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Agricultural Credit in Afghanistan:
A Review of Progress and Problems
from 1954 until 1972

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Table of Contents

	Page
Acknowledgements	i
List of Equivalents	ii
Summary	iii
INTRODUCTION	1
PROGRAM CHARACTERISTICS	2
Historical Summary	2
Relation to the National Credit System	6
Agricultural Patterns and Potentials	7
General Objectives	8
Terms of Loans	8
Organization of the Bank	9
Beneficiaries	9
Other Sources of Credit	
Profile of the Farm Community	12
Lending Practices and Policies	14
Interest Rates	15

	Page
Collateral	15
Appraisal Steps	16
Collection	16
Cost and Finance	17
Complementary Factors and the Nature of the Technology	18
General Marketing Conditions	19
Supplies and Sales	20
EVALUATION	22
Performance	22
Program Evaluation and Procedures	22
Problems Faced by AgBani..	23
Conclusions about Small Farmer Credit	25
How Could the Agricultural Credit Program be Improved	25

References

APPENDIX	I	-Tables
APPENDIX	II	-The Fertilizer Campaign of 1971
APPENDIX	III	-Application and Appraisal Form
APPENDIX	IV	-Training Activities
APPENDIX	V	-Fertilizer Distribution for the RGA in the Helmand-Arghandab Valley Authority

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List of Abbreviations and Equivalents

ACIB = Agricultural and Cottage Industries Bank

FAO = Food and Agricultural Organization of the
United Nations

IBRD = International Bank for Reconstruction and
Development

RGA = Royal Government of Afghanistan

IDA = International Development Association

AFA = Agricultural Finance Agency

PACCA = Program for Agricultural Credit and Cooperatives

SIDA = Swedish International Development Authority

UNDP = United Nations Development Program

80 Afghanis = \$1.00 (approximate free-market rate, winter of 1972)

1 seer = 7.066 kilograms

SUMMARY

This paper was prepared for the spring review of small farmer credit conducted by the United States Agency for International Development. The purpose of the review was to investigate Agency and other experience to see if it (1) indicates the conditions under which credit can play an important role; and (2) suggests a preferred set of institutional and policy instruments for rationing, delivering, supervising, collecting and refinancing small farmer credit, using a traditional or new system. Because small farmers have not been the focus of Afghanistan's agricultural credit programs, this study has limited application for the purposes of the spring review. Nevertheless, it is a useful review of the progress and problems of agricultural credit in Afghanistan from 1954 until 1972.

The Agricultural Development Bank (AgBank) of Afghanistan is the principal form of institutional credit serving Afghan farmers. Commercial banks and the urban money bazaars do not normally make loans for agricultural purposes. The agribusiness conglomerates, the Baghlan Sugar Company and the Spinzar Company make some loans to farmers, but even when their loans are combined with AgBank's, still less than 1 per cent of Afghanistan's farmers are reached by institutional credit.

The principal sources of credit available to Afghan farmers are other family members, bazaar merchants and clandestine money lenders. An examination of past studies and a brief field investigation revealed that:

1. Capital plays an important part in farmers' productive processes;
2. Farmers have a high rate of indebtedness, but loans are usually used for consumption purposes, such as weddings or a pilgrimage to Mecca;
3. Loans are usually made within family units at zero interest rate in keeping with Islamic doctrine;
4. Loans outside family units are obtained in secret from other villagers and nomadic money lenders;
5. A large amount of credit in kind is extended by rural merchants, who permit customers to pay for merchandise after harvest.

The institutional credit system began with the establishment of the Agricultural and Cottage Industries Bank in 1333 (1954/1955). The ACIB was established to promote agricultural development and to help reduce the extent of farmer indebtedness and mortgaging of land. While it probably accomplished the latter, the ACIB did little to insure its own longevity. Between 1333 (1954/55) and 1347 (1968/69) the ACIB lent out most of its initial capital subscription, but failed to collect repayments. The ACIB remained solvent through the meager collections and profits from supply operations, but had virtually stopped lending by the time it was rechartered as the AgBank in 1348 (1969/70).

AgBank was started with the remnants of the ACIB accounts, a \$5-million credit from IDA and a German management team sponsored by the UNDP. Foreful and competent, the team occupies senior management positions in AgBank and makes decisions in conjunction with their Afghan counterparts. Since their tour began, the team has helped AgBank to:

- (1) Reorganize the loan portfolio (writing off loans totaling Afs. 100 million in the process),
- (2) Renew lending activities and sharply increase the number and volume of loans,
- (3) Reorganize the personnel system and initiate training activities,
- (4) Develop a loan application and appraisal process,
- (5) Revitalize the supply organization by selling tractors and water pumps,
- (6) Coordinate activities with bilateral assistance programs. The latter has resulted in AgBank's assuming of extended duties, which include participation in a private sector fertilizer distribution system.

AgBank supplies credit to the Program for Agricultural Credit and Cooperatives (PACCA), and is a parent to the Agricultural Finance Agency (AFA). PACCA is a successfully integrated operation supplying credit, technical assistance and marketing advice to grape farmers. AFA operates in the Helmand Valley with U.S. technical assistance. Since 1950, AFA has had a vigorous lending history, a high rate of loan repayment, and has helped finance a substantial number of tractors.

AgBank has some problems at the government, agency and farm level. Problems at the government level are:

1. A lack of credit instruments, particularly the chattel mortgage,
2. A lack of discounting mechanisms that would permit the central bank to expand (or contract) the amount of credit available from AgBank,
3. Interference from the legislative branch of the government,
4. Limited cooperation from the Ministries of Agriculture and Finance.

Problems at the agency level are predominantly in the supply of competent personnel, which is a foreseeable situation in a less developed country. Farmers' problems are mostly in understanding the mechanics of applying for, and accepting the responsibility of loans.

In the immediate future, AgBank appears to be meeting the goal of efficiency, but the goal of equity remains to be pursued. Largely because of the German management team, AgBank has become much more efficient in lending, collecting and its supply operations. However, almost all of the lending is to large farmers detracting from the goal of equity. If and when AgBank decides to include medium and small farmers as targets of opportunity, it will need to (1) decentralize by strengthening branch offices, (2) institute flexible lending policies and (3) implement farmer education programs.

INTRODUCTION

The institutional agricultural credit system of Afghanistan is largely composed of the Agricultural Development Bank and its affiliates. Commercial banks give little or no direct credit to farmers, and lending by the urban money bazaars is predominantly to traders. Two agribusiness conglomerates, the Baghlan Sugar Company and the Spinzar Company also extend a limited number of loans to farmers in the form of physical inputs such as seed, fertilizer, and agricultural chemicals. The first of these conglomerates is scheduled to be studied under an A.I.D. contract to an Afghan research firm, and neither will be covered in this paper.

The Agricultural Development Bank reaches very few small farmers, although its lending activities are rapidly increasing. Most of these loans were to large farmers and as reported in the Asian Development Bank Planning Study, "AgBank's channels to reach small farmers are very limited" (12, p.168).

The small farmer problem in Afghanistan is critical to the country's progress. About 90 percent of the population is in agriculture, and 42 percent of the total number of farms are less than .38 hectares in size. Recent surveys have established that decision-makers on Afghan farms are typically in their mid-forties, heads of large households, and uneducated (but not unintelligent). The land that they own represents their major wealth and as in most economies capital inputs play an important part in production. As in most less-developed nations, Afghan farmers have limited access to purchased farm inputs.

While AgBank's activity among small farmers has been limited, it is a potential vehicle for development. The pertinent Ministries--Agriculture and Finance--as well as the president of the central bank, sit on the board of directors and policy formulation is coordinated with other developmental programs. Also, an IBRD financed team of foreign technicians actively participates in management and maintains liaison with bilateral assistance agencies. Finally, AgBank has played an innovative role in promoting new technology by importing farm machinery, water pumps, fertilizers and agricultural chemicals. As will be discussed, the AgBank's wide range of activities are gaining in momentum.

PROGRAM CHARACTERISTICS

Historical Summary

The first government effort to institutionalize agricultural credit was the establishment of the Agricultural and Cottage Industries Bank (ACIB) in 1333 (1954/55). The ACIB was established with an authorized share capital of Afs. 150 million, which was paid up as follows:

Shareholders	<u>Afs. (millions)</u>
Da Afghanistan Bank	76.6
Ministry of Finance	.9
Karakul Institute	.5
Government Monopoly	5.0
Bank-i-Melli Afghan	2.0
Others	1.0
Total Afs.	<u>86.0</u>

The Da Afghanistan Bank is the central bank, the Karakul Institute is a cooperative marketing organization for the export of lambskins, the Government Monopoly was a state trading agency that marketed certain industrial goods imported under bilateral agreements, and the Bank-i-Melli Afghan is a private bank and holding company.

The objective of the ACIB was to develop agriculture throughout Afghanistan by making available credit facilities to farmers and herdsmen, to protect farmers from land mortgages with excessive interest charges, and to acquaint farmers with the credit system. In order to promote these objectives, the bank established 11 branches throughout Afghanistan.

Up to 1337 (1958/59), the ACIB gave assistance to the establishment of 5 agricultural cooperatives, a number of small industries like silkworm raising, carpentry and blacksmith works, sewing and knitting, pottery, wood work, concrete blocks, etc. Additionally, the ACIB imported farm and industrial equipment, but between 1338 and 1348 (1959/60-1969/70), emphasis was given to financing irrigation projects. However, between 1344 (1965/66) and 1348 (1969/70) the ACIB also imported Afs 102 million worth of fertilizer, sulphur, DDT and other chemicals, as well as 70 water pumps, 400 tractors and spare parts (2).

From 1333 (1954/55) through 1347 (1968/69), the predecessor to the Agricultural Development Bank made loans totaling about Afs. 225 million. However, its lending rate progressively declined and in the year 1347 (1968/69) loans totaled only Afs 5,760,000 (see table 1). In 1348 (1969/70), the total was even less and the activities of the bank virtually came to a halt (12).

The unsound lending, and collection policies followed by ACIB and the lack of organized local credit outlets to farmers were the principal causes of the limited effectiveness of the bank. There was a notable lack of administrative expertise, even to the extent that volumes of loan records were unavailable when the bank was rechartered.

A report by Johnson in 1959 delineated the problems of ACIB when it stated, "The loan program of the bank has not been satisfactory..." and, "the bank has failed to achieve the purpose for which it was established, to help improve the production of the small farmers in the country..." and, "...a large proportion of the loans were made to individuals who are large landowners." The report also cited weaknesses in the procedures to control the use of the loan proceeds and stated, "It seems that a substantial part of the funds advanced were used for commercial and consumptive purposes and did not result in any marked improvement in agriculture..." (14,p.6). Following the criticism was a plan for strengthening the bank's program.

The plan designed by Johnson was to be implemented by Roberts, an A.I.D. agricultural credit advisor, by beginning a pilot project in Kabul in 1960. Capital for the project was to be made available from PL-480 funds assigned to the Ministry of Agriculture. Afs. 3,254,000 were earmarked for this purpose although only a small percentage of this was ever turned over to the ACIB by the Ministry. In 1961, the A.I.D. Mission made the decision to postpone the projects on the grounds that the country was not ready for a credit and cooperative program (14).

In 1966, an FAO/IBRD cooperative mission arrived in Kabul "to assist the Afghan Authorities in reorganizing and strengthening the Agricultural and Cottage Industries Bank for the effective implementation of Agricultural Credit Projects" (27). The mission recommended that the bank not engage in furnishing credit to cottage industries, nor import agricultural equipment. Further, it suggested that the role of the Ministry of Agriculture be limited to advice, rather than consent. With respect to lending policies, the report noted that the ACIB was charging interest rates that were unreasonably low, and it was suggested that the bank charge the following rates:

10 percent per annum for loans up to 1 year

9 percent per annum for loans from 1 to 5 years

8 percent per annum for loans of more than 5 years

With this and other recommendations, the report set the stage for a loan agreement between the RGA and the IDA and the organization of the Agricultural Development Bank.

The second effort to institutionalize agricultural credit was the rechartering of the Agricultural and Cottage Industries Bank in 1348 (1969/70) as the Agricultural Development Bank. As a condition for the approval of a \$5.0 million credit from the IDA, the Government requested and received from the UNDP the services of four expatriate technical experts who are presently occupying senior positions in the AgBank.

The Agricultural Development Bank was established on February 11, 1970 by Royal Decree as a joint stock company in accordance with the private, commercial law. At the same date, it took over the assets and liabilities of the former Agriculture and Cottage Industries Bank (2).

When the AgBank took over the assets and liabilities of its predecessor, it was in satisfactory financial condition although lending had virtually ceased. Liquid assets of Afs. 29 million represented 18% of total assets (Afs. 162 Million) and covered current liabilities 1.1 times. The debt to net equity ratio was 0.5. Overall results remained positive considering the build-up of reserves to Afs. 14.2 million after adjustment for losses to be written off (Afs. 28.4 million). These results were achieved partly because revenues were generated from loan operations in preceding years and partly because proceeds from loan collections were deposits in banks where deposits earned 6% per annum instead of being re-lent. Also, there were some earnings from commercial transactions

On June 24, 1970, RGA and the IDA agreed upon a Development Credit Agreement (Agricultural Development Bank Project), for which AgBank became executing agency. The total amount of US\$ 5 million was to be allocated as follows:

<u>CATEGORY</u>	<u>US\$ or Equivalent</u>
I. Imported farm equipment, e.g. tractors and attachments	2,225,000
II. Pump sets	480,000
III. Locally-made farm equipment, including animal-drawn implements and stationary threshers	111,000
IV. Minor irrigation rehabilitation schemes	840,000
V. Vehicles, office equipment, construction and design equipment, and an initial set of spare parts for imported equipment	620,000
VI. Technical services and fellowships	666,000
VII. Local extension services	<u>58,000</u>
TOTAL	5,000,000

RGA will have to repay the total loan, with the exception of that part of Category V which will represent the equivalent for the purchase of vehicles and office equipment for the use by AgBank.

The allocation out of Categories I-IV (US\$ 3,656,000) will become RGA's participation in AgBank, actually held on behalf of RGA by the Da Afghanistan Bank.

AgBank is entitled to grant loans to farmers, to farmers' associations (if legally established), and to agri-business establishments. As agreed upon between RGA and IDA, AgBank will disburse loans only if the expected net return will enable the client to repay the loan and will simultaneously increase his cash income (2).

Along with the lending activities, AgBank continues to import and sell agricultural equipment through a supply organization, contrary to the recommendations of the 1966 FAO/IBRD team. However, the supply organization is designed to operate only in sectors where private firms are unwilling or unable to give the necessary service to farmers.

The organs of AgBank are:

- The General Assembly of Shareholders;
- The Supreme Council as the Board of Directors in charge of deciding on the basic policy of the Bank;
- The Board of Auditors, which, according to the Charter, will transfer most of its power to a firm of chartered accountants elected by the Executive Board;
- The executive Board as the Board of Managing Directors, which is entrusted with all duties and authorities not assigned explicitly to other organs of the Bank by the Charter.

Shareholders as of Hoot 30, 1350 (March 20, 1972) were:

Da Afghanistan Bank	Af	156,661,103	=	72.9 %
Ministry of Finance	Af	<u>54,766,000</u>	=	<u>25.5 %</u>
RGA	Af	211,427,103	=	98.4 %
828 other shareholders	Af	3,418,900	=	1.6 %
<u>330 shareholders</u>	Af	<u>214,846,003</u>	=	<u>100.0 %</u>

In 1349 (1970/7/), AgBank, out of funds provided for by RGA out of the allocation of a United States loan, took over 100% of the paid-up share capital of Afs. 50 million of the Helmand-Arghandab Agricultural Finance Agency (AFA), which represents AgBank in the area of the Helmand Valley Development Projects.

The Afghan Finance Agency (AFA) was chartered for the purpose of providing, on a self-sustaining basis, financing and related services to the agricultural sector in Helmand and Kandahar Provinces. AFA is a wholly owned subsidiary of the AgBank and operates as an autonomous agent subject to the general policy direction of the Bank's Executive Board. The authorized capital is Afs. 200 million, of which Afs. 50 million are subscribed, representing about Afs. 49 million in contributions from FL 480 local currency funds and Afs. 1 million from AgBank's own funds. In addition, AFA is authorized to accept savings deposits.

AFA has had a short, but vigorous history of lending activities. A U.S. advisor who works full time in an active management advisory capacity helped AFA to loan the funds for 7 tractors and 7 pumps in 1350 (1971/72), and then 81 tractors and 9 pumps in the first six months of 1351. Although AFA lends independently, it sells tractors and water pumps as an agent of AgBank. In the brief time span of its operation, AFA reports an extremely low delinquency rate on its outstanding loans.

The Program for Agricultural Cooperation and Credit (PACCA) is a customer of AgBank that was initiated in 1968 under an agreement between the RGA, the Swedish International Development Authority (SIDA), and the Food and Agriculture Organization (FAO). The main purpose of the program is to demonstrate in pilot areas how a coordinated and integrated approach to agricultural credit and cooperatives can lead to the development of agriculture, and especially to the improvement of farmers' living standards. Like AFA, the PACCA credit program is conducted through the AgBank and will be included in the description of AgBank's lending activities (12).

There is another integrated agricultural development program that was started in Paktia Province by a German Technical Group in 1966 with funds from the Federal Republic of Germany. Among the many projects that are being carried out successfully, an effort is being made to organize an association of farmers to serve as a channel for credit to small farmers through the AgBank.

Relation to the National Credit System

Afghanistan has what has been described by Maxwell Fry as a "suppressed financial sector." At the end of 1350 (1971/72), the official data on total claims against the private sector listed 3,486,303,000 Afghanis. Of this amount, 2,477,000,000 was carried by the country's two commercial banks, the Bank-i-Melli and the Pashtany Tejarity Bank. Another 927,000,000

was carried by the Da Afghanistan Bank and 82,313,000 Afs. by the Agricultural Development Bank.

The AgBank is the predominant institutional source of credit extended to farmers by private enterprises and the commercial banks only reach a very small number of large farmers. However, both the Baghlan Sugar Company and the Spinzar Company cotton operations extend credit to their raw material suppliers. Typically, these companies extend credit in kind composed of fertilizer, seed and agricultural chemicals. Payment in kind is made at harvest time. There is a paucity of information on these operations.

Agricultural Patterns and Potentials

The AgBank program area is potentially all of rural Afghanistan, which contains about 14 million people including 2 million nomads. Wheat is by far the most important crop. Food grains account for 90 percent of the area under crops in any one year, but annual deficits have been experienced in recent years and have led to a substantial decrease in food consumption in some isolated rural areas. Productivity levels are low and irrigated land yields an average of 1.8 metric tons per hectare. The other main crops are fruit and vegetables, cotton, sugar beets and oil seeds. Present exports are modest and hampered by inefficiency in government administrative offices.

Public expenditures on agriculture have been dominated by investment in large-scale irrigation facilities. There has been a historical tendency to implement grandiose schemes with bilateral assistance, such as the United States' involvement in the Helmand Valley and the Russian project in Nangrhar Province. Both these and other large-scale irrigation projects have been costly, slow-yielding and have guided government planners to consider other types of projects. However, as late as 1970-71 (1349), nearly 45 percent of the public expenditure for agriculture and closely-related sectors was for large-scale irrigation works. The predominance of investment in irrigation facilities has constrained the development of other inputs.

The typical Afghan farmer lives on a small irrigated farm where fertilizers, pure seed, mechanical power and credit have historically been difficult to obtain. Although the rate of technological diffusion appears to be accelerating, the absolute number of farmers that have access to modern inputs is still probably less than 20% of the total.

General Objectives

The announced objectives of the rechartering of AgBank programs were to finance farmers' investment in farm mechanization, shallow-well pumps and improvement of small traditional irrigation facilities. Aside from financial support from the lending program, it aimed at institution building: to enable AgBank to meet Afghan farmers' credit needs and to assist the Ministry of Agriculture and Irrigation in minor irrigation improvement and ground-water development. In 1971, the scope of the program was broadened to include a one-year program of loans for fertilizer, in conjunction with a crash food increase program.

Except for the one-year fertilizer program in 1971, AgBank has not reached small farmers in any significant amounts. This has been mainly due to the fact that land is the only collateral that can be used to secure loans under Afghan law. However, with its anticipated participation in Afghan Fertilizer Company, described in Appendix II, AgBank will indirectly reach a large number of small farmers.

AgBank is initiating a savings program to build confidence in the bank among farmers, as well as to accumulate loan funds. However, the growth of savings deposits is expected to be very slow. Without access to a well-developed commercial banking system and without the facilities for discounting loans, AgBank acts primarily as an institution which administers revolving funds.

For the longer-range future, the Management Team expects to (1) establish a small Foreign Relations Department which would handle marketing loans for export business as well as finance imports; (2) establish a service section for dealing with clients requiring advice on such matters as savings accounts and agribusiness problems; and (3) strengthen existing branches and establish new branches at appropriate locations to which authority would be delegated to make loan decisions. No time schedule can be provided for the accomplishment of these activities, but it will be several years in the future (12).

Terms of Loans

Of the IDA credit of 5.0 million dollars, about 69 percent of the \$3.7 million earmarked for lending purposes is for tractors, attachments, and spare parts, stationary threshers, and animal-drawn implements. Another 18 percent is for rehabilitation of small traditional irrigation systems, and 13 percent is for pumps, engines, and pipes. Other types of loans can be made with the funds that were transferred to the AgBank by the AEIB.

The period that loans can be extended by AgBank is flexible, in keeping with the bank's general policy of evaluating loans on a case-by-case basis. The bank makes the following kinds of loans:

1. Farm-operating loans for short-term credit needs related to the production of crops and livestock with repayment scheduled from product sales. The maturities of these loans are related to the length of the production and marketing periods, with collection due in full before the end of the marketing period. Farm operating loans may be made for the purchase of fertilizer, seed, pesticides, livestock medication, and other required production inputs.

2. Farm-marketing loans. Although the bank is authorized to make these loans, they have not been active in this area.

3. Intermediate-term loans to farmers for the purchase of farm tractors, machines and equipment, on-farm irrigation improvements, draft-oxen, livestock, and other farm production inputs having an extended life in excess of 1 year. Loans are reviewed at least annually with the borrower.

4. Long-term loans to farmers for purposes requiring a payment period in excess of 5 years. These purposes include construction of irrigation systems, purchase of pump sets, construction of deep wells and tube wells, purchase of breeding animals, construction of farm buildings, planting of new orchards and vineyards, and purchase of heavy equipment for harvesting and processing agricultural products.

Organization of the Bank

The general structure of AgBank is described in Appendix Table 2. The four central positions: President, Credit Manager, Accounts Manager, and supply Managers are occupied by German National members of the management team and their counterparts share responsibility. However, in setting policy, the executive board is controlled by the management team which occupies four of the seven positions. The small farmer activities are not a special function and are incorporated into the bank's general activities. The bank's activities are centralized. All loans are approved in the central offices.

Beneficiaries

Loan applications are solicited from the farm community at large and are evaluated on the criteria of incremental returns on a case-by-case basis. There is no functioning graduation policy to absorb borrowers into the banking system, and continuance is on a case-by-case basis. Loans are almost all medium term. To date, the AgBank has made less than 10 short- and long-term loans, with the exception of the fertilizer loans described in Appendix 11.

Other sources of Credit

Traditional credit mechanisms have served to keep a substantial amount of credit flowing to Afghan farmers. A vast majority of the credit mobilized for production and consumption occurs within family groups. Lending that occurs outside family groups is usually clandestine and often at a high interest rates, reflecting the Muslim taboos against receiving interest payments. Because of this factor, it is extremely difficult to obtain accurate quantitative information about individual transactions, although a series of studies has developed some information about the supply and demand for loanable funds between landowners-cum moneylenders, farmers and shopkeepers.

The supply of credit outside of family transactions originates from nomadic Koochies, village leaders, other farmers, and shopkeepers. In describing the economy of the nomadic Koochies, Kakar (15) reported that the nomadic Koochies come from Peshawar, Pakistan, loaded with fabrics and other goods, take them into the highlands of the Hazarajat, sell on credit and return to collect payment in kind the next year. The payment in kind was often composed of land and Kakar concluded, "that in the Hazarajat...half of the agricultural land belongs to the nomads" (15, p.11). Another report of Koochi money lending was cited by Senzai and Harlan (29) in Nangrahar. They reported that, "Most of the farmers borrowed money from village people, but some borrowed from Koochi and Momand people (Momand is the name of a tribe)" (29, p.13).

In addition to the "village people," "supplying credit" cited by Senzai and Harlan (29), the Kunduz-Khanabad Survey (16) mention "farmers" and Tarzi-Stevens (31) noted "village chiefs or other leaders" as sources of credit (31, p.31). However, the "farmers" mentioned in the Kunduz-Khanabad study "turned out to be tribe or clan members who were not closely related and thus not classified as relatives." (16, p.III-5). Also the relationship described by Tarzi-Stevens was not a loan in the strict sense, but a situation where, "due to a lack of capital, most of these settlers work together with a village chief or other leader who has capital. The leader puts up the money to buy the sheep, the settler furnishes the labor and management, and any profits after the sale of the sheep are divided equally" (30, p.28).

Shopkeepers and other merchants provide a major source of credit. Scott mentioned credit sales by mill owners in the Helmand Valley (28) and Baranabas (6) said that in Baghlan the major source of credit was from lenders within the village or shopkeepers in Mehterlam, shopkeepers provide credit to farmers in the form of delayed payment (23), and in the Kodaman Valley, cloth sellers who were recently surveyed by the writer had extended substantial amounts of credit (see table 7).

The extension of credit by shopkeepers is referred to as, "Salam," and "Sud." Basically, "Salam" credit is interest free and "Sud" is where a higher price is charged to buyers who wish to delay payment. Although the Tarzi-Stevens report stated that "Salam" is looked upon with disfavor by Islam" (31, p.51), it is cited without disfavor in the dictionary of Islam (13). However, "Sud" is against the principles of Islamism and shopkeepers often avoid the issue by using the terms interchangeably. In conversations with shopkeepers and religious leaders in the Kodaman Vally, the writer found that delayed payment was an accepted practice. In fact, in the event of a bad harvest, debtors are not required to make payment and as discussed elsewhere, (21) it is one of a series of mechanisms that insulate rural poor from the shock of economic catastrophes.

A notable lack in the supply of credit to farmers in Afghanistan is the absence of rotating credit associations. As described by Ardener (4) a rotating credit association is a device whereby individuals in a group contribute funds at a specified interval, and then the collected funds are allocated to a member of the group by means of a lottery. Ardener found evidences of rotating credit associations in most of the less-developed nations, and her observations were supplemented by the writer's research in the Dominican Republic (22) and Miracle's (18) reports from Africa. In either the literature on Afghanistan, or in field research, the writer can find no evidence of this credit mobilizing device that is prevalent in other traditional societies.

Capital, as a productive input plays an important role, and the extent of farmer indebtedness is high in Afghanistan. Senzai and Harlan reported a 45 percent of indebtedness among farmers in Nangarhar (29, p.13), the Kunduz-Khanabad study reported 50 percent (16), and in the Marga area, Tarzi and Stevens reported that "Most of the settlers work together with a village chief or other leader who has capital" (30, p.28).

The available evidence cites a high use of credit for consumption purposes by farmers. The Kunduz-Khanabad study (16) found that 88% of the loans received by farmers were used for consumption purposes. Also, the Tarzi-Stevens study (31) reported that borrowing was most often for the Haj (a pilgrimage to Mecca) or to buy a wife for a son.

Most loans are obtained interest-free from family members and when farmers pay interest, it is high but not exorbitant. In the Nangrahar study (29), farmers paid 33 percent for loans that averaged 6,024 Afs. in size. However, in addition to money, interest was paid in the form of corn or wheat and in land under the "Garaw" system at the rate of 5,000 to 10,000 Afs per jerib. The "Garaw" system is a device where the lender retains use of the borrower's land until the debt is repaid. Interestingly, the Kunduz-Khanabad (16) study also reported that interest rates averaged 33% and Barnabas reported rates between 21 and 50 percent. Also, the practice of "Salam" credit usually involves raising the purchase price about 10 percent. In the "Salam" credit, the loan may be repaid in one month, 6 months, or 2 years so the real interest rate is difficult to compute, although it probably approaches the levels

cited above. It should be noted that these interest rates are historical and may be lower than present rates, which are reported to be rising.

Most of the loans received by farmers appear to be unsecured. The Kunduz-Khanabad study reported that few farmers had to provide security for their loans. Also in Mehterlam, the shopkeepers provided credit to "people we know" (23). In the Kodaman Valley interpersonal relations play an important role in determining credit reliability and a bad debtor is widely known (22). The protracted role of interpersonal relations is not surprising as social sanctions are the only recourse due to a lender except in the case of "Garaw." Even in urban areas, the commercial code only permits loans to be secured by land and not by other assets. As a final descriptive note, loans do not appear to be inherited and do default with the death of the debtor.

Profile of the Farm Community

Afghan farmers are predominantly small-scale subsistence farmers. Table 5 gives a breakdown of Afghan farms by size in 1962. This is the country. However, a cadastral survey is in progress.

An excellent survey of Afghan farmers was conducted by Whiting and Hughes (34). The survey covered 733 farmers who represent advantaged hamlets within those provinces. They also represent irrigated cultivation only, not livestock or dryland operations. In the study the researchers found that:

1. Farm decision-makers typically were in their mid-forties, heads of large households, illiterate and uneducated infrequently exposed to both print and broadcast mass media, infrequently contacted by extension agents, and potentially but not presently mobile.
2. The majority tilled relatively small plots of irrigated crops. The land they owned represented their major wealth. Their net agricultural income and their expenses for outside labor were both low.
3. Six of 10 farmers owned most of the land they cultivated, while three of 10 obtained most of their land as sharecroppers or renters, and one of 10 functioned principally as a landlord.
4. Landlords tended to be more advantaged on all variables measured, both economic and noneconomic. Owner-operators were second and sharecroppers and renters last. The largest differences among the groups for noneconomic measures were found in the areas of community influence (landlords two and a half times more influential than owner-operators and nearly five times more influential than sharecroppers) and in contacts with the outside world.

5. In economic characteristics, landlords owned more and especially better quality land than the other groups, enjoyed both more agricultural income and more income from sources outside agriculture, and appeared to be less involved in farm decision-making than the other types.

6. Farmers differed from region to region in both economic and noneconomic variables. Farmers in the north owned relatively large and valuable farms, enjoyed moderate extension contact levels, were relatively high in other types of contacts and appeared to be, perhaps, less cohesive in their community life. Eastern farmers reported the smallest and least valuable farms, the smallest incomes, the most contact with extension agents, more social cohesion, and a large amount of nonagricultural income. Farmers in areas near Kabul were older, more exposed to print sources, had the lowest level of agent contacts, the lowest nonagricultural income, and the smallest levels of labor, both family and hired. Farmers in the south made more visits to large cities, were relatively cohesive and less exposed to radio and print, and worked relatively valuable land holdings.

7. Landlords in the northern region appeared to be different from landlords elsewhere in that they were (a) inferior on many variables to landlords elsewhere, and (b) inferior on many variables to owner-operators in their own region. This interaction may be attributable to the selection of an atypical hamlet as one of the two hamlets comprising the northern sample.

8. The researchers sought to determine the relative importance to net agricultural income of capital, family labor, management excellence, and chance; we also sought to explain the causes of difference in management excellence. They found:

a. Capital, as measured, accounted for from 16 to 38 percent of the variance in income, depending on the region; the average percentage was 26.

b. Family labor, as measured, accounted for from 0 to 11 percent of income, depending on region; the average was 5 percent.

c. The remaining two-thirds of the variance in net income did not appear to be closely related to any variables that might index management excellence. The researchers did find that the sharecroppers were significantly better managers than our two other types of farmers, perhaps due to the necessity of their obtaining minimum subsistence incomes from very limited resources.

d. Situational factors beyond the farmer's control were probably the most important determinants of net income. There is no evidence that psychological characteristics are important.

9. Innovativeness can scarcely be measured in Afghanistan because of a paucity of opportunities to respond to innovations; nevertheless, such innovativeness as exists:

a. Was unrelated to net agricultural income.

b. Appeared to be situationally determined more than psychologically determined (regional differences were strong but tenorial and psychological differences weak).

c. Had its closest psychic correlates in knowledge of the innovations themselves.

10. About half of the farmers who had not tried the innovations and to whom they were relevant said they had not tried them because supplies could not be obtained. Another quarter gave as the reason for nontrial a lack of money or credit to purchase the innovation. A final quarter indicated they were not convinced of the innovation's value or had not heard of it. Again, situational constraints appeared to exercise more control over innovativeness than psychological characteristics.

11. The distribution of capital, income, innovativeness, and control over laborers appeared, in comparison with other under-developed countries, to be relatively egalitarian in the sample. Perhaps this is due to (a) the selection of irrigated cultivators, (b) the preponderance of owner-operators in the sample, (c) traditions of independence and violence among Afghans, or (d) patterns of inheritance within family units (34, p.5-10).

Although, the Whiting-Hughes study represents a sample that is biased toward advantaged farmers, it is most appropriate for immediate developmental purposes. The type of farmer portrayed is the one that will likely be reached first by credit programs as well as the private sector distribution system for agricultural inputs.

Lending Practices and Policies of AgBank

Data about the amount of lending by AgBank is contained in Table 1. As previously noted, the lending activities of the agricultural and Cottage Industries Bank had almost ceased in 1348 (1969/70). However, in 1349 (1970/71) and 1350 (1971/72) the lending activities were gaining momentum. Lending activities in the current year are expected to increase sharply.

Table 8 shows detailed changes in the loan portfolio during 1349 (1970/71) and 1350, which were the years after the reorganization. As part of the new program Af's. 41,244,000 were written off as bad debts in 1349 and Af's 51,835,000 were written off in 1350.

Information on the extent of repeated beneficiaries is not available at this time. The only restriction is that loans to one individual or group may not exceed 5% of the value of the paid-up share capital. This rule is to insure that the agribusiness conglomerates do not gain an oligopsony position on the bank's funds. Aside from the 5% rule, other loans are evaluated on a case-by-case basis.

Interest Rates

From 1333 (1954/55) to 1347 (1968/69) the interest rates charged by the Agricultural and Cottage Industries Bank were:

- 4 percent per annum for loans less than 1 year,
- 5 percent per annum for loans from 1 to 2 years,
- 6 percent per annum for loans from 3 to 5 years,
- 8 percent per annum for loans from 5 to 10 years.

It is interesting that the interest charges were directly, rather than inversely, related to the length of the loan.

From 1348 (1969/70), to the present interest rates are:

- 10 percent for 1 year or less,
- 8 percent for loans from 1 to 5 years,
- 8 percent for loans greater than 5 years.

Commercial banks charge about 10 percent per annum on loans. Lending in the money bazaar is usually done at rates of one and one-half percent per month. Inflation does not appear to affect interest rates.

Collateral

Land, excluding homesteads, is the only legal collateral for loans in Afghanistan. The AgBank normally requires that borrowers provide a legal description of the land along with written assurances from neighbors that they stand ready to buy the land in case the borrower defaults on the loan. The AgBank usually requires that the value of the land is twice the amount of the loan. One problem with collateral has been obtaining titles to land. In day-to-day operations, minor government officials normally expect a small fee for services rendered. However, in some cases where officials know that land titles were being obtained for AgBank loans, prohibitive amounts of "Baksheesh" were solicited, and the loan attempts were abandoned.

Appraisal Steps

As noted above, each loan is evaluated on the basis of incremental returns on a case-by-case basis. The following steps are followed:

- Step I. The application form is filled out.
- Step II. The pre-investment costs and returns are calculated.
- Step III. The post-investment costs and returns are calculated.
- Step IV. The incremental returns are evaluated. At present, costs and production data from secondary sources are used so the relevant variables are the size of the farm, crops under cultivation, and tenure relationships. Particular attention is paid to the latter, as they differ substantially from one area of the country to another.

In the future, AgBank hopes to refine the appraisal process and use primary data from the farms of the applicants. Also, two supervision visits to each farm are envisioned.

Collection

Prior to the 1970 reorganization, data on the repayments is available only in the aggregate figures displayed in Table 1. Since the reorganization, the aggregate repayments have been greater (see Tables 8, 10 and 11). Repayment is made in cash. The collection methods are as follows. One month ahead of the due date a written reminder is sent to the lender. If the loan is not paid on the due date, a surcharge of 2 percent of the total loan is charged and collectors are sent. When the collectors are sent out, they first inform the local administrator--called a woleswal or sub-governor--who sends the police to arrest the debtor, who is then placed in jail until the repayment is made. While in jail, the debtor must pay the costs of his internment.

The AgBank's policy on rescheduling is as follows: Of the loans that are delinquent, a fixed percentage are written off each year. The percentages are:

- 2% of the loans less than 1 year overdue
- 5% of the loans from one to less than 2 years overdue
- 25% of the loans from 2 to less than 3 years overdue
- 50% of the loans from 3 to less than 4 years overdue
- 75% of the loans from 4 to less than 5 years overdue
- 100% of the loans more than 5 years overdue.

Costs and Finance

The changes in the loan portfolio of AgBank are shown in Table 1 and Table 8. As indicated, the loan portfolio grew steadily under the Agricultural and Cottage Industries Bank 1344 (1965/66) through 1348 (1969/70). The loan portfolio then decreased under the AgBank because of write-offs of bad debts and is increasing again.

The administrative costs of AgBank are displayed in Table 12. Again, the short time span prohibits conclusions.

The external finance for ACIB began in 1333 (1954), when an authorized share capital of Afs. 150 million was paid up as follows:

Shareholders	<u>Afs (000)</u>
Da Afghanistan Bank	76,000
Ministry of Finance	900
Karakul Institute	500
Government Monopoly	5,000
Bank-i-Melli Afghan	200
Others	1,000
	<u>86,000</u>

After the reorganization in 1970, the composition of ownership was changed to:

Shareholders	<u>Afs (000)</u>
Da Afghanistan Bank	156,600
Ministry of Finance	54,700
Others	3,400
	<u>214,700</u>

External finance to the AgBank has consisted of a \$5,000,000 IDA credit described above. At this writing, \$2,700,000 have been drawn. Also, a contribution of Afs. 50,000,000 was made by U.S.A.I.D. to finance the Helmand-Arghandab Finance Agency.

The Agricultural and Cottage Industries Bank fared well with respect to internal finances, as has the AgBank. The profit and loss statement for years 1344 (1965/66) to 1346 (1967/68) is contained in Table 9. However, it must be remembered that the ACIB was not lending substantial amounts during its later years. It was simply paying expenses with its income from money on deposit and profits from trading operations. AgBank has also fared well financially, largely because of profits from its supply operations, which are used to offset administrative expenses of the rest of AgBank. The profit and loss statement for the last two years of AgBank's operations are included in Table 13. Like other businesses, AgBank is required to pay the turnover tax of 5 percent on interest earning and 2 percent on sales.

It is difficult to assess the impact of the ACIB on the foreign exchange balance. However, the AgBank has likely contributed to foreign exchange earnings. The funds used to finance imports were obtained with IDA credit, and at least some of the production has been exported or served to substitute for imports. On the other hand, fuel, tires and other inputs have been imported, but likely in amounts less than the value of the increased production.

Complementary Factors and the Nature of Technology

Most of the credit extended by AgBank has been provided in kind in the form of tractors, pumps, fertilizers and other farm inputs. There has been little attempt to promote "packages" of inputs. Due to a lack of personnel, AgBank does not provide on-farm supervision, although it is envisioned in the near future. At present, Afghanistan has an extensive extension service and services are available in many rural areas. At the local and regional levels extension services are not formally coordinated, but the Minister of Agriculture is a member of AgBank's board of directors and serves to coordinate policy. For the most part, the technical transfer is taken for granted. As farmers must come to the bank with specific proposals, i.e. for a tractor or water pump, it is assumed that he is willing and able to put it to good use. Also, the exhaustive appraisal technique helps to verify this assumption.

It is extremely difficult to accurately assess the profits and risks involved in the technologies provided by AgBank because records were not kept in the earlier years, and the costs and returns studies conducted for the IDA request did not take into account risk factors. The loan request for the IDA project quoted a 40 percent return on a tractor on a 700 jerib farm and a 50 percent return on water pumps on a 200 jerib farm (24). However, the same report predicted that the annual costs of farm operation would fall from Afs. 5,410 to Afs. 1,228 if a polycultor instead of a stick plough (koiba) were employed.

The polycultor is an interesting example of new technology that failed in production. A polycultor is a drawbar to which improved ploughing and cultivating devices can be attached and employed with draft animals. AgBank tested locally produced polycultors and found them to be unsuitable because: (1) the construction was poor (when a ploughshare hit a stone it would often bend), (2) Afghan animals were not sufficiently strong to pull the implement, and (3) the design was faulty, principally because the ploughshare was too broad. Even though about 300 polycultors were distributed free by the Ministry of Agriculture, they are reported to be idle.

It may be possible to conclude that tractors and water pumps are profitable investments because of their sharply increasing use. Moreover, the risk has been diminished by high prices for food grains in the past two years when drought conditions prevailed in the country. In the near future, when the effects of the "green revolution" begin in Afghanistan, the prices of food grains will likely decrease sharply and detract from the profitability of on-farm investment. This is an area that needs careful study, particularly as to how farmers might minimize risk by diversifying into high-value crops designed for export markets.

The risk associated with using new technologies would be substantially reduced by a price stabilization program for food grains in Afghanistan. Theoretically, wheat prices are supported at 35 afs per seer, but, because of the recent high prices, the mechanisms have been inactive. U.S.A.I.D. is presently encouraging the government to refurbish the price support program.

General Marketing Conditions

In the private sector, the general marketing conditions for basic food grains do not appear to be disadvantageous to farmers. Although there are sporadic impediments to the flow of agricultural products in the form of interference of wheat shipment by provincial governors and closing of transport routes by snowfall, the writer has observed that

spatial price differences of wheat between the major trading areas of Afghanistan tend to approximate costs of transportation.

The normally efficient flow of food grains is due to an adequate supply of motor transports and highly developed traditional marketing organizations. Afghanistan has about 20,000 trucks, most of which have a capacity of about 10 metric tons of product. Many of the trucks are closely tied to the grain trade through leasing or standby arrangements with traditional grain traders. These traditional traders have networks of associates in major areas in the country and ship products back and forth on a regular basis.

Because foodgrains move efficiently in Afghanistan, farmers tend to get a substantial share of the total revenues of their produce. Recently, wheat farmers in Samangan were receiving approximately 75 percent of the Kabul wholesale price of flour. The 25 percent in the marketing margin paid for 300 kilometers of transportation, milling and bagging, as well as the trader's profits.

Supplies and Sales

The agricultural supplies imported by AgBank are delivered to farmers at the branches. As indicated in Table 15, a wide variety of supplies have been imported, but most recently tractors and water pumps have predominated. Neither the tractors nor the water pumps are subsidized and in fact AgBank makes a gross profit of about 10% on the sales. As mentioned above, the profits from the supply organization are used to offset other expenses.

The tractors are predominantly Byelarus (Russian) and Massey-Ferguson (multi-national). The Byelarus cost Afs. 287,000 with attachments and has a 60 H.P. diesel engine. It is sturdy and strong, but lacks a depth control, consumes 8 to 10 litres of fuel per hour and maintenance facilities are poorly organized. The Massey-Ferguson costs more than the Byelarus (Afs. 407,000) with attachments, is smaller (45 H.P.), but uses less fuel and has a depth control device. Conclusions about the cost-effectiveness of the two units are often related to the national origins of the observer and again a comparative economic analysis is needed.

The tractors are serviced by workshops located in the provinces. North of the Hindu Kush, Byelarus tractors are delivered and serviced by Tractorexport (a Soviet trade agency), which has workshops at Mazar-i-Sharif and Kunduz. South of the Hindu Kush, Massey-Ferguson tractors are sold and serviced by Indamer (a private corporation) at Kabul and Kandahar.

The water pumps sold by AgBank are manufactured by Jangalak and powered by Pakistani or Czechoslovakian diesel engines. A pump set that delivers 120 cubic meters per hour (maximum) costs Afs. 57,000. The line of pumps is expected to be expanded to include engines from 5.0 H.P. to 30 H.P. and pumps from three to six inches (delivery and suction). All of the present pumps are centrifugal but turbine pumps are being considered.

The supply organization of AgBank is a progressive entity. Although past excursions into other agricultural technology have been short-lived, the division expects to handle sprayers, agricultural chemicals and other equipment in the near future. It is alert for opportunities.

Although, AgBank supply section is ambitious, it has not supplanted activities carried out by the private sector. In the past, most of the private sector business has been in the form of tractors and fertilizers being smuggled in from Pakistan. However, a private sector fertilizer company has been launched with AgBank as a major shareholder. In this manner, AgBank is encouraging the development of an agricultural supply industry.

EVALUATION

Performance

Again the lack of data and short history of AgBank makes an evaluation difficult. There is simply no objective and easily available means to measure the impact of the effects of the agricultural credit program on production, farm income, technology, savings and other sources of finance, employment or the political and social structure of the country.

It is possible to say that the credit appears to have generally been used for the intended purposes. As it is extended in kind, it could only be converted to consumption credit by reselling the tractor or pump.

To obtain an idea of the general image of the program, the writer conducted several interviews with U.S. development workers (one has been in the country 8 years, another 5 and the other 3) the following conclusions were offered. The ACIB was a totally inept operation bound by traditional governmental practices. At one of the branches, a technician recalls that 15 or 20 tractor loans were obtained by laborers using hypothetical farm data. As the branch of the bank had no field staff, the loans were extended on the basis of the data presented and verification of residence on the basis of tazquera (identification) numbers. When the loans fell due, the laborers had disappeared and the tractors had ostensibly become the property of a large agribusiness conglomerate. At present, the AgBank is becoming a viable institution. The German management team is composed of diligent technicians, who although conservative are making progress in spite of difficult working conditions.

Program Evaluation and Procedures

An evaluation system has been designed by AgBank and is being implemented on the basis of data included in the loan application forms. An attempt is made to measure the net income per jerib before and after the loan. A base-line survey was not made and the increases in production are assumed to conform to observations taken from other farm production studies. In the same calculations, the amount of income per jerib above production costs plus family expenditures is computed. As will be discussed later, the writer has difficulty understanding the rationality of this approach.

Problems Faced by AgBank

One of the problems faced by AgBank at the government level is the lack of a flexible credit expansion mechanism. AgBank does not discount its loans to the central bank. Therefore its lending capacity is limited by its amount of paid up capital. The paid up capital can only be expanded by additional subscriptions, and the authorized capital can only be expanded by amending the Charter. Other means, such as attracting savings accounts from farmers are not presently feasible. The profits from the supply operations are not enough to generate capital, as they are used to offset administrative expenses.

Another major problem is the lack of basic credit instruments. As noted above, there is no legal collateral other than land. Chattel mortgages are not provided for in the commercial code of Afghanistan. Therefore, it is not possible to offer crop liens or farm assets as security. This restricts loans to landowners, thus serving to redistribute income in favor of existing landowners. However, this may serve the goal of efficiency, if not equity.

In the past, the Afghan parliament has interfered with the operations of the AgBank on occasions. Larger farmers, who had loan applications rejected, have gone to their representatives who in turn applied political pressure on AgBank, sometimes resulting in compromises on the part of AgBank officials. The parliament can apply pressure to AgBank by means of calling for an inspection, whereby an appointed team sits in AgBank for an extended period of time to investigate some phase of the operation. Such "inspections" may be applied punitively and can be costly in terms of time and effort.

AgBank could likely operate more effectively if the development of suitable technology occurred within the government-owned Jangalak Industries. Jangalak Industries is faced with its own problems and has turned out inferior agricultural equipment from time to time. The most notable example was the polycultor, described above. Other failures have been threshers, sprayers and in some cases, pumps. At least some of Jangalak's difficulties can be attributed to misguided technical assistance, along with the usual numerous problems facing an ambitious enterprise in a developing nation.

Although AgBank imports agricultural equipment duty-free, the Ministry of Agriculture must certify that an import is in fact agricultural equipment. This has resulted in delays. For example, AgBank recently imported a device to measure the running time for tractors. After several rounds at attempting certification, AgBank gave up and paid the duty.

The principal problem of AgBank at the agency level seems to be a lack of trained personnel, both absolutely and relative to the potential of the organization. As there is not sufficient staff to provide on farm appraisal visits (much less for supervision), the personnel constraint appears to be the most serious. The technical assistance team also points out the inadequacy of their numbers. Although this complaint is probably voiced by technical assistance teams everywhere, it seems reasonable that additional advisors to AgBank could be provided to function at the top management levels.

At least part of the problem of trained personnel for the AgBank lies in the educational system of Afghanistan. University education in Afghanistan is highly abstract and members of the technical assistance team have found university graduates ill-equipped to cope with day-to-day problems of a very simple nature. Extensive training is required before new personnel can perform simple tasks such as assisting farmers in filling out loan applications.

Another part of AgBank's personnel problem must be attributed to the prevailing low salaries among government workers. In AgBank, college graduates start out at Afs. 1,500 per month (U.S.\$18.75). plus Afs. 1,000 for "maintanance." The president earns Afs. 7,500 (U.S.\$93.75) per month. Low salaries inevitably lead to low incentive, as well as efforts to obtain supplementary income.

There are several problms of agricultural credit in Afghanistan at the farm level. First is the farmers' difficulty in coping with the loan process and understanding the ideas of coupling acquired technology to his existing traditional processes. For example, the writer sat in on the review of a loan application for a water pump that a farmer was submitting. The farmer had already begun a well to which the pump was to be fitted. The well was located in a location that would not provide sufficient water supply through the soil strata. At best, the diameter of the well would have to be increased to allow sufficient seepage into the shaft, an expensive process. Had the farmer been aware, he could have obtained assistance in locating the well from Ministry of Agriculture personnel. In the final analysis, the loan application was rejected as infeasible. Another farmer problem has been in understanding maintenance procedures for farm machinery, particularly tractors which require daily preventive practices.

Farmers also have reported difficulties in acquireing downpayments and more acutely clear titles to their land. Reports include incidences where disproportionately large incentive payments have been requested by local officials responsible for verifying land titles.

Conclusions About Small Farmer Credit

The principal economic problems of small farmers are that they are faced with situational constraints that prevent them from obtaining productive inputs, particularly those of an innovative nature. Institutional credit has not reached small farmers in Afghanistan in any appreciable amounts and it is likely that their economic problems could be solved partially by the infusion of credit. According to the available evidence, the marketing system of Afghanistan could provide farmers with purchased inputs, if farmers had the means to pay. The bazaar credit mechanisms serve mainly to provide consumption, rather than production credit, hence need to be supplemented by institutional credit.

How the Agricultural Credit Program Can be Improved

Most of AgBank's problems appear to be exogenous and unrelated to internal policy. Following the list of problems cited above, appropriate courses of action might be:

1. Development of a functioning rediscount mechanism between AgBank and the Central Bank.
2. Development of credit instruments, particularly chattel mortgages.
3. More than one kind of technical assistance. The German management team is probably the most efficient developmental group that the writer (with limited exposure) has encountered. They make few mistakes, but then again seem to take few chances. Could it be that AgBank lacks an innovator? Perhaps the AgBank has been brought out of the chaos of ACIB with a strong dose of Tuetonic precision and now needs an innovative group to complement the German team. The programmatic difficulties of supplying a team of innovators are formidable.

One possibility for an innovative role could be with an internal research group designed to point up targets of opportunity. The German team has found ample work in just restructuring the organization and implementing sane banking practices. Perhaps someone should be considering (1) How can small farmers be reached more effectively. (2) How can the extension service be used to help AgBank in its endeavors. (3) How AgBank could utilize Afghanistan's recently ordered computers. Perhaps AgBank could computerize its operations such as international accounting, loan monitoring and loan evaluation? Is it dangerous to computerize given the limited capability of local hire employees to understand the analyses?

Another area where AgBank could improve is in the procedures to evaluate the impact of loans. The evaluation being carried out by AgBank is lacking in several respects. While a French management specialist has been hired to examine the available data, the writer found that the research was being held up for lack of a calculator. Moreover, the research design was questionable. As noted above, the researcher was calculating net farm income per jerib and net income above family expenses (disposable income) per jerib before and after farmers received an AgBank loan. The data is then broken down into regions to guide AgBank planners. The writer feels that disposable income should be computed on a farm rather than on a jerib basis. Presumably the calculation of disposable income seeks to measure: (1) the welfare effect of the loans, (2) the increase in spending and/or saving. Both of these would be better described on a per-farm basis. Jeribs do not experience welfare effects, neither do they spend or save. In AgBank's calculus of its impact, it would be well to document the impact of the loans for mechanized farm equipment on employment. As some observers believe that Afghanistan is heading toward a critical unemployment problem, it would be useful to be able to ascertain the effects of promoting capital-intensive farm inputs.

With these conclusions, the present study is completed. Perhaps the lessons taken from the history of agricultural credit in Afghanistan will be valuable in planning for the future.

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Appendix I.

Table 1 Lending activities of the Agricultural Development Bank and its predecessor from 1344 (1965/66) to 1350 (1971/72). Taken from the Loan Request of the RGA and AgBank Annual Report.

Year	Loans outstanding at the beginning of the year	Loans issued during the year <u>1/</u>	Repayments during the year	Loans outstanding at the end of the year
	<u>Afs. (000)</u>	<u>Afs. (000)</u>	<u>Afs. (000)</u>	<u>Afs. (000)</u>
1344 1965/66	68,830	1,740	11,270	59,300
1345 1966/67	59,300	26,030	11,750	73,590
1346 1967/68	73,590	68,780	12,470	129,900
1347 1968/69	129,900	5,760	3,540	132,120
1348 1969/70	131,730	2,600	20,063	59,656 <u>2/</u>
1349 1970/71	59,651	27,855	16,900	70,754 <u>3/</u>
1350 1971/72	70,754	42,326	20,206	82,313

1/ Includes capitalized interest

2/ This was the year of rechartering. Afs. 41,274 were written off and Afs. 22,000 were added.

3/ Another Afs. 51,835 were written off at this time.

AGRICULTURAL DEVELOPMENT BANK OF AFGHANISTAN

Functional Organization Chart
for 1350 (1971/72)

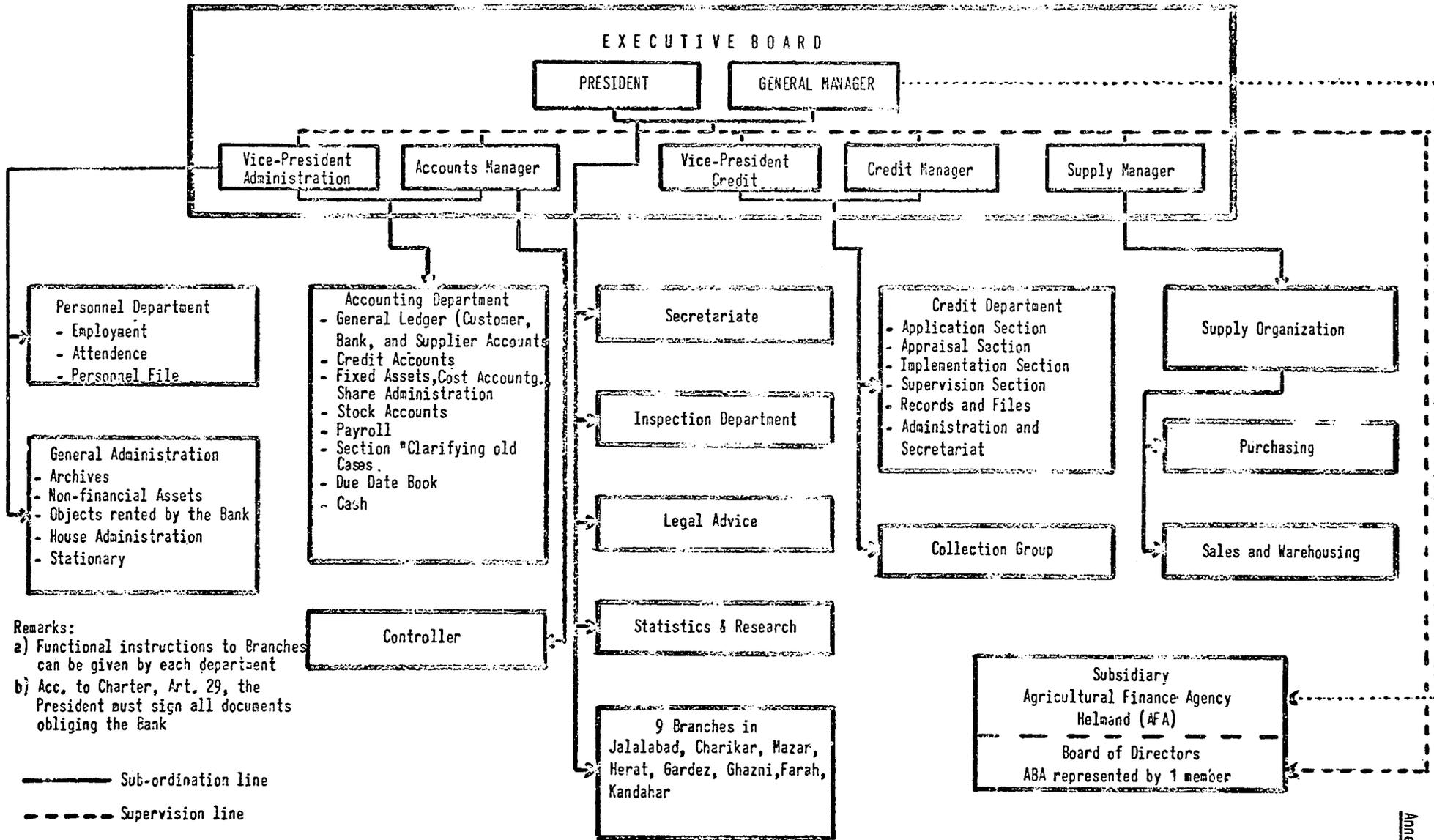


Table 3 Agricultural Development Bank of Afghanistan staffing patterns on October 15, 1971 February 18, 1971, and September 1, 1969 (based upon data from Quarterly Reports of the Hendrickson Team).

Position	Date					
	Oct. 15, 1971		Feb. 18, 1971		Sept. 1, 1969	
	<u>Officials Number</u>	<u>Employees Number</u>	<u>Officials Number</u>	<u>Employees Number</u>	<u>Officials Number</u>	<u>Employees Number</u>
President of the Bank	1	2	1	2	1	2
Vice President Credit	1	2	1	2	1	2
Technical Vice President						
Vice President Administration	1	2	1	2	1	2
Secretariate (incl. translation service and drivers for the managers)	2	11	2	9	2	
(of which part-time)		(1)		(1)		
Training Officers		2		1		
(of which part-time)		(1)				
Technicians					8	7
(of which part-time)					(2)	(3)
Trainees	11					
Inspection	1	1	4	1	4	
Personnel Department		4	8	3	10	10
(of which part-time)		(1)		(1)	(1)	
General Administration	15	20	12	20		
Archives (1971 incl. to Gen.Adm.)					4	5
Accounting Department	27	11	25	11	17	10
(of which part-time)		(4)		(1)		
Supply Department	12	19	9	20	6	1
(of which part-time)		(1)				
Credit Department	21	14	21	8	6	3
(of which part-time)				(1)		
Control					5	
(of which part-time)					(1)	
	<u>101</u>	<u>88</u>	<u>84</u>	<u>79</u>	<u>65</u>	<u>42</u>
		(8)		(4)	(4)	(3)

Table 4 Agricultural Development Bank of Afghanistan staffing patterns on October 15, 1971, February 18, 1971 and September 1, 1969 in the branch offices (based upon data from Quarterly Reports of the Hendrickson Team)

	October 15, 1971		Date February 18, 1971		September 1, 1969	
	<u>Officials Number</u>	<u>Employees Number</u>	<u>Officials Number</u>	<u>Employees Number</u>	<u>Officials Number</u>	<u>Employees Number</u>
Branch Offices						
Charikar	2	3	2	2	2	2
Farah	4	3	4	2	2	2
Gardez	2	2	2	2	2	2
Herat	4	3	4	3	5	2
Jalalabad	2	3	2	3	2	3
Kandahar	5	6	5	5	5	2
Ghazni	3	3	4	2	6	2
Kunduz	8	8	7	4	6	2
Mazar-i-Sharif	5	8	7	8	7	1
Maimana	.	.			1	1
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	35	39	37	31	37	24

Table 5 Number and types of loans disbursed in 1348, 1349 and 1350 (March 21, 1969--March 20, 1972), based upon the Annual Report.

	Year							
	1348		1349		1350		Total	
	<u>Number</u>	<u>Afs.(000)</u>	<u>Number</u>	<u>Afs.(000)</u>	<u>Number</u>	<u>Afs.(000)</u>	<u>Number</u>	<u>Afs.(000)</u>
1. Tractors and implements	2	378	57	16,164	30	7,725	89	24,267
2. Water pumps	37	1,898	96	4,760	332	18,869	465	25,527
3. Rice mills	4	229	4	273	30	1,789	38	2,631
4. Karezes and Trellizing	-	-	5	410	3	550	8	960
5. Fertilizer marketing and packaging	1	25	1	100	9	3,713	11	3,838
6. Spare parts	-	-	-	-	1	1,631	1	1,631
Total	<u>44</u>	<u>2,600</u>	<u>163</u>	<u>21,707</u>	<u>405</u>	<u>34,277</u>	<u>612</u>	<u>58,584</u>

Table 6 Distribution of landed property in Afghanistan by size of holdings
(based upon A.P. Dawidow, The Development of Kapitalism in Afghanistan.)

Size of holding						
<u>Hectares</u>	<u>Area</u>	<u>Number</u>	<u>Percent</u>	<u>Hectares (Million)</u>	<u>Percent</u>	<u>Average Hectares</u>
0.0000	.3872	257,872	42.0	.0580	1.6	.208
0.5808	3.8720	265,243	43.0	.5808	15.8	2.189
4.0656	5.8080	32,344	5.0	.1548	4.2	4.768
6.0016	9.6800	26,240	4.0	.1936	5.3	7.378
9.8736	19.3600	22,484	3.6	.2904	7.9	12.915
19.5536	98.8000	13,832	2.2	.5614	15.2	40.587
96.9936	2923.3600	1,208	0.2	1.839	50.0	1522.350
	Total	619,223	100.0	3.678	100.0	

Table 7 Pre-harvest credits extended by cloth sellers in the Quarabaugh market (based upon a survey).

<u>Size of Loan (Afs.)</u>	<u>Number</u>	<u>Percent</u>
0 - 10,000	4	15.4
11,000 - 20,000	9	34.6
21,000 - 30,000	2	7.7
31,000 - 40,000	4	15.4
41,000 - 50,000	2	7.7
51,000 - 60,000	2	7.7
61,000 - 70,000	2	7.7
71,000 - 80,000	0	0
81,000 - 90,000	0	0
91,000 - 100,000	1	3.8
Total	<u>26</u>	<u>100.00</u>

Table 8 Agricultural Development Bank of Afghanistan. Changes of Loan Portfolio in 1349 and 1350
(March 21, 1970 - March 20, 1972) based upon the Annual Report.

	<u>Principal Afs.(000)</u>	<u>Interest Afs.(000)</u>	<u>Total Afs.(000)</u>	<u>Principal Afs.(000)</u>	<u>Interest Afs.(000)</u>	<u>Total Afs.(000)</u>
39 1. Loan Portfolio at beginning of year	77,146	23,968	101,114	85,994	26,034	112,028
2. Provisions on doubtful debts and suspended interest (in %)	21,900 <u>(28)</u>	19,558 <u>(81)</u>	41,458 <u>(41)</u>	20,216 <u>(24)</u>	21,058 <u>(81)</u>	41,274 <u>(37)</u>
3. Net loan portfolio as at beginning of year	55,246	4,410	59,656	65,778	4,976	70,754
4. Loans disbursed during the year and interest charged incl. interest accrued	27,706	6,149	27,855	34,278	6,148	42,326
5. Collected amounts	12,858	4,083	16,941	15,839	4,361	20,206
6. Increase of loan portfolio	<u>8,848</u>	<u>2,066</u>	<u>10,914</u>	<u>18,439</u>	<u>3,681</u>	<u>22,120</u>
7. Increase (Decrease) of provisions for doubtful debts and suspended interest	<u>(1,684)</u>	<u>1,500</u>	<u>(184)</u>	<u>7,563</u>	<u>2,998</u>	<u>10,561</u>
8. Loan portfolio as of at end of year	85,994	26,034	112,028	104,433	29,715	134,148
9. Provisions on doubtful debts and suspended interest (in%)	20,216 <u>(24)</u>	21,058 <u>(81)</u>	41,274 <u>(37)</u>	27,779 <u>(27)</u>	24,056 <u>(81)</u>	51,835 <u>(39)</u>
Net Loan Portfolio as at end of year	<u>65,778</u> -----	<u>4,976</u> -----	<u>70,754</u> -----	<u>76,654</u> -----	<u>5,659</u> -----	<u>82,313</u> -----

Table 9 Profit and Loss Account of the Agricultural and Cottage Industries Bank from 1344 (1965/66) to 1346 (1967/68) based upon the Loan Request of the RGA to the IDA.

40

	Year		
	1344	1345	1346
	<u>Afs. (000)</u>	<u>Afs. (000)</u>	<u>Afs. (000)</u>
<u>Revenues</u>			
Interest from deposits with banks	1,848	1,083 ^{1/}	1,588 ^{2/}
Revenue from participations	356	3,822 ^{1/}	3,446
Interest receivable from debtors		2,901	5,162
Net income receivable from trading operations	3,783	3,746	6,341
Other revenues		<u>292</u>	<u>325</u>
	5,987	11,844	16,862 ^{3/}
<u>Expenditures</u>			
Interest for loans from Da Afghanistan Bank	<u>2/</u>	<u>2/</u>	<u>3/</u>
Interest for deposits	<u>2/</u>	<u>2/</u>	<u>3/</u>
Administration expenditure)	4,347	3,690	4,661
Other expenditure)			
Profit	<u>1,640</u>	<u>7,726</u>	<u>10,875</u>
	5,987	11,844	16,862 ^{4/}

^{1/} Figures from Bank's official balance sheets

^{2/} Interest receivable and interest payable are balanced in the Bank's books

^{3/} For 1967/68 interest receivable and interest payable have been separated on the individual accounts for the purpose of this table by the German Economic Advisory Group.

^{4/} The official total of 16,268 has been increased by separating debit and credit interest of Afs. 594,000.

Table 10 Agricultural Development Bank of Afghanistan. Loan recoveries and maturity extensions granted in 1350 (March 21, 1971 - March 20, 1972) based on the Annual Report.

Category	Kinds of Loans (Afs.000)			
	<u>Short-term Afghanis</u>	<u>Medium-term Afghanis</u>	<u>Long-term Afghanis</u>	<u>Total Afghanis</u>
1. Loans overdue at beginning of year	7,230	16,131	9,379	32,740
2. Loans fallen due in 1350	3,192	21,804	330	25,326
3. Recoveries:				
a) of loans overdue at beginning of year	4	3,200		3,282
b) of loans fallen due in 1350	2,769	9,430	2	12,201
4. Extensions granted to:				
a) Loans overdue at beginning of year	0	504	64	568
b) Loans fallen due in 1350	0	1,271	0	1,271
5. Loans overdue at end of year	7,649	23,530	9,565	40,744

Table 11. Agricultural Development Bank of Afghanistan. Loans overdue in 1350 (March 21, 1971 -- March 20, 1972) based on the Annual Report.

<u>Term of Loan</u>	<u>Uses</u>	<u>Amount of Loan Afs. (000)</u>	<u>Percent</u>
1. Short-term	General	7,205	22.13
2. Short-term	Fertilizer	25	.01
3. Medium-term	General	1,744	5.32
4. Medium-term	Tractors	7,246	22.61
5. Medium-term	Pumps	2,227	6.80
6. Medium-term	Other machinery	329	.10
7. Medium-term	Irrigation	4,585	14.00
8. Long-term	General	9,146	28.93
9. Long-term	Karez	233	.10
		<hr/>	<hr/>
	Total	32,740	100.00

Table 12 Administrative costs of Agricultural Development Bank of Afghanistan in 1348, 1349 and 1350

Overhead Expenses	Year		
	1348 <u>Afs. (000)</u>	1349 <u>Afs. (000)</u>	1350 <u>Afs. (000)</u>
1. Employee costs	3,993	4,045	11,157
2. Bonus payments	623	-	-
3. Travel costs	193	276	-
4. Rent and service	519	732	-
5. Consultants	-	536	-
6. Audit fees	300	450	-
7. Furniture and write-off on acquisition	374	-	-
8. Depreciation on buildings	60	56	747
9. Depreciation on furniture and equipment	-	170	-
10. Other costs	195	275	3,799
Total	<u>6,257</u>	<u>6,540</u>	<u>15,703</u>
Number of loans distributed	44	163	405
Cost per loan	142	41	38
Average size of loan	59	133	84

Table 13 Profit and Loss statements for the Agricultural Development Bank of Afghanistan in 1349 (1970/71) and 1350 (1971/72) based upon the Annual Report

Item	Year			
	1350 <u>Afs.(000)</u>	1349 <u>Afs.(000)</u>		
		14,246,352.66		11,680
<u>Interest and banking charges receivable</u>				
<u>Supply operations</u>				
Sale of merchandise	28,216,128.96		30,052	
Cost of merchandise sold	22,548,581.70		22,768	
	<u>5,667,547.26</u>		<u>7,284</u>	
Commissions received from Supply operations	903,602.10	6,571,149.36	291	7,575
<u>Other revenues</u>				
Dividends earned	300,000.00		250	
Revenues from leasing equipment	108,965.00			
Rental income	16,640.00		14	
Services rendered to RGA	977,491.50			
Neutral and extraordinary revenues	648,986.49	2,052,082.99	2,746	3,010
		<u>22,869,585.01</u>		<u>22,265</u>
<u>Expenses</u>				
Provision for losses	11,498,170.24		2,214	
Interest and banking charges	3,774,421.00		2,945	
Personnel costs	11,157,600.42		6,125	
Other administration costs	3,407,657.41		2,682	
Depreciation	747,153.00		404	
Neutral and extraordinary expenses	392,019.80		6,041	
Turnover tax	1,224,918.00	32,201,939.87	629	21,040
(Loss)/Profit before taxation		<u>(9,332,354.86)</u>		<u>1,225</u>
<u>Taxation</u>				
(Loss)/Profit after taxation		<u>(9,332,354.86)</u>		<u>1,225</u>
		-----		-----

Table 14 Agricultural Development Bank of Afghanistan. Statement of changes in working capital for the year ended March 20, 1972

Item	<u>Afs. (000)</u>	
<u>SOURCE OF FUNDS</u>		
Loss for the year	(9,332)	
<u>Deduct:</u>		
Increase in loan provisions during the year	10,561	
Depreciation	747	
Increase in funds for employees charged to profit and loss	<u>789</u>	
Net source of funds from operations	<u>2,765</u>	
Borrowing from Ministry of Finance under IDA loan agreement	6,329	
Increase in paid-up share capital	<u>31,129</u>	40,223
<u>USE OF FUNDS</u>		
Increase in estimated non-current portion of loans including interest receivable	19,851	
Fixed assets purchased	2,338	
Decrease in non-current portion of liabilities to creditors payable in foreign currency	2,999	
Net loss on foreign currency exchange charged to reserve	2,182	
Dividends paid	208	
Employees' benefits distributed from last year's profit	441	28,019
	<u> </u>	<u> </u>
<u>INCREASE IN WORKING CAPITAL DURING THE YEAR</u>		12,204
<u>WORKING CAPITAL-END OF YEAR</u>		-----
Current Assets	226,646	
less: Current Liabilities	<u>119,457</u>	107,189
<u>WORKING CAPITAL-BEGINNING OF YEAR</u>		
Current Assets	<u>183,910</u>	94,985
less: Current Liabilities		<u>12,204</u>
INCREASE		*****

Table 15 Sales of agricultural equipment by the Agricultural Development Bank of Afghanistan (1344-1350)

	Sales per year (000 Afs.)							
	<u>1344</u>	<u>1345</u>	<u>1346</u>	<u>1347</u>	<u>1348</u>	<u>1349</u>	<u>1350</u>	<u>Total</u>
1. Tractors and spare parts <u>1/</u>	206	24,229	72,886	0	560	24,416	17,471	139,768
2. Water pumps and spare parts <u>2/</u>	141	1,566	17,431	98	2,002	914	2,700	24,852
3. Fertilizer	1,772	12,790	272	325	NA	4	5	15,168
4. Plant protection	1,550	1,678	2,060	2,864	NA	2,613	4,596	15,361
5. Veterinary medicine	154	570	133	274	NA	51	32	1,214
6. Miscellaneous	<u>39</u> <u>3/</u>	<u>488</u>	<u>9</u>	<u>12</u>	<u>268</u>	<u>2,050</u>	<u>3,412</u>	<u>6,278</u>
Total	3,862	41,321	92,791	3,573	2,830	30,048	28,216	202,641

1/ Tractors are Byelarus (Russian at about 262,000 Afs. each and Massey-Ferguson at 368,000 Afs. each

2/ Water pumps are about 80,000 Afs each

3/ Includes 1 rain-making machine

Appendix II.

The Fertilizer Campaign of 1971

In 1971, a severe drought threatened the food supply of Afghanistan and a deficit of from 300,000 to 500,000 MT's of wheat was anticipated. In an effort to partially alleviate the shortage, an emergency program, especially for the distribution of fertilizer and improved seed was mounted by the RGA.

On request, AgBank assisted the RGA in the implementation of this program by recording a loan amount of approximately Afs. 250 million, disbursed to approximately 60,000 farmers, accounting for approximately 45,000 tons of fertilizer.

This necessitated the development of an "easy-to-handle system" for the distribution, recording, and checking of each fertilizer disbursement. A collective security document was introduced, based on joint and individual liability of groups of farmers.

For the collection, controlled lists of farmers in each village had to be compiled, and collection itself has been started combined with a coupon system in order to insure that only those farmers who repaid their previous loan will be entitled to get a new loan. The same system is envisioned for the fall distribution in 1351, although fertilizer on hand is less than adequate.

To insure an adequate supply of fertilizer in the future, the RGA and U.S.A.I.D. are negotiating a \$16.5 million loan to be used for procurement of fertilizer equipment and technical assistance in establishing a fertilizer distribution system. After thorough discussions of the problem involved, the RGA, AgBank and private enterprise agreed to handle in the future the fertilizer import, storage, and distribution through the private sector. For this purpose, AgBank and private wholesalers are establishing a joint-stock company, the AFC, with AgBank keeping the majority of initially authorized share of capital of Afs. 50 million at the first stage.

In order to use the credit facilities already established by the local dealers for farmers, it is intended to channel production loans to the farmers through the supply as far as the wholesaler.

According to estimations, AFS shall distribute in the seasons 1352-1353 (1973/74) approximately 150,000 tons of fertilizer (UREA and DAP) at a cost price c.i.f. warehouse of approximately Afs. 1.2 billion. Although the subsidy on fertilizer is about \$40 per metric ton, it is planned to phase out over a four-year period.

An interesting facet of the fertilizer campaign was that in order to receive a loan, a farmer was required to be part of a group of 10 certified by the Malik, or village leader. The groups were then required to agree to be mutually responsible for the others repayment. Also, the sub-governors were offered .005 of the total amounts of loans collected in their districts, along with a bonus of Afs. 5,000 for a 100 percent collection rate.

Appendix III.

Application and Appraisal Form

Agricultural Development Bank Loan Application Form
(Effective October, 1972)

Translation

1. Number of the loan
2. Number of the application form
3. Approving date
4. Date
5. Village
6. Age
7. Father's name
8. Date of identification card
9. Number of identification card
10. Province
11. Sub-province
12. Place where identification card was obtained

13. I (We) fill our application form to the Agricultural Development Bank for the following purposes
14. I (We) have X jeribs of land, which is written in the financial department. The deeds number or the financial receipt, sub-province, equal to X jeribs. These properties have been guaranteed for getting a loan.
15. I (We) have accepted all the principles which are written by the Bank and all of the information which are written are accurate, and that we will coordinate the management of the Bank with the farm and will give all information that is requested.
16. I (We) have written a loan application to be used for the following purposes.
17. I (We) guarantee that any change in my economic situation will be reported immediately.
18. I (we) assert that we are the owner(s) of the land and that our share after harvest is X percent.

20. Signatures
21. This application has been prepared by me.
22. This application has been prepared by X and
read to the applicant.
- 23 Draw a sketch map of how to get to the farm.

Appendix IV.

Training Assistance

A substantial part of the AgBank's activities are in internal training. \$666,000 of the IDA credit is earmarked for "technical services and fellowships." The UNDP also provides about \$160,000 per annum for training, which is administered by the management. The training grant is expected to run concurrently with the management team's contract and increase to \$258,600 per annum by 1979.

The management team estimates that they spend 50% of their time in training. The Annual Report (2) described the training activities as follows:

"High priority was given, during 1350 to the training of personnel.

A system has been elaborated distinguishing between a basic training, which shall be granted to all employees of the Bank, and special training courses we are offering to eligible employees in order to enable them to cope with more specialized work. Means of training are the training-on-the-job, classroom-type training courses within the Bank, and fellowships.

To achieve the training goal, we got assistance from UNDP providing one instructor for the credit activities. During 1350, we succeeded in employing one instructor each for the accounts and supply activities. At present, they are acquainting themselves with their new tasks.

During 1350, we had employed 20 employees under a training programme for graduates of high schools and/or the Kabul University, out of whom 5 trainees passed the examination successfully in 1351.

Since English is the banking language all over the world, we try to give our employees the possibility to take English language courses. For beginners, we arranged courses within the Bank. Organized by UNDP/Kabul, advanced courses are conducted by the British Council.

After having obtained a full training within the Bank, qualified employees will have the advantage to complete their training on fellowship with similar institutions abroad."

Appendix V.

Fertilizer Distribution for the RGA
In the Helmand-Arghandab Valley Authority
by Carroll Berry

The introduction of fertilizer to farming techniques in Afghanistan, and especially the Helmand-Arghandab (HAVA) region, created a demand which far exceeded the supply, within less than five years. The lack of any distribution system by the private sector made it necessary for the Royal Government of Afghanistan (RGA) to import and distribute fertilizer starting in 1349 (1969/70). Due to a lack of any infrastructure within the RGA to carry out such a program, several agencies within the RGA were asked to cooperate in the fertilizer distribution. The Agricultural Finance Agency (AFA) having been established in 1970 was asked to cooperate with this program in the HAVA region. Planning and coordination of the program was done through the office of the President of HAVA which mobilized not only AFA but also the Extension and Agricultural staff of HAVA. Farmer "groups" were established within the framework of family and tribal groupings. These "groups" were formed to create a mutual security for the fertilizer given to each individual which would be paid for within a twelve-month period at a price established at the time of distribution. It was hoped that groups would not exceed thirty farmers, but some groups had more than one hundred. When the fertilizer was distributed, it was explained that if even one member of the group did not pay for his fertilizer, no other member would be eligible for fertilizer credit until such a delinquency was corrected.

CORN AND WHEAT FERTILIZER DISTRIBUTION FOR
1350 and 1351 HAVA

Year	Amount of Corn Fertilizer Distributed Afs.	Value of Corn Fertilizer Afs.	Amount Collected Afs.	Percent Collected	Amount of Wheat/Fert. Distributed Bags	Value of Wheat/Fert. Distributed Afs.	Amount Collected Afs.	Percent Collected
1350	Urea 10,251 DAP 4,133	4,685,290	3,750,000	80%	Urea 155,586 DAP 88,805	86,977,100	56,812,596	64%
1351	Urea 19,984 DAP 8,478	10,385,600	313,050	04%	Urea 95,679 DAP 102,453	84,375,450	Due Date August 23, 1973	

The first year record (1350) for corn/fertilizer repayment was 80 percent which was an indicator that the group concept and mutual liability was probably the best means for collecting the fertilizer loans in a country which is only now creating an institutionalized banking system. It should also be noted that there are no legal documents which could be used as negotiable instruments, such as the note, chattel, mortgage, lien, etc.

The field work and administration of the fertilizer distribution and collections was done by committees of three people made up of representatives of AFA, an extension agent and a representative from the Sub-Governor's office. The inclusion of the Sub-Governor's representative was to add an RGA representative who could assign officials for collections from any delinquent borrowers.

The poor collection record for the 1350 wheat/fertilizer (64%) which came due in August, 1972 can be attributed to the late date which collections were started and the policy decision made by the RGA to stop collections and concentrate on wheat/fertilizer distribution prior to planting in the months of November and December. (See Chart). Collections have again resumed and the committees expect to collect over 75% of loans outstanding.

Corn/fertilizer collections for 1351 are not due, which accounts for only 4% repayment.