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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

# CAPITAL ASSISTANCE PAPER

Proposal and Recommendations
For the Review of the
Development Loan Committee

690-22-110-024
690-T-005

## SWAZILAND - SMALL FARMER AGRICULTURE CREDIT



AID-DLC/P-2017
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UNCLASSIFIED

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

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AID-DLC/P-2017

January 17, 1974

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Swaziland - Small Farmer Agriculture Credit

Attached for your review are the recommendations for authorization of a loan in an amount not to exceed $750,000 to the Government of Swaziland to assist in financing the local currency costs of an agricultural credit program for small-scale Swazi farmers. To accomplish the foregoing, the loan funds, or their equivalent in local currency, will be provided to the Borrower, reloaned to the Swaziland Credit and Savings Bank(SCSB), and then reloaned by SCSB to qualified small-scale Swazi farmers.

Please advise us as early as possible but in no event later than close of business on Monday, January 28, 1974, if you have a basic policy arising out of this proposal.

Development Loan Committee
Office of Development
Program Review

Attachments:
Summary and Recommendations
Project Analysis
ANNEXES I - XII

SWAZILAND - SMALL FARMER AGRICULTURE CREDIT

Unclassified
AID-DLC/P-2017

January 17, 1974

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Unclassified

SWAZILAND--SMALL FARMER AGRICULTURE CREDIT

AID-DLC/P-2017
January 17, 1974

## SUMMARY AND RECOMMENDATIONS

I. Borrower: The Government of Swaziland (GOS)

II. Amount of Loan: $750,000

III. Cost of Project:

| | | |
|---|---|---|
| Small Farmer Loans | | $1,000,000 |
| Proposed AID Loan | $750,000 | |
| GOS/SCSB Funds | 250,000 | |
| Technical Assistance | | $ 200,000 |
| Proposed AID Contribution | $150,000 | |
| SCSB Contribution | 50,000 | |
| TOTAL: | | $1,200,000 |

IV. Terms: A. Maturity: 40 years, including a 10-year grace period;
B. Interest: 2 percent per annum during the grace period, 3 percent thereafter;
C. Currency: Interest and Principal payable in US dollars.

V. Description of Project: To provide financial credit to the Swaziland Credit and Savings Bank (SCSB) to relend to small-scale farmers for procurement of seeds, fertilizers, insecticides, small tools and implements and other related agricultural materials in order to improve their farms and increase agricultural production.

VI. Purpose of Loan: To finance the local currency costs of a credit program for small-scale farmers.

VII. Background: In 1966 the GOS began a comprehensive rural development program in selected Rural Development Areas (RDA) which during the first phase of the program emphasized general infrastructure such as dams, stock watering points, feeder roads, soil conservation structures and village community services. In 1971, in order to expand this rural development program, the GOS requested financial assistance from A.I.D. and the U.K. A.I.D. in response to this request authorized a $2.2 million loan to the GOS for the procurement of heavy equipment to develop six rural development areas, the construction of a demonstration ranch and the provision of $250,000 to the Swaziland Credit and Savings Bank for an agriculture credit program, for agri business and farmers associations.

Because of the progress the GOS has made in developing the RDAs and the increased credit demand from small-scale farmers, both within and outside

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All dollar amounts in this paper are calculated at the rate of 1 Rand=$1.50 US.

1/ AID is considering providing SCSB with the services of an OPEX advisor for a four year period under the Southern African Development Personnel and Training Project, 690-11-720-030.3....

the RDAs, the SCSB has requested a loan to be used exclusively for a small farmer credit program. The SCSB also requested that A.I.D. provide a senior agricultural credit advisor to assist in strengthening and developing the agriculture credit program. A.I.D. will provide this technical assistance under the recently approved Development Personnel and Training Project.

VIII. Ex-Im Bank Clearances: Clearance received on December 7, 1973.

IX. Country Team Views: The country team strongly endorses this loan.

X. Statutory Check List: Satisfied. (See Annex I.)

XI. Recommendations: Authorization of a $750,000 Loan to the Government of Swaziland for on-lending to the SCSB to expand its small farmer credit program.

Capital Assistance Committee:

| | | |
|---|---|---|
| REDSO/EA: | Loan Officer | - S. R. Whitmer |
| | Agricultural Economist | - M. L. Winter |
| | Lawyer | - W. D. Jones |
| AID/W : | Project Design Officer | - W. H. Johnson/J. Lieberson |
| | Desk Officer | - F. Scordato |
| | Agriculture Officer | - E. Siira |
| | Lawyer | - T. Muntsinger |

# I. Introduction

A. General Country Background: The Kingdom of Swaziland, a former British protectorate, obtained internal self-government in April 1967 and full independence in September 1968. It is a small, landlocked country (6,700 square miles), surrounded by the Republic of South Africa and Mozambique. The country consists of four contrasting topographic regions; namely, from west to east, the Highveld, the Middleveld, the Lowveld, and the Lubombo plateau. The Highveld is a mountainous area, with an average height of 4,000 feet and a humid, near temperate climate. The Middleveld is a rolling grassland with altitudes varying between 2,000 and 2,500 feet, and a subtropical climate. The Lowveld is a Savannah-type area, varying in height from 500 to 1,000 feet, and a tropical climate. The Lubombo plateau is a narrow stretch of land along the eastern border with about the same characteristics as the Middleveld. However more than 40% of this total land area is owned by foreigners (mainly South Africans). The rest of the land is reserved for occupation by the Swazi, and vested in the King as Swazi Nation Land in trust for the Swazi Nation.

In 1972, the estimated population of Swaziland was 480,000 including 30,000 absentees. The population density is, approximately 67 per square mile and the annual rate of population growth is estimated at between 2.7 and 3.1 percent. The population composition is approximately 465,000 Africans, 10,000 Europeans and 5,000 other non-Africans. Ninety-four percent of the African population belongs to the Swazi Tribe; the rest consists of a variety of other tribes, mainly Zulu and Shangane.

The majority of the African population belongs to one tribe, and because of the popularity of the King, the country appears to be politically stable. The structure of the Swazi government is complex. There is a dual system, consisting of a "modern" government (cabinet and ministries), and a traditional tribal government (the Swazi National Council). The country as governed by the cabinet ministries is referred to as "the Kingdom of Swaziland", but the National Council governs what is called "The Swazi Nation". Both the Kingdom and the Nation have their own separate budget. Most of the country's tax revenue flows into the treasury of the Kingdom; mineral royalties, however, are paid to the Nation. While the cabinet has the power to approve development projects, such as those for power and communications, anything that has to do with land, such as agricultural or mining projects, also requires the approval of the National Council, and ultimately of the King.

B. Current Economic Situation

Gross domestic product in 1968/69 was calculated at R54.6 million 1/ (provisional estimates for 1970/71 are R68.9 million) of which agriculture and forestry contribute approximately 24 percent, mining, quarrying and construction 17 percent, community, social and personnel services 17 percent, manufacturing 15 percent and various other sectors the remainder. Per capita GDP is approximately R130 but the distribution is very skewed due to the existence of a dual economy; it is estimated that per capita GDP in the Swazi sector is only approximately R84, whereas per capita GDP in the modern sector is substantially higher due to higher salaries and wages paid to expatriate labor. The visible balance of trade is positive (exports of R56,034,000 in 1971, imports of R47, 824,000) but the nature of the monetary arrangements (i.e., a member of Southern African Customs Union) means Swaziland cannot have either a surplus or deficit on its overall balance of payments, as conventionally defined for more than a brief period. Among the major invisible items are customs union receipts and repatriation of profits.

Public revenues have risen sharply since a renegotiated Customs Union Agreement with South Africa came into effect in 1969. Receipts totalled R10.4 million in 1968/69 and rose to R17.9 million in 1971/72. The 1972/73 estimates are R23.1 million. This increased revenue has permitted a balancing of the budget, the creation of a reserve fund and a sizeable expansion in public expenditure from R14.86 million in 1968/69 to an estimated R21.49 million in 1972/73, an average annual growth rate of 13 percent. Future growth in revenue will undoubtedly be more modest reflecting the real growth of the economy rather than exceptional circumstances.

Banking statistics show that deposits have risen from R10.9 million on September 30, 1968, to R26.9 million on December 31, 1971, while lending had grown from R14.3 million on September 30, 1968, to R25.1 million on December 31, 1971. The growth in both deposits and lending indicates increasing economic activity and a rising level of domestic savings.

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1/ 1 Rand = $1.50

The majority of the working age population is not in paid employment in Swaziland or elsewhere. The 1971 mid-year estimate for the working age African population is 233,427. Total employment within Swaziland including the self-employed and employees of private households, but excluding subsistence farmers was estimated at 56,000. Of this, approximately 47,000 were in wage employment. In addition, it is estimated that approximately 15,000 were employed abroad. The agriculture sector accounts for about 37 percent of total paid employment.

C. Present Development Plan

The Second National Development Plan, prepared in 1973, sets forth the policies and programs which the GOS intends to follow during the period 1973-1977. These policies and programs are guided by two broad purposes: first. to promote the widespead participation of the Swazi people in development in order to improve the general standards of living; and secondly, to achieve a greater measure of independent control over the economic affairs of the nation. To achieve these purposes, policies and programs have been developed by the GOS in agriculture and the financial sectors with the following aims:

1. to promote the progressive transformation of traditional agriculture from subsistence to semi-commercial and commercial farming, both to create more opportunities for gainful employment and to raise incomes in the rural areas;

2. to increase employment opportunities as rapidly as possible both through emphasis on rural development and through measures to expand wage employment and self-employment in the modern sector;

3. to establish and strengthen the institutions and instruments necessary to a modern and independent government for the effective guidance and control of the economy;

4. to continue the diversification of external economic relations, both in trade and in aid.

To carry out these aims, the GOS plans to invest R42.7 million in capital expenditures over the next three years from 1973 to 1975. During the course of the Plan, the program will be expanded to cover the final two years 1976 and 1977. This investment program will be supported by an increase in the recurrent expenditure of key development ministries (agriculture, education, health, public works, etc.) in order to allow the ministries to expand their services.

As a result of the government's development program and the expected expansion of output and investment in the private sector, the rate of growth in gross domestic product is estimated to be 5 percent per annum during the Plan period. However, the rate of growth depends to a great extent upon increased production and continuing access to the markets of the developed world for Swaziland's primary commodity exports and an increase in foreign assistance, particularly, in agriculture and institution building.

Table I

SWAZILAND

Second National Development Plan

Public Investment Program, 1973 - 1975/1976
(Rand)

| Category | | Amount | Percent |
|---|---|---|---|
| Government Administration | | 2,883,500 | 6.77 |
| Law and Order | | 1,305,344 | 3.06 |
| Community Services | | 9,174,242 | 21.53 |
| Water and Sewage | 3,418,642 | | |
| Housing | 3,040,600 | | |
| Other | 2,715,000 | | |
| Education and Training | | 4,397,128 | 10.32 |
| Health | | 1,080,547 | 2.54 |
| Agriculture and Forestry | | 8,119,857 | 19.05 |
| Transport and Communication | | 7,167,976 | 16.82 |
| Industry and Power | | 8,352,000 1/ | 19.60 |
| Commerce | | 133,055 | .31 |
| | | R42,613,649 | 100.00 |

1/ Includes R5,149,000 for a Thermal Power Station.

Source: Second National Development Plan 1973-1977 GOS pp245-251

## D. Project Background

In 1966, the GOS began a comprehensive rural development program in delineated Rural Development Areas (RDAs). The intent was to focus (without completely disregarding areas outside the RDAs) the limited resources and services of the GOS Ministries in areas where rapid development was judged to be achievable, i.e., in areas of high agricultural potential and where local populations were progressive. During the first phase of this program, general infrastructure such as dams, stock watering points, feeder roads, soil conservation structures and some village community services were to be provided.

To expand and further implement this rural development program, the GOS requested financial assistance from A.I.D. and the U.K. In 1971, A.I.D. authorized a $2.2 million loan to the GOS for the procurement of heavy equipment to develop six rural development areas, the construction of a demonstration ranch, and the provision of funds for an agriculture credit program for agribusiness and farmer's associations. Since then the GOS has utilized approximately $2.0 million of the A.I.D. loan by procuring $1.7 million of heavy equipment and passing on $250,000 to the SCSB to make sub-loans to agricultural enterprises. The $250,000 was fully disbursed through sub-loans by March 31, 1972. The remaining loan funds are being used to finance the ranch equipment and the construction of the demonstration ranch. The original loan should be fully disbursed by April, 1974.

In March, 1972, prior to the disbursement of $250,000 to the SCSB, Mr. Rufus Long, an A.I.D. credit advisor evaluated the institutional capability of the SCSB. His terms of reference were to review the bank's operations and procedures for utilizing the A.I.D. loan. His conclusions and recommendations were that the SCSB was a creditworthy institution and capable of effectively using the funds. He further indicated that AID should consider a second loan for up to $2 million should a further evaluation of the bank, the RDA program and credit demands confirm his preliminary findings. He also recommended that A.I.D. provide technical assistance (an advisor and participant training) to develop agriculture credit policies and procedures and to promote farm credit cooperatives.

In October, 1972, the GOS formally requested A.I.D. to provide technical assistance to the SCSB and an additional $2.0 million to the bank for their small farmer credit program. In response to this request, A.I.D. secured the services of Mr. Henry Lowe, an A.I.D. PASA technician, employed as the General Manager of the Agriculture Finance Corporation of Kenya, to undertake a study of the bank's capacity for expanding the SCSB small farmer credit program and the future credit requirements of small farmers. Mr. Lowe's study was completed in April, 1973. (See Annex X for conclusions and recommendations.)

E. Relationship to U.S. Assistance Strategy

The objectives of the A.I.D. program for the southern African countries are based on the Secretary of State's policy statement "U.S. and Africa in the 1970's." Basically the policy is to assist small land-island countries with multi-racial and majority controlled governments to maintain their independence, stability and economic development and achieve self-sustaining growth. In support of these objectives the U.S. assistance strategy for Swaziland is to concentrate on the development and growth of the agriculture sector. This project is intended to increase agriculture production of small farmers by providing the credit required to purchase improved inputs This type of assistance is a necessary component of GOS plans for transforming the agriculture sector from traditional peasant subsistence orientation to a modern market oriented production system.

F. Borrower and Executing Agency

The Borrower is the Government of Swaziland. The implementation of the project will be the responsibility of the government-owned Swaziland Credit and Savings Bank (SCSB). The GOS Ministry of Finance will relend the proceeds of the A.I.D. loan to the SCSB on the original loan terms, which will in turn make credit available to small farmers to purchase improved inputs.

II. The Agricultural Sector

A. Structure and Land Utilization

As indicated, agriculture continues to be the most important sector in the Swaziland economy accounting for almost one-quarter of the GDP and two-fifths of domestic exports. Over 70 percent of the population derives its income and livelihood directly from crop and livestock production or from the processing of agricultural products.

However, a high degree of economic dualism exists in agriculture between the modern, large-scale estate segment and the small scale traditional segment. While the modern and traditional elements make roughly equal contributions to GDP, the latter utilizes approximately four times as much labor. The modern segment is largely expatriate, is highly capitalized and is highly productive. The traditional sector utilizes much less capital and operates at a low productivity level.

Approximately 55 percent of the country's total area is held by the Swazi nation or Swazi Government; the remainder is held under freehold title mainly by non-Swazi landowners. Swazi nation land is owned communally by the Swazi people but vested in the King. The local chiefs allocate land to individuals for family occupancy and grant communal grazing rights. Individuals are rarely deprived of their land use rights, even in cases of prolonged absence. Land use rights pass to children after death. While the existing type of land use hampers the development of the Swazi traditional sector, current government programs have been established to alleviate the problem. However, even without land reform, considerable scope exists for yield improvements through the application of modern farming techniques, fertilizers and improved seed. (See Annex IX)

In 1970 approximately 12 percent of Swazi nation land was under cultivation with maize by far the most important crop (occupying over 75 percent of the cultivated area) followed by groundnuts and sorghum. Approximately 7 percent of freehold land was under cultivation in 1970 with sugar cane, cotton and maize occupying the largest area. (In value terms, sugar cane, cotton, citrus, rice and potatoes rank ahead of maize. 1/) Permanent grazing areas and other land accounts for almost 85 percent of Swazi nation land and approximately 70 percent of freehold land. However, over 80 percent of the cattle and small stock use Swazi-owned land with resultant deterioration of Swazi nation grazing areas.

3. Development Policy

It is with the above factors in mind that the GOS has established as its most pressing priority the need to increase investment, expand managerial skills and raise land and labor productivity in the traditional agricultural sector. According to the Second National Development Plan 1973-1977, "The first aim of agricultural policy is to assist Swazi farmers in making the transition from subsistence activity to semi-commercial and commercial farming." Fulfillment of this aim will require:

1. the continued promotion and expansion of the program for consolidation of land holdings, resettlement and creation of basic physical infrastructure in rural areas;

2. strengthening the framework of basic services, particularly agricultural and animal husbandry extension, crop and livestock marketing, credit facilities and producers' cooperatives;

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1/ Swaziland currently has a quota of 30,000 short tons of sugar under the U.S. Sugar Act. This represents approximately 16 percent of Swaziland production.

3. increasing the marketed production of key food and cash crops (especially maize, cotton and tobacco) by Swazi farmers, primarily by raising crop yields per acre and by introducing more farmers to cash farming.

## C. Development Programs

The agricultural investment program to achieve the aims contained in the Second National Development Plan is framed in terms of area, and to a lesser extent, commodities. The primary areas for concentration are the six rural development areas (RDAs) with particular emphasis being given to the northern (1800 families), central (4,620 families) and southern (15,060) families) RDAs. The principal commodities on which efforts to increase production will be focused are maize, cotton, tobacco and cattle, especially for beef production.

### 1. The RDA Program

The RDA program combines the process of physical reorganization and rationalization of land use with the provision of improved services to farmers. The initial step is physical reorganization to achieve rational resources management and utilization on the basis of land use plans and the provision of additional infrastructure. These changes are followed up by an intensified extension effort, the introduction of new and improved crop inputs, provision of credit and establishment of marketing facilities.

The physical reorganization involves the consolidation of land holdings, separation of farming and grazing areas, homestead relocation where necessary, road construction, soil and water conservation measures, rotational grazing plans for grazing and development of water resources through small dam construction.

Over a period of time the intensified extension effort will be accomplished in each of the RDAs by the expansion of staff, to the following levels:

1 Project Manager
2 Agricultural Extension Officers (one each for cereals/legumes and cash crops)
1 Livestock Officer
1 Field Officer per 200 families
1 Assistant Co-operative Officer - Credit
1 Assistant Co-operative Officer - Marketing, Workshop and Mechanical Staff

RDA programs have been established in three of the six proposed locations. The northern RDA, headquartered at Piggs Peak, has had first priority. These RDA activities have been supported by AID-financed equipment from the Agricultural Development Loan, (See Capital Assistance Paper AID-DLC/P-945 for details.) and by Technical Assistance personnel. 1/

The RDA program begins with the preparation of a detailed land use analysis of the area. This has been completed in several of the RDA's. In the northern RDA, all chiefdoms involved (seven) have requested implementation of the recommended programs. Activities which follow include: terracing of arable land as needed; consolidation of land and relocation or re-siting homesteads as required; development of croping plans; construction of access roads and small scale irrigation reservoirs; fencing of village or community organized pastures; construction of village storage warehouses and organizing marketing associations and, where practical, arranging to de-stock grazing land to levels of production consistent with the resources available.

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Source: Progress report on Swaziland Rural Development Project and Swaziland Agricultural Development Loan.

2. The Crop Promotion Program

The crop promotion program is based on an improved extension effort resulting from (a) increasing the concentration of staff in progressive areas; (b) enabling individuals to specialize in a few extension tasks tied to a specific crop or farming operation; and (c) increasing the professional supervision and in-service training of basic staff. A UNDP/FAO Crop Production Extension Project is in the early stages of implementation to supply additional skills in maize, cotton and tobacco production and to initiate a program of in-service training to upgrade existing Field Extension Officers.

The activities will be carried out within the framework of an expanded Crop Promotion Project with special attention focused on the RDAs, including, as necessary, redeployment of staff. The scheme, which provides extension advice accompanied by a package of improved inputs including seed, fertilizer, insecticides and sprayers (supplied if necessary on credit) will be expanded from its original emphasis on cotton to include maize and tobacco.

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1/ A.I.D. contract personnel providing part-time services to the Northern RDAs are two soil conservation engineers, a heavy equipment shop foreman, an animal husbandry officer, a range management specialist and an agricultural marketing research officer.

Over the next three years, two extension technicians in cotton production and two in maize production will be assigned to each district - each major RDA will have one cotton and one maize production officer. The southern RDA will, in addition, have one of the two tobacco production officers assigned to the Shiselweni district.

D. Supporting Services

In addition to the Ministry of Agriculture extension services which have already been mentioned and the Swaziland Credit and Savings Bank which will be discussed in the following section, the co-operative movement has a major role to play in the development of agriculture. Among small rural producers there is a growing need for forms of joint organization to operate common supply, production, marketing and credit services. However, the growth of agricultural cooperatives has been slow. At present there are 27 agricultural cooperatives in Swaziland with an additional 100 farmer associations. The central problem facing the expansion of cooperatives is lack of (total of 21) trained cooperative officers and their limited mobility. Nevertheless, there are plans to utilize existing farmers' sheds and depots (currently operated by the Ministry of Agriculture) as focal points for the formation of new cooperatives and to convert viable farmer associations to cooperatives. It is anticipated that the number of cooperatives will thus be doubled by 1976. Cooperative marketing will be emphasized initially in the RDAs.

Another group of cooperatives which hold some potential as a mobilizer of rural savings and a supplier of credit to farmers is the Savings and Credit Cooperatives which are now being formed. Approximately twenty are in existence and five more are being organized, some in rural areas. The GOS plans to encourage these organizations and provide a small amount of aid to supplement the funds raised by local savings.

E. Agricultural Marketing

To date, the GOS role in agricultural marketing has been very small. The private sector is responsible for all marketing activities except for the operation of certain controls aimed at market regulation. Given the success of the system, which due to the Customs Union Agreement ties Swaziland production to the controlled marketing arrangements operating in the Republic of South Africa, any changes in the near future are unlikely. The principal problems facing Swazi farmers are not the availability of markets or market prices. Instead, it is the physical and organizational problems of moving the many available small surpluses from the farm to the nearest marketing center. A subsidiary problem is quality control.

The Ministry of Commerce and Co-operatives has set up a small marketing section to focus on small farmers marketing problems. Initial efforts will be concentrated in the RDAs to assist in bulking up surpluses and in arranging transport to markets. A pilot scheme is already operating in the northern RDA. An important part of this effort will be an attempt to improve the quality of small farmer produce and consequently price.

For the major crops a brief description of the marketing system follows:

Maize: Over the past five years Swaziland has been forced to import varying quantities of maize to meet domestic requirements (15,000 - 25,000 tons annually). To stimulate production, and achieve self-sufficienty, a minimum price of R38.50 per ton has been established. The Swaziland Milling Company has been designated by the government as the sole maize purchasing agent and is required to buy all maize offered for sale at the guaranteed price. A number of buying points are scattered throughout the country and as more small farmers become commercially oriented it is expected that the attractive price will draw greater quantities into the marketing system.

Cotton: There are three competing outlets for cotton produced in Swaziland. The first is a ginnery in Swaziland which maintains three storage depots and has two buyers in the field to purchase directly from the farmers. Payment is based on grade. The other two outlets are ginneries in South Africa which offer heavy competition, particularly, in certain border areas, and for title deed cotton of higher quality. It is GOS policy to encourage use of the local ginnery which operates at 50-60 percent of capacity.

The principal market for all (except local consumption) of the cotton produced is the Republic of South Africa. The South African market can readily absorb exported Swaziland production although substantial improvements in the quality of Swazi medium staple cotton would be necessary before it could and would actually compete with other cotton entering the South African market.

Tobacco: All tobacco produced in Swaziland, except that consumed locally, is exported to the Republic of South Africa. The Nhlangano Tobacco Co-operative in Swaziland handles two-thirds of Swazi production including all production from small Swazi farmers. In South Africa, Swazi tobacco competes with home production and duty-free imports from Malawi and Southern Rhodesia. Because the type of tobacco produced in Swaziland, mainly dark air-cured pipe tobacco, is in considerable demand in South Africa, it is expected that all Swaziland production will enter that market for the foreseeable future.

## III. Financial Institutions

### A. Background

As previously discussed, one of the aims of the current development plan is to strengthen the system of institutions and measures affecting the flow of domestic financial resources as a necessary step towards economic independence. In 1968 when Swaziland achieved political independence, few of the institutions or the legislative framework necessary for the mobilization of domestic capital existed. Savings from corporate and personal incomes were placed for the most part in foreign capital markets, reflecting partly the lack of suitable instruments for investment and partly the absence of legislative requirements governing the holding of domestic assets by financial institutions.

Since independence, three major development finance institutions have been established by the GOS to serve as domestic sources of short-term, medium-term and long-term finance. At the same time, the instruments for the promotion of domestic savings such as savings accounts, bond issues and home mortgages have been developed and made available to the general public in an effort to generate increased savings for domestic investment purposes.

### B. Central Bank and Monetary Policy

Swaziland does not have a central bank. However, as part of the Southern African Customs Union, which includes the Republic of South Africa, Botswana, and Lesotho, Swaziland is subject to the effects of the monetary policy of the Reserve Bank of South Africa, since this bank holds the gold and foreign exchange for the area. While within the area, funds and goods are freely circulated, the area is not a monetary union. No formal agreement governs monetary relations among the countries of the area. Relations are regulated by past practice or informal understandings. Recently, Swaziland, Lesotho, and Botswana have entered into discussions with South Africa in order to negotiate a monetary agreement which would assure that respective legitimate interests are taken fully into account in the management of the common currency area.

### C. Current Institutions

The present structure of savings and credit institutions reflects the economic dualism within the country. First, there is a small set of financial institutions established to meet the credit demands of the modern sector. These include two commercial banks - Barclays Bank DCO, and the Standard Bank Limited - which are directly controlled from head offices in South Africa and the

United Kingdom, the Swaziland Building Society and offices of a number of South African insurance and installment finance companies. The demand for the services is substantial - the increase in loans by the two commercial banks has been almost 50 percent over the past two years, and the Swaziland Building Society, which is incorporated in Swaziland and provides mortgage finance to middle and upper income levels is increasing its liabilities and assets at a similar rate. Credit from commercial banks is limited by the terms of lending which require the availability of conventional security. Within these limitations, however, all demands for credit are met, even if funds have to be transferred from outside Swaziland.

A second set of financial institutions has been established and encouraged by the GOS to meet present development needs and support small scale enterprises. These institutions include the National Industrial Development Corporation (NIDC) which was established in 1971 by the Ministry of Commerce and Industry to promote and finance large scale industry, and the Small Enterprise Development Company (SEDCO) which was established in 1970 to provide credit to small business concerns and local enterprises. The third and most important institution established is the Swaziland Credit and Savings Bank (SCSB) which was organized in 1965 to provide finance for agriculture, housing and small business. Agriculture is its most important field of operations. The SCSB is discussed in detail in the following section.

## IV. The Swaziland Credit and Savings Bank

### A. Organization

#### 1. Establishment

The Swaziland Credit and Savings Bank (SCSB) was legally established in March, 1965 and began operations on August 4, 1965. The SCSB is government-owned and controlled and administered by the Ministry of Finance. The SCSB currently operates five branches (and plans to open a sixth in 1974/75) and three credit advisors' field offices. (See Annex II organizational chart.)

#### 2. Management and Staff

The SCSB law provides for a Board of Management consisting of a chairman and six other members appointed by the Minister of Finance. The General Manager of the Bank may be a member of the Board. The current Board consists of the Permanent Secretary, Ministry of Finance, as Chairman, the Permanent Secretary from the Department of Economic Planning, the Director of Agriculture from the Ministry of Agriculture, a representative of the King of Swaziland, two Swazi businessmen and a Swaziland farmer.

The General Manager exercises considerable authority in day-to-day SCSB operations, however the rather detailed provisions of the Bank law require that loans in excess of R10,000 be approved by the Board.

The Current General Manager has occupied his position since the SCSB's inception. Prior to his appointment he had wide commercial banking experience in other parts of Southern Africa and experience in agricultural marketing. It is believed that the Bank's current sound financial condition is largely due to his ability to effectively direct and develop a financial institution.

As of August 1, 1973, the SCSB has a total staff of 64, of whom approximately 35 percent are professionals. Five are expatriates. (See Annex III for Management bio-data.)

The SCSB currently offers very competitive salaries and is able to attract and retain appropriate medium level Swazi staff for whom it provides training opportunities. (Seven staff members, including an A.I.D.-financed short-term participant in agricultural credit, benefited from specialist training obtained outside the SCSB in 1972/73.) However, senior level Swazi staff are largely unavailable and there will be continuing need for internationally recruited staff while Swazi nationals are recruited and trained. To alleviate this problem, the GOS has requested A.I.D. to provide a senior agricultural credit advisor to the SCSB to help strengthen the management of its expanding agricultural credit program. The credit advisor will assist in designing and administering programs aimed at expanding the amount of credit utilized by the Swazi small farmer sector. The three specific areas on which this technical assistance component will focus, in cooperation with the SCSB, are (1) plan and prepare an analysis of the interest rate structure for small farmer short and medium term credit, (2) work with local rural institutions, cooperatives, farmers association, village associations and other groups, to develop local skills in handling credit for their members and (3) assist the SCSB in the evaluation of the effectiveness of this loan as outlined in the Evaluation section of this paper. An additional component of this assistance will be to provide on-the-job and, as necessary, formal training to SCSB agricultural credit staff and select candidates for a participant training program.

B. Policies

1. Lending Policy

According to the law establishing the SCSB, loans may be made for any of the following purposes: 1/

a. The development, purchase, maintenance and improvement of lands.

b. The discharge of liabilities incurred in respect of the development, purchase, maintenance and improvement of lands.

c. The discharge of prior incumbrances on land.

3/ d. The payment of labor and the purchase of supplies and machinery to plant, irrigate and cultivate lands and to reap and make merchantable the crop or produce thereof.

3/ e. The purchase of livestock and or manure and fertilizers.

f. The erection and repair of buildings.

g. The financing of any trade, business or industry.

h. The payment of premium of insurance insofar as such insurance is related to buildings, factories and machinery erected and standing on the lands and used in connection with any crop, trade, business and industry.

i. Any purpose, incidental, accessory, or ancilliary to any of the foregoing purposes.

In operating practice the Bank has given priority to agricultural lending with approximately two-thirds of the value of all new loans over the past 5 years going for that purpose. The amount lent for agriculture amounted to 71 percent of total new lending in 1971/72. In 1972/73 the corresponding figure was 59 percent. According to a recent SCSB paper, the Bank's "principal objective in agricultural sector is to foster the effective use of credit so as to increase agricultural output." 2/

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1/ Swaziland Credit and Savings Bank Law, 1965 as amended 16 January 1970.

2/ Quote from a paper by SCSB staff on "The Role of the Swaziland Credit and Savings Bank in Agriculture."

3/ Purposes for which A.I.D. loan will be utilized.

2. Lending Terms and Interest Rates

The law establishing the SCSB gives the Board of Directors broad powers to establish loan limits, security requirements, loan periods and interest charges. The only limitation is that the Minister for Finance may, through a gazetted notice, declare a minimum rate of interest.

In practice, the Bank makes a few large loans, requires adequate collateral to cover the SCSB in the event of forced liquidation, is flexible on loan periods to meet needs and generally charges slightly lower interest rates than do the commercial banks.

In the agricultural sector, seasonal loans to small Swazi farmers are made at 6 percent. Longer term loans (up to 5 years), are made primarily for equipment at 9 percent. This compares with 10-12 percent charged by commercial banks.

At the moment a subsidy is built into the low seasonal loan rates, since SCSB's management believes that small farmers are sensitive to interest rates and a low rate is necessary to encourage expanded use of credit. According to the Development Plan, "Swazi farmers have proved to be very sensitive to interest rates on loans." The SCSB estimates that at a higher volume of lending, which it believes it can achieve by 1975/76, it can break even on small farmer seasonal loans. 1/

3. Small Farmer Credit

One of the primary responsibilities of the SCSB is the provision of agricultural credit to the Swazi sector. Because commercial banks are not interested in dealing with this low volume, high overhead, high risk group, the SCSB is the only available source of funds. However, as the SCSB's total lending has grown, amounts lent to the small farmer sector have not grown correspondingly for reasons of staff, administrative costs and difficulty in making and collecting small loans. In 1972/73 about 830 applications from small Swazi farmers were approved. The amounts of credit extended have remained approximately the same (R200,000).

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1/ The SCSB calculates that the cost of administering the small farmer loan program at current levels is approximately R50,000. Given the current cost of funds to the SCSB and the interest rate charged, the breakeven loan volume in the small farmer program is somewhat over R1,200,000.

Significantly, the SCSB has recently laid the groundwork for a substantial expansion. New branch offices have been opened and the number of agricultural credit staff has been increased from 6 in 1972 to 11 at present.

The SCSB buildup coincides with increasing government concern and expanding government agricultural programs requiring credit. In turn, a successful, expanded credit program requires a high degree of coordination and cooperation between the SCSB and the appropriate ministries. At an earlier stage this coordination was less than optimal but in recent months new relationships are emerging. The SCSB is working particularly closely with the Ministry of Agriculture in the northern RDA.

In all areas, the Ministry of Agriculture staff has invited SCSB local branch managers and credit advisors to monthly staff meetings. The SCSB Credit Advisor is to notify the appropriate Ministry of Agriculture Field Officer when he is going into each area. Similar relationships are being established with cooperative personnel. 1/ Combining these steps with the involvement of field officers and cooperative staff in credit application preparation results in the type of coordination which can only have a positive effect (see section IV.C.1 for additional discussion).

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1/ A recent seminar for the Ministry of Agriculture staff, Ministry of Commerce and Cooperatives staff and SCSB staff recommended that:

1. All credit should ideally be channeled thru cooperatives (see No. 6).
2. Local Advisory Committees (LAC) should be reorganized to involve local chiefs (see No. 9).
3. The SCSB is to organize a yearly course for field officers and cooperative staff in SCSB banking procedures and requirements.
4. The Ministry of Commerce and Cooperatives is to organize a course for field officers in agricultural marketing.
5. The existing cooperatives should clarify their dealings with non-members.
6. Credit should continue to be provided through all channels with a view towards cooperatives in the long run.
7. The Field Officers, Assistant Cooperative Officers and Credit Advisors should meet regularly.
8. The cooperative effort will initially be concentrated on pilot schemes.
9. The local chief should be fully involved with the LAC, and, if a farmer, made an ordinary member of the LAC.
10. The Field Officer, Assistant Cooperatives Officers and the Credit Advisors shall formulate a coordinated credit education program for small farmers in each area.

C. Procedure for Processing and Monitoring Agricultural Loans

1. Seasonal Loans

Under normal procedures, the small farmer completes his application for seasonal credit with the assistance of a Ministry of Agriculture Field Officer, and in the case of cooperatives, the Assistant Cooperative Officer assists with the application. (See Annex IV for copy of application.) 1/ The farmer then submits the completed application to the nearest SCSB branch or Credit Advisor's Field Office. In turn, the Field Officer must prepare a confidential report on the applicant which is submitted to the SCSB separately and which contains his comments and recommendations. Once the application and the confidential report are received by the SCSB, they are processed and reviewed to ensure that the application is completed correctly in preparation for the meeting of the Local Advisory Committee (LAC). The LAC is appointed by the District Commissioner at the request of the SCSB and normally includes, in addition to the DC, an agricultural officer, one or two community leaders and the SCSB's credit advisor for the area. The functions of the committee are to provide information to the SCSB on the credit worthiness of applicants based on their knowledge of the applicants and to make recommendations on their applications. 2/ The application is then forwarded to the SCSB branch which has discretionary loan approval authority up to a specified amount (R1,000 for agricultural loans). Normally the branch follows the recommendations of the LAC.

1/ The application must include the recommended input amounts for the entire acreage for which credit is requested, i.e., the farmer must show on the application that he will have available the recommended amounts of seeds, fertilizer, insecticides, etc. He cannot apply for amounts which when added to his own supplies total less than the recommended amounts nor can he apply for inputs for only a portion of the acreage he expects to have/of a particular crop. In this manner, the SCSB ensures that the required inputs are correct and lead, under normal conditions, to yield increases which will more than cover the input costs.

2/ It was recommended at a recent two-day seminar held among SCSB, Ministry of Agriculture and Ministry of Cooperatives' staff that the committee be reorganized to include representatives sent by the local chiefs.

Applications for agricultural loans in excess of R1,000 are forwarded to the head office of the SCSB in Mbabane. The head office has discretionary loan authority up to R10,000. Loans over this amount and any questionable applications for lesser amounts are submitted to the board for their decision. The normal loan approval process requires from one week to ten days.

Once the loan is approved the farmer applicant is notified and provided with vouchers which he can use to secure the required inputs from local dealers. For certain crops small amounts of cash for labor or tractor/oxen hire are provided.

Supervision of borrowers is the joint responsibility of the Ministry of Agriculture Field Officer and the SCSB Credit Advisors. The Field Officer has the responsibility to see that proper techniques and practices are used in land preparation, planting, crop husbandry and harvesting. The Credit Supervisor is concerned with the utilization of loan inputs, the status of the crops estimated yields and loan repayments.

All seasonal loans are secured, usually by cattle. The SCSB brands the cattle but leaves them with the farmer. Upon final loan repayment the SCSB brand is cancelled. If a loan cannot be repaid as scheduled for a valid reason (crop failure) the SCSB usually extends the loan for another season.

2. Medium and Long Term Loans

The SCSB also provides medium term loans of up to five years for farm machinery. Certain agricultural development projects are eligible for long term loans of up to 10 years. Any loan application in excess of R500, which includes nearly all of medium and long-term loans, must be accompanied by an estimated cash flow table to ensure economic viability of the project. Processing, supervision and monitoring of these loans is basically the same as for seasonal loans.

3. Overdue Loan Monitoring

A past-due report is prepared monthly by each branch listing all loans 30 days or more overdue. All loans in the amount of R500 and above and all past-dues 18 months and over in excess of R50 are reported monthly to the head office. Past due loans not falling in the above categories are reported by number and amount. A representative of the head office visits each branch monthly and reviews the past-due report. All past-dues of R1,000 and above and all past dues of 18 months and over in excess of R50 are reported monthly to the board of directors.

Loans over-due on March 31, 1973, the end of SCSB's fiscal year totalled R221,584 in value and 692 in number. By number, approximately 32.2 percent are over-due 30 days or more; by amount only 5.6 percent are overdue. Bad debt losses have been very low, under 1 percent of the total loan portolio. Details of bad debt losses on loans to small farmers as a group are not available. However, provision for this analysis will be included in evaluation procedures established to monitor the loan.

4. Accounts and Audits

The SCSB Act provides that, "The Bank shall keep proper books and accounts in English which shall be audited annually by an auditor appointed by the Board..." For the past five years the annual financial statements of the SCSB have been audited by Messrs. Alex, Aiken and Carter, Mbabane Swaziland, and received an unqualified opinion as to accuracy.

D. Resources, Operations and Demands 1/

1. Resources

As of March 31, 1973, the Bank's capital totalled R1,000,000 which included a R650,000 Grant provided by the GOS in 1972. In addition, the Bank has received long term concessional loans (which are "Quasi-Capital") totalling R2,575,453: from the GOS (R1,613,459), the UK (R775,000) and A.I.D. (R186,986). The Bank also had R1,680,074 in savings and other deposits and Bank overdraft facilities of R650,000. Allowing for the 50 percent reserve requirements on deposits the SCSB thus had potential loanable resources of over R5,000,000.

2. Current Operations

During the most recent fiscal year (April 1, 1972 - March 31, 1973), the SCSB made a small profit of R29,029. Gross income rose from R317,892 to R401,722 while administrative expenses rose from R172,443 to R223,931. During the year the number of savings accounts rose to 15,233 from 11,389 a year earlier

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1/ See Annex V SCSB Financial Statements for past five years, and Annex VI SCSB Consolidated Qarterly Loan Report.

and the amount of such deposits rose by R68,833 to R1,403,556. The number of loans outstanding totalled 2,148 at year end amounting to R4,257,270 compared to R3,085,068 a year earlier.

The average cost of money to the Bank was approximately 2.2 percent and its average return on loans and investment was 6.8 percent.

The SCSB balance sheet as of March 31, 1973, is summarized as follows: 1/

| Assets | Rand | Liabilities | Rand |
|---|---|---|---|
| Cash | 14,474 | Bank Overdraft | 177,943 |
| Balance with Other Banks | 18,930 | Creditors | 108,154 |
| Other Current Assets | 73,992 | GOS Short Term Loan | 28,532 |
| Total Current Assets | 107,396 | Total Current Liab. | 314,629 |
| Cash in transit between branches | 10,181 | Deposits (Savings) | 1,680,000 |
| | | Domestic Loans (GOS) | 1,613,459 |
| | | Foreign Borrowings | 961,994 |
| | | Equity: | |
| Loans | 4,257,270 | Grants | 1,000,000 |
| Investments 2/ | 971,082 | Reserves | 34,672 |
| Fixed Assets | 258,899 | | |
| | | Total Equity | 1,034,672 |
| Total Assets | 5,726,183 | Total Liabilities | 5,726,183 |

1/ The SCSB balance sheet presents a healthy picture since the equity capital to total assets ratio is approximately 1:5. This low capital equity to assets ratio indicates the bank has considerable potential for expansion and growth. The SCSB can also meet any unusual liquidity needs since investments includes 736,700R at short call which plus the 107,396R in current assets would be available to cover liquidity requirements.

2/ Includes funds at short call (R736,700)

Source: Swaziland Credit and Savings Bank Eighth Annual Report 1973.

3. Future Operations and Repayment Prospects 1/

It is difficult to forecast the future performance of the SCSB given the rapidly changing Swaziland situation. Lowe's estimates are for the loan portfolio to increase to R6,000,000 by 1976, but it appears that this estimate may be conservative. Similarly, it is projected that SCSB income will rise to R534,000 in 1976. Taking into account 1973 performance it is likely that 1976 income will be closer to R600,000 with profits also slightly higher than the projected R24,000. Gross reserves amount to over 7 percent of total assets in 1976 with profits at approximately 2 percent of total equity. Administrative expenses will amount to approximately 3.8 percent of assets and financial expenses to about 3 percent. The expected interest income exceeds projected interest payments by approximately 2:1 in 1976. Debt repayments are also more than adequately covered.

4. Small Farmer Credit Demands

As shown in Table II, page 23, the estimates of future loan activity of the SCSB in the Swazi small farmer sector are substantial. However, the SCSB regards them as conservative and well within the SCSB targets of each field credit advisor handling 300-600 loans averaging Rand 200-300 each. The utilization of cooperatives as they are formed and strengthened will facilitate even more rapid growth.

1/ See Annexes VII and VIII for projected income statements and balance sheets through 1976.

TABLE II: Estimates of Future Loan Activity of SCSB in Small Farmer Sector

| Seasonal Small Farmer Loans | 1971/72 | 1972/73 | 1973/74 1/ | 1974/75 1/ | 1975/76 1/ |
|---|---|---|---|---|---|
| 1. Mbabane | R - | R 35,000 | R 30,000 | R 50,000 | R 80,000 |
| 2. Manzini | - | 60,000 | 100,000 | 180,000 | 250,000 |
| 3. Nhlangano | - | 60,000 | 100,000 | 150,000 | 200,000 |
| 4. Siteki | - | 30,000 | 60,000 | 100,000 | 110,000 |
| 5. Piggs Peak | - | 4,000 | 50,000 2/ | 120,000 2/ | 180,000 2/ |
| 6. Hslatikulu | - | - | - | 50,000 | 100,000 |
| Sub-Total | R 190,000 | R 189,000 | R 340,000 | R 650,000 | R 920,000 |
| Loans in Connection with Government Schemes | R 220,000 | R 230,000 | R 250,000 | R 350,000 | R 400,000 |
| Livestock Loans | R - | R - | R 30,000 3/ | R 50,000 3/ | R 100,000 3/ |
| TOTAL | R 410,000 | R 419,000 | R 620,000 | R1,050,000 | R1,420,000 |
| New Capital Required | | | R201,000 | R430,000 | R370,000 |

ONE RAND = $1.50

1/ Projected

2/ Includes Northern Rural Development Area where major effort will be made.

3/ SCSB Advances R50 for each head of livestock placed on Government Holding (fattening) areas. Program is growing in popularity and will expand much more rapidly if programs for destocking Swazi lands down to recommended levels are implemented successfully.

## V. The Loan

### A. General

The funds provided under this loan will be specifically directed to individual small Swazi farmers and utilized primarily for the production of cash crops such as maize, groundnuts, tobacco, and cotton for which the returns to additional investments are substantial and for which there are good markets. The funds will help the SCSB meet the growing requirements for agricultural credit as shown in Table II. We would expect, based on the estimates of credit requirements, that the loan would be completely utilized by the end of the 1975/76 growing season.

### B. Loan Limitations

In discussions with the SCSB it was agreed that the utilization of the loan would be limited to (a) meeting credit requirements, including seasonal and equipment loans, in the RDAs, (b) seasonal input loans of R500 or less per farmer in non-RDAs; and (c) equipment or seasonal loans to farmers associations or cooperatives. The SCSB also agreed that 50% of the loan will be used for individual loans of R250 or less in order to reach the least privileged of the small farmer group. With these limitations the loan will meet A.I.D. concern for support to small Swazi farmers, will support other A.I.D. assistance to the RDAs, and will encourage the formation of farmer groups thus facilitating future channeling of agricultural credit. SCSB plans to use the majority of the funds for seasonal credit requirements both within and outside the RDA areas. The above limitations will be incorporated in the loan agreement project description.

As a self-help measure, the total AID loan of $750,000 will be matched at a minimum by $250,000 of GOS and SCSB loan funds and administrative expenditures. The loan agreement will contain a covenant stating that AID loan disbursements may not exceed 75% of the total annual costs of the small farmer loan program under this project. The AID loan will have a term of 40 years. It is expected that the terms of the SCSB sub-loans will average approximately one year and the total of the AID loan funds will be disbursed in approximately two years. The loan agreement will contain a covenant which will require GOS/SCSB assurances that for the life of the AID loan, the funds will continue to be used for small farmer loans.

## C. Terms of The Loan

The SCSB loans to small farmers will have relatively high administrative costs. The individual borrower's credit-worthiness will have to be appraised, his loan will have to be periodically reviewed, and repayments closely monitored. Based on similar small loan programs in other countries, it is expected that the SCSB will have to bear relatively high administrative costs for these small loans; it may lose money initially on the program. AID considered having the GOS relend the AID loan to the SCSB on harder terms but decided that in order to support institutional growth, to permit development of an on-going small-farmer SCSB loan program, and to cover a portion of the administrative costs (and probable losses) the SCSB may incur (over and above the self-help contribution described in B above), the SCSB should receive the full benefit of AID Concessional terms.

## D. Benefits

Based on an average loan of R160 ($240) (actually higher than the current average which is approximately R100) approximately 3,000 small farmers are expected to benefit from the A.I.D.-provided funds in two years. Because a considerable portion of the funds will roll over each season a similar number of small farmers will benefit in succeeding years.

Annex IX shows some illustrative farm budgets for loan applicants. As indicated the incremental rates of return on investment range from 76 to 115 percent. Based on the average difference in farm income with and without the utilization of loan funded inputs (R118), the net increase in income on the part of the participating farmers (3,000) should be approximately R354,000 ($531,000) over the two year disbursement period.

## E. Ability to Repay

Swaziland's total outstanding public debt on March 31, 1972 amounted to about R17 million ($25,000,000), or 24 percent of estimated GDP in 1970/71. For 1972/73 total debt service payments (repayment of principal and interest) amounted to R1,038,868, or approximately 5 percent of the total recurrent government revenue and less than 2 percent of exports.

During the period of the Second National Developmen Plan, the Government of Swaziland hopes to obtain an additional R20 million (largely on concessional terms) to finance capital expenditures in the Plan. However, the relatively low current national debt, the balanced GOS budget and the rate of economic development all indicate that Swaziland can handle an even larger amount according to conventional measures and should be able to service its planned debt during the 1970s with little difficulty. 1/

## VI. Effect on U.S. Economy and Private Enterprise

### A. Effect on U.S. Economy

The first AID development loan in Swaziland had a beneficial effect on the U.S. economy since approximately $1.7 million of this loan was used to procure heavy equipment in the U.S. However, up to $400,000 of that loan and the total $750,000 of this loan will be disbursed for local currency costs by buying Rand through the U.S. Disbursing Officer for disbursement to the SCSB, through the GOS. The source of all sub-loan procurement will be limited to Swaziland. While this may have a negative effect on the U.S. balance of payments, it should be noted that the U.S. has a favorable balance of payments with the Rand currency area as a whole.

### B. Effect on Private Enterprise

The proposed loan will have a beneficial effect on private enterprise since it will provide credit to the Swaziland Credit and Savings Bank for onlending to small scale private farmers. These farmers will use the credit to purchase seeds, fertilizers, insecticides, small tools, farm equipment and implements from privately-owned local agri-business firms and suppliers.

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1/ The IBRD Report Economic Position and Prospects of Swaziland, March, 1971 noted that "Swaziland public debt is relatively low and most of the debt is met by self-liquidating projects". However, "the Government will not be able to finance all the local expenditures of future projects and will, therefore, need to obtain a large proportion of the cost of investment projects by foreign borrowing."

## VII. Implementation

Loan implementation procedures will be as simple as possible while ensuring the proper and timely use of loan funds. Since this loan is designed as a flexible resource to give SCSB the capability of meeting seasonal credit needs of small farmers, a delay of a month or two in disbursement may mean delays or short falls in SCSB's ability to make loans to small farmers. Consequently, AID is prepared, if requested and the need exists, to "advance" loan funds (in Rand) to the GOS to enable the SCSB to promptly make small farmer loans. The initial "advance" or disbursement and the form of future advances or the setting up of a "revolving fund" will be discussed during AID/GOS negotiations of the loan agreement. It is anticipated that the advance may be in the range of $100,000 to $300,000. All such advances will be accounted for by the SCSB through documentation evidencing small farmer loan disbursements. Following the initial advance, additional disbursements will be made periodically to the GOS upon request of the GOS Ministry of Finance and upon receipt from the SCSB of appropriate documentation. The funds will be made available by the Ministry of Finance to the SCSB on the same terms as they are lent by A.I.D. A.I.D. will not approve individual sub-loans in advance but will require that the SCSB, on the quarterly computer print-out of loan activity to be submitted to A.I.D., indicate the loans made utilizing the A.I.D. provided funds, the purpose of the loan, and the amounts of the loans. All sub-loans financed under this loan will finance procurement of goods and services, the source of which will be limited to Swaziland.

The anticipated implementation schedule of the loan is as follows:

| | |
|---|---|
| Loan Authorization | January, 1974 |
| Loan Agreement Signed | February, 1974 |
| Conditions precedent to Initial Disbursement Satisfied | March, 1974 |
| Initial Disbursement | April, 1974 |
| Terminal Dates for Requests for Disbursement | March, 1976 |
| Terminal Disbursement Date | June, 1976 |

## VIII. Evaluation

Regular evaluation of this loan project will be performed by AID and the SCSB. These evaluations will assist the SCSB in appraisal of its experiences with small farmer credit programs and will be expected to provide useful information and data for the GOS and the SCSB to establish a more effective agricultural credit policy.

This process will also provide an opportunity for AID to evaluate the SCSB's progress and success in effectively implementing the loan and to appraise the project's effectiveness in reaching the "small farmer" group in Swaziland. For this purpose the data collection system currently available will be used, i.e., quarterly computer print-outs of loan activities which show (1) who received the loan; (2) the purpose of the loan; (3) the amount of the loan and (4) loan delinquencies. It is also intended that, to the degree feasible, the scope of the evaluation include an appraisal of the impact of this type of assistance on the small farmer, on his capability to utilize credit and related technical inputs and on his success in increasing production and income. It is recognized however, that data to be provided by the SCSB as indicated above will not be sufficient to meet all these objectives of the evaluation.

Implementation of this evaluation system as well as development of specific evaluation techniques to be employed will be the primary responsibility of OSARAC. If required, AID/W will provide short term TDY services of an expert in rural credit evaluation to assist OSARAC and the SCSB to establish baseline data and other appropriate techniques for the evaluation.

ANNEX I

Unclassified
AID-DLC/P-2017

January 17, 1974

## CHECKLIST OF STATUTORY CRITERIA
## DEVELOPMENT LOAN FUND

Many of the questions require only yes or no answers. Others, however, must be answered more fully. In those cases, a specific reference to explicit discussion of the matter in the loan paper will suffice. But where the loan paper does not deal explicitly with a matter that clearly requires more than a yes or no response, sufficient response must be made to indicate that the matter has been appropriately considered.

The following abbreviations are used in the checklist:

FAA - Foreign Assistance Act of 1961, as amended, incorporating amendments effected by the Foreign Assistance Act of 1971.

App. - Foreign Assistance and Related Agencies Appropriations Act, 1971.
MMA - Merchant Marine Act of 1936, as amended
Space for answers is provided in the margin to the right of each question. This form must be made a part of the Capital Assistance Paper.

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## I. COUNTRY PERFORMANCE

### A. Progress Towards Country Goals

1. *FAA §§201(b)(5), 201(b)(7), 201(b)(8), 208. Discuss the extent to which the country is:*

*(a) Making appropriate efforts to increase food production and improve means for food storage and distribution.*

The Second National Development Plan (SNDP) (1973-1977) puts major stress on the progressive transformation of traditional agriculture from subsistence to semi-commercial and commercial farming. Nearly 20 percent of the Public Investment Program for the Second Plan is directed toward agriculture and forestry.

*(b) Creating a favorable climate for foreign and domestic private enterprise and investment.*

The GOS welcomes foreign private capital for direct investment in productive activities and offers tax incentives, industrial sites, loan and other assistance to investors.

*(c) Increasing the people's role in the developmental process.*

The first purpose of the SNDP is "to promote the widespread participation of the Swazi people in development in order to improve their general level of living and quality of life". The expansion of the RDAs and growing concern for the small farmer are indicative evidence of the GOS commitment to meet-

MAY 1972

its people's aspirations.

| | |
|---|---|
| *(d) Allocating expenditures to development rather than to unnecessary military purposes or intervention in other free countries' affairs.* | The SNDP allocates 89% of GOS investment program for develop ment activities and has not intervened in other free countries affairs. |
| *(e) Willing to contribute funds to the project or program.* | The GOS has provided SCSB with a grant of $975,000 and a loan of $2,420,189 in support of total SCSB operations. The GOS and the SCSB will use their own funds for 25% of the costs of the small farmer loan program under this project. |
| *(f) Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangement; and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.* | The King recently appointed a constitutional commission to prepare a new constitution more appropriate to the political and social life of Swaziland. Swaziland maximizes its taxable earning capacity from foreign farmers while at the same time provides a healthy climate for free enterprise. The RDA program supported by funds from this loan is directly supporting a more modern land tenure system. |
| *(g) Responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.* | The GOS is committed to development and appears willing to carry out institutional reforms necessary to achieve this end. With the renegotiation of the Custom Union Agreement, the GOS is now able to meet recurrent expenditure and transfer limited amounts to the capital budget. |

B. *Relations with the United States*

| | |
|---|---|
| 1. *FAA §620(c). Is the government indebted to any U.S. citizen for goods or services furnished or ordered where: (a) such citizen has exhausted available legal remedies, including arbitration, or (b) the debt is not denied or contested by the government, or (c) the indebtedness arises under such government's, or a predecessor's unconditional guarantee?* | No |
| 2. *FAA §620(d). If the loan is intended for construction or operation of any productive enterprise that will compete with U.S. enterprise, has the country agreed that it will establish appropriate procedures to prevent export to the U.S. of more than 20% of its enterprise's annual production during the life of the loan?* | Not applicable |

3. FAA §620(e)(1). Has the country's government, or any agency or subdivision thereof, (a) nationalized or expropriated property owned by U.S. citizens or by any business entity not less than 50% beneficially owned by U.S. citizens, (b) taken steps to repudiate or nullify existing contracts or agreements with such citizens or entity, or (c) imposes or enforced discriminatory taxes or other exactions, or restrictive maintenance or operation conditions? If so, and more than six months has elapsed since such occurrence, identify the document indicating that the government, or appropriate agency or subdivision thereof, has taken appropriate steps to discharge its obligations under international law toward such citizen or entity? If less than six months has elapsed, what steps if any has it taken to discharge its obligations?

(a) No

(b) No

(c) No

4. FAA §620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action of U.S. property, and failed to take appropriate measures to prevent a recurrence and to provide adequate compensation for such damage or destruction?

No

5. FAA §620(l). Has the government instituted an investment guaranty program under FAA §221(b)(1) for the specific risks of inconvertibility and expropriation or confiscation?

Yes

6. FAA §620(o): Fisherman's Protective Act of 1954, as amended, Section 5. Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel on account of its fishing activities in international waters? If, as a result of a seizure, the U.S.G. has made reimbursement under the provisions of the Fisherman's Protective Act and such amount has not been paid in full by the seizing country, identify the documentation which describes how the withholding of assistance under the FAA has been or will be accomplished.

Not applicable since Swaziland is not a maritime nation

7. FAA §620(q). Has the country been in default, during a period in excess of six months, in payment to the U.S. on any FAA loan?

No

8. FAA §620(t). Have diplomatic relations between the country and the U.S. been severed? If so, have they been renewed?

No

*C. Relations with Other Nations and the U.N.*

| | |
|---|---|
| 1. FAA §620(i). *Has the country been officially represented at any international conference when that representation included planning activities involving insurrection or subversion directed against the U.S. or countries receiving U.S. assistance?* | Not to AID's knowledge |
| 2. FAA §§620(a), 620(n); *Has the country sold, furnished, or permitted ships or aircraft under its registry to carry to Cuba or North Viet-Nam items of economic, military, or other assistance?* | No |
| 3. FAA §620(u); App. §108 *What is the status of the country's U.N. dues, assessments, or other obligations? Does the loan agreement bar any use of funds to pay U.N. assessments, dues, or arrearages?* | Swaziland is up to date on its dues and assessments. The Loan Agreement will restrict the use of loan funds to the specified purpose. |

*D. Military Situation*

| | |
|---|---|
| 1. FAA §620(i). *Has the country engaged in or prepared for aggressive military efforts directed against the U.S. or countries receiving U.S. assistance?* | No |

2. *FAA §620(s). What is (a) the percentage of the country's budget devoted to military purposes, and (b) the amount of the country's foreign exchange resources used to acquire military equipment? Is the country diverting U.S. development assistance or P.L. 480 sales to military expenditures? Is the country diverting its own resources to unnecessary military expenditures? (Findings on these questions are to be made for each country at least once each fiscal year and, in addition, as often as may be required by a material change in relevant circumstances.)* Has the country spent money for sophisticated weapons?

Until recently Swaziland made no direct expenditures for military purposes. In April/May of 1973 a small, approximately 500 man army was established. No statistics are available but it is estimated that expenditures will be less than 4 percent of the total 1973/74 budget
(b) To the best of our knowledge all military expenditures have been local currency costs.

The answer to the last three questions is no.

## *II. CONDITION OF THE LOAN*

### *A. General Soundness*

-- *Interest and Repayment*

*1. FAA §§201(d), 201(b)(2). Is the rate of interest excessive or unreasonable for the borrower? Are there reasonable prospects for repayment? What is the grace period interest rate; the following period interest rate? Is the rate of interest higher than the country's applicable legal rate of interest?*

The rate of interest is not considered excessive or unreasonable for the borrowers. (See section V D ). The grace period interest is 2% followed by an interest rate of 3% for the duration of the loan. The answer to the last question is no.

-- *Financing*

*1. FAA §201(b)(1). To what extent can financing on reasonable terms be obtained from other free-world sources, including private sources within the U.S.?*

Concessional financing is not believed available for the purpose of this loan. Lending of this type is not appropriate for private US lending.

-- *Economic and Technical Soundness*

*1. FAA §§201(b)(2), 201(e). The activity's economic and technical soundness to undertake loan; does the loan application, together with information and assurances, indicate that funds will be used in an economically and technically sound manner?*

Yes; see sections II and III of Loan Paper

2. *FAA §611(a)(1). Have engineering, financial, and other plans necessary to carry out assistance, and a reasonably firm estimate of the cost of assistance to the U.S., been completed?*

yes, as applicable. See section IV & V of the Loan Paper.

3. *FAA §611(b); App. §101. If the loan or grant is for a water or related land-resource construction project or program, do plans include a cost-benefit computation? Does the project or program meet the relevant U.S. construction standards and criteria used in determining feasibility?*

Not applicable

4. *FAA §611(e). If this is a Capital Assistance Project with U.S. financing in excess of $1 million, has the principal A.I.D. officer in the country certified as to the country's capability effectively to maintain and utilize the project?*

Not applicable

B. *Relation to Achievement of Country and Regional Goals*

-- *Country Goals*

1. *FAA §§207, 281(a). Describe this loan's relation to:*

a. *Institutions needed for a demoractic society and to assure maximum participation on the part of the people in the task of economic development.*

No direct relation, although the project is expected to use agriculture cooperatives as an intermediary for a portion of small farmer loans. In addition, by providing credit to small farmers the loan will involve more people in the development process.

| | |
|---|---|
| *b. Enabling the country to meet its food needs, both from its own resources and through development, with U.S. help, of infrastructure to support increased agricultural productivity.* | This is a principal purpose of the loan. Maize, the primary staple in Swaziland will be one of the crops for which production credit is extended. |
| *c. Meeting increasing need for trained manpower.* | The funds will enable greater on-the-job training of local personnel. |
| *d. Developing programs to meet public health needs.* | Not applicable. |
| *e. Assisting other important economic, political, and social development activities, including industrial development; growth of free labor unions; cooperatives and voluntary agencies; improvement of transportation and communication systems; capabilities for planning and public administration; urban development; and modernization of existing laws.* | This loan will have an indirect effect on industrial and commercial development as increased agricultural production, stimulated and made possible through agricultural credit, is marketed and processed. |
| *2. <u>FAA §201(b)(4)</u>. Describe the activity's consistency with and relationship to other development activities, and its contribution to realizable long-range objectives.* | See sections I, II and III of this capital paper. |

3. *__FAA §201(b)(9).__ How will the activity to be financed contribute to the achievement of self-sustaining growth?*

The objective of the agricultural credit is to increase agricultural production and consequently export earnings.

4. *__FAA §201(f).__ If this is a project loan, describe how such project will promote the country's economic development, taking into account the country's human and material resource requirements and the relationship between ultimate objectives of the project and overall economic development.*

Not applicable

5. *__FAA §201(b)(3).__ In what ways does the activity give reasonable promise of contributing to development of economic resources, or to increase of productive capacities?*

The AID loan directly supports this objective through the provision of credit to small producers.

6. *__FAA §281(b).__ How does the program under which assistance is provided recognize the particular needs, desires, and capacities of the country's people; utilize the country's intellectual resources to encourage institutional development; and support civic education and training in skills required for effective participation in political processes.*

The AID program in Swaziland, of which this is part, has been developed and pursued with these criteria in mind.

*7. FAA §601(a). How will this loan encourage the country's efforts to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions?*

The funds provided will accelerate agricultural production and thus enlarge the country's trading capabilities. It will stimulate and assist the private sector. The project directly supports the institutional development of the SCSB which is a savings and loan institution. The use of credit to be provided is predicated on improved technical efficiency. There is no information on question (f).

*8. FAA §202(a). Indicate the amount of money under the loan which is: going directly to private enterprise; going to intermediate credit institutions or other borrowers for use by private enterprise; being used to finance imports from private sources; or otherwise being used to finance procurements from private sources.*

All of the funds will go to an intermediate credit institution, the SCSB, to be relent to the private sector.

*9. FAA §611(a)(2). What legislative action is required within the recipient country? What is the basis for a reasonable anticipation that such action will be completed in time to permit orderly accomplishment of purposes of loan?*

None required.

-- *Regional Goals*

1. FAA §619. *If this loan is assisting a newly independent country, to what extent do the circumstances permit such assistance to be furnished through multilateral organizations or plans?*

The ADB is providing capital assistance to Swaziland. The IBRD has expressed interest in the industrial side of the SCSB and in utilizing the SCSB to provide credit to small farmers under a planned IBRD-financed area development project.

2. FAA §209. *If this loan is directed at a problem or an opportunity that is regional in nature, how does assistance under this loan encourage a regional development program? What multilateral assistance is presently being furnished to the country?*

First question is not applicable.
Multilateral assistance is being provided by the IBRD and the UN.

C. Relation to U.S. Economy

-- *Employment, Balance of Payments, Private Enterprise*

1. FAA §§201(b)(6); 102, Fifth. *What are the possible effects of this loan on U.S. economy, with special reference to areas of substantial labor surplus? Describe the extent to which assistance is constituted of U.S. commodities and services, furnished in a manner consistent with improving the U.S. balance of payments position.*

Not applicable, loan consists of direct local currency purchase. See section VI of CAP.

| | |
|---|---|
| 2. *FAA §§612(b), 636(h). What steps have been taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. and local currencies contributed by the country are utilized to meet the cost of contractual and other services, and that U.S. foreign-owned currencies are utilized in lieu of dollars?* | US-owned local currencies are not available. |
| 3. *FAA §601(d); App. §109. If this loan is for a capital project, to what extent has the Agency encouraged utilization of engineering and professional services of U.S. firms and their affiliates? If the loan is to be used to finance direct costs for construction, will any of the contractors be persons other than qualified nationals of the country or qualified citizens of the U.S.? If so, has the required waiver been obtained?* | Not applicable |
| 4. *FAA §608(a). Provide information on measures to be taken to utilize U.S. Government excess personal property in lieu of the procurement of new items.* | Excess property is not deemed appropriate for the project. |
| 5. *FAA §602. What efforts have been made to assist U.S. small business to participate equitably in the furnishing of commodities and services financed by this loan?* | Not applicable. We anticipate no direct US procurement under this project. |

| | |
|---|---|
| 6. *FAA §621. If the loan provides technical assistance, how is private enterprise on a contract basis utilized? If the facilities of other Federal agencies will be utilized, in what ways are they particularly suitable; are they competitive with private enterprise (if so, explain); and how can they be made available without undue interference with domestic programs?* | Not applicable. The funds do not finance technical assistance. |
| 7. *FAA §611(c). If this loan involves a contract for construction that obligates in excess of $100,000, will it be on a competitive basis? If not, are there factors which make it impracticable?* | Not applicable. |

- *Procurement*

| | |
|---|---|
| 1. *FAA §604(a). Will commodity procurement be restricted to U.S. except as otherwise determined by the President?* | Commodity procurement will be restricted to Code 941 countries and Swaziland. |
| 2. *FAA §604(b). Will any part of this loan be used for bulk commodity procurement at adjusted prices higher than the market price prevailing in the U.S. at time of purchase?* | No. |

3. FAA §604(e). Will any part of this loan be used for procurement of any agricultural commodity or product thereof outside the U.S. when the domestic price of such commodity is less than parity?

No.

D. Other Requirements

1. FAA §201(b). Is the country among the 20 countries in which development loan funds may be used to make loans in this fiscal year?

Yes.

2. App. §106. Does the loan agreement provide, with respect to capital projects, for U.S. approval of contract terms and firms?

Not applicable

3. FAA §620(k). If the loan is for construction of a productive enterprise, with respect to which the aggregate value of assistance to be furnished will exceed $100 million, what preparation has been made to obtain the express approval of the Congress?

Not applicable.

4. FAA §§620(b), 620(f): Has the President determined that the country is not dominated or controlled by the international Communist movement? If the country is a Communist country (including, but not limited to, the countries listed in FAA §620(f)) and the loan is intended for economic assistance, have the findings required by FAA §620(f) been made and reported to the Congress?

Swaziland is not a communist or communist-dominated country.

5. FAA §620(h). What steps have been taken to insure that the loan will not be used in a manner which, contrary to the best interest of the United States, promotes or assists the foreign aid projects of the Communist-bloc countries?

The loan agreement restricts use of loan funds to project purposes.

6. App. §118 Will any funds be used to finance procurement of iron and steel products for use in Viet-Nam other than as contemplated by §110.

No.

7. FAA §636(i). Will any part of this loan be used in financing non-U.S.-manufactured automobiles? If so, has the required waiver been obtained?

No.

| | |
|---|---|
| 8. FAA §§620(a)(1) and (2), 620(p); Will any assistance be furnished or funds made available to the government of Cuba or the United Arab Republic? | No. |
| 9. FAA §620(g). Will any part of this loan be used to compensate owners for expropriated or nationalized property? If any assistance has been used for such purpose in the past, has appropriate reimbursement been made to the U.S. for sums diverted? | No. |
| 10. FAA §201(f). If this is a project loan, what provisions have been made for appropriate participation by the recipient country's private enterprise? | Not applicable. |
| 11. App. §104. Does the loan agreement bar any use of funds to pay pensions, etc., for persons who are serving or who have served in the recipient country's armed forces? | Satisfied. Loan agreement will bar such use of funds. |

12. MAA §§ 901.b Does the loan agreement provide, for compliance with the US shipping requirements, that at least 50% of the gross tonnage of all commodities financed with funds made available under this loan (computed separately by geographic area for dry bulk carriers, dry cargo liners, and tankers) be transported on privately owned US-flag commercial vessels to the extent such vessels are available at fair and reasonable rates for US flag vessels. Does the loan agreement also provide for compliance with US shipping requirements, that at least 50% of the gross freight revenues of goods shipped under this loan must be earned by privately owned US-flag commercial vessels to the extent such vessels are available at fair and reasonable rates for US-flag vessels?

Yes.

13. FAA Section 481 Has the country failed to take adequate steps to prevent narcotic drugs from entering the United States unlawfully?

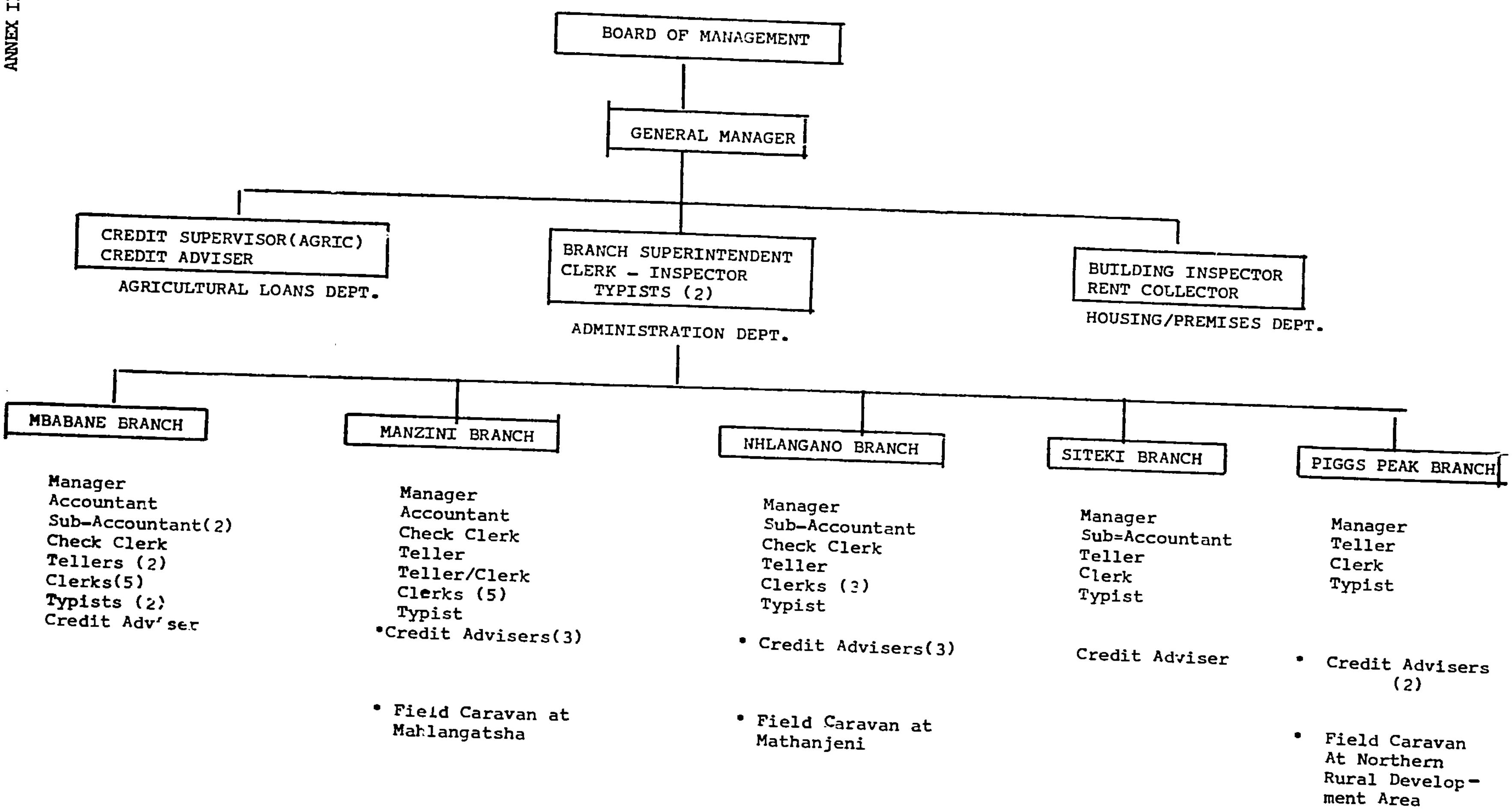
No. Swaziland is co-operating with the United States and international organizations in the control of narcotic drugs.

14. FAA Section 604.e Has there been compliance with restriction against procuring with AID funds agricultural commodities outside the United States when the domestic price of such commodity is less than parity?

Not applicable.

| | | |
|---|---|---|
| 15. | App § 102 Have obligations for engineering and architectural fees and services over $25,000 on any one project been reported to Congress bi-annually? | Not applicable |
| 16. | App § 111 Is the loan being used to transfer funds to world lending institutions under FAA §§ 209(d) and 251(h)? | No |
| 17 | App § 501 Are any of these funds being used for publicity or propaganda within the United States? | No |
| 18. | FAA § 612(d) Does the United States own excess foreign currency and, if so, what arrangements have been made for its release? | Swaziland is not an excess currency country. |
| 19. | FAA § 604(d) Will provisions be made for placing marine insurance in the United States if the recipient country discriminates against any marine insurance company authorized to do business in the United States? | Yes |

ANNEX II



BOARD OF MANAGEMENT
GENERAL MANAGER
CREDIT SUPERVISOR(AGRIC)
CREDIT ADVISER
AGRICULTURAL LOANS DEPT.
BRANCH SUPERINTENDENT
CLERK - INSPECTOR
TYPISTS (2)
ADMINISTRATION DEPT.
BUILDING INSPECTOR
RENT COLLECTOR
HOUSING/PREMISES DEPT.
MBABANE BRANCH
Manager
Accountant
Sub-Accountant(2)
Check Clerk
Tellers (2)
Clerks(5)
Typists (2)
Credit Adviser
MANZINI BRANCH
Manager
Accountant
Check Clerk
Teller
Teller/Clerk
Clerks (5)
Typist
• Credit Advisers(3)
• Field Caravan at Mahlangatsha
NHLANGANO BRANCH
Manager
Sub-Accountant
Check Clerk
Teller
Clerks (3)
Typist
• Credit Advisers(3)
• Field Caravan at Mathanjeni
SITEKI BRANCH
Manager
Sub=Accountant
Teller
Clerk
Typist
Credit Adviser
PIGGS PEAK BRANCH
Manager
Teller
Clerk
Typist
• Credit Advisers (2)
• Field Caravan At Northern Rural Development Area

ANNEX III

## Biographic Data of Management

Name: J.D. Owen

SCSB Position: General Manager

Qualifications and Experience: A.C.I.S., A.I.B., 20 years banking experience in Great Britain, Southern Rhodesia and South Africa, Agricultural Marketing Board in Malawi. Appointed General Manager of SCSB at its inception in 1965.

Name: A. McGuire

SCSB Position: Superintendent of Branches

Qualifications and Experience: A.I.B., twenty years banking experience in Britain and Rhodesia.
Joined SCSB in 1965; formerly Branch Manager at Mbabane

Name: R.J. King

SCSB Position: Loan Appraisal Officer (Agriculture)

Qualifications and Experience: A.I.B., sixteen years commercial banking experience in Rhodesia and Swaziland.
Joined SCSB in 1967, formerly accountant and Branch Manager.

Name: J. Makhubu

SCSB Position: Assistant Loan Appraisal Officer (Agriculture)

Qualifications and Experience: Diploma in Agriculture from Hertford Agricultural College, U.K.; 3 months USAID-financed course in agricultural credit, U.S.
Six years experience with the SCSB.

Name: N. Mkwanzi

SCSB Position: Internal Audit

Qualifications and Experience: Three years secondary school.
8 years experience in the SCSB.

Name: J. Simelane

SCSB Position: Trainee Credit Advisor

Qualifications and Experience: Diploma from U.B.L.S.
Recently joined SCSB staff.

Name: I.J. Sole

SCSB Position: Mbabane Branch Manager

Qualifications and Experience: A.I.B. Over 20 years with Ottoman Bank in Rhodesia, South Africa and East Africa.
Joined SCSB in 1966 as manager of Manzini Branch.

Name: J.H.W. Hawkins

SCSB Position: Manzini Branch Manager

Qualifications and Experience: Qualified Accountant, 12 years banking experience with National & Grindlays in Rhodesia. Has been with SCSB for two years, formerly accountant at Mbabane branch. Branch Manager for one year.

Name: S.M. Dlamini

SCSB Position: Nhlangano Branch Manager

Qualifications and Experience: Five years secondary school to University Matriculation.
Seven years with bank, trained in various aspects of SCSB operations. 1 year as manager of Siteki branch.

Name: L.S. Mtetwa

SCSB Position: Siteki Branch Manager

Qualifications and Experience: Cambridge Overseas Certificate, management training in Swaziland. Six years experience with SCSB. Manager for 1 year.

Name: S.M.C. Dlamini

SCSB Position: Pigg's Peak Branch Manager

Qualifications and Experience: Government Service.
Eight years with SCSB.

ANNEX IV

## SWAZILAND CREDIT AND SAVINGS BANK

### Balance Sheets
### FY 68/69-72/73 1/

| | 1968/69 R | 1969/70 R | 1970/71 R | 1971/72 R | 1972/73 R |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Current | | | | | |
| Cash on hand and at Bank | 5,876 | 36,245 | 26,244 | 14,192 | 33,404 |
| Call and short notice | 100,000 | 120,000 | 465,000 | 185,000 | - |
| Other | 24,018 | 14,320 | 29,338 | 35,372 | 84,173 |
| Loans and Investments | | | | | |
| Secured loans | 1,777,908 | 1,585,985 | 2,092,994 | 3,035,068 | 4,257,270 |
| Investments | 355,000 | 421,200 | 891,200 | 827,371 | 971,082 |
| Fixed Assets | | | | | |
| Property and Equipment | 60,656 | 81,774 | 107,962 | 141,732 | 258,899 |
| Other Assets | 9,000 | 25,170 | 9,000 | - | - |
| Total | R2,332,458 | R2,284,694 | R3,621,738 | R4,238,735 | R5,604,828 |
| **LIABILITIES AND CAPITAL** | | | | | |
| Current | | | | | |
| Savings Bank Deposits | 724,556 | 831,027 | 1,226,291 | 1,334,723 | 1,403,556 |
| Call and Short Notice | 430,909 | 235,298 | 384,559 | 382,921 | 276,518 |
| Other Current (including Bank Overdrafts) | 90,985 | 82,062 | 72,906 | 78,731 | 314,629 |
| Long Term | | | | | |
| Domestic Loans | - | - | 751,728 | 1,283,322 | 1,613,459 |
| Foreign Loans | 817,400 | 812,952 | 836,304 | 805,656 | 961,994 |
| Capital and Equity | | | | | |
| Capital | 420,184 | 470,184 | 470,184 | 470,184 | 1,000,000 |
| Reserves | (151,576) | (146,829) | (120,234) | (116,802) | 34,672 |
| Total | R2,332,458 | R2,284,694 | R3,621,738 | R4,238,735 | R5,604,828 |

1/ Source: Swaziland Credit and Savings Bank Annual Reports
Fiscal year runs from April through March

ANNEX V

## SWAZILAND CREDIT AND SAVINGS BANK

### CONSOLIDATED QUARTERLY RETURN OF LOANS AS AT 31.3.1973

| CATEGORY | NUMBER | AMOUNT |
|---|---|---|
| **SMALL FARMER LOANS** | | |
| S 1 MAIZE | 502 | 33.696 |
| S 2 TOBACCO | 5 | 537 |
| S 3 COTTON | 373 | 117.198 |
| S 4 SMALL IMPLEMENTS | 17 | 13.824 |
| S 5 VEGETABLES | 12 | 22.425 |
| S 6 OTHER (LABOR) | 169 | 25.155 |
| | 1.078 | 212.835 |
| **AGRICULTURAL LOANS** | | |
| A 1 SETTLEMENT SCHEME | 27 | 168.541 |
| A 2 FARM BUILDINGS | - | - |
| A 3 FARM LAND | 17 | 166.172 |
| A 4 EQUIPMENT | 70 | 205.674 |
| A 5 IRRIGATION | 8 | 111.657 |
| A 6 CATTLE-BEEF | 20 | 163.673 |
| A 7 CATTLE-DAIRY | 13 | 21.907 |
| A 8 TIMBER | 12 | 197.731 |
| A 9 FRUIT | 4 | 183.302 |
| A10 CASH CROPS | 27 | 598.486 |
| | 198 | 1.817.143 |
| **BUSINESS LOANS** | | |
| B 1 AGROBUSINESS | 8 | 265.138 |
| B 2 AGROINDUSTRY | 1 | 7.664 |
| B 3 INDUSTRY | 5 | 145.902 |
| B 4 CONSTRUCTION | 1 | 1.270 |
| B 5 TRANSPORT | 13 | 63.163 |
| B 6 COMMERCIAL | 15 | 363.024 |
| B 7 FINANCIAL | 4 | 144.552 |
| B 8 SMALL BUSINESS | 110 | 77.873 |
| B 9 HIRE PU CHASE | - | - |
| | 157 | 1.068.586 |
| **HOUSING LOANS** | | |
| H 1 GENERAL | 233 | 297.812 |
| H 2 CIVIL SERVANTS | 69 | 131.073 |
| | 302 | 428.885 |
| **GENERAL LOANS** | | |
| G 1 Staff | 33 | 40.462 |
| G 2 Personal | 22 | 3.349 |
| | 55 | 43.811 |
| GRAND TOTAL | 1.790 | 3.571.440 |

ANNEX VI

## SWAZILAND CREDIT AND SAVINGS BANK

## PROJECTED BALANCE SHEETS 1974-1976

| ASSETS | 1974 | 1975 | 1976 |
|---|---|---|---|
| **Current** | | | |
| Cash on Hand and at Bank | 29,000 | 30,000 | 35,000 |
| Call & Short Notice | 140,000 | 80,000 | 120,000 |
| Other | 40,000 | 40,000 | 40,000 |
| | 209,000 | 150,000 | 195,000 |
| Secured Loans | 4,600,000 | 5,200,000 | 6,000,000 |
| Investments | 900,000 | 1,000,000 | 1,100,000 |
| Property & Equip. | 250,000 | 280,000 | 310,000 |
| Other Assets | 1,000 | 1,000 | 1,000 |
| | 5,960,000 | 6,631,000 | 7,606,000 |

| LIABILITIES & CAPITAL | 1974 | 1975 | 1976 |
|---|---|---|---|
| **Current** | | | |
| Savings Bank | 1,800,000 | 2,000,000 | 2,200,000 |
| Call and Short Notice | 350,000 | 350,000 | 350,000 |
| Other Current (including Bank Overdraft) | 640,728 | 640,728 | 417,728 |
| | 2,790,728 | 2,990,728 | 2,967,728 |
| **Long Term** | | | |
| Exchequer Loans (U.K.) | 735,000 | 700,000 | 665,000 |
| Swaziland Govt. Loans | 1,283,322 | 1,283,322 | 1,283,322 |
| A.I.D. | 190,000 | 190,000 | 190,000 |
| | 2,208,322 | 2,173,322 | 2,138,322 |
| Capital Less Losses to date | 394,950 | 414,950 | 439,950 |
| Reserve for bad debts | 46,000 | 52,000 | 60,000 |
| Un-negotiated Loans | 520,000 | 1,000,000 | 2,000,000 |
| | 5,960,000 | 6,631,000 | 7,606,000 |

ANNEX VII

## SWAZILAND CREDIT AND SAVINGS BANK

## PROJECTED INCOME STATEMENTS 1974-1976

| Years ending 31st March | 1974<br>R | 1975<br>R | 1976<br>R |
|---|---|---|---|
| INCOME | | | |
| Interest Income | | | |
| Loans | 344,000 | 392,000 | 432,000 |
| Investments | 45,000 | 30,000 | 42,500 |
| Call & Short Notice | 7,000 | 6,000 | 6,000 |
| Commission | 6,000 | 6,500 | 8,500 |
| Rents Received | 38,000 | 44,000 | 44,000 |
| | 440,000 | 478,500 | 534,000 |
| Operating Expenses | 250,000 | 265,000 | 290,000 |
| Income before interest and other expenses | 190,000 | 213,500 | 244,000 |
| Interest and other expenses | 171,450 | 192,000 | 220,000 |
| PROFIT | 18,550 | 21,500 | 24,000 |

* Based on the assumption that new funds, not yet negotiated will be received an average cost of 6% per annum.

The fall-off in investment income is caused by approximately R500,000 to be channelled into the Bank's Head Office building in Mbabane. The loss of investment income is compensated by a rise in rents received, and a reduction in operating expenses. The lease on existing rented premises expired in 1973.

File No.............................

APPLICATION S Nº 20066

## SWAZILAND CREDIT AND SAVINGS BANK

(Incorporated under Law No. 4 of 1965)

# APPLICATION FOR AGRICULTURAL LOAN REPAYABLE IN ONE SEASON. MINIMUM R50 — MAXIMUM R500

### INSTRUCTIONS

1. Consult a Field Officer or Bank Loan Supervisor **BEFORE** filling in this form.
2. Field Officer to detach Report section — Page 4.
3. Applicant to submit completed form **with R1** to nearest Office of Bank.
4. Field Officer to complete report section and forward to Officer-in-Charge of sub-district, Agricultural Department.
5. Officer-in-Charge of sub-district checks Field Officer's report and forwards to same Branch of Bank as that to which Applicant has submitted application.

FOR BANK USE ONLY

---

1. Full name of Applicant (*Surname last*) ..............................................................

2. Address ..............................................................
..............................................................
..............................................................

Tax Identity No.

3. Occupation..............................Employer..............................Salary..............................
4. Name of Chief ..............................................................
5. Chief's Area and District where farm is situated
..............................................................
6. Is land owned by you, leased by you or do you have one of it under Swazi Custom.
7. Do you owe money to anybody? State "Yes" or "No"..............................................................
8. If the answer to 7 is "Yes", state how much and to whom ..............................................................
..............................................................
..............................................................
9. Have you previously applied for a loan from the Bank? State "Yes" or "No" and to which Branch
..............................................................
10. Give details of crops ("I" = irrigated, "D" = dry land).

| Grown Last Season | | | Proposed this Season | | |
|---|---|---|---|---|---|
| Crop | Acreage | I or D | Crop | Acreage | I or D |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

10a. State value of crops sold last season R..............................

**STATE REQUIREMENTS OF:**

| 11. | | | | | | | SUPPLIER'S NAME AND ADDRESS | SUPPLIES KEPT FROM LAST SEASON |
|---|---|---|---|---|---|---|---|---|
| **Seed** | | | | | | | | |
| Type | | | | | | | | |
| Quantity | | | | | | | | |
| Total Cost | | | | | | | | |
| **Fertiliser** | | | | | | | | |
| Type | | | | | | | | |
| Quantity | | | | | | | | |
| Total Cost | • | • | • | • | • | • | | |
| **Insecticides** | | | | | | | | |
| Type | | | | | | | | |
| Quantity | | | | | | | | |
| Total Cost | • | • | • | • | • | • | | |
| **Other Needs** | | | | | | | | |
| State what | | | | | | | | |
| Quantity | | | | | | | | |
| Total Cost | | | | | | | | |
| Date required if not immediate | | | | | | | | |

•Total of these amounts to be inserted in question "D" on Field Officer's Report.

12. Amount of loan required R ..............................

13. As Security I offer
*(State numbers and kind)*

| | No. of Dip Tank where held | Value | This Column is for Bank's Use Only |
|---|---|---|---|
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |

14. Are any of the above cattle sizaed to you? .............................................. If so which ..............................................

15. I/We ..........................................................................................................................................................
hereby apply for a loan as set out above. I/We certify that all details given are correct and that the security offered is my/our absolute property, is unencumbered and that I/we am/are fully entitled to pledge it to the Bank. I/We certify that there is no lawsuit or claim extant pending against me/us in any way whatsoever. I/we authorise the Bank to make such enquiries regarding me/us and my/our affairs as it may think fit, and I/we hereby absolve the Bank and any of its officers against any claim, suit for damage or breach of confidence arising therefrom.

I/WE UNDERSTAND THAT ANY LOAN GRANTED IS REPAYABLE WITHIN ONE SEASON.

Signed by me/us this day of 19

In the presence of:

.............................................................................................
.............................................................................................
............................................................................................. } Witness's Signature and Address

.............................................................................................
.............................................................................................
.............................................................................................
Signature(s) of Applicant

**PENALTY FOR FALSE STATEMENTS: A FINE OF R500 OR ONE YEAR'S IMPRISONMENT OR BOTH.**

**I confirm I have received Page 4 of this application and will complete and submit it to the .............................................. Branch of the Swaziland Credit and Savings Bank.**

.............................................................................................. **F/O**

.............................................................................................. **Area.**

*N.B. This portion to be completed by Field Officer BEFORE submission to Bank.*

# CONFIDENTIAL REPORT

**APPLICATION S № 20066**

**Submitted to** .................................................. **Branch of the Bank.**

A. Applicant's Full Name ....................................................................................................

B. Is he a Master or an Advanced Farmer — Insert "M" or "A" [ ]

C. As a Farmer is he (1) Very good (2) Good. (3) Average. (4) Poor. Insert 1, 2, 3, or 4. [ ]

D. Of the loan applied for, R.............................* is for fertiliser and insecticides. Do you think that their use will increase his yields by at least that amount in value? State "Yes" or "No". [ ]

*See page 2*

E. Have you personally inspected the applicant's fields. [ ]

F. Is Applicant a well respected member of the community? State "Yes" or "No". [ ]

G. Does he follow recommended agricultural practices? State "Yes" or "No". [ ]

H. Do you recommend the loan? State "Yes" or "No". [ ]

I. If the answer to "H" is "No", give brief reasons

...........................................................................

...........................................................................

...........................................................................

Signed ...........................................................................
*Field Officer*

........................................................ Area

........................................................ Date

**APPLICATIONS BY MASTER OF ADVANCED FARMERS ONLY**

I certify that applicant is a registered Advanced/ Master* Farmer, Certificate No.............................
I recommend/do not recommend* the loan.
(**Delete as applicable*).

Signed: ...........................................................................

In charge ....................................................... Rank District

of ................................................................ Sub-District
Date

**LOCAL ADVISORY COMMITTEE**
(*Delete two of three alternatives*)

Minute No.............................................. Dated..................................................

1. Recommended. 2. NOT recommended. 3. Recommended with following modifications:

...................................................................Chairman.

**APPROVED**
**REJECTED**

R ................................ until.................................................... at...............................%

Security.............................................................................................................................

IPC 200

...................................................................Manager.

ANNEX IX

## ILLUSTRATIVE SMALL FARMER LOANS

**Model 1:** 3 acres maize
1 acre tobacco

**Production Costs:**

| | Without Improved Inputs | With Improved Loan Financed Inputs |
|---|---|---|
| **Maize** | | |
| Seed | - | R 3.00 |
| Fertilizer | - | R 36.00 |
| Pesticides | - | R 3.00 |
| Tractor/Oxen Hire | R 9.00 | R 15.00 |
| Bags | R 6.00 | R 18.00 |
| Total maize costs | R 15.00 | R 75.00 |
| **Tobacco** 1/ | | |
| Seed Bed Preparation | R 7.00 | R 7.00 |
| Tractor/Oxen Hire | R 3.00 | R 5.00 |
| Fertilizer | - | R 22.00 |
| Pesticides | - | R 23.00 |
| Sprayer (R40-3 year life) | - | R 14.00 |
| Twine | R 1.00 | R 1.00 |
| Labor | - | R 5.00 2/ |
| Total tobacco costs | R 11.00 | R 77.00 |
| Total production costs | R 26.00 | R 152.00 |
| **Gross Production Value:** | | |
| Maize | R 60.00 | R 168.00 |
| Tobacco | R 70.00 | R 220.00 |
| Total | R 130.00 | R 388.00 |
| **Net Production Value:** | R 104.00 | R 236.00 |
| Debt Service | - | R 9.00 3/ |
| Net Farmers Income | R 104.00 ($ 156.00) | R 227.00 ($ 316.50) |

Incremental Farm Income = R 123.00 ($ 184.50)

$$\text{Incremental rate of return} = \frac{\text{Incremental value of production} - \text{Incremental production costs}}{\text{Incremental Production Costs}} = \frac{R\ 258-126}{126} = 98\%$$

1/ Without utilization of improved inputs harvested crop is likely to be very small
2/ May be supplied by family
3/ Interest at 6% on R 152.

**Model 2:** 3 acres maize
2 acres cotton

**Production Costs** 1/

| | Without Improved Inputs | With Improved Loan Financed Inputs |
|---|---|---|
| **Maize** | | |
| Total maize costs (from Model 1) | R 15.00 | R 75.00 |
| **Cotton** | | |
| Tractor/Oxen Hire | R 6.00 | 10.00 |
| Seed | R 4.00 | R 4.00 |
| Fertilizer | - | R 30.00 |
| Pesticides | - | R 10.00 |
| Sprayer | - | R 14.00 |
| Twine/Bags | R 1.00 | R 2.00 |
| Labor | - | R 6.00 2/ |
| Total cotton costs | R 11.00 | R 76.00 |
| Total production costs | R 26.00 | R 151.00 |
| **Gross Production Value:** | | |
| Maize | R 60.00 | R 168.00 |
| Cotton | R 68.00 | R 225.00 |
| Total | R 128.00 | R 393.00 |
| **Net Production Value:** | R 102.00 | R 242.00 |
| Debt Service | - | R 9.00 3/ |
| Net Farmers Income | R 102.00 ($ 153.00) | R 233.00 ($ 249.50) |

Incremental Farm Income = R 131.00 ($ 196.50)

$$\text{Incremental rate of return} = \frac{R\ 265 - 125}{125} = \frac{140}{125} = 115\%$$

---

1/ 1 Rand = $1.50

2/ May be supplied by family

3/ Interest at 6% on R 152

Model 3: 2 acres groundnuts
2 acres cotton

Production Costs: 1/

| | Without Improved Inputs | With Improved Loan Financed Inputs |
|---|---|---|
| **Groundnuts** | | |
| Tractor/Oxen Hire | R 6.00 | R10.00 |
| Seed | R 8.00 | R16.00 |
| Lime | - | R18.00 |
| Pesticides | - | R 7.00 |
| Sprayer | - | R14.00 |
| Bags | R 4.00 | R 9.00 |
| Labor | - | R14.00 2/ |
| Total groundnut costs | R18.00 | R84.00 |
| **Cotton** | | |
| | As in Model 2 | As in Model 2 |
| Total cotton costs | R11.00 | R76.00 |
| Total production costs | R29.00 | R160.00 |
| **Gross Production Value:** | | |
| Groundnuts | R 66.00 | R140.00 |
| Cotton | R 68.00 | R225.00 |
| Total | R134.00 | R365.00 |
| **Net Production Value** | R105.00 | R205.00 |
| Debt Service | - | R 10.00 3/ |
| Net Farmers Income | R105.00 ($157.50) | R195.00 ($292.50) |

Incremental Farm Income = R100.00 ($150.00)

Incremental rate of return = $\frac{R231 - 131}{R\ 131} = 76\%$

1/ 1 Rand = $1.50
2/ May be supplied by family
3/ Interest at 6% on R 160

## ANNEX X

## CONCLUSIONS AND RECOMMENDATIONS OF APRIL, 1973

## SHORT TERM SCSB STUDY TEAM

In April 1973, at the request of the SCSB, Mr. Harry Lowe, an AID PASA employee at that time, as General Manager of the Agricultural Finance Corporation of Kenya, and Mr. Marcus Winter, AID Agricultural Economist, conducted a brief study of the SCSB to determine future financial requirements of the bank and any management practices that should be charged or introduced to have a mc e effective agricultural credit operation.

The conclusion and recommendations of the study are as follows:

A. The bank has a strong financial position with an adequate capital sturcture. The average cost of money to the bank in 1972/73 was 2.2% with a 6.8% average return on loans and investments. The bank's administration has benefited from competent management and administrative costs are average for a developing bank. The reserve for losses is conservative, but apparently adequate given the outstanding loan collection record of the SCSB. The bank should consider plans for departmentalizing its activities (plans under consideration).

B. There are an estimated 30,000 small-scale farmers in Swaziland. Loans to small farmers reached a peak in 1968/69 with only slightly over 1,000 loans made. A target of 2,500 - 3,000 small farmer loans would seem to be a minimum for the SCSB (SCSB staff agree).

C. The banks should actively seek to increase its bulk lending to farmer-associations and cooperatives. Presently, the bank lends to approximately 20 farmer-associations, a milling company and two cotton ginneries who in turn relay the credit to small farmers (GOS is planning to make greater use of cooperatives, see recommendations of recent seminar, page 20).

D. The bank should revise its charter in order to formally acknowledge the development banking functions which the SCSB is already performing (under consideration by the Ministry of Finance).

E. The bank can effectively utilize a $ 1 million loan for sub-loans to small-scale farmers to purchase farm materials and equipment in Swaziland.

F. If possible, three banking technicians (loan officer, controller and training officer) should be recruited to assist the SCSB as it expands (SCSB has recognized the need for additional staff and has requested that an AID OPEX agricultural credit specialist be provided).

# ENVIRONMENTAL ANNEX XI

The M.O. on environmental considerations, M.O. 1214.1-B, does not require a detailed environmental analysis for A.I.D. loans to intermediate credit institutions since the actual environmental impact is indirect and difficult to measure. This loan will provide funds to the SCSB for on-lending to Swazi farmers who in turn will use the funds to increase their agriculture productivity. The loan will indirectly support a higher level of agriculture activity which will have an impact on Swaziland's environmental balance.

Any increase in agriculture production may change the ecological balance: Plowing cuts the top-soil and if improperly done erosion results; expanded crop acreage may bring in new insects and other pests; insecticides can enter the water table and river system; a higher livestock population may strip the ground cover resulting in erosion. The above possible problems can result from any increase in agriculture production. In fact, even in the absence of this loan there would still be the normal pressure to raise agriculture production--to squeeze more food out of the land.

An important part of the loan is the supervision provided by the Agriculture Field Officer, Cooperative Officer and the Credit Advisor. When a farmer applies for a loan, he must show that he will have available the recommended agriculture inputs - seeds, fertilizer, insecticides, etc. The Field Officer is responsible to see that proper techniques and practices are used in land preparation, planting, crop husbandry and harvesting. This extra degree of extension advice and supervision should help minimize farmer mistakes or excesses which could have a harmful ecological impact. Compared to farmers outside the RDA's, farmers reached by this project will receive expert advice and will be better able to increase production while minimizing environmental damage.

For Swaziland, agriculture is the main livelihood for the majority of the people. Agriculture production must be increased. There is no practical alternative if Swaziland wishes to raise the general welfare and living conditions of the Swazi people. It is estimated that as a result of SCSB loans, the average Swazi farmer reached by the project will increase his net annual income by R70, $105. This higher income will allow him to have a higher standard of living, improved nutrition and hopefully better health. The credit he receives will allow him to buy higher yielding seed; insecticides to combat field losses and storage losses; and animal disease control vaccinations, fences and dip tanks. He needs to produce healthier livestock and crops free from insect pests. The use of improved agriculture inputs and techniques is the only way he can achieve higher productivity and a better standard of living.

AID Loan No.:690-H-005
Cap. Asst. Paper No.:AID/DLC/P
Project No.:

ANNEX XII

CAPITAL ASSISTANCE LOAN AUTHORIZATION

Swaziland - Agricultural Credit Loan

Pursuant to the authority vested in the Assistant Administrator for Africa of the Agency for International Development ("A.I.D.") by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby authorize the establishment of a loan to the Government of Swaziland ("Borrower") of not to exceed SEVEN HUNDRED FIFTY THOUSAND DOLLARS ($750,000.) to assist in financing the local currency costs of an agricultural credit program for small-scale Swazi farmers. To accomplish the foregoing, the loan funds, or their equivalent in local currency, will be provided to the Borrower, reloaned to the Swaziland Credit and Savings Bank (SCSB), and then reloaned by SCSB to qualified small-scale Swazi farmers, subject to the following terms and conditions:

1. Interest Rates and Terms of Repayment

(a) The Borrower shall, in United States dollars:

(i) Repay the loan to A.I.D. within forty (40) years from the date of the first disbursement under the loan, including a grace period of not to exceed ten (10) years.

(ii) pay to A.I.D. interest on the unrepaid principal, and on any interest accrued thereon, at the rate of two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter.

(b) SCSB shall, in legal tender of Swaziland:

(i) Repay to the Borrower the amount of the loan within a period of not to exceed forty (40) years, including a grace period of not to exceed ten (10) years.

(ii) Pay to the Borrower interest on the outstanding balance payable under subparagraph (b) (i) above, at a rate of not less than two percent (2%) per annum during the grace period and not less than three percent (3%) per annum thereafter.

2. Other Terms and Conditions:

(a) Procurement: Commodities and services financed under the loan shall be procured from countries included in AID Geographic Code 941 or from Swaziland.

(b) Other Terms and Conditions: The loan shall be subject to such other terms and conditions as AID may deem advisable.

Assistant Administrator for Africa

Date

MEMORANDUM

TO : PPC/DPRE/PR FILES  November 28, 1973  4

FROM : PPC/DPRE/PR, Richard R. Solem RRS

SUBJECT: Swaziland - Small Farmer Credit Loan (CAP)

The Africa Executive Committee met on November 27 to discuss subject proposal. The paper was delivered by Bill Johnson of AFR/DS. The concensus of the Executive Committee seemed to be that the proposal was conceptually very sound and the paper well written, so the discussion was focussed on several specific issues:

1. New Loan or Amendment to the 1971 Agriculture Support Loan - Though this proposal originally came forward as an amendment to the 1971 agriculture loan for $2.2 million ($250,000 of which was designated for Agriculture Credit), there was much feeling on the Executive Committee that this proposal is sufficiently different from its predecessor that it should be a separate loan agreement. The same borrower (Swaziland Credit and Savings Bank) is envisaged, but the prior $250,000 Agriculture Credit portion was unrestricted vis-a-vis target sub-borrowers and as a result of this, plus the requirement that procurement be U.S., 941 or local, some 75% of the $250,000 was loaned to two grain buyers who used it to purchase maize and wheat from Swaziland farmers. The proposed loan, on the other hand, will be focussed very strictly on small farmers. In light of the above, the Executive Committee agreed that the proposed loan should be separate from its predecessor and should likewise be increased from $500,000 to $750,000.

2. 935 Procurement Waiver - A principal reason for the problems mentioned with the $250,000 Credit Loan discussed in Item 1 was the loan paper's restriction to U.S., 941 and local procurement. In Swaziland the effect of such a restriction is to exclude any possibility of small loans to small farmers. This is so because virtually all of the agriculture inputs sold in Swaziland stores are of South African origin. Therefore, if the Project Committee is to design an effective small farmer credit program, the 935 procurement waiver is vital. The Executive Committee opted to request such a waiver and PPC indicated that the option should pose no problem due to the special circumstances.

3. 6% Cost of Credit to Small Farmers - The Project Committee advised that they had real problems accepting the Swaziland Credit and Savings Bank proposal to relend the AID loan to small farmers at only 6%. The Project Committee felt that the spread between 2% and 6% is insufficient to support the overhead costs involved in reaching small farmers in isolated areas and that with such a rate the bank would steadily decapitalize itself. It was felt, however, that having gotten nowhere with the Swazis in earlier discussions concerning the interest rate to small farmers, the prudent thing to do at this point is to go ahead with the loan but instruct the Project Manager to monitor the bank's overhead during the course of the loan program so as to generate the data (presently we have no data) to support our argument that 6% is too low a rate.

4. Target Group - The project team took pains to describe the target group for proposed sub-loans and the means by which AID would attempt to insure that such a group would actually be reached. Principal criteria were that all loans must go to farmers on Swaziland nation land (where all farmers are reportedly small), preference would be given to farmers in the rural development areas targetted upon by previous projects, and no loans could be more than 500 Rand ($750.00) and additionally, that at least half of the loans should be for less than 250 Rand. Al Disdier fussed eloquently about setting such tough restrictions on the bank, but the project team allowed that they expect no problem selling the loan size restriction since the first part of it (the 500 Rand maximum) was the bank's own idea. The Executive Committee agreed that an attempt to insure a median loan of 250 Rand is worth making and that this should be proposed during loan agreement negotiations.

5. Evaluation - The Project Team advised that an evaluation system would be built into the loan paper to monitor the following points: (1) loan size, (2) delinquency rate, (3) borrowers farm size, (4) use of sub-loan proceeds.

The meeting was closed (1) with the concensus that the loan proposal is a very good one, (2) with instructions to the project team to modify the paper per the discussion, and (3) with agreement that no subsequent Executive Committee meeting would be required prior to preparation of the final loan paper.

cc: PPC/PDA, D. McClelland
PPC/RB, Joan Coe

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

A.I.D. Loan No. 690-T-005
Cap. Asst. Paper No. AID/DLC/P-2017
Project No. 690-22-110-024

# CAPITAL ASSISTANCE LOAN AUTHORIZATION

## Swaziland - Small Farmer Agriculture Credit

Pursuant to the authority vested in the Assistant Administrator for Africa of the Agency for International Development ("A.I.D.") by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby authorize the establishment of a loan to the Government of Swaziland ("Borrower") of not to exceed SEVEN HUNDRED FIFTY THOUSAND DOLLARS ($750,000) to assist in financing the local currency costs of an agricultural credit program for small-scale Swazi farmers. To accomplish the foregoing, the loan funds, or their equivalent in local currency, will be provided to the Borrower, reloaned to the Swaziland Development and Savings Bank (SDSB) (formerly the Swaziland Credit and Savings Bank), and then reloaned by SDSB, either directly or through farmer cooperatives or associations, to qualified small-scale Swazi farmers, subject to the following terms and conditions:

1. Interest Rates and Terms of Repayment

   (a) The Borrower shall, in United States dollars:

      (i) Repay the loan to A.I.D. within forty (40) years from the date of the first disbursement under the loan, including a grace period of not to exceed ten (10) years.

      (ii) Pay to A.I.D. interest on the unrepaid principal, and on any interest accrued thereon, at the rate of two percent (2%) per annum

2. Currency of Repayment. Provision shall be made for repayment of the loan and payment of the interest in United States dollars.

3. Other Terms and Conditions.

   (a) Goods and services financed by the loan shall have their source and origin in those countries included in Code 941 of the A.I.D. Geographic Code Book and in Kenya.

   (b) The Loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.

Assistant Administrator for Africa

MAY 10 1974

Date