Rethinking agricultural funding in North Africa to meet the needs of all farmers

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Agricultural funding has been one of the favoured instruments for transforming North African agriculture. An important feature of successive public agricultural policy in these countries (massive state intervention in the sixties, disinvestment under the agricultural structural adjustment policies of the eighties, "public-private partnerships" in the first decade of this century), it has been a powerful force for change in socio-economic relationships in the countryside. Genuine progress has been made in certain agricultural sectors (fruit and vegetables, citrus fruit, olive oil, white meat and eggs, milk and sugar) thanks to public subsidies to private concessionaires or farmers, public and private investment to develop irrigated areas (in Morocco, in Egypt, and in the south of Tunisia or Algeria) or to improve fixed agricultural capital (glasshouses, livestock housing, fruit and olive plantations), credit granted to ensure successful crop seasons, and loans and aid from international institutions.

However, agricultural funding systems continue to reflect the countries' social problems, and economic contradictions, as well as the limits to the management of rare natural resources, which have now been reached. These agricultural sectors are faced with the problem of climate change and the need to guarantee food security, which has been severely compromised by the volatility of international prices of basic foodstuffs supplied to markets and local processing industries. The funding on which investment capacity depends is still the favoured instruments for dealing with these problems. What is the diagnosis of the current situation, what are its main limitations, and how is the system to be reformed so that it benefits small farmers in North Africa and offers a new model for much-needed agricultural growth?

The diagnosis: underfunding and underbanking

The findings of all assessments of the Maghreb and Egypt concur that the agricultural sector suffers from underfunding and underbanking. Since 2000, the proportion of farms with access to credit has been hovering around 7% in Tunisia and less than 10% in Algeria. In Morocco 60,000 farmers have access to agricultural funding out of a possible 400,000 (15%) and in Egypt, while many landless farm labourers are refused credit, small farmers are often forced to depend on loans from big landowners to cover current expenses since they are unable to provide sufficient collateral. The banking sector grants loans either to economically viable agri-food enterprises or to agricultural entrepreneurs or to farms with sufficient mortgageable land and property, operating in the high value-added sector and taking full advantage of marketing circuits and markets. Investment by banks has fallen in Tunisia in recent decades and accounts for only 20% of private investment in Morocco, while very few farmers (10-12,000) in Algeria have had access to loans from the country's Bank of Agriculture and Rural Development (BADR). Only in Egypt do private and public banks help finance work programmes designed to upgrade land and improve farm facilities within the framework of large-scale projects (Toshka, El Salem).

Agricultural funding as a means of social selection, eviction of small farmers and unequal distribution of agricultural capital

The vast majority of small farmers have been unable to gain subsidies or bank loans because they do not have title deeds to property or the authenticated documents required by credit institutions. Nearly 2 out of 3 million farmers have less than 5 ha in the Maghreb. Their land is often fragmented, jointly owned, without title deeds and unregistered. In the Nile Valley and Delta more than 3 million farms (81% of the total) have less than 1 ha and three quarters of the farms on the new irrigated lands have less than 2 ha. All banks and other credit institutions have applied eligibility criteria based on the creditworthiness of the client and the profitability of their undertakings and have also demanded genuine guarantees based on title deeds and property rights. In this way the capital of banks and agricultural credit institutions has been ploughed into selected farms, lands and territories that are protected from the vagaries of climate and into areas where natural risks have been overcome and crops are profitable (governorates in northern Tunisia, irrigated land producing high added-value crops in Morocco and Egypt, land producing fruit and vegetables in Algeria). Small farmers and the vast majority of peasant

CIHEAM

Founded in 1962, CIHEAM is an intergovernmental organisation comprising thirteen member countries from the Mediterranean Basin. CIHEAM is made up of a General Secretariat (Paris) and four Mediterranean Agronomic Institutes (Bari, Chania, Montpellier and Zaragoza).

In pursuing its three main complementary missions (post-graduate specialised education, networked research and facilitation of the regional debate), CIHEAM has established itself as an authority in its fields of activity: Mediterranean agriculture, food and rural development.

At present, Mr Adel El-Beltagy is CIHEAM's President and Mr Francisco Mombiela is its Secretary General.

Director

MAI of Zaragoza

Ignacio Romagosa, the new director of MAI Zaragoza, assumed his duties on 1 May 2011, succeeding Luis Esteruelas, who had occupied the position since 2003.

A former professor at the University of Lleida, Igancio Romagosa has considerable experience in the fields of research and education. His main areas of research are plant breeding and genetics.

He graduated as an agricultural engineer from the Polytechnic University of Madrid and gained a PhD from Colorado State University (USA). He has been a visiting lecturer to various Universities in the USA, Canada and Europe.

Ignacio Romagosa was Dean of the Agricultural and Forest Engineering School, University of Lleida, and Chairman of the Agricultural and Forestry programmes conducted by the Spanish Ministry of Science and Technology. He has held various posts of responsibility relating to scientific and educational administration in national and international organisations.

His is the author or co-author of more than 80 articles published in peer-reviewed scientific journals.

For more information

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farmers have been unable – for want of collateral – to obtain public or private credit or subsidies. Microfinance (in Tunisia, Morocco or Egypt), which is aimed at the poorest populations, has not proved to be a satisfactory alternative.

It would seem then that agricultural funding policies have actually aggravated the process of social differentiation and polarisation in North African rural areas. They have not stopped the deterioration of the material base or the under-funding of the small family farming that represents the main form of agriculture in these countries. As a result, millions of farmers have been evicted and forced to take out various types of informal loan from the world of investors and money lenders – large landowners, industrialists, civil servants, providers of equipment/feedstuffs/veterinary products/inputs, purchasing agents, etc.

Formal and informal funding practices have thus transformed social relations and – in the absence of effective political structures – helped to establish land relationships that are unfavourable to small farmers on public or private land, notably the system of "reverse tenancy" in which small farmers or concessionaires cede their rights to big landowners and other "outsiders". In recent years, agricultural funding systems targeting farmers who are solvent and have land guarantees have made large amounts of physical capital and agricultural resources available to indirect farmers, entrepreneurs, businessmen, and private investors, whose homes and capital assets are often concentrated in towns.

The paradox of farmers in debt in a bankrupt system

Repeated state intervention has not reversed the trend towards systemic deterioration or bankruptcy reported by the agricultural financial institutions. Microcredit, leaving aside its fairly high cost, has been unable to meet the needs of populations or solve the problems of employment or rural poverty as it was intended to (either in Morocco, Tunisia or Egypt). In 2009 substantial amounts were owed to local financial institutions: nearly DZD40 million to Algeria's *Caisse Nationale de la Mutualité Agricole* (CNMA), nearly MAD10 million to Morocco's *Caisse Nationale de Crédit Agricole (CNCA),* and nearly TND400 million to Tunisia's *Banque Nationale Agricole (BNA).* These figures reflect both the scale of indebtedness and the number of farmers concerned (more than 80% of Tunisian farmers for example). The situation has often prompted the state to resort to various measures: injecting public funds in order to "save the system", rescheduling debts, or revising downwards the amounts owed to credit institutions.

It is necessary however to distinguish between debts owed by farmers in difficulty and those resulting from the opportunistic and predatory practices of privileged groups that have benefited from public resources through the networks of political clients they have gained access to and made significant profits from the cancellation by the state of the agricultural debt (to the detriment of Algeria's *Générale des Concessions Agricole* for example). This form of corruption and this abuse of a measure intended to serve the general good has rather undermined the credibility of systems of agricultural funding involving very high transaction costs as well as the confidence of agricultural producers therein.

Transition toward a funding system that benefits farmers

In order to overcome the difficulty of implementing corrective measures and ensure that the preconditions for success are in place, the countries of North Africa have embarked upon a series of agricultural reforms. Following trials begun in the nineties in Tunisia, the *Banque Tunisienne de Solidarité* took over the job of providing funds for farmers who did not fulfil the conditions for eligibility required by the commercial banks. Guarantee funds and agricultural development funds have been introduced in the Maghreb, Tamwil El Fellah was founded in Morocco in 2008, and federative loans, credit leasing or "Crédit R'fig" (interest-free loans) have been introduced in Algeria. These measures, funded from the state budget, are intended to improve the redistributive function of credit and stop the eviction of small and medium–sized farmers and producers in the agricultural production sectors.

The provision of financial services is being diversified with the launch of investment funds by financial groups or commercial banks in Morocco and Egypt. It is of particular interest that Morocco's *Office Chérifien des Phosphates* (OCP) has launched its own agricultural investment fund: the "OCP Innovation Fund for Agriculture". This fund is intended to finance agricultural and agro-industrial structures and develop strategies to increase and diversify agricultural output. These projects should provide farmers with high value-added products and they go hand in hand with the farmers' association projects

CIHEAM Governing Board

Since the beginning of 2011, four new CIHEAM member country delegates have been appointed to sit on the Governing Board:

Mohamed Fathy Osman, President of ARC, is the new Egyptian Delegate replacing Ayman Abou Hadid.

Mr Bertrand Hervieu, General Inspector of Agriculture (CGAAER-MAAPRAT), is the new French Delegate replacing Mrs Maryline Laplace.

Mr Gianni Bonini, Vice-President of the Terrae Group, is the new Italian Delegate replacing Mrs Giuliana Trisorio Liuzzi.

Habib Amamou, President of IRESA, is the new Tunisian Delegate replacing Fethi Lebdi.

implemented as part of the Green Plan. The *Banque Populaire* with its "Filahi" programme also intends to support the ministerial Green Morocco plan.

These corrective measures to diversify the supply of credit and better provide for the needs of different categories cannot however reverse the trend towards polarisation and social selection. They cannot prevent the adverse effects, described above, of the pillaging and/or channelling of resources by privileged groups, who benefit from subsidies, moratoriums and cancellation of debts incurred but whose investment in local agricultural production has no lasting impact.

It is necessary to introduce a series of measures to give farmers easier access to the capital needed for investment in livestock, facilities, buildings, plantations and technical innovation. The funding system will depend on the agricultural growth model and the adoption of vigorous socio-economic measures intended to improve the rural environment.

Given the uncertainties, the need to manage the natural and economic risks arising from recurrent drought, the increased price of inputs and equipment and the withdrawal of support from the agricultural authorities, how are we to make small family agriculture solvent again and promote strategies that are not simply designed to ensure survival? How can we cope with the effects of climate change, particularly in areas prone to drought, manage unpredictable weather conditions more effectively, and alleviate problems resulting from shortage of water and other natural resources? It is worth drawing attention to the importance of insurance cover in overcoming problems caused by unfavourable weather conditions that lead to loss of harvests and income.

Agricultural credit schemes cannot be effective in poor, ill-equipped rural areas, in which the increasingly numerous, illiterate and disorganised populations subsist. Now more than ever, it is vital that we improve the economic and social conditions of populations and rural territories if we are to break out of the current situation and move towards true sustainable development. The current upheavals in North Africa demand that we rethink the frameworks of analysis and action that have served hitherto as the basis for agricultural funding.

We must examine cases where loan financing has been successful and has had a favourable impact on rural development, and on that basis devise more supportive funding arrangements that will relaunch productive investment in Mediterranean agriculture. Agriculture is a source of jobs and income in rural areas and an essential factor in revitalising the rural economy, which has a vital role to play in consolidating the transition now underway in the South and East of the Mediterranean.

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