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A GENERAL PLAN FOR AN AGRICULTURAL CREDIT PROGRAM IN AFGHANISTAN

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A GENERAL PLAN AN AGRICULTURAL CREDIT PROGRAM IN AFGHANISTAN

The Agricultural Situation

Afghanistan is an agricultural country with about 85 per cent of its 12 million people obtaining a living from farming including livestock enterprises.

It is an arid country and of its 160 million acres of land probably not over 5 per cent are in cultivation in any one year. A large part of the land area is in mountains or desert with very little vegetation. However, there are many valleys where irrigation is possible and where most of the crops are produced.

Wheat is the principal crop, occupying about 70 per cent of the land cultivated in any one year. Other important cereal crops are corn, barley, and rice. Production of cotton much of which is exported, is increasing. Fruits, nuts, and vegetables, also are important in the agriculture of the country.

The production of livestock is a leading enterprise in Afghanistan and provides food for the population and also products for export. Sheep exceed all other livestock combined in number and wool and Karakul are leading exports. Cattle raising is important for production of meat and hides, some of which are exported. Many of the livestock producers are nomads, moving their flocks of sheep and other livestock with the season as pasture and feed become available.

The agriculture of Afghanistan is underdeveloped and generally primitive methods of land cultivation and harvesting of crops are followed. A large percentage of farmers are illitrate and the output per worker in agriculture is low. Therefore the development and improvement of agriculture is dependent on education of farmers as well as the expansion of markets which only can come slowly over a relatively long period of time. One of the great problems facing the country is the problem of increasing production o on farms and raising the standard of living of rural people. This will require the teching of improved techniques and intelligent direction of new capital into farming and in these activities a credit program can play a leading role.

Land Tenure

Most of the agricultural land in Afghanistan is owned by landlords who cultivate the land with tenants and sharecroppers. Statistics on farm land ownership are not available, but it is probable that for the country as a whole, only about 20 per cent of the farm operators own the land whcih they till. Farm families who provide only their labor in producing crops usually receive one-fifth of the grain crop and one-quarter to one-half of the other crops. The tenant farmers who have been able to acquire oxen and equipment of their own may lease land on contract and usually they receive one-half of the crops produced.

To achieve a substantial increase in the production of agricultural products the Royal Government of Afghanistan will find it necessary to take steps leading to improvement in the land tenture pattern. The farmer who owns the land which he cultive ates with his own labor and that of his family, usually is interested in making farm improvements and in adopting more practices, because he and his family will benefit directly by the increased production. On the other hand, the tenant farmer has little incentive to improve the productivity of the land he cultivates since he may have no a assurance of being able to continue to farm this land over a period of years.

The farms generally are small in land area. A large share of the farm families operate farms of only two to five acres. While the land usually is irrigated and farmed intensively the total production per farm is small and the families have only a comparatively small amount of produts for sale. Any steps which will expand the size of farm units will contribute to more effective use of labor in agriculture and at the same time release workers for other local industries which can be developed.

The land tenure pattern is an important factor to be considered in developing a credit program for farmers. Loans must be confined to productive purposes and made only to farmers who will have the income to repay the loan.

Unless loans are repaid a redit system for farmers will fail. To be most effective improving farming the loan should be made to operators which enable medium size farms who sell products in the market and have incomes which enable them to repay loans. This also means that most of the loans would be made to farmers who own the land they operate or to tenants who have lease arrangements which assure them the use of the land over a period of years.

Financial Institutions

1. Da Afghanistan Bank. This is the largest bank and is the central bank for the country. Nearly all its capital stock is owned by the Royal Government of Afghanistan and it has branches in various parts of the country.
This bank holds around 80 per cent of the demand deposits in banks. It has not financed farmers directly except for a few loans to government workers who also may operate small farms.

2. Bank-Milli Afghan. This bank is privately owned and functions largely in industrial shareasand loans to industries. It is an important factor in financing textile and sugar mills and has financed many farmers in production of cotton.

3. The Pashtany Tejarsty. Bank. This is a commercial bank organized in 1954 to provide credit for small traders. It is still raising capital by the sale of its capital stock

to the public and is supported by Da Afghanistan Bank for funds for loans. Most of its loans are to exporters.

4. The Agriculture and Cottage Industry Bank. This bank was established in March 1954 for the purpose of making loans to farmers to improve and operate their farms, to finance farmers' associations, and make loans for development of cottage industries. It was incorporated with authorized capital stock of Afs. 150 million, of which 85 million was subscribed and paid for by Da Afghanistan Bank on behalf of the Royal Government of Afghanistan. Subscription to stock by the public is authorized but private persons have not been interested in purchasing the stock.

The control of the bank and responsibility for establishing policy rest with the High Council of the Bank. The members of the High Council are the Ministers of Finance, Agriculture, and Commerce, the President and the Vice-President of Da Afghanistan Bank, and the Vice-President of the Bank-e-Milli.
The Ministry of Agriculture serves as chairman of the High Council. The President and the Vice President of the Agriculture and Cottage Industry Bank are appointed by the High Council and these officers appoint other officials and employs of the bank with the approval of the High Council.

The Agricultural Bank is authorized to deposits. Both demand and savings deposits. Only about Afs. 2 and half million in savings deposits are outstanding.

The per cent interst is paid on savings deposits. Funds for loans have come almost entirely from capital. Outstanding loans total about 50 million Afghanis and a fairly large share of these are delinquent in payment of both interest and principal.

The loan program of the bank has not been satisfactory 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. Through branches established in various provinces it made loans but a large proportion of the loans were made to individuals who are large land owners. The security was a real estate mortgage and practically all loans were for periods of 5 years although the bank has authority to make loans for various terms both short term and long term.
The interest rate schedule established provided for a range of interest rates depending upon the term of the loan and ranged from 4 per cent on 1 year loans to 8 per cent on loans of over 5 years.

One of the weaknessess in the loan program was the failure of the bank to set up procedures to control the use of the loan proceeds. While the application for the loan indicated that the funds advanced were to be used for farm improvements and farm operations, 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. The misuse of these funds has placed many borrowers in a difficult financial position with the result that the bank finds collections difficult and may face substantial losses on some loans.

As a result of the unsatisfactory handling of the loan program the Agricultural Bank ceased making new loans and no have been made in the last year and a half. Early in 1959 t here was a change in the management of the bank and the new management recognizes that any new loan program must be established on a wholly different basis if it is to be successful and result in improvement in farming in Afghanistan.

Private Lenders

Practically all the credit used by farmers in Afghanistan at present is obtained from private money lenders. Merchants, landlords, and person engaged in the business of making small personnel loans are included among these lenders While some loans are made by and to individuals within a family group at reasonable rates, the usual rates charged by private money lenders are very high.
Rates of 50 to 100 per cent are common. The loans obtained by small farmers are usually for consumption purposes, including the relatively high expenses of marriages and funerals, and the farmers may remain in debt to the money lender over a long period with the loan becoming an excessive

burden.

No information is available on the amount of indebtedness of farmers but it seems that many carry excessive burens of debt which leads to discouragement and which deprives the farmers of their incentive to improve farming operations. An agricultural credit program which would grandually replace the use of loans frome private money lenders can make a great contribution to improved economic conditions among rural people in Afghanistan.

In addition to individual money lenders farmers producing crops for cotton mills and sugar mills have receved credit from these mills. These loans are usually in the form of advances of seed and other supplies and the amount of these advances generally is deducted from the proceeds of sale crops to the mills.

The Role of Credit in the Economic Development of Agriculture

There are great opportunities for increasing agricultural production in Afghanistan by the adoption of improved and more modern farming practices.
Under the primitive methods of farming, yields of crops are low. Soils have been depleted of fertility and often eroded and need to be restored by improved methods of cultivation

and the use of manures and commercial fertilizer in many areas. The introduction of seed of improved varieties of crops and control of plant diseases and pests, also will increase yields as well as improve the quality of farm products. In the livestock industry better care and feeding of livestock, including pasture improvement, will materially increase the production of livestock and livestock products. Improvement in irrigation systems is needed in most areas.

A great deal of educational work is necessary among farmers to teach them improved farming practices. The best approach to this problem is the development of agricultural extension activities with emphasis on demonstration projects to show farmers the effects on production of the use of improved farming methods. A good beginning has been made in establishing agricultural extension work in several regions and this program should be expanded as rapidly as workers can be trained to serve as extension agents.

In improving farming practices farmers will need materials and supplies such as seed, fertilizer, tools, equipment and livestock. It is in the purchase of these items that farmers need funds which can be obtained from an agricultural credit organization. Besides loans, however, the supplies must be made available and supply stores should be

established at variou s points where supplies are not at present readily obtainable from dealers.

From the above discussion it should be apparent that merely making procisions for loans to farmers is not the answer to improvement and development of farming in Afgahnistan. An agricultural credit program must be tied in with the development of sources of supplies and equipment for farmers and with educational activities. In other words, effective development and improvement of agriculture in Afgahnistan requires credit, supplies and technical assistance for farmers.

Recommendations

It is recommended that USOM-Afgahanistan assist the Royal Government of Afghanistan, through the Ministries concerned, in establishing a program of agricultural credit to further develop and improve the agricultural industry, and that financial support be given to this activity by establishing a revolving fund for loans to farmers and farmer associations. It is suggested that in developing this project the following principals be observed.

1. A program of agricultural credit should be developed gradually over a period of time. A major limiting factor is the shortage of trained persons to hold position as officers and employes in the agricultural credit program.

Training of persons for this work will be an important activity and as trained persons become available the credit program can expand. At the start the program should be in the nature of a pilot project with loans limited to Kabul Province and the Helmand Valley Project Area.

2. A revolving funds of Afs. 10.5 million from funds of the Royal Government of Afghanistan, obtained from the sale of wheat under Title II of Public LAW 480, should be established as a loan fund in the Agriculture and Cottage Industry Bank during the current fiscal year with a like amount added to the funds during the next fiscal year. An agreement should be negotiated with USOM Afghanistan which will provide that these funds should be used only for loans for agricultural purposes to individual farmers and farmer associations. The fund shall be maintained as a revolving fund under separate accounting and all proceeds from interest and principal payments on loans made the fund shall be credited to it and become available for new loans. The fund may also be used for payment of the actual expenses in the administration, and the making and servicing of loans made from the fund. The Agricultural Bank has the authority necessary for handling loans from the fund, and therefore, it appears that the establishment of the fund will only require the approval of the cabinet. New legislation does not seem necessary.

3. The loans will be made by the Agricultural Bank through the managers of its branches who will be given major responsibility in the approval and handling of loans. Since the Agricultural Bank is a government bank with all its capital stock held by the government this agricultural credit program will be a government program. Ordinarily it is desirable to organize agricultural credit systems on a cooperative basis with loans made through farmers' cooperative associations but under conditions presently prevailing in Afghanistan it does not seem possible to organize agricultural credit on a cooperative basis. The country has no cooperative law to provide for chartering and supervising of cooperative associations and the farmers' lack the experince and ability in leadership necessary for successful cooperations. associations.

While the agricultural credit program would be a government program and operated as such for several years, it should be understood that the long-term objective will be to reorganize the program on a cooperative basis with loans made through farmers' cooperative credit associations or through farmers' multi-pupose cooperative associations. The cooperative approach has the distinct advantage of having farmers assume responsibility for approving loans in their home communities and their judgment will be a means of keeping the loans on a constructive and sound basis for

improvement of farming. Also under the cooperative approach, the farmers would contribute some capital to the cooperative associations.

A study has been made of the possibilities of cooperatives in Afghanistan including a proposed draft of a cooperative law. Studies in this field should be continued pointed toward the enactment of a law authorizing the organization of cooperatives, assistance to cooperatives and supervision of such organizations.

4. Technical assistance for farmer homeowners will be a necessary part of the credit program. The main objective of the program will be to assist small and medium size farmers in developing and improving their farms and adopting more modern farm practices. Farming in Afghanistan is primitive and there is great room for improvement. Famers however, must have the assistance of technically trained men to show them how to plan and operate farms using new techniques. The agricultural extension service can be of great help, and at each point where the Agricultural Bank establishes a branch, an extension agent should be appointed to demonstrate improved methods of farming and help farmers in adopting these practices. The manager of the branch who will be responsible for making and servicing loans, should have practical experience in farming and a practical

knowlege of better farming methods so that he can assist borrowers in adopting better farm plans and improve operations. This combination of technical assistance and credit is fundamental to any program for improvement of agriculture and raising standards of living of rural people, under conditions found in Afghanistan.

5. Credit for farmers must be coordinated with a program of providing supplies and equipment necessary for improved farming practices. Farmers need seeds of improved varieties of crops, commercial fertilizers, spray materials tools and equipment and will need loans for the purchase of these supplies. In some communities dealers may be in a position to furnish necessary supplies at fair prices but the Agricultural Bank must carry the major responsibility for making supplies available in communities where loans will be made. This will involve a reorganization in the activities which the Bank has carried on in the past of providing supplies for farmers. At some points the Bank has warehouses available which can be used. Under the manager of the branch of the Bank, there should be an assistant manager whose primary responsibility will be the handling of supplies.

When a farmer obtains a loan for supplies the loan should not be advanced in cash. Under circumstances existing in Afghanistan it will be important first to determine that a loan will be used for productive purposes and then

to disburse the loan proceeds on a basis which will assure the use of the funds for the purposes intended.

If the loan is paid to the farmer in cash he may squander the money for consumptive uses and other purposes than that provided for in the loan application. Therefore, the branch of the Bank should disbures the loan in supplies which it handles or pay a dealer in cases where supplies are bought from a dealer by the borrower. Close supervision of loans will be necessary. For example if a farmer obtains a loan for the purchase of seed wheat of an improved variety not only must the loan be advanced in wheat but the branch should be in a position to see that the wheat is planted as was intended.

Since the revolving loan fund would be limited to loans, this fund could not be used directly by the Bank for the purchase of farm supplies. The Agricultural Bank would find it necessary to use other funds for this purpose. However, when a farmer receives a loan for the purchase of supplies and these supplies are advanced to him, the Bank supply account would be credited with the amount of the loan. Since the Bank should be free to obtain supplies from any source where such supplies can be purchased to best advantage, the source of the supplies purchased by the farmer borrower should not be made a factor which would determine whether or not a particular loan could be approved.

6. The loans made to farmers should be short-term and intermediate-term.

The maximum period of a loan should be five years. Capital is scarce in Afghanistan and the relatively small amount of capital which is available should be used for those purposes which result in the highest productivity.

In agriculture this means that current capital funds should not be tied up in long term real estate loans for the purchase and improvement of farm real estate.

The capital ordinarily will find its most productive use in items such as improved seeds, fertilizer, spray materials and simple tools which can be paid for from the current crop and loans for these purposes would be one year loans. The purchase of improved livestock and heavier animal-draft equipment ordinarily would be financed on a loan of about a three year term.

One of the most productive uses of capital in improving farming in Afghanistan is the improvement of existing irrigation systems. These improvements involve wells and pumps, rebuilding of irrigation canals and strengthening of small dams. While loans limited in term to five years cannot take care of all these improvements, loans of five year term can be used for many improvements which will result in increased production and from which a loan can be paid in installments over a five year period.

Any program of credit for farmers in Afghanistan should have the flexibility necessary for financing irrigation improvements. Also it is recognized that the assistance of an irrigation engineer will be helpful and in many cases essential for planning and constructing many of these improvements.

Since an irrigation system usually serves several farmers, financing of improvements may mean financing of a group of farmers. For this reason attention must be given to the problem of organising the farmers into an irrigation association so that a loan could be made to the association instead of making loans to individual farmers. In financing an association the board of directores of the association would be responsible for making collections through fees paid by individual farmers for the use of water., andapplying these funds to the payment of principal and interest on the loan.

7. If a project in agricultural credit is approved, USOM-Afghanistan should provide an agricultural credit technician to work as an advisor to the Agriculture and Cottage Industry Bank for a period of at least two years. This technician will serve as an advisor to the administrative officers in developing loan policies and procedures. He will assist the Agricultural Bank in the reorganization of its activities which will be essential in developing

a constructive program of credit for farmers. This will require improved administrative and accounting procedures. Also the technician should work with branch managers in developing loan policies and procedures for assisting farmer borrowers in improving farm plans. He will be a leader in plans for training officials and employes in their duties in the agricultural credit program.

In recruiting an agricultural credit technician as an advisor to the bank it will be desirable to try to obtain the services of a man who has had the experience in the Farmers' Home Administration in the United States. The Farmers' Home Administration is a government agency that makes supervised loans to farmers who do not have the resources to obtain credit from the regularly established institutions financing farmers. In Afghanistan the problem will be one of financing small and medium-sized farmers requiring technical assistance and this experience will be very useful.

3. Training of men for work in the agricultural credit program could begin before the American technician arrives. This training would be organized by the officers of the Agricultural Bank drawing upon the Ministry of Agriculture, other bank, Kabul University, F.A.O and USOM-Afghanistan for instructors. The training would include accounting and other business procedures, handling of supplies, and

agricultural practices. This training course perhaps should be organized on the basis of three or four months of study. Persons taking the course would be present employes of the Agricultural Bank and the Ministry of Agriculture and other young men who have qualifications such that they could be considered for employment in agricultural credit work. There would be expenses for salaries and other items which must be met and if a project is approved, the allocation of a special fund for this training course, which would be apart from the revolving loan funds, would seem justified.

Another training activity which might be considered, and this could be undertaken prior to the arrival of the American technician, would be for USOM-Afghanistan to pay the trabel and other expenses of two officials of the Agricultural Bank and one official from the Ministry of Agriculture for a visit to other countries of Asia to observe and study the operation of agricultural credit programs. Japan, the Philippines, and South Vietnam would be desirable countries for this visit. Japan has a cooperative credit system which has operated successfully over a long period of years in financing its small farmers. The Philippines has two programs which started in 1952, one which has resulted in the organization of near 500 farmers' cooperatives for providing supplies and loans and for marketing the crops for small farmers, and thesecond which has resulted in the organization of about 130 rural banks

for financing farmers and small business men. South Vietnam has a new agricultural credit program underway which is financing small farmers and farmes' cooperatives are being organized. Plans should be made for the officials to spend about ten days in each of these countries. By observing the operations of credit systems for farmers in these countries the officials from Afghanistan will get a perspective of what credit can defor improvement of farming and they would likely come back to their country with enthusiasm to move ahead and plan a constructive agricultural credit program.

The Helmand Valley

Under the Helmand Valley authority lands of the Helmand Valley are being irrigated and developedfor settlement. Two large dams and many miles of main canals, branch canal, and distribution ditches have been constructed to irrigate lands for settlement. To date about two thousand landless farmers and nomads have been settled in the area and in the years ahead a large number of families will move into the area as settlers. This project is an effort by the Royal Government of Afghanistan with outside assistance to provide farms for landless people.

The farm unit varies in size from 7 and half to 15 acres per family. The smaller farms are on the higher grade soils and the larger farms on the lower grades. The work of selecting settlers is the responsibility of the Ministry of Interior and the assignment of land the responsibility of the Agricultural Department of the Helmand Valley authority. The Agricultural Department also carries on research and extension programs and assists the settlers in many ways.

The cost of the land to the settler varies approximately from 400 Afghanis for Class IV land to 800 Afghanis for Class I lands per acre. In addition to the land assigned to him the farmer receives credit from the government for other assistance. The total amount of all this aid is to be paid

back in installments over a period of 20 years without interest . The estimated value in Afghanis of the items advanced averages per settler as follows: material and skilled labor to assist the settler in building a home 5,00; one ox 2,500; implements and tools 300; seed 900; wheat for food 750. After a period of 20 years and if the installments on the loan have been paid the farmer will receive title to the land.

While the Helmand Valley authority has resources to make advances to the families at the time the land is settled, it lacks funds for additional credit which may be required for improvements and proper operation of farms in thethe years ahead. As an example of a need for credit, some farmers in the Nad-i-Ali project should shift to livestock production and could use credit for pasture improvement and the puchase of livestock.

If funds are made available for additional credit to settlers in the Helmand Valley the question arises as to what agency should assume responsibility for administration of these funds and the making of loans to farmers. One approach would be t o give this responsibility to the Agricultural Department of the Helmand Valley authority. However, at present this division does not have the staff and facilities necessary for administration of the credit program. This fact was emphasized by the officials of the

division and they felt that the loans should be administered by a branch office of the Agriculture and Cottage Industry Bank. Therefore, if an agricultural credit program is organized, it would seem proper for the Agricultural Bank to organize branch offices in Kandahar and in Lashkar Gah handling loans to farmers in this region.

The branch offices operating in the Helmand Valley area would make loans to settlers and also to other farmers who are already established on farms in this general region. The loans to settlers will present a special problem since the government already has financed the settler on a twenty year loan. In making addional loans to settlers for farm improvements and operations, the Agricultural Bank loan should take a prior position to the settlement loan. In other words the farmer first should use his income to meet payments on the Agricultural Bank. Also all applications from settlers for loans from the Agricultural Bank should have the approval of a committee of the Agricultural Department of the Helmand Valley authority and without approval of this committee no loan would be closed. Loans to farmers who are not regular settlers in the valley would be handled on the same basis as loans to farmers in other parts of the country.

Loan Policy and Procedures

The following additional suggestions are made for consideration in developing loan policies and procedures in an agricultural credit program in Afghanistan.

Loan Applications. Any farmer desiring a loan from the Agricultural Bank should file an application for a loan at the branch office of the bank or with a local representative of the branch. This application should provide general information on the farm, the financial position of the farmer and the proposed uses for the funds. The financial information should include a complete list of debts with the amount and terms of each. If an applicant is heavily involved in debt it is unlikely that a loan can be made unless he can obtain an adjustment of debts from his creditors. While loans generally will not be made for refinancing debts due lenders, there may be instances where refinancing of small debts may be desirable to relieve the farmer of high interest charges and so place all his loans with the Agricultural Bank. The loan application also should contain information on the personal risk factor which will give facts on the reputation of the applicant and his willingness to pay his loans.

Farm Inspections. Before approving a loan the manager of the branch or his representative in the area should visit

the farm of the applicant and make a report. The cropping program and livestock production should be noted and an estimate made of the net farm earnings to determine how and when the loan can be paid. Any loan approved would be of amounts and terms to fit into a profitable plan of operation of the farm.

Security for Loan. The regulations on security for loans should be flexible to permit adjustment to the circumstances in each case. The primary security is the earning power of the farmer and his farm. Unless it is apparent that the farmer has prospects for income to pay the loan it should not be approved. A small short term loan to finance current production and made to a capable and dependable farmer can be made without specific security and the only requirement involved would be endorsement of the loan by one or two people in good financial standing. Any loan made for the purchase of livestock and equipment should be secured by a chattel mortgage on the items purchased and other livestock and equipment on hand. Loans will be made mainly to farmers who own the lands they cultivate and it will be desirable to register the loans with the local tax collector to prevent sale of the farm without payment of the loan.

Interest Rates. Afghanistan is a country with a scarcity of capital and interest rates generally are high. In Kabul for example, individuals who are good credit risks pay

rates of 25 to 30 per cent on loans for commercial purposes. Many farmers now are paying rates up to 100 per cent to private money lenders. The principle to be followed in determining the rates on loans by the Agricultural Bank would be to give the farmer-borrower as favorable a rate as possible but at the some time keep the rate at a level which would enable the bank over a period of time to pay the operating expenses of the loan program and build up some reserves against losses on loans. Loans will be made from the capital funds of the bank which at present are government funds. No interest or dividends will be paid to the government on its investment in the Agricultural Bank and to the extent that the Bank has interest-funds for loans, this is a subsidy to the farmers obtaining credit. The interest charged on loans should be at a rate which will cover the expenses of making and servicing loans and provide a reserve for losses. If adequate interest is collected the capital funds will remain intact for loans to farmers over the years.

The Agricultural Bank also will be handling supplies for farmers. This activity should be under a separate division and separate accounting. It would seem that the prices charged farmers for supplies should cover the cost of these supplies to the Bank and its expenses in handling them. In other words the farmer would be receiving supplies at cost price and the Bank will not sustain a loss on its supply

activity which would impair its capital.

It is difficult to say what the interest rate on loans should be at the start of the program. Consideration might be given to establishing a rate of 10 per cent on all loans. While this rate is higher than that charged by the Agricultural Bank in the past, considering the present level of interest rate in the country, this is a favorable rate for farmers. Once the bank has developed a fairly large volume of loans this rate may provide the income necessary to cover the loan expenses, and if it does not, then adjustments in the rate on new loans could be made.

Limit on Size of Loans. It is intended that the agricultural credit program finance primarily small and medium-size commercial farmers. Since the total of funds available for loans is relatively small a limit should be set for the maximum loan to any one individual farmer. It would seem that regulations should provide that the maximum amount of loan outstanding to any one individual at any time should be 40,000 Afghanis (at present exchange rate about $950). This limit would prevent large loans to large farmers but at the same time give medium size farmers a line of credit which would help them in farm improvements and farm operations. It does not seem practical to set a maximum limit for loans to farmers' associations but the bank should avoid tieing up a substantial part of its loan funds in a loan to

any one association.

Approval of loans. The loans by the Agricultural Bank should be made through its branch offices. The manager of the branch would be responsible for the analysis of loan applications and would give final approval to loans and within regulations established and the funds provided for the branch, would disburse the loans. In examination of the branch offices by the Bank the loans would be reviewed and any corrections made in procedures in loan approvals that seemed necessary on future loans.

In loans to farmers' associations the manager of the branch would analyze the application., make necessary field investigations and prepare reports to be submitted with his recommendations to the Bank. Final approval of all applications of loans to farmers' associations would be made by the officers of the Agricultural Bank under the general loan policies established by the High Council of the Bank.

Collection of Loans. Loans will be made only to farmers who have prospects for income which should enable them to pay the loans under the terms prescribed. The manager of the branch will be responsible for collections and he must have the assistance of local representatives who are in a position to follow development on the farms of borrowers and aid in obtaining payments on loans. When the farmer sells his crops or livestock he will be

expected to make payments.

A great deal of educational work among farmer borrowers will be necessary to create a responsible attitude toward debts. When a loan is closed the terms of the loan must be reviewed carefully with the borrower and he must understand that he will be expected to repay the loan according to the loan agreement. It should be made clear to him that if circumstances develop such as unforeseen crop failures which may prevent him from making payments as agreed, he should contact the branch office representative well in advance to make arrangements for extensions or other adjustments in the loan contract.

Relations with Agricultural Extension Agents

It is desirable that an Agricultural Extension Agent be available to assist farmers in all areas where the Agricultural Bank makes loans. The extension agent should not assume any direct responsibility for manager of the branch offices of the Bank. However, the extension agent so far as possible should assist farmer borrowers in improving their farming practices. The manager of the branch office should provide the extension agent with a list of borrowers in their respective areas with the understanding that the extension agent would try to visit the borrowers and offer technical assistance to these farmers. Contact with them will help the extension agent in his program since these farmers are likely to be the more progressive farmers in

the region and will be men who are interested in adopting better farming methods. In this connection also it would be helpful to the Bank if the extension agent would report to the manager of the branch office any developments on particular farms which would have a bearing on the loans. Close collaboration between the branch manager and the extension agent will be mutually beneficial.

Accounting and Examination

It is highly important that complete and accurate accounting records be maintained for all activities of the Agricultural Bank and its branches.
This will include a complete individual loan file on each borrower. The branch offices should hold the complete file on individual loans and duplicate copies of important loan documents should be held in an individual loan file in the Agricultural Bank.

Accurate recording must be made of all disbursements on loans and all payments made by borrowers.

Representatives of the Agricultural Bank should examine the records of the branch offices from time to time to see that the records are kept in proper form. These representatives also should aid employes in the branch offices in setting up and maintaining proper accounts.

The revolving loan fund must be administrated as a special fund separate from the general funds of the Agricultural Bank and separte accounting of all transactions pertaining to this fund will be necessary. This means that the accounts of the fund will show all loans with disbursements made from it, payments received on those loans, and the loan expenses charged against the revolving fund.

Once each year it will be desirable to have an examination made of the Agricultural Bank and its branch offices, to check on the accuracy of records, by examination from another agency of the govern ment to be designated for this work.

This examination should include a reviw of a sample of loans to determine the status of the loans and whether they conform to the objectives of the agricultural credit pr ogram.

The examiners should make a report of their findings and recommend actions for correcting deficiencies.

The examiners' report should be reviewed by the officer of the Bank with the members of the Ministry Council.

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