

UNITED STATES GOVERNMENT

Memorandum

690-012-③ 4
PD-ABC-208
TOP

TO : Mr. Sheldon Cole, AFR/DS
Center No. 2, Room 3659 NS, AID/W
Thru: John L. Withers, Director, REDSO/EA
FROM : Stephen Whitmer, REDSO/EA

DATE: Oct. 3, 1973

SUBJECT: Swaziland Credit and Savings Bank (Swaziland Agriculture Development Loan Amendment - 698-H-010)

Following are some comments on the SCSB loan paper for consideration during the ECPR review of the loan amendment which you may want to discuss this with Princeton and Jerry Knoll.

1. If feasible, i.e., subject to funds available during the Continuing Resolution and demands for Sahelian programs, consideration should be given to increasing amount of the loan amendment from \$500,000 to \$750,000 for a total of \$1 million provided to the SCSB, including the original \$250,000.
2. Original limitation of \$500,000 was a decision based on the review at the IRR without sufficient background on the SCSB or the demand for loans.
3. If the loan amendment was increased for an additional \$250,000 approximately 1,000 more farmers would benefit from the credit program.
4. The projected loan demand in CY 1974 requires an additional R430,000 (\$645,000) over CY 1973 levels. R370,000 (\$555,000) will be required in CY 1975. Thus the total of \$750,000 (R500,000) could easily be utilized by the end of the CY 75 lending season.
5. The Bank's operations have been studied by two AID-sponsored credit specialists who both agreed that the Bank's operations were sound and recommend consideration of additional funds.
 - a. Rufus Long recommended \$2 million.
 - b. Harry Lowe recommended \$1 million as a result of the information he had about AID's limitations.
6. The GOS is serious about making the SCSB a national development bank and is revising the charter accordingly.
7. There is increasing evidence that the Ministry of Agriculture, the Cooperatives Department, and the SCSB are coordinating their activities to develop ways to provide small farmer credit.



5010-108

Buy U.S. Savings Bonds Regularly on the Payroll Savings Plan

R10/12
BA

Sheldon Cole

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October 3, 1973

8. The project represents a real opportunity for institution building and at the same time presents a mechanism for implementing AID's new initiatives of concentrating programs on small farmers, and supports the results of the Spring Review of Small Farmer Credit.

SWAZILAND - AGRICULTURAL DEVELOPMENT PLAN AMENDMENT

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SWAZILAND - AGRICULTURE DEVELOPMENT LOAN AMENDMENT

SUMMARY AND RECOMMENDATIONS

- I. Borrower: The Government of Swaziland (GOS)
- II. Amount of Loan Amendment: \$500,000
- III. Cost of Project: (Loan 698-H-010)
- | | |
|-----------------------------|----------------|
| Prior AID Loan | \$2,200,000 |
| Prior UK Loan | 3,400,000 |
| Prior GOS Contribution | 700,000 |
| Proposed AID Loan Amendment | <u>500,000</u> |
| Total: | \$6,800,000 |
- IV. Terms: A. Maturity: 40 years, including a 10-year grace period;
B. Interest: 2 percent per annum during the grace period,
3 percent thereafter;
C. Currency: Interest and Principal payable in US dollars.
- V. Description of Project: To provide additional financial credit to the Swaziland Credit and Savings Bank (SCSB) to relend to small-scale farmers for procurement of seeds, fertilizers, insecticides, small tools and implements and other related agricultural materials in order to improve their farms and increase agricultural production.
- VI. Purpose of Loan Amendment: To finance the local currency costs of a credit program for small-scale farmers.
- VII. Background: In 1966 the GOS began a comprehensive rural development program in selected Rural Development Areas (RDAs) which during the first phase of the program emphasized general infrastructure such as dams, stock watering points, feeder roads, soil conservation structures and village community services. In 1971, in order to expand this rural development program, the GOS requested financial assistance from A.I.D. and the U.K. A.I.D. in response to this authorized a \$2.2 million loan to the GOS for the procurement of heavy equipment to develop six rural development areas, the construction of a demonstration ranch and the provision of \$250,000 to the Swaziland Credit and Savings Bank for a credit program aimed at small farmers.

All dollar amounts in this paper are calculated at the rate of
1 Rand = \$1.50 US.

Because of the rapid progress the GOS has made in developing the RDAs and the increased credit demand from small-scale farmers, both within and outside the RDAs, and the recommendations by two A.I.D. sponsored consultants, the SCSB has requested an additional \$500,000 in loan funds to augment the \$250,000 provided from the original A.I.D. loan. The \$500,000 would be used exclusively for the small farmer credit program. The SCSB has also requested that A.I.D. provide, under the OPEX project, a senior agricultural credit advisor to assist in strengthening and developing the agriculture credit program. A.I.D. plans to provide this technical assistance if the OPEX project and this loan amendment are approved.

- VIII. Ex-Im Bank Clearances: Clearance unnecessary due to nature of the loan and based on previous clearance obtained in January 1971 for the original loan.
- IX. Country Team Views: The country team strongly endorses this loan amendment.
- X. Statutory Check List: Satisfied. (See Annex I.)
- XI. Recommendations: Authorization of a \$500,000 Loan Amendment to A.I.D. Loan No. 698-H-010 to provide the additional funds necessary to expand the SCSB small farmer credit program.

Capital Assistance Committee:

REDSO/EA:	Loan Officer	-	J. P. Guedet
	Agricultural Economist	-	M. L. Winter
	Lawyer		W. D. Jones
AID/W:	Loan Officer	-	S. R. Whitmer
	Desk Officer	-	E. Gales
	Agriculture Officer	-	E. Siira
	Lawyer	-	J. Hoskins

I. Background

- A. Introduction: In 1966, the GOS began a comprehensive rural development program in delineated Rural Development Areas (RDAs). The intent was to focus (without completely disregarding areas outside the RDAs) the limited resources and services of the GOS Ministries in areas where rapid development was judged to be achievable, i.e., in areas of high agricultural potential and where local populations were progressive. During the first phase of this program, general infrastructure such as dams, stock watering points, feeder roads, soil conservation structures and some village community services were to be provided.

To expand and further implement this rural development program, the GOS requested financial assistance from A.I.D. and the U.K. In 1971, A.I.D. authorized a \$2.2 million loan to the GOS for the procurement of heavy equipment to develop six rural development areas, the construction of a demonstration ranch, and the provision of funds for a credit program aimed at small farmers. Since then the GOS has utilized approximately \$2.0 million of the A.I.D. loan by procuring \$1.7 million of heavy equipment and passing on \$250,000 to the SCSB to make sub-loans to agricultural enterprises. The \$250,000 was fully disbursed through sub-loans by March 31, 1972. The remaining loan funds are earmarked to finance the ranch equipment and the construction of the demonstration ranch. The original loan should be fully disbursed by November, 1973.

In March, 1972, prior to the disbursement of the initial \$250,000 to the SCSB, Mr. Rufus Long, an A.I.D. credit advisor reviewed the bank's operations and procedures for utilizing an A.I.D. loan. His conclusions and recommendations were that the SCSB was a creditworthy institution and capable of effectively using the funds. He further indicated that AID should consider a second loan for up to \$2 million should a further evaluation of the bank, the RDA program and credit demands confirm his preliminary findings. He also recommended that A.I.D. provide technical assistance (an advisor and participant training) to develop agriculture credit policies and procedures and to promote farm credit cooperatives.

In October, 1972, the GOS formally requested A.I.D. to provide management assistance to the SCSB and an additional \$2.0 million to the bank for their small farmer credit program. In response to this request, A.I.D. secured the services of Mr. Henry Lowe, an A.I.D. PASA, employed as the General Manager of the Agriculture Finance Corporation of Kenya, to conduct another short-term study. Mr. Lowe's study was completed in April, 1973. (See Annex X for conclusions and recommendations.)

B. Current Economic Situation ^{1/}

The estimated 1972 population of Swaziland was 480,000 including 30,000 absentees. The population density is approximately 67 per square mile and the annual rate of population growth is estimated at between 2.7 and 3.1 percent. Gross domestic product in 1968/69 was calculated at R54.6 million^{2/} (provisional estimates for 1970/71 are R68.9 million) of which agriculture and forestry contribute approximately 24 percent, mining, quarrying and construction 17 percent, community, social and personnel services 17 percent, manufacturing 15 percent and various other sectors the remainder. Per capita GDP is approximately R130 but the distribution is very skewed due to the existence of a dual economy; it is estimated that per capita GDP in the Swazi sector is only approximately R84, whereas per capita GDP in the modern sector is substantially higher due to higher salaries and wages paid to expatriate labor. The visible balance of trade is positive (exports of R56,034,000 in 1971, imports of R47,824,000) but the nature of the monetary arrangements (i.e., a member of Southern African Customs Union) means Swaziland cannot have either a surplus or deficit on its overall balance of payments, as conventionally defined for more than a brief period. Among the major invisible items are customs union receipts and repatriation of profits.

Public revenues have risen sharply since a renegotiated Customs Union Agreement with South Africa came into effect in 1969. Receipts totalled R10.4 million in 1968/69 and rose to R17.9 million in 1971/72. The 1972/73 estimates are R23.1 million. This increased revenue has permitted a balancing of the budget, the creation of a reserve fund and a sizeable expansion in public expenditure from R14.86 million in 1968/69 to an estimated R21.49 million in 1972/73, an average annual growth rate of 13 percent. Future growth in revenue will undoubtedly be more modest reflecting the real growth of the economy rather than exceptional circumstances.

Banking statistics show that deposits have risen from R10.9 million on September 30, 1968, to R26.9 million on December 31, 1971, while lending had grown from R14.3 million on September 30, 1968, to R25.1 million on December 31, 1971. The growth in both deposits and lending indicates increasing economic activity and a rising level of domestic savings.

^{1/} The original loan paper contained the general background material on Swaziland which is not repeated here. Instead a selective updating of current economic data is presented.

^{2/} 1 Rand = \$1.50

The majority of the working age population is not in paid employment in Swaziland or elsewhere. The 1971 mid-year estimate for the working age African population is 233,427. Total employment within Swaziland including the self-employed and employees of private households, was estimated at 56,000. Of this, approximately 47,000 were in wage employment. In addition, it is estimated that approximately 15,000 were employed abroad. The agriculture sector accounts for about 37 percent of total paid employment.

C. Present Development Plan

The Second National Development Plan, prepared in 1973, sets forth the policies and programs which the GOS intends to follow during the period 1973-1977. These policies and programs are guided by two broad purposes; first, to promote the widespread participation of the Swazi people in development in order to improve the general standards of living; and secondly, to achieve a greater measure of independent control over the economic affairs of the nation. To achieve these purposes, policies and programs have been developed by the GOS in agriculture and the financial sectors with the following aims:

1. to promote the progressive transformation of traditional agriculture from subsistence to semi-commercial and commercial farming, both to create more opportunities for gainful employment and to raise incomes in the rural areas;
2. to increase employment opportunities as rapidly as possible both through emphasis on rural development and through measures to expand wage employment and self-employment in the modern sector;
3. to establish and strengthen the institutions and instruments necessary to a modern and independent government for the effective guidance and control of the economy;
4. to continue the diversification of external economic relations, both in trade and in aid.

To carry out these aims, the GOS plans to invest R42.7 million in capital expenditures over the next three years from 1973 to 1975. During the course of the Plan, the program will be expanded to cover the final two years 1976 and 1977. This investment program will be supported by an increase in the recurrent expenditure of key development ministries (agriculture, education, health, public works, etc.) in order to allow the ministries to expand their services.

As a result of the government's development program and the expected expansion of output and investment in the private sector, the rate of growth in gross domestic product is estimated to be 5 percent per annum during the Plan period. However, the rate of growth depends to a great extent upon increased production and continuing access to the markets of the developed world for Swaziland's primary commodity exports and an increase in foreign assistance, particularly, in agriculture and institution building.

Table I

SWAZILAND

Second National Development Plan

Public Investment Program, 1973 - 1975/1976
(Rand)

<u>Category</u>	<u>Amount</u>	<u>Percent</u>
Government Administration	2,883,500	6.77
Law and Order	1,305,344	3.06
Community Services	9,174,242	21.53
Water and Sewage	3,418,642	
Housing	3,040,600	
Other	2,715,000	
Education and Training	4,397,128	10.32
Health	1,080,547	2.54
Agriculture and Forestry	8,119,857	19.05
Transport and Communication	7,167,976	16.82
Industry and Power	8,352,000 ^{1/}	19.60
Commerce	<u>133,055</u>	<u>.31</u>
	R42,613,649	100.00

^{1/} Includes R5,149,000 for a Thermal Power Station.

Source: Second National Development Plan 1973-1977 GOS pp245-251

D. Relationship to U.S. Assistance Strategy

The objectives of the A.I.D. program for the southern African countries are based on the Secretary of State's policy statement "U.S. and Africa in the 1970's." Basically the policy is to assist small land-island countries with multi-racial and majority controlled governments to maintain their independence, stability and economic development and achieve self-sustaining growth. In support of these objectives the U.S. assistance strategy for Swaziland is to concentrate on the development and growth of the agriculture sector. This project is intended to increase agriculture production of small farmers by providing the credit required to purchase improved inputs. This type of assistance is a necessary component of GOS plans for transforming the agriculture sector from traditional peasant subsistence orientation to a modern market oriented production system.

E. Borrower and Executing Agency

The Borrower is the Government of Swaziland. The implementation of the project will be the responsibility of the government-owned Swaziland Credit and Savings Bank (SCSB). The GOS Ministry of Finance will relend the proceeds of the A.I.D. loan to the SCSB on the original loan terms, which will in turn make credit available to small farmers to purchase improved inputs.

II. The Agricultural Sector

A. Structure and Land Utilization

As indicated, agriculture continues to be the most important sector in the Swaziland economy accounting for almost one-quarter of the GDP and two-fifths of domestic exports. Over 70 percent of the population derives its income and livelihood directly from crop and livestock production or from the processing of agricultural products.

However, a high degree of economic dualism exists in agriculture between the modern, large-scale estate segment and the small scale traditional segment. While the modern and traditional elements make roughly equal contributions to GDP, the latter utilizes approximately four times as much labor. The modern segment is largely expatriate, is highly capitalized and is highly productive. The traditional sector utilizes much less capital and operates at a low productivity level.

Approximately 55 percent of the country's total area is held by the Swazi nation or Swazi Government; the remainder is held under freehold title mainly by non-Swazi landowners. Swazi nation land is owned communally by the Swazi people but vested in the King. The local chiefs allocate to individuals for family occupancy and grant communal grazing rights. Individuals are rarely deprived of their land use rights, even in cases of prolonged absence. Land use rights pass to children after death. While the existing type of land use hampers the development of the Swazi traditional sector, current government programs have been established to alleviate the problem. However, even without land reform, considerable scope exists for yield improvements through the application of modern farming techniques, fertilizers and improved seed.

In 1970 approximately 12 percent of Swazi nation land was under cultivation with maize by far the most important crop (occupying over 75 percent of the cultivated area) followed by groundnuts and sorghum. Approximately 7 percent of freehold land was under cultivation in 1970 with sugar cane, cotton and maize occupying the largest area. (In value terms, sugar cane, cotton, citrus, rice and potatoes rank ahead of maize. ^{1/}) Permanent grazing areas and other land accounts for almost 85 percent of Swazi nation land and approximately 70 percent of freehold land. However, over 80 percent of the cattle and small stock use Swazi-owned land with resultant deterioration of Swazi nation grazing areas.

B. Development Policy

It is with the above factors in mind that the GOS has established as its most pressing priority the need to increase investment, expand managerial skills and raise land and labor productivity in the traditional agricultural sector. According to the Second National Development Plan 1973-1977, "The first aim of agricultural policy is to assist Swazi farmers in making the transition from subsistence activity to semi-commercial and commercial farming." Fulfillment of this aim will require:

1. the continued promotion and expansion of the program for consolidation of land holdings, resettlement and creation of basic physical infrastructure in rural areas;
2. strengthening the framework of basic services, particularly agricultural and animal husbandry extension, crop and livestock marketing, credit facilities and producers' cooperatives;

^{1/} Swaziland currently has a quota of 30,000 short tons of sugar under the U.S. Sugar Act. This represents approximately 16 percent of Swaziland production.

3. increasing the marketed production of key food and cash crops (especially maize, cotton and tobacco) by Swazi farmers, primarily by raising crop yields per acre and by introducing more farmers to cash farming.

C. Development Programs

The agricultural investment program to achieve the aims contained in the Second National Development Plan is framed in terms of area, and to a lesser extent, commodities. The primary areas for concentration are the six rural development areas (RDAs) with particular emphasis being given to the northern (1800 families), central (4,620 families) and southern (15,060 families) RDAs. The principal commodities on which efforts to increase production will be focused are maize, cotton, tobacco and cattle, especially for beef production.

1. The RDA Program

The RDA program combines the process of physical reorganization and rationalization of land use with the provision of improved services to farmers. The initial step is physical reorganization to achieve rational resources management and utilization on the basis of land use plans and the provision of additional infrastructure. These changes are followed up by an intensified extension effort, the introduction of new and improved crop inputs, provision of credit and establishment of marketing facilities.

The physical reorganization involves the consolidation of land holdings, separation of farming and grazing areas, homestead relocation where necessary, road construction, soil and water conservation measures, rotational grazing plans for grazing and development of water resources through small dam construction.

Over a period of time the intensified extension effort will be accomplished in each of the RDAs by the expansion of staff, to the following levels:

- 1 Project Manager
- 2 Agricultural Extension Officers (one each for cereals/legumes and cash crops)
- 1 Livestock Officer
- 1 Field Officer per 200 families
- 1 Assistant Co-operative Officer - Credit
- 1 Assistant Co-operative Officer - Marketing, Workshop and Mechanical Staff

In the northern RDA which is the furthest along toward final development and which is being supported by USAID financed equipment (see original Capital Assistance Paper for description of equipment) and technical assistance personnel^{1/}, the following had been accomplished as of July 1973:

Land terraced (acres)	1,910
Arable land consolidated (acres)	900
Fencing erected (kms)	53.3
Farms reallocated, resited or rebuilt	286
Roads constructed (kms)	30.5
Irrigation reservoir - constructed	3
Potential irrigation fully developed (acres)	64
Destocked cattle sent to fattening ranch	358
Cooperative marketing and warehouses constructed	1
Chiefdoms requesting RDA action (7 in area)	7

Source: Progress report on Swaziland Rural Development Project and Swaziland Agricultural Development Loan.

2. The Crop Promotion Program

The crop promotion program is based on an improved extension effort resulting from (a) increasing the concentration of staff in progressive areas; (b) enabling individuals to specialize in a few extension tasks tied to a specific crop or farming operation; and (c) increasing the professional supervision and in-service training of basic staff. A UNDP/FAO Crop Production Extension Project is in the early stages of implementation to supply additional skills in maize, cotton and tobacco production and to initiate a program of in-service training to upgrade existing Field Extension Officers.

The activities will be carried out within the framework of an expanded Crop Promotion Project with special attention focused on the RDAs, including, as necessary, redeployment of staff. The scheme, which provides extension advice accompanied by a package of improved inputs including seed, fertilizer, insecticides and sprayers (supplied if necessary on credit) will be expanded from its original emphasis on cotton to include maize and tobacco.

1/ A.I.D. contract personnel providing part-time services to the Northern RDAs are two soil conservation engineers, a heavy equipment shop foreman, an animal husbandry officer, a range management specialist and an agricultural marketing research officer.

Over the next three years, two extension technicians in cotton production and two in maize production will be assigned to each district - each major RDA will have one cotton and one maize production officer. The southern RDA will, in addition, have one of the two tobacco production officers assigned to the Shiselweni district.

D. Supporting Services

In addition to the Ministry of Agriculture extension services which have already been mentioned and the Swaziland Credit and Savings Bank which will be discussed in the following section, the co-operative movement has a major role to play in the development of agriculture. Among small rural producers there is a growing need for forms of joint organization to operate common supply, production, marketing and credit services. However, the growth of agricultural cooperatives has been slow. At present there are 27 agricultural cooperatives in Swaziland with an additional 100 farmer associations. The central problem facing the expansion of cooperatives is lack of (total of 21) trained cooperative officers and their limited mobility. Nevertheless, there are plans to utilize existing farmers' sheds and depots (currently operated by the Ministry of Agriculture) as focal points for the formation of new cooperatives and to convert viable farmer associations to cooperatives. It is anticipated that the number of cooperatives will thus be doubled by 1976. Cooperative marketing will be emphasized initially in the RDAs.

Another group of cooperatives which hold some potential as a mobilizer of rural savings and a supplier of credit to farmers is the Savings and Credit Cooperatives which are now being formed. Approximately twenty are in existence and five more are being organized, some in rural areas. The GOS plans to encourage these organizations and provide a small amount of aid to supplement the funds raised by local savings.

E. Agricultural Marketing

To date, the GOS role in agricultural marketing has been very small. The private sector is responsible for all marketing activities except for the operation of certain controls aimed at market regulation. Given the success of the system, which due to the Customs Union Agreement ties Swaziland production to the controlled marketing arrangements operating in the Republic of South Africa, any changes in the near future are unlikely. The principal problems facing Swazi farmers are not the availability of markets or market prices. Instead, it is the physical and organizational problems of moving the many available small surpluses from the farm to the nearest marketing center. A subsidiary problem is quality control.

The Ministry of Commerce and Co-operatives has set up a small marketing section to focus on small farmers marketing problems. Initial efforts will be concentrated in the RDAs to assist in bulking up surpluses and in arranging transport to markets. A pilot scheme is already operating in the northern RDA. An important part of this effort will be an attempt to improve the quality of small farmer produce and consequently price.

For the major crops a brief description of the marketing system follows:

Maize: Over the past five years Swaziland has been forced to import varying quantities of maize to meet domestic requirements (15,000 - 25,000 tons annually). To stimulate production, and achieve self-sufficiency, a minimum price of R38.50 per ton has been established. The Swaziland Milling Company has been designated by the government as the sole maize purchasing agent and is required to buy all maize offered for sale at the guaranteed price. A number of buying points are scattered throughout the country and as more small farmers become commercially oriented it is expected that the attractive price will draw greater quantities into the marketing system.

Cotton: There are three competing outlets for cotton produced in Swaziland. The first is a ginnery in Swaziland which maintains three storage depots and has two buyers in the field to purchase directly from the farmers. Payment is based on grade. The other two outlets are ginneries in South Africa which offer heavy competition, particularly, in certain border areas, and for title deed cotton of higher quality. It is GOS policy to encourage use of the local ginnery which operates at 50-60 percent of capacity.

The ultimate market for all (except local consumption) of even locally ginned cotton is the Republic of South Africa. The South African market can readily absorb exported Swaziland production although substantial improvements in the quality of Swazi medium staple cotton would be necessary before it could and would actually compete with other cotton entering the South African market.

Tobacco: All tobacco produced in Swaziland, except that consumed locally, is exported to the Republic of South Africa. The Nhlanguano Tobacco Co-operative in Swaziland handles two-thirds of Swazi production including all production from small Swazi farmers. In South Africa, Swazi tobacco competes with home production and duty-free imports from Malawi and Southern Rhodesia. Because the type of tobacco produced in Swaziland, mainly dark air-cured pipe tobacco, is in considerable demand in South Africa, it is expected that all Swaziland production will enter that market for the foreseeable future.

III. Financial Institutions

A. Background

As previously discussed, one of the aims of the current development plan is to strengthen the system of institutions and measures affecting the flow of domestic financial resources as a necessary step towards economic independence. In 1968 when Swaziland achieved political independence, few of the institutions or the legislative framework necessary for the mobilization of domestic capital existed. Savings from corporate and personal incomes were placed for the most part in foreign capital markets, reflecting partly the lack of suitable instruments for investment and partly the absence of legislative requirements governing the holding of domestic assets by financial institutions.

Since independence, three major development finance institutions have been established by the GOS to serve as domestic sources of short-term, medium-term and long-term finance. At the same time, the instruments for the promotion of domestic savings such as savings accounts, bond issues and home mortgages have been developed and made available to the general public in an effort to generate increased savings for domestic investment purposes.

B. Central Bank and Monetary Policy

Swaziland does not have a central bank. However, as part of the Southern African Customs Union, which includes the Republic of South Africa, Botswana, and Lesotho, Swaziland is subject to the effects of the monetary policy of the Reserve Bank of South Africa, since this bank holds the gold and foreign exchange for the area. While within the area, funds and goods are freely circulated, the area is not a monetary union. No formal agreement governs monetary relations among the countries of the area. Relations are regulated by past practice or informal understandings. Recently, Swaziland, Lesotho, and Botswana have entered into discussions with South Africa in order to negotiate a monetary agreement which would assure that respective legitimate interests are taken fully into account in the management of the common currency area.

C. Current Institutions

The present structure of savings and credit institutions reflects the economic dualism within the country. First, there is a small set of financial institutions established to meet the credit demands of the modern sector. These include two commercial banks - Barclays Bank DCO, and the Standard Bank Limited - which are directly controlled from head offices in South Africa and the

United Kingdom, the Swaziland Building Society and offices of a number of South African insurance and installment finance companies. The demand for the services is substantial - the increase in loans by the two commercial banks has been almost 50 percent over the past two years, and the Swaziland Building Society, which is incorporated in Swaziland and provides mortgage finance to middle and upper income levels is increasing its liabilities and assets at a similar rate. Credit from commercial banks is limited by the terms of lending which require the availability of conventional security. Within these limitations, however, all demands for credit are met, even if funds have to be transferred from outside Swaziland.

A second set of financial institutions has been established and encouraged by the GOS to meet present development needs and support small scale enterprises. These institutions include the National Industrial Development Corporation (NIDC) which was established in 1971 by the Ministry of Commerce and Industry to promote and finance large scale industry, and the Small Enterprise Development Company (SEDCO) which was established in 1970 to provide credit to small business concerns and local enterprises. The third and most important institution established is the Swaziland Credit and Savings Bank (SCSB) which was organized in 1965 to provide finance for agriculture, housing and small business. Agriculture is its most important field of operations. The SCSB is discussed in detail in the following section.

IV. The Swaziland Credit and Savings Bank

A. Organization

1. Establishment

The Swaziland Credit and Savings Bank (SCSB) was legally established in March, 1965 and began operations on August 4, 1965. The SCSB is government-owned and controlled and administered by the Ministry of Finance.^{1/} The SCSB currently operates five branches (and plans to open a sixth in 1974/75) and three credit advisors' field offices. (See Annex II organizational chart.)

2. Management and Staff

The SCSB law provides for a Board of Management consisting of a chairman and six other members appointed by the Minister of Finance. The General Manager of the Bank may be a member of the Board. The current Board consists of the Permanent Secretary,

^{1/} The Ministry of Finance is currently reviewing a revised charter for the Bank consistent with the Lowe Report (A.I.D. provided consultant).

Ministry of Finance, as Chairman, the Permanent Secretary from the Department of Economic Planning, the Director of Agriculture from the Ministry of Agriculture, a representative of the King of Swaziland, two Swazi businessmen and a Swaziland farmer.

While the General Manager exercises considerable authority in day-to-day SCSB operations, the rather detailed provisions of the Bank law and the requirement that loans in excess of R10,000 be approved by the board narrows the range of decisions which can be made.

The current General Manager has occupied his position since the SCSB's inception. Prior to his appointment he had wide commercial banking experience in other parts of Southern Africa and experience in agricultural marketing. The Bank's current sound financial condition testifies to his ability to effectively direct and develop a financial institution.

As of August 1, 1973, the SCSB has a total staff of 64, of whom approximately 35 percent are professionals. Five are expatriates. (See Annex III for Management bio-data.)

The SCSB currently offers very competitive salaries and is able to attract and retain appropriate medium level Swazi staff for whom it provides training opportunities. (Seven staff members, including an A.I.D.-financed short-term participant in agricultural credit, benefited from specialist training obtained outside the SCSB in 1972/73.)^{1/} However, senior level Swazi staff are largely unavailable and there will be continuing need for internationally recruited staff while Swazi nationals are recruited and trained. In the field of agricultural credit, USAID has been requested to provide, under the OPEX project, a senior agricultural credit advisor to the SCSB to help strengthen and guide the developing agricultural credit program. It is A.I.D.'s intention to provide this advisor if the OPEX project and this loan amendment are approved. The credit advisor will assist in designing and administering programs aimed at expanding the amount of credit utilized by the Swazi small farmer sector. A key component of his assistance would be to provide on-the-job and, as necessary, formal training to SCSB agricultural credit staff.

^{1/} Additional A.I.D.-financed training will be provided in appropriate areas (agriculturally related) to available SCSB candidates as opportunities arise. If the OPEX advisor is provided, participant training for counterpart staff will be a part of the package.

B. Policies

1. Lending Policy

According to the law establishing the SCSB, loans may be made for any of the following purposes: 1/

- a. The development, purchase, maintenance and improvement of lands.
- b. The discharge of liabilities incurred in respect of the development, purchase, maintenance and improvement of lands.
- c. The discharge of prior incumbrances on land.
- d. The payment of labor and the purchase of supplies and machinery to plant, irrigate and cultivate lands and to reap and make merchantable the crop or produce thereof.
- e. The purchase of livestock and of manure and fertilizers.
- f. The erection and repair of buildings.
- g. The financing of any trade, business or industry.
- h. The payment of premium of insurance insofar as such insurance^{is} related to buildings, factories and machinery erected and standing on the lands and used in connection with any crop, trade, business and industry.
- i. Any purpose, incidental, accessory, or ancillary to any of the foregoing purposes.

In operating practice the Bank has given priority to agricultural lending with approximately two-thirds of the value of all new loans over the past 5 years going for that purpose. The amount lent for agriculture amounted to 71 percent of total new lending in 1971/72. In 1972/73 the corresponding figure was 59 percent. According to a recent SCSB paper, the Bank's "principal objective in agricultural sector is to foster the effective use of credit so as to increase agricultural output."2/

1/ Swaziland Credit and Savings Bank Law, 1965 as amended 16 January 1970.

2/ Quote from a paper by SCSB staff on "The Role of the Swaziland Credit and Savings Bank in Agriculture."

2. Lending Terms and Interest Rates

The law establishing the SCSB gives the Board of Directors broad powers to establish loan limits, security requirements, loan periods and interest charges. The only limitation is that the Minister for Finance may, through a gazetted notice, declare a minimum rate of interest.

In practice, the Bank makes a few large loans, requires adequate collateral to cover the SCSB in the event of forced liquidation, is flexible on loan periods to meet needs and generally charges slightly lower interest rates than do the commercial banks.

In the agricultural sector, seasonal loans to small Swazi farmers are made at 6 percent. Longer term loans (up to 5 years), are made primarily for equipment at 9 percent. This compares with 10-12 percent charged by commercial banks.

At the moment a subsidy is built into the low seasonal rates, since SCSB's management believes that small farmers are sensitive to interest rates and a low rate is necessary to encourage expanded use of credit. According to the Development Plan, "Swazi farmers have proved to be very sensitive to interest rates on loans." The SCSB estimates that at a higher volume of lending, which it believes it can achieve by 1975/76, it can break even on small farmer seasonal loans. ^{1/}

3. Small Farmer Credit

One of the primary responsibilities of the SCSB is the provision of agricultural credit to the Swazi sector. Because commercial banks are not interested in dealing with this low volume, high overhead, high risk group, the SCSB is the only available source of funds. However, as the SCSB's total lending has grown, amounts lent to the small farmer sector have not grown correspondingly for reasons of staff, administrative costs and difficulty in making and collecting small loans. In 1972/73 about 830 applications from small Swazi farmers were approved. The amounts of credit extended have remained approximately the same (R200,000).

^{1/} The SCSB calculates that the cost of administering the small farmer loan program is approximately R50,000. Therefore, given the current cost of funds to the SCSB and the interest rate charged, the break-even loan volume in the small farmer program is somewhat over R1,200,000.

Significantly, the SCSB has recently laid the groundwork for a substantial expansion. New branch offices have been opened and the number of agricultural credit staff has been increased from 6 in 1972 to 11 at present.

The SCSB buildup coincides with increasing government concern and expanding government agricultural programs requiring credit. In turn, a successful, expanded credit program requires a high degree of coordination and cooperation between the SCSB and the appropriate ministries. At an earlier stage this coordination was less than optimal but in recent months new relationships are emerging. The SCSB is working particularly closely with the Ministry of Agriculture in the northern RDA.

In all areas, the Ministry of Agriculture staff has invited SCSB local branch managers and credit advisors to monthly staff meetings. The SCSB Credit Advisor is to notify the appropriate Ministry of Agriculture Field Officer when he is going into each area. Similar relationships are being established with cooperative personnel. 1/ Combining these steps with the involvement of field officers and cooperative staff in credit application preparation results in the type of coordination which can only have a positive effect (see section IV.C.1 for additional discussion).

1/ A recent seminar for the Ministry of Agriculture staff, Ministry of Commerce and Cooperatives staff and SCSB staff recommended that:

1. All credit should ideally be channeled thru cooperatives (see No. 6).
2. Local Advisory Committees (LAC) should be reorganized to involve local chiefs (see No. 9).
3. The SCSB is to organize a yearly course for field officers and cooperative staff in SCSB banking procedures and requirements.
4. The Ministry of Commerce and Cooperatives is to organize a course for field officers in agricultural marketing.
5. The existing cooperatives should clarify their dealings with non-members.
6. Credit should continue to be provided through all channels with a view towards cooperatives in the long run.
7. The Field Officers, Assistant Cooperative Officers and Credit Advisors should meet regularly.
8. The cooperative effort will initially be concentrated on pilot schemes.
9. The local chief should be fully involved with the LAC, and, if a farmer, made an ordinary member of the LAC.
10. The Field Officer, Assistant Cooperatives Officers and the Credit Advisors shall formulate a coordinated credit education program for small farmers in each area.

C. Procedure for Processing and Monitoring Agricultural Loans

1. Seasonal Loans

Under normal procedures, the small farmer completes his application for seasonal credit with the assistance of a Ministry of Agriculture Field Officer, and in the case of cooperatives, the Assistant Cooperative Officer assists with the application. (See Annex IV for copy of application.) ^{1/} The farmer then submits the completed application to the nearest SCSB branch or Credit Advisor's Field Office. In turn, the Field Officer must prepare a confidential report on the applicant which is submitted to the SCSB separately and which contains his comments and recommendations. Once the application and the confidential report are received by the SCSB, necessary processing/review to ensure that the application is completely and correctly completed is undertaken in preparation for the meeting of the Local Advisory Committee (LAC). The LAC is appointed by the District Commissioner at the request of the SCSB and normally includes, in addition to the DC, an agricultural officer, one or two community leaders and the SCSB's credit advisor for the area. The functions of the committee are to provide information to the SCSB on the credit worthiness of applicants based on their knowledge of the applicants and to make recommendations on their applications.^{2/} The application is then forwarded to the SCSB branch which has discretionary loan approval authority up to a specified amount (R1,000 for agricultural loans). Normally the branch follows the recommendations of the LAC.

^{1/} The application must include the recommended input amounts for the entire acreage for which credit is requested, i.e., the farmer must show on the application that he will have available the recommended amounts of seeds, fertilizer, insecticides, etc. He cannot apply for amounts which when added to his own supplies total less than the recommended amounts nor can he apply for inputs for only a portion of the acreage he expects to have^{of} a particular crop. In this manner, the SCSB ensures that the input application will be correct and lead, under normal conditions, to yield increases which will more than cover the input costs.

^{2/} It was recommended at a recent two-day seminar held among SCSE, Ministry of Agriculture and Ministry of Cooperatives' staff that the committee be reorganized to include representatives sent by the local chiefs, i.e. carry localization to an even lower level.

Applications for agricultural loans in excess of R1,000 are forwarded to the head office of the SCSB in Mbabane. The head office has discretionary loan authority up to R10,000. Loans over this amount and any questionable applications for lesser amounts are submitted to the board for their decision. ^{1/} The normal loan approval process requires from one week to ten days.

Once the loan is approved the farmer applicant is notified and provided with vouchers which he can use to secure the required inputs from local dealers. For certain crops small amounts of cash for labor or tractor/oxen hire are provided.

Supervision of borrowers is the joint responsibility of the Ministry of Agriculture Field Officer and the SCSB Credit Advisors. The Field Officer has the responsibility to see that proper techniques and practices are used in land preparation, planting, crop husbandry and harvesting. The Credit Supervisor is concerned with the utilization of loan inputs, the status of the crops estimated yields and loan repayments. Obviously, there is overlap and a need for coordination.

All seasonal loans are secured, usually by cattle. The SCSB brands the cattle but leaves them with the farmer. Upon final loan repayment the SCSB brand is cancelled. If a loan cannot be repaid as scheduled for a valid reason (crop failure) the SCSB usually extends the loan for another season.

2. Medium and Long Term Loans

The SCSB also provides medium term loans of up to five years for farm machinery. Certain agricultural development projects are eligible for long term loans of up to 10 years. Any loan application in excess of R500, which includes nearly all of medium and long-term loans, must be accompanied by an estimated cash flow table to ensure economic viability of the project. Processing, supervision and monitoring of these loans is basically the same as for seasonal loans.

3. Overdue Loan Monitoring

A past-due report is prepared monthly by each branch listing all loans 30 days or more overdue. All loans in the amount

^{1/} Since seasonal loans under this proposed loan amendment are restricted to R500 or less most approvals will be at Branch level.

of R500 and above and all past-dues 18 months and over in excess of R50 are reported monthly to the head office. Past due loans not falling in the above categories are reported by number and amount. A representative of the head office visits each branch monthly and reviews the past-due report. All past-dues of R1,000 and above and all past dues of 18 months and over in excess of R50 are reported monthly to the board of directors.

Loans over-due at March 31, 1973, totalled R221,584 in value and 692 in number. By number, approximately 32.2 percent are over-due 30 days or more; by amount only 5.6 percent are overdue. Bad debt losses have been very low, under 1 percent of loans.

4. Accounts and Audits

The SCSB Act provides that, "The Bank shall keep proper books and accounts in English which shall be audited annually by an auditor appointed by the Board..." For the past five years the annual financial statements of the SCSB have been audited by Messrs. Alex, Aiken and Carter and received an unqualified opinion as to accuracy.

D. Resources, Operations and Demands^{1/}

1. Resources

As of March 31, 1973, the unrecallable capital of the Bank totalled R1,000,000 which included R650,000 provided by the GOS in 1972, and loans to the SCSB by the GOS (R1,613,459), the UK (R775,000) and A.I.D. (R186,986) totalled R2,575,453. In addition the Bank had R1,680,074 in savings and other deposits and Bank overdraft facilities of R650,000. Allowing for the 50 percent reserve requirements on deposits the SCSB thus had potential loanable resources of over R5,000,000.

2. Current Operations

During the most recent fiscal year (April 1, 1972 - March 31, 1973), the SCSB made a small profit of R29,029. Gross income rose from R317,892 to R401,722 while administrative expenses rose from R172,443 to R223,931. During the year the number of savings deposits rose to 15,233 from 11,389 a year earlier

^{1/} See Annex V SCSB Financial Statements for past five years, and Annex VI SCSB Consolidated Quarterly Loan Report

and deposits rose by R68,833 to R1,403,556. The number of loans outstanding totalled 2,148 at year end amounting to R4,257,270 compared to R3,085,068 a year earlier.

The average cost of money to the Bank was approximately 2.2 percent and its average return on loans and investment was 6.8 percent.

The SCSB balance sheet as of March 31, 1973, is summarized as follows: 1/

<u>Assets</u>	<u>Rand</u>	<u>Liabilities</u>	<u>Rand</u>
Cash	14,474	Bank Overdraft	177,943
Balance with Other Banks	18,930	Creditors	108,154
Other Current Assets	<u>73,992</u>	GOS Short Term Loan	<u>28,532</u>
Total Current Assets	107,396	Total Current Liab.	314,629
Cash in transit between branches	10,181	Deposits (Savings)	1,680,000
		Domestic Loans (GOS)	1,613,459
		Foreign Borrowings	961,994
		Equity:	
Loans	4,257,270	Grants	1,000,000
Investments <u>2/</u>	971,082	Reserves	<u>34,672</u>
Fixed Assets	258,899	Total Equity	1,034,672
Total Assets	5,726,183	Total Liabilities	5,726,183

1/ The balance sheet presents a healthy picture except for the ratio of current assets to current liabilities which is almost 1:3. However, this is overstated because the investments amount includes an unspecified sum at short call which could also be considered a current asset. The rate of equity to long-term foreign debt is approximately 1:1 which gives the SCSB considerable ability to secure additional foreign capital.

2/ Includes funds at short notice.

Source: Swaziland Credit and Savings Bank Eighth Annual Report 1973.

3. Future Operations and Repayment Prospects ^{1/}

It is difficult to forecast the future performance of the SCSB given the rapidly changing Swaziland situation. Available estimates are for loans to increase to R6,000,000 annually by 1976, but it appears that this estimate may be conservative. Similarly, it is projected that SCSB income will rise to R534,000 in 1976. Taking into account 1973 performance it is likely that 1976 income will be closer to R600,000 with profits also slightly higher than the projected R24,000. Gross reserves amount to over 7 percent of total assets in 1976 with profits at approximately 2 percent of total equity. Administrative expenses will amount to approximately 3.8 percent of assets and financial expenses to about 3 percent. The expected interest income exceeds projected interest payments by approximately 2:1 in 1976. Debt repayments are also more than adequately covered.

4. Small Farmer Credit Demands

As shown in Table I, the estimates of future loan activity of the SCSB in the Swazi small farmer sector are substantial. However, the SCSB regards them as conservative and well within the SCSB targets of each field credit advisor handling 300-600 loans averaging Rand 200-300 each. The utilization of cooperatives as they are formed and strengthened will facilitate even more rapid growth.

^{1/} See Annexes VII and VIII for projected income statements and balance sheets through 1976.

TABLE II: Estimates of Future Loan Activity of SCSB in Small Farmer Sector

Seasonal Small Farmer Loans	<u>1971/72</u>	<u>1972/73</u>	<u>1973/74</u> ^{1/}	<u>1974/75</u> ^{1/}	<u>1975/76</u> ^{1/}
1. Mbabane	R -	R 35,000	R 30,000	R 50,000	R 80,000
2. Manzini	-	60,000	100,000	180,000	250,000
3. Nhlangano	-	60,000	100,000	150,000	200,000
4. Siteki	-	30,000	60,000	100,000	110,000
5. Piggs Peak	-	4,000	50,000 ^{2/}	120,000 ^{2/}	180,000 ^{2/}
6. Hslatikulu	<u>-</u>	<u>-</u>	<u>-</u>	<u>50,000</u>	<u>100,000</u>
Sub-Total	R 190,000	R 189,000	R 340,000	R 650,000	R 920,000
Loans in Connection with Government Schemes	R 220,000	R 230,000	R 250,000	R 350,000	R 400,000
Livestock Loans	R -	R -	R 30,000 ^{3/}	R 50,000 ^{3/}	R 100,000 ^{3/}
TOTAL	R 410,000	R 419,000	R 620,000	R1,050,000	R1,420,000
	New Capital Required	<u>R201,000</u>	<u>R430,000</u>	<u>R370,000</u>	

^{1/} Projected

ONE RAND = \$1.50

^{2/} Includes Northern Rural Development Area where major effort will be made.

^{3/} SCSB Advances R50 for each head of livestock placed on Government Holding (fattening) areas. Program is growing in popularity and will expand much more rapidly if programs for destocking Swazi lands down to recommended levels are implemented successfully.

V. The Loan

A. General

The funds provided under this loan amendment will be specifically directed to small Swazi farmers and utilized primarily for the production of cash crops such as maize, groundnuts, tobacco, and cotton for which the returns to additional investments are substantial and for which there are good markets. The funds will help the SCSB meet the growing requirements for agricultural credit as shown in Table II. We would expect, based on the estimates of credit requirements, that the loan would be completely utilized by the end of the 1974/75 growing season.

B. Loan Limitations

In discussions with the SCSB it was agreed that the utilization of the loan would be limited to (a) meeting credit requirements, including seasonal and equipment loans, in the RDAs, (b) seasonal input loans of R500 or less per farmer in non-RDAs; and (c) equipment or seasonal loans to farmers associations or cooperatives. With these limitations the loan will meet A.I.D. concern for support to small Swazi farmers, will support other A.I.D. assistance to the RDAs, and will encourage the formation of farmer groups thus facilitating future channeling of agricultural credit. No attempt has been made to allocate a certain percentage of the loan to each of the eligible areas, because (1) the above limitations are adequate to ensure the appropriate effective use of the funds provided, and (2) it would place an additional administrative and accounting burden on the SCSB, while restricting their flexibility to meet credit needs as they develop. SCSE plans to use the majority of the funds for seasonal credit requirements both within and outside the RDA areas. The above limitations will be incorporated in the amended loan agreement project description.

C. Benefits

Based on an average loan of R160 (actually higher than the current average which is approximately R100) approximately 2,000 small farmers are expected to benefit from the A.I.D. provided funds in the first year. Because a considerable portion of the funds will roll over each season a similar number of small farmers will benefit in succeeding years.

Annex IX shows some illustrative farm budgets for loan applicants. As indicated, the incremental rates of return on investment range from 48 to 76 percent. Based on the average difference in farm income with and without the utilization of loan funded inputs (R70), the net increase in income on the part of the participating farmers (2,000) should be approximately R140,000 (\$210,000) annually.

D. Ability to Repay

Swaziland's total outstanding public debt on March 31, 1972 amounted to about R17 million (\$25,000,000), or 24 percent of estimated GDP in 1970/71. For 1972/73 total debt service payments (repayment of principal and interest) amounted to R1,038,868, or approximately 5 percent of the total recurrent government revenue and less than 2 percent of exports.

During the period of the Second National Development Plan, the Government of Swaziland hopes to obtain an additional R20 million (largely on concessional terms) to finance capital expenditures in the Plan. However, the relatively low current national debt, the balanced GOS budget and the rate of economic development all indicate that Swaziland can handle an even larger amount according to conventional measures and should be able to service its planned debt during the 1970s with little difficulty. 1/

VI. Effect on U.S. Economy, Private Enterprise, and Environment

A. Effect on U.S. Economy

This loan has already had a beneficial effect on the U.S. economy since approximately \$1.7 million of the original loan was used to procure heavy equipment in the U.S. However, up to \$400,000 of the original loan and the total \$500,000 of this loan amendment will be disbursed for local currency costs by buying Rand through the U.S. Disbursing Officer for disbursement to the SCSB. This will have a negative effect on the U.S. balance of payments, however, it should be noted that the U.S. has a favorable balance of payments with the Rand currency area as a whole.

B. Effect on Private Enterprise

The proposed loan amendment will have a beneficial effect on private enterprise since it will provide additional credit to the Swaziland Credit and Savings Bank for onlending to small

1/ The IBERD Report Economic Position and Prospects of Swaziland, March, 1971 noted that "Swaziland public debt is relatively low and most of the debt is met by self-liquidating project." However, "the Government will not be able to finance all the local expenditures of future projects and will, therefore, need to obtain a large proportion of the cost of investment projects by foreign borrowing."

scale private farmers. These farmers will use the credit to purchase seeds, fertilizers, insecticides, small tools, farm equipment and implements from privately-owned local agribusiness firms and suppliers.

C. Impact on the Environment

The proposed loan will provide small Swazi farmers with the credit necessary to secure productivity improving inputs. Effective utilization of these inputs implies a greater concern and attention to proper use and conservation of natural resources for sustained production than does cultivation under traditional farming methods. In addition, because conservation practices are a basic element in the RDA program and because the Ministry of Agriculture Field Officers, who will help prepare the loan applications, are keenly aware of the importance of resource conservation, we expect the ultimate impact of the loan on the environment to be positive. (See Environmental annex XI for further discussion.)

VII. Implementation

Loan amendment implementation procedures will be as simple as possible while ensuring the proper and timely use of loan funds. To implement the proposed loan amendment it is essential that a waiver permitting procurement of commodities of Swaziland and Code 935 source and origin be authorized to enable the timely procurement of fertilizer, seeds, insecticides, agricultural lime, farm tools and implements, irrigation pipe, farm equipment and other related agricultural materials. Swaziland obtains its entire supply of nearly all these items from South Africa, a country included in A.I.D. Geographic Code 935. This becomes of overriding significance in a program where the sub-loans will average only \$200-500 each and will be received by small, relatively unsophisticated farmers barely accustomed to utilizing locally established sources. It is expected that all of the commodities will actually be purchased in Swaziland.

A.I.D. will disburse the entire amount of \$500,000 equivalent in Rand to the GOS upon request of the GOS Ministry of Finance and upon receipt from the GOS of appropriate confirmation that the funds will be made available to the Swaziland Credit and Savings Bank for making agricultural sub-loans of the agreed types and that the SCSB will repay such funds to the GOS. The funds will be made available by the Ministry of Finance to the SCSB on the same terms as they are lent by A.I.D. A.I.D. will not approve individual sub-loans in advance but will require that the SCSB, on the quarterly computer print-out of loan activity to be submitted to A.I.D., indicate the loans made utilizing the A.I.D. provided funds, the purpose of the loan, and the amounts of the loans.

CHECKLIST OF STATUTORY CRITERIA
DEVELOPMENT LOAN FUND

Many of the questions require only yes or no answers. Others, however, must be answered more fully. In those cases, a specific reference to explicit discussion of the matter in the loan paper will suffice. But where the loan paper does not deal explicitly with a matter that clearly requires more than a yes or no response, sufficient response must be made to indicate that the matter has been appropriately considered.

The following abbreviations are used in the checklist:

FAA - Foreign Assistance Act of 1961, as amended, incorporating amendments effected by the Foreign Assistance Act of 1971.

App. - Foreign Assistance and Related Agencies Appropriations Act, 1971.

MMA - Merchant Marine Act of 1936, as amended

Space for answers is provided in the margin to the right of each question. This form must be made a part of the Capital Assistance Paper.

I. COUNTRY PERFORMANCE

A. Progress Towards Country Goals

1. FAA §§ 201(b)(5), 201(b)(7), 201(b)(8), 208. Discuss the extent to which the country is:

(a) Making appropriate efforts to increase food production and improve means for food storage and distribution.

(b) Creating a favorable climate for foreign and domestic private enterprise and investment.

(c) Increasing the people's role in the developmental process.

The Second National Development Plan (SNDP) (1973-1977) puts major stress on the progressive transformation of traditional agriculture from subsistence to semi-commercial and commercial farming. Nearly 20 percent of the Public Investment Program for the Second Plan is directed toward agriculture and forestry.

The GOS welcomes foreign private capital for direct investment in productive activities and offers tax incentives, industrial sites, loan and other assistance to investors.

The first purpose of the SNDP is "to promote the widespread participation of the Swazi people in development in order to improve their general level of living and quality of life". The expansion of the RDAs and growing concern for the small farmer are indicative evidence of the GOS commitment to meet-

its people's aspirations.

- (d) Allocating expenditures to development rather than to unnecessary military purposes or intervention in other free countries' affairs.*
- The SNDP allocates 89% of GOS investment program for development activities and has not intervened in other free countries affairs.
- (e) Willing to contribute funds to the project or program.*
- The GOS recently granted approximately \$975,000 to the SCSB in 1972/73. In addition, the GOS has lent the SCSB on favorable terms, an additional \$2+ million
- (f) Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangement; and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.*
- The King recently appointed a constitutional commission to prepare a new constitution more appropriate to the political and social life of Swaziland. Swaziland maximizes its taxable earning capacity from foreign farmers while at the same time provides a healthy climate for free enterprise. The RDA program supported by funds from this loan amendment, is directly supporting a more modern land tenure system.
- (g) Responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.*
- The GOS is committed to development and appears willing to carry out institutional reforms necessary to achieve this end. With the renegotiation of the Custom Union Agreement, the GOS is now able to meet recurrent expenditure and transfer limited amounts to the capital budget.

B. Relations with the United States

1. FAA §620(c). Is the government indebted to any U.S. citizen for goods or services furnished or ordered where: (a) such citizen has exhausted available legal remedies, including arbitration, or (b) the debt is not denied or contested by the government, or (c) the indebtedness arises under such government's, or a predecessor's unconditional guarantee?

No

2. FAA §620(d). If the loan is intended for construction or operation of any productive enterprise that will compete with U.S. enterprise, has the country agreed that it will establish appropriate procedures to prevent export to the U.S. of more than 20% of its enterprise's annual production during the life of the loan?

Not applicable

3. FAA §620(e)(1). Has the country's government, or any agency or subdivision thereof, (a) nationalized or expropriated property owned by U.S. citizens or by any business entity not less than 50% beneficially owned by U.S. citizens, (b) taken steps to repudiate or nullify existing contracts or agreements with such citizens or entity, or (c) imposes or enforced discriminatory taxes or other exactions, or restrictive maintenance or operation conditions? If so, and more than six months has elapsed since such occurrence, identify the document indicating that the government, or appropriate agency or subdivision thereof, has taken appropriate steps to discharge its obligations under international law toward such citizen or entity? If less than six months has elapsed, what steps if any has it taken to discharge its obligations?

(a) No
 (b) No
 (c) No

4. FAA §620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action of U.S. property, and failed to take appropriate measures to prevent a recurrence and to provide adequate compensation for such damage or destruction?

No

5. FAA §620(l). Has the government instituted an investment guaranty program under FAA §221(b)(1) for the specific risks of inconvertibility and expropriation or confiscation?

Yes

6. FAA §620(o): Fisherman's Protective Act of 1954, as amended, Section 5. Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel on account of its fishing activities in international waters? If, as a result of a seizure, the U.S.G. has made reimbursement under the provisions of the Fisherman's Protective Act and such amount has not been paid in full by the seizing country, identify the documentation which describes how the withholding of assistance under the FAA has been or will be accomplished.

Not applicable since Swaziland is not a maritime nation

7. FAA §620(q). Has the country been in default, during a period in excess of six months, in payment to the U.S. on any FAA loan?

No

8. FAA §620(t). Have diplomatic relations between the country and the U.S. been severed? If so, have they been renewed?

No

C. Relations with Other Nations and the U.N.

1. FAA §620(i). Has the country been officially represented at any international conference when that representation included planning activities involving insurrection or subversion directed against the U.S. or countries receiving U.S. assistance? Not to AID's knowledge

2. FAA §§620(a), 620(n); Has the country sold, furnished, or permitted ships or aircraft under its registry to carry to Cuba or North Viet-Nam items of economic, military, or other assistance? No

3. FAA §620(u); App. §108 What is the status of the country's U.N. dues, assessments, or other obligations? Does the loan agreement bar any use of funds to pay U.N. assessments, dues, or arrearages? Swaziland is up to date on its dues and assessments. The Loan Agreement will restrict the use of loan funds to the specified purpose.

D. Military Situation

1. FAA §620(i). Has the country engaged in or prepared for aggressive military efforts directed against the U.S. or countries receiving U.S. assistance? No

2. FAA §620(a). What is (a) the percentage of the country's budget devoted to military purposes, and (b) the amount of the country's foreign exchange resources used to acquire military equipment? Is the country diverting U.S. development assistance or P.L. 480 sales to military expenditures? Is the country diverting its own resources to unnecessary military expenditures? (Findings on these questions are to be made for each country at least once each fiscal year and, in addition, as often as may be required by a material change in relevant circumstances.) Has the country spent money for sophisticated weapons?

Until recently Swaziland made no direct expenditures for military purposes. In April/May of 1973 a small, approximately 500 man army was established. No statistics are available but it is estimated that expenditures will be less than 4 percent of the total 1973/74 budget

(b) To the best of our knowledge all military expenditures have been local currency costs.

The answer to the last three questions is no.

II. CONDITION OF THE LOAN

A. General Soundness

-- Interest and Repayment

1. FAA §§201(d), 201(b)(2). Is the rate of interest excessive or unreasonable for the borrower? Are there reasonable prospects for repayment? What is the grace period interest rate; the following period interest rate? Is the rate of interest higher than the country's applicable legal rate of interest?

The rate of interest is not considered excessive or unreasonable for the borrowers. (See section III D). The grace period interest is 2% followed by an interest rate of 3% for the duration of the loan. The answer to the last question is no.

-- Financing

1. FAA §201(b)(1). To what extent can financing on reasonable terms be obtained from other free-world sources, including private sources within the U.S.?

Concessional financing is not believed available for the purpose of this loan. Lending of this type is not appropriate for private US lending.

-- Economic and Technical Soundness

1. FAA §§201(b)(2), 201(e). The activity's economic and technical soundness to undertake loan; does the loan application, together with information and assurances, indicate that funds will be used in an economically and technically sound manner?

Yes; see sections II and III of Loan Paper

2. FAA §611(a)(1). Have engineering, financial, and other plans necessary to carry out assistance, and a reasonably firm estimate of the cost of assistance to the U.S., been completed?

Yes, as applicable. See section III of the Loan Paper.

3. FAA §611(b); App. §101. If the loan or grant is for a water or related land-resource construction project or program, do plans include a cost-benefit computation? Does the project or program meet the relevant U.S. construction standards and criteria used in determining feasibility?

Not applicable

4. FAA §611(e). If this is a Capital Assistance Project with U.S. financing in excess of \$1 million, has the principal A.I.D. officer in the country certified as to the country's capability effectively to maintain and utilize the project?

Not applicable

B. Relation to Achievement of Country and Regional Goals

-- Country Goals

1. FAA §§207, 281(a). Describe this loan's relation to:

a. Institutions needed for a democratic society and to assure maximum participation on the part of the people in the task of economic development.

No direct relation, although the loan will help support agricultural cooperatives and by providing credit to additional small farmers will involve more people in the development process.

b. Enabling the country to meet its food needs, both from its own resources and through development, with U.S. help, of infrastructure to support increased agricultural productivity.

This is a principal purpose of the loan. Maize, the primary staple in Swaziland will be one of the crops for which production credit is extended.

c. Meeting increasing need for trained manpower.

The funds will enable greater on-the-job training of local personnel.

d. Developing programs to meet public health needs.

Not applicable.

e. Assisting other important economic, political, and social development activities, including industrial development; growth of free labor unions; cooperatives and voluntary agencies; improvement of transportation and communication systems; capabilities for planning and public administration; urban development; and modernization of existing laws.

This loan amendment will have an indirect effect on industrial and commercial development as increased agricultural production, stimulated and made possible through agricultural credit, is marketed and processed.

2. FAA §201(b)(4). Describe the activity's consistency with and relationship to other development activities, and its contribution to realizable long-range objectives.

See sections I, II and III of this capital paper.

3. FAA §201(b)(9). *How will the activity to be financed contribute to the achievement of self-sustaining growth?*

The objective of the agricultural credit is to increase agricultural production and consequently export earnings. Once producers achieve a certain level on production and income it is not likely they will be willing to go back to previous lower levels.

4. FAA §201(f). *If this is a project loan, describe how such project will promote the country's economic development, taking into account the country's human and material resource requirements and the relationship between ultimate objectives of the project and overall economic development.*

Not applicable

5. FAA §201(b)(3). *In what ways does the activity give reasonable promise of contributing to development of economic resources, or to increase of productive capacities?*

The AID loan directly supports this objective through the provision of credit to small producers.

6. FAA §281(b). *How does the program under which assistance is provided recognize the particular needs, desires, and capacities of the country's people; utilize the country's intellectual resources to encourage institutional development; and support civic education and training in skills required for effective participation in political processes.*

The AID program in Swaziland, of which this is part, has been developed and pursued with these criteria in mind.

7. FAA §601(a). How will this loan encourage the country's efforts to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions?

The funds provided will accelerate agricultural production and thus enlarge the country's trading capabilities. It will stimulate and assist the private sector and encourage the use of agricultural cooperatives and credit facilities. The use of credit to be provided is predicated on improved technical efficiency. There is no information on question (f).

8. FAA §202(a). Indicate the amount of money under the loan which is: going directly to private enterprise; going to intermediate credit institutions or other borrowers for use by private enterprise; being used to finance imports from private sources; or otherwise being used to finance procurements from private sources.

All of the funds will go to an intermediate credit institution, the SCSB, to be relent to the private sector.

9. FAA §611(a)(2). What legislative action is required within the recipient country? What is the basis for a reasonable anticipation that such action will be completed in time to permit orderly accomplishment of purposes of loan?

None required.

-- *Regional Goals*

1. FAA §619. *If this loan is assisting a newly independent country, to what extent do the circumstances permit such assistance to be furnished through multilateral organizations or plans?*

The ADB is providing capital assistance to Swaziland. The IBRD has expressed interest in the industrial side of the SCSB and in utilizing the SCSB to provide credit to small farmers under a planned IBRD-financed area development project.

2. FAA §209. *If this loan is directed at a problem or an opportunity that is regional in nature, how does assistance under this loan encourage a regional development program? What multilateral assistance is presently being furnished to the country?*

First question is not applicable. Multilateral assistance is being provided by the IBRD and the UN.

C. Relation to U.S. Economy

-- *Employment, Balance of Payments, Private Enterprise*

1. FAA §§201(b)(6); 102, Fifth. *What are the possible effects of this loan on U.S. economy, with special reference to areas of substantial labor surplus? Describe the extent to which assistance is constituted of U.S. commodities and services, furnished in a manner consistent with improving the U.S. balance of payments position.*

Not applicable, loan amendment consists of direct local currency purchase.

2. FAA §612(b), 638(h). What steps have been taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. and local currencies contributed by the country are utilized to meet the cost of contractual and other services, and that U.S. foreign-owned currencies are utilized in lieu of dollars?

US-owned local currencies are not available.

3. FAA §601(d); App. §109. If this loan is for a capital project, to what extent has the Agency encouraged utilization of engineering and professional services of U.S. firms and their affiliates? If the loan is to be used to finance direct costs for construction, will any of the contractors be persons other than qualified nationals of the country or qualified citizens of the U.S.? If so, has the required waiver been obtained?

Not applicable

4. FAA §608(a). Provide information on measures to be taken to utilize U.S. Government excess personal property in lieu of the procurement of new items.

Excess property is not deemed appropriate for the project.

5. FAA §602. What efforts have been made to assist U.S. small business to participate equitably in the furnishing of commodities and services financed by this loan?

Not applicable. There will be no US procurement under this project.

6. FAA §621. If the loan provides technical assistance, how is private enterprise on a contract basis utilized? If the facilities of other Federal agencies will be utilized, in what ways are they particularly suitable; are they competitive with private enterprise (if so, explain); and how can they be made available without undue interference with domestic programs?

Not applicable. The funds do not finance technical assistance.

7. FAA §611(c). If this loan involves a contract for construction that obligates in excess of \$100,000, will it be on a competitive basis? If not, are there factors which make it impracticable?

Not applicable.

-- Procurement

1. FAA §604(a). Will commodity procurement be restricted to U.S. except as otherwise determined by the President?

No longer applicable.

2. FAA §604(b). Will any part of this loan be used for bulk commodity procurement at adjusted prices higher than the market price prevailing in the U.S. at time of purchase?

No.

8.

3. FAA §604(e). Will any part of this loan be used for procurement of any agricultural commodity or product thereof outside the U.S. when the domestic price of such commodity is less than parity?

No.

D. Other Requirements

1. FAA §201(b). Is the country among the 20 countries in which development loan funds may be used to make loans in this fiscal year?

This is a continuation of a multi donor project and thus is exempt from country limitation.

2. App. §106. Does the loan agreement provide, with respect to capital projects, for U.S. approval of contract terms and firms?

Not applicable

3. FAA §620(k). If the loan is for construction of a productive enterprise, with respect to which the aggregate value of assistance to be furnished will exceed \$100 million, what preparation has been made to obtain the express approval of the Congress?

Not applicable.

4. FAA §§620(b), 620(f);

Has the President determined that the country is not dominated or controlled by the international Communist movement? If the country is a Communist country (including, but not limited to, the countries listed in FAA §620(f)) and the loan is intended for economic assistance, have the findings required by FAA §620(f) been made and reported to the Congress?

Swaziland is not a communist or communist-dominated country.

5. FAA §620(h). *What steps have been taken to insure that the loan will not be used in a manner which, contrary to the best interest of the United States, promotes or assists the foreign aid projects of the Communist-bloc countries?*

The loan agreement restricts use of loan funds to project purposes.

6. App. ^S§118 *Will any funds be used to finance procurement of iron and steel products for use in Vietnam other than as contemplated by §110.*

No.

7. FAA §636(i). *Will any part of this loan be used in financing non-U.S.-manufactured automobiles? If so, has the required waiver been obtained?*

No.

8. FAA §§620(a)(1) and (2), 620(p);

*Will any assistance
be furnished or funds made avail-
able to the government of Cuba or
the United Arab Republic?*

No.

9. FAA §620(a). *Will any part
of this loan be used to compensate
owners for expropriated or nationalized
property? If any assistance has
been used for such purpose in the
past, has appropriate reimbursement
been made to the U.S. for sums diverted?*

No.

10. FAA §201(f). *If this is a
project loan, what provisions have
been made for appropriate partici-
pation by the recipient country's
private enterprise?*

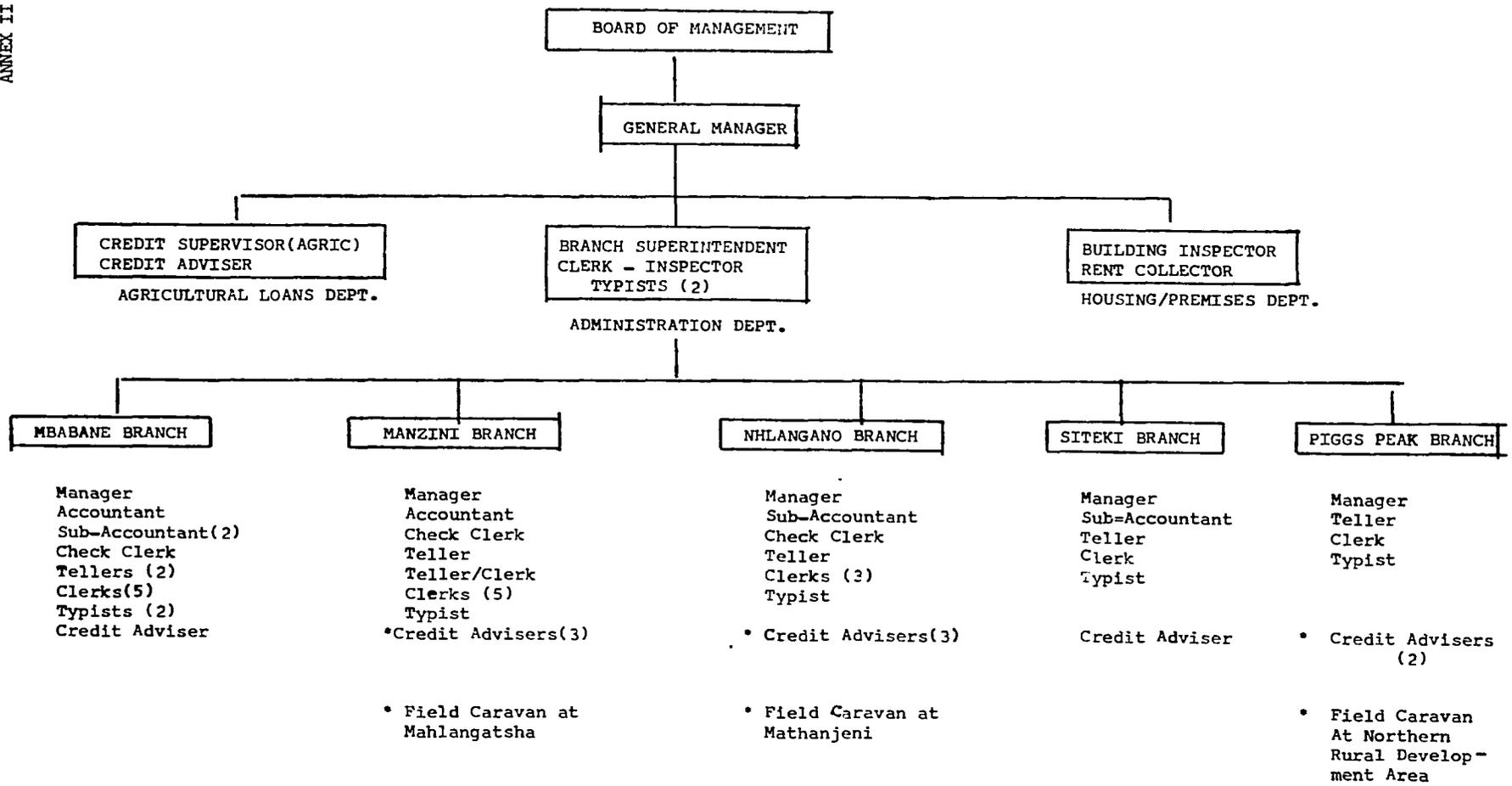
Not applicable.

11. App. §104. *Does the loan
agreement bar any use of funds to
pay pensions, etc., for persons
who are serving or who have served
in the recipient country's armed
forces?*

Satisfied. Loan agree-
ment will bar such use
of funds.

12. MAA § 901.b Does the loan agreement provide, for compliance with the US shipping requirements, that at least 50% of the gross tonnage of all commodities financed with funds made available under this loan (computed separately by geographic area for dry bulk carriers, dry cargo liners, and tankers) be transported on privately owned US-flag commercial vessels to the extent such vessels are available at fair and reasonable rates for US flag vessels. Does the loan agreement also provide for compliance with US shipping requirements, that at least 50% of the gross freight revenues of goods shipped under this loan must be earned by privately owned US-flag commercial vessels to the extent such vessels are available at fair and reasonable rates for US-flag vessels? Yes.
13. FAA Section 481 Has the country failed to take adequate steps to prevent narcotic drugs from entering the United States unlawfully? No. Swaziland is co-operating with the United States and international organizations in the control of narcotic drugs.
14. FAA Section 604.e Has there been compliance with restriction against procuring with AID funds agricultural commodities outside the United States when the domestic price of such commodity is less than parity?

15. App ^s 102 Have obligations for engineering and architectural fees and services over \$25,000 on any one project been reported to Congress bi-annually? Not applicable
16. App § 111 Is the loan being used to transfer funds to world lending institutions under FAA §§ 209(d) and 251(h)? No
17. App § 501 Are any of these funds being used for publicity or propaganda within the United States? No
18. FAA § 612(d) Does the United States own excess foreign currency and, if so, what arrangements have been made for its release? Swaziland is not an excess currency country.
19. FAA § 604(d) Will provisions be made for placing marine insurance in the United States if the recipient country discriminates against any marine insurance company authorized to do business in the United States? Yes



A N N E X III

Biographic Data of Management

Name: J.D. Owen

SCSB Position: General Manager

Qualifications and Experience: A.C.I.S., A.I.B., 20 years banking experience in Great Britain, Southern Rhodesia and South Africa, Agricultural Marketing Board in Malawi. Appointed General Manager of SCSB at its inception in 1965.

Name: A. McGuire

SCSB Position: Superintendent of Branches

Qualifications and Experience: A.I.B., twenty years banking experience in Britain and Rhodesia.
Joined SCSB in 1965; formerly Branch Manager at Mbabane

Name: R.J. King

SCSB Position: Loan Appraisal Officer (Agriculture)

Qualifications and Experience: A.I.B., sixteen years commercial banking experience in Rhodesia and Swaziland.
Joined SCSB in 1967, formerly accountant and Branch Manager.

Name: J. Makhubu

SCSB Position: Assistant Loan Appraisal Officer (Agriculture)

Qualifications and Experience: Diploma in Agriculture from Hertford Agricultural College, U.K.; 3 months USAID-financed course in agricultural credit, U.S.
Six years experience with the SCSB.

Name: N. Mkwanzu

SCSB Position: Internal Audit

Qualifications and Experience: Three years secondary school.
8 years experience in the SCSB.

Name: J. Simelane

SCSB Position: Trainee Credit Advisor

Qualifications and Experience: Diploma from U.B.L.S.
Recently joined SCSB staff.

Name: I.J. Sole

SCSB Position: Mbabane Branch Manager

Qualifications and Experience: A.I.B. Over 20 years with Ottoman Bank in Rhodesia, South Africa and East Africa.

Joined SCSB in 1966 as manager of Manzini Branch.

Name: J.H.W. Hawkins

SCSB Position: Manzini Branch Manager

Qualifications and Experience: Qualified Accountant, 12 years banking experience with National & Grindlays in Rhodesia. Has been with SCSB for two years, formerly accountant at Mbabane branch. Branch Manager for one year.

Name: S.M. Dlamini

SCSB Position: Nkhlangano Branch Manager

Qualifications and Experience: Five years secondary school to University Matriculation.

Seven years with bank, trained in various aspects of SCSB operations. 1 year as manager of Siteki branch.

Name: I.S. Mtetwa

SCSB Position: Siteki Branch Manager

Qualifications and Experience: Cambridge Overseas Certificate, management training in Swaziland. Six years experience with SCSB. Manager for 1 year.

Name: S.M.C. Dlamini

SCSB Position: Pigg's Peak Branch Manager

Qualifications and Experience: Government Service.

Eight years with SCSB.

ANNEX IV

SWAZILAND CREDIT AND SAVINGS BANK

<u>ASSETS</u>	<u>Balance Sheets</u> 1/				
	<u>1968/69</u>	<u>1969/70</u>	<u>1970/71</u>	<u>1971/72</u>	<u>1972/73</u>
	R	R	R	R	R
<u>Current</u>					
Cash on hand and at Bank	5,876	36,245	26,244	14,192	33,404
Call and short notice	100,000	120,000	465,000	185,000	-
Other	24,018	14,320	29,338	35,372	84,173
<u>Loans and Investments</u>					
Secured loans	1,777,908	1,585,985	2,092,994	3,035,068	4,257,270
Investments	355,000	421,200	891,200	827,371	971,082
<u>Fixed Assets</u>					
Property and Equipment	60,656	81,774	107,962	141,732	258,899
Other Assets	9,000	25,170	9,000	-	-
Total	<u>R2,332,458</u>	<u>R2,284,694</u>	<u>R3,621,738</u>	<u>R4,238,735</u>	<u>R5,604,828</u>
<u>LIABILITIES AND CAPITAL</u>					
<u>Current</u>					
Savings Bank Deposits	724,556	831,027	1,226,291	1,334,723	1,403,556
Call and Short Notice	430,909	235,298	384,559	382,921	276,518
Other Current (including Bank Overdrafts)	90,985	82,062	72,906	78,731	314,629
<u>Long Term</u>					
Domestic Loans	-	-	751,728	1,283,322	1,613,459
Foreign Loans	817,400	812,952	836,304	805,656	961,994
<u>Capital and Equity</u>					
Capital	420,184	470,184	470,184	470,184	1,000,000
Reserves	(151,576)	(146,829)	(120,234)	(116,802)	34,672
Total	<u>R2,332,458</u>	<u>R2,284,694</u>	<u>R3,621,738</u>	<u>R4,238,735</u>	<u>R5,604,828</u>

1/ Source: Swaziland Credit and Savings Bank Annual Reports
Fiscal year runs from April through March

ANNEX V

SWAZILAND CREDIT AND SAVINGS BANKCONSOLIDATED QUARTERLY RETURN OF LOANS AS AT 31.3.1973

<u>CATEGORY</u>	<u>NUMBER</u>	<u>AMOUNT</u>
<u>SMALL FARMER LOANS</u>		
S 1 MAIZE	502	33.696
S 2 TOBACCO	5	537
S 3 COTTON	373	117.198
S 4 SMALL IMPLEMENTS	17	13.824
S 5 VEGETABLES	12	22.425
S 6 OTHER (LABOR)	<u>169</u>	<u>25.155</u>
	<u>1.078</u>	<u>212.835</u>
<u>AGRICULTURAL LOANS</u>		
A 1 SETTLEMENT SCHEME	27	168.541
A 2 FARM BUILDINGS	-	-
A 3 FARM LAND	17	166.172
A 4 EQUIPMENT	70	205.674
A 5 IRRIGATION	8	111.657
A 6 CATTLE-BEEF	20	163.673
A 7 CATTLE-DAIRY	13	21.907
A 8 TIMBER	12	197.731
A 9 FRUIT	4	183.302
A10 CASH CROPS	<u>27</u>	<u>598.486</u>
	<u>198</u>	<u>1.817.143</u>
<u>BUSINESS LOANS</u>		
B 1 AGROBUSINESS	8	265.138
B 2 AGROINDUSTRY	1	7.664
B 3 INDUSTRY	5	145.902
B 4 CONSTRUCTION	1	1.270
B 5 TRANSPORT	13	63.163
B 6 COMMERCIAL	15	363.024
B 7 FINANCIAL	4	141.552
B 8 SMALL BUSINESS	110	77.873
B 9 HIPE PU CHASE	-	-
	<u>157</u>	<u>1.068.586</u>
<u>HOUSING LOANS</u>		
H 1 GENERAL	233	297.812
H 2 CIVIL SERVANTS	69	131.073
	<u>302</u>	<u>428.885</u>
<u>GENERAL LOANS</u>		
G 1 Staff	33	40.462
G 2 Personal	<u>22</u>	<u>3.349</u>
	<u>55</u>	<u>43.811</u>
GRAND TOTAL	<u>1.790</u>	<u>3.571.440</u>

ANNEX VI

SWAZILAND CREDIT AND SAVINGS BANKPROJECTED BALANCE SHEETS 1974-1976

<u>ASSETS</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
<u>Current</u>			
Cash on Hand and at Bank	29,000	30,000	35,000
Call & Short Notice	140,000	80,000	120,000
Other	40,000	40,000	40,000
	<u>209,000</u>	<u>150,000</u>	<u>195,000</u>
Secured Loans	4,600,000	5,200,000	6,000,000
Investments	900,000	1,000,000	1,100,000
Property & Equip.	250,000	280,000	310,000
Other Assets	1,000	1,000	1,000
	<u>5,960,000</u>	<u>6,631,000</u>	<u>7,606,000</u>
 <u>LIABILITIES & CAPITAL</u>			
<u>Current</u>			
Savings Bank	1,800,000	2,000,000	2,200,000
Call and Short Notice	350,000	350,000	350,000
Other Current (includ- ing Bank Overdraft)	640,728	640,728	417,728
	<u>2,790,728</u>	<u>2,990,728</u>	<u>2,967,728</u>
<u>Long Term</u>			
Exchequer Loans (U.K.)	735,000	700,000	665,000
Swaziland Govt. Loans	1,283,322	1,283,322	1,283,322
A.I.D.	190,000	190,000	190,000
	<u>2,208,322</u>	<u>2,173,322</u>	<u>2,138,322</u>
 <u>Capital Less</u>			
Losses to date	394,950	414,950	439,950
Reserve for bad debts	46,000	52,000	60,000
Un-negotiated Loans	520,000	1,000,000	2,000,000
	<u>5,960,000</u>	<u>6,631,000</u>	<u>7,606,000</u>

ANNEX VII

SWAZILAND CREDIT AND SAVINGS BANKPROJECTED INCOME STATEMENTS 1974-1976

Years ending 31st March	<u>1974</u> R	<u>1975</u> R	<u>1976</u> R
<u>INCOME</u>			
Interest Income			
Loans	344,000	392,000	432,000
Investments	45,000	30,000	42,500
Call & Short Notice	7,000	6,000	6,000
Commission	6,000	6,500	8,500
Rents Received.	<u>38,000</u>	<u>44,000</u>	<u>44,000</u>
	<u>440,000</u>	<u>478,500</u>	<u>534,000</u>
Operating Expenses	<u>250,000</u>	<u>265,000</u>	<u>290,000</u>
Income before interest and other expenses	190,000	213,500	244,000
Interest and other expenses	<u>171,450</u>	<u>192,000</u>	<u>220,000</u>
PROFIT	<u>18,550</u>	<u>21,500</u>	<u>24,000</u>

* Based on the assumption that new funds, not yet negotiated will be received at an average cost of 6% per annum.

The fall-off in investment income is caused by approximately R500,000 to be channelled into the Bank's Head Office building in Mbabane. The loss of investment income is compensated by a rise in rents received, and a reduction in operating expenses. The lease on existing rented premises expired in 1973.

File No. _____

APPLICATION S N^o 20066

SWAZILAND CREDIT AND SAVINGS BANK
(Incorporated under Law No. 4 of 1965)

APPLICATION FOR AGRICULTURAL LOAN REPAYABLE IN ONE SEASON. MINIMUM R50 — MAXIMUM R500

INSTRUCTIONS

1. Consult a Field Officer or Bank Loan Supervisor **BEFORE** filling in this form.
2. Field Officer to detach Report section — Page 4.
3. Applicant to submit completed form **with R1** to nearest Office of Bank.
4. Field Officer to complete report section and forward to Officer-in-Charge of sub-district, Agricultural Department.
5. Officer-in-Charge of sub-district checks Field Officer's report and forwards to same Branch of Bank as that to which Applicant has submitted application.

FOR BANK USE ONLY

1. Full name of Applicant (Surname last)

2. Address

Tax Identity No.

3. Occupation Employer..... Salary

4. Name of Chief

5. Chief's Area and District where farm is situated

6. Is land owned by you, leased by you or do you have one of it under Swazi Custom.

7. Do you owe money to anybody? State "Yes" or "No".....

8. If the answer to 7 is "Yes", state how much and to whom

9. Have you previously applied for a loan from the Bank? State "Yes" or "No" and to which Branch

10. Give details of crops ("I" = Irrigated, "D" = dry land).

Grown Last Season			Proposed this Season		
Crop	Acreage	I or D	Crop	Acreage	I or D

10a. State value of crops sold last season R.

STATE REQUIREMENTS OF:

STATE REQUIREMENTS OF:							SUPPLIER'S NAME AND ADDRESS	SUPPLIES KEPT FROM LAST SEASON
II. Seed								
Type								
Quantity								
Total Cost								
Fertiliser								
Type								
Quantity								
Total Cost	•	•	•	•	•	•		
Insecticides								
Type								
Quantity								
Total Cost	•	•	•	•	•	•		
Other Needs								
State what								
Quantity								
Total Cost								
Date required If not immediate								

*Total of these amounts to be inserted in question "D" on Field Officer's Report.

CONFIDENTIAL REPORT

APPLICATION S N^o 20066

Submitted to Branch of the Bank.

- A. Applicant's Full Name
- B. Is he a Master or an Advanced Farmer —
Insert "M" or "A"
- C. As a Farmer is he (1) Very good (2) Good.
(3) Average. (4) Poor. Insert 1, 2, 3, or 4.
- D. Of the loan applied for, R.....* is for fertiliser and insecticides.
Do you think that their use will increase his yields by at least that
amount in value? State "Yes" or "No".
- *See page 2
- E. Have you personally inspected the applicant's fields.
- F. Is Applicant a well respected member of the community?
State "Yes" or "No".
- G. Does he follow recommended agricultural practices?
State "Yes" or "No".
- H. Do you recommend the loan?
State "Yes" or "No".

I. If the answer to "H" is "No", give brief reasons

Signed
 Field Officer
 Area
 Date

**APPLICATIONS BY MASTER OF
ADVANCED FARMERS ONLY**

I certify that applicant is a registered Advanced/
Master* Farmer, Certificate No.
I recommend/do not recommend* the loan.
(*Delete as applicable).

Signed:.....

In charge Rank
 of District
 Sub-District
 Date

LOCAL ADVISORY COMMITTEE
 (Delete two of three alternatives)

- Minute No... Dated ...
1. Recommended. 2. NOT recommended. 3. Recommended with following modifications:

..... Chairman.

APPROVED R until at %
REJECTED
 Security.....

..... Manager.

ANNEX IX

ILLUSTRATIVE SMALL FARMER LOANS

Model 1: 3 acres maize
1 acre tobacco

Production Costs:

	<u>Without Improved Inputs</u>	<u>With Improved Loan Financed Inputs</u>
<u>Maize</u>		
Seed	-	R 3.00
Fertilizer	-	R 36.00
Pesticides	-	R 3.00
Tractor/Oxen Hire	R 9.00	R 15.00
Bags	<u>R 6.00</u>	<u>R 18.00</u>
Total maize costs	<u>R15.00</u>	R 75.00
<u>Tobacco</u> ^{1/}		
Seed Bed Preparation	R 7.00	R 7.00
Tractor/Oxen Hire	R 3.00	R 5.00
Fertilizer	-	R 22.00
Pesticides	-	R 23.00
Sprayer (R40-3 year life)	-	R 14.00
Twine	R 1.00	R 1.00
Labor	-	<u>R 5.00</u> ^{2/}
Total tobacco costs	<u>R11.00</u>	<u>R 77.00</u>
Total production costs	<u>R26.00</u>	<u>R152.00</u>

Gross Production Value:

Maize	R20.00	R 56.00
Tobacco	<u>R70.00</u>	<u>R220.00</u>
Total	<u>R90.00</u>	<u>R276.00</u>

Net Production Value:

	R64.00	R124.00
Debt Service	-	<u>9.00</u> ^{3/}
Net Farmers Income	<u>R64.00</u> (\$ 96.00)	<u>R115.00</u> (\$172.50)

Incremental Farm Income = R51.00
(\$76.50)

Incremental rate of return = $\frac{\text{Incremental value of production}}{\text{Incremental production costs}} = \frac{R186 - 126}{126} = 48\%$

^{1/} Without utilization of improved inputs harvested crop is likely to be very small

^{2/} May be supplied by family

^{3/} Interest at 6% on R152

Model 2: 3 acres maize
2 acres cotton

Production Costs ^{1/}

	<u>Without Improved Inputs</u>	<u>With Improved Loan Financed Inputs</u>
<u>Maize</u>		
Total maize costs (from Model 1)	R15.00	R75.00
<u>Cotton</u>		
Tractor/Oxen Hire	R 6.00	R10.00
Seed	R 4.00	R 4.00
Fertilizer	-	R30.00
Pesticides	-	R10.00
Sprayer	-	R14.00
Twine/Bags	R 1.00	R 2.00
Labor	-	R 6.00 ^{2/}
Total cotton costs	<u>R11.00</u>	<u>R76.00</u>
Total production costs	<u>R26.00</u>	<u>R151.00</u>
<u>Gross Production Value:</u>		
Maize	R20.00	R 56.00
cotton	R68.00	R225.00
Total	<u>R88.00</u>	<u>R281.00</u>
<u>Net Production Value:</u>		
	R62.00	R130.00
Debt Service	-	9.00 ^{3/}
Net Farmers Income	<u>R62.00</u> (\$93.00)	<u>R121.00</u> (\$181.50)
<u>Incremental Farm Income</u> - R59.00 (\$88.50)		

$$\text{Incremental rate of return} = \frac{R193 - R125}{R125} = 54\%$$

^{1/} 1 Rand \$1.50

^{2/} May be supplied by family

^{3/} Interest at 6% on R152

Model 3: 2 acres groundnuts
2 acres cotton

Production Costs: ^{1/}

	<u>Without Improved Inputs</u>	<u>With Improved Loan Financed Inputs</u>
<u>Groundnuts</u>		
Tractor/Oxen Hire	R 6.00	R10.00
Seed	R 8.00	R16.00
Lime	-	R18.00
Pesticides	-	R 7.00
Sprayer	-	R14.00
Bags	R 4.00	R 9.00
Labor	-	R14.00 ^{2/}
Total groundnut costs	<u>R18.00</u>	<u>R84.00</u>
<u>Cotton</u>		
	As in Model 2	As in Model 2
Total cotton costs	<u>R11.00</u>	<u>R76.00</u>
Total production costs	<u>R29.00</u>	<u>R160.00</u>
<u>Gross Production Value:</u>		
Groundnuts	R 66.00	R140.00
Cotton	R 68.00	R225.00
Total	<u>R134.00</u>	<u>R365.00</u>
<u>Net Production Value</u>	<u>R105.00</u>	<u>R205.00</u>
Debt Service	-	R 10.00 ^{3/}
Net Farmers Income	<u>R105.00</u> (\$157.50)	<u>R195.00</u> (\$292.50)
<u>Incremental Farm Income</u> - R100.00 (\$150.00)		
Incremental rate of return	$\frac{R231 - 131}{R 131} = 76\%$	

^{1/} 1 Rand = \$1.50

^{2/} May be supplied by family

^{3/} Interest at 6% on R 160

ANNEX X

CONCLUSIONS AND RECOMMENDATIONS OF APRIL, 1973

SHORT TERM SCSB STUDY TEAM

In April 1973, at the request of the SCSB, Mr. Harry Lowe, an AID PASA employee at that time, as General Manager of the Agricultural Finance Corporation of Kenya, and Mr. Marcus Winter, AID Agricultural Economist, conducted a brief study of the SCSB to determine future financial requirements of the bank and any management practices that should be changed or introduced to have a more effective agricultural credit operation.

The conclusion and recommendations of the study are as follows:

- A. The bank has a strong financial position with an adequate capital structure. The average cost of money to the bank in 1972/73 was 2.2% with a 6.8% average return on loans and investments. The bank's administration has benefited from competent management and administrative costs are average for a developing bank. The reserve for losses is conservative, but apparently adequate given the outstanding loan collection record of the SCSB. The bank should consider plans for departmentalizing its activities (plans under consideration).

- B. There are an estimated 30,000 small-scale farmers in Swaziland. Loans to small farmers reached a peak in 1968/69 with only slightly over 1,000 loans made. A target of 2,500 - 3,000 small farmer loans would seem to be a minimum for the SCSB (SCSB staff agree).

- C. The banks should actively seek to increase its bulk lending to farmer-associations and cooperatives. Presently, the bank lends to approximately 20 farmer-associations, a milling company and two cotton ginneries who in turn relay the credit to small farmers (GOS is planning to make greater use of cooperatives, see recommendations of recent seminar, page 20).
- D. The bank should revise its charter in order to formally acknowledge the development banking functions which the SCSB is already performing (under consideration by the Ministry of Finance).
- E. The bank can effectively utilize a \$ 1 million loan for sub-loans to small-scale farmers to purchase farm materials and equipment in Swaziland.
- F. If possible, three banking technicians (loan officer, controller and training officer) should be recruited to assist the SCSB as it expands (SCSB has recognized the need for additional staff and has requested that an AID OPEX agricultural credit specialist be provided).

ENVIRONMENTAL ANNEX XI

The M.O. on environmental considerations, M.O. 1214.1-B, does not require a detailed environmental analysis for A.I.D. loans to intermediate credit institutions since the actual environmental impact is indirect and difficult to measure. This loan will provide funds to the SCSB for on-lending to Swazi farmers who in turn will use the funds to increase their agriculture productivity. The loan will indirectly support a higher level of agriculture activity which will have an impact on Swaziland's environmental balance.

Any increase in agriculture production may change the ecological balance: Plowing cuts the top-soil and if improperly done erosion results; expanded crop acreage may bring in new insects and other pests; insecticides can enter the water table and river system; a higher livestock population may strip the ground cover resulting in erosion. The above possible problems can result from any increase in agriculture production. In fact, even in the absence of this loan there would still be the normal pressure to raise agriculture production--to squeeze more food out of the land.

An important part of the loan is the supervision provided by the Agriculture Field Officer, Cooperative Officer and the Credit Advisor. When a farmer applies for a loan, he must show that he will have available the recommended agriculture inputs - seeds, fertilizer, insecticides, etc. The Field Officer is responsible to see that proper techniques and practices are used in land preparation, planting, crop husbandry and harvesting. This extra degree of extension advice and supervision should help minimize farmer mistakes or excesses which could have a harmful ecological impact. Compared to farmers outside the RDA's, farmers reached by this project will receive expert advice and will be better able to increase production while minimizing environmental damage.

For Swaziland, agriculture is the main livelihood for the majority of the people. Agriculture production must be increased. There is no practical alternative if Swaziland wishes to raise the general welfare and living conditions of the Swazi people. It is estimated that as a result of SCSB loans, the average Swazi farmer reached by the project will increase his net annual income by R70, \$105. This higher income will allow him to have a higher standard of living, improved nutrition and hopefully better health. The credit he receives will allow him to buy higher yielding seed; insecticides to combat field losses and storage losses; and animal disease control vaccinations, fences and dip tanks. He needs to produce healthier livestock and crops free from insect pests. The use of improved agriculture inputs and techniques is the only way he can achieve higher productivity and a better standard of living.

ANNEX XII

CAPITAL ASSISTANCE LOAN
AUTHORIZATION AMENDMENT

Provided From: Development Loan Funds

Swaziland - Agricultural Development Loan

Pursuant to the authority vested in the Administrator of the Agency for International Development (hereinafter called "AID") by the Foreign Assistance Act 1961, as amended, and the delegation of authority issued thereunder, I hereby authorize the following:

An amendment to increase the above-captioned loan to the Government of Swaziland ("Borrower") by an amount not to exceed five hundred thousand dollars (\$500,000) to provide local currency funds for the provision of agricultural credit to small Swazi farmers subject to the following terms and conditions:

1. Interest Rates and Terms of Repayment:

Borrower shall repay the funds made available under this amendment within forty (40) years from the date of the first disbursement by AID of such funds, including a grace period which is not to exceed ten (10) years. Borrower shall pay to AID interest on the unrepaid principal and any interest accrued thereon at the rate of two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter.

2. Currency of Repayment:

Repayment of the loan and payment of interest shall be made in U.S. dollars.

3. Other Terms and Conditions:

- (a) Procurement: Commodities financed under the loan shall have their source and origin in those countries included in Code 935 of the AID Geographic Code Book.

- (b) Other Terms and Conditions: The loan shall be subject to such other terms and conditions as AID may deem advisable.

Assistant Administrator

Date

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PDACC-208

H. Tate
PFC ✓

CONFORMED COPY

A.J.D. Loan 690-T-005

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LOAN AGREEMENT

(Swaziland - Small Farmer Agricultural Credit)

between the

KINGDOM OF SWAZILAND

and the

UNITED STATES OF AMERICA

Dated: May 21, 1974

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LOAN AGREEMENT dated the 21st day of May, 1974, between the KINGDOM OF SWAZILAND ("Borrower") and the UNITED STATES OF AMERICA acting through the AGENCY FOR INTERNATIONAL DEVELOPMENT ("A.I.D.").

ARTICLE I

The Loan

SECTION 1.01. The Loan. A.I.D. agrees to lend to the Borrower pursuant to the Foreign Assistance Act of 1961, as amended, an amount not to exceed Seven Hundred Fifty Thousand United States Dollars (\$750,000), disbursed in local currency equivalent ("Loan"), to assist the Borrower in carrying out the Project described in Section 1.02 ("Project"). The aggregate amount of disbursements under the Loan is hereinafter referred to as "Principal."

SECTION 1.02. The Project. The Project shall consist of an agricultural credit program for small-scale farmers in Swaziland, financed jointly by the Borrower and A.I.D. The project includes financing of certain goods and services for small-scale farmers and the costs of administering the program, as described below.

- (a) As part of the Project, the Borrower will relend the proceeds of the Loan to Swaziland Development and Savings Bank (SDSB) and require SDSB, in turn, to relend to small-scale Swazi farmers (hereinafter referred to as "Sub-Borrowers") within the limitations and subject to the terms and conditions set forth in this Agreement. The first relending of Loan proceeds by the Borrower to SDSB (the "Reloan") is to be evidenced by an agreement (the "Reloan Agreement"), which shall be approved by A.I.D. pursuant to Section 5.01(c).

The ultimate relending of Loan proceeds by the SDSB to Sub-Borrowers ("Subloans") (to be evidenced by agreements referred to herein as "Subloan Agreements") shall be limited to the financing of the local currency costs of certain goods and services (hereinafter referred to as "Eligible Items").

- (b) The Borrower agrees and SDSB shall agree in the Reloan Agreement to use their best efforts to apply, as part of the Project, Subloan repayments, together with such other funds from their own resources as may be available for this purpose, to the financing of an on-going agricultural credit program for small-scale Swazi farmers, involving a continuing SDSB investment in loans to such farmers at a level equal to or greater than the amount of unrepaid Principal under the Reloan.

ARTICLE II

The Terms

SECTION 2.01. Interest. The Borrower shall pay to A.I.D. interest which shall accrue at the rate of two percent (2%) per annum for ten (10) years following the date of the first disbursement hereunder and at the rate of three percent (3%) per annum thereafter on the outstanding balance of Principal and on any due and unpaid interest. Interest on the outstanding balance shall accrue from the date of each respective disbursement (as such date is defined in Section 8.03), and shall be computed on the basis of a 365-day year. Interest shall be payable semi-annually. The first payment of interest shall be payable no later than six months after the first disbursement hereunder on a date to be specified by A.I.D.

SECTION 2.02. Repayment. The Borrower shall repay to A.I.D. the Principal within forty (40) years from the date of the first disbursement hereunder in sixty-one (61) approximately equal semi-annual installments of Principal and Interest. The first installment of Principal shall be repayable nine and one-half ($9\frac{1}{2}$) years after the date on which the first interest payment is due in accordance with Section 2.01. A.I.D. shall provide the Borrower with an amortization schedule in accordance with this Section after the final disbursement under the Loan.

SECTION 2.03. Application, Currency and Place of Payment.

All payments of Interest and Principal by the Borrower hereunder shall be made in United States dollars and shall be applied first to the payment of Interest due and payable and then to the repayment of Principal. Except as A.I.D. may otherwise specify in writing, all such payments shall be made to the Controller, Agency for International Development, Washington, D. C., U.S.A., and shall be deemed made when received by the Office of the Controller.

SECTION 2.04. Prepayment. Upon payment of all interest and refunds then due and payable, the Borrower may repay, without penalty, all or any part of the Principal. Any such prepayment shall be applied to the installments of Principal in the inverse order of their maturity.

ARTICLE III

Reloan and Subloans

SECTION 3.01. Reloan.

- (a) The Borrower agrees to reloan to the SDSB all of the loan proceeds and to take all necessary steps to ensure that such proceeds are thereafter used, applied and administered in accordance with the terms and conditions of this Loan Agreement. Upon execution of a Reloan Agreement pursuant to Section 5.01(c), the Borrower agrees to enforce such Agreement and to carry out the project in accordance with its terms. The Reloan Agreement shall provide that the SDSB shall repay Principal and pay interest to Borrower in Rand or such other currency as is at the time of payment legal tender in Swaziland. Except as A.I.D. may otherwise agree in writing such repayment of Principal and payment of Interest by SDSB to Borrower shall be made on the same terms and conditions and at the same interest rate as the Borrower is obligated to repay Principal and pay Interest to A.I.D. under this Loan Agreement.
- (b) The Reloan Agreement shall further provide, in form and substance, satisfactory to A.I.D. that the SDSB shall
- (1) represent, warrant and agree that its operations and affairs are and will be conducted with due diligence and efficiency and in accordance with sound technical,

administrative and financial practices, in conformity with the laws of the Kingdom of Swaziland, and in conformity with applicable statutes, charters by-laws, regulations, policies and procedures;

(2) agree to make Subloans in accordance with the terms and conditions of this Agreement and to use its best efforts to apply Subloan repayments to the financing of an on-going agricultural credit program for small Swazi farmers, as provided in Section 1.02(c);

(3) agree to furnish to the Borrower and A.I.D. annually, prior to the end of each calendar year, or at such shorter intervals as A.I.D. may specify in Implementation Letters, computer print-outs of SDSB loan operations, or such other documentation as A.I.D. may specify in Implementation Letters, showing with respect to individuals Subloans, such information and data as the Borrower and A.I.D. may reasonably request, including but not limited to (a) Subloan identification number or Sub-Borrower's name, (b) date of Subloan, (c) amount of Subloan, and (d) crop or livestock for which Subloan used.

(c) No amendment or material modification to the Reloan Agreement shall be made without the prior written consent of A.I.D.

SECTION 3.02. Subloans. The Borrower agrees to take such steps as may be necessary to assure that SDSB promptly and effectively makes Subloans for the financing of the costs of Eligible Items, as follows:

- (a) Subloans shall be made to Sub-Borrowers on terms and conditions and at interest rates as shall be agreed upon between the Borrower and A.I.D. and in accordance with procedures specified in Implementation Letters and in accordance with the terms and conditions of this Agreement and of the Reloan Agreement.
- (b) Except as A.I.D. may otherwise provide in Implementation Letters, Subloans to individual Sub-Borrowers shall be made in amounts not exceeding the amounts prescribed in Section 3.02(d).
- (c) On terms and conditions and at interest rates as shall be agreed upon between the Borrower and A.I.D. and subject to compliance by SDSB with procedures as may be specified in Implementation Letters, SDSB may effect Subloans to Sub-Borrowers by means of loans to cooperatives or associations of Swazi farmers where the purpose of the latter loans is limited to the financing, in the aggregate, of a number of specific individual Sub-Borrower Subloans otherwise eligible for financing under this Agreement and the Reloan Agreement.
- (d) The Borrower warrants and agrees that the Reloan Agreement will provide that except as A.I.D. may otherwise provide in Implementation Letters issued pursuant to Section 10.03:

- (1) Subloans shall not exceed five hundred Rand (500R) or the equivalent amount in such currency as is legal tender in Swaziland, per Sub-Borrower per crop season, and
- (2) At least fifty percent (50%) of the Loan proceeds shall be used for Subloans not exceeding two hundred fifty Rand (250R) or the equivalent amount in such currency as is legal tender in Swaziland, per Sub-Borrower per crop season.

SECTION 3.03. Subloan Policy. Except as otherwise provided by specific provisions contained herein or in the Reloan Agreement, the Borrower shall take steps to ensure that the policies of the SDSB do not conflict with statutes, policies and procedures ("standards") of the Borrower. Further, the Borrower shall take steps to assure that SDSB shall not apply new standards in the making of Subloans without the written consent of the Borrower and A.I.D.

ARTICLE IV

Special Covenants

SECTION 4.01. Borrower and SDSB Contribution to the Project. The Borrower agrees to make or to take all necessary steps to ensure that SDSB makes contributions to the project, either in cash or in kind, which equal in value at least one-third (1/3) of the amount disbursed under the Loan. Except as A.I.D. may otherwise specify in writing, such contributions in whole or in part may be provided to meet administrative or capital costs of the Project.

SECTION 4.02. Validity of Agreement. Borrower represents that the making and performance of this Loan Agreement have been duly authorized by all necessary governmental authorities of the Borrower and do not and will not contravene any law or any contractual restriction binding on the Borrower.

SECTION 4.03. Organization, Authority and Operations.

Borrower warrants and agrees that SDSB is a statutory authority within the Kingdom of Swaziland and that the Borrower will promptly inform A.I.D. in writing of any change in the nature of SDSB's operations or of any material modification of applicable statutes, charter, by-laws, rules, regulations and policies which adversely affect the ability or willingness of the Borrower or SDSB to fulfill their respective obligations under this Agreement and the Reloan Agreement.

ARTICLE V

Conditions Precedent to Disbursement

SECTION 5.01. Conditions Precedent to Disbursement. Prior to the first disbursement or to the issuance of the first Letter of Commitment under the Loan, the Borrower shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

- (a) An opinion of the chief legal counsel of the Kingdom of Swaziland, that the Agreement has been duly authorized or ratified by, and executed on behalf of the Borrower and that it constitutes a valid and legally binding obligation of the Borrower in accordance with all of its terms;
- (b) A statement of names of the persons holding or acting in the office of the Borrower specified in Section 10.02 and a specimen signature of each person specified in such statement;

- (c) An executed Reloan Agreement with SDSB,
- (d) A certification by the Borrower that the conditions precedent to disbursement under the Reloan Agreement have been met;
- (e) Opinion of legal counsel satisfactory to A.I.D.
 - (i) that SDSB is a duly organized entity existing in good standing under the laws of the Kingdom of Swaziland;
 - (ii) that the SDSB has taken all corporate and legal actions under the laws and regulations of the Kingdom of Swaziland and has full power essential to the effective implementation by the SDSB of the Project;
 - (iii) that there are no legal inhibitions to the effective implementation by SDSB of the Project; (iv) that there are no pending or threatened actions or proceedings before any court or agency which may materially adversely affect SDSB's financial conditions or operations; and (v) that SDSB performance of its obligation under the Reloan Agreement will not conflict with or result in any violation of any agreement, franchise, concession, license, permit, decree, order, statute, ordinance, rule, regulation, charter, or by-law;
- (f) Certified copies of SDSB's charter, by-laws, and other documentation governing the conduct of SDSB's operations, including the interest rate structure, rules, regulations, policies, and procedures to be used in making Subloans and copies of SDSB's Subloan form or forms if any, and such or statements concerning the status, operations

affiliation and assets of SDSB as A.I.D. may reasonably request;

(g) Evidence that SDSB has proper management and possesses the staffing capability and administrative and accounting skills to fulfill the objectives of the Project; and

(h) Evidence of the source and availability of funds for the Borrower's/SDSB's contribution required by Sections 4.01 and 6.02.

SECTION 5.02. Terminal Dates for Meeting Conditions Precedent to Disbursement. If all the conditions specified in Section 5.01 shall not have been met within three (3) months from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Agreement by giving written notice to the Borrower. Upon the giving of such notice, this Agreement and all the obligations of the parties hereunder shall terminate.

SECTION 5.03. Notification of Meeting of Conditions Precedent to Disbursement. A.I.D. shall notify the Borrower upon determination by A.I.D. that the conditions precedent to disbursement specified in Section 5.01 have been met.

SECTION 5.04. Continuance of Representations and Materials Furnished to Satisfy Conditions Precedent. Unless A.I.D. otherwise agrees in writing, the Borrower shall continue in force and effect for the life of this Agreement, exactly as originally made or furnished, any representation made or opinion or agreement furnished to satisfy a Condition Precedent under this Agreement.

ARTICLE VI

General Covenants and Warranties

SECTION 6.01. Execution of the Project. The Borrower shall carry out the Project and shall take all necessary steps to ensure that SDSB carries out its part of the Project with due diligence and efficiency and in conformity with sound financial and administrative practices. It is the understanding of the parties hereto that Borrower bears the responsibility for fulfilling the representations, warranties, and covenants herein, despite the fact that SDSB may be in a direct position to effect the performance of such undertakings. Accordingly, the Borrower agrees to ensure the due and faithful performance of such undertakings by SDSB. Included among the obligations hereunder shall be the forwarding to the SDSB and the enforcement thereof of the substance of various A.I.D. determinations and letters of implementation made or issued pursuant to this Agreement.

SECTION 6.02. Funds and Other Resources to be Provided by Borrower. The Borrower shall provide or ensure that there is otherwise provided promptly as needed all funds, in addition to the Loan, and all other resources required for the punctual and effective carrying out of the Project.

SECTION 6.03. Continuing Consultation. The Borrower and A.I.D. shall cooperate fully to assure that the purpose of the Loan will be accomplished. To this end, the Borrower and A.I.D. shall from time to time, at the request of either party, exchange views through their representatives with regard to the progress of the Project, the performance by the Borrower and SDSB of their obligations under this Agreement.

and the Reloan Agreement, and other matters relating to the Project.

SECTION 6.04. Management. The Borrower shall provide and shall take all necessary steps to ensure that SDSB provides qualified and experienced management for the Project and shall take all necessary steps to ensure that SDSB trains such staff as may be appropriate for the maintenance and operation of the Project.

SECTION 6.05. Taxation. This Agreement, the Reloan Agreement, the Loan, the Reloan, and any evidence of indebtedness issued in connection therewith shall be free from, and the Principal and Interest under the respective loans shall be paid without deduction for and free from, any taxation or fees imposed under the laws in effect within Swaziland.

SECTION 6.06. Utilization of Eligible Items. Except as A.I.D. may otherwise agree in writing, no Eligible Items financed under the Loan or the Reloan shall be used to promote or assist any foreign aid project or activity associated with or financed by any country not included in Code 935 of the A.I.D. Geographic Code Book as in effect at the time of such use.

SECTION 6.07. Disclosure of Material Facts and Circumstances. The Borrower represents and warrants that all facts and circumstances that it has disclosed or caused to be disclosed to A.I.D. in the course of obtaining the Loan are accurate and complete, and that it has disclosed or caused to be disclosed to A.I.D., accurately and completely, all facts and circumstances that might materially affect the Project and the discharge of its obligations under this Agreement

The Borrower agrees to promptly inform A.I.D. of any facts and circumstances that may hereafter arise that might materially affect, or that it is reasonable to believe might materially affect, the Project, the discharge of the Borrower's obligations under this Agreement, or the discharge of SDSB's obligations under the Reloan Agreement.

SECTION 6.08. Commissions, Fees and Other Payments.

- (a) Borrower warrants and covenants that in connection with obtaining the Loan, or taking any action under or with respect to this Agreement or the Reloan Agreement, it has not paid, and will not pay or agree to pay, nor to the best of its knowledge has there been paid nor will there be paid or agreed to be paid by any other person or entity, any commission, fee, or other payment of any kind, except as regular compensation to the Borrower's full-time officers and employees or SDSB's full-time officers and employees or as compensation for bonafide professional, technical, or comparable services. The Borrower shall promptly report to A.I.D. any payment or agreement to pay for such bonafide professional, technical, or comparable services to which it or SDSB is a party or of which it has knowledge (indicating whether such payment has been made or is to be made on a contingent basis), and if the amount or any such payment is deemed unreasonable by A.I.D., the same shall be adjusted in a manner satisfactory to A.I.D.

- (b) The Borrower warrants and covenants that no payments have been or will be received by the Borrower, or any official of the Borrower, in connection with the procurement of goods and services financed hereunder, except fees, taxes, or similar payments legally established in Swaziland.

SECTION 6.09. Maintenance and Audit of Records. The Borrower shall cause to be maintained, in accordance with sound accounting principles and practices consistently applied, books and records relating to the Project, to this Agreement, and to the Reloan Agreement. Such books and records shall, without limitation, be adequate to show:

- (a) The receipt and use made of funds disbursed pursuant to this Agreement, the Reloan Agreement, and the Subloan Agreements;
- (b) The eligibility of the Sub-Borrowers receiving the Subloans, including the economic, technical, and financial analysis made with respect to each application for a Subloan which is subsequently financed in whole or in part under the Reloan;
- (c) The financial condition of SDSB and the Sub-Borrowers, including those in default of payment of interest or repayment of principal; and
- (d) The progress of the Project.

Such books and records shall be regularly audited, in accordance with sound auditing standards, for such periods and at

such intervals as A.I.D. may require, and shall be maintained for five (5) years after the date of the last disbursement by A.I.D. or until all sums due A.I.D. under this Agreement have been paid, whichever date shall first occur.

SECTION 6.10. Reports. The Borrower shall cause to be furnished to A.I.D. such information and reports relating to the Loan, to the Reloan, to the Subloans, and to the Project as A.I.D. may reasonably request.

SECTION 6.11. Review. The authorized representatives of A.I.D. shall have the right at all reasonable times to review, survey and audit the carrying out of the Project, the use of the proceeds of the Loan, the Reloan, and Subloans, and the Borrower's and SDSB's books, records, and other documents relating to the Project, the Loan, the Reloan, and Subloans. The Borrower shall cooperate with A.I.D. to facilitate such reviews, surveys, and audits and shall permit representatives of A.I.D. to visit any part of Swaziland for any purpose relating to the foregoing.

ARTICLE VII

Procurement

SECTION 7.01. Procurement. Except as A.I.D. may otherwise agree in writing, disbursements made pursuant to Section 8.01 shall be used exclusively to finance Sub-Borrower procurement of Eligible Items, the source of which will be limited to Swaziland.

SECTION 7.02. Eligibility Date. Except as A.I.D. may otherwise agree in writing, no goods or services may be financed under the Loan which are procured pursuant to orders or contracts firmly placed or entered into prior to the date of this Agreement.

SECTION 7.03. Goods and Services Not Financed Under the Loan.

Goods and services procured for the Project, but not financed under the Loan, shall have their source in countries included in Code 935 of the A.I.D. Geographic Code Book as in effect at the time orders are placed for such goods and services.

SECTION 7.04. Implementation of Procurement Requirements.

Definitions applicable to the eligibility requirements of Sections 7.01 and 7.03, and goods and services included in "Eligible Items" under Section 1.02(a) will be set forth in Implementation Letters.

SECTION 7.05. Reasonable Price. No more than reasonable prices shall be paid for any Eligible Items financed, in whole or in part, under the Loan, as more fully described in Implementation Letters. Such items shall be procured on a fair basis in accordance with procedures thereof prescribed in Implementation Letters.

SECTION 7.06. Information and Marking. The Borrower shall give publicity to the Loan and the Project as a program of United States aid and shall instruct SDSB to so identify Subloans, as prescribed in Implementation Letters.

ARTICLE VII

Disbursements

SECTION 8.01. Disbursements for Local Currency Costs. Upon satisfaction of conditions precedent, the Borrower may, from time to time, request A.I.D. to disburse Rand, or such other local currency as is legal tender in Swaziland, for Pefloan and Subloans in accordance with the terms of this Agreement by submitting to A.I.D. such supporting documentation as A.I.D. may prescribe in Implementation

Letters. The United States dollar equivalent of the Rand or other local currency made available hereunder will be the amount of United States dollars required by A.I.D. to obtain such currency.

SECTION 8.02. Other Forms of Disbursement. Disbursements of the Loan may be also made through such other means as the Borrower and A.I.D. may agree to in writing.

SECTION 8.03. Date of Disbursement. Disbursements by A.I.D. shall be deemed to occur on the date on which A.I.D. disburses to the Borrower or its designee.

SECTION 8.04. Terminal Date for Disbursement. Except as A.I.D. may otherwise agree in writing, no commitment documents which may be called for by an agreed form of disbursement under Section 8.02, shall be issued in response to requests received by A.I.D. after thirty (30) months, and no disbursement by any means shall be made against documentation received by A.I.D. after thirty-six (36) months from the date of execution of this Agreement.

ARTICLE IX

Cancellation and Suspension

SECTION 9.01. Cancellation by the Borrower. The Borrower may, with the prior written consent of A.I.D., cancel, by written notice to A.I.D., any part of the Loan (i) which, prior to the giving of such notice, A.I.D. has not disbursed or committed itself to disburse, or (ii) which has not then been utilized through the issuance of Irrevocable Letters of Credit or otherwise.

SECTION 9.02. Events of Default, Acceleration. If any one or more of the following events ("Events of Default") shall occur:

- (a) The Borrower shall have failed to pay when due any interest or installment of Principal required under this Agreement;
- (b) The Borrower shall have failed to comply with any other provision of this Agreement, including, but without limitation, the obligation to carry out the Project with due diligence and efficiency and in accordance with the terms of the Reloan Agreement.
- (c) The Borrower shall have failed to pay when due any interest or any installment of Principal or any other payment required under any other loan agreement, any guaranty agreement, or any other agreement between the Borrower or any of its agencies and A.I.D. or any of its predecessor agencies;
- (d) Any representation or warranty made by or on behalf of the Borrower with respect to obtaining this Loan or made or required to be made hereunder is incorrect in any material respect; then A.I.D. may, at its option, give to the Borrower notice that all or any part of the unrepaid Principal shall be due and payable sixty (60) days thereafter, and, unless the Event of Default is cured within such sixty (60) days: (i) such unrepaid Principal and any accrued interest hereunder shall be due and payable immediately, and (ii) the amount of any further disbursements made when outstanding irrevocable Letters of Credit

or otherwise shall become due and payable as soon as made.

SECTION 9.03. Suspension of Disbursement. In the event that at any time:

- (a) An Event of Default has occurred;
- (b) An event occurs that A.I.D. determines to be an extraordinary situation that makes it improbable that the purpose of the Loan will be attained, or that the Borrower will be able to perform its obligations under this Agreement, or that SDSB will be able to perform its obligations under the Reloan Agreement;
- (c) Any disbursement by A.I.D. would be in violation of legislation governing A.I.D.; or
- (d) The Borrower shall have failed to pay when due any interest or any installment of Principal or any other payment required under any other loan agreement, any guaranty agreement, or any other agreement between the Borrower or any of its agencies and the Government of the United States or any of its agencies; then A.I.D. may, at its option:
 - (i) Suspend or cancel any outstanding commitment documents to the extent that they have not been utilized through the issuance of irrevocable Letters of Credit or otherwise, in which event A.I.D. shall give notice to the Borrower promptly thereafter;
 - (ii) Decline to make further disbursements, other than

under outstanding commitment documents; and

(iii) Decline to issue commitment documents.

SECTION 9.04. Cancellation by A.I.D. Following any suspension of disbursements pursuant to Section 9.03, if the cause or causes for such suspension of disbursements shall not have been eliminated or corrected within sixty (60) days from the date of such suspension, A.I.D. may, at its option, at any time or times thereafter, cancel all or any part of the Loan that is not then either disbursed or subject to irrevocable Letters of Credit.

SECTION 9.05. Continued Effectiveness of Agreement. Notwithstanding any cancellation, suspension of disbursement, or acceleration of repayment, the provisions of this Agreement shall continue in full force and effect until the payment in full of all Principal and any accrued interest hereunder.

SECTION 9.06. Refunds.

(a) In the case of any disbursements not supported by valid documentation in accordance with the terms of this Agreement, or of any disbursement not made or used in accordance with the terms of this Agreement, A.I.D., notwithstanding the availability or exercise of any of the other remedies provided for under this Agreement, may require the Borrower to refund such amount in United States dollars to A.I.D. within thirty (30) days after receipt of a request therefor. However, in the event that such disbursement was originally made in local currency and if A.I.D. determines that the amount of such refunds can be used to pay the local currency costs of other goods

and services approved for financing under the Loan, A.I.D. will accept such refund in local currency.

The amount of any refund shall be made available first for the cost of goods and services procured for the Project hereunder, to the extent justified; the remainder, if any, shall be applied to the installments of Principal in the inverse order of their maturity and the amount of the Loan shall be reduced by the amount of such remainder. Notwithstanding any other provision in this Agreement, A.I.D.'s right to require a refund with respect to any disbursement under the Loan shall continue for five (5) years following the date of such disbursement.

- (b) In the event that A.I.D. receives a refund from SDBB, or any Sub-Borrower, contractor, supplier, or banking institution, or from any other third party connected with the Loan or the Project, with respect to goods or services financed under the Loan, and such refund relates to an unreasonable price for goods or services, or to goods that did not conform to specifications, or to services that were inadequate, A.I.D. shall first make such refund available for the cost of goods and services procured for the Project hereunder, to the extent justified; the remainder, if any, to be applied to the installments of Principal in the inverse order of their maturity and the amount of the Loan shall be reduced by the amount of such remainder.

SECTION 9.07. Expenses of Collection. All reasonable costs incurred by A.I.D., other than salaries of its staff, in connection with the collection of any refund or in connection with amounts due A.I.D. by reason of the occurrence of any of the events specified in Section 9.02 may be charged to the Borrower and reimbursed to A.I.D. in such a manner as A.I.D. may specify.

SECTION 9.08. Nonwaiver of Remedies. No delay in exercising or omission to exercise any right, power, or remedy accruing to A.I.D. under this Agreement shall be construed as a waiver of any such rights, powers, or remedies.

ARTICLE X

Miscellaneous

SECTION 10.01. Communications. Any notice, request, document, or other communication given, made, or sent by the Borrower or A.I.D. pursuant to this Agreement shall be in writing or by telegram, cable, or radiogram and shall be deemed to have been duly given, made, or sent to the party to which it is addressed when it shall be delivered to such party by hand or by mail, telegram, cable, or radiogram at the following addresses:

TO BORROWER:

Mail Address: Ministry of Finance and Economic Planning
P. O. Box 443
Mbabane, Swaziland

TO A.I.D.:

Mail Address: East Africa Regional Economic
Development Services Office
c/o Agency for International Development
P. O. Box 199
Mbabane, Swaziland

Other addresses may be substituted for the above upon the giving of notice. All notices, requests, communications, and documents submitted to A.I.D. hereunder shall be in English.

SECTION 10.02. Representatives. For all purposes relative to this Agreement, the Borrower will be represented by the individual holding or acting in the office of the Minister of Finance and Economic Planning, and A.I.D., for purposes of issuing implementation letters pursuant to Section 10.03 of this Agreement, will be represented by the individual holding or acting in the office of Director, East Africa Regional Economic Development Services Office. Such individuals shall have the authority to designate additional representatives by written notice. In the event of any replacement or other designation of a representative hereunder, the Borrower shall submit a statement of the representative's name and specimen signature in form and substance satisfactory to A.I.D. Until receipt by A.I.D. of written notice of revocation of the authority

of any of the duly authorized representatives of the Borrower designated pursuant to this Section, it may accept the signature of any such representative or representatives on any instrument as conclusive evidence that any action effected by such instrument is duly authorized.

SECTION 10.03. Implementation Letters. A.I.D. shall from time to time issue Implementation Letters that will prescribe the procedures applicable hereunder in connection with the implementation of this Agreement.

SECTION 10.04. Termination Upon Full Payment. Upon payment in full of the Principal and of any accrued interest, this Agreement and all obligations of the Borrower and A.I.D. under this Loan Agreement shall terminate.

SECTION 10.05. Effective Date. The Loan Agreement shall become effective on, and the date first appearing above shall be, the date of the last signature made below.

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IN WITNESS WHEREOF, Borrower and the United States of America,
each acting through its respective duly authorized representative,
have caused this Agreement to be signed in their names and delivered
as of the day and year first above written.

KINGDOM OF SWAZILAND

By: R.P. [Signature]

Title: Minister of Finance

UNITED STATES OF AMERICA

By: [Signature]

Title: American Ambassador