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**Agricultural Credit in Lebanon**

By

**Pierre A. Salha**

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## ABSTRACT

The problem of the farm population which suffers from lack of adequate credit, excessive interest rates and low productivity, is complex: Any attack on it requires an integrated approach over the whole front. In order to accelerate capital formation in agriculture, the task is to increase both the demand and supply for investment in productive forms in the agricultural sector of Lebanon.

At present, it appears that a weak demand for capital to be placed in productive use is equally important in limiting agricultural development than a short supply of funds. At a later time, as development proceeds, the demand for capital may increase rapidly so that the limited supply of capital will become a major factor in limiting the growth of agriculture.

Agricultural credit is one of the important weapons in such a development, but it loses a good deal of its value if used by itself and without support from other developmental activities. Farm indebtedness and the lack of capital cannot be dealt with simply by the provision of credit. Increasing the village farmer's knowledge of the production opportunities open to him is probably the major way to increase the flow of capital into farming and hence to increase agricultural production.

Education or credit alone will not do the job that needs to be done--to supply funds without showing farmers how to use them would too often result in debt-burdened farmers and bankrupt lending

institutions. To supply the educational assistance without the funds would too often leave the farmer without means of putting his knowledge to work.

Discussion of agricultural credit might turn out to be largely sterile unless there were an assurance of a sufficient flow of financial resources into the agricultural credit system. Accordingly special emphasis was put upon the purposes for which funds are needed and the means by which these funds are obtained.

While this determined the central theme and the major aim, it was soon found, that the flow of funds into agriculture, and the purposes for which they are in fact used are determined by a whole complex of conditions, including the techniques of using funds.



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## CHAPTER I

### AGRICULTURE IN LEBANON

#### A. The Agricultural Sector

Lebanon is a small country; its total area does not exceed one million hectares.

The weather in Lebanon is characterized by short, humid winter and long, dry summer. The topography of the country gives Lebanon an advantage not enjoyed to a similar degree by any of its Arab neighbours. Semi-tropical products such as bananas are grown on the coast while apples and pears, that thrive only in a cold climate, are grown in the mountains. The rainfall varies greatly between the different seasons and locations. The rain is concentrated in the period December-February. The rainfall is much more important in the coast side and in Mount Lebanon than in the Bekaa Valley and the Anti-Lebanon. The average yearly rainfall is around 836 mm. on the coast side.

Only 386,000 hectares, one third of the total area of Lebanon, is presently utilized for agricultural purposes.<sup>1</sup> Out of this cultivated area, 75,000 hectares are irrigated, that is only 20 per cent of the cultivated land. These figures and percentages give us rather a broad

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<sup>1</sup>Institut De Formation en Vue Du Developpement, (I.F.D.)-  
Le Liban Face a Son Developpement. (Beyrouth: 1963), p. 219.

idea and not exact measures. The estimate of cultivable area, whether liberal or conservative, has a meaning only in relation to the capital outlay which is to be made for the improvement of agricultural land and methods of production. Due to the physical setting of the country, it is very unlikely that the total cultivated area in Lebanon can be increased in the near future or that the percentage of the irrigated land can be extended.<sup>1</sup> Indeed, the limit to expanding the cultivated area can be set as the increasing cost of developing marginal land and the decreasing returns from such lands. To get the benefits of an intensive use of agricultural land, the major problem is to establish a complete network of irrigation systems; irrigated lands give returns up to five times more than non-irrigated land. The water supply available in Lebanon is, in comparison with neighbor countries, of great importance. However the irrigation projects have not yet been fully expanded. Total irrigated areas have been increasing substantially over the last decade; from 30,000 hectares in 1955, the irrigated area jumped to 73,000 hectares in 1960.

The agricultural sector in Lebanon can be divided into six major production groups: Fruits, vegetables, cereals, industrial crops, animals, forests.

Among the fruits, apples have experienced in the last decade a boom. Huge amounts of capital have been invested in apple plantations. The production which was 19,000 tons in 1954 reached 60,000

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<sup>1</sup>Information privately secured from the Ministry of Agriculture--  
Lebanon.

tons in 1960. Moreover, production of apples will go on increasing in the years to come and will eventually reach 150,000 tons per year when new plantations start yielding.<sup>1</sup>

Citrus fruits have also undertaken an increase both in area cultivated and in production. In 1954, 6,000 hectares were used to produce 95,000 tons of citrus fruit per year. In 1960, 8,000 hectares have produced 150,000 tons.<sup>1</sup> Production will increase moderately when new plantations start yielding.

Among other fruits, Lebanon produces 31,000 tons of banana per year, 8,000 tons of peaches, 6,000 tons of cherries, 5,000 tons of medlar...<sup>2</sup>

Production of most fruits exceeds local needs. The cultivation of fruits' trees necessitates huge amounts of capital to work out the land, improve it and provide for all current expenses during the period when the trees are not yet yielding.

Among vegetables we mention tomatoes which are intensively cultivated in Lebanon. In 1960, 2,500 hectares have produced 31,000 tons of tomatoes.<sup>3</sup> Production of tomatoes can just satisfy the local market.

Lebanon produces 35,000 tons of onions per year, 21,000 tons of cucumbers.

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<sup>1</sup>Institut De Formation En Vue Du Developpement, op.cit., p. 234.

<sup>2</sup>Ibid., p. 224.

<sup>3</sup>Ibid., p. 221.

Most of these products are locally consumed. The cultivation of vegetables requires short-term capital. The time period varies with the crop cycle but it does never exceed nine months.

Among cereals, wheat comes first. The production of wheat in Lebanon is not undertaken on a large scale. This is due mainly to the smallness of the territory and partly to the meager returns that the cultivation of wheat gives to farmers. There is, therefore, a shortage of wheat and Lebanon has to import every year a quantity of wheat which varies between 65,000 and 124,000 tons depending upon the out turn of the local crop.<sup>1</sup> Lebanon produces 19,000 tons of maize per year; 20,000 tons of barley.

The cultivation of cereals requires short-term capital. This capital to be productive, must be cheap.

Among the industrial crops, vineyards cover 23,000 hectares and produce 85,000 tons of grapes per year.<sup>2</sup> Olives are also a very important culture in non-irrigated land. An area of 22,000 hectares gives 10,000 tons per year. Sugar beet has a very stable market in Lebanon. It is cultivated over an area of 1,500 hectares and produces 15,000 tons per year. Tobacco is grown on the poor lands. At present 4,100 hectares produce 3,000 tons per year. The cultivation of tobacco can be extended over large areas, however, its cultivation is subject to control of the state monopoly.

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<sup>1</sup>Ibid., p. 235.

<sup>2</sup>Ibid., p. 224.

In animal production, Lebanon imports yearly 100 millions Lebanese pounds in value of meat, fish, milk, cheese and butter.<sup>1</sup> Lebanon also formerly imported chickens and eggs; but the recent development of the poultry industry has made Lebanon become an exporter of chickens and eggs. In 1962, the added value of the poultry industry to the national income of Lebanon was 21 millions of Lebanese pounds.<sup>2</sup> A total of 700 registered poultry farms in Lebanon have produced in 1962 ten million chickens, and 100 million eggs. Total investment in the poultry industry amounts to 95 million Lebanese pounds; 50 million are fixed in land, buildings and machineries, the other 45 millions represent the working capital. The drop in the price of chickens has made any new enterprises in the poultry industry marginal.

Methods of fisheries in Lebanon are old and primitive. Fish is a scarce item, and an expensive one. Lebanon imports fish for local consumption. The industry of milk, cheese and butter is very primitive in Lebanon and does not meet the needs of local consumption.

Animal products in Lebanon offer great opportunities for profitable investment. It requires capital and technical knowledge some of which is presently coming from Denmark.

Forests in Lebanon cover an area of 75,000 hectares. They produce per year around 15,000 tons of wood. Lebanon imports yearly

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<sup>1</sup>L'Economie Rurale, (No. 27, Octobre 1963) p. 21.

<sup>2</sup>L'Economie Rurale, (No. 22, Mai 1963) p. 17.



50,000 tons of wood. Great prospects do exist for the extension of forests in Lebanon. The state is the owner of nearly 70 per cent of the forests and pasture land.

According to the 1960 estimates, Lebanon counts 1,626,000 inhabitants.<sup>1</sup> A total number of 810,000 persons, 49.25 per cent of the Lebanese population, live in rural areas. The urban population counts 816,000 persons, that is 50.75 per cent of the total population. The number of the active population is 800,000 persons. However, the real number of workers does not exceed 450,000 permanent and 130,000 occasional workers.

There are in Lebanon 150,000 agricultural "exploitations" of all sizes.<sup>2</sup> About 220,000 persons have agriculture as their only or principal activity. An additional 100,000 persons have agriculture as a secondary activity. People making their living indirectly from the agricultural sector, that is all those who work in the trade, transportation and warehousing of agricultural products, can be evaluated as from 50,000 to 60,000 persons. The grand total of persons directly or indirectly working in the agricultural sector thus amounts to 370,000 persons or around two thirds of the active working Lebanese population.

Table 1, gives us a clear idea of how national income is generated from the different sectors of the economy. It shows us also the number of workers engaged in each sector and the per capita

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<sup>1</sup>Institut De Formation En Vue Du Developpement, op.cit., p. 209.

<sup>2</sup>Le Commerce Du Levant, (Avril, 1963), p. 26.

national income that each group of workers produce.

TABLE 1  
NATIONAL INCOME AND WORKING POPULATION--LEBANON, 1957<sup>1</sup>

| Sector         | National Income |       | Persons Working |      | N.I. per capita working |       |
|----------------|-----------------|-------|-----------------|------|-------------------------|-------|
|                | L.L.<br>1,000   | %     | 1,000           | %    | L.L.                    | %     |
| Agriculture    | 238             | 15.85 | 220             | 48.9 | 1,082                   | 0.32  |
| Industry       | 189             | 12.60 | 54              | 12.0 | 3,500                   | 1.04  |
| Construction   | 41              | 2.70  | 35              | 7.3  | 1,242                   | 0.37  |
| Transportation | 80              | 5.30  | 24              | 5.3  | 3,333                   | 1.00  |
| Commerce       | 469             | 31.25 | 53              | 11.8 | 8,849                   | 2.64  |
| Finance        | 91              | 6.00  | 2               | 0.4  | 45,500                  | 13.62 |

From the above table we see that agriculture gives to farmers very small incomes in comparison with other sectors of the economy. Indeed, 48.9 per cent of the working persons generate only 15.85 per cent of the national income. This discrepancy between the different sectors of the Lebanese economy is given more emphasis when we consider that the national income per capita working in the agricultural sector is L.L. 1,082, while at the same time it is estimated as 45,500 Lebanese pounds in the financial sector.

#### B. Agriculture and Economic Development

Economies which are not very well developed usually manifest

<sup>1</sup>IRFED-Liban, Etude Preliminaire sur Les Besoins et Les Possibilites, (Beyrouth, 1959-1960), Vol. 1, p. I.I.33.

a lack of balance among the different fields of economic activity. Agriculture in Lebanon, although characterized by low productivity, tends to be dominant in the extent of employment it gives. However, even with unchanged techniques, a large part of those presently engaged in agriculture could be removed from the agricultural sector without reducing agricultural output. This situation sometimes described as "disguised unemployment,"<sup>1</sup> denotes a condition of family employment on the farm. There is a great waste of labour, and yet labour is most needed for development. Moreover, industrial development in Lebanon depends upon the expansion of the local market in order to absorb the national industrial products. Market expansion is a process of cultivating taste among masses and of raising their purchasing power. Since nearly 50 per cent of the Lebanese population derives its livelihood from agriculture, the expansion of a local market means primarily the raising of purchasing power among farmers. The raising of their purchasing power can alone come about both by increasing their productivity and by increasing their real income.<sup>2</sup>

Without overlooking the roles of foreign trade, fiscal policies and similar factors, levels of living cannot be raised in Lebanon and maintained without real increases in total production and in per

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<sup>1</sup>Ragnar Nurkse, Some Aspects of Capital Accumulation in Underdeveloped Countries, (National Bank of Egypt, Cairo, 1952), p. 20.

<sup>2</sup>Organization Europeenne de Cooperation Economique, Cycle de Conferences sur le Developpement Economique, (Universite de Madrid, 1961), p. 57.

worker production. Farmers over a period can consume only at a rate that is equivalent to what they produce. Correspondingly, if per capita production is low, likewise per capital consumption will be low. If ways and means are developed of increasing the output per person, the rate of consumption will rise. Increases in output are achieved through the adoption of improved technology in agricultural production. This means economic ways of increasing crop yields per hectare, production per animal unit, and the number of hectares and animals handled per person. It also includes economic means of increasing the area devoted to agricultural production and improving marketing methods and facilities. However, there are in Lebanon many current forces which work against the enhancement of the productivity of farmers. Among these are primitive methods of cultivation, lack of proper soil conservation, wasteful use of water resources, lack of proper use of fertilizers, lack of effective methods for combatting agricultural diseases. Improvements along these lines require, among other things, capital in the hands of farmers, particularly small and medium-sized farmers. Such capital can be brought about by an effective and wise policy of credit extension. It therefore becomes clear that agricultural credit is the key not only to rural improvement but also to the whole process of economic development of Lebanon.

The investigation of capital in Lebanese agriculture has been chosen as the focus of this study because it appeared to the author to be a crucial variable in the process of economic growth in Lebanon. Capital is likely to be particularly important for the increase of agricultural production in Lebanon because due to the limited avail-

ability of suitable agricultural land, it is difficult if not impossible, to put more land into farming. At the same time agricultural labor, although generally available in Lebanon, produces under the present conditions a low marginal return. In such situations, of the three traditional economic inputs in agriculture, land, labor and capital, capital appears to offer in Lebanon the major possibility for a rapid increase in agricultural output.

Agricultural credit has established itself throughout the world as an essential element in increasing farm production.<sup>1</sup> Good crops come from good seeds; better seeds can be purchased from reputable dealers; money is required to buy seeds. Fertilizers are used to increase agricultural production; farmers need money to purchase fertilizers. Equipment is necessary to help farmers secure more produce from their lands; equipments cost money. Farmers need to improve the lands they cultivate by installing irrigation and drainage systems which if developed bring better returns; but these land improvements cost money. Available credit, on reasonable terms, may permit the farmer to expand his farm and make it an economic unit; expansion cost money. In substance, without credit farmers may find it impossible to obtain good seeds, insecticides, secure equipments, improve or expand the land they own. With credit, these items can be obtained and increased production can result.

Thus, an increase in agricultural production in Lebanon is

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<sup>1</sup>Harvey Hall, (Ed.) Middle East Resources, Problems and Prospects (The Middle East Institute, Washington, 1954) p. 81.

not to be sought in the expansion of cultivated areas, as much as in the intensification of agriculture and the improvement of production techniques. This trend is currently under way in Lebanon; during the last few years, the production of vegetables and fruits has tremendously increased. This increase in production has been made possible through huge amounts of new capital investment in fruits and vegetables.<sup>1</sup>

Table 2 gives us the past record of national income generated out of the agricultural sector as compared with national income generated from all sectors including agriculture. New investment in the agricultural sector are also matched with new investment in all sectors.

Table 2

NATIONAL INCOME AND NEW INVESTMENTS--LEBANON<sup>2</sup>  
IN MILLIONS OF L.L.

|                             | 1950 | 1951 | 1952 | 1953 | 1954 | 1955 | 1956 | 1957 |
|-----------------------------|------|------|------|------|------|------|------|------|
| <b>Agricultural Sector:</b> |      |      |      |      |      |      |      |      |
| National Income             | 206  | 211  | 216  | 221  | 226  | 223  | 231  | 238  |
| New Investments             | 12   | 14   | 15   | 17   | 20   | 15   | 22   | 18   |
| <b>Total All Sectors:</b>   |      |      |      |      |      |      |      |      |
| National Income             | 1042 | 1086 | 1115 | 1168 | 1256 | 1374 | 1417 | 1503 |
| New Investments             | 160  | 136  | 150  | 155  | 165  | 206  | 225  | 203  |

<sup>1</sup>Food and Agriculture Organization, (F.A.O.), Mediterranean Development Project--Lebanon, (Country Report, Rome 1959), p. I.4.

<sup>2</sup>IRFED--Liban, op.cit., Vol. 1, p. I.I.29.

From the above table we can see the weakness of the agricultural sector. Indeed, during the period 1950-1957, the national income generated from the agricultural sector increased by 16 per cent while, the national income generated from all sectors, including agriculture, increased by 50 per cent.

Economic development is largely a problem of capital accumulation. Demand for capital is governed by incentives to invest, the supply by ability and willingness to save. In underdeveloped countries, a circular relationship exists on both sides.<sup>1</sup>

Small capacity to save results from low levels of real income, which result from low productivity which is due in turn to lack of capital which is the result of the small capacity to save.

Inducement to invest is low because of the small buying power of the farmers which is due to their small real income which reflects their low productivity as a result of the small amount of capital used in production, which is in turn caused by the low inducement to invest. Usually the trouble on the supply side receives all the attention and emphasis. Indeed, it is obvious and serious. But, there are also difficulties on the demand side as well. During any period of time, the amount of capital invested in agriculture is a result of the interaction between the supply and demand for capital. In economically underdeveloped countries the demand and the supply of capital are both small and inelastic. As a result, little capital is

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<sup>1</sup>Ragnar Nurkse, op.cit., p. 1.



invested at high cost. As development proceeds, demand for capital greatly increases and becomes more elastic. Supply also increases and becomes more elastic, as the sources and quantities of funds become more plentiful. As a result, greater quantities of capital are offered and at lower cost. However, in the last resort, the cost of capital in agriculture will depend upon the relative rates of increase in the supply and demand for capital in the other sectors of the economy.

In the last few years, the Lebanese government has come more and more to realize that the root of unrest is a strong desire for higher standards on the part of disadvantaged people. In Lebanon, where the rural community constitutes a large part of the population, changes that will make for a better life are very much institutional in character. The rural community is seeking greater opportunities. A strong, dynamic, and sound agricultural credit system is one important means of satisfying this desire. It enables farmers, through their own effort, to improve their social and economic positions. Education and training plus credit at the community level can be powerful forces in implementing the achievements of each, and in making for increased production per farm-family and for improved rural living. But credit in agriculture can either be an instrument of progress or an instrument of stagnation and repression.<sup>1</sup>

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<sup>1</sup>Elizabeth Bauer, (Ed.), Proceedings of the International Conference on Agricultural Credit and Cooperative Credit, (University of California, Berkeley, 1952) Vol. 1, p. 30.



It is a common place of economically poor communities that by indebtedness at high interest rates, men are kept in poverty and held in bondage. It is only when agricultural credit is combined with farm and home planning and technical on the farm supervision that it becomes an effective device for expanding production and therefore improving the conditions of the farmers.<sup>1</sup> Many farmers who would otherwise be marginal producers can be assisted in maximizing their net returns so as to contribute more to the overall development of Lebanon

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<sup>1</sup>John Heilman, Agricultural Credit (Caracas: Consejo de Bienestar Rural, 1953), p. 53.

## CHAPTER II

### THE SUPPLY OF CREDIT FOR AGRICULTURE

#### A. Private Sources

##### 1. Self-Financing in Agriculture:

Reliable estimates of direct savings by Lebanese farmers are not generally available. However, a low volume of savings in agriculture can be regarded as inevitable, lower than in other sectors, because of very low real, and still lower cash incomes.<sup>1</sup> Indeed the value of agricultural production as a percentage of the national income of Lebanon is proportionately less than the numbers of the population dependant on farming in relation to total production. In general terms, the amount a household saves in any time period can be considered to be divided into funds which are invested and funds which are hoarded. The amount is usually considered to be a function of the level of income in the previous period. The proportion of income invested plus the proportion of income hoarded plus the proportion of income consumed must equal the total income in any period. However, the propensity to invest is considered to be a function of income; at low income it becomes very small and at large income it becomes much larger.

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<sup>1</sup>Food and Agriculture Organization, (F.A.O.), Agricultural Financing and Credit for Asia and the Far East, (F.A.O., Report No. 631, Rome 1957), p. 46.

Per capita income in Lebanon is around L.L. 1,200. However, this income is very inadequately distributed both among people and among different sectors of the economy. The annual income per working person in the active labor class is below L.L. 2,000. This class represents 78 per cent of the Lebanese population.<sup>1</sup> The annual income per working person in the middle class varies between L.L. 2,000 and L.L. 10,000. This class represents 20 per cent of the Lebanese population. The annual income per working person in the upper class exceeds L.L. 10,000. This class represents only 2 per cent of the population.

Savings in agriculture tend to be influenced less by investment motives and more by the urge to maintain the farm going on.<sup>2</sup> Where agriculture is risky, farmers run into debt over two or three years, repaying when conditions improve; but, where agriculture carries very little risks, farmers tend to live close to their incomes year by year.

But the savings accruing as well as the losses falling on Lebanese farmers are not a full measure of the surplus available for savings arising from the agricultural sector. Indeed, it appears that through interest on loans paid to creditors outside the villages and rents paid to absentee landlords, a considerable proportion of the

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<sup>1</sup>Pierre Nasrallah, Le Credit a Moyen Terme au Liban, (Librairie Generale de Droit et de Jurisprudence, Paris 1961), p. 26.

<sup>2</sup>Information secured by the author from interviews with farmers.

income generated by farmers is drained out of the rural areas. The sole conclusion which appears sure is that only among the relatively wealthy farming families will it be possible to find farmers which are able to make appreciable investments from internal savings alone.

Agriculture of subsistence is characterized by small holdings exploited by farmers' families. Self-financing in the agriculture of subsistence has two sources: internal domestic and external foreign. In the case of agriculture of subsistence, we cannot technically use the term "capital investments;" it is rather a transfer of funds from outside agriculture and in relatively small amounts. Internal domestic sources of funds in agriculture of subsistence refer to wages and salaries of some members of the farmer's family who are engaged in the administration or in some nearby industrial concern or whose daughter works as a housemaid in the city. It is the rent of the house during summer time to people coming from Beirut.<sup>1</sup> External foreign sources of funds in agriculture of subsistence are mainly constituted by emigrants' remittances. These remittances, sometimes very modest, are important because they occur at regular interval and are therefore a reliable source of income to Lebanese farmers. Self-financing in the agriculture of production comes directly from the other sectors of the economy, especially from industry and trade. Traders and industrialists, having some surplus money which they want to invest, look for opportunities open to them in

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<sup>1</sup>Pierre Nasrallah, op.cit., p. 95.

the agricultural sector. The agricultural projects are sought both in terms of the security they offer and their expected profits. These people, having capital of their own and knowledge have invested substantial amounts in the agricultural sector. They are responsible for the recent development of fruit cultivation.<sup>1</sup> They use advanced technology and modern methods of production, but in a limited sector only. Self-financing in the agriculture of subsistence as well as in the agriculture of production gives additional income in the first case and effective capital in the second. But, this self-financing, even though is very important at this stage of development, cannot be relied upon for a longer period of time. Indeed, its focus is situated outside the agricultural sector.

The agricultural sector as an entity is and remains unable to generate capital for itself to be self-sufficient. The need of credit from outside sources is inevitable. Due to the disequilibrium between an increasing population and a small territory, and due to the limited opportunities for capital investment, we have experienced in Lebanon, some transfer of funds from the trade and industrial sector into the agricultural sector. But this transfer of funds cannot be sustained for long period of time.

In conclusion, an increase in agricultural output in Lebanon is closely related to an intensification in the methods of production. This presupposes the investment of huge amounts of capital. But these

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<sup>1</sup>Ibid., p. 96.

amounts do not have to be borrowed in their totality. A large part has been obtained by self-financing and by transfer of funds from other sectors. However, a substantial part remains and has to be provided by reliable institutions.

## 2. Non-Institutional Sources

Involved here are the various possible sources of funds which present the individual farmer with a supply schedule of available funds at certain costs. These sources are informal and are not organized. Among these sources are the borrowing possibilities among relatives, moneylenders, landlords and village merchants. Relatives may offer loans at very low rates of interest and on easy terms. However, capital from this source may soon be used up. It is not also available to the whole community. Although there is a fairly large quantity of funds available from moneylenders, landlords and village merchants, the interest rates are usually very high. This makes it dangerous to borrow and difficult for a farmer to be sure that as a result of the loan he will come out ahead. The number and terms of loans given by these non-institutional sources cannot be known or even evaluated: Family ties, religious affiliations, personal relation all these factors altogether, affect the pattern of distribution of credit through these informal non-institutional sources.<sup>1</sup>

Distribution of credit among these sources is not very often economical-

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<sup>1</sup>Le Commerce du Levant, (Avril, 1963), p. 26.

ly justifiable. It is sometimes due to a spirit of solidarity and help among the different members of the community.

Medium and small-sized farmers who are either tenants or owners of small holdings, are unable to offer the security required by traditional credit institutions. They resort to borrowing from professional moneylenders who charge usurious rates of interest. An interest rate of 6 to 10 per cent per month is considered a common one.<sup>1</sup> Moneylenders ask for high interest rates not only to secure maximum profits but also to cover losses which they sustain from these operations. They know that a fair proportion of their debtors are likely to default; and recovery of loans from defaulters may be very difficult. For these reasons, they consider themselves justified in charging very high rates on all loans.<sup>1</sup> The debtors who repay suffer burdensome interest rates because of those who default. However, it must be understood that moneylenders prefer that debtors should not repay the principal of their loans, since if they pay the interest with reasonable regularity, such interest represents a lucrative return on their capital. Nevertheless, moneylenders fulfill a vital need, namely the supply of credit to farmers when these are in need of it, and when nobody else is willing to offer them credit. However, the presence of proper institutional facilities would have a very good

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<sup>1</sup>Institut De Formation En Vue Du Developpement, op.cit., p. 230.

<sup>2</sup>Information secured by the author from interviews with moneylenders.

competitive position on inducing moneylenders to make loans on reasonable terms.

The grain merchant is often the moneylender. He advances the seeds to the farmers, at a recorded price higher than the market price. At harvest time, he recovers the debt in kind. The merchant considers himself as doing a favour to the farmer when he makes this advance to him at the time of need. This method of operation avoids the charge of usury for, under the existing law, usury is punishable, and interest above the rate of 9 per cent per annum, may not be recovered by legal process.<sup>1</sup> The transaction appears as a sale on credit by the merchant to the cultivators, and the recovery is a purchase of grain by the merchant from the cultivators. The merchant takes a large part of the farmers' produce and leaves them with little surplus to sell on the market, thus giving them little or no opportunity to accumulate capital. The three aspects of the problem are: First, high interest rates. Second, the need to furnish to the merchant the loan in kind. This weakens the bargaining power of the farmer and makes him miss the opportunity to sell his produce at higher price. Indeed, the price of recovery is fixed by the merchant. Finally, the farmer has to sell his produce at time of harvest, when prices are low. He loses the opportunity to keep his produce and sell when prices rise.<sup>2</sup>

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<sup>1</sup>Article 662 of the Lebanese Penalty Law, states that any person who charges implicitly or explicitly a higher interest rate than the legal rate, i.e. 9% would be subject to a fine up to half the principal and to imprisonment of not more than one year, or to either penalty.

<sup>2</sup>J.C. Abbott, Les Problemes de la Commercialisation et Leur Solutions, (F.A.O., Rome 1958), p. 133.



If the increase in production is to be for the benefit of the farmer, the money he borrows must be on reasonable terms. The farmer must improve his net returns. The well-being of the family is not determined by the gross amount the farmer produces, but by the amount of produce which is left to the farmer after paying his obligations. If a farmer borrows money at usurious interest rates, he will be paying an important part of his income for the use of the money borrowed. The loss of money paid out in interest is not the only penalty. Indeed, very often, the debt places him under the control of the creditor, making him lose his self-respect and sometimes his farm.<sup>1</sup> As a consequence, a small class of absentee landowners, owning scattered plots which they will not cultivate effectively, may come into existence. In other cases, farmers who still retain their land will sink under a heavy burden of accumulated interest payments. Farmers will be deprived of all incentive to work and will become idlers or desert the land.

"Rural Indebtedness" is usually taken to mean a condition of uneconomic, uncontrolled and frequently oppressive indebtedness, in which farmers are the debtors of moneylenders, merchants and others, on terms incompatible with sound credit principles.<sup>2</sup> The effects of excessive rural indebtedness upon farmers can be disastrous. Chief

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<sup>1</sup>Harvey Hall, (Ed.), op.cit., p. 82.

<sup>2</sup>Food and Agriculture Organization, Report of the Technical Meeting on Agricultural Credit for the Arab States, (F.A.O. Rome 1954), p. 18.

among the causes that lead to such heavy and oppressive rural indebtedness of Lebanese farmers is not known, nor can it be properly measured as all the information available on the subject are totally inadequate. Indeed, present estimates of rural indebtedness are no more than guesses. The only reliable information available on the subject is from a sample survey which was conducted in the Bekaa Valley in 1953. It is evident that this survey which covered only 146 villages in a relatively poor area, cannot be taken as representative. However, it indicates a pattern which, for lack of better estimates, presents a good illustration.

Table 3 gives us the results of the sample survey.

TABLE 3  
SOURCES OF AGRICULTURAL CREDIT--SAMPLE OF 146 VILLAGES IN BEKAA VALLEY<sup>1</sup>--1953

| Sources              | No. of Loans | Value L.L. 1,000 | % of total sources | Average rate of interest |
|----------------------|--------------|------------------|--------------------|--------------------------|
| Specialized Agencies | 24           | 56.7             | 11.5               | 6.9                      |
| Other Banks          | 42           | 195.9            | 40.0               | 18.5                     |
| Moneylenders         | 90           | 210.0            | 43.1               | 22.4                     |
| Landlords            | 5            | 18.1             | 3.7                | 24.0                     |
| Relatives            | 17           | 8.1              | 1.7                | 3.3                      |
|                      | 178          | 488.8            | 100.0              |                          |

<sup>1</sup>Agenda, Working Materials and Proceedings of the Agricultural Credit Conference, (Economic Research Institute, Beirut, 1953).

The results of the survey, given above, show that the average rural indebtedness is L.L. 3,355 per village.<sup>1</sup> About 51 per cent of all loans came from banks, 43 per cent from moneylenders, 4 per cent from landlords and 2 per cent from relatives and friends. Average rates of interest are shown to vary between 24 per cent and 3.3 per cent, the highest rates being on loans from landlords and the lowest on loans from relatives. An extension of these figures to the whole of Lebanon would give us for 1953 a total rural indebtedness of approximately 35 millions of Lebanese pounds.<sup>2</sup> This indebtedness is not excessive. The problem appears really to be one of excessive interest rates rather than excessive indebtedness.

Typical measures to calculate and reform the situation of rural indebtedness in Lebanon would be to take a series of surveys to ascertain and record the actual debt position. The second step would be the preparation and introduction at the same time of a properly regulated credit system to operate throughout the rural areas. Third, establish a Debt Settlement Board with branch committees which would cover the whole country and would arrange by virtue of special legislation, the equitable settlement of any rural debts on application either by debtor or creditor.

In Lebanon, rural indebtedness does not necessitate any drastic

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<sup>1</sup>L.L. 488,800: 146 villages = L.L. 3,355 per village.

<sup>2</sup>Agenda, Working Materials..., op.cit.

government action, nor does it require the establishment of special machinery such as debt settlement boards. The problem in Lebanon is a problem of high interest rates. Nevertheless, it is clear that no government legislation concerning interest charges or repayment procedures could appreciably correct this situation. Moneylenders are known to be always able to evade or to get round existing regulations. However, a great deal of good may be expected from an extension of the existing program of land survey and registration. When farmers hold clear and undisputed titles to the lands, they may obtain better terms from their creditors. It is essential that farmers should not be deprived of the old sources of credit, no matter how deficient or harmful, until a new system becomes operative; many farmers will urgently need loans, perhaps even for food and medical care.

### 3. Banks

During the nineteenth century, the banking system in Lebanon was not organized. Most of the loans and discounts were made by moneylenders who constituted and still constitute the largest source of capital, especially with reference to agriculture.

The noted increase in the banking institutions came, however, in the fifteen years preceding the First World War. Foreign banks established branches in Beirut, and national banks increased. Such an increase in banking institutions coupled with a development of lending facilities came about with the increase in foreign and domestic trade. The commercial banks with foreign capital were

established primarily for the promotion of foreign countries' trade with Lebanon. Nevertheless, they helped a great deal in financing trade in general and foreign trade in particular. But the volume of their business was very small in proportion with the needs of the country. These banks did not grant credit to agriculture.<sup>1</sup>

Neither did Lebanon benefit from the "Agricultural Bank of Turkey" which was established by the Sultan in 1887 and which suspended its limited operations during the First World War.

After the First World War, Lebanon became a French mandate and its boundaries were extended. In 1926 the mandatory government established a "State Agricultural Bank." Loans for one year were advanced to farmers at a rate of 1 per cent per annum. These loans were renewed in 1927 and some new loans were advanced at the same rate. However, the bank found out that due to the poor security on loans, it was incapable of recovering its advances. Therefore, it suspended its operations.

In order to help farmers secure long-term credit, the government issued in 1930 a law regulating mortgage credit and mortgage banking. Attracted by the protection which the new law granted to mortgage companies, the "Credit Foncier d'Algerie et de Tunisie" expanded its mortgage activities which it had started two years earlier and the "Compagnie Algerienne" established a branch in Lebanon. These two banks did not however, appreciably extend their operations to rural

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<sup>1</sup>The historical sketch is based mainly upon: Sa'id Himadeh, Monetary and Banking System of Syria, (Beirut: The American Press, 1935).

areas, because of the greater risk that followed from the falling prices of agricultural products during the thirties and the delays in land survey and registration. The government agreed in 1931 to guarantee the loans granted to farmers by these banks and to bear part of the interest charges. But, despite these encouragements both banks stopped their long-term mortgage operations in 1939, in favour of their discount and exchange business which yielded larger profits and were more secure. Since 1952 thriving on the complete freedom in the domestic and exchange markets, and on the entirely "free" banking profession, and attracted by the overall commercial aspect which seemed to afford many lucrative opportunities, numerous banks have been established in Lebanon. The activities of these banks mainly concentrate around financing internal trade transactions, as well as foreign trade deals. These deals involve merchandise trade, gold movement or mere foreign exchange transactions. The present structure of the Lebanese banking system does not permit the commercial banks to undertake the issue of medium and long-term loans. Commercial credit is the only credit really available and businessmen depend on short-term credits which are renewable but at the option of the bank. The main instruments of short-term credits are overdrafts, discounts, documentary credits and advances on securities.

Table 4 shows us the evolution of banks' private deposits in Lebanon. It distinguishes between demand deposits and time deposits, and between deposits made in Lebanese pounds and foreign currency deposits.

TABLE 4

BANKS' PRIVATE DEPOSITS--LEBANON<sup>1</sup>  
IN MILLIONS OF L. L.

|                              | 1953 | 1957  | 1959  | 1960  | 1961  |
|------------------------------|------|-------|-------|-------|-------|
| Demand Deposits              | 219  | 447   | 621   | 716   | 792   |
| Time Deposits                | 19   | 50    | 78    | 113   | 138   |
| Foreign Currency<br>Deposits | N.A. | 115   | 165   | 369   | 452   |
| Time to demand<br>Deposits   | 8.7% | 11.2% | 12.6% | 15.8% | 17.4% |

The volume of demand deposits is much more important than the volume of time deposits. This is mainly due to the fact that banks do give interest on demand deposits. However, the ratio of time to demand deposits is substantially increasing. From 8.7 per cent in 1953 it became 17.4 per cent in 1961.

The great majority of deposits being demand deposits, that is deposits that can be withdrawn at any time, commercial banks in Lebanon are therefore willing to grant loans only for short periods. If this is not done, deposits may be withdrawn at a time when a large volume of loans is outstanding. Their assets become "frozen" and they may be forced into liquidation, not because their assets are inadequate to cover their liabilities, but because their

<sup>1</sup>International Monetary Fund, International Financial Statistics, (October 1962, Vol. 15, No. 10), p. 182.



assets cannot be realized at the right moment.<sup>1</sup> The use of monetary resources for medium and long term investment is a highly risky and dangerous practice not only for the banks involved but also for the whole economy. The longer the term of the loans, the greater is the risk. This risk originates first from the inherent uncertainty which prevails in long term lending and second from the liquidity position of the bankers. It is a very risky enterprise for commercial banks, whose main deposits are demand deposits, to give long term loans. Commercial banks in Lebanon, cannot afford to invest more than a small proportion of their resources in long-term loans, and even in respect of these, there is a strong incentive to choose high grade securities which can be disposed of readily in time of need without incurring too much losses.

There are several factors which, in economically developed countries, enable commercial banks to extend term loans. Such factors are non-existent in Lebanon. First of all there is, in Lebanon, the disequilibrium between demand and time deposits. This disequilibrium, as we have seen, makes it risky for commercial banks to undertake the financing of the agriculture of development. The second difficulty has been the fact that banks, in time of crisis, did not have a lender of last resort that they could have relied upon. The third difficulty is the want of reliable information about the agricultural sector, and the want of

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<sup>1</sup>R.S. Sayers, Modern Banking, (Oxford, At The Clarendon Press, Fifth Edition 1960), p. 159.



credit worthiness among Lebanese farmers in general. Finally, a large part of the commercial banks operating in Lebanon are branches of foreign banks. Their purpose is to facilitate and finance the trade with their own countries of origin. They usually are not interested in the internal economic development of Lebanon. They do not offer medium or long-term loans to agriculture.

Nevertheless, the commercial banks in Lebanon provide the agricultural sector with some short-term credits. It is estimated that commercial banks and especially the "Banque de Syrie et du Liban" extend up to 15 millions of Lebanese pounds per year to agriculturists.<sup>1</sup> These are short-term loans for a period of 9 months. However, for lack of statistics, it is not certain that this amount goes entirely to agricultural purposes. It is also estimated that another 15 million Lebanese pounds are extended yearly by commercial banks to merchants dealing in fertilizers, insecticides, seeds and others, who in turn sell their products on credit to farmers.<sup>2</sup>

Commercial banks in Lebanon have an excess of demand deposits which they cannot safely invest inside the country. Lebanon does not have discount houses, a government bond market, commercial bond issues nor an organized stock exchange market. Commercial banks

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<sup>1</sup>Le Commerce du Levant, (Avril 1963), p. 26.

<sup>2</sup>Ibid.

look for prospects outside Lebanon, and they especially utilize the short-term market of London.<sup>1</sup>

As a conclusion, we end up with this paradoxical situation of having our local banks invest their deposits outside Lebanon at a time when the agricultural sector in Lebanon is most in need of credit.

## B. Specialized Agencies

1. "Societe du Credit Agricole, Industriel du Liban"--- S.C.A.I.L. The convention of May 29th, 1937, between the Lebanese government and the "Banque de Syrie et du Liban," (B.S.L.), provided that the B.S.L. would establish before the 31st of January 1938 a Lebanese company having a minimum capital of L.L. 100,000 with the object of extending agricultural and industrial and real estate credit in Lebanon. Accordingly, the B.S.L. established the "Societe du Credit Agricole et Industriel du Liban," and paid up the minimum capital requirements. The capital of the S.C.A.J.L. was raised in 1944 to 1 million Lebanese pounds of which 51 per cent was paid up by the B.S.L. and the remaining by two commercial banks and few private investors. S.C.A.I.L. could supplement its capital by borrowing from the B.S.L. at an interest rate of 4 per cent per annum.

The lending to farmers during the first years of operation of S.C.A.I.L. was very restricted. Indeed, S.C.A.I.L. quickly found

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<sup>1</sup>Pierre Nasrallah, op.cit., p. 60.

out the great risks involved in lending to farmers. Besides the usual risks inherent in agriculture, there were additional risks in terms of the delay in land registration and survey and the lack of credit worthiness among Lebanese farmers. Therefore the management of S.C.A.I.L. could not afford to lend private capital at so much risk.<sup>1</sup> In November 1942, the Lebanese government drew a convention with the S.C.A.I.L. which provided that the government with the help of S.C.A.I.L. could grant credit to farmers, landowners and legally organized agricultural associations provided that these loans are used for strictly agricultural purposes as defined in the convention. The total amount of government guaranteed loans, whether advanced to agriculture, industry or hostelry should not in any case exceed 15 millions Lebanese pounds which S.C.A.I.L. could borrow from the B.S.L. at an annual interest rate of 2 per cent.

Table 5 gives us a summary of the operation of S.C.A.I.L. with regard to agriculture. Loans granted directly by S.C.A.I.L. are shown side by side with loans granted by the government through S.C.A.I.L.

From the table below we see that loans granted directly by S.C.A.I.L. are less in volume than loans granted by the government through S.C.A.I.L. The government and S.C.A.I.L. exercised supervision over the way the loans were spent by farmers. Every farmer was required to submit a statement to the government and the bank describing in detail the purposes and methods of spending the loan that he is asking. It was also understood that borrower's farm could be inspected

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<sup>1</sup>Information privately secured from S.C.A.I.L.'s officials.

TABLE 5

ACTIVITY OF S.C.A.I.L. DURING 1948-1952 AGRICULTURE<sup>1</sup>  
 IN MILLIONS OF LEBANESE POUNDS

| Year | Direct Loans | Govrt. Guaranteed | Total | Outstanding<br>end of year |
|------|--------------|-------------------|-------|----------------------------|
| 1948 | 2.2          | 5.4               | 7.6   | 7.3                        |
| 1949 | 1.9          | 3.9               | 5.8   | 5.6                        |
| 1950 | 2.7          | 2.4               | 5.1   | 4.4                        |
| 1951 | 3.6          | 2.9               | 6.5   | 3.7                        |
| 1952 | 3.1          | 4.1               | 7.2   | 6.2                        |

to check the truth of the statement. When it was found out that the loan was used for a purpose other than that for which it was originally granted, then it became immediately due, and the interest rate was raised to 9 per cent.

The purpose for which S.C.A.I.L. was established did not materialize. A good part of the loans went to people with political influence.<sup>2</sup> Small and medium sized farmers who could not provide the required mortgaged securities and who were, therefore in urgent need for financial assistance, were unable to use S.C.A.I.L.'s credit facilities. Another difficulty was the ineffectiveness of S.C.A.I.L.'s organization and operating methods. The procedure of obtaining a loan was slow, and was susceptible also to political intervention.

<sup>1</sup>S.C.A.I.L.'s Annual Reports.

<sup>2</sup>Yaffi, Talha, "Industrial Credit in Lebanon," L'Economie Libanaise et Arabe, (Vol. 6, No. 47, September 1956) p. 23.

Loan operations by S.C.A.I.L. were limited because the Lebanese government decided in 1953 to establish a new institution. At present, S.C.A.I.L. carries a few direct loan operations using its own capital and some credit facilities it may have with other banks.

It is interesting to note that only a few loans granted directly by S.C.A.I.L. defaulted, while an amount of over 8 million Lebanese pounds (36 per cent of the government guaranteed loans and approved by government agency) was not paid at the time due.<sup>1</sup> These shortcomings, and the severe public criticism of S.C.A.I.L.'s operations, led the government to consider the establishment of a new institution. In 1953, the government called upon the advice of the "International Bank for Reconstruction and Development," I.B.R.D., in helping to set up the new institution. The I.B.R.D. sent an expert to Lebanon. This expert, after studying the situation, suggested that two separate banks be formed--one for agriculture, and one for industry and tourism.

2. "Banque du Credit Agricole Industriel et Foncier"--B.C.A.I.F.

On July 16th, 1954 the Lebanese government passed a decree establishing the "Banque du Credit Agricole, Industriel et Foncier"--B.C.A.I.F. The bank started its operations in June 1955 with the purpose of granting short, medium and long term credit for the development of agriculture, industry and tourism. All the activity

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<sup>1</sup>S.C.A.I.L.'s Annual Reports.

of B.C.A.I.F. is centralized in its Beirut office. The concession of the bank is for 40 years, renewable. The initial capital of B.C.A.I.F. was 5 million Lebanese pounds, divided into 100,000 shares of which the government subscribed for 40,000 shares. The bank can increase its capital as many times as it sees fit. The increase in capital is decided upon during an extraordinary meeting of the general assembly of the board of directors of B.C.A.I.F. New shares issued must be of equal par value and of the same class as those outstanding. The Lebanese government is entitled to subscribe to 40 per cent of all newly issued stocks. Moreover, the capital of the bank could be increased by converting the reserves and retained earnings.<sup>1</sup>

Table 6 shows us loanable funds available to B.C.A.I.F.

TABLE 6

LOANABLE FUNDS AVAILABLE TO B.C.A.I.F.<sup>1</sup>

|   |                          |
|---|--------------------------|
| Capital   | L.L. 5,000,000           |
| First loan from the B.S.L. (1955)                     | 25,000,000               |
| Second loan from the B.S.L. (1959)                    | 20,000,000               |
| Third loan from the B.S.L. (1960)                     | 10,000,000               |
| Loan from "Development Loan Fund" <sup>2</sup> (1960) | <u>15,000,000</u>        |
|   | <u><u>75,000,000</u></u> |

<sup>1</sup>B.C.A.I.F.'s Annual Reports.

<sup>2</sup>The Development Loan Fund whose name has been changed to the Agency for International Development (AID), is a United States government corporation which contribute to economic growth in underdeveloped countries.

As we see from the above table, in addition to its initial capital, the Lebanese government has provided B.C.A.I.F., at different intervals of time, with loans guaranteed taken from the B.S.L. at an annual interest rate of 2 per cent. In 1960 B.C.A.I.F. got a foreign loan from the "Development Loan Fund" of 5 million dollars at an interest rate of 4.5 per cent per annum and for a period of 20 years. According to the by-laws of B.C.A.I.F., 40 per cent of these loanable funds should go to agriculture. However, the loan from the "Development Loan Fund" is wholly earmarked for industry. Table 7 shows us the total accumulated loans extended to agriculture.

TABLE 7  
LOANS TO AGRICULTURE BY B.C.A.I.F.<sup>1</sup>

| <u>End of Year</u> | <u>Accumulated Loans</u> | <u>Percentage of Total Loans</u> |
|--------------------|--------------------------|----------------------------------|
| 1955               | L.L. 3,490,825           | 72%                              |
| 1957               | 10,000,000               | 40                               |
| 1959               | 27,100,000               | 48                               |
| 1961               | 51,073,035               | 51                               |

B.C.A.I.F. has emphasized the development of the agriculture of subsistence and the agriculture of production. The bank policy has been always in favour of assisting the small farmers. The bank offers also preferential treatment to agricultural cooperatives.

<sup>1</sup>B.C.A.I.F.'s Annual Reports.

Most of the agricultural loans extended by B.C.A.I.F. are medium-term loans varying between 6 and 8 years. Total agricultural loans granted in 1961 amounted to L.L. 9,236,010. The spending of these loans is supervised by the bank and if it is found out that loans, originally granted for a given purpose are being used for another, these loans become immediately due and a penalty rate of interest is automatically imposed on the borrowers.

Table 8 shows us the distribution of the total accumulated agricultural loans among the different regions of Lebanon.

TABLE 8

DISTRIBUTION OF AGRICULTURAL LOANS--B.C.A.I.F.<sup>1</sup>  
AS OF DECEMBER 31ST, 1961

| <u>Region</u> | <u>Amount of Accumulated Loans</u> |
|---------------|------------------------------------|
| North Lebanon | L.L. 10,655,340                    |
| Bekaa Valley  | 12,220,660                         |
| Mount Lebanon | 13,600,560                         |
| South Lebanon | 14,596,475                         |
|               | <u>L.L. 51,073,035</u>             |

A farmer in need of credit has to fill out an application form available upon request from the B.C.A.I.F. head office. This application is directed to the manager of the agricultural division. The

<sup>1</sup>B.C.A.I.F.'s Annual Reports.



manager will appoint an expert who will go and visit the farm of the applicant. If all required conditions are available, the loan is granted. The task of the bank will remain to ascertain that the money is spent for the initial purpose. Experts are sent from time to time to visit the farm and to inquire about the ways the loans are spent.

B.C.A.I.F. is managed by a Board of Directors composed of 12 members. The Lebanese government appoints 5 members and the other members are elected for a period of 3 years by the general assembly of private shareholders. The President of the Board of Directors is at the same time the general manager of the bank. A controller, appointed by the minister of finance, supervises the operations of the bank.

B.C.A.I.F. is at present the only specialized institution which extends short, medium and long-term credit to farmers. However, B.C.A.I.F. has many shortcomings. Among these we must mention: First the limited ability of B.C.A.I.F. to generate loanable funds. Indeed, it does not receive deposits and has to rely on borrowed money. Moreover B.C.A.I.F. is not allowed to issue bonds, and has no facilities to rediscount its paper. Second, B.C.A.I.F. is too much centralized and farmers, especially small and medium sized farmers, have to lose both time and money in coming and going from and to their remote areas. Another difficulty is that farmers are almost lost in Beirut. Farmers are at a disadvantage when talking with people at the bank; they are over-impressed. Third but not last, B.C.A.I.F. is a multi-purpose

organization. It extends credit to agriculture, industry and real estate. This combination is not justifiable anymore and it will be much more appropriate to have a separate bank for agriculture. Indeed, problems prevailing in the agricultural sector are different from those existing in the industrial or real estate sectors.

### C. Recent Development

#### 1. The "National Development Bank"

According to the studies made by the I.R.F.E.D.-Mission to Lebanon, Lebanon will need an amount of 300 million Lebanese pounds in order to develop its economic infrastructure. Table 9 shows us the need of additional capital requirements as calculated by the I.R.F.E.D-Mission to Lebanon. These capital requirements are allocated between the different sectors of the national economy.

TABLE 9

THE NATIONAL DEVELOPMENT BANK<sup>1</sup>  
CAPITAL REQUIREMENTS OF THE PRIVATE SECTOR  
(THOUSANDS OF LEBANESE POUNDS)

|             | 1964          | 1965          | 1966          | 1967          | 1968           | Total          |
|-------------|---------------|---------------|---------------|---------------|----------------|----------------|
| Industry    | 10,000        | 22,000        | 28,000        | 38,000        | 37,000         | 135,000        |
| Agriculture | 2,000         | 15,520        | 18,040        | 33,060        | 55,380         | 121,000        |
| Tourism     | 405           | 1,553         | 2,527         | 3,741         | 41,157         | 12,383         |
| Fishing     | 100           | 300           | 1,900         | 2,200         | 3,300          | 7,800          |
| Habitat     | 1,000         | 3,000         | 3,000         | 4,000         | 4,000          | 15,000         |
| Others      | 1,795         | 1,727         | 1,733         | 1,799         | 1,763          | 8,817          |
|             | <u>15,300</u> | <u>41,100</u> | <u>55,200</u> | <u>82,800</u> | <u>105,600</u> | <u>300,000</u> |

<sup>1</sup>Rapport Y. Jaffrezie sur le projet de Banque Nationale de Developpement.

B.C.A.I.F. with its present structure is unable to provide for this capital. Therefore, the I.R.F.E.D.-Mission to Lebanon, recommended to the Lebanese government the establishment of a "National Development Bank." This bank will extend medium and long-term credit to implement those projects which have been designed by the I.R.F.E.D.-Mission as being of a primary importance, namely the "base" of any further development in Lebanon.

It is important for the "National Development Bank" to start from a strong financial position so as to impose its leadership. Indeed its initial capital is expected to be of 100 million Lebanese pounds. Besides government and private subscriptions, foreign financial institutions will also be encouraged to subscribe to the initial capital of the "National Development Bank." It is understood that B.C.A.I.F. will continue its operations as usual.

The "National Development Bank" will most likely be concerned with the several fields of long-term investment. These include agriculture, industry, handicraft and tourism. However, specialization in one or more sectors has its advantages:<sup>1</sup> First, too broad a scope might spread financial resources too thinly. Second, it is difficult for one institution to cover the entire economy adequately. Third, financing agriculture together with other sectors is particularly risky because of the necessity of locating the institutions serving agriculture close to the farm, because of the special security problems

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<sup>1</sup>William Diamond, Development Banks (The Johns Hopkins Press, Baltimore, Maryland, 1957), p. 48.

involved, because of the vital necessity for linking loans to extension and other technical services which only a specialized agricultural bank is in a position to provide and because of its very high costs.

## 2. The "Green Plan"

The "Green Plan" is a governmental project which intends to help farmers improve their lands. The "Green Plan" will offer technical and financial help for the aim of increasing the productivity of the land and of extending the percentage of cultivable area in Lebanon. The "Green Plan" is a developmental project undertaken jointly by the Lebanese government, the Special Fund of the United Nations and the Food and Agriculture Organization (F.A.O.). The Lebanese government decided to earmark 67 million Lebanese pounds for the execution of the "Green Plan." Out of this amount 27 million Lebanese pounds will be allocated over a period of 10 years to the Green Plan authority. Table 10 gives us this allocation.

The remaining 40 million Lebanese pounds will be given by the government to B.C.A.I.F. Accordingly, B.C.A.I.F. will lend this money to farmers who asked the help of the "Green Plan."

Any farmer who wants to improve the agricultural value of his land will have to call on the "Green Plan" authority. The farmer has to pay 10 per cent of the cost incurred if total costs do not exceed L.L. 2,500. If total costs are between L.L. 2,500 and L.L. 10,000 the farmer has to pay 25 per cent of the cost incurred. The remaining 90 or 75 per cent will be considered as a long term loan to the farmer.

TABLE 10  
 ALLOCATION OF THE BUDGET--"GREEN PLAN"<sup>1</sup>

| Year | Amounts                       |
|------|-------------------------------|
| 1964 | L.L. 1,000,000                |
| 1965 | 1,500,000                     |
| 1966 | 2,000,000                     |
| 1967 | 2,500,000                     |
| 1968 | 2,750,000                     |
| 1969 | 3,000,000                     |
| 1970 | 3,250,000                     |
| 1971 | 3,500,000                     |
| 1972 | 3,750,000                     |
| 1973 | <u>3,750,000</u>              |
|      | <u><u>L.L. 27,000,000</u></u> |

This loan, extended through B.C.A.I.F., will be for a period of 16 years and will bear an interest rate of 1.5 per cent per annum. Payments on this loan will start at the end of the 7th year and will be paid in 10 equal installments.<sup>2</sup> As security to the loan, the farmer has to offer a first mortgage on his land.

<sup>1</sup>L'Economie Rurale, (No. 19, Feb. 1963), p. 16.

<sup>2</sup>Information secured from the Ministry of Agriculture.

## CHAPTER III

### FACTORS IN THE DEMAND FOR AGRICULTURAL CREDIT

#### A. Nature of Demand

There are important reasons why the farmer is unable to forego credit, if he can get it. In the socio-economic milieu, few can resist spending additional income. Few can accumulate enough out of savings to cover a season's commitments. Few have escaped going into debt for one reason or another at some past period. So, if a debt is liquidated from the sale of one crop, the debt cycle must be repeated for the next.<sup>1</sup> Another important aspect of the demand for agricultural credit arises from the emphasis on production for subsistence and the importance of unpaid family labour. That is, a large proportion of working expense is just for sustenance. We cannot artificially separate the farm family into producers and consumers; the same people being both, and the same credit being used for both. Any identification between expenditures for production and expenditures for consumption is artificial. Indeed, there is a gradation from expenditures on family living necessary to sustain the labour force, to conventional ceremonial expenditures. If specialized agricultural credit institutions limit credit to production needs only, as they actually do, imperative demands to maintain consumption, including those determined

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<sup>1</sup>Information secured from farmers.



by prestige and status, may prejudice attempts to improve the credit situation by encouraging rather than discouraging resort to money-lenders and merchants. B.C.A.I.F. does strictly discourage borrowing by farmers for mere consumption purposes. Indeed, such loans do not increase the farmer's income nor his ability to repay. Production loans are usually made to carry on farm production, to pay for operating expenses, feeds, seeds, fertilizers, labor and the like.

B.C.A.I.F. does not extend farm real estate loans whose purpose is to purchase a farm or to buy additional land to enlarge the farm or to refinance existing mortgages. However, it is the policy of B.C.A.I.F. to grant real estate loans to be used in the construction of farm buildings, or in the financing of the purchase of machinery and capital equipment or in the improving of the land.

Table 11 shows us the different purposes for which agricultural loans are used. These results have been obtained in a sample survey conducted in nine villages in the Bekaa Valley, Lebanon.

Three-quarters of the loans were taken out to pay current farm and household expenses, with the remaining one quarter for investment purposes. A high proportion of the loans were for household and other non-farm purposes, namely 61 out of 111 loans. Only a little more than a third of the loans were for agricultural investment purposes, such as to buy or improve land or to buy animals.

B.C.A.I.F. does grant short, medium and long-term credit. Short-term loans have a time period up to one year. They may be used for such things as seeds, fertilizers, chemicals, cattle feed,

TABLE 11  
 PURPOSES OF AGRICULTURAL LOANS<sup>1</sup>  
 9 VILLAGES, BEKAA VALLEY, LEBANON--1957

|   | Purpose |     | Farm Use |     |      |
|---|---------|-----|----------|-----|------|
|   | No.     | No. | %        | No. | %    |
| <u>Investment in Capital</u><br><u>Items:</u> |         | 26  | 23       |     |      |
| Farm capital, land,<br>animals                | 21      |     |          | 21  | 42   |
| Household capital                             | 3       |     |          |     |      |
| Commercial activity                           | 2       |     |          |     |      |
| <u>Pay Expenses:</u>                          |         | 85  | 77       |     |      |
| Farm expenses                                 | 29      |     |          | 29  | 58   |
| Household expenses                            | 56      |     |          |     |      |
| <u>Unspecified Purposes:</u>                  |         |     |          |     |      |
| For house and farm                            | 10      |     |          |     |      |
| To pay off another<br>loan                    | 6       |     |          |     |      |
| Unusable information                          | 8       |     |          |     |      |
|   | 135     | 111 | 100%     | 50  | 100% |

or any other cultivation needs. It is expected that this type of credit will be repaid with the proceeds of the crop which was produced with the credit. B.C.A.I.F. extends medium-term credit for a period of 6 years. This credit is given to the purchase of capital goods for

<sup>1</sup>Robert Stevens, Capital Formation and Agriculture in Some Lebanese Villages, (Ph.D. Thesis, Cornell University, 1959), p. 216.



the farm. Changing from hand to mechanized operations results in better adjustment of crop rotation, greater returns, and more efficient land use. B.C.A.I.F. extends long-term credit for a period up to 16 years. This credit must be used only to finance permanent improvements on the land. The factors determining the relative importance of long, intermediate and short term credit are complex. Even though the ratio of fixed to circulating capital in agriculture is high, however, it does not necessarily follow that the ratio of long and intermediate-term to short-term credit is equally high. Any generalization is not likely to hold true. In Lebanon it is estimated that short-term credit to agriculture amounts to 35 million Lebanese pounds per year. Out of this total amount, the contribution of B.C.A.I.F. ranges around 3.5 million Lebanese pounds per year.<sup>1</sup> However, intermediate and long-term credit granted to the agricultural sector does not exceed 18 million Lebanese pounds per year. The contribution of B.C.A.I.F. is around 6 million Lebanese pounds per year with relation to intermediate and long-term credit.

## B. Risks Affecting the Capability of Borrowers

### 1. Land Ownership and Tenancy

One of the principal reasons for the shortage of agricultural credit for small farmers is that their prevailing tenure system does not provide enough security and is too risky. Moreover, sharecroppers have practically no chance of getting credit from B.C.A.I.F.

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<sup>1</sup>Le Commerce du Levant, (Avril 1963), p. 26.

since they cannot give land as security and usually have no personal property of any value.

The growth of the Lebanese population and the prevailing laws of inheritance have caused farm holdings to split into numerous scattered plots dispersed over a rather wide area. The result is that the farmers' energies are dissipated in going to and from many fields, and the land use pattern preclude taking full advantages of technological advances in production practices. Alleviation of this situation has been sought in a number of countries through legislation that promotes consolidation and prevents further fragmentation. Table 12 yields information on land tenure in Lebanon.

TABLE 12  
NUMBER OF FARMS AND HOLDINGS CLASSIFIED ACCORDING TO SIZE<sup>1</sup>  
LEBANON, 1952

| Size of Unit           | No. of Holdings | No. of Farms | % of land-owners |
|------------------------|-----------------|--------------|------------------|
| Less than 10 ha.       | 132,800         | 123,600      |                  |
| From 10 ha. to 20 ha.  | 3,500           | 3,700        | 98%              |
| From 20 ha. to 50 ha.  | 1,400           | 1,100        |                  |
| From 50 ha. to 100 ha. | 550             | 160          |                  |
| Over 100 ha.           | 430             | 110          | 2%               |

Big landowners have the tendency to rent parts of their land to smaller operators. This tendency is shown in the difference between

<sup>1</sup>Agenda, Working Materials..., op.cit.

the number of holdings and the number of farms. The table makes it clear that most owners in Lebanon own or operate holdings of less than 10 hectares. Moreover, the large majority of the members of this class own less than 2 hectares each. The small farmers largely own the farm they operate, while the medium class farmers tend to rent land from smaller and bigger landowners to enlarge the farm they operate. The larger proportion of big landowners tend to rent their land to operators, rather than work it on their own account. Agricultural labourers form a very small proportion of the farming population not exceeding perhaps 10 per cent. Those who do not own the land are sharecropping tenants, and to a lesser extent, cash renters. Five forms of land tenure exist in Lebanon:<sup>1</sup>

1. Capitalistic tenure--The farm is operated directly by hired operators under a capitalistic absentee landlord. All the net income accruing is for the landlord. The landlord considers his holdings as a business investment. Credit needed for successful operation is available on this basis.

2. Money-rent tenancy--The farm is rented for a certain period of time from an absentee landlord. The rent is expressed usually in terms of a fixed amount of money payable every year. The renter has to operate the farm at his own expense and all risks are his own. Income arising from this exploitation accrues entirely to the renter. However, credits needed for successful operation are not available.

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<sup>1</sup>Yusif Sayigh, Economic Development of Lebanon, Its Prospects and Problems, (Johns Hopkins University, Baltimore, Maryland, 1955), p. 15.

Indeed, the renter has no title to property and therefore cannot offer a mortgage on the farm.

3. Share-tenancy or meteyage--The farm is operated jointly by a farmer, who offers labor, and by the owner who offers land and capital. All expenses incurred by the owner will be deducted from the gross income accruing from the exploitation of the farm. The remaining will be divided, most usually in three equal parts, one for labor, one for capital and one for land. There is no need to over-emphasize the fact that under the meteyage system the farmer is found to be at a serious disadvantage.

4. Individual ownership and operation of a family farm. Under this system, the farmer and his family own the land, live on it and exploit it. All small-sized farmers who own less than 10 hectares, are involved in this type. They do represent a large proportion of the total number of farmers in Lebanon. The poor status of these people coupled with their ignorance make them unable to obtain credit. Indeed, in most cases they own uneconomical units of land.

5. Collectivist ownership--These lands, originally owned by the government, are now collectively owned by the whole population of a certain village or region. They are mostly composed of forests and pasture land.

Another problem of major importance and which greatly increases the risks involved in the demand of agricultural credit is the question of land survey and registration.<sup>1</sup> During the Ottoman Empire land owner-

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<sup>1</sup>Gabriel Abbas, L'Etablissement du Cadastre et le Remembrement Des Proprietes Rurales Au Liban (Mimeographed, Lebanese Ministry of Finance, 1954), p. 3.

ship in Lebanon was not secured by proper laws. Therefore, the tenure system was risky and land could not offer a good mortgage against loans. The mandatory authorities, in order to help farmers and encourage banks to supply loans to agriculture, started the operations of land survey and registration early in 1926. At present, nearly 80 per cent of the area of Lebanon has been surveyed.

B.C.A.I.F. does not extend credit to a farmer unless his farm is surveyed and properly registered and unless the farmer is in possession of an official, definite, indisputable title of property.

## 2. Technical Risks.

These arise mainly out of the operation of the natural forces and the nature of farm product. Indeed, there are some risks consequent on the breakdown of machinery or defective materials, but these are of small importance when compared with the risks consequent on weather, diseases and pests.<sup>1</sup>

The manufacturer is able to plan ahead and is able to vary his productive effort in fairly close accordance with changes in conditions in demand. The quantity returns to his effort are, in general, readily calculable. He is able to bring about necessary changes in temperature or other conditions by physical means. In farming, on the other hand, the yield of crops or stock is only very loosely related to the intensity of effort, and changes in the weather, or the

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<sup>1</sup>Horace Belshaw, The Provision of Credit with Special Reference to Agriculture, (Cambridge, W. Heffer and Sons Ltd., 1931), p. 61.

recurrence of diseases and pests, throw a considerable element of chance into his operations. The work of the farmer, too, is determined from day to day by the state of the weather in relation to the conditions of the soil and the stage of development of his crop. This necessitates a close attention to the detailed processes of his job. The constant necessity to be on the watch, leaves less time and effort available for the performance of the function of marketing the produces of the farm.

A further risk which we may describe as technical, arises out of the perishability of many farm products. The possibility of waste during storage or in transit, is considerable in respect of many agricultural commodities.

### 3. Commercial Risks

Since the quantity returns to effort are seriously affected by natural conditions beyond the farmer's control, it follows that the farmer experiences greater difficulty than the manufacturer in adjusting his production output to the demand. This difficulty opens up a considerable probability that returns will fluctuate greatly from year to year and that actual returns will diverge from anticipated returns.<sup>1</sup> Productive effort of the farmer cannot be varied so as to meet anticipated changes in demand. Indeed, although some fixed capital can often be turned from one use to another, a great deal of it is highly specialized. Therefore, a

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<sup>1</sup>Ibid., p. 63.



change in the relative demand for different products cannot be met at all sensitively by a change in the type of crop produced without appreciable loss on existing fixed capital. Although sometimes economic conditions may warrant a temporary or even a permanent diversion from one crop to another, nevertheless, the specialization of existing equipment will cause a relative surplus of one crop and shortage of another for an appreciable period.

The length of time during which costs are incurred before a crop is marketed, is very long in agriculture. The initial operations in the production of a crop of wheat are incurred months before the crop is sold. A plantation of fruit trees needs six years before it starts yielding. Obviously, the longer the period between the initial steps in the process of production and the time of marketing, the greater the difficulty of forecast.<sup>1</sup> Another difficulty arises from the effects of the nature of agricultural organization. Indeed it is difficult to farmers to estimate the trend of marketing conditions and to obtain reliable information as to the relative profitableness of different crops or the relative attractiveness of different markets. Hence, productive effort, and the supplies of marketable crops are likely to be misdirected or placed on the market at the wrong time.

The fluctuation in prices of agricultural products is a well known phenomenon from which Lebanon is not free. Price fluctuations are not, in Lebanon, alleviated by organized marketing or stabilization policies such as those followed in other countries of the world.

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<sup>1</sup>Roland Robinson, The Management of Bank Funds, (New York, McGraw-Hill Book Company, Inc., 1951), p. 260.

Again, the lack of organization which exists with regard to the export of the agricultural production surplus, poses serious problems in terms of fluctuations in the income of farmers from year to year.

As a matter of fact, the greater the degree of risk and uncertainty involved in a given investment of resources in production, the greater will be the degree of risk and uncertainty to the person who advances credit to enable production to be carried out.

### C. Determinants Affecting the Demand for Credit

#### 1. Amount

The cost of production in agriculture is a function of the rent of the land, of the capital invested in the land, of the cost of manpower and of the means used in production.

In Lebanon, the rent of agricultural land is particularly expensive and this is due to the lack of suitable agricultural land. The yearly rent of an hectare of irrigated land varies between 600 and 1000 Lebanese pounds. Rent of a non-irrigated hectare varies between 50 and 250 Lebanese pounds per year. Agricultural manpower is not available with the same intensity in the different regions of Lebanon. Wages of daily labourers vary from L.L. 3 in the poor districts of the north Bekaa Valley to L.L. 8 in Mount Lebanon. The maximum amount of money that any individual farmer can borrow from B.C.A.I.F. is limited to L.L. 6,000 for short-term loans. An individual farmer can borrow up to L.L. 30,000 as an intermediate-term loan and up to L.L. 60,000 for a long-term loan. These limits cannot be exceeded



regardless of the security offered.<sup>1</sup>

However, these ceilings are never reached. Indeed, the total amount of money that B.C.A.I.F. has lend to farmers as of December 31st, 1961 amounted to L.L. 51,073,035. This total amount has been distributed among 6,260 loans. Therefore, the average amount per loan is L.L. 8,100.<sup>2</sup>

Table 13 has been computed from Table 3. In Table 3 we have a sample survey showing the number of loans from different sources and the total amounts of loans from each source. Table 13 shows us the average amount per loan from these different sources.

TABLE 13  
AVERAGE AMOUNTS OF AGRICULTURAL LOANS--LEBANON, 1953<sup>3</sup>

| Source of Credit | No. of Loans | Total amount of Loans | Average Amount Per Loan |
|------------------|--------------|-----------------------|-------------------------|
| Official Banks   | 24           | L.L. 56,700           | L.L. 2,362              |
| Other Banks      | 42           | 195,900               | 4,664                   |
| Money lenders    | 90           | 210,000               | 2,333                   |
| Landlords        | 5            | 18,100                | 3,620                   |
| Relatives        | 17           | 8,100                 | 476                     |

The above table points out that on the average, the amount of agricultural loans is relatively modest. The lowest being from relatives

<sup>1</sup> B.C.A.I.F., By-laws.

<sup>2</sup> B.C.A.I.F.'s Annual Reports.

<sup>3</sup> This table has been computed by the author from Table 3 of the present thesis.

and friends, namely L.L. 476 per average loan. This can be explained by the fact that relatives and friends have themselves meager resources and can help only according to their own possibilities. The average amount of loan offered by moneylenders is L.L. 2,333. This relatively low figure can be explained by the fact that moneylenders do not want to concentrate their resources in the hand of few people. Indeed such a policy will increase risks tremendously. Moneylenders do minimize risks by having their money thinly distributed among many people. Official banks do come next with an average amount of L.L. 2,362 per loan. The average amount of loan extended by landlords is L.L. 3,620. The landlord very often, knows his farmers well and does not ask for security. Moreover, by increasing the debt of his farmer, the landlord is sure to keep him in his service. "Other Banks" come first with an average amount of L.L. 4,664 per loan.

Another sample survey conducted in the Bekaa Valley showed that the average amount of short-term loans is L.L. 1,117. The average amount of long-term loans was found to be around L.L. 2,535.<sup>1</sup>

## 2. Security

The kind of security required for agricultural loans differs greatly from one creditor to another. Usually a farmer can offer a mortgage on his farm or a mortgage against such things as equipment, livestock, farm products, or personal effects. The farmer may also offer a promisory note which is not backed by a lien on any

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<sup>1</sup>Robert Stevens, op.cit., p. 215.

particular piece of property. Such notes may or may not be endorsed or guaranteed by someone else.

The amount of security included in a mortgage varies with the policy of the person making the loan and also with the financial condition of the borrower. If the borrower is in financial difficulties, all his property may be included in the mortgage, but if he is in good financial condition he may be asked to give as security only a promisory note. However, farmers who have little security may nevertheless be good risks because of their ability to make income. In other words, these farmers offer their ability to make income as security for the payment of a loan.<sup>1</sup> In this group are included crop farmers who have relatively little security to offer in proportion to their operating capital requirements.

A borrower's previous record in meeting obligations is much more impressive to a lender than any amount of promises. The borrower offers the lender more than physical security and income ability, he offers his character or willingness to pay. The signature of the borrower means a great deal to the lender. Indeed, some borrowers are willing to sacrifice much more than others to live up to the promise above their signatures making great sacrifices in order to meet their obligation.

Table 14 shows us the kind of security used for loans in a sample survey.

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<sup>1</sup>Informations secured from village merchants.

TABLE 14

KIND OF SECURITY USED FOR AGRICULTURAL LOANS  
9 VILLAGES, BEKAA VALLEY, LEBANON 1957<sup>1</sup>

| Kind of Security      | No. of Loans | Percentage of Total Loans |
|-----------------------|--------------|---------------------------|
| I Owe You, endorsed   | 51           | 38%                       |
| I Owe You             | 22           | 16                        |
| Mortgage on Land      | 19           | 14                        |
| No Security           | 32           | 24                        |
| No-usable information | <u>11</u>    | <u>8</u>                  |
|                       | 135          | 100%                      |

As we see from the above table, an "I owe you" note endorsed by two persons was most frequently used. Second in importance was "no security", then an unendorsed "I owe you", and finally land mortgage. Speaking generally, long-term credit is advanced for settlement and more permanent and expensive improvements and is secured by a far mortgage. Intermediate credit is advanced to provide implements, livestock and less permanent improvements and is also secured by a land mortgage.

B.C.A.I.F. does not clearly distinguish between long and intermediate-term credit. The only differentiation may be that medium-term loans cannot exceed a period of eight years while long-term loans can reach a period up to 20 years. Both type of credit cannot be granted

<sup>1</sup>Robert Stevens, op.cit., p. 213.

without a real estate security mortgage on the farm. Another measure of security imposed on medium and long-term loans is that the maximum amount granted should not in any case exceed 35 per cent of the forced sale value of the property. In case of short-term loans, B.C.A.E.F. grants them against either a mortgage, or a guarantee offered by two other persons than the borrower and who will assume joint and full liability. Moreover, the amount of the short-term loan should not exceed half the expected net earnings, regardless of the value of the security offered. Asking for two signatures in addition to the borrower's signature is too rigid a practice.

### 3. Interest Rates

Interest is the price paid for the use of loan funds and the rate of interest will affect the flow of capital into different enterprises, as well as the rate of capital accumulation. In agriculture rates of interest should be at levels to encourage capital accumulation and direct the flow of capital into useful purposes. The rate of interest charged on agricultural loans must be viewed not merely from the standpoint of its effect on farmers and on agricultural production in general, but also with respect to the part it plays in the general monetary policy. In Lebanon interest rates charged to borrowers are usually high. B.C.A.I.F. used to charge an interest rate of 5 per cent per annum to farmers. In August 1959, it was increased by half per cent per annum. Commercial banks are bound by law to charge a maximum interest rate of 9 per cent. However, in

lending to farmers these banks add a 1 per cent fee and other miscellaneous expenses. This will raise up the interest rate to around 12 per cent per annum.<sup>1</sup> Traders who sell agricultural supplies on credit do charge, on the average, an annual interest rate of 18 per cent. Non-institutional dealers such as moneylenders do charge interest rates above 23 per cent per annum. In some poor districts of the Bekaa Valley, rates of 30 and 40 per cent per annum are a usual practice.<sup>2</sup>

High interest rates in agriculture can be explained by the fact that in Lebanon the rates of interest are usually high even for loans which are less costly and risky than agricultural loans.

Interest rate should be low enough to encourage farmers to borrow for constructive purposes. Any subsidy by the government which might be required to bring interest rates to such a level might be justified in order to set in motion capital investments that may achieve the production expansion hoped for from the credit program. Although low interest rates have the advantage of making credit cheaper to farmers and consequently increasing their incomes, yet they might encourage the farmers to use their loans extravagantly and unproductively with the consequence that when the loans fall due they are unable to honor their obligations.

Interest rates in agriculture should include: The cost of the funds obtained from the various sources, the cost of operating the institution and some loading to build up reserves for losses and for additions to surplus or capital. However, the policy that will

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<sup>1</sup>Le Commerce du Levant, (April 1963), p. 26.

<sup>2</sup>Information secured from B.C.A.I.F.'s officials.



be followed by the government in these respects is likely to be a major factor in establishing the interest rates charged to borrowers. The "Green Plan" will charge its borrowers an annual interest rate of 1.5 per cent.

Table 15 gives us the structure of the interest rate in a sample survey taken in the Bekaa Valley.

TABLE 15  
ANNUAL INTEREST RATES FOR AGRICULTURAL LOANS<sup>1</sup>  
9 VILLAGES, BEKAA VALLEY--LEBANON, 1957

| Rate of Interest      | No. of Loans     | Percentage of Total Loans |
|-----------------------|------------------|---------------------------|
| 0 per cent            | 40               | 33%                       |
| 1-12 per cent         | 14               | 11                        |
| 13-24 per cent        | 21               | 17                        |
| 25-36 per cent        | 34               | 28                        |
| 37-60 per cent        | <u>13</u>        | <u>11</u>                 |
|                       | 122              | 100%                      |
| Unusable information  | <u>13</u>        |                           |
|                       | <u>135 Loans</u> |                           |
| Median Interest Rate  | 20 per cent      |                           |
| Average Interest Rate | 17 per cent      |                           |

About one third of the loans were obtained without interest. In this case, the interest might have been either included in the note

<sup>1</sup>Robert Stevens, op.cit., p. 217.

or directly subtracted from the note. Indeed, this procedure is very often used by moneylenders and other usurers in order to evade the law. The law being that interest rate above 9 per cent are prohibited and cannot be recuperated by legal action. Another third of the loans, in the above table, is made at very high interest rates of 2 to 3 per cent per month. Some loans reach as high as 60 per cent per year. As a matter of fact, a farmer who is seeking a loan without any special connections or privileges is likely to have to pay a rate approaching this. Needless to say money at 20 per cent or 40 per cent makes it difficult to find agricultural opportunities which will pay for such an interest rate and return a profit in addition.

#### 4. Qualitative Considerations

The demand for agricultural credit emerges out of the perception of needs by farmers as determined primarily by the technical, economic and social conditions affecting farm families.<sup>1</sup> These conditions influence attitudes towards work, saving, investment and borrowing. But the demand arises equally out of the availability of sources of supply and the willingness and ability of potential borrowers to meet the conditions under which credit is, in fact, made available. So there is a mutual relationship between demand and the degree of technical "know how" of farmers.

To a large extent the flow of funds into agriculture is dependent upon creditor's estimates of the credit worthiness of farmers.

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<sup>1</sup>Fouad, Saade, "Le Probleme Agricole au Liban et en Syrie," L'Agriculture Richesse Nationale, (Institutions), (Beyrouth: Les Lettres Orientales 1942), p. 22.



A farmer with high credit worthiness would be expected to have a high flow of credit. It follows also that those who have a high flow of credit would be expected to have greater investment than those who find it very difficult to get credit.

Basic to the flow of capital into agriculture is that there be "profitable" opportunities for the use of increased capital. The term assumes that there are, in fact, many production opportunities which have not yet been exploited. The assumption implies further that a high marginal return is possible if modern techniques of production are used. In Lebanon, modern technical knowledge has begun to be applied very recently, but by no means have a high proportion of the possible applications been exploited. There are at least some opportunities for most farm operators to obtain a high marginal return to invested capital if they do apply modern techniques in production practices.

The general level of a farmer education, scientific and technical knowledge is probably a major factor in influencing his ability to see through possibilities to their logical end. In general, it can be assumed that the more education and experience that a farmer has, the greater will be his reasoning ability. It, therefore, is expected that the more education a farmer has, the greater will be his demand for capital.

A second group of factors which probably influence the demand for capital, are the institutional arrangements which provide entrepreneurs with knowledge about new production possibilities. If a flow

of new ideas for the development of agriculture is not coming to farmers, their effective demand for capital is likely to be relatively low. Institutions providing a flow of knowledge to farmers may be public, such as the extension service of the Ministry of Agriculture, or they may be private such as machinery dealers and fertilizers stores. In Lebanon, the most important source of technical advice coming to farmers is from machinery dealers and fertilizers' salesmen.

However, in order for agricultural development to occur not only must the conditions exist for the profitable application of new capital, but farmers must perceive these possibilities. The potential demand for capital provided by the technical possibilities must be translated into effective demand for capital. Therefore, the real demand for capital is not so much influenced by the opportunities for agricultural development which exist as by the opportunities which are perceived and understood by the farm operators. As a farmer increases his perception of opportunities open to him for farm development, the marginal efficiency of capital for use on his farm increases. A third factor considered to be of special importance is the ability and mental set of the farm operators. The psychological attributes of a farmer may be such that he is confident and that he is willing to take risks, or the contrary. If a farmer has had experience in decisions making and in trying out new techniques, he will probably have gained confidence in his own ability. This may be particularly important should he need to strike out against traditional agricultural practices.

## CHAPTER IV

### FUTURE AGRICULTURAL CREDIT POLICY FOR LEBANON

#### A. Credit Cooperatives

Agricultural credit to large and medium sized land owners is not a major problem. These people either do not need credit or now have access to existing credit institutions. Small farmers, tenants, and sharecroppers are denied credit or can get it only at exorbitant rates of interest. The small size of the average unit owned or operated by this group of farmers, their huge number, the wide scatter of their farms over large areas, the small size of the average loan needed by each one of them, all make agricultural credit to this group risky and expensive. To avoid the risks involved in extending credit to these farmers, a close personal contact and knowledge should exist between lender and borrower. This can be achieved by either a wide extension of B.C.A.I.F.'s organization into a system of branch offices and local committees, or some form of organization amongst the farmers whereby their credit needs are aggregated and dealt with on a group basis. The latter might be one of the best ways of facilitating the access to credit to small farmers. Borrowers can associate themselves in cooperative credit societies.

Cooperatives afford a means of getting credit to the small and medium sized farmers at reasonable costs. Indeed, it is essential to keep down the cost of such loans. If the farmers as members of

cooperatives can do much of the work involved in making and collecting loans, costs should be low. Furthermore, as a group the farmers can assume responsibility for repayment of the loans. A big advantage in grouping farmers on a legal footing as in cooperative credit societies, is the consequent strengthening of the security which they can offer. Farmers put themselves in a position of borrowing as a group from a credit institution, and borrowing as individuals from their cooperative on their reputation as credit worthy people of a character likely to use loans productively.

The cooperative society meets the needs of the borrowers by making credit available to them at their farms and avoids the trouble of their travelling long distances to reach credit institutions. The cooperative form of organization also enables small farmers, tenants and share croppers who are unable to offer any significant security to secure the credit they need provided they possess a good character and are capable of using the loans in a productive manner.

Farmers' cooperatives in Lebanon are of recent origin and the number operating currently is quite small. The number registered at the Ministry of Agriculture as on 1962 was 130 cooperatives associations. Of this number, only 11 are functioning.<sup>1</sup> The number of farmers who are benefiting from membership in cooperatives in Lebanon is an insignificant percentage of the total number of farmers.

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<sup>1</sup>Sabbah Al Haj, Farmer Cooperatives in Lebanon, (M.S. Thesis, American University of Beirut, 1961), p. 1.

The first farmer cooperative in Lebanon was formed in the village of "Abadiah" in 1937. It started with 22 members and now has a body of 256 members. The Lebanese government issued the law on cooperatives in 1941. The publication of the law aroused no interest among farmers and had no stimulating effect. Table 16 shows us the years of registration of agricultural cooperatives in Lebanon.

TABLE 16

YEARS OF REGISTRATION OF AGRICULTURAL COOPERATIVES---LEBANON<sup>1</sup>

| Year | Total | Mount<br>Lebanon | North<br>Lebanon | Bekaa | South<br>Lebanon |
|------|-------|------------------|------------------|-------|------------------|
| 1937 | 1     | 1                | 0                | 0     | 0                |
| 1938 | 4     | 3                | 0                | 1     | 0                |
| -    | 0     | 0                | 0                | 0     | 0                |
| 1954 | 9     | 2                | 5                | 1     | 1                |
| 1955 | 13    | 5                | 2                | 3     | 3                |
| 1956 | 51    | 19               | 21               | 9     | 2                |
| 1957 | 23    | 8                | 9                | 5     | 1                |
| 1958 | 14    | 3                | 6                | 3     | 2                |
| 1959 | 13    | 1                | 3                | 6     | 3                |
| 1960 | 0     | 0                | 0                | 0     | 0                |
| 1961 | 0     | 0                | 0                | 0     | 0                |
| 1962 | 2     | 0                | 1                | 1     | 0                |
|      | 130   | 42               | 47               | 29    | 12               |

<sup>1</sup>Information secured from the Ministry of Agriculture.

The year 1956 witnessed a great upsurge in the number of registered cooperatives from 22 to 73. Indeed, at that time the Ministry of Agriculture received some chemical fertilizers from U.S.O.M. (Lebanon), and decided to distribute it free of charge through cooperatives associations. This explains the rush in the formation of cooperatives by farmers that took place in 1956 and later in 1957 and 1958. At present, they are functionless associations. The organization of farm credit in Lebanon is such as to discourage the operations of the societies. B.C.A.I.F.'s regulations for loans given to members of the society provide for personal guarantee by the Cooperative Board officers in addition to land security given by the members receiving the loans. This policy almost nullifies the advantages offered by the cooperative societies in connection with a basic service to farmers members. Among the shortcomings, inadequacies and deficiencies that have hampered the development of cooperatives in Lebanon it is worth to mention the lack of understanding of cooperation, of cooperative principles and practices and how cooperatives function in serving members. Also responsible is the insufficient capital and shortage of funds to loan members; up to 1960 only 3 cooperatives borrowed funds from B.C.A.I.F. Lack of leadership and management ability, inadequate volume of business, lack of suitable records and lack of technical guidance and government supervision, all these factors have stopped the establishment of efficient cooperative societies.

However, to our understanding, the political and religious

controversies and the individualistic temperament of Lebanese farmers were, and will remain, the major obstacle to cooperative development in Lebanon.

The development of the cooperative movement in the Netherlands leads one to the conclusion that, if a cooperative society is to succeed, certain conditions must be fulfilled. In the first place, the social structure of the population has shown itself to be a factor of great importance. A sense of solidarity among those intending to set up a cooperative, and among the existing members is highly important.<sup>1</sup>

But it takes time to develop a sound cooperative program, and in the meantime much credit may well need to be extended to small farmers. Thus, many of the loans must be direct loans, and when granted they should be accompanied by a program of supervision, training and technical guidance, if the credit program is to reach the group of farmers most in need of loans on reasonable terms.

#### B. A Supervised Agricultural Credit System for Lebanon

The provision of credit to agriculture has its own problems, and these problems are different from those encountered in industry and tourism.

An industrial bank may be centralized in one location. But an agricultural bank should absolutely be always in close contact with its customers. To reach its customers it is absolutely essential that

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<sup>1</sup>Nationale Cooperatieve Raad, The Co-operative Movement in the Netherlands, (The Hague, 1956), p. 97.



the agricultural bank should have many offices in rural areas.<sup>1</sup>

The author is in favor of having a specialized agricultural bank. An agricultural bank should implement in Lebanon a supervised agricultural credit program. This program will help low income farmers who have not been able to borrow from regular established credit institutions but who with credit and technical assistance in planning and operating their farms could make substantial economic progress. Supervised credit involves in addition to the regular servicing of loans, assisting the farmer in planning his farm business and operating the farm effectively. The educational aspects of the program calls for farm and home planning and on-the-farm supervision. The farm unit provides the operating enterprise for analyzing crops to be grown, productive capacity of the farm, and the economic soundness of proposed operations. It is the basis for determining the amount of the loan and whether or not a loan can be approved. The loan should be based on the capacity to repay rather than physical security only. Supervision is a factor in the security of the loan. It involves the farmer and the supervisor together thinking in terms of detail operations.

In Lebanon, the classical concept of agricultural credit has been so far, one in which the banker first asks how much physical security the farmer can offer and second can he find some financially

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<sup>1</sup>To avoid a high burden of administrative cost, the author is in favour of having a special office in each district with people travelling regularly and at scheduled time, from village to village.

responsible person to sign his note as guarantor. This type of credit is sound and has a definite place in any agricultural credit system. When agricultural credit is limited to this one type however, if the farmer does not have enough assets or financially responsible friends, he probably cannot get the kind and amount of credit needed. The concept of planned and supervised credit does not overlook the aspect of physical security but it does not place this first in importance. It considers productive capacity of the proposed farming operations, potentialities of the farm family, physical security, and co-signer. This concept offers a great deal of protection to the lender because, in addition to considering physical security, it provides a technical basis for determining the soundness of the loan and provides for a continuous technical guidance to the farmer until he repays the loan. The success of the supervised credit program will depend to a large extent upon how thoroughly those responsible for carrying out the program understand the peculiarities of agriculture as they relate to credit needs and the special techniques involved in combining credit and technical supervision.

The combination of credit and technology, if properly applied, can be many times more effective than either credit or education alone. The combination makes credit an effective tool for increasing production and gives meaning to education because it provides the means whereby the farmer can put into effect what he learns.

Agricultural and livestock operations are different from any other type of business. Because of these differences the credit needs are also different. In farming the factors of excessive rain,

droughts, variations in rainfall distribution, heavy winds, and unusually severe attacks of insects, illustrate the difficulty of precision planning. The distinctive characteristics of agriculture make it necessary to consider such important factors as the following:

#### Proper Timing

Credit must be available when needed, as at the appropriate time during the planting season, to meet recurring needs during the growing season, and to provide funds for unforeseen severe attacks of insects or other similar emergencies.

#### Proper Amounts of Loans

It is as important that loans be made in the proper amounts as it is that they be made at the proper time. A loan in excess of a farmer's capacity to repay is obviously poor credit policy. A loan less than is necessary to carry out successful farming operations is also poor credit policy. The amount of the loan should take into consideration size of farm, production practices, character and ability of borrower, crop yields and security.

#### Supplemental Loans

The need for supplemental loans arise in case of emergencies or unforeseen disasters. If made in the proper amount and at the proper time, a supplemental loan will make it possible to repay both the original and the supplemental loan.

#### Repayment in Relation to Income

A schedule should be prepared of both the amount and time of the receipt of income. The time of repayment should then be set in

relation to this schedule.

### Farm and Home Planning

Farm planning to be effective should provide an orderly analysis of the factors of land, labor, capital and management so as to determine the combination of these factors for an efficient and productive farming program.

### Records

It is necessary to keep simple but adequate farm records for each borrower.

### C. Financing Agricultural Credit in Lebanon

One of the major problems in developing an agricultural credit system is the obtaining of capital for the organization of the system and necessary loan funds.

Table 17 gives us an estimate made by the author. This estimate should not be regarded as a definite one. However, it gives us, for want of a more accurate one, an idea of how much funds are required for agricultural development in Lebanon over the next five years. This estimate is based on the Five-Year Plan as prepared by the IRFED mission and on the present situation of agricultural credit in Lebanon.

The principal source of capital for agricultural development every where is what the farmers invest themselves. This has to be supported by capital out of the total savings of the nation for the reason that farmers' savings are not sufficient for a rapid development.

TABLE 17

ESTIMATE OF CREDIT REQUIREMENTS OF THE AGRICULTURAL SECTOR  
PROJECTION 1964-1968  
IN MILLIONS OF L.L.

|   | 1964 |      | 1965 |      | 1966 |      | 1967 |      | 1968 |       |
|---|------|------|------|------|------|------|------|------|------|-------|
|   | S-T. | L-T. | S-T. | L-T. | S-T. | L-T. | S-T. | L-T. | S-T. | L-T.  |
| Land Consolidation <sup>1</sup>             | .    | .    | .    | 5    | .    | 14.7 | .    | 28.6 | .    | 51.7  |
| Land Improvements <sup>1</sup>              | .    | .    | .    | 2    | .    | 6    | .    | 14   | .    | 24    |
| Extension of Cultivable Areal               | .    | .    | .    | 2    | .    | 6    | .    | 14   | .    | 30    |
| Add. Short-term Credits <sup>1</sup>        | .    | .    | 0.5  | .    | 1    | .    | 2    | .    | 4    | .     |
| Extension of Auxil. Activities <sup>1</sup> | .    | .    | .    | .    | 0.1  | .    | 0.2  | .    | 0.3  | .     |
| B.C.A.I.F. <sup>2</sup>                     | 3.5  | 6    | 4    | 7.5  | 5    | 8    | 6    | 9    | 7    | 10    |
| Banks <sup>2</sup>                          | 15   | 12   | 16   | 13   | 18   | 15   | 20   | 17   | 22   | 18    |
| Traders <sup>2</sup>                        | 15   | .    | 16   | .    | 17   | .    | 18   | .    | 19   | .     |
| Moneylenders <sup>2</sup>                   | 17   | .    | 17   | .    | 18   | .    | 18   | .    | 19   | .     |
|   | 50.5 | 18   | 53.5 | 29.5 | 59.1 | 49.7 | 64.2 | 82.6 | 71.3 | 133.7 |

And again, total domestic funds have to be supported by foreign capital because the nation's savings are not enough. It must be understood that initially at least, the Lebanese government will have to provide the great bulk of the capital required for the development and operation

<sup>1</sup>These projections have been taken from the Five-Year Plan as prepared by the IRFED mission.

<sup>2</sup>Projections prepared by the author from his own investigations.

of the new institution. Even if the private capital is willing to cooperate, the mistrust of agricultural credit at low rates of interest is so great and real that initial government guarantees, both of capital contributions and of reasonable return on these contributions will be a necessary condition of participation.

Following we find some suggestions on the proper financing of the proposed Agricultural Bank.

### 1. Capital of the Bank

The Agricultural Bank must start from a strong financial position. Its capital must be of a certain importance. This capital must be contributed both by the private sector and by the government. The government should not aim to make profits on his capital contribution and this may help to reduce cost and present loans at reasonable interest rates.

### 2. Rediscounting Privileges

The Agricultural Bank should be authorized to rediscount its agricultural papers not only with the Central Bank of Lebanon, but also with other commercial banks. This is one way in which farmers will have access to the general credit supply of the country. Of course, there may need to be a ceiling on the total amount of credit that may be furnished in this way. Commercial banks may be required to keep part of their reserves as agricultural paper. These papers will be accepted and rediscounted by the Central Bank.



### 3. Savings and Deposits

It is important to have the Agricultural Bank receive savings and deposits from farmers. As a matter of fact, savings by farmers and village people because of the low income of farmers may be small. But practices of thrift will develop capital. A thrift program, where farmers deposit savings into a system organized to receive deposits and use the funds for loans, will help develop confidence in the savings system. Farmers will be more willing to put their savings into such a bank and when they are borrowers they will have some direct interest and determination to pay back the funds borrowed.

### 4. Foreign Loans

Funds might also be secured from international banking institutions that make loans to governments to finance their developmental projects. Foreign loans are very important for the strengthening of the financial structure of the Agricultural Bank.

### 5. Funds from Insurance Co.

Long-term funds can be provided by insurance companies. Life insurance companies are definitely geared to the needs of agricultural credit because long-term loans fit in well with their long range investment programs. At present these companies have to keep 50 per cent of their reserves inside Lebanon. This 50 per cent is either deposited with commercial banks or invested in real estate.



## 6. Issuance of Bonds

After a period, when people have gained the confidence of the Agricultural Bank, it will be possible for the bank to sell its own bonds to private investors, banks, and other financial institutions.

## D. Conclusion

Although the proper use of agricultural credit at low interest rates, contributes to the promotion of social welfare, it must not be confused with subsidies or bounties extended to poor farmers. It must not encourage in the long-run, the development or maintenance of uneconomic farming units. On the contrary agricultural credit should aim at the economic and financial liberation of the small unit so that it becomes a self-supporting business operation.

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