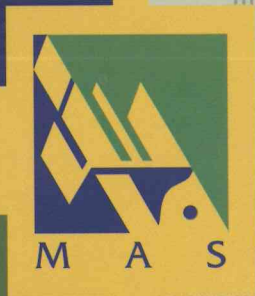


Financing of Palestinian Agricultural Economy

Nidal Rashid Sabri



PALESTINE ECONOMIC POLICY RESEARCH INSTITUTE

2008



M A S

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This study was prepared by Palestine Economic Policy Research Institute (MAS) research team, particularly by the following researchers:

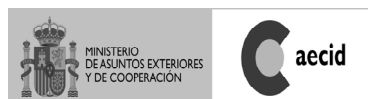
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Foreword

The agricultural sector is an important sector in any economy. It is the main source of income to farmers. In addition, the agricultural sector is the main source of producing food to farmers and other groups of the population.

However, it the most vulnerable sector among the economy's producing sectors particularly because agricultural production is affected by factors outside the control of farmers. The most important of these is weather conditions.

Palestinian farmers are not alone in often having to face the undesirable weather conditions of frost and drought. These unfavorable conditions are of great concern to farmers since production, and consequently their income, suffers. In turn, food insecurity increases at the micro, farmer level, as well as at the macro, country level.

The adverse effects of drought and frost in one year can extend many years, since a farmer's production capacity may remain low for a long period. This is a knock-on effect of not having capital to invest since the adverse weather conditions have partially or entirely eliminated their income. This phenomenon is more pronounced and extreme in the case of small farmers who have less ability to purchase what is necessary for their operations.

Farmers in general and small farmers in particular, have little savings, if any as they rarely save money from year to year or from one season to another. This is because they are required to finance their agricultural operations in successive seasons, especially in the periods that follow drought or frost.

Problems from weather conditions are sometimes augmented by political and military unrest in Palestine. The Israeli military measures, which include: closures, invasions, barriers and building the separation wall, cause difficulties for all Palestinians, including farmers. Sometimes, they loose access to their land in crucial times, such as the time to start production or the time of marketing. As a result of these Israeli measures, farmers are subjects to loosing their income, partially or completely.

From the findings and issues raised in this study, the Food Security Research Unit at MAS proposes to conduct further research on the topic of insurance in the agricultural sector in Palestine. Insurance is essential to farmers as it offers stability to their income and therefore to their consumption pattern and agricultural production. This, as mentioned above, in turn contributes to food security for farmers and for the country more generally.

I would like to thank the researcher, Dr. Nidal Sabri, who conducted this study and also the reviewers, especially Dr. Hisham Jabr from the Department of Finance at An-Najah University.

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Dr. Fathi Srouji
Research Coordinator

Executive Summary

The purpose of this study was to investigate the aspects of financing the Palestinian agricultural economic sector, in order to identify existing problems and to suggest solutions to enhance the agricultural sector. The study analyzed relevant financial data going back fifteen years, including microfinance loan institutions, banks, specialized loan institutions and grants programs. The study also interviewed around thirty-five representatives of agricultural institutions, including: members of ministries, non-profit organizations and corporative associations, international institutions, banks, insurance companies that are related to the Palestinian agricultural sector, institutions running programs related to lending in Palestine and some officials from programs that provide grants and assistance to the agricultural sector. The study developed a special questionnaire as that would answer the stated questions of the study. A questionnaire, of eleven parts, was given to 100 Palestinian farmers from all areas of the West Bank and covering all agricultural activities.

Despite there being many frameworks and institutions for assisting Palestinian agricultural activity, the research found a decline in the contribution of this sector to GDP as well as to the labor force in general. Of all the economic sectors, the banking sector benefits agriculture the least. Results from the study show that less than 1% of loans and banking facilities granted to all economic sectors reach this sector. Also, the agricultural sector has had the least support from microfinance loans provided by non-profit companies, and non-profit organizations. The agricultural sector's share of the total granted micro-credit over the last twenty years has been about eleven percent.

The study shows the best options for farmers trying to finance their agricultural activities. These are: agricultural credit associations or loans using Islamic instruments, due to the fact that about twenty percent of the Palestinian farmers who filled the questionnaire refuse to deal with credit and loans for religious reasons. In addition to this, more than half of the Palestinian farmers prefer personal grantees and use cheques as security for the loan. They all refuse to provide their lands as collateral in exchange for the loans but accept the idea of linking the loans to marketing their agricultural products.

Farmers growing vegetables in greenhouses need larger amounts of money, up to 50,000 JD, especially when modernizing or expanding greenhouses. On average, a loan of this size takes between one and five years to be fully repaid. The study shows that most problems appear in external financing and finance offered by banks due to: high interest rates, a delay in acquiring a loan and the difficulty of finding a guarantee that is acceptable to the credit institutions. The last of these problems disappears in the case of loan guarantees provided by specialized lending institutions, including microfinance firms.

The study demonstrates that success in agricultural financing through the formal financial system or through informal instruments requires having insurance against natural hazards and that it must be linked to a sophisticated marketing system. However, there is no legislation in Palestine relating to insurance that covers agricultural activity, despite the existence of several studies in this area. Similarly, there are still no laws to regulate the informal financing system, which includes: lending institutions, money changers, small companies and non-profit cooperatives. In many ways however, the greatest hindrances in obtaining official funding for agricultural activities are poor access to banks for people living in villages and rural areas, the bureaucracy in banks of decision making and the lack of guarantees that are accepted by the lender.

To conclude, the study recommends passing new laws and setting up regulations to authorize the insurance of products and agricultural property, to be exercised by all insurance companies. Also, a new law needs establishing to regulate all lending institutions, not only banks, for flexibility in the legal entities form of related institutions working in this sector. This study advises that all cooperatives, corporate-profit firms and non-profit organizations are obliged to practice their lending operations under the supervision of the Palestinian Monetary Authority.

The study also supports the idea of enhancing savings and loan associations, and agricultural cooperatives directly, without needing to pass through so many intermediary financial channels. Further recommendations include: raising the ceiling on lending to five times the value of farmers' savings and organizing the idea of government support for financing the agricultural sector, whether through the Palestinian Authority directly or with local charity organizations or foreign institutions. The study also advises eliminating the direct support of agricultural finance, as these operations are selective, with immaterial values and linked to foreign governments' vision and agendas, thus

reflected negatively on the agricultural financing system as provided by the formal and informal systems.

For the reasons above, the study recommends supporting the concept of agricultural finance by contributing to the agricultural insurance charges after it became legislated. It also highlights the importance of supporting savings and loan cooperatives and to enhance small and medium-oriented agricultural activities.