

Proj. 9311/34 (1)
 PH 70-110-281-61

AGENCY FOR INTERNATIONAL DEVELOPMENT
 PROJECT PAPER FACESHEET
 TO BE COMPLETED BY ORIGINATING OFFICE

1. TRANSACTION ("X" applies)
 Original
 Add Delete
 CODE 3 8/p

2. COUNTRY/ENTITY
 TA Bureau RDA-1 B

3. DOCUMENT REVISION NUMBER

4. PROJECT NUMBER 931-1134

5. BUREAU
 a. Symbol TAB b. Code 08

6. ESTIMATED FY OF PROJECT COMPLETION
 FY | 8 | 0 |

7. PROJECT TITLE - SHORT (stay within brackets)
 Small Farmer Credit

6. ESTIMATED FY OF AUTHORIZATION/OBLIGATION
 a. INITIAL mo. yr. | 8 | 7 | b. FINAL FY | 79 |

9. ESTIMATED TOTAL COST (\$000 or equivalent, \$1 =)

a. FUNDING SOURCE	FIRST YEAR FY 77			ALL YEARS		
	b. FX	c. L/C	d. Total	e. FX	f. L/C	g. Total
AID APPROPRIATED TOTAL	485			750		
(Grant)	()	()	()	()	()	()
(Loan)	()	()	()	()	()	()
Other 1.						
U.S. 2.						
HOST GOVERNMENT						
OTHER DONOR(S)						
TOTALS	485			750		

10. ESTIMATED AID APPROPRIATED FUNDS (\$000)

a. Agency Division (Alpha Code)	b. Primary Purpose Code	c. Primary Activity Code	FY 77		FY 78		FY 79		ALL YEARS	
			d. Grant	e. Loan	f. Grant	g. Loan	h. Grant	i. Loan	j. Grant	k. Loan
FN	1291	049	485	-	-	265	-	-	750	-
TOTALS			485	-	-	265	-	-	750	-

11. ESTIMATED EXPENDITURES
 20 190 305 750

12. PROJECT PURPOSE(S) (stay within brackets) Check if different from PID/PRP

13. WERE CHANGES MADE IN BLOCKS 12, 13, 14, or 15 OF THE PID FACESHEET? IF YES, ATTACH CHANGED PID FACESHEET.
 Yes No

14. ORIGINATING OFFICE CLEARANCE

Signature: *Leon F. Hesser*

Title: Leon F. Hesser, Director, TA/AGR

Date Signed: mo. day yr. | 06 | - | 17 | - | 77 |

15. Date Received in AID/W, or For AID/W Documents, Date of Distribution
 mo. day yr. | | | | | | |

1134
931-✓

SMALL FARMER CREDIT: PROFITABILITY AND REPAYMENT

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I. PROJECT SUMMARY AND RECOMMENDATIONS

A. Recommendations

It is recommended that a cooperative agreement be signed with one or more of the U.S. universities assisting the Agency under the Expanded Program of Economic Analysis for Agricultural and Rural Sector Planning for the services specified in this paper. The total budget for the three year project covering the period 1977-1980 is estimated to be \$750,000.

B. Statistical Description

Project Title:	Small Farmer Credit-- Profitability and Repayment	
New or Extension:	New	
Duration:	Three years - September 1, 1977 through August 31, 1980	
Total Estimated Cost:	FY 1977	\$175,000
	FY 1978	310,000
	FY 1979	265,000
		<u>\$750,000</u>
Contractor:	Cooperating University/Universities (With sub-contracts to in-country institutions.)	
Principal Investigator:	To be Designated	
Project Management:	Anne Ferguson, TA/AGR/ESP Erhardt Rupperecht	

C. Narrative Description

Small farmer credit programs in LDC's have a common problem--high levels of delinquency in loan repayments. This problem holds for AID-financed programs as well as for those financed by other international donors. Most studies

of this problem have concentrated on how credit agency operations and procedures could be modified to increase loan collections or to minimize the impact of non-repayment on the financial viability of the lending institution.

The 1973 AID Spring Review of Small Farmer Credit stressed the need for a clearer understanding of the role of credit on small farms. It noted that, relative to the amount of funding for agricultural credit, too little professional attention had been given this topic. This project views the role of credit from the perspective of how changes in credit policies affect the use and repayment of credit by the small farmer. Its purpose is to develop and apply methodologies for use by credit institutions in LDC's to carry out whole farm and enterprise analysis for small farm credit programs.

The development and use of the availability of improved methodologies for farm level data collection and analysis oriented to more effective credit use will assist participating financial institutions to design credit programs which will enhance effective use of credit and repayment of loans by small farmers. This will be accomplished by analysis and evaluation of the role of credit in improving disposable incomes. The project will focus on relevant data collection and analysis for evaluation of the role of credit in improving disposable incomes of small farms. Informational reports will be prepared for LDC decision makers on conditions, resources, constraints, practices, problems and functional relationships involved in the operation of small farms. Policy alternatives which could assist in improving the incomes of this group will be evaluated particularly with regard to credit utilization.

Presently most LDC credit institutions utilize some form of budgeting for small farmer lending. However, it is usually limited to single enterprise budgets often based on inappropriate data and nearly always without accompanying analysis of enterprise

alternatives and enterprise mix for the farm household firm as a production/consumption unit. Budgeting and farm analysis carried out by credit institutions is often based on poor or outdated data and based only a limited number of the cropping patterns and technologies available to farmers. There is a great need to develop systematic, cost-effective procedures which can be used by credit institutions to obtain a wide range of enterprise and farm budgets which are timely and reasonably represent the economic and resource characteristics of the many types and groups of the farmers they deal with. This project is designed to meet that need.

Many factors affect repayment of credit. The focus of the work under the project is based on the assumption that several of the major factors directly related to profitability both from crop year to crop year and over time are important determinants of repayment. Weather, for example, affects yields and thus the risks associated with borrowing. Similarly, extension programs affect cultural practices; capital investment programs in land improvements affect land productivity; and seasonal and annual variations in input and output prices affect cash flows as well as profit levels. The methodologies will assist in assessing profitability of [credit use and repayment capacity.] The project assumes that profitability and cash flow are major factors in loan delinquency. However, willingness to repay loans (i.e., attitudes toward use and repayment, collection procedures and legal sanctions) also is an important factor affecting repayment of credit. Data on willingness will be collected and analyzed in case studies, this also will include assessment of social obligations and obligations to non-formal credit sources which may impede loan repayment.

While the evaluation of attitude on loan repayment is difficult to measure objectively, credit institutions need to understand and take into account farmers' social obligations,

cultural setting and scope and terms of informal credit in selecting borrowers, and in determining the most appropriate collection procedures.

The specific data collection and analysis methodologies to be developed and applied under this project will assist in measuring the relative impact of several such variables on profitability of credit use and resulting economic and financial capacity for repayment.

The loan repayment problem is complex and the work under this project cannot be expected to resolve all issues involved. However, to the extent that the application of methodologies developed and used under the project can provide data and analysis for designing more appropriate and responsive credit policies for distinct groups of small farmers, it can be expected to result in improved borrower incomes and associated higher loan repayments levels.

Four major components are envisioned under this project: (1) development of budget analysis methodologies specifically appropriate for credit institution use (2) design of cost-effective data collection methodologies to supply reliable data for credit institution analysis of the whole farm (including the farm households), (3) application and utilization of data collection and analysis methodologies in two LDC's and (4) dissemination of results and findings to AID, LDC's, and other interested parties.

The four components of the project, while considered separately as distinct activities, are envisioned as critically interrelated components needed to achieve the project purpose of developing operationally useful methodologies which will assist in providing guidelines for improved credit policies. The selection and adaptation of the budget analysis methodology will provide the analytical framework for assessing the viability of loans to distinct categories

of small farmers; the selection and adaptation of cost-effective data collection methodology will provide the basis for the utilization of the budget analysis and in addition help to assure its continued usefulness.

The focal point of project design is in the in-country application and utilization component. The objective of this component is to demonstrate the practical utility of the developed methodologies in improving the lending operations of the credit institutions. This will be carried out within the context of existing programs and in conjunction with credit institutions in the selected countries. The approach of the project will be the analysis and evaluation of the role of credit in improving disposable incomes from the operation of small farms. Increased knowledge on the role of credit in the specific country setting is also expected to give insights for credit programs in other LDC's. Dissemination of project results will provide information and technical assistance if requested to other interested LDCs. Coordinated development of the project components will increase both in-country usefulness and overall project results.

The project will be implemented by U.S. universities (to be selected) under Cooperative Agreement arrangements. The cooperating universities will make final selection, with AID's approval, of the two LDC's and the respective participating host financial institutions. Senior staff from cooperating universities and consulting resources from other universities and organizations will be funded to carry out the activities of the project in cooperation with LDC technicians and professionals.

At the end of the three-year period of the project, AID and the participating lending institutions in the LDC's will have available to them the specific analytical results which should be helpful for improving credit program design, and for improving credit policies. A project evaluation will determine if the initial projection of a three year effort was realistic and whether the results to date would merit an extension if more time were needed to complete the application and utilization of the methodologies.

D. Summary Findings

The project is socially, institutionally, and economically sound. Agricultural lending institutions in LDC's are already using rudimentary enterprise budgeting and farm analysis for program formulation and implementing. This project will build on and improve such efforts in the two LDC countries selected.

Capability exists in U.S. universities in the area of agricultural economics and farm management to cooperate with LDC institutions in designing at which these methodologies are implemented in the selected LDC's will depend on the managerial and technical capabilities of the individuals and institutions involved. However, adequately trained professionals and technicians are available or can be trained within the life of the project to accomplish the purpose outlined for the project.

E. Issues

Any issues which arise during the project review process will be addressed in Annex I.

II PROJECT BACKGROUND AND DETAILED DESCRIPTION

A. Project Background

1. Project Development

The project has been developed by TA/AGR/ESP. The PID was approved for circulation to R & DC March 7, 1977, and approved for project development by R & DC on March 22, 1977. Subsequently a PIO/T has been authorized to negotiate a basic assistance Cooperative Agreement with Colorado State University (CSU). The purpose of a basic assistance Cooperative Agreement is to utilize U.S. University expertise for identification and analysis of problem issues in agricultural and rural sector planning as applied to LDC conditions and needs. In this case it was determined that specialized expertise available at CSU was required to adequately address the technical and analytical aspects of developing the project.

Preliminary discussions with USAID/Honduras and USAID/Manila have taken place at the suggestion of the appropriate technical offices of their respective regional Bureaus. Both have indicated initial interest in the project and have requested that the project be developed further with these countries in mind. Under the basic assistance Cooperative Agreement, CSU will finalize the implementation plan in consultation with prospective participating countries and the USAID missions.

2. Relevant AID Experience

TA/AGR/ESP is heavily involved in research and general technical assistance in economic planning in the agricultural and rural sectors. The Easton Conference resulted in a mandate to the offices of TAB that our work be problem oriented and that utilization and dissemination of analytical results be stressed.

In attempting to respond to this mandate, this GTS project will undertake applied and operationally useful analysis in the area of credit. Other recent examples of the division's response include the CRIES project and the A/D/C International Agricultural Economics Seminars. The project is supportive of the division's Expanded Program for Agriculture and Rural Sector Planning, the purpose is to expand and strengthen the capabilities of LDCs to identify and analyze the consequences of alternative policies, programs and projects for agriculture and rural development in terms of multiple economic and social goals. The program activities represent an analytical approach to policy and program formulation for increasing output, improving productivity and expanding employment in farm and nonfarm occupations as a means to increase incomes and provide increased basic social service for the rural population. The elements of such an approach can be viewed in the context of the subject areas or categories to be addressed, such as credit.

R & DC approved TA/AGR/ESP's PID on the Profitability and Repayment of Credit and TA/RD's PID on Rural Financial Markets, subject to coordination of the two projects.

The TA/RD project is attempting to combine state of the arts studies, applied research, information dissemination, and consulting to address short to medium term operational issues. In the development and utilization of cost-effective data collection and budget analysis methodologies ESP's project should complement the applied research envisioned by TA/RD. In addition, the information dissemination and workshops of the TA/RD project represent one possible channel for dissemination of ESP's project results to other LDCs.

In-country application of the two projects will require specific coordination. In Honduras and the Philippines, the countries being initially considered for ESP's project, the necessity for coordination differs and therefore the degree of coordination will differ.

USAID/Honduras in preliminary discussion has asked that ESP's project be applied and tested in Honduras and has stated that they will also request the consulting services from Ohio State University envisioned under the TA/RD project. USAID/Manila has asked that both ESP's project and the applied research component of TA/RD's project be further developed with the Philippines in mind; and after further development, the GOP Technical Board for Agricultural Credit (TBAC) will assess the complementarity not only between the two projects but also among their overall program effort.

An Inter-Bureau Committee for Agricultural Credit reviewed the project on May 4, 1977 and suggested minor revisions which have been incorporated into the project.

Other AID projects which would relate to the project and could be supportive are the Honduran Small Farmers Technologies project (discussed in Section III-B,) the Philippine Small Scale Irrigation project, and the CATIE/ROCAP small farm systems work. TA/RD proposed methodologies for planning and evaluation will attempt to synthesize approaches to the measurement of socio-economic changes. It does not propose in-depth experimentation with the application of methodologies.

The social indicators project in the Philippines provides another example of a complementary project with a data collection component. This as well as other in-country sources of data will be utilized to the maximum extent possible.

3. Other Donor Experience

The FAO's continuing work on the role of farm management in small farmer development can represent an important corollary to the implementation of this project. The FAO's work to date will be reviewed carefully during stage one of the project. It is intended that this be used as a major building block in the development and adaptation of the methodologies. IBRD's work on evaluation of credit loans and repayment capacity will also be reviewed for applicability in development of the project's methodology.

4. The Repayment Problem

Funding of agricultural credit programs by AID, the World Bank and other international donors has received high priority in development assistance programs for many years. Initially, funds were channeled directly to specific agricultural credit projects. More recently, funding for credit has continued, but as one of many components of more broadly focused agricultural or rural sector development programs. Furthermore, many man-years of technical assistance on credit matters have been financed to complement the direct funding of agricultural lending activities in developing countries. The experience with extending agricultural credit to farmers (of all sizes) has been quite mixed. The 1973 A.I.D. Spring Review of Small Farmer Credit was the first major attempt by any of the donor

agencies to evaluate the results of such credit activities. In that Review it was concluded "that there has been and continues to be too little professional attention given to credit issues (beyond organizational and methods matters) to match the relatively high rate at which A.I.D. resources are pushed into credit programs." That conclusion is just as valid today as four years ago, since LDC agricultural credit programs still absorb large amounts of external funding either directly or as part of broader, more integrated projects. With the continued developmental emphasis on agricultural credit in one form or another, by both international donors and the developing countries, they are implicitly suggesting that credit is an important ingredient for agricultural and rural development. However in the majority of the LDCs, farm loan delinquency in varying magnitudes is a common problem experienced by most agriculture or credit programs. This suggests agricultural credit, or the essential conditions under which it can effectively operate, have not yet been adequately defined and matched in program design.

Ineffective credit policies result in loan delinquency causing significant problems for the borrowers and the lending institutions alike. Agricultural loans to farmers which result in additional input and operational costs but ~~with~~ insufficient offsetting additional returns, actually harm the producer, regardless of how well-intentioned the credit agent or institution making the loan might have been. In addition, non-repayment results in a bad credit record for that farmer, making it difficult to obtain future credit. For the lending institution, poor loan repayment means less revenue to cover administrative and other costs and less available credit for the next production cycle. Thus, the financial viability of the lending institution is seriously affected, making it dependent upon continual support from the central government or from international donors if it wishes to maintain even a constant loan program level.

Some studies of this problem have concentrated on how credit agency operations and procedures could be modified to increase loan collection or minimize the impact of non-repayment on financial viability. However, many other studies point to the unprofitability of technology financed by credit as a major and underlying cause of delinquency. The 1973 Spring Review stressed this point. Even World Bank studies of large farmer credit programs suggest lack of profitability as an important cause of loan delinquency. Recognizing the importance of this question, A.I.D. now requires profitability analysis of new technology for small farmers under its project review process but tends to restrict such analysis to the project design stage and not the implementation stage.

For credit programs to be viable and have any real impact on the small farmer, program strategies and their implementing policies must be formulated realistically and oriented toward the major problems confronting small farmers seeking to improve their condition. This requires a full realization of existing conditions affecting farm operations (internal and external), and an understanding of the potentials and alternatives for improved farm incomes, as well as information on the critical factors restricting the achievement of this potential. In brief, actions taken to improve farm incomes require a more precise understanding of income producing processes at the farm level.

Recent advances in the field of agricultural planning clearly indicate that development policies should reflect existing conditions and an inter-relationship of production relationships and behavior at the producer level to ensure more efficient resource allocation and performance. Thus, planning and policy formulation must be based on microeconomic data and analysis as well as on macroeconomic analysis to serve as the basis for building effective programs and policies. Unfortunately, microeconomic income and technical production data required for carrying out farm level strategy formulation, especially for the small farm sector, is neither readily nor sufficiently available in most developing countries.

A microeconomic basis for policy analysis requires an effective data collection and analysis system. Such a system would provide information on input/output coefficients, factor/product price ratios, capital/credit requirements, alternative production systems under various agro-ecological

conditions, production structures, and organizational arrangements. With such information, the impact of alternative credit policies on small farmers can be estimated and more effective strategies devised and implemented.

Examples of impacts of alternative credit policies which the project may produce are:

- a. Changes in production patterns through crop diversification, changes in crop mix, non-traditional enterprises, improved technologies, etc.;
- b. Financing supporting services structure to place inputs, marketing facilities and extension services within adequate reach of target farmers;
- c. Provision of credit or alternative subsidies within a defined period of time to give the agricultural borrower an opportunity to increase income margins and become economically viable.

Specific credit policies areas which could be improved as the result of information gained from the study:

1. Provide information that may make possible a policy of lending on basis of individualize farm plan instead of constructed interprise budget.
2. Policy of whole-farm lending as contrasted to single interprise.
3. Improved policies for present resouce base investment lending appropriate products credit/investment credit mix i.e., cross impacts.
4. Improved policies for repayment terms (cash flow & debt service capacity).
5. Improved subsity policy - provides criteria for shifting from transfer payments (e.g., interest rate subsidizes) to cost sharing for permanent production improved investments.
6. Improved criteria for loan renewal & loan forgiveness.
7. Improved criteria for determining farmer training needs and intensity of extension assistance (i.e., categorize farmers for this purpose).
8. Criteria for making credit use farm development plan on a forward basis (i.e., line of credit plan over 3 to 5 years).
9. Allows balancing of factor use with factor availability (i.e., optional labor use matched with land and other capital).
10. Criteria allocating (within an area or region) capital and credit for internal (on-farm) external investment (e.g., on farm production investment vs market facilities infrastructure)
11. Improved criteria for collection (i.e., distinguishing between those who have the present ability to repay, those of have had a temporary set back but with future potential ability to repay, and those who will be unable to repay from farm earnings).

Small farmers have limited savings capacity which leave little for investment in new technologies. Thus, in adopting new technology, small farmers have a greater need for credit than large farmers. The problem is to distinguish between those farmers who can and those who cannot make enough money from credit use to be expected to repay--given a set of circumstances that constitute his production/consumption/marketing environment. The role that credit can play in changing the traditional production function is stressed in literature. Low savings of small farmers, increasing prices of modern inputs, and gradual reduction of subsidies on agricultural inputs highlight the importance placed on credit. If small farmers are to adopt new technologies these must be sufficiently profitable to induce them to use credit, and there must be adequate credit available at profitable costs. Credit is a facilitating input without which it might be difficult for the small farmer to effectively adopt new technologies.

It is recognized that many factors affect the profitability of credit use. Weather, for example, affects yields and thus the risks associated with borrowing. Similarly, extension programs affect cultural practices; capital investment programs in land improvements affect land productivity; and seasonal and annual variations in input and output prices affect cash flows as well as profit levels. All of these factors can be taken into account by the methodologies proposed for this project.

It is more difficult to measure factors affecting farmers willingness to repay credit. For example, the small farmer's order of priority is often such that informal sources of credit will be repaid before formal sources. To assess the importance of attitude, credit institutions will need to understand farmers' social obligations and their cultural setting as well as the scope and terms of credit from informal sources.

Credit institutions are only partially successful in their efforts to gather data on small farmers which will help guide borrower selection and credit allocation. Budget analysis, primarily by crop or enterprise, is used by nearly all institutions, public and private, as a tool in decision making. Farm and enterprise budgets and plans are used by credit offices in making loan decisions on amounts and types of activities to be financed; they are used by governments in developing countries to justify their agricultural development programs, and often are used within A.I.D. as the basis for project analysis especially on the question of technology profitability. Unfortunately, due to time and resource constraints, farm budgeting analysis is carried out at one point in time to meet important and immediate needs of these institutions but no systematic procedure results to assure that the analysis continues to provide reliable, accurate, and up-to-date information. Budgets

used by credit agents often are outdated and represent only one of many possible technological and organization possibilities--usually one of the better farmers in the region and not representative of most farmers to be financed with credit. Over time credit agents tend to use the same budgets over and over and they no longer provide insights on credit profitability or allocation questions. Thus, there is great need for a systematic, institutionalized mechanism to develop enterprise and farm budgets which represent the economic and resource characteristics of many types and groups of farmers.

Budget analysis as presently carried out by most credit agencies (or as part of credit program design) often is inadequate and inappropriate because of (1) lack of sufficient, appropriate, and accurate information on factors affecting the income effect of use of credit by small farmers, and (2) lack of appropriate methodologies for analyzing financial and physical data even if adequate data were available. This project is designed to develop and test alternatives for alleviating both problems. First, available analytical methodologies used in farm budgeting and planning will be modified to include analysis of the small farmer (i.e., the whole farm as a consuming and producing unit). Second, a system for collecting the information required for income analysis for typical small farms in LDC's will be developed and applied. The third step will utilize the modified methodologies and farm data to assist credit agencies in two LDC's to design credit programs and policies which will improve farmer incomes and repayment rates. The final step will entail preparation of a report on the methodologies developed and tested for dissemination of project results to missions and other LDC's.

B. DETAILED DESCRIPTION

1. Purpose and Goal:

The goal of this project is to increase small farmers' incomes through the improvement of the design of rural credit policies. This goal can be realized if farm credit can be used to assist small farmers to adopt technologies which are sufficiently profitable to allow them to repay their loans and still realize a net economic gain.

The purpose of the project is to develop methodologies which credit institutions in LDC's can use to carry out whole farm and enterprise analysis for small farmer credit programs. Two steps are needed to achieve this purpose. First, the factors associated with the profitable (unprofitable) use and repayment (non-repayment) of credit must be determined. Second, a framework for analyzing the impacts of these factors must be developed.

The strategy of the project is to adapt and modify farm budgeting and planning techniques to LDC small farmer conditions. This will result in a stratification of small farmers with different resources and factor endowments, and an identification of the appropriate role credit can play in facilitating and improving access choices of technology for farmers in each stratum.

2. Outputs:

The outputs of this project will be a set of analytical methodologies and information which can be used to improve the effectiveness of small farmer credit programs in increasing target group incomes. More specifically, outputs will include:

(a) Adapted budget analysis methodologies which can be used to measure the impact of various factors on profitability and income levels resulting from credit use by small farmers.

(b) Development of cost-effective methods of collecting appropriate and accurate data on the various factors affecting small farmer's use of credit and the profitability of credit. Special attention is to be given to the development of continuous reporting and farmer generated record-keeping systems.

(c) Increased knowledge of the factors affecting small farmers ability and willingness to repay credit.

(d) Analysis of the impact of potential changes in credit program design on the income and net worth position of small farms and on the viability of the credit institution. This will result in recommendations for improved and more appropriate policies related to small farmer credit.

(e) In-country testing of the appropriateness and utility of the methodologies and data systems developed.

(f) Dissemination of project results to AID missions and other LDC's.

3. Project Components

(a) Introduction

The project will develop modified methodologies on cost effective data collection and budget analysis to assist credit agencies in the design of credit programs and policies which will enhance repayment rates. The methodology for cost effective data collection will provide a least cost collection process for accurate and timely data required in the budget analysis. In country application and testing of the methodologies will be carried out within the context of existing programs and in conjunction with the credit institutions in the selected countries. The approach of the project will be the analysis and evaluation of the role of credit in improving disposable incomes from the operation of small farms. Increased knowledge on the role of credit in the specific country setting is also expected to give insights for credit programs in other LDC's.

Specific project components include the development of 1) budget analysis methodology, 2) cost effective data collection methodology, 3) in-country application and utilization of the methodologies, and 4) worldwide dissemination of the methodologies and the process of application and utilization developed. The four components of the project while considered separately as distinct activities, are envisioned as critically interrelated components needed to achieve the project purpose of developing operationally useful methodologies which will assist in providing guidelines for improved credit policies. The selection and adaptation of the budget analysis methodology will provide the analytical framework for assessing the viability of loans to distinct categories of small farmers; the selection and adaptation of cost-effective data collection methodology will provide the basis for the utilization of the budget analysis

and in addition help to assure its continued usefulness; in-country application and utilization of the methodologies will assist in the improvement of the credit programs of the two selected countries while providing for the testing and demonstration of the methodologies. The dissemination of the project results will provide information and technical assistance if requested to other interested LDCs. The coordinated development of the project components will increase both the in-country usefulness and overall project results.

(b) Budget Analysis Methodology

Farm budgeting is the primary framework for rational decisions regarding profitability of credit use, for selection from among alternative technologies, and for determining total farm plans. Budgeting is a systematic procedure which permits a decision with a given information or data base. It is used by nearly all credit institutions, public and private, as a tool in decision making. Budget analysis produces an assessment of expected earned income over a period of time and an assessment of financial flows within that period of time. The primary purpose of budget analysis is to provide management information for the rationalization of investment decisions.

Methodologies for budget analysis currently being used in the U.S. will be developed further and modified for application to LDC conditions. This will entail a conceptual framework adapted to the production systems, cultural practices and social and administrative structures of the particular countries. Farm budgets used by credit agencies and planning institutions in LDCs commonly are of an enterprise type, most often a quantitative description of a single commodity. Enterprise budgets^{1/} (i.e., the calculation of production costs and returns by enterprise) is the first step in the analysis procedure. This

1/ See Annex A for Basic Budgeting Definitions

involves the synthesis of information about inputs, outputs and their prices to derive the costs and values of production under existing crop and livestock enterprise structures. Different structural and economic parameters, production coefficients and performance indicators, including gross margin and net return per unit of input (i.e., land, labor, management, etc.) also are determined.

These budgets are the building blocks for whole farm budgets which utilize individual enterprise budgets and aggregate them in the proper proportions. Budget analysis for the whole farm (including the farm family) is desirable due to the highly integrated structural organization of the majority of small farmers. In the absence of clarification of the close and mutual dependency among enterprises, it would be difficult to facilitate changes in the structure of the farm without consequent unanticipated repercussions throughout the system.

Another reason for using the farm/household unit is that in most LDCs, more inputs are farm-produced (manure, labor, animal power, seed, fuel); more products are wholly or partly processed on the farm before sale and a wider range of farm products is consumed by the family. Thus the farm planning problem is more complex, and more care is required in identifying the chain of causes and effects which would follow from an adjustment in any one enterprise or activity.

Possibly this closer structural integration of activities is also one reason why farmers are more resistant to the adoption of so-called technological innovation: the full consequences of an innovation may be understood better by farmers than by the proponents of change.

Budget analysis can take the form of:

- a verbal description/listing all the factors involved in the problem;
- simple sketch or flow chart of the relationship between steps in a process, processes in an enterprise, enterprises in a farm system.

- a systematic mathematical or algebraic statement of the problem (e.g. a programming matrix).

The primary aim of this component is to develop appropriate data processing procedures and fundamental budget analyses to determine income potential and financial viability of an enterprise and farm system within a distinct small farm category. The calculation of productivity measures, input/output coefficients and other performance indicators using more sophisticated analytical operations and techniques can be applied to the data to derive further insights and understanding of the problem and/or determine and evaluate alternative solutions to them.

Care will be exercised in the selection, in the adaptation and in the development of the methodologies such that they are appropriate for continued use in the selected countries. This can be accomplished through the development of a simplified hand calculated program which would be appropriate for computer use if desired.

Enterprise and/or whole farm budgets provide an adequate base for judging the profitability of farm investments. However, farm budgets do not provide an adequate indication of repayment capacity. Repayment capacity is essentially a cash flow concept. The objective in determining repayment capacity is to determine how much debt can be assumed safely with adequate provision for repayment. Thus, a cash flow analysis is merely a projection of how much cash will be available to service debt. In cases where family living expenses exceed cash available, debts are unlikely to be paid. This is the case because most farms, particularly small farms, are complex units involving both production and consumption considerations. Typically basic living expenses have the first call on cash resources, with debt service ability being essentially a residual.

A second reason that a cash flow analysis is important in terms of analyzing debt repayment capacity, is that such an analysis permits a comparison of timing of returns from investments with obligations to repay the loan. This obviously is most important in the case of long term assets, such as building, land improvement, etc. when the payoff is over a period of years. In such cases, it is common for the investment to be profitable while the cash flow is negative over a period of years or at best not adequate to match the repayment schedule.

Enterprise budgets are obviously the basis for cash flow planning. The other necessary inputs are fixed costs, such as taxes, insurance, rent, and other overhead costs, along with family living expenses. Cash flow analyses can be on either an annual, quarterly, or monthly basis. Assuming additional credit liabilities increases the risks facing the farm operator. Thus, it is usually highly desirable to provide a cash flow analysis on a monthly basis.

(c) Methodology for Cost-Effective Data Collection

The objective of this component is the development of a cost-effective method of collecting data on variables affecting small farmers' use and repayment of credit with special attention given to development of a basic records system for selected small farmers.

Many LDCs are gathering masses of data on farmers and others in the rural sector, largely through survey research. These data surveys often are designed for specific, short-term program or project needs and, once these programming needs are met, the rest of the data are used only partially or not at all. At the same time, researchers in the national and sector planning offices, economic sections of the banks and ministries, and the universities, much too often find that data on key variables for analysis are incomplete, inadequate or even missing. Thus, there is great need to design farm level data collection systems consistent with the purposes and objectives of analysis. The use to which the data will be put will dictate the types of data required and the method of collection.

Data Needs

In the context of a credit program for small farmers, four types of data uses can be identified. These are: (1) farmers' use, (2) credit agents' use, (3) program analysis and guidelines, and (4) evaluation. Each use has special data needs.

The data needs of small farmers depend upon their level of managerial sophistication. As farmers receive training in the use of farm plans and analysis, their need for farm level and other data increases.

Some data collection techniques provide few or no data to the farmers themselves. Nevertheless, they are asked to respond to time consuming and sometimes difficult or even unanswerable questions which have no meaning and provide no benefits to them--the widely used general, one-visit farm survey has this characteristic. Other data collection methods, like case studies and farm record keeping systems (single visit or multiple visit), may or may not result in data useful for the participating farmer depending upon how such activities are organized. Certainly it is safe to say that past collection systems for farm data in most LDCs generally have not been designed for other specific purposes of the farmer but rather were designed to meet the specific use where farmer behavioral changes in management and production practices are objectives of a program, the provision of reliable data to the farmer measuring the effects of recommended innovations might be a very effective way of speeding up the adoption of such innovations (assuming they are to his benefit, of course).

A second level of data need in a credit program is at the credit agents' level. Here the agent wishes to gather appropriate data to

assist him in evaluating the potential borrower. Traditionally this has meant gathering data on the farmers assets and net worth, on income flows, and on available collateral. These are used jointly to evaluate the applicant in terms of credit risk. The actual amount loaned often is based on a "representative" enterprise budget for the activity to be financed. In most cases these budgets are hand prepared, represent a fairly large region, and assume rather high levels of technology and managerial capability. Past LDC credit studies lead one to conclude that these data collection efforts provide little information on the role and profitability of credit use and even less on the factors affecting loan repayment.

Thus, data collection by the credit agent tends to become formalized ending up with both the farmer and agent spending considerable time recording data of very questionable use in program guidance and in meeting program goals and objectives. Few credit agents have sufficient and reliable data to classify borrowers by need and potential so that different criteria can be used for loan evaluation, supervision, and collection. Given the credit agent's responsibilities for administration, loan evaluation and approval, loan and technical supervision, and loan collection among others, it is unlikely that he alone can do much to improve the collection and use of farm level data. He must essentially rely upon data supplied by the loan applicant which is often based on recall rather than a systematic collection system. In addition, when working with small farmers it is administratively very difficult to gather such data and put it to use for each individual loan (even if the farmer had excellent recall and honestly reported his situation). Thus, credit agents must depend upon a higher level or supportive unit (either within or without the financial institution) to provide reliable

data and guidelines for borrower selection, classification, credit terms and amounts, purposes, and for identifying crop and livestock enterprises which have the greatest potential for profitable credit use.

The third data need is for program analysis and guidance. Most LDC credit institutions include a planning office, economics department or some other such office which has the overall responsibility for recommending credit allocation among regions, types of farmers, and types of enterprises. These recommendations require farm level data and analysis if the objectives of efficient and productive credit use are to be reached. Data are needed on, (1) returns to investment at the farm level under varying assumptions, (2) repayment capacity of farmers by type and size of operation, (3) the inter-relationships among consumption, production, investment and savings decisions and how risk affects those decisions, (4) the demand for and use of informal credit which can complement or compete with formal credit, and (5) farmers attitudes toward formal and informal sources of credit. Using these data, guidelines on loan terms and purposes can be established for the local credit offices. They also will help in designing allocation criteria consistent with national development objectives or to measure trade-offs associated with alternative allocation policies. The office responsible for this program analysis and guidance needs direct and continual access to farm level data.

Unfortunately, data gathered in general surveys lack sufficient detail, reliability, and timeliness to carry out significant policy analysis and to develop program guidelines on credit allocation. At the same time questionable data for analytical purposes are gathered by the local credit agents due to extreme time and resource constraints.

Thus, it appears logical to design a systematic procedure for continual data collection which primarily serves the analytical needs of this higher administrative level but which also results in data and results useful for the local credit agent and the farmer as well. Certainly no one system alone will meet the data needs at all levels but since the greatest data need exists at the analytical level, a system organized on this basis will have considerable merit.

Credit program evaluation, the fourth use, builds on the data used for analysis but is broader in scope and, as a consequence, requires considerably more data. Operationally, this function may be carried out by the same organizational unit which does the analytical and program guidance work. Program evaluation is concerned not only with the profitability and repayment of credit but with the overall impacts of the program and whether or not program goals are being reached. Thus, data on credit use and productivity at the farm level for analytical work would be of use but other data also might be needed: number of loans made and distribution by crop, type and size of farm, office and region; loans per agent and office; loan repayment by crop, farm, office and region; percentage of all farmers and small farmers reached; impact on income distribution; use of non-farm produced inputs; and percentage of output marketed, among others. Because of the special data needs for evaluation, it is unlikely data provided solely by credit agents or through the analytical office would be sufficient. Thus, special one-purpose but perhaps periodic surveys may be the most appropriate data collection system to provide the additional general data needed for evaluation.

The strategy of this component of the project will be to develop a systematic cost-effective procedure for continual data collection which primarily serves the analytical needs of credit agency's decision

makers but which will also be useful for the local credit agent and the farmer.

Types of Budgetary Data Required

The types of data required in budget analysis and planning for small farmers would be of three types:

- farm-household data, relating to present resources and consumption and production activities of the farm-household. These could be obtained by indicative case studies.
- agro-technical data, relating to potential enterprises, activities, processes, technologies, etc. which could be introduced but which are not presently on the farm. These data would be obtained from other more advanced farmers, or extension workers, research institutes, etc.
- service data, or data relating to prices of commodities, transport cost rates, water charges, fertilizer prices, etc. which are common to all farms in a group or area. This information is obtained from supply companies, the agriculture department, marketing board, etc.

Methods of Data Collection

Three main methods by which farm data can be collected have been identified in exploring the data needs of credit institutions.

- (i) ad hoc, occasional farm surveys which are conducted by the research worker, planner, or his field staff as and when the need for particular data arises.
- (ii) regularly-conducted sample or universe surveys in which the same or equivalent farmers are asked to supply a set list of data at regular intervals.
- (iii) case studies - continuous surveys in which the enumerator maintains almost continuous contact with a group of farm families and records their economic activities more-or-less as these occur.

In summary, quite different data needs exist at the farmer, credit agent, analytical and evaluation levels and, as a result, probably require very different data collection and use systems. It is suggested that the most appropriate system to gather data for analytical use is through a well-designed, multiple visit, case study mechanism. Attempting to gather data on credit use and its profitability and on factors affecting loan repayment using other techniques such as general one-visit surveys may well lead to inaccurate data and thus inappropriate credit policies.

Some specific merits of this case study approach are:

- It permits actual data to be recorded, as opposed to later recall of memory estimates, and data are thus more reliable.
- It permits progress/experience of the same group of farmers to be chartered over a period of some years (as does the second approach), instead of providing only a snapshot at one point in time.
- It is cost-effective per unit of data obtained in that the costs of developing and testing new questionnaires, drawing new samples, constructing new data processing programmes, etc. are not recurring costs.
- There are farmers and farming communities from which it is just not possible to get data unless one is willing to establish a continuous contact with them and win their confidence over time.

It should be reemphasized that the objective of cost-effective data collection is to provide accurate reliable and timely information needed for farm analysis and the development of appropriate credit policies at the least cost.

Basic Records Systems for Small Farmers

As a sub-activity in the development of a cost-effective data collection methodology, a basic records system for small farmers' use will be developed. The primary benefit of the system will be directed to the

farmer. However, the data generated by these farm records can provide invaluable raw material for continuing research and analyses. There is a chronological development and mutual interdependence among the different record books and systems in accounting. In summary, the forms of farm records and the methods in accounting have a close relationship to economic progress. They can survive only if (1) they are fitted to farmers' educational levels (including sufficient literacy, knowledge and training of how to keep records and how to use them), and (2) they are satisfactory to the farmers' actual needs which are influenced by social and economic conditions.

The advantages of keeping records in family farms can be summarized as follows:

- (1) It clarifies the financial status of the operation and gives materials for future reference.
- (2) It supplies costs of production for crops and livestock products. This makes valuable information for sales.
- (3) It makes it possible to evaluate farm assets and gives the basis for borrowing money.
- (4) It supplies basic reliable data useful to agricultural policy.
- (5) It gives ideas and ways of how to economize the cost of living.
- (6) It provides a good discipline and prevents any loss resulting from careless mistakes or misuses.
- (7) It nourishes the ability of careful observation and better judgment for management.

In data collection by personal survey on small farms, one will be dealing with some portion of farmer memory-estimates and some portion of enumeration

estimates and not with written records. There is nothing at all wrong with this, providing the sample is big enough to permit the sorting out of reasonable from unreasonable estimates. In fact, data sufficient for quite sophisticated research purposes can be built upon such estimates, e.g., simulation of a perennial crop enterprise or whole farm. However, there is a need for an up-to-date continuous file of information on farming sectors from the viewpoint of credit institutions, government planners, and international agencies.

d. In Country Application and Utilization

The third component of the project is the application and utilization of the developed methodologies in two selected countries. The countries selected to participate in the project will represent one country each from the Latin American and Asian regions with possibility of adding a third country from Near East region if strong mission support emerges. The collection, processing and analysis of data will be carried out in conjunction with LDC counterparts in a host country credit institution; and project reports, conclusions and recommendations will be prepared in consultation with officials in the credit institutions and the government planning agencies.

By working in conjunction and consultation with host country counterparts, both the project advisors and their counterparts will have the benefit of interaction and feedback in their specific areas of expertise. This can be expected to favorably impact upon the success of the project and the continued utilization of project results. The objective of this component is the testing and demonstration of the usefulness of a budget analysis methodology for whole farm analysis which treats the farm/household unit as a single income producing and expending unit, and the usefulness of indicative case studies as a cost-effective data collection methodology as a solution to the information needs of credit agencies.

Whole farm budget analysis will be based upon various combinations of enterprise budgets and family consumption patterns. As previously mentioned, most credit agencies and government planning offices use enterprise budgets. Initially, these would be verified, strengthened if necessary, and used in the analysis. As information from indicative case studies is developed, processed and analyzed, it will feed back into the enterprise budgets. Therefore, an immediate payoff would be realized in the improvement of the enterprise budgets used to evaluate policy and program decisions, in addition to being a necessary step in the development of whole farm budgets.

The focus of the project will be on the farm/households' disposable income (i.e., profitability and level of income). The procedure is to categorize small farmers into distinct sub-groups by income, resources and a particular set of objectives. The type of credit needs of each sub-group can more clearly be identified and the impact the use of credit may have on small farmers' disposable income can be identified.

Examples of particular sets of objectives for distinct sub-groups of small farmers may be:

- (a) stabilize subsistence product
- (b) increase subsistence product
- (c) provide cash for household customary necessities
- (d) provide cash for household non-customary necessities
- (e) provide cash for household non-necessities
- (f) provide cash for savings

Examples of distinct sub-groups could be as follows:

- (a) Those who have resources and managerial capacity to utilize production credit profitability in existing enterprises and achieve income improvement levels adequate to realize objectives a,b,c,d, and repay the loan.

- (b) Same as Category a, except that significant changes are required in enterprise mix (known alternatives).
- (c) Same as Category b, except that in addition, the transformation must be gradual to develop managerial capacity.
- (d) Those who have resources and managerial capability to realize objectives a, b, c, d, and e only over time and with significant investment in transforming the permanent resource base.
- (e) Those who have adequate resource potential but lack managerial potential to achieve one of the above.
- (f) Those who have adequate managerial potential but inadequate resource base to achieve one of the above.
- (g) Etc.

Each of the above categories requires a different credit program, flowing from a, where credit is the major and only significant component, to g, where credit is a minor or non-existing component (or it is consumption and not production credit).

Initial in-country activities will include an examination of existing data and farm budgeting techniques. A country-specific framework for demonstration and testing of the methodologies will be developed. Depending upon the availability and quality of data and the existing level of analysis in the particular country, a greater concentration on either of the methodologies may be warranted.

Activities for cost-effective data collection may begin with the synthesis of agricultural census data which can provide a global picture of the small farmer situation, so far as general (statistical) characteristics are concerned. While it is not capable of yielding sufficient information about the production

processes and the constraints to their improvement necessary for effective development of actions to be devised, it can (in conjunction with the delineation of agro-ecological zones) provide the needed frame for conducting case studies whereby indicative data and information can be obtained.

Thus, the steps in planning and carrying out case studies of small farmers within a country are to:

- (i) Derive a frequency distribution of agricultural production units according to farm size, using available census data;
- (ii) Correlate the administrative districts, wherein these farms are located, to identified (broad) agro-ecological zones of the country, thereby further stratifying these farm-size groupings according to homogeneous climatic conditions;
- (iii) Draw indicative case studies amongst those designated grouping and conduct detailed interviews which examine individual enterprises and the total farm operation, including household consumption and expenditures. ^{2/}

From this information, better (and new) insights can be gained into the nature of production processes, improvement possibilities/limitations and comparative advantages under various farm-size structures and agro-climatic conditions. By comparing these findings for different enterprises and their levels of input and output, a better knowledge of the causal relationships can be obtained, including differences in resource use levels and economic as well as physical production efficiencies. Also, besides obtaining enterprise data for the purpose of farm-unit analyses, comparison by farm-size, agro-ecological conditions and other selected groupings can also be completed. This type of analysis is particularly useful in trying to make intra-country as well as inter-country/regional comparisons.

2/ See Annex B, Illustrative Data Identification

(iv) An appropriate low cost data collection system includes the development of means by which information on the various aspects of the farm-family and the farm-business can be collected. A conditional requirement in the design of these forms relates to the need to make them "applicable" to as many farming situations as possible; and, at the same time, make them compatible with the companion component (budgetary analysis) of the system.

(v) A simplified small farmer records system will be developed and initiated on a pilot basis with a portion of the case studies undertaken in the data collection activity.

As noted previously, small farmers traditionally have conducted their farming operations with few or no written records. Thus, their capability of evaluating performance of present practices and new technology, and for planning future operation is limited to what the farmer can do "in his head."

The proposed program would increase the farmer's awareness of his own production possibilities. The farm records program would assist him in analyzing each of his farm enterprises. It would also provide information to the credit institution for facilitating credit for new production opportunities. Such opportunities may include:

(1) Identification or development of appropriate "crop mixes" or "cropping plans" which will permit cultivation of more of the farmer's available land and improved utilization of family labor.

(2) Identification and introduction of alternative crops, new technology or mechanization which are appropriate and feasible for small farmers, given particular resource constraints.

(3) More efficient, or increased use of credit and capital available to small farmers through financial planning.

Activities undertaken in conjunction with the application of the budget analysis for the enterprise and subsequently the whole farm may include some of the following:

- (1) Analysis of the economic differences between farms and groups of farmers of different sizes.
- (2) Analysis of differences in agricultural practices and performance between areas. A possible benefit from this analysis could be the identification of improved practices being used in one locality which could be extended to other areas.
- (3) Comparison of proposed new technologies with existing technology. Rough measures of economic value of returns from new technology can be calculated by budgeting techniques.
- (4) Analysis of alternative cropping patterns, crop mixes, or technologies being used by farmers, including degrees and types of mechanization and farm power, using budgeting technique of analysis. These analyses may also involve linear programming techniques using computers to calculate optimum farm plans where appropriate.
- (5) Identification and clarification of constraints facing small farmers. Those constraints which apply to the internal operation of individual farms will be given first attention (i.e., land, labor, the farmer's capital & managerial capacity.) Second priority will be given to investigation of problems arising from social conditions, cultural practices, and government policies' impact upon the farm service infrastructure, to determine their role as sources of external constraints.
- (6) Analysis of the effect of changing constraints. This analysis could also utilize linear programming techniques.

The project may use computers to facilitate analysis to gain insights on the role of credit. (Other analytical procedures, such as correlation analysis, linear regression, simulation, production function analysis and linear programming can be added to enable the data to yield further information both about the problem and its solution.) However, use and/or type of computers within the credit institution for the budget analysis will depend upon the level of existing analysis.

In addition to the testing and demonstration of analytical methodologies, the credit institutions evaluation process will be assessed. The capacity to measure changes in economic and social welfare of the institutions' clients over time requires somewhat different data needs and processes. (For discussion, refer back to Section IIB.) However, program evaluation can and should be complementary to the analytical process. Baseline and subsequent surveys will be assessed for capability in measuring program effectiveness.

(e) Dissemination

Results of the project will be operationally useful to USAID Missions and LDC decision makers in the analysis for small farmer credit programs in the two target countries as the outputs of the project will undoubtedly have a higher pay-off in a country-specific setting. However, dissemination of the project results to other LDC's and missions is considered to be an important project activity.

The dissemination component of the project anticipates the following activities:

1. Upon completion of in-country project activities, a detailed report will be prepared describing the findings of the work, the methodologies adopted and developed, its usefulness within the target countries and the potential for continued use.
2. The results of the project will be reported on by the cooperating university in one of the credit workshops or seminars envisioned under the TA/RD project or through a seminar held under the A/D/C International Development Seminars Program. This format will allow for a broad presentation to those persons both in U.S. and LDC's interested in the field of credit.
3. Upon receipt of requests from other USAID/missions for consulting services related to the outputs of this project, the cooperative agreement can be amended to allow for specific services requested.

III. PROJECT ANALYSIS

A. Technical Analysis

The focal point of the project's design is the in-country application and utilization component. The objective of this component is to demonstrate the use of the developed methodologies in improving the lending operations of the credit institutions. Improvement in the lending operations of the institutions can be accomplished through the development of more appropriate credit policies suitable to distinct sub-groups of small farmers. An improved lending and evaluation capability within these institutions based upon analysis of whole farm budgets and an accurate and timely data flow will result in an increased effectiveness of the capital loaned (i.e., appropriate credit policies will improve the small farmers' incomes from use of credit) and a subsequent improvement in the institutions' repayment record.

The project will categorize groups of small farmers by similar characteristics, thus producing sub-groups of typical small farmers. The use of a case-studies approach for data collection, while not providing data with "statistical confidence, can produce generally reliable information of farmers in a particular sub-group indicative of a larger number of farmers.

The use of a case study survey method is necessary because the information required by the proposed methodologies has to be updated. Thus, it is important that cost effective data collection systems be designed as part of the project. The project is not designed to provide a one-time research report--but to develop a system of data collection and analysis which can be and will be used continuously by LDC credit institutions.

The project is designed to develop methodologies which will be useful elsewhere. Some of the conclusions about how different factors affect the profitability of credit use may also be useful elsewhere. Nonetheless, the objective of the project is not to reach generalizable conclusions. It is recognized from the beginning that each country is different; each has a different mix of credit programs and policies. It is felt, however, that in-depth work in two countries should provide an adequate basis for designing methodologies which can be used readily elsewhere.

The methodologies developed will be "lender tools" for analyzing the effects of changes in their credit policies. The "tools" would not be utilized for assessing individual credit applications but, as previously discussed in Section II-B, the product of budget analysis is used by loan agents in assessing the viability of individual applications. The methodologies will assist in assessing profitability of credit use and repayment capacity. Profitability and cash flow are assumed to be major factors in loan delinquency. However, willingness to repay loans (i.e., attitudes toward use and repayment of institutional loans, collection procedures and legal sanctions) will be analyzed in-depth in the case studies. This will include assessment of social obligations and non-formal credit sources which may impede the repayment of loans. The availability of adequate time series data is a major constraint in the analysis of the role of credit at the farm-level in most LDC's. In the few cases where time series data do exist (e.g., Taiwan, Korea, Japan) they are limited to financial flows. Without corresponding physical data (e.g., soil quality, and rainfall distribution, etc. and socio-cultural information (tenure status, social obligations and values), financial flows can be misinterpreted.

The experience of farm records systems for small farmers historically has been poor. It may be that appropriate systems for illiterate small farmers can not be developed or if developed can or will not be used. The purpose of the pilot component of the project is to develop a system and test its applicability.

The potential payoff of basic records systems has been discussed in detail in Section IIB. The system developed will be extremely simplified. (For example, it could be color coded) and will be designed for small farmers' use rather than institutional use.

Effects on the Natural Environment

The direct activities which will be engaged in as a consequence of this project will have a negligible impact on the human environment. The activities contemplated are principally of a study and policy improvement nature. The potential events which might occur as a result of improved institutional lending policies would be primarily of a financial nature and have no foreseeable negative impacts on the environment.

In relation to the natural environment, the long-range goals of this project are to facilitate efficient use of agricultural lands, increased agricultural production, and land conservation. The medium and long-term effects of this project will contribute to the orderly development of agricultural production through appropriate financial policies which facilitate production planning, land conservation, and use of agricultural machinery to the end that this project will have a positive beneficial impact on the natural environment.

This project is not deemed a major Federal Action (Section 1500.6, CEQ Guidelines) since it will have no significant effects which adversely affect such aspects of the human environment as air, water, land, flora, or socio-economic conditions. A negative environmental threshold decision has been made. See Annex C .

B. Institutional Analysis

The two participating countries will be selected in consultation with the regional bureaus and USAID missions. In discussions with the L.A. bureau, Honduras and Bolivia have been identified as possible country sites. The Asia Bureau has suggested the Philippines and Pakistan as possible locations in the Asian region. In addition, the Near East Bureau has requested that the project also consider an appropriate country from that region. NE/TECH is circulating the project paper to selected countries to identify mission interest.

Improved guidelines for credit program design resulting from the project should impact upon farmers and groups of farmers serviced by the particular institution. Therefore, the selection of the participating country, the LDC institutions within the country and the project counterparts will directly influence who benefits from the project. Every effort will be made to select two developing countries committed to rural development and to improving the condition of the small farmers.

bank in assessing current data collection and budget analysis procedures and in establishing the collection, processing and analysis suggested by the developed methodologies. The advisor would further coordinate the short-term technical advisors envisioned under the project. The use of long-term technical advisor in the host country institutions inherently provides an invaluable training mechanism. In developing the final implementation plan, the cooperating universities will emphasize this in order to maximize its advantage.

The advantages of locating the project within a credit institution rather than the planning unit of a Ministry of Agriculture is the development of a capacity within the institution for continual analysis which can be used to assess policies in a changing environment. The disadvantage is that the analysis is likely to have, at best, minor influences on decision makers in other government agencies. Intervening factors outside the control of the credit institution (e.g., price policies) will have a major effect on the credit institution's ability to design programs which increase small farmer income. Recognizing this, the project will be designed with direct linkages to the agriculture or agricultural credit planning unit.

In view of the project, the Interbureau Committee recognized that the methodologies being applied and tested had wider application than is envisioned under the project. While it is true that the methodologies could be adapted, applied and tested for use in other agricultural institutions,

it is the purpose of the project to adapt the methodologies specifically for use by LDC credit institutions. The concern attempts to ensure the widest application of results. However, due to limited levels of funding, it was generally agreed that implementation should be fairly precisely focused in the credit area whereas dissemination activities will attempt to assure the widest possible application to other areas of decision making in agriculture. However, as stated above, direct linkages with the Ministry of Agriculture will be developed in the initial stage of the project with a thorough exploration of possibilities for complementary application of the project methodologies within existing financial constraints.

For example, in Honduras the project, if located in the Banco Nacional de Fomento (BNF), would coordinate with the Office for Sector Planning within the Ministry of National Resources. In this way, the project functions at the operational level with interaction and feedback with the higher policy level.

Country-Specific Need

The project is designed to test and demonstrate methodologies which will assist credit institutions in formulating operational procedures which will increase the profitability of credit used by the small farmer and therefore his ability to repay. As noted in the Background Section of this paper, loan repayment is a major problem for most credit institutions in LDC's.

The BNF is the Government of Honduras (GOH) financial institution for rural development. Agricultural credit is the primary function of the Bank. Over the past three years

agricultural lending has doubled. The BNF now has a portfolio of over \$66 million and over 45,000 borrowers (including 19,000 members of campesino organizations). Lending to groups is increasing, and accounted for about 31% of the total value of loans approved in 1975. This trend is in accord with the overall GOH strategy of working with groups. The reduced administrative costs per dollar loaned and the wider coverage afforded enables the BNF to extend its outreach while increasing the attention given to clients. While this strategy is sound, the Bank has experienced difficulties in its implementation, especially in enforcing collections.

The Central Bank's audit of the BNF for 1975 showed the following arrearages:

Loan Class	Amounts (\$000)		Percentage	
	1974	1975	1974	1975
Loans Outstanding	65,941	57,150	100	100
Loans Current	39,576	35,934	60	63
Loans in Arrears	26,365	21,166	40	37
Detail--Loans in Arrears:				
Behind in payments; loan not yet due	4,735	3,188	7	6
Loans past due (up to 1 year)	6,913	5,345	11	9
Loans seriously overdue (more than 1 year)	5,877	4,484	9	8
Refinanced and extended	8,040	8,179	13	14

Collections from groups have been worse than the BNF's overall average, but are improving:

Group Repayment Experience: 1974 - 1975

	Amounts (\$000)		Percentage	
	1974	1975	1974	1975
Total Loans	11,490	13,809	--	--
Scheduled Payments	4,068	5,167	100	100
Collections	1,020	2,180	25	42
Amounts in Arrears	3,048	2,987	75	58

To some extent, the BNF blames collection problems on factors beyond their control (including Hurricane Fifi). However, the Coopers-Lybrand Evaluation of the BNF ^{1/} indicated that "drought, hurricanes, and other adverse conditions" had probably contributed to a minor degree to the losses sustained by BNF agencies in 1975. More germane to the problem were faulty lending policies, collection procedures, and the attitudes of bank personnel. Improved collection requires a reorientation of attitudes and the adoption of sound banking practices. In this light, the Bank is tightening up lending criteria.

The BNF exemplifies the type of LDC credit institution in which this project could be housed and well utilized.

Complementarity with LDC Goals and USAID's Development Assistance Program

As noted above, every effort will be made to select countries committed to the development of the small farmers. The GOH with assistance from various international lending agencies, hopes to radically transform rural life. The new emphasis is upon agrarian reform utilizing the group farming (asentamientos) approach. The GOH feels that it has now reached a point at which more direct participation with the rural farm families is possible and necessary. A substantial number of individual small farmers are or will be receiving credit and technical assistance from public agricultural

1/ Report Prepared for USAID/Honduras

sector institutions. The GOH is attempting to assist these newly created multi-family farms to make the transition from the traditional subsistence type of agriculture where because of various constraints, low productivity and low incomes are the norms; to viable commercial farming businesses which use appropriate technologies to increase land and labor productivity and to increase the target groups' purchasing power as well as improve the attractiveness of the rural way of life.

The major goals of economic policy of the Government of Honduras are as follows:

- a. Social justice through land reform.
- b. Self-sufficiency in basic grains.
- c. Resumption of vigorous economic growth following the years of stagnation 1974-75.
- d. Reconstruct the damage wrought by Hurricane Fifi without sacrificing the country's normal economic development.
- e. Meet the credit requirements of the productive sectors without sacrificing the goal of moderating the rate of inflation.
- f. Achieve equilibrium in the balance of payments by stimulating exports.

USAID/Honduras is beginning the implementation stage of Small Farmers' Technologies (SFT) project of which a key component is the establishment of a "Farm Planning Advisory Group" consisting of six U.S. or third country advisors: a senior broad-gaged agricultural specialist, two farm management specialists with practical on-farm experience, two agricultural engineers with knowledge of farm machinery, water management, crop production and storage, and an experienced small business development expert as well as five Honduran agricultural specialists with appropriate farm management experience and one small business development expert.

This group, located in the Office of Sector Planning, Ministry of Natural Resources (MNR) plans will perform the important function of gathering information on crop and livestock production costs and market prospects. They will look for ideas on how the necessary production and marketing jobs can be performed more efficiently. Their sources of information are the experiment stations in Honduras, the International Network of Experiment Stations such as CIMMYT, CIAT, CIP, IRRI, publications of the Intermediate Technology Development Group in England, the Research and Development program to be financed under this project and similar sources. The Group must then distill this information into the simplest possible terms, find the inter-relationships which can exist among them, and transmit it to the Regional Farm Planning Advisory Groups composed of MNR, BNF and INA technicians to facilitate their work of helping the farm units to properly design comprehensive farm plans incorporating appropriate technologies. In summary, the primary function of the Advisory Group is information-gathering and training in the principles and practice of farm management and investment planning, and as such will provide 1) the project with a key linkage to the MNR, and 2) will facilitate the availability of agro-economic data. In addition, the development of farm plans can greatly assist in providing a portion of the data requirement for the budget analysis of the whole farm, including the farm family. This project in turn will be supportive of the SFT project in assisting the BNF with the analytical methodology to utilize the information and farm plans developed by the Advisory Group.

C. Economic Analysis

The primary project effect which should result from the utilization of the methodologies is improved repayment performance. It is reasonable to expect that the project will more than recover its costs through the repayments of loans which would not occur without the project. While this adds to available capital within a country, it does not represent a new economic gain to the society.

The secondary effect, stemming from or induced by the project, is increased agricultural production. To the extent that improved guidelines in credit program design are developed and enacted, which facilitate productive investment by the farmer, a gain to the economy as a whole will result.

It also is expected that those farmers directly involved in the farm record keeping/data collection activity will benefit because of the improved data available to them for analyzing the effects of adopting new technology.

The assumptions necessary to quantify benefits to establish either an internal rate of return or a B/C ratio would clearly be beyond the scope of this project.

Non-monetary project benefits include the human resource development achieved through increased capability within the credit institutions and the development of the target population facilitated by the project.

D. Social Analysis

In a project whose purpose is to develop and test methodologies to assist in improving credit program design, the direct sociological implications are limited to those institutions in which the project is housed. The immediate impact from a social perspective is confined to the organizational elements in the credit institutions. No new organizational entities are proposed. However, new methods and procedures will necessarily need to be assimilated.

The goal of the project is to increase the income and quality of life of small farmers through improved credit guidelines. However, this effect will be an indirect impact of a longer-term nature. This project in essence attempts to improve the analytical and management capability of credit institutions which can impact upon the goal of increased small farmer income by removing possible constraints to effective credit policies.

The project is specifically aimed at identification of the types and terms of credit which distinct sub-groups of small farmers can profitably use and repay. Appropriate credit policies can assist in improving incomes and as this occurs, other changes, such as improved nutrition, increased education, greater access to social services are likely to bring forth changes in the social structure.

Most of the thinking on the social factors affecting farm credit has focused on the links between the credit institution/local elites and the small farmer. It was thought that the key solution to the problems of ar-rearages and weak credit institutions lay in "democratic" leadership and structure. The belief was that local elite control could be by-passed through the establishment of new institutions or a new democratic structure to the traditional one. This resulted in an approach in which institutional managers

consulted with the small farmers as to what should be done and also involved them in group discussion in advance of decision making. It was thought that the "passive" peasants' resistance to change could be overcome if they became involved in making group decisions. Theorists of this type of participation focused upon authority or vertical relations between the supervisor and supervised, the credit manager and the farmer. The goal was to change elite authoritarian credit structures to democratic credit unions or cooperatives. This single-minded concentration on the vertical relation in the social structure involves an almost complete neglect of evaluating the social system in terms of technology and farm practices, real good flows, division and process of labor, and the system of rewards and penalties, both economic and non-economic. The ability of a credit institution to contribute to the development of the small farmer depends on the effectiveness of the social linkages among the horizontal as well as the vertical relationships. The purpose of this study is not to deny the importance of the vertical relationships but to focus research on some of the much neglected horizontal relationships.

The relationships to be investigated are economic, but it is erroneous to visualize the approach as narrowly focused within that discipline. As mentioned above, this study will attempt to categorize small farmers on the bases of factors endowments and possible technologies that can be supported by credit. At the microeconomic level, this study investigates an array of possible production combinations for the individual farm unit. To say that production activity exists outside of a social setting or that the production choice does not have important social impacts is naive. There is a whole socioeconomic system at the farm operation level which needs to be better understood. A

good example of the need for expansion of farm level knowledge is described by William Foote Whyte in his small book, Organizing for Agricultural

Development:

Since anthropologists have long been studying communities in which potatoes are grown one would think we would have an adequate knowledge base regarding the socioeconomic activities involved in potato culture, yet this is far from the case. In these past studies, the potato has been singly incidental to analysis of the kinship system, symbols and ceremonials, beliefs and practices.

To begin to fill this knowledge gap, students of anthropology, under the direction of Jorge Flores of the University of Cuzco, have carried out a field study of a peasant community, extending the more traditional anthropological interests to provide systematic knowledge regarding the beliefs and agricultural practices of the farmers. The students are examining the practices of planting, cultivating and harvesting the potato, studying the consumption of potatoes in the community, observing the ways in which potatoes are stored and noting the ways in which potatoes are bartered for other products or are sold directly or through intermediaries. In other words, the project is designed to provide a systematic account of the technical, economic, cultural and social aspects of potatoes for the community.

Different types of agricultural activities require drastically different patterns of work, division of labor, organization, technology and personal rewards. The ability of development officials to help small farmers depends upon systematic studies focusing on the activities involved in the practices of farming. This research is one of the studies that will enhance development practitioners' understanding and policy making ability. Specifically, the use of budget analysis on local farm practices and production information will give decision makers an understanding of socioeconomic horizontal linkage that are necessary for sound policy making.

Since one of the purposes of this study is to identify a data collection methodology which will identify horizontal relations, it is difficult at the outset to specify the relationships. It is reasonable, though, at this point to give a suggestive list of socioeconomic farm-level relationships that may be important to farm

profitability and efficient, effective credit policy design. The following forms of interaction might be important.

(a) There is a relationship between the minimum level of resources controlled and the use of new technology financed by credit. Patterns of land tenure are crucial to an understanding of this relationship.

(b) Small farmer adoption of new technology is related to a number of socioeconomic factors:

(1) level of sophistication of the small farmer in regard to farm practices.

(2) the degree of planning and time horizon of the farmer

(3) the ability of the traditional practices to protect against disaster

(4) the weight of public opinion in a tradition-bound society

(5) tendencies to remain independent versus cooperative

(6) the division and pattern of labor for the farm unit

(c) The level of relationship between crop choice and small farmer profitability may be quite high.

(d) The small farmer's responsibility to non-formal credit sources may be both social and financial. This may cause repayment of non-formal loans at the expense or delay of the formal creditors.

There are important points of compatibility between the farm social system and the design of the project. The project design stresses the development of policies appropriate to a number of types of farming enterprises with different ecological, social, agronomic and organizational conditions. And the small farmer case studies will specifically take into account the social and organizational system of the farm in the design of appropriate guidelines. This fact is of fundamental significance for the eventual success of the project.

A description of the social system of the farm in Honduras highlights some major areas of compatibility. The fairly large size of multi-family farms, coupled with the organizational solidarity of members, provides a viable unit which can efficiently utilize technology which is developed. The value preference of farm members for cooperative farming coincides with the emphasis in the project on developing appropriate credit policies for whole farm systems. The norms of group decision-making that are already established in the multi-family farms will support the development and execution of farm plans that will involve all members of the farm.

The relatively simple inventory of farm equipment used in most of these farms provides a good opportunity for credit which facilitates technology appropriate to technical needs and limited economic means. The strong value preference of farm members for agricultural machinery is compatible with the project design. However, in some instances the cultural value placed on large machinery must be balanced against economic arguments for intermediate technology.

The structure of the farm's social system, the values held by participants, their relationships, and the existing control mechanisms provide a viable social system which can accept and implement the farm plans contemplated by the project. Credit policies and whole farm budget analysis can provide the financial and organizational base for the cooperatives.

E. Role of Women

Information on the situation of rural women is still inadequate to allow for better planning of ways in which they can be involved more actively in development. The case studies undertaken will gather more behavioral information on the activities of women, the roles they play, their employment situation, and other similarly related topics. This will give a clearer picture of the life of women in the rural areas.

The important role of women in rural development has long been recognized by social science researchers. For example, Bustrillos (1961), in her study of food management practices of homemakers in the rural areas, found that the wife usually acts as the rural family's main decision maker. As such, she can be a potent influence in the adoption of needed change. The researcher suggested that in introducing any innovation in the rural areas, field workers might get faster results if they work through both farmers and their wives.

Feliciano's (1965) findings confirm the active participation of the wife in decision-making regarding farm operations. A majority of the farmer-respondents said they make decisions on farm management with prior consultation with their wives.

Succeeding studies further support earlier findings on the role of women in farm decisions. Guerrero (1966) noted that buying land, borrowing money for the farm, and decisions on what to plant are regarded more as joint husband-wife rather than husband-only decisions.

Madigan's study (1969) suggests that the housewife has considerable influence on her husband's resistance to change. He further suggests that the fieldworker's level of support in community development program adoption will depend on housewife involvement.

Castillo (1969) explained that "the pervasive influence of the wife in farm-business decisions derives from her role as uncontested family treasurer with facilitative or veto power on expenditures."

Considering the influential role played by women in farm and home decision-making, her involvement in the association affairs and community decision-making should not be overlooked. How to enlarge on this role in rural development is an area the case studies will explore further.

The Project will also study the employment status of rural women: Increased employment opportunities can be affected by changes from single to multiple cropping patterns, the utilization of "hired" or "exchange" labor, and the introduction of farm mechanization.

The project will give specific attention to the role women play in decisions on the borrowing, the use, and repayment of credit. Examination of the role women exert making and influencing farm and family management decisions will be made. Credit availability and use to women's heads of household will be analyzed. In addition, women involved in the project could improve the design and implementation. Thus, women who are qualified and available will be employed in-country as interviewers, as consultants and evaluators, and in administrative positions.

F. Financial Plan and Budget

The estimated budget for the project is \$816,000 over three years with the cooperating university contributing \$66,000 and AID contributing \$750,000. The project contemplates 48 m.m. for a full-time Finance Advisor in each of the participating countries. In addition, the project will utilize approximately 48 m.m. of the cooperating university on campus and in short-term technical advisors to the participating countries. This will consist of Senior Staff and support staff. Five to six consultancies per year to each of the countries are proposed. The finance advisor will be a senior professional with expertise in credit, finance or business. The short-term technical advisors will have expertise in fields of agricultural credit, farm management, agricultural economics or data collection and analysis methods.

<u>Estimated Budget</u>	1977	1978	1979	Total
<u>In Country</u>				
Salary and Fringe Benefits	39	78	39	
Overhead	6	12	6	
Data Collection and Analysis	20	100	100	
Location Costs	<u>13</u>	<u>18</u>	<u>18</u>	
	78	208	163	449
<u>In U.S. & Short-Term</u>				
Salary and Fringe Benefits	54.0	54.0	54.0	
Overhead	38.0	38.0	38.3	
Travel and Per Diem	20.	25.	25.	
Contingency	<u>7</u>	<u>7</u>	<u>7</u>	
	119.0	124.0	124.0	367.0
Total Costs	197.0	332.0	287.0	816.0
Cooperating Universities	22.0	22.0	22.0	66.0
AID	175.0	310.0	265.0	750.0

IV. IMPLEMENTATION ARRANGEMENTS

A. Analysis of Administrative Arrangements

1. Recipient

This project will be managed by one land grant university. It is anticipated that Cooperative Agreements to fund the required technical services will be negotiated with two universities and additional sub-contracting of services of individuals outside either university will be allowed for by the provisions of the agreement. This arrangement assures coordination and effective management of the activities envisioned under this project while also drawing upon other qualified individuals. The proposed cooperative agreements are expected to be expected to utilize the resources from U.S. universities in cooperation with and complemented by available expertise in the participating countries. The managing university will assist in the dissemination phase of the project in that the experiences in developing and implementing the data collection and budget analysis methodologies in two different regions of the world can be brought together and generalized for other countries and regions. The development of training materials and training courses on these same methodologies also will benefit from project management at one location.

The cooperating universities to be selected must be knowledgeable about basic agricultural development problems in LDC's and particularly skilled in assisting LDC officials and technicians in small farm data collection and farm level analysis. A thorough knowledge of small farmer credit institutions, alternative delivery mechanisms, and operational procedures and needs also will be needed for successful project implementation.

Once the cooperating universities are selected, the next step will be the final selection of two LDC's and the cooperating credit institutions within each country. The managing university will have the primary responsibility for this final selection but in consultation with, and approval of TA/AGR, the appropriate USAID mission, and the host governments. As mentioned previously, preliminary conversations already have been held with Honduras and the Philippines and it is probable these will be the two countries finally selected. However, it would be premature to make a final selection at this stage since the involved AID Regional Bureaus, Missions, and potential cooperating LDC's logically prefer to know more details about the project.

It is anticipated that the host agency in each of the two LDC's will be an agricultural finance institution working with small farmers. Of course, the actual selection will take place during the first year of the project for many of the same reasons mentioned previously. It is expected that the selected institution will have the capability to carry out its agreed-to role and that an adequate number of trained people are available or could be trained within the time constraints of the project to implement the in-country objectives of the project.

Concurrent with or immediately following the selection of the cooperating countries and financial institutions, arrangements will be made by the cooperating

universities to place an agricultural finance advisor in each of the selected countries for a two-year term. It is anticipated that one of the advisors will be placed in-country by the middle of the first year and the second advisor by the beginning of the second year of the project.

2. A.I.D.

There are no unusual administrative features of the project which would require additional direct-hire staff. The responsibility for project monitoring will be in TA/AGR/ESP and will require normal monitoring and administrative activities similar to most centrally funded projects. These will include periodic communications with the cooperating universities on project matters of mutual interest, coordination and communication with USAID missions in countries where the project is implemented, and periodic and end-of-project evaluation, among other regular project monitoring duties. USAID Missions will not be expected to provide any unusual administrative assistance under this project. However, it is possible the Mission might be called upon to allocate a portion of a staff member's time to facilitate the identification of the LDC participating institution and to assist in defining the administrative and operational responsibilities of the participating LDC institution, USAID, and the cooperating university.

B. Implementation Plan

A Planned Performance Tracking Network chart is presented and explained in Annex C. This plan shows relationships and time-phasing of all significant actions critical to project completion. It also provides milestones against which planned implementation can be measured. More precise timing and milestones will be incorporated into the cooperative agreement of the selected cooperating university upon approval of the project.

This project is expected to be implemented in three stages:

1. Stage One:

Final country and in-country institution selection will be made by the selected cooperative universities in consultation with A.I.D. during the early part of this stage. Agreements will be reached on activity design and the mutual responsibilities and commitments of the parties involved in activity support and implementation. The cooperator, in consultation with the other parties, will finalize the in-country design of the small farm credit study and will prepare an implementation plan for the study. During this same stage, two agricultural finance and data collection/analysis professionals will be identified and arrangements initiated for placing each in his respective assignment by the end of stage one. In addition every attempt will be made to identify host country personnel (preferably within the credit institution) who would be available to assist the cooperating universities in the U.S. during the initial stages of the project. This perhaps can be accomplished through participant training components in existing mission projects. At the same time a review of literature will be made to summarize current information on credit by small farmers. This will include a review of farm-level and other surveys on the use of credit by small farmers and an evaluation of existing farm level data for the two countries selected. Initial work will begin on developing the analytical methodologies to be used in the project and in designing data collection systems required to obtain the necessary information for analysis. The FAO's farm management data collection analysis and storage retrieval system will represent one of the main building blocks for methodology adaptation appropriate for credit institutions.

At the same time a review of literature will be made to summarize current information on credit by small farmers. This will include a review of farm-level and other surveys on the use of credit by small farmers and an evaluation of existing farm level data for the two countries selected. Initial work will begin on developing the analytical methodologies to be used in the project and in designing the data collection systems required to obtain the necessary information for analysis.

Attention will be given to the work performed by D.A.I. on the synthesis of existing information systems ATAC's farm budget computer systems has been identified by D.A.I. as one most closely related to the adaptation and development of methodologies envisioned under this project. The visits to the two LDC countries for obtaining project design agreements also will be used to develop working relations with the selected financial institutions, to discuss mutual objectives, and to initiate preliminary work on setting up a data collection system.

2. Stage Two:

Stage two of the project will emphasize data collection. By this time the two advisors will be located in-country, which will allow the initiation of the methodologies and basic records system for selected small farmers. It is

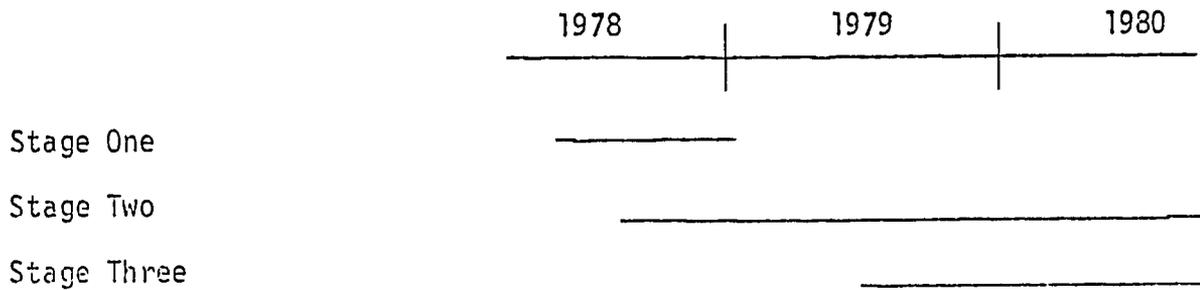
anticipated that initial data requirements will include information on the farmer's financial position (assets and liabilities); his production-consumption-marketing environment; costs and returns of alternative production practices and technologies; farmer attitudes toward informal and formal credit sources; and the flow of money, goods and services from the small farmer to the external environment and back. Data analysis and budgeting may be initiated during this stage if accurate and reliable data are available.

3. Stage Three:

Data analysis and its institutionalization will be emphasized during the final stage of the project. The methodologies developed in stage one and two will be used with the data collected during stage two to achieve the project purposes identified earlier. It is expected that during this stage the value of the collected data and the analysis, and then subsequent use for borrower selection, credit allocation, and for other purposes (sector, planning, project designs, etc.), will be sufficiently evident that the host institution and government will strongly support its continuance financially and administratively. Even so, further A.I.D. and cooperating universities involvement may be justified, depending upon the outcome of the project and the desire of the LDC government.

4. Timing of Activities

The three stages may cover slightly different time periods, depending upon the existing conditions of the country selected. For example, the more rapidly the advisor is placed in-country and the greater and faster the availability of data, the more likely stages two and three will be moved forward. For planning purposes, the following general time sequences are expected to hold for the life of the project:



The literature survey and development of analytical methodologies primarily will be carried out in the U.S., while the data collection and most of the data analysis will be done in the selected LDC's.

D. Evaluation Plan

The project will be reviewed internally on an annual basis. The cooperating universities will prepare at those intervals a thorough progress report of activities undertaken both on-campus and in-country. TA/AGR/ESP will review these to determine if objectives are being met and will make suggestions, if warranted, for changes in project structure or implementation.

In addition, an in-depth evaluation will be conducted after 18 months of in-country operations. This special review committee will have as members representatives from TA/AGR/ESP, respective AID regional bureaus, USAID mission personnel and the cooperating universities. Results of this 18 month review will guide continuing project operations and will assess the effectiveness of methodological application and possibilities for future application and utilization. If the methodologies developed and their application are evaluated to be of use to LDC's, a follow on advisory effort may be undertaken by the LDC or the mission.

A farm budget is a plan for the future use of farm resources, including land, labor and capital. A farm budget or plan is not a record of past performance, rather it is a plan for the future development and future use of resources. The farm budgeting technique is a valuable decision making aid. It can assist the decision maker in choosing from among alternatives, such as whether or not to seek additional credit, how to best allocate capital among competing uses, or how to choose among alternative technologies. There are several different types of classes of budgets. An understanding of the role and concepts of the different types of budgets is very important to their appropriate application to decision making problems.

A long term budget is a budget which evaluates one or more alternatives over a long term period. The time period is not defined in terms of years, but in terms of a time period sufficient to permit changes in capital structures, operating procedures, and technology. Thus a long term budget is an annual plan normalized for weather, prices, and other such variables, which permit an estimate of expected outcomes after any transition period involved in adopting a proposed alternative plan. Obviously a long term farm plan may be changed or revised due to changes in family goals, changes in technology, changes in economic expectations, or other unforeseen events. Nevertheless it is essential that long term plan objectives be firmly established so that short run plans can be structured to lead to long term goals.

The short term farm budget is for one alternative plan for a one-year period. The price, technology, and other assumptions must relate to the specific time period under evaluation and usually do not reflect long term norms. A short term budget may be for the year immediately ahead or a series of short term budgets could represent annual plans involved in the transition from a present plan to an alternative one.

A whole farm budget relates to total farm resource allocation decisions. Typically a whole farm budget involves a resource allocation plan including several different enterprises. On the other hand, enterprise budgets relate to a plan for one enterprise,* given a set of price, technology, and resource assumptions. The enterprise budget is obviously a basic tool in farm budgeting and planning and is a necessary pre-requisite to whole farm budgeting.

A complete farm budget is one alternative plan for the future in which all inputs of resources and outputs of products are considered. Thus a complete budget permits estimation of expected net income from the given enterprise alternative or the given total farm plan. Such fixed items as taxes, insurance, and depreciation would be included in addition to operating expenses such as fertilizer, purchased feed and labor. A complete farm budget may be either long term or short term in nature.

A partial budget is a plan for the future in which only the items of input and output which are expected to change with a change in plan are considered. Thus inputs and outputs which remain constant between alternatives being considered, are ignored. Partial budgets do not permit estimates of net returns to the enterprise or to the farm unit. However expected gains or losses from a set of partial budgets permit a systematic and accurate comparison of alternative plans. A partial budget may either relate to a long term or an annual plan.

*Like a particular crop or livestock activity.

ILLUSTRATIVE DATA IDENTIFICATIONS

Annex// B

<u>Resource inventory</u>	<u>General Farm Activities</u>
Farmer, Farm Family, Permanent Hired Labour	Seasonal Labour Distribution (and per type of labour)
Farm Land and Tenure	Distribution by Operation
Farm Land Improvement	<u>Farm Analysis</u>
Cropping Pattern	Value of Production, Gross Margin, Net Profit
Perennial Crops	Net Worth Statement, part A
Farm Buildings	Net Worth Statement, part B
Farm Implements	Seasonal Labour Distribution, whole farm
Farm Machinery	Off-farm Activities
Draft/Pack Animals	<u>Consumption, Expenditures, Off-farm Income</u>
Productive Livestock	Consumption, Farm Produced
Financial Liabilities	Consumption, Purchased
<u>Crop Analysis</u> (on per-unit area basis)	Household Expenditures
Crop Identification (annual crops)	Off-farm Income
Crop Identification (perennial crops)	<u>Farm/Family Cash Balance</u>
Variable Inputs and Costs	
Irrigation and Power Input	
Seasonal Labour Distribution (and per type of labour)	
Labour Distribution by Operation	
Output and Economic Analysis	
<u>Livestock Analysis</u>	
Inventory changes, Productive Livestock	
Seasonal Labour Distribution (and per type of labour)	
Material Input and Variable Costs	
Output and Economic Analysis	

ENVIRONMENTAL THRESHOLD DECISION

JAN 27 1977

TO: AA/TA, Mr. Curtis Farrar

THRU: TA/FPD

FROM: TA/AGR, Dr. Leon Nesser *LN*

SUBJECT: Environmental Threshold Decision

Project Title: Small Farmer Credit: Profit and Repay
Project #: 931-1167

Project Manager:
REFERENCE: Initial Environmental Examination (IEE) contained in
pages 9-12 of PID dated 1/21/77

On the basis of the Initial Environmental/Examination (IEE) referenced above and attached to this memorandum I recommend that you make the following decision.

XX 1. The proposed agency action is not a major Federal action which will have a significant effect on the human environment.

 2. The proposed agency action is a major Federal action which will have a significant effect on the human environment, and:

- a. An Environmental Assessment is required; or
- b. An Environmental Impact Statement is required.

The cost of and schedule for this requirement is fully described in the referenced document.

 3. Our environmental examination is not complete. We will submit the analysis no later than with our recommendation for an environmental threshold decision.

Approved: *MS [Signature]* for *CF*

Disapproved:

Date: 144R 7 1977

Project Title & Number: SMALL FARMER CREDIT: PROFIT AND REPAY

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS										
<p>Program or Sector Goal: The broader objective to which this project contributes:</p> <p>To increase small farmers' incomes through more efficient and effective utilization of farm credit</p>	<p>Measures of Goal Achievement:</p> <ol style="list-style-type: none"> 1. Effective Credit Programs reach target beneficiaries. 2. Small farmers incomes and repayment increase 										
<p>Project Purpose:</p> <p>To develop methodologies which credit institutions in LDC's can use to carry out budget analysis.</p> <p>To improve credit policy, programs, and repayment</p>	<p>Conditions that will indicate purpose has been achieved: End of project status.</p> <ol style="list-style-type: none"> 1. Use of methodologies developed to assess small farmer profitability and repayment. 2. Increased awareness of complexity and interaction of individual elements in small farm systems. 3. Greater availability, of information on small farm production systems and credit. 4. Information disseminated through existing channels and workshops. 										
<p>Outputs:</p> <ol style="list-style-type: none"> 1. Methodology for Budget Analysis. 2. Development of cost-effective methods of collecting data 3. Increased knowledge of factors affecting small farmers' ability and willingness to repay credit. 4. Analysis of impact of potential changes in credit program design and improved policies related to small farmer credit. 5. Trained local professional available for budget and credit analysis. 	<p>Magnitude of Outputs:</p> <ol style="list-style-type: none"> 1. Case study data available for use in the two LDCs. 2. Methodology for budget analysis in use in target credit institutions. 3. Methodologies available for transfer to other LDCs. 										
<p>Inputs:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: right;">(\$000)</td> </tr> <tr> <td>1. Personnel</td> <td style="text-align: right;">390</td> </tr> <tr> <td>2. Data Collection and Analysis</td> <td style="text-align: right;">220</td> </tr> <tr> <td>3. Research Support</td> <td style="text-align: right;">140</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">\$750</td> </tr> </table>		(\$000)	1. Personnel	390	2. Data Collection and Analysis	220	3. Research Support	140		\$750	<p>Implementation Target (Type and Quantity)</p> <p>The project will be carried out by one or two land grant universities in collaboration with institutions in at least two LDC's using a cooperative agreement to fund the required technical services and will require at least three years to complete.</p>
	(\$000)										
1. Personnel	390										
2. Data Collection and Analysis	220										
3. Research Support	140										
	\$750										

**IN SUMMARY
FRAMEWORK**

ANNEX D

Life of Project:
From FY 77 to FY 79
Total U.S. Funding \$750,000
Date Prepared: 4/30/77

MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<ol style="list-style-type: none"> 1. Periodic institutional evaluations to determine small farmer use of credit. 2. Methodologies and data collection system in use. 3. Increased incomes to farmers resulting from new credit policy and programs. 	<p>Assumptions for achieving goal targets:</p> <ol style="list-style-type: none"> 1. Farm credit can be used to assist small farmers to adopt technologies which are sufficiently profitable to allow them to repay their loans and still realize a net economic gain. 2. Profitability is a major factor in repayment of credit.
<ol style="list-style-type: none"> 1. Periodic review of LDC credit institution's analytical system. 2. Lower rates of delinquency for target credit institutions. 3. Reports and evaluations used by LDC institutions, AID, and other credit development practitioners. 	<p>Assumptions for achieving purpose:</p> <p>The factor associated with the profitable (unprofitable) use and repayment (non-repayment) of credit can be determined. The methodologies to provide a framework for analyzing these factors can be developed.</p>
<ol style="list-style-type: none"> 1. Periodic project progress reports. 2. A number of reports and publications produced and presented through international fora. 3. Methods and recommendations used by others. 	<p>Assumptions for achieving outputs:</p> <p>Two appropriate countries will collaborate in project participation. Qualified personnel will be available. The project outputs are not entirely country specific.</p>
<ol style="list-style-type: none"> 1. Cooperative Agreements undertaken. 2. Evaluation of University contribution to project. 	<p>Assumptions for providing inputs:</p> <p>US and LDC institutions available and willing to participate.</p>

AID 1330-1X (7-71)	DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT	1. Cooperating Country TA BUREAU	Page 1 of 5 Pages
		2. PIO/T No. 031-0236.08-3178639	
PIO/T	PROJECT IMPLEMENTATION ORDER/TECHNICAL SERVICES	4. Project/Activity No. and Title 031-0236.08 Basic Assistance-Credit	

DISTRIBUTION	5. Appropriation Symbol 72-11X1023	6.A. Allotment Symbol and Charge 402-31-000-00-20-71	6.B. Funds Allotted Int <input checked="" type="checkbox"/> A.I.D./W <input type="checkbox"/> Misc
	7. Obligation Status <input type="checkbox"/> Administrative Reservation <input type="checkbox"/> Implementing Document	8. Funding Period (Mo., Day, Yr.) From 5/1/77 To 12/31/77	
9.A. Services to Start (Mo., Day, Yr.) Between 5/1/77 and 5/15/77		9.B. Completion date of Services 12/31/77	
10.A. Type of Action <input type="checkbox"/> A.I.D. Contract <input type="checkbox"/> Cooperating Country Contract <input type="checkbox"/> Participating Agency/Service Agreement <input checked="" type="checkbox"/> Other Cooperative Agree			
10.B. Authorized Agent AID/W			

Estimated Financing		(1) Previous Total	(2) Increase	(3) Decrease	(4) Total to Date
11. Maximum A.I.D. Financing	A. Dollars		10,000		10,000
	B. U.S.-Owned Local Currency		FUNDS RECEIVED BY		
12. Cooperating Country Contributions	A. Counterpart				
	B. Other		FOUNDED SER/INT/OLD		

13. Mission Reference	14. Instructions to Authorized Agent The contracting officer is authorized to prepare a cooperative agreement with Colorado State University to provide the services of Dr. Ronald Timmermeier for the purposes specified in this PIO/T. Funding is authorized herein in the amount of \$10,000 for the AID contribution this activity.
-----------------------	--

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No. _____ - Show Office Symbol, Signature and Date, and all Necessary Clearances.

A. The specifications in the scope of work are technically complete TA/ACP/ESP, A. Ferguson Date: 4/15/77	B. Funds for the services requested are available TA/ESP, M. Kozynski Date: 4/15/77
C. The scope of work lies within the purview of the initiating and proposed Agency Programs TA/ACP, L. E. Hesser Date: 4/15/77	D. TA/ACP, C. Maffette Date: 4/15/77
E. TA/ACP/ESP, K. Brundage Date: 4/15/77	L/CR, D. Chaffin Date: 4/15/77
TA/ACP, D. Clark Date: 4/15/77	ASIA/TD, F. Jones Date: 4/15/77

16. For the cooperating country: The terms and conditions set forth herein are hereby agreed to	17. For the Agency for International Development Special Agent John Ganning Date: 4/15/77
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Department of State

MINTEL 2
2 of 8
OUTGOING
TELEGRAM

PAGE 01 STATE 066119
ORIGIN AID-27

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DRAFTED BY TA/AGR/ESP: AFERGUSON: FEH

APPROVED BY TA/AGR: LHOTTO

TA/AGR/ESP: W. C. MERRILL

LA/CEN: E. CARTER

LA/DR: D. CHAIJ

DESIRED DISTRIBUTION

4P ACTION TAAG INF 2 S 1DD PPG LA 9 27P

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FM SECSTATE WASHDC

TO AMEMBASSY TECUCIGALPA

UNCLAS STATE 066119

AIDAC

E. O. 11652: N/A

TAGS:

SUBJECT: SMALL FARMER CREDIT PROJECT

RON TINNERMEIR IS AVAILABLE TO BE IN TECUCIGALPA MAY 19-20
TO DISCUSS TA/AGR/ESP'S SMALL FARMER CREDIT PROJECT WITH
GOH OFFICIALS AT MINISTRY OF NATURAL RESOURCES AND DNF IF
TIMING IS AGREEABLE. INITIAL DRAFT OF PROJECT PAPER TENTA-
TIVELY SCHEDULED TO BE SENT TO USAID FOR COMMENTS ON/ABOUT
5/1/77. PLEASE ADVISE ON TINNERMEIR TRAVEL.
CHRISTOPHER

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Department of State

~~SECRET~~
INCOMING ³ of 8
TELEGRAM

PAGE 01 TEGUCI 01872 262010Z
ACTION AID-31

292

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-----270429Z 130147 /13

R 261711Z APR 77
FM AMEMBASSY TEGUCIGALPA
TO SECSTATE WASHDC #435

UNCLAS TEGUCIGALPA 1872

AIDAC

E.O. 11652: N/A
SUBJ: SMALL FARMER CREDIT PROJECT

REF: STATE 068119

MISSION CONCERN TINNERMEIR TRAVEL AS PROPOSED IN
REFERENCE.
BECKER

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Department of State

INCOMING
TELEGRAM

PAGE 01 TEGUCI 01979 032100Z
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-----040348Z 115542 /21

R 031716Z MAY 77
FM AMEMBASSY TEGUCIGALPA
TO SECSTATE WASHDC 0501

UNCLAS TEGUCIGALPA 1979

AIDAC

E.O. 11652: N/A
SUBJ: SMALL FARMER CREDIT PROJECT

REF: STATE 000119

MISSION AND S.G.H. CONCUR PROPOSED PRUIT OF RON
TINNERHEIP MAY 19-20 TO DISCUSS TAX/AGR/ESP SMALL
FARMER CREDIT PROJECT. SUITABLE CONTACTS WILL BE
ARRANGED WITH MINISTRY OF NATURAL RESOURCES AND
NATIONAL DEVELOPMENT BANK OFFICIALS. ON ARRIVAL
CONTACT JIM BLEIDNER PHONE 22-6232.
BECKER

UNCLASSIFIED

UNITED STATES GOVERNMENT

Memorandum

TO : Dr. John C. Day, TA/AGR/ESP - AID/W

DATE: March 3, 1977

FROM : *B. Schouten*
Bastian B. Schouten, Deputy Chief, RDD, USAID/Bolivia

SUBJECT:

As requested in your memorandum of February 1, 1977, I have reviewed the TA Bureau PID - Small Farmer Credit: Profitability and Repayment.

Clearly the hypotheses to be examined are important for the proper development of future AID credit programs. A systematic investigation of these questions is clearly overdue.

Some questions do come to mind, however, regarding planned Project Outputs, methodology, etc. I am sure that these will be addressed in the course of project development. For example, the IA Bureau has already adopted and installed a farm budget generator program which can be used with flow-of-funds and linear programming analysis. This program might be used for the project. You might check this out with Michael Denton, IA/EE. Secondly, I am concerned that reliable time series data (contemplated in Stage Two) on any thing to do with the small farm sub-sector, as such, except prices, will probably not be available, at least not in Bolivia or any other IA countries that I am familiar with. Thirdly, farm records systems among illiterate small farmers are by their very nature non-representative and biased. When they are large enough to have some significance they become very costly (people have to be hired to help farmers fill out records). Finally, it seems to me that the analytical methodologies to be developed in Stage One should be at least be partially conditioned by existing data availability, i.e., perhaps the project could piggyback upon some of the major data gathering activities which are planned or underway. I am thinking of the sector analysis activity in the D.R., the PEB in Chile, and the planned activity here in Bolivia.

I look forward to discussing this activity with you in more detail when someone from TA/AGR/ESP is able to visit Bolivia or on a future trip to Washington.

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5010-108

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

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

May 3, 1977

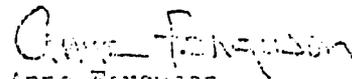
Mr. Bastiaan Scouten
USAID/Bolivia
APO New York 09867

Dear Bastiaan,

Thank you for your letter of March 3, 1977. Dan Chaij suggested that I drop you a note on the status of TA/AGR/ESP's Small Farmer Credit Project. As you will notice reading through it, we have begun exploring USAID/Honduras interest in the project. However at this point, no decision on country selection has been made.

The project is scheduled for an Interbureau Review on Thursday and hopefully will go to R & DC on the 24th. We'd like to keep open the option of Bolivia as a potential country location and look forward to further discussion with both you and Dan.

Sincerely,



Anna Ferguson
Economics and Sector Planning
Division
Office of Agriculture
Technical Assistance Bureau

cc: LA/DR:DChaij
TA/AGR/ESP:WCHerrill

UNITED STATES GOVERNMENT

Memorandum

Annex E

7 of 8

TO : See Distribution

DATE: May 6, 1977

FROM : TA/AGR/ESP, William C. Merrill W C Merrill

SUBJECT: Inter Bureau Review of Small Farmer Credit:
Profitability and Repayment Project Paper

Project Manager: TA/AGR/ESP, Anne Ferguson
Meeting Chairman: TA/AGR/ESP, William Merrill
Participants:

PPC/PDA, M. Demelo
TA/RD, C. Blankstein
LA/DR, W. Balcolm
TA/PPU, J. Drummond
PPC/PDA/DPRE, E. Lijewski
NE/TECH, W. Fitzgerald
TA/AGR/ESP, F. Mann
TA/AGR/ESP, J. Dempsey
TA/AGR/ESP, E. Rupprecht
ASIA/AKD, R. Erich

Following the Assistant Administrator's newly recommended procedures, the committee meeting was called to review the project proposal before it was put in the final form for the R&D Committee. The general consensus of the meeting was that the proposed project was well designed and addressed major farm level problems. The development application, and utilization of methodologies were accepted as the fundamental components of the project. There was some question, though, about the relation of these three to credit utilization and repayment. Blankstein, and Lijewski felt that the micro-level budgeting and cash flow methodology and analysis could be applicable to a much wider range of farm development issues than just credit. This concern does not deny the need for the budget analysis in the areas of credit utilization, but attempts to ensure the widest application of results of the data collection and analysis process. However, it was generally agreed that the application of the methodologies due to limited levels of funding, be fairly precisely focused in the credit area whereas dissemination activities would attempt to assure widest possible application to other areas of decision making in agriculture. Blankstein and Lijewski pointed out that repayment of credit included a great many variables beyond those directly considered

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



within the project. Lijewski suggested that the project might successfully develop and apply methodologies that improved the credit constitutions analysis and planning capacity and the individual farmers profitability and yet not increase the rate of repayment. However, other members felt that improved policies for more effective use of credit would indeed result in significant improvement in repayment. Revisions will be made to remove any hint of the project as a panacea for solving all repayment problem.

It was suggested that the project was in fact focused on small farmer credit utilization rather than credit repayment. However, the intent is focused on credit utilization as it relates to not only small farmer profitability but also higher repayment rates.

It was suggested by Mr. Fitzgerald that some of the methodology developed within the project could utilize the systems developed by FAO. Since the project paper already included a statement of intent to utilize the FAO work, it was agreed that the statement in the paper would be reviewed for possible strengthening.

M. Delelo suggested that one of the important provisions of the project is the value of on-the-job-training which will occur through the use of a long term technical advisor and this should be highlighted in the project paper.

Lijewski and Ehrich suggested that the illustrative list of credit policy alternatives in the project paper should be elaborated. This will be included in the revision.

Fitzgerald requested that countries from the Near East region be considered in country selection. TA/AGR/ESP agreed and supports the recommendation.

Distribution:

PPC/PDA, H. Delelo
TA/ID, C. Blankstein
LA/DR, W. Malcolm
TA/PPU, J. Drummond
PPC/PLS/DPRE, E. Lijewski
NE/TECH, W. Fitzgerald
TA/AGR/ESP, F. Mann
TA/AGR/ESP, J. Dempsey
TA/AGR/ESP, E. Rupprecht
ASIA/ARD, R. Ehrich

NE/TECH, M. Dalton
NE/TECH, R. Olson
LA/DR/RD, D. Chaij
LA/DR/RD, F. Welz
ASIA/DP, R. Meehan
AFR/DR/ARD, W. Leake
TA/AGR, L. Hesser
TA/PPU, R. Simpson
TA/PPU, J. Canning

UNITED STATES GOVERNMENT

Memorandum

TO : See Distribution

DATE: April 30, 1977

FROM : TA/AGR/ESP, William C. Merrill *WCM*

SUBJECT: Committee Review of Small Farmer Credit Project

Attached is TA/AGR/ESP's project paper on Small Farmer Credit: Profitability and Repayment. A review by an Interbureau Committee has been scheduled for Thursday, May 5, 1977 at 10:30 a.m. in 409C Rosslyn Plaza West.

Distribution:

LA/DR/RD: F. Melz
PPC/PDA: M. DeMelo
PPC/PDA/DPRE
NE/TECH: R. Olson
ASIA/TA/ARD: R. Ehrick
AFR/DR/ARD: W. Leake
TA/ED: C. Blankstein
TA/PPU: K. Simpson
TA/PPU: J. Gunning
TA/PPU: C. Molfette
TA/AGR: L. Hesser



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

DATE: February 28, 1977

TO : AA/TA, Mr. Curtis Farrar

FROM : TA/PPU, *[Signature]* Robert Simpson

PROBLEM: Your approval is Requested of the Project Identification Document (P.I.D.) for Small Farmer Credit: Profit and Repayment

Proposed Project Begins: FY 77 or FY 78 Proposing Office TA/AGR

A. TA/PPU Review

1. Does PID Adequately Describe and Justify Project?

Yes. This is an important area about which there is much concern and varying approaches as the attached exchange of memoranda with RD and AGR show.

2. Funding Adequacy? How Compares to FY-77 C.P. and/or FY 78 Budget?

The project appears in FY 78 C.P. as a shelf item. Notification will be required if undertaken in either FY 77 or FY 78.

3. Are Plans for PP Development, Approval and Project-Initiation Realistic?

Yes. ESP should consult fully with RD and PDA in project development. The PP will need to discuss any remaining issues and describe relationship to and coordination with activities of other offices.

B. TA/PPU Recommends the Following Action:

- Approval
- Approval subject to availability of funds and above comments.
Return for further work prior to AA/TA decision.
- Disapproval

C. AA/TA Action

- Approved for circulation to R & DC
- Approved subject to _____
- Disapproved

[Signature]
Signature

Date

Recommendation regarding Environmental Threshold Decision: Attached

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PPT To Be Completed Under Basic Assistance Cooperative Agreement