

669-0145
PD-AAG-811-B1
6690145004201

2

PROJECT PAPER

LIBERIA
AGRICULTURAL CREDIT BANK PROJECT
(669-0145)

Prepared by:

William E. Roach, Financial Analyst - Team Leader
Eugene C. Schroepfer, Agricultural Credit Specialist
Jordan G. Holtam, Rural Development Specialist
Barbara D. Howard, AFR/DR/CAWARAP, Design Officer

June 9, 1978

TABLE OF CONTENTS

	Page
1 - Face Sheet	1
2 - Detailed Project Description	2
3 - Project Analyses	12
A - Economic Analysis	12
B - Social Soundness Analysis	15
C - Technical Feasibility	16
D - Administrative Feasibility	20
4 - Financial Plan and Analysis	22
5 - Implementation Plan and Schedule	27
6 - Evaluation Plan	32
7 - Covenants	34

List of Annexes

- A. ACDB Project Paper Information Requirements
- B. Social Soundness Analysis (on file in AFR/DR/CAWARAP)
- C. FAO Consultant Report (on file in AFR/DR/CAWARAP)
- D. ACDB Organization Chart (on file in AFR/DR/CAWARAP)
- E. Initial Environmental Examination
- F. Detailed Cost Estimates - Fiscal and Project Years
- G. Scopes of Work - Technical Advisors
- H. Logical Framework
- I. Statutory Checklist
- J. 611(e) Determination
- K. Borrower Grantee's Request for Assistance

BEST AVAILABLE DOCUMENT

AGENCY FOR INTERNATIONAL DEVELOPMENT PROJECT PAPER FACESHEET				1. TRANSACTION CODE <div style="border: 1px solid black; display: inline-block; padding: 2px;">A</div> A ADD C CHANGE D DELETE				PP <hr/> 2. DOCUMENT CODE 3	
3. COUNTRY ENTITY Liberia				4. DOCUMENT REVISION NUMBER <input type="checkbox"/>					
5. PROJECT NUMBER (7 digits) <div style="border: 1px solid black; display: inline-block; padding: 2px;">669-0145</div>			6. BUREAU/OFFICE A. SYMBOL AFR		B. CODE <div style="border: 1px solid black; display: inline-block; padding: 2px;">06</div>		7. PROJECT TITLE (Maximum 40 characters) <div style="border: 1px solid black; display: inline-block; padding: 2px;">Agricultural Credit Bank</div>		
8. ESTIMATED FY OF PROJECT COMPLETION FY <div style="border: 1px solid black; display: inline-block; padding: 2px;">8</div> <div style="border: 1px solid black; display: inline-block; padding: 2px;">2</div>				9. ESTIMATED DATE OF OBLIGATION A. INITIAL FY: <div style="border: 1px solid black; display: inline-block; padding: 2px;">7</div> <div style="border: 1px solid black; display: inline-block; padding: 2px;">9</div> B. QUARTER: <div style="border: 1px solid black; display: inline-block; padding: 2px;">1</div> C. FINAL FY: <div style="border: 1px solid black; display: inline-block; padding: 2px;">8</div> <div style="border: 1px solid black; display: inline-block; padding: 2px;">2</div> (Enter 1, 2, 3 or 4)					
10. ESTIMATED COSTS (\$000 OR EQUIVALENT \$) -									
A. FUNDING SOURCE		FIRST FY			LIFE OF PROJECT				
		B. FX	C. C	D. TOTAL	E. FX	F. C	G. TOTAL		
AID APPROPRIATED TOTAL		167	60	227	1,490	60	1,550		
GRANT		167	60	227	1,490	60	1,550		
LOAN									
OTHER									
U.S.									
HOST COUNTRY			1,250	1,250	-	4,000	4,000		
OTHER DONOR(S)		IBRD			422		422		
TOTALS		167	1,310	1,477	1,912	4,060	5,972		
11. PROPOSED BUDGET APPROPRIATED FUNDS (\$000)									
A. APPROPRIATION	B. PRIMARY PURPOSE CODE	PRIMARY TECH. CODE		E. 1ST FY <u>79</u>		H. 2ND FY <u>80</u>		K. 3RD FY <u>81</u>	
		C. GRANT	D. LOAN	F. GRANT	G. LOAN	I. GRANT	J. LOAN	L. GRANT	M. LOAN
(1) FN	B244	043		227		593		514	
(2)									
(3)									
(4)									
TOTALS				227		593		514	
A. APPROPRIATION		N. 4TH FY <u>82</u>		O. 5TH FY _____		LIFE OF PROJECT		12. IN-DEPTH EVALUATION SCHEDULED <div style="border: 1px solid black; display: inline-block; padding: 2px;">MM YY 0 3 8 0</div>	
		P. GRANT	Q. LOAN	R. GRANT	S. LOAN	T. GRANT	U. LOAN		
(1)		216		-		1,550			
(2)									
(3)									
(4)									
TOTALS		216				1,550			
13. DATA CHANGE INDICATOR. WERE CHANGES MADE IN THE PID FACESHEET DATA BLOCKS 12, 13, 14, OR 15 OR IN PRP FACESHEET DATA, BLOCK 12? IF YES, ATTACH CHANGED PID FACESHEET. <div style="text-align: center; margin-top: 10px;"><div style="border: 1px solid black; display: inline-block; padding: 2px;">1</div> 1 = NO 2 = YES</div>									
14. ORIGINATING OFFICE CLEARANCE						15. DATE DOCUMENT RECEIVED IN AID/W OR FOR AID/W DOCUMENTS. DATE OF DISTRIBUTION			
SIGNATURE John W. Koehring <i>JW Koehring</i>									
TITLE Director, AFR/DR									
DATE SIGNED									

2. Detailed Project Description

- A. Sector Goal - increase in agricultural productivity and economic benefits for rural households engaged in small scale agricultural production.

The main objective of the GOL's 1976-1980 Socio-Economic Development Plan is to achieve higher standards of living for all Liberians through 1) diversification of production, 2) geographical dispersion of sustainable socio-economic activities, 3) greater satisfaction of the entire population in the development process, and 4) equitable distribution of the benefits of economic growth. The agriculture sector with its extensive traditional farmer group, representing some 70% of the rural population, quite naturally plays an important role in the GOL Development Plan. Allocations to the agriculture sector from the revised 1976-1980 Plan budget amount to \$97.0 million, or 16.7% of the total.

In keeping with the overall Development Plan, the Ministry of Agriculture has adopted five goals:

- Diversify Liberia's agricultural economy;
- Increase the participation of Liberian citizens in modern agricultural production;
- Increase farmers' income, create purchasing power and develop a market for consumer goods;
- Maximize the national income of Liberia through agricultural and forestry pursuits; and
- Provide rural and urban consumers with more nutritional diets at lower cost.

The means adopted to achieve these objectives are import-substitution and export-promotion, involving food, industrial and forestry crops.

Specific constraints have been identified in order to achieve the goals established by the MOA for the agriculture sector. These constraints are listed below:

- An inadequate marketing system for farm products which does not allow the small farmer to avail himself of the official government prices which are generally favorable;
- An erratic and often non-existent delivery system for agricultural inputs at reasonable prices;

- A lack of credit available to small farmers resulting in stagnation of production and/or recourse to loans at high interest rates further reducing incentive to produce;
- Poor physical access to market for farmers, resulting in low prices for certain crops which need fresh processing and disincentives in growing marketable surpluses of heavy grain crops which must be head loaded to market;
- Rudimentary or non-existent information transmittal system, and
- Absence of animal traction and inability of farmers to afford mechanical devices.

Agricultural policies addressing these constraints have been formulated by the GOL and strategies to implement the policies have been developed.

Implementation strategy to overcome the above constraints involves the extensive use of farmers' cooperatives and credit societies, integrated rural development project authorities and public corporations.

In keeping with the GOL's policy and the Congressional Mandate, the Mission strategy is to address the constraints to development and thus strengthen the agricultural sector through a confluence of discrete projects aimed at basic support activities (roads, research, extension planning) and the delivery institutions (farmers' cooperatives and credit societies and integrated rural development project authorities), as follows:

Area

- | | |
|--|---|
| a. Roads | Rural roads 11, 111, 1V, Lofa and Bong Counties. |
| b. Rural Credit, Farm supply
Ag. Coops, Credit Unions | Ag. Credit Bank, participation of AID/W funded organizations, VDC, CUNA |
| c. Ag. Planning | Ag. Sector Analysis and Planning |
| d. Ag. Research/Extension | Ag. Research (FY 78 project) Lofa and Bong, and Cuttington Rural Development Institute. |
| e. Experimental/Rural Dev. | PEP, YMCA, PVO projects, hand dug wells, AIP, (pending). |

The Mission views an effective credit institution to be the one sub-system that is currently lacking and not being fully addressed in an attempt to develop a long-term, comprehensive system for delivering new and improved technology to all small farmers. All other sub-systems are being addressed in one manner or another: e.g., the technology either exists or will be developed by proposed research activities, the cooperative project will address the local institutional problems of the delivery of the technology and in marketing the resultant production, the long-term training and support of the extension, research, and project management aspects are being addressed by the RDI project at Cuttington, while the short-term aspects are being addressed by the Lofa and Bong County Projects in certain areas of the country.

Present credit programs in the Lofa and Bong projects provide an interesting model of how to administer credit from the coop level down to the farmer and will address the credit needs of some 17,000 small farmers. However, this does nothing about (1) the development of a coherent, national credit policy for small farmers; (2) the administrative systems required to move credit down to the cooperative level; (3) the credit needs of the other 100,000 plus small farmers in the rest of Liberia; (4) the need for rural banks as part of the overall rural infrastructure; or (5) mobilizing savings in the rural areas.

The Bank will provide important linkages with several on-going and planned projects and the agricultural sector in general, as follows:

<u>Activity</u>	<u>Linkage</u>
A) Lofa, Bong County Integrated Rural Development (GOL/USAID/IBRD)	1) Administration of credit revolving fund.
	2) Working capital for cooperative produce marketing, physical facilities.
	3) Supplemental credit for small farmers in project area.
	4) Credit for medium sized farmers in project area and farmers outside of project area.
	5) General banking services to rural community.

- B) Cooperative Development (GOL/USAID)
 - 1) Financial institution for attraction of resources for cooperative system.
 - 2) Financial and administrative mechanism for allocation of resources to cooperative system.
 - 3) Credit directly to cooperatives for on-lending to members, working capital to finance produce marketing, physical facilities needed by cooperatives.
- C) Rubber Development (GOL/IBRD)
 - 1) Administration of credit revolving fund.
- D) Small Scale Agro and Rural Businesses (Proposed GOL/USAID)
 - 1) Credit needs for businesses
- E) General
 - 1) Seasonal and developmental credit to small farmers outside the cooperative movement.
 - 2) Rural savings
 - 3) General banking services as an integral part of the rural community.

The Mission views the establishment of the credit bank, together with a sound cooperative program, to be the optimum and least costly method of providing for the needed linkages including the credit needs of all Liberian farmers.

- B. Project Purpose - institutionalize rural credit and savings channels for farmers and the rural agricultural economy at reasonable interest rates.

The ACDB was created by an act of legislation, signed by the President of the Republic of Liberia in late 1976.

Annex A presents a detailed analysis of the ACDB, including its history, legal basis, policies, organization and financing.

Policy formulation leading to the establishment of the ACDB was based on several factors, briefly summarized below.

- The Ministry of Agriculture Credit Division and predecessor divisions, the principal providers of agricultural credit to cooperatives and small holders from 1967 through 1976, were severely hampered in their credit operations by irregular and limited funds for lending, personnel, operations and equipment and, additionally, a lack of qualified banking, finance and field staff.
- Commercial bank lendings were and still are limited to short-term credits. Agricultural loans accounted for 22% of the commercial banks' loan portfolio at the end of 1977. These loans are for the most part to large scale rubber farmers and forestry concessions.
- The Liberian Bank for Development and Investment, owned partly by the Government of Liberia, has never effectively addressed the credit needs of small farm holders due to its conservative lending policies and commitment to achieve a fair return on its equity.

The charter of the Bank, in addressing the above points, briefly reads, as follows:

- (a) provide seasonal and developmental credit to individual farmers either directly or through cooperatives or other farmers' organizations;
- (b) encourage development of cooperatives or other farmers' organizations;
- (c) provide credit for agricultural inputs and marketing outputs;
- (d) promote the establishment of agricultural enterprises to generate additional production in the rural areas;
- (e) mobilize savings in the rural areas.

Translation of the broad policy objectives into an overall development plan complete with lending, savings and operating strategies has proved to be a difficult task for the Bank, due principally to the commercial banking background of the professional staff and the almost complete lack of experience in rural agricultural lending and cooperatives operations.

The managing director of the Bank, a talented and aggressive administrator with extensive supervisory and commercial banking experience, is aware of the limitations of the Bank, recognizes and has identified many of the areas of need for technical assistance and training in order for the Bank to successfully carry out its role.

The IBRD, in conjunction with its financing of the Rubber Rehabilitation Project, has agreed to fund an agricultural credit specialist and banking operations fiscal expert to the Bank. There is general agreement among IBRD, USAID and the managing director that substantial additional technical assistance and training are required.

The Bank is established and is expected to commence operations shortly.

Additional funding of the Bank through 1980-1981 by the GOL is expected to increase the total commitments to the Bank to \$6.0 million. The technical assistance and training proposed under this project are needed in order to insure the ACDB's development along proper channels, i.e., major emphasis on small farmer credits on an individual basis or through cooperatives. The premise of the project is to build a strong foundation in the beginning in order to avoid necessity for major changes later.

C. Project Outputs - project outputs needed to achieve the project purpose are expected to include the following:

1. Bank Development Plan: Translation of the broad policy objectives of the Bank into an overall development plan complete with lending and savings strategies is one of the key elements in the success or failure of the ACDB. The development plan must firmly address the following critical variables:

- a. Borrowing clientele, effective cooperative credit demand and strategy to service small farmers outside the cooperative element;
- b. Loan sizes and terms, including interest rate structure;
- c. Relationships with MOA extension and cooperative divisions;
- d. Capitalization;
- e. Financial projections;

- f. Decentralization, and
- g. Staffing requirements.

The preparation of the plan will require approximately one year, with a good portion of the time devoted to determination of the Bank's borrowing clientele, effective cooperative credit demand and small farmers' credit strategy. The agricultural economist advisor working together with the other technicians, managing director and other management officials will be responsible for the preparation of the plan.

2. Credit Policies and Procedures Manual: Credit policies and procedures applicable to cooperatives and small farmers, the principal clientele of the Bank, need to be developed and made operational. Primary responsibility for formulation of the policies and procedures will be with the agricultural credit specialist assigned to the Monrovia office with assistance from rural agricultural credit advisors stationed at the branches.

3. Staffing Requirements and a Training Plan: Staffing requirements and a training plan for new employees need to be established taking into account the Bank's development plan. Training, envisioned under the project and discussed below will leave the Bank with a well-qualified nucleus staff. The training plan will develop principally in-house training exercises to take advantage of this nucleus.

4. Increase in Trained Staff: A minimum of 34 Bank professionals, including agricultural economists, loan analysts, financial planner, development banker, accountants and operations personnel, will receive a combination of long-term academic, short-term non-academic and on-the-job training by the end of project. Sub-professionals, including clerks and tellers will receive on-the-job training.

5. Internal Accounting, Auditing and Control Systems: Accounting and control systems have been developed by the Bank with short-term assistance from a VDC consultant. The Bank presently employs two accountants and a team of two internal auditors.

The accounting and control systems need to be tested in an operating environment and redesigned as such to fit the operations. A management accounting report system must also be established. Internal auditing procedures need to be developed. All staff will require on-the-job training in working with the accounting, control and auditing systems.

6. Rural Savings Strategy: The Bank, as part of its charter, will accept deposits. A strategy needs to be established and made operational in order to mobilize rural savings.

7. Rural Branches Opened: By the end of the project the Bank should have three rural branches operating in the counties where integrated rural development projects are proposed or now established (Lofa, Bong and Nimba Counties).

8. Loans Made: By the end of the project, it is expected that the Bank will have a loan portfolio of approximately \$6.0 million, Loans being made by this time should be targeted at small farmers and cooperatives (80% of portfolio amount) in accordance with the Bank's development plan, completed by the end of the first year, and its credit policies.

9. Default Rates: Default rates on loans being made by the end of the project should approximate 4%, in accordance with the norm for efficiently run agricultural development banks in other countries. The World Bank appraisal team for the Lofa project indicated, in discussions, that over 95% of seasonal credit placed has been repaid.

10. Socio-Economic Survey: A small socio-economic survey of bank customers/non-customers in rural areas serviced by the branches of the Bank will have been completed. As this survey will be taken at three different stages during the life of the project, it should be possible to measure socio-economic impact of credit and savings on Bank customers and to determine some of the reasons for rural people not using the Bank's facilities.

D. Project Inputs - project inputs, consisting of seed capital for lending operations, personnel services, general administrative expenses, technical assistance, training and commodities, will come from three sources: the GOL/ACDB, the World Bank and AID.

GOL/ACDB Inputs

Seed capital for lending operations of approximately \$1.7 million is available to the ACDB as of now. As the Bank has not yet begun its loan operations, these funds are currently invested in short-term time deposits. The initial amount is a minimum. Over the project life, funding from the GOL is expected to increase by \$4.0 million, based on Ministry of Planning documents indicating an overall GOL commitment of \$6.0 million. Additional details on GOL funding are contained in the financial analysis section. Other sources of funding for loan operations are expected to include demand and savings deposits from the public and private sectors. No firm estimate is available of the amounts of deposits the Bank will be able to attract.

Counterpart staff will be provided by the ACDB as well as office space, equipment and supplies, vehicles and other supporting services for its staff. Administrative support and office space will also be provided to the technical assistance team by the Bank.

World Bank Inputs

Technical assistance to be financed by the World Bank will consist of a two-member team:

- a bank operations expert (2 person years) who will act as the head of the Operations Department and report directly to the managing director of the ACDB. Additionally, under the draft terms of reference for this position, the operations expert will be responsible for financial planning of the Bank;
- An agricultural credit specialist (2 person years) who will supervise the preparation of loan appraisals, propose credit policies and strategies and train staff on-the-job. This position will also report directly to the managing director.

Commodity support financed by the World Bank includes funding for the creation of the branch bank in Bong County.

AID Inputs

Technical assistance, training and a small commodity component of vehicles for the technicians and training aids are the inputs to be provided by AID.

The AID inputs are designed to meet needs identified at both the policy and operational levels of the ACDB and at the main headquarters and proposed branch banks. The technical assistance is designed to complement the World Bank financial team.

Technical assistance will be provided on both a long-term and short-term basis, as follows:

TECHNICAL ASSISTANCE

<u>Description</u>	<u>Term</u> (pm's)	<u>Areas of Responsibility</u>	<u>Principal Location</u>	<u>Counterparts</u>
Agricultural economist	36	Team leader, bank development plan, macro economic analysis, micro project analysis	Monrovia	Managing director, ag. economist trainees
Rural Ag. credit specialist	(1) 36 (1) 24	Branch bank lending	Branches	Branch managers, field credit officers
Accounting systems and procedures specialist	12	Internal accounting, auditing and control	Monrovia	Assistant operations head, accountants, internal auditors
Staffing requirements and training specialist	12	Staffing patterns, in-house training programs	Monrovia	Personnel and training head
Rural savings specialist	6	Rural savings mobilization strategy	Branches	
Rural sociologist	6	Social/cultural/economic constraints re credit and savings in rural areas	Branches	
Local consultants	\$60,000	Micro project analysis when Bank needs specialized assistance, socio/economic survey of rural areas where Bank has branches		

Training inputs are designed at three levels:

- Long-term academic for two agricultural economists, one development banker and one financial planner programmed for a total of 96 person months in order to provide the Bank with a long-range planning and micro/macro economic analysis capacity;
- Short-term non-academic for nine credit officers/branch managers;
- On-the-job training for counterparts to technical advisors, and
- Field exchange visits by management officials to Kenya and Ghana.

Commodities are for the purchase of vehicles for the technical advisors and training aids.

3. Project Analyses

A. Economic Analysis

The ACDB realizes that a least cost approach to lending to small farmers is necessary. The draft credit policy points out "to attempt to deal directly with the numerous, small farmers would not be only prohibitively costly...., Therefore, the major thrust of ACDB's lending operations should and will be channeled through farmers' organizations." A study of a Malawi development project estimated that loans made on a group rather than an individual basis would lower the break-even interest rate from 23% to 13.5%. Group lending is thus seen as a cost efficient method of distributing credit and is, in many instances, combined with other related activities such as input supply, marketing and education to provide further cost efficiencies.

Alternatives to the establishment of an agricultural development bank, such as ACDB, include principally those schemes in use, or proposed for use, in other countries, as follows:

- Nationalization of banking systems;
- Use of banking laws to allocate loan portfolios to agriculture;
- Use of guarantee mechanisms for agricultural loans;
- Use of special rediscounting privileges and rates for agricultural loans;
- Apex cooperative federations;
- Credit division within the MOA; and
- Use of informal lenders.

The use of informal lenders can be ruled out in Liberia because of high effective interest rates (for the most part ranging from 120% - 300%), usual short terms and extreme difficulties in attempting to regulate and supervise the informal lenders.

An institution within the MOA, such as the former Credit Division, because of budgetary and personnel policy constraints, can be dismissed as unworkable at the present time.

Use of the apex cooperative federation is just as easily dismissed as a viable alternative due to present status of the cooperatives and the cooperative federation being nothing more at present than a paper organization.

The first five alternatives all involve the use of the existing banking system either through nationalization, highly unlikely in Liberia, or provision of incentives to encourage lending in the agricultural sector. One of the principal reasons for adoption of an alternative involving the existing banking system is to achieve economies of scale in terms of management overhead and physical facilities on the assumption that excess capacity is available. However, in Liberia these institutions are faced with the same problems as the ACDB when it was established: lack of outreach (branch banking system) and virtually no experience with lending to small farmers or to cooperatives for on-lending to its members. Therefore, field staff would have to be hired and trained, branches opened and staffed and probable increases in management personnel at the main office. This thus leads one to conclude that for only a small price in additional main office administrative and overhead costs, which are to an extent duplicated by the ACDB assuming that excess capacity exists in the banking system, the ACDB can be operated and focused exclusively on individual farmer and cooperative lending and rural savings.

The Bank is a reality and will probably receive substantial funding over the years. Prudent management dictates that an initial investment for institution building support to prevent possible misallocation of scarce government resources for the agricultural sector is called for.

Resource misallocation is defined, in this case, in terms of beneficiaries, or the target group, of the Bank's credit package. A major portion of the technical assistance and training under the Project is designed to provide the Bank with the needed expertise to address effectively the credit needs of small farmers on an individual basis or through cooperatives. Without this expertise it can be assumed, because of the commercial banking background of management and staff coupled with the relative ease and less cost in making loans to large farmers vis-a-vis small farmers, that the Bank's portfolio will be overwhelmingly biased toward the large farmer sector, much in the same manner as the current LBDI portfolio. Using these two extremes and several plausible assumptions, the number of beneficiaries can be calculated, as follows:

ACDB loan portfolio at end of project: \$6.0 million
(Based on expected GOL support to ACDB through 1982)

ACDB portfolio balance at end of project:

1) Small farmer/cooperative strategy: 80% small farmers
20% large farmers

(Based on EOPS)

- 2) Large farmer strategy: 3% small farmers
97% large farmers

(Based on analysis of LBDI agricultural portfolio)

Average loan size:

- 1) Small farmer: \$1,000

(Based on maximum loan in Lofa County IRD project)

- 2) Large farmer: \$36,000

(Based on average LBDI agricultural loans outstanding)

Number of beneficiaries

- 1) Small farmer/cooperative strategy

$$\frac{\$6,000,000 \times 80\%}{\$1,000} = \$4,800$$

$$\frac{\$6,000,000 \times 20\%}{\$36,000} = 33$$

4,833

- 2) Large farmer strategy

$$\frac{\$6,000,000 \times 3\%}{\$1,000} = 180$$

$$\frac{\$6,000,000 \times 97\%}{\$36,000} = 162$$

342

B. Social Soundness Analysis

A more detailed analysis appears as Annex B and only the main points will be outlined here. The conclusions drawn were based on discussions with farmers, bank personnel, MOA/extension both in the field and central office, from merchants and from the extensive rural Liberia experience of one of the team members.

The intended beneficiaries of a rural banking system can be broadly classified as:

- (1) those within cooperative structure;
- (2) individual farmers with homesteads outside of village society; and
- (3) those residing within the larger village family.

Present deliberations within the ACDB are directed toward providing credit to farmers within cooperatives only. The assumption is that these farmer associations provide an effective channel to direct credit to farmers and a guarantee of repayment. Where cooperatives are viable this should be true. The problem is at present that there are only 6 financially viable cooperatives with approximately 3,000 members.

The constraint to utilizing the cooperative organization to extend credit, effect payment and encourage savings is a lack of viability, a result of:

- (1) inadequate and poorly trained management;
- (2) absence of an effective cooperative education program required to develop the level of understanding required of management, directors and members;
- (3) dominant presence of socio-political authority within management or directors; and
- (4) inadequate financial supervision by MOA/coops.

Assistance to correct the above noted deficiencies is being provided on a long-term basis by a USAID financed team.

There are an estimated 152,000 farm families in Liberia, half of whom are isolated. There is a definite need for credit to be tied to technical packages provided by MOA. Because of the long gestation period required for viable farmers' associations;

the past experience with cooperatives; and the fact that other elements of an effective national rural developmental equation are in place, the Minister of Agriculture, while actively encouraging and supporting the cooperative movement, is anxious that credit and savings alternatives outside of cooperatives be employed as soon as feasible.

The social analysis attempts to outline such possibilities. It suggests an approach to credit for individual farmers who are not likely to join cooperatives and who reside outside the traditional village situation. An alternative approach is set out for dealing with those smallholders who are still members of a village social order, but for whom modernized farmer associations are a distant possibility, not a present day reality.

The analysis contains considerable socio-cultural information but it is in no ways complete. A rural sociologist is deemed necessary to fill in the critical gaps and assess farmer receptivity.

Detailed attention is given also to the informal credit and savings arrangements since this is the fundamental basis of the rural smallholders understanding, and therefore the point from which the ACDB will have to start.

Finally, the assumption is made that approached respectfully and given time to understand the full implications of a formal rural banking service, the rural smallholder can and will participate. The major constraint, that of the balanced equation of food, relations with others, and quality of life, can be adjusted by the farmer, and this must be done by the farmer with the least disruption from innovative forces outside the equation.

C. Technical Feasibility

Although the project is essentially designed as an institution building support effort, several feasibility issues arise outside of the control of the Bank and which could affect the ability of the Bank to effectively carry out its role of providing agricultural credit to individual farmers and cooperatives and mobilizing rural savings. These issues relate to (1) the dismal past history of agricultural credit in Liberia, (2) free input packages provided by the MOA and LPMC, (3) cooperative viability, (4) balance between seasonal and developmental credit, and (5) rural savings potential. Each of these issues is discussed below.

(1) Past history of agricultural credit.

The past history of agricultural credit has no doubt been poor, beginning with the Agricultural and Industrial Credit

Corporation (AICC) in 1953 through the Agricultural Credit Corporation (1962-67) and the disbanding of the MOA Credit Division with the creation of the ACDB in 1976.

According to scant available information the two credit corporations were woefully undercapitalized and understaffed with no loan analysts in either institution. In looking at the personnel budget for AICC one can only assume that the general manager approved a loan; the one accountant recorded the loan; the legal advisor drew up the loan; the one secretary typed up the loan; and the one messenger and one driver delivered the loan.

The Ministry of Agriculture Credit Division and predecessor divisions, the principal providers of agricultural credit to cooperatives and smallholders from 1967 through 1976, were severely hampered in their credit operations by irregular and limited funds for lending, personnel, operations and equipment and, additionally a lack of qualified banking, finance and field staff. Many of the loans made by the Credit Division for land clearing and other long-term development needs were not formalized through loan agreements or promissory notes.

Recent developments in agricultural credit, however, are much more promising. Repayments of the first seasonal credit extended by the Lofa County IRD Project are now in and show over a 95% collection rate.

The ACDB, as a partially owned GOL (65%) entity, is well capitalized for the moment at \$2.0 million with additional support of \$4.0 million from the GOL alone on the near term horizon. The Bank operates outside of civil service restrictions including salary levels thus overcoming the two main difficulties encountered in past governmental agricultural lending programs. Although lacking in agricultural credit experience, the managing director is a tough, bright and capable administrator. When the Credit Division staff was transferred in 1977 to the newly formed ACDB the managing director of the Bank, upon assessing their performance over a short period of time, summarily dismissed these employees as not suiting the needs of the Bank. The managing director has stated his intention to move in a slow, orderly expansion of operations despite many outside pressures to move ahead rapidly. He also stated that institution building is needed now and loan capital later.

So for the first time the stage is set with an organization in place which can effectively service the individual farmer and cooperatives. At present the key missing ingredients are the need to move from a commercial banking environment to that of a development bank and the need to develop the expertise in agricultural credit and lending. The primary thrust of the project is to address these two requirements.

(2) Free input package provided by the MOA and LPMC.

Due to the vacuum created by the lack of an institutionalized credit source, the GOL is implementing a policy of free input packages through the MOA upland rice program (free fertilizer for the first year, improved rice seeds repaid in kind) and the LPMC tree crop program (free seedlings, additionally land clearing for farmers on special projects). Under the LPMC program the inputs are not free as such, as LPMC produce prices paid to all farmers are reduced in order to cover the costs of its tree crop development fund.

Policies of free inputs are not conducive to a healthy credit environment and place an inordinate strain on scarce GOL resources. Farmers become confused as to what is free and what has to be repaid, and the preferential treatment accorded through provision to one farmer or group of farmers of a free package and another farmer or group of farmers with a credit package which must be repaid.

Total costs to the GOL for the provision of free fertilizer under the seed multiplication program alone are estimated at \$13.0 million.

The GOL should be encouraged to change its policies in order to allow full costing of agricultural inputs once it is determined that the ACDB is able to effectively provide the needed credit to farmers to finance the inputs. In discussions with the MOA, the Minister has agreed to work with the Bank on this issue. The LPMC "free" input package could be readily redesigned by treating the inputs on a credit basis and effecting repayment through a higher producer price. A covenant will be placed in the Project Agreement necessitating the development of a plan to move toward full costing of inputs.

(3) Cooperative viability.

Cooperatives are expected to be the primary channels through which the ACDB proposes to finance small farm holders. Using estimates of sales developed by Messrs. Goldman and Savage in 1976 in their "Appraisal of Cooperative Development in Liberia, the following rough credit demand estimates can be developed:

	(\$000's)	
	<u>1979</u>	<u>1984</u>
Projected Sales	\$ 6,000	\$ 20,000
1) Working capital to finance produce sales (annual)	660	2,200
2) Seasonal credit for inputs (annual)	1,800	6,000
1) Based on present ratio of loans to finance sales now made by cooperatives. Ratio is 9:1.		
2) Based on agricultural inputs, excluding labor, and representing 30% of sales value.		

Additional credit needs for cooperatives and members would include financing of physical facilities and land clearing.

There are 56 registered cooperatives of which 27 are considered as operational organizations. Eight of the 56 are carrying out MOA sponsored rice and tree crop programs and more than 14 coops are authorized crop and purchasing agents of the LPMC.

The cooperatives have major problems particularly in organization, management and finance. Recognizing this problem USAID has approved a project to provide technical and related assistance to the cooperative movement. Two of the senior technicians are on board. The purpose of this project, to develop a network of viable farmers' organizations, is of utmost importance to the success of Liberia's small farmer agricultural program.

The ACDB will provide a cooperative specialist in its table of organization who will be expected to carry out liaison duties with the MOA-cooperative section, the cooperatives and ACDB and other field staff members working with the cooperative.

It is critical to include basic provisions relating to the responsibilities of carrying out a successful cooperative program in the proposed memorandum of understanding between the MOA and the ACDB.

The memorandum of understanding should specifically outline both the ACDB's and MOA Coop Division's roles in developing a network of viable cooperatives in Liberia.

(4) Balance between seasonal and development credit.

The agricultural credit demand estimates show a division of seasonal and developmental credit needs of approximately 33% and 67%, respectively, over the next three years (Annex A). Demand and short-term savings accounts, extremely liquid in nature, are planned to contribute substantially to the Bank's capitalization. The relationship of these two factors must be closely analyzed and probable limits established for developmental credit. According to the draft scope of work, this function is to be performed by the IBRD operations advisor. Long-term training for a financial planner is programmed under the AID inputs to provide the Bank with a permanent capability.

(5) Rural savings potential.

The potential for rural savings appears to be great. The Lofa County Rural and Commercial Bank, with little or no promotion due to the pending takeover of the Bank by ACDB, has generated \$165,375 in savings, represented by 377 accounts. Eliminating the three largest accounts leaves an average savings account balance of \$372. Approximately two-thirds of the savings are from government employees and merchants, while one-third of the savings are from farmers.

The credit union associated with the Intofawor cooperative has at present \$26,000 in savings with a membership of 300.

The potential appears to be there. Part of the project design includes funding for a short-term rural savings advisor to devise a strategy and methods for the mobilization of rural savings.

D. Administrative Feasibility

As the Bank has not yet commenced operations, the methodology used to determine administrative feasibility is to 1) examine the Bank's history, charter, policies and purposes, 2) determine expertise needed to fulfill its policies and purposes, 3) analyze existing organizational structure and 4) determine the net deficit. These four points are covered in Annex A.

Several important constraints have been identified and include the following:

- The extensive commercial banking background of the Bank's management team and the necessity to move to a development banking mode of operations;

- The lack of experience in rural agricultural lending to small farmers and cooperatives;
- Needed expertise in development banking, macro economic analysis, policy planning and micro economic project analysis, financial management and accounting systems and procedures;
- Centralization of authority which is a symptom of the first three constraints rather than a constraint in and of its self.

The AID financed portion of the project, complemented by the two IBRD technical advisors, is designed as an institution building support effort and provides the necessary technical assistance and training to address the above constraints. The technical assistance and training are spread through the credit, operations and economic research and planning departments of the Bank, at headquarters and the branches and all levels of management.

An ancillary question is one of the absorptive capacity of the Bank for the proposed technical assistance and training. The Bank now has a nucleus of fourteen professionals and sixteen support personnel. The managing director has purposely kept down overhead costs while the Bank is in the start-up phase. He is aware of the need for additional personnel and is recruiting on a very selective basis at the present time. A minimum increase in professional staff size from the present number of fourteen to 34 by the end of project is envisioned with 50% of the increase to occur at the branch level as new branches become operational. Salary levels are competitive with the commercial banks in Liberia. No problems are envisioned in the recruitment of additional staff. The technical assistance and training are spread through both the headquarters' office (nine person years of long-term technical assistance including IBRD advisors) and the branch banks (five person years of long-term technical assistance) and time phased to minimize the overloading of the Bank.

4. Financial Plan and Analysis

A. Financial Plan

The Summary Cost Estimate and Financial Plan is presented below:

SUMMARY COST ESTIMATE AND FINANCIAL PLAN
(U.S. \$000's)

	<u>AID</u>		<u>GOL/ACDE</u>		<u>IBRD</u>		<u>Total</u>
	<u>FX</u>	<u>LC</u>	<u>FX</u>	<u>LC</u>	<u>FX</u>	<u>LC</u>	
Technical Assistance							
Long Term	940.9				272.0		1,212.9
Short Term	120.6	60.0					180.6
Training	189.5						189.5
Commodities	45.0						45.0
Other							
Loan Funds and Administrative Expenses				4,000.0			4,000.0
Physical facilities						150.0	150.0
Inflation	94.0						94.0
Contingencies	<u>100.0</u>						<u>100.0</u>
	<u>1,490.0</u>	<u>60.0</u>		<u>4,000.0</u>	<u>272.0</u>	<u>150.0</u>	<u>5,972.0</u>

Total financing of the project is estimated at \$5.972 million with AID's contribution at \$1.550 million or 26% of the total; the GOL/ACDB funding at \$4.0 million, or 66% of total project costs, and the World Bank providing \$0.422 million, or 8% of the total.

AID funding is expected to finance ten person years of long-term technical assistance (\$940,900); fifteen person months of short-term technical assistance (\$120,600); a small local currency consulting fund enabling the Bank to contract local expertise for specialized analyses of projects when required and to conduct a socio-economic survey (\$60,000); eight person years of long-term academic training, nine person months of

short-term training and exchange visits to two other agricultural credit institutions in Africa (\$189,500); commodities represented by vehicles for the technicians and training aids (\$45,000); inflation computed at 8% p.a., (\$94,000) and contingencies estimated at approximately 8% of total AID funding (\$100,000).

The GOL/ACDB contribution covers the expected additional support of \$4.0 million from the Government for budget support covering projected operating losses and ACDB capital available for lending. The full additional \$4.0 million is counted as GOL/ACDB contribution to the Project as these funds will be utilized based on the technical assistance and training provided by AID and IBRD.

Complementary financing by the World Bank includes funding for two long-term technicians as part of its Rubber Development Project (\$272,000) and investment in physical facilities at the ACDB branch office in Bong County as part of the Bong County Integrated Rural Development Project.

Detailed cost estimates are contained in Annex F.

A projection of expenditures by fiscal year is shown in the table below. Details supporting the table are presented in Annex F.

PROJECTION OF EXPENDITURES BY FISCAL YEAR
(U.S. \$000's)

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	
AID	227.4	592.7	513.5	216.4	1,550.0
GOL	1,250.0	950.0	900.0	900.0	4,000.0
IBRD	<u>286.0</u>	<u>136.0</u>			<u>422.0</u>
TOTAL	<u><u>1,763.4</u></u>	<u><u>1,678.7</u></u>	<u><u>1,413.5</u></u>	<u><u>1,116.4</u></u>	<u><u>5,972.0</u></u>

B. Financial Analysis

1. Historical

The latest financial statements, balance sheets as of 3/31/78 and income statement for the three months ended 3/31/78, are attached as an annex. The Bank has not yet commenced operations and has incurred only administrative and start-up costs. Funds received from capital subscriptions have been placed in commercial bank short-term time deposits earning 7%-7½%. Earnings from time deposits have not been sufficient to cover overhead, thus net losses for the first quarter of 1978 amounted to \$55,000.

Initial authorized capital stock of the ACDB was \$2.0 million with stock to be held by the GOL (65%), LPMC (15%), Union of County Co-operatives Federation (10%) and Liberian Credit Union National Association (10%). Authorized capital stock, according to bank management, has since been increased to \$5.0 million.

Paid-in capital now stands at \$2.0 million with LPMC purchasing \$300,000 and the GOL, the remainder of \$1.7 million. The Cooperative Federation and Credit Union Association have not yet purchased their required capital stock.

There is some question as to the ability of the cooperative and credit union federations to raise their equity shares. A proposal is now circulating within the GOL for government purchase of the shares and eventual resale to the federations. No decision has been made as of this time.

2. Projected

Proforma financial statements for the years 1978-1982 have been prepared by the Bank and are shown in Annex A-VI. These statements are, at best, a first attempt to place a medium-term perspective on the Bank's financial policies. Major assumptions regarding size of loan portfolio, capital structure and revolving fund management services and fees are tenuous.

Assumptions underlying the amounts of the loan portfolio and related interest income have been developed with little or no reference to the variables of credit demand, Bank clientele, average loan sizes, loan terms, administrative capacity to move loans, etc.

Assumptions regarding the sources of funds, or the capital structure, to finance lending operations need to be verified. The proposed capital structure at the time of projected financial breakeven (mid 1981) consists of a combination of demand and savings deposits, concessional loans, and equity supplied principally by the GOL, resulting in an extremely low financial cost (interest expense) to the Bank as follows:

MID 1981

COST OF CAPITAL (BOOK VALUE)
(U.S. \$000's)

<u>Capital Structure</u>	<u>Amount</u>	<u>Annual Financial Costs</u>	<u>Annual %</u>
Demand	1,900		
Savings Deposits	350	25	7.1
Concessional Loans:			
GOL	2,000	60	3.0
External	1,500	105	7.0
Capital	<u>5,500</u>	—	—
Total	<u>11,250</u>	<u>190</u>	1.7

Projected timing of external borrowings appears to be premature and assumed GOL total commitment to the Bank through 1981 is highly optimistic, \$9.5 million per Bank vs. \$6.0 million per Ministry of Planning.

Additional costs associated with the management of the two revolving funds (Rubber Development and Bong County Integrated Rural Development Projects) have not yet been analyzed by the Bank. Also, the Lofa County Integrated Rural Development Project revolving fund has not been considered by the Bank in the financial projections.

The proforma financial statements, although reflecting high delinquency rates, fail to provide for uncollectible accounts in the Bank's portfolio which should be written off.

According to the financial projections the Bank will require an operating subsidy over the first three years, 1978-1980, of \$519,000, as it builds up its scale of operations to cover overhead costs. The Bank has requested \$1,500,000 over this same period as a subsidy from the GOL.

The Bank will need substantial assistance in the form of operating subsidies and capital for lending from the GOL over the project life and during the period when it is establishing a track record for possible concessional borrowings from external sources. The GOL is strongly committed to the Bank. This commitment is reflected in 1) the allocation of \$6.0 million to the Bank in the Ministry of Planning 1976-1980 development plan; 2) the \$2.7 million ACDB budget request approved by the GOL for FY 1978; 3) the \$1.250 million ACDB budget request, expected to be included in the FY 1979 GOL budget, according to conversations with the Ministry of Finance; and 4) the \$1.7 million actually paid in by the GOL as a portion of the capital of the ACDB.

Due to the importance of the GOL financing over the life of the project a covenant will be included in the project agreement that the GOL will contribute an additional \$4.0 million in budgetary support to the Bank to cover operating losses and additional capital for lending. The funding may be in the form of additional capital purchased or a direct subsidy of operations.

3. Financial return to farmers

Sufficient studies of credit used by small farm holders in Liberia to acquire and adopt technological packages have been made to show that financial returns are high. Two of these studies are briefly mentioned below.

a) Bong County Integrated Rural Development

Cash flow farm budgets for five small farm models developed showed that i) After complete debt servicing including 10% interest, average net returns/day increases by 79% of the daily agricultural wage. ii) After complete debt servicing including 10% interest, average net family income increases to \$908, or 152%.

b) LCCC Coffee and Cocoa

The feasibility study for the LCCC small farmer, 10 acre coffee and cocoa project shows internal rates of return at the farm level ranging from 28.5% to 35.5%, depending on production mix of the two products.

5. Implementation Plan and Schedule

The Implementation schedule below lists the more important actions to be accomplished during project life including the dates they are to be started and completed by the contractor USAID and the ACDB.

The Project will be implemented over a three year period (covering four fiscal years) beginning in FY 1979 with the first technicians scheduled to arrive in July 1979.

Vehicles are to be ordered by USAID directly as was done for the AID/ACDI project. These will be ordered in November on the signing of the Project Agreement to allow delivery to coincide with the arrival of the technicians. Other commodities (training aids and research library materials) will be ordered by the contractor.

One particular event in the implementation plan which could delay the arrival of one of the two rural agricultural credit advisors is the negotiations for the takeover of the Lofa County Rural and Commercial Bank, now owned by LBDI. Although not viewed as a serious problem in the context of the overall project, deliberate negotiations must begin. The Managing Director of ACDB has given assurances that the ownership of the Lofa County Bank will be transferred before year end. LBDI is aware of the GOL intentions to change ownership.

Project monitoring responsibility will rest with the USAID Rural Development Office. The office presently has a full-time staff of three persons to monitor all USAID agricultural projects. In addition, the office utilizes on an as-needed basis the services of a fourth staff member who is assigned to the West African Rice Development Association (WARDA). The design team and the USAID RD staff are confident that the present staff complement will be adequate to monitor this additional activity. No recommendation is, therefore, made to increase the present USAID staff.

Project monitoring will involve the maintenance of close contact with the technical assistance team leader, review of work plans, periodic written reports and evaluations.

The ACDB will be the implementing agency, and, as such, will be required to furnish counterpart personnel, office space, office equipment and supplies and clerical assistance to the technical team. The managing director of ACDB will also be responsible for the coordination of the two World Bank financed advisors and the AID financed team. This coordination is essential to the success of the project due to the probable different contracting sources. The managing director stated that he will see that the proper coordination is achieved.

The contract for the AID funded technical assistance and training should, preferably, be awarded to a U. S. university because of the broad base of expertise required to support the institutional growth of the Bank and the ability to provide training in one package. Ohio State University is mentioned as one possibility. If not awarded to a university, then the whole contract should go to an individual firm for logistical reasons. Detailed scopes of work for both long and short-term advisors are presented in Annex G.

A host country contract will be negotiated for all the technical assistance, training and commodities other than vehicles. Vehicles will be directly contracted by USAID/Liberia.

Budgets include a 50% overhead allowance on advisors' salaries, appropriate fringe benefits and adequate amounts for personal logistic support for technicians on board.

IMPLEMENTATION SCHEDULE

<u>Item</u>	<u>Month</u>	<u>Year</u>
1. ACDB begins operations in Monrovia and Bong County branch	June	1978
2. PP approved	August	
3. CN approved	September	
4. 2 IBRD advisors arrive (these advisors will assist the ACDB in agricultural credit supervision and banking operations)	October	
5. Recruitment of additional counterparts by ACDB commences	October	
6. ProAg signed	November	
7. Vehicles ordered by Mission PIO/T signed and RFP's	November November	
8. ACDB takes over branch of Lofa County bank branch	December	
9. Contract approved	May	1979
10. Required counterparts on board	May	
11. Budget Request approved for ACDB	June	
12. Vehicles arrive	June	
13. First U. S. technicians arrive (1 ag. economist, 2 rural ag credit advisors)	July	
14. Ag. economist participant departs for long-term training	September	
15. Accounting systems advisor arrives	October	
16. Rural sociologist arrives	October	
17. Rural savings advisor arrives	December	
18. First socio-economic survey completed and rural sociologist departs	January	1980
19. Rural savings plan implemented and rural savings advisor departs	March	

- | | | | |
|-----|--|-----------|------|
| 20. | ACDB budget request approved | June | |
| 21. | Bank development plan
(Bank development plan includes its borrowing clientele, loan sizes and terms, interest rates, relationships with MOA/Cooperative and Extension Divisions, capitalization, preliminary staffing requirements and financial projections, and credit policies and procedures) | June | |
| 22. | Credit policies and procedures Manual | June | |
| 23. | Evaluation | June | |
| 24. | 5 credit officers participants: short-term training | June | |
| 25. | Manpower and training advisor arrives | July | |
| 26. | Accounting, auditing and control system completed and accounting systems advisor leaves | September | |
| 27. | Ag-economist, financial planner and development banker participants depart for long-term training | September | |
| 28. | IBRD advisors leave | October | |
| 29. | Rural sociologist returns | October | |
| 30. | Rural savings advisor returns | November | |
| 31. | Nimba branch opens | December | |
| 32. | Second socio-economic survey completed and rural sociologist departs | December | |
| 33. | Rural savings plan analyzed and refined and rural savings advisor leaves | January | 1981 |
| 34. | Staffing requirements and in-house training plan in operation | January | |
| 35. | Ag-economist participant returns | June | |
| 36. | Rural credit advisor and manpower and training advisor leave | June | |

- | | | | |
|-----|--|----------|------|
| 37. | 4 ag. credit participants: short-term training | June | |
| 38. | Budget request approved for ACDB | June | |
| 39. | Evaluation | June | |
| 40. | Third sócio-economic survey completed | December | |
| 41. | Joint evaluation and proposed plan for AID capital loan (Phase II) | December | |
| 42. | Last technicians depart and final participants return | June | 1982 |
| 43. | Project completed | June | |

6. Evaluation Plan

The project will be subject to an internal, joint evaluation at the end of the first and second years of operation. An outside, in-depth evaluation will be made following the thirtieth month of the project. Upon completion of this evaluation, copies should be sent to the USAID, AFR/DP, AFR/CAWA and AFR/DR.

A. Yearly evaluations

1. First year

The review and assessment will consist of two parts: 1) a detailed examination of the Bank development plan prepared during the first year of the project by the Bank and technical assistance team, and 2) an assessment of the effectiveness of the technical assistance and training inputs and GOL/ACDB compliance with covenants and fine tuning where necessary in relation to the development plan.

The development plan will be the most important output in the first year and as a result will be closely scrutinized in the following areas:

- Borrowing clientele, % of portfolio to cooperatives, small farmers outside of cooperatives, medium and large size farmers, public corporations;
- Effective demand for credit by cooperatives;
- Strategy for meeting small farmer credit needs outside of the cooperative movement;
- Loan sizes and terms, interest rates;
- Relationships with MOA extension, cooperative divisions and special projects;
- Capitalization including GOL and other shareholder support and mobilization of rural savings;
- Decentralization;
- Staffing requirements, and
- Financial projections

Realistic marks based on the development plan will then be established to plot the progress of the Bank over the project life.

2. Second year

A preliminary assessment of the Bank's performance vis-a-vis the development plan approved at the first year evaluation.

B. Outside in-depth evaluation

The review and evaluation at the end of thirty months will assess the Bank's progress in meeting its over-all development plan. This will be done in a comprehensive fashion with outside assistance from an agricultural economist/planner and financial analyst. Additionally, as part of the project design, a small socio-economic survey of a control group of Bank customers/non-customers at three separate time periods will be conducted in rural areas serviced by the Bank. These surveys will be conducted by the rural sociologist to determine attitudinal, cultural and socio-economic impact of the Bank on rural residents. Results, summaries and interpretations as presented by the rural sociologist will be included in the evaluation. Sufficient funds have been budgeted for the outside evaluation and surveys and the return of the rural sociologist to assist in the evaluation.

The evaluation will also be the determinant in the advisability of recommending a capital loan to the Bank. Favorable recommendations would include the estimated size of the loan and additional technical needs. Compliance with GOL/ACDB covenants and the effectiveness of the technical assistance and training to the Bank will also be evaluated in-depth.

7. Covenants

Two covenants are suggested for the project.

The first covenant addresses the issue of the conflicting agricultural sector policies relating to free inputs supplied by LPMC and the MOA and credit to finance the purchase of inputs to be supplied by the ACDB. The free input packages are not conducive to a healthy credit environment, distort prices in the farming system and are a budgetary drain on the GOL. The covenant will require that the GOL with the collaboration of the ACDB develop ^{and implement} a plan by the end of the twelfth month of the project to phase out free agricultural inputs and replace them with a financing package administered by the ACDB. Discussions have been held with the MOA regarding this issue and the Minister has agreed to work with the Bank.

The second covenant addresses the financial needs of the Bank and will require by the end of project, total financial support by the GOL to the ACDB of at least \$4.0 million in the form of additional capitalization and/or operating subsidies.

The GOL has already contributed \$1.7 million to the ACDB. Discussions with the Minister of Finance indicated that the \$2.7 million ACDB budget request was approved for FY 1978 and an additional \$1.250 million ACDB budget request was to be approved and included in the FY 1979 GOL budget. Discussions with the Ministry of Planning revealed an allocation to the ACDB in its overall 1976-1980 development plan of \$6.0 million. The total amount of GOL support to the ACDB to be included in the covenant is thus no more than planned, and is spread over an additional two years as the estimated end of project is in late Liberian FY 1982.

ANNEX A

INTERMEDIATE CREDIT INSTITUTION PROJECT PAPER INFORMATION REQUIREMENTS

TABLE OF CONTENTS

A. The Applicant

1. Official name of institution
2. Mail and cable addresses
3. Nature of present financial operations
4. History and legal basis for institution, including statutory authority, articles of agreement or charter, and other founding documents
5. Policy statements and development plans covering the philosophy and method of operations of the institution
6. Geographic area of operations and branch banking system
7. Description of the capitalization: equity and debt
8. Historical balance sheets and profit and loss statements
9. Description of the organizational structure of the institution
10. Biographic data of Directors, including a description of their present full-time positions
11. Biographic data of management officials
12. Detailed description of procedures for processing loan applications, monitoring loans, enforcing collection remedies, etc.

B. AID Financing Request

C. Relationship of the Activities of the Institution, Actual and/or Projected to the Country's Overall Economic and Sector Development Requirements (Credit Supply and Demand)

- D. Estimated Results of Proposed Financing
- E. Operations Projection
- F. Other Sources of Financing
- G. Annexes (on file in AFR/DR/CAWARAP)
 - I. Bank Charter
 - II. Financial Institutions Act
 - III. National Bank of Liberia Act
 - IV. Draft By-Laws
 - V. Draft Organization Chart
 - VI. Financial Projections
 - VII. Draft Credit Policy and Procedure Including Comments
 - VIII. Draft Memo of Understanding with MOA
 - IX. Financial Statements
 - X. Estimated Credit Requirements

AGRICULTURAL AND COOPERATIVE DEVELOPMENT BANK

A. The Applicant

1. Official name of institution

Agricultural and Cooperative Development Bank

2. Mail and cable addresses

Mail: Agricultural and Cooperative Development Bank
P. O. Box 3585
Monrovia, Liberia

Cable: FARMBANK
Monrovia, Liberia

3. Nature of present financial operations

The Bank has not commenced operations as of this date. The charter and draft credit policy spell out, in general terms, the proposed nature of financial operations, as follows:

a. Grant short (to 18 months), medium (1½ to 4 years) and long-term (4 to 12 years) loans to individuals, public and private corporations, farmers and cooperatives for the development of agricultural enterprises and rural industries;

b. accept savings and demand deposits;

c. borrow money;

d. sell bonds and debentures, and

e. generally provide banking facilities for the rural agricultural economy.

4. History and legal basis

The establishment of the ACDB emanated from a National Planning Council resolution in October 1975 which stated that:

- "- Efforts should focus on building up demand for and the capacity to absorb institutional credit at the small-holders' level by encouraging formation of cooperatives and similar farmers' associations.
- An existing public sector bank (e.g. Liberian Bank for Development and Investment, National Bank of Liberia) should be used as an interim measure to channel prospective

foreign loans and resources of Government (e.g. through special trust funds), with the Ministry of Agriculture maintaining responsibility for the technical appraisal of projects.

- A full-fledged agricultural credit bank shall, as a matter of policy, be established. But because of the time needed to build up basic institutions, shortage of specialized manpower to staff the Bank, and the disproportionate overhead costs in relation to the likely size of credit operations for the next few years, it is not expedient to bring the full apex institution into operation at this time."

Policy formulation leading to the establishment of the ACDB was based on several factors, briefly summarized below:

- The Ministry of Agriculture Credit Division and predecessor divisions, the principal providers of agricultural credit to cooperatives and smallholders from 1967 through 1976, were severely hampered in their operations by irregular and limited funds for lending, personnel, operations and equipment and, additionally, a lack of qualified banking, finance and field staff. The Credit Division staff was transferred in 1977 to the newly formed ACDB; however, the managing director of the Bank summarily dismissed these employees as not suiting the needs of the Bank.

Agricultural lending operations from 1972-1976 by the Credit Division are summarized in the following table:

<u>Credit Division Agricultural Lending</u>							
<u>\$ 000's</u>							
<u>Purpose</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>Total</u>	<u>%</u>
Rice	80	4	2633	1764	979	5418	96
Tree Crops	42	-	6	-	17	65	1
Vegetables	-	-	-	6	-	6	
Livestock	-	137	34	2	15	188	3
TOTAL	<u>80</u>	<u>141</u>	<u>2673</u>	<u>1772</u>	<u>1011</u>	<u>5677</u>	<u>100</u>

<u>Loan Terms:</u>	<u>\$ 000's</u>
S-T	165
M-T	223
L-T	<u>5,289</u>
	<u>5,677</u>

Repayments: \$332,000 through 1976. Most of this credit is of a long-term developmental nature with appropriate extended grace periods and had not become payable before 1977.

The Bank has inherited this portfolio and to the extent it is able to collect on these loans, its equity will be increased. However, loan files are very incomplete with little supporting documentation. Many of the loans for land clearing and other long-term development needs were not formalized through loan agreements or promissory notes.

- Commercial bank lendings were and still are limited to short-term credits. Agricultural loans accounted for 25% of the commercial banks' loan portfolio at the end of 1977. These loans are for the most part to large scale rubber farmers and forestry concessions. Average size of agricultural loans outstanding was \$528,000 (\$23,241,000) at the end of 1977. 44
- The Liberian Bank for Development and Investment, owned partly by the Government of Liberia (20%) and the World Bank (20%), has never effectively addressed the credit needs of small farm holders due to its conservative lending policies and commitment to achieve a fair return on its equity. Although LBDI loans to the agricultural sector amounted to approximately \$1.9 million, or 26% of its total loan portfolio as 12/31/75, the average loan amount outstanding was \$34,000 (\$1.9 million).

55

Further details regarding the background for the creation of the ACDB are contained in an FAO Consultant Report "Preparatory Assistance to the Liberian Credit Institution", prepared in 1975 and 1976. (See Annex C). The Consultant's report strongly recommended the establishment of the ACDB and much of the work contained in the FAO report has been used in the development of the Bank's charter, broad policy objectives, share holder and Board of Director composition and organization of the Bank.

The FAO report was the principal contributing factor in moving up the timetable for the establishment of the Bank over the original timing envisioned by the Planning Council.

The legal basis for the establishment of the ACDB is the "Act to Amend the New Executive Law to Create an Agricultural and Cooperative Development Bank" signed by the President of Liberia on November 1, 1976 and effective December 23, 1976. (See Annex A-I).

The Act is the charter for the ACDB and covers, inter alia, banking locations, purposes, powers to be exercised by the bank, initial capital stock and shareholders, voting, composition of the Board of Directors, management, provision for by-laws, prohibitions, annual audits, reserves, dividends and exemption from taxes.

Other pertinent legislation affecting the ACDB includes the Financial Institutions Act of June 18, 1974 (Annex A-II), regulating banks and other credit institutions and the National Bank of Liberia Act of May 27, 1974 (Annex A-III), giving the NBL the authority to set interest rates (lending, savings, rediscount), regulate reserve and collateral requirements, supervise and audit banking operations and provide discount facilities.

The NBL has to date focused its efforts on the commercial banking sector. Minimum interest rates for deposits are 5% for current accounts and 5-3/4% for TDs. Maximum interest rates on loans are 10% although effective rates can be as high as 16% on short-term commercial paper. Additional charges of 1%-2½% of the loan amount are allowed. The NBL has decreed that usurious rates are those in excess of 25% per annum.

The Bank charter, by-laws and policies are in agreement with appropriate sections of the above two acts.

5. Philosophy and Method of Operations

Since 1973, the Government of Liberia has evolved important policies and established the institutional framework necessary for sustained agricultural and rural sector development. The policy of "integrated rural development through balanced regional planning" with agriculture as the priority development objective is being implemented with increased food production and self-sufficiency in the staple food rice as a major goal. Agricultural policies regarding pricing and marketing, credit, land tenure and production have been formulated, and strategies to achieve the policy objectives have been developed.

In keeping with the above development goals of the total economy, the Ministry of Agriculture has adopted five goals:

1. Diversify Liberia's agricultural economy;
2. Increase the participation of Liberian citizens in modern agricultural production;
3. Increase farmers' income, create purchasing power and develop a market for consumer goods;
4. Maximize the national income of Liberia through agricultural and forestry pursuits; and

5. Provide rural and urban consumers with more nutritional diets at lower costs.

The means adopted to achieve these objectives are import-substitution and export-promotion, involving food, industrial and forestry crops. These objectives will be pursued through two important institutional arrangements:

- Farmer cooperative and credit societies, and
- Public corporations.

Involvement of the extensive traditional farmer sector (approximately 70% of the rural population) in the development process has highlighted certain constraints which must be surmounted before the strategy can be successfully implemented. A major obstacle is the lack of capital for use by farmers and entrepreneurs. The subsistence farmer has no reserves; there are no banking or lending facilities close to most farmers; usurious interest rates predominate; etc. The provision of adequate credit at reasonable rates is an immediate need if the agricultural sector is to develop.

The role of the ACDB in relation to the Government of Liberia agricultural sector strategy is set forth in the preamble to the Bank's charter:

"In furtherance of the policy of the Government of the Republic of Liberia to promote integrated rural development through balanced regional planning by:

- (a) the development of its rural economy through the building up of appropriate institutions;
- (b) providing incentives for the flow of private investment capital into the agricultural sector;
- (c) facilitating the creation of a climate favorable to integrated rural development;
- (d) developing the land and human resources in the rural areas;
- (e) increasing the productive capabilities of the resources in the rural areas; and
- (f) generating economic development activities in the rural areas with a view of providing additional employment and higher living standards for the rural people.

It is the desire of the Government of the Republic of Liberia to establish a permanent institution to:

- (a) provide short, medium, and long-term credit to individual farmers either directly or through cooperatives or other farmers organization to facilitate the investment of capital for productive purposes;
- (b) encourage development of cooperatives, or other farmers organizations at the county, district, and village level;
- (c) provide credit for marketing output, and increasing supply of inputs for the rapidly growing agricultural sector;
- (d) increase capital formation by direct use of labor in land improvement and water resource development;
- (e) promote the establishment of agricultural enterprises to generate additional production in the rural areas to meet the growing consumption requirements of the urban sector, and for export; and
- (f) mobilize savings in the rural areas."

The draft credit policy manual of the ACDB states that: "the primary focus of ACDB must be directed towards meeting the credit needs of the small farmers who historically have been neglected in terms of their accessibility to credit. Two major problems facing ACDB involve identification of the most appropriate and effective channel through which to reach the small farmers and at a reasonable cost. To attempt to deal directly with the numerous, small farmers would be not only prohibitively costly but also impractical. Therefore, the major thrust of ACDB's lending operations should and will be channeled through farmers organizations, principally in the form of cooperatives, and through local credit union organizations whenever these exist."

The credit policy manual also recognizes the necessity to decentralize credit operations in order to effectively meet and respond on a timely basis to rural credit demands.

Translation of the broad policy objectives into an overall development plan complete with lending and savings strategies has proved to be a difficult task for the Bank, due principally to the commercial banking background of the professional staff and the almost complete lack of experience in rural agricultural lending and cooperatives' operations. The five principal

planning documents developed to date by the Bank consist of a draft organization chart, financial projections including proposed personnel and administrative expenses, a draft credit policy and procedure manual, a draft operating manual and a proposed memorandum of understanding with the MOA regarding technical services to be provided by MOA extension (See Annexes A-IV through VIII for copies of these documents).

These planning documents have, for the most part, been prepared in a vacuum with little reference to the Bank's potential clientele. Critical variables in the development of the Bank's plans have not been addressed so that, at best, the draft planning documents represent a first attempt to put something on paper and should be viewed as such.

A review of these documents reveals that the following elements have not been dealt with in a comprehensive fashion:

A. Potential Borrowing Clientele

1. Cooperatives

A complete analysis is needed to determine those cooperatives now in a position to effectively utilize credit and repay. Types of credit needs should be delineated, i.e., agricultural inputs for cooperative members, working capital for cooperatives to purchase members' produce, physical facilities of cooperatives. Policies should be developed to determine loan eligibility and a strategy developed with the cooperatives and the MOA Cooperative Division to develop cooperatives as "bankable" customers. The bank has not yet started on this analysis.

2. Small Farmers

Bank policies in meeting small farm holders outside of the cooperative movement need to be carefully set out. A conflict over the Bank's role on this issue is now shaping up between the Ministry of Planning, represented on the Board of Directors of the Bank, and the Ministry of Agriculture. The Minister of Agriculture is Chairperson of the Board of Directors of the Bank. The Ministry of Planning favors credits to small farm holders only through cooperatives and other societies, while the Ministry of Agriculture favors the use of both direct and on-lending credit to small farm holders. Needless to say, this issue must be resolved before the Bank can make any meaningful plans for its development. The managing director of the Bank backs the MOA position but has not addressed the full implications on the development strategy of the Bank.

3. Others

Other potential clientele of the Bank include public

corporations, medium and large farm holders and the rural economy in general including rural industry, commerce and consumer needs.

a) LCCC and LPPC are recently established public corporations, designed after the Ivory Coast model, to develop cocoa, coffee and palm tree crops using large nuclear estates or trial farms surrounded by small holders.

Although both of these institutions have dramatically reduced the planned acreage as developed in feasibility studies due to funding constraints, they are still short of financing. The Bank at the credit department level has had very preliminary negotiations with LPPC regarding demand accounts and credit operations. There may be a possible conflict here, as discussions with LBDI revealed that it has just approved a \$6.8 million credit to LPPC.

b) The Bank through mid-May has received 40 loan applications from individual farmers with requested loan amounts distributed as follows:

<u>Amount</u>	<u>No.</u>
0 - \$1,000	1
\$1,001 - \$5,000	3
\$5,001 - \$10,000	10
\$10,001 - \$20,000	7
\$20,001 - \$50,000	17
\$125,000	1
Not stated	8

The total amount of loans requested is \$686,000 or an average amount of \$21,000 per loan.

These loan requests have occupied the majority of the time of the loan analysts in the credit department as opposed to the more crucial task of analyzing the cooperatives' needs and borrowing capacities, and although it appears that not all of the applications will be approved, or if approved, at less than the full amount, it raises a concern as to the portfolio balance among cooperatives, small farm holders and medium and large farm holders to be achieved by the Bank.

c) The Bank should be an integral institution in the overall Liberian rural infrastructure. At present there are only four banks operating outside of Monrovia: three commercial bank branches servicing large concessionaires and the Lofa Rural and Commercial Bank in Voinjama.

The Lofa Bank was established as part of the Lofa County Integrated Rural Development Project and is expected to be taken over by the ACDB in late 1978. The ACDB envisions a full range of services in its rural branches including demand and savings accounts and loans for small rural industry and commerce, as well as personal loans.

4. Portfolio Balance

The ACDB must firmly address the question of its clientele and determine as a matter of policy the percentages of its portfolio planned for each class of clientele. This policy becomes the basis for the Bank's development of staffing requirements and credit policies and procedures tailored, where necessary, to meet the needs of each customer grouping.

B. Loan Sizes and Terms

1. Sizes

Maximum and minimum loan sizes should be developed for each class of borrower. The ACDB has not set maximum or minimum loan sizes. Maximum loans are thus guided by the Financial Institution Act which states that loans may not exceed ten percent of unimpaired capital and reserves, or approximately \$200,000 considering ACDB's present financial status. Maximum loan amounts were very tentatively suggested by the credit department in several areas, as follows:

<u>Type of Credit</u>	<u>Maximum</u>
Poultry	\$10,000
Seasonal (production)	\$25,000
Equipment	\$15,000
Land Development	\$15,000 Cooperative \$ 5,000 Individual

However, it is obvious that the whole process has not been thought through taking into account the different classes of clientele the Bank may serve. Minimum amounts at least to small farm holders, should be developed taking into account the farm

as an enterprise and Bank administrative costs to service a loan. Ample literature is available in Liberia to determine small farm holder requirements.

2. Terms

Terms include the length of the loan amortization period, grace periods, collateral requirements and interest rates.

The percentage of portfolio devoted to short, medium and long term loans and appropriate grace periods needs to be developed taking into account borrowers' requirements balanced against the Bank's capital structure, i.e., no borrowing short and lending long. Tentative national agricultural credit demand estimates show a breakdown of 33% short-term production credit and 67% long-term development.

Collateral requirements need to be established, taking into account the Bank's clientele. Obviously, severe collateral requirements would exclude many, if not most, of the small farm holders that the Bank is to serve in accordance with its charter. Historically, in many developing countries, one of the principal reasons for exclusion of small farmers from the banking system is the harsh collateral requirement. The present credit department head, reflecting his commercial banking background, indicated that he plans to take a hardline on collateral.

The interest rate structure needs to move from the statement of intent by the Board of Directors that "interest rates will not be subsidized" to the actual rates the Bank will charge.

Interest rates charged by commercial banks are normally 10% p.a. with some short-term paper moving at 16% p.a. (8% discount). The World Bank has recommended 10% p.a. on credit components of the various agricultural projects it is financing in Liberia. These projects include rubber development and integrated rural development in Lofa and Bong Counties. Official ACDB policy on interest rates has not been formally established; however, the managing director is seriously leaning toward a 10% p.a. rate, plus fees in the probable range of 1% - 2% p.a., thus moving the effective rate up to 11% - 12% p.a. Rates at this level would be reasonable to farmers, given the high financial returns to farmers adopting modern practices. (See the Financial Analysis section of the PP for financial returns to farmers).

Two other considerations must be taken into account in the establishment of interest rates by the Bank: one dealing with the financial viability of the Bank and the other with the effect on cooperatives.

Statistics taken from the "Agricultural Credit Sector Policy Paper", published by the World Bank in 1975, show the

real interest rates needed to break even for an efficient credit institution, as follows:

<u>Cost</u>	Institution Making	
	<u>Short-term loans To small farmers</u>	<u>M-T & L-T loans To large farmers</u>
Opportunity cost of capital	8%	8%
Administrative expenses	7%-10%	3%
Defaults	<u>4%</u>	<u>4%</u>
TOTAL	<u>19%-22%</u>	<u>15%</u>

Based on the above, it is fairly safe to assume that the Bank will need to be subsidized. The Bank realizes the need for a GOL subsidy while it is building up the size of its loan portfolio and has requested \$500,000 annually over the next three years. Fourth and fifth year financial projections show the Bank operating at a profit with no GOL subsidy. The projected income statements however, make no allowance for accounts written off as bad debts and assume a very low cost capital structure of the Bank.

Two rates of interest should be established for cooperative lending to help ensure the future growth of the cooperative movement. One rate is needed for on-lending from the Bank to the cooperative to members. It should be such that the final user rate is no higher than the final user rate established by the Bank but yet allow the cooperatives to cover their costs associated with the credit. Bank rates set lower than the cooperative rates would provide a financial disincentive for cooperative members.

The other rate of interest to finance physical facilities and working capital needs of the cooperative could be set at the Bank's normal lending rate.

Interest rate issues have not been addressed by the Bank.

C. Memorandum of Understanding with MOA

The Bank proposes to use the technical services of the MOA for projects which the Bank is considering for financing. A draft memorandum of understanding has been prepared based on several discussions between the two parties. The Lofa and Bong County Integrated Rural Development Projects are specifically excluded from the draft agreement. Similar arrangements will have to be worked out between the Bank and the Projects. Further, no mention is made in the MOA/ACDB memorandum regarding the role

of the Cooperative Division of the MOA. Close working relations between the Bank and the Cooperative Division are needed. Linkages between the Bank and relevant institutions are addressed in the Detailed Description section of the Project Paper.

6. Geographic Area of Operations and Branch Banking System

The principal office of the Bank is in Monrovia and branch offices may be established anywhere in the country. Presently, the Bank is temporarily headquartered with a move planned in the near future to permanent facilities now undergoing renovation. The Bank now has one branch in Gbarnga, Bong County which is set to open in June of this year. The Bank also expects to take over during the latter part of 1978 the operations of the Lofa County Rural and Commercial Bank presently owned and operated by the LBDI. Bank plans include the opening of a branch in Nimba County in 1980-81 to coincide with the proposed integrated rural development project. Eventually, the Bank plans a branch in each of the nine counties with Bank management aware of the need to move slowly due to staffing constraints.

7. Description of Capitalization

The Bank's charter states that the initial authorized capital stock of the ACDB will be \$2.0 million with stock to be held by the GOL (65%), LPMC (15%), Union of County Cooperatives Federation (10%) and Liberian Credit Union National Association (10%). Since the date of the charter authorized capital stock, according to bank management, has been increased to \$5.0 million.

Paid in capital now stands at \$2.0 million with LPMC purchasing \$300,000 and the GOL, the remainder of \$1.7 million. The Cooperative Federation and Credit Union Association have not yet purchased their required capital stock. The prospective shareholders, Union of County Cooperatives Federation and Liberian Credit Union National Association are apex organizations representing cooperatives and credit unions in the country.

There is some question as to the ability of the cooperative and credit union federations to raise its equity share. A proposal is now circulating within the GOL for government purchase of the shares and eventual resale to the federations. No decision has been made as of this time.

The other shareholder, LPMC, is a wholly owned semi-autonomous government produce marketing corporation.

The Bank has no outstanding debt other than routine payables.

8. Financial Statements

The latest financial statements, balance sheet as of 3/31/78 and income statement for the three months ended 3/31/78, are attached as an annex. As mentioned earlier, the Bank has not yet commenced operations and has incurred only start-up costs. Funds received from capital subscriptions have been placed in commercial bank short-term time deposits earning 7½-7¾%. Net losses for the first quarter of 1978 were \$55,000.

9. Organizational Structure

The Bank presently has a small nucleus of fourteen professional staff and sixteen support personnel, organized in three departments and one branch and tightly centralized around the managing director.

Present staffing is presented in the table below:

PRESENT STAFFING IN ACDB

<u>Function</u>	<u>Number</u>
Office of Managing Director	
Managing Director	1
Internal Auditors	2
Clerks, Secretaries, Other	3
Administration Department	
Department Head	1
Purchasing Agent	1
Clerks, Drivers, Janitors, Secretaries, Other	9
Credit Department	
Department Head	1
Loan Analysts	4
Secretary	1
Operations Department	
Department Head	1
Banking, Accounting, Cash	3
Bong County Branch	
Branch Manager	1
Teller, Bookkeeper	2

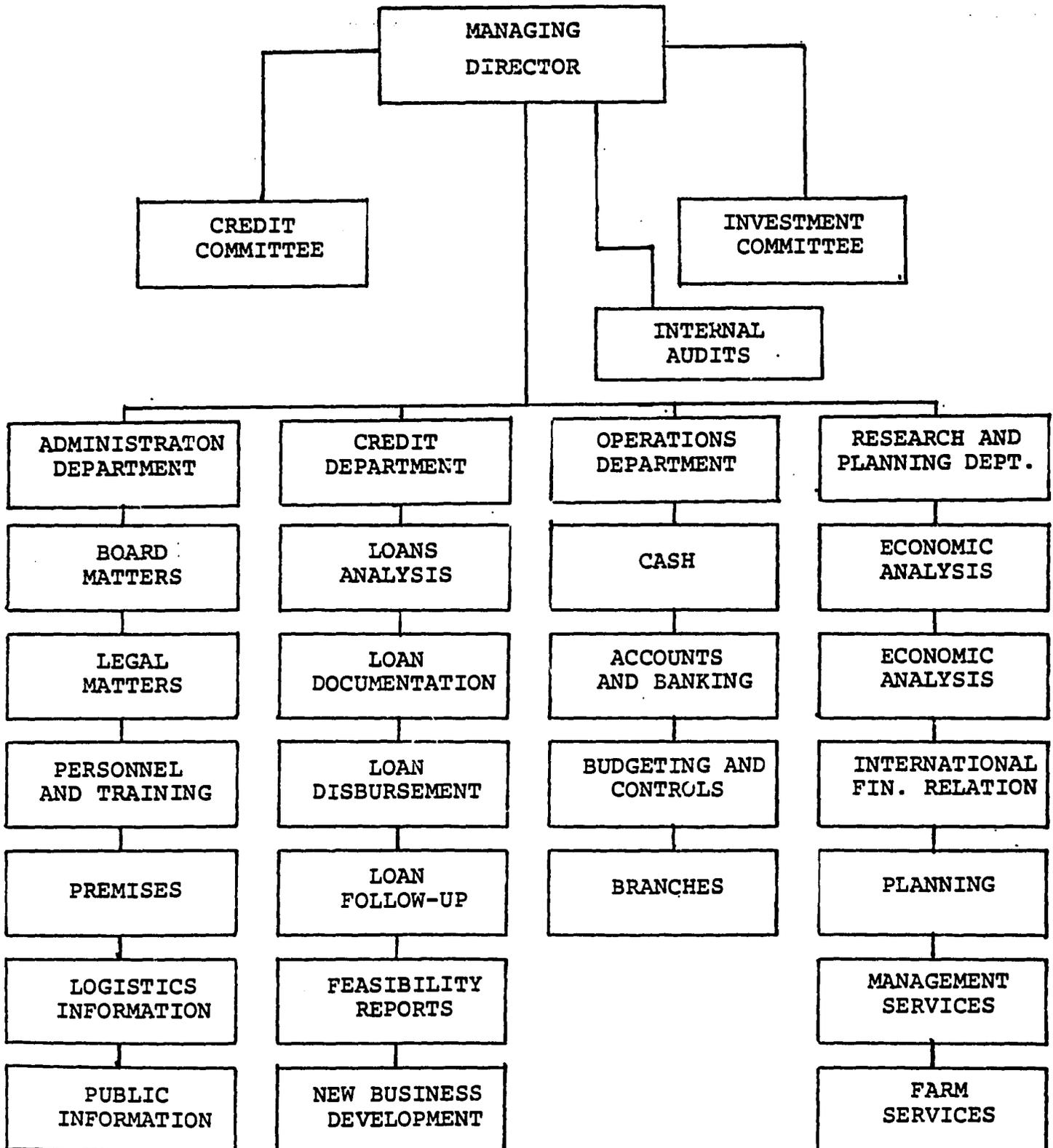
Credit and investment committees have been established. The managing director is the chairperson of both of these Committees. All loans must be approved by the Credit Committee.

All other matters pertaining to the Bank's operations are similarly passed to the managing director as there is now little delegation of authority. The highly centralized management structure is understandable at this time due to the newness of the organization and staff. Over time, it will become necessary to operate in a much more decentralized manner in order for the Bank to service its rural based clientele. Allowances for loan approvals at the branch level are contemplated in the draft credit policy; however, limits and timing for decentralized loan approvals have not yet been determined.

The proposed organization chart, as the Bank develops over the medium-term horizon is presented below.

PRELIMINARY DRAFT
AGRICULTURAL AND COOPERATIVE DEVELOPMENT BANK
MONROVIA, LIBERIA

ORGANIZATIONAL CHART



The essential differences between the Bank's present and proposed organization chart are the establishment of a research and planning department and delegation of authority to the administration department for board and legal matters and personnel and training.

The research and planning department would include economic analysis and intelligence sections responsible for both microeconomic project analysis, macroeconomic analysis and planning, monitoring of international and local prices of major agricultural commodities; financial and policy planning and international financial relations sections, and management and farm services sections dealing principally with the strengthening of cooperative management and financial advisory services to cooperative member farmers.

Bank staffing and personnel costs under the proposed organization are shown in the table below:

<u>PERSONNEL SERVICES</u>	<u>PROFESSIONALS</u>	<u>\$ 000's 1978 BUDGET</u>
Office of Managing Director	1 managing director 2 internal auditors	\$51
Administration Department	1 department head 1 assistant	80
Credit Department	1 department head 4 loan analysts	49
Research & Planning Department	1 department head 3 ag. economists 1 financial planner	37
Operations Department	1 department head 1 assistant 3 accounting, cash, banking	63
Bong County Branch	1 branch manager 1 field credit agent	12
Lofa County Branch	1 branch manager 1 field credit agent	12
		<hr/> <u>\$304</u>

For years after 1978, the Bank has included a 10% increase in its personnel services budget to cover additional staffing needs as they develop.

10. Board of Directors

The Board of Directors is composed of ten members as follows:

- 1 - Minister of Agriculture - Chairperson
- 2 - Managing Director of the Bank and one director each appointed by:
- 3 - Ministry of Finance
- 4 - Ministry of Planning and Economic Affairs
- 5 - Ministry of Local Government, Rural Development and Urban Reconstruction
- 6 - Ministry of Agriculture
- 7 - National Bank of Liberia
- 8 - Union of County Cooperatives Federation
- 9 - Liberian Credit Union National Association
- 10 - Liberian Produce Marketing Corporation

11. Management Officials

Managing Director: former Deputy Governor of the National Bank of Liberia plus extensive commercial banking experience with Citibank.

Credit Department head: extensive commercial bank lending experience with Citibank. According to the managing director this position is to be fortified with technical assistance in the form of an agricultural credit specialist funded by the World Bank.

Operations Department head: extensive commercial bank operations experience with Citibank. This position is to be fortified with technical assistance in the form of a bank operations/finance specialist funded by the World Bank.

Administrative Department head: former controller of the Port Authority. This position is presently filled on an acting basis. A new department chief, presently in charge of administration for a large mining concession in Liberia, is now being recruited by the Bank.

Staffing requirements and training needs for the Bank can be determined on the basis of the purposes of the Bank as stated in its charter, present staff capabilities and the missing expertise needed to allow the Bank to fulfill its role. The absence of an overall development plan for the Bank does not seriously impede the analysis, but does affect the degree of specificity which can be achieved, i.e., the Bank will need fifteen loan analysts in the field by the year 1980.

Several areas requiring additional staffing and training have been identified in consultation with the managing director of the Bank to address what are considered to be the principal constraints faced by the Bank: (1) the almost exclusive commercial banking background of the key staff members and the need to make the transition from commercial bankers to development bankers, and (2) the virtual lack of experience in rural agricultural lending.

Technical assistance and training are proposed to provide the Bank with the missing expertise in macro and micro economic analyses, policy and financial planning, credit and rural savings policies, accounting systems and procedures and farmer credit analysis and delivery. The details of the technical assistance and training elements of the project are shown in the Detailed Description of the Project Paper.

12. Loan Applications, Monitoring, Collection

A draft credit policy and procedure manual detailing the subject information is attached as an annex together with appropriate comments.

B. AID Financing Request

Funds requested by the Bank are for technical assistance, training and related commodities. No seed capital for sub loans is planned for this project. As discussed in Part A above financial and credit aspects of the Bank's operations have not been adequately developed. One of the main outputs of the project will be the elaboration of a comprehensive development plan for the Bank which will cover, among others, financial and credit policy.

C. Relationship of the Activities of the Institution to the Country's Overall Economic and Sector Development Requirements (Credit Supply and Demand)

1. Formal Credit and Savings

a) Commercial Banks

According to the December 1977 Statistical Report released by the National Bank of Liberia, loans by commercial banks in the total amount of \$108 million were processed to the following sectors:

Economic Sector	No.	Dec. 1977 \$'000	% of Total	(\$'000) Average Size Loan
(1) <u>Agriculture</u>	44	23,241	21.5	528.2
11 Rubber	(9)	(9,565)	(8.8)	1,062.7
12 Forestry	(26)	(9,688)	(9.0)	372.3
13 Fishing	(3)	(1,255)	(1.2)	418.3
14 Other Agriculture	(6)	(2,733)	(2.5)	455.5
(2) <u>Mining & Quarrying</u>	4	601	0.5	150.2
21 Iron Ore	(3)	(481)	(0.4)	160.3
22 Quarrying	(1)	(120)	(0.1)	120
(3) <u>Manufacturing</u>	55	11,063	10.2	201.1
(4) <u>Construction</u>	374	8,177	7.6	.22
41 Construction	(27)	(2,925)	(2.7)	108.3
42 Mortgage	(347)	(5,252)	(4.9)	15.1
(5) <u>Transportation, Storage and Communication</u>	93	2,664	2.5	23.6
51 Transportation	(92)	(2,652)	(2.5)	23.8
52 Storage	(1)	(12)	(0.0)	12
53 Communication	(-)	(-)	(-)	
(6) <u>Trade, Hotels, Restaurants</u>	651	49,931	46.1	76.6
61 Trade	(643)	(49,502)	(45.3)	76.3
62 Diamond Traders	(1)	(99)	(0.1)	99
63 Hotels	(4)	(36)	(0.0)	9
64 Restaurants	(3)	(194)	(0.2)	64.6
(7) <u>Services</u>	43	1,326	1.7	42.4
(8) <u>Personal</u>	4,244	10,227	9.5	2.4
(9) <u>Others</u>	26	493	0.4	13.9
Home Improvement	(26)	(493)	(0.4)	13.9
Non-Profit	(-)	(-)	(-)	
Miscellaneous	(-)	(-)	(-)	
TOTAL	5,514	193,123	100.0	19.6

- Loans to rubber, forestry, fishing and other agriculture accounted for approximately \$23.2 million, or 21.5% of the overall portfolio, but were limited to short-term and extended to large-scale operators. 44 loans were made with an average size of \$528,000.

(i) Citi-Bank

Personnel at the Citibank located in Monrovia stated bank policies were revised recently to limit its role to strictly commercial credit in lieu of the more general banking operations carried out in the past. At the same time minimum requirements on savings accounts were increased to \$5,000 and on demand deposits to \$25,000. The bank normally charges 8% discount rate on short-term (16% effective rate) and 10% per annum on long-term (7 years). Citibank has indicated that it will loan funds to the Agricultural Development Bank (must be backed by the Liberian Government) at a rate 2% in excess of the London Interbank offer currently at 7%. However, with the ACDB contemplating an interest rate structure of 11%-12%, the spread may not be sufficient, except in times of heavy demand. The Citi-bank has one branch located at a mining concession area in Nimba County.

(ii) Chase Manhattan Bank

Chase Manhattan Bank officials stated that their banking operation was basically directed to the commercial sector of the economy. The Bank does not have an agricultural loan department nor the agricultural credit expertise to engage in rural credit. It has a branch at Robertsfield to accommodate the Firestone Enterprise.

(iii) Other Commercial Banks

The Commercial Bank of Liberia has processed agricultural loans to large operators based on the normal commercial bank collateral and/or guarantee requirements. A branch bank is located at Buchanan to serve the port area.

TRADEVCO Bank and the International Trust Company are engaged in normal commercial bank operations and do not provide loan funds to the agricultural sector.

D. The Liberian Bank for Development and Investment (LBDI)

This bank was established in 1961 with charter revisions occurring in 1965 and 1974. The LBDI does not accept savings and deposits except for borrowers' loan accounts. A branch bank was opened in Lofa County to serve banking services to the integrated project area, but operates as an independent institution.

LBDI'S SUMMARY OF OPERATIONS
(US\$ MILLION)

	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u> ^{1/}
Approvals	1.216	4.523	3.000	4.132
Commitments	0.885	3.120	3.726	3.673
Disbursements	0.476	2.997	3.899	2.990

1/ as of October 1976

LBDI

Outstanding Loans December 31, 1977

Agriculture

	<u>Amount</u> <u>\$</u>	<u>Number of</u> <u>Loans</u>	<u>Average</u> <u>Size</u>
Rubber	1,130,480	26	43,480
Oil Palm	811,690	7	115,955
Poultry	85,975	5	17,195
Swine	9,969	2	4,984
Fruit & vegetables	1,005	1	1,005
Rice	31,828	4	7,957
Cocoa & coffee	128,731	7	18,390
Sugarcane	49,318	10	4,931
Others	46,421	3	15,473
	<u>2,344,735</u>	<u>65</u>	<u>36,073</u>
<u>Manufacturing</u>	2,019,015	33	61,182
<u>Service Loans</u>	6,048,588	77	78,553

GRAND TOTAL \$10,363,020

22% of the total portfolio loan is for agriculture. Rubber and oil palm account for 84% of the total agriculture loans. The LBDI's share of agricultural lending has almost exclusively gone to large farmers, since its status as a profit making institution and payment of dividends to private shareholders, effectively discourage it from entering into the risky and administratively expensive field of mass smallholder credit.

Credit to cooperatives by LBDI consist of at least one loan to a Lofa County cooperative in the amount of \$70,000 to construct a warehouse and for the acquisition of equipment. This loan has been repaid in full.

The LBDI opened the Lofa Rural and Commercial Bank at Voinjama to provide banking services for the Upper Lofa Integrated Project area. These services consist of normal banking transactions, including savings and demand deposits. Small consumer loans are to be extended to government and project employees, based on the LPA system.

The bank has mobilized \$167,365 in savings (377 accounts), with a \$15 minimum balance requirement to open an account. The demand deposits total approximately \$300,000.

The Agricultural Cooperative and Development Bank plans to acquire the bank before year end and will expand its services to include agricultural loans.

E. National Housing and Savings Bank

The National Housing and Savings Bank which is a wholly owned government entity, commenced operations on January 20, 1976. Its objectives are to mobilize domestic savings and provide long term mortgage financing. NHSB has opened a branch in Sinkor (a residential area in Monrovia) in November 1976, mainly to provide banking facilities for the nearby JFK Hospital and its employees. NHSB is also looking into the possibility of extending banking facilities to other areas of the country.

F. Cooperatives

According to the Director of the MOA Cooperative Division, there are 56 registered cooperatives. 27 are viable with 23 of these being designated purchasing agents by the LPMC. LPMC issued approximately \$400,000 in credit to these cooperatives to purchase \$3.8 million of produce. The credit was extended on the basis of purchase receipts. Funds were revolved approximately every two weeks during the harvest season. At year's end approximately \$93,000 was outstanding. Eight cooperatives are designated by the Ministry of Agriculture to carry out special rice and tree crop programs.

An appraisal of cooperative development (August 6, 1976) by Messrs. Goldman and Savage identified the many problems confronting cooperatives - major weaknesses in management and finance as well as allied factors were noted. An AID funded project to strengthen the cooperatives is now under way. Two of three technicians contracted for the project are now on board.

The ACDB must look primarily to cooperatives and other group credit arrangements as lenders in supplying credit to the small farm sector. The administrative costs involved in providing credit on an individual basis by the ACDB are prohibitive and uneconomical. Notwithstanding this policy, isolated farmers and others will receive loan service when they are unable to receive services from or through a cooperative.

G. Credit Unions

According to the latest data available (1975) there were 24 registered credit unions having a total membership of 4,639. The aggregate savings accounts totalled \$370,000, with three credit unions listing total savings of over \$301,000 and the remaining 21 credit unions having inputs of under \$70,000 or an average of approximately \$3,300 each. Except in a few instances the viable credit unions are located in urban areas serving non-farm families.

The cooperative project technical team will also assist credit unions and their efforts should serve to strengthen the system and create new credit unions particularly in the rural areas.

H. Liberian Produce Marketing Corporation (LPMC)

LPMC was created in 1975. The Corporation is a wholly owned government agency and establishes the prices for coffee, cocoa, palm kernels and other crops in addition to providing marketing services. The purchase prices are determined according to the fob export prices after deducting processing costs, profits, price stabilization fund and allowances for tree crop development fund created within the LPMC. Generally LPMC deductions are high and result in lower producer prices in order to finance its development fund.

The LPMC establishes and announces the prices to be paid before the crops are sold by the farmers.

The LPMC also operates tree nurseries and furnishes seedlings to plant ten acres on a no cost basis per farm and has a fixed charge for seedlings to any operator desiring to plant in excess of 10 acres.

This practice of both free inputs in this program and others, such as the MOA LAC-23 rice seed multiplication program, in competition with programs with credit components, causes confusion among the farmers and affects collection efforts. The farmers are confused as to why some inputs are at no cost, some must be repaid in cash, and still others, such as rice seed, must be repaid in seed.

THE LIBERIAN PRODUCE MARKETING CORPORATION (LPMC)
PROJECTED TREE CROP PROGRAM 1976 THROUGH 1980

<u>Tree Crop Type and Year Item Description</u>	<u>Cocoa</u>	<u>Coffee (Robusta)</u>	<u>Oil Palm</u>	<u>Coconut</u>	<u>Annual Total</u>	<u>Grand Total Five Year Period</u>
Total acreage annually	5,200	1,800	3,500	250	10,750	53,750
Seedling/acre	430	535	57	70	-	-
Total number of seedlings (million)	2.236	0.9630	0.1995	0.0175	3.416	17.080
(\$) Cost of seedling/acre	21.50	26.75	17.10	84.00	-	-
Total cost of seedlings (\$)	111,800	48,150	59,850	21,000	240,800	1,204,000

Two LPMC subsidiary public corporations, the LPPC and the LCCC, have been established based on the Ivory Coast development models to promote the production of oil palm and coconut and coffee and cocoa.

(i) LPPC

The original study provided for a plantation in each of three counties and assistance to small outcropping farmers to cultivate oil palm, supplying inputs in an interest free credit package. Currently the Sinoe area has received adequate funding principally through EEC; the Grand Gedeh area has a short fall of some \$18 million and there are no funds to promote the program in the Maryland area.

(ii) LCCC

The LCCC is responsible for the expansion of coffee and cocoa enterprises limiting assistance to 10 acres per family located around large trial farms. Seed and fertilizer are furnished for upland rice operations the first year.

Preparatory to establishing the tree crop in the second year, fertilizer is provided at no charge and the rice seed must be repaid in kind.

Establishing costs of coffee and cocoa are provided on a loan in kind basis (10% interest) with a grace period of 4 to 5 years.

LPPC AND LCCC PROPOSED TREE CROP DEVELOPMENT SCHEME
BASED ON LIBERIA/IVORY COAST AGREEMENT
1976 THROUGH 1980

Tree Crop Type	Area (acres)	Total No. of Seedlings Required	Total Cost of Seedlings	Remarks
Cocoa	15,000	6,450,000	\$322,500	Village plantation in all counties suitable for cocoa cultivation (LCCC).
Coffee	10,000	5,350,000	267,500	Village plantation in all counties suitable for coffee cultivation (LCCC).
Oil Palm	2) 22,500	1) 1,282,500	1) 384,750	1) 3 plantations, one each in Sinoe, Grand Gedeh and Maryland counties (LPPC).
	2) 15,000	2) 855,000	2) 256,500	2) Small holdings outgrowers to (1) above (LPPC).
Coconut	20,000	1,400,000	1,680,000	Village plantations in all counties suitable for coconut cultivation
GRAND TOTAL	32,500	15,337,500	2,911,250	

(Actual performance was reduced because of the funding problems referred to above.)

Rural Savings

Transfer of savings from informal to formal institutional channels does not in itself increase the total value of savings but does influence their uses.

A field visit to the LBDI Branch Bank in Lofa County disclosed 377 savings accounts totalling \$167,365. Three of the accounts amounted to approximately \$28,000, therefore, the remaining 374 accounts with an aggregate of \$139,365 averaged \$372.63 each. The manager stated that approximately two-thirds of the accounts were opened by project and Government employees and farmers accounted for the remainder.

The credit union at Foya in Lofa County has 300 members, \$26,000 in savings accounts and had processed 100 short term loans for a total of approximately \$30,000 during the past 12 months. Many of the Intofawor Farmers Cooperative members are also members of the credit union.

The above examples are encouraging and indicate that the collection of small rural savings aside from a number of token collections are possible.

It is apparent that farmer motivations for savings are precautionary rather than adventurous. Loans were expected to cover consumption more than to buy production inputs, but in many cases the credit union has provided reserves for members to meet their own emergency needs, enabling them to stay out of debt to moneylenders.

The manager of Citibank in Monrovia advised that informal rural and/or village groups ranging from 6 to 15 members deposit Christmas funds in its branch bank located in the mining area of Nimba County. As a result deposits are drastically reduced during December with a subsequent recovery during the following 11 months.

The ACDB should implement an intensive planning and promotional program utilizing various aids in mobilizing capital, particularly in areas where rural residents are unfamiliar with savings plans.

The banks savings window is more distant from the small farmer than the cooperative and the farmers' union. Consequently if they wish to attract his savings, a more impersonal appeal, one addressed to individual self interest, is in order. High interest may be an incentive necessary to lure the farmer.

Additional methods may include the following:

1. Do not require a minimum balance.
2. Encourage informal group savings.
3. Utilize incentive awards.
4. Review the possibilities of a door-to-door approach and immediately issue passbooks to new depositors.
5. Encourage children to participate.
6. Savings accounts should be insured or guaranteed by the national government.
7. Consider life insurance arrangements in connection with savings accounts.
8. Require all bank employees to promote savings.
9. Study the advisability of providing field bank windows and/or personal contact at market and similar locations when appropriate.
10. Enlist the cooperation of the leaders, county superintendents, paramount, clan and town chiefs and others in promotional activities.

2. Informal Savings and Credit.

Rural credit and savings institutions are almost all informal as they grow out of the traditional understanding of cooperative reciprocal work groups. They are discussed in greater detail in the social analysis but will be mentioned here.

Chief among these institutions is the money "Su Su". Like their counterpart, the work "Kuu," a "Su Su" has a leader who is usually the organizer of the association and a treasurer, who holds the money collected until the time of distribution. This time of distribution like every feature of the "Su Su" is agreed upon by all members at the time of organizing. The "Su Su" may be organized on a weekly, monthly or annual basis and its duration is for as long as the number of its members. For example, a weekly "Su Su" with a \$US 0.25 contribution among 20 market women will run for 20 weeks. Each member will contribute 25 cents weekly and each member will in turn receive \$US 5.00 until at the end of 20 weeks everyone has been "paid".

The amount of a "Su Su" can range as high as the member can afford. The highest commitment heard was about a taxi driver who was in two \$50 a week "Su Su's" with 19 other members and was faring well. He hopes to buy his own taxi when his turn comes with the \$2,000 he will receive.

A "Money Club" is a more modernized version of a "Su Su". The size of the "pot", total membership and time of contribution are agreed upon, but unlike the "Su Su", a "Money Club" will lend sums to members and non-members for short periods of time, usually up to 3 months.* "Money Clubs" have written by-laws and elected officers. The treasurer is selected for his integrity as well as ability to repay since most usually make use of funds not required for loans for personal gain. In areas which have banking facilities such as Firestone, Monrovia, Bong Mines and Nimba/Yekepa, "Money Clubs" frequently deposit their funds in the bank, drawing additional interest.

"Money Clubs" may liquidate once a year, usually before Christmas, when all monies are divided equally among members. The time of liquidation is the only time new members may join since the cycle of contributions starts immediately. Since the term of membership is fixed at the time of joining, a member's savings may be forfeited by dropping out before the end of the term. These "Money Clubs" should be encouraged to deposit their funds in the bank. The ACDB should even sponsor savings by advocating "Christmas Savings Clubs" for which the bank can offer higher interest rates for a seasonal period.

There are other savings arrangements. Besides hiding metal currency in a jar, a person with money to save will carry it to a friend to "keep" for him. The one so entrusted is chosen for his honesty as well as his ability to cover a withdrawal on short notice. Such arrangements are usually made out of the presence of witnesses so the bond of trust must be very strong, especially since the person saving may be illiterate and receipts would be meaningless. Merchants, foreign residents, missionaries and Peace Corps volunteers are frequently used, but any figure that has nominal "wealth", honesty and integrity, and who will not spread the news of a person's savings with him will be asked to "keep" money.

Credit arrangements are much more varied, and more credit is used for consumption or to improve the quality of life; a zinc roof or an iron bed, rather than to increase production. This non-productive use of credit has implications for the bank in that the bank must insure the farmer's ability to repay by extending credit as an integral part of a technical package which will result in increased production. Any farmer who wants

* Interest charged for members (10%) is lower than for non-members (15-25%).

to increase the size of his farm will have to use additional labor and this will be hired labor. The bank should assist by paying the cost of hired labor after the completion of work by stages previously agreed upon between the farmer and the bank.

Because of the terms of credit a farmer will borrow from relatives first, and "Su Su" and merchants in order. These other aspects of informal credit arrangements are discussed in more detail in the social analysis.

3. Description of LPA

The Limited Power of Attorney (LPA) is a mechanism for salaried employees of the Government of Liberia to receive cash or consumer credit from either banks or merchants. No one at the Ministry of Finance seemed to know where the LPA system originated. There are no laws covering the LPA system with the exception of the usury law (25% p.a. maximum). The Ministry of Commerce regulates consumer prices but these prices are not really tightly enforced, particularly once the merchant is away from the Monrovia area. A maximum of 10% interest is charged by merchants in the Monrovia area. Merchants may charge up to 25% in remote areas of the country. Banks charge 8% interest but will only lend to government employees earning more than \$200.00 per month.

Approximately 75% of the government employees throughout the country use the LPA system. Of that percentage, approximately 30% earn less than \$200.00 a month. The average loan is for \$800.00 and is short-term for 5-10 months although loans may often be higher and last up to one year.

Government employees who borrow from merchants are often times at their mercy. Some employees by force of habit continue to borrow from merchants for cash as well as consumer goods. Other employees are forced to borrow from merchants because the banks in Liberia will not make consumption loans to employees making less than \$200.00. As in the case of banks, attorneys for the merchants draw up their own LPA forms, and pay \$2.00 to the Ministry of Finance to execute the form. The employee, merchant and Ministry of Finance receive copies. If the loan is for a large sum of money, the merchant may require that the employee take part of the money in kind, i.e., he has to buy some consumer goods. The merchant charges anywhere from 10% to 25% interest on these loans. If the employee loses his job, the merchant can write off the loan as a legitimate business expense since the employee is no longer able to repay.

Procedures

The employee makes out a loan request from the bank. Once the bank decides to grant the loan request, its attorney will

draw up a Limited Power of Attorney between the bank and the employee who agrees to repay a certain amount within a set period of time. There are no standard LPA forms. Each merchant or bank drafts his own power of attorney forms. This form is not binding until the Ministry of Finance affixes its revenue stamp, for which it charges \$2.00. Copies are given to the employee, the bank or merchant and the Ministry of Finance Disbursement Office. The banks and merchants, with the exception of the International Trust Company, send agents to the Ministry of Finance's Disbursement Office each month to collect the employee's check. The check is given to the merchant or bank's agent. The bank or merchant then deducts the amount owed and gives the difference to the employee, who must personally go to the bank or merchant to collect that difference, a time-consuming and frustrating experience.

In February 1978, the Disbursement Office of the Ministry of Finance initiated a new system whereby employees who borrow from the International Trust Company (ITC), approximately 1,600 employees, no longer have to go to the bank to pick up the balance of their checks. The Ministry of Finance deducts the indebtedness and sends it to ITC and gives these employees the balance of their paychecks. The disbursement office hopes to extend this system to all government employees using the LPA system within the next two years. The constraint now is that the equipment is too antiquated to do this on a large scale.

Until one and a half years ago when the present disbursement officer took up his duties, there was no system for cross-checking as to what employees participated in LPA. Previously, an employee who owed money to a creditor would quit his job and thus not be able to repay his loan. He would subsequently get another government job and apply for an LPA at another store. The merchant by this time would have written off the loan but once he found out that the employee had another government job he would complain that his loan was outstanding and that the new creditor should not be paid until he had been paid. The disbursing officer now keeps a book with the names in alphabetical order and personally cross-checks to make sure that the applicant does not already have an outstanding LPA. Since this new system of cross-checking was instituted, the problem of people reapplying for LPA without satisfying their previous obligation has been greatly lessened.

Summary

The LPA system is not really applicable to the vast majority of rural smallholders since only a small percentage are government employees.

President Tolbert recently charged his Cabinet with the responsibility to find an alternative to the LPA system. The Ministry of Finance is studying the Truth in Lending Laws of the U.S.A., and is trying to devise an appropriate consumer credit law in Liberia.

LIMITED POWER OF ATTORNEY

CASE HISTORY OF ONE RECIPIENT

We interviewed one Limited Power of Attorney (LPA) debtor age 56, seven dependents and employed by the Government of Liberia in a county where no banking facilities are available.

His net monthly earnings are in excess of \$300 which is above the average salary received by the residents in his county.

According to his testimony he opened a credit account with a local trader (Lebanese) in the amount of \$50 about 2 years ago assigning his monthly salary to the trader under an LPA contractual agreement. Subsequent credit requirements to establish a business for his wife and unforeseen expenses increased the debt to the merchant from \$50 to \$1,200. Currently the merchant applies the entire monthly income to the debt advancing only a small amount of consumer goods. The debtor is forced to convert a portion of the consumer goods to cash by selling it at a discount to his neighbors to pay school and other costs requiring cash payment.

Under this arrangement the debtor will be perpetually indebted to the trader paying a high indeterminate interest charge because of regular interest charges, inflated consumer prices and the loss in reconverting some consumer goods to cash.

The debtor came to Monrovia to seek assistance from one of the GOL Ministries in revising the terms of his LPA principally to assign a fixed reasonable portion to debt liquidation and to receive the balance in cash.

On the date of the interview, the debtor had received assurances from the Ministry that an investigation of the circumstances would be conducted.

This is one example of the many abuses of the LPA program between rural residents and traders in areas where banks are non-existent.

In the Monrovia area banks provide credit based on repayment ability, apply a reasonable rate of interest and limit repayments to 30% of the applicant's monthly income.

4. The Assessment of Small Farmer Agricultural Credit

a) An appraisal or assessment of small farmer credit has not previously been undertaken in Liberia. The estimates prepared by the team are based on two approaches outlined in Item 3.

b) Types of Credit

(i) Seasonal Credit - (short-term) Inputs including fertilizer, seed, chemical, hired labor, machine hire, etc.

(ii) Development Credit - (medium to long term) Used to develop tree crops, land clearing, tillage, acquisition of seedlings, fertilizer, pay hired labor, finance cost of farm storage, warehouses, other structures and equipment.

(iii) Market Credit - Usually issued under the overdraft loan system based on warehouse receipts and frequently processed in a lump sum to finance the purchase of the crop.

c) Methodology Used in Estimating the Credit Requirements

(i) The first approach is based on the premise that 30% of the value of the gross domestic value of agriculture production constitutes the normal cost of production. This approach may be controversial yet many agricultural economists have used this formula in computing costs in developing countries. The degree of mechanization of agriculture in a country would alter the formula. The gross agricultural domestic product value was obtained from the 1976 National Bank's annual report which was used as a basis to compute subsequent gross domestic product estimates.

The rubber contribution to the gross domestic product was reduced 70% which according to the Ministry of Agriculture is the amount produced by the major concessions. Small and medium size farmers will receive credit to produce rubber and we therefore included 30% of the value of total rubber production in establishing the initial base line agricultural GDP estimate. Using this approach agricultural credit demand is estimated at \$55 million in 1978 and \$60 million in 1980 (See Annex A-X).

(ii) The second estimate is based on the annual per acre costs of producing seasonal crops and the per acre costs of establishing and/or rehabilitating tree crops.

The Ministry of Agriculture furnished a detailed breakdown including acreage of traditional crops, existing tree crops and a detailed projection of the planned acreage for each of the next several years.

These computations are based on the assumption that all farm operations except traditional rice farmers would generally use the technology provided by the Ministry of Agriculture and costs per acre would approximate the Ministry of Agriculture's estimate. This is not possible at the outset because of the lack of infrastructure, roads, markets, credit windows, farmers organizations, extension personnel, capital, etc.

One may also reduce the total credit estimated based on the per acre of farmers who will be unable or unwilling to carry out extension recommendations to ensure increased production.

A revised computation based on the above premise would result in a credit need far in excess of available capital during the next several years. Using this second approach results in an estimated credit demand of \$68 million in 1978 and \$86 million in 1980 (See Annex A-X).

d) Supply of Credit

Suppliers of credit include the following:

- LPMC
- LBDI
- Commercial banks
- MOA projects
- Integrated projects
- Special projects
- ACDB (no loan advances to date)

The estimated credit supplied to the agriculture sector deducting US\$ 10 million loans to the large rubber operations by commercial banks is a net of US\$ 16 million in 1978 and estimated to increase to US\$ 20 million in 1979 and to US\$ 22 million in 1980.

d) Net Deficit

Assuming the above sources will supply credit in the amount of US\$ 16 million in 1978, US\$ 20 million in 1979 and US\$ 22 million in 1980 the annual deficit during those periods will be as follows:

1978 - US\$ 39 million on 30% formula; US\$ 52 million as per acre cost basis.

1979 - US\$ 38 million on 30% formula, US\$ 58 million as per acre cost basis.

1980 - US\$ 38 million on 30% formula; US\$ 64 million as per acre cost basis.

The rate of increase in the agricultural gross domestic product does not keep pace with credit inputs because tree crops will not come into production for four to five years following establishment.

f) Additional analysis is required to determine the credit needs as follows:

g) Scope of Work for Rural Credit Analysis

The team was unable to completely cover every aspect of a full rural credit analysis such as will be required for a potential follow-on phase of the proposed technical assistance grant project. The following areas, scope and resources are recommended to carry out a complete rural credit analysis.

Areas and Scope

(i) Contact every registered cooperative to ascertain their estimates of credit requirements for development credit, amount of capital needed for on-lending to its members and working capital for produce purchases over the near term and projected over a 5 year period. Effective cooperative credit demand would be based on the above estimates with ample considerations given to viability (managerial and financial) of each cooperative.

(ii) Procure similar data from all registered rural credit unions.

(iii) Obtain the latest data from the Ministry of Agriculture Cooperative section as to the number of new cooperatives that are in the process of organization, total membership and an estimate of probable credit needs for development and operational purposes.

A separate appraisal and/or projection to include the Ministry of Agriculture's best estimate of the number of additional cooperatives that are likely to be organized during each of the next five years. This should include cost estimates including the estimated credit requirements of the cooperative including long and short term credit needs over the period and number of members.

(iv) Request LBDI management to furnish a breakdown of the agricultural loan portfolio and to provide estimates of

agricultural credit requests they have been unable to fill because the loan proposals were too small, offered insufficient collateral, were uneconomical or rejected for other reasons.

The LBDI's planning section should be requested to provide its estimates of agricultural credit needed over each of the next five years for development, processing, etc.

(v) All private banking systems should be canvassed to determine the type of loan requests they received from the agricultural sector and the best estimates of total funds, purposes and terms involved.

(vi) The Ministry of Agriculture Planning Division should be requested to furnish data relating to the estimates of planned increases in each category of crops, livestock, processing projections and data as to fisheries and forestry expansion and current credit estimates. The Planning Division should furnish the scope, locations and time frame of the extension of farm to market roads, the numbers of additional farmers affected, the type and the scope of the agricultural activities.

(vii) The Ministry of Planning is in the process of undertaking a nationwide household survey based on a sampling basis. The survey will be completed within two months and the findings will be tabulated and an assessment of the result will be prepared. This survey may supply valuable data which could be useful in the preparation of this agricultural credit assessment.

(viii) The LPMC and its subsidiaries, the LCCC and LPPC, can furnish specific information relating to market credit extended, the scope and nature of its tree crop program with data setting forth the amount of grant, loan in kind funds and the amount of supplemental credit necessary to carrying out the program.

(ix) A study of the agricultural credit situation in each of the integrated agricultural project areas should include data on credit extended, the amount of additional credit needed by farmers served from project resources and an estimate of the credit needs of the farm families residing in the project area but who are not receiving loan benefits. The basic reasons for the exclusion of certain families from the program should be ascertained.

(x) Finally a farm survey of credit needs should be conducted in one or more counties where the Agricultural Cooperative Development Bank does not have a branch bank.

(xi) Data from the socio-economic survey of Bank customers/ non-customers in the counties where branches are operating will also be available for review, as well as volumes of branches' savings and lendings.

(xii) Past and projected supply of credit should also be obtained from the above sources.

Resources Needed

(1) A TDY expert having an agricultural background including credit preferably a B.A. degree in Agricultural Economics or related field, to organize and direct the survey.

(2) Local enumerators to conduct field surveys are necessary and will require about two weeks training before commencing the field survey.

(3) It is estimated a period of 4 months will be necessary to obtain the necessary data, tabulate the information and to determine the amount of credit demands in Liberia's agricultural sector.

Time Frame

At the end of 30 months the USAID Mission will review the performance of the ACDB system to determine its orientation toward small farmers and cooperatives and to consider the possible infusion of loan capital. If the decision to extend loan capital is favorable then this credit study should be programmed to determine the national agricultural credit needs, available sources and the extent of supplemental credit necessary and an assessment of the volume of credit the ACDB can administer over the period.

D. Estimated Results of Proposed Financing

These points are covered in the PP Detailed Description under project purpose and outputs.

E. Operations Projection

Proforma financial statements are included in the PP Financial Analysis.

F. Other Sources of Financing

Other sources of financing are discussed in the PP Detailed Description under project inputs.

ANNEX B

SOCIAL ANALYSIS:

The social soundness analysis gives consideration to the rural context within which the project will function, both from a social as well as a political standpoint. Issues related to the proper use of credit are dealt with and it is concluded that they can be resolved with careful selection of the recipients of credit, an appropriate and profitable technical package, proper supervision of credit use, education and training of both field credit supervisors and farmers, and close cooperation with the Ministry of Agriculture, particularly field staff in extension and cooperative management. Some of the constraints observed by the design team are outside the scope of the project and while they are being addressed by complementary projects, are mentioned here because of the need to emphasize their possible bottleneck effect on credit to small holders. Other issues raised with respect to the relations between the project and the beneficiaries of agricultural credit are not serious enough to cause implementation to be delayed nor prevent the full utilization of project outputs.

Agricultural activity in Liberia falls into three broad classifications: large concessions, private plantations and smallholders. The majority of farmers are in the latter category and their numbers are estimated at 152,000 individual farm families, residing in the smaller towns and villages scattered across the countryside. The individual farm family is the basic production and consumption unit, excepting informal reciprocal work groups within a community that move from farm to farm. But this voluntary labor group does not alter the definition of one family, one farm economic unit, and it is this farm family that is the intended beneficiary of a national rural credit system.

In the past, the rural farmer in Liberia was confined to traditional methods of production of food and occasional cash crops. His slash and burn system barely provided a subsistence livelihood. The labor intensive, precarious nature of farming has been described at length elsewhere and will not be repeated here except to note that improved varieties of seed and planting material were not available to him; he had no knowledge of the use of fertilizer or herbicides; and a formal system of agricultural credit was unheard of. When his efforts were rewarded with a marketable surplus, the prices he received could not be considered remunerative of his labor.

Enclaves of development had occurred in isolation, notably along the borders where coffee and cacao spread from neighboring Sierra Leone, Guinea and Ivory Coast and along the road radiating

from Firestone where rubber seeds were free for the gathering and a limited knowledge of rubber production could be obtained through employment. Government had not the will nor the resources of money, trained technicians or adequate infrastructural development to effectively address the problem of agricultural development. Efforts were made, but they were not of a scale to alter significantly the centuries old traditional methods. The ingredients required of modernized agriculture - improved planting material, agricultural chemicals and fertilizer, a secure and stabilized market, and readily available credit were acknowledged as necessary but could not be put together in a sustained comprehensive program of assistance for smallholders.

With the exception of institutionalized credit, this picture has changed dramatically over the past ten years. A major road network has been laid out with over 2,000 miles of all-weather farm-to-market roads; and a government owned marketing system (one of the best in West Africa) has been established, which in addition to offering stabilized prices for rice and support crops, also provides free seedlings to individual farm units for up to 10 acres of either coffee, cocoa or oil palm. Under the sponsorship of government and with bi-lateral assistance, a variety of agricultural projects have been undertaken which work directly with over 30,000 farm families. Included among these projects are the large-scale integrated rural development programs of the IBRD in Upper Lofa County, and Bong County. A third IBRD project is scheduled for Nimba County by 1980. These three projects will work directly or have spread effects among 40-60% of the estimated farm population within the project areas. Additionally there is a rubber rehabilitation scheme underway which will upgrade 25% of the smallholder rubber farms. There are two semi-autonomous development corporations for oil palm and coffee and cacao.

Each of these programs provides a developmental technical package to farm families on credit with repayment extending as long as 15 years in the case of certain tree crops which come into full production after 8-9 years. These efforts are notable in that a significant percentage of farmers will have opportunity to participate in a development program which prescribes a limited technical package on credit. It is assumed the spread effect of these development projects will place increasing demands on a rural banking institution. The progressive establishment of a full-service rural banking system is acknowledged as a critical need; perhaps the last link in a chain of rural development activities which will bring about the transformation of agriculture in rural Liberia.

As has been pointed out, excepting a viable system of formal credit, the necessary ingredients for the development of the agriculture sector are in place. Technology is appropriate, and

although limited, research is continuing to fill the gaps. Through various national programs a widespread system exists for delivery of these technical packages. With the acceptance of LPMC of proposed modifications in its policy toward buying agents, farmers should experience no constraints in the marketing of crops.

It is not the purpose of this analysis to ignore the presence of concessions or private plantations but rather to emphasize the needs of the smallholder on the assumption that he knows very little about modern technology nor can he secure credit so badly needed to finance his operation. The typical Liberian farm family does not have the relevant experience to reason through the consequences of adopting modern technology. The assumption is made by technologists as well as by participating farmers that all technology is good to have. Each enters into a working relationship with different perceptions of what he should do and how he should benefit. As a result both parties are often the loser when the intended results are not realized. It is important therefore that the project develops a capacity to critically assess its effectiveness vis-a-vis farmers perception through collaboration with farmers in a manner which will also broaden farmer ability to improve the effectiveness of rural banking activities and agriculture in general.

The rural smallholders who will be the beneficiaries of credit can be broadly classified into three groups:

1. Farmers within government-sponsored and spontaneous cooperatives;
2. Farmers residing on homesteads outside the village family structure; and,
3. Farmers residing within the close-knit village social structure.

This analysis describes the situation for farmers with small to medium holdings only.

Because of the ease of servicing loans and encouraging savings, those farmers situated within cooperative projects will be a ready customer. The bank can tie credit to technical packages and terms of repayment to marketing with little risk where such cooperatives are viable. Presently financial and management viability only exists in 6 or 8 of the 56 registered cooperatives; only 3,000 farm families out of a potential of 152,000. If low risk ways cannot be found to provide effective rural banking services to the remaining estimated 149,000 rural smallholders two phenomenon will occur which will have a negative impact on banking and agricultural development.

The Agricultural Cooperative Development Institute (ACDI), under a 3-year contract with AID, will provide technical assistance to the GOL. This team, consisting of 1 Cooperative Advisor, 1 Accounts Specialist, and 1 Training Officer, will work in close collaboration with the MOA/Cooperative Division. The constraints to effective rural credit through farmers cooperatives are recognized by the MOA and the ACDI Coop Supervisory Team and it is assumed that effective means to lessen the negative influence will be elaborated by the end of the year. The implementation of these solutions will be slow initially because of the shortage of trained persons in cooperative development - supervisory, accounting and education, and because of the high staff turnover in MOA, a result of a national manpower shortage.

Farmers who desire credit but who are outside of cooperative organizations and therefore denied a technical/credit package will lament their situation to the most influential person accessible to them. The facts become obscured with time and at each telling, but at some point it will become politicized. It is not unrealistic to assume that credit to these persons could be mandated, forcing the bank to act in haste with inadequate preparation. It is recommended that the bank equip itself in advance to provide credit to individual farmers. This should be done on a trial basis at the village level; requiring culturally-sensitive, respectful bank field agents who will work closely with existing village families and hierarchy as will be described later.

Assuming that the bank is immune to political pressure to service the needs of individual farmers, an assumption which is highly improbable, there is another means by which these farmers can get credit and this is by forming cooperatives. The problems with cooperatives are vast and have been described in detail (ref. Agricultural Cooperative Development/Liberia #669-0127), or one has only to look at the track record quoted by the MOA/Division of Cooperatives of 6 viable out of 56 registered farmer cooperative associations. Because there is a credit-starved, adaptive farm population, the proliferation of cooperatives will become overwhelming if this route remains the only choice for farmers and the bank to get together. The end result could be negative for the adaptation of credit and savings as well as for the cooperative movement among rural smallholders and for the following reasons:

- (1) The incidence of exploitation of farmers by self-ordained, local coop organizers will increase;
- (2) The sheer numbers of real and nominative cooperatives will place a strain on MOA/Coop staff for proper supervision and management development;
- (3) The long time lapse from organization to proven

viability will discourage many farmers who perceive immediate needs for credit; and,

- (4) The needs of every farmer are not fulfilled by group action.

There are two other groups of potential borrowers outside the mainstream of modernized agriculture: (1) farm family units residing in the village, and (2) individual farm families that have migrated from the village in a pattern of ribbon development along the road.

This latter group is smaller in number and the mere fact that they have chosen to live outside the traditional village is indicative of their willingness to risk independence from family and inherited social ties and negotiate a way of life which incorporates elements of modernized behavior, values and attitudes.

Because of this break with the "past" they are more ready to accept technical innovations. Because of their independence, they are more cautious toward involvement in group activity and they will measure carefully the benefits to be derived against the possible loss of some of their independence. Having expressed their independence from the village family group, they may be unwilling to seek re-entry by joining a cooperative. And rightly so, for just as group action has its place in the ferment of society, so does individualism.

The ACDB with the assistance of the MOA must protect the freedom of choice expressed by members of this group. This means insuring that they have equal opportunity to the benefits of a technical/credit package. GOL may have to subsidize a portion of the ACDB loan portfolio to individual smallholders as the administrative cost of a one-on-one loan will be higher.

Most individual farmers have at least a tribal certificate for their land; the first step toward legal land ownership. Many possess a deed. The bank should be willing to accept a tribal certificate as collateral for a loan but must also insure that credit is used for productive purposes, since in spite of their outward appearances of westernization many are still traditional enough to give equal status to food, relations with others, and the quality of life.

If a tribal certificate is not acceptable security for a loan, the ACDB in close collaboration with MOA, should develop the ways and means to have the land surveyed and deeded as a part of the technical/credit package to individual farmers.

The bulk of the rural population falls into the classification of those residing in the village and who are not members of cooperatives. Because of their close knit society and relations with others in the village they are an "informal" cooperative whose verbal rules and regulations have been handed down from generation to generation. To modernize their cooperative way of life with a name, a written set of by-laws, and elected officers; to approach their development with the carrot of a technical/credit package available to individual farmers, is to strain the social fabric which unifies them.

Credit to this group can be extended through the village hierarchy of the chief and elders with interested residents as witnesses. But before the actual giving of credit a certain level of understanding must be reached between the village and ACDB/MOA. This will be obtained only through a series of visits and open discussions with the village farmers in a mutually respectful exchange which will build trust and understanding. Having been taken advantage of in the past by corrupt officials and tricked by opportunists, the village smallholder is naturally skeptical of alien ideas, especially those which require his commitment. If given enough time to understand however, he has the capacity to adapt for his benefit. He will also adapt for the good of the village if, in doing so, his status, wealth, or relation to others is not diminished. This is an important fact.

The model being suggested for a technical/credit package to a village is similar to that being used in Lofa County in the IBRD project. The essential difference is that in the absence of a cooperative, the village head, council of elders and other prominent village residents would be asked to select farmer/participants and co-sign as surety. In some instances the residents may choose to carry out the technical innovation as a community project. The cultural assumptions are that:

1. The majority of residents are so closely inter-related as to represent a single family;
2. While independent action is not discouraged, it is tempered by a desire to maintain good relations with others;
3. The village leader and council of elders oversee the socio-political affairs of the town for the benefit of the group;
4. The village hierarchy together with other residents can understand the implications of a technical/credit package and will select recipients from among their members whom they recognize will act responsibly for the common good of everyone;

5. This village hierarchy, with the approval of other residents, will act as guarantor for limited credit extended, and is able to do so.

Peer and group pressure will come into play and discourage delinquency and prevent default, since failure to comply to the terms of repayment will jeopardize the opportunity of credit for others. It will also cost everyone a portion of the total loan as the group openly agreed. Since the family is still held in high esteem, the strongest pressure will be brought to bear by blood relatives who do not want the family name disgraced.

It is strongly urged that ACDB attempt the extension of credit to these two classifications of smallholders, individual and village, on a pilot basis. This should be done first with seasonal technical packages and as the level of participation and understanding increases, medium-term credit should be undertaken. A pilot area can be selected with the assistance of the rural sociologist and rural credit advisor in cooperation with the ACDB/MOA. The area chosen should have a high standard of local leadership, a minimum of bad experience with outside influences, and fulfill the agronomic considerations. The GOL should be asked to subsidize the effort by funding the salaries and support for at least two high school graduates, native to the area, who will work closely with the farmers and village families and act as liaison between them, MOA and ACDB. Based on the success of the initial effort additional areas should be selected.

Approaching the problem of effective rural credit (for individual smallholders) positively and slowly will allow the ACDB time to develop its capacity for greater involvement and the confidence to do so.

Credit is not unknown to farmers but their experience with its use has been limited to informal credit, usually from within their larger family group or from business persons. Since capital accumulation is so difficult, any credit available in a village will be limited and a person requiring a large sum must make arrangements with several sources. Farmers borrow primarily to assist in building a house, for medical expenses, taxes and court fees, and to help defray the expenses of hired farm labor.

The most traditional form of credit is the reciprocal, cooperative work group which is formed during the season of rice farming to overcome the periods of peak labor. Such groups, however, may be formed for any labor intensive task at any season, and for as short as one day, as in the case of daubing mud in house construction. Farm activities undertaken by a "kuu", the name most commonly used for these work groups, would be brushing undergrowth, tree felling, clearing, tilling, planting, and harvesting. In joining a "kuu", the farmer agrees to

provide the other members the same amount of labor as he receives. Food and drink are a reciprocal obligation also. A "kuu" is available for hire and there are variations of payment for the work performed involving food, money, and labor. Payment is usually consummated within the farming season; however, it is not uncommon for debts to be carried over to the following season. The "kuu" is not an exclusive male association. The participation of women is considered as vital, especially for the less arduous tasks, such as planting, weeding and harvesting.

Another reciprocal association is the "su-su", which is formed for the purpose of saving money. Members agree as to the frequency of contributions as well as the amount, and the total contribution of all members is shared on a rotational basis until all members have received the "pot", at which time they may disband or start another cycle. There is no increase in the cash used by an individual member during this association, but through enforced savings with a group, he is able to receive a large sum to satisfy target demand. The "su-su" is very popular among salaried employees and market women. The association is less useful among more traditional farmers whose income is more seasonal.

The "su-su" has been modernized to a certain extent to form what is known as "money clubs". Money clubs are savings and loan associations among salaried persons; friends living in the same community or working for the same company or government agency. They have elected officers and written by-laws, and members contribute equally at the end of each pay period. But money clubs differ from "su-su" in that they extend credit to members with interest, usually 10% per month and some loan to non-members at higher rates (15-25% per month) providing such a borrower can get a member in good standing to serve as guarantor. A money club may liquidate at Christmas, in which case each member receives the sum of his periodic deposits plus a share of the interest accumulated from loans made by the club. At this juncture a member may disassociate himself from the club or he may continue with the next annual cycle as a money club is not organized to dissolve after a year, it only liquidates. As with most informal or semi-formal organizations, there are as many variations as there are associations, since they are not prescribed by law. One wonders whether it is the lack of legal regulations or because of a cultural attitude toward credit that many money clubs end up with members extorted rather than benefitted. Fortunately, most successful money clubs eventually convert to credit unions where regulations do exist and where management and supervisory assistance is available from a national apex association, LCUNA.

Interest rates for informal credit increase the further a person has to go from the nuclear family unit. A brother will

lend a small amount with no interest, but terms of repayment are usually clearly defined because savings are small and difficult to acquire. At time of payment, the borrower will add some interest as a "dash". This act is a very important part of the non-interest loan for unless he has been "dashed" the lender may feel he is being taken advantage of. A dash may be employed by the borrower at the time of requesting the loan as an indication of the borrower's intention to repay, as a tribute of respect for the lender, or even to soften the lender's heart. The dash is always a commodity since cash is scarce, and it is in proportion to the size and terms of the loan. When interest is charged within the family it is often paid in labor or as a commodity and agreed upon at the time of loan transaction, however interest as cash is not unknown and may vary from 80% to 240%. Interest as cash is becoming more prevalent, especially in areas where cash is more common. A brother may now feel no qualms in misrepresenting personal savings as belonging to some distant person in order to be able to charge interest without straining relationships within the extended family.

Frequently credit extended between close friends or family is perceived as "help" and the borrower does not feel obliged to repay. Cash and in-kind assistance is given prudently among friends and relatives as a form of insurance. Should hard times befall the giver at some future date, those upon whom he has shared his past moments of affluence will come to his aid. At other times, the lender may be forced to resort to the fabrication of a need in order to put pressure on the borrower to return the help. Perhaps it is the cultural casualness towards debts of cash or in-kind which arises out of the closeness of traditional relationships and values within the extended family that causes so much disappointment for outside lenders.

The implication can be made that many borrowers from the bank will resort to devious means and cleverness in the hope of not having to repay. For farmers who are locked into a developmental equation of technical inputs at one end and marketing at the other, the problem is not so acute since his production process is controlled. This is the situation for farmers within government sponsored projects combining technical agriculture and marketing within the framework of cooperative development.

Obtaining credit from merchants or persons outside the exogamous family is more difficult and rates and terms more usurious. These sources can provide larger sums and a borrower frequently assigns a portion of his future crop at an agreed upon price. One example heard was of a farmer who borrowed \$5.00 and was expected to repay a bushel of cacao, a value of \$16-30.00 at harvest 8 months later. This is an effective interest

rate of 330%-750%. Some merchants will loan \$100 for 60 days at 20%, an effective rate of 120% and one of the lowest examples cited, but such loans are made only to reliable customers with a recognizable ability to repay and always in the presence of witnesses who serve as guarantors. Often a farmer is required to purchase goods at inflated prices before any consideration will be given to a loan.

One young entrepreneur who bought a pick-up truck related how he repaid a credit of \$700 at an effective rate of 514%. A farmer in Lofa County borrowed \$40 for 6 months and was required to bring himself plus 9 of his friends to work on the lender's farm for one day. This interest as labor was to be paid in advance of the loan. The farmer was unable to repay the principal at the agreed time so the lender renegotiated the terms, extending the time of payment for an additional 6 months in return for another ten persons to work on his farm for one day. At the wage rate prevailing at that time, interest was probably no more than 25%, however at present it would be 75%, but even at this higher figure, it is still the lowest interest rate among all the incidents related.

Payments for debts can be held in abeyance until the lender has a need, especially where payment is in labor. It is not unheard of for a borrower to work several years to repay a large debt. One former Justice of the Peace never lacked for labor as he was in a position to waive fines and act as bondsman for the loser in cases which appeared before his court. Many farmers were unfortunate enough to become indentured for 1-3 years during which time they could not make a farm to feed their families, and had it not been for the care given them by the extended family their plight would have been more grievous.

Only one person talked of being able to borrow from a bank. He is a salaried government employee who gave LPA to a commercial bank. His older brother, who is better known in Monrovia, assisted in the arrangements and he has secured two loans totalling \$2,200 within the past 24 months. He has used this to rebuild his house with sun-dried blocks, expand his cacao farm, opened a small shop to be operated by his wife, and pay school expenses for his two children. The incidents of loans from commercial banks to the rural smallholder are almost non-existent because of the constraints presented by the lack of collateral, records of the farm operation, and ability of the bank to service the loan.

According to Van Santen in Farm Management and Production Economy Working Papers No. 1-VI, 1974, respondents reported a preference for obtaining loans from relatives first and "su-su" and traders next in order. The assumption is made that this order of preference is in direct proportion to the ease at which

a loan can be obtained, the interest charged, and the consideration that might be given if at time of repayment the borrower must negotiate a new date. Any rural bank should take these constraints into consideration since arduous forms will frustrate his farming cycle and inflexible repayment terms will defeat his willingness to participate. A direct corollary to these considerations is the appropriateness of technology. Farmers want immediate results. They lack alternative or residual resources to enable them to wait out the gestation of a coffee farm. Their technical/credit package should assist to increase annual as well as perennial crops.

Savings is almost an impossible figure to ascertain from the rural smallholder. Even members of the immediate family are not aware of the amount nor the repository of savings by a member of the household. There is a fear that should the fact become known, a small savings will be gobbled up by increased taxes or one's extended family will increase demands to share wealth. Every person attempts savings for the unforeseen contingencies of social obligations and ceremonies, sickness, unscheduled taxes, and to satisfy target demand for consumer goods or for better housing. Van Santen reported in a survey conducted in Foya in 1971....."that useful objectives exist for allocating additional cash incomes, but investment for improvement of the farm holding has a very low priority in the list".

The conclusion is correct when assessed by a Western economic system, however, the fact is that the Liberian smallholder makes no distinction between farming as a way of life and farming as an economic activity. Until he does, credit extended him and savings made by him will most probably be used for non-productive activities; activities which will not increase his ability to repay. McCourtie, Traditional Farming in Liberia 1973, summarized this very well in his discussion of credit arrangements which emphasizes the dominance of consumption credit and limited need for production credit. Based on field data collected during the period 1964-1971, he makes the conclusion that:

"Need for organized credit will arise from development programs requiring capital investments in land and land improvements; equipment and machinery and working capital. Important lessons relevant to the design, administration and supervision of credit in the early stages of agricultural development can be learnt from the simple exercises farmers discussed above. If the situations outlined above can be taken as typical, such farmers if given a free hand in the use of credit could end up in a worse financial position than before, simply because most of the funds would not have been used in generating additional income from which repayment could be made".

Today, the distribution of development programs among the rural smallholder is decidedly more extensive, technology much advanced, and marketing arrangements more favorable than 7-10 years ago. The need for organized credit has arisen. What will be required at the level of the farm family is patient, culturally sensitive supervision of technical inputs and credit employed to insure there is an increase in production adequate to repay the cost of borrowing and a net surplus attractive enough to induce the farmer's continued participation.

This farmer contact is the most important factor in securing farmers' participation. Unlike his urban counterpart, the rural smallholder deals with situations and people on a face to face basis, and while his resistance to an innovation may be tempered by communications media, his acceptance is finally influenced at the personal level. This will best be accomplished through a mutually respectfully interaction between concerned farmers and outside innovators. According to Gay, Rural Sociology Study in Support of Agricultural Development, UNDP, 1976, the onus will be on government and the banking institution:

"The first step is for the group with power and facilities for implementing action to understand the apparently powerless. If the farmer does not make the effort, the powerless will demonstrate that they have at least the power to be unresponsive".

It will be absolutely imperative, therefore, that field credit agents selected be from the area in which they will work, since they will be the immediate link between the bank and the farmer. Their selection and training must be carefully done to develop their sensitivity and motivation to work among rural smallholders, and their knowledge of the bank's credit and savings programs must be very thorough. Their responsibility to the farmers will be to translate Western concepts into culturally acceptable terms and to develop the trust and confidence of farmers in the services of the bank. The obvious is frequently overlooked in our haste to achieve our objectives, but the verity remains that few are willing to participate beyond their capacity to understand.

In addition to the personal contact with credit and savings field staff of the bank, the farmer should also be encouraged to respond through vernacular broadcasts and playettes describing the services of the bank and benefits he might derive. Posters and leaflets also serve to instruct the farmer, but it should be kept in mind that because of the alien nature of institutionalized credit and savings, the small farmer is unlikely to respond until information is given by a reliable, known witness. Again according to Gay:

"More stories, reported or heard, but without personal evidence, are enjoyed but not taken seriously".

The political and social hierarchy is not a complex structure, but the ways in which they are interwoven and how authority is expressed and disputes settled easily baffles anyone not familiar with the process.

The building block of rural society is the family unit. The term "extended family" refers to the exogamous family, and in this sense, a village which is comprised of several extended families is so complexly interwoven through marriages and interaction with others that it can be considered a homogenous group.

At the head of a town is the town chief who represents the town to central government, but more importantly he exercises authority over the affairs within the town in council with the elders, the representatives of the village family units.

The socio-political system rises beyond the town to the clan chief, paramount chief, county superintendent and central government. This clearly defined organization is both a constraint and an aid to development. Just as "all the fingers of the hand are not equal", so it is that expressions of leadership and authority are different. If a generalization can be made, the further up one moves in the tribal hierarchy from the village, the less considerate and more authoritarian leadership becomes. It is the misuse of authority which presents a constraint.

Any person in a position of authority maintains control by the astute combination of instilling fear and displaying favoritism. While leadership qualities in a town should be assessed before the introduction of any innovation, the pressures exerted by the interdependent families on the town chief to do what is right and just for the good of the group normally curtail any opportunism at this level. However, it is not unusual for a chief whose authority is over a larger geographical area to limit any benefits to persons within his family or to those who are able to support the longevity of his authority. This is especially true for paramount chiefs, who are not able to maintain meaningful relations with every family in the chiefdom, no matter how many wives they obtain, and whose elected term of office is 4 years.

Therefore, clan and paramount chiefs should be given the courtesy of being informed as to where and to whom credit is being extended as they may be called upon to exercise their official capacity to assist in collection at some future date. They should even be encouraged to visit project sites and individual farms to view first-hand the tangible benefits of the use of

credit. But under no circumstances should they be given the authority to approve or disapprove a loan. Were they to do so, credit would only be given to those farmers who would enhance their position as the "Big Man".

The most graphic example of dominant authority can be observed in the stifling of the democratic growth and the inequitable distribution of benefits within some cooperatives where the emergent figure in the social and political spheres is also the head of the farmers organization. In the words of a prominent associate justice, "what disadvantage can they not take".

The Office of the Assistant Superintendent for Development should also be informed in a like manner and for similar reasons.

On the positive side, the constructive involvement of officials beyond the town chief can have a positive impact on the spread effects of a rural bank. Since they have authority and influence over a much larger area, once they understand the benefits to "their people", not only will they verbally publicize this fact and encourage greater participation, they will make every effort to ensure collection according to the terms of repayment, in order to protect the benefits realized by the infusion of credit in the development of their area.

However, they must be informed before the fact and made to feel their concerned involvement is necessary for success. If the bank waits to inform them only after it gets in trouble, they will be less cooperative since having been ignored at the outset, they would have been made to feel diminished.

THE ROLE OF WOMEN

The majority of the rural women in Liberia are small vegetable growers or market women. These women thus lack incentive to join a cooperative where membership is primarily confined to persons who own cash crops such as cocoa, coffee, palm and rice.

In many parts of the country, food production is traditionally done by women, who also have the responsibility for feeding and clothing their families. The husbands generally provide the seed money to assist the women in developing their rice plots or vegetable gardens. However, any additional money earned from these small gardens or rice plots must, of necessity, support the family. The women do not maintain household budgets as we know them but buy what they need when they have the money available.

The Mandingo fish market women were the only rural women in Bong and Lofa Counties interviewed who received money from

their husbands in order to sell their goods. The fish costs approximately \$16.50 for a carton of approximately 15-20 pounds. This carton is then sold for \$18.00, thereby earning a \$1.50 profit. In a good day, two or three cartons can be sold. School fees, cloth for children and rice seeds for the farm must be bought from the profit.

During the dry season, market women sell their peppers for \$10.00 a bag and sell from three to four bags. When food is more plentiful in the rainy season, the same bag sells for \$3.00 - 4.00 per bag and a maximum of three bags are sold.

When rural women need additional money, they generally borrow from family or participate in a "su-su", described below. Some market women make at least \$100.00 a month but the average is about \$50.00 a month. Of the eight women interviewed in the Bong and Lofa areas, they indicated that from this money, they must pay rent, school fees, buy rice seeds if they have rice plots, some cloth for the children, and buy vegetables which they then sell. The average rural wife has from four to eight children. School fees for government elementary schools are approximately \$37.00 a year.

For rural non-agriculturalists such as teachers, credit is mostly received from Lebanese shopkeepers. They are charged 25% on each dollar borrowed usually on a short-term basis and are often required to purchase goods in addition to the loan.

In the Voinjama area, most of the educated women belong to the Lofa Rural Credit Union. There have been no discriminatory practices towards women who wish to join the Credit Union. The average loan there is approximately \$400 with repayment in five months.

Liberia has one female cooperative manager, who was appointed by the members of the chiefdom hierarchy, all male. This cooperative is one of the better run cooperatives in the entire country and has received quite a bit of financial and in-kind credit support from the Government of Liberia.

The cooperative has approximately 1,865 members including about 100 women. Active membership is around 700. The cooperative provides various services to its members such as tractors and power tillers for clearing land, distributing seeds, fertilizers and insecticides, selling of gas, etc., all of which are managed and directed by a female.

In addition to being a salaried employee of the cooperative, she participates in a \$15.00 monthly "su-su" with the other salaried employees of the cooperative. While she is not a typical rural woman, her need for credit is just as valid as the market women who are not salaried employees.

In the rural areas of Liberia, there are almost no savings and credit facilities available to women. Many women participate in an informal savings association called a "su-su". This is a savings association which has developed to meet the needs of people, particularly market women and vegetable growers. Many of the "su-su's" have appointed officers, and consist of three types of payments - daily, monthly and yearly. None pays any interest. The daily "su-su" contribution ranges from as low as \$.25 a day; the monthly "su-su" contribution ranges from \$15 - \$25, and the yearly "su-su" from \$25 - \$50 a month. Members decide among themselves as to who should receive the first payment and thereafter rotate until each member has received a contribution. This type of association is not a legal organization, yet it fulfills a need for people to receive additional money and acts as a repository for savings. However, there are instances where the officer holding the money for the "su-su" absconds with the funds and members then have no legal recourse to recover their lost savings. It is conceivable that these same people would be willing to deposit their money into a savings fund in a bank with the knowledge that their money would be safe and that they would earn interest.

The Bank's present mandate is to loan money to cooperatives and small farmers, many of whom produce cash crops. This policy in effect excludes vegetable growers or market women. In order for rural women to take advantage of the Bank's credit facilities, an opportunity should be explored for them to form legally structured cooperatives. These cooperatives would be under the regulations pertaining to all cooperatives in Liberia. This type of cooperative's relationship vis-a-vis a "su-su" would be: (1) a board of directors, (2) established by-laws, (3) official recognition by the Government, (4) interest earned on savings, etc. On the other hand, a "su-su" is not legally recognized by the Government, has no established and written by-laws, earns no interest and members have no legal recourse.

There is a need for a bank to service the rural women. Those women who occasionally have extra money to save and don't participate in a "su-su", now resort to giving it to some members of the family, often their mothers, to hold for them. Often the family member then uses this money to satisfy a credit need of her own and thus the money is not readily available at the exact moment it is needed and, of course, has earned no interest.

If rural women were able to secure loans from a bank, it is assumed that most women would use the money to expand their rice farms or vegetable gardens and pay school fees. For the small business women such as restaurant owners, credit would enable them to expand their businesses. Teachers would use their loans primarily for building houses in the rural areas. Presently, most young single teachers in the Bong and Lofa areas

have a room with a family and express an interest in owning their own home. Government salaries are low and the type of financing presently available in the rural areas, i.e. credit to farmers or members of cooperatives, are not applicable to government teachers. With the establishment of an agricultural credit bank, salaried employees could apply for credit through the Limited Power of Attorney (LPA) mechanism open to Government employees, and thereby spread their loan repayments over a certain period of time favorable to them.

ANNEX C

FAO CONSULTANT REPORT

(on file in AFR/DR/CAWARAP)

ANNEX D

ACDB ORGANIZATION CHART

(on file in AFR/DR/CAWARAP)

INITIAL ENVIRONMENTAL EXAMINATION

Project Location: Liberia

Project Title: Agricultural Credit Bank Project

Funding: \$1,550,000

Life of Project: 3 years

IEE Prepared by: Barbara D. Howard, th AFR/DR/CAWARAP,
Projects Officer

Reviewed by: Howard V. Guiot, ^{HV}
Environmental Officer

Date: June 9, 1978

Environmental Action Recommended:

The Project will have no significant effect on the environment; therefore a negative determination is recommended.

Concurrence: Date: 6/9/78

Edward E. Anderson
Acting Mission Director

Assistant Administrator's Decision Date

U.S. ... Edward E. Anderson 6/10/78

Contents of Initial Environmental Examination

Examination of Nature, Scope and Magnitude of Environmental Impacts.

The purpose of the project is to institutionalize short and medium term credit and savings channels for small farmers and the rural agricultural population at reasonable interest rates.

The institution charged with this responsibility is the newly formed Agricultural and Cooperative Development Bank, created at the end of 1976, staffed in 1977 and ready to commence operations in June of this year.

The Bank will initially operate in three counties (Bong, Lofa and Nimba) plus a headquarters office in Monrovia. The Bong County branch will open by June 30; the Lofa County branch will be in operation by the end of 1978; and the Nimba branch should be in operation by late 1980. The Agricultural and Cooperative Development Bank envisions eventually establishing rural branches in a slow, orderly progression in all nine counties of Liberia.

AID inputs to the Project are solely for institution building. Technical assistance, training and commodities (vehicles for advisors and training equipment) will be provided to the Bank in order for the Bank to effectively carry out its role and, as such, will have very little direct impact on the environment.

ACDB inputs to the Project consist of seed capital for lending operations and the associated administrative, personnel and overhead costs to run its operation. No major construction component is to be undertaken during the life of the Project. Direct impact on the environment from the ACDB funding will be nil.

Loans made by the Bank to cooperatives and individual farmers outside the cooperative movement will be primarily for agricultural production and marketing in the form of seasonal or developmental credit. ACDB seed capital inputs will thus have an indirect impact on the environment as small farmers use their credits to increase productivity and cash incomes, the goal to be achieved in the agricultural sector.

One part of the Project is to develop a strategy and methodology of group lending to small farmers outside the cooperative movement building on the existing social, cultural and political setting.

AID funding for the Project is \$1.550 million broken down in the following components:

Technical Assistance	\$1,122.0
Participant Training	190.0
Commodities	45.0
Inflation	94.0
Contingencies	100.0

Recommendation

As the project will have no significant effect on the environment, a negative determination is recommended.

IMPACT IDENTIFICATION AND EVALUATION FORM

Impact Areas and Sub-Areas 1/

Impact Identification
and Evaluation 2/

A. LAND USE

- | | |
|---|-------|
| 1. Changing the character of the land through | |
| a. Increasing the population _____ | N |
| b. Extracting natural resources _____ | N |
| c. Land clearing _____ | L |
| d. Changing soil character _____ | N |
| 2. Altering natural defenses _____ | N |
| 3. Foreclosing important uses _____ | N |
| 4. Jeopardizing man or his works _____ | N |
| 5. Other factors | |
| _____ | _____ |
| _____ | _____ |

B. WATER QUALITY

- | | |
|---|-------|
| 1. Physical state of water _____ | N |
| 2. Chemical and biological states _____ | N |
| 3. Ecological balance _____ | N |
| 4. Other factors | |
| _____ | _____ |
| _____ | _____ |

1/ See Explanatory Notes for this form.

2/ Use the following symbols: N - No environmental impact.
L - Little environmental impact
M - Moderate environmental impact
H - High environmental impact
U - Unknown environmental impact

IMPACT IDENTIFICATION AND EVALUATION FORM

2

C. ATMOSPHERIC

- | | | |
|--------------------------|-------|---|
| 1. Air additives _____ | _____ | N |
| 2. Air pollution _____ | _____ | N |
| 3. Noise pollution _____ | _____ | N |
| 4. Other factors _____ | _____ | |
| _____ | _____ | |
| _____ | _____ | |

D. NATURAL RESOURCES

- | | | |
|--|-------|---|
| 1. Diversion, altered use of water _____ | _____ | N |
| 2. Irreversible, inefficient commitments _____ | _____ | N |
| 3. Other factors _____ | _____ | |
| _____ | _____ | |
| _____ | _____ | |

E. CULTURAL

- | | | |
|--|-------|---|
| 1. Altering physical symbols _____ | _____ | N |
| 2. Dilution of cultural traditions _____ | _____ | L |
| 3. Other factors _____ | _____ | |
| _____ | _____ | |
| _____ | _____ | |

F. SOCIO ECONOMIC

- | | | |
|--|-------|---|
| 1. Changes in economic/employment patterns _____ | _____ | N |
| 2. Changes in population _____ | _____ | N |
| 3. Changes in cultural patterns _____ | _____ | L |
| 4. Other factors _____ | _____ | |
| _____ | _____ | |
| _____ | _____ | |

IMPACT IDENTIFICATION AND EVALUATION FORM

G. HEALTH

- 1. Changing a natural environment _____ N
- 2. Eliminating an ecosystem element _____ N
- 3. Other factors _____

H. GENERAL

- 1. International impacts _____ N
- 2. Controversial impacts _____ N
- 3. Larger program impacts _____ N
- 4. Other factors _____

ANNEX F - 1

DETAILED AID EXPENDITURE BY FISCAL YEAR
(U.S. \$000's)

	<u>Fiscal Year</u>				<u>Total</u>
	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	
<u>Long-Term Technical Assistance</u>					
a. 1 Agricultural Economist (36 pm)	46.8	79.8	82.6	64.5	273.7
b. 1 Rural Ag. Credit Advisor (36 pm)	49.7	77.8	80.5	63.3	271.3
c. 1 Rural Ag. Credit Advisor (24 pm)	49.6	77.8	69.9	-	197.3
d. 1 Accounting Systems and Procedures Advisors (12 pm)	-	99.3	-	-	99.3
e. 1 Manpower Requirements & Training Advisor (12 pm)	-	30.6	68.7	-	99.3
Sub-total	<u>146.1</u>	<u>365.3</u>	<u>301.7</u>	<u>127.8</u>	<u>940.9</u>
<u>Short-Term Consultants</u>					
a. 1 Rural Savings Advisor (6 pm)	-	64.2	32.1	8.1	104.4
b. 1 Rural Sociologist (7 pm)					
c. 2 Evaluators (2 pm)	-	-	-	16.2	16.2
d. 1 - Local consulting and survey fund	5.0	20.0	20.0	15.0	60.0
Sub-total	<u>5.0</u>	<u>84.2</u>	<u>52.1</u>	<u>39.3</u>	<u>180.6</u>

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>Total</u>
3. <u>Participant Training</u>					
U.S. academic long term)					
a. 2 agricultural econo-)					
mists (48 pm))					
b. 1 finance planning)	3.3	45.9	60.8	13.3	123.3
(24 pm))					
c. 1 development banking)					
(24 pm))					
Non-academic - U.S.					
and third country					
a. 9 USDA Small Farmer	-	34.8	27.9	-	62.7
Credit Course (9 pm)					
b. 3 Field exchange	2.0	1.5	-	-	3.5
visits (6 pm)					
Kenya & Ghana					
Sub-total	<u>5.3</u>	<u>82.2</u>	<u>88.7</u>	<u>13.3</u>	<u>189.5</u>
4. <u>Commodities</u>	45.0	-	-	-	45.0
5. <u>Contingencies</u>	26.0	41.0	24.0	9.0	100.0
6. <u>Inflation</u>	-	20.0	47.0	27.0	94.0
Total	<u>227.4</u>	<u>592.7</u>	<u>513.5</u>	<u>216.4</u>	<u>1,550.0</u>

ACDB PROJECT DETAILED COST ESTIMATE - AID
(U.S. \$000's)

<u>Salaries</u>	<u>Project Year</u>			<u>Total</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
1 Agricultural Economist - Team Leader (36 pm)	32.0	32.0	32.0	96.0
1 Rural Ag. Credit Advisor (36 pm)	28.0	28.0	28.0	84.0
1 Rural Ag. Credit Advisor (24 pm)	28.0	28.0	-	56.0
1 Accounting Systems and Procedures Advisor (12 pm)	21.0	7.0	-	28.0
1 Manpower Requirements and Training Advisor (12 pm)	-	28.0	-	28.0
Post Differential (20%)	21.8	24.6	12.0	58.4
Consultants: U.S. (338x\$150)	31.0	16.0	4.0	51.0
Evaluators (52x\$150)	-	-	8.0	8.0
In-Country	20.0	20.0	20.0	60.0
Sub-total	181.8	183.6	104.0	469.4
<u>Benefits and Allowances</u>				
Fringe Benefits (30%)	32.7	36.9	18.0	87.6
Cost of Living	9.8	11.1	5.4	26.3
Temporary Housing	6.7	6.3	3.0	16.0
Furnishings & Appliances	60.0	15.0	-	75.0
Education (4x\$3,100)	12.5	12.5	6.3	31.3
Rent and Utilities	32.0	28.0	17.0	77.0
Storage of household effects	<u>3.8</u>	<u>3.3</u>	<u>2.0</u>	<u>9.1</u>
Sub-total	<u>157.5</u>	<u>113.1</u>	<u>51.7</u>	<u>322.3</u>

DETAILED COST ESTIMATE AND FINANCIAL PLAN
Project Year
 (U.S. \$000's)

<u>Commodities</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>Total</u>
Vehicles - four-wheel drive	40.0	-	-	40.0
<u>Equipment and Supplies</u>				
2 slide projectors & cameras	1.0	-	-	1.0
2 opaque projectors	1.0	-	-	1.0
2 blackboards	.1	-	-	.1
Training materials & library research funds	2.5	-	-	2.5
Miscellaneous equipment & supplies	<u>.4</u>	<u>-</u>	<u>-</u>	<u>.4</u>
Sub-total	<u>45.0</u>	<u>-</u>	<u>-</u>	<u>45.0</u>
<u>Travel & Transportation</u>				
Travel to/from post	12.0	6.0	10.0	28.0
Personal & household effects	19.3	14.4	14.5	48.2
Car (3)	5.0	-	5.0	10.0
Rest and Recuperation	12.0	-	-	12.0
Home Leave	-	20.0	-	20.0
Consultant Travel & per diem	14.4	9.2	7.9	31.5
In-country travel	<u>1.6</u>	<u>2.0</u>	<u>1.0</u>	<u>4.6</u>
Sub-total	<u>64.3</u>	<u>51.6</u>	<u>38.4</u>	<u>154.3</u>
<u>Training</u>				
Long Term	19.8	54.0	49.5	123.3
Short Term	18.9	21.2	22.6	62.7
Informal	<u>2.0</u>	<u>1.5</u>	<u>-</u>	<u>3.5</u>
Sub-total	<u>40.7</u>	<u>76.7</u>	<u>72.1</u>	<u>189.5</u>
<u>Overhead</u> (50% of salaries)	70.0	69.5	36.0	175.5
<u>Contingencies</u> (8%)	45.0	39.0	16.0	100.0
<u>Inflation</u> (8%)	<u>-</u>	<u>39.0</u>	<u>55.0</u>	<u>94.0</u>
Total	<u>604.3</u>	<u>572.5</u>	<u>373.2</u>	<u>1,550.0</u>

ANNEX G

SCOPES OF WORK - TECHNICAL ADVISORS

I. Agricultural Economist

A. Scope of Work

1. Consults and advises with officials of the Ministry of Agriculture, representatives of other interested agencies and institutions, as well as AID technicians and Contract Employees relative to existing and proposed agricultural credit operations and requirements in Liberia.
2. Is responsible for macro economic analyses for agricultural sector and preparation of overall Development Plan for the Bank.
3. Is responsible for micro project analyses to suggest and recommend outlines to develop MINIMUM resources guides, farm input cost schedules, work organization techniques/calendaring its related planning requirements and guides.
4. Assist ACDB and other technicians in developing a system of decentralization of authority, providing appropriate delegation and redelegation including methods and systems on a continuing basis to post review loans, and assess the capability and effectiveness of this phase of operations.
5. Keeps currently and thoroughly informed of agricultural trends and developments in Liberia and the problems and needs of farmers.
6. Provides on-the-job training to loan analysts in micro project analysis and to ag. economists in macro economic analysis and planning.
7. Inspects both individual and group training activities and advises appropriate personnel on training needs and methods.
8. Reviews and analyzes program operations to determine trends, detect weaknesses, etc., and provides for the preparation of special instructions to correct existing deficiencies.
9. Prepares comprehensive reports, outlining findings, recommendations, current accomplishments, and projected course of action for application in the immediate future.
10. As appropriate, consults with the principal AID Officer and/or AID Project Manager and discusses such matters

in detail to insure that operations are at all times properly geared to and coordinated with overall mission objectives.

11. The incumbent will also serve as Team Leader and will provide direction and supervision to the Bank Branch Advisors and appropriate assistance to TDY personnel.

12. Incumbent will serve as a counterpart to a Senior Officer of the Bank to be selected by the Managing Director.

B. Qualifications

1. Good basic educational background in agriculture with at least a B.S. Degree, but preferably an M.A. degree in Agriculture, Agricultural Economics or related Sciences with studies in Economics.

2. Five years experience in Agricultural Loan Programs, preferably in a developing country, including Capital Medium, Short Term Credit Programs and in Supervised Credit.

3. Ability to initiate and organize programs and work under pressure.

4. Mature judgment and possess the ability to work with foreign nationals, third country representatives, U. S. technicians and USAID staff members.

5. Willingness to travel in country as necessary.

II. Rural Agricultural Credit Advisor

A. Scope of Work

1. Within broadly defined objectives and established policies, serves as an expert consultant to assist and advise the Agricultural Cooperative Development Bank's (ACDB) branch manager on the full range of loan, supervision, collection accounting procedures and documentation within the policies and procedural sphere of the headquarters office.

2. Reviews and analyzes program operations to determine trends, detect weaknesses, and provides for the preparation of special reports recommending corrections and revisions as appropriate.

3. Accompanies the branch bank manager and his field credit officers on periodic and special field trips to borrower's property, to investigate applicants, to inspect and ascertain progress of planned farming operations; farmer organizations, project loans, cottage loans and others.

4. Provides continuing technical advisory assistance to the personnel of the branch bank on an on-the-job training basis.

5. Is responsible for working with the Rural Savings Advisor on the establishment of a workable system to mobilize savings and earnings in the area.

6. Actively assists the branch bank manager to maintain cooperative working relationships with representatives of other national and local agencies, rural community leaders including town chiefs, paramount chiefs, etc.

B. Qualifications

1. Good basic educational and experience background in agriculture with at least B.S. Degree.

2. Five years agriculture credit experience, preferably in a developing country on national programs of supervised credit for small cooperatives and small low income farmers.

3. Ability to train bank officers on an on-the-job basis.

4. Mature judgment, cultural empathy and ability to work with foreign nationals, expatriates including USAID staff members.

5. Willing to reside in a county town and travel extensively in the area.

III. Agricultural Manpower and Training Expert

A. Scope of Work

1. Assist in developing personnel requirements based on overall medium term bank development strategy working in conjunction with the team leader and Bank Management.

2. Develop a curriculum for a training program for the Agricultural Cooperative Development Bank which will facilitate the training of senior officers, junior officers and supporting staff, field staff positions and other positions provided in the Bank program. The curriculum will include principally on-the-job short courses, orientation and indoctrination of management and staff of the field units. It will also include training programs for staff to enable them to, in turn, instruct farmers and their organizations in the utilization of credit and the obligation and responsibility of borrowers to repay loans made to them.

3. Design an effective on-the-job training program.
4. Make recommendations regarding the following:
 - (a) Curriculum as to agricultural credit in such institutions as the University of Liberia and the RDI;
 - (b) The timing of courses, when the training programs should be revised and the timing and design of subsequent rounds of the program;
 - (c) Appropriate training aids and materials; and
 - (d) Criteria for the selection of participants.
5. Coordinate the overall training program with the Ministry of Agriculture's Cooperative Section, the Farmers Credit Union and the Commercial Banks.

Explore the availability of securing instructors from the above agencies and banks.

6. Acquaint the ACDB training and manpower specialist in "How People Learn", to demonstrate and provide practices to the trainers in a variety of proven training methods such as case studies demonstrations, simulations-exercises, role playing, gaming and usual aids, to provide opportunity to each trainer to practice teach, utilizing the best methodology.

B. Qualifications

1. Good basic educational and experience background in agriculture with at least B.S. Degree.
2. Five years agriculture credit experience, preferably in a developing country on national programs of supervised credit for small cooperatives and small low income farmers.
3. Ability to train bank officers on an on-the-job basis.
4. Mature judgment, cultural empathy and ability to work with foreign nationals, expatriates including USAID staff members.
5. Willing to reside in a county town and travel extensively in the area.

IV. Rural Savings Advisor

A. Scope of Work

1. To review the current savings system, minimum balance requirements, withdrawal provisions, interest rates, etc., and to make recommendations for revision or alterations as appropriate.

2. Working in close collaboration with the rural sociologist develop socio-economic survey to ascertain whether savings capacity exist, the investment alternatives, the familiarity of residents with normal bank savings policies and interest rates and their apparent willingness to participate or determine their reasons for non-participation.

3. Develop appropriate methodologies to attract rural savings such as mobile or field savings operations at the market places and LPMC produce buying agencies (Cooperatives and other licensed buying agents), door-to-door visits soliciting deposits, a special effort to get savings started among school children, consider a life insurance feature with beneficiaries receiving some multiple of the savings of the insured upon his death and similar proposals as appear appropriate.

4. A sustained ACDB public relations effort directed to the importance and advantages of savings.

5. Examine the availability of insured deposit provisions.

6. Review the advisability of utilized forced savings system among borrowers.

7. Consider merit or bonus awards to ACDB personnel who effect the largest savings record.

B. Qualifications

1. Good basic educational background and experience in agriculture with at least a B.S. degree.

2. Five years agricultural credit experience preferably in a developing country at a bank specializing in small farmer credit.

3. Mature judgment, cultural empathy and ability to work with foreign nationals and expatriates.

4. Willing to undertake travel to remote areas of the country.

V. Accounting Systems and Procedures Advisor

A. Scope of Work

1. Review Bank's internal accounting, auditing and control systems at headquarters and branches.
2. Formulate and implement recommendations for revisions in above systems.
3. Develop appropriate management accounting reports.
4. Advise chief accountant and internal auditor on day-to-day operations.
5. Provide on-the-job training to accounting and auditing staffs.

B. Qualifications

1. B.S. Degree in Accounting.
2. CPA.
3. At least five years experience in bank accounting or auditing, including branch bank operations.
4. Although not necessary, experience in a developing country would be appropriate.

VI. Rural Sociologist

A. Scope of Work

1. Define attitudinal, cultural and behavioral constraints to participation in the Bank's credit and savings program.
2. Conduct and interpret socio-economic survey of Bank customers/non-customers.
3. In close collaboration with the Rural Savings Advisors, devise techniques of effective communication which will encourage savings among farm families and improve understanding of the full implications of credit. Especially he should devise ways to increase the farmer's comprehension of the long-term economic benefits of the use of credit for increased production.
4. Provide practical sociological inputs to the in-house training of ACDB personnel and work closely with the Training Division/IBRD in Lofa and Bong Counties, UL/AETC and Cuttington/RDI toward strengthening the curriculum of these institutions as it relates to credit and savings within the context of rural Liberia.

B. Qualifications

1. A minimum of 4 years experience in developing countries, preferably related to agricultural development.

2. Ability to select, train, and supervise field enumerators and develop a methodology, sampling techniques and questionnaires which will assess both the effectiveness of and receptivity by farmers to the ACDB's rural banking services.

3. Availability at three different times during the life of project: months four to seven; months sixteen and seventeen and month thirty.

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
 From FY 79 to FY 82
 Total U.S. Funding 1.5
 Date Prepared: 6/9/78

Master Log Frame
 Project title AGRICULTURAL COOPERATIVE DEVELOPMENT BANK

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Program or Sector goal. Increasing agricultural productivity and economic benefits for rural households engaged in small scale agricultural production.</p>	<p>Measures of goal achievement</p> <ol style="list-style-type: none"> 1. Increased per capital agricultural output (value added concept) for rural households engaged in farming. 2. Increase in amount of rural household output entering the commercial sector. 	<ol style="list-style-type: none"> 1. Statistical reports for benchmark and succeeding years on production, inputs, net incomes, and living levels - MOA, MPFA, and other GOL agencies. 2. Various surveys and analysis of the Liberian Economy. 	<ol style="list-style-type: none"> 1. GOL continuing support of programs and policies for raising level of living of rural households engaged in agriculture. 2. Rural household access to knowledge or improved technology. 3. Increase in access to complementary inputs such as improved planting materials fertilizer, and credit. 4. Concurrent improvement in marketing facilities, including means of access. 5. Relatively elastic demand for added output.
<p>Project Purpose Institutionalize rural credit and savings channels for farmers, and the rural agricultural economy at reasonable interest rates.</p>	<p>A viable, well structured institution, trained staff, accessible loan windows in counties.</p>	<p>Professional evaluation field observation</p>	<p>GOL and ACDB will emphasize lending for economically viable projects, decentralization of operations, prompt collection of loans, and efficiency of operations.</p>
<p>An associated purpose is to increase food and industrial crop production and net farmer income. To mobilize earnings and savings to be rechanneled to the rural sector through the ACDB lending program.</p>	<ol style="list-style-type: none"> 1. Increased net farm income of borrower families. 2. Adopted technology, increased production. 	<p>A. Performance of borrowers</p> <ol style="list-style-type: none"> 1. Apparent use of credit 2. Effects on: <ol style="list-style-type: none"> a. Production, farm income b. Technology c. Savings d. Employment 	<p>ACDB policy and operations will emphasize food crop loans and credit to small farmers, via direct loans, informal groups or through their farmers organizations.</p>

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY 79 to FY 82
Total U.S. Funding 1.5
Date Prepared: 6/9/78

Master Log Frame
Project Title AGRICULTURAL COOPERATIVE DEVELOPMENT BANK

OUTPUTS	MAGNITUDE OF OUTPUTS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>1. Bank development plan</p> <p>2. Credit policies and procedures applicable to small farmers and cooperatives developmental and operational</p>	<p>Magnitude of outputs are estimates at this time and will be refined upon preparation of the development plan.</p> <p>1. The development plan must address the following:</p> <ul style="list-style-type: none"> a. Borrowing clientele, effective credit demand and strategy to service small farmers outside the cooperative movement; b. Loan sizes and terms including rate structures; c. Relationships with MOA extension and cooperative divisions; d. Capitalization e. Financial projections f. Decentralization, and g. Staffing requirements. <p>2. Particular attention to simplified procedure for loan making, approval, collection, loans to small farmers and to farmers organizations.</p>	<p>Professional Evaluation</p> <p>Professional evaluation Field observations</p>	<p>The ACDB Board of Directors will recommend approval within the context of the Bank's charter and by-laws.</p> <p>Sufficient qualified Liberians can be recruited for assignment and training to the ACDB system.</p>

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY 79 to FY 82
Total U.S. Funding 1.5
Date Prepared: 6/9/78

Master Log Frame

Project Title AGRICULTURAL COOPERATIVE DEVELOPMENT BANK

OUTPUTS	MAGNITUDE OF OUTPUTS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
3. Manpower requirements in accordance with development plan	Increase professional staff from 14 to 34. An established on the job training program coupled with field and classroom type training programs. ACDB management to select personnel for appropriate U.S., 3rd country, and in country training.	ACDB personnel records	Training facilities in country, U.S., and 3rd country will be utilized.
4. In house training plan developed and in operation.	Increase professional staff from 14 to 34. An established on the job training program coupled with field and classroom type training programs. ACDB management to select personnel for appropriate U.S., 3rd country, and in country training.	ACDB personnel records	Training facilities in country, U.S., and 3rd country will be utilized.
5. Increase in staff trained in agricultural lending	Increase professional staff from 14 to 34. An established on the job training program coupled with field and classroom type training programs. ACDB management to select personnel for appropriate U.S., 3rd country, and in country training.	ACDB training records and professional evaluation	Training facilities in country, U.S., and 3rd country will be utilized.
6. Bank internal accounting, auditing and control systems and procedures firmly established and operating.	A standard system to be utilized on a uniform basis throughout the system.	Financial records Professional examination and appraisal.	Technical assistance will be provided as planned.
7. Rural savings strategy established and operating.	\$500,000 by end of project.	ACDB records	GOL assist particularly in guaranteeing savings deposits.
8. Branches opened.	3 at end of project	ACDB records.	An agreement to acquire the LBDI Branch in Lofa County can be negotiated.
9. Loans being made in accordance with development plans and credit policies.	6 U.S. million in loans with 70% of loans to small farmers and cooperatives as final user rate at 10% to 12% interest rates.	Field and Bank examination by professional personnel	Bank operation to remain autonomous and not be influenced by political or other pressure groups.

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY 79 to FY 82
Total U.S. Funding 1.5
Date Prepared: 6/9/78

Master Log Frame
Project Title AGRICULTURAL COOPERATIVE DEVELOPMENT BANK

OUTPUTS	MAGNITUDE OF OUTPUTS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
10. Default rates reasonable	4% default rate	ACDB records	That a planned vigorous collection effort will be instituted.
11. Socio-economic surveys of bank customers/non customers.	400 interviews 3 separate surveys over life of project.	Survey records.	Funds and personnel will be available to perform survey.

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY 79 to FY 82
Total U.S. Funding 1.5
Date Prepared: 6/9/78

Master Log Frame

Project Title AGRICULTURAL COOPERATIVE DEVELOPMENT BANK

INPUTS	MAGNITUDE OF INPUTS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS																														
<p style="text-align: center;">Inputs <u>United States</u></p> <p>a. Personnel</p> <p>U.S. technical assistance</p> <p>(1) Agr. Economic advisor</p> <p>(2) Rural Agr. credit advisors</p> <p>(3) Bank Accounting systems and procedure advisor</p> <p>(4) Staffing requirements and training advisor.</p> <p>(5) Rural savings advisor</p> <p>(6) Rural sociologist</p> <p>(7) Special project analysis consulting fund 3 evaluators (including return of rural sociologist)</p> <p>b. Commodities</p> <p>Vehicles</p> <p>Training Equipment and aids</p> <p>c. Training</p> <p>Long-term academic (4)</p> <p>Short-term non-academic</p> <p>On job training</p> <p>Seminars and field visits</p>	<p>Implementation Target (type and quantity) (U.S. \$000's)</p> <p style="text-align: center;">Quantity</p> <table border="0"> <tr> <td>36 pm</td> <td>273.7</td> </tr> <tr> <td>60 pm</td> <td>468.6</td> </tr> <tr> <td>12 pm</td> <td>99.3</td> </tr> <tr> <td>12 pm</td> <td>99.3</td> </tr> <tr> <td>6 pm</td> <td>48.1</td> </tr> <tr> <td>6 pm</td> <td>48.2</td> </tr> <tr> <td></td> <td>60.0</td> </tr> <tr> <td></td> <td>40.0</td> </tr> <tr> <td></td> <td>5.0</td> </tr> <tr> <td>96 pm</td> <td>123.3</td> </tr> <tr> <td>9 pm</td> <td>62.7</td> </tr> <tr> <td>6 pw</td> <td>3.5</td> </tr> <tr> <td>Contingencies</td> <td>100.0</td> </tr> <tr> <td>Inflation</td> <td>94.0</td> </tr> <tr> <td>Total</td> <td>1,550.0</td> </tr> </table> <p style="text-align: center;">*****</p>	36 pm	273.7	60 pm	468.6	12 pm	99.3	12 pm	99.3	6 pm	48.1	6 pm	48.2		60.0		40.0		5.0	96 pm	123.3	9 pm	62.7	6 pw	3.5	Contingencies	100.0	Inflation	94.0	Total	1,550.0	<p>1. AID project agreement, project evaluations, ACDB records.</p> <p>USAID Project records</p>	<p>1. Timely recruitment of personnel by USAID.</p> <p>Procurement of commodities by USAID.</p> <p>Personnel made available for training by ACDB.</p>
36 pm	273.7																																
60 pm	468.6																																
12 pm	99.3																																
12 pm	99.3																																
6 pm	48.1																																
6 pm	48.2																																
	60.0																																
	40.0																																
	5.0																																
96 pm	123.3																																
9 pm	62.7																																
6 pw	3.5																																
Contingencies	100.0																																
Inflation	94.0																																
Total	1,550.0																																

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY 79 to FY 82
Total U.S. Funding 1.5
Date Prepared: 6/9/78

Master Log Frame
Project Title AGRICULTURAL COOPERATIVE DEVELOPMENT BANK

INPUTS	MAGNITUDE OF INPUTS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p><u>World Bank (IBRD)</u></p> <p>Operations advisor Agricultural credit specialist Physical facilities</p>	<p>48 pm 272.0</p> <p>- <u>150.0</u></p> <p> 422.0</p> <p> *****</p>	<p>AID Project and ACDB records.</p>	<p>Timely recruitment of professional personnel funded by (IBRD)</p>
<p><u>GOL/ACDB</u></p> <p>ACDB - personnel and support ACDB loan funds ACDB operating costs Physical facilities</p>	<p>Total of GOL budget support to ACDB in the form of additional capitalization and/or operating subsidies to reach \$6.0 million by the end of project.</p>	<p>ACDB and GOL records</p>	<p>GOL will provide loan fund capital and funds to subsidize cost of Bank operations during the project period.</p>

ANNEX I

PROJECT CHECKLIST

Listed below are, first, statutory criteria applicable generally to projects with FAA funds, and then project criteria applicable to individual fund sources: Development Assistance (with a sub-category for criteria applicable only to loans); and Security Supporting Assistance funds.

A. GENERAL CRITERIA FOR PROJECT.

1. App. Unnumbered; FAA Sec. 653(B)

(a) Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the project;
(b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than \$1 million over that figure plus 10%)?

Congressional Notification will be sent.

Yes

2. FAA Sec. 611(a)(1). Prior to obligation in excess of \$100,000, will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U. S. of the assistance?

Yes

Yes

3. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

The "Act to amend the New Executive Law to create an Agricultural and Cooperative Development Bank", is the legal basis and charter of the Bank. This legislation became effective 12/23/76.

4. FAA Sec. 611(b); App. Sec. 101. If for water or water-related land resource construction, has project met the standards and criteria as per Memorandum of the President dated Sept. 5, 1973 (replaces Memorandum of May 15, 1962; see Fed. Register, Vol 38, No. 174, Part III, Sept. 10, 1973)?

N.A.

5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U. S. assistance for it will exceed \$1 million, has Mission Director certified the country's capability effectively to maintain and utilize the project? Yes
6. FAA Sec. 209, 619. Is project susceptible of execution as part of regional or multi-lateral project? If so why is project not so executed? Information and conclusion whether assistance will encourage regional development programs. If assistance is for newly independent country, is it furnished through multi-lateral organizations or plans to the maximum extent appropriate? No
7. FAA Sec. 601 (a); (and Sec. 201 (f) for development loans). Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.
- This project will encourage the further development and use of cooperatives and credit unions as these are the principal clientele of the bank. The project will thus discourage monopolistic lending practices by men lenders by making credit available for short and medium term loans at reasonable interest rates. The project will also improve the technical efficiency of ag. by providing credit to purchase modern inputs.
8. FAA Sec. 601(b). Information and conclusion on how project will encourage U. S. private trade and investment abroad and encourage private U. S. participation in foreign assistance programs (including use of private trade channels and the services of U. S. private enterprise).
- The project will provide U.S. technical assistance and some commodities. All of these inputs except for \$60,000 will be obtained in the U.S.
9. FAA Sec. 612(b); Sec. 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U. S. are utilized to meet the cost of contractual and other services.
- GOL contributions to this project will be assured through normal budget allocations, and a special covenant. The GOL will provide 64% of the project costs.

10. FAA Sec. 612(d). Does the U. S. own excess foreign currency and, if so, what arrangements have been made for its release?

No

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FAA Sec. 102(c); Sec. 111; Sec. 281a. Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production, spreading investment out from cities to small towns and rural areas; and (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions?

This project is specifically designed to involve the rural poor by providing the means for small farmers to seek and receive credit. Credit will enable small farmers to increase their production thereby increasing their incomes.

This project will assist cooperative development by making credit available to cooperatives which in turn will assist small farmers who are members of the cooperatives.

b. FAA Sec. 103, 103A, 104, 105, 106, 107. Is assistance being made available: (include only applicable paragraph -- e.g., a, b, etc.-- which corresponds to source of funds used. If more than one fund source is used for project, include relevant paragraph for each fund source.)

(1) (103) for agriculture, rural development or nutrition; if so, extent to which activity is specifically designed to increase productivity and income of rural poor; (103A) if for agricultural research, is full account taken of needs of small farmers;

Project is designed to specifically increase productivity & income of the rural poor by making credit available to the individual small farmer as well as those small farmers who are members of cooperatives.

(2) (104) for population planning or health; if so, extent to which activity extends low-cost, integrated delivery systems to provide health and family planning services, especially to rural areas and poor;

N.A.

- (3) (105) for education, public administration, or human resources development; if so, extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens management capability of institutions enabling the poor to participate in development; N.A.
- (4) (106) for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is: N.A.
- (a) technical cooperation and development, especially with U. S. private and voluntary, or regional and international development, organizations; N.A.
- (b) to help alleviate energy problem; N.A.
- (c) research into, and evaluation of, economic development processes and techniques; N.A.
- (d) reconstruction after natural or manmade disaster; N.A.
- (e) for special development problem, and to enable proper utilization of earlier U. S. infrastructure, etc., assistance; N.A.
- (f) for programs of urban development, especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development. N.A.

(5) (107) by grants for coordinated private effort to develop and disseminate intermediate technologies appropriate for developing countries.

N.A.

c. FAA Sec. 110(a); Sec. 208(a). Is the recipient country willing to contribute funds to the project, and in what manner has or will it provide assurances that it will provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or has the latter cost-sharing requirement been waived for a "relatively least-developed" country)?

Yes. Host country share defined within project agreement: Minimum 25% contribution.

d. FAA Sec. 110(b). Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing?

No

e. FAA Sec. 207; Sec. 113. Extent to which assistance reflects appropriate emphasis on; (1) encouraging development of democratic, economic, political, and social institutions; (2) self-help in meeting the country's food needs; (3) improving availability of trained worker-power in the country; (4) programs designed to meet the country's health needs; (5) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and Voluntary Agencies; transportation and communication; planning and public administration; urban development, and modernization of existing laws; or (6) integrating women into the recipient country's national economy.

Project will encourage small farmers to participate as a group in seeking credit. This participation will mainly be in the form of cooperatives of which women are an integral part of the membership.

f. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

Project based on GOL policy of development of the rural sector. The project will assist this development by making credit available to small farmers individually or through cooperatives. Present bank staff is capable but lacks rural credit expertise. The role of the ACDB is addressed in the Project Paper.

g. FAA Sec. 201(b)(2)-(4) and -(8); Sec. 201(e); Sec. 211(a)(1) - (3) and -(8). Does the activity give reasonable promise of contributing to the development: of economic resources, or to the increase of productive capacities and self-sustaining economic growth; or of educational or other institutions directed toward social progress? Is it related to and consistent with other development activities, and will it contribute to realizable long-range objectives? And does project paper provide information and conclusion on an activity's economic and technical soundness?

Yes. Credit to traditional farming sector has been determined as one of the principal constraints to adoption of modern input package. Bank will fill their existing need.

h. FAA Sec. 201(b)(6); Sec. 211(a)(5), (6). Information and conclusion on possible effects of the assistance on U. S. economy, with special reference to areas of substantial labor surplus, and extent to which U. S. commodities and assistance are furnished in a manner consistent with improving or safeguarding the U. S. balance-of payments position.

No adverse effect on U.S. economy. All commodities and technical assistance will be furnished from the U.S.

2. Development Assistance Project Criteria
(Loans only)

a. FAA Sec. 201(b)(1). Information and conclusion on availability of financing from other free-world sources, including private sources within U. S.

N.A.

- b. FAA Sec. 201(b)(2); 201(d). Information and conclusion on (1) capacity of the country to repay the loan, including reasonableness of repayment prospects, and (2) reasonableness and legality (under laws of country and U. S.) of lending and relending terms of the loan. N.A.
- c. FAA Sec. 201(e). If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds \$100,000, has country submitted to AID an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner? N.A.
- d. FAA Sec. 201(f). Does project paper describe how project will promote the country's economic development taking into account the country's human and material resources requirements and relationship between ultimate objectives of the project and overall economic development? N.A.
- e. FAA Sec. 202(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources? N.A.
- f. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete in the U. S. with U. S. enterprise, is there an agreement by the recipient country to prevent export to the U. S. of more than 20% of the enterprise's annual production during the life of the loan? N.A.

3. Project Criteria Solely for Security Supporting Assistance

FAA Sec. 531. How will this assistance support promote economic or political stability?

N.A.

4. Additional Criteria for Alliance for Progress

(Note: Alliance for Progress projects should add the following two items to a project checklist.)

a. FAA Sec. 251(b)(1),-(8). Does assistance take into account principles of the Act of Bogota and the Charter of Punta del Este; and to what extent will the activity contribute to the economic or political integration of Latin America?

N.A.

b. FAA Sec. 251(b)(8); 251(h). For loans, has there been taken into account the effort made by recipient nation to repatriate capital invested in other countries by their own citizens? Is loan consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress (now "CEPCIES," the Permanent Executive Committee of the OAS) in its annual review of national development activities?

N.A.

LIBERIA - COUNTRY CHECKLIST

Listed below are, first, statutory criteria applicable generally to FAA funds, and then criteria applicable to individual fund sources: Development Assistance and Security Supporting Assistance funds.

A. GENERAL CRITERIA FOR COUNTRY

1. FAA Sec. 116. Can it be demonstrated that contemplated assistance will directly benefit the needy? If not, has the Department of State determined that this government has engaged in consistent pattern of gross violations of internationally recognized human rights?
The project aims at helping the needy by strengthening the major institutional structure dealing with that sector of the economy (agriculture) where one finds the majority of the needy.
2. FAA Sec. 481. Has it been determined that the government of recipient country has failed to take adequate steps to prevent narcotics drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?
No.
3. FAA Sec. 620(a). Does recipient country furnish assistance to Cuba or fail to take appropriate steps to prevent ships or aircraft under its flag from carrying cargoes to or from Cuba?
No. Ships or aircraft under Liberian flag do not carry cargo to or from Cuba.

BEST AVAILABLE DOCUMENT

4. FAA Sec. 620(b). If assistance is to a government, has the Secretary of State determined that it is not controlled by the International Communist movement? Yes.

5. FAA Sec. 620(c). If assistance is to government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government? No such case in host country.

6. FAA Sec. 620(e) (1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? No such case in host country.

7. FAA Sec. 620(f). App. Sec. 100. Is recipient country a Communist country? Will assistance be provided to the Democratic Republic of Vietnam (North Vietnam), South Vietnam, Cambodia or Laos? No.

8. FAA Sec. 620(i). Is recipient country in any way involved in (a) subversion of, or military aggression against the United States or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression? No.

9. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent the damage or destruction by mob action, of U.S. property? No.
10. FAA Sec. 620(l). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, inconvertibility or confiscation, has the AID Administrator within the past year considered denying assistance to such government for this reason? Liberia has an Investment Guaranty Agreement with the U.S.
11. FAA Sec. 620(o); Fishermen's Protective Act, Sec. 5. If country has seized, or imposed any penalty or sanction against any U.S. fishing activities in international waters. No
- a. has any deduction required by Fishermen's Protective Act been made? No.
- b. has complete denial of assistance been considered by AID Administrator? No
12. FAA Sec. 620(g); App. Sec. 504. (a) No. (b) No.
(a) Is the government of the recipient country in default on interests or principal of any AID loan to the country? (b) Is country in default exceeding one year on interest or principal on U.S. loan under program for which App. Act appropriates funds, unless debt was earlier disputed, or appropriate steps taken to cure default?

13. FAA Sec. 620(s). What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? How much spent for the purchase of sophisticated weapons systems? (Consideration of these points is to be coordinated with the Bureau for Program and Policy Coordination, Regional Coordinators and Military Assistance Staff (PPC/RC). 3.7% of budget is for military expenditures. The U.S. dollar is legal tender in Liberia so all military expenditures can be considered both domestic resources and foreign exchange. Liberia is not a purchaser of sophisticated weapons.
14. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption? No.
15. FAA Sec. 620 (u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget? Liberia is not in arrears in U.N. obligations.
16. FAA Sec. 620A. Has the country granted sanctuary from prosecution to any individual or group which has committed an act of international terrorism? No case to date.
17. FAA Sec. 666. Does the country object on basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. there to carry out economic development program under FAA? No case to date.
18. FAA Sec. 669. Has the country delivered or received nuclear reprocessing or enrichment equipment, materials or technology without specified arrangements on safeguards, etc.? No.

19. FAA Sec. 901. Has the country denied its citizens the right or opportunity to emigrate? No.

B. FUNDING CRITERIA FOR COUNTRY

1. Development Assistance Country Criteria

- a. FAA Sec. 102(c), (d). Have criteria been established, and taken into account, to assess commitment and progress of country in effectively involving the poor in development, on such indexes as: (1) small-farm labor intensive agriculture, (2) reduced infant mortality, (3) population growth, (4) equality of income distribution, and (5) unemployment. Yes, Liberia's Four Year Development Plan focuses on agriculture, health and education delivery to the poor.
- b. FAA Sec. 201(b)(5), (7) & (8); Sec. 20E; 211(a)(4), (7). Describe extent to which country is:
- (1) Making appropriate efforts to increase production and improve means for food storage and distribution. The GOL is seeking self-sufficiency in rice production.
- (2) Creating a favorable climate for foreign and domestic private enterprise and investment. The GOL provides a favorable climate for both foreign and national enterprise and investment through their "open door" policy.
- (3) Increasing the public's role in the development process. The GOL promotes self-help as well as government development projects.
- (4)a. Allocating available budgetary resources to development. Twenty-five percent of GOL budget is for development projects.

- (b) Diverting such resources for unnecessary military expenditure and intervention in affairs of other free and independent nations. No.
- (5) Making economic, social and political reforms such as tax collection improvements and changes in land tenure arrangements, and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise. The GOL has become increasingly aware of the need for efficient tax collection, eradication of corruption and social development. There is freedom of press and encouragement of private enterprise reflecting Liberia's doctrine of "humanitarian capitalism".
- (6) Otherwise responding to the vital economic, political and social concerns of its people, and demonstrating a clear determination to take effective self-help measures. The GOL's "total involvement" policy calls for the association of all citizens with the national development process.
- c. FAA Sec. 201(b), 211(a). Is the country among the 20 countries in which development assistance loans may be made in this fiscal year, or among the 40 in which development assistance grants (other than for self-help projects) may be made. Yes.
- d. FAA Sec. 115. Will country be furnished, in same fiscal year, either security supporting assistance, or Middle East Peace funds? If so, is assistance for population programs, humanitarian aid through international organizations, or regional programs? No such assistance is contemplated.
2. Security Supporting Assistance Country Criteria
- a. FAA Sec. 502B. Has the country engaged in a consistent pattern of gross violations of internationally recognized human rights? Is program in accordance with policy of this section? No security assistance requested by/for Liberia.

- b. FAA Sec. 531. Is the assistance to be furnished to a friendly country, organization, or body eligible to receive assistance?

- c. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

Annex J

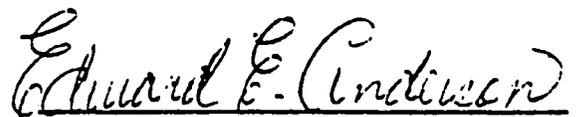
LIBERIA: AGRICULTURAL CREDIT BANK PROJECT (669-0145)

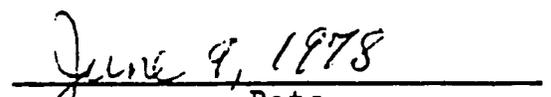
I, Edward E. Anderson, Acting Director of the USAID Mission to Liberia, do hereby certify that in my judgment the Republic of Liberia will have the financial and human resources capability to implement, maintain, and utilize effectively the subject grant technical assistance and training project. This certification takes into consideration the requirements placed on the Republic of Liberia to maintain and utilize other projects previously financed or assisted by the United States.

This judgment is based on the fact, inter alia, that:

1. The Government of Liberia has given high priority to the development of the rural agricultural sector and the institutionalization of rural credit and savings channels for farmers and the rural economy at reasonable rates.

2. It has utilized successfully, capital assistance provided under other AID projects and has given assistances of improved performance in maintaining these projects.


Edward E. Anderson


Date

AGRICULTURAL AND COOPERATIVE DEVELOPMENT BANK

P. O. BOX 1525
MONROVIA, LIBERIA

CABLE: FARMBANK
MONROVIA
TEL. 22240

ACDB/MD-009-6/78

June 9, 1978

Mr. Harvey E. Gutman
Acting Director
USAID Mission to Liberia
P. O. Box 1445
Monrovia, Liberia

Mr. Director:

On behalf of the Agricultural and Cooperative Development Bank, I have the honor to forward to you the following request for technical assistance and training.

As you are aware, the Bank has the following purposes as contained in its Charter:

1. Grant short, medium and long-term loans to individual farmers and cooperatives and the development of agricultural and rural industries;
2. Accept savings and demand deposits;
3. Borrow money;
4. Sell bonds and debentures, and
5. Provide banking facilities for the rural agricultural economy, particularly credit to the small farmers and cooperatives.

In order to assist us in the achievement of our stated purposes and to strengthen our operational capability, technical assistance is urgently needed in macro and micro economic analyses, policy and financial planning, credit and rural savings policies, accounting systems and procedures and farmer credit analysis and delivery. To accomplish this, we need experts on a long-term basis who are experienced in the following fields: agricultural economics, accounting, agricultural rural credit and training. In addition, short-term technical assistance in rural savings and rural sociology is also needed.

Appropriate academic and non-academic training is also requested for Bank personnel in the above areas.

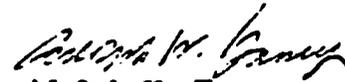
Mr. Harvey E. Gattman
Page two

June 9, 1978

With the provision of this requested technical assistance and training, the Agricultural and Cooperative Development Bank will be able to carry out effectively its charter.

USAID's favorable approval of the Bank's request will be highly appreciated.

Very truly yours,



Adolph W. Yancy
MANAGING DIRECTOR

* Request for assistance from the President of Liberia is contained in "Briefing Notes and Proposals from the President of Liberia to the President of the U.S.", dated April 3, 1978.

ANNEX L

DRAFT PROJECT AUTHORIZATION

(to be submitted later)

ANNEX M

 PID APPROVAL MESSAGE/STATE 079303

(on file in AFR/DR/CAWARAP)