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SUBJECT - Report on Cooperatives in Afghanistan by Wallace J. Maddock, Representative in India, Cooperative League of the USA

REFERENCE -

Cooperative development in Afghanistan is in its infancy. Because of the cultural insulation of the extended family, the intricacies of tribal relationships, the individualism of Afghans and a succession of failures in the past, prospects for a substantial cooperative movement appear to be doubtful.

Nevertheless, international, regional and third country donors and lenders continue to manifest interest in the establishment of cooperatives for various purposes. It seemed timely, therefore, for USAID/A to explore the present climate and future prospects for cooperative development. Mr. Maddock, who has a wealth of experience in this field, was invited to Afghanistan for a short exploratory review. The attached report summarizes his findings.

While mindful of the many difficulties that would be entailed, Mr. Maddock is far from pessimistic about the possibilities of at least laying the groundwork for cooperative development. He proceeds on the assumption that institutions geared to the economic needs of Afghan farmers -- whether called cooperatives, associations, societies or any other acceptable nomenclature -- must somehow be devised to fill the near-vacuum in effective local organization that now exists.

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He cites the need for appropriate legislation, of developing rural leadership, of mounting a capital mobilization program (mentioning credit unions as a device that has been successful in a number of other countries), and among other things the desirability of exposing Afghan technicians to cooperative activities in other countries.

Mr. Maddock's report provides valuable guidelines for possible future USAID/A involvement in the creation and support of cooperatives.

NEUMANN

REPORT OF COOPERATIVE CONSULTANT
to AFGHANISTAN

WALLACE J. MADDOCK
Cooperative League USA

April 17 - May 5, 1971

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I. SUMMARY

- A. There is no cooperative statute in Afghanistan at present. Some legislation is under consideration but progress seems to be very slow. A suitable cooperative statute is an essential umbrella under which cooperatives can be organized and grow. An authorizing law, however, will not necessarily inspire sound cooperative development. Cooperative activities and undertakings might well begin on an informal basis.
- B. United Nations organizations such as I.L.O. and F.A.O. have for several years encouraged cooperative activities and cooperative legislation.
- C. Afghanistan established an Agricultural and Cottage Industries Bank in 1954, which was rechartered in 1970 as the Agricultural Development Bank (AGBANK). The IBRD has recently made a loan to the AGBANK for mechanized agricultural equipment. The AGBANK, through its 9 branches, is distributing this equipment on credit terms to individual farmers. All loans must be considered and acted upon in the headquarters office in Kabul.
- D. Collateral lien (mortgage) laws are not effective and widespread institutional agricultural credit therefore is limited and very difficult. In some countries an agricultural credit program; crop production (short term) and medium term lending has been established on a reasonably successful basis without reliance upon legal mortgages.
- E. Several types of informal cooperative activity are taking place, such as the Program on Agricultural Credit and Cooperatives in Afghanistan (PACCA); the farmer association movement within the AFA, the land development group loans of the Kandahar branch of AGBANK. These indicate a recognition of the need for a rural organization structure to deal with the problems of agricultural development.
- F. The AFA organization and its internal structure appear to have much in its favor toward becoming an effective institutional arrangement for provision of agricultural inputs and agricultural extension services.
- G. There are some natural leaders (tribal leaders, etc.) in rural communities. Efforts to use and broaden this existing leadership to perform effectively in agricultural development activities should prove fruitful.

II. CONCLUSIONS AND SUGGESTIONS

- A. There is urgent need for cooperative enabling legislation to be promulgated, providing recognition of cooperative type organizations.
- B. While cooperative legislation is essential, cooperative activities should proceed within existing framework to develop rural leadership, mobilize capital and provide an organizational structure through which agricultural extension work can be carried out, distribution of production inputs can be made and effective marketing services can be provided.
- C. The concept of initiating a capital mobilization program, such as is being done at PACCA and the program discussed with officials of AFA appears to be a sound start toward agricultural cooperative development.
- D. It is suggested that the thrift and savings practices followed by credit union type of cooperatives be emphasized and the money management features be made a part of such educational and training programs. With a basic equity capital of its own, a farmers organization, cooperative, association, or society can demonstrate its capability for self-management and its reliability for use of borrowed funds.
- E. Formal agricultural organization units (cooperatives) of farmers should be of such size that the volume of business will be large enough to support full-time professional management. This volume may be increased by diversifying services. Informal farmer member groups may be formed within tribal or village boundaries through which cooperative member relation and agricultural extension programs can be carried out. Such informal groups through their natural leaders may also act as self-supervising with respect to credit capability of individual members, proper use of loans, and follow-up on prompt repayment.
- F. While a collateral lien law is necessary for agricultural lending through institutions on a broad basis, it alone does not substitute for sound lending, basic understandings between farmer and lender, mutual confidence and purposeful lending that is productive. In many agricultural lending operations, short-term production credit is provided without effective chattel liens. In too many instances dependence upon a "legal" security position managed by an "impossible" bureaucratic system destines an agricultural credit program to bankruptcy.

CONCLUSIONS AND SUGGESTIONS (cont'd)

- G. There is cooperative activity going on in Afghanistan. The UN organizations I.L.O. and F.A.O. have and are encouraging these developments. The existing informal activities should be encouraged and observed closely for the evolution of a pattern that may be replicated on a wide basis.
- H. Some technicians closely associated with some of the cooperative activities might benefit from observation tours of some cooperative development practices that are employed in other countries. Some of the agricultural cooperative lending procedures employed in Thailand might have relevant adaptation. Both technical advisors and counterparts should benefit from visits to some of the more sophisticated institutional arrangements such as those of Taiwan.

III. OBSERVATIONS

- A. This assignment was to examine the institutional arrangements for the provision of agricultural production and marketing goods and services in support of RGA's increased production objectives, with special emphasis on the role that the farmers cooperatives might play. Some members of the Robert Nathan Associates team working on the Asian Development Bank survey were engaged in examining some parallel aspects of these arrangements and some of our observations were made jointly.
- B. The Mission Director indicated that a major obstacle to increasing production was the lack of an effective arrangement of providing credit and fertilizer for the farmers. He said the Mission was looking for ideas.
- C. The Agriculture Staff felt that the AGBANK is not an effective agricultural lending agency and that no effective organizational structure existed for the distribution of credit and other agricultural production inputs.
- D. The FAO/SIDA PACCA (Program on Agricultural Credit and Cooperatives in Afghanistan) is conducting an effort to establish a pattern of integrated agricultural input services applied to a grape production program. These officials are working with 600 farmers. Effort is being made to establish a cooperative-type of operation among these farmer members, but the organization is not legally formalized. For this reason the AGBANK has declined to provide needed credit for land development.

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OBSERVATIONS (cont'd)

A ten member farmer board of directors of the Program on Agricultural Credit and Cooperatives serves as an advisory and leader channel for promotion of various innovations and supply of agricultural inputs. Management is, however, totally in the hands of the FAO technicians.

A member capital mobilization program has been started based upon deposit of a percentage of crop sales of each member. Afghanis 136,000 capital have been accumulated in this manner. The Ministry of Agriculture is providing fertilizer on credit. The AGBANK is providing some credit for marketing operations.

- E. AGBANK in some areas seems to be primarily a distributor of equipment, i.e., tractors and pumps on credit.

The Ministry of Agriculture and Irrigation provides some agricultural inputs such as seed and fertilizer on credit.

- F. The producers in the HAVA (Helmand-Arghandab Valley Authority) area are being organized into cooperative-type organizations under the AFA (Agricultural Finance Agency). The AFA is an organization set up to implement an effective program for distribution of agricultural services to assist producers to increase production. It is closely associated with the AGBANK and operates, in some respects, like an AGBANK branch but with a great deal more autonomy and latitude of decision than any AGBANK branch that has come to my attention. HAVA officials are endeavoring to promote the cooperative idea through organization of farmers associations at the local level. These associations, cooperative in nature, are bounded by the historical tribal structure or sometimes the union of two or more tribes into one association under a strong natural leader. The associations are informal structures at this point due to lack of suitable legal authority under which to register. It is proposed that they engage in distribution of fertilizer to their members as retailers and that they retain one afghani per kilo for expense and equity deposits.

This organizational structure appears to have many desirable features. A careful look should, however, be taken at the volume of business that may be generated by the size of membership and whether it is likely to be sufficient to support efficient professional management for an economically viable cooperative organization.

OBSERVATIONS (cont'd)

- G. In a visit at Herat, principal contacts were made with the two USAID agricultural advisors, the Director-General Sifuddin, Z. Shanshab and Mr. Niazi, assistant manager of the Herat Cotton Company, a private organization. The Ministry handles distribution of fertilizer primarily through bondholder agents in this area. The AGBANK branch present activity is limited to distribution of agricultural **machines and equipment**. All **loan approval authority resides in Kabul**.

Mr. Niazi represented the only cotton marketing facilities in the area. Cotton prices are set by RGA and production is increasing quite rapidly. The Company buys on grade and pays the farmer immediately. There are 7-8,000 producers who marketed about 9,000 tons last year. The Company saves the seed from the top-grade cotton for seed multiplication. Mr. Niazi stated that he entrusts seed multiplication to about 40 farmers whom he deems honest.

- H. The AGBANK branch in Kandahar received 50 tractors and has disposed of most of them, 20 being sold in Kandahar Province. The branch has in years past made some land development loans through some farmer groups with a recognized leader with whom the bank dealt. The groups vary in number of members, who selected their own leader, usually a literate person.
- I. Afghan farmers seem to be financing the agricultural marketing operation in at least some commodity areas. Produce is delivered to dealer and payment to farmers is made after the dealer receives his remittance. Time-lag varies with the established commodity marketing pattern--one to four months.
- J. Dr. Hendrikson Associates of Frankfurt, Germany, are under contract to manage and train management staff of the Agricultural Development Bank of Afghanistan. Richard Floto holds the title of General Manager. AGBANK has a loan commitment from IERD for tractors and other farm machines and implements. AGBANK has established nine branches but these seem to be only branch offices which prepare and transmit loan documents to the central office for action. The bank does not have legal authority to make loans to local farm organizations because they have no legal status. This is recognized as a major obstacle to the bank's performance as an effective agricultural credit institution. It is proposed that the bank organize some limited liability stock companies of farmers that can be legally registered and to which loans can be extended. The General Manager plans to

OBSERVATIONS (cont'd)

incorporate many cooperative-type provisions into the charter of these companies. He also indicated a desire to have a cooperative advisor to work with AGBANK in connection with this program. The AGBANK staff has prepared and is urging the RGA to adopt cooperative legislation.

- K. The Pakhtia Project, run by the German Advisory Group, has an authority status with the Ministry of Planning similar to the HAVA. The advisory team consisting of 20 agricultural advisors and 6 Peace Corps workers is engaged in a wide variety of agricultural and community development projects. They respond to requests from local groups, try to work out a demonstration with local collaboration and, when the practice or program is established, turn it over to local entrepreneurs. A training program is being carried out involving one year's training for local farm leaders who must initiate new farm management practices on their farms during the period of training. The trainees must agree at the onset to return to their own communities to perform agricultural extension type of leadership responsibilities. Under German management a fund is being accumulated from cooperating farmers as a loan guarantee fund. It is expected that the Authority, being a legal entity, can obtain funds from AGBANK in amounts up to three times the guarantee fund for loans to their members. The Authority under German management will provide the agriculture inputs for which the credit is authorized. This pilot operation could be expected to evolve as a multi-purpose agricultural cooperative eventually.

IV. ACKNOWLEDGEMENTS

The Cooperative League of U.S.A. through its Representative in India is privileged to have been provided this opportunity by the USAID Mission in Afghanistan to visit and observe the developing rural organizations in the country. Arrangements for appropriate contacts as well as for field visits and appointments were well scheduled within the limited time available.

The program provided for eleven days of field travel and visits to the following points:

Badam Bagh
Kandahar
Lashkar Gah
Herat
Khost

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Program on Agricultural Credit and
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Afghan Karakul Institute

Kandahar Agricultural Extension Service

Kandahar Branch of Agricultural Development Bank

Agricultural Finance Agency

Helmand-Arghandab Valley Authority

Ministry of Agriculture and Irrigation

Dr. Hendrikson Associates - Contractors to the
Agricultural Development Bank of Afghanistan

University of Wyoming Team - Advisors to Kabul
University

Food and Agriculture Organization of UN

Herat Branch of Agricultural Development Bank

The Cotton Company of Herat

The Pakthia Project Authority

Pakthia Governor and staff at Khost