FINAL EVALUATION

LIBERIA

AGRICULTURAL CREDIT BANK PROJECT

(669-0145)

Burt Behrens B. 10/15/83

Rufus Long

OCTOBER 15, 1982

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ABBREVIATIONS

ACDB	The Agricultural and Cooperative Development Bank
ADP's	Agricultural Development Projects (BCADP and LCADP)
BCADP	Bong County Agricultural Development Project
COP	Chief of Party
GOL	Government of Liberia
LCADP	Lofa County Agricultural Development Project
LPMC	Liberian Produce Marketing Corporation
LSU	Louisiana State University
MOA	Ministry of Agriculture
PID	Project Identification Document
PP	Project Paper
USAID/L	USAID Mission, Liberia

CLASSIFICATION

PROJECT EVALUATION SUMMARY (PES) — PART I

Report Symbol U-447

1. PROJECT TITLE	2. PROJECT NUMBER	3. MISSION/AID/W OFFICE
Agricultural Credit Bank Project	669-0145	USAID/Liberia
	4. EVALUATION NUMBER (Enter the number maintained by the reporting unit e.g., Country or AID/W Administrative Code, Fiscal Year, Serial No. beginning with No. 1 each FY) Final	
	[X] ~~REGULAR~~ EVALUATION [ ] SPECIAL EVALUATION	

5. KEY PROJECT IMPLEMENTATION DATES			6. ESTIMATED PROJECT FUNDING	7. PERIOD COVERED BY EVALUATION
A. First PRO-AG or Equivalent FY 79	B. Final Obligation Expected FY 79	C. Final Input Delivery FY 81	A. Total $5,550,000	From (month/yr.) 11/79
			B. U.S. $1,550,000	To (month/yr.) 7/82
				Date of Evaluation Review

8. ACTION DECISIONS APPROVED BY MISSION OR AID/W OFFICE DIRECTOR

A. List decisions and/or unresolved issues; cite those items needing further study. (NOTE: Mission decisions which anticipate AID/W or regional office action should specify type of document, e.g., airgram, SPAR, PIO, which will present detailed request.)	B. NAME OF OFFICER RESPONSIBLE FOR ACTION	C. DATE ACTION TO BE COMPLETED
This is a Final Evaluation. Conclusions regarding the project and recommendations for future action for an Agricultural Credit Program may be found on Pages 52-57 of this Evaluation.		

9. INVENTORY OF DOCUMENTS TO BE REVISED PER ABOVE DECISIONS N/A

- [ ] Project Paper
- [ ] Financial Plan
- [ ] Logical Framework
- [ ] Project Agreement
- [ ] Implementation Plan e.g., CPI Network
- [ ] PIO/T
- [ ] PIO/C
- [ ] PIO/P
- [ ] Other (Specify) ____
- [ ] Other (Specify) ____

10. ALTERNATIVE DECISIONS ON FUTURE ~~OF~~ PROJECTS

A. [ ] Continue Project Without Change

B. [X] Change Project Design and/or
[X] Change Implementation Plan

C. [ ] Discontinue Project

11. PROJECT OFFICER AND HOST COUNTRY OR OTHER RANKING PARTICIPANTS AS APPROPRIATE (Names and Titles)

Charles Strickland, Project Officer, USAID/L
Adolph W. Yancy, Managing Director, Agri. Coop. & Dev. Bank
Jerome Hodge, Credit Manager, " "
Samuel Devine, Operation Manager, " "
Curt Wolters, Program Economist, USAID/L
Lloyd A. Clement, C.O.P., Checchi & Co., Contractor
Domenick Nigro, Operations Manager, " "
Jeffery R. Nash, Credit Advisor,

12. Mission/AID/W Office Director Approval

Signature

Typed Name

Date

AID 1330-15 (3-78)

PES - PART II

13. Summary

Progress in relation to design: The project was designed to build an agricultural credit institution with a smallholder approach by technical assistance inputs to guide the bank in its development.

The infrastructure exists, with the Bank officers and other staff members trained in varying degrees and exposed to the agricultural credit process (although not fully trained in agricultural credit principles). Two top officers received long term participant training and seem to be well grounded, with high potential. Technical assistance inputs were less than planned (PES 16 and PES 22 at P. 34) and an important output, the Bank Development Plan, with lending and savings strategies, was not provided on schedule so that it could be utilized to guide the Bank in its development during the second and third years of the project. The Bank's development suffered correspondingly.

Major problems encountered: External--the decline in Liberia's economy, causing committed GOL support and capitalization funds not to be available. The result is that there is insufficient loan capital to generate income. Internal--the failing of the inputs and output discussed above. These internal factors were critical, being pertinent to the Bank's development and to its weakness in collections.

Prospect of reaching purpose and goal: The Bank was set up to supply credit to the project's indirect beneficiaries--small and medium farmers and the rural agricultural economy, as well as large farmers and the public agricultural corporations. It is not geared to concentrate on small farmers: it is not feasible for a bank to deal with many small farmer loans individually when the administrative cost for a small loan equals that for a large loan. To reach the small farm holder with credit the Bank needs cooperatives or the equivalent to serve as a link between itself and the small farmer. The cooperatives have turned out to be not viable and the Bank has failed to develop an alternative delivery mechanism, as suggested in the PP.

However, the savings mobilization function of ACDB is an important step in the direction of uplifting the small farm holder and other rural poor.

14. Evaluation Methodology

This evaluation was made in response to a USAID/Liberia request to:

o Conduct end of project evaluation on the Agricultural Credit Bank Project (669-0145)

o Evaluate the implementation of recommendations resulting from a 1980 evaluation of the project and

o Determine whether a seed capital loan should be recommended for the Agricultural and Cooperative Development Bank and, if so, to specify terms and conditions.

Accordingly, a team consisting of two AID staff members visited Liberia from July 19 to August 5, 1982:

Burt Behrens, Team Leader	NE/TECH
Rufus A. Long	PPC/PDPR

Accompanied by the Credit Manager of ACDB, a two-day field trip was made to visit two of the three Branch offices, located in Gbarnga (Bong County) and Ganta (Nimba County), where they consulted with the Branch Office Managers and Loans Officers; officials in the Bong County Agricultural Development Project; and the Rural Credit Advisor, a member of the contract team posted at Gbarnga; and talked with other knowledgeable persons. They also visited shops and markets to note the availability of supplies, small tools and produce, and the pricing.

At the Branch Banks they examined loan files, reports and records, and discussed organization and procedures. Nearly daily contact was made with the ACDB, including conferences with the Managing Director every 3 to 4 days.

Toward the end of the evaluation a progress report meeting was held in USAID with the newly arrived Director, the Deputy Director, members of the Agricultural Division and Program Division and the contract COP.

15. <u>External Factors</u>

o <u>The Coup, April 12, 1980:</u> In the period of instability following the coup Liberia's economy, already deteriorating as a result of decline in export earnings, experienced disinvestment by private enterprise and capital flight (roughly 30% of the money supply). Additionally, the inexperience in management of governmental affairs exacerbated the decline in the economy. The economic decline has resulted in funds committed by the GOL not being available to ACDB.

o <u>The Moratorium:</u> A moratorium on lending was declared for the period from January to July, 1981.

o <u>The LPMC Financial Crisis</u> (beginning in 1979): The Liberian Produce Marketing Corporation, a public corporation, is officially charged with establishing prices for crops, providing marketing services and importing and exporting food crops. In 1979-80 LPMC suffered a loss of $10,000,000 as a result of two transactions: a) It sold coffee to Libya for $5,000,000 and was not reimbursed by GOL after payment by Libya; b) It purchased rice at the world market price and sold it within Liberia at the subsidized price, with a loss of $5,000,000. (The costs of the subsidy on rice from 1979 until its removal in August 1981 was a drain on LPMC, being financed out of the stabilization funds for coffee and cocoa and the reserves of LPMC.)

This financial crisis had serious consequences with regard to the farmers' sale of their produce, the end result being that farmers sold their crops to traders at low prices.

There are several accounts as to how this came about.

One account is the liquidity crisis: because of lack of funds, LPMC did not have the cash to pay the cooperatives, who then could not pay cash to the farmers for their produce, as a result of which the farmers were forced to sell to traders at cheap prices.

This resulted in a lack of confidence on the part of the farmers in the cooperatives.

In another scenario the co-ops did not suffer as a result of LPMC's lack of funds because ACDB gave loans to the co-ops to provide the needed cash to purchase the farmers' crops; however, LPMC, in order to recoup its losses, priced produce far below the world market price. The scheme backfired because the farmers sold instead to traders at low prices which were slightly higher than the LPMC price. The traders, who bought at less than world market prices, smuggled the food products out of the country. The cooperatives did not repay ACDB. So ACDB, the cooperatives, LPMC and the farmers <u>all</u> lost.

A third scenario has it that Citibank lent LPMC $12 million in cash in order to pay the farmers for their crops--somewhat belatedly, after LPMC had issued I.O.U.'s to farmers and cooperatives; and that as a result of cash flow problems (repayment of the loan, non-payment for the coffee sale, non-reimbursement by GOL of the rice subsidy, etc.) LPMC, although essentially a viable state corporation, finds itself temporarily in financial trouble.

o Non-payment of Government Salaries: In order to relieve the GOL's critical financial situation, government salaries were not paid a number of times. As a consequence, those ACDB loans which had salary assignments for repayment became delinquent and thus exacerbated the delinquency rate.

16. Inputs

AID inputs have consisted principally of:

-	Technical Assistance	$1,129,921
-	Commodities (vehicles, etc) to support the project	143,274
-	Participant Training	176,468
-	Other Project Support Costs	100,337
	Total	$1,550,000

The technical assistance (one hundred ten person months) was provided under a direct contract with Checchi and Company, Washington, D. C., (Negotiated Contract No. AFR-C-1596, dated September 21, 1979, with an estimated completion date of October 1, 1982).

The Checchi contract also provided for purchase of furniture, miscellaneous supplies, calculators and office desks and furnishings.

The AID inputs in general were furnished as promised to the project; however, the delivery of technical assistance as planned in the project paper was somewhat behind schedule during the first year of the contract.

The PP and the Checchi contract called for 132 and 135 person months of technical assistance including 24/27 person months of short term contractors which were later deemed unnecessary. The functions of a proposed rural savings advisor (6 person months) were reportedly carried out by the long term Checchi team members while the studies to be made by the rural sociologist (7 person months) were deemed available in other studies in process or previously completed.

GOL/ACDB contribution to the project was to consist of $4 million from the Government for budget support covering projected operating losses and ACDB loan capital. This amount, $4 million, was to be in addition to contribution of $1.7 million made by the GOL during the year 1978. The ACDB was to pay for participants' travel costs, partial maintenance of the USAID financed vehicles, and in-country training costs.

According to an interim report of the Bank for the six months period ending June 30, 1982, the GOL had contributed an additional $1,541,143 in capital to the ACDB and an accrual of $250,000 was shown as an operating subsidy from the GOL. An additional subsidy of $250,000 had been taken into 1981 operating income as an accrual. Therefore, the Government is short approximately $2.2 million or 55 percent in meeting its contribution of $4 million as agreed to in the PROAG and as planned for in the PP.

The World Bank, according to the PP, was to provide $422,000; $150,000 for funding a branch office in Bong County and $272,000 for technical assistance consisting of a two-member team, one an operations expert for two years to act as head of the Operations Department reporting directly to the Managing Director of the ACDB, and second, an agricultural credit specialist for two years to supervise preparation of loan appraisals, propose credit policies and strategies and train staff. This person was to also report directly to the Managing Director.

The Bank later decided that they did not want or need the World Bank contribution. Unfortunately, AID concurred in this, even though AID/W in the PP approval cable, State 236767, dated September 18, 1978, stated that "technical assistance by AID and the World Bank to the ACDB should be coordinated as closely as possible during contracting and implementation."

17. Outputs

The project outputs were fairly clearly specified in the PP and in the project agreement but only in general terms in the Checchi contract. In general, it can be said that most of the project outputs were delivered as dicussed below*:

a. Preparation of a Bank Development Plan: The Checchi team, in September 1982, delivered a Development Plan, in final form, to the Bank with copies to USAID.

The PROAG stated that the "translation of the broad policy objectives of the Bank into a Bank Development Plan complete with lending and savings strategies is one of the key elements in the success or failure of the ACDB." The preparation of the plan will require approximately one year. "The PROAG further stated that the ACDB and USAID "will join forces"... to develop the policy and operational guidelines while the Checchi contract stated that the COP among other duties would be responsible for the "timely completion of project outputs"; section 4C of the Checchi Contract states that "the Bank Development Plan is the most important output in the first year. The second and third years will be devoted to implementing the plan." This was consistent with the project paper which placed a great deal of emphasis upon the Development Plan

*Outputs "a" through "i" are discussed in the order as presented in the PROAG while "j" is taken from the PP, Annex H 3.

and in particular the formulation of a strategy to service small farmers outside the cooperatives.

As indicated above, the Plan was not completed as scheduled, neither do the records provide an altogether satisfactory explanation for the long delay given the crucial importance of the Plan to development of the Bank (see Annex 2 for an explanation contained in the Checchi team's first Annual Report).

The Plan as submitted covers the years 1982 through 1986. It includes basic operating assumptions, estimates of loan volume and outstandings on a monthly basis for 1982 and quarterly thereafter, cash flow projections on a quarterly basis, estimated income and expenses on a monthly basis for 1982 and quarterly thereafter, pro-forma balance sheets on a quarterly basis, and staff on a quarterly basis.

The starting date for the Plan is January 1, 1982 and is based on the assets and liabilities as of that date; however, the value of the assets, principally outstanding loans, was highly questionable, considering the delinquency rate and difficult financial conditions faced by Liberian business firms and cooperatives. In addition, a "repayment rate of 50 percent annually less a 10 percent delinquency rate, less loss experience" is assumed. This repayment rate in our opinion may be optimistic. The Bank failed to furnish information on their delinquencies but indications are that the rate is fairly high.

The Plan is detailed and unnecessarily so. For example, pro-formas of balance sheet figures as of 1985 (on a quarterly basis) are in terms of one dollar, not hundreds or thousands as might be expected for projections that far in the future.

In our opinion the delay of the plan to achieve a high level of detail was unnecessary and probably counter productive. As a minimum a simplified plan should have been prepared as scheduled during the first year. This would have focussed attention on major issues such as raising of additional capital, staffing, etc.

By waiting until the end of the project to submit the plan, the full benefits as envisioned in the PP for the plan will not be realized.

b. Preparation of Credit Policies and Procedures Manual: Credit policies and procedures, according to the PROAG, which are applicable to cooperatives and small farmers need to be developed and made operational. A credit manual was first prepared in March 1978. The contractor submitted recommendations for revision in November, 1981; a revision was published March 31, 1982. In addition, the contractor submitted recommendations to the ACDB which were incorporated in the Rules and Regulations of Branch Credit Committees published in July 1980. The contractor in September 1982 submitted recommendations for further revision of this manual including policies and procedures for lending to cooperatives and other classes of loans; we have not had the opportunity to review this manual.

The March 1982 manual has been distributed to all the branches but due to the small number of loan applications currently being processed, the team is unable to determine if the manual has been made operational. However, it is highly unlikely that it has been, based on our quick review of the activities of one branch office. Credit files on individual borrowers were only set up in 1982 and the information in the files was inadequate to enable a person other than the credit officer to manage the credit properly. The information on customer contacts was in the credit officer's head but not in the files.

c. Establish Staffing Requirements and a Training Plan: The PROAG specifies that staffing requirements and a training program for new employees needs to be established taking into account the Bank's development plan. The contractor in mid 1980 at the request of the Bank, prepared a personnel management paper including job classifications and position grade levels for all staff. Some job descriptions for branch staff have been prepared and implemented. Although the Bank Development Plan includes total figures for numbers of personnel, a detailed study of staff requirements has not been made. A staff training manual, in preparation at the time of the evaluation, was furnished the Bank in September 1982.

d. Increased Trained Staff: A minimum of 34 bank professionals were to be trained by various training programs by the end of the project. As of June 30, 1982, the following numbers of staff have been or were receiving training:

	Training Completed	Training In Process	Total	Planned
Participants				
Long Term	2	2	4	3
Short Term	3	-	3	9
On-the-Job	24	11	38	22
TOTAL	32	13	45	34

e. Establish Internal Accounting Auditing and Control Systems with Trained Staff. The following manuals/ systems have been developed or are in process:

Draft Bank Operations Manual submitted to the Bank in December 1981. Final draft to be submitted by contractor in September 1982.

Final draft of Internal Audit Manual to be submitted to the Bank in September 1982.

A chart and description of accounts which were adopted by the Bank, September 1, 1981.

Preparation of comparative financial statements (balance sheet), Statement of income and expense and activity figures by branch and on a consolidated basis as of September 30, 1980 and September 30, 1981 and as of December 31, 1981 for the use of senior bank management.

The Bank will have on an operational basis (assuming the Bank adopts the contractor's recommendations) an adequate accounting system, internal controls and operating procedures to handle the present volume of business. However, given the highly centralized style of the Bank's management and the lack of access to senior Bank management (since December 1981) by the Bank operations advisor furnished under the Checchi contract, it is highly doubtful if the appropriate Bank staff have been fully trained. The limited time available did not permit a comprehensive review of this aspect of the Bank's operations. The ability to handle a substantially larger volume of transactions will depend on the availability of trained personnel, their productivity and extent of mechanization.

f. <u>Develop and Institute a Strategy for Mobilizing Rural Savings</u>. A detailed in-depth study of the potential for savings mobilization in the Upper Lofa County was completed about May/June 1981. This study indicated that there were untapped savings in the area and suggested several strategies including establishing "cash offices" for the Bank to follow in attracting these savings.

Savings in the branches grew rapidly between 1979 and 1981 substantially exceeding the $500,000 target by the end of the project.

However, the Bank has not developed and adopted a comprehensive savings mobilization plan. For example, the Bank does no advertising on the radio although this was recommended to the Bank by the contractor. Nevertheless, total savings have grown, albeit slowly in recent months, as indicated by the following:

9-30-79	$753 869
9-30-80	$1,173,092
9-30-81	$1,497,231
12-31-81	$1,466,551
6-30-82	$1,576,454

g. Open Three Rural Branches: The output target has been met with branches open and in operation as follows:

Gbarnga	June 1978
Voinjama	August 4, 1979
Ganta	October 1, 1980

h. Loans Targeted at Small Farmers and Cooperatives: As of December 31, 1981, loans to some 33 cooperatives amounted to $1.1 million or 46 percent of total loans of $2.4 million. Some 515 loans totalling $859,000, and averaging $1700 were outstanding to individuals; $422,000 was due from public corporations and others.

The PP envisioned serving 4,200 small farmers and 50 large farmers by the end of the project. This was based on the assumption that the cooperatives with AID assistance provided under a separate project would be viable. This did not turn out to be the case; the cooperative project failed to achieve its objectives. Our review of the loan activity at one branch indicated that practically all individual borrowers are not full time farmers and that funds for repayment of the loans are dependent on other than farm income. Our conclusion is that the Bank has not designed programs for and is not reaching small farmers, certainly not small subsistence farmers and as one observer commented, "it is a commercial bank and the management is not interested in serving the rural areas." It should be noted that the project paper, the project agreement and Checchi contract all refer to small farmers without defining small farmers.

i. <u>Complete Socio-Economic Survey of the Market Served by the Bank's Branches</u>: The surveys were to be taken at three different times during the life of the project to facilitate measuring the impact of the Bank's lending and savings activities on the Bank's customers and to determine reasons for rural people not using the Bank's facilities. This was an excellent idea but following completion of a "credit supply/demand study" by the consultant during the early phase of project implementation it was determined by the contractor and USAID that since there were four studies completed or nearing completion on this same topic that sufficient information would be available and additional studies were not necessary. Therefore, the Bank did not conduct the required studies although it is difficult to see how they could substitute for the planned Bank studies.

j. <u>Default Rates Reasonable (4%)</u>

Although we requested the Bank to furnish a report on delinquencies and charge offs they have not done so. An office report on the Gbarnga office which we visited, as of June 30, 1982, showed total loans of $137,000: of this $86,373 represented notes matured and unpaid installments due and not paid. Loans totalling $104,000 had all or a portion (installment) due and unpaid. The office did not have an aging schedule of their past dues; neither does the Bank periodically prepare an aging schedule of past dues. Apparently the Bank does not have a charge off policy and in view of the difficult overall economic and financial conditions in Liberia has not followed a tough collection/charge off policy.

A 4% default rate target is highly optimistic for a newly organized agricultural credit bank.

18. <u>Purpose</u>

The project purpose is to institutionalize rural credit and savings channels for farmers and the rural agricultural economy at reasonable interest rates:

Progress toward EOPS Conditions:

- o Personnel trained: the condition as to participant training has been fully met. In-country training has been given to over 30 members of the Bank staff. However, training under the contract technician suffered in the case of some top Branch officers who were frequently transferred between the Branches and the Head Office.

- o A third branch in operation (Nimba).

- o A fourth branch projected for Maryland County is not yet in operation. Projected by ACDB at a future time after PACD.

- o A Development Plan to guide ACDB to have been completed by the end of the first year was submitted in May, 1982 and was delivered in final form in September, 1982.

- o Assumed volume of loans by 1981: $10.5 million. The actual volume was $2,399,000. The year now projected for the $10 million figure ($10,714,000) is 1986, a lag of 5 years. Principal reasons: lack of loan capital and funds for operating expenses and the moratorium on lending, following the coup.

19. Sector Goal

The sector goal is to increase agricultural productivity and economic benefits for rural households engaged in small-scale agricultural production.

There is no hard evidence that there has been an increase in smallscale agricultural productivity. To achieve the sector goal the other sub-systems besides rural credit must work effectively, and the cooperative link has not done so. Cooperatives have not proven capable of acting as relending facilities or input suppliers. They have low standards of management, accounting is poor, and auditing is nil.

20. Beneficiaries

Since the purpose of the project is institution-building, the direct beneficiary, of course, is the institution itself: ACDB.

The indirect beneficiaries are the potential borrowers within ACDB's charter:

- o Small farmers
- o Medium and large farmers
- o Public corporations engaged in agriculture
- o The rural agricultural economy (including rural industry, commerce and consumer needs)

ACDB's accounting system does not reflect the specifics desired as to identity and number of those benefitting in the credit area. However, remarks of relevancy as to the following tables may provide a basis for some insight as to the figures.

ANALYSIS OF LOAN PORTFOLIO ACCORDING TO PURPOSE AS OF DECEMBER 31, 1981

PURPOSE	NO. OF LOANS	AMOUNT ($)	%	REMARKS
Marketing	34	$ 868,538	36	Basically, these are cooperative loans.
Tree Crops	190	461,350	19	Includes smallholders, whose principal cash income is from tree crops.
Personal/ Other	107	455,211	19	Would encompass family needs (weddings etc.) and upgrading standard of living.
Agricultural Equipment	38	277,878	12	Would involve medium holders.
Housing/ Construction	163	116,298	5	Would include small and medium holders.
Food Crops/ Vegetables	7	104,097	4	Medium to large
Livestock	11	60,920	3	Medium to large
Commercial	15	54,777	2	Businesses serving rural community
TOTAL	565	$2,399,069	100	

ANALYSIS OF LOAN PORTFOLIO BY CLASSIFICATION OF BORROWERS AS OF DECEMBER 31, 1981

CLASSIFICATION	NO. OF LOANS	AMOUNT (L$)	%	REMARKS
Cooperatives	38	$1,117,118	46	Viable cooperatives represent primarily smallholders.
Individuals	515	859,463	36	Small and medium holder
Public Corporations/Other	12	422,488	18	Medium to large holders
TOTAL	565	$2,399,069	100	

Beneficiary utilization of the savings facility is not available by classification. As of June 30, 1982 the total number of savings accounts was 4,430, totaling $1,466,551. Savings accounts are rural and therefore Nil in the Head Office (Monrovia).

Total Demand Deposits as of December 31, 1981 were $1,865,000.

21. Unplanned Effects

The savings deposit feature had an unexpected effect in the extent of its reach: 200% more than planned ($1,466,551 as opposed to $500,000 planned). ACDB is providing a significant facility to the rural community, and in particular the small farmer, in its savings program. Whereas before, a poor person had no place to deposit any small savings and, as a result, it was frittered away or, being visible, was taken under pressure of family members or friends, now he can accumulate these small savings and utilize them to increase his standard of living. This is a tremendous incentive for greater productivity. The interest earned increases the incentive.

Transition: By reason of this opportunity to save, the small farmer is in a transition from a state with little opportunity to improve his lot to one of possibilities and expectations and incentive.

Demand Deposits, while anticipated, were not specifically planned for in the Project Paper; the amount of $1,864,400 is on the books. Not only is this a service to the depositor (as in the case of savings), but the static balance is free money for ACDB, to be loaned out at from 15% to 24% interest.

22. Lessons Learned

o In general the project design was well done; the approach was correct.

However, the input of Rural Agricultural Credit Advisors did t completely match the design, which in the scope of work showed the necessity for field experience by including field trips to borrowers' property "to investigate applicants, to inspect andascertain progress of planned farming operations.." Farm visits were made very infrequently, if at all.

o The project design should have included a coordinating mechanism to assure the full participation of all the concerned parties during the project implementation stage. Such a coordinating mechanism or committee should have included senior representatives of the cognizant Government ministry, MOA, the Agricultural and Cooperative Development Bank (as recipient of the technical assistance provided by AID) and USAID. A representative of the contractor providing the technical assistance should attend these meetings. The committee, among other functions, would review the recommendations made by the consultants representing the contractor and follow up on actions taken.

In this instance the consultants made numerous recommendations to the Bank which reportedly were not seriously considered or acted upon by the Bank. An effective coordinating committee could have provided a means for reviewing the recommendations for relevance and for assuring a follow-up of the actionable ones.

o AID/W should be aware of the sensitive relationship between USAID and the host government. On issues where USAID would be placed in a difficult position but where their views need to prevail, the approval or at least the concurrence of AID/W could be stipulated. This would take USAID "off the hook," with the burden for the decision falling on AID/W.

For example, the strategy envisioned in the PP included an expatriate to be in charge of bank operations and an expatriate agricultural credit specialist, both to be funded by the World Bank, reporting to the Managing Director of ACDB. Later in the implementation stage, the Managing Director objected to the placement of expatriates in those positions, and USAID concurred.

o In the event of an abrupt major change in the policies or top officials of the host country government, assumptions will almost certainly change, so the PP should be reviewed and possibly amended to adjust to government policy changes or actions. In this case the funds vital to the Bank's operations which were due from GOL were not forthcoming following the coup.

o In institution-building projects relying on technical services to be furnished by a contractor over an extended period of time, the project should provide for an evaluation at the end of the first twelve months following arrival of the contractor's Chief of Party (who should be the first of the contract team to arrive on the scene). The evaluation team should include a representative from AID/W and should be charged with evaluating the performance of the contract team and its contribution to achieving the objectives of the project; and with recommending continuation/discontinuation of the contractor's services.

o It is unrealistic to allow responsibility for the logistics to be placed on the host government for the members of contract teams living upcountry. What often happens is that housing is inadequate and that services are not rendered. The contract personnel become extensively engaged in looking after their living situation, with time for job performance severely impinged on. Contract personnel in this instance were without water and without electricity for critical periods of time, which necessarily detracted from the quantity, if not the quality, of the work performance.

23. Special Comments or Remarks

Attached is "Status of Recommendations Made by the 1980 Project Evaluation" (two pages) prepared in response to USAID/L request (see PES 14 above).

Status of Recommendations Made by the 1980 Project Evaluation Team

The evaluation, conducted in November 1980, contained 12 recommendations. Most of these recommendations, numbers 4, 5, 6, 8, 9, 10, 11, and 12 were assigned by USAID/L to the Checchi Chief of Party for action, although he was in no position to take action on them. Neither was he notified that he was responsible. Actions taken on the recommendations are discussed below in the same order as in the 1980 PES.

1. Recommendation Number One "that ACDB's first priority should be to achieve and maintain its financial viability" was not accompanied by an specific actions to be taken to achieve this viability. In any event, the Bank is suffering heavy loan losses, has high overhead expenses, a loan portfolio with high delinquencies and under present conditions is not a viable institution. It should be noted that the evaluation report did not include a recommendation to increase the loan capital of the Bank except for completion of the capital stock acquisition by the LPMC, the cooperatives and credit unions which is discussed in item 12. In fact the evaluation report stated that "through September 30, 1980, the GOL had paid in $3,760,460 to acquire common stock in the ACDB" leaving $239,540 to be paid in before the end of the project in 1982. Covenant "h" of the PROAG reads as follows: "Total financial support by the GOL to the ACDB by the end of the project in

1982 is at least $4 million in the form of capitalization and/or operating subsidies." As discussed in section 16 of the PES, the GOL has only paid in $1,541,143 in capital and $250,000 in an operating subsidy and has not met this covenant. If they had, the Bank would have had the benefit of the additional loan capital and operating funds.

2. Staff the Gbarnga Branch Rural Credit Advisor position before December 31, 1980. This position was filled March 30, 1981.

3. USAID extend the services of the two Rural Credit Advisors for an additional year to facilitate on-the-job training. Only one Rural Credit Advisor (John Smith) was on board at the time of the evaluation; however, his tour was not extended due to lack of funds.

4. (A) MOA and other concerned entities determine the feasibility of assigning/stationing development project credit staff in the cooperatives to train cooperative staff in lending and savings, and (B) channel development project funds for on-lending to cooperatives through the ACDB. These recommendations were assigned to the COP of the Checchi team who considered and disapproved them in early 1981 on the basis that cooperatives in Liberia at that time was not viable.

5. Bank explore expanding its outreach to small farmers through Liberia's traditional, political, social and cooperative systems. The ACDB in the fall of 1980 with assistance from the advisors did explore the possibility of using traditional village level organizations as a credit delivery mechanism. It was determined (Checchi First Annual Report, section on savings mobilization) that this approach was feasible; however, funds were reported as not available to carry it out.

6. Bank evaluate its experience in lending through credit unions. The contractors explored this avenue and concluded that credit unions were not viable.

7. Increase the mobility of Bank staff to facilitate field visits. The issue of numbers and mobility of branch officer personnel was studied by the contractors (Checchi team Second Annual Report Savings Study) with recommendations made to the Bank; these have been accepted by the Bank but have not been implemented due to the lack of funds.

8. Bank intensify on-the-job training efforts and create a permanent staff training capability within the Bank. The contractors have provided informal, one-on-one training for all the professional staff in the credit and operations department; they (the contractors) are preparing a proposed credit training manual. The organizational structure for training including staffing and training of trainors is not being formally addressed by either the Bank or the consultants.

9. Bank develop programs to educate small farmers on savings and sound credit use. The Bank has not implemented programs or literature available for distribution to educate small farmers in credit and savings. The contractors in their savings study referred to above have made recommendations along this line but they have not been adopted.

10. Bank increase its loan rates (an increase of 50 percent was suggested). Interest rates on loans were increased in July of 1981 (Checchi team Second Annual Report) by approximately 40 percent.

11. Bank simplify and shorten its legal instruments. The contractors reviewed the legal forms and recommended simplification (Checchi team Second Annual Report) but these have not been implemented by the Bank.

12. Develop a plan for sale of stock. The Checchi team provided the Bank a plan but there has been no action taken on proposed acquisition of stock and the GOL apparently has no immediate plans for a capital contribution.

SUMMARY

In line with GOL goals and its strategy to improve the lot of the small farm holder, USAID/Liberia has followed a program of strengthening the traditional agricultural sector through basic support activities (roads, research, extension planning) and the delivery institutions (farmers' cooperatives and credit societies and integrated rural development project authorities). It was felt that the one critical need not being addressed in this context was a full-service rural banking system which could respond to the credit needs of small farm holders and the rural economy, and mobilize savings.

The creation of the Agricultural and Cooperative Development Bank in 1976 provided this vehicle. This project was undertaken "to institutionalize rural credit and savings channels for farmers and the rural agricultural economy at reasonable interest rates."

What has the Project accomplished?

It has succeeded in building an institution which can provide rural credit (at reasonable rates) and savings channels to farmers and the rural agricultural economy. These facilities are in place in three of the five major agricultural counties. The Bank staff has been trained in varying degrees. In particular, two of the top members of

the head office staff, who recently completed participant training in the U.S., seem to be well grounded and to have high potential.

However, after three years the Bank has made only marginal progress, with loans lagging well behind schedule and delinquencies greatly exceeding expectations. It has been weak in its development due to failure of certain planned technical assistance inputs, particularly in the area of agricultural credit: the World Bank input of an Agricultural Credit Specialist, to "supervise the preparation of loan appraisals, propose credit policies and strategies and train staff on-the-job; and the AID input of two Rural Agricultural Credit Specialists/Advisors, which did not completely match the design. Thus, correct credit policies and strategies were not incorporated into ACDB's policies and procedures, nor were Bank staff adequately trained in this respect.

The loan volume is well below expectations: that originally projected for 1981 is now projected for 1986. However, there were valid reasons for this poor showing:

- Failure of the GOL to supply funds committed for ACDB loan capital and for ACDB budget support covering projected operating losses, due to Liberia's severely declining economy and foreign exchange problems.

o A moratorium on lending declared after the coup of April 1980.

Lack of funds due to poor collections and to lack of GOL support has enervated the Bank to the point where it appears that operating expenses are being paid out of loan repayments. <u>There is insufficient loan capital to generate income</u>.

The one bright spot in the Bank's performance is the mobilization of substantial savings in the three rural counties where its Branches are located. (However, the Bank and the GOL have a responsibility to meet demands for withdrawal of those deposits. Otherwise, public confidence in the Bank and in banking in general will be destroyed to the detriment of the banking sector in the future.)

There is no hard evidence that the project has had any impact on increasing small scale agricultural productivity, the Mission's sector goal. The greatest weakness here has been the failure of the cooperatives to provide the linkage between the Bank and the small farmer, as planned. The Bank has not developed an alternative delivery mechanism, as suggested in the PP.

To reach the small farmers, viable co-ops are needed. The Bank, linked with a successful cooperative program, would be the fastest means and least costly way of reaching the Sector Goal.

I. Project Setting

A. General Background

Liberia has 111,400 sq. km., of which 6,200 are used for agriculture. Its population is estimated at 2.0 million, of which 1.4 million (70%) is rural. Population growth is approximately 3.3 percent per annum.

During the sixties and the first part of the seventies Liberia's rubber, iron ore and forestry exports provided the basis for a healthy economy and a balanced budget. GDP growth rate averaged about 6% in the sixties and about 4.2% between 1970 and 1974.

During the period 1976-1980, however, real GDP grew at an anrual rate of only 1.2%. In 1980 and 1981 there was a negative GDP growth. The decline in income from the country's main exports and the deteriorating terms of trade constituted the principal factor affecting GDP growth.

Reasons for the decline were:

- The poor position of the American and European steel industries affected iron prices and demand for Liberian iron ore; and
- Prices of rubber dropped below cost of production. As a result, some rubber processing

plants for independent producers stopped operating. These plants are still out of action, and there are millions of rubber trees in the country not being tapped.

A disaster contributing to Liberia's economic decline was a fire in its oil refinery, causing it to shut down from December 1976 to August 1978, and necessitating purchase of the more expensive, refined petroleum products.

Budgetary deficits reached $120 million in 1978-79; $95 million in 1979-80; and $97 million in 1980-81.

Liberia's economy is dualistic. The three major products--rubber, iron ore and forestry products--make up the concessionary sector of the economy, which is foreign-controlled and export-oriented, and which accounts for approximately 70% of export earnings and 30% of GDP.

In contrast is Liberia's domestically-oriented sector, which is mainly agricultural. It has approximately 157,000 farm families, of which 90% are smallholders, growing rice and cassava as their principal crops. This sector represents 70% of the labor force but accounts for less than one-fifth of GDP.

Agricultural exports from both sectors constitute about a third of total exports, comprising rubber, forest products, coffee, cocoa and oil palm products.

Income distribution runs the gamut from $1,620 per capita GNP in the concessionary sector to $780 in the remainder of the monetized economy (coffee, cocoa and oil palm products), to $185 in the traditional, non-monetized segment.

There are three distinct types of farming systems:

- o Foreign-owned plantations of rubber and forestry, producing exclusively for export (six foreign concessions produce 70% of total rubber production).

- o Liberian-owned commercial and state farms, engaged primarily in rubber production, but with secondary interests in coffee, cocoa and oil palm; and now gradually moving into other activities, such as poultry and pig production.

- o Traditional farms, consisting of smallholders, producing mainly for home consumption, with small surpluses sold for cash purposes. The main crops on these traditional farms are rice and cassava; and the main cash crops are coffee and cocoa, and palm kernels to a lesser extent. Smallholders growing coffee and cocoa use traditional cultural practices, and these tree crops suffer from overshading, lack of pruning, poor spacing and little or no maintenance.

B. Project Background

Traditional farming in Liberia implies:

- o No improved varieties of seed;
- o No knowledge by the smallholder of the use of fertilizers and herbicides;
- o Poor physical access to markets;
- o Frequent exploitation in the sale of produce;
- o No use of animals or mechanical devices;
- o No system of agricultural credit.

The traditional sources of credit available to the smallholder are friends or the extended family and traders. If from the former, a loan of any size would probably have to be obtained from several persons, as no one person would have enough surplus cash to lend. Loans from traders normally attract effective interest rates of 100% to 300% per annum. For example, a merchant might charge 50% of loan value as interest for a 3-month loan (effective interest: 200%). Additionally, the loanee might be required to buy merchandise at inflated prices, as a condition of the loan, thus further increasing the cost of the loan. If the loanee cannot pay off the loan on time, it is renegotiated to his further disadvantage.

In 1976 the GOL, partly in a determination to better the lot of the smallholders and involve them in development, committed itself to a National Socio-Economic Development Plan (1976-80). The aims of the Plan were:

- o Diversification of production;
- o Geographical dispersion of sustainable economic activities throughout the country;
- o Total involvement of the entire population in the development effort;
- o Equitable distribution of the benefits of economic growth and diversification so as to ensure an acceptable standard of living throughout the country.

This new direction has brought about a growing emphasis on agriculture and rural development, particularly with respect to smallholders. Allocations for agriculture have increased from about 4% of the public sector budget in 1970 to about 30% in 1980-81.

GOL's strategy is to raise income level productivity and living conditions of smallholders through improved inputs; crop technology in rice, livestock and tree crop cultivation; and basic infrastructure.

This Plan was the basis of a major agricultural development project financed by IDA, AID and the GOL for the period May 1976-June 1982). The primary objective of that project was to increase production of smallholder rice, cocoa and coffee by means of an intensive extension system with supporting services (credit, input supply and cooperative development); and also including feeder road rehabilitation and well construction. The project, referred to as the ADP's, encompassed the Lofa County Agricultural Development Project (LCADP) and the Bong County Agricultural Development Project (BCADP).

In addition to its support in the above project, USAID's contribution to the strengthening of the traditional agricultural sector has been directed at basic support activities (roads, research, extension planning) and the delivery institutions (farmers' cooperatives and credit societies and integrated rural development Project authorities). Programming of PL-480 Title I rice sales proceeds and ESF counterpart funds have reinforced this focus.

With various projects focusing on the development and delivery of the technology, marketing problems, training and extension and research, most needs in the modernization of agriculture were being addressed. The one critical need not being addressed was a full-service rural banking system.

In early 1978 the Agricultural and Cooperative Development Bank (ACDB) began operations and in April the President of Liberia requested assistance from the U.S., followed by a formal ACDB request to the Mission in June.

II. The Agricultural and Cooperative Development Bank

In 1976 ACDB was chartered to:

- Provide seasonal and development credit to individual farmers either directly or through cooperatives or other farmers' organizations;
- Encourage development of cooperatives or other farmers' organizations;
- Provide credit for agricultural inputs and marketing outputs;
- Promote the establishment of agricultural enterprises to generate additional production in the rural areas;
- Mobilize savings in the rural areas

When this project began in late 1979 ACDB was in place and partially staffed. The core of the management staff had formerly been Citibank officers, grounded in commercial banking operations. Additional staff was added for the expansion of the Bank into three counties with three branches. A U.S. technical assistance team, funded under a contract with Checchi and Company, was provided to guide the Bank in its development and to train Bank staff. Progress was good in the early days prior to the change of government on April 12, 1980, which exacerbated a real decline in the economy.

Since that time ACDB's lending operations have been constrained. A moratorium on lending was declared for the period January 1, 1981 to July 1981. Since then lending has continued at a restrained level.

The Bank's primary problem at this time is lack of liquidity, due to the failure of the GOL to supply planned capital and operating funds because of lack of liquidity in the National Bank, reflecting depressed economic conditions. The GOL planned to subsidize ACDB's anticipated operating losses during the first three years at a rate of $500,000 annually. The General Manager of ACDB states that a total of $250,000 has been received by the Bank but that the remaining $1,250,000 has not been released by the National Bank. In addition to the operating subsidy the GOL has contributed $1,541,143 in capital to the Bank. ACDB has a "paper credit" of $3,191,544 with the National Bank, but this is not available for lending and operating expenses at this time.

Currently ACDB cannot engage in an active lending program since the funds with the National Bank are frozen, although it has loan applications pending.

For the first six months of 1982:

262 loan applications were received

96 loans were approved

59 applications remained pending

Of the 96 approved loans only part has been paid out. The pending applications can be acted on in only a very selective manner.

Most of the pending loans, therefore, remain in a state of suspension because the National Bank is not in a liquid position. This report will not attempt to further address the situation with respect to the National Bank other than to state that it is not meeting its commitments to ACDB, which has in reality caused an erosion of ACDB's capital assets. Given time, operating expenses alone will drain ACDB. The present situation can continue just so long before ACDB's doors will be closed.

ACDB has developed into a full-service rural banking institution with banking facilities in three major agricultural counties (in addition to the head office in Monrovia). Its savings and demand deposit services serve a pressing need in the rural community (PES 21). In addition, they mobilize funds which can be used for lending. Savings accounts as of June 30, 1982 numbered 4,430 and totaled $1,466,551, far more than had been believed possible at the onset of the project. It is believed that this activity will continue to grow and that with the establishment of additional "cash offices" in some of the trading centers on market days, many more accounts and much more money will be deposited with ACDB. Eight percent interest is paid on these deposits. Demand deposits (non-interest bearing deposits) were $1,864,000 as of June 30, 1982 and can also be expected to continue to grow.

Following is ACDB's loan portfolio (head office, Monrovia, and the three branches):

ANALYSIS OF LOAN PORTFOLIO BY CLASSIFICATION

OF BORROWERS AS OF DECEMBER 31, 1981

CLASSIFICATION	NO. OF LOANS	AMOUNT (L$)	PERCENT
1. Cooperatives	38	$1,117,118	46
1. Individuals	515	859,463	36
3. Public Corporations/ Other	12	422,488	17
TOTAL	565	$2,399,069	100

Under its charter ACDB provides banking facilities for the rural agricultural economy, specifically including credit to the small farmers and cooperatives. ACDB's accounting system does not reflect the specifics as to the number of small farmers in the classifications above. However, it can be stated that viable cooperatives represent primarily smallholders; "Individuals" primarily small and medium holders; and "Public Corporations/Others" includes medium and large farmers.

Many persons in the "Individual" classification were said to be salaried and to have secured their loans with salary assignments rather than farm proceeds. Being part-time does not in itself take these borrowers out of the category of farmers, and these loans also are useful and needed.

ACDB has been negligent in the way it made and serviced loans to most of the cooperatives. However, the major flaw in the Bank's operations is its delinquency in loans. There is no semblance to a systematic loan collection program other than by salary assignment. The Bank has not addressed this problem adequately. Greater assistance in this aspect of the Bank's development could have been given if agricultural credit specialists with field experience in credit had been part of the technical assistance team.

A concern at the time of the PID was that ACDB, being headed and partially staffed by former Citibank officers, would turn out to be a commercial bank, and that technical assistance to the Bank early in its development was necessary to assure its proper formation as an agricultural development bank with a smallholder credit approach.

The Bank opened in early 1978 and the technical assistance team was not fielded until November 1979. Then during the first year of the project the Bank did not have the services of the Operations Advisor for 10 months or those of a Rural Credit Advisor for 6 months. Thus the impact of the technical assistance input was less than planned.

Also planned during ACDB's early development was a World Bank input of a Bank Operations Expert to head the Operations Department of the Bank and an Agricultural Credit Specialist to "supervise the preparation of loan appraisals, propose credit policies and strategies and train staff on-the-job," both for two years. Unfortunately, ACDB determined not to accept the World Bank input. On the USAID side, the selection of the Rural Agricultural Credit Advisors did not completely match the project design (see PES 22 at P. 25), with the result that agricultural credit principles stressing loan repayment were not instilled.

The Bank's weakness in collections can be traced directly to its lack of understanding these principles and indirectly to the failings with regard to the three Agricultural Credit Specialists/Advisors.

Another significant factor in the Bank's lack of development was the failure of the technical assistance team to produce the Bank Development Plan as scheduled (considered in the PRO-AG to be a key element in the success or failure of the Bank; PES 17 at P. 12), which was to contain the Bank's lending and savings strategies and was to be utilized as guidelines in the second and third years of its development. So in its crucial development period ACDB did not have these all-important guidelines.

III. Cooperatives: the Link between ACDB and the Small Farmer

ACDB's most efficient way to reach the small farmer is through viable cooperatives or small farmer groups. It cannot possibly service thousands of individual small loans directly at a reasonable interest rate. The administrative cost of a $400 loan on the books is the same as that of a $4,000 loan.

Unfortunately, the cooperative program has not been a sound one. A full service cooperative renders service to the farmer through inputs and marketing. It must always act as the farmer's agent and in the farmer's interest, rather than for itself or any other reason.

However, most of the cooperative groups have not provided services in the best interest of the small farmer. It is reported that cooperatives in general are poorly managed or even mismanaged, with many existing for the benefit of politicians, tribal chiefs, Mandingo traders, businessmen and their agents, using the co-ops as a false front. The big complaint is that the co-op in dealing with the small farmer does not give correct prices for weight and grade, nor does it provide service.

Almost all co-ops in Liberia have failed. The reason generally assigned is that because of the liquidity crisis LPMC did not have the cash to pay the cooperatives, which in turn could not pay cash to the farmers for their produce, bringing about a loss of confidence in the co-ops on the part of the farmer. The problem there, however, seems not to have been lack of funds--since ACDB provided funds to the cooperatives for purchasing the farmers' produce--but rather the low pricing (as the Official Government Price) by the LPMC, causing the farmers to sell to the traders, who offered higher prices (PES 15 at P. 7). The cooperatives reportedly did not repay the loans from ACDB after they failed to utilize them as intended. The question at this point is: Why were not the loans repaid when the money was not used to pay for produce?

While the fiasco as a result of LPMC's low pricing certainly played a part, it is believed that the principal reason for failure of the co-ops is poor management or mismanagement.

Phase I of the ADP's attempted to build a viable cooperative system to handle credit, supply input and marketing of output (for background see I.B. above at Pp. 40-41).

Some of the inputs provided by these ADP's are:

- To reorganize and train staff and farmers to effect the extension program and the improvement of cooperatives;
- To reorganize cooperatives and provide guidance and support to enable them to take over responsibility for credit; provide input supplies and

marketing service in order to function as viable enterprises; and

- To supply consulting services and technical assistance for monitoring and evaluation, cooperative development, marketing and LPMC management. (However, LPMC for nearly 20 years has been reasonably successful as a buying agent and in marketing of export crops.)

The GOL sees the need for farmer cooperatives, properly organized, funded and managed, to provide the necessary services to the farmer. It has entered into Phase II of the Lofa County ADP (LCADP) with an IDA loan of approximately $28,000,000. Bong County, Phase II, to cost $23,000,000 and to begin in 1983, has been negotiated for some $17,000,000, World Bank funding. Other sources of funding are being sought for the $6 million balance.

As part of Phase II, approximately $5.5 million of the LCADP will be deposited with ACDB at 4%, as working capital to finance the cooperative input and marketing problems; and during the life of the LCADP, loan collections are to be an internal function of LCADP with the money deposited in ACDB at 4% when not in use by the cooperative for which it was designated. GOL's equity in ACDB is to be increased by $5.5 million, and in turn ACDB would have this amount of equity in the cooperatives. This provision for equity would permit a) representation by ACDB on the Board of each cooperative, with involvement in its management and b) the establishment of a sound resource base for the cooperatives, since the initial period of their cost operations, compared to their projected income streams, would not permit accumulation of adequate earnings.

It is strongly felt by the Evaluation Team that ACDB's involvement in this manner would be risky. At the present time it does not have cooperative-trained staff to participate in the management decisions of the cooperatives; and the loans are to be made by the project's Commercial Service Division, which is not responsible to or under the supervision of ACDB. As a result, it can be expected that at the end of Phase II 50% of the money might well have been dissipated and ACDB would have to write this off as bad debts.

Supervision of cooperatives in general was poor while under the responsibility of the Ministry of Agriculture. In an effort to correct this situation the GOL on July 1, 1981 established the autonomous Cooperative Development Agency. This new agency will, however, require sustained commitment and support from the GOL. Both the Lofa County ADP and the Bong County ADP, with their expertise in technical assistance, will lend support and guidance to it in its formative years.

IV. Conclusions

ACDB will fail without support.

It should continue. An institution has been formed which serves a deep need of the rural economy with respect to both credit and savings facilities. The credit facilities can save the small farmer who now borrows from the local trader from exposure to uzurious interest rates, which strangle his chance for improvement. The savings facilities furnish him for the first time with an opportunity to accumulate his very small savings and make a start toward a better standard of living.

Failure would result in loss to the depositors of their savings and non-interest bearing deposits and would cause loss of faith in credit institutions. It would constitute a severe setback to the introduction of any future rural financial institution.

ACDB is in a serious financial crisis. Its progress not only has been retarded but has retrogressed because of the lack of financial support. In order to survive, it must have an immediate injection of loan capital and operating expense support.

As part of its ADP program the World Bank is continuing its efforts to make the cooperatives viable (III above at P. 50) These efforts are complementary to ACDB's efforts to improve the position of the small farmer: ACDB and the viable cooperatives are mutually dependent on each other. The World Bank input is also complementary to the recommended AID inputs.

V. Recommendations

A. ACDB/GOL

o The GOL should provide the planned capital and operating subsidies support.

o The National Bank should release funds to ACDB for immediate lending.

o The three ACDB Branch Offices should continue to expand.

o Decentralization of operational banking and loan functions should take place. The Branches should serve the rural population.

o The Head Office, ACDB, consistent with the decentralization of the ordinary banking and lending function, should become the unit for basic policy and management decision-making and for supervision of policy adherence in the Branches; it should be a central office <u>serving</u> the Branches.

o ACDB's country-wide expansion program should take place only after adequate funding is in place; management has proven to be able to conduct the current level of operation; and a country-wide survey has been made of the counties not now being served with Branches so that priorities can be best determined for additional Branches to be added.

o ACDB should not be forced to become a partner with the ADP's.

o A loan for $7,000,000 for ACDB Seed Capital should be negotiated with the World Bank for second quarter 1985 delivery.

o No loan should be made to a Public Corporation except Liberian Produce Marketing Corporation and Liberian Palm Products Corporation, the two Public Corporations engaged in agriculture.

o The majority of loan funds should be used strictly for agricultural production loans.

o ACDB/GOL should agree to the audit recommended in B. below.

B. USAID/L should:

- o Make $500,000 available from PL-480 funds in 1982.
- o Provide further technical assistance as follows:
    - o One Cooperative Manager-Agricultural Credit Specialist
    - o Two Agricultural Credit Specialist Field Officers
    - o TDY (short-term) Banking Operations and Systems Specialists to modernize the current systems
- o Provide further U.S. and Third Country training.
- o Cooperate with another donor/lender (preferably the World Bank) to provide urgently needed Seed Capital for loans.

SEED CAPITAL NEEDED:

2nd Quarter, 1983:	$1,000,000
2nd Quarter, 1984:	$2,500,000
4th Quarter, 1984:	$ 600,000
1st Quarter, 1985:	$ 900,000

o With the concurrence of the GOL, designate and fund an international CPA firm to conduct an audit of the ACDB prior to the first tranche of any such Seed Capital described above and annually thereafter for at least five years. The audit should include verification of all loans receivable.

Questionnaire on Technology Transfer

I. What constraints does this project attempt to overcome and who is constrained?

This project attempts to relieve the lack of credit constraint, which impedes increased productivity by the farmer.

This is an institution-building project and the immediate beneficiary is the institution itself, the Agricultural and Cooperative Development Bank (ACDB). Those constrained are the indirect beneficiaries (the potential borrowers within ACDB's charter):

Small farmers;

Medium and large farmers;

Public Corporations which are involved in agriculture, such as developing tree crops;

Rural agricultural economy (including rural industry, commerce and consumer needs).

II. What technology does the project promote to relieve this constraint?

It is designed to deliver a system of agricultural credit at reasonable interest rates for farmers and the rural agricultural economy by developing and strengthening ACDB.

III. What technology does the project attempt to replace?

Traditional sources of credit and traditional methods of savings.

Traditional sources of credit available to the smallholder are friends and members of the extended family and traders. In the latter case interest rates are usurious, loans from traders normally attracting effective interest rates of 100% to 300% per annum. For instance, a merchant might charge 50% of loan value as interest for a 3-month loan, amounting to 200% effective rate of interest. Additionally, the loanee might be required to buy merchandise at inflated prices as a condition of the loan, thus further increasing the cost of the loan. If the loanee cannot pay off the loan on time, it is renegotiated to his further disadvantage.

Traditional sources for depositing savings are places of hiding (e.g., in the ground) and deposit with a relative (who may utilize the savings for his/her own needs) or a friend. For those earning regular income, the "su su" arrangement is available, a group method in which a person deposits a regular amount of money at regular, specified intervals for a specified period of time; and at some point within or at the end of that period collects the amount of his entire deposits.

IV. Why do project planners believe that intended beneficiaries will adopt the proposed technology?

The direct beneficiary has accepted and utilized the technology transferred, and has requested more of the same.

The indirect beneficiaries will adopt it because the interest rates are reasonable instead of usurious. As to adopting the savings channels, the immediate response of the indirect beneficiaries confirmed that a great need had existed for a safe place to save money.

V. What characteristics do intended beneficiaries exhibit that have relevance to their adopting the proposed technology?

The desire to achieve greater productivity through inputs and thus achieve a higher standard of living (better diet first--not usually visible; then clothes, education and housing).

Many have shown a desire to save by utilizing the savings facilities of ACDB.

(The PP states: "A rural sociologist is deemed necessary to fill in the critical gaps" in socio-cultural information "and assess farmer receptivity." The original provision for the services of a rural sociologist for a total of 7 months to define "attitudinal, cultural and behavioral constraints to participation in ACDB's Credit and Savings Program" was later dispensed with (see PES 17, Item i at P. 19). Such a survey would have provided more specific answers to this question.)

VI. What adoption rate has this project achieved in transferring the proposed technology?

The technology transferred has taken the form of assistance in developing ACDB into an agricultural development institution (as opposed to a commercial one) through advisors; and participant training of ACDB personnel--long-term and short-term; and third country and in-country training.

The adoption rate with respect to participant training and third-country training has been high. With respect to assistance by advisors the degree of transfer has been modest. While ACDB has been dependent on the advisors for procedural and planning functions, the advisors have been frustrated by the difficulty of getting documents agreed to and adopted. (Also see II. Agricultural and Cooperative Development Bank at Pp. 46-47.) Nevertheless, the degree of transfer is considered sufficient for ACDB's present staff to continue independently at a minimum level.

Bank records do not reflect the information on which to easily construct an adoption rate by the indirect beneficiaries. There was no survey to determine the degree of usage of ACDB's facilities.

VII. Will the project set in motion forces that will induce further exploration of the constraint and improvements to the technological package proposed to overcome it?

Yes, the GOL intends to explore funding to extend the credit system (ACDB branch banks and cash offices) throughout the country.

Also ACDB wants additional technical assistance in cooperative development and agricultural credit.

VIII. Do private input suppliers have an incentive to examine the constraint addressed by the project and come up with solutions?

No. The commercial banks are not interested in, and do not have trained staff for, rural credit.

Does the promoted technology provide incentives for private industry to involve itself in the ongoing improvement and marketing of the technology? No.

IX. What delivery system does the project employ to transfer the new technology to intended beneficiaries?

As to the transfer of technology to ACDB, the delivery system is described in the answer in VI.

In the case of farmers there is a dual delivery system: credit can be extended to either individual farmers or to groups of farmers. To service small loans on an individual basis would require a much higher rate of interest or subsidization by GOL. The most advantageous way is for ACDB to extend credit to the farmers through viable cooperatives.

Besides extending credit in the form of loans, ACDB accepts savings and demand deposits.

X. What training techniques does the project use to develop the delivery system?

The technicians provided by the project have stimulated ACDB's efforts to develop and deliver adapted credit services to its farmer clientele. Participant training was provided to train ACDB personnel on both long-term (advanced degrees) and short-term programs, as well as third-country training programs. Additionally, on-the-job training was given by the technicians.

Excerpt from Report of the Contract Team of Checchi & Company concerning Delay in Delivering

BANK DEVELOPMENT PLAN

The Development Plan for the ACDB was scheduled to be completed the "first year" of the technical assistance contract. The original contract was programmed to begin July 1, 1979, but USAID/L was unable to complete the bidding process until September, when the bidding present contract was awarded. An ammendment was then processed changing the start-up date to September 30, 1979. The contractor fielded the Advisory Team on the first of November, 1979. They immediately began to develop the required plan of work, leading to the completion of project objectives, which was expected to take up to three months of the technicians time. A major purpose of the work plan was to define the Team's specific involvement in designing the ACDB's Development Plan.

As the work plan progressed it became apparent that not much was known about the supply and demand of agricultural credit in Liberia and the Project paper called for this to be addressed by the Team early in the project. In mid-January, 1980, the Minister of Agriculture requested the Team's appraisal regarding a national study of agricultural credit supply and demand. The Team suggested that it undertake a limited survey to test the availability and quality of data as well as provide a basis of judgement regarding the time and personnel required to complete such a comprehensive and detailed study. A limited survey was designed by the Team and submitted to the Minister thru the ACDB which was approved by the MOA, the ACDB and USAID/L in February, 1980. The entire Team was to spend up to two months to such. If the Managing Director and Board wish to change the guidelines, agreed upon at one time as evidenced by the Plan, a revised, less detailed projection based upon new assumptions and aggressiveness should be developed, and then closely monitored.

The reader is referred to the Bank Development Plan document for details.

affect the survey and make recommendations to the Minister.

The decision to utilize the Advisory Team's time in this way came about for the following reasons:

1. The Team recognized early the need for additional information on credit supply and demand in designing the Bank Development Plan.

2. The Team's Work Plan was completed in February and approved in March, 1980.

3. Up-country housing and support was not ready for the Branch Advisors.

4. The Managing Director of the ACDB had not yet designated the credit advisor's Branch counterparts, working relationships and office space or facilities.

Therefore, it was determined by AID/L, ACDB and the Team that such a survey would be productive and timely, utilizing the months of March and April, after which the Team could concentrate on designing the Bank Development Plan. The Project Paper anticipated the Development Plan to be completed with "about a year" of work, which would put the timetable to about May, 1981, including time for the Team's required Work Plan plus the approved credit survey. Neither of these two activities were included in the Project Paper's Development Plan timetable, yet the inference of Project Managers and Evaluators has been that the Advisory Team has not performed on time in this area of work.

As a matter of fact, both the Work Plan and the credit survey were completed on time and as scheduled, although the write-up for the survey was delayed several weeks because of the April 12, 1980, coup.

However, concentrated work on the Development Plan was delayed again, due to the ACDB's implementation of the recommended credit decentralization policy, for the next six months. Also contributing to the delay was the loss of two Team Advisors; the Operations Advisor in January and the Gbarnga Credit Advisor in May, 1980, due to medical problems. The emphasis on Credit decentralization required the Senior Agricultural Economist, primarily responsible for the Development Plan, to concentrate on credit committee organization, procedure, rules and regulations plus credit staff training at the branches during this period. The operations Advisor position was filled in October, 1980, however, which permitted some internal background studies to begin, but the Credit Advisor position for the Gbarnga branch was not filled until March, 1981. Both of these Advisory positions were vacant about nine months primarily because of the ACDB Managing Director's reluctance to accept technicians recruited from outside of commercial banking circles.

The implementation of the credit moratorium in December, 1980, plus deactivication of Branch Credit Committees by the Managing Director, allowed the Senior Agricultural Economist to begin concentrated work on the Development Plan in January, 1981. An attempt to develop a rough draft by May 31 was targeted but found to be much too optomistic. The first five months was required to design th format for the Plan and obtain projections from each of the branches. By May, these projections were presented in penciled form to the Managing Director for review and consolidation with the Monrovia office projections, which was anticipated to be the first rough draft of a consolidated Development Plan for the ACDB. This too did not materialize largely because of the lack of a credit manager at the Monrovia office to assist the economist develop the Monrovia estimates and establish workable assumptions and Bank strategy for development. As a result, little progress was made on the Plan until the new credit Manager became effective in October, 1981, and the ACDB staff developed the necessary assumptions, guidelines and strategy to move the Plan forward. By now only twelve months remained of the Project to complete the Development Plan. The Economist then worked essentially full time on background studies, methods and procedures thru March, 1982. During February and March, meetings with senior staff of the ACDB were scheduled for the purpose of evaluating and critiquing the assumptions, statistical talbes, format and procedures. The Economist then requested from the Staff their final adjustments, if any, for the data in April, then began to finalize all tables, graphs and financial statements and prepare then for final draft and typing.

By the end of June the first draft of the Plan had been completed. The first week of July the Managing Director requested to review the Plan, which was made available to him. The Economist was then informed that the Plan required "substantial" revision to take into account "recent" changes. The Economist reminded the Staff that the last opportunity for changes occured in April, but none were requested. Besides, the Plan had been in a state of "revision" for eighteen months, and a base position had to be establishe. December 31, 1981, had been agreed upon by all concerned as the cut off date, and Janaury 1, 1982 thru December 31, 1986, would be the planning period. Besides, the ACDB should view the Development Plan as a guide only, and use it as

List of Persons Contacted

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V. Minikon Weah, Acting Credit Officer, Gbarnga Branch

Paul M. Yangbay, Officer-in-Charge, Ganta Branch

Raphael Kokoi, Credit Officer, Ganta Branch

Thomas Davis, Senior Clerk, Ganta Branch

Technical Assistance Team, Checchi & Company, Contractor

Lloyd A. Clement, Senior Agricultural Economist, Chief of Party

Domenick Nigro, Operations Advisor

Jeffery R. Nash, Credit Advisor

Bong County Agricultural Development Project

Daniel Goe, Project Manager

Samuel Wolo, Administrative Manager

L.S.U. Research Team at Swakoko Agricultural Research Station

Marvin Allen, Coordinator

William Bolton, Agricultural Economist

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Lois Richards, Director

John Pielemeier, Deputy Director

John Cornelius, Agricultural Development Officer

Billy Jadwin, Assistant Agricultural Development Officer

Curt Wolters, Program Economist

Sid Anderson, Acting Program Officer

Charles Strickland, Project Officer

Others

Marlin Simonson, Chief of Party of completed USAID/L Cooperative Project (669-0127)

Mike Mechlin, Regional Officer, World Bank, Abijan, Ivory Coast

Carl Thomas, Oakridge National Laboratory Energy Study Team

Dr. B. Baker, Poultry Supplier (chicks, feed, drugs and equipment)

Charles Kowaleski, Peace Corps Volunteer at Gbarnga working in Fisheries

Samuel Wolo, Loan Applicant and former ACDB Borrower

Amos Saven, Wolo Farm Manager

Melville Harris, ACDB Borrower, with pending application for increased loan

Shopkeepers and agricultural suppliers in Ganta, Kakata and Monrovia

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William E. Roach, Financial Analyst, Team Leader
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Barbara D. Howard, AFR-DR/CAWARAP, Design Officer

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Charles Husich, Capital Development Officer, USAID/L
Arthur Summerville, Senior Agricultural Economist, MOA/GOL
Lewis Clark, Agricultural Finance Consultant

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ACDB Documents and Manuals

1. AN ACT To amend the New Executive Law to Create an Agricultural and Co-operative Development Bank. Approved November 1, 1976
2. Rules and Regulations of Branch Credit Committee Document No. ACDB/012-7/80/MD, June 27, 1980
3. Information Bulletin "Serving the Farmers and Rural Liberia is our Business" October, 1980
4. Credit Policy and Procedure Manual, ACDB March 31, 1982
5. Consolidated Report #1 for the period January 1 to June 30, 1982, ACDB, July 15, 1982
6. Balance Sheets and Profit and Loss Statements ACDB (monthly, semi-annually and annually)

ACDB Instruments

1. Application for Personal Loan
2. Credit Application Form (Individual)
3. Credit Application Form (Cooperative)
4. Working Capital Loan Agreement (Cooperative Society)
5. Lien on Inventory
6. Lien on Warehouse
7. Salary Assignment
8. Promissory Note
9. Chattel Mortgage
10. Mortgage Deed