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A PLAN FOR A SAVINGS AND LOAN SOCIETY IN
HOUSH EL-RAFICA, LEBANON

By

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PLAN FOR A CREDIT SOCIETY

Ahmad Katanani

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Ahmad Katanani

ABSTRACT

Credit is an important tool that enhances agricultural productivity and, therefore, helps in the overall process of economic development in a country.

Farmers of the Middle Eastern countries need various kinds of credit, particularly short term production credit because most of them are small and medium size farmers and do not have sufficient capital resources to finance their production operations.

Farmers experience difficulties in obtaining their credit needs from commercial banks and, therefore, resort to borrowing at the local level from moneylenders, merchants, relatives, etc. In such cases they often have to pay exorbitant rates of interest that may reach 40-50 percent per year. Their incomes above the subsistence of their families often are consumed by payments of loan instalments and interest with the result that their indebtedness builds up and they cannot escape the clutches of moneylenders and merchants.

Through cooperative credit societies, farmers in different parts of the world have been able to overcome most of the difficulties in obtaining credit. Farmers have been joining together to obtain needed credit at reasonable rates for over a century since Raiffeisen started his credit societies in

Germany.

Farmers of Housh el-Rafica were in a no less difficult situation in relation to obtaining credit than other farmers in the Middle East. This study was made with the objective of formulating a plan for a credit society in the village that will have good prospects of success. For this reason a survey was made in the village to discover the needs and interests of the farmers so as to plan the society accordingly.

The proposed savings and loan society for Housh el-Rafica is designed to help the farmers in the following respects:

1. Mobilizing the farmers' savings in the village

Members' deposits and investment in sharecapital, supplemented by borrowing from the credit bank, will be used to make loans to members of the society.

2. Providing credit at moderate cost

The members will pay lower rates of interest than they used to pay to moneylenders and they will not need to travel to the city to get their credit needs.

3. Improving the overall economic position of farmers

By advancing the farmers adequate amounts of credit at the time needed, farmers will earn larger incomes and contribute more in the form of sharecapital and deposits in the society resulting in benefits to all the members.

4. Building up the prestige of the village

To the farmers of Housh el-Rafica, the establishment of a successful cooperative is a great gain because it

improves the status of their village relative to other villages in the Beka'.

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CHAPTER I

INTRODUCTION

Importance of Credit for Economic Development

In countries which are predominantly agricultural, economic development means agricultural development. An efficient system of credit is an essential element in the development of agriculture in any country because most farmers do not possess sufficient accumulated capital to finance their production operations. In this case, "credit is a pillar that supports the farm production of a country and the two go hand in hand."¹

However, credit is necessary not only for agricultural advance but also for the overall economic development of a country. "Economies which are not very well developed manifest a lack of balance among the different fields of economic activity. Agriculture in such economies, although characterized by low productivity, tends to be dominant in the extent of employment it gives as well as in the proportion of national

¹ Egypt, Agrarian Reform Organization, Public Relations Department, Agricultural and Cooperative Credit in Egypt (Cairo: Agrarian Reform Organization, 1957), p. 17.

income it generates."² In such economies industry tends to be limited both in scope and efficiency.

Economic development, therefore, entails above all the promotion of industry to redress the economic balance and absorb the surplus population now on the land.

"Industrial development depends in a large measure upon the expansion of local markets in order to make possible the absorption of the industrial products. Market expansion rests on raising the purchasing power of the population. Since by far the greater part of the developing countries derive their livelihood from the cultivation of land, the expansion of the markets means primarily raising of the purchasing power among farmers which can come in the final analysis by raising their productivity."³

Productivity can be enhanced by proper utilization of water resources, soil conservation, mechanization, better cultural practices and proper fertilization. Credit, if available to the farmers, particularly small and medium size farmers, enables them to adopt the above mentioned improved practices and increase their productivity. It, therefore, becomes clear that agricultural credit is the key not only to increasing the productivity of individual farmers but also to rural development and the overall process of total economic development of a country.

² F.A.O., Technical Meeting on Agricultural Credit for the Arab States Near East, Rep. No. 55/1/428 (Rome: F.A.O., 1954), pp. 9-10.

³ Ibid., p. 10.

Needs of Farmers for Credit

Many farm products are grown seasonally and generally cannot be marketed until they have ripened, are harvested and prepared for the market. Farmers in the Middle East generally earn their incomes at sporadic and wide-spread intervals, perhaps as seldom as once or twice a year, although the normal needs for food, clothing and operation of the farm home continue throughout the year. This, together with the fact that the greater part of the farmers in this part of the world are of small and medium size with limited incomes, results in obliging most farmers to borrow. If the harvest is poor so they cannot repay the seasonal loan, they are likely to become more or less permanently in debt.

Farmers need different kinds of credit for carrying on their production operations and the subsistence of their families.

1. Short term credit, whether seasonal or annual, to:
 - a. Finance farm production.
 - b. Pay farm and living expenses until the crops or livestock are marketed.
 - c. Refinance existing short term debts.
2. Medium term loans for:
 - a. Purchase of agricultural machinery and equipment.
 - b. Purchase of productive livestock and tree or vine seedlings.
 - c. Land improvements.

- d. Construction of canals, irrigation and drainage ditches, etc.
3. Long term credit for:
 - a. Purchase of land.
 - b. Construction of buildings.
 - c. Land development.

Principal Sources of Credit

To meet their needs, farmers resort to borrowing from different sources which can be differentiated into two major groups: institutional and non-institutional creditors. The first comprises institutions which are either organized specifically for the purpose of granting agricultural credit, or else engage in extending credit as part of a more general financial activity. These include government agencies, special governmental institutions, banks, insurance companies and cooperatives.⁴

The non-institutional creditors are individuals who generally finance farmers' operations by furnishing them with farm and home supplies and sometimes with cash. The most common of the non-institutional creditors are the moneylenders including merchants, brokers and landlords.

In spite of the presence of all these kinds of creditors, many farmers in different countries prefer to borrow from cooperative credit societies. The reasons are summed up in the following points:

⁴ Ibid., p. 11.

1. Farmers do not have easy access to banks. The banks are usually located in the cities and the farmers have to travel a long distance before they reach the city. Moreover, farmers will have to follow a lengthy procedure for getting loans and often they receive the loan funds a long time after making the application. This frequently renders the loan useless to them for financing crop production. Very often they have to bribe or offer illegal documents. All these reasons make it difficult for the farmers to obtain credit from banks.
2. Even if farmers are able to obtain bank credit, it often does not help them much because the amounts are not adequate for their operations. A bank will give loans to those farmers whom the manager knows very well or those who can offer enough security or the guarantee required by the bank to ensure repayment of the loan. Since by far the majority of farmers in the Middle East are small and medium size operators, they cannot offer the kind and amount of security required by a bank, and therefore, are not eligible for bank credit.
3. Because farmers do not have easy access to banks, and since most of them do not have adequate security, they generally have to resort to borrowing at the local level from moneylenders, merchants, relatives, etc. In such cases, they often have to pay exorbitant

rates of interest that may reach to 40 or 50 per- cent per annum. They usually are obliged to sell their produce to the merchants supplying them with credit at the price determined by the merchant him- self, which is usually far below the market price. In both cases farmers suffer and their incomes are consumed by payments of instalments and interest with the result that their indebtedness builds up and they cannot escape the clutches of the money- lenders and merchants.

History of Development of Credit Societies

Through cooperative credit societies, farmers in dif- ferent parts of the world have been able to overcome most, if not all, of these problems and difficulties and improve their economic conditions. Farmers have been joining together to obtain needed credit at reasonable rates for over a century. Review of these endeavors takes us back to the middle of the nineteenth century when the cooperative credit and thrift so- cieties were started in Germany by a German burgomaster named Raiffeisen.⁵

Farmers of West Germany owned small farms which pro- duced income that did not meet their needs for basic subsis- tence. They resorted to mixed farming and planted beets, potatoes, vegetables and grapevines for making wine. Everyone

⁵ U.N.R.W.A., Social Welfare Division, Seminar on Co- operatives for U.N.R.W.A. Social Welfare Staff, April, 1960 (Beirut; UNRWA, 1960), pp. 18-21.

owned a cow or two for plowing and milking, a pig or two and a number of hens. They would have been able to improve their livelihood had they exerted more effort, used all their skill in agricultural techniques, provided they got good prices for their products and obtained money needed for the operation of their farms at reasonable rates of interest. Unfortunately these two conditions were not within reach. They were unable to pay cash for their agricultural and household needs, and had to get their supplies from the village retailer on credit. This retailer also bought their agricultural products, charging them high prices on commodities he sold and paying them low prices for their products. The result was that the debts of the farmers accumulated, together with their depression and despair.

Friedrich Raiffeisen, the burgomaster of a small city, did all he could to help the peasants of his area. He started repairing the old roads, constructing new ones and building schools. When the bitter winter of 1847 brought famine, a voluntarily administered cooperative was established with the help of rich individuals. This cooperative gave farmers potatoes and seeds and established a bakery which undertook distribution of bread to the poor at half price. This led to the fall of the price of bread in that area and in the following spring the cooperative distributed seeds to its members, making loans unnecessary.

In 1848, Raiffeisen moved to the village of Flammersfeld where he established a relief cooperative to help the poor farmers. Sixty members of limited income joined to buy cattle and distribute them to needy farmers who undertook to pay back the

money in instalments over five years. But this solution was not suitable for all kinds and conditions of loans. Ultimately the cooperative leaders decided that giving loans in cash to farmers was the best way to solve their problems. They obtained money from one of the capitalists and began work as a credit cooperative and later also functioned as a savings group. They continued to help their members by distributing money for relief and charity. The idea of self and mutual help to replace relief and charity did not yet exist.⁶

In 1852, Raiffeisen moved to the village of Hydersdorf where he established the Hydersdorf Charitable Society with 59 members. This society had various aims, not limiting its activities to economic scope but extending them to the social, cultural and moral fields. It undertook to teach children, to find work for the unemployed and for those released from prison. It also established public libraries. This work greatly influenced cooperatives established subsequently based on the same pattern as the Raiffeisen system. But this experiment proved the futility of having all these various aims applied together by a single organization. Consequently, in 1864, this group was replaced by a strictly credit cooperative. The basic objective was to protect farmers against greedy usurers. The purpose of these rural cooperatives was to provide loans by establishing an agricultural bank in rural districts to encourage farmers to save their meagre resources and borrow wisely.

⁶ Ibid., p. 22.

for productive purposes.

The fundamental principles applicable to Raiffeisen societies are:

1. Unlimited liability and share capital of small denomination. Raiffeisen laid great stress on the principle of unlimited, joint and several liability of the members. It means that each member in the society is responsible to the full amount of his possessions for repaying the debts and obligations of the society upon dissolution or failure. This principle has been largely adhered to in Germany. In 1913, 92 per cent of the banks were based on unlimited liability and only 8 per cent on limited liability.⁷ The principle of unlimited liability is closely associated with the general insistence that share capital be of low denomination to enable poor farmers to join.
2. The area of operation must be limited, i.e., within the boundaries of the village concerned in order to insure that members know and understand one another very well.⁸
3. The membership decides in its annual meeting the maximum total amount of loans which the cooperative

⁷ H. Belshaw, The Provision of Credit with Special Reference to Agriculture (Cambridge: W. Heffer and Sons Ltd., 1931), pp. 218-220.

⁸ U.N.R.W.A., op. cit., p. 20.

is authorized to borrow during the year, and also fixes the maximum amount which can be loaned to any member.

4. Members of the board of directors must not be remunerated for their services, but the secretary and treasurer may be rewarded for their work by a decision of the general meeting.
5. Reserve funds are built up from annual net savings to strengthen the cooperative instead of distributing the major part of the savings as patronage refunds.
6. Loans are made for productive purposes and supervised very carefully to assure repayment.
7. Loans are restricted to members only.
8. Loans are covered by a promissory note signed by the borrower and guaranteed by not less than two persons. The local cooperative may send their notes to the regional cooperative bank for discount.
9. Dividends on shares are limited strictly to the legal rate of interest.

The Raiffeisen model of credit cooperatives was adopted in many parts of the world, as in South East Asia, the Far East, the Middle East, and Cyprus. It is especially preferable where farmers are poor and where the cooperative has to borrow from outside sources which find in the principle of unlimited joint liability better security for their loans.

However, it is often claimed, and it is to a large

extent true, that the principle of unlimited liability discourages large farmers and many small farmers who own their farms from joining local cooperatives. They are afraid to risk the loss of their farms by joining a society with unlimited liability in which they are personally responsible for repaying all money borrowed if other members are unable to repay their loans. This called for the establishment of cooperative credit societies on the basis of limited liability of the members in the United States, Canada, Japan and the Scandinavian countries. In countries where cooperatives started on the basis of unlimited liability and many proved failures, especially in India ⁹ and Pakistan ¹⁰, now it is recommended that the societies be converted into limited liability societies. This poses the big problem of providing the security to assure repayment required by lending agencies.

⁹ Reserve Bank of India, Rural Credit Follow-up Survey 1958-9, General Review Report (Bombay: Reserve Bank of India, 1961), p. 93.

¹⁰ S.A. Hussain, "Agricultural Credit in Pakistan", Improving Agricultural Credit in the Near East and South Asia, Proceedings of the First Near East-South Asia Agriculture Credit Seminar, University of Ceylon, April 17-28, 1961 (Washington, D.C.: International Cooperation Administration, 1961), p. 30.

CHAPTER II

THE SITUATION IN LEBANON REGARDING COOPERATIVE SOCIETIES

The history of farmer cooperatives in Lebanon goes back over twenty five years to 1937 when the first cooperative, Abadieh, was founded. Several others followed in succeeding years but only the first one continued to prosper and develop. The Abadieh society remains today as an example to other societies and was the model upon which the agricultural cooperative law of 1941 was based.¹

The number of cooperatives registered in the Ministry of Agriculture on April 1, 1961 was 128 cooperative societies. Of this number only eleven were found functioning in a survey conducted by Mr. Sabbah al Haj. The functioning societies had a total of 671 farmer members, an insignificant percentage of the total number of farmers in Lebanon.² The remaining societies were reported as failures, or just existing without doing business. Only two more societies have been registered and these began operation in 1962.

¹ F.A.O., Technical Meeting on Cooperatives in the Near East, Rep. No. Ru-6/1959 (Rome: F.A.O., 1960), p. 6.

² S. Haj, Farmer Cooperatives in Lebanon, "A thesis submitted in partial fulfilment of the requirements for the degree of M.Sc. in Agriculture" (Beirut: A.U.B., 1961), p. 1.

Reasons for Lack of Success

Some of the major reasons for the failure or discontinuance of so many cooperatives in Lebanon could be attributed to the following factors:³

1. Lack of education regarding cooperation and cooperatives

The members of cooperatives were not informed about cooperative principles and practices and the benefits of cooperation either before or after joining the cooperative. The directors were as ignorant as the members. This fact led to the failure of many cooperatives.

2. No technical guidance or government supervision

After formation, the cooperatives received no guidance or advice regarding the right methods of operation. This led to many mistakes which caused the discontinuance of operation.

3. Insufficient capital

Although this aspect is common to all newly formed cooperatives, it was more pronounced in Lebanon. The members lack the desire to invest in their societies and the directors became discouraged by the lack of member response. This contributed to stopping operation.

4. Poor management

Inexperienced directors who were not interested in the

³ Ibid., pp. 95-102.

wellbeing of the cooperative and were elected only because they gave social status to the cooperative brought to an end the activities of several cooperatives.

5. Insufficient volume of business

The lack of sufficient volume of business by the society rendered it unable to reduce the costs and charges to the members appreciably. This led the members to compare prices and charges before patronizing their cooperative. When the benefit from the cooperative was very small or negligible, the members lost interest in their society.

6. Poor accounts and lack of auditing

Accounts were kept by the elected treasurers who had not had any training in book-keeping. The majority of the cooperatives which failed had not had their accounts and records audited to show the true state of affairs at the end of each year.

7. Rapid organization to obtain free fertilizers

Most of the cooperatives in Lebanon were organized to secure the fertilizers distributed by the United States Operation Mission to Lebanon and the Ministry of Agriculture, and also to be eligible to receive government grants and donations. Farmers did not understand cooperatives and how can they serve the members advantageously. Several groups did not have any idea as to what their society could do after the fertilizer distribution terminated.

8. Lack of planning

The great majority of cooperatives in Lebanon was organized in haste in order for the members to obtain fertilizers free of charge. There was no study of the economic needs of farmers in the village or planning of how these could be met through a cooperative. But in order for a cooperative to operate successfully, its organization and operation must be planned carefully beforehand.

Need for Planning for the Development of a Successful Society

One of the essentials for the success of any project is to plan beforehand what is to be done in successive stages to achieve the desired ends. The plan for a successful credit society should consider these essential factors:

1. Preparation of farmers for cooperative action

This is the same as preparing the seedbed for planting a crop. The environment in the seedbed should be suitable for the germination of the seed, otherwise no crop will be harvested. Likewise, farmers need certain preparation before they become fit for cooperative action. They need to be told about cooperative principles and practices and informed about the methods of running a cooperative successfully. This involves education of the members and guidance before and after organization.

2. Planning the successive stages as prerequisite for success

Foundation of a cooperative takes time because of the difficulties and legal requirements encountered. There are a number of actions to be taken before a cooperative society can obtain registration and then commence operation. Therefore, it is advisable that the successive stages of the process be planned carefully to save time and unnecessary expenses. This also facilitates the future cooperative action by members

Reasons for Choosing Housh el-Rafica as the Site for the Study

Consideration of the following points led to the choice of Housh el-Rafica as the site for the study, although many other Lebanese villages might be as good sites as this village for such a study.

1. There existed an economic need for a credit society in this village. This need was discovered by the extension agent and some farmers were aware of this need. This led their leaders to think about establishing a credit society to meet these needs.
2. The author was introduced to the farmers in the village by the son of one of them, a relative of the village mukhtar. It was supposed, and it actually happened, that this introduction would facilitate carrying on the survey and getting the farmers to answer the questions willingly.

3. Easy access to the village.

Housh el-Rafica lies on the road joining Zahle and Baalbek in the Beka. It is only about two kilometers from the A.U.B. farm. Thus, the author could go easily twice a day to collect the information needed for planning a program for developing a credit society in the village.

Objectives of the Study

The present study was made with the following two main objectives in mind:

1. To obtain information about farmers in the village and their farms needed for planning the development of a credit society with good prospects for success.
2. To formulate a plan for organizing a credit society to meet the needs of farmers and for its operation on a self-sustaining basis so that it could be successful permanently.

CHAPTER III

HOW THE SURVEY WAS MADE TO OBTAIN THE REQUIRED INFORMATION

Preparing the Questionnaire to Secure the Needed Facts

A comprehensive questionnaire, a copy of which is found in the appendix, was prepared to obtain information regarding the following:

1. General information about the farmers and their farms.
 - a) Land holding and area operated.
 - b) Kinds of crops grown.
 - c) Cultural practices and inputs of supplies, labor, machinery, etc., to indicate need for money to pay expenses.
2. Marketing farm products.
 - a) Places and channels of marketing
 - b) Difficulties encountered in marketing.
3. Financial position of the farmers.
 - a) Capital resources and present indebtedness.
 - b) Need for credit, purposes and amounts.
 - c) Sources of borrowing.
 - d) Rate of interest paid on loans.

4. Knowledge of savings and loan societies and their services.
 - a) What is a savings and loan society?
 - b) Willingness to join the society.
 - c) Services expected from the society.
 - d) Amount of shares purchased and deposits made by each member annually.

5. Ideas about and understanding of cooperatives.
 - a) What is a cooperative?
 - b) Service or profit?
 - c) How many votes does a member have?
 - d) How much should it cost to join a cooperative?
 - e) Who controls a cooperative?

Testing the Questionnaire before Completing the Final Form for Duplicating

When making a survey for a special purpose, one is interested in two main factors to be able to obtain reliable information:

1. Complete coverage by the interviewer of all the questions pertaining to the body of information needed.
2. Have the questions so explicitly stated that the individuals interviewed understand them and give correct answers.

For the sake of the above mentioned objectives, the questionnaire of the present study was tested in the field before completing the final form. Six copies were first prepared and the

surveyor interviewed six farmers in the village to test their understanding of the questions and to see whether any new questions would emerge in the course of discussion between the interviewer and the farmer. If so, they would be added to the list of questions.

It was found that a few questions were not understood by any of the farmers, so these were omitted. New questions were added to get as clear a picture as possible. The questionnaire was then duplicated.

Attempted Complete Sample

A list of all the households in the village was obtained from the mukhtar. The list ran a little above 100 households. From these, two groups were excluded:

1. The households that were not engaged in agriculture. The heads were either shopkeepers or they earned their incomes from jobs in the army or elsewhere. This group was excluded because it was considered that they would not be interested in joining the society, as some of them had said.
2. The households that were headed by women who did not have young sons. This group was excluded because of the difficulty in interviewing a woman in that village. What is more important is that women and men could not join in one society. It is partly due to religion, tradition and other considerations.

After excluding these two groups, the list was reduced to 69 households. An attempt was made to include all these in the survey in order to have as complete a coverage of the village as could be obtained. But things often do not happen as is desired, and only 40 households were ultimately included in the survey and answered all the questions. This does not mean that the rest, i.e., 29 households were ignored. They were visited and found to have interests that conflicted with the aims of the society. Some of them wanted a trading corporation instead, or were not interested due to various other considerations.

Interviewing Farmers

The survey was carried on during the summer of 1962. The farmers were visited on the threshing fields where they were interviewed individually or in the presence of other farmers. The last method was better because of two reasons:

1. During the course of interviews some education was done to inform the farmers about cooperatives, cooperative principles and practices, and the advantage of cooperation. Thus, when a group of farmers was present at the same time it saved time by giving the explanation only once instead of several times.
2. The farmer would not lie to the interviewer in the presence of other farmers because they know each other very well.

It was noticed at the beginning of the survey that some

farmers tended to give faulty information, mistaking the interviewer for an agent who would bring money to the village. They tried to appear poorer than they actually were, thinking that they would get money as charity. Others tried to appear richer by talking that they had more land or livestock than they actually had, thinking that the amount of loan would be in proportion to the property owned. This type of wrong attitude was corrected by explaining to the farmers, by the author and Abdallah Yazbek, an A.U.B. student and relative of the mukhtar, the real purpose of the interview.

The time for each interview averaged fifty minutes to obtain the answers to the sixty-four questions.

Hereafter, is a complete analysis of the sixty-nine agricultural households in relation to their reaction to the interview:

1. Forty households answered all the questions and were willing to join the society. These forty households will constitute the substance for the discussion in subsequent chapters.
2. Thirteen households wanted a society of their own. These households were actually one big extended family and they have quarrels and conflicts with the rest of the village. They, therefore, expressed the desire to have their own society. This reaction was not found through asking each and every one of the thirteen households, but by asking their leaders.
3. Seven households were excluded because they had left

agriculture. The head was working outside the village either in Beirut or on the university farm and they had rented their holdings to others.

4. The heads of five households were labourers owning no land and indicated they would not join a cooperative.
5. Two households were found to be merged with others in a father-son relationship. They cultivated the same land and earned income for the family group.
6. The remaining two households were the strangest of all. The head of the first said that the proposed cooperative should work as a corporation utilizing the money to be borrowed in conducting a business and distribute the profits to the subscribers according to the number of shares held by each.

The second household showed another strange reaction. The head was answering the questions in a normal way but he said he would not join the society unless he were given a mule to plow because his mule had died several months previously.

CHAPTER IV

FINDINGS FROM THE SURVEY

Type of Farmer and Size of Operation

Most of the farmers interviewed were found to have had but a few years of schooling and none of them had spent more than six years in school. Being aware of the importance of education, many of them were and are sending their children to Zahle and Beirut for higher education.

It was found that there were four types of farmers in the village when classified according to the type of land tenure. These four classes were:

1. Owners of land who work only on their farm.
2. Owners, but also work as sharecroppers with other farmers. These have very small holdings of their own so they rent other farmers' land on a share basis to increase their incomes.
3. Owners, but work as laborers for other farmers. One farmer was found to operate along this line.
4. Sharecroppers, who do not own land but rent from landowners on a share basis.

The following table shows the frequency of each type mentioned above:

TABLE I

NUMBERS OF VARIOUS KINDS OF OPERATORS IN HOUSH EL-RAFICA

Type of Operator	Number of Households
Owner	28
Owner + sharecropper	9
Owner + laborer	1
Sharecropper	2
Total	40

Of the farmers who own land, the majority have small size holdings. This suggests that most of the farmers in the village are small size farmers. Table 2 below shows the pattern of land holdings in the village.

TABLE 2

PATTERN OF HOLDINGS IN HOUSH EL-RAFICA
(DUNUMS)

Size of Holding	Number of Households
0 - 99	28
100 - 199	6
200 - 499	6
500 and above	0
Total	40

The greater part of the farmers in the village use traditional cultural practices but they all have tractors for plowing. They use chemical fertilizers for their irrigated crops only and the amount applied differs from one farmer to another depending on the ease with which the individual can obtain the fertilizer. Practically every farmer had a cow or two and a small flock of hens. The income derived from these supplementary enterprises is meagre because of the poor breeds of animals and chickens and poor management.

Marketing Procedures and Problems

Farmers of Housh el-Rafica market their produce mostly in Zahle and, to a lesser extent, in Baalbek. At harvest time producers prepare their products in sacks or other containers when the merchant comes to the village and collects the produce from different farmers in his own truck or in one which he has hired for the purpose.

Although farmers noted that later sales would often bring them higher returns of what is equivalent to 2-5 Lebanese piastres per kilogram of product, nevertheless they were obliged to market their produce at harvest time because they had no place to store the products until a later date. In a few cases, farmers sell their products before harvesting by signing a contract with a merchant by which the merchant is entitled to receive the product at harvest time at the prices stated in the contract, which are usually a few piastres lower than the market price at harvest time. This margin is the price for the risk undertaken

by the merchant who buys a product which is on the plant or in the soil.

In general, the farmers were found satisfied with the marketing of their products and they did not have any special problems. But they said they would be able to sell their products for higher prices if they could store them for later sale.

Needs for Credit

All of the farmers interviewed needed to borrow money for their various production operations. Credit was needed for the following purposes:

1. Purchase of seeds and fertilizers.
2. Purchase of farm supplies, such as feeds, insecticides, etc.
3. Hire of a tractor for plowing and other cultural operations.
4. Other special expenses such as planting a vineyard or digging a well.
5. Living expenses of the family until the next harvest.

The main sources of borrowing are located in Zahle.

Farmers borrowed from merchants who sell them supplies or from moneylenders specialized in farm loans. A few farmers, however, needed to borrow longterm credit from the Credit Bank for Agriculture, Industry and Real Estate at its branch in Zahle. The security required in this case was a land mortgage which was a problem for certain farmers because Housh el-Rafica was ~~not covered by any cadastral survey~~ and in many places one piece

of land may belong to a group of farmers and not just one person. This problem of not having legally established individual holdings made borrowing from BCAIF difficult.

The following table summarizes the annual credit needs of farmers in the village of Housh el-Rafica.

TABLE 3

AMOUNT OF CREDIT NEEDED ANNUALLY
BY FARMERS IN HOUSH EL-RAFICA

(LEBANESE POUNDS)

Amount of Credit	Number of Households
0 - 499	5
500 - 999	12
1000 - 1999	17
2000 - 4999	5
5000 and above	1
Total	40

It can be seen that the majority of the farmers need to borrow annually amounts falling in the range of LL 500 - 2000 per farmer.

Farmers satisfy all or part of their needs in two ways; namely:

1. By borrowing cash money and then buying their supplies, seeds, fertilizers for cash. In this case,

farmers had to pay a rate of interest ranging between 1-3 percent per month depending on the financial position of the farmer. If the farmer is well known to the merchant or money lender, or if he is one of the richer group then he can borrow at a lower rate of interest.

Below is a table showing the interest rates paid by various farmers in the village.

TABLE 4

RATE OF INTEREST PER MONTH PAID BY
FARMERS IN HOUSH EL-RAFICA

Rate of Interest in Percent	Number of Households
1.0	2
1.5	6
2.0	22
2.5	5
3.0	5
Total	40

This table shows that the majority of the farmers interviewed paid 2 percent or more per month or 24 to 36 percent per year, which is a very high rate, compared to the legal rate of 9 percent and the 5.5 percent per year charged by the Credit Bank for Agriculture, Industry and

Real Estate in Beirut.

2. Instead of borrowing cash money, farmers buy their supplies, seeds, fertilizer on credit on condition that they pay at harvest time. In this case, farmers are treated differently from others who pay cash for their purchases. On one hand, the merchant may require them to deliver four sacks of their product instead of each sack of seed that they bought on credit. On the other hand, the merchant may charge them prices 2-10 piastres higher than the market price for each kilogram of seeds or fertilizers.

In both cases, farmers suffer from the loss of a substantial part of their incomes required for the repayment of debt and the interest thereon. They are left with an amount of money which generally is not sufficient for their farm and living expenses during the period until the next harvest. Thus, they have to resort to borrowing again, falling into debt which leaves them under the mercy of the merchants and moneylenders.

Apart from the above mentioned difficulty encountered in securing credit, farmers often met other difficulties, namely:

1. They found difficulty in securing the loans because the lenders at times are few or because they just refused to lend them the money required.
2. It was not easy for the farmer to get the amount of credit he needed at the proper time to plant his crops.
3. Many times a farmer could not offer the security or

guarantee required by the lender to grant a loan. Some farmers failed to obtain credit because they were not known to the moneylender and the farmer did not find anyone to stand as surety or guarantor.

When asked after what period could they repay a seasonal loan, farmers answered they could do so in six months to one year. For a longer period loan, most of them enthusiastically said that they could repay in 5-10 years.

Although the question regarding the present indebtedness was embarrassing to some of the farmers, most of them answered it frankly. The following table shows the farmers' indebtedness at the time the survey was made.

TABLE 5

INDEBTEDNESS OF FARMERS IN HOUSH EL-RAFICA, AUGUST 1962
(LEBANESE POUNDS)

Amount of Debt	Number of Households
0 - 499	12
500 - 999	6
1000 - 1999	12
2000 - 4999	3
5000 and above	7
Total	40

This table clearly shows that 75 per cent of the farmers were indebted for less than LL 2,000 each, suggesting that the farmers could escape the clutches of moneylenders easily had they found a source that would supply credit on reasonable terms.

Knowledge Regarding Cooperatives

Few farmers were found who know very much about cooperatives. A number had heard of Abadieh as a cooperative which serves the farmers in that village in several ways. Most of the farmers interviewed, however, did not know any thing about cooperative principles and practices. Concerning the meaning of the word cooperation, they all expressed the idea that it refers to the act of helping each other. To them the idea seemed to have a good appeal, especially after they learned that there are rules and regulations that underlie the application of this noble idea to economic activities and business matters.

Although they did not know anything about cooperative principles and practices, their answers to most of the questions were favorable. They said that cooperation is a noble relationship and therefore it should have the aim of servicing the members at low cost and not to pay high profits to them on money invested. They said that for each member there should be only one vote "like the elections of the parliament." Every farmer who has good reputation appeared to be a good prospective member of a cooperative society to all the farmers interviewed. Hearing about conflicts among political and religious parties, they all felt that a cooperative should avoid politics and religious considerations in order to be successful.

Several farmers, feeling that they did not know anything about running a cooperative, said that they would like the cooperative to be run by the government. The majority, however, said that the cooperative should be directed by representatives from the village whom the farmers elect. Many of them did not know how much should it cost each farmer to join the society. But the rest gave answers ranging between LL 15-25 per member.

When it was explained to them that a cooperative savings and loan society could borrow up to LL 60,000 from the Credit Bank for Agriculture, Industry and Real Estate (BCAIF) without mortgage on land, they all said that such a cooperative would be of great help to the farmers in the village. They all agreed to pay an interest rate of 8 percent to the cooperative because they believe this is much lower than what they were actually paying to moneylenders.

Most of the farmers did not know how a cooperative savings and loan society is operated. Nor did they know how much to invest or deposit in the cooperative each year, but they said that all the surplus money left with them they would deposit in the society. Every one of them agreed to buy at least one share each year if its price did not exceed LL 10-25. As to whether the society should observe the spending of loans and aid the farmers in their plans, they all agreed that since the society works for their benefit then they would be fully cooperative and would accept supervision and advice from cooperative officials. They became aware of their need for such a society after realizing the difficulties of obtaining credit from Zahle on one hand,

and the benefits and services that the society could offer to them on the other hand.

Conclusions Regarding Situation of Farmers in Housh el-Rafica

A few clear cut conclusions can be made after studying the situation of farmers in Housh el-Rafica. These conclusions can be summarized as follows:

1. There is a definite need for a credit society in the village to help the farmers borrow on reasonable terms.
2. Farmers in the village realize this need after the explanation given to them by their leaders and the author regarding the services that the society can perform for them.
3. There are several factors related to the success of a cooperative credit society which are present in the village. These factors are:
 - a) Interested members.
 - b) Educated leaders who initiated the whole idea.
 - c) Careful planning regarding the organization and operation of a society.

Recommendations

On the basis of the study made, it is recommended that:

1. The farmers in the village should organize into a cooperative society in order to:
 - a) Mobilize their savings to help finance farming operations.

- b) Obtain loans at lower cost.
 - c) Secure the financing required in order to adopt better ways of production and marketing so that they will have higher incomes and therefore greater savings.
2. An educational program should be conducted to prepare farmers for organizing a cooperative.

Supplementary Recommendations

It is further suggested that the government should:

- 1. Carry on an educational program to teach farmers in Lebanon the advantages of cooperation in rural communities.
- 2. Guide farmers who wish to organize into cooperative societies.
- 3. Provide technical advice and guidance before and after organization.
- 4. Supply loan funds to BCAIF specifically to make loans to cooperative credit societies to advance production credit and farm development loans to farmers.

CHAPTER V

PLAN FOR ORGANIZING A COOPERATIVE SAVINGS AND LOAN SOCIETY

Determining the Needs and Interest of Farmers

There are various methods employed in different situations for determining the need for a cooperative society and the interest of farmers in forming such a society. At one place this job can be done by holding a general meeting of farmers in one area and have the farmers elect a few representatives who will investigate the matter and give their recommendations. In another place, large public meetings usually are not required. Most of the information needed can be obtained by working with a small group. This is done by raising a number of questions and then determining the answers by such means as are necessary. Some of the questions to be examined are:¹

1. Is there a real need for this cooperative?
2. How are the services it is to render now being performed?
3. Are the costs of the available services reasonable?

¹ U.S.D.A., Farmer Cooperative Service, Forming Farmers Cooperatives, F.C.S. Educational Circular 10 (Washington, D.C.: F.C.S., April, 1956), p. 2.

4. In what ways could a cooperative reduce these costs or improve the services?
5. What benefits may members expect?
6. What responsibilities or risks must members be willing to assume?
7. Have the prospective members had any previous cooperative experience?
8. How much money will the members have to furnish in starting the cooperative?
9. Will the volume of business furnished by members be enough to ensure low per unit cost?
10. Will the cooperative be operated efficiently and economically?

In a third place an extensive survey is used to obtain more adequate information about farmers in the area understudy.

For the specific study we are concerned with, the last method was used. A questionnaire was prepared and a survey was made by the author during the summer of 1962. The findings from the survey were discussed in the previous chapter.

It seems appropriate to mention here that no farmer cooperative should be organized unless it can serve a useful purpose. Not only must the need exist but the members must realize the need and also be convinced a cooperative will meet it. A cooperative is not needed unless its members will obtain benefits from it that they would not otherwise receive.

During the course of the survey and in the subsequent discussions, the form of the society was outlined. It was found

that what the farmers needed urgently was credit at reasonable terms and in adequate amounts. Marketing problems were few or non-existing and purchasing was not difficult unless it was done on credit when higher prices were charged the farmer. It was proposed, therefore, that the most useful type of a cooperative to be organized in Housh el-Rafica would be a cooperative credit society or, alternatively, a savings and loan society.

Preparatory Discussions and Education of the Prospective Members

The formation of a cooperative for a group of farmers must be preceded by sufficient study of the environment. The biggest element of the environment in which we were interested was the community in the village, that is, the farmers. It was quite easy for the farmers of Housh el-Rafica to accept the idea of cooperation because it is a noble idea which was expressed in the holy Koran "Be helpful to one another according to goodness and piety", and stressed by the Prophet Muhammed as "The hand of the God is with the group." To them, therefore, cooperation is a natural thing. But the ease with which the idea is accepted among villagers might have an adverse effect on the cooperative movement, if the farmers do not know anything about the principles and practices of economic cooperatives and the methods of running a cooperative correctly.

With the above mentioned factor in mind, it was felt that farmers in the village should receive preliminary education as to the proper methods of running the society and also briefly about cooperative principles and practices. It was pointed out

to them that in a cooperative it is "All for one and one for all", and the understanding of this unwritten law is necessary to provide the members with the right spirit of cooperative organization. They were informed that a cooperative would not succeed simply because it has noble objectives and aims, but because it was organized for the service of individuals and particularly its members. It is to perform an important service needed by the members. The community should be aware of the services rendered by the cooperative and this is an essential factor that should be considered in forming any type of cooperative society. In our case, the farmers were informed that a cooperative savings and loan society would provide services such as:

1. Mobilizing the savings of the farmers in the village.
2. Advancing loans to farmers at interest rates lower than they used to pay to money lenders.
3. Giving loans in amounts adequate for performing farm operations at the time they are needed to be done.
4. Improving the overall economic conditions of the members.

Education of the prospective members took place in two stages and by two different persons. The first was during the course of the survey when the author used to explain to groups of farmers present at one time and place the things mentioned above. The second stage, however, continues till the present time and it is undertaken by an A.U.B. agriculture student whose home is in the village. This student is very much interested in cooperation and he takes every opportunity to study carefully

some of the literature written on cooperatives and then explain to the members in his village all the relevant information. This student makes frequent references to Professor Ward, the Head of the Division of Agricultural Economics and Sociology in A.U.B. and to the author for selection of material and for further explanation or finding solutions to problems that he meets.

In preparing the prospective members for the action of forming and operating a cooperative, the following factors were stressed:

1. A cooperative is a business entity and not a charitable institution. It is necessary to persuade farmers that the cooperative idea, while concerned with the social good, is not concerned with charity but on the contrary, with the promotion of self-reliant economic and social activities. This attitude of people toward the cooperative society as being a charitable institution, although found in other places, is more pronounced in the Middle East where farmers are very poor and are used to receiving grants, relief payments, gifts, etc. from government or international charitable institutions. Therefore, it is of utmost importance to have the farmers feel that the cooperative society is a group of individuals and every one of the group is supposed to work for his own good as well as the good of all the members in the society.

2. A cooperative society has to obtain enough income to cover its expenses. The members may need to rent an office or build a club where they meet. Often they need to employ a secretary-treasurer to keep the records and accounts of the society. All this involves expenses that the society is expected to pay. Funds for these expenses have to be supplied indirectly by the members. In the case of a savings and loan society, the difference between the rate of interest paid to the society by the members and the rate paid by the society to the bank (BCAIF) is supposed to provide for these expenses and have something left over to be added to the reserve funds to strengthen the society financially.
3. Members of a cooperative society have responsibilities toward their society and have to carry out these responsibilities in order to obtain benefits. One of these responsibilities is that members should patronize their cooperative as much as possible so that the society will have a larger volume of business. A member in a savings and loan society has to invest in the share capital and deposit some money each year. Each member is responsible for repaying the loans and paying for supplies obtained on credit so that the cooperative can repay what it borrowed and be able to borrow next year. The extent of the success of the society is dependent, to a large degree, on the extent

to which members of the society carry out these responsibilities.

4. Being aware of their credit needs and the difficulties and the high costs involved in meeting these needs, the prospective members should be taught how these needs can be met through a cooperative at low cost. Whereas they were paying 25 percent or more to money lenders, the society would charge 8 or 9 percent annual interest and save the farmers from unnecessary travel expenses.
5. For the successful operation of their society the members should have continuous contact with each other for discussing the problems and achievements of their society. On the other hand, members are expected to refer to the officials of the society as matters come up and not to restrict their contacts to the one or two times per year when they obtain a loan or repay it.
6. The prospective members were informed that once the cooperative has been established, they should abide by by-laws of the society and follow the usual administrative procedures.

To summarize, it is vitally important for the establishment of a successful cooperative to do all that can be done to prepare the community to accept the idea of cooperation and to understand its meaning and operating principles; to explain to the members the benefits of a cooperative and the difficulties which may confront them and how to avoid them. It is also important to strengthen the spirit of mutual helpfulness, decision

and activity among members; to help each member to understand that he is enrolled in the cooperative in order to be helpful to others.

Agreement upon Organization Structure

Not all of the forty farmers interviewed were equally enthusiastic about the matter of organizing a cooperative society in the village. Some of them were passive and waiting for the cooperative to get started and then they would join. Others were active and giving effort and time learning about cooperatives whenever they had the opportunity. From the latter group, several farmers gathered to form the organization committee which undertook the job of studying the cooperative law of the Lebanese Government and the sample by-laws supplied by the Cooperative Department of the Ministry of Agriculture. The farmers of that committee were, more or less, the leaders of Housh el-Rafica. The agriculture senior student, Abdullah Yazbek, the son of one of the farmers in the committee, served as an interpreter to the group explaining to them the general articles of the internal by-laws. After a few sessions of this sort the committee came to agree on an organization structure which was in conformity with the cooperative law. This organization structure is summarized in the following points:

1. Terms of membership

- a) Each farmer who wants to become a member in the society shall have to pay an entrance fee of three Lebanese pounds. This is the lowest

limit permissible in the Cooperative Law.

- a) Each member shall have to invest in the share capital to provide money to start the organization, that is, to finance the registration costs and expenses of negotiating a loan from the bank. The minimum limit of investment to become a member shall be one share of a face value of LL 10.
- c) The amount each member can borrow from the society shall be 10 times the share capital he invested in the society. The amount a member can borrow will increase year after year as he adds to the number of shares he owns. This point will be discussed further in the section pertaining to the responsibilities of the members.
- d) Each member shall have to repay his loan at the time it becomes due. This is one of the important requirements each member should meet in order to continue as a member.
- e) Each member shall have to deposit an amount not less than LL 50 annually in the society to increase the loanable funds in the society.
- f) No member can own in the society an amount exceeding one fifth of the total share capital.

2. Responsibility of members

The Lebanese Cooperative Law divides cooperative societies into two categories: (a) the limited lia-

bility societies in which the members are responsible to the extent of the amount of shares they own in the society, (b) the unlimited liability societies in which each member is responsible up to the full amount of his possessions and not only his shares in the society. The Law does not say plainly what should be the liability of a savings and loan society. The bank prefers that the society be of the unlimited liability type because this provides better security for its loans. The farmers in the village wanted a limited liability society because they did not want to risk their land and chattels if the society should happen to fail. A compromise was then reached by limiting the liability of each member in the society to 10 times the amount of capital that he owns. This satisfied both groups, the farmers and the bank and still a third group who was interested in trying this type of societies in Lebanon. The third group was the officials of the Ministry of Agriculture of whom the Director General was the most interested.

Accordingly, it was agreed that each member in the society can borrow a maximum amount equivalent to 10 times the amount of capital he owns. This makes each member entitled for a loan that is equivalent to his liability which is a fair practice. Being liable to 10 times his shares discourages him from investing in the society while at the same time, the fact that he

is eligible for a loan which is ten times the amount of his shares encourages him to invest. Therefore, on balance, farmers who are optimistic and confident in their society will be encouraged to invest to be able to get larger loans.

3. Voting and representation

One of the major factors contributing to the success of any cooperative is to have sincere and interested leaders and officials. The members are urged to elect their directors of their cooperative carefully and give their votes to those who are really interested and willing to give time to the cooperative. Status considerations and personal affiliations should not interfere in choosing the directors. In the village of Housh el-Rafica, the author believes that there are enlightened leaders capable of leading the cooperative to success. According to the cooperative law, the members are required to elect two groups of representatives: one is the board of directors consisting of at least three members. The other is the supervisory committee which supervises the whole work of the society, including the books and records. This committee also consists of at least three members and is elected by the general assembly. No one individual can hold positions in both the board of directors and the supervisory committee at the same time.

Members of the board of directors and the supervisory

committee are elected for one year. They can, however, be re-elected for the next year.

Every member shall have one vote and voting by proxy shall not be permitted

4. Meetings and general assembly

The board of directors meets when it finds it necessary, and preferably once each month.

The general assembly of members meets at least once a year. However, the board of directors may call a general meeting of the membership at any time desired upon the written request of five members.

Organization Procedure

Agreement having been reached upon an organization structure, the founders can approach the Department of Cooperatives and ask for registration and legal recognition of their society. The Department will issue the charter of the cooperative savings and loan society if the founders observe the following steps:

1. The founders of the society are required to follow the standardized procedure for submitting the application for registration and meeting official requirements. Each member should obtain a judicial clearance statement and all the statements should be attached to the application which should contain sufficient reasons to justify the establishment of a cooperative in Housh el-Rafica.
2. The society should observe the fundamental provisions which are stated in the cooperative law and to which all

other cooperatives are subject.

3. The internal by-laws of the society should contain the provisions stated in the Cooperative Law and included in the model by-laws prepared by the Ministry of Agriculture.
4. Any desired modifications can be made in the model by-laws provided that they keep within the limits stated in the Cooperative Law. The registrar can refuse the application if the internal by-laws submitted by the founders of the society diverge from the fundamental law.

It is worth mentioning that the only modification made by the founders of the savings and loans society of Housh el-Rafica was in relation to the financial responsibility of members on which all parties concerned agreed.

CHAPTER VI

OPERATION OF THE SOCIETY

Receiving Applications for Loans

The major service that the proposed society is to offer to its members is making them loans at reasonable terms and in amounts adequate to carry out their production plans. The preparation and submitting of informative loan applications to the society by the members and the action of the officials of the society in appraising them and approving those with good prospects for repayment are important for the proper functioning of the Cooperative Society.

The following points must be observed by the farmer-applicants in order to increase the efficiency of the cooperative loan service and assure the satisfying equally of most, if not all, of the members. These points are:

1. The application should be made prior to the production season so that the officials of the society will know how much, approximately, is needed that particular season or year and arrange for the society to borrow the needed total.
2. The application form used by the farmer-borrowers

should be informative in order to determine the safe amount of the loan and to fix the repayment out of the income of the farmer.¹ The farmer should indicate in his application information regarding his family, sources of income, what he owns and what he owes to others and the purpose for which the loan is needed. He should also indicate how and when he plans to repay the loan. An application form having all this information will serve a dual purpose. First, it helps the farmer to know his farming enterprise, to plan for future production and ask for an amount of loan for a definite productive purpose and which he can repay from income generated by the loan. Secondly, it will help the cooperative society in appraising the farmer and his resources and work out a loan for him according to his repayment capacity.

Once the farmers take account of these important points, the next step, namely, the action on loan applications by the cooperative officials will be facilitated. The overall benefit from a successful loaning service goes back to the members of the society as a whole.

Action on Loan Applications

The secretary-treasurer of the Cooperative Society assembles

¹ M. Qureshi, Economic Appraisal of Applications for Production Loans. "A thesis submitted in partial fulfilment of the requirements for the degree of M.S. in Agriculture." Beirut, A.U.B., 1962), p. 134.

the applications submitted by the members and makes them ready for consideration by the board of directors because the Lebanese Cooperative law does not provide for a separate loan committee. However, the law provides that no agreement, the loaning service being considered as an agreement, can take place between any member and the society unless it is approved by the supervisory committee.²

The appraisal of loan applications is one of the major tasks confronting the board of directors and it requires careful study before any decisions are made. Here the directors are faced with two big questions:

1. What loan applications to approve?
2. In what amounts?

There are different methods employed in different situations which may be used, individually or in combinations, for the purpose of appraising loan applications and deciding whose application to approve and how large each loan should be. These methods are:

1. Appraisal of the borrower as a farmer. In this case, the lender is interested in the amount of land that the borrower owns, the kinds of crops grown, yields produced, his supplementary enterprises of any, cultural methods employed and several other considerations such as marketing procedure, off-farm income, etc.

² Lebanon, Ministry of Agriculture, State Laws Regarding Agricultural Economics and Statistics, (Beirut: Ministry of Agriculture, 1942), p. 10.

By using this method the lender can evaluate the resources of the borrower to determine the amount he probably can repay.

2. Appraisal of the borrower as a man. Here, the personal qualities of the borrower come into the picture. Whether the borrower is a good manager, honest, industrious or otherwise, is of great concern to the lender. Whether the borrower has a good reputation for repaying previous debts, or not, determines to a large extent his credit worthiness. This method is usually used in combination with others in appraising the application.

3. Appraisal of the borrower's security.

This is a very common method and it is self explanatory. If the borrower has tangible security of substantial value to offer as insurance for the repayment of the loan, then he will not have any difficulty in obtaining the amount he needs. The stress laid on tangible security by lending agencies has resulted in many problems in different places. Not the least of these problems is that a large portion of the farmers cannot obtain adequate credit because they do not have sufficient security to offer. It also affords an opportunity for misuse of the loan by the borrower because the lending agency will not be interested in the way the loan is spent as long as it is secured by land mortgage or any other tangible security like

chattels, valuables, gold ornaments, etc. This type of appraisal is good in one way only, in that it assures the lending agency of the repayment of its money although this might result in the misery and despair of the farmer if he happens to default.

4. Appraisal of the borrower's intangible security or advancing loans to farmers according to the prospects for repayment.

This method has been recommended by most farm credit specialists in different countries of the world. In appraising the borrower on this basis, such things are considered as the productive capacity of the farm, the industriousness and managerial ability of the farmer, his off-farm income, crop lien, or provision for repayment of the loan through a marketing agreement. In all these cases the repayment capacity, and not the amount of tangible security, is the basis of appraisal. This method has the advantage of enabling the maximum number of farmers who do not have adequate security to borrow the amount of credit they need. It has been tried in the United States, Philippines, India and proved to be successful.³

For the Cooperative savings and loan society of Housh el-Rafica it is recommended that the loans should be made according to the prospects for repayment. This practice considers that

³ M. Qureshi, op. cit., p. 125.

favorable prospects for repayment of a production loan provide a safe basis for granting such loans irrespective of whether tangible security is offered, provided certain programs are implemented to supplement this practice. Such programs may be:⁴

1. Budgeting the loan.

This involves advancing the amounts needed at the times required to carry out the production plan of the borrower and scheduling repayment from the sales of various products.

2. Establishing a credit rating for each farmer based on his previous record for repaying loans.

3. Providing technical guidance and supervision in the use of the loan funds.

4. Arranging for deduction of loans from marketing proceeds.

5. Creating special reserves to meet losses and uncollectable loans.

Such programs can be applicable in Housh el-Rafica where the farmers know each other very well. It is recommended that the savings and loan society there specialize in short term production loans, especially at the outset of its operation. These loans are small in amount and are easily collectable. It is necessary for the cooperative to work carefully during the few years following its organization in order to get to stand on solid ground on one hand, and to establish a good reputation

⁴ Ibid., p. 123.

regarding its relations with the Credit Bank on the other hand.

After a few years the society should become strong enough financially to advance medium and long terms loans to its members when it accumulates sufficient member capital and long term fixed deposits. Meanwhile, the society can work as an intermediary between the Credit Bank and the members needing larger long term loans for development projects, mechanization, establishing a vineyard or orchard. It is true that long term loans involve more risk and the bank may insist on land mortgage or security for the loan so that if things change then the sale of the land is the only way to recover the loan. In this case, the society, by working as an intermediary, can facilitate the procedure for getting the loans for its members by leading them toward the right tract.

Interest Rate

The interest rate payable on loans obtained from the savings and loan society should be fixed at 8 percent annually. This is not an arbitrarily determined rate but it is fixed at such a level after taking into consideration that the society would be required to pay 5 percent on the loans borrowed from BCAIF. The cooperative law states that the difference in the rate of interest paid on loans borrowed by the society and loans advanced to its members should not exceed 3 percent annually for short term loans and 2 percent annually for longer term loans.⁵ These rates should

⁵ Lebanon, Ministry of Agriculture, op. cit., p. 70.

be followed at the beginning in order to be safe by having enough income to cover expenses. Any annual net savings can be added to the reserve to strengthen the financial position of the society.

It has been pointed out previously that, according to an established government policy, BCAIF may loan up to LL 60,000 to any cooperative credit society without requiring land mortgage of the members as security. This is supposed to be a short term loan payable together with the interest at the end of the financial year of the cooperative which comes usually after harvest when the members repay their loans. The 3 percent that the society charges its members, over and above what it pays to BCAIF is specifically meant for the following purposes:

1. To pay the expenses of the society such as the salary of a secretary-treasurer, the renting of an office for the cooperative, payments for transportation, record books, account books, stationary, etc. that might be needed for the operation of the society.
2. Part of the society's annual net savings is consumed in paying dividends on share capital of the members. According to the cooperative law not more than 6 percent can be paid to members on their capital share calculated on the face value of the shares.⁶

The society shall have to pay also interest to members on their deposits in the society which again should

⁶ Ibid., p. 12.

not exceed 6 percent.⁷

3. Another part of the net savings go into the reserve fund of the society. According to the cooperative law a cooperative society with limited financial responsibility of members should assign at least 25 percent of the net savings to go to the reserve fund of the society.⁸ However, this ratio may be reduced as the reserve fund reaches fifty percent of the paid-up share capital.

Repayment Procedure

The repayment of the principal of loans and the interest thereon should be agreed upon between the member and the society. It is preferable to have the repayment date or dates fixed at a time or times after the farmer sells his crops and his livestock products. Since not all the farmers sell their products at the same time it is a good practice to fix the repayment of the loans over a period of time, say one month after the harvest of crops.

Farmers of Housh el-Rafica have two crops per year, the winter crop and the summer crop. They need larger loans for the summer crops for the purchase of potato and onion seeds and the fertilizers therefore.

⁷ Ibid., p. 12.

⁸ Ibid., p. 12.

The repayment of the loan can be postponed to later dates if the member-borrower happens to have a poor crop or any special problem. The law, however, states that only half of the loan can be postponed and the member is obliged to repay the other half at the time the loan becomes due.⁹

Any default that may arise should be covered from funds in the reserve so that the total amount borrowed from the Credit Bank can be repaid in full. If the reserve is not sufficient at the start to cover the defaults of the members, then agreement should be reached between the society and BCAIF as to postponing part of the society's loan because of problems that prevented some farmers from repaying their loans. These will need new loans for the next season in order to grow crops to obtain the money to repay the loan of the previous year.

Audit of Accounts

Accounts of the society should be audited at least once a year. The auditor of accounts must be a government employee or licenced by the government. The auditor must have wide powers to summon any member of the cooperative or the board of directors or its employees if he thinks that such person can give useful information about transactions of the cooperative and the administration of its affairs.

It is a sound practice to have the accounts of the society checked from time to time by the supervisory committee so that it will not have any problem when the government accountant asks

⁹ Ibid., p. 6.

for explanation of matters at the end of the year. It is imperative for the successful operation of the society to keep a record of every transaction that takes place.

Disposition of Net Savings

It is recommended that the society of Housh el-Rafica transfer all the net savings, after deducting the expenses, to the reserve fund. This is a sound practice especially when the cooperative is starting its operations and until a substantial reserve is accumulated.

The reserve funds shall be indivisible and no member shall have the right to any amount therein unless the cooperative is in the process of being liquidated. Then he can receive only his proportional part of what remains after settling all debts and obligations.

The reserve fund is used for unforeseen losses and contingencies that may arise in the future.

Thrift and Savings Program

Rural savings can be mobilized in one of two ways, or the two together, that is, through deposits in savings and loan societies and through investment in sharecapital.

Program should be made for the purpose of promoting thrift and mobilizing savings from the members of the savings and loan society of Housh el-Rafica, or any other village. Such programs

as the following may be used.¹⁰

1. Arrangements can be made for savings to be accumulated by the member on a weekly or a monthly basis, in small amounts, in special boxes or, which is better, to be deposited directly with the treasurer of the society.
2. Education and propaganda should be organized with a view to emphasis on thrift. This is a point at which government can come into the picture and contribute to the program through schools, radio programs, circulars, etc.
3. Efforts for mobilizing savings may be particularly intensified in the period immediately following the harvest time. It may be also useful to celebrate a thrift week and honor the member who shows the largest increase in deposit over the previous year. This encourages small savers.
4. The members are encouraged to save in their society if it is sound financially and efficient in its operation. The mere fact that the society is successful in carrying its services, attracts the savings of its members as well as their confidence and trust. The

¹⁰ Seminar Committee No. II, "Obtaining Capital for Agricultural Loans." Proceedings of the First Near East - South Asia Agricultural Credit Seminar held at the University of Ceylon, April 17-28, 1961. (Washington, D.C.: International Cooperation Administration, 1961), pp. 45-46.

latter are absolutely essential for mobilizing the savings of the village in the cooperative.

All these programs are designed to encourage savings through deposits. It has been mentioned previously that a very important means of mobilizing members' savings is to induce the members to invest money in the share capital of the society. One way to encourage members to invest in their society is by fixing the amount that can be borrowed as a specific multiple of the share capital owned by each member. In Housh el-Rafica this is fixed at ten times the amount of share capital. Another way to induce farmers to invest in the society is through paying dividends on the shares held by them in the society competitive with interest paid by banks. For this reason, the dividend for the credit society of Housh el-Rafica is fixed at a range of 4-6 percent which is equal or higher than the bank rate, which may not exceed 4 percent in most of the banks. Again, the members will have a greater tendency to invest in their society when it proves successful.

In some places, the government may invest in the share capital of the local societies for the purpose of strengthening the capital base of the cooperative and, therefore, serve two purposes; namely, to (1) strengthen the confidence of the members in the society, (2) establish a good reputation for its relations with the lending agency from which the society borrows money for its members. Such method has been practiced in the United States where the government invested in the share capital of the local production credit associations when they were first organized. This is also the program in Pakistan.

Procedure for Borrowing from the Credit Bank for Agriculture,
Industry and Real Estate (BCAIF)

BCAIF is the government sponsored agency in Lebanon that supplies loan funds to different sectors of the economy including the Agricultural sector, and more specifically, Agricultural Cooperative Societies of all kinds. The bank has agreed to loan the society of Housh el-Rafica an amount not exceeding LL 60,000 annually in the form of production credit for its members provided that the society fulfils the following requirements stated by the bank:¹¹

1. An application for a loan should be submitted stamped by the official stamp of the society and signed by the president and the directors. The application should state the amount of the loan requested and the date of repayment.
2. A copy of the internal by-laws of the society stamped by the Cooperative Department of the Ministry of Agriculture.
3. A certificate of registration showing that the savings and loan society of Housh el-Rafica has been officially registered in the Cooperative Department.
4. The minutes of the general meeting in which the board of directors was elected.
5. The minutes of the meeting in which the members of the society voted to borrow from BCAIF.

¹¹ Interview with Mr. N. Zakharia, BCAIF. Manager of the Agricultural Division, Beirut, February 11, 1963.

6. The minutes of the meeting in which the directors were chosen to guarantee the repayment of the loan jointly and severally.
7. Statement of the property and estimated income of the directors approved by the mukhtar.
8. Budget of expected income and expenses of the society for the year. (See appendix B).
9. A list of all the members and the financial position of each and his estimated income.
10. Clearing statement from the loans clearing office for each of the directors to show that he has settled previous debts to the government, if there were any.

If the society meets all these requirements and attaches all the documents to the application form, then action on the application by the bank officials will follow immediately and the loan may be advanced two weeks after application.¹²

¹² Interview with Dr. T. Yafi, Director of BCAIF, Beirut, February 9, 1963.

CHAPTER VII

HOW THE SOCIETY HELPS THE FARMERS OF HOUSH EL-RAFICA

Many advantages of the cooperative society have been pointed out at different places in the preceeding discussion. It is appropriate at this stage to summarize these advantages and benefits that should accrue to farmers in Housh el-Rafica as a result of establishing a savings and loan society in the village.

Mobilizing the Farmers' Savings in the Village

Generally speaking, people of this part of the world have the habit of hoarding the surpluses they have in the form of cash money in their homes; in a pillow or under the mattress. Or they buy ornaments of silver and gold which the women wear around their necks or on their arms and fingers. In both cases, this money is in the form of idle balances that do not contribute to increasing the net social product of the community.

By forming a cooperative society, the members will get into the habit of investing their surplus funds in the society in the form of share capital or just deposit them, as in the

case of bank deposits. This practice has two advantages. First, the farmers receive dividends and interest on their money invested or deposited, respectively. Secondly, the savings are mobilized in the form of funds which are loaned to other members and enable them to increase production and the incomes of these farmers and, therefore, the total national income.

It might be suitable to cite an example from Japan. Most Japanese farmers leave the proceeds from the cooperative sale of their products in the credit division of the village multi-purpose society. They can charge any purchases against the balance in their account. In this way, the cooperative is able to maintain substantial deposits in the prefectural credit federation during a substantial part of the year. Some of these funds are loaned to fertilizer factories to buy materials and mix fertilizer for use by the farmers at planting time.

It is also important to mention that by continuous investment in the society the members will accumulate enough share capital to provide a substantial part of the funds for extending production loans to members, although the society will probably continue to borrow from BCAIF for many years.

Providing Credit at Moderate Cost

Members can get credit from their society at lower rates of interest than they used to pay to merchants and moneylenders. The rate of interest payable on the society loans will be 8 percent annually. This is a low rate compared to what the

farmers had to pay to moneylenders who very often charged rates of interests reaching as high as 30-40 percent annually.

The society will have the advantage of being in close proximity to the borrowers and will be able to make the smallest loans needed by its members. The farmers will not need to travel to the city to apply for credit because the society has funds right in the village.

The society will start by giving annual production loans to its members and as it gets stronger it will be able to advance intermediate loans for machinery, livestock, etc. and long term loans to pay off old debts at higher rates of interest. By forming a society the farmers of Housh el-Rafica will have access to bank credit up to LL 60,000 annually without land mortgage. However, members with substantial old debts could mortgage their lands to the BCAIF through the society for the long term loan repayable in annual instalments. This will reduce materially their annual interest burden. All these operations are effective in inducing the cost of obtaining needed credit.

Improving the Overall Economic Condition of the Farmers

The society should be able to provide for each member an adequate amount of credit to get all the various factors of production for optimum crop and livestock production. Not only the amount should be sufficient but also it will be scheduled at the time when it is required, thus contributing effectively to the farmers obtaining optimum output and increasing their

incomes substantially. It is not to be forgotten that the increase of every farmer's income contributes to the overall increase of the community income if it is invested in the society and loaned out where it is needed to finance production. The farmers will have higher net earnings because the cost of loans has become cheaper. Members become free to store their products for later dates and sell at higher prices. The society is expected to be able to assist members to refinance old debts carrying high interest and, therefore, reduce their annual interest payment.

The society may also carry on training and educational programs helping the farmers to adopt better cultural practices for increasing and improving their yields. It can call on the area extension advisor to teach these practices to the members.

It can be seen that all these practices are either income saving or income increasing devices. The society will guide its members to use their increased incomes in building the productive resources of their farms. In this way they will achieve and maintain high incomes over the long run.

Build Up Prestige for the Village

Farmers of Housh el-Rafica have the impression that the establishment of a successful cooperative society will improve the status of their village relative to other villages in the Beka'. To them this is a great gain and a worth-while reason for establishing a cooperative.

APPENDIX A

Questionnaire re Credit Needs of Farmers in Housh el Rafica

General Information About the Farmer and his Farm

1. Name of the farmer: _____
2. Number of dependents: _____
3. Educational level of the family? How many years of schooling do you have? _____ Your wife? _____ 1st son? _____ other sons? _____
4. How many dunums did you harvest this year?
 - a. Irrigated

1.	_____	4.	_____
2.	_____	5.	_____
3.	_____	6.	_____
 - b. Dry land

1.	_____	4.	_____
2.	_____	5.	_____
3.	_____	6.	_____
5. How many dunums do you still have unharvested?
 - a. Irrigated

1.	_____	4.	_____
2.	_____	5.	_____
3.	_____	6.	_____
 - b. Dry land

1.	_____	4.	_____
2.	_____	5.	_____
3.	_____	6.	_____
6. How many dunums do you have idle fallow to plant next fall? _____
7. Are you

a.	Owner of some land?	_____
b.	Tenant?	_____

- c. Partly owner and partly tenant? _____
- d. Laborer? _____
8. How many dunums of land do you own? _____
9. Do you have the land fragmented or in one piece? _____
Number of pieces? _____
10. What kinds of practices and operations do you employ?
- a. Traditional farming? _____
- b. Partly traditional and partly mechanized? _____
- c. Mechanized? _____
- d. Do you hire a tractor? _____ Cost? _____
11. What kinds of seeds do you buy? _____

How much? _____
12. Do you sow seeds you have saved? Yes ____ No ____ Rarely ____
13. On what crops do you use chemical fertilizers? _____
14. How much fertilizer did you buy for your crops last fall?
_____ This spring? _____
15. On what crops do you use chemical sprays? _____
How many kilograms did you buy? _____
16. How many milk cows do you keep? _____
What happens to the calves? _____

17. How many kilograms of milk or labni do you sell per week?

18. How many laying hens do you or your wife have? _____
19. How many eggs do you market each week? _____
20. What other animals do you have? _____

21. At what place and from what kind of merchant do you buy your supplies? _____
When do you pay for them? _____
22. How much more is the price at harvest than if you paid cash at the time of buying? _____

Marketing Farm Products

23. Where do you sell the produce? _____ To what kind of merchant do you sell? _____
24. Are you required to sell your product to a particular merchant? _____ Do you receive the usual market price? _____
25. Do you have to deliver to his shop or warehouse? _____
26. Do you market all the produce at the time of harvest or do you hold some to sell later? _____
27. Does later sale increase your returns? _____
28. Where do you store the products you do not sell at harvest time? _____
29. Do you sell any crops before harvesting? _____
How do the total returns compare with selling in the market as you harvest the product? _____
30. What difficulties do you encounter in marketing? _____
- a. Transport to the market? _____
 - b. Finding a reliable merchant to buy? _____
 - c. Is the price what others receive? _____
 - d. Are weights correct? _____
 - e. Is payment prompt? _____
31. Are you satisfied with the marketing of your products? _____

- a. _____
- b. _____
- c. _____
- d. _____

Financial Position of the Farmer

32. Do you borrow to plant and harvest your crops? Yes ___ No ___

33. Why do you need to borrow? _____

- a. Buy seed? _____
- b. Buy fertilizers? _____ Supplies? _____
- c. Living expenses? _____
- d. Hire tractor? _____
- e. Buy machine? _____
- f. Buy animals? _____ feeds? _____
- g. Others? _____

34. When you need to borrow money, where do you go to get it?

35. Is it easy to borrow? _____

What are the charges? _____

36. Where did you use to borrow in the past? _____

at what rates of interest? _____

37. How much were you able to repay during 1961? _____

38. From where did the money come? _____

39. Do you find it difficult to repay what you borrowed? _____

40. Were the arrangements satisfactory? _____

- Reasons: a. _____
b. _____
c. _____
d. _____

41. How much money do you think you will need to borrow next year? _____ For what purposes? _____

42. After what period do you think you can repay

a. A seasonal loan? _____

b. Longer period loan? _____

43. What rate of interest do you pay? _____

Do you find it: High? _____

Medium? _____

Low? _____

44. Do you owe money and in what amount? _____

How much was borrowed before 1962? _____

45. What problems do you find in borrowing? _____

a. Security required - land mortgage

Guarantors? _____

b. High rate of interest? _____

c. Amount of instalment required? _____

d. Difficulty in arranging loans - few lenders? _____

- not enough money? _____

e. Getting guarantors? _____

f. Others _____

Cooperative Savings and Loan Society and its Services

46. A cooperative savings and loan society can borrow LL 60,000 from BCAIF without mortgage on land.

Do you think such a society would be of benefit in your village? _____

47. It can borrow at 5% but would have to charge 7 or 8% in order to cover the expenses of the society.

Would you be willing to pay 8% Yes _____ No _____

Why not? _____

48. Should any official be paid in addition to the secretary-treasurers who keep account books and handles the applications, payments and repayments? _____

49. Should the society see that the borrower uses the money for the purposes stated in their applications in order to assure their ability to repay? _____

50. Would it help the society to assist applicants to plan how loans could help them expand production to increase their income _____

51. Should the society advise members how to carry out their plans? _____

52. If the members need more than LL 60,000 the excess should come from the members savings deposited in the society.

Would you be willing to deposit some money in such a society?

53. How much money should members put in the society each year?

a. Shares? _____

b. Deposits? _____

54. Would it help members to repay if there were a cooperative to market their wheat, vegetables, milk etc. _____

55. Would you be willing to have your loan deducted from the money from selling your products through a marketing cooperative? _____

Ideas about and Understanding of Cooperation

56. What is the purpose of a cooperative?

a. Make money for members? _____

b. Pay high profits on the money the members invest? _____

c. Perform services needed by the members at low cost? _____

d. Others? _____

57. Who controls the cooperative?

a. Government? _____

b. Director? _____

c. Manager? _____

d. Members? _____

e. Others? _____

58. How many votes does a member of a cooperative have? _____

59. How much should it cost a farmer to join a cooperative? _____

60. Should every farmer in the village be asked to join a cooperative? _____

On what basis should farmers be admitted as members ? _____

61. How do you like the idea of cooperation? _____

62. Do you think a cooperative should be separate from politics and religion? _____

63. How do you think a savings and loan society would benefit farmers in your village? _____

APPENDIX B

I. Budget for the Society for the First Year

Ending September 30, 1963

Assumptions

1. Number of members is 20.
2. Number of shares is 100 and the share capital therefore is LL 1000, which means that the members can borrow LL 10,000.
3. Deposits: 20 members at LL 50 = 1000 on which no interest shall be paid because they are deposited at the end of the year.
4. Rent of an office is without charge.
5. Secretary-Treasurer is not paid during the first year because the work will be done on a volunteer basis.
6. Loans are given for 9 months.
7. Dividends on share capital are to be paid at 4 percent annually.

Receipts:

Interest on loans at 8% annually for	
9 months 10,000 x 8/10 (9/12)	LL 600

Expenses:

8 trips to the bank in Beirut at LL 5 each	LL 40
Interest on loan from B.C.A.I.F. at 5%	
annually for 9 months 10,000 x 5/10	
(9/12)	375

Stationery, account books, postage, etc. LL	50	
Miscellaneous	20	
Total expenses for the year		<u>485</u>
Net savings for the first year ...		115

Disposition of Net Savings

Dividends on LL 1,000 of share capital at 4% annually	40	
Placed in reserve of the society	75	
Total		115

II. Budget for the Society for the Fifth Year

Ending September 30, 1968

Assumptions

1. Number of members is 40.
2. Number of shares is 600 and the share capital therefore is LL 6,000, which means that the members can borrow LL 60,000.
3. Deposits after 5 years will be assuming that the membership increases at the rate of 5 members each year:
1st year 20 members at LL 50 = LL 1000
2nd year 25 members at LL 50 = LL 1250
3rd year 30 members at LL 50 = LL 1500
4th year 35 members at LL 50 = LL 1750
5th year 40 members at LL 50 = LL 2000
4. Deposits of the 5th year, namely 2000, earn no interest because they are deposited at the end of the year and they are not available for loans. The deposits loanable at the beginning of the 5th year are LL 5,500.

5. Rent is LL 100 per year.
6. Part-time Secretary-Treasurer, compensation LL 600 for the year.
7. Society investment in fixed assets = LL 1000.
8. Dividends on share capital at 5 percent and interest on deposits at 4 percent annually.
9. The Society needs to borrow from B.C.A.I.F. LL 49,500 because it has LL 10,500 of share capital plus deposits which are available for loaning.

Receipts

Interest on loans at 8% annually for 9 months
60,000 x 8/100 (9/12) LL 3,600

Expenses

Interest on loan from B.C.A.I.F. at 5%
annually for 9 months 49,500 x
5/100 (9/12) LL 1,806

Interest on deposits of LL 5,500 at 4% 220

Compensation of part-time Secretary-
Treasurer 600

Rent 100

Stationery, record book, postage, etc. 100

Miscellaneous expenses 100

Total expenses for the year 2,926

Net savings for the year 674

Disposition of Net Savings

1. Dividends on LL 6,000 of share capital
at 5% annually 300

2. Placed in the reserve of the Society 374

Total 674

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