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Financial Operations of the Agricultural Credit Corporation in Jordan

Nureddin A. Taqieddin

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FINANCIAL OPERATIONS OF THE AGRICULTURAL
CREDIT CORPORATION IN JORDAN

by

Nureddin A. Taqieddin

A thesis submitted in partial fulfillment
of the requirements for the degree
of

MASTER OF SCIENCE

in

Agricultural Economics

UTAH STATE UNIVERSITY
Logan, Utah

1968
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PREFACE

Jordan is a product of World War I and II and hence is a recently established country. Before World War I the area it comprises was under the Ottoman Empire rule for about 400 years. When World War I took place the whole Empire had been suffering from economic stagnation. This stagnation continued to exist in the newly formed state during the inter-wars period and became a serious problem after the Arab-Israeli war of 1948, as a consequence of which the population of Jordan increased overnight to three times its pre-war size. Economic development of the country became the focus of many local and international efforts. Budget supports from the United States, Britain and the United Nations helped to activate the economy after 1948. During the decade 1952 to 1962, several studies for the economic development of the country were undertaken. The most important one was conducted by a mission from the International Bank for Reconstruction and Development (IBRD) in 1955 at the request of the Government of Jordan. The mission made a comprehensive study of the country's resources and potentials and wrote a report including its findings and recommendations on projects it considered necessary to be undertaken in order to set the grounds for any economic development program. Many of these projects were undertaken or encouraged by the Government on individual project basis. In 1962, the Government drew the first overall development plan which
covered the period 1962 to 1967. This plan was revised early in 1963 due to reductions in foreign aids received by the country (particularly U.S. aid).\(^1\) The revised plan covered a period of 7 years extending from 1964 to 1970.

Both the report of the IBRD mission and the economic development plans placed strong emphasis on agriculture as being the main sector affecting the economy. Among other recommendations of the IBRD mission was one calling for the reorganization of agricultural credit sources on more technical and practical basis in line with the general scheme for economic development. Until 1960 this credit service was provided by several sources none of which was operated with the objective of pushing forward the productivity of the agricultural sector or raising the standard of living of the rural population although the main sources were government institutions. In August 1960 and after detailed studies, an agency was established to operate as the major source of agricultural credit in Jordan with the basic objective of helping the development of the agricultural sector and the farmers' community.

Purpose of Study

The purposes of this study are: (a) to examine the financial policies and operations of the Agricultural Credit Corporation in Jordan, (b) to detect any problem, weakness, or deficiency in these policies and operations and (c) to make recommendations for their improvement in the light of the overall objectives of this credit agency. The study starts with an introduction to the Agricultural Credit Corporation, its objectives and its importance to the Jordan economy. This is the subject matter of the first chapter.

Financial operations and lending policies are discussed in Chapters II and III respectively. Because of the importance of financial budgeting to the sound operations of this credit agency it is discussed in Chapter IV. Summary and Conclusions constitute the last part of this study.
ABSTRACT

Financial Operations of the Agricultural Credit Corporation in Jordan

by

Nureddin A. Taqieeddin, Master of Science

Utah State University, 1968

Major Professor: Dr. George T. Blanch
Department: Agricultural Economics

Agriculture is the backbone of Jordan's economy. It provides employment and a living for 40 per cent or more of the total population. However, very few farmers have accumulated enough capital to finance their farm operations from planting to harvest. The Agricultural Credit Corporation was established to provide farmers with credit at a relatively low cost. Without the low cost loans many farmers cannot stay on their farms. The Agricultural Credit Corporation is the most important agency in terms of the direct help it offers to farmers.

The Agricultural Credit Corporation has followed a policy of making loans at a relatively low rates of interest. As a result they have had difficulty in obtaining loans from competitive markets to meet their needs. This problem has been accentuated by a persistently low level of collections from its loans. Apparently they expect to collect no more than 85 per cent of its claims. However, during the year 1965-66 collections were only 44 per cent of the principal after excluding
doubtful loans, and 43 per cent for interest.

The weaknesses of the Corporation Administration appear to be:

(a) Lack of studies to determine how well the Corporation is serving the needs of agricultural borrowers.

(b) Lack of planning for improvement in the future.

(c) Loopholes in lending rules and procedure.

(d) The low limits on loans to farmers.

(e) Regulations that property offered as security for a loan should not exceed 60 per cent of the value of the mortgaged property.

(f) Frequency of seasons in which drought occurs and results in the inability of farmers to make payments on their loans.

It is recommended that the ACC should continue to seek low cost credit from sources such as the International Development Association and similar agencies. It is also recommended ACC use all of its financial resources in lending operations instead of depositing them in commercial banks.

Recommendations for correcting the existing weaknesses:

(a) The Corporation should develop repayment schedules for each borrower at the time the loan is made. These should be adhered to by both the borrower and the lender. The statistics and research section of the ACC should be assigned responsibility of the schedule of repayments.

(b) Procedures for appraising the value of property offered as security for a loan should be developed and used as a part of every application for a loan and before any loan has been made.
(c) The upper limit on loans should be raised to 100 per cent of the appraised value of the security mortgaged rather than the present 60 per cent of loans.

(d) The Corporation should establish a special fund from which emergency loans could be issued to drought stricken areas. These funds should be provided by the Treasury. This should improve the rate of collection of loans when they are due.
INTRODUCTION

Jordan as constituted today has existed only since 1950. It is a small country comprising an area of 37,000 square miles which is about the same size as the state of Indiana.\(^1\) In 1963 it was estimated that three million acres of its land were under cultivation of which only 150,000 acres were irrigated.\(^2\) There were about 690,000 acres of cultivable land still uncultivated and about 40,000 acres of cultivable land which could be put under irrigation.\(^3\) The uncultivable land is mainly desert or waste land. Table 1 shows the exact position.

Jordan climate is generally of the dry Mediterranean type. With the exception of the Jordan Valley, summer temperatures seldom exceed 90°F. and winter temperatures rarely fall below freezing point more than a few degrees.\(^4\) Rainfall is concentrated in the short and cool season between December and March. A minimum rainfall of 8 inches annually enables the Jordanian farmer to engage in marginal farming;


\(^3\) Ibid.

over 15 inches is sufficient for normal cultivation. Actual rainfall, however, fluctuates widely around the average and therefore severe drought seasons are not unusual.

Table 1. Area of cultivable and cultivated land in Jordan in 1963.

<table>
<thead>
<tr>
<th>Land category</th>
<th>Area in 1,000 Dunums&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cultivable and cultivated land</td>
<td>13,000</td>
<td>13.5 of total area of Jordan</td>
</tr>
<tr>
<td>Irrigated land</td>
<td>600</td>
<td>4.6 of cultivable and cultivated land</td>
</tr>
<tr>
<td>Dry farming land that can be irrigated</td>
<td>159</td>
<td>1.2 of cultivable and cultivated land</td>
</tr>
<tr>
<td>Dry farming land including fallow</td>
<td>9,496</td>
<td>73.1 of cultivable and cultivated land</td>
</tr>
<tr>
<td>Cultivable land still uncultivated</td>
<td>2,745</td>
<td>21.1 of cultivable and cultivated land</td>
</tr>
</tbody>
</table>

<sup>a</sup>A dunum equals 0.247 of an acre.


The population of Jordan did not exceed 400,000 people before 1948. During the year 1948 alone, about 350,000 Palestinian refugees in addition to about 460,000 residents of what is now the West Bank of

Jordan were added to the country's population; thus increasing the population of Jordan in one year to three times what it had been before 1948. The present population of Jordan is about two million, increasing at an estimated rate of 3 percent.

The majority of Jordan's population depend for their living on agriculture. The population distribution, therefore, is greatly influenced by the rainfall patterns. More than 86 percent of the total area of the country receives less than 8 inches of annual rainfall and almost all this arid land is too far from water resources to be irrigated. Therefore, the bulk of the population is concentrated in the cultivable area which does not exceed 13.5 percent of the total area of Jordan (Table 1). In 1963 the gross national product per person averaged about JD. 75 (about $210). This low average is a result of rapid population growth, high proportion of children and low productivity of labor.

Natural resources of Jordan are not abundant. No deposits of coal, oil, or metallic minerals have been found in the country. Phosphate and potash are the most important non-metallic minerals found

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7Ibid., pp. 49-50.


9Jordan Development Board, The Seven Year Program, p. 3.
in commercial quantities. Building stone, marble and cement material are abundant and commercially exploited.\textsuperscript{10}

Industry has a limited capacity due to its small domestic market and lack of sufficient raw materials. Where market demand was sufficient and raw materials were available, industry proved efficient and profitable. This was the case in cement production and oil refining.

Tourism is the largest source of foreign exchange earning in the economy.

Agriculture plays an important role in the progress of both the industrial and the commercial sectors. The agricultural base for Jordan's industry consists mainly of olives, tobacco, grain, fruits, and vegetables. Olive oil presses and an olive oil refinery were established in olive producing areas. Soap industry is quite familiar in olive producing areas and it is being continuously modernized. Grain production led to the establishment of many flour mills with facilities for modern packing and storage. Packing, grading, storing, and transport methods for fruits and vegetables are continuously improving with an objective of exporting them at higher prices out of season. Tobacco is relatively a major industrial crop. Several cigarette companies own and operate large tobacco plantations and produce a fine quality export cigarette.\textsuperscript{11}

\textsuperscript{10}IBRD, \textit{The Economic Development of Jordan}, p. 44.

\textsuperscript{11}Harris, \textit{Jordan}, pp. 151-162.
The main export items in Jordan's trade, in terms of their returns are agricultural items. In order of importance the major exports are: vegetables and fruits, phosphates and olive oil.\textsuperscript{12}

It is estimated that more than one third of goods consumed by Jordanians is imported. Agricultural exports provide the major part of foreign exchange for these imports. The trade deficit in the balance of trade, however, is permanent and increasing. It kept increasing as a result of increasing demand for imports beyond the capacity of the country to expand its exports.\textsuperscript{13} Imports and exports during the period 1959 to 1962 were as shown in Table 2.

\begin{table}[h]
\centering
\begin{tabular}{lcccc}
\hline
\hline
Imports & 42.64 & 45.75 & 45.88 & 50.45 \\
Exports & 11.47 & 12.54 & 16.54 & 18.63 \\
Deficit & 31.17 & 33.21 & 29.34 & 31.82 \\
\hline
\end{tabular}
\caption{Exports and imports of Jordan during the period 1954-1962 (in Jordan dinars)\textsuperscript{a}}
\end{table}

\textsuperscript{a}One Jordan Dinar (or JD) equals $2.8.


\[\text{\textsuperscript{12}Ibid., p. 175.}\]

\[\text{\textsuperscript{13}Ibid., p. 174.}\]
Agriculture is, and will continue to be, the major sector in the economic structure of Jordan. It is estimated that more than 40 percent of the country’s labor force is employed in this sector and still a higher proportion of the population make their living directly from agriculture or indirectly from related industries and businesses.\(^\text{14}\) Because of the importance of this sector its development became an urgent matter and every possible effort had to be made to accelerate this development. Although agricultural production is carried out by private owners, the importance of this sector, in addition to the many-sided problems it involves, caused the government to carry a heavy responsibility in assisting farmers to increase their efficiency and production. Assistance to farmers has been provided in various forms by several official and semi-official agencies. The most effective aid to farmers was the establishment of specialized credit agencies to provide them with cheap credit which enables them to improve their farming practices and raise their incomes. The Agricultural Credit Corporation (ACC) and the Central Co-operative Union (CCU) are the agencies through which this basic need of farmers is provided. The ACC provides medium and long-term loans while the Central Co-operative Union provides seasonal or short-term loans. The operations of CCU are mostly financed by the Agricultural Credit Corporation. Both agencies are introduced in the following paragraphs.

\(^{14}\) Jordan Development Board, *The Seven Year Program*, p. 74.
The Agricultural Credit Corporation

Due to the role agricultural credit plays in developing agriculture and due to the importance of the agricultural sector to Jordan's economy, the ACC was established by reorganizing the already existing credit agencies. Until March 1960, there were three agencies extending agricultural credit independently and, in many cases, there was a degree of overlapping in their operations. 15 The importance of their reorganization to meet better the needs of both the farmers and the economy was recognized early in 1955 by the IBRD mission and found urgent by the government of Jordan in 1959. Action towards this end was taken by forming a committee to outline the amalgamation of these three agencies. Acting on the recommendations of this committee the government enacted law number 50/1959 providing for the amalgamation of existing credit agencies into one agency under the title of Agricultural Credit Corporation. 16 According to this law the ACC was constituted as a legal entity with financial independence. It started operations in August 1960, with an authorized capital of seven million Jordan Dinars.

15 Memorandum, ACC to IDA, Dec. 21, 1961, p. 1. The three agencies were the Agricultural Bank, the Village Loan Scheme, and the Agricultural Co-operative Department.

16 This law was amended by ACC Act No. 12/1963.
The purpose of the Corporation is to extend loans for productive agriculture activities with the objective of increasing agricultural productivity and raising the income of farmers. It provides loans to farmers and agricultural co-operative societies. Credit to farmers is extended for all such projects which tend to improve the income of the farmer, increase his production, and raise his standard of living. The Corporation is required to maintain strict supervision of all loans issued to farmers in order to ensure their use in the purposes for which they were given and in accordance with a supervised agricultural credit plan.

By virtue of its law the Corporation is a semi-autonomous, semi-official organization. It is administered by a Board of Directors consisting of a chairman, three official members representing the Ministry of Agriculture, the Ministry of Finance and the Development Board, and five appointed members who have experience in agriculture or agricultural finance or both to represent farmers. 17 The chairman of the Board is at the same time the Director-General of the Corporation, a situation which makes this position extremely important. The Board, however, does not have the power to change the Corporation's law. Any such change must be approved by the Parliament.

The amended ACC law of 1963 gave the Board full authority to administer the Corporation and to determine its loan policy with the...

17ACC, Loan Request to IDA, p. 9.
exception that borrowing of funds by ACC should have the approval of the
Cabinet.

The Deputy Director-General is the secretary of the Board and has
no vote. The Chairman, as Director-General, and his deputy are appointed
by the Cabinet subject to the approval of the King.18

The Corporation has its own Personnel Regulations and Financial
Regulations. It has a Head Office located in the capital with fifteen branches
in the districts. The Head Office includes, in addition to the administration,
a credit section, a supervision and implementation section, a research and
statistics section, a personnel and records section, and an accounts section.

In every branch there is a local loan committee of five persons headed by the
branch manager. These committees are given the authority to issue loans
within limits specified by the Board of Directors. A central committee at
the Head Office has authority to study and make decisions on loans which
the branch committees are not authorized to approve. The number of ACC's
staff in 1966 was 217 employees.

The Central Co-operative Union

The co-operative movement in Jordan started in 1952, following
the establishment of the Department of Co-operative Development now in
the Ministry of Social Affairs. The Co-operative movement has grown

18 Ibid.
until it is now an important part of the agricultural sector. On March 31, 1966, there were 321 rural co-operative societies with a total membership of 15,552.

The Central Co-operative Union has the overall responsibility of organizing, supervising, and financing of rural village co-operatives. It provides its members with seasonal loans. The loaning funds of the CCU are obtained from the ACC as well as from the share capital and savings of member societies. The government of Jordan also provides some financial assistance for administrative costs in the form of a subsidy.

The Department of Co-operatives in the Ministry of Social Affairs has supervisory and regulatory responsibilities.

The CCU operates by getting funds from ACC (and other sources) and lending them to its member co-operative societies which, in turn, relend these funds to their members. Loans made by ACC to CCU all have a term of five years.¹⁹ They also carry an interest rate of 4 percent, half of which is returned to the JCCU as cost for servicing the loans.²⁰

The Union co-ordinates its lending policies and operations with the ACC so as to avoid duplication both as to the purpose of the loan or servicing action. The Union submits to the Corporation quarterly reports showing the financial status of all agricultural loans.²¹

¹⁹Ibid., pp. 6-8.
²⁰Memorandum, ACC to IDA, p. 3.
²¹Ibid.
In general, credit operations in agriculture are different from those in other businesses. This is so because agriculture has special characteristics distinguishing it from other sectors such as the long period of time it takes capital to turn over, the great number of people engaged in it, the relatively easy movement into or out of it and the frequent fluctuations and failures which may happen as a result of unforeseen or uncontrollable reasons as well as lack of knowledge and experience by farmers. These special characteristics necessitate the existence of specialized agencies in the field of credit. Moreover, the nature of the economic structure of Jordan made it extremely necessary to have agricultural credit sources which are well adapted to the purpose of developing agriculture and the agricultural community in the country. The ACC and CCU, in terms of their purposes and organizations, are well suited to this function. Financial operations of ACC, however, have to be scrutinized and, in some respects, as shall be seen in the following chapters, have to be improved or revised.
FINANCIAL OPERATIONS OF ACC

The present organization of the Agricultural Credit Corporation in Jordan was a product of Jordan's past experiences in agricultural credit as well as experience of similar agencies in other countries. The agency which was mostly imitated by ACC was the Farmers Home Administration (FHA) of the United States. The organization and practices of this credit agency were in many respects adopted by ACC.

The lending program of ACC differs from the programs of former agencies in the concept of full supervision and control of loans. The methods and practices of the Farmers Home Administration were very helpful to ACC in setting up its lending rules and regulations.

In this chapter the financial operations of ACC will be examined and analyzed. Some legal financial aspects which affect these operations are first presented. The financial status of ACC is then examined and weak points outlined.

Legal Financial Aspects

Financial as well as other policies relating to ACC's operations are determined by the Board of Directors. Responsibility for their implementation is carried by the Director-General. The Board meets upon invitation by the
Director-General at least once every three months or when four members of the Board submit a written request for a Board meeting to the Director-General.  

The Board has authority to appoint any committee for any purpose concerning ACC's operations and to determine its powers or scope of activity. By virtue of this authority the Board appoints members of the Central Loan Committee or Branch Committees and determines the maximum amount of loans they can issue. The Corporation's law prohibits it from issuing any grants or loans intended to settle farmers' debts. Its loans are to be issued for productive agricultural purposes or for the development of agricultural industries. These loans may be of three types: 1. Short-term loans issued through the Central Co-operative Union for season uses; 2. Medium-term loans for a term not exceeding ten years; or 3. Long-term loans for a period not exceeding twenty years.

The Corporation's law is generally strict regarding the collection of its due loans. Under this law no debtor can be released of his obligations unless he fully pays his debts. The Corporation serves the debtor with a demand notice within a period not exceeding two months before the date on which payment falls due. Failure to send such a notice, however, can not be an excuse for failing to pay on the due date; neither would it affect the right of the Corporation to follow legal proceedings for collection. In case of default on any partial payment the whole debt becomes due and the Corporation may proceed with its collection from


2 Ibid., pp. 3-7.
the property of the debtor or even his surety. However, the Corporation has the option to follow the procedure which it may consider more effective to safeguard its interests and not to impair its goals. Loans issued by the Corporation are protected by its laws against any government order or decree which may postpone payment of debts due to the Corporation wholly or partially. 3

In the event of the death of a borrower the ACC has to serve upon his heirs and sureties a notice to pay ALL sums due within ten days of serving the notice. After the expiration of this period, the ACC would take action to obtain an order authorizing it to seize and sell the movable or immovable property of the debtor offered as security and to collect its claims from the sale proceeds. 4

ACC loans have to be fully secured with immovable property, financial security or any other guarantee the Board may find acceptable. The value of any loan is limited to 60 percent of the appraised value 5 of the property mortgaged as a security. 6

ACC has the right to consolidate its outstanding loans in cases where both its interests and the interests of the borrowers are safeguarded. This is an

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3 Ibid., pp. 7-8.

4 Ibid., pp. 9-10.

5 The rules and regulations did not specify the appraisal approach to be followed.

operation carried out in the accounts section by crediting the old loan and debiting the new one in the same amount after setting a new repayment schedule. The conditions under which this debt settlement is made are prescribed by the Director-General. 7

Approved loans are generally paid to borrowers in three installments; the first is paid upon the execution of the loan agreement, the second after completion of one third of the project to be done and the third after completion of work equal in value to the first and second installments. Each payment is made on the basis of a report by the credit officer describing the work completed and the estimated cost thereof. Repayment of these loans is generally made in annual installments the number of which is determined on the basis of the life and productivity of each individual project. 8

The Corporation's income consists of cash return from the following sources: (1) interest on loans, (2) interest on deposits in banks, (3) interest on bonds, 9 (4) profit realized from the sale of agricultural equipment or land held by or transferred to the Corporation, and (5) other or miscellaneous income. All expenses of the Corporation have to be covered from its own income. 10

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7 Ibid., p. 13.
9 Although it is entitled to invest in, or to issue bonds the Corporation has not, so far, engaged in such activities.
The authorized capital of the Corporation is fixed at seven million dinars. Sources from which this capital can be covered were specified as the following:

1. Loans and other assets of former credit agencies transferred to ACC.
2. Loans issued by ministries or other government agencies and later transferred to ACC.
3. Treasury's contribution to ACC.
4. Net profits transferred to capital.
5. Other sources such as ACC's share from USAID funds.

Paid-up capital of ACC as of March 31, 1961, which was the ending date of its first financial year, amounted to JD 3,795,000.\(^\text{11}\) This amount consisted primarily of loans issued by former credit agencies and transferred to ACC. It also included certain loans which were given to farmers by the treasury of Jordan, through the Ministry of Agriculture, as a measure of relief. Although they were called loans, relief loans were not sufficiently secured nor were they supervised and hence they could hardly be considered collectable. These loans amounted to JD 709,000 as of March 31, 1961, and hence, if they are deducted from the transferred capital, as was done afterwards, the paid-up capital of ACC as of March 31, 1961, would be JD 3,086,000 only.\(^\text{12}\) In addition, transferred loans included many loans, given by the former

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\(^{11}\) Rounded figure.

\(^{12}\) Memorandum, ACC to IDA, pp. 11-12.
Agricultural Bank, which had been outstanding for a number of years far exceeding their original terms and, therefore, had to be considered doubtful or bad loans. An adjustment to this effect was made in the books of ACC in 1962–63. 13

Financial Status

In order to analyze the financial standing of ACC and trace its trend, statements showing ACC’s balance sheets and income and expenditure accounts for a convenient number of years will be presented. Although the operations of ACC started in 1960 they were regulated and standardized only in 1963. Therefore, it is more realistic to start with statements of the financial year 1962–63. Because the last statements available are those of the financial year 1965–66, the period covered will be 1962–63 to 1965–66.

Table 3 shows condensed balance sheets of ACC for the years 1962–63 to 1965–66. Table 4 shows condensed income statements for the same period. Before proceeding to the examination of these statements it would be helpful to present a brief description of the different accounts they include.

The balance sheet accounts

On the assets side of the balance sheet the Cash on Hand and in Banks account consists of cash deposited in banks or kept in ACC’s offices. This

Table 3. Balance sheets of Agricultural Credit Corporation for the years 1962-63 to 1965-66 (in thousand dinars)\(^a\)

<table>
<thead>
<tr>
<th></th>
<th>1962-63</th>
<th>1963-64</th>
<th>1964-65</th>
<th>1965-66</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash on hand and in banks</td>
<td>323</td>
<td>327</td>
<td>709</td>
<td>741</td>
</tr>
<tr>
<td>Immovable property</td>
<td>11</td>
<td>33</td>
<td>53</td>
<td>61</td>
</tr>
<tr>
<td>Furniture</td>
<td>5</td>
<td>6</td>
<td>8</td>
<td>11</td>
</tr>
<tr>
<td>Vehicles and supplies</td>
<td>2</td>
<td>5</td>
<td>9</td>
<td>13</td>
</tr>
<tr>
<td>Outstanding loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ACC loans</td>
<td>1455</td>
<td>2101</td>
<td>1470</td>
<td>1760</td>
</tr>
<tr>
<td>IDA loans</td>
<td>---</td>
<td>--(^b)</td>
<td>1033(^c)</td>
<td>1534</td>
</tr>
<tr>
<td>Co-operative loans</td>
<td>625</td>
<td>591</td>
<td>559</td>
<td>476</td>
</tr>
<tr>
<td>Transferred loans</td>
<td>1822</td>
<td>3902</td>
<td>1628</td>
<td>4320</td>
</tr>
<tr>
<td>Doubtful loans</td>
<td>479</td>
<td>455</td>
<td>396</td>
<td>342</td>
</tr>
<tr>
<td>Advances</td>
<td>-</td>
<td>5</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Loans sanctioned and paid to branches</td>
<td>-</td>
<td>-</td>
<td>19</td>
<td>73</td>
</tr>
<tr>
<td>Employees housing loans</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>17</td>
</tr>
<tr>
<td>Other assets</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>4725</td>
<td>5154</td>
<td>5600</td>
<td>6175</td>
</tr>
</tbody>
</table>
Table 3. (Continued)

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>1962-63</th>
<th>1963-64</th>
<th>1964-65</th>
<th>1965-66</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authorized capital</td>
<td>JD. 7,000,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Paid-up capital carried forward from last year</td>
<td>3933</td>
<td>4009</td>
<td>4114</td>
<td>4191</td>
</tr>
<tr>
<td>Added:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>From USAID</td>
<td>76</td>
<td>81</td>
<td>12</td>
<td>26</td>
</tr>
<tr>
<td>From Collections of doubtful loans</td>
<td>-</td>
<td>24</td>
<td>59</td>
<td>53</td>
</tr>
<tr>
<td>From government contributions</td>
<td>-</td>
<td>4009</td>
<td>4114</td>
<td>6</td>
</tr>
<tr>
<td>Operating surplus</td>
<td>100</td>
<td>138</td>
<td>259</td>
<td>344</td>
</tr>
<tr>
<td>Loans sanctioned in process of execution</td>
<td>-</td>
<td>-</td>
<td>6</td>
<td>51</td>
</tr>
<tr>
<td>Overpayments</td>
<td>6</td>
<td>4</td>
<td>16</td>
<td>17</td>
</tr>
<tr>
<td>Balance of doubtful loans</td>
<td>479</td>
<td>455</td>
<td>396</td>
<td>342</td>
</tr>
<tr>
<td>Long-term debt-IDA loans</td>
<td>-</td>
<td>237</td>
<td>583</td>
<td>978</td>
</tr>
<tr>
<td>Borrower's current account</td>
<td>131</td>
<td>206</td>
<td>149</td>
<td>155</td>
</tr>
<tr>
<td>Total</td>
<td>4725</td>
<td>5154</td>
<td>5600</td>
<td>6175</td>
</tr>
</tbody>
</table>

a Rounded figures.
b Loans made this year from IDA funds were recorded under ACC loans and in 1965 they were separated in a special account.
c Part of the loans, namely JD. 237,000 was loaned in 1964.
Source: ACC, Annual Reports, 1962-63 to 1965-66, (Amman, Jordan), Balance sheets accounts
Table 4. Income and expenditure accounts of ACC for the years 1962-63 to 1965-66 (in thousand dinars)a

<table>
<thead>
<tr>
<th></th>
<th>1962-63</th>
<th>1963-64</th>
<th>1964-65</th>
<th>1965-66</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest received on outstanding loans</td>
<td>127</td>
<td>112</td>
<td>216</td>
<td>176</td>
<td>631</td>
</tr>
<tr>
<td>Interest received on bank deposits</td>
<td>22</td>
<td>10</td>
<td>10</td>
<td>34</td>
<td>76</td>
</tr>
<tr>
<td>Other</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>Total income</td>
<td>150</td>
<td>123</td>
<td>228</td>
<td>212</td>
<td>713</td>
</tr>
<tr>
<td><strong>Expenditure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating expenses</td>
<td>67</td>
<td>83</td>
<td>96</td>
<td>101</td>
<td>347</td>
</tr>
<tr>
<td>Others</td>
<td>1</td>
<td>1</td>
<td>3</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td>Interest paid on IDA loan</td>
<td>-</td>
<td>-</td>
<td>9</td>
<td>23</td>
<td>32</td>
</tr>
<tr>
<td>Total expenditures</td>
<td>68</td>
<td>84</td>
<td>108</td>
<td>127</td>
<td>387</td>
</tr>
<tr>
<td><strong>Net profits</strong></td>
<td>82</td>
<td>39</td>
<td>120</td>
<td>85</td>
<td>326</td>
</tr>
</tbody>
</table>

aRounded figures.


cash consists mainly of accumulated collections not relolained or funds committed pending disbursement.

Immovable property consists of lands and buildings owned by ACC.

The Corporation bought a lot of land in 1963 and built on it the Head Office building it now occupies. This explains the rapid rise in figures of this account. It also explains the rise in the Furniture figures since nearly all
the old furniture was replaced by new ones after ACC moved to the new building in 1964.

Cars are mostly used by loan supervisors when they go out to the field as well as loan collectors whose duty is to go out to the farms and collect due loans. This practice is necessary at the present stage in Jordan, particularly because farmers have been used to the former credit agencies whose lending policies did not stress the necessity of prompt payments of due loans.

Loans Outstanding account includes all new loans extended by the Corporation after August 1960, as well as loans which were transferred to ACC from the former credit agencies. New loans include ACC medium and long-term loans to farmers and loans to the Central Cooperative Union. They also include loans made from funds provided by the United States Agency for International Development (USAID) and from a loan extended by the International Development Association (IDA). ACC received from USAID in the form of grants an amount of about JD 195,000 during the four years under consideration. These grants have decreased during the last two years and they are not expected to increase again as long as the Corporation gets its necessary loanable funds from IDA. The loans made from these grants are included under ACC loans in the statements above. Loans made from IDA's funds were shown under a special account at the request of the International Association. They are separately shown in Table 3 because they have special standing among the Corporation's loans which will be useful for the purpose of this chapter.
Transferred loans were divided into two categories: loans which were fully secured and, therefore, considered collectable, and loans which were not secured or not sufficiently secured, and, therefore, considered bad loans. The former category is entered in Table 3 under Transferred Loans and the latter under Doubtful Loans.

Advances constitute prepayments to employees such as prepaid wages and salaries. Loans Sanctioned and Paid to Branches are those loans approved by the Head Office and checks in the amounts thereon sent to branches to be disbursed to borrowers.

The last item on the assets side consists of loans which the Corporation started issuing in 1965 to help its employees own their residential houses.

Paid-up Capital, on the liabilities side, consisted of grants made by USAID, contributions made by the government of Jordan and amounts collected from the doubtful loans. Paid-up capital before 1962–63 was mainly formed by agricultural loans transferred to ACC from other lending agencies. In the last two years collections from doubtful loans were the major contributors to paid-up capital as the figures of Table 3 show.

Operating Surplus account is intended to serve as a reserve against the Corporation's bad debts. If any loan has to be written off the books of ACC, this surplus account would be reduced by the same amount of the written-off loan. It consists of the net profits of ACC which are required to
accumulate until they amount to 15 percent of total outstanding loans. 14 Until March 31, 1966, they constituted a ratio of only 7 percent. 15

Loans Sanctioned in Process of Execution is an account which counters the Loans Sanctioned and Paid to Branches account. After receiving the checks of the approved loans from the Head Office, the branch proceeds in the lending operations according to the lending rules and procedures. Upon signing the loan agreement the borrower receives the first payment of his loan and the balance is transferred to another account, namely, the Borrowers Current Account. Loans which are not completed or signed in the Loans Sanctioned in Process of Execution Account.

Overpayments consist of collections made by ACC over and above the amounts due to it. This may occasionally result from the confusion encountered in many of the loan dockets transferred to ACC. Also it may be due to calculation errors made by the collectors. 16 If these overpayments were not collected by the entitled parties within five years from the date of their notification, the funds would be added to the income account.

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14 Doubtful loans excluded.


16 Collectors have to calculate interest for the few days separating the date on which the collection list was prepared and the date of actual collection.
Balance of Doubtful loans is a counter account of the Doubtful loans. It shows the uncollected balance of these loans at the end of each respective year.

Long-term Debt represents the loan which ACC obtained from IDA in 1963. It is a fifty-years loan on which only interest has to be paid during the first ten years and both interest and principal due have to be paid annually for the remaining forty years.

Borrowers' Current account represents balances of loans which were approved by ACC, signed by the borrowers and at least one installment of each had been disbursed. Balances in this account represent funds which are ready to be disbursed by the branch manager anytime a borrower completes the work for which he has received the first payment (or payments).

The income and expenditure accounts

Table 4 is a condensed statement showing the income and expenditure items in ACC's operations. The income side includes interest received on loans and interest received on deposits in banks. It will be noticed that the amounts of interest received on loans were not consistently rising or falling during the four year period. This is due to the fact that ACC uses the cash approach in accounting for its income. Only received profits are shown on its statements and they are shown in the year during which the actual receipts occur. The same reasoning applies to interest on bank deposits. These are deposits on which ACC earns an interest rate of 3.5 percent when deposited for a period exceeding 15 days, and 5.5 percent
when deposited for more than 2 months. Other income includes non-recurring items such as collected overpayments.

Operating expenses include all cash expenses necessary for everyday operations. The only non-cash expense included is the depreciation expense. Interest on IDA loan is paid annually at a rate of 3.25 percent of which 2.5 percent goes to the government of Jordan and 0.75 percent goes to IDA. The government usually returns its share to the ACC in the form of government contribution to ACC's capital.

**Analysis of Statements**

**Cash balances**

Table 3 shows a high jump in the cash figures of ACC from JD. 327,000 in 1963–64 to JD. 709,000 in 1964–65 and JD. 741,000 in 1965–66. These cash balances were not high figures appearing only at the closing date of ACC's financial years. Practically, cash balances on March 31, of each year are expected to be the minimum accruing during that year, since by that time the lending peak would have just passed and the collection season would be still far ahead. This is due to the fact that the growing season in Jordan extends from December to March and the harvesting season from May to August for most crops. The argument that cash figures in Table 3 are not extraordinary figures appearing only at the end of the respective years is also supported by figures of interest received on bank deposits in Table 4. These figures had jumped from JD. 10,000 in 1963–64 to JD. 34,000 in 1964–65.
and to JD. 76,000 in 1965-66. Part of this increase is due to the higher rate of interest earned on term-deposits in banks. Yet even if all cash balances were placed in a term-deposit account at a rate of 5.5 percent, the minimum average of cash deposits which should have been maintained in banks would be about JD. 600,000 during 1964-65 and JD. 1,400,000 during 1965-66. Therefore, cash balances outstanding on March 31 of each year as shown in Table 3 could be only a minimum average for that year.

Cash balances consist of committed and uncommitted portions. Committed cash includes balances appearing under Loans Sanctioned in Process of Execution Account, Borrowers' Current Account, and Overpayment Account. In 1964-65 they comprised JD. 223,000. Hence, the cash funds which ACC kept in excess of what it really needed for its operations in these two years were respectively JD. 538,000 and JD. 518,000.

The practice of keeping these cash deposits in banks is not a sound one in terms of the goals and objectives of ACC. It is true that ACC gets a higher return on its bank deposits than what it gets on loans. While loans yield a gross return of 5.25 percent, demand deposits yield a net return of 3.5 percent and term deposits yield a net return of 5.5 percent. But since profit is not the main objective of ACC, the higher yield of cash deposits is not a valid argument to support their maintenance. Otherwise, it would be much more profitable for ACC to invest all its cash resources in

term-deposits in banks. In the light of the function and goals of the Corporation, there is no need for it to seek higher returns on its capital as long as its income from loans to farmers is sufficient to cover its expenses.

These cash balances may serve as a reserve in case the present crop season and, hence, collections, fail to finance next year’s operations. In the light of the present financial policies and practices of ACC this may be a sound argument. The present delinquency rate, particularly in drought years, threaten that ACC may be faced in one of those years with a severe shortage of loanable funds. In the light of ACC’s objectives and rules, however, this argument cannot be a final evidence for the need to retain these cash funds.

ACC does not have in its financial regulations any provisions for a reserve against bad seasons. Actually, it has a reserve against bad debts which itself is required to be used in loans and therefore is called Operating Surplus. Moreover, if the financial policy of ACC is revised in such a way that collections will not depend on seasonal fluctuations, there will be no need for ACC to keep sizable amounts of idle cash balances.

The main drawback of this practice is the fact that it works against ACC’s main objective and function of helping the Jordanian farmers. Instead of depositing these funds in the commercial banks and waiting for the bad season to come, they can be used to combat this seasonality and to reduce the chances of its occurrence. Many farmers will find it too late or at least too expensive to re-establish themselves after a severe crop failure. None of the ACC’s regulations require these funds to be retained and nowhere in
its reports is the purpose behind keeping them stated. It could be that ACC has no choice in keeping these balances because of the lack of sufficient demand on loans. But this is not the case since the rise in these balances appeared in the two years when ACC was pressing the IDA for a second loan to meet the shortage in funds.

ACC is an autonomous agency which owns all of its capital. It has no stocks or bonds in its capital structure and, therefore, no stock or bond-holders to press for profits. It has no deposit liability against which it has to establish either legal or additional reserves as commercial banks have to do. There is no sound justification for keeping these large idle deposits in banks. The only cash it needs to keep is the already committed cash which is expected to be withdrawn by borrowers any time. An additional amount may be needed to carry over the lending operations from one month to another. For this purpose an amount of up to JD. 100,000, which is about one twelveth of loans issued by ACC in 1965-66, would also be justified. Additional cash available, in any amount, should be loaned out.

Sources of funds

It is observed from Table 3 that loans outstanding at the end of 1962-63 were less than ACC's capital whereas they exceeded it by about JD. 600,000 by the end of 1965-66. This is due to the fact that ACC resorted to expanding its operations by the use of long-term credit. The only long-term debt incurred by ACC so far was the IDA loan of one million dinars obtained in 1963 which amounted to about one quarter of the Corporation's capital at the end of 1965-66.
The Corporation is negotiating another loan with the IDA which will raise the ratio of long-term debt to capital of ACC to approximately 75 percent.

The International Development Association was established in September 1960 as an affiliate of the International Bank for Reconstruction and Development to provide easy credit at a cost of .75 percent for countries whose balance of payments do not enable them to have convenient loans. Although it has its own funds, IDA’s staff is the same as that of the Bank.\(^{18}\) IDA loans are issued only for investment in productive projects and, therefore, cannot be employed as subsidies for self-liquidating projects.\(^{19}\) The IBRD mission to Jordan in 1955 reported that Agricultural credit is a productive investment of cardinal importance to the economy of the country.\(^{20}\) On this basis, it is expected that IDA will continue its financial support to ACC. ACC has a strong standing in this respect since its debts are fully guaranteed by the government of Jordan. Given a reasonably high rate of collection of due principal and interest the debt itself does not have any disadvantage while it enables the Corporation to expand its operations and increase its contribution to the development of agriculture at a very low cost.

If ACC has to issue bonds or obtain credit from commercial banks, as its laws permit, the cost would be so high that most farmers would not


\(^{19}\)Ibid., 1965, p. 753.

be able to carry it. Commercial banks pay to ACC an interest rate of 5.5 percent on funds deposited for more than sixty days. This rate which represents a net income to ACC is higher than the rate it charges on its loans which includes the service cost. Hence, it is evident that the cost of investment funds obtained from the capital market is very high as compared with the cost of funds obtained from the International Association. A simple numerical example will illustrate the great benefit ACC draws from such loans.

If it is assumed that the presently negotiated loan with IDA of six million dollars (over two million Jordan dinar) will be obtained, then the Seven Year Plan of the ACC can be carried out. According to this plan, the volume of outstanding loans of the Corporation will be 8.7 million dinars by the end of 1969-1970 which is the last year for this plan.\(^{21}\)

Assuming an average age of loans of eight years,\(^{22}\) a practical collection rate of about 90 percent, and a volume of annual new loans equal to the amount of annual collections or more, an amount of one million dinars could be collected and applied to new loans every year after 1969-70. One million dinars every year may be sufficient to finance future lending

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\(^{21}\) ACC, Loan Request to IDA, Enclosure A., p. 43.

\(^{22}\) This is a realistic average since long-term loans exceeding ten years constituted only JD. 30,000 out of a total of JD. 4,911,000 at the end of 1965-1966 (ACC, Annual Report, 1965-66, p. 44).
operations of ACC. Using the presently charged interest of 5.25 percent on ACC's loans and a balance of 8 million dinars of outstanding loans, interest payments to ACC would amount to JD. 420,000 annually after 1969-70. The fixed expenses of ACC constitute a very small proportion of its total cost. They are mainly composed of items such as renumeration to the Board members, renumertions to members of the different committees, depreciation and insurance on property. In 1965-66 all these expenses did not exceed JD. 8,000 while total expenses, excluding interest on IDA loan, amounted to JD. 104,000 as Table 4 shows. It may be assumed that total expenditures will change in direct proportion with the volume of loans outstanding. Using this assumption, total expenditures for 1969-70 and the following years, based on the ratio between outstanding loans at the end of 1969-70 and 1965-66 and actual expenses for 1965-66 would be about JD, 170,000 \( (8,700 / 5,300) \times 1,000 \times 104 \).

In 1973 the Corporation has to start repayment of due principal amounts in addition to interest due on the first IDA loan. Starting 1973 and for forty years thereafter, it has to pay one fortieth of the total loan of one million dinars plus interest on the unpaid balance. Hence, the maximum annual payment to IDA on the first loan would be JD. 7,500

---

23 For any shortage of funds more IDA Credit would be advisable.

24 Actually, total expenses will increase at a lower rate than the increase in outstanding loans due to scale savings.
in interest (.75 x 1,000,000) and JD. 25,000 (1,000,000 ÷ 40) in principal due. If both interest and principal payments on IDA loans had to be paid out of ACC's income, the net profit (for about ten years after 1969-70) would be calculated as follows:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest received on ourstanding loans</td>
<td>JD. 420,000</td>
</tr>
<tr>
<td>Total expenses</td>
<td>JD. 170,000</td>
</tr>
<tr>
<td>Interest on first IDA loan</td>
<td>JD. 7,500</td>
</tr>
<tr>
<td>Interest on second IDA loan</td>
<td>JD. 15,000</td>
</tr>
<tr>
<td>Principal repayment on first IDA loan</td>
<td>JD. 25,000</td>
</tr>
<tr>
<td>Net profits</td>
<td>JD. 202,500</td>
</tr>
</tbody>
</table>

A net profit of JD. 202,000 is much higher than any profit the Corporation realized in any of its past years. Practically principal repayments are not made out of net income but rather of cash funds. The assumed collections of one million dinar, therefore, will be reduced by JD. 25,000 every year starting 1972-73. This amount is only a small proportion of the one million available for loans and hence its restricting effect on the lending program is almost negligible. If principal repayments are not made out of profits, then the net profits figure obtained above will increase by JD. 25,000 to a volume of about JD. 230,000, which almost double the profits ACC realized in the best of its past years. The cost of IDA loans is so cheap that even if the lowest profit ACC ever realize (JD. 40,000 in 1962-63) were taken as an average

---

25 This is the period during which only interest will have to be paid on second IDA loan.
profit, a sum of two million dinars could easily be repaid from these profits over the 50 years term of IDA loans. The profitability of these loans would accelerate the building up of the Operating Surplus account and the accumulation of reserves or the addition to paid-up capital afterwards. Profit, however, is a secondary benefit compared with the main advantage of expanding the Corporation's lending activities to serve more farmers and to be more self dependent.

As long as IDA is ready to provide ACC with its capital needs, the Corporation needs not try any other source. However, government loans and certain development funds in the Middle East area may be considered as available alternatives which it may try when and if necessary. In general, ACC cannot afford to enter the competitive market of capital as a potential borrower of investment funds. If all operating expenses incurred by ACC during the years 1962-63 to 1965-66 were divided by total loans serviced during the same period, an approximate average service cost on ACC loans may be reached. Such an average will be helpful in determining the maximum rate ACC can pay for the use of borrowed capital.

Total operating expenses in the period considered, as shown in Table 4, amounted to about 350,000 dinars. Total loans serviced during the same period may be obtained from Table 5 as follows:

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26 Like the Kwaiti Development Bank.
Loans outstanding at the beginning of 1962-63: JD. 3,989,000
Amounts loaned during period: 3,541,000
Consolidated and cancelled loans\textsuperscript{28}: 530,000

Total loans serviced during period: JD. 8,060,000

Table 5. Summary of ACC's operations during the period 1960-61 to 1965-66 (in thousand dinars)\textsuperscript{a}

<table>
<thead>
<tr>
<th>Year</th>
<th>Outstanding</th>
<th>Transferred</th>
<th>Loaned</th>
<th>Consolidated</th>
<th>Collected</th>
<th>Cancelled</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960-61</td>
<td>0</td>
<td>3369</td>
<td>451</td>
<td>6</td>
<td>80</td>
<td>-</td>
<td>3746</td>
</tr>
<tr>
<td>1961-62</td>
<td>3746</td>
<td>207</td>
<td>470</td>
<td>-</td>
<td>427</td>
<td>7</td>
<td>3989</td>
</tr>
<tr>
<td>1962-63</td>
<td>3989</td>
<td>-</td>
<td>693</td>
<td>343</td>
<td>634</td>
<td>11</td>
<td>4380</td>
</tr>
<tr>
<td>1963-64</td>
<td>4380</td>
<td>-</td>
<td>825</td>
<td>78</td>
<td>474</td>
<td>35</td>
<td>4774</td>
</tr>
<tr>
<td>1964-65</td>
<td>4774</td>
<td>-</td>
<td>833</td>
<td>-</td>
<td>708</td>
<td>102</td>
<td>4797</td>
</tr>
<tr>
<td>1965-66</td>
<td>4797</td>
<td>-</td>
<td>1190</td>
<td>-</td>
<td>691</td>
<td>43</td>
<td>5253</td>
</tr>
<tr>
<td>Total</td>
<td>-</td>
<td>3576</td>
<td>4462\textsuperscript{b}</td>
<td>427</td>
<td>3014</td>
<td>198</td>
<td></td>
</tr>
</tbody>
</table>

\textsuperscript{a}Rounded figures.
\textsuperscript{b}Employees housing loans were not included.

The average service cost which ACC pays on its loans, using the above figures, would be about 4.35 percent. This leaves it with a margin of only 0.90 percent of which a charge of 0.75 percent is to be paid on its loan from IDA. Therefore, the maximum rate ACC can pay for the use of

\textsuperscript{28}Cancelled and consolidated loans represent additional non-recurring operations.
additional funds without raising the interest rate on farmers' loans is roughly 0.90 percent if no profit at all is to be earned on these funds.

As the farming business improves, the ACC may find it possible to raise its interest rate a little, but under all circumstances it cannot raise it to the level charged by commercial or industrial banks. The reason is that farming in Jordan, by its nature, is the least paying enterprise as compared with commerce or industry. Hence, ACC should continue to finance its capital needs from sources which charge a cost it can earn. The only sources that provide such funds are those agencies and organizations whose main interest is in the national or international economic development.

Collection of loans

The Corporation can, with the help of the government, find the credit sources which are willing to provide it with funds necessary to finance its operations or to expand them during any particular year or period of years. It remains the ACC's responsibility to prove its usefulness to farmers and success in achieving its goals. The collection rate on its loans is a very significant measure of its performance. A low collection rate, for example, indicates either a failure on the part of ACC to make necessary efforts to improve it, or a failure on the part of farmers to repay because their supervised projects were not successful, or both of the two cases. In either case ACC would be responsible. Unless it collects its due loans in due time, ACC will continue to face a shortage of funds which not only would
handicap its operations but also will have an adverse effect on its credit worthiness and ability to obtain more loans to finance this shortage.

Collection rate of ACC have been, on the average, very low and hence they will be discussed in detail and weak points causing them or resulting from them pointed out.

Table 5 shows the volume of loans transferred to ACC as well as loans issued, consolidated, collected and cancelled since it started operations in 1960 until the end of the financial year 1965-66. The table includes all categories of agricultural loans that appeared in ACC records of 1965-66, including the balances of doubtful loans. It can be noticed from figures in this table that the Corporation started with loans transferred from its predecessor agencies amounting to about 3.5 million dinars and loaned about 4.5 million dinars, of which only about 3 million were collected from its outstanding loans. The balance should have come from cash accounts such as the IDA credit, additions to capital, operating surplus, cancelled loans, borrowers current account, loans sanctioned in process of execution and any cash balances available when ACC started its operations. The Corporation found it expedient to consolidate some of the loans on its port- folio to guarantee their collection. Consolidated loans amounted to about JD. 427,000 during the six years under consideration.

Table 5 reveals two points of weakness in ACC's operations, namely, a high rate of loan cancellations and a low rate of collections. These two points summarize the main difficulty ACC faces in its financial operations.
Rate of cancellations

The value of cancelled loans during the six years included in Table 5 exceeded 4 percent of the value of total loans made during that period. It is noticed that most of these cancellations were made during the last three years listed. These were the years when the bulk of ACC loans were made out of the IDA loan-funds. Loans are generally cancelled by ACC in cases where the farmers do not abide by the provisions of the lending agreement and when there is strong evidence that the loan will be a bad one. Normally, these cases are recognized after the disbursement of the first installment to the borrower and, therefore cancellation applies only to the undisbursed part of the cancelled loan. In such cases ACC reduces its loan account and its borrowers' current account by crediting the loans account and debiting the borrowers' account in the same amount cancelled. Thus, the cash committed for these loans is freed for use in other applications and, at the same time, potential delinquencies are ruled out.

Any loan cancelled represents a real loss to ACC in both money and achievement terms. The time and effort spent in processing these loans by the loan officers, branch managers and accountants of ACC reflect the money loss while the failure of this effort which could have been spent on a successful project represents a loss in achievement terms. Yet if the collection rate on the rest of ACC loans, which were

\[ \frac{198}{198 + 4479}. \]
fully disbursed and partly or wholly matured, were reasonably high this rate of cancellations of 4 percent could be considered normal. As shall be seen in the following section, overall collection rate on ACC loans is very low and hence this cancellation rate of 4 percent could serve only to indicate some deficiency in the lending procedures. The major significance of cancellation in this case is that the loans cancelled were not sufficiently studied or supervised. The following discussion of the collection rates emphasizes this conclusion.

**Rates of Collection**

The level of collection on the Corporation's due loans can be estimated by a rough approximation to the real situation. However, analysis of loan delinquencies which the available data for the year 1965-66 makes possible, would reveal the true dimensions of this situation. As an approximation it would be sufficient to show that the amounts due from transferred loans alone were always far higher than what ACC collected from its due balance from all categories of loans. Transferred loans were considered collectable by ACC and, therefore, were not carried to the doubtful loans account. The following table compares total collections from all categories of loans with the unpaid due balances of transferred loans.

As figures in Table 6 show, total collections during 1962-63 were about equal to the delinquent balance of transferred loans at the end of this year. During 1963-64 total collections were much less than the delinquent
Table 6. Total loans collected during the years 1962-63 to 1965-66 as compared with delinquent balances of transferred loans at the end of each of the years 1962-63 to 1965-66 (in thousand dinars)\(^a\)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total amounts collected</th>
<th>Balance of delinquent transferred loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>1962-63</td>
<td>634</td>
<td>639</td>
</tr>
<tr>
<td>1963-64</td>
<td>474</td>
<td>678</td>
</tr>
<tr>
<td>1964-65</td>
<td>708</td>
<td>613</td>
</tr>
<tr>
<td>1965-66</td>
<td>691</td>
<td>556</td>
</tr>
</tbody>
</table>

\(^a\)Rounded figures.

balance at the year's end. In the last two years collections exceeded the balance by amounts indicating a slightly improving trend. Yet the collections level was still very low.

The picture would become clearer if Table 6 is reconstructed on a more practical basis. It should be remembered that the delinquent balances shown in the table above represent amounts due and not collected as of the end of each financial year. It would be more logical to compare amounts collected during each year with matured, and hence, collectable amounts during that year rather than the uncollected due balances at the end of the year. Following this logic, total due amounts of transferred loans for each year would be equal to the sum of the collected and the uncollected due amounts of these loans. \(^{30}\) Table 7 shows resulting figures

\(^{30}\)Assuming negligible repayments of undue balances.
Table 7. Total collections from all ACC loans as compared with amounts due from transferred loans during the years 1962-63 to 1965-66 (in thousand dinars) a

<table>
<thead>
<tr>
<th>Year</th>
<th>Collected from transferred loans</th>
<th>Delinquent balance of transferred loans</th>
<th>Total transferred loans due</th>
<th>Collected from all loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>1962-63</td>
<td>416</td>
<td>639</td>
<td>1055</td>
<td>634</td>
</tr>
<tr>
<td>1963-64</td>
<td>194</td>
<td>678</td>
<td>872</td>
<td>474</td>
</tr>
<tr>
<td>1964-65</td>
<td>288</td>
<td>613</td>
<td>901</td>
<td>708</td>
</tr>
<tr>
<td>1965-66</td>
<td>202</td>
<td>556</td>
<td>758</td>
<td>691</td>
</tr>
</tbody>
</table>

aRounded figures.

from which it is clear that total collections from all categories of loans did not match the amounts due from transferred loans alone in any of the years listed.

Tables 8, 9, and 10 are very helpful in analyzing the collection performance of ACC. Table 8 shows, in addition to total loans outstanding, the loans which had a delinquency on one or more payments as well as the actual delinquent part thereon for every category of loans as of March 31, 1966. Number of borrowers and number of loans for the first two columns are also given. Table 9 shows the distribution of the actual delinquent amounts for every category of loans, over their respective ages of delinquency as they stood on March 31, 1966. Table 10 shows the collection and delinquency rates on both principal and interest payments during 1965-66 for every category.
Table 8. ACC's delinquent loans situation as of March 31, 1966 (values in thousand dinars)\(^a\)

<table>
<thead>
<tr>
<th>Category of loans</th>
<th>Loans outstanding</th>
<th>Loans with delinquent payments</th>
<th>Delinquent amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Borrowers Loans</td>
<td>Amount</td>
<td>Borrowers Loans</td>
</tr>
<tr>
<td>ACC loans</td>
<td>10856 8866 1760</td>
<td>6340 5994 998 224</td>
<td></td>
</tr>
<tr>
<td>IDA loans</td>
<td>4932 3903 1534</td>
<td>460 184 34 5</td>
<td></td>
</tr>
<tr>
<td>Cooperative loans</td>
<td>- - 476</td>
<td>- - -</td>
<td></td>
</tr>
<tr>
<td>Transferred loans</td>
<td>32517 28047 1141</td>
<td>3517 3328 880 556</td>
<td></td>
</tr>
<tr>
<td>Sub-total</td>
<td>48305 40816 4911</td>
<td>10317 9506 1912 785</td>
<td></td>
</tr>
<tr>
<td>Doubtful loans</td>
<td>46027 15694 342</td>
<td>46027 15694 432 432</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>94332 56510 5253</td>
<td>56344 25200 2344 1217</td>
<td></td>
</tr>
</tbody>
</table>

\(^a\)Rounded figures.

Table 9. Aging of delinquent amounts as of March 31, 1966 (in Jordan dinars)\(^a\)

<table>
<thead>
<tr>
<th>Category of loans</th>
<th>Delinquent amount</th>
<th>Up to 3 months</th>
<th>3-6 months</th>
<th>6-12 months</th>
<th>1-2 years</th>
<th>Over 2 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACC loans</td>
<td>224101</td>
<td>2453</td>
<td>24294</td>
<td>74892</td>
<td>71733</td>
<td>50729</td>
</tr>
<tr>
<td>IDA loans</td>
<td>5240</td>
<td>928</td>
<td>1934</td>
<td>821</td>
<td>1238</td>
<td>319</td>
</tr>
<tr>
<td>Co-operate loans</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Transferred loans</td>
<td>555701</td>
<td>10216</td>
<td>33822</td>
<td>49535</td>
<td>194507</td>
<td>267621</td>
</tr>
<tr>
<td>Sub-total</td>
<td>785042</td>
<td>13597</td>
<td>60050</td>
<td>125248</td>
<td>267478</td>
<td>318669</td>
</tr>
<tr>
<td>Doubtful loans</td>
<td>342412</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>342412</td>
</tr>
<tr>
<td>Total</td>
<td>1127454</td>
<td>13597</td>
<td>60050</td>
<td>125248</td>
<td>267478</td>
<td>661081</td>
</tr>
</tbody>
</table>

\(^a\)Rounded figures.
Table 10. Analysis of delinquent loans during the year 1965-66 (values in thousand dinars)\(^a\)

<table>
<thead>
<tr>
<th>Category of loans</th>
<th>Principal</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th>Interest</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Due</td>
<td>Collected</td>
<td>Delinquency rate</td>
<td></td>
<td>Due</td>
<td>Collected</td>
<td>Delinquency rate</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ACC</td>
<td>395</td>
<td>171</td>
<td>43%</td>
<td>57%</td>
<td>89</td>
<td>53</td>
<td>59%</td>
<td>41%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IDA</td>
<td>90</td>
<td>85</td>
<td>94%</td>
<td>6%</td>
<td>37</td>
<td>35</td>
<td>94%</td>
<td>6%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Co-operative</td>
<td>179</td>
<td>179</td>
<td>100%</td>
<td>0</td>
<td>7</td>
<td>7</td>
<td>100%</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transferred</td>
<td>758</td>
<td>203</td>
<td>27%</td>
<td>73%</td>
<td>248</td>
<td>71</td>
<td>29%</td>
<td>71%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sub-total</td>
<td>1422</td>
<td>638</td>
<td>44%</td>
<td>56%</td>
<td>381</td>
<td>166</td>
<td>43%</td>
<td>57%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Doubtful</td>
<td>396</td>
<td>53</td>
<td>13%</td>
<td>87%</td>
<td>61</td>
<td>12</td>
<td>20%</td>
<td>80%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1818</td>
<td>691</td>
<td>38%</td>
<td>62%</td>
<td>442</td>
<td>178</td>
<td>40%</td>
<td>60%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Rounded figures.*


of loans. By examining the figures in these tables the following points can be readily discerned:

**Transferred loans.** Table 8 indicates that the number of delinquent borrowers and the number of delinquent loans in this category constitute small proportions, namely, 18 percent and 14 percent respectively, of their corresponding totals. The amount of loans with delinquent parts, however, constitutes a high proportion of 77 percent of total loans outstanding in this category. Also, the ratio of the delinquent part to the total loans outstanding is about 50 percent. In other words, 18 percent of the total number of borrowers holding 14 percent of the total number
of loans with an amount equal to 77 percent of the total loans outstanding in this category have defaulted on one or more of their due payments. This means that the delinquent loans in this category were loans which had the largest average size and that defaulting borrowers were those who had the largest average loans. Moreover, Table 9 shows that about 90 percent of the delinquent amount had been due for more than six months, 80 percent of it due for more than one year and 48 percent due for more than two years. Table 10 shows that collections from this category during 1965-66 amounted to only 27 percent of due amounts and hence the delinquency rate was 73 percent of due amounts. Also, a delinquency rate of 71 percent resulted from interest arrears on these loans.

Transferred loans were not issued by the ACC but were regarded by it as fully secured and hence collectable loans. On these bases ACC could be expected to have a higher collection rate on them. However, there may be a special excuse for ACC regarding the high delinquency rate in the case of transferred loans. These loans were issued by other agencies without sufficient studies, supervision or credit planning and, hence, most of them were unproductive. Where the funds were spent unwisely or where the projects for which they were issued failed, it was impossible for the Corporation to seize or sell the properties of all the farmers involved. Deferralment would seem the most appropriate measure in this situation. Even if the low collection rate on transferred loans were justified, the fact remains that the collection rate on other loans as well as the overall collection rate
on all loans were far below any satisfactory level. A look at the ACC loans will strongly support this argument.

**ACC loans.** Figures of Table 8 indicate that 58 percent of the borrowers in this category holding 62 percent of the total number of loans with a value of about 56 percent of total loans outstanding as of March 31, 1966, had defaulted on one or more of their due payments. The actual delinquency amounted to approximately 13 percent of total loans outstanding within this category. This ratio is not very significant since it would be more practical to compare the collected amounts during a particular year with the due amounts during that year. Table 10 shows that the collection rate in 1965-66 was 43 percent of principal due and 59 percent of interest due. Hence, the delinquency rate in this category was 57 percent on principal and 41 percent on interest. Moreover, Table 9 indicates that the bulk of the delinquent amount, 88 percent of it, had been due for more than six months, about 55 percent of it due for more than one year and about 22 percent due for more than two years.

**ACC loans are loans issued by ACC to its borrowers under its supervised credit rules and regulations.** The generally poor collection level and the high percentage of delinquent loans and borrowers is a certain indication of some deficiency that calls for a corrective measure. The following discussion of loans called IDA loans will help in pointing out possible reasons for this delinquency problem.

**IDA loans.** These are loans issued by ACC from funds provided by IDA under a loan agreement held in 1963. The international association
recognized during the negotiations for this loan the low level of collections and required the ACC to make every possible effort to raise this rate.

The IDA insisted during the negotiations for a second loan, held in March 1967, that a fine of one percent should be collected from all borrowers who default on their interest or principal payments.

As Table 8, 9, and 10 show, the collection rate continued to be low on all ACC loans until 1966, with the exception of IDA and Co-operative loans. It would be noticed from Table 8 that the delinquent amount of IDA loans is almost negligible. More than half of this small delinquency of JD, 5,000 had been due for less than six months as Table 9 indicates.

The collection rate on both principal and interest due reached a high level of 94 percent as Table 10 shows. However, the high rate of collection in this category as well as in the Co-operative loans category is overshadowed by the fact that the overall collections from all due amounts, excluding doubtful loans, averaged 44 percent of principal and 43 percent of interest due.

This, indeed, is a very low rate which cannot be accepted as normal if ACC is to be regarded as a going concern. By virtue of its laws and regulations, ACC is prohibited from issuing any grants or bonds to settle old debts of farmers. Also, it is required to issue its loans under a strict and complete supervision scheme and to collect its claims punctually upon their maturities. Yet, the prevailing conditions, and the current policies and practices make it difficult for ACC to fully apply these rules. The result was a very low collection rate and, consequently, a shortage of loanable funds. To ensure
self dependence in the shortest time and even to enhance its negotiating power for acquiring more credit from any development agency, ACC has to increase its rate of collection. It is not always possible to have a 100 percent of good loans. Allowance for bad debts is a common business practice. ACC is required to accumulate all its profits in a surplus account, intended to be a reserve against bad loans, until it amounts to 15 percent of total outstanding loans. Taking this ratio as the maximum permissible rate of delinquency the average collection rate on ACC loans should not fall below 85 percent.

ACC's lending policies and procedures will be examined in the following chapter in an attempt to recognize their loopholes, the reasons causing them, and the best measures to remedy them.
LENDING POLICIES AND THEIR EFFECT ON ACC'S OPERATIONS

The effect of ACC's lending policies and practices could be discussed in the light of the legal financial aspects presented in the first part of the preceding chapter. It will be recalled that the ACC law has vested in the Board of Directors the authority to prescribe, revise, or amend the operational and procedural details of all lending activities in the best interest of both the ACC and the Jordanian farmer. The Board appoints loan committees, defines their authorities and responsibilities and describes the lending procedures which ACC officials have to follow in the process of their lending activities. The Board has so far enacted a large body of lending rules and procedures which cover many of the details which a loan committee or a loan officer may encounter. However, action needs to be taken and necessary rules be added to counter the delinquency problem which is the main area of inefficiency in ACC's operations and from which the most threat to its future stems. The first ten years of ACC's operations may be considered, although without much justification, a preliminary stage where trial and error could be permitted. If action is not quickly taken after a problem becomes clear it may be too late or too expensive to try to remedy it when it becomes chronic. The legal framework within which ACC operates, as well as the existing rules and regulations describing the details of its operations, are generally favorable for much action. The Board can initiate and implement any corrective
measure it finds necessary to improve ACC's performance. In addition, the measures needed to tackle the delinquency problem, as will be recommended in this chapter would not conflict seriously with the existing rules and procedures. Generally, they will be in line with most of them. It has been seen, for example, that ACC is required by its laws to issue loans only for productive agricultural purposes. Nowhere in these laws is there a definition of productive agricultural purposes or a specific way to distinguish between productive and non-productive purposes. The possibility that the distinction may lie in the difference between production credit and consumption credit could be easily dismissed. For ACC's operations a distinction between consumption and production credit will not be sufficient since ACC does not issue loans for consumption purposes under all circumstances. Productive loans, therefore, should be defined in a more comprehensive and specific language. It is beyond the scope of this study to attempt an analysis of the methods which could be used to determine the productivity of a loan or to maximize it. It will be sufficient to stress the need for a definition of productivity based primarily on the potential return of loan promises to add to the borrower's income after deducting all expenses. If productive loans are well defined and described in these terms, and if only productive loans are issued, then ACC may be assured of their repayment when they fall due.

As for the collection of its due loans, ACC's rules and procedures are generally strict. ACC is authorized to seize and sell the mortgaged
property of any borrower who defaults on any of his payments and collect
the whole amount of the loan if it finds suitable to do so. It is certain
that the sale of the property will pay back the loan in most cases since
the size of any loan does not exceed 60 percent of the value of the mort-
gaged property. These provisions constitute a part of the loan agreement.
In fact, provisions are too strict in certain cases. Article 17 of Regu-
lations No. 1/1963, for example, provides that upon the death of a borrower
his or his surety's mortgaged property will be seized and sold if due amounts
of his loan were not paid within ten days from the date of serving a bill
upon him. This seems to be an unnecessary tough article since a new
loan agreement or loan settlement with the heirs would be more practicable.
This provision, however, has never been enforced. At the same time,
ACC is not permitted to give any grants of loans to settle farmers' old
loans. In general, ACC's claims have been given the same legal standing
as government taxes with one extra privilege that no government authority
can issue any order or decree which may postpone their payments. The
above policies indicate that ACC has taken general legal steps necessary
to protect its rights against borrowers defaults. However, the practical
figures, resulting after six years of experience, showed that the general
collection rate on ACC's loans was unjustifiably low. This means that ACC
did not put to active enforcement its rules and regulations concerning the
collection of loans.

On one category of loans, namely, the IDA loans, the collection rate
was surprisingly high. The ACC was able to obtain this high rate of collections,
most possibly, because these loans were more carefully studied, supervised, and followed up. The extensive studies made before the first IDA loan was approved, the specified agricultural purposes among which the loan funds were allocated, the detailed lending program IDA requested ACC to outline and the strict provisions of this loan's agreement regarding collections may all account for this improved collections level. These factors caused a high percentage of IDA loans to be good loans with high repayability prospects.

But still the bulk of the Corporation's loans have a high delinquency rate on them. A factor contributing to this high delinquency rate is the small size, on the average, of loans which ACC issues. Table 11 shows the amounts and numbers of loans issued by ACC since its inception until March 31, 1966, and the average amount per loan. It does not include co-operative loans because these are paid in a lump sum to the Central Co-operative Union which reloans them, in turn, to its member societies. As the table shows, the overall average per loan is about JD. 313 which is less than $1000. If one knows, for example, that one Holstein dairy cow cost a farmer in Jordan, on the average, an amount of JD. 250, one would realize how small this average value is. Because of the smallness of the average loan size ACC cannot establish an overall farm plan for its borrowers in many cases. Therefore, the loan would be issued if the loan officer has the feeling that a borrower can repay his debt in the future and if he can offer sufficient security to back this loan. In fact, the farm and home plan as used
Table 11. Average loan-size of loans issued by ACC during the years 1960-61 to 1965-66 (in Jordan dinars)\(^a\)

<table>
<thead>
<tr>
<th>Loan category</th>
<th>Number of loans</th>
<th>Amount of loans</th>
<th>Average amount per loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACC loans</td>
<td>11721</td>
<td>3239000(^a)</td>
<td>276</td>
</tr>
<tr>
<td>IDA loans</td>
<td>3962</td>
<td>1667000</td>
<td>420</td>
</tr>
<tr>
<td></td>
<td>15683</td>
<td>4906000</td>
<td>313</td>
</tr>
</tbody>
</table>

\(^a\)This figure includes consolidated loans.


by the Farmers Home Administration has never been applied by ACC. The absence of well studied farm plans may be the major factor leading to the high rate of delinquency on ACC’s loans. Unless such a plan is drawn for every borrower, showing the expected additional return or benefit he will realize by using credit and planning the repayment of his debt during the useful life of the project, and closely followed up thereafter to the closing date of the loan, there will be no increase in the collection rate, no substantial improvement in operations, and no satisfactory contribution to the development of the agricultural sector. Without such planning many loans would serve only to add to the burden of the farmers and, if ACC would press them for repayment when such loans fall due, the farmers may resort to getting credit from the highly expensive commercial sources and, hence, they may end up in a much worse condition than before having the ACC credit.
It may be found, upon drawing a farm plan that the project intended by itself will not give enough yield to make repayment possible during the life of the loan. It may also be found that the amount applied for would not be sufficient to enable the borrower to carry out the project in the best and most profitable way. The loan officer should advise the farmer as to the best alternative, and sufficient credit should be extended to cover the necessary expenses. The security which the borrower has may not be sufficient to cover all the required amount. This should not be an obstacle to issuing a sound and useful loan. Productivity of the loan, profitability to the borrower and repayability to the ACC should be equally stressed in studying a loan application. Two practices may be suggested for solving the security problem:

1. ACC should remove from its rules the restriction that any loan can not exceed in value 60 percent of the value of the security offered. It will be more feasible if the loan committees are given the authority to approve loans up to 100 percent of the fair and reasonable value of the security offered provided that the actual size of each loan will be determined on the basis of its own merits.

2. ACC should add the project financed by its loan to the security which the applicant has. This may include buildings, equipment, chattel or crops financed by the loan proceeds. The law of the Corporation permits this practice but it has not, so far, been applied. Obviously, since accurate farm plans are not used by ACC which reflect the real level of certainty of repayment, ACC resorted to the practice of having a large
security margin. Another reason is that the value of the security is estimated on the basis of general and unsystematic approaches. Neither the value of the security nor the procedure to appraise it were clearly defined by the lending rules. ACC should use the scientific appraisal procedures which take into consideration all factors relating to the value of the property to be mortgaged. Official training courses in this field should be periodically held for all loan officers. If the value of the property is reasonably appraised and if the farm plan is carefully prepared there will be no need for this high security margin.

Careful studies and sound planning of loans are very important elements in the making of good and collectable loans. However, even when sound and careful plans are made, and even when the loan size is optimum for the project under consideration, the possibility still exists that many projects, especially those in dry-farming areas, would fail to yield the expected income in some years due to unforeseen climatic elements. This is characteristic of agriculture everywhere and particularly in areas depending mostly on rainfall as is the case in Jordan. When a certain area suffers from a crop failure the ACC cannot apply its strict rules in collecting loans from the farmers of that area. If two consecutive season were bad and the ACC does not collect the due installments it may be more difficult for it to collect all the accrued due amounts in the third season even if it were an exceptionally good season. Since there is a possibility that dry seasons will occur every year in one or more regions
of the country, this means that there will be a continuous default on repayments. Although it was established to serve farmers at the lowest possible cost ACC is also required to conduct its operations in a purely business manner. If these defaults would continue at the high rate discussed above, ACC will never be able to finance its future operations from its own resources even if it were able to obtain external credit for some time.

The possibility of crop failure could be reduced by giving a higher priority to irrigation projects and utilization of surface and underground waters. This is a very effective measure since about 30 percent of total farm production comes from irrigated land. Yet it will not solve the problem completely since only a small percentage of the total cultivable land in Jordan can be put under irrigation with the present available water supply. A special measure seems to be needed which enables the ACC to collect its due loans on regular basis regardless of seasonal fluctuations and weather impact. To tackle this problem directly, in an efficient and practical way the government of Jordan should establish an agency whose main function is to issue emergency or relief loans for those farmers whose crops may be damaged by climatic or natural forces. Such loans may have a medium or long-term and the agency issuing them has to have a flexible and lenient collection policy. This agency could be a separate government authority or a department attached to the ACC or to the Ministry

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1 Jordan Development Board, Seven Year Program, p. 12.
of Agriculture. Whatever its legal standing may be, this agency should work in close cooperation with the ACC and should pay to the ACC, on behalf of farmers who come under its jurisdiction, all due amounts which they could not pay because of their crop failures. What this suggestion amounts to, in essence, is the establishment of a special fund from which relief loans can be disbursed to help farmers in solving their financial problems resulting from unavoidable damage to their crops, livestock, or properties. For easy reference this fund will be referred to as the Emergency Loan Fund. The establishment of this fund will have the following advantages:

1. ACC will be in a stronger position to enforce its collection rules in all other delinquency cases. It has no longer to make special allowance for the farmers' circumstances in bad seasons as it is forced to do at the present.

2. If collections from due balances could be projected on a more practical and reliable basis, lending programs of ACC could be more accurately projected for one year or more in the future and hence would have a better chance of implementation.

3. In bad seasons, the farmers affected do not need funds only to repay their due balances to ACC. They need additional funds to help them cover their expenses until the next harvest. Since ACC does not issue such loans a fund like the one suggested will serve to fill this gap. Otherwise, a farmer whose farm is hit by the season has either
to quit farming and go out seeking a job somewhere else or attempt to get credit from commercial lenders which would add much to his burden.

In general, such a procedure will not only solve ACC’s delinquency problem, but will also help to expand its operations and improve its performance.

As long as agriculture maintains the important role it plays in the economy of Jordan, all necessary measures for its development should be taken. The advantages of the suggested Fund would justify any reasonable cost this operation requires mainly because the cost to the economy would be much higher if farmers were forced to give up their enterprises. The 1961 census showed that unemployment amounted to 12 to 14 percent of the total male labor force in Jordan. In addition, a large number of workers were underemployed in the sense that their productivity was much less than what could be obtained with their skill and capacity.² Therefore, other sectors of the economy can not absorb any additional labor force coming out from the agricultural sector and the cost to the economy of such movements would be very high. The actual cost of the suggested fund, however, may not be higher than the comparable cost of ACC’s operations. If a rate of interest of 5.25 percent is charged on these loans it may be reasonable to anticipate a surplus comparable to that of ACC. The rate of collection on some of these loans may be allowed to

²Ibid., p. 4.
drop in some years, and this will be the main difference between the operations of this Fund and the ACC's operations. The term of these loans should extend over a period of time long enough to facilitate their repayment.

The money necessary for this fund should be allocated by the Treasury as Reserve for Emergency Loans every year when the general budget is prepared. This is usually done before March 31, which is the ending date of the fiscal year in Jordan. By that time a general idea would have been formed about the prospects of the cropping season and a rough estimate of the funds needed may then be made. The Treasury might be required to continue to make such allocations for a period of five to ten years after which the fund could support its operations from its loan collections.

Drought is the main climatic factor causing crop failure in most instances. Frost, hail or flood have negligible effect on the country's crops. Even drought does not seem to be a danger of permanent nature. Available statistics concerning rainfall averages in the country indicate that drought occurs only periodically and that dry seasons cancel off against good seasons over a number of years. Figures of the following table show this trend.

These figures pertain to different areas of the country which comprise good cultivable land, marginal cultivable land and arid uncultivable land. Among those included were regions bordering the desert with very low
Table 12. Average rainfall in Jordan during the period 1931-60 and for the years 1960-61 to 1964-65 (in Mm.).

<table>
<thead>
<tr>
<th>Years</th>
<th>Averages</th>
</tr>
</thead>
<tbody>
<tr>
<td>1931-1960</td>
<td>353</td>
</tr>
<tr>
<td>1960-61</td>
<td>320</td>
</tr>
<tr>
<td>1961-1962</td>
<td>342</td>
</tr>
<tr>
<td>1962-63</td>
<td>232</td>
</tr>
<tr>
<td>1963-64</td>
<td>462</td>
</tr>
<tr>
<td>1964-65</td>
<td>474</td>
</tr>
</tbody>
</table>


averages of rainfall during the period 1931-1960 such as the following:

H-4: 86 Mm, Ma'an: 41Mm and Bayer: 30 Mm.³ Unpopulated desert land, comprising the major portion of the country's area, was not included.

The low average of rainfall in the year 1962-63 of 232Mm indicates one of those bad seasons which may hit agriculture in Jordan. On the other hand, the overall average of 353Mm during the period 1931-60 and the average rainfall of about 364Mm for the five years 1960-1965, indicate a good prospect for the collection of emergency loans.

Another favorable factor for the collection of these loans is that 30 percent of agricultural production in Jordan is produced on irrigated

³Department of Statistics, Statistical Yearbook, p. 111.
farms. These farms have a low chance of crop failures and hence, of being in need for relief loans.

In addition to the necessity of the suggested emergency loan fund the above mentioned factors make it a practical one also. It is not the purpose of this study to go into the details of the different operational aspects of the fund suggested and, therefore, it will be left at this level with an emphasis on its necessity and usefulness.
FINANCIAL BUDGETING

With the suggested adjustments on ACC's lending policies, it may be expected that its financial operations will be placed on more practical and efficient grounds compatible with its goals and purposes and in line with its future requirements. However, in order to base its overall operations on sound managerial practices which do not depend on management's hopes for the future or memories of past operations, and to guarantee the continuation of those operations in the long-run, ACC has to draw cash budgets for each year or period of years in the future. This budget is simply a statement equating the expected demand for and supply of operating capital. Farmers' demand for credit as well as other cash needs of ACC should be estimated for the period under consideration and on the basis of this estimate the supply of loanable funds should be considered. This statement, in effect, is one that shows the sources and uses of funds during the budget period.

The discussion on ACC's source of funds pointed out the possible alternatives ACC has to secure its additional capital needs. For a number of years in the future and until it can finance its lending activities from its own funds, the Corporation has to get financial support in the form of loans from cheap credit-sources such as the IDA or other development funds. How much it will need during a certain period of time depends to a far extent on new government projects in the agricultural sector, on
regular credit needs of farmers as well as on its own lending policies. Government irrigation projects such as the Each Ghor Canal which derives its water from the Yarmouk River and extends 70 kilometers south has, by the end of 1966, brought an area of 120,000 dunums of drought-plagued land in the Ghor area under full irrigation. The number of new farm units added to the agricultural sector as a result of this project was 3418 farms of a minimum area of 30 dunums. The government distributed these farms to new farmers and ACC was required to provide them with the credit they needed to operate these farms. This project constitutes only the first stage of a major project called the Yarmouk Dam project. Government financed projects will create additional demand for farm credit which ACC has to provide. This demand will be one of the determinants of the amounts of loanable funds ACC will need during a specified period of time.

Regular credit needs of farmers to develop their farms, increase their assets and expand their operations constitute another determinant of ACC’s needs for loanable funds.

ACC’s lending policies will influence the volume of loans which will be actually extended to farmers. If the suggestions made above regarding ACC’s financial operations are implemented, the volume of loans issued to farmers will be substantially affected. Recommendations concerning the collections of ACC loans are the most important for planning

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1ACC, Loan Request to IDA, p. 16.
purposes. If the Farm and Home Plans are fully utilized, then planning will be a unified feature of the whole lending process. There will be planning at the individual farm level as well as at the level of the lending agency. The Farm and Home Plan will serve mainly to estimate the farmer’s income, expenditure, and net profit. Following this plan up will help ACC to determine the progress achieved and to detect causes for any failure on the part of the farmer to carry out the planned activities.

If loans are well planned for, their repayments have to be scheduled in a way which enables the farmers to make them out of their incomes without financial troubles. The larger the size of its collections, the greater the amount of loanable funds ACC will have under its disposal. Other suggestions regarding ACC's financial operations such as those relating to cash balances kept in banks, sufficient loans to farmers, relaxation of restrictions regarding security and the Emergency Loan Funds will influence the volume of future loans and at the same time will make it possible for ACC to forecast with a higher measure of accuracy the volume of its future collections during a given period of time.

If the farmers' demand for loans could be estimated on a rational basis the estimation of collections and expenses of ACC will enable it to forecast its additional needs of external funds. These additional needs will be equal to its total projected loans plus total expenses minus total collections. The external funds will include any contribution to ACC's capital from the Government or any other source like USAID.
The overall plans for ACC's operations should be based on detailed studies of the future credit needs of the agricultural sector. Annual cash budgets for the Corporation's operations were guided, since 1964, mainly by its general Seven Year Program as well as its past records of operations. The general seven year program was prepared in 1964 by the Corporation's personnel, together with staff of the Jordan Development Board which was responsible for the co-ordination of the plans of the different ministries and government agencies and consolidating them into one general program for the whole economy.

In 1966 the lending program of ACC was revised after thorough studies required by IDA as part of the documents attached to the second loan application. The revised program was prepared by several committees formed specially for this purpose from the personnel of the different departments of the Ministry of Agriculture, the Jordan Development Board, the ACC and other related agencies. The prepared program called for the extension of JD. 7.4 million during the four year period 1966-67 to 1969-70 as Table 13 indicates. Of this amount ACC requested two million dinars from IDA as a second loan to be withdrawn according to the following schedule:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (JD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1967-68</td>
<td>844,000</td>
</tr>
<tr>
<td>1968-69</td>
<td>675,000</td>
</tr>
<tr>
<td>1969-70</td>
<td>540,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,059,000</strong></td>
</tr>
</tbody>
</table>
Table 13. Estimates of loans, collections and loans outstanding at beginning and end of fiscal years 1966-67 to 1969-70 (in thousand dinars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Loans outstanding at beginning of year</th>
<th>New loans during year</th>
<th>Collections during year</th>
<th>Loans outstanding at end of year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1966-67</td>
<td>5253</td>
<td>1535</td>
<td>928</td>
<td>5860</td>
</tr>
<tr>
<td>1967-68</td>
<td>5860</td>
<td>1996</td>
<td>946</td>
<td>6910</td>
</tr>
<tr>
<td>1968-69</td>
<td>6910</td>
<td>1912</td>
<td>980</td>
<td>7842</td>
</tr>
<tr>
<td>1969-70</td>
<td>7842</td>
<td>1921</td>
<td>1063</td>
<td>8700</td>
</tr>
</tbody>
</table>

Source: ACC, Loan Request to IDA, p. 43.

The balance of the funds required was scheduled to come from ACC's collections from interest and principal as well as other sources of addition to its capital. The collection rate used in this projection was 50 percent of total due loans.

Whatever the degree of precision of this program it will not be fully implemented for the simple reason that the second loan from IDA has not yet been concluded. This means that the amount scheduled to be provided by IDA in 1967-68 of JD. 844,000 was not obtained and hence the volume of loans planned for this year has to be reduced by an equal amount.

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2 ACC, Loan Request to IDA, p. 42.

3 Ibid., Table 20, footnote 4, p. 45.
The current plan, however, will continue until March 31, 1970 and another long-range plan should then be prepared for several years on which basis annual lending programs would be prepared. Because of the importance of the cash budgets discussed above, which are at the same time lending programs, it is necessary for ACC to have a special division in its own organization which should carry on this function. A section with the name of Statistics and Research was established in 1965 at ACC's Head Office but the functions of this section were not specified by any written instructions. The staff of this section were mainly engaged in compiling statistical data on ACC's operations, on which basis the quarterly and annual progress reports requested by IDA, as well as the annual reports for ACC, were prepared.

A final suggestion regarding planning of ACC's operation and utilization of the Research and Statistics section seems to be in good order. The functions of this section should be clearly defined and highly qualified personnel in agricultural as well as in financial aspects of credit should be placed on the staff. Statistical and Research methods should be used by this section in planning ACC's operations and following the plan up to their fruitful ends. The same methods should also be used to detect any weakness or difficulty which may handicap the smooth implementation of these plans. The Research and Statistics section should be able to analyze the reasons giving rise to such weakness or problems and advise management as to the measure or alternative measures it finds most appropriate to be taken. Statistics and research represent a tool which
could be very helpful to the management of ACC that it should be considered as an integral and indispensable part of its operations. The Statistics and Research section of ACC can work in close co-operation with the Department of Scientific Research of the Ministry of Agriculture as well as other government agencies such as the Marketing Bureau, the Central Water Authority, the Extension Department, the Forestry Department, the soil conservation department and other related agencies. Such a co-operation will help to co-ordinate ACC's activities with the general efforts made by other departments for the development of the agricultural sector and the betterment of the farmers' standard of living.
SUMMARY AND CONCLUSIONS

Agriculture is the backbone of Jordan's economy which provides employment and a living for a large portion of its population. Agricultural credit is a basic need of Jordanian farmers and an essential element in any development program for the agricultural sector. The Agricultural Credit Corporation of Jordan was established to provide credit for productive agricultural purposes at a significantly cheap cost which enables the farmers to have a decent income from their farming operations. The advantages to the economy as a whole from loans made by ACC at an interest rate of 5.25 percent would more than offset the additional income which could have been realized had the loan funds been invested in commercial or industrial projects. The main advantage is that of enabling a high percentage of the agricultural labor, which amounts to 40 percent of the labor force in Jordan, to be employed in the agricultural sector.

There are several official and semi-official agencies in Jordan engaged in promoting agricultural production and income in all related aspects such as marketing, extension, development of water resources, agricultural scientific research, veterinary services and the like. The Agricultural Credit Corporation is the most important agency in terms of the direct help it offers to farmers. Without this help many farmers cannot possibly stay on their farms.
The financial operations of the Agricultural Credit Corporation were examined with the objective of pointing out their deficiencies and suggesting measures to remedy them.

The legal financial aspects of the Corporation were first discussed in order to set the grounds for an analysis of its financial status. The financial status, as reflected in the Corporation's balance sheets, income and expenditure accounts and other related statements, was then discussed and the following problems were identified:

1. Being concerned with the development of the agricultural sector and the farmers' community, and because of the relatively low profits in this sector of the economy, the Corporation has to extend credit at reasonably cheap cost. Its paid-up capital is not sufficient to finance its recurring need of funds which forces it to seek credit from external sources. The main problem the Corporation faces is the difficulty of obtaining credit from competitive capital markets. Due to the low interest it charges on loans, it cannot afford to pay the high cost of capital in these markets. This is a structural difficulty inherent to the type and objectives of the business in which ACC is engaged.

2. An operational problem ACC faces is the persistently low level of collections from its due claims. While it is expected to collect at least 85 percent of its matured claims, its collections from all categories of loans did not match its claims from transferred loans alone during the period 1962-63 to 1965-66. The overall collection rate on its due loans, excluding doubtful loans, during the year 1965-66 was only 44 percent
for principal and 43 percent for interest. This problem could be a result of the following weaknesses:

(a) Lack of adequate studies and plans for the Corporation's individual as well as aggregate loans. Without studies and plans efficient supervision of individual loans will be impossible and their productivity doubtful which will reflect adversely on the collection level of loans and make the implementation of the aggregate lending programs very difficult.

(b) Loopholes in the lending rules and procedures such as the vague terms in which "Productive Loans" and "Value of Mortgaged Property" were stated.

(c) The small amount, on the average, of loans issued to farmers which reduces the contribution of these loans to efficient operations of the borrowers.

(d) Regulations regarding the property offered by borrowers as security which provides that the maximum amount of any loan should not exceed 60 percent of the value of the mortgaged property.

(e) Drought seasons which hit the country in some years and make loan repayments very difficult for farmers.

It is recommended that ACC should continue to seek cheap credit from sources engaged mainly in development credit business such as the International Development Association and similar agencies. It is also recommended that ACC uses all its internal sources in lending operations. Deposits in commercial banks should be reduced to the minimum amount needed and any additional amounts should be lent out.
The following recommendations are made to remedy the weaknesses resulting in the low level of collections.

(a) The Corporation should draw farm and home plans for all its borrowers which will budget their future receipts and expenses over the term of the loan and to which farmers should strictly adhere. Long-range as well as annual lending activities of ACC should also be planned. All plans should be prepared on a reliable and practical basis by specialized people. The Statistics and Research section of the ACC should be developed and assigned the duty of making the necessary studies and plans for the individual loans as well as the aggregate lending programs and financial budgets.

(b) Productive loans should be clearly defined in terms of their additional returns to borrowers and, then, only productive loans should be made.

(c) Systematic procedures for appraising the value of property offered as security should be described in specific terms and training courses should be offered for all loan officers and branch managers.

(d) The upper limit on loans should be raised to 100 percent of the appraised value of the security mortgaged rather than the current 60 percent limit.

(e) An additional measure which should be taken to put the Corporation's operations on sound business grounds is the establishment of a special fund from which emergency loans could be issued to farmers in
drought stricken areas. The establishment of this fund should be suggested by ACC and the funds required should be provided by the Treasury. This measure will eliminate the effect of drought on the collection of ACC's claims and, in addition to the other measures suggested above, it will enable ACC to apply strictly its collection and supervision rules on all its loans and, thereby, raise the collection rate to an acceptable level which ensures its continuation in the future as a going concern.
BIBLIOGRAPHY


