

AGRICULTURAL BANK AND FINANCING OF AGRICULTURE

INTRODUCTION:

We are going to try to answer the following questions raised by the FAO:

- Is it possible for agriculture to develop without a specific agricultural bank?
- Is Credit Agricole in its capacity as an agricultural bank carrying out activities specifically dedicated agricultural and agro-business financing in Eastern Europe?

I - 1. HOW RELEVANT IS THE QUESTION:

- The world food crisis raises sharply the problem of finding solutions to quickly and efficiently finance the development of agriculture, taking into account a number of constraints: physical, ecological, legal and regulatory.
- It would be useful to draw up an up-dated survey to clarify the variety of existing institutions (co-operative banks, rural credit unions, commercial banks, etc.)
- Due to their enormous agricultural potential, the countries of the CIS and the Balkans offer a major opportunity to examine the ad hoc schemes for financing agriculture

I - 2. CAN WE TAKE ADVANTAGE OF CREDIT AGRICOLE'S EXPERIENCE TO ANSWER THESE QUESTIONS?

The financial model developed by Credit Agricole in France to support agriculture and the food industry has shown its ability. Today, French agriculture is a universal reference, the food industry being the first industrial sector. Credit Agricole has an 80% market share in the financing of agriculture and 40% in the financing of the food industry.

The reasons of this are due to:

- A decentralized and large domestic retail banking network (Regional Banks)
- A strong agricultural expertise

The combination of a retail banking network with expertise allows a better risk control (very low NPL rate).

- A permanent adaptation of the financing offer to the needs of the agricultural sectors and to the evolution of the markets.
- A structured environment: role of the Authorities, distribution among sectors, insurance and guarantee schemes, relevant professional organizations.
- An investment in innovation services: setting up of « futures » markets, technology development (Pleinchamps).

I - 3. CAN WE REPLICATE THIS BUSINESS MODEL?

- This model is a sophisticated one and a number of its characteristics may easily be applied to different situations: retail banking and expertise are the essential requirements for successful financing of agriculture.
- But, this model has been developed in a specific environment, which may not be the same in other parts of the world. We must note that the markets are nowadays largely open and this involves drawing up specific schemes for financing agriculture including new elements.
- The variety of situations is very important in different parts of the world: size of the market, type of needs, physical context, weather conditions, part of the population dedicated to agriculture compared to the general population, legal conditions.
- Various structures have been set up: co-operative agricultural banks (ACBA), rural microfinance networks, etc.
- The European/French model is a good one but it cannot be considered as a universal model, nor be applied to any situation.

II –A MORE RIGOROUS APPROACH TO THE PROBLEM:

The analysis of the conditions to deal with to set up an efficient and longstanding activity in financing agriculture:

II -1. WE THINK THAT THESE CONDITIONS MAY BE THE FOLLOWING:

- A stable land policy allowing for long term investments;
- Availability of clear market trends;
- Availability of strong regulations adapted to local situations;
- Global offer proposed by producer associations or co-operatives;
- A correct functioning at all processing operation stages performed (collection, storage, transformation, logistics, infrastructures);
- Implementation of an offering policy ensuring the high competitiveness of the production systems;
- Development of an expertise and provision of the necessary training;
- A fair distribution of the profits among all operators of the value chain; otherwise the chain will not survive;
- Setting up of Public/Private partnerships.

II -2. SO, FINANCING WILL DEAL WITH:

- A retail banking network with a thorough knowledge of clients and different sectors to be in a position to maintain strong relations with them.
- A strong analysis of the needs in financing agriculture according to types of activities and sectors.
- A very strong control of all types of risks
- An offering of credits and financial services according to the needs of local agriculture and food industry.
- Constitution of skilled dedicated teams with an agricultural and food expertise.

II.3. THE INSTITUTIONAL SCHEME TO BE TAKEN INTO ACCOUNT IS A RESULT OF THIS ANALYSIS:

- The setting up of a bank specifically dedicated to agriculture can favourably be considered in those countries where the banking/financial structure is not strong enough, and also where agriculture represents a substantial share of the economic activity justifying the existence of a specific bank.
- But the cost of the investment is generally very high and it only can be paid off by resorting to mass activity.
- The setting up of microfinance networks for the financing of agriculture may be quite possible in a number of countries, but it does not allow the creation of agro-business operations.
- The intervention of commercial banks could be recommended as an option.
In fact, commercial banks have a strong dislike for agricultural risk and they charge very high interest rates, but they have a good retail banking network. They should be encouraged to develop the financing of agricultural activities by providing them strong technical assistance services.
As a result, multilateral agencies and development banks are in a position to play an essential role.

III –STUDY CASE : Crédit Agricole and the financing of agriculture and agribusiness in the CIS and the Balkans

III - 1. CRÉDIT AGRICOLE HAS GAINED A SIGNIFICANT POSITION IN EASTERN EUROPE:

During the last few years, Crédit Agricole S.A. acquired several retail banks, such as Lukas Bankas/EFL (Poland), Index Bank (Ukraine), Meridian Bank (Serbia), and took a 30% stake in ACBA (Armenia).

These retail banks come in addition to the longstanding presence of Calyon (the Corporate and Investment subsidiary of Crédit Agricole S.A.) in Ukraine, Russia, Czech Republic, Slovakia, Hungary, Kazakhstan, and Emporiki Bank (the Greek retail bank of Crédit Agricole) which has branches in Romania, Bulgaria and Albania.

III - 2. THE REINFORCEMENT OF COOPERATION between different banking institutions and the provision of Technical Assistance and Advisory services to financial institutions through Crédit Agricole Consultants (“CAC”) will contribute to the development of the Group in the region:

F.i.. : Crédit Agricole has entered into a cooperation agreement with Rosselkhozbank in Russia.

III - 3. A SPECIFIC INTERNAL « EASTERN EUROPE » COMMITTEE was set up in May 2006, whose members are Crédit Agricole Regional Banks, Crédit Agricole S.A. and its subsidiaries, as well as Calyon branches in the region.

The objectives of this Committee are:

- To identify business opportunities in the fields of agriculture and agribusiness in Eastern Europe.
- To rely on all internal expertise within the Crédit Agricole Group.
- To mobilize all the relevant structures (subsidiaries, branches)
- Thorough studies have been performed in Ukraine to identify business opportunities, and in Serbia various possibilities are examined with a view to creating an activity for the financing of agriculture and agribusiness.

This Committee received Mr. Gilles METTETAL (EBRD) several weeks ago.

> As an example, we can mention that Champagne Céréales Développement – one of the main French agrifood processors and client of the Regional Bank of Nord-Est – is about to invest in new malt production units in Ukraine with a joint financing provided by EBRD, Caisse Régionale Nord-Est and Calyon.

CONCLUSION :

- Crédit Agricole Group relies on its credentials and unique expertise in the fields of Agriculture and Agribusiness, and strongly mobilizes all its structures to consider possible developments in Eastern Europe.

- The present situation in Eastern Europe does not make it appropriate to Crédit Agricole to set up specific agricultural banks in the region.

- Crédit Agricole wishes to develop Public/Private partnerships.