,000. The establishment of the Agricultural Credit Bank of Egypt eliminated this participation on the part of the government with a private bank in the extension of credit to farmers through cooperatives.

The Agricultural Credit and Cooperative Bank of Egypt.

The Agricultural Credit Bank of Egypt, fore runner to the present Agricultural Credit and Cooperative Bank was created by Royal Decree on July 25, 1931. It was organized as a joint stock company with the government owning one half of the capital stock and private banks owning the other half. In addition to furnishing one half of the capital stock the government guaranteed a return of 5 percent to investors and provided

L.E. 4,500,000 in loan funds, later increased to L.E. 6,000,000 at 1 percent interest. The loan activity of the Bank during the last years of its operation and the first year after conversion to the present Agricultural Credit and Cooperative Bank was as follows:

Year	Volume of Loans
1945	L.E. 5,212,284
1946	5,411,211
1947	5,704,944
1948	7,395,826
1949	9,076,143

Approximately one fourth of the total credit advanced was disbursed through agricultural cooperatives. The balance was loaned directly to farmers by the Bank.

Legislation was passed in 1944, authorizing the establishment of a cooperative bank. The Department of Cooperatives and financial leaders gave this action lengthy study and advised against organizing a new bank for handling certain types of agricultural credit. The committee recommended instead that the existing Agricultural Credit Bank be converted into an Agricultural Credit and Cooperative Bank. This was done and the present Bank by that name established in March 1949.

Principal Functions.

The Bank as now constituted is authorized to make loans to farmers and to agricultural cooperatives for reloaning to its members. These loans are for purposes other than the purchase of land. The Bank also has authority to establish stores and warehouses for the sale of supplies to farmers and the storage of crops. The Bank may also engage in any type of banking business for the benefit of cooperative societies.

Capital Structure and Organization.

At the time the Agricultural Credit Bank was converted to the Agricultural Credit and Cooperative Bank certain changes were made in the capital struction and the organizational pattern. This was done to further strengthen the financial position of the Bank and to give cooperatives some voice in the management. The total authorized and paid in capital stock was increased from L.E. 1,000,000 to L.E. 1,500,000. This is now owned as follows:

Owner	Amount held	
Government of Egypt	L.E. 750,000	
Private Banks	500,000	
Cooperatives	250,000	
Total:		1,500,000

The Government of Egypt continues to guarantee 5 percent interest to investors in the shares of the Bank and the Government increased the amount of loanable funds made available to the Bank. The Bank pays the

Government for the use of this money.

Organization and control of the Bank's operations rests in a board of directors of 18 men representing the following institutions:

Number Directors	Institution Represented
6	Government of Egypt
6	Private Banks
3	Cooperatives
3	Government of Egypt

The three directors last named above are appointed by the government from government officials and ex-officials who are interested in and are working for the benefit of cooperatives. The president of the Bank is named by the government. The arrangement for the appointment of directors and the naming of the president places control of the Bank in the government. Cooperatives have a voice in the affairs of the Bank through the three directors selected by them and have their interests further represented by the three directors named by the government who have connections with the cooperative movement. Each director has one vote for each 10 shares represented. The fiscal year of the Bank ends December thirty-one and the annual stock holders meeting is usually held in April.

Types ofLoans Made.

The Bank is authorized to make short, medium and long term loans directly to farmers and to agricultural cooperatives for reloaning to their members. Loans made by the Bank directly to farmers bear 5 percent. Those made to societies bear 3 percent. The societies are permitted a two percent spread which if taken makes the rate on loans obtained by society members the same as that charged by the Bank.

Short term loans granted by the bank are for expenses involved in the growing of crops and for advances on commodities placed in storage. These loans have a maximum maturity of 14 months and carry 2 percent penalty interest if they run past due. Loans are disbursed in cash or in kind. The Bank maintains about 1000 stores and warehouses from which supplies are distributed and in which commodities are stored.

Medium term loans are made by the Bank for the purchase of livestock, machinery and land improvement. The maturity of those involving livestock purchases is limited to 3 years while those for purchase of machinery and for land improvement may have a maturity of ten years.

Long term loans with maturities of as much as twenty years are made for reclaiming land.

Practically all of the loans made by the Bank are short term. During 1951 the total volume of credit extended was 13.4 million pounds. Of this amount, 12.7 million pounds was short term, 100,000 pounds was for livestock and machinery and only 5000 pounds was for land reclamation. All loans for livestock and machinery were made through cooperative societies.

Loan Terms.

Loans made by the Bank are principally for crop production purposes

and as security the Bank has a first lien on the crops of the borrower. The Bank however cannot exercise its lien on the crop proceeds until the Government has collected its taxes and satisfied its other claims and the landlord in the case of a loan made to a tenant has received his rent. This latter feature has made it extremely difficult for the Bank to make loans to tenants without the landlords endorsement of the tenants note. As a matter of practice, landlords refuse to endorse or waive their interest in the crop with the result that tenants must resort to high cost sources for production credit.

Realestate mortgages are required as security for loans made to land owners for the purchase of livestock and machinery. It is our information that the law does not provide for chattel mortgages on livestock and equipment and as a result the Bank is forced to rely on realestate mortgages for the safety of its loans. A loan for the purposes mentioned may be made to tenants if it bears the endorsement of the Administrative Council of an agricultural cooperative. The restrictions as to available security and the required endorsements on loans made tenants, has virtually kept the Bank out of the field of semi capital credit.

Long term loans which the Bank is permitted to make for land reclamation and improvement must be secured by a first realestate mortgage.

The Bank and Agricultural Cooperatives have the right of Administrative Seizure in the collection of past due loans. This permits more prompt realization on the assets of the debtor in case of default than resorting to court action.

Lending Procedures.

A farmer desiring to obtain a loan directly from the Bank submits an application which states his needs and his intentions with respect to his farming plans. The application must bear or be accompanied by a certificate attesting to the accuracy of his statements, signed by the mayor, the sub-mayor and the money collector of the village in which the farmer resides. If the Bank approves the loans the papers are prepared and the funds disbursed in cash or in kind.

Loans made through agricultural cooperatives are handled in a manner similar to those made to farmers by the Bank. Individual statements however are not submitted by the cooperative to the Bank. The cooperative prepares a consolidated statement of the intentions and needs of its members applying for loans. The accuracy of the statement is certified by the Managing Committee of the society.

Farmers have found it more convenient to borrow directly from the Bank and since the interest rate charged is the same as that on loans obtained through cooperatives, the Bank now extends directly to farmers about 75 percent of the total credit disbursed to farmers. Other factors in favor of the Bank are the convenience of obtaining supplies from its numerous stores and the storage of commodities in its warehouses. As a partial offset to this situation, the cooperatives are given a 5 percent discount on supplies purchased from the Bank for resale to farmers. The societies retain 60 percent of this discount and pass the balance on to

the purchasers. Due to the small size of most purchases the savings in money are not of sufficient significance to be attractive to the great majority of the members.

Service Facilities.

The main office of the Bank is in Cairo. Branch banks are located in each of 14 provinces. These are in charge of vice managers. The provincial branches maintain sub-branches in 114 different counties. Stores and warehouses are found in about 1000 villages or in some 25 percent of the total number of villages in the nation.

Source of Loan Funds.

The Bank is principally dependent on a Government appropriation for its loanable funds. A total of L.E. 9,000,000 has been made available for this purpose. Interest is paid the Government for the use of money at a rate determined by agreement. At this time the rate is one percent. This gives the Bank a spread of 4 percent on loans which it makes direct to farmers and a spread of 2 percent on loans made to agricultural cooperatives. In addition to the funds made available by the Government, the Bank has some L.E. 2,000,000 in capital stock and reserves which may be used in lending operations. Total loan transactions in 1952 were approximately L.E. 13,000,000.

In addition to the interest received by the Government for the use of loan funds it also participates in the distribution of the net profits which are divided as follows:

1. Payment of 5 percent dividend on share capital.

2. Payment of 25 percent of remainder to the Government.

3. Payment of 50 percent of surplus remaining after payments of 1 and 2 above, to statutory reserve until that fund is equal to 25 percent of the outstanding share capital.

4. The remaining 50 percent of surplus may be distributed as additional dividends upon Board recommendation.

Dividends paid by the Bank on share capital has recently been 7½ percent.

Volume of Business.

During the year 1950, the Bank made short term loans to individuals in the total amount of L.E. 13,359,777 and to agricultural cooperatives which in turn made loans to members in the total amount of L.E. 2,711,018. The maximum amount outstanding during 1950 was about L.E. 8,000,000. This peak was reached in August. A very high percentage of the Banks business is in the form of short term loans either for the production of crops or as advances on crops, principally grain, which is stored in the Banks warehouses.

The number of individuals receiving loans in 1950 direct from the Bank was 211,018. The extension of credit to these individuals involved 597,348 transactions or an average of about L.E. 22 per transaction. Over one half of the individuals served were given loans in kind, principally fertilizers and seed. Of the total transactions 53.2 percent were in kind and 46.8 in cash. A break down of the amount of credit disbursed in 1950 shows 45.2 percent in cash for crop production, 12.4 percent in cash secured by grain in the Bank's storage facilities, 35.5 percent in the form of fertilizers, and 6.9 percent as seeds.

While the volume of business of the Bank reaches sizeable proportions the indications are that the individuals served are the medium to larger land owners. As has been previously explained tenants require endorsements of their landlords and find it difficult to borrow otherwise except from their landlords or other money lenders. The commodity loans of the Bank are principally on grain. Commercial Banks apparently handle the bulk of the credit extended on cotton, placed in warehouses.

The Bank has had practically no loss on credit extended having a collection record of over 99 percent on short term loans, 98.24 percent on medium term and 91.9 percent on long term. These latter loans are secured by realestate mortgages and are believed fully collectible. Bad debt reserves of L.E. 597,655 have been set up to take care of possible losses. Other sources of protection to stockholders are L.E. 272,923 in reserves other than the bad debt account and L.E. 195.463 in a reserve for contingencies.

Activities in Buheira and Fayoum Provinces.

The Bank has extensive facilities in Buheira Province. Two branch offices are maintained. One of these is at Damanhur and the other at Ityai El Barud. There are also 9 sub-branches of which 5 are under the Damanhur office and 4 under the office at Ityai El Barud. A total of 24 stores for the handling of supplies and 34 warehouses principally for grain storage have also been established. In 1950 the Bank made 17,687 loans direct to farmers for L.E. 1,186,965 and extended credit to 72 of the 183 agricultural societies located in Buheira province in the amount of L.E. 236,506.

The Bank's facilities in Fayoum province are less numerous than in Buheira which is understandable in view of the size and population of the two areas. A branch of the Bank is located in Fayoum and there are four sub branches under its supervision. In addition to these offices a total of 19 stores and 22 warehouses chiefly for grain storage are maintained. In 1950 the Bank loaned L.E. 781,529 directly to farmers. This involved 11,157 transactions. Credit in the amount of L.E. 175,766 was also extended to 23 of the 57 agricultural cooperatives.

The Agricultural Mortgage Bank of Egypt.

Following the establishment of facilities to take care of the needs of Egyptian farmers for short and intermediate term credit the Government in 1935, set up a department in the then Agricultural Credit Bank to make long term realestate loans. The need for such facilities arose from the depression of the early 1930's which brought about numerous foreclosures. In order to alleviate this situation the government declared a moratorium and organized what has now become The Agricultural Mortgage Bank of Egypt. As previously explained this Bank was initially a branch of the Agricultural Credit Bank. It became a separate institution in 1941.

The Agricultural Mortgage Bank of Egypt is a wholly government owned institution. Its early operations included the discounting of the paper of other mortgage banks whose loans to farmers especially small holders were in distress. The Bank also makes loans to farmers secured by first realestate mortgages. The loans extended are limited to 60 percent of the normal value of the land with a fixed maximum of 50 pounds per feddan. The minimum loan made is 50 pounds and the maximum 10,000. The interest rate is 5 percent. Loan maturities range from 5 to 30 years.

The volume of business of the Mortgage Bank is relatively small. At the end of 1950 there were only 3,494 loans outstanding in the amount of L.E. 1,117,407. Management of the Bank is vested in a board of 7 directors; one of these is a member of the Board of the Agricultural Credit and Cooperative Bank, two are from the Ministry of Finance and the other four are government appointees.

Summary and Recommendations.

Summary.

1. Tenants and small landowners are virtually without credit facilities at reasonable rates of interest and must depend on high cost money for production loans.

2. Owners of medium size and larger farms have satisfactory sources of credit for production purposes through the facilities of the Agricultural Credit and Cooperative Bank and other established sources.

3. The Agricultural Credit and Cooperative Bank has had twenty-two years of experience in financing Egyptian agriculture. While it makes short, medium and long term loans for other than realestate purchases, practically all of its loans are for current operating expenses. Loans are disbursed in cash or in kind.

4. The Bank is jointly owned by the Government which holds fifty percent of the capital stock. The balance is owned by private banks and cooperative societies. As of December 31, 1950, the Bank had outstanding capital stock of L.E. 1,500,000, a reserve fund of L.E. 272,923 and contingency reserves of L.E. 195,463.

5. Control and management of the Bank is vested in a board of directors selected by the stockholders. By virtue of the Government's interest and certain appointive powers the Bank in effect holds 9 seats, private banks 6, and cooperatives 3 seats, on the 18 man board of directors. The Government also names the president.

6. Loanable funds are obtained from the Government which has made L.E. 9,000,000 available. For the use of this money the Bank pays a rate of interest determined by mutual agreement. This rate is now one percent.

7. The Bank makes loans directly to farmers and to agricultural cooperatives which in turn make loans to their members. The rate of interest on loans made direct to farmers is 5 percent and 3 percent on loans made to societies. About 75 percent of the volume of credit extended is in the form of loans made direct by the Bank.

8. The Bank has its main office in Cairo. It has branch offices in each province and sub-branches in 114 counties. About 1000 stores and warehouses are maintained through which supplies are distributed and in which grain and other commodities may be stored.

9. Security for crop loans is a first lien with the landlords endorsement required in case of loans made to tenants. Loans for semi-capital purposes and for land reclamation are required to be secured by realestate. Loans may be made to tenants for semi-capital purposes through agricultural cooperatives with the endorsement of the administrative council.

10. During 1950, the Bank made short term loans directly to farmers totaling L.E. 13,359,777 and extended L.E. 2,711,018 to agricultural cooperatives for loans to its members. About one half of the loans made are in kind. The principle items financed are fertilizer and seeds. The Bank's loss record has been excellent and it is in a strong reserve position.

11. The Bank has extensive facilities in Buheira province consisting of 2 branch offices, 9 sub-branches, 24 stores and 34 warehouses. In Fayoum province the Bank has one branch office, 4 sub-branches, 19 stores and 22 warehouses. In 1950, the Bank made 17,687 loans direct to farmers in Buheira and 11,157 in Fayoum.

12. Long term credit for purchase of land is available through the Agricultural Mortgage Bank of Egypt. This is a wholly government owned institution which now has a relatively small amount of business

Recommendations.

1. Based on the information available and after consultation with individuals having some knowledge of the existing conditions it is believed that the present sources of credit, of which the Agricultural Credit and Cooperative Bank is the most important, are not in position to serve the needs of the majority of the tenants and small landowners. The former operate approximately four and one half million of the six million feddans of cultivated land and the latter, including only those who possess two feddans or less, number in excess of two million. While the Bank has facilities in Buheira and Fayoum Provinces it is unlikely that all of the settlers on lands to be reclaimed under the terms of the EARIS Agreement will be able to secure Bank credit.

   The determination as to the credit needs of the settlers and the sources from which loans are to be obtained should be ascertained at the time the settlers are selected. Credit will probably be required principally for fertilizer, seeds, livestock and equipment. If it is found that there is a large need for credit which cannot be supplied at reasonable rates from established sources the Government should establish an agency which would make credit available to settlers who are unable to qualify for bank loans.

2. Direct loans made to settlers by an agency to be established by the Government should incorporate features of supervised credit similar to those found in the lending operations of the Farmers Home Administration in the United States. It appears the Buheira - Fayoum projects offer an excellent opportunity to demonstrate the place of a system of supervised credit in the agricultural economy of Egypt and for ascertaining the value of supervised credit as a device for meeting the needs of tenants and small owners who must now rely on high cost sources of loans. In this way the results would serve as a repeatable demonstration for use in other parts of the country. Arrangements should be made for disbursement of loans in kind or in cash if in this latter case good assurance exists that funds will be used for the purposes intended. The Agency should also have the right of Administrative Seizure in order to recover on its loans and to repossess livestock and equipment which it has made available.

3. Since a system of direct lending as proposed is not now available, it would possibly be necessary for the Government to enact legislation for the establishment of such an agency. It is also probable that the Government would require council and guidance in developing the operational phases of an agency designed to extend supervised credit. If this is found to be the case the Farmers Home Administration might be asked to provide such help. The person assigned to this task should have from 8 to 10 months to work with his Egyptian counterpart in the development of a supervised credit service for the project areas. The work should be completed and the agency prepared to make loans as needed at least 60 days before the selection of settlers. It is expected that the Government would provide a loan supervisor who would live in the villages to be established and who would be available at all times to take care

of the credit needs of the settlers. He would provide guidance in money management, help develop farm plans, tenure agreements and assist in other activities having to do with the business side of the farm business.

4. If a direct lending agency is established it should restrict its loans to those who are unable to qualify for credit at reasonable rates from other sources and with-draw its services as participants become eligible for credit through such institutions as agricultural cooperatives and the Agricultural Credit and Cooperative Bank.

5. The Agricultural Credit and Cooperative Bank should be asked to study the proposed settlements and plans for the Buheira - Fayoum projects when those are sufficiently well advanced to give a clear picture of what is involved and to make the necessary arrangements for extending the Bank's services to the settlers if it is feasible to do so. The Bank has had many years experience in its field and should require no assistance in making its services available either through an agricultural cooperative or through loans made directly by the Bank.

6. It is believed that consideration should be given to the development of a plan whereby the ownership of the capital stock now held by the Government in the Agricultural Credit and Cooperative Bank would be gradually acquired by cooperative societies. A critical study of the services other than credit, now engaged in by the Bank should also be made in order to determine whether these services might not be performed more appropriately by cooperatives and private enterprise. There are many technical and policy matters involved in such a suggested reorganization of the Bank and its activities. If it should be desired to undertake such studies and the Government desires assistance, T.C.A. might provide a team of technicians skilled in banking and cooperative credit to work with counterparts on these matters.

7. Personnel required initially for the establishment of an Agency to extend supervised credit would be:

   (a) a technician, preferably from the Farmers Home Administration, for a period of from 8 to 10 months,

   (b) an Egyptian counterpart who would work full time and who might head up the Agency once established. The Government would need to provide other specialized assistants from time to time such as in accounting and in legal matters,

   (c) one local supervisor for each project with the work load of the supervisor to be determined by experience.

8. Costs involved initially would be primarily salaries, travel, rent and office supplies. It is expected the Government would make loans funds available through the appropriation of public funds.

Date: 6/9/53. Paul Fankhauser