



Mechanisms of granting loans in commercial banks

A case study of granting an exploitation loan at the Bank of Agriculture and Rural Development - Sidi Lahcen Agency 755

*Ibrahim boustila **

Djillali Liabes University, sidi bel abbes (Algeria)

Ibrahim.boustila@univ-sba.dz

Benchiha kada hichem

Djillali Liabes University, sidi bel abbes (Algeria)

hichemkada@yahoo.fr

Abstract ;

We will conduct a practical study at the level of the Agricultural and Rural Development Bank, Agency No. 775, in Sidi Lahcen, Sidi Bel Abbes province. The Agricultural and Rural Development Bank is considered one of the most important and prominent banks in Algeria, focusing on agricultural aspects and agricultural projects both domestically and internationally through its core activities, including granting exploitation loans. In this chapter, we will attempt to define the Agricultural and Rural Development Bank, its main objectives, and its organizational structure. Additionally, we will undertake an internship at the aforementioned agency and then study a case of granting an exploitation loan from the Agricultural and Rural Development Bank.

Article info

Received

May 28.2024

Accepted

October 18.2024

Keyword:

- ✓ *exploitation loans:*
- ✓ *BADR:*
- ✓ *commercial banks*

* Author corresponding

1. **Introduction**

The banking system has long been of great importance in various economic systems, and its significance continues to grow with the developments affecting national economies on one hand and the profound transformations witnessed in the financial environment on the other.

In the prevailing circumstances, banks work diligently to enhance their capabilities and operational methods in order to gather funds from various sources and direct them towards the best possible uses. Commercial banks are considered the cornerstone of the financial system as they aim to achieve profitability in the shortest possible time by performing the function of financial intermediation between economic agents in need of capital and financial agents who provide funds. Therefore, it can be said that the most significant uses of money from the perspective of the banking system are manifested in granting various loans according to well-established mechanisms and criteria that are guided by knowledge and have conditions and stages to be followed, starting from evaluating the borrowing institution to the mutually agreed-upon financial and non-financial analysis of the institution.

Based on the aforementioned, we can pose the following main problem

2. **An overview of the Agricultural and Rural Development Bank.**

2.1 **Stages of establishment of the Bank.**

The Agricultural and Rural Development Bank was established by

Decree No. 88/105 on March 13, 1982. It is a national financial institution belonging to the public sector. In the beginning of economic settlement in 1988, it was amended and completed by Law 88/01, which definitively defined the bank's basic system on January 12, 1988. And set the working methods and transfer procedures. Consequently, the Agricultural and Rural Development Bank transformed into a joint-stock company. This transformation was registered through an original contract on February 19, 1989, at the "Mendesane" notary office in Algiers.

The Agricultural and Rural Development Bank came up with the task of developing the agricultural sector and promote rural areas. The bank consists of 35 directorates and 200 agencies distributed nationwide. It employs approximately 7,000 workers, including executives and employees, due to the density of its network and the importance of its human resources structure.

The Bank of Agriculture and Rural Development was classified by the Banking Dictionary Council 2001 in the first place in the ranking of Algerian commercial banks and the 668th place in the global ranking among 4100 classified banks. The Bank has gone through several stages, which we mention below:

From 1982 to 1990: During the first eight years, the desired goal of the bank was to establish its presence within the rural world by opening numerous agencies in agriculturally oriented areas. Over time, the bank gained a reputation and high efficiency in the field of financing the agricultural sector, the agro-industry, and the agricultural mechanical industry. This specialization was specified

within the framework of the planned economy, where each public bank specialized in one of the vital public sectors.

From 1991 to 1999: By virtue of Law 90/10, which was enacted to end the specialization period of banks and expand the scope of the Agricultural and Rural Development Bank to other areas of economic activity, especially small and medium-sized economic enterprises, without neglecting the agricultural sector with which it maintains distinct relationships in the technical field. This stage marked the beginning of introducing information technology in 1991 and implementing a system for external business operations.

In 1992: Software programs (Progiciel Sybu) were implemented along with its various branches to carry out banking operations such as loan management, fund operations for deposits, remote examination of customer accounts, introducing automation to all external business transactions, and implementing a new account chart at the agency level.

In 1993: The process of introducing automation to all banking operations was completed.

In 1994: The operation of the BADR debit and payment card was initiated.

In 1996: The implementation of teleprocessing and remote monitoring of banking operations was introduced.

In 1998: The operation of interbank withdrawal cards was initiated.

The second phase was characterized by the necessity of the active involvement of public banks to create a new dynamic in the field of

productive investments and align their activities and level of profitability with market economy principles in the field of economic financing. The bank significantly increased the volume of loans for small and medium-sized enterprises. At the same time, it raised its support for the agricultural sector to cope with profound economic and social transformations. In order to meet the expectations of its customers, the bank implemented a five-year program focused on modernizing the bank, improving services, and implementing reforms in accounting and financial fields. The achievements resulting from this program are as follows:

- ✓ In the year 2000, the bank conducted a thorough examination of its strengths and weaknesses and developed a settlement plan for the institution to align with international standards and values.
- ✓ In the year 2002, the bank implemented the expansion of the local network system and reorganized the Sybu program as a client-server service provider.
- ✓ "Reviewing the reduction of time and streamlining administrative and technical procedures related to loan files, ranging from 10 to 90 days, for both commercial loans and consumer loans."
- ✓ "Implementing the Bank Assise project to provide specialized services."

Based on the information mentioned earlier, of the Agricultural and Rural Development bank is the leading bank in the ranking of Algerian banks and it utilizes:

- SWIFT system since 1991.
- Automated information in all foreign trade operations.

- The most dense network on the national soil.
- A comprehensive bank that finances all economic sectors.

the Agricultural and Rural Development Bank, is considered the first Algerian bank to implement the concept of a seated bank with specialized services. It owns and operates a proprietary Progiel system that enables full automation across all networks. Additionally, the bank conducts real-time remote banking operations and arranges documentary loans within a record time of 24 hours. It also has the capability to remotely verify customers' personal accounts

3. The Bank's Policy in Granting Exploitation Loans:

3.1. Conditions and Documents Required to Grant an Exploitation Loan:

3.1.1 Conditions for granting the loan:

- Good reputation and eligibility: must be trusted and free of criminal records.
- The funded activity should be economic, i.e. contribute to economic development.
- The activity should be in accordance with the customs and traditions of the community in which the activity will be located.
- The effectiveness of activity in the economy: where it serves society in terms of unemployment.
- Financial study: any study of the project in all respects through ratios, estimated budgets and financial statements.
- The customer must have legal and technical qualifications.

- The customer must have a current account with the bank at least (6) months before submitting the file.

3.1.2 Documents required to grant the loan:

The necessary documents for obtaining a personal loan are as follows:

3.1.2.1 Administrative and judicial documents

- A copy of the commercial register
- A copy of the founding law of the institution.
- A copy of the official disclosure of legal advertisements
- A copy of the ownership contract or lease contract

3.1.2.2 Accounting and financial documents:

- Accounting position (assets, liabilities, results chart)
- Estimated budget for the next session
- A financial planner supported by B T.M. P institutions.
- Accurate statement of dues with others

3.1.2.3 Tax documents for the last year:

- Tax debit card
- Tax declaration for the last year
- Tax exemption certificate less than three months old

3.1.2.4 Commercial documents:

- Analysis of the turnover (domestic, external) of the product and the market.
- Analysis of consumption and external services.
- Customer order book.
- Organizational chart of the distribution network, points of sale.
- export licence.
- Invoices.

In case of the public sector, add:

- Debt analysis, results distribution, council deliberations.

In case of free professions, add:

- Certified copy of postgraduate certificate such as lawyers and pharmacists.

3.2 field study:

- **Technical Card:**
 - **Beneficiary:** xxxxx
 - **Legal form:** Company.
 - **Company Capital:** 1.089.707.00 DZD
 - **Date of establishment:** 1998.
 - **Address:** Sidi Dahu Sidi Bel abbas.

- **Loan application date:** 18/11/2019.
- **Loan donor:** BADR Agriculture and Rural Development Bank.
- **Nature of Loan:** Application for an Overdraft Loan.

• **Loan procedure:**

This institution wishes to obtain a loan, which is submitted to the Agricultural and Rural Development Bank with a file that includes:

- Total project value: 9.630.000.00 DZD.
- Gross loan value required: 9.630.000.00 DZD.

Table 1. financial budget- Asset-

Asset	Raw Values	Amortization and Suppliers	N	N-1
Non-current assets				
GOOD WILL				
Fixed assets				
ophthalmic fixations	23730952.00	00.0	23730952.00	23730952.00
Total non-current assets	23730952.00	0.00	23730952.00	23730952.00
Treasury	6042900.00		6042900.00	12477800.00
cash	100000.00		100000.00	100000.00
total current assets.	6142900.00		6142900.00	12577800.00
The total assets.	29873852.00	0.00	29873852.00	36308752.00

Source: Prepared by the student based on documents provided by the Bank

Table 2. financial budget- Liabilities -

Liabilities	N	N-1
Own funds		
Issued capital	9377952.00	25058852.00
Unclaimed capital		
Bonuses and precautions		
The difference of revaluation		
The difference of the equation		
Net result	10865900.00	11249900.00

Other private capital		
Deportation again		
Total (1)	20243852.00	36308752.00
Non-current liabilities		
Loans and financial debts.	963000.00	963
Taxes (deferred and allocated to them).		
Other non-current debts.		
Supplies and products previewed		
Total non-current liabilities (2)	963000.00	
Permanent funds (1+2)	29873852.00	36308752.00
Total liabilities.	29873852.00	36308752.00

Source: Prepared by the student based on documents provided by the Bank

Table 3. Functional budget: Assets

Fixed uses	Net worth 2014
Moral fixations	
Eye fixations	23730952.00
Installations in progress	
Financial fixations	
Bonds placed in the equation –	
Participating institutions.	
Other contributions and attached accounts payable	
Other proven bonds.	
Loans and other non-current financial assets.	
Total fixed uses	23730952.00
Current assets for exploitation	
Inventories under construction.	
Customers.	
Taxation	
Total current assets for exploitation	00.0
Current assets out of exploitation	
Other debtors	
Total current assets out of exploitation	
Treasury-assets	
Current employment and financial assets.	
The Treasury	6142900.00
Total treasury-assets	
The total assets	29873852.00

Source: Prepared by the student based on documents provided by the Bank

Table 4. Functional budget: liabilities

Fixed resources	
Private funds	
The capital of the issued money.	9377952.00
Unsolicited capital	
Bonuses and precautions.	
The difference is reassessment.	
The difference of the equation.	
The net result.	10865900.00
Other private funds-new deportations.	
Financial debts	9630000.00
Loans and financial debts.	9630000.00
Taxes (deferred and allocated to them).	
Total fixed resources	29873852.00
Current deductibles for exploitation	
Suppliers and ancillary accounts.	
Taxes.	
Total liabilities traded for exploitation	
Discountsextradeoutexploitation	
Other debts	
Total deductibles traded out exploitation	
Treasury-liabilities	0.00
Treasury of liabilities.	29873852.00

Source: Prepared by the student based on documents provided by the Bank

- ❖ Indicators of the financial balance of the financial budget:

- From top budget:

Net working capital = permanent funds - fixed assets.

Table No. 05: Net working capital

	N	N-1
Permanent funds	29 873 852.00	36 308 752.00
Non-current assets	23 730 952.00	23 730 952.00
Net working capital	6 142 900.00	12 577 800.00

Source: Prepared by the student based on documents provided by the Bank

- **From down budget:**

Net working capital = current assets - current liabilities.

Table No. 06: Net working capital

	N	N-1
Current assets	6 142 900.00	12 577 800.00
Current liabilities	0.00	0.00
Net working capital	6 142 900.00	12 577 800.00

Source: Prepared by the student based on documents provided by the Bank

comment : Through the table, we notice that the net working capital is positive during the two years, as it reached in year N (6 142 900.00) it increased in year N-1 to (12 577 800.00), which means that the institution has a margin of safety that enables it to face cycle accidents Exploitation that affects liquidity and that the institution can finance its investments and the rest of the financial needs using its financial resources.

It also indicates that there is a financial surplus in the institution that enables it to meet its short-term obligations through current assets.

❖ **Financial Balance Indicators for Functional Budget:**

- **functional working capital:**

Functional working capital = fixed resources - fixed uses.

Functional working capital = 29873852.00 - 23730952.00 = 6142900.00

comment : Since the functional working capital is positive, this means that the functional equilibrium rule is achieved, that is, fixed resources financed all fixed uses and part of the current assets, and this, in principle, gives security to the institution.

- **Working Capital Needs:**

Operating capital needs = non-treasury current assets – non-treasury current liabilities.

Operating capital needs = 0.00 – 0.00 = 0.00

- **Working Capital Requirements for Exploitation:**

Working capital needs for exploitation = Current assets for exploitation – Current liabilities for exploitation

Working capital needs for exploitation = 0.00 – 0.00 = 0.00

- **Working Capital Needs Outside Exploitation:**

Working capital needs outside of exploitation = current assets outside of exploitation – current liabilities outside of exploitation

Working capital needs outside of exploitation = 0.00 – 0.00 = 0.00

- **Net treasury:**

Net treasury = treasury assets - treasury liabilities.

Net treasury = functional working capital - working capital needs.

Net treasury = 6142900.00 – 0.00 == 6142900.00

comment: We note by calculating the financial balance indicators of the functional budget that all of the working capital needs are positive, and net treasury is positive. This means that the resources generated by the exploitation cycle finance part of the current assets. This means that the institution is in a state of good financial balance and that the institution relies on itself more than others in financing its needs.

❖ **Financial ratios for the budget of the Agricultural Equipment Industry Corporation:**

- The rate of financial emancipation

Where this ratio aims to determine the impact of financial borrowing on the financial position of the institution, and is calculated by the following relationship:

Financial leverage / private financing

Table No. 07: financial liberalization rate

	N
Financial borrowing	9630000.00
private financing	9377952
financial liberalization rate	1.02

Source: Prepared by the student based on documents provided by the Bank

COMMENT: Note that the debt ratio represents 1.02 per year N, which indicates that the institution is financially liberal, and this makes it free to use its cash flows in developing investments and

even in opportunities to increase borrowing.

- **Fixed Uses Financing Ratio:**
Fixed Use Funding Ratio = Fixed Resources / Fixed Uses.

Table No. 08: financing ratio

	N
fixed resources	29873852.00
Fixed uses	23730952.00
financing ratio	1.23

Source: Prepared by the student based on documents provided by the Bank

COMMENT: We noticed through this ratio that the fixed resources financed the fixed uses and a surplus remained

that was used to finance the current assets and it constitutes the functional working, capital

Table No. 09: Income Statement

	N
turnover	13000000.00
Stocks of unfinished and in-process products.	
Proven production.	
exploitation subsidies.	
1 - fiscal year production.	13000000.00
consumer purchases.	
External services and other consumption.	478900.00
2- Consumption of the fiscal year.	2134100.00
3- Exploitation added value (1-2)	10865900.00
burdens of users	0.00
taxes, fees and similar payments.	0.00

4- Total exploitation surplus	10865900.00
5- Operational outcome.	0.00
financial products.	
financial burdens.	0.00
6- The financial result.	0.00
7- The current result before taxes	10865900.00
8- As a result of normal activities.	0.00
Unusual items (products)	
Unusual items (burdens)	
9- Unusual result.	0.00
10- Net result for the fiscal year	10865900.00

Source: Prepared by the student based on documents provided by the Bank

❖ **Financial diagnosis to calculate the results of the enterprise**

1- Profitability ratios of the enterprise:

• **Sales profitability ratios (margins):**

The study of sales profitability aims to know the ability of the organization to generate profits through sales, where the profitability of sales is studied through the following ratios:

Gross profit margin ratio: This ratio shows the ability of one dinar of turnover to generate a margin of gross profits.

$$\text{Gross profit margin ratio} = \frac{\text{turnover} - \text{cost of goods sold}}{\text{turnover}}$$

$$\text{Gross profit margin ratio} = \frac{13000000 - 1655200.00}{13000000.00} = 0.87$$

• **Value Added Margin Percentage:**

Exploitation value added / turnover

Table No.10: Value added margin ration

	N
Value Added	10865900.00
turnover	13000000.00
Value added margin ration	0.83

Source: Prepared by the student based on documents provided by the Bank

The value-added rate is estimated at 0.83, which means that every dinar of turnover achieves a profit margin of 0.83, which is a good indicator for the institution.

• **The crude surplus margin ration for exploitation:**

Crude surplus for exploitation / turnover

Table No.11: Crude surplus margin ratio for exploitation

	N
raw surplus for exploitation	10865900.00
turnover	13000000.00
Crude surplus margin ratio for exploitation	0.83

Source: Prepared by the student based on documents provided by the Bank

comment:

The rate of the total raw surplus for exploitation is estimated at (0.83). This means that every dinar of the surplus raw

for exploitation generates a margin of (0.83) from the turnover, after paying all of the external suppliers, workers, taxes

and fees, and this is a good indicator of the performance of the institution.

Net result / turnover

- **Net profit margin ratio:**

Table No.12: **net profit margin ratio**

	N
net result	10865900.00
turnover	13000000.00
net profit margin ratio	0.83

Source: Prepared by the student based on documents provided by the Bank

Comment: We note that the net profit rate is estimated at (0.83), which indicates that the institution has achieved a net profit rate estimated at (0.83) from each dinar of turnover.

2- Yield ratios:

- **Financial profitability:**

Ordinary result before taxes/private capital

Table No.13: **financial return ratio**

	N
Ordinary result before tax	10865900.00
private capital	13000000.00
financial return ratio	0.83

Source: Prepared by the student based on documents provided by the Bank

Comment:

This percentage represents the return achieved by the owners behind the investment of their money in the institution, as this percentage reached (83%), which shows the extent of the management's efficiency in exploiting the funds of the owners of the institution and

its ability to achieve profits from those funds.

- **Economic profitability:**

Total Exploitation Surplus / Fixed Resource

Table No.14: **economic profitability**

	N
total surplus utilization	10865900.00
fixed resources	29873852.00
economic profitability	0.36

Source: Prepared by the student based on documents provided by the Bank

Comment :

We note that the economic return rate has reached (36%), which indicates the institution's ability to achieve a return through its invested funds from its exploitative activity.

- **Calculation of self-financing capacity:**

The first method: based on the total exploitation surplus

Table No.15: Self-Financing Capacity

(-) or (+)	total surplus utilization	10865900.00
+	other operational products.	0.00
-	other operational burdens.	0.00
+	financial products	0.00
-	financial burdens	0.00
-	Profits tax.	0.00
=	Self-Financing Capacity	10865900.00

Source: Prepared by the student based on documents provided by the Bank

- **The second method:** based on the net result:

Table No.16: Self-Financing Capacity

(-) or (+)	net result	10865900.00
-	Provisions for depreciation, provisions and value losses	0.00
+	Refunds for losses of value and provisions.	0.00
-	Deficiencies of values from the exit of non-financial assets.	0.00
+	Surplus value over stocks of non-financial fixed assets.	0.00
-	The valuation difference on financial assets - value deficiencies	0.00
+	Valuation difference on financial assets - value surpluses	0.00
-	Net losses from the assignment of financial assets	0.00
+	Net profits from the assignment of financial assets	0.00
=	Self-Financing Capacity	10865900.00

Source: Prepared by the student based on documents provided by the Bank

Summary of the study and the bank's response:

After reviewing the loan file, studying the technical and economic aspects of the loan, and analyzing the budget that precedes the date of the loan request, the Bank of Agriculture and Rural Development decided to accept the beneficiary's request and grant him a loan of 963,000.00 DZD

4. CONCLUSION

Through our field study of the Bank of Agriculture and Rural Development with its various interests, and after we got acquainted with its position among the various banks, the Bank of Agriculture and Rural Development plays an important role in advancing economic development, and this is due to the quality of the services it provides and the projects that it finances, and the financing role it provides to various clients, especially the

economic institutions that have a role in the national economy and the small projects that help in that.

Through our study of the loan application file submitted by the concerned institution, the bank relies mainly on two elements: the guarantees provided by the customer in addition to the analysis of the financial position of the institution requesting the loan by the loan committee,

And accepting the loan depends mainly on the results obtained through the analytical study of the financial situation if it is positive and the owner of the project is able to return the bank's money in addition to the success of the project

5. Bibliography List :

1. Jaadi Amal, Arab Thunaina, banking techniques in granting loans, a memorandum submitted as part of obtaining a bachelor's degree in economic sciences, specializing in finance and banking, 2009, p. 90.
2. Boustila Ibrahim, Ben Shikh Marwa, a memorandum submitted as part of obtaining a Bachelor's degree in Financial Sciences, specializing in banking and insurance finance, 2019, p. 47.
3. Ismail Abdel Baqi, Commercial Bank Management, Ghaida Publishing and Distribution House, oman, 2005.
4. Muhammad Abdel Fateh Al-Arifi, Banks Management, Dar Al-Manhaj for Publishing and Distribution, oman, 2004.
5. Ahmed Salah Attia, Investment and Finance Accounting in Commercial Banks, Dar Al-Jamaiah for Publishing and Distribution 2002/2003.
6. Official Journal No. 39 dated 09/25/1975.
7. Official Journal No. 34 dated 20/09/1986.
8. Farouk Bouyakoub: Business and bank financing, Casbah editions 2000.