



07th June 2016

Financing Aquaculture Sector in Egypt

SASME Project

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Financing of the agricultural sector (includ. Aquaculture...) = Too risky and not enough profitable for the Banks

- While the majority of the population lives in rural areas and depends on agricultural production, the supply of financial services to the sector is very poor in Africa (average of 5% of the loans allocated to the Ag sector / even less in Egypt : 2,5%...) and in others regions of the world.
- Agriculture = high risk activities, for many reasons : climate (drought, flood, storm, etc.), price volatility in this sector, crop failure due to pests and diseases, etc.
- Agriculture = seasonality of the incomes => requires specifically tailored financial services and conditions, such as longer repayment and grace periods, less frequent repayments, leasing products, ...

... and Financial Institutions don't like (too much) risks / like stability of the revenue = reluctant to do credit in this sector

- Agriculture is also often considered as less profitable than others sectors in urban area (trade or industry)

Many constraints on both side (supply and demand of credit)

- Financial Institution (FI) don't have a good knowledge of the sector (work more in urban area ; Ag. = often an unformal activity ; lack of reliable data/statistics in Ag.; diversity of productions, ...) => **need of a minimum of technicity and datas to be able to follow this type of activities**
- Higher operating cost for FI : the clients are more scattered than in urban area + poor quality of some roads in some countries => **more difficult for the FI to meet the potential clients and to follow the outstanding credit**
- Lack of financial skills on farmer's side (pb of literacy, difficulties to identify their financial needs, absence of book-keeping, etc.) => **difficulty for the farmers to fill properly the application forms**
- in most of the case, there is no collateral (land issue = no title of property ; unformal activities...) => **no way to get back the money if default of repayment**
- Lot of risk not covered by private tools (such as Ag. Insurances) or appropriate public policies (price regulation mechanism, ...) => **high interest rates**
- Lack of Medium and Long term resources (more savings than credit) = **lack of funds for investments in Agriculture**

Many solutions tested in the past years

- Specific Bank mandated to finance agricultural sector (included in Egypt, with PBDAC)... but many of them : failed or poor performance....
- Refunding commercial banks with a specific Agricultural Credit Line, in order to encourage them to develop their portfolio of loans in Ag. sector (but also need of TA, to improve the monitoring of this new CL by commercial banks ...)
- Use of Interest Rate Subsidies (in order to decrease the cost of credit for farmers, but costly if not targeted + need of harmonisation between donors in the same country ...)
- Promotion of Micro Finance Institutions (but works better in towns than in rural areas + high interest rate = often too costly for farmers activities (low returns)...)

⇒ **Credit to Agricultural sector remains one of the main Bottleneck for the development of the Agriculture in many countries**

⇒ **Need for Development Agency (such AFD) to try something different...**



A more holistic approach could work ?

- Need to reduce the risk of non-repayment of the loans for the Banks, by developing new tools
 - Ag. Insurances (such as index-based weather insurance)
 - Ag. Guarantee Mechanism
 - Others (warrantage, leasing...)
- Need to improve the trust between the FI and the farmers/the clients
 - TA to the banks to improve their knowledge on farmers activities
 - TA to the farmers, to help them to be more efficient in the management of their activities, to develop an accounting system, to promote “financial literacy” among farmers, etc
- Need to reduce the cost of the Ag. credit
 - Smart/targeted subsidies, matching grant
 - Innovative financial services (such as mobile banking)
 - Provide concessional loan though blending

Financial Services for SMEs in Aquaculture in Egypt

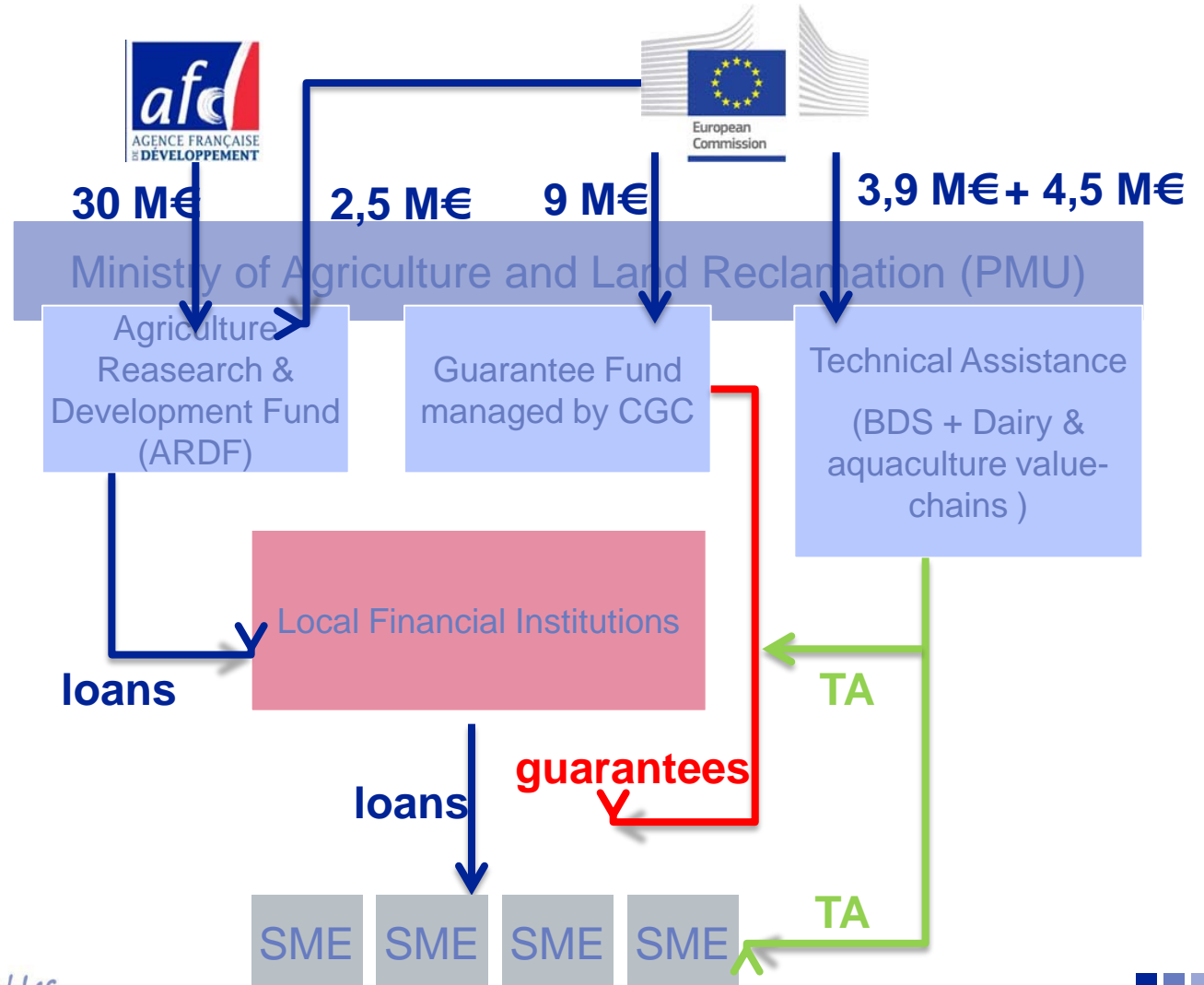
- Loan to Ag. Sector (including Aquaculture) = around 2,5% of the outstanding loans in Egypt
- SMEs = 90% of private companies in Egypt, but difficulties to get credit (lack of assets + most of them are unregistered)

⇒ Agricultural SMEs (including Aquaculture) : cumul of the 2 disadvantages...

- ... even if Aquaculture is well developed in Egypt :
 - Egypt = largest aquaculture sector in Africa and 2nd largest tilapia producer in the world (after China)
 - Aquaculture : already the main source of fish supply in Egypt (2/3 of the country's fish needs), mainly from small and medium scale private fish farms
 - Annual market value of USD 1,3 billions (2011)
 - Important in providing employment in rural areas
- High costs of initial investments (specially for intensive production systems) and very high running cost of fish farms, but very poor access to formal credit = this is the major constraint to the development of fish farming in Egypt !

« Support to Agricultural SMEs » (SASME) project in Egypt

- A total 52 MEUR program financed by AFD (loan) and EU (grant)
- ARDF revolving fund (owned by the MARL) refinancing local partnering banks
- Establishing a credit guarantee scheme managed by an existing firm, the Credit Guarantee Company
- Supporting value chains development :
 - financial and technical advice
 - linkage to market



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An integrated approach

Tools	Objectives
<p>Specific Concessional Credit lines tailored to the need of Ag. SMEs, through an existing fund of the MARL (ARDF, managed by CIB)</p>	<p>Increase the amount of funds available for the Financial Institutions (« Participating Banks ») involved in the financing of Ag. Activities</p> <p>+ Improve the conditions of the credit (through the use of part of the UE grant for blending), in order to adapt the credit to the needs of the Ag. Sector</p>
<p>Risk Sharing Mechanism for banks, with growing agricultural finance activities</p>	<p>Garante scheme managed by CGC</p>
<p>Technical Assistance to key stakeholders in the lending and guarantee granting process (Business Development Services - BDS)</p>	<p>Deepen FI's knowledge of the specificities of the Ag. Sector and strengthen their capacities to respond to the demand</p>
<p>Technical Assistance in 2 value chains (Marine Aquaculture and Dairy)</p>	<p>Support FI's clients from these 2 VC, in structuring their investments and evaluating their financial needs, but also in increasing their economic performance.</p>



A good approach, but some difficulties to implement it...

- Approval of the project in the end of 2012... but the activities did not start yet ! (hopefully, in the coming months...)

- Why ?
 - 5 financials agreement to be signed...
 - Politicial situation in Egypt
 - Instability in the Ministry of Agriculture (7 or 8 Ministers since 2012...)
 - Weakness of the MARL = TA needed in order to start the activities
 - « 3 projects in one »

- An additional constraint = the D+3 deadline : all the activities need to be contracted before december 2017

- ... A great challenge, but it's totally worth it !



WA Regional organisations and Fisheries

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CSRP/COREP vs UEMOA/ECOWAS ?

The choice between Technical regional organisations such as CSRP, COREP and Regional Economic Communities such as ECOWAS /UEMOA...

⇒ **All of them are weak in the management of projects :**

They were not created for that, and this type of activities = quite new for them...

- Regional project are more difficult to implement...

- Lack of human and financial resources

⇒ Need of TA for the implementation of project (PMU) = the only way to get the expected results !

⇒ **We asked them to work on issues out of their initial mandate !**

CSRP and COREP were created for technical cooperation and coordination of policies in the Fisheries sector between their Member States, not for the management of the global governance of the sector (ECOWAS or UEMOA better for that), neither for the harmonisation of legislation (can provide technical inputs during the drafting of the regulation, but don't have the adequate legal framework : need of supranational regulations, such as « Règlement » of « Directive »...)



ECOWAS vs UEMOA ?

ECOWAS is more « coherent », on a geographical point of view (all the countries in WA, except Mauritanie)...

... but UEMOA much more involved in this sector :

Regional Plan for the development of the sector (2003)

Regional committee on fisheries (1st meeting : 2007)

Harmonization of legislation with the help of FAO (2008-2009)

Regional information system <http://atlas.statpeche-uemoa.org>

Support in data collection (since 2011) with the support of the Consortium Oceanic Développement-IRD-Agrocampus, etc.)

⇒ Role of donors : Should not play one organisation against the others, but help them to work together (including the technical regional organisations...)

See the case of MIR project (harmonisation of regulation in the inputs sector (ECOWAS + UEMOA + CILSS)

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Merci !

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