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TO - AID/W TOAID A- 484 X

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FROM - USAID/Kinshasa

SUBJECT - Noncapital Project Paper - Supervised Agriculture Credit

REFERENCE - M.O. 1025.1

14 p.

A. Identifying Data

Country: Congo (K)
Submission Date: September 23, 1968
Project Number: 660-11/22-140-023
Project Title: Supervised Agriculture Credit
US Obligation Span: FY 1969 through FY 1975
Gross Life-of-Project Financial Requirements:

US Dollars (DL) 1,000,000
US Owned Local Currency 1,640,000
Total 2,640,000

B. Summary Description and Purpose of the Project

The goal of this project is to stimulate an interest on the part of the GDRC, donor groups and commercial lending institutions in the necessity of providing for a source of supervised agricultural credit with a view towards creating the foundations for, if not an actual, National Agricultural Bank which will serve small as well as medium sized farming enterprises. The nature of this proposal does not admit to a well defined accomplishable goal which can be achieved by multilateral finance sources. For this undertaking non-AID sources are not available.

MCBRIDE

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DRAFTED BY CBShorter:hk	OFFICE Program	PHONE NO.	DATE 9-23-68	APPROVED BY: CAMann, AID Dir and Econ Couns
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AID AND OTHER CLEARANCES

PROG:DLatwell
F&A:LRasmussen
D/DIR:DSBrown

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The project will, however, provide a corollary to several technical agricultural assistance programs that are already underway. It should provide field experience that will help shape a slowly evolving Congolese agricultural credit institution. It will serve as a pilot plan, to test the widely held belief that many Congolese farmers are ready to effectively participate in, contribute to and utilize an agricultural credit program.

There is widespread interest among the Congolese in agricultural credit programs. The Congo has a real need for a national lending institution that will put farming on a more modern economic footing. Without a source of credit, crop inputs, other than family labor and the land itself, are generally unavailable. The greatest needs are for tools with which to cultivate the land, improved seed and fertilizer. Larger units of land such as cooperatives, or in some cases, private holdings are in need of trucks, tractors and similar equipment.

The program will be oriented towards the production of food crops. The production of such products now rests largely in the hands of the thousands of peasants pursuing limited individual goals without cohesive planning or direction. They are without effective guidance or intelligently planned farming programs, and follow therefore a haphazard pattern of shifting cultivation which could irreparably deplete the arable lands.

In order that the full agricultural potential of the Congo be felt, even before being realized, a viable modern system of credit, although not a panacea, is mandatory. Post independence progress in the traditional agricultural sector has been slow since expansion depends entirely upon accrued individual savings.

In some cases small producers form marketing cooperatives in order to protect themselves from frequent unfair pricing practices. In the main however, the small farmer, while not starving, has only primitive or near primitive equipment and methods and a meagre annual income which cannot provide for adequate expansion. Small agricultural producers selling to local markets have endured a far worse economic slump and have need of assistance in order to recover even former production levels, and in some strategic areas, in order to meet new demands from growing urban centers. The 1968 IBRD study strongly recommended the establishment of a National Development Bank.

Since the project is a five year pilot plan upon which to develop experience that hopefully will lead to a National Agricultural Credit system, it is difficult to plot input and target goals with rigid specificity. The project involves financing equipment needs for small farmers located in several areas now being assisted by foreign technical teams. These teams are intended to have a role assisting, along with prospective IVS volunteers in the formulation and appraisal of loan requests and appropriate supplementary extension services.

The program will be described in detail by a TDY senior agricultural credit expert in early 1969. Loans will be processed as soon as the IVS volunteers arrive and are on their locations. The first series of loans will utilize the resources of the Counterpart fund, up to a maximum of 500,000 Zaires. Simultaneously a list of materials and supplies that are in most common demand will be compiled. When these lists are in final form, (approximately one year after the start of the program) a loan proposal will be prepared by the Mission and AID/W staff. The advantage of this program is in the fact that once a recipient has been identified and his farming program approved, he will be able to transfer his credit resources into material needs, without long delays, and disappointments.

Basic to this plan will be the training of Congolese credit advisors through actual on-the-job experience during the life of the project. It is planned in the latter stages of the project that these trainees will be processing agricultural loans from second generation funds which will accumulate as the original loans commence to be repaid.

Field personnel will investigate, assist and supervise farmers receiving financial assistance. Actual disbursement of the loans, accounting and repayment will be under the direction of a commercial banking institution. (Socobanque)

The following gives a tabular breakdown of life of project inputs:

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KINEASA

Time Period	Activity	Cost	Explanation or Description
Jan/Feb 1969	TDY Senior Agricultural Credit Specialist will arrive for approximately 90 days to develop in detail project lending guidelines and operating procedure to be used by IVS team. FIC/Cs for technician's supporting material will be prepared.		Senior Credit Specialist will be a man of experience capable of setting up program in detail and providing technical advice and guidelines. He will be provided by IVS.
Mar 1969	Fourteen IVS personnel will be recruited including twelve field specialists, a team leader and one Senior Agriculture Credit Advisor.	\$ 640,000	IVS team leader in addition to overall administrative duties will function as link man for team and handle personal and other problems of other team members. Technicians to be recruited include cooperative specialists, business administration specialist, agronomists, and other purely agricultural disciplines. The IVS Senior Agric. Credit Advisor will function in an advisory capacity only and will be responsible to the team leader.
June 1969	IVS Senior Agricultural Advisor and Team Leader arrive and commence preliminary operation and program.		
August 1969	IVS team will receive language training, orientation, etc.		
Oct 1969	IVS team arrives to be deployed as follows:		

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11	Time Period	Activity	Cost	Explanation or Description
6		a. Four to Chinese Rice Training in M'vusi		
		b. Eight to the field to begin initial loan application process. Potential area should be "primed" with information re the program, qualifications for loans, etc. beforehand by donor teams and the GDRC for maximum receptivity of IVS team efforts.		
	Nov 1969	Request for first tranche of counterpart funds for first subloans.	\$ 500,000	
	Jan 1970	IVS personnel will accept loan applications and forward to banks for final approval. Field work as necessary will continue.		
	April 1970	Start negotiation for equipment DL with GDRC.		Invitation for bids for equipment will be drawn up by USAID with IVS assistance and sent to AFR/CDF/ENGR for review and cost estimates. A TDY engineer will be requested by USAID if necessary.

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Time Period	Activity	Cost	Explanation or Description
Jun/Jul 1970	Request second tranche of CP funds and complete negotiations with GERC for DL for equipment which will include tractors, tractors, insecticides, fertilizers, small implements, etc.	\$ 1,800,000	Negotiations re the DL for equipment will benefit from 9 to 12 months field experience of the IVB group.
Dec 1970	All equipment should arrive and start moving to sites where loans have been approved.		
Jan 1970-1971	All equipment to be in use by farmers. Subloans will be programmed in toto.		After loan is signed invitations for bids should be advertised in Small Business Circular. Farmers will not receive loan funds or equipment in one lump. Subsequent inputs will be metered in logical increments programmed from field experience and monitored by banks.
Oct 1971	All subloans made		Production inputs will still be made per the credit system to be devised. Management of funds will be handled by commercial banks under instruction of field personnel.
Nov 1971 to May 1973	Assist farmers with technical problems; help them to meet repayment schedules and handle any other problems.		

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11	Time Period	Activity	Cost	Explanation or Description
7	June 1973	<p>Money will be available from repayment of loans for second generation loans. Congolese trainees will be encouraged to take initiative under IVS surveillance to make these loans. Experience from first generation loans should make operations of second generation loan program more effective. Applicants who failed to qualify for first generation loans should have received necessary assistance from donor teams and IVS personnel to raise their level in order to qualify for these second generation loans.</p>		<p>Details for these second generation loans will be worked out with IVS assistance. Emphasis will be on encouraging Congolese to take initiative, and to instill business-like methods that will permit them to operate system themselves.</p> <p>The success of the program should stimulate farmers who did not qualify or who did not apply for loans to raise their sights toward more modern farming methods and evolve from limited hoe and ax farming to efficient income producing farming.</p>
	June 1975	<p>Sixty percent of second generation should be reallocated. Phase out of IVS personnel.</p>		

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C. Setting and Environment

As stated there is widespread interest among the Congolese in agricultural credit programs. There are several agricultural programs in Congo (K) which could benefit from this project and could furnish experience for its general design.

In 1966 the USAID and GDRC agreed upon an emergency program of agricultural credit for the reclamation of agricultural holdings that had been damaged during the Simba revolt of 1964-1965. In all, 54 loans were made principally to rubber, coffee and palm producers totalling 300 million Congolese Francs (\$1.3 million). The loans were supervised by commercial banks who retained the interest charges as a management fee. A thorough follow-up study including site visits to two thirds of the holdings, emphasized the need for a more valid and rigorous selection system for borrowers. The banks which managed the program were inadequately staffed to perform the requisite field examinations. As a result, even though the general results were satisfactory, there were a few cases of misuses of credit funds. In most cases access to professional advice on the borrower's part would have considerably improved a mediocre performance.

This project is not an emergency measure but aims at longer term results. In this case counterpart funds and imported materials will be made available to small farmers and cooperatives who are engaged in the production of food crops (principally corn, rice and market vegetables). Technical assistance will be provided by one senior agricultural credit advisor assisted by the IVS specialists. Loans will be made in four to five areas which are already within the zone of influence of a technical assistance program of another donor group.

Geographic areas currently benefiting from agricultural assistance programs which are considered for this project include:

1. **Equateur Province:** The Belgian Technical Assistance Mission has fielded a fourteen man rural development team with emphasis on increasing production of corn, rice, manioc, beans, and sweet potatoes. The provincial agricultural services are being organized, and furnished with minimum tools necessary to restart the extension services. Villagers are being encouraged to maintain roads, and the team is aiming to expand and improve programs of public health and public education.

2. **Bumba Territory:** A nine-man team from the Chinese Agricultural Mission to the Congo is embarking on a program of increasing rice production through the diffusion of selected seed, and the introduction of improved cultural practices. Bumba is one of the major rice growing regions of the Congo.

Congolese personnel assigned to this area will have been graduated from the special six

months training course organized by the Chinese Mission in another part of the Congo.

3. Kinshasa Area: The provision of the Kinshasa markets with green vegetables is an effort that staggers the imagination. Unless modern intensive cultivation techniques are introduced there is a danger of depleting arable soils in and around the city in a few years. The Kinshasa Irrigation Survey proposed for FY's 69 through 71 will make available 10,000 irrigable acres east of Kinshasa to Mahala Mass. The FAO and French Technical Assistance Mission have each assigned agronomists to areas in and around the city area working with individuals and groups to improve and sustain food production. These efforts should be enhanced by the current project and should increase significantly when the 10,000 acres are available for farming.

4. The European Development Fund: This fund consists of two programs of technical assistance in Eastern Congo. One project in Katanga is geared to corn and tobacco production. The second program, in Kasai, is aimed at increasing production of cotton and corn. FED envisages that in this latter program alone the expenditures of \$6 million over five years to reach traditional farmers on 80,000 hectares of land, and to build a lasting institution capable of meeting seed, extension and marketing requirements of over 14,500 families.

All of the above programs provide a sufficient matrix for a workable agricultural credit program as proposed. The USAID has talked several times with the section of Cooperative and Agricultural Credits in the Ministry of Agriculture. This section has fourteen U.S. trained participants whose skills for the most part have not been utilized properly, or effectively. The skills of these participants should be employed to the maximum extent with IVS personnel who will be participating in this project. It is anticipated that the GDRC will offer the fullest cooperation and assistance possible.

In 1960 there were approximately 10,000 farmers forming an embryonic rural middle class. The number of this group is not known with any accuracy today, however this project will direct its attention to this group as well as the approximately 200,000 small peasant farmers whose needs have not been effectively met and who do not possess the where-with-all to improve their subsistence level of farming.

D. Strategy

1. General - The project is a second test, after the initial program which enjoyed some success, of a scheme for extending agricultural credit in the Congo. The USAID intends to operate the program utilizing the proposed financing as a further demonstration to the Congress of this type of program. Emphasis will be on creating a new emerging middle class of entrepreneur farmers who will form the backbone of a viable agricultural scheme for the Congo. At the end of the program given a successful conclusion, the USAID will recommend that the GDRC establish a permanent agricultural credit institution utilizing their own resources and possibly a major input of DL

resources. This project differs from the first in that food crop producers rather than export crop farmers are to be involved. Food crop farmers have been the last to recover from post-independence difficulties of 1960, 1963-64, and 1966-67.

The IBRD's 1968 Mission to the Congo envisioned eventual establishment of a credit institution for medium and large agriculture. However, it confirmed the view of many authorities that agricultural credit to small farmers is lacking. The Bank's draft report stated:

"There will probably be some need to extend agricultural credit to small farmers, but only in conjunction with specific agricultural programs focusing on certain regions and crops, and under conditions where the crops must go through particular processing and marketing channels and the credits can accordingly be recovered without too much difficulty."

This project was formulated exactly within the scope of the (later) recommendation of the Bank. It should be noted that the project will aim exclusively toward assisting production for the local food and fiber markets.

Emphasis will also be placed on developing initiative on the part of the Congolese to start effecting modern methods of agriculture and to instill a sense of business and awareness necessary to support a going agriculture system. This project should emerge as the germ of a system that should eventually extend through the Congo. The USAID considers the involvement of Congolese, both on the field and administrative level to be vital to the long range goal of a credit system. The Congolese must have more of a direct stake in the project and receive knowledge of the project's administration. The USAID and the Senior Agricultural Credit Adviser will work this aspect out in detail; for example a counterpart to the Agricultural Credit Adviser is planned as well as counterparts for the credit supervisors.

3. Cooperating Country Leadership - As mentioned previously many Congolese have expressed an interest in an agricultural credit program and the GERC has expressed a willingness to support it. The Ministry of Agriculture will contribute qualified counterparts. The USAID will recommend to the Ministry of Public Works to devise road maintenance and improvement programs that will complement the anticipated agricultural increases. The USAID will also recommend that the banks give thought to initiating training programs for loan officers, credit advisors, and other personnel that will be needed to sustain a large credit system. The USAID will assist where possible to establish this program and make recommendations where feasible for financing. The Congolese banks were not able to play as full a role as possible in the first test, because of a lack of personnel. The banks have learned from this experience and have expressed their willingness to assume a key role in a credit system.

F. Planned Targets, Results and Outputs

This proposal anticipates that in the target areas, small food crop producers will make the transition from hoe and axe to more modern methods that will sustain multi-hectare plots and form the basis of a viable undertaking will exert economic pressure on the maintenance of roads, public health, the storage and transportation of grains, schools, etc. It is anticipated that the project will provide the basis for establishing a National Agriculture Credit System with potential for expansion and directly result in increased food and fiber production and concomitant increase in farm incomes. The general improvement of the community as a result of this project will, it is hoped act as a catalyst to further improve and solidify the system and receive high GDRC priority for future development.

It is envisioned that this project will result in 100 loans of approximately \$20,000 each. Those farmers who are identified as good risks to make this move, will be given the chance of the judicious application of agricultural credit, tailored to a pre-developed plan (to be worked out in detail by the Senior Agricultural Credit Advisor), and with the provision of access to professional assistance and advice. This will be the role of the IVS volunteers who will be deployed in four three man teams. The criteria of outputs and applicable parameters during the life of the project will depend on the detailed implementation plan to be devised by the Senior Credit Advisor. However, it can reasonably be said that the ability of borrowers to make first repayments within approximately eighteen months will be a target. Assistance will be provided by a monitoring system which will be devised by IVS site visits. Qualitatively it is expected that farmer/borrowers will develop a business like demeanor indicative of an appreciation of the significance of the project's goals. Farmers not participating in the program, will observe the benefits of an agriculture credit system. This should travel via the "bush telegraph" to stimulate an interest in other food producers which should result in applications for first and particularly second generation loans.

After the detailed implementation plan has been devised the USAID will forward a more detailed schedule of life of project targets. At the completion of the project it is hoped to have a viable agriculture credit system capable of expansion, run in the main by Congolese, and which is an integral part of a viable, stable agriculture "big business" concern. This system should stimulate and augment related sectors, for example Public Works projects (roads, home and business construction), schools; Public Health (food production will improve diets and the influx of people will bring doctors).

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TO - KINSHASA AIDTO A-235

see 4/30/69 Prop

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FROM - AID/W

SUBJECT - Non-Capital Project Paper (PROP)

Supervised Agricultural Credit

REFERENCE - (A) TOAID A-484 (B) AIDTO A-220

40p

We have reviewed the PROP and conclude it merits favorable consideration upon receipt of additional information. We have discussed with International Voluntary Services (IVS), the willingness and capability of IVS to provide personnel for field operations as proposed in the PROP. Based on this discussion, IVS is prepared to undertake this project if and when it is approved.

a revised PROP and worksheet PIC/T. AID/W is prepared to send a TDY consultant to Congo-K for approximately 30 days to assist in preparation of/ USAID should be able to assemble and analyze much of the information before his arrival. Everett Hendrick participated in the discussions on this project and is aware of the kinds of information needed for a PIC/T and work plan (outlined below). While we will attempt to recruit a consultant who speaks French, it will be difficult to find a French speaker and perhaps delay PIC/T preparation. We have in mind a retired AID Food and Agriculture Officer---non-French speaker---who has specialized expertise in supervised credit. He may be available on short notice.

Meanwhile, we emphasize the importance of USAID obtaining information in advance of the consultant's visit particularly benchmark data on current credit programs. Thought also should be given to rationalizing the requirements for 12 IVS field agents---specific geographical locations and the credit potentials of each location.

The conversations with IVS produced some divergence from the project organization proposed in the PROP. IVS feels the project manager should be an AID credit specialist who would supervise and be responsible for the overall operation of the project, including top-level advice to Congo organizations involved and liaison with the IVS team leader.

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DRAFTED BY	OFFICE	PHONE NO.	DATE	APPROVED BY:
JPEmerison: bob	AFR/ID/AG	7183	10/22/68	AFR/ID, Director. RLRupard

AID AND OTHER CLEARANCES

AFR/ID/AG: FC Jones

AFR/CNA: DShear

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If the project is approved AID/W could assign a direct-hire credit advisor for a regular two-year tour. IVS does not have such a specialist at its disposal and feels such expertise and leadership should be attached directly to the Mission. AID's experience in credit projects leads us to agree.

The IVS leader would have a general agricultural background without the expertise required for a senior credit advisor.

The attached reports reflect the complexities and difficulties of implementing an agricultural credit program. We especially commend for attention the terminal report of Ohio State University analyzing credit institutions and services in Latin America. While different environments prevail in Latin America than in the Congo, the fundamental principles stated by Ohio State are applicable world-wide.

The PROP as submitted raises fundamental questions stemming from incomplete information. It is too generalized in certain important respects for consideration as a final proposal at this point. For guidance, we submit the following items to be covered in a revised PROP and PIO/T:

1. Objectives (life of project).
2. Targets (Quantitative and by years for loan and repayment volumes, number of borrowers, number of farmers served, manpower training, commodity outputs etc.)
3. Credit Purposes and Volumes
 - a. Short-term (one-year) Illustrative: Fertilizers, seed, insecticides, labor.
 - b. Medium-term (two-to-five years). Illustrative: tools, small storage facilities, small equipment, etc.
 - c. Long-term. Illustrative: land-clearing, larger equipment, processing and storage facilities, etc. For the early years, lending should focus on short-term production credit. Credit for long-term repayment is in great demand but requires considerable advance analysis. In most countries longer-term credit is less productive and more risky than short or medium-term.
4. Policies - This section should describe lending policies including interest rates, repayment terms, collection procedures, borrower eligibility, criteria for repayment capacities, rescheduling of repayments in event of calamities, and maximum delegation of authority for lending and collections.
5. Organization(s) and Operational System - Roles of USAID, IVS, GDRC, cooperatives and other private credit institutions; manpower resources required, available, and to be trained; liaison with extension, marketing, and other programs related to credit system.
6. Projected Financial Program - By years, loan capital, repayments, administrative costs, U.S. costs. Discussion of relation of this program to overall GDRC stabilization program.

Other Comments

The PROP (page 1) states the program will serve small farmers. Later (page 11) the project is envisioned to result in 100 loans (over what period of time?) of approximately \$20,000 each. Loans of this magnitude definitely will not serve small farmers unless some are to cooperatives for sub-lending to small farmers. In some credit programs, a ceiling (\$400 to \$800) has been placed on individual loans in order to maximize the impact of limited lending capital. Experience indicates the risk is less and repayment better for small loans than for larger loans.

Authorities on credit programs in developing countries also stress the importance of built-in program provisions to mobilize the savings of rural areas for a part of the lending capital. In some cases, this is done by deducting 5 percent or so from each loan to become a deposit for the borrower in the credit institution.

USAID reactions to the above are requested.

ATTACHMENTS

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